MCC Leadership Programme Reader l Volume 1.

Editor: Zoltán Szalai

Co-editor: Szilvia Dóra

This publication was released under project TÁMOP-4.2.2/B-10/1-2010-0028 titled „Cooperation for the talent management of the best”. 
Contents

Preface............................................................................................................................................................ 6

Gwyn Bevan | The search for a proportionate care law by formula funding in the English NHS............ 7

Gwyn Bevan, Richard Hamblin | Hitting and missing targets by ambulance services for emergency calls: effects of different systems of performance measurement within the UK.......................... 27

Gwyn Bevan, Wynand P. M. M. Van de Ven | Choice of providers and mutual healthcare purchasers: can the English National Health Service learn from the Dutch reforms?............................... 57

Gwyn Bevan, Christopher Hood | What’s measured is what matters: Targets and gaming in the English public health care system.......................................................... 79

Joseph J. DiStefano, Martha Maznevski | Synergy From Individual Differences: Map, Bridge and Integrate (MBI) ......................................................... 101

Joseph J. DiStefano, Martha Maznevski | Culture in International Management: Mapping the Impact...... 105

Benoit Leleux, Ralf Seifert | Shape up your technology start-ups! Or how to avoid the most common management problems in early-stage, science-based companies. ......................... 109

Vladimir Pucik | Mergers and Acquisitions.................................................................................................................. 113

David Venter | Beyond leadership .................................................................................................................................... 131


Richard E. Boyatzis, Cefcri Soler | Vision, leadership and emotional intelligence transforming family business.................................................................................................................. 181

Merce Mach, Simon Dolan, Shay Tzafrir | The differential effect of team members’ trust on team performance: The mediation role of team cohesion................................................................. 189

Guido Stein | Challenges for New Managers............................................................................................................. 213

Yih-teen Lee | Global leadership in multicultural teams............................................................................................ 225

First publications........................................................................................................................................... 243

Our Authors ............................................................................................................................................... 245
Preface

The Mathias Corvinus Collegium

The Mathias Corvinus Collegium (MCC) is a unique community of values, both in Hungary and in the world. The students of our institution are those who possess outstanding talent, and who, forming a dynamically developing team, are working on realising important and valuable goals. In our community, which consists of more than 500 members, you can find students from almost all the ethnic groups and layers of the Carpathian Basin. This private institution was founded by András Tombor and Balázs Tombor more than fifteen years ago. Since it was founded, the MCC has become Hungary’s best interdisciplinary educational institution, which is also acknowledged in Europe. Among the teachers there are almost thirty internationally recognized foreign professors, an unparalleled number in our country. The MCC forms a community that can influence and shape both its immediate environment and the future of the country in a progressive and responsible way.

The MCC Leadership Programme

The aim of the Leadership Programme is to provide unique preparation, a view on the world, and an international way of thinking to the students. The programme is characterized by the educational standards and approaches of the highest ranking universities in the world. The internationally acknowledged professors offer real guidance in the globalized world, and the acquired knowledge means a solid basis for decisions made later. Our students become part of a relationship network and of a community that will stay with them throughout their careers. The solution-oriented, practical collection of tools and techniques acquired on the courses (such as case studies and simulation practices) provide a great competitive advantage to the participants of the programme.

After they have completed the Leadership Programme, not only can the students give outstanding performances in their own fields, but they will also be suited to leading working groups in which they can accomplish common goals with experts in different fields.

We would like to thank all our professors for the studies they contributed! The work they have done to assist us in realizing our continuing plan to help our students broaden and deepen their knowledge by providing them with the excellent works of most outstanding experts is tremendous. We believe that our fruitful cooperation will progress and we will be able to accomplish the goals of our program together!
INTRODUCTION

The objective of creating the National Health Service (NHS) in the UK in 1948 was that access would depend on need and not be influenced by an individual’s ability to pay or where that individual happened to live (Bevan et al., 1980, pp. 30-31). Over 20 years later, however, Hart (1971) postulated the existence of an ‘inverse care law’ in the NHS, in which ‘the availability of good medical care tends to vary inversely with the need for it in the population served’. He argued that this was an inevitable consequence of a market arrangement in which access depends on ability to pay. This explains inequities in the distribution of supply of General Practitioners (GPs) and hospital services in the UK prior to the creation of the National Health Service (NHS), as identified by Aneurin Bevan, in 1946, in a speech in the House of Commons (Bevan, 1991), in opening the debate on the second reading of the NHS Bill. This also meant that creating a service free at the point of delivery would not create equity in access without also tackling the maldistributions in supply.

From the start of the NHS, Medical Practice Committees (MPCs) were empowered to prevent GPs moving into ‘over-doctored’ areas (classed as ‘restricted), but could not direct GPs to work in ‘under-doctored’ areas (classed as ‘designated’) (Webster, 1988; and Department of Health, 2000). There was significant initial progress: the percentage of the population in ‘designated’ areas reduced from 51% in 1952 to 19% by 1958 (Webster, 1996, p. 12). But, inequalities persisted between the north and south: in 1979, GPs in the north would on average have about 100 to 200 patients more on their lists than those in the south (Webster, 1996: p. 767). Studies have continued to document inequities
in the distribution of GPs (Birch and Maynard, 1986; Bloor and Maynard, 1995; Benzeval and Judge, 1996; Gravelle and Sutton, 2001; and Hann and Gravelle, 2004). Bevan and Charlton (1987) showed that there were inequities in the funding of GP’s General Medical Services and HCHS, and contrary to a popular view, high spending on the one did not compensate for low spending on the other.

Little was done to tackle inequities in the distribution of hospitals until after the 1974 reorganisation (Cooper and Culyer, 1971; Bevan et al., 1980; Mays and Bevan, 1987; and Department of Health, 1999a). That replaced a hierarchy organised around hospitals with one organised around health authorities. HAs were defined by geographical areas and responsible for both running services and planning to meet the needs of populations in their areas. This provided indicative statistical evidence of inequalities and an organisational basis for policies to reduce them (Mays and Bevan, 1987, pp. 23–25). (In this paper, HA is used to describe the various types of Health Authorities in successive reorganisations.)

The landmark Report of the Resource Allocation Working Party (The RAWP Report) (Department of Health and Social Security, 1976) introduced a system of formula funding: that is funding populations with reference to formulas that aim to take account of populations’ needs and unavoidable costs of their providers. This may be seen as the start of a search for a proportionate care law: so the distribution of medical care varies proportionately with need. The RAWP report laid the basis for principles used by UK countries ever since in seeking an equitable allocation of NHS resources to populations; and, as Smith (2007, p.12) observes:

took formula funding in the UK to a new level of intellectual coherence and sophistication, and have been highly influential internationally.

The formulas used for funding the NHS in England derive target allocations for each organisation as its estimated equitable share of the fixed annual national budget. The derivation of targets requires three elements to be developed: estimates of populations, weighting these for relative need, and accounting for variations in unavoidable costs of providers. Policies on the pace of change of movement towards targets determine each year’s actual allocations.

This paper considers the developments of formula funding in England to develop a proportionate care law from the RAWP Report of 1976. The governments of England (Department of Health, 2008), Scotland (NHSScotland Resource Allocation Committee, 2007; and NHS National Services Scotland, 2009), Northern Ireland (Capitation Formula Review Group, 2004) and Wales (Townsend, 2001 and 2005) have produced recent reports on the bases of their different methods of formula funding. The methods used by the other UK countries are similar to that of England with two exceptions. First, although the governments of Scotland and Northern Ireland have followed England in developing an empirical basis for estimating needs; the government of Wales
uniquely uses an ‘epidemiological approach’ that relies exclusively on survey data on morbidity (Morris et al., 2004, p. 34). Second, in taking account of unavoidable variations in provider costs there is virtually no provision for rurality in the English formula: the emergency ambulance cost adjustment has minimal impact (Bevan, 2008a, p.61). In Scotland, e.g., there has been a specific focus on the excess costs delivering services in remote and rural areas (Steering Group on the National Review of Resource Allocation, 2001, Chapter 4). In contrast to the effort expended on deciding NHS resource allocation within UK countries, the formula used for allocating growth in public expenditure between UK countries (the Barnett formula) uses ratios based on crude populations (Smith, 2007, pp. 141-42).

The rest of the paper is organized into five sections. The next section discusses the context of the development of formula funding in England: how equity is defined, provider incentives and budgetary management, governance and formula development. The following three sections review methods of estimating populations, weighting for need and accounting for variations in unavoidable costs of providers. In formula funding, weighting for age is vital (as the demographic composition of areas varies enormously) but weighting for sex is of marginal importance (although needs of the sexes differ, their composition varies little across areas). The major focus in England has been on accounting for need additional to that for age from empirical analyses of data on utilisation (Bevan, 2008b, pp. 7-11). The final section concludes by outlining continuing problems and new challenges in formula funding.

CONTEXT OF THE DEVELOPMENT OF FORMULA FUNDING IN ENGLAND

Defining Equity

Although the underlying purpose of formula funding is to improve ‘equity’, there is less clarity of what kind of equity ought to be sought (Mooney, 1994, pp. 69–84). The RAWP Report interpreted the underlying objective of its terms of reference to be ‘to secure through resource allocation equal opportunity of access for people at equal risk’ (Department of Health and Social Security, 1976, p. 7). This was, until 1999, seen as the bedrock principle against which all methods of developing capitation formulas ought to be judged. In practice, however, the objective of these formulas was to equalise spend per capita adjusted for estimated unavoidable variations in provider cost and relative risk. This objective does not, of itself, correct inequities in access due to age, social class, or ethnicity in seeking care when ill, or discrimination by providers on grounds other than clinical need. By 1997, resources for the NHS in England had been allocated for 20 years with reference to successive formulas. The outcomes were that, for the year 1999-2000, for the then 100 HAs in England, 97 were within six per cent...
of their targets (Department of Health, 1998a). So, in the sense in which equity had been sought from the time of the RAWP Report, this was close to being achieved. But, the incoming Labour Government was troubled by inequities in health outcomes, and, in 1999, the Minister of State for Health (Denham, 1999) added another objective to resource allocation formulas: ‘to contribute to the reduction in avoidable health inequalities’. So far little progress has been made in framing an adequate approach to achieve this. This problem is considered in the final section of this paper.

Incentives and Managing Demand

The RAWP Report’s interpretation of its terms of reference ignored provider efficiency, because it was not possible to pursue both equity and efficiency with one policy instrument: HAs could be funded to seek either equity or provider efficiency but not both. One problem with the RAWP formula was that it applied to catchment populations (Bevan and Ingram, 1987) and its method of accounting for cross-boundary flows produced bizarre financial incentives: a HA could improve its target position by giving priority in its own hospitals to patients from other HAs (Bevan and Brazier, 1987). The NHS reform, implemented from 1991, of an internal market with a purchaser/provider split (Secretaries of State for Health, Wales, Northern Ireland and Scotland, 1989), in principle, introduced a second policy instrument to achieve efficiency through provider competition: health authorities, funded to achieve equity, would contract with competing providers (Bevan and Robinson, 2005). In these reforms, NHS providers became NHS trusts independent of health authorities, which meant that HAs were funded for their resident populations and formulas no longer had to take account of cross-boundary flows and their bizarre incentives were removed (Bevan and Robinson, 2005). Health authorities faced the problem, however, both before and after the introduction of the internal market, of being funded for their population’s use of services, with minimal control over their demand, as this was determined collegially by GPs and hospital doctors (Tuohy, 1999; and Bevan and Robinson, 2005).

GP fundholding, an innovation of the internal market, was a limited attempt to enable GPs, who opted for this, to manage demand against budgets as small scale purchasers (for populations typically of about 10,000 for GP prescribing and hospital diagnostic and elective care) (Secretaries of State for Health, Wales, Northern Ireland and Scotland, 1989; and Bevan and Robinson, 2005). There was criticism that this created a ‘two-tier’ NHS: with patients of GP fundholders’ having been treated more quickly than patients from non-fundholding GPs in the same authority; and suspicions that GP fundholders had been funded more generously than health authorities. GP fundholding thus revealed concerns over two different kinds of equity (Bevan 1998): clinical equity, which is achieved when clinicians decide when patients are to be treated...
The search for a proportionate care law by formula funding in the English NHS

Gwyn Bevan

on grounds of clinical priority only; and financial equity, which is achieved when purchasers are allocated equal levels of resources per capita taking account of the relative risk of their populations. Bevan (1998) argued that, with the well-documented variations in GP referral rates, it is not possible to achieve both kinds of equity and the objective ought to be to secure financial equity.

Following the election of the Labour Government in 1997, fundholding was abolished and, from 1998, new Primary Care Groups (PCGs) were created, initially as subcommittees of health authorities, with the objective of involving GPs in commissioning services for local patients and thus extending ‘to all patients the benefits, but not the disadvantages, of fundholding’ (Secretary of State for Health, 1997, p. 37). Klein (1998) described these changes as either the phasing out, or universalising, of the idea of GP fundholding. PCGs became Primary Care Trusts (PCTs) (currently about 150), which in effect replaced health authorities. One consequence of these changes was that, from April 1999, formula funding applied to all local NHS spending (on primary care and HCHS) in unified allocations (Department of Health, 1998a).

The objective of extending the benefits of fundholding to PCGs and PCTs was always going to prove problematic, because of two vital differences. First, GP fundholding was typically small scale and based on general practices run by GPs, but PCGs and PCTs were large bureaucratic organisations. Second, GPs had a choice over whether to opt to become fundholders or not and one in three practices was involved in fundholding in 1995/96 (Audit Commission, 1996). GPs had no choice over whether they wanted to belong to PCGs and PCTs, and were allocated to these organisations on a geographical basis.

From 2002, the government introduced a package of system reforms on the demand and supply sides ‘to introduce stronger incentives to ensure the extra cash produces improved performance’ (Secretary of State for Health, 2002, p.4; and Audit Commission and Healthcare Commission, 2008). There were three changes with impacts on the policy of formula funding. First, the idea of GP fundholding re-emerged by involving GPs in ‘Practice-Based Commissioning’ (PBC) from 2005 (official recognition of the failure of PCTs to involve GPs in managing demand). PBC devolves indicative budgets to general practices, and aims to encourage GPs and other primary care professionals to manage referrals and to commission and redesign services in a way that is more cost-effective and convenient for patients. Second, an activity-based funding system (‘Payment by Results’ – PbR) was implemented for hospitals, which aims to take account of case mix so that ‘money follows the patient’. Third, in a new contract, GPs in addition to a capitation element (based on patients registered with general practices) are paid extra for achieving quality targets as measured by the Quality and Outcomes Framework (QoF). PbR and QoF generate strong financial incentives for hospitals to increase the number and complexity of their cases and GPs to improve quality of care. These payment systems mean that PCTs have to find

© 2009 The Author(s)
Journal Compilation © 2009 Blackwell Publishing Ltd
ways of managing the volume of demand for hospital care: PCTs’ allocations are
determined with reference to a formula and are cash-limited, they have to pay
GPs for performing against national contracts, and PbR determines the prices
PCTs pay for hospital services.

GOVERNANCE AND FORMULA DEVELOPMENT

From the RAWP Report of 1976, until the creation of standing advisory
groups on resource allocation in 1995, there were three reviews of the funding
formula. The first review (Department of Health and Social Security, 1980), was
curtailed, recommended minimal changes, but provided the rationale for two
innovations: funding of high-cost clinical services serving a number of regions
and developed the idea and method of accounting for geographical variations
in staff costs – the staff Market Forces Factor (MFF). The second and third
reviews derived estimates for additional need from empirical analyses of the
relationships between small-area variations in hospital admission rates and
proxies of need (mortality and census data). The second review produced official
Reports (Department of Health and Social Security, 1986 and 1988). The third
review did not: there was only a Report from the research team at the University
of York that estimated new weightings for need for hospital services (Carr-Hill
et al., 1994a). The Government argued that, as these weightings were derived
for hospital services only, this justified the unprecedented change of applying
no weighting for need for most community and other health services (24 per
cent of HCHS expenditure). This decision limited the scale of the redistribution
to favour Conservative constituencies and was heavily criticised (Health Select
Committee, 1996, p. xviii; and Carr-Hill et al., 1997).

In what looks to be a response to the lacunae in governance identified
by those criticisms, the Government established for the first time, in 1995,
two standing advisory groups for the governance and development of formula
funding: the Resource Allocation Group (RAG) on policy issues (NHS Executive,
1996 and 1997), and the Technical Advisory Group (TAG) on technical issues.
RAG was charged with developing needs indices for the 24 per cent of NHS
expenditure that had not been weighted for need and did so for allocations
from 1997/98 (NHS Executive, 1997). In September 1997, RAG was replaced
by the Advisory Committee on Resource Allocation (ACRA) (NHS Executive,
1999). The deliberations of these committees are confidential: there is no formal
consultation as in Scotland (Mulholland and Granville, 2006), Wales (National
Assembly for Wales, 2001), and Northern Ireland (Capitation Formula Review
Group, 2004, p. 8). Bevan (2008a: p. 74) suggested following New Zealand’s
process of regular five-yearly review that would begin with consultation with the
NHS.

The following sections review methods for estimating populations, weighting
for need and accounting for variations in the ‘unavoidable’ costs of providers.
ACCOUNTING FOR POPULATIONS

Population Data

Formula funding requires sound estimates of populations for which there are two sources: decennial censuses of geographically-defined areas by the Office of National Statistics (ONS); and lists of patients registered with GPs, which offer natural building blocks for formula funding, as they define populations for which clinicians make decisions on use of health care resources – all other definitions are administrative artefacts (Bevan, 2008b, pp. 4–6). Prisoners and armed forces personnel are included in ONS estimates and entitled to use HCHS; but they are not registered with GPs and do not make use of their services. After accounting for these known differences, however, estimates of populations on registered lists typically exceed those derived from censuses, hence this is known as ‘list inflation’. This shorthand term is, however, misleading as it implies that only the registered lists are in error, but the census also faces problems of under-counting (Simpson and Dorling, 1994). The effect of the difference between the two estimates for one London PCT was over £50m in its target (Department of Health, 2007a, p. 108). Little has been done to meet the fundamental requirement of securing reliable data on populations and no single body is responsible for this.

Formula Funding of General Practices

An evaluation of the extension of GP fundholding, in principle to cover all HCHS, in about 50 ‘Total Purchasing Pilots (TPPs)’ found that GPs were more involved in managing budgets in TPPs that were single practices than in TPPs that consisted of larger networks (Baxter et al., 2000; and Bevan et al., 2001). But applying formula funding at the level of general practices encounters two problems.

First, the ‘attribution problem’, which arises in using data on wards from censuses for practice populations to estimate additional need, when the people living in the same ward choose to be registered in different practices. The convention is to attribute the total needs weighting of a ward to the practices serving that ward in proportion to the practices’ share of the ward population, which assumes a random allocation of needs to practices (Department of Health, 1998b). If that assumption does not hold, then serious errors can arise, as it has been consistently found that the most expensive five per cent of the population account for 60 per cent of total expenditure on health services. The problem is illustrated by Figure 1, derived from hospital expenditure in the Netherlands (Lamers and van Vliet, 1996), which gives: the percentages of the populations that account for the top one, five, ten and 25 per cent of expenditure; and what the (much lower) estimated expenditure would have been based on using average spend by age and sex (data available directly at practice level). One solution to the attribution problem is to develop estimates of need from data on utilisation
of services at the individual level, and this research has been commissioned to offer a sounder basis for applying formulas to PBC, Bevan (2008a, p. 41).

Second, at practice level, because of the small population, a target will be unreliable and have large margins of error: we can expect estimates for a third of practices to have errors of estimation greater than ten per cent (Martin et al., 1997, p.11). A rule of thumb is that formulas become reliable for about 30,000 patient years. One way of tackling this problem is by allocating budgets over a number of years: e.g., for a practice of 10,000 over a three-year period.

WEIGHTING FOR RELATIVE NEED

Demography

The RAWP Report recommended weighting for demography (age and sex) using national average rates of utilisation, which has been relatively uncontroversial. It was followed until the derivation of a combined weighting for age and additional needs (Morris et al., 2007). An issue with using national average rates of utilisation is that patients may be denied the treatment they need because they are too old (Challah et al., 1984; and Bowling, 1999).
FORMULA FUNDING IN THE ENGLISH NHS

Using Mortality Data

The approach of the RAWP report to accounting for additional need is characterised by elegant economy based on a heroic assumption: using (mainly) the ratio of actual to expected mortality in the form of Standardised Mortality Ratios (SMRs) with a weight of one: i.e. assuming that a health authority with e.g., ten per cent higher (lower) mortality than expected ought to receive ten per cent more (less) resources. This method was applied from 1977/78 to 1990/91.

There are good reasons for the RAWP Report using mortality data as the best proxy measure of additional need in populations. Mortality data are a good measure of the cumulative social and health experience of people living in an area and a sensitive indicator of general health care needs; reliable, accurate and routinely available and provide a more timely indicator of relative need than indices derived from Census data; and independent of supply of, and access to, services (Mays, 1987; Mays and Bevan, 1987; and Sheldon et al., 1993). But many questions have been raised over the use of mortality data in formulas for allocating resources, for example (Mays and Bevan, 1987):

i. For which services is mortality a good measure of morbidity: is it only relevant for acute diseases?

ii. Mortality is focused on morbidity: to what extent do mortality data capture extra needs for health care of deprived populations?

iii. Where mortality is a good measure of morbidity, although the SMR is a popular index, is it the most appropriate?

iv. If the SMR is used what age range should be used? And if the SMR is based on a restricted age range (under 75), then should it, nonetheless, be applied to the whole population?

v. What weight should be used for the chosen mortality index?

vi. For what proportion of morbidity is there effective treatment and therefore ought resources be made available?

Answers to the first two questions are that mortality data are a sensitive indicator of relative need and strongly correlated with all other measures. But other indices have been preferred to the SMR (Mays and Bevan, 1987): in Portugal, age-specific SMRs were better (Oliviera and Bevan, 2003); and in Scotland, the Comparative Mortality Factor (CMF) is preferred (Social Disadvantage Research Centre, 2003, pp. 55-57).

The next subsection discusses attempts to offer a solution to all but the last question by examination of the empirical relationships between actual utilisation of services and indicators of morbidity and material deprivation. To be able to answer the last question requires a quite different approach, of developing a normative formula from the bottom up, which is discussed later in this section.
Using Empirical Analyses of Utilisation

There have been four different attempts to estimate weighting for needs from empirical relationships between actual utilisation of services and indicators of morbidity and material deprivation. These were based on the following Reports:

- **Review of the Resource Allocation Working Party Formula** (the RoR Study: Department of Health and Social Security, London, 1988; see also Royston et al., 1992). This developed a model for non-psychiatric acute services only that was used from 1988 to 1996 (see e.g., NHS Executive, 1991, Section 2.3).
- **A Formula for Distributing NHS Revenues Based on Small Area Use of Hospital Beds** (the York Study: Carr-Hill et al., 1994a; see also Carr-Hill et al., 1994b; and Smith et al., 1994). This developed two models (for general and acute, and psychiatric acute services) that were used from 1997 to 2003 (see e.g., NHS Executive, 1994, pp. 7-11).
- **Allocation of Resources to English Areas** (the AREA study: Sutton et al., 2002; see also Gravelle et al., 2003; and Morris et al., 2005). This developed three models (for acute and maternity, mental health, and prescribing) that were used from 2004 to 2008 (see e.g., Department of Health, 2003, pp. 18-34).
- **Combining Age Related and Additional Needs (CARAN) Report** (the CARAN study: Morris et al., 2007). This developed three models (for acute services, maternity services, and prescribing) that were used in 2009 (see e.g., Department of Health, 2008, pp. 29-35 and 50-52).

Any study that seeks to estimate needs for health care from data on utilisation, however sophisticated the methods, encounters serious limitations with data and severe methodological difficulties (Bevan, 2008a, pp. 16-17; and Stone and Galbraith, 2006):

- **The ecological fallacy**: when an effect detected at aggregate level of analysis does not exist at individual level. This is at the heart of the attribution problem because we can only link census data to hospital utilisation data at the small-area level.
- **Data availability on utilisation of services** are best for non-psychiatric acute hospital admissions; it is difficult to derive indicators of need from data on utilisation of other services (Morris et al., 2007).
- **Endogeneity between variables measuring supply and need**: as Grossman (1972) pointed out, there is a two-way interaction between sickness and use of health care; sickness will have an impact on use of hospitals, and vice-versa. The York study criticised the RoR study for estimating weightings using the technique of ordinary least squares and used the traditional solution to this problem of estimation by two-stage least squares. But this solution was not used by the AREA study, as it requires variables that are
hard to find (as they ought to be correlated with supply but not with the unobserved needs variables).

- **Medical practice variations and inappropriate treatment**: studies in the UK and the US have found correlations between variations in admission rates in the aggregate and generic social indicators. In contrast other studies of specific conditions and procedures have revealed variations in rates of treatment which, it is consistently argued, cannot be explained by differences in need and are attributed to variations in medical practice. Studies have also found high levels of inappropriate care. The evidence of variations in medical practice and levels of inappropriateness indicate that current practice can be very different from what ought to be provided.

- **Relational distance** (Black, 1970), patients who are well educated and articulate are relationally close to the GPs and hospital doctors and tend to be more skilled users of ‘free’ services than those who are not. Hence data may show that those who are materially deprived do indeed make heavier use of services, but this may still be an underestimate of their need (Asthana et al., 2004).

The York Study was criticised for omitting variables that measured health (Asthana et al., 2004). The subsequent AREA study did include such variables. Stone and Galbraith (2006) criticised both studies for estimating needs by weighting first for age and then for additional needs. The latest CARAN study (Morris et al., 2007) produced simultaneous estimates of weighting for age and morbidity (hence its title: Combining Age Related and Additional Needs). Stone and Galbraith (2006) questioned whether the models of the York and AREA studies were well specified and whether the results were replicable. Using later data, the AREA study was unable to replicate the York model for acute services (Sutton et al., 2002, pp.101-2) and the CARAN study to replicate the AREA models (Morris et al., 2007, pp 80-87). Differences in estimates of coefficients of needs variables from different datasets, do not, however, necessarily mean that the different formulas produce material differences in the estimation of targets; this is because the variables used as proxies for needs in all these models are correlated.

One way of examining consistency of the different models, in terms of estimation of targets, is to examine relationships between each model’s index for additional need for acute services (for which all models have produced estimates) and the two mortality indices that have been used: the SMR for under seventy-fives (SMR < 75: York and AREA studies) and the CMF for under sixty-fives (CMF64: AREA and CARAN studies). Table 1 gives, for the different studies, the estimates of the weight on these two mortality indices from their estimates of additional needs for acute services (coefficient derived by regression analysis). For the SMR < 75, the AREA study (0.83) gave greater weight than the York study (0.67), and hence implies an increased distribution of resources to poor
### Table 1

Results of Regressing Composite Acute Additional Needs Indices Against Two Mortality Indices

<table>
<thead>
<tr>
<th>Model Estimate of Acute Needs Index</th>
<th>Mortality Index</th>
<th>Allocations</th>
<th>Estimates of Coefficient on Mortality Index</th>
</tr>
</thead>
<tbody>
<tr>
<td>York (1)</td>
<td>SMR&lt;75</td>
<td>2002-03: 95 health authorities</td>
<td>Mean: 0.71, Lower 95%: 0.67, Upper 95%: 0.75</td>
</tr>
<tr>
<td>AREA (2)</td>
<td>SMR&lt;75</td>
<td>2007-08: 303 PCTs</td>
<td>Mean: 0.83, Lower 95%: 0.79, Upper 95%: 0.86</td>
</tr>
<tr>
<td>AREA (2)</td>
<td>CMF64</td>
<td>2007-08: 303 PCTs</td>
<td>Mean: 0.76, Lower 95%: 0.73, Upper 95%: 0.79</td>
</tr>
<tr>
<td>CARAN (3)</td>
<td>CMF64</td>
<td>2008-09: 152 PCTs</td>
<td>Mean: 0.40, Lower 95%: 0.37, Upper 95%: 0.44</td>
</tr>
</tbody>
</table>


...areas. For the CMF64, the CARAN study (0.40) gave much lesser weight than the AREA study (0.76), and hence implies a reduced distribution of resources to poor areas. This range of weights on the mortality indices may be compared with those of the RAWP Reports (1.0 for all-age SMR) and RoR’s (0.44 for SMR<75). These differing outcomes from twenty years’ empirical work suggest that greater sophistication is not resulting in a converging basis for estimating the weighting for needs.

Sheldon and Carr-Hill (1992, p. 412) observed that the RAWP Report ruled out deriving estimates of need from data on utilisation because of the problem of disentangling hospital use from supply factors and argued that a general weakness of any regression analysis is that ‘even the use of simultaneous modelling techniques cannot deal adequately with a system where demand, utilisation and supply are so inextricably intertwined’. The stumbling block encountered by all empirical methods is seeking to estimate what ought to be from what is (Sheldon et al., 1993; and Mays, 1995), so that we avoid perpetuating underlying inequities. Whatever empirical approach is used to estimate variations in need relies on proxy (and not direct) estimates and is hence ‘essentially contested’:

i.e. concepts the proper use of which inevitably involves endless disputes about their proper uses on the part of their users (Gallie, 1955-6, p. 169).

This is because the only way of resolving the dispute would be to produce direct evidence of relative need, but if we had that direct evidence we would not have to rely on proxies.

**Normative Alternatives to Empirical Methods**

Stone and Galbraith (2006) and Asthana et al. (2004) have argued for a normative approach in which formulas are derived from the bottom up using...
estimates of need for health care. But, to do so requires basic epidemiological data on local rates of prevalence (of chronic conditions) or incidence (of acute conditions) with information on severity so that needs for cost-effective care can be estimated (see, for example, Hollinghurst et al., 2000; and Bevan et al., 2007). (Work commissioned by ACRA in 2007, led by Sheena Asthana from the University of Plymouth on developing a bottom-up approach, suggests that this can be for done for mental health (Bevan, 2008a, p. 18)). If it were possible to develop a normative basis for resource allocation from the bottom up, this would, however, create a new set of problems: it is likely that the costs of what was ‘needed’ would exceed the available funding, and so explicit rationing decisions would be required that denied care to those who ‘needed’ it according to the formula.

Sheldon (1997) argued for a return to RAWP’s approach of elegant economy based on a heroic assumption:

The empirical work over the past years seems to have validated the original idea of the Resource Allocation Working Party to use a measure of the death rate as an indicator of relative need. There are no unique and valid indicators of health care need, and, no matter how sophisticated the analysis, research based on the use of services tends to underestimate the effect of poverty because the middle classes are better at accessing health services. As a result of this, a similar result could be produced by basing a formula simply on population size and age, weighted by the under 75 year standardised mortality ratio.

Sheldon made that argument after having been a member of the research team of the York Study, when it appeared that its more sophisticated approach (to that of the RoR study) had validated the RAWP assumption of a weight of one on the SMR (the above analysis of the York Study indicates a weight of 0.7). The approach that Sheldon advocates offers rough justice, is transparent and based on mortality data with its many virtues (as described above). A difficulty now, however, is that later sophisticated empirical studies have indicated a wide range of values for the weight to be placed on a mortality index.

ACCOUNTING FOR UNAVOIDABLE VARIATIONS IN COSTS

In London, employers pay ‘London weighting’ in some recognition of the higher living costs, but that still means that similar occupations have higher rates of pay in other sectors, with recruitment problems for generic staff (e.g., secretaries). These problems also arise for nursing and other specialist staff, which suggests that these ‘are mobile geographically within the NHS and the compensation of London weighting is insufficient to overcome the preference to live/work elsewhere’ (NHS Executive 1996, p.15). The staff MFF aims to fund these effects of labour market forces. There are two ways of estimating the staff MFF. One is the specific cost approach, based on analysing actual variations in costs between NHS organisations in different areas (Grilly et al., 2007). But, as this
approach does not indicate whether these extra costs are avoidable, all estimates of the staff MFF have been derived from the alternative general labour market approach (Bevan, 2008b, pp. 12–15), which is based on analysing variations in costs in other labour markets (Elliott et al., 2005). This approach is open to criticisms that general labour market indicators do not adequately proxy the additional (unavoidable) costs faced by NHS providers in different parts of the country, and that NHS labour is less mobile geographically than other types of labour in different occupations (Department of Health, 1999b).

Using formula funding of populations to account for variations in provider costs results in a convoluted method (Department of Health, 2008, pp. 41-48). The estimates of MFF zones are ‘smoothed’ to address the problem of differences between PCTs, known as ‘cliff edges’; which results in ‘cliff edges’ between providers (NHS Executive, 1996, pp. 16–17; Health Select Committee, 1996, p. xxxi), which are then reduced by ‘interpolation’. It would be more straightforward to produce MFF estimates by provider, and for this to be part of determining PbR payments rather than formula funding. But if that change were to be made, two other issues would continue to pose problems.

First, as the RAG Report (NHS Executive 1997, p. 11) highlighted, the MFF has an asymmetrical impact. Initially the MFF covered the London and the South East only. The 1996 RAG Report observed that this was inadequate, as variations in labour markets also applied in the rest of England (NHS Executive 1996, p. 15). But extending the MFF to cover the whole of England created the problem for areas (in particular Cornwall) where local rates of pay were (and still are) lower than NHS national rates. The Report observed:

Whilst these [HAs] should enjoy some benefits e.g., better quality staff, this is unlikely to be sufficient to offset having allocations that reflect a going rate they cannot pay.

RAG suggested that a possible approach to this problem would be to determine a cut-off point where NHS rates are deemed to equate to the going rate. But the policy was not to do this, with consequent reductions in target allocations for areas with MFF below national average costs.

Second, hospitals follow national rates of pay for nursing staff and hence encounter the problems of recruitment that the staff MFF is intended to overcome. Burgess et al. (2003) found a clear regional divide in hospital performance ratings (published in 2001 and 2002) which was inversely related to relative labour costs: i.e. performance was better in the regions with low labour costs. Hall et al. (2008) found that hospitals paying nurses national rates of pay in areas with high labour costs had to rely disproportionately on temporary agency staff, which was associated with worse health outcomes: a 10% increase in the outside wage was associated with a 4% to 8% increase in death rates for acute myocardial within thirty days of emergency admission. Besley and Ghatak (2003, p. 12) identify a particular difficulty in accounting for variations in labour costs. They argue that:
FORMULA FUNDING IN THE ENGLISH NHS

A system of organization and remuneration for the provision for public goods will have to take into account not only how on-the-job incentives affect how those in the sector work, but also who is attracted to work there.

The problem is that, e.g., nurses who work in hospitals in London will face the same living costs, but the elite teaching hospitals will be able to attract the better quality of staff.

OLD PROBLEMS AND NEW CHALLENGES IN FORMULA FUNDING

The search for proportionate care by formula funding over 30 years in England shows that there is no perfect formula. Formulas can only offer rough justice. From 1976 there have been repeated examinations of the problems of accounting for populations, need and unavoidable variations in provider costs, but the outcomes seem to be better understanding of the problems. We still lack reliable data on populations. Twenty years of successively more sophisticated methods of empirical analysis do not promise convergence in accounting for need. The MFF ought to be estimated directly for providers as part of PbR, but that still poses problems given national rates of pay.

A fundamental issue raised by formula funding of organisations is that they ought to be able to control their populations’ use of services. To do this, it is vital to involve GPs in the process of managing demand. This requires developing methods that can estimate needs by individuals (rather than by small areas) with accurate data on practice populations (hence resolving the problem of ‘list inflation’). But there are intrinsic tensions in formula funding, as it appears it is easiest to involve GPs in budgeting at the level of practices where any formula will have a large margin of error.

Finally, the new objective, of reducing ‘avoidable’ inequalities in health implies a new perspective. At the time of the RAWP Report it could be argued that giving more funding to areas with high mortality rates did not generate perverse incentives, as there was only a weak relationship between spend on health care and mortality. Indeed that seems sadly to have proved correct over the last 30 years: resources have been redistributed according to a proportionate care law in relation to mortality rates (as they are so strongly correlated with the various indices that have been used), and this has not reduced inequalities in mortality rates. Hence, if an element of formula funding is to reduce ‘avoidable’ health inequalities, we need a different approach: it seems wrong, for example, either to continue extra funding if high mortality rates were to increase; or to reduce funding if high mortality rates were to reduce, if by doing so would only mean that mortality rates would increase again. This suggests developing a method to take account of need and performance; and requires a much deeper understanding of the relationships between funding, need for, and outcomes of, health care than was deemed necessary thirty years ago.

© 2009 The Author(s)
Journal Compilation © 2009 Blackwell Publishing Ltd

The search for a proportionate care law by formula funding in the English NHS | Gwyn Bevan
NOTE

1 For the York study (Department of Health, 2002, Table 5.6), the indices for additional acute needs and mortality were given in Columns F (acute needs) and D (SMR<75). For the AREA study (Department of Health, 2007b, Table 4b.4), the index for additional acute needs was derived by dividing weighted populations (acute and maternity needs: Column M) by crude populations (Column A); the mortality indices were given in Table 4b.7 Column P (CMF64) and Column F (SMR<75). For the CARAN study (Department of Health, 2009, Table 9), the index for additional acute needs was derived by estimating age-weighted populations using responsible population by age group (Columns AP to BG) and spend per capita by age group (Row 4 of Columns DT to EK), and dividing the acute needs weight by the age-weighted populations (acute needs weight populations: Column FI); the mortality index was given in Column BV (CMF64).

REFERENCES


——— et al. (1980), Health Care Priorities and Management (Croom Helm, London).

FORMULA FUNDING IN THE ENGLISH NHS


© 2009 The Author(s)
Journal Compilation © 2009 Blackwell Publishing Ltd


FORMULA FUNDING IN THE ENGLISH NHS


© 2009 The Author(s)
Journal Compilation © 2009 Blackwell Publishing Ltd


Hitting and missing targets by ambulance services for emergency calls: effects of different systems of performance measurement within the UK

Gwyn Bevan

London School of Economics and Political Science, UK

and Richard Hamblin

Healthcare Commission, London, UK

[Received March 2007. Final revision March 2008]

Summary. Following devolution, differences developed between UK countries in systems of measuring performance against a common target that ambulance services ought to respond to 75% of calls for what may be immediately life threatening emergencies (category A calls) within 8 minutes. Only in England was this target integral to a ranking system of ‘star rating’, which inflicted reputational damage on services that failed to hit targets, and only in England has this target been met. In other countries, the target has been missed by such large margins that services would have been publicly reported as failing, if they had been covered by the English system of star ratings. The paper argues that this case-study adds to evidence from comparisons of different systems of hospital performance measurement that, to have an effect, these systems need to be designed to inflict reputational damage on those that have performed poorly; and it explores implications of this hypothesis. The paper also asks questions about the adequacy of systems of performance measurement of ambulance services in UK countries.

Keywords: Ambulance response times; Performance measurement; Star ratings; Targets

1. Introduction

Kelman (2006), in his review of Ferlie et al. (2005), was critical of its neglect of the uncomfortable fact that ‘Government does not perform as well as it should’. This uncomfortable fact is a product of unfavourable comparisons, in terms of dynamism and responsiveness, of services operating within government and normal markets (subject to well-known conditions) (Wolf, 1993). Indeed this contrast by Schulze (1977), pages 70–71, was cited by Enthoven (1985), page 10, in his argument for the introduction of an internal market for the National Health Service (NHS), to enable it to escape from its gridlocked form of the 1980s. As Wolf (1993) has argued, however, the reasons for the predominant and ineluctable source for failures of government services lie precisely in those circumstances that provide the rationale for these services being outside normal markets. Schulze (1977) highlighted that exit by failing providers was an intrinsic characteristic of the dynamism of normal markets. One reason why the Thatcher government’s
attempt to create appropriate incentives in the NHS, through the creation of an internal market, founder was that Ministers could not allow exit by failing providers, as Ministers were responsible for ensuring good access to local services (Enthoven, 1999; Tuohy, 1999; Secretary of State for Health, 2000; Bevan and Robinson, 2005). So the ‘internal market’ evolved into one like the caucus race in *Alice in Wonderland*, in which ‘everyone must have prizes’ (Royce (1995) and Carroll (1975), page 49). Such difficulties illustrate why Kelman (2006) emphasized that a primary research concern of those studying public services ought to be tackling their underperformance. That concern is the subject of this paper: how can governments use performance measurement to put pressures on providers of public services that are analogous to those that normal markets put on private providers?

As Le Grand (2003), page 5, pointed out, in the post-war British welfare state, until the election of the Thatcher government in 1979, there was minimal interest in the design of external systems to improve the performance of providers of public services. This was because the guiding principle was the Panglossian assumption that all the key players were ‘knights’:

‘professionals … were concerned only with the interests of the people they were serving … politicians, civil servants, state bureaucrats, and managers were supposed accurately to divine social and individual needs in the areas concerned, to be motivated to meet those needs and hence operate services that did the best possible job from the resources available’.

This assumption explains why the shocking series of scandals in the NHS that came to light in England in 1998 went on for far too long (Smith, 1998; Abbasi, 1998; Bevan, 2008b) and is the only justification for the conventional British response to failure to deliver, namely rewarding failing organizations with extra resources. Following the Labour Government’s policy of devolution (Greer, 2004), different systems of using performance measurement developed from 1998 within the countries of the UK. The Panglossian assumption that all key players in the NHS were knights continued as a guiding principle for the governments in Wales and Scotland; the government in England, however, sought, in 2000, to change the culture of the NHS from one that ‘bails out failure to one where it rewards success’ (Secretary of State for Health (2000), page 28), through the radical and controversial system of performance measurement by annual ‘star ratings’ of NHS organizations (known as ‘trusts’). Whereas the ‘internal market’ was designed to put financial pressure on failing providers in a way that threatened services for local populations, the star rating system was designed directly to put pressure only on those running failing providers to improve performance for local populations.

Star ratings were first applied in 2001 to acute trusts (Secretary of State for Health, 2001) and then extended to cover ambulance trusts in 2002 (Secretary of State for Health, 2002), and all types of trusts from 2003 until 2005, the final year of star ratings (Commission for Health Improvement, 2003a, b; Healthcare Commission, 2004, 2005a). This process gave each trust a score from zero to three stars based on performance against a small number of ‘key targets’ and a larger set of targets and indicators in a ‘balanced scorecard’. Trusts that failed against key targets, and were ‘zero rated’, were ‘named and shamed’ as ‘failing’, and their chief executives were at risk of losing their jobs. Trusts that performed well on both the key targets and the balanced scorecard, and achieved the highest rating of three stars, were rewarded by being publicly celebrated for being ‘high performing’ and granted ‘earned autonomy’ (Bevan and Hood, 2006a, b).

This paper examines the effects of the various systems of performance measurement in the countries of the UK for a common target for ambulance trusts, that 75% of emergency calls (made by someone telephoning 999), that may be immediately life threatening (category A), be met within 8 minutes, which we describe as the category A 8-minute target. This target
was to be achieved in 2001 in England and Wales, and 4 and 6 years later in Northern Ireland and Scotland. The second main section of this paper gives contextual background by outlining a typology of systems of performance measurement, proposing a hypothesis of four requisite characteristics for a system to have had an effect and testing this through comparisons of different systems of hospital performance measurement, and outlining criticisms of the star rating system. The third main section of this paper describes the effects of various systems of performance measurement of ambulance response times in the UK. It outlines the development of targets for response times, describes the effects of star ratings on reported performance against these targets by different trusts in England and compares reported performance against the category A 8-minute target by different UK countries. That section also considers the basis and adequacy of target selection, definition and measurement, evidence of gaming in England (including detailed examination from analysis by one of us (RH) following concerns that were raised in the course of clinical governance reviews by the Commission for Health Improvement (CHI) of ambulance trusts). The paper concludes by raising disturbing questions for governments in the various UK countries from our study of targets for ambulance response times, considering recommendations on the development of, and research into, systems of performance measurement by a working party of the Royal Statistical Society in response to the Blair government’s emphasis on these systems (Bird et al., 2005).

2. Types and effects of different systems of performance measurement

2.1. A typology of performance measurement

Hood (2007) has described three types of systems of performance measurement: as general intelligence; in relation to targets; with measures being aggregated so that organizations can be ranked. This section considers the development of each type and its application to health care.

Intelligence systems have a long history in health care, going back to the publication of Florence Nightingale’s analyses of hospital mortality rates (Nightingale, 1863). Since the 1990s, following the technological advances in computing and Web sites, there has been an explosion in the development of intelligence systems publishing clinical outcome indicators, but without resolving the problems that were identified in Florence Nightingale’s analyses. Spiegelhalter (1999) pointed out that she clearly foresaw the three major problems that were cited in a survey of the publication of surgical mortality rates that were identified by Schneider and Epstein (1996) about 130 years later:

‘the inadequate control for the type of patient, data manipulation and the use of a single outcome measure such as mortality’.

Iezzoni (1996) pointed out that issues raised in the debate following publication of Nightingale’s hospital mortality rates echo those which are cited frequently about contemporary efforts at measuring provider performance. These included problems of data quality, measurement (risk adjustment and the need to examine mortality 30 days after admission rather than in-hospital deaths), gaming (providers avoiding high risk patients because of fears of public exposure) and the public’s ability to understand this information. These unresolved problems mean that there was, in the 1990s, intense and polarized debate about the benefits of publication of information on hospital performance, with different camps describing this as essential, desirable, inevitable and potentially dangerous (Marshall, Shekelle, Brook and Leatherman, 2000).

Although the use of targets also has a long history (Barber, 2007; Hood, 2007), Hood identified New Zealand as pioneering the comprehensive introduction of a system of target setting...
across government in the 1980s. This offered a model for the Blair government which, following its election in 1997, introduced the systematic setting of public service agreement targets, as part of an implicit contract between Her Majesty’s Treasury and spending departments for their budgets for public services (James, 2004). (It was during this period that both England and Wales introduced the category A 8-minute target for ambulance trusts.)

The Thatcher government in the 1990s (before devolution) introduced the ranking system of league tables of performance of schools in terms of examination results, across the countries of the UK (West and Pennell, 2000; Department for Education and Skills, 2004). Hood (2007) has argued that what was distinctive and novel in the Blairite approach to performance measurement of public services was the development of government-mandated ranking systems. The differences between approaches to performance measurement in the UK are illustrated by the decisions, following devolution, of the government in England to maintain the publication of school league tables, and the governments in Wales and Scotland to abandon their publication (Hood, 2007). Bird et al. (2005) observed that school league tables are published in some states in the USA (California and Texas), but there has been legislation against their publication in New South Wales in Australia and the Republic of Ireland. For the NHS in each country, the government in England introduced the ranking system of star ratings, but the governments in Wales and Scotland, in their developments of performance measurement, deliberately eschewed these being published as ranking systems.

2.2. Comparisons of systems of hospital performance measurement

Using resources for performance measurement, rather than delivery, of health care can only be justified if the former has an influence on the latter: there is little justification on grounds of transparency alone if this has no effect. Spiegelhalter (1999) highlighted criticism by Codman (1917) of the ritual publication of hospital reports that gave details of morbidity tables and lists of operations which were intended to ‘impress the organisations and subscribers’ but were ‘not used by anybody’. The first systematic review of evaluations of systems of performance measurement, by Marshall, Shekelle, Brook and Leatherman (2000) and Marshall, Shekelle, Leatherman and Brook (2000) commented on the contrast between the scale of this activity and the lack of rigorous evaluation of its effects. A recent systematic review (Fung et al., 2008) made the same point, emphasizing that the studies they had identified still focused on the same seven systems that had been examined by Marshall, Shekelle, Brook and Leatherman (2000); in particular on the cardiac surgery reporting system (CSRS) of New York State Department of Health. These systematic reviews produced evidence that enables us to examine three pathways through which performance measurement might result in improved performance. The first two of these, the change and selection pathways, were proposed by Berwick et al. (2003) and used by Fung et al. (2008). The change pathway assumes that providers are knights: that simply identifying scope for improvement leads to action, without there being any need for any incentive other than the provider’s innate altruism and professionalism; thus, there is no need to make the results of the information available beyond the provider themselves. As Hibbard (2008) observed, the evidence suggests that this is a relatively weak stimulus to action. This finding was anticipated by Florence Nightingale in the 1850s in seeking to convey the urgent need to the government to improve the living conditions of army barracks in peacetime: her statistical analysis showed that these conditions were so appalling that the outcome was that, on the basis of comparisons of mortality rates with the civilian population outside,

‘1,500 soldiers good soldiers are as certainly killed by these neglects yearly as if they were drawn up on Salisbury plain and shot’. 
She continually reminded herself that ‘reports are not self executive’ (Woodham-Smith (1970), pages 229–230). The selection pathway assumes that providers respond to the threat of patients as consumers using information in selecting providers, but, systematic reviews by Marshall, Shekelle, Brook and Leatherman (2000) and Marshall, Shekelle, Leatherman and Brook (2000) and Fung et al. (2008) found that patients did not respond as consumers in this way. In presenting the findings from that latest systematic review, at a seminar in January 2008, at the Health Foundation in London, Paul Shekelle observed that many of these studies were in the USA and showed that patients there did not use this information as consumers and, if that response has not materialized in the USA, with its emphasis on markets, then it is highly unlikely to be observed in other countries.

The systematic review of the evidence of effects of performance measurement systems by Fung et al. (2008) suggests that neither of the two pathways that were proposed by Berwick et al. (2003) for these systems to have an influence is effective. Hibbard (2008) has argued, however, that a third pathway of designing performance measurement that is directed at reputations can be a powerful driver of improvement. She has led research for over a decade into the requisite characteristics for a system of performance measurement to have an effect (see, for example, Hibbard et al. (1996, 1997, 2001, 2002, 2003, 2005a, b, 2007), Hibbard and Jewett (1997), Hibbard and Pawlson (2004) and Peters et al. (2007)). Hibbard et al. (2002) showed, in a controlled laboratory study, that comparative performance data were more likely to be used, if they were presented in a ranking system that made it easy to discern the high and low performers. Hibbard et al. (2003) proposed the hypothesis that, for a system of performance measurement to have an effect, it needs to satisfy four requisite characteristics: it must be

(a) a ranking system,
(b) published and widely disseminated,
(c) easily understood by the public (so that they can see which providers are performing well and poorly) and
(d) followed up by future reports (that show whether performance has improved or not).

Hibbard et al. (2003, 2005b) tested this hypothesis in a controlled experiment, based on a report, which ranked performance of 24 hospitals, in south central Wisconsin, in terms of quality of care. This report used two summary indices of adverse events (deaths and complications): within broad categories of surgery and non-surgery; across three areas of care (cardiac, maternity, and hip and knee). The report showed material variation (unlike insignificant differences in ranking in league tables) and highlighted hospitals with poor scores in maternity (eight) and cardiac care (three). The effects of reporting were assessed across three sets of hospitals: public report, private report and no report. For the public report set, a concerted effort was made to disseminate the report widely to the public: the report was available on a Web site; copies were inserted into the local newspaper, distributed by community groups and at libraries; the report attracted press coverage and generated substantial public interest. For the private report set, the report was supplied to managers only; the no-report set was not supplied with the report. This research design enables comparisons of the effects of the three pathways. If the change pathway were powerful, then there ought to be no difference between the public report and private report hospitals, but the public report set made significantly greater efforts to improve quality than the other two sets (Hibbard et al., 2003, 2005b). The managers of hospitals in the public report set hospitals discounted the importance of the selection pathway: they did not see the report as affecting their market share (Hibbard et al., 2003). Later analysis showed that these managers were correct:
‘There were no significant changes in market share among the hospitals in the public report from the pre to the post period . . . no shifts away from low-rated hospitals and no shifts toward higher-rated hospitals in overall discharges or in obstetric or cardiac care cases during any of the examined post-report time periods’ (Hibbard et al., 2005b). The reputation pathway, however, was crucial: the managers of hospitals that had been shown to have been performing poorly in the public report group took action, because of their concerns over the effects of the report on their hospitals’ reputations. We now undertake two further tests of the hypothesis that, for a system of performance measurement to have an effect, this needs to be via the reputation pathway, through two comparisons of two hospital performance measurement systems, with reference to Hibbard’s four requisite characteristics.

The first comparison is between two systems of reporting clinical outcome indicators. One is the much-studied CSRS of New York State Department of Health, which began in 1989 as the first statewide programme to produce public data on risk-adjusted death rates following coronary artery bypass graft surgery, and is the longest-running programme in the USA of this kind (Chassin, 2002). The other is the annual reports from the Clinical Resource and Audit Group (CRAG) in Scotland, which when these began in 1984 were at the forefront in Europe of public disclosure of such information (Mannion and Goddard, 2001; Clinical Resources and Audit Group, 2002).

The CSRS produces annual reports of observed, expected and risk-adjusted in-hospital 30-day mortality rates, by hospital and surgeon. Green and Wintfield (1995) observed ‘CSRS became the first profiling system with sufficient clinical detail to generate credible comparisons of providers’ outcomes. For this reason, CSRS has been recognized by many states and purchasers of care as the gold standard among systems of its kind.’

The CSRS satisfied three of the above four requisite characteristics: these annual reports are published and widely disseminated, although performance is not ranked, statistical outliers are identified (New York State Department of Health, 2006). The CSRS was used by hospitals and had an influence. There is controversy over the benefits from the dramatic improvements in reported performance: Chassin (2002) observed that ‘By 1992 New York had the lowest risk-adjusted mortality rate of any state in the nation and the most rapid rate of decline of any state with below-average mortality’;

Dranove et al. (2003) found, however, that such ‘mandatory reporting mechanisms inevitably give providers the incentive to decline to treat more difficult and complicated patients’.

What is of particular interest here is that, in the account by Chassin (2002) of how four hospitals went about the tasks of improvement, he emphasized that the selection and change pathways had no effect. The key driver of change was the reputation pathway through adverse publicity from the CSRS identifying outlier hospitals performing poorly (Chassin, 2002):

‘Market forces played no role. Managed care companies did not use the data in any way to reward better performing hospitals or to drive patients toward them. Nor did patients avoid high-mortality hospitals or seek out those with low mortality . . . the impetus to use the data to improve has been limited almost entirely to hospitals that have been named as outliers with poor performance . . . hospitals not faced with the opprobrium attached to being named as poorly performing outliers have largely failed to use the rich performance data to find ways to lift themselves from mediocrity to excellence.’
The CRAG’s reports aimed to provide a benchmarking service for clinical staff by publishing comparative clinical outcome indicators across Scotland. The final report for 2002 (Clinical Resource and Audit Group, 2002) included two kinds of hospital clinical indicators (that used the only data the NHS collected routinely on outcomes following discharge from hospital): emergency readmission rates (for medical and surgical patients); mortality (or survival) after hospital treatment (for hip fracture, acute myocardial infarction, stroke and selected elective surgery). The CRAG reports essentially assumed a change pathway as the means through which the information that they produced would be used. These reports, which began before, and continued after, the internal market was introduced, were explicitly designed not to damage hospitals’ reputations: the last CRAG report (Clinical Resource and Audit Group (2002), page 2) emphasized that its information did not ‘constitute a “league table” of performance’. The CRAG reports were evaluated by a CRAG-funded Clinical Indicators Support Team (Clinical Resource and Audit Group (2002), pages 223–229) and Mannion and Goddard (2001, 2003). Despite the enormous effort that went into the production of these statistics, these evaluations found that they lacked credibility, because of the familiar problems of poor quality of data and inadequate adjustment for variation in casemix. These evaluations also found that the reports were difficult to interpret, lacked publicity and were not widely disseminated. Hence these reports did not satisfy Hibbard’s four requisite characteristics. The two evaluations found that they had little influence: Mannion and Goddard (2003) found that these data were rarely used by staff in hospitals and the boards to which the hospitals were accountable, and general practitioners in discussions with patients.

The second comparison is a natural experiment between a ranking system, the star rating system in England, which was dominated by performance against targets for waiting times, and target systems for waiting times in Wales and Scotland, neither of which were part of ranking systems.

The star rating system in England satisfied Hibbard’s four requisite characteristics and was designed to inflict reputational damage on hospitals performing poorly. Ranking through annual star rating was easy to understand, and the results were widely disseminated: they were published in the national and local newspapers and on Web sites, and featured in national and local television. Mannion et al. (2005a) emphasized that the star rating system stood out from most other systems of performance measurement in that hospital staff seemed to be highly engaged with information that was used in star ratings. They attributed this to ‘the effectiveness of the communication and dissemination strategy’ and ‘the comprehensibility and appeal of such a stark and simple way of presenting the data’. Star ratings obviously mattered for chief executives, as being zero rated resulted in damage to their reputations and threats to their jobs. In the first year (2001), the 12 zero-rated hospitals were described by the then Secretary of State for Health as the ‘dirty dozen’; six of their chief executives lost their jobs (Department of Health, 2002a). In the fourth year, the chief executives of the nine acute hospitals that were zero rated, were ‘named and shamed’ by the Sun (on October 21st, 2004), the newspaper with a circulation of over 3 million in Britain: a two-page spread had the heading ‘You make us sick! Scandal of Bosses running Britain’s worst hospitals’ and claimed that they were delivering ‘squalid wards, long waiting times for treatment and rock-bottom staff morale’; a leader claimed that if they had been working in the private sector they would have ‘been sacked long ago’ (Whitfield, 2004). Mannion et al. (2005a) highlighted the pervasive nature of the damage to reputations that is caused by poor scores in star ratings on hospital staff. For one hospital, the effect of having been zero rated was described as having been ‘devastating’, ‘hit right down to the workforce—whereas bad reports usually hit senior management upwards’, and resulted in
‘Nurses demanding changing rooms because they didn’t want to go outside [in uniform] because they were being accosted in the streets’.

Those from a one-star hospital described this as making people ‘who are currently employed here feel that they are working for a third class organisation’. More generally, star ratings were reported to affect recruitment of staff:

‘a high performance rating was “attractive” in that it signalled to potential recruits the impression that the trust was a “good” organisation to work for. In contrast, “low” performing trusts reported that a poor star rating contributed to their problems as many health professionals would be reluctant to join an organisation that had been publicly classified as under-performing.’

In Wales and Scotland, the target systems for long waiting times relied on the change pathway: that hospitals would know how their performance compared with targets set by government, and this alone would be enough to drive improvement. In each country there was neither systematic reporting to the public that ranked hospitals’ performance in a form analogous to star ratings, nor clarity in published information on waiting times: in Wales, breaches to targets were tolerated but not publicized (Auditor General for Wales (2005a), page 36); in Scotland, large numbers of patients actually waiting for treatment were excluded from published statistics (Auditor General for Scotland, 2001; Propper et al., 2008). Each government’s system of performance measurement lacked clarity in the priority of the various targets. In Wales, there was confusion over the relative priority of the various targets in the Service and Financial Framework and the government’s targets for waiting times ‘not always [having] been clearly and consistently articulated or subject to clear and specific timescales’ (Auditor General for Wales (2005a), pages 36 and 41). In Scotland, the performance assessment framework was criticized for being ‘overly complex and inaccessible’ for the public and those working in the NHS (Farrar et al. (2004), pages 17–18). Both governments continued to reward failure. In Wales there were ‘neither strong incentives nor sanctions to improve waiting time performance’, and the perception was that

‘the current waiting time performance management regime effectively “rewarded failure” to deliver waiting time targets’

(Auditor General for Wales (2005a), pages 42 and 40). In Scotland, there was the perception of

‘perverse incentives . . . where “failing” Boards are “bailed out” with extra cash and those managing their finances well are not incentivised’

(Farrar et al. (2004), pages 20–21 and 4).

The natural experiment between star ratings in England, that satisfied the above four requisite characteristics, and the target systems in Wales and Scotland, that did not, has been subject to several studies to examine their effects on performance in waiting times, both over time and across countries at the national level: for England, Scotland and Wales (Bevan and Hood, 2006b; Auditor General for Wales, 2005a); for England and Wales (Bevan, 2008a); a detailed econometric analysis, for England and Scotland (Propper et al., 2008). These comparisons have shown dramatic improvements in performance in England; initial deterioration in Wales and Scotland, and performance in England continuing to outstrip that of the other countries. Another cross-national comparison, by Willcox et al. (2007), of different countries’ attempts to tackle the problem of waiting times, compared Australia, Canada, England, New Zealand and Wales over the 6-year period 2000–2005. They summarized their finding as

‘Of the five countries, England has achieved the most sustained improvement, linked to major funding boosts, ambitious waiting-time targets, and a rigorous performance management system’
(Willcox et al., 2007). There is a question of the extent to which the effects of the English system were due not only to their capacity to inflict reputational damage but also to the threats to the jobs of chief executives. This requires further research.

These various comparisons suggest that hospital performance measurement systems that satisfy Judith Hibbard’s four requisite characteristics, in terms of their capacity to inflict damage on the reputations of hospitals performing poorly, had significant effects, whereas those systems that lacked that capacity had little or no effect. The importance of reputational damage as a key driver of change was also identified by Mannion and Davies (2002) in their interviews with experts in the USA in reporting health care performance: where reports of performance did have an effect, the underlying incentives were perceived to be, not financial, but ‘softer issues such as reputation, status and professional pride’. Hence Mannion and Davies highlighted the power of systems of ‘naming and shaming’ and that public reporting mattered, whether or not this was used by consumers, because ‘it makes providers pay more attention because they don’t want to look bad’. Mannion and Goddard (2003) also emphasized that the US evidence is that public reporting has an impact ‘particularly where the organization is identified as performing poorly’. Florence Nightingale well understood reputational damage as a means of putting pressure on government to take action: she coined the battle-cry of those seeking reforms in the sanitary conditions of the peacetime army: ‘Our soldiers enlist to death in the barracks’ (Woodham-Smith (1970), page 229).

2.3. **Criticisms of star ratings**

The star rating system has been examined by the House of Commons Public Administration Select Committee (2003) and as part of the examination of systems of performance measurement by a working party of the Royal Statistical Society (Bird et al., 2005). National auditors have examined responses to targets for hospital waiting times in England (National Audit Office, 2001a, b, 2004; Audit Commission, 2003), Wales (Auditor General for Wales, 2005a, b) and Scotland (Auditor General for Scotland, 2001, 2006a); responses to targets for ambulance response times in Scotland (National Audit Office, 1999; Auditor General for Scotland, 2006b), Wales (Auditor General for Wales, 2006) and England (Audit Commission, 2007). The CHI has published a detailed commentary on its star rating of the NHS in 2003 (Commission for Health Improvement, 2004a); it also reported on concerns over the way that trusts responded to targets for hospital waiting times (Commission for Health Improvement, 2004b) and ambulance response times (Commission for Health Improvement, 2003c), which were identified in the course of inspections of the implementation of the systems and processes of clinical governance in each NHS organization. There is already a substantial scholarly literature on the star rating system: Alvarez-Rosete et al. (2005), Bevan (2006, 2008a), Bevan and Cornwell (2006), Bevan and Hood (2004, 2006a, b), Brown and Lilford (2006), Burgess et al. (2003), De Bruijn (2007), Friedman and Kelman (2007), Hauck and Street (2007), Heath and Radcliffe (2007), Hood (2006, 2007), Jacobs et al. (2006), Jacobs and Goddard (2007), Jacobs and Smith (2004), Kelman and Friedman (2007), Klein (2002), Mannion et al. (2005a, b, c), Mannion and Goddard (2002), Marshall et al. (2003), Mays (2006), Patel et al. (2008), Propper et al. (2008), Rowan et al. (2004), Smith (2002, 2005), Snelling (2003), Spiegelhalter (2005a), Stevens (2004), Stevens et al. (2006), Sutherland and Leatherman (2006) and Willcox et al. (2007). Some of this literature has shown reported performance improving in England against the most important targets. All the criticisms of star ratings recognize its undeniable effect, but have also identified six significant general problems: in measuring what matters, selection of targets, nature of measures, aggregation for ranking, gaming and damaging morale (Table 1). The first four of these are essentially statistical; the last two raise questions about the behavioural influence of star
Table 1. Six problems with star ratings

<table>
<thead>
<tr>
<th>Type</th>
<th>Description</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Measuring what matters</td>
<td>Often the most important aspects of performance cannot be measured, and hence what is measured becomes important. School league tables based on examination results are an exemplar as a proxy measure of teacher performance, because of the difficulty of measuring the benefits of education from teaching. The general problem, of creating incentives for agents to respond to targets that omit key dimensions of performance, was modelled by Holmstrom and Milgrom (1991), who showed that neither using a limited set of good measures nor a larger set of poor measures would produce results that are free from significant distortion by gaming.</td>
<td></td>
</tr>
<tr>
<td>Selection</td>
<td>There are problems in assessing performance of complex organizations in selecting what ought to be included (and hence excluded) from the set of targets. For primary care organizations in England, for example, it is difficult to see a good rationale for the set of about 50 targets and indicators used in star ratings to cover their complex set of responsibilities (for providing primary and community health services, improving public health and commissioning secondary care) (Bevan, 2006).</td>
<td></td>
</tr>
<tr>
<td>Nature of measures</td>
<td>Performance indicators are often ‘tin openers’ rather than ‘dials’: ‘they do not give answers but prompt investigation and inquiry, and by themselves provide an incomplete and inaccurate picture’ (Carter et al., 1995).</td>
<td></td>
</tr>
<tr>
<td>Aggregation for ranking</td>
<td>There are problems with methods of producing aggregate measures of performance for ranking systems (Jacobs and Goddard, 2007). League tables have been shown to be statistically unsound (Goldstein and Spiegelhalter, 1996; Marshall and Spiegelhalter, 1998). One criterion in the design of the star rating system was to avoid volatility from statistical noise in which there were substantial variations in performance from one year to the next. But the methods of determining whether an organization was three or two star were arcane (Klein, 2002), so complex that it was difficult for an organization to understand why its ranking had changed (Spiegelhalter, 2005a).</td>
<td></td>
</tr>
<tr>
<td>Gaming</td>
<td>When targets have been backed by high powered incentives in response to success and failure, a common effect has been gaming, both in centrally planned economies (Nove, 1958; Berliner, 1988; Kornai, 1994) and in the public sector (Smith, 1995).</td>
<td></td>
</tr>
<tr>
<td>Morale</td>
<td>Publicly reporting that hospitals were ‘failing’ (‘zero rated’ or one star) damaged the morale of their staff (Horton, 2004; Mannion et al., 2005a, b).</td>
<td></td>
</tr>
</tbody>
</table>

ratings, which we see as consequences of any system that satisfies Judith Hibbard’s four requisite characteristics, which is designed to inflict reputational damage on organizations performing poorly.

If tackling failure were to have been ruled out on the grounds of damaging morale, then presumably the notorious scandals that beset the NHS in the late 1990s would have been allowed to continue for even longer than they did (Bevan, 2008b). Any system that satisfies Hibbard’s four requisite characteristics will damage morale of those identified as performing poorly. Indeed it can be argued that damaging morale is necessary in the short term for creating the different atmosphere that is required to achieve improvement in the long term. Because star ratings were taken so seriously, they did encourage gaming, which was also a concern with the CSRS in New York. There are two corollaries of this. First, if we were only to adopt systems of performance measurement in which there were no incentive to game, these would be unlikely to be taken seriously, and hence fail to provide the external discipline to drive improvement of government services. Second, if we do take systems of performance measurement seriously, and design these to have an effect, then developing systems to counter gaming ought to be integral to the design of such systems.

The next section of this paper examines the effects of targets for ambulance response times to emergency calls in the various UK countries. There are two reasons why this is particularly
interesting. First, we have a natural experiment between different approaches to using performance measurement: the category A 8-minute target was common to each UK country; but only in England was this subject to a system of performance measurement with Hibbard’s requisite characteristics to effect change through the reputation pathway. Approaches in the other UK countries relied on the change pathway: that ambulance trusts would know how their performance compared with the target and this alone would be enough to drive improvement. Second, it seems so much easier to resolve the four statistical problems of star ratings that were identified above for ambulance services than, for example, for organizations as complex as acute care hospitals. A target for rapid responses by ambulances to life threatening emergency calls looks to be a good measure of what matters, as it reflects what we would expect ought to be a principal goal of those services. Indeed, the rationale for the selection of the category A 8-minute target was that

‘Clinical evidence shows that achievement of the target could save as many as 1,800 lives each year in people under 75 years suffering acute heart attacks’

(Healthcare Commission, 2005b). Furthermore, performance against this target requires only data that ought to be collected routinely and appears to be easy to measure.

3. The effects of targets on ambulance response times in the various UK countries

3.1. The development of targets and performance reporting

The NHS reorganization of 1974, which transferred responsibility for running ambulance services from local authorities in England and Wales to the NHS, revealed variations in standards for response times to emergency calls that lacked any good rationale. National standards that were set in 1974 became common standards across the UK and essentially remained the same for the next 20 years (based on an operational research consultancy study and hence known as ORCON standards): 50% and 95% of emergency calls ought to be met within 7 and 14 minutes in metropolitan areas; within 8 and 20 minutes in other areas (Department of Health and Social Security, 1974).

In England, following a review (National Health Service Executive, 1996), ambulance trusts were required to introduce a system of prioritization of emergency calls into three categories: A (may be immediately life threatening), B (serious but not immediately life threatening) and C (neither immediately life threatening nor serious). For category A calls ambulance trusts were set an ‘interim target’ of responding to 75% within 8 minutes by March 2001; for category B and C calls, 95% were to be met within 14 minutes for ‘urban’ or 19 minutes for ‘rural’ trusts (Department of Health, 1999a). (Urban and rural trusts were defined by whether the population density was more or less than 2.5 people per acre (Department of Health, 2000).) Performance against the new targets was reported publicly for each service as call prioritization was introduced from 1998–1999, and also within the star rating system from 2002 to 2005. Although the summary statistic for performance across England against the category A 8-minute target is reported from 2001–2002 only (Information Centre, 2007), this can be derived from annual statistics reported for the preceding years (Department of Health, 1999b, 2000, 2001).

In Wales, in April 1998, the Welsh Ambulance Trust was established, taking responsibility for ambulance services across the whole country. From April 1999, the same target of meeting 75% of category A calls within 8 minutes was introduced for all areas in Wales. This was to be achieved by the end of 2001, ‘with further progress thereafter’ (National Assembly for Wales,
G. Bevan and R. Hamblin

2001). (Although there are differences in definition between England and Wales in what constitutes an emergency call, the Auditor General for Wales (2006), page 35, analysed a sample of 471,000 emergency calls and found that

‘there would have been only 0.6 per cent more Category ‘A’ calls in Wales had it applied the same call categorisations as England’

and hence concluded that it was valid to compare performance in these countries.) Performance was publicly reported for the Welsh Ambulance Service as a whole annually from April 1999, and for three different services within Wales (Central and West, North and South East Wales) quarterly from April 2001 (Auditor General for Wales, 2006). In contrast with England, failure by the Welsh Ambulance Service to meet the category A 8-minute target resulted, not in public censure, but in the imposition of successively less demanding ‘milestone’ targets being set for the percentages of category A calls to be met within 8 minutes: from April 2004, the target was reduced to 65% (the threshold for a service in England to have been zero rated); from April 2005 to 60% (which remains as the target for 2008–2009, supplemented by targets for 70% to be met within 9 minutes and 75% within 10 minutes) (Auditor General for Wales (2006), page 28, and Welsh Assembly Government (2007a), page 34).

The governments in Northern Ireland and Scotland introduced the category A 8-minute target to be achieved from 2005 (Rooker, 2006) and by 2007–2008 (Scottish Ambulance Service, 2004). In neither country was this target given the prominence that it was in England. We have been unable to find performance being reported publicly by governments of either country against that target on the Web sites of the Northern Ireland Statistics and Research Agency and Information Services Division Scotland. Hence our principal sources for data on performance in Northern Ireland and Scotland (which we report below) are from other sources: for Northern Ireland, a written answer to a question in the Houses of Lords (Rooker, 2006); for Scotland, from a report on the Welsh Ambulance Service, which compared the performance of the service in Wales with services in England and Scotland (Auditor General for Wales (2006), page 37), and Audit Scotland (2007).

3.2. Performance against targets

In England, star ratings for ambulance trusts included three targets for response times to emergency calls from 2002 to 2005: two were key targets, and one was in the balanced scorecard. The two key targets were that 75% and 95% of category A calls be met within 8 minutes and 14 or 19 minutes for urban or rural trusts. For the first 4 years of star ratings, there was a target in the balanced scorecard for category B and C calls to be met within 14 or 19 minutes. For the last 6 months of the final year of ratings, this was replaced by a third key target for category B calls only to be met within 14 or 19 minutes. There was no target in star ratings for category B and C calls to be met within 8 minutes. Table 2 gives information on the thresholds for the three key targets for emergency calls in the last year of star ratings for these trusts to be deemed to be ‘underachieving’ and ‘significantly underachieving’ against key targets, which resulted in two and six penalty points; a service would have been zero rated with six or more penalty points, and have been one star with four penalty points (Healthcare Commission, 2005b). (These thresholds were broadly consistent over the 5 years of star rating for category A calls.) The main challenge from star rating was meeting the category A 8-minute target (the old standard had required 50% of all emergency calls to be met within 7 or 8 minutes; the new key target required meeting 75% of category A calls within 8 minutes). The implications of performance against targets in the balanced scorecard were unclear in advance, as, until the final year of star ratings, this depended on relative performance against other trusts.
### Table 2. Ambulance targets and thresholds for 2004–2005†

<table>
<thead>
<tr>
<th>Measure</th>
<th>Type of target</th>
<th>Significantly underachieved (%)</th>
<th>Underachieved (%)</th>
<th>Achieved (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>75% category A calls met &lt;8 min</td>
<td>Key</td>
<td>&lt;65</td>
<td>65–74</td>
<td>&gt;74</td>
</tr>
<tr>
<td>95% category A calls met &lt;14 min (urban) and &lt;19 min (rural)</td>
<td>Key</td>
<td>&lt;90</td>
<td>90–94</td>
<td>&gt;94</td>
</tr>
<tr>
<td>75% category B and C calls met &lt;8 min</td>
<td>None</td>
<td>—‡</td>
<td>—‡</td>
<td>—‡</td>
</tr>
<tr>
<td>95% category B and C calls met &lt;14 min (urban) and &lt;19 min (rural)</td>
<td>Key</td>
<td>&lt;80</td>
<td>80–92</td>
<td>&gt;92</td>
</tr>
</tbody>
</table>

†Source: Healthcare Commission (2005c).
‡Not applicable.

![Graph showing performance over time](image_url)

**Fig. 1.** Percentage of category A calls met within 8 minutes (2000–2005) (source: Department of Health (2002b, 2004) (for 2000–2004) and Health and Social Care Information Centre (2005) (for 2005))

Table 3 shows how performance changed over time in England for the four standards from 2000–2001, when over 30 trusts had implemented call prioritization, to 2004–2005. Before the introduction of star rating in 2002, few trusts had achieved the category A 8-minute target (although all were supposed to have done so by the end of March 2001). The effects of star ratings on performance for the subsequent years were different depending on the importance of the target in determining that rating. For the two key targets for category A calls, there were dramatic improvements against the 8-minute target, and some improvements against the 14- or 19-minute target. For the target in the balanced scorecard, for the first 3 years, for category B and C calls, there was little improvement against the target for 14 or 19 minutes during this period. When this ceased to be a target, for the first 6 months of 2004–2005 there was a worsening in performance. For category B and C calls within 8 minutes, there was no target in star ratings and virtually no improvement. The clear message is that trusts improved reported performance to avoid being classed as significantly underachieving against key targets (for category A calls less than 65% within 8 minutes and 90% within 14 or 19 minutes).

Fig. 1 gives performance for the years ending in March from 2000 to 2005 for each of 28 trusts (which were unaffected by mergers) and shows the transformation in reported performance in England for meeting the category A 8-minute target, before star rating (for the years ending in March 2000 and 2001), and after (for the years ending in March from 2002 to 2005). In the year before star ratings, only three trusts achieved the category A 8-minute target; 17 met less than 65% of such calls (which, if maintained, would have resulted in a zero rating) and, of those 17,
Table 3. Organizations' performance against standards for emergency calls, from 2000–2001 to 2004–2005†

<table>
<thead>
<tr>
<th>Standard</th>
<th>Results for the following periods:</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Number meeting target</td>
</tr>
<tr>
<td>75% category A calls met &lt;8 min</td>
<td>3</td>
</tr>
<tr>
<td>95% category A calls met &lt;14 min (urban) and &lt;19 min (rural)</td>
<td>19</td>
</tr>
<tr>
<td>75% category B and C calls met &lt;8 min (urban) and &lt;19 min (rural)</td>
<td>1</td>
</tr>
<tr>
<td>95% category B and C calls met &lt;14 min (urban) and &lt;19 min (rural)</td>
<td>13</td>
</tr>
<tr>
<td>95% category B calls met &lt;14 min (urban) and &lt;19 min (rural)</td>
<td>—§</td>
</tr>
</tbody>
</table>

†Source: Department of Health (2002b, 2004) (for 2000–2004) and Health and Social Care Information Centre (2005) (for 2005). The table is based on 31 organizations for every year except 2000–2001 when there were 32. In each case in this table performance is counted as having met the target if more than 75.0% or 95.0% of calls were met.
‡In 2004–2005, there was no target for 95% of category B and C calls. A new target for 95% of category B calls applied to the last 6 months of that year only. Performance is reported here for category B and C calls from April to September and category B calls from October to March.
§Not applicable.
Hitting and Missing Targets by Ambulance Services


five met less than 50% of such calls within 8 minutes (four of these were classed as rural, but the worst, with only a 42% response rate, was the London Ambulance Service, which had suffered from a catastrophic failure of a computer system in the early 1990s).

To achieve more demanding targets for response times to emergency calls when these vary and are uncertain, it is obviously necessary to manage supply better to meet peaks in demand. There is limited information on how this was achieved by ambulance services in England. In Essex new management implemented measures that improved staff morale and focused on changing supply to achieve the key targets. This included developing out-of-hours care, developing emergency care practitioners, improved staffing and buying new emergency vehicles and equipment (Bevington et al., 2004). The Auditor General for Wales (2006), page 104, argued that

‘despite the record of poor performance and of failures in key areas of business management in the Welsh Ambulance Service, there were grounds for optimism’,

as other ambulance trusts in England had faced ‘somewhat similar situations but been able to turn themselves round, given time’. The Auditor General for Wales (2006), pages 105–106, gave two case-studies of such turnarounds in London and East Anglia Ambulance Trusts, which were attributed to

‘sound planning, change management and budgeting, . . . strong programme management, the need to refresh plans, and the need to consider the management capacity required to support and maintain change’.

The London Ambulance Service implemented a service improvement plan, which improved the percentage of category A response times met within 8 minutes from 40% to 75.1%.

Fig. 2 gives performance (where data are available) for England, Wales and Scotland, from 1999–2000 to 2005–2006. This shows that the service in England achieved the 75% target on average from 2003 (the reduction in 2006 is due to an adjustment to reflect concerns about data recording in six English trusts—this is discussed below). The service in Wales, which has achieved neither the 75% target set in 2001, nor the 65% target set in 2004 nor the 60% target set in 2005, was the subject of a damning report by the Auditor General for Wales (2006) (see below). Fig. 2 shows that, since 2004, the ambulance service in Scotland had a similar performance to that of Wales, meeting less than 60% of category A calls within 8 minutes. The only information
that we have been able to find on the performance of the service in Northern Ireland was that, in 2005–2006, this met 51% of category A calls within 8 minutes (Rooker, 2006). These standards of performance seem to have had little resonance in either Scotland or Northern Ireland.

The failure to improve performance of the Welsh ambulance services was attributed by the Auditor General for Wales (2006) to ‘problems of strategy, leadership, governance, process, infrastructure and systems, people and culture’ (page 8). The reasons for the mismatch between supply of, and demand for, services included inflexible shift patterns and deployment, inadequate supply of ambulances (due to failures in procurement of new ambulances, ambulances being old with high failure rates and insufficient spare fleet capacity) and inadequate systems (due to failures in procurement of new systems, failure to invest in satellite navigation and problems with the radio network) (pages 14–15). There were, however, within Wales, significant variations in performance: the percentages of category A calls met within 8 minutes in 2005–2006 ranged from 70% to 40% (page 32). Some (but not all) of the poor performers served a sparsely populated area, but the report found little evidence of attempts by those services ‘to mitigate these problems through seeking to develop new models of service delivery’. One weakness of governance was the lack of benchmarking against other ambulance services (page 63). The report did this and found that the service in Wales had higher spend per capita than rural services in England but worse performance (pages 54 and 36).

3.3. Problems of target selection

Pell et al. (2001) showed that rapid responses to emergency calls following cardiac arrest (abrupt cessation of the heart function that without prompt intervention will lead to death) was the best way of reducing mortality from coronary heart disease in the UK, which has been, and despite recent improvements continues to be, relatively high. (Among developed countries, only Ireland and Finland have a higher rate than the UK (Allender et al., 2006).) Pell et al. (2001) emphasized that most deaths from cardiac arrest occurred out of hospital: about 75% of all deaths and 91% of people under 55 years of age. Their analysis of data from Scotland of cases with cardiac arrests between 1991 and 1998, who had been seen within 14 minutes, found that only 6% survived to hospital discharge. They estimated that, if these cases had been reached in 8 or 5 minutes, that percentage would have increased to between 8% and 10%. This study gives a basis to the rationale for the selection of the category A 8-minute target: that

‘Clinical evidence shows that achievement of the target could save as many as 1,800 lives each year in people under 75 years suffering acute heart attacks’ (Healthcare Commission, 2005b). There are, however, two problems in making this connection.

The first is that the quicker the response the better, and Pell et al. (2001) emphasized advantages of equipping other first responders with ‘intelligent’ defibrillators to provide cardiopulmonary resuscitation in less than 8 minutes: such as firefighters (as the fire service has many more stations than the ambulance service and 90% of vehicles are required to attend the scene of a fire within 5 minutes), police or community volunteers. The second is the law that Charles Goodhart proposed following his analysis of the failure of the UK Government’s reliance on money supply targets in the 1980s to control inflation: ‘Any observed statistical regularity will tend to collapse once pressure is placed on it for control purposes’ (Goodhart (1984), page 94). Goodhart’s law means that, although statistical analysis of historical data may suggest a relationship between a target and an outcome, once the target is used, the people who generate the data for the target may change their behaviour so the relationship breaks down. As we explain below, gaming in response to the category A 8-minute target undermined the promised benefits.
of its realization. As Heath and Radcliffe (2007) argued ‘assuming that more lives will be saved if response targets are met is too simplistic’.

One way of taking account of the benefits of quick response times across different services and gaming would be to develop measures of performance, using Donabedian’s classic framework for improving quality of care (Donabedian, 2005), in terms of structure, process and outcome. This suggests generating, in addition to the current targets of process, one of structure, the availability of defibrillators in ambulances, and one of outcomes, return of spontaneous circulation rates following cardiac arrest (as argued by Heath and Radcliffe (2007)). This would help to counter gaming in response to the current targets for process only: for example, if return of spontaneous circulation rates did not increase in line with increases in response times, this would raise questions about how the reported increase in response times had been achieved. This would also help to indicate the extent to which there was co-ordination across emergency services. Indeed one of the government’s ambitions for performance measurement in England, through the system that became star ratings (then described as ‘traffic lights’), was to take account of the way in which different organizations worked in partnership with others in performing on key shared objectives across the local ‘health economy’ (Secretary of State for Health (2000), page 64). One of the weaknesses of the star rating system was the way that it failed to do this: by assessing different health services separately, the system encouraged one service to achieve its own targets by gaming even if this adversely affected another. (A notorious example was that some hospitals kept patients waiting in ambulances outside the hospital until the hospital could be confident that the patient could be seen in its accident and emergency department within the 4-hour target (Commission for Health Improvement, 2004b).)

3.4. Problems of target definition

The official definitions in timing ambulance responses were that the clock ought to start when details of the telephone call had been ascertained and stop when the emergency response vehicle, dispatched by, and accountable to, the ambulance service, arrived at the scene of the incident. (This could include a paramedic on a motorbike or in a car or an approved ‘first responder’ who was not employed by the ambulance service, such as a doctor, policeman or fireman (Department of Health, 1999b, 2000).) In practice, however, there were troubling variations in the recording of response times (Commission for Health Improvement, 2003c). The definition of what constituted a category A call was left to local discretion, which resulted in fivefold variation across trusts in the percentages of emergency calls that were classified as category A. This variation persisted from 2001 to 2005. Such extreme disparities must have meant that different trusts consistently made different judgements over what did, and did not, constitute a life threatening emergency. The Commission for Health Improvement (2003c) recommended that these problems of definition be tackled by detailed analysis of the various approaches to categorization. The ambiguity over definition of category A calls raises a fundamental question about the achievement of the 8-minute target.

3.5. Gaming in England

The problems that we have identified in definition and recording were raised in evidence in 2002 to the House of Commons Public Administration Select Committee (2002) and obviously presented opportunities for gaming. We discuss three sets of problems here, identified in the CHI’s clinical governance reviews (Commission for Health Improvement, 2003c): consequences of the intense focus on the category A 8-minute target, definition of category A calls and manual ‘correction’ of response times.
The intense focus on the category A 8-minute target gave rise to three concerns. First, as urgent calls for an ambulance from general practitioners for patients were not classed as category A, they could be given lower priority. Second, a common view was that ‘to get there in 8.01 minutes and save the patient is seen as a failure’ (Commission for Health Improvement (2003c), page 9). Third, it was alleged that some trusts concentrated ambulances in densely populated areas (where the bulk of calls could be reached within 8 minutes) at the expense of patients in rural areas. This logical response to the category A 8-minute target is a vivid illustration of a trade-off between efficiency (meeting as many calls as possible within 8 minutes) and equity (that access depends on need and not where people live). But we doubt whether those who framed this policy would have regarded such relocations as an acceptable response. (Although a limit set was on how much worse performance could be for calls that took longer than 8 minutes, as another key target was that 95% of category A calls receive a response within 14 minutes or 19 minutes for urban or rural trusts.)

Staff at many ambulance trusts alleged that there had been exploitation of the ambiguity over the definitions of category A calls to game the system: by classifying incidents as category A if the control room believed that they could be met in 8 minutes, and category B and C if not, or through selectively reclassifying calls following the conclusion of the incident. The CHI, however, found hard evidence that this had occurred once only (which resulted in this practice being stopped (Commission for Health Improvement (2003c), page 15)).

The CHI found out that, in one service, the times of responses taking longer than 8 minutes had been ‘corrected’ to be recorded as taking less than 8 minutes. This was mainly because targets created a culture in which staff felt under pressure to record the ‘right’ answer. A subsequent reanalysis of all English ambulance service data showed that such manual ‘corrections’ had been undertaken in around a third of trusts. This investigation concentrated on the frequency distributions of response times and identified oddly shaped frequency distributions that exhibited sharp discontinuities around the 8-minute target (Commission for Health Improvement, 2003c, d). Fig. 3 gives the expected (‘uncorrected’) distribution from one service: of a ‘noisy’ decline in numbers of responses over time with no obvious jump around the 8-minute target. Figs 4, 5, 6, 7 and 8 are examples from different trusts of different types of ‘corrections’: Fig. 4 shows a marginal discontinuity, which becomes more marked in Figs 5 and 6; Fig. 7 has a dramatic spike at 8 minutes. In each of these there is a clear implication that calls just over 8 minutes were reassigned to give a response time of 8 minutes or less. Fig. 8 shows a spike at each minute; in this case

![Graph](image-url)
Fig. 4. Marginal discontinuity in frequency of response times to category A calls by one service (source: Commission for Health Improvement (2003c))

Fig. 5. Slope in frequency of response times to category A calls around 8 minutes by one service (source: Commission for Health Improvement (2003c))

Fig. 6. Bulge in frequency of response times to category A calls around 8 minutes by one service (source: Commission for Health Improvement (2003c))
the problem was not one of gaming, but such poor data recording systems that for a significant proportion of calls manual entries were recorded to the nearest minute. The CHI estimated, however, that the effect of the most dramatic corrections would have improved performance by at most 6%; hence star ratings did produce substantial improvements in performance against the category A 8-minute target (of up to 20% since 1999).

For trusts where there was a clear discontinuity at precisely 8 minutes for category A calls, the CHI undertook statistical tests to determine the extent of the discontinuity by performing a weighted regression of the count of category A calls on the response times (weighted by the number of calls), for the data from 7:01 minutes to 8:00 minutes. Using the results from the regression analysis, the total number of predicted calls between 8:01 minutes and 9:00 minutes was compared with the actual number of calls recorded in the same time period. In the majority of cases where discontinuity was judged significant, the actual calls met between 8:01 minutes and 9:00 minutes fell outside the 95% prediction interval.

4. Discussion

In this discussion we begin by considering troubling questions for governments in the UK that were raised by our analysis of performance of ambulance services against targets for ambulance
Hitting and Missing Targets by Ambulance Services

response times. We then consider recommendations on the development of, and research into, systems of performance measurement by the Royal Statistical Society (Bird et al., 2005).

4.1. Ambulance response times in UK countries

The UK had, and continues to have, high mortality from coronary heart disease, which could be reduced by rapid responses to cardiac arrests by emergency services. This offers a rationale for the target that 75% of category A calls be met within 8 minutes for ambulance services, which has been proposed for each UK country. Only in England, however, has that target been met: on average, in each of the other countries in the UK, less than 60% of category A calls have been met within 8 minutes. So, if those services were to have been subjected to the English system of star rating, they would have been zero rated and publicly named as failing. At first sight it seems bizarre that devolution has allowed very different approaches to performance management, which have resulted in such marked differences in performance between the UK countries against a target, which is held in common, and relates to a vital emergency service, and where failure to meet it may mean that lives are being lost. One explanation was suggested by Hood (2007), page 97, who has argued that the larger scale of England creates a greater degree of relational distance between governments and providers of public services than in Scotland and Wales, where there are ‘smaller societies with more tightly-linked and overlapping political and social elites’. Bevan (2008a) suggested that this explains their reluctance to introduce systems of performance measurement that inflict reputational damage on poor performers. Alvarez-Rosete et al. (2005) showed that differences in performance of NHSs of the various UK countries were not caused by differences in aggregate levels of funding. So is variation in response times to the category A 8-minute target another example of the price of devolution being to condemn populations in Scotland, Wales and Northern Ireland to underperforming public services?

Alvarez-Rosete et al. (2005) highlighted problems, following devolution, in finding consistent data across each country for the most basic comparisons. After 2003, for example, the Office for National Statistics stopped publishing information on hospital waiting times across the UK (Office for National Statistics, 2004). As we have made clear, we have found it difficult to compare performance of ambulance services across the UK. It seems to us essential that the Office for National Statistics (or some other body with similar authority and independence) is empowered to specify and collect basic comparative data on health care and to publish these so that people in each country are aware of the differences emerging through devolution. This would require each country to publish data that are comparable with those for England on performance of ambulance response times. Such requirements might inflict the necessary reputational damage on ambulance services and governments to encourage them to remedy serious underperformance.

Another set of questions is raised by variations in responses to, and the timing of, the setting of the category A 8-minute target. Why did continued failure of the service in Wales to achieve that target result in successively less demanding milestone targets being set? Why did it take so long for there to be a thorough investigation of that service found to have been wanting in all key elements of management? Why has a similarly dismal level of performance in Northern Ireland and Scotland not resulted in similar concerns? It may be argued that the answer to that question is that the category A 8-minute target was only set in those countries to be achieved later (2005 and 2007), whereas in England and Wales this was intended to be achieved from 2001. But that only prompts an even more troubling question: if it seemed a good idea to introduce this in England and Wales in 1996 to be achieved in 2001, as a way of ‘saving lives’, why did it make sense to delay requiring its achievement until 4 and 6 years later in Scotland and Northern Ireland? In particular, a report by the Comptroller and Auditor General (National Audit Office,
Gwyn Bevan, Richard Hamblin

1999) made similar criticisms about performance of the ambulance service in Scotland to that made of the service in Wales: in terms of failure to meet the target that then applied in Scotland (in Glasgow only one in three ambulances responded to an emergency call, within 7 minutes, against a target of one in two), because supply did not match peaks in demand.

In England, until 2001, performance of ambulance services fell well short of the category A 8-minute target. After the star rating system applied to ambulance services from 2002, these trusts responded to produce improvements in their reported performance for the key targets of the star rating system, in particular the category A 8-minute target; but they did not improve their reported performance for a standard that was excluded from that system, namely meeting category B and C calls met within 8 minutes. There are, however, questions over the extent to which hitting the category A 8-minute target translates into commensurate improvements in outcomes, because of concerns over the selection of that target and its vulnerability to gaming. The striking evidence of gaming in the manual recording of response times appears to be less troubling than other concerns over definitions of what constituted a life threatening emergency (category A) call, and when the clock started and stopped for responses to these calls. These problems were raised in evidence in 2002 to the House of Commons Public Administration Select Committee (2002). Why was nothing done to address them within the star rating system, by, for example, developing, in addition to these measures of process in response times, measures of structure (availability of defibrillators) and outcome (return of spontaneous circulation)? We are delighted to see that the proposed new national target indicators for ambulance trusts in England that were proposed by the Healthcare Commission (2007) for 2007–2008 are directed at auditing outcomes including those for cardiac arrest.

In 2005, the Healthcare Commission published the final set of star ratings of ambulance trusts, and the Department of Health (2005) a report on ambulance services in England, following a strategic review. That report recommended that there be only two national response time requirements for category A calls only, that 75% be met within 8 minutes and 95% within 19 minutes; performance requirements for responding to patients whose general practitioner calls 999 on their behalf should be the same as for other 999 calls. The report asserted that only 10% of all emergency calls were for life threatening emergencies and changed the definition of the start of the clock to when the emergency call is connected to the ambulance control room. Why did the report, however, neither clarify ambiguity over definition of life threatening emergencies nor recommend scrutiny to counter gaming?

In 2006, after whistle-blowers at one trust contacted the NHS counter-fraud service, the Department of Health reported that an audit had found that six out of 31 trusts had failed accurately to record the actual response times to the most serious life threatening emergency call with a disturbingly familiar identification of well-known weaknesses (Carvel, 2006):

‘Some did not start the clock as soon as a 999 call was received. Others did not synchronise the clocks on the emergency switchboard with those used by paramedics. In some cases, ambulance organisations recategorised the urgency of the call after the job was done to make it fit the response time achieved rather than the priority given when the original call was made. This would have allowed staff to downgrade an emergency if the ambulance arrived late.’

In 2007, the Audit Commission (2007) issued a public interest report on the former Wiltshire Ambulance Service NHS Trust, following an audit. The report found, between April 2005 and July 2006, that control room staff had manually changed response times for nearly 600 category A and nearly 90 category B calls. The report (page 13) pointed out that

‘In a culture where managers’ jobs depend on achieving specific targets, there will be pressure to meet those targets. If a system is properly managed, it can be used to monitor and improve performance as a
whole. But, a system can also be used to manipulate the data, rather than changing the way the service is delivered. Data that is easy to manipulate gives people both the motive and opportunity to do so.

This behaviour was noted up to 3 years after the CHI report into precisely this type of manipulation had found the Wiltshire Ambulance Service to be one of the worst offenders, and after at least two changes in leadership. So the apparent success of ambulance trusts in England in meeting the category A 8-minute target is tarnished by the failure to design systems to tackle gaming identified as a problem in 2002. The failure to tackle gaming in response to targets from the outset was a general weakness of the star rating system (Bevan and Hood, 2006a) and of the Blairite regime of performance measurement (Hood, 2006). Why was so little done in England to tackle such persistent problems once these became so obvious for ambulance services: is this the most insidious form of gaming in which improvement in reported performance was seen as the prerequisite, regardless of what was actually happening? In the chapter in which Barber (2007), pages 264–287, reviewed the effect of the Prime Minister’s Delivery Unit, he considered Riddell’s observation about the Blair government having been given insufficient credit for firmly based achievements in improving public services (Riddell, 2005). Now it seems to us that a good reason for this was that the evidence of gaming, and failure to tackle this gaming, undermined the credibility of improvements in reported performance. To our surprise this is not even considered by Barber in that chapter.

4.2. General lessons from the case-study
The Royal Statistical Society’s working party (Bird et al. (2005), page 4) sought to

‘present a practical perspective on performance measurement that can help to resolve critical issues in the design, analysis and reporting of performance indicators in the public services’.

Two of these concerned the need for consideration of ethical issues, and research into robust methods for evaluating new government policies. We summarize the other recommendations as follows, that systems of performance measurement need:

(a) to be evaluated to show that their benefits outweigh their burden;
(b) research into relative merits of different dissemination strategies for the public release of data;
(c) substantial input from individuals and/or institutions being monitored;
(d) a wide-ranging educational effort about the role and interpretation of data;
(e) to take account of variations and uncertainty;
(f) a detailed protocol, clearly specified objectives, clear definition of performance indicators and methodological rigour;
(g) to be designed so that counterproductive behaviour is discouraged and subject to independent scrutiny.

We strongly support the first recommendation. Developments in computing have resulted in a growth industry in performance measurement of health services. Little of this vast activity has been evaluated and, where it has, the typical finding is that, because they were designed for the change or selection pathways, they have had little or no effect. We would pose the first recommendation more urgently starkly and simply to emphasize the importance of finding out whether a system of performance measurement has any discernible effect. It seems to us that there has been a tendency in criticisms of the Blairite regime of performance measurement to overlook one of its most important characteristics, namely that this regime had an effect, in contrast with many others that seem to have provided only employment for those who produce statistics.
Hibbard et al. (2003) proposed the importance of a third pathway through which a system of performance measurement can have an influence, namely the reputation pathway. She has also identified four requisite characteristics of a system to have an effect in this way: that it be a ranking system, published and widely disseminated, easily understood by the public and followed up by future reports. This paper has summarized evidence to test that hypothesis from three comparisons of systems of hospital performance measurement. The systems that satisfied all or most of those requisite characteristics did have an effect, and those that did not failed to do so. These studies, and other evidence, suggest that the key driver in the systems that did have an effect were what Mannion and Davies (2002) identified as the ‘softer issues’: not finance, but ‘reputation, status and professional pride’. In particular the overriding concern was the damage to reputations from providers publicly ‘named and shamed’ as being the worst performers. This paper gives another test of that hypothesis of performance in a natural experiment: different countries of the UK have adopted different systems of performance measurement of ambulance services against the common category A 8-minute target. Only in England was there a system that satisfied Judith Hibbard’s four requisite characteristics, and only there has this target been achieved. We see these requisite characteristics, and evidence from systems that do and do not satisfy them, as giving a new perspective on the other six recommendations.

The second recommendation concerns research. We see the need for more research directed at testing the hypothesis proposed by Hibbard et al. (2003), and the implication that, to have an effect, systems need to be designed to inflict reputational damage on those which are shown to be performing poorly. In particular, for the English system of star ratings, research is needed: to assess the importance in that system of reputational damage and threats to the jobs of chief executives of NHS trusts; of how organizations transformed their capacity to match supply to variable and uncertain demands in reducing hospital waiting times for admission and ambulance response times to emergency calls. The third recommendation (on substantial input from those being monitored) conceals a potential threat to effective systems of performance measurement: as Hibbard et al. (2003) observed

‘providers will vigorously oppose an approach that explicitly ranks or identifies top and bottom performers. However, it may be this very strategy that makes the difference between motivation to improve and no motivation.’

The fourth recommendation calls for ‘a wide-ranging educational effort about the role and interpretation of data’. We would instead recast the fifth and sixth recommendations, on statistical developments in performance measurement, as requiring those that are statistically sound but can be easily understood by the public, e.g. Spiegelhalter’s development of funnel plots as a way of understanding variation (Spiegelhalter, 2005b). A particularly challenging problem is the development of sound systems of aggregation to produce a ranking of performance. Our study of targeting ambulance response times demonstrates the importance of the sixth and seventh recommendations: the need for clearly defined targets; detailed protocols for reporting of data on performance; assessment designed to discourage counterproductive behaviour; independent scrutiny of reported performance to achieve proper accountability and to provide a check on counterproductive behaviours. In conclusion we emphasize that what matters in designing systems that will have an effect is to make countering gaming integral to that design.

Acknowledgements

We are grateful for comments on earlier drafts of this paper from Michael Blastland, Carol Propper, Judith Hibbard, Julian Le Grand, Niro Siriwardena, Peter Smith, the referees and
Joint Editor. Our arguments also draw on a point that was made by David Spiegelhalter in a joint review of performance assessment in Ontario by the Hospital Report Research Collaborative: he observed that, if there is no evidence of attempts to game a system of performance measurement, then this suggests that the system is not being taken seriously. Richard Hamblin writes in a personal capacity and the views expressed here are not necessarily the views of the Healthcare Commission. The usual disclaimer applies.

References

Volume 1.


Department of Health and Social Security (1974) Organisation of ambulance services: standard measures of


Greer, S. (2004) Four way bet: how devolution has led to four different models for the NHS. *Constitution Unit, School of Public Policy, University College London, London.*


Hitting and missing targets by ambulance services for emergency calls: effects of different systems of performance measurement within the UK

Gwyn Bevan, Richard Hamblin

Choice of providers and mutual healthcare purchasers: can the English National Health Service learn from the Dutch reforms?\(^1\)

GWYN BEVAN*  
Professor of Management Science, Department of Management, London School of Economics and Political Science, London, UK  
WYNAND P. M. M. VAN DE VEN  
Professor of Health Insurance, Department of Health Policy and Management, Erasmus University Rotterdam, Rotterdam, The Netherlands

Abstract: In the 1990s, countries experimented with two models of health care reforms based on choice of provider and insurer. The governments of the UK, Italy, Sweden and New Zealand introduced relatively quickly ‘internal market’ models into their single-payer systems, to transform hierarchies into markets by separating ‘purchasers’ from ‘providers’, and enabling ‘purchasers’ to contract selectively with competing public and private providers so that ‘money followed the patient’. This model has largely been abandoned where it has been tried. England, however, has implemented a modified ‘internal market’ model emphasising patient choice, which has so far had disappointing results. In the Netherlands, it took nearly 20 years to implement successfully the model in which enrollees choose among multiple insurers; but these insurers have so far only realised in part their potential to contract selectively with competing providers. The paper discusses the difficulties of implementing these different models and what England and the Netherlands can learn from each other. This includes exploration, as a thought experiment, of how choice of purchaser might be introduced into the English National Health Service based on lessons from the Netherlands.

1. Introduction

In a normal competitive insurance market (e.g. car insurance), insurers practise experience rating and risk selection, which means that those at high risk either pay large premiums or are uninsured. In an unregulated health insurance market, annual premiums may range from less than €400 to more than €40,000 per person, which in most societies is unacceptable. In Europe the solution to this

\(^1\) This paper was presented at the Autumn 2009 meeting of the European Health Policy Group.

*Correspondence to: Gwyn Bevan, Professor of Management Science, Department of Management, London School of Economics and Political Science, Houghton Street, London WC2A 2AE, UK. Email: R.G.Bevan@lse.ac.uk
problem was to remove choice in both the Beveridge and Bismarck models. For countries with Beveridge systems multiple insurers were replaced by a state monopoly in a single-payer scheme and there was limited choice and no competition among providers. For countries with Bismarck models of multiple insurers there was neither choice nor competition among the different insurers, as rules of eligibility determined, which sickness fund or government scheme would apply to each individual; and although patients had free choice of physician, there was no price competition among providers.

In the 1970s, in the USA, the Federal government sought to develop the idea of Ellwood et al. (1971) for competing integrated care organisations modelled on the Kaiser Permanente Health Maintenance Organisation (HMO) (Starr, 1982: 393–398). Enthoven (1978) articulated this idea in his Consumer-Choice Health Plan as a way to provide universal coverage by regulated competition in the private sector. In the late 1980s, governments in the UK, Denmark, the Netherlands, Sweden and New Zealand launched proposals for major reforms in health care based on choice and markets. These reflected ideas of New Public Management (Hood, 1995) and in particular two different models based on the ideas of Enthoven (1978 and 1985). For the UK National Health Service (NHS), Enthoven suggested creating non-competing HMOs to which people would be assigned based on where they lived, which could thus avoid the problems that arise from experience rating and risk selection (Enthoven, 1985). This emerged as the original model of an ‘internal market’, from 1991 to 1997, which transformed hierarchies into markets by separating ‘purchasers’ from ‘providers’; and enabled purchasers to contract selectively with competing public and private providers, with the objective of ‘money following the patient’ (Secretaries of State for Health, Wales, Northern Ireland and Scotland, 1989). In England, the idea of provider competition was suspended from 1997 (Secretary of State for Health, 1997) but reintroduced with an emphasis on patient choice from 2002 (Secretary of State for Health, 2002). In the Netherlands, the model of choice and competition among insurers was developed over 20 years (Ministry of Welfare, Health and Cultural Affairs, 1988), which also allows insurers to contract selectively with competing providers.

The reforms in England and the Netherlands created new transactors, responsible for insuring defined populations for their costs of health care, but the markets were designed so that these transactors would not practise experience rating: in England by virtue of these being monopolies, and in the Netherlands by the development of a risk equalisation scheme and mandatory community rating (with everyone paying the same premium for the same insurance product per insurer). In the rest of this paper, we describe these transactors generically as Mutual Healthcare Purchasers (MHPs), which includes the sickness funds and private health insurers in the Netherlands, and ‘purchasers’ and ‘commissioners’ in England.

The second and third sections of this paper outline the experiences and progress in implementing different models of choice and competition in England and the
Netherlands, and discuss the obstacles to implementing these models successfully and the progress that has been made. The fourth section considers what each country might learn from each other, and explores a ‘thought experiment’, of how competition between MHPs might be introduced in England by learning from the Dutch experience. The final section makes concluding observations on the experience of different models of choice in the two countries.

This paper mainly considers technical, economical and political obstacles and preconditions to implementing provider and purchaser competition in England and the Netherlands. Analysis of how institutional context and governance logics shape changes in governance approaches is, for the most part, beyond the scope of this paper. Dixon et al. (2010) report a comparison of current policies in England and the Netherlands that aim to implement choice for patients over where and when they are seen by specialists in hospital outpatient clinics, which have been supported by electronic referral systems. Or et al. (2010) contrast current policies to increase patient choice of providers in three countries with the Beveridge model (England, Denmark and Sweden) and to reduce this choice by ‘soft’ gatekeeping in two countries with the Bismarck model (France and Germany).

2. The purchaser/provider split in England: 21 years of fruitless endeavour?

2.1 Two models of an ‘internal market’

In 1989, prior to the introduction of the original model of an ‘internal market’ in England, the NHS was organised into a hierarchical structure with each organisation defined geographically. There were 14 Regional Health Authorities, which were responsible for Hospital and Community Health Services (HCHS) and primary care. Beneath the regions there were nearly 200 District Health Authorities (DHAs), responsible for meeting the needs of their populations and running the HCHS, and 90 Family Health Service Authorities, responsible for paying general practitioners (GPs) as independent contractors (Klein, 2007: 66–72 and 98–100). Patients’ access to HCHS was via referral from GPs who acted as gatekeepers. The system was designed to contain costs of HCHS by capping the global budget, and achieve an equitable distribution of resources by funding DHAs using a weighted capitation formula (Bevan and Robinson, 2005). This system, however, lacked financial incentives for efficiency by providers (Enthoven, 1985). In the winter of 1988–1989, a perceived ‘financial crisis’ was produced by a combination of two policies: constraining ‘real’ growth in total spending on HCHS and redistributing resources between DHAs. The government’s eventual policy response to this ‘crisis’ was to introduce an ‘internal market’ (Secretaries of State for Health, Wales, Northern Ireland and Scotland, 1989; Bevan and Robinson, 2005).

In the original model of the ‘internal market’ (1991–1997), DHAs became purchasers and hospitals independent ‘NHS trusts’. The separation of purchasing from provision meant that DHAs, as MHPs, would be funded equitably for their...
populations and be empowered to contract selectively with NHS and private hospitals, which could thus be funded for their performance. But DHAs mainly used ‘block’ contracts with NHS hospitals that did not vary directly with the numbers of patients treated, and hence created a new kind of global, incremental budgeting for hospital services (Day and Klein 1991; Glennerster et al., 1994; Raftery et al., 1996; Croxson, 1999), although these did develop later into ‘sophisticated block contracts’ to incorporate ranges of volumes with related payments (Raftery et al., 1996; Croxson, 1999). This meant that ‘patients followed the money’: that is, patients’ choices were constrained by DHAs’ contracts. The exception to this was from the innovation with most potential where GPs opted for various forms of GP fundholding and were free to choose providers of diagnostic and elective care subject to managing expenditure within cash budgets. GP fundholders were typically small-scale MHPs based on general practices (Glennerster et al., 1994; Audit Commission, 1996; Mays and Dixon, 1996; Mays et al., 2001; Bevan and Robinson, 2005).

Since 1991, there has been continuing organisational turmoil and policy turbulence inflicted on the NHS in England (Bevan, 2006; Klein, 2007; Audit Commission and the Healthcare Commission, 2008). Following the 1997 election, the new Labour government rejected the idea of provider competition and developed new organisational forms to replace DHAs and GP fundholding (Secretary of State for Health, 1997). There are currently about 150 Primary Care Trusts (PCTs) acting as MHPs, which contract with providers of primary and secondary care (some run community health services). The Labour government announced in 2002 the current model of an ‘internal market’ that emphasises patient choice (Secretary of State for Health, 2002). Practice-Based Commissioning (PBC) is being developed within PCTs, with the objectives of encouraging GPs and other primary care professionals better to manage referrals and commission and redesign services (Audit Commission and the Healthcare Commission, 2008). PBC has echoes of the ideas of GP fundholding except that PBCs have only indicative budgets (unlike GP fundholders’ cash budgets).

The current ‘internal market’ introduced four innovations (Audit Commission and the Healthcare Commission, 2008):

- An emphasis on patient choice for elective care.
- A new reimbursement system, ‘Payment by Results’ (PbR), for elective hospital care based on standard tariffs by Health-Care Resource Groups, (the English modification of Diagnosis-Related Groups) to ensure that ‘money does follow the patient’ (Bevan and Robinson, 2005).
- NHS Trusts can, subject to approval and scrutiny by a new regulator, Monitor, become NHS Foundation Trusts (FTs) and enjoy greater independence and flexibility.
- Independent Sector Treatment Centres (ISTCs), which provide diagnostic and elective services, were created with the objective of developing an independent sector market that delivers value for money.
2.2 **Obstacles to an effective ‘internal market’**

Experience in the English NHS (and other countries) shows that there are nine principal obstacles to the implementation of an effective ‘internal market’:

1. **From hierarchy to market.** One objective of the purchaser/provider split was to replace hierarchical with market arrangements between autonomous purchasers and providers. However, as all political accountability is vested in one individual in central government, namely the Secretary of State for Health (Tuohy, 1999), this makes it difficult for MHPs to make hard choices or for hospitals to develop into self-governing independent bodies (Enthoven, 2000).

2. **Choice of provider.** In many areas, there is limited choice of providers of elective care, and such choice is much less relevant for emergency care, disease prevention and chronic diseases (Ham, 2008a). The government aimed to increase choice in the current ‘internal market’ through ISTCs (Audit Commission and Healthcare Commission, 2008).

3. **Provider exit.** A vital way in which normal markets deliver efficiency is by forcing failing providers to exit the market. However, it is typically politically impossible for Ministers to let the market determine closure of a whole hospital; or the risk of this happening by it being destabilised by loss of contracts; and even closure of a hospital department can be politically difficult (Tuohy, 1999; Enthoven, 2000; Ham, 2007).

4. **Provider incentives.** In the original ‘internal market’, block contracts meant that there were weak provider incentives. Patient choice and PbR in the current ‘internal market’ generates financial incentives for a hospital to increase activity where its cost is below the tariff and this applies in particular to day surgery (Street and Maynard, 2007).

5. **Purchaser incentives.** It has been argued that the Achilles’ heel of attempts to introduce selective contracting by MHPs in England is that, as MHPs do not compete, they lack incentives to do so. (Maynard, 1994; Enthoven, 2000). The introduction of purchaser regulation on provider costs in the original ‘internal market’ (by the ‘Purchaser Efficiency Index’: Bevan and Robinson, 2005) and ‘World Class Commissioning’ (Ham, 2008b) alongside patient choice in the second may be seen as attempts to remedy the lack of incentives on MHPs.

6. **Effective autonomous purchasing.** As demand for health care is determined in a process of collegial decision-making by GPs and hospital doctors, this means that it is difficult for MHPs to be effective purchasers (Tuohy, 1999; Audit Commission and Healthcare Commission, 2008; Ham, 2008b), or for patients to drive change by consumer choice (Audit Commission and Healthcare Commission, 2008). Even in the USA, the evidence is that patients do not switch from poor to good hospitals (Marshall et al., 2000; Fung et al., 2008). There have been various attempts to involve GPs in (non-competing) MHPs in the NHS (Audit Commission, 1996; Mays et al., 2001; Wyke et al., 2003; Audit Commission and Healthcare Commission, 2008).

7. **Managing MHP’s’ financial risk.** MHPs have to manage financial risk with each year’s cash allocation being fixed and determined with reference to a weighted capitation formula. In the original model of the ‘internal market’, this could be done by block contracts, but PbR and patient choice now limits MHPs’ scope to manage payments to providers (Bevan and Robinson, 2005).
8. Information on prices. In the original ‘internal market’ there was scope for competition on price but no sound basis for comparing services of different hospitals (Enthoven, 2000). Now, for 80% of hospital services for which there is in principle scope for competition, PbR has removed competition by price but provided a basis for comparing hospitals.

9. Information on quality. In the original ‘internal market’ there were no comparable good data on quality of care (Enthoven, 2000). There is now a regulator of quality, the Care Quality Commission, which is responsible for publishing an annual Health Check that assesses the performance of MHPs and providers against national standards set by the government (Healthcare Commission, 2008). This information is not, however, designed to inform patient choice in markets, so there is still a lack of detailed timely information for patients as consumers of health care (Audit Commission and Healthcare Commission, 2008).

2.3 Evaluations of choice and provider competition in the English NHS

Brereton and Vasoodaven (2010) have published a review of the literature on the original and current ‘internal markets’ in which they highlight two key evaluations: the systematic review of the original ‘internal market’ by Le Grand et al. (1998) and the current one by the Audit Commission and Healthcare Commission (2008). As they point out, few studies have sought to evaluate the cumulative effects of either market-based reforms, but there is an abundance of research on the effects of individual policies. Their findings on the original ‘internal market’ may be summarised as follows:

- DHAs lacked the ability effectively to purchase and influence providers.
- NHS Trusts increased productivity, reduced costs and post-surgical length of stay.
- GP Fundholding was associated with reductions in patient waiting times, but there was mixed evidence of its impacts on referral rates and prescribing costs, inconclusive evidence of its longer-term impact on costs, and concerns over inequities between patients from fundholding and non-fundholding practices.

Detailed studies of the original ‘internal market’ were handicapped by limitations of data. Data on prices were available for GP fundholders and for hospitals treating cases from DHAs with which they did not have a contract (Extra-Contractual Referrals – ECRs), but not for most of hospital care as this was for contracts with DHAs for which prices were not made public (Propper and Söderlund, 1998). There were limited data on quality. Propper et al. (2004) sought to investigate the impact of competition on quality by using in-hospital deaths within 30 days of emergency admission with a myocardial infarction for patients (which they found had a small negative effect). There are two problems with the evaluations of hospital efficiency and productivity: these use data on episodes of care, which are vulnerable to inflation, and we lack a counterfactual. Le Grand’s verdict on the limited impacts of the first ‘internal market’, which remains valid in the light of later evidence, was that ‘The incentives were too weak and the constraints were too strong’ (Le Grand, 1999: 33).

348 GWYN BEVAN AND WYNAND P. M. M VAN DE VEN
The principal findings of Brereton and Vasoodaven (2010) for the literature on the current ‘internal market’ based on patient choice were that there is little evidence of improvements that can be attributed specifically to market-based reform, which has little support from patients and the public, and NHS staff have been de-motivated by the succession of shifts in policy. They recognise that it may be too soon to judge the impact of these reforms. The evaluation by the Audit Commission and Healthcare Commission (2008) identified four reasons for this: the development of FTs and patient choice were behind schedule, where patients were offered choice, they lacked detailed information (Dixon et al., 2010 highlight problems of implementing the ‘Choose and Book’ system), the scale of ISTCs is limited, and the effectiveness of those working on commissioning in PCTs has been impaired by four reorganisations since 1997. The Audit Commission and Healthcare Commission found little hard evidence of systemic improvements in the development of effective commissioning by PCTs or PBC; from ISTCs or FTs; from PbR; or from the choice policy. They also identified concerns with three of the four innovations: freeing concerns from government control means that there is no system of governance to ensure supply across health economies; ISTCs were offered more costly contracts than NHS providers; and there was scepticism over the choice policy as an instrument to drive up quality (Bevan, 2008).

A separate evaluation by the Audit Commission (2008) of PbR concluded that this had ‘undoubtedly improved the fairness and transparency of the payment system’ (p. 2) but has ‘yet to have a significant impact on activity and efficiency’ (p. 5) (see also Farrar et al., 2007). The review of the literature on PbR by Brereton and Vasoodaven (2010) identified problems of the incentives it created including a conflict with funding of PCTs, incentives for supplier-induced demand, questions over its impact on quality of care, and disincentives to treat severely ill patients.

The principal conclusion of the review by Brereton and Vasoodaven (2010: 10) of the evidence on the impacts of both ‘internal markets’ is that ‘the reforms have not been proven to bring about the beneficial outcomes that classical economic theory predicts of markets’ such as provider responsiveness to patients and purchasers; large-scale reduction in costs; and innovation in service provision (the reasons being the obstacles we identified above). Their conclusion was that the available research on each form of the ‘internal market’ indicated that the NHS has incurred the transaction costs of seeking to introduce competitive markets without experiencing their benefits.

3. Consumer choice of MHP in the Netherlands

3.1 From top–down cost controls to managed competition

Historically, the Dutch health care system has been characterised by much private initiative both in funding and provision of care, but the mix of corporatist and
Estatist governance has allowed the government to intervene in various ways to control total costs. From the mid-1970s, the government increasingly regulated supply and price. In the 1980s, the open-ended hospital reimbursement system for inpatient care was replaced by a budgeting system, and the government controlled physicians’ fees and then their total revenues. However, these top–down policies were criticised for creating a system that lacked incentives for efficiency and innovation – similar to Enthoven’s criticisms of the NHS (Enthoven, 1985). Hence there was broad support for incentive-based reforms and a reconsideration of the role of competition in health care. In March 1987, the government-appointed Dekker Committee recommended a pro-competitive health care reform, which after 12 months of intense national debates, the government accepted (Ministry of Welfare, Health and Cultural Affairs, 1988).

In the early 1990s, the Dutch government had effective systems for controlling prices, the number of physicians, hospital capacity and hospital budgets, which produced effective top–down control of total expenditure on health care: as a percentage of gross domestic product (GDP) this barely increased over 20 years: from 7.4% in 1980 to 8.0% in 2000 (OECD, 2008). An unintended consequence of this was unacceptably long waiting times for hospital care, which resulted in successful legal challenges to the European Court of Justice and Dutch courts. (Flood and Haugan, 2010, explore the issue of legal challenges to policies that seek to constrain choice.) Judgements in these courts required sickness funds to pay for patients to be treated more quickly, which led to an explosion in the costs of Dutch health care: expenditure on health care as a percentage of GDP increased from 8.0% in 2000 to 9.5% in 2004 (OECD, 2008). This provided the justification for urgent reforms. After a few years of intense political debate, the Health Insurance Act was enacted on 1 January 2006, which may be seen as the culmination of a series of pro-competitive reforms, gradually implemented from the early 1990s, and the eventual implementation of the principles of the Dekker report. This Act introduced a package of crucial major systemic reforms including choice among competing MHPs, so that now:

- It is mandatory for everyone to buy private health insurance that covers the standard benefits package as described (in terms of functions of care) in the Health Insurance Act.
- Subsidies make health insurance affordable for everyone.
- Individual consumers have an annual choice among MHPs and among different insurance arrangements.
- MHPs can decide to offer various insurance arrangements (such as a reduced annual premium for a voluntary higher deductible) and different packages of entitlements for different premiums (e.g. packages may differ in terms of the type of primary care provider seen, the setting for types of care, whether there is direct access to specialists or whether the GP acts as the gatekeeper, and arrangements for paying providers). Each package of entitlements must cover the standard...
benefits package as described in the Health Insurance Act. To protect consumers
the Health Care Authority monitors whether the contractual conditions of each
package of entitlements are in accordance with the Health Insurance Act.
• MHPs can decide to concentrate on specific population groups with entitlement
packages tailored to their specific needs (such as diabetics and the elderly) and
become skilled purchasers for their enrolled populations.
• MHPs are required to allow open enrolment and apply community rating.
• A risk equalisation fund distributes funds to the MHPs according to the
risk profile of their members and thus ensures solidarity and deters ‘cream-
skimming’.
• MHPs are allowed to contract selectively or integrate with health care providers.
• There is active and effective regulation to maintain competition.

3.2 Preconditions for effective managed competition in health care
Several complicated preconditions had to be fulfilled in order to reap the benefits
of managed competition in health care: that is, combine competition with uni-
versal access and create the appropriate incentives for consumers, providers and
MHPs. As few were fulfilled in 1987 (Schut and van de Ven, 2005), the original
timescale for such ‘radical’ reform was unrealistically optimistic. We now outline
the preconditions, the extent to which they were fulfilled in the early 1990s, in
2010 and what still needs to be done.

3.2.1 Risk equalisation
If a government tries to tackle the symptom of high premiums for high-risk
individuals by premium regulation and open enrolment, this results in ‘cream
skimming’: that is, insurers seeking only young, healthy enrolees. This problem
can be tackled effectively only by removing the incentives to do this, ideally by
risk-adjusted equalisation payments to the MHPs (van de Ven and Schut, 2007).
The risk equalisation formula does not need to be ‘perfect’, but has to be good
enough to deter ‘cream skimming’ by making MHPs’ perceived costs of risk
selection (including its loss of good reputation) outweigh its benefits.

Before 1992, the sickness funds were non-competing non-risk-bearing
administrative organisations. From 1993, the sickness funds became risk-bear-
ing MHPs and each was free to set its own premium. This revolution had to
be implemented gradually for two reasons: each MHP needed to build up
financial reserves and the risk equalisation system was initially based on age and
gender only, which left scope for ‘cream skimming’. Gradually, together with
improvements in the risk equalisation formula (van de Ven et al., 2004; Prinsze
and Van Vliet, 2007), the government increased MHPs’ financial risk from 3%
in 1993 (with the equalisation fund primarily responsible for 97% of all profits
or losses) to 75% in 2010. The Dutch government has announced further
improvements in risk equalisation that will further reduce the incentives for risk
selection and allow for a further increase in MHPs’ financial risk.
3.2.2 Market regulation

Market regulation ought ideally be by four authorities at arm’s length from government, of which only the first was in place in the early 1990s:

- A quality authority to protect consumers against substandard quality of care: the Netherlands Health Care Inspectorate (Inspectie voor de Gezondheidszorg).
- A solvency authority to require MHPs to have sufficient financial reserves to fulfill their financial obligations: from 1992, De Nederlandsche Bank (DNB).
- A competition authority to prevent cartels, anti-competitive mergers and abuse of dominant position (which were problems in the early 1990s, see Schut et al. (1991, Tables 1 and 2): from 1998, the Netherlands Competition Authority (NMa) covers all sectors. Ensuring competition in health care now accounts for about a third of this regulator’s time.2
- A consumer protection authority to safeguard consumer interests3: from 2006, the Netherlands Health Care Authority (Nederlandse Zorgautoriteit).

3.2.3 Transparency

Effective competition requires transparency in medical products and insurance. In 1990, hospitals received a global budget and specialists were paid on a fee-for-service basis. Transparency was improved in 2003 through a system of combined payments for both the hospital and the specialist based on a classification system of Diagnosis Treatment Combinations (DTCs), and from 2006, the requirement that each insurer offers insurance arrangements that cover the standard benefits package as described in the Health Insurance Act (but voluntary supplementary insurance is not standardised). In 2011 the number of DTCs will be reduced from about 30,000 to 3000.

3.2.4 Consumer information

Consumers ought to be well informed about their right periodically to choose a health insurance option and their entitlements. There ought also to be relevant, reliable, objective and easily understandable information on the quality and services of providers and MHPs. In 1990, there was hardly any relevant information to enable consumers and MHPs to choose providers, and there was no consumer choice

2 Due to a change in legislation in the early 1990s sickness funds were allowed selectively to contract with individual health care providers (GPs, specialists, dentists and physical therapists). However, in practice nothing changed because the then existing legislation was unable to prevent providers of care forming private cartels. In 1998, under new legislation, about 300 requests for exemption from enforcement of the new Competition Act were submitted by the health care sector to the newly established NMa. As most of these requests were dismissed by the NMa, from the early 2000s this meant most of the old agreements on horizontal price fixing, regional cartels and entry restrictions became illegal. A path breaking decision is the NMa’s decision against the association of general practitioners (Besluit dg NMa van 11 April 2001, zaak 537 (Landelijke Huisartsen Vereniging)).

3 This includes actively managing the market; supervising MHPs and providers; examining whether the information that MHPs provide to their potential enrollees is complete and truthful; examining whether the offered insurance products are in accordance with the law; and taking responsibility for sufficient transparency and consumer information in the market.
of sickness fund. From 2005, much more information is available on providers and MHPs (e.g. http://www.kiesbeter.nl), but there is still a lack of detailed timely accessible comparative information on quality of different types of care.

3.2.5 Freedom to contract

Insurers and providers ought to be free to contract selectively and to negotiate the content of contracts (e.g. prices, quality and services) and to integrate vertically. In 1990, sickness funds had to contract with any willing provider (hospitals and physicians), were not allowed to integrate vertically with providers, and prices were fully regulated by government. From 2006, MHPs are allowed to contract selectively or vertically integrate with providers, and prices are negotiable for range of services (e.g. the percentage of the hospital turnover for which the MHPs and hospitals can freely negotiate the DTC-price, increased from 10% in 2005, to over 30% in 2009).

3.2.6 Consumer choice of MHP

Each individual consumer ought periodically (e.g. annually) to have a free choice of MHP without facing high-transaction costs (search costs and filling out forms), and the premium ought to be independent of age, health status or any other risk factor. This requires MHPs to accept each applicant for each insurance arrangement covering the standard benefits of basic health insurance – ‘open enrolment’ – and not to reject high-risk applicants. In 1990, consumers had virtually neither choice of sickness fund nor of insurance product. From 2006, they have choice of both, and MHPs are required to practice open enrollment.

3.2.7 Financial incentives for efficiency

There ought to be effective financial incentives for MHPs to seek efficiency in managing insurance and in the delivery of care through integration or contracting with competing providers, for providers to be efficient in delivering care, and for consumers to be price-sensitive purchasers of health insurance. In 1990, sickness funds did not bear any financial risk, specialists received a fee for each item of service, hospitals received a global budget, and consumers had no financial incentives for efficiency. In 2010, MHPs are risk bearing and pay a lump sum payment per episode of illness to the hospital for both hospital and physician services for each DTC, which generates incentives for efficiency. The system is designed to create incentives for consumers to be price-sensitive at the margin when purchasing health insurance and a mandatory deductible has been introduced.

4 There are some obstacles when consumers want to switch MHP: subsidies from employers or ‘social security payment’ offices can be conditional upon the purchase of a certain health insurance product; and new MHPs may reject high-risk applicants for the supplementary insurance and the old MHP may increase the premium of the supplementary insurance by 50% or 100% if the consumer no longer buys the basic health insurance from this MHP.
3.2.8 Sufficient providers and MHPs
There ought to be no shortage of providers and MHPs, otherwise they will enjoy dominant positions in the market, which limits effective competition. In addition, the market ought to be contestable. This precondition was satisfied in 1990 and continues to be satisfied in 2009 for MHPs, and each Dutch hospital has at least one close substitute (Varkevisser et al., 2010).

3.3 Progress in implementing and assessment of the Dutch model
Although it is much too early for a full evaluation of the Dutch competitive model, some preliminary conclusions can be drawn from the first evaluation of the Health Insurance Act-2006 for the Dutch government. This evaluation was summarised as ‘on balance positive, despite some serious problems’ (van de Ven et al., 2009).

A key indicator of the success of the Health Insurance Act-2006 is that no political party or interest group has argued for a return to the former system with its distinction between sickness funds and private health insurers. The positive outcomes are: a good system of cross-subsidies (‘solidarity’); a standard benefits package available for everyone, without health-related premium; an annual choice of insurer/contract (major reasons for switching insurer included the size of the premium and the premium rebate in case of group insurance; see van de Ven et al., 2009, Box 5.2); strong price competition among the health insurers; increasing information about price and quality of insurers and providers of care; increasing insurers’ activities in purchasing care (e.g. setting up their own pharmacies, owning primary care centres, experimenting with bonus payments for GPs, and a preferred provider plan with financial incentives to use preferred GPs, an internet pharmacy and 13 hospitals); and that the quality of care is now at the top of the agenda.

A major achievement of the reforms so far is that in choosing an MHP and a specific insurance arrangement each consumer receives the full savings of choosing an efficient insurance package. This provides the MHPs with a strong incentive for efficiency (which is absent when MHPs do not compete). So far, the strongest impact of the reform has been on the price of outpatient prescription drugs. In June 2008 a number of large MHPs each completed a tender among producers of generics, which resulted in price discounts of between 40% and

5 Since 2007, the differences between the MHPs’ premiums are at most €200 per person per year, and about 3%–4% of the population changes MHP per year. In principle these findings may either indicate insufficient competition or effective competition among the MHPs. In the theoretical case of perfect competition there are no premium differences and no switchers. Everybody is happy. How can one know whether ‘small’ premium differences and a ‘small’ number of switchers indicate insufficient or effective competition? The answer can be found by looking at the MHPs’ profits. Large profits are an indication of insufficient competition, and small profits (or even losses) are an indication of effective competition. Because in the period 2006–2009 the Dutch MHPs made severe losses, the above findings are an indication of effective competition among MHPs.
90%. These successful purchasing activities by MHPs are the more remarkable as, in the last decade, government made many unsuccessful attempts to lower the prices of these drugs.

However, the evaluation also found that not all preconditions are yet fulfilled and identified some major problems.\(^6\)

- Although selective contracting by MHPs is a major objective of the reforms, this has been slow to develop for four reasons. First, the lack of good indicators of quality of care makes it hard for the insurers to justify offering preferred provider plans. Second, the hospital payment system is still largely based on a global budget under government regulation. Third, other insurers also benefit from an insurer’s managed care activities, because providers prefer not to treat patients differently depending on their insurer. Fourth, the insurers have still a restricted financial risk for inpatient expenses.

- Although the Dutch risk equalisation system is one of the most sophisticated in the world, insurers still have substantial incentives for risk selection.

- In practice, the insurers’ ‘legal care duty’ is not sufficiently defined.

- The chronically ill and elderly are hindered from switching insurer because they fear that their new insurer will not accept them for the voluntary supplementary health insurance.

In the last 20 years, the emphasis of the reforms has been primarily on the health insurance market. The Dutch government realises that the reform process is still a work in progress and intends to consistently further implement the managed competition model. Over the coming years, we expect substantial progress to be made by the Dutch government by: further improvement of the risk equalisation system and DTC-classification system; increasing the number of DTCs for which the price is freely negotiable (the percentage of the hospital turnover for which the MHPs and hospitals can freely negotiate the DTC-price, will be increased from 34% in 2010 to 50% in 2011); new legislation to strengthen further the position and legal rights of the consumer in health care; improving the transparency of health insurance products and better information for consumers on the quality of care and providers per insurance product; giving hospitals full financial responsibility for capital investments (buildings and medical equipment), and reducing substantial ex-post cost-based reimbursements to MHPs. There is also scope for further integration between MHPs and the providers of care,\(^7\) which could result in Enthoven’s model of competing HMOs.

---

\(^{6}\) The report also identified other issues. For example, a small minority refuses to buy health insurance (about 1%) or to pay premium (about 2%). And although the Health Insurance Act-2006 allows vertical integration between insurers and providers of care, this is contentious and there is uncertainty about its political acceptability.

\(^{7}\) An option could be integration between a ‘hospital/multispecialist group practice’ and GPs. For example, such a new ‘integrated care organisation’ and a MHP might agree that for a risk-adjusted capitation payment the ‘integrated-care organisation’ provides all covered care to all insured of this MHP who are living in a specified geographical area (e.g. the hospital’s catchments area). Then this ‘integrated-care organisation’ would be responsible for the quality of care and the MHP would bear the risk of the capitation payment.
4. Learning from each other?

So what can each country learn from each other? The story so far seems to be that the Netherlands has succeeded in the difficult implementation of a system of MHP competition, but that quite dramatic changes in the structure of MHPs and the degree of competition among them have, so far, had little effect on hospitals. This is largely because there is still substantial government regulation with respect to prices and budgets, and although GPs act as gatekeepers to specialist care, patients have free choice of physician (either GP or specialist). Hence the real challenge for MHPs in the Netherlands is to be able to channel their patients to preferred GPs and (via them, or via advice, or via financial incentives or via the insurance conditions) to preferred hospitals. MHPs, however, fear that if they were to do so now, they would be suspected of choosing hospitals on grounds of low cost and inferior quality, and, as a consequence, would lose enrollees to MHPs that did not restrict patient choice. Hence, although the Dutch system is now improving the information on hospital costs, this could only be used in selective contracting if MHPs can also use and hence produce good evidence that their selective contracting is guided by quality. Unfortunately, such detailed information on quality of care is not yet available.

The English NHS has made little progress in developing a system of hospital competition despite this having been the principal objective of two different reforms. There seem to be three principal reasons why hospital competition has failed to develop in England: problems of provider exit; collegial decision making by GPs and specialists; and a lack of detailed timely comparable information on quality of care in hospitals. We emphasised above that there are numerous reasons why provider competition has so far largely failed to develop in England, and so introducing competition among MHPs is unlikely to have much impact without overcoming the other obstacles. Furthermore, we now know that competition among MHPs in the Netherlands has not yet resulted in them being able to exploit the potential of selective contracting for hospitals. Schlesinger (2010) highlights the complexities posed by policies seeking to introduce choice into systems of health care and Bevan et al. (2010) distinguish between choice being an end in itself (the evaluative reason) and as a means to enhancing the responsiveness of governments and markets to the needs and demands of their citizens and consumers (the effectiveness reason). We consider here the idea of introducing choice of MHP into the English NHS as a ‘thought experiment’ with three different sets of changes. The first is for the evaluative reason of simply allowing the principle of choice of MHP. The other two are for organisation’ has both the financial incentives and the tools for efficiency through integrated and coordinated care. An interesting development, which may be a step in this direction, is the Integrated Care Programme for Diabetes. The goal of this programme is to experiment with a new payment system for integrated diabetes care as an instrument to stimulate the forming of multidisciplinary integrated groups of professionals in diabetic care (see http://www.zonmw.nl/en/programmes/all-programmes/diabetes/).
the effectiveness reason, introducing constrained MHP competition (so that this still looks very much like the English NHS now) and full MHP competition with the wide range of choices of the Dutch system. We consider here the extra requirements to implement these different models additional to those required for effective provider competition.

Simply allowing choice of MHP would require a different method of risk rating for populations: from using data on small areas (currently used in the formula funding of PCTs) to data on individuals. The Department of Health has commissioned the Nuffield Trust to develop such a method to provide guidance in the funding of PBC (Bevan, 2009).

Constrained MHP competition would allow MHPs to offer the same package of health care (regulated by NICE), free at the point of delivery (except for standard national charges). MHPs would define their catchment areas (in terms of clusters of postcodes) where they can guarantee a duty of care to the population of that area: access to both a local GP and the same standard complete package of community and hospital care. MHPs would be able to contract selectively with GPs and providers of community and hospital services, which would restrict patient choice of provider (these contracts could be based on nationally or locally negotiated rates of pay). One natural way of enabling there to be consumer choice of MHP would be to allow each PCT to offer to act as a MHP for its neighbouring populations. Enthoven (1985) suggested this as a way of introducing competition among DHAs. We agree with him, however, that offering such opportunities to bureaucratic organisations is unlikely to result in much change. Real competition would be more likely to emerge from two different innovations: allowing entrepreneurial GPs and private insurers to become MHPs. This would require a radical shift in the understanding of the nature of choice in England from choice of provider, GP or hospital, to choice of MHP. For England, this model suggests different modes of regulation in cities, where there is scope for developing effective competitive markets, and rural areas where there are local monopolies. In cities, regulators need to fight to develop and maintain competition; and then use results from that as benchmarks in regulating areas where there are natural monopolies. Regulators would need to protect consumers from the adverse effects of competition in cities and its absence in rural areas. If competition between MHPs were to develop, this would require the same gradual approach as in the Netherlands in phasing in the risk exposure of the MHPs and regulation of the solvency of MHPs.

Seeking to implement the Dutch model in England would mean that MHPs, in contracting selectively with GPs and providers of community and hospital services, are free to negotiate all relevant aspects of contracts including GPs and hospitals (e.g. PbR would be used to define products, but not to set fixed prices) with conditions on quality and consumer responsiveness. This would also open opportunities for MHPs to offer different types of standardised insurance packages, but each MHP would be required to offer the same basic benefits
package of standardised functions of care. These would entail radical changes to the way NHS providers are paid and would confront patients for the first time with having to make choices over what they pay for insurance and the type of coverage that this brings.

Of these three models of choice and competition among MHPs, the first, that simply allows choice of MHP, seems like a natural development of the NHS in England; the second, of constrained MHP competition, entails more radical changes, would be more difficult to implement, and be an essential step before implementing the model of full MHP competition as in the Netherlands. But it may be only through that type of full competition would improvement follow that would justify the transaction and political costs of these changes.

5. Conclusion

This paper has reviewed different models of introducing choice into health care based on ‘internal markets’ of provider choice in England and of choice among competing MHPs in the Netherlands, which in principle, are able to contract selectively. The implementation of these different models has, however, so far failed to generate a competitive market for hospitals in each country, for different reasons, but, in the Netherlands, there is now managed competition among MHPs. Our analyses of these changes suggest that those introducing competition into health care must give people confidence that competition will not make access more difficult as a consequence of hospital closures, or reduce costs by driving down the quality of care. The first seems to have undermined provider competition in England, and the second has meant that MHPs in the Netherlands are wary of contracting selectively or otherwise channelling their patients to preferred providers. Although there is a technical solution to the second problem, by generating good comparative information on quality of care, the first looks to be more intractable in England.

In the English system of majoritarian government (in contrast with coalition government, subsidiarity and corporatism in the Netherlands) it is easy for there to be a blitzkrieg in the formulation of radical policies (Wilsford, 1994), but, Tuohy (1999) contrasted this with slow progress in implementation citing the observation by Shock (1994) that, ‘A blitzkrieg can certainly achieve conquest but it cannot ensure effective occupation’. In the blitzkrieg of policy formulation of a model of an ‘internal market’ there is a vision of its effective operation in England: bureaucrats contract to shape supply to meet needs of populations, GPs and patients choose providers on grounds of quality; competition means that the good providers thrive and grow, and the poor suffer and exit the market. However, the experience suggests that Ministers are disappointed with ‘internal markets’ as implemented, as they turn out to be unresponsive and bureaucratic; and also with alternatives, because they can never promise the potential benefits of the vision of an effective dynamic market. This may explain
successive Ministers’ entusiasms for ‘redisorganisations’ and fundamental system reform in England every three years or so (Light, 2008). The continuing problems after 21 years of various attempts at the model of purchaser/provider split raises the question as to whether that model is fundamentally flawed. The model has been abandoned in three countries in which it has been tried: Scotland (Woods, 2001), Wales (Welsh Assembly Government, 2008) and New Zealand (Ashton et al., 2005). There are variations in its application within Sweden counties (Harrison and Calltorp, 2000) and Italian Regions (France, personal communication; see also Carbone et al., 2008).

The Dutch health care system is now in transition from the old well-established system of government supply side regulation of price and capacity, towards managed competition (van de Ven and Schut, 2008, 2009). The revolutionary proposals of the Dekker-plan are elegant in principle, but the process of implementation has proved to be difficult and lengthy. Nevertheless, the Dutch experience looks much more controlled than the succession of radical shifts in policies in England. The nature of Dutch policy formulation meant that it has taken two decades for successive Dutch governments to work out how to implement the necessary changes, but this also means that implementation has been a process of evolutionary change. A clear conceptual model has, over time, won support by all involved in health care: the government, the private insurers, the hospitals, clinicians, the population and patients. This model is being implemented in a gradual process of learning by doing. The idea of insurer competition, as implemented in the Netherlands, is being developed in Germany and Switzerland (van de Ven et al., 2007). However, after 20 years the Dutch reform is still work in progress, because the proof of the pudding is in effective provider competition, which is still in its infancy. As long as there is no sound evidence that competing MHPs effectively control costs, the Dutch government may not give up its ‘classic’ tools for cost containment, even if they interfere with the preconditions of effective competition.

Tuohy (1999) identified Ministerial accountability in England as a fundamental axiom of the logic of the NHS and a serious obstacle to creating an effective ‘internal market’. Unlike in the Netherlands, the government in England remains responsible for the many activities of insuring, providing and regulating health care. This results in bureaucratic conflicts between multiple goals, which can only be resolved by Ministers, who are rowing in a 24/7 media storm where the NHS is a reliable and constant source of bad news. In contrast, the Dutch system of subsidiarity means that the multiplicity of activities involved in insuring, providing and regulating health care are now dispersed between various different agencies each with a clear goal. The Dutch Minister of Health is better placed to reply to questions in parliament on problems in health care that responsibility for its governance lies outside the Ministry, and can in future, aspire to focusing on steering this complex system to achieve its public goals of affordable, accessible and good quality care.
We have identified a number of obstacles to the development of an effective ‘internal market’ in England. We have also considered three kinds of developments: allowing choice of MHPs, introducing constrained MHP competition with no other radical changes to the NHS; and implementing the fully competitive Dutch model. The lesson from the Netherlands for countries interested in doing so is that this requires a number of technically and politically complicated preconditions to be fulfilled for this policy to be effective. These preconditions include a good risk equalisation system, an effective competition policy, an adequate system of product classification and medical pricing and transparent consumer information on the health insurance products and on the quality of health care providers. We end by asking two questions. First, does implementation of the Dutch model require governance that is a mix of being corporatist and etatist and based on the principle of subsidiarity? Second, in the early 1990s, if the different models of competition were seen to be in a race to successful implementation, then the English ‘internal market’ model would have been the hare, and the fully competitive Dutch model, the tortoise. Therefore, will the verdict of history be that, as in the fable, the tortoise won?

References

CategoryID=&ProdID=9F8B7F6A-214D-4165-BE65-716315270A82&fromREPORTSANDDATA=NATIONAL-REPORT
Choice of providers and mutual healthcare purchasers: can the English National Health Service learn from the Dutch reforms?

Gwyn Bevan, Wynand P. M. M. Van De Ven


Mays, N. and J. Dixon (1996), Purchaser Plurality in UK Health Care: Is a Consensus Emerging and is it the Right One?, London: King’s Fund.


Secretaries of State for Health, Wales, Northern Ireland and Scotland (1989), Working for Patients Cm 555, London: HMSO.


Choice of providers and mutual healthcare purchasers


Choice of providers and mutual healthcare purchasers: can the English National Health Service learn from the Dutch reforms?

Gwyn Bevan, Wynand P. M. M. Van De Ven
ARTICLES

WHAT’S MEASURED IS WHAT MATTERS: TARGETS AND GAMING IN THE ENGLISH PUBLIC HEALTH CARE SYSTEM

GWYN BEVAN AND CHRISTOPHER HOOD

In the 2000s, governments in the UK, particularly in England, developed a system of governance of public services that combined targets with an element of terror. This has obvious parallels with the Soviet regime, which was initially successful but then collapsed. Assumptions underlying governance by targets represent synecdoche (taking a part to stand for a whole); and that problems of measurement and gaming do not matter. We examine the robustness of the regime of targets and terror to these assumptions using evidence from the English public health service on reported successes, problems of measurement, and gaming. Given this account, we consider the adequacy of current audit arrangements and ways of developing governance by targets in order to counter the problems we have identified.

MANAGING PUBLIC SERVICES BY TARGETS: AND TERROR?

In the mid-eighteenth century, Voltaire (in Candide) famously satirized the British style of naval administration with his quip ‘ici on tue de temps en temps un amiral pour encourager les autres’. In the early twentieth century, the USSR’s communist czars combined that hanging-the-admirals approach with a system of production targets for all state enterprises. The basic system survived for some 60 years, albeit with various detailed changes over time, before the Soviet system finally collapsed in 1991 (Ericson 1991) – a decline that has been attributed by some to not hanging enough admirals to counter gaming produced by the target system.

Gwyn Bevan is Professor of Management Science in the Department of Operational Research and LSE Health and Social Care, London School of Economics & Political Science. Christopher Hood is Gladstone Professor of Government and Fellow of All Souls College, University of Oxford.

Public Administration Vol. 84, No. 3, 2006 (517–538)
© Blackwell Publishing Ltd. 2006, 9600 Garsington Road, Oxford OX4 2DQ, UK and 350 Main Street, Malden, MA 02148, USA.
In the 2000s, Tony Blair’s New Labour government in Britain adopted a watered down version of that system for performance management of public services, especially those in England. Having tagged a new set of government-wide performance targets onto the spending control system in 1998, in 2001 it added a key central monitoring unit working directly to the Prime Minister. From 2001, in England, the Department of Health introduced an annual system of publishing ‘star ratings’ for public health care organizations. This gave each unit a single summary score from about 50 kinds of targets: a small set of ‘key targets’ and a wider set of indicators in a ‘balanced scorecard’ (Secretary of State for Health 2001a, 2002a; Commission for Health Improvement 2003a, b; Healthcare Commission 2004). While the Blair government did not hang the admirals in a literal sense, English health care managers (whose life was perceived to be ‘nasty, brutish and short’ even before the advent of targets: Cole 2001) were exposed to increased risk of being sacked as a result of poor performance on measured indices (Shifrin 2001) and, through publication of star ratings, also to ‘naming and shaming’ (Anonymous 2001) (something that had been applied to schools and local government in the previous decade). Although there have been developments in performance assessment of public health care organizations in other UK countries following devolution, the policy context differed from England (Greer 2004): there was no emphasis on a few key targets, nor publication for ‘naming and shaming’; nor was performance assessment linked with direct sanctions or rewards (Scottish Executive Health Department 2003; Farrar et al. 2004; Auditor General for Wales 2005). Hence these countries offer a natural experiment in assessing the impacts of the system of star ratings.

This paper seeks to explore some of the assumptions underlying the system of governance by targets and to expose those assumptions to a limited test based on such evidence as is available about responses to targets in the English public health care system up to 2004. How far did the system achieve the dramatic results associated with the Soviet target system in the 1930s and 1940s? Did it, for instance, produce a real breakthrough in cutting long waiting times – a chronic feature of the pre-targets system for 40 years – and how far did it produce the sort of chronic managerial gaming and problems with production quality that were later said to be endemic in the Soviet system? And to the extent that target systems of this type invite gaming by managers and other actors, are there ways of making targets and performance measures less vulnerable to gaming without scrapping them altogether?

THE THEORY OF GOVERNANCE BY TARGETS AND PERFORMANCE INDICATORS

Governance by targets and measured performance indicators is a form of indirect control necessary for the governance of any complex system (Beer 1966). The form of control that target systems represent is a version of homeostatic control in which: (1) desired results are specified in advance in
TARGETS AND GAMING IN HEALTH CARE IN ENGLAND  519

measurable form; (2) some system of monitoring measures performance against that specification; and (3) feedback mechanisms are linked to measured performance. Ironically perhaps, just as the targets system was collapsing in the USSR, the same basic approach came to be much advocated for public services in the West by those who believed in ‘results-driven government’ from the 1980s (see Pollitt 1986; Carter et al. 1995; Bird et al. 2005). It resonated with the ideas put forward by economists about the power of well-chosen numéraires linked with well-crafted incentive systems. It often appealed to public managers themselves as well because it could be portrayed as an alternative to the ‘double-bind’ approach to governing public services, one in which agents must strive to achieve conflicting and often not-fully-stated objectives, such that they fail whatever they do (Dunsire 1978). It also gave managers of complex, pluralistic, professional-heavy public organizations an explicit rôle and raison d’être.

Targets are sometimes kept secret. The type of regime considered here, however, is one in which targets and measures are published. Performance against those measures is also published (a principle going back at least to Jeremy Bentham’s plans for prison management in the 1790s). The rewards and sanctions include: reputational effects (shame or glory accruing to managers on the basis of their reported performance); the award of bonuses and renewed tenure for managers that depend on performance against target; ‘best to best’ budgetary allocations that reflect measured performance; and the granting of ‘earned autonomy’ (ascertained from detailed inspection and oversight) to high performers. The last, a principle associated with Ayres and Braithwaite’s (1992) idea of ‘responsive regulation’, was enshrined as a central plank in the New Labour vision of public management in its 1999 Modernizing Government White Paper (Cabinet Office 1999), as well as in a major review of public and private regulation at the end of its second term (Hampton 2004).

Such rewards and sanctions are easy to state baldly, but are often deeply problematic in practice. Summary dismissal of public managers can be difficult (as was the case even in the USSR in its later years). The ‘best to best’ principle of budgetary allocation will always have to confront rival principles, such as equal shares or even ‘best to worst’ (implying give the most to the weakest or most disadvantaged units) (Auditor General for Wales 2005). In addition, the earned autonomy principle of proportionate response implies a high degree of discretion accorded to regulators or central agencies that rubs up against rule-of-law ideas of rule-governed administration.

There are also major problems of credibility and commitment in any such system, given the incentives to ‘cheat’ both by target-setters and target managers (see Nove 1958; Miller 1992; Kornai 1994; Smith 1995; Heinrich 2002; Hood 2002; Propper and Wilson 2003; Bird et al. 2005). One possible way of limiting cheating and establishing commitment is by establishment of independent third parties as regulators or evaluators (Majone 1996; Power 1999). In the English variant of governance by targets...
and performance indicators in the 2000s – in contrast to the Soviet model – semi-independent bodies of various types, often sector-specific, figured large in the institutional architecture alongside central agencies and government departments. But the commitment and credibility such bodies could add was precarious, given that most of them had only limited independence.

We now consider two linked assumptions that underlie the theory of governance by targets. One is that measurement problems are unimportant, that the part on which performance is measured can adequately represent performance on the whole, and that distribution of performance does not matter. The other is that this method of governance is not vulnerable to gaming by agents.

**Assumptions about measurement: synecdoche**

As indicated in figure 1, governance by targets implies the ability to set targets relating to some domain (small or large) of total performance which is to be given priority. That domain is here denoted as $\alpha$, with performance outside that domain ($\beta$) assigned lesser importance. So the task is to develop targets measured by indicators, here denoted as $M[\alpha]$, to assess performance on $\alpha$. The problem, as stated by Carter et al. (1995, p. 49), is that most indicators are ‘tin openers rather than dials: by opening up a can of worms they do not give answers but prompt investigation and inquiry, and by themselves provide an incomplete and inaccurate picture’. Hence, typically, there will be a small set of indicators that are ‘dials’ – good measures ($M[\alpha_g]$) for a subset of $\alpha$, here denoted as $\alpha_g$; a larger set of ‘tin openers’ – imperfect measures ($M[\alpha_i]$) for another subset of $\alpha$ for which there are data available, here denoted as $\alpha_i$, liable to generate false positives and/or false negatives; and another subset of $\alpha$, here denoted as $\alpha_n$, for which there are no usable data available. Accordingly, governance by targets rests on the assumptions.

![FIGURE 1 Targeting priorities](image-url)
(i) that any omission of \( \beta \) and \( \alpha_n \) does not matter; and
(ii) either that \( M(\alpha_g) \) can be relied on as a basis for the performance regime, or that \( (M(\alpha_g) + M(\alpha)) \) will be an adequate basis for that regime.

What underlies these assumptions is the idea of synecdoche (taking a part to stand for a whole). Such assumptions would not be trivial even in a world where no gaming took place, but they become more problematic when gaming enters the picture.

Assumptions about gaming
Governance by targets rests on the assumption that targets change the behaviour of individuals and organizations, but that ‘gaming’ can be kept to some acceptably low level. ‘Gaming’ is here defined as reactive subversion such as ‘hitting the target and missing the point’ or reducing performance where targets do not apply (\( \beta \) and \( \alpha_n \)). For instance, analysis of the failure of the UK government’s reliance on money supply targets in the 1980s to control inflation led the economist Charles Goodhart to state his eponymous law: ‘Any observed statistical regularity will tend to collapse once pressure is placed on it for control purposes’ because actors will change their conduct when they know that the data they produce will be used to control them (Goodhart 1984, p. 94). And the 60-year history of Soviet targets shows that major gaming problems were endemic in that system.

Three well-documented gaming problems of the Soviet system were ratchet effects, threshold effects and output distortions. Ratchet effects refer to the tendency for central controllers to base next year’s targets on last year’s performance, meaning that managers who expect still to be in place in the next target period have a perverse incentive not to exceed targets even if they could easily do so (Litwack 1993): ‘a wise director fulfils the plan 105 per cent, but never 125 per cent’ (Nove 1958, p. 4). Such effects may also be linked to gaming around target-setting, to produce relatively undemanding targets, as James (2004, p. 410) claims to have applied to a number of Labour’s public spending targets in the UK after 1998. Threshold effects refer to the effects of targets on the distribution of performance among a range of, and within, production units (Bird et al. 2005), putting pressure on those performing below the target level to do better, but also providing a perverse incentive for those doing better than the target to allow their performance to deteriorate to the standard (see figure 2), and more generally to crowd performance towards the target. Such effects can unintentionally penalize agents with exceptionally good performance but with a few failures, while rewarding those with mediocre performance crowded near the target range. Attempts to limit the threshold effect by basing future targets on past performance will tend to accentuate ratchet effects and attempts to limit ratchet effects by system-wide targets will tend to accentuate threshold effects. Attempts to achieve targets at the cost of significant but unmeasured aspects of performance (\( \beta \) and \( \alpha_n \)) result in output distortions. Various such distortions were
well documented for the Soviet regime (Nove 1958, pp. 4–9), including neglect of quality, widely claimed to be an endemic problem from Stalin to Gorbachev (Berliner 1988, pp. 283–4).

The extent of gaming can be expected to depend on a mixture of motive and opportunity. Variations in the motives of producers or service providers can be described in various ways, of which a well-known current one is LeGrand’s (2003) dichotomy of ‘knights’ and ‘knaves’. Stretching that dichotomy slightly, we can distinguish the following four types of motivation among producers or service providers:

1. ‘Saints’ who may not share all of the goals of central controllers, but whose public service ethos is so high that they voluntarily disclose shortcomings to central authorities. A striking example of such behaviour in the English public health care system was exhibited in 2000 by St George’s Healthcare NHS Trust, which twice drew attention to its own failures after two series of bad runs in its heart and lung transplantation programme and suspended its transplant work itself before its status as a designated centre was withdrawn by government (Commission for Health Improvement 2001, pp. 8–10).

2. ‘Honest triers’ who broadly share the goals of central controllers, do not voluntarily draw attention to their failures, but do not attempt to spin or fiddle data in their favour. Within the English public health care system, a notable example of ‘honest trier’ behaviour was exhibited in the 1990s by the Bristol Royal Infirmary, which did not attempt to conceal evidence of very high mortality in its paediatric cardiac surgery unit. The problem turned into a major scandal, but the official inquiry report into the issue began by saying that ‘The story of paediatric cardiac surgical service in Bristol is not an account of bad people. Nor is it an account of people who did not care, nor of people who wilfully harmed patients’ (Secretary of State for Health 2001b, p. 1).

---

**FIGURE 2 Crowding towards the target**

![Diagram showing the crowding towards the target](image_url)

<table>
<thead>
<tr>
<th>Frequency</th>
<th>Waiting time in months</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Before</strong></td>
<td></td>
</tr>
<tr>
<td><strong>After</strong></td>
<td></td>
</tr>
<tr>
<td><strong>Target</strong></td>
<td></td>
</tr>
</tbody>
</table>
3. ‘Reactive gamers’ who broadly share the goals of central controllers, but aim to game the target system if they have reasons and opportunities to do so. Such behaviour was highlighted by a question from a voter that apparently nonplussed Prime Minister Tony Blair during the 2005 British general election campaign – that a target for general practitioners in England to see their patients within 48 hours meant that in many cases primary care trusts would not book any appointments more than 48 hours in advance (Timmins 2005).

4. ‘Rational maniacs’ who do not share the goals of central controllers and aim to manipulate data to conceal their operations. In the English public health care system, a notorious example of a ‘rational maniac’ is that of the late Dr Harold Shipman who, as a general practitioner, killed at least 215 of his patients between 1975 and 1998 (Secretary of State for Health 2002b, Summary, paras 17–22). Shipman was a ‘rational maniac’ in that he appeared to be able to stop killing when he had good reason to think he was under suspicion (Secretary of State for Health 2002b, Chapter 13, paras 13.68–13.74). Although Shipman was (we hope) exceptional, Kinnel (2000) claims ‘medicine has arguably thrown up more serial killers than all the other professions put together, with nursing a close second’.

Gaming as defined above will not come from service providers in categories (1) and (2) above (though there may be problems about measurement capacity as discussed in the previous sub-section at least for (2)), but will come from those in categories (3) and (4). Accordingly, governance by targets rests on the assumption that

(i) a substantial part of the service provider population comprises types (1) and (2) above, with types (3) and (4) forming a minority;

and

(ii) that the introduction of targets will not produce a significant shift in that population from types (1) and (2) to types (3) and (4)

or

(iii) that \( M(\alpha_0) \) (as discussed in the previous sub-section) comprises a sufficiently large proportion of \( \alpha \) that the absence of conditions (i) and (ii) above will not produce significant gaming effects.

These assumptions are demanding. LeGrand (2003, p. 103) argues that governance by targets can turn ‘knights’ into ‘knaves’ by rewarding those who produce the right numbers for target achievement, even if it means avoidance or evasion and neglect of \( \beta \) and \( \alpha_m \). Berliner (1988, pp. 289–90) observes that ‘there have been heroic periods in the USSR when large numbers of people were selfless enough to provide the correct information required by planners to set taut but realistic targets [that is, functioned as actors of types (1) and (2)
above], but argues that such periods were exceptional. Holmstrom and Milgrom (1991) in a classic model of how agents respond to incentives based on targets such as student performance in exams that omit key dimensions of performance (that is, where $\beta$ and $\alpha_0$ are significant elements of performance), show that neither using a limited set of good signals ($M[\alpha_g]$) nor a larger set of poor signals ($M[\alpha_n]$) will produce results free from significant distortion by gaming. O’Neill (2002, pp. 43–59) argues similarly, albeit in different language, about performance assessment of professionals. So even if a target system begins with assumption (i) above being satisfied, a ‘Gresham’s law’ of reactive gaming may mean that it fails to satisfy assumption (ii). (Gresham’s law originally described the inevitability of bad money driving out good, but applied to governance by targets, it means that actors of types (1) and (2) above learn the costs of not gaming the system and shift towards type (3).)

If central controllers do not know how the population of producer units or service providers is distributed among types (1) to (4) above, they cannot distinguish between the following four outcomes if reported performance indicates targets have been met:

1. All is well; performance is exactly what central controllers would wish in all performance domains ($\alpha_0$, $\alpha_n$, $\alpha$).
2. The organization is performing as central controllers would wish in domains $\alpha_0$ and/or $\alpha_n$, but this outcome has been at the expense of unacceptably poor performance in the domains where performance is not measured ($\alpha_n$, $\beta$).
3. Although performance as measured appears to be fine ($M[\alpha_g]$, $M[\alpha_i]$) actions are quite at variance with the substantive goals behind those targets (that is, ‘hitting the target and missing the point’).
4. There has been a failure to meet measured-performance targets ($M[\alpha_g]$, $M[\alpha_i]$), but this outcome has been concealed by strategic manipulation of data (exploiting definitional ambiguity in reporting of data or outright data fabrication).

In the section that follows, we consider how far the demanding assumptions identified here as underlying the theory of governance by targets were met in the English National Health Service under its ‘targets and terror’ regime of the early 2000s.

TARGETS AND TERROR AS APPLIED TO THE ENGLISH NATIONAL HEALTH SYSTEM (NHS)

The context and the institutional setting
The National Health Service (NHS) was created in 1948 as a UK-wide system for providing publicly organized and tax-financed health care for the population at large, replacing a previous patchwork system of regulated private, charitable and local authority organization. The organization that delivered the care was sub-divided into both functional units (acute hospitals) and
units defined territorially (care for the mentally ill, ambulances, primary care, dentistry, and so on), but broadly allowed clinical autonomy to medical professionals in their decisions on treating patients (Klein 1983; Hoque et al. 2004). Periodic reorganizations changed the boundaries, names and nature of those sub-units, but the system as a whole retained the features of block budgeting from central tax funds, public provision that was largely free (albeit with significant and growing exceptions for prescription drugs, dentistry and optical services), and the absence of any directly elected element in the organizational structure below the central ministry in London and its counterparts in Scotland, Wales and Northern Ireland. Observers of this health care system in cross-national comparative context such as Moran (1999) tended to see it as programmed to achieve (relative) cost containment at the expense of patient choice and some aspects of quality.

From the 1980s, there were various attempts to generate incentives for improved performance before the Blair government introduced its ‘targets-and-terror’ system for England in the early 2000s (Bevan and Robinson 2005). In the 1980s there were attempts to make hospital managers more powerful relative to medical professionals. In the 1990s a Conservative government introduced an ‘internal market’ into the public health care system in which providers were intended to compete with one another (Secretaries of State for Health for Health, Wales, Northern Ireland and Scotland 1989; Bevan and Robinson 2005). However, this system did not change the three basic institutional features described above and central government ministers continued to intervene to avoid hospitals being destabilized in the market (Tuohy 1999). In adapting this system after it won government in 1997, Labour tried to devise a control system that did not rely on funds moving between competing providers. Central to that new approach was the targets-and-terror system of governance of annual performance (star) ratings of NHS organizations that was referred to earlier.

By the mid-2000s this system applied to about 600 NHS organizations in England, comprising five different types of trust, and was part of a broader control system for public service performance. There were two central agencies: the Prime Minister’s Delivery Unit which from 2001 monitored a set of key public-service targets for the PM by a ‘war room’ approach, of which two or three applied to health; and the Treasury, which from 1998 attached performance targets (Public Service Agreements or PSAs) to financial allocations to spending departments (James 2004), of which 10 or so applied to health care. In addition, the Department of Health continued to act as the overall overseer of the health care system, though operating increasingly at arm’s-length from health care providers. There were also free-standing regulators of health care standards of which the main one (now as the Healthcare Commission at the time of writing) was responsible for inspections and performance assessment, including the published star ratings. Finally, there were two national audit organizations, the National Audit Office (NAO) that audited central government expenditure across the UK,
What's measured is what matters: Targets and gaming in the English public health care system

Gwyn Bevan, Christopher Hood

including the Department of Health’s spending, and the Audit Commission, responsible for auditing the probity of NHS spending in England, as well as numerous other regulators and assessors of parts or all of the health care system. Walshe (2003, p. 153), for example, identified nearly 20 additional organizations of this kind (the numerous medical and surgical Royal Colleges are classed as one organization). Taken together, what lay behind the system of governance by targets in health care in the early 2000s amounted to an institutionally complex and frequently changing set of overseers, inspectors and assessors.

REPORTED PERFORMANCE DATA SHOWING IMPRESSIVE IMPROVEMENTS

On the face of it, the targets and terror system overseen by this army of monitors and assessors produced some notable improvements in reported performance by the English NHS. Three ‘before’ and ‘after’ comparisons in England and a fourth cross-country comparison relative to trusts elsewhere in the other UK countries without star ratings target systems may serve to demonstrate the point.

Figure 3 shows percentages of patients seen within the 4-hour target by the four quarters of each year in hospital Accident and Emergency (A&E) Departments (National Audit Office 2004). The star ratings required increases in this percentage each year from 2000–01. The National Audit Office (2004, p. 2) found that: ‘Since 2002, all trusts have reduced the time patients spend in A&E, reversing a previously reported decline in performance. In 2002, 23 per cent of patients spent over four hours in A&E departments, but in the three months from April to June 2004 only 5.3 per cent stayed that long’. This reduction was achieved despite increasing use of A&E services, and the NAO also found evidence that reducing the time spent in A&E had increased patient satisfaction.

Figure 4 shows by ambulance trust the percentage of category A calls seen within 8 minutes for 1999–2000 and 2002–03 (Department of Health 2005). Category A calls are immediately life-threatening emergencies. The target of
reaching 75 per cent of these within 8 minutes had existed since 1996. For 1999–2000, prior to star rating, some trusts only managed 40 per cent. After achieving 75 per cent became a key target for ambulance trust star ratings from 2002-03, performance jumped dramatically, and, at the end of that year, the worst achieved nearly 70 per cent.

Figure 5 gives numbers of patients waiting for first elective admission for more than 9 and 12 months at the end of March from 1997 to 2004 (Department of Health 2004). Maximum waiting times were dramatically reduced in England after the introduction of the star rating system from 2000–01. This set targets for maximum waiting times for the end of March each year; and for 2003 and 2004 these were 12 and 9 months.

Figure 6 gives percentages of patients on waiting lists waiting for first elective admission in each UK countries at the end of March from 2000 to 2003 (Office of National Statistics 2004). There was a notable difference between the dramatic improvement in reported waiting times for England, as against the other countries in the UK, which did not apply the targets-and-terror system of star ratings described earlier. Reported performance in the other countries did not in general improve, and at the end March of 2003, when virtually no patient in England was reported as waiting more than 12
months for an elective admission, the equivalent figures for Scotland, Wales and Northern Ireland were 10, 16 and 22 per cent of patients respectively.

These improvements in reported performance are dramatic and on the face of it indicate the sort of results that the USSR achieved with its targets system from the 1930s to the 1960s, when it successfully industrialized a backward economy against a background of slump and unemployment in the capitalist West, emerged the victor in World War II and rebuilt its economy afterwards, to the point where, in 1961, its leaders publicly challenged the USA to an economic race over per capita production (Nove 1961, pp. 295–7). We now examine how far the control system met the assumptions we set out in the previous section.

THE ASSUMPTIONS REVISITED: MEASUREMENT AND GAMING

Measurement

On pages 520–1, above, we argued that governance by targets rests on the assumption (1) that the omission of $\beta$ (and $\alpha_i$ if applicable) from performance measurement does not matter; and (2) either that $M[\alpha_i]$ can be relied on as a basis for the performance regime, or that $(M[\alpha_i] + M[\alpha_j])$ will be an adequate basis for that regime. In the case of health care these distinctions turn out to be central to the design of any performance management regime.

At first sight, waiting times for access to care at first sight may appear to be a clear case of $M[\alpha_i]$, but even for this indicator several inquiries have revealed data limitations that are far from trivial. For A&E targets, the National Audit Office (2004) found weaknesses in arrangements for recording time spent and observed that the relevant management information systems mostly pre-dated the targets regime and some were over ten years old. There were apparent discrepancies between officially reported levels of performance and independent surveys of patients in achieving the target for patients spending fewer than four hours in A&E: in 2002/03, officially, in 139 out of 158 acute trusts 90 per cent of patients were seen in less than four hours, but only 69 per cent of patients reported that experience in the survey.
(Commission for Health Improvement 2004); in 2004/05, the official level had increased to 96 per cent (Anonymous 2005), but the survey-reported level was only 77 per cent (Healthcare Commission 2005a). For ambulance targets, there were problems in the definition of what constituted a 'life-threatening emergency' (the proportion of emergency calls logged as Category A ranged from fewer than 10 per cent to over 50 per cent across ambulance trusts) and ambiguity in the time when the clock started (Public Administration Select Committee 2003, p. 18; Bird et al. 2005). For hospital waiting time targets, the Audit Commission (2003), on the basis of ‘spot checks’ at 41 trusts between June and November 2002, found reporting errors in at least one indicator in 19 of those trusts. As we shall stress later, there was no systematic audit of measures on which performance data are based, so such inquiries were both partial and episodic. But they raise serious questions as to how robust even the M[\alpha\gamma] measure was for this performance regime – an issue to which we return in the section that follows.

As noted earlier, the quality problem bedevilled the Soviet targets regime and quality remained in the subset of \( \alpha_n \). Likewise, Pollitt (1986, p. 162) criticized the 1980s generation of health care performance indicators in the UK for their failure to capture quality in the sense of impact or outcome. And that problem had by no means disappeared in the 2000s targets-and-terror regime for health care governance in England. Methodologically, measures of effectiveness remained difficult, required new kinds of data that both were costly and problematic to collect, and tended to rely on indicators of failure (Rutstein et al. 1976). The star ratings of the 2000s, like the predecessor performance indicators of the 1980s failed to capture key dimensions of effectiveness. There was a large domain of unmeasured performance (\( \alpha_n \)) and measures of ‘sentinel events’ indicating quality failures (notably crude mortality rates and readmission rates for hospitals) were at best indicators of the M[\alpha\gamma] ‘tin-opener’ type (Bird et al. 2005). Risk-adjusted mortality rates could be calculated for a few procedures such as adult cardiac surgery. But even there, problems in collecting the detailed data required led to a failure to achieve a high-profile ministerial commitment – announced after the Bristol paediatric cardiac surgery scandal referred to earlier – to publish, from 2004, ‘robust, rigorous and risk-adjusted data’ of mortality rates (Carlisle 2004).

Gaming
On pages 522–3, we argued that governance by targets rests on the assumption that

(i) a substantial part of the service provider population comprises ‘saints’ or ‘honest triers’, with ‘reactive gamers’ and ‘rational maniacs’ forming a minority;

and
(ii) that the introduction of targets will not produce a significant shift in that population from the first to the second pair of categories

or

(iii) that $M[\alpha_{\text{i}}]$ (as discussed in the previous sub-section) comprises a sufficiently large proportion of $\alpha$ that the absence of conditions (i) and (ii) above will not produce significant gaming effects.

As mentioned above, there was no systematic audit of the extent to which the reported successes in English health care performance noted on pages 526–8, above, were undermined by gaming and measurement problems, even though much of the data came from the institutions who were rated on the basis of the information they provided. That 'audit hole' can itself be interpreted by those with a suspicious mind (or a long memory) as a product of a 'Nelson's eye' game in which those at the centre of government do not look for evidence of gaming or measurement problems which might call reported performance successes into question. In the Soviet system, as all bodies responsible for supervising enterprises were interested in the same success indicators, the supervisors, rather than acting to check, connived at, or even encouraged, gaming (Nove 1958, p. 9; Berliner 1988, p. 37). In the English NHS, 'hard looks' to detect gaming in reported performance data were at best limited. Central monitoring units did mount some statistical checks on completeness and consistency of reported data, but evidence of gaming was largely serendipitous and haphazard, emerging from particular inquiry reports or anecdotal sources. We therefore cannot provide any accurate estimate of the distribution of the health care provider population among the four categories identified above (though examples of the existence of each of those types can be readily given, as we showed earlier). But even if we have to return a Scottish 'not-proven' verdict on assumption (i) above (that is, the evidence is insufficient either to accept or reject the validity of that assumption), assumption (ii) seems unsafe for the case being considered here, and, contrary to assumption (iii), there is enough evidence of significant gaming to indicate that the problem was far from trivial.

On pages 521–2, above, we discussed three main types of gaming identified in the literature on targets and performance indicators, namely ratchet effects, threshold effects and opportunistic output distortions. Here we concentrate on the third type of gaming, although there is some evidence of the presence of the first two types as well. Goddard et al. (2000) found clear ratchet effects in health care cost targets in the 1990s. As for threshold effects, figure 4, above, shows that ambulance trusts sought to meet the 75 per cent response-time target but not exceed it, and there were strong allegations that some ambulance trusts achieved this result by relocating depots from rural to urban areas. Insofar as this strategy meant that those who lived in rural areas would wait longer than the 8-minute target, it meant that the aggregate target could not be far exceeded (Commission for Health Improvement 2003c).
We now present evidence of gaming through distortion of reported output for ambulance response-time targets, hospital A&E waiting-time targets and hospital waiting time targets for first outpatient appointment and elective admission. A study by the Commission for Health Improvement (2003c) found evidence that in a third of ambulance trusts, response times had been ‘corrected’ to be reported to be less than eight minutes. The kinds of different patterns discovered are illustrated by figure 7: an expected pattern of ‘noisy decline’ (where there has been no ‘correction’), and of a ‘corrected’ pattern with a curious ‘spike’ at 8 minutes – with the strong implication that times between 8 and 9 minutes have been reclassified to be less than 8 minutes. There was also evidence that the idiosyncrasies of the rules about Category A classification led in some instances to patients in urgent need being given a lower priority for ambulance response than less serious cases that happened to be graded Category A.

For hospital A&E waiting-time targets, five types of output-distorting gaming response were documented. First, a study of the distribution of waiting times in A&E found frequency peaked at the four-hour target (Locker and Mason 2005) – although this pattern was much less dramatic than that for ambulance response times. Surveys by the British Medical Association reported widespread practice of a second and third type of gaming responses: the drafting in of extra staff and the cancelling of operations scheduled for the period over which performance was measured (Mayor 2003, p. 1054; British Medical Association 2005). A fourth practice was to require patients to wait in queues of ambulances outside A&E Departments until the hospital in question was confident that that patient could be seen within four hours (Commission for Health Improvement 2003c). Such tactics may have unintendedly caused delays in responding to seriously ill individuals when available ambulances were waiting outside A&E to offload patients (for an example of a fatal case, see Howarth 2004). A fifth gaming response was observed in response to the so-called ‘trolley-wait’ target that a patient must be admitted to a hospital bed within 12 hours of emergency admission.
The response took the form of turning ‘trolleys’ into ‘beds’ by putting them into hallways (Commission for Health Improvement 2002, para 3.19).

For hospital waiting time targets for first outpatient appointment and elective admission, the National Audit Office (2001) reported evidence that nine NHS trusts had ‘inappropriately’ adjusted their waiting lists, three of them for some three years or more, affecting nearly 6000 patient records. In five cases the adjustments only came to light following pressure from outsiders, though in four cases they were identified by the trusts concerned. The adjustments varied significantly in their seriousness, ranging from those made by junior staff following established, but incorrect, procedures through to what appears to be deliberate manipulation or misstatement of the figures. The NAO study was followed up by the Audit Commission, which, in its 2002 spot check study of 41 trusts referred to above, found evidence of deliberate misreporting of waiting list information at three trusts (Audit Commission 2003). In addition, a parliamentary select committee report on targets in 2003 reported that the waiting time target for new ophthalmology outpatient appointments at a major acute hospital had been achieved by cancellation and delay of follow-up appointments, which did not figure in the target regime. Recording of clinical incident forms for all patients showed that, as a consequence, 25 patients lost their vision over two years, and this figure is likely to be an underestimate (Public Administration Select Committee 2003, para 52).

Further, the publication of mortality data as an indicator of quality of clinical care may itself have produced reactive gaming responses. There is anecdotal evidence that such publication results in a reluctance by surgeons to operate on high risk cases, those who stand to gain most from surgery (Marshall et al. 2000). Because mortality rates are extremely low (about 2 per cent), one extra death has a dramatic impact on a surgeon’s performance in a year, and risk-adjustment methods cannot resolve such problems.

These data, limited as they are, suggest that, relative to assumption (i), reactive gaming seems to have been practised by a significant minority of service-provider units (ranging from 7 to 33 per cent in the studies quoted), and that, relative to assumption (ii), star-rating-related targets seem to have produced an increasing share of organizations in the ‘reactive gaming’ category. Moreover, they suggest some significant problems about assumption (iii) that \( M(\alpha_0) \) forms a large enough proportion of \( \alpha \) to be proof against gaming effects. As the last example shows, synecdoche (taking a part for the whole) in target systems can be shown to have produced some clear negative effects on performance in the realms of \( \beta \) and \( \alpha_n \) – the classic problem of the Soviet target system. Indeed, the star rating system meant that it was possible for three-star trusts to have within them a scandalously poor clinical service, and zero-star trusts an excellent service. Rowan et al. (2004) found no relationship between performance in star ratings and the clinical quality of adult critical care provided by hospitals. And indeed, in the examples of types of players given on pages 522–3, above, none of the quality failures at
Bristol, St George’s and with Harold Shipman would have damaged the star ratings of the institutions concerned, because the types of mortality involved were relegated to the F (or at best αd) category.

DISCUSSION AND CONCLUSION

We have argued that the implicit theory of governance by targets requires two sets of heroic assumptions to be satisfied: of robust synecdoche, and game-proof design. And we have shown that there is enough evidence from the relatively short period of its functioning to date to suggest that these assumptions are not justified. The transparency of the system in real time seems to have exacerbated what we earlier described as Gresham’s law of reactive gaming.

We see the system of star rating as a process of ‘learning by doing’ in which government chose to ignore the problems we have identified. A consequence was that although there were indeed dramatic improvements in reported performance, we do not know the extent to which these were genuine or offset by gaming that resulted in reductions in performance that was not captured by targets. Evidence of gaming naturally led many critics of New Labour’s targets-and-terror regime to advocate the wholesale abandonment of that system. But the practical alternatives to such a regime (such as specific grants to providers to incentivize particular activities, true ‘command and control’ from the centre in terms of orders of the day, or governance by a double-bind approach that swings between unacknowledged contradictions) are well-tried and far from problem-free. Nor is health care truly governed by anything approximating a free market in any developed state: regulation and public funding (even in the form of tax expenditures) take centre stage in every case.

We conclude by considering how the theory and practice of governance by targets could be redesigned so that it is less vulnerable to gaming. Although gaming proved to be endemic in the much longer-lived Soviet targets regime, the prospects for a more game-proof design may be better in a mixed-economy system for delivering public services. Accordingly, we make suggestions for making systems of governance by targets more proof against synecdoche and gaming difficulties, by modified ways of specifying targets, measuring performance and monitoring behaviour.

Complete specification of targets and how performance will be measured almost invites reactive gaming by managers of service-providing units. Hence an obvious remedy is to introduce more uncertainty into these specifications (Bevan and Hood 2004) by making them transparent in process and in retrospect but not in real time. Such a design would follow Heald’s (2003, p. 730) distinction between ‘event’ transparency and ‘process’ transparency, with ‘assurance that established procedures have been followed and that relevant documentation is then placed in the public domain’ (Heald 2003, p. 71). When targets take the form of general standards (as was
proposed for assessment by the Healthcare Commission (2005b) at the time of writing), advance warning of when assessments will be made will be of only limited value to potential gamers. But when targets for performance assessment are defined at a high level of specificity, there needs to be some uncertainty about the monitoring process. In the case of speed cameras, for example, drivers may know the cameras’ locations from website or other sources, but do not know whether any particular camera is operating or what precise speed trips the camera into action. It is possible for a lottery to be fully transparent in a real-time process sense if the programming principles behind it can be fully revealed to the players, even if that does not enable them to know the actual numbers it will reveal. Introducing randomness into monitoring and evaluation in order to limit gaming violates only a very extended version of the transparency principle and one that is arguably not appropriate for performance monitoring.

Another way of limiting gaming would be to fill the ‘audit hole’ referred to earlier. Although British public services in general, and the English health care system in particular, groan under regulation and audit from various inspectors and auditors, audit of the data on which performance assessments are based is both fragmentary and episodic. As the existence of gaming becomes more generally recognized, failure to fill this hole invites the cynical view of the target regime as a ‘Nelson’s eye’ game, in which central government colludes with those who game targets, by seeking improvements in reported performance only, and not providing the organizational clout to ask awkward questions about the robustness of those reported improvements. What is required is a new approach to performance data provision and auditing, similar to that of the ‘Office of Performance Data’ advocated by Robert Behn (2001).

A second means of monitoring would be by supplementing the arcane and impersonal process of reporting from one bureaucracy to another in a closed professional world by a greater face-to-face element in the overall control system. After all, in democratic theory the ideal of transparency is often seen as face-to-face communication between governors and governed, and even in the Soviet system it has been shown that public criticism of gaming by managers through the media was a salient feature of the overall system that served to limit managerial gaming. Indeed, it could be argued that face-to-face scrutiny of that kind is likely to be far less vulnerable to the gaming strategies that can undermine the target systems described here.

Of course, face-to-face interactions between health care providers and the public are far from problem-free (something graphically brought out by the Shipman case referred to on page 000, lines 00–00, above), and it is problems of that kind that has led to the targeting systems monitored by professionals. However, finding a way that an individual like Shipman will stand out from the vast majority (it must be hoped) of medical practitioners who are not serial killers requires, even in retrospect, elaborate statistical analysis. The final report of the Shipman Inquiry (Secretary of State for Health 2004) recommended using...
a method of statistical monitoring of deaths in general practices which, using historical data, would have identified Shipman in 1988 (Aylin 2003). If such monitoring, using transparent thresholds, had been applied to Shipman when he was in practice, however, then it is likely that he would have managed his murder count and other deaths so that he would have avoided generating a statistical signal. Goodhart’s law means that we may be able to use statistical analysis on historical data to generate a reliable signal when the people who generated the data knew that it would not be used for that purpose. But once the individuals concerned know the data they produce will be used for that purpose, their behaviour is likely to alter. Accordingly, if a transparent monitoring system were introduced in response to Shipman, this would probably fail to detect another rational maniac of the Shipman type, but put many other innocent GPs under suspicion of murder (Secretary of State for Health 2003).

Indeed, such a conclusion suggests that even and perhaps especially for the professional monitors, some face-to-face scrutiny mixed with random visitations may serve to limit the problems of synecdoche and gaming, particularly for organizations as complex as acute hospitals, given both ambiguity in definitions and noisy data. Since the 1990s in the US, the Joint Commission on the Accreditation of Health Care Organizations has been seeking to move towards a continuous process of monitoring hospital performance through performance indicators, but the foundation of its accreditation programme continues to be three-yearly inspection (Walshe 2003, p. 63). Evidence of target gaming by the Commission for Health Improvement (2003c and 2004) came also from physical inspections of systems to assure and improve quality of care. Ayres and Braithwaite (1992) observe that it is rare for inspections of nursing homes in the US and Australia to take place without a member of staff giving the inspection team a tip-off of some value. It may be that a visit would have thrown up quality problems such as those in the Bristol heart surgery unit discussed on page 000, lines 00–00, above (where staff were distressed by what was happening), in a way that statistical surveillance on its own could not have done.

However, at the time of writing, if anything, the performance management system has been moving in the direction of widening rather than narrowing the audit hole (Healthcare Commission 2005b). Even though star ratings are due to be abolished, new systems of assessment and inspection emphasize delivery against targets; self-assessment; and surveillance, using readily available data rather than site visits (Healthcare Commission 2005b). These changes, together with the transfer of responsibility for auditing the quality of data in the English NHS from the Audit Commission to the Healthcare Commission (which lacks any physical presence in NHS provider units) suggests less rather than more scope to discover reactive gaming.

None of the measures we propose could be expected to remove gaming completely. But both Soviet history and a broader institutional analysis suggests that they could plausibly be expected to reduce it. And if, as this analysis has shown, there are significant gaming problems in public health care that cannot be prevented by measurement systems that produce a fully robust $M[a, b]$, then
corrective action is needed to reduce the risk of the target regime being so undermined by gaming that it degenerates, as happened in the Soviet Union.

ACKNOWLEDGEMENT
Earlier versions of this paper have been presented at the American Society for Public Administration conference Portland, Oregon, March 2004; the European Conference on Health Economics, London, September 2004; Westminster Economic Forum, London, April 2005. We are grateful for comments from Tim Besley, Carol Propper, David McDaid, Carolyn Heidrich, Jan-Kees Helderman and Rudolf Klein. The usual disclaimer applies.

REFERENCES
TARGETS AND GAMING IN HEALTH CARE IN ENGLAND


Greer, S.L. 2004. Four Way Bet: How Devolution Has Led to Four Different Models for the NHS. London: The Constitution Unit, School of Public Policy, UCL.


James, O. 2004. ‘The UK Core Executive’s Use of Public Service Agreements as a Tool of Governance’, Public Administration, 82, 2, 397–409.


538 Gwyn Bevan and Christopher Hood


Timmins, N. 2005. ‘Blair Bemused over GP Waiting Times’, Financial Times, April 30/ May 1, 2.


Date received 8 May 2005. Date accepted 6 June 2005.
Synergy From Individual Differences: Map, Bridge and Integrate (MBI)

Many conflict situations arise from miscommunication between people who have different ways of seeing the same thing. For example, you have probably experienced something like this conversation that took place in a fast-moving consumer goods firm:

**Divisional President:** Where are the proposed new product specifications? I know I’m new, but I was sure we’d have them last week. Without them, we can’t start planning production, suppliers, promotions, and everything else!

**Product Group VP:** There is no way we can have the specifications ready yet. Do you think we just pull these things out of the air? They’ll be ready in two or three weeks.

**Divisional President:** We can’t wait that long! Get them to me by the end of this week – Just do what it takes. [To himself: Where’s the sense of urgency in this place? How can I turn this division around with this kind of incompetence?]

**Vice President:** I’ll see what I can do, but the process only goes so quickly. [To herself: This is what happens when the company brings in someone from outside! He just doesn’t get it. It’s going to take a long time for us to work with this guy. With any luck, he’ll leave soon too.]

A twenty-second interaction, one of a series over the first three weeks of the new president’s tenure that resulted in a climate of mistrust, anger and frustration. In this case – and many others we have seen – the escalation is fueled by relatively simple misinterpretations. The president and vice president have very different personalities. In particular, the president likes to see the big picture and possibilities first, then work to details. The vice president prefers the reverse: she likes to work with facts and details first, then build the big picture and possibilities. This personality difference affects the kind of information each wants for decision-making around new product design. So when the president said “product specifications,” he meant “overall picture of product characteristics and value proposition, general descriptions of manufacturing processes and supplier types.” Expecting an overall picture at this stage is probably reasonable. When the vice president heard “product specifications,” she assumed it meant detailed and specific physical, chemical and electronic information: a set of information that was reasonably not yet available. The feelings of incompetence and mistrust grew from miscommunication, not from the real information available at the time of their exchange.

**Personal Characteristics Affect Interpersonal Communication.**

Our personality, culture, professional experience, gender and other background characteristics provide filters for how we interact with the world around us. They influence what we notice, what meaning we give to events and what actions we decide to take. Of course there is substantial overlap and agreement; this allows us to communicate and work together in the first place. We focus here on the differences for two reasons. First, differences cause a lot of problems and barriers when they are not recognized. We have seen far too many working relationships and teams degenerate because of unrecognized different interpretations of the same information. Second, differences offer opportunities for innovation, creativity and higher performance. We all know intuitively that different opinions can provide healthy dialogue...
Synergy From Individual Differences: Map, Bridge and Integrate (MBI)

and, ideally, a synergy that is better than any single point of view. But achieving this synergy requires recognizing and working with differences in the first place.

We have worked with hundreds of people and teams to prevent the problems and to achieve the potential that the differences offer. We have found that following three basic principles of interaction leads to success: Map, Bridge and Integrate.

Map: Understand the Differences.

Mapping is recognizing that differences exist and may be important, describing the differences with an objective framework, using this map to explain different perspectives, and then acting on the explanations to deal better with the work challenges.

A good geographic map—such as a map of the Alps—satisfies three criteria. It shows the important features of the terrain; helps the map-reader locate himself and other destinations; and it provides some guidance for getting from Point A to Point B. To create a good map, a cartographer uses objective data and updates the map with new information whenever necessary.

A good map of personal backgrounds has exactly the same features. It is a framework that identifies the important dimensions of differences between people that play a role in working together and decision-making. It helps each person describe his or her own characteristics in objective ways and compare them with those of other people, identifying the extent of similarities and differences. Finally, it provides information to help people explain and interpret various events by bridging distances. Good interpersonal maps are built using objective data, and continually revised with new information.

People and their background characteristics can be plotted in different ways. Depending on the situation, it may be important to map characteristics of personality, function or profession, national or organizational culture, gender, or other dimensions. As a general guideline, we find that two maps cover most work situations and provide an important starting point for achieving synergy from differences: 1) cognitive preferences (for example, as measured by the Myers-Briggs Type Indicator, MBTI®); and 2) cultural assumptions (for example, as measured by the Cultural Perspectives Questionnaire, CPQ). A cognitive preferences map highlights individuals’ preferences for information-processing, working, and learning styles, while a map of cultural assumptions focuses on individuals’ expectations about how others will interact, share responsibility, and work together.

Bridge: Communicate Across Differences.

Bridging increases effective communication by paying particular attention to interacting across differences. Bridge-building uses three sets of communication skills: Preparing a Foundation, Decentering and Recentering.

Preparing a Foundation. Attitude may not be everything, but it certainly counts for a lot. Attitudes are internal states, and we can control them. With the right attitude from the beginning, we create the kind of environment that fosters effective communication. In bridging, two attitudes prepare the foundation. First, the people involved must be motivated to understand each other. They have to want to listen to what the other person says, from his or her own point of view. Second, they must be confident that, by working together, mutual understanding can be achieved. In the case described above, neither party was interested in understanding the other side—both wanted to persuade the other of their own point of view. Nor did either show confidence that they would eventually understand the other. Communication was difficult from the beginning.

Decentering is moving away from your own “center”: thinking and communicating from the other person’s point of view. Decentering requires two skills: perspective-taking and blame-free explaining. Perspective-taking is seeing things from the other’s view and acting on that view. It is grounded on good mapping. For example, once the president knew that the vice president looked at details first, he became more specific in his requests to her.
must identify these different expectations and then agree on some common behaviors and their meanings. Usually they choose a combination of each party’s norms. The most skilled communicators agree explicitly that the different people can operate using different communication behaviors, with common agreement about what those behaviors mean. Such insightful bridging depends on accurate mapping – of oneself as well as the other person – and the courage to be open.

Integrate – Build on Differences for Synergy.

Integrating is the last step in getting high performance from interpersonal differences. The skills needed here are much the same as they are in any team situation, but they lead to better quality decisions and implementation when they are built on strong mapping and bridging. The three integrating skills are managing participation, resolving conflicts, and building on ideas.

Managing participation is clearly the first step to creating and implementing new ideas. It is impossible to build high quality solutions unless you have everyone’s input – their best ideas – to start with. And people contribute their best ideas in a setting that fits their personality and expectations. The key here is to engage in different modes of participation across a decision-making task: in small groups, large groups, and one-to-one; in writing, with pictures and through spoken dialogue, both in-person and electronically. This way, people can provide their best input in a comfortable manner and respond to others on their own terms. The leader should play an active role in balancing the different modes, ensuring that everyone is contributing and responding. The next challenge is to resolve conflicts constructively. When two people or a group are reaching for synergy, they will face significant disagreement: “Okay, I understand your perspective, but I still don’t agree.” One often-forgotten step is detecting disagreement in the first place. Different people and cultures express conflict differently and these signals are often misread. The parties should make extra efforts to deal with the conflict in appropriate ways – as relevant disagreement among people who respect and understand each other; and not as a battle for right and wrong.
Mapping and bridging provide exactly the tools needed for good conflict resolution. Mapping the different perspectives provides an objective picture of how far apart the parties are, lowering defenses and setting the stage to develop ideas for how to create new solutions. Bridging brings positive attitudes and behaviors that create win-win solutions. And if participation is managed well, all parties will contribute to the solution and are likely to buy into it and implement it well.

Building on ideas is going beyond resolving differences to create new solutions for problems and challenges. This is when leaders and their subordinates reach new levels of innovation in revenue, cost and organizational systems. It is how key account teams develop systems that compel customers, and how logistics and operations teams find real synergies across value chains, far beyond the cost cutting that comes from eliminating redundancies. To build on ideas, use all the techniques you’ve experienced, heard about, and read about, including brainstorming and creative exercises. At first, focus on exploring differences rather than similarities, building on each other’s ideas, and trying to invent new ideas. Then, using conflict resolution skills, do more than combine and compromise. Find new solutions that excite everyone.

In the opening case, after mapping and bridging their differences, the president and vice president worked together to develop the new product and the systems to support it. They went through successive iterations of looking at the overall picture and how the product would meet various needs, and details of components and suppliers. After some tough discussions, they created some new features that customers hadn’t originally asked for, but that met other needs the distributors had. And, through careful examination of the supplier and manufacturing side, they were able to decrease costs and increase production efficiency. The launch was later than the company had hoped, but the product did very well and became the anchor of a new line. Along the way, the president and vice president learned to incorporate the interaction skills into other projects they were working on, which also benefited from the process.

Summary.

The most frequent response to differences is to downplay them: “Our differences are minor and unimportant, let’s focus on the areas we have in common.” People know that focusing only on differences usually leads to a negative spiral of blame and distrust. However, focusing only on commonalities just gets to the lowest common denominator. It provides mediocre results, not high performance.

The Map-Bridge-Integrate process uses an objective assessment of differences and similarities as input for an ongoing dialogue. In this dialogue, original areas of commonality serve as the foundation for discussing differences, and new areas of commonality are built.

Mapping, bridging and integrating must work together: Performance comes from integrating, but integrating cannot happen without bridging. In fact, according to our research, good bridging almost always leads to good integrating. If you get bridging right, you’ll almost certainly get integrating and the accompanying performance. Bridging, in turn, rests on good mapping. Maps provide the objective input for building bridges; both the attitudes and the skills.

The MBI process cannot be put in place with policies. It is a set of skills that must be practiced and learned over time. The good news is that even a little bit of MBI brings an improvement in performance and people tend to see quick results in their interactions. In today’s economic environment, every leader needs to accomplish more with the human resources he or she has. Map-Bridge-Integrate is a good set of practices to achieve that goal.

Mapping and bridging provide exactly the tools needed for good conflict resolution. Mapping the different perspectives provides an objective picture of how far apart the parties are, lowering defenses and setting the stage to develop ideas for how to create new solutions. Bridging brings positive attitudes and behaviors that create win-win solutions. And if participation is managed well, all parties will contribute to the solution and are likely to buy into it and implement it well.

Building on ideas is going beyond resolving differences to create new solutions for problems and challenges. This is when leaders and their subordinates reach new levels of innovation in revenue, cost and organizational systems. It is how key account teams develop systems that compel customers, and how logistics and operations teams find real synergies across value chains, far beyond the cost cutting that comes from eliminating redundancies. To build on ideas, use all the techniques you’ve experienced, heard about, and read about, including brainstorming and creative exercises. At first, focus on exploring differences rather than similarities, building on each other’s ideas, and trying to invent new ideas. Then, using conflict resolution skills, do more than combine and compromise. Find new solutions that excite everyone.

In the opening case, after mapping and bridging their differences, the president and vice president worked together to develop the new product and the systems to support it. They went through successive iterations of looking at the overall picture and how the product would meet various needs, and details of components and suppliers. After some tough discussions, they created some new features that customers hadn’t originally asked for, but that met other needs the distributors had. And, through careful examination of the supplier and manufacturing side, they were able to decrease costs and increase production efficiency. The launch was later than the company had hoped, but the product did very well and became the anchor of a new line. Along the way, the president and vice president learned to incorporate the interaction skills into other projects they were working on, which also benefited from the process.

Summary.

The most frequent response to differences is to downplay them: “Our differences are minor and unimportant, let’s focus on the areas we have in common.” People know that focusing only on differences usually leads to a negative spiral of blame and distrust. However, focusing only on commonalities just gets to the lowest common denominator. It provides mediocre results, not high performance.

The Map-Bridge-Integrate process uses an objective assessment of differences and similarities as input for an ongoing dialogue. In this dialogue, original areas of commonality serve as the foundation for discussing differences, and new areas of commonality are built.

Mapping, bridging and integrating must work together: Performance comes from integrating, but integrating cannot happen without bridging. In fact, according to our research, good bridging almost always leads to good integrating. If you get bridging right, you’ll almost certainly get integrating and the accompanying performance. Bridging, in turn, rests on good mapping. Maps provide the objective input for building bridges; both the attitudes and the skills.

The MBI process cannot be put in place with policies. It is a set of skills that must be practiced and learned over time. The good news is that even a little bit of MBI brings an improvement in performance and people tend to see quick results in their interactions. In today’s economic environment, every leader needs to accomplish more with the human resources he or she has. Map-Bridge-Integrate is a good set of practices to achieve that goal.
Culture in International Management: Mapping the Impact

With the increase in global activities of both domestic and multinational companies, managers need a good understanding of culture. People's cultural backgrounds influence their assumptions about how work and interactions with other people should proceed. Culture's influence, although profound, often goes unseen. This results in deep and difficult conflicts, but also in untapped potential. In this issue of Perspectives for Managers we provide a tool for understanding management behavior across cultures.

What is Culture?
Culture is a system of values, beliefs, assumptions and norms, shared among a group of people. The group could be a country, region, religion, profession, organization, even a generation or a social or sporting club. The group's cultural system is a general agreement among people about what is important and how things will get done. The more fundamental the grouping, the deeper the culture, the greater its influence on members' values and beliefs, and the less the members are aware of this influence. Religious and country cultures, for example, are usually learned early in life and with extensive reinforcement from family, media, and educational, political and legal systems. When learning these fundamental cultures, most people have low awareness of other cultures. Like fish in water, we do not distinguish our own environment from others. We usually become aware of our own cultures only when we travel to other places, forcing us to see our own culture differently.

Culture provides two functions that affect global management. First, culture provides a software for the group's interactions, or a sort of oil that greases the machines of the society. The shared cultural system allows members to interact with each other efficiently without questioning every motive or action, and with a relatively smooth flow of activity. Culture provides guidance for decision making; basic criteria need not be discussed at length. Culture also provides scripts for behavior; so people know what to expect of each other and how to reciprocate— even in terms of how to express conflict and resolve it. Within cultures managers can "get things done" more easily than they can when crossing to other cultures.

Second, culture provides a source of identity for people within the culture. This identity often surfaces when people describe who they are: "I am French" or "I am American"; "I am Jewish" or "I am Arab." The identity becomes even more important when it is threatened, and culture provides a boundary pulling insiders together around their shared values, shielding themselves from outsiders. In this function, culture provides a source of motivation for facilitating or thwarting cooperation with people from other cultures.

We described culture as "shared"; however, the entire cultural system is not completely shared by every member. Usually, the cultural system is mostly shared by most people. If the culture is too shared, then it is not open to change. It becomes closed, and it does not adapt to a changing environment. Many aboriginal cultures have become virtually extinct in this way. Soviet communism (as opposed to Chinese communism) and IBM of the 1980's provide government and organizational examples. On the other hand, if the cultural system is not shared enough, it functions neither as software nor as identity. People interact together in chaos with multiple subgroups developing and destroying each other quickly, and there is a marked lack of productivity. Societies in transition, such as Russia today, and organizations and subunits going through mergers have these characteristics.
Culture in International Management: Mapping the Impact

Four Cross-Cultural Arenas in International Management

Four types of situations require that managers understand their own culture and how it differs from others (see Figure 1). In each of these situations, decisions must be made and implemented across cultural boundaries. At the individual level (Arenas 1 and 2), managers must interact effectively with individuals from other cultures. People from different cultures will bring with them diverse expectations about the interaction, and effectiveness depends on understanding and building on these differences. At the organizational level (Arenas 3 and 4), managers must design systems of interaction that guide the coordinated behavior of many people. It is important for managers to know whether these systems will be consistent or contradictory with the cultural system in place. In one-way transactions (Arenas 1 and 3), managers need to take something that has been developed in one culture and put it into another one. Successful execution is based on an understanding of how things will be interpreted in the new context. In multi-way transactions (Arenas 2 and 4), managers must take into account many cultural systems at the same time. Unless the situation will be an integrated, holistic system, individuals’ role is to help maintain the balance of the system. In harmony cultures like the United States, people see themselves as dominating the environment. It is considered normal and good to shape the environment – including work and living environments – to suit human’s own needs or desires. In subjugation cultures like Islam, people have a strong belief that the environment or a supernatural being determines the ultimate outcomes for people or events (in Arabic this is expressed as “Insh’allah” or “God-willing”). People may not believe that this force controls every detail of human life, but do believe that it directs the patterns and major events within which all people act out their lives. Although we have used three examples above (Japan, United States, and Islam), all three cultures have elements of all three of these ways of relating to the environment. It is important to remember that all variations are in all cultures at all times; however, each culture has a clear pattern of preferences. This is true of all the cultural orientations. For example, both the United States and Japan have all three of harmony, mastery and subjugation. However, while the United States prefers mastery over harmony (“We can fix the problems we have created by planting trees and getting rid of garbage more efficiently”), Japan prefers harmony over mastery (“The way to fix the system is to provide more balance”). Differences in relation to the environment affect which projects and goals are prioritized, and what causes are attributed to problems – unexpected negative results – that arise (see Figure 2).

1. Relationship to Environment

What kind of relationship do we have with the world around us? How do we see ourselves in relation to it, and what is our role with respect to it? There are three common ways of seeing this relationship: harmony, mastery and subjugation. In harmony cultures like Japan, people do not see themselves as separate from the environment, but as part of an integrated, holistic system. Human’s role is to help maintain the balance of the system. In mastery cultures like the United States, people see themselves as dominating the environment. It is considered normal and good to shape the environment – including work and living environments – to suit humans’ own needs or desires. In subjugation cultures like Islam, people have a strong belief that the environment or a supernatural being determines the ultimate outcomes for people or events – (in Arabic this is expressed as “Insh’allah” or “God-willing”). People may not believe that this force controls every detail of human life, but do believe that it directs the patterns and major events within which all people act out their lives.

Figure 1
Four Cross-Cultural Arenas in International Management

<table>
<thead>
<tr>
<th>Individual Level</th>
<th>Organizational Level</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>One-Way</strong></td>
<td><strong>Multi-Way</strong></td>
</tr>
<tr>
<td>Arena 1: Expatriate  • Individual manager going to another country to manage a business unit or perform a specialized job.</td>
<td>Arena 2: Multicultural team  • Group from many countries, often cross-functional, managing across units or a multi-country project.</td>
</tr>
<tr>
<td>Arena 3: Export system  • Take human resources, information systems, or other practices or strategy from one country into another.</td>
<td>Arena 4: Global system  • Develop human resources systems, organizational structures or strategies to be implemented in many countries.</td>
</tr>
</tbody>
</table>

Figure 2
Relation to Environment: Impact on Organizations

<table>
<thead>
<tr>
<th>Harmony</th>
<th>Mastery</th>
<th>Subjugation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Priorities</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Harmony</strong></td>
<td><strong>Mastery</strong></td>
<td><strong>Subjugation</strong></td>
</tr>
<tr>
<td>Balance whole systems, focus on connection between parts.</td>
<td>Control specific parts, focus on doing problems.</td>
<td>Understand higher goals, focus on implementing God’s will.</td>
</tr>
<tr>
<td>Perceived Causes of Problems</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Harmony</strong></td>
<td><strong>Mastery</strong></td>
<td><strong>Subjugation</strong></td>
</tr>
<tr>
<td>Whole system not taken into account or is out of balance.</td>
<td>Elements in environment not adequately controlled.</td>
<td>No problem – it was not God’s will for this to happen.</td>
</tr>
</tbody>
</table>

2. Relations among People

What types of relations among people are assumed to be most natural or most effective? Whom are we responsible for; whom must we take care of, and whom must we obey and be accountable to? There are three common patterns of relations: collective, individualistic, and hierarchical. In collective cultures, such as those in Latin America, members of a group look after each other; maintaining and promoting the welfare of the group as a whole. The group may be an extended family with many generations and lateral relations, or it may be society as a whole or a peer group. In individualistic cultures, like Australia, people are responsible mainly for themselves and their immediate families. Parents are responsible for children, but only until the children are adults themselves. Finally, in hierarchical cultures, like India, those at the top of the hierarchy have both responsibility for and authority over those below. The hierarchy can be of individuals or of groups, but the principle for arranging the hierarchy (e.g. age, caste, gender, wealth) is stable over time. Cultures typically reflect all three of these ways of dealing with how people relate to each other; however, usually only one value is stronger than the others. For example, in many Latin, Arab and Chinese cultures, values about protecting one’s group (collectivism) and knowing one’s place in the society (hierarchy) are more strongly held than values about concern for oneself without regard to the group (individualism).

1. Assumed from: Cultural Perspectives Questionnaire (CPQ) is a survey that measures the following cultural orientations: Relation to Environment, Relation to People, Beliefs about Human Nature, and past, present, and future Time. It profiles the cultural orientations of individuals and groups, and can be applied to increase understanding at all four cross-cultural arenas. Information about the Cultural Perspectives Questionnaire can be obtained at CPQ@imd.ch.
Emphasize strong rational thought and planning, central to their existence and even self-identity.

Figure 4

Compulsively by some hidden force of necessity.

Organizational behavior.

Culture, is a striving, achieving, accomplishing over other things; people who do work a lot do so “one works to live, one does not live to work!”

Experiencing each moment. In these cultures, variations here are being, doing, and thinking. In a culture? How should we engage in activity, and What mode of activity best suits interaction in our 3. Mode of Activity

What mode of activity best suits interaction in our culture? How should we engage in activity, and how should we count on others to act? The three variations here are being, doing, and thinking. In a being culture, such as many Latin cultures, the emphasis is on spontaneity and fully experiencing each moment. In these cultures, “one works to live, one does not live to work!” Work gets done, but is not necessarily prioritized over other things: people who do a lot do so because they want to, not because they think they should. In some being cultures, expressing all emotions freely is accepted and expected. The doing approach, such as Canadian or United States culture, is a driving, achieving, accomplishing orientation. In a doing culture people are more likely to view tasks and work-related activities as central to their existence and even self-identity. Thinking cultures, such as German or French, emphasize strong rational thought and planning before action. With a strong thinking orientation, one contains and controls activity. People should neither act impulsively by feelings, nor compulsively by some hidden force of necessity. Figure 4 shows how Mode of Activity influences organizational behavior.

4. Nature of Humans

This value invokes how we think about the fundamental nature of human beings. It is not a belief in how an individual person behaves, but what is the underlying nature of all of us as humans. One clue is what we think our nature is when we are born, before we are subject to the influence of others and of society. In some cultures, people believe that the basic nature of humans is not predetermined, but in fact is a “blank slate”. Human nature, they believe, is completely determined by the environment, and events of each person’s life. Many modern Western cultures fall into this category. In these cultures, there is a strong focus on training and socialization, and rehabilitation or re-training of people who have behaved badly. In some cultures it is assumed that we begin life basically good, and that if people do bad things in their lives it is an anomaly or because something in their experiences and environment have made them become bad. Islam believes this. In these cultures, people tend to trust others until evidence is provided that they cannot be trusted, and they inflict harsh punishments on those who go against their nature and harm others. In other cultures it is assumed that we begin life basically bad (e.g. the notion of original sin in Christianity), and that we must always guard against this tendency to give in to our evil nature. People in these cultures tend to protect themselves and monitor others, and to celebrate and honor people who against their basic nature, do extremely good things. Figure 5 illustrates how differences in Nature of Humans can be seen in organizations.

5. Time

The notion of time is complex. Some cultures think about time linearly, as progressing systematically from the past into the future. This conception of time is called monochronic and time is broken into segments of equal length. Many industrialized cultures see time this way and measure, record and plan events according to these segments. Things are done one activity at a time, and in sequence. Within this linear view of time, different cultures focus on different parts of the horizon. Cultures with a past orientation look to the past for answers and advice to resolve current dilemmas, and strongly value traditions and ancestors. Cultures with a present orientation think about today’s immediate needs or those of the short-term future, and focus on keeping up with modern times. They usually think of time as scarce. Cultures with a future orientation prioritize the long-term future, often sacrificing things today for security or success far into the future.

Culture in International Management: Mapping the Impact | Joseph J. DiStefano, Martha Maznevski

3506_MCC Leadership Reader_belivek_08.indd 107
13/11/2012 18:09
Space
This orientation is related to the sense of ownership of space, and ownership of what is in a particular area. A public orientation to space suggests that space is shared among everyone, as is whatever is in the space. A private orientation implies ownership of space by specific individuals or groups, without informal sharing. In a work context, closed doors, private offices and desks establishing territory and distance all reflect a private culture. Open office concepts, free and easy sharing of work materials and ideas, close contact among workers, and informal spaces all reflect a more public orientation. In today’s organizations, information is an important aspect of this dimension. In public-oriented cultures, people assume that information should be publicly shared, while in private-oriented cultures, information is “owned,” and people do not expect others to share their information openly.

Conclusion
The Cultural Orientations Framework provides an important tool for comparing cultures with each other. It highlights similarities and differences among cultures, and points out implications for management. This information is critical to implementing strategies across cultures in international organizations. Managers who are aware of their own cultural systems can predict areas of conflict and potential learning when working with people from other cultures. Those who are designing strategies and systems for international organizations can take these differences into account. With practice, this tool can lead to a more synergistic approach to managing cultural diversity. Figure 7 summarizes all dimensions of the Cultural Orientations Framework. You can use it to mark your own cultural system and those of others you interact with.

Figure 7

Space

One final reminder – no culture is static or completely homogeneous. Cultures change, and individuals within cultures differ from each other. Knowledge of cultures should always be treated as tentative guidelines to interaction: an important first starting place, but subject to change with new information. On your first visit to Japan, you may be hosted by a manager who is typically Japanese and confirms your research on these dimensions. But your host may be more similar to your own culture than you anticipated. On your first visit to Russia, you may work with managers from the “old” culture or with those who are forging the “new” culture. In any of these cases, however, the Cultural Orientations Framework provides a tool for identifying the system of shared values, beliefs, assumptions and norms that guide priorities and expectations in the culture.
SHAPE UP YOUR TECHNOLOGY START-UPS!

Or how to avoid the most common management problems in early-stage, science-based companies

High-innovation, technology-based start-ups have a very special role in both intra- and entrepreneurship. They produce proportionately far more jobs and value than their low- and medium-innovation counterparts – if they succeed. But the managerial challenges are formidable.

In our forthcoming book, *Nurturing Science-Based Ventures: An International Case Perspective*, we use a panel of over 30 European clinical studies to investigate managerial and growth issues that are critical to the survival of both independent and corporate start-up ventures.

The results show that many factors need to come together to create a successful technology venture. Here are some key lessons that should pre-position your venture for success. Likewise, they will help larger corporations better appreciate the realities many technology start-ups live with to strike better collaboration agreements.

**Structuring too early**

Start-ups are based on the irrepressible urge of their champions to get going. At some point, reality intrudes and dictates the creation of an administrative shell to take care of the project. A company is born. But if that administrative shell is added before you have sufficiently prospected your competitive field and networked with potential customers, the shell may morph from a structural cocoon into a bureaucratic prison.

Administrative issues (employment contracts, payroll, etc.) will cause you to lose sight of the more pressing business issues. Focus on what really matters, for example: getting to know your customers, testing your value proposition, finding partners that will support your development and engaging potential investors. The bureaucracy will find its way soon enough – operate under the bureaucratic radar screen for the longest time possible!

**Confusing technology innovation with market needs**

Customers do not buy technologies; they acquire what the technologies can do for them. A technology is a means to an end, not an end in itself. So how do you demonstrate that an innovation truly serves a market need? Ask yourself: does this product or technology replace an existing one? Complement it? Does it materially affect the customer’s experience? Is the change something the customer would be willing and able to pay for? The seduction of a new technology is no guarantee that there are customers out there willing to “go up the experience curve” with your product or service. Actually, the more innovative the technology, the more reluctant they are to actually jump and adopt it.

While many companies or individuals may show great interest in a new technology, it actually might not be for...
“Most start-ups do not suffer from a lack of opportunities; they suffocate under an opportunity overload.”

Providing free services to progress sales leads

Start-ups all face the same “catch-22” when emerging on the market. You need beta customers to convince the vast majority that you are for real. But no single customer has the incentive to become a “beta” customer, they all prefer to wait and see. Naturally, the temptation is great for a budding company to “bend over backwards” to incentivize first customers to come in, for example by giving away free customizations and other services. This behavior sends the wrong signals to the market about the value of your offering: you need to charge and send bills early to build credibility and to underline the seriousness of your enterprise. Furthermore, “freebies” do not lead to sales. On the contrary, they can be detrimental to the start-up’s image and its cash box. Charging clients for services helps you distinguish between the genuinely interested customers and the window shopper.

Failing to bridge technology and business expertise

Not surprisingly, blending technical expertise with the ability to truly understand customer needs is a first class managerial challenge. All too often, the technology genitors of new products have no respect for the salespeople that will end up peddling their wares. Similarly, salespeople often do not show proper respect for the technology, which they often treat as just an enabler of the product to be sold. This lack of respect and communication often leads to one-legged start-up teams, either loaded with technology types or with salespeople. It is very difficult to run the technology race on a single leg, however nimble. Eventually, there needs to be mutual respect between technology contributors and management. They are on the same footing. A first-rate idea and superior technology needs professional management to raise the odds of success:

"It is hard to tell which exactly sets you apart, whether it is technology or management. But I have seen so many companies run into difficulties along the way – and it was always good management that got the company out of danger."  

Dr Andrea Pfeifer, CEO, AC Immune, Swiss biotech start-up

Specific expertise, such as sales and marketing, must be brought on board in a timely manner. They must accompany the process of scaling up by complementing the existing team. An important question of course is how and when to integrate these skills effectively.
Scaling up too early

Many companies function with the common but wrong belief that opportunities are short-lived. They are so eager to capture the opportunities in front of them that they often skip steps in their development. For example, prototyping may be seen as just too time consuming, putting the technology lead at risk. So prototyping is bypassed in favor of an early market rollout. But through prototyping and testing with beta customers, the company could have discovered the minor design flaws or business model issues that ultimately could hamper adoption. In other words, what was initially intended as a means to increase the speed to market, could have the opposite effect. Do not short-change yourself in the initial phases. The same holds true for staffing up, recruiting expensive senior personal or raising money that cannot yet be put to “productive” use. Network, build-up goodwill and solicit commitment but phase in resources as you take your steps.

The working capital dark hole

While start-ups usually estimate their early capital expenditures (plants, equipment, etc.) properly, they tend to massively underestimate their working capital needs. Behind this systematic error is a common misunderstanding of the launch period. Start-ups often think in terms of “normal” working capital needs, but the launch period is anything but “normal”. Early customers will take advantage of the situation knowing full well that a start-up is dependent on them as customers. They may not honor the terms of payment as you expected because they know you can’t do anything about it: the balance of negotiating power is in their camp. As a start-up, it is fair to assume you will be abused; especially in the early days. Likewise you should expect the adoption process to be long and drawn out, especially with larger customers. You are in a rush: your customers are not. Your customers have many other priorities and/or various other constraints such as internal budget cycles.

Jumping on early licensing agreements

In an attempt to capture early revenues, companies will often jump into pre-mature licensing agreements, giving away some of the significant upside potential and future opportunities at a price they come to regret. Important considerations with respect to early licensing are whether the licensee will develop the right markets, particularly if there is a risk that the market could shift. Are the licensing fees really significant enough to enter into the agreements? What would it take in the worst case to “claw back” the license rights if the licensee does not deliver and at what conditions? Unless licensing is core to the business model, it may prove more valuable to simply change service fees or enter into (paid) development contracts to finance your project.

Staying power is critical to your partners and clients

There is a general perception that most technology start-ups go bust in about three years time. This is not really true. Failure rates are a lot less dramatic, and the typical time to a harvest, good or bad, is more often seven to eight years rather than three. Still, customers will not adopt your technology if you cannot demonstrate that you will be there for the long term. While they may like your technology, companies hate to deal with start-ups because of credibility and sustainability issues. They have every reason NOT to want to work with you. As a start-up, you are very different from them: you are untested, you have no systems, little infrastructure, small teams and no brand capital. This is where finance can play a key role. Start-up financing is not just about money: it is about credibility and image, about showing a network of partners committed to backing you.

"Start-up financing is not just about money: it is about credibility and image, about showing a network of partners committed to backing you."
Growth is sometimes the only path to sustainability

Often founders “satisfice”, i.e. they are happy reaching 15 employees and CHF 10 million in sales. Realistically, they know that fast growth will create managerial challenges, and after the initial period, start-up managers may seek a better work-life balance. So they shun growth, even though growth may be the only way to insure sustainability of the company. Scale is often critical to cost competitiveness. To persevere in the market, the venture must stay competitive, which implies remaining flexible to emerging market opportunities and staying ambitious.

Conclusion

To conclude, technology start-up ventures may vary case by case but the above issues surfaced in most of the 30 companies examples reviewed in detail in “Nurturing Science-based Ventures”. Often, we followed the companies over multiple years to document their evolution. Many of these hurdles can be overcome but every time they came as a “surprise” it turned into a costly and painful process for all involved. Highlighting these road blocks in due time to broking an experience sharing is the main ambition of our studies.

CHAPTER 5

Mergers and Acquisitions

The rise in the number of mergers and acquisitions in the global market continues at a relentless pace among companies of all sizes. The problem is these deals, particularly those done across borders, are increasingly complex and hard to get right. As Vladimir Pucik explains, there are a number of essential elements that have to be in place for mergers and acquisitions to achieve their promised objectives.
Overview

Mergers and acquisitions are an increasingly popular alternative to greenfield investments and strategic alliances as a vehicle for accelerating international growth. Today, mergers and acquisitions (M&As) are utilized not only by large multinationals, but medium-sized and even small firms worldwide are exploring how to use them effectively.

The starting condition for a successful acquisition is articulation of the shared vision for the new organization. Some acquisitions are “mergers of equals”; in others one firm is set to prevail. The strategic logic behind each alternative determines the nature of the acquisition process, from due diligence, the role of the integration manager, to the human resource implications. In any kind of acquisition, and especially within an international context, it is important to pay attention to the cultural and people aspects. Retention of talent should always be the top priority.

The success of a number of companies that grew globally through acquisitions has shown that with a well-designed strategy, due diligence in preparation, attention to soft factors and speedy implementation, acquisitions can work.

The merger wave

The rise in the number of mergers and acquisitions in the global marketplace is relentless, with more deals in the last two years of the century than ever before – 10000 plus per year and growing. Also, the deals are no longer a mainly American phenomenon, as companies in other parts of the world such as Europe, Japan, South-east Asia and South America join in the game. In fact, the fastest growing type of deal is a cross-border acquisition. The value of acquisitions outside of the home country reached over 750 billion dollars in 1999, covering about half of all the deals announced. And, even when merging companies are domiciled in the same country, often a significant part of their operations involves affiliates in different parts of the world.

While the global mega-deals continue to grab the headlines, more and more M&A activities take place among rapidly growing small and medium-sized firms – a phenomenon most likely to dominate the discussions on M&As in the forthcoming decade. There are a number of reasons why companies pursue cross-border mergers and acquisitions:

• Advantage of market dominance, economies of scale and channel control
• Extending geographical reach through rapid market entry
• Inability to adapt organically to changes in competitive conditions
• Financial leverage through improved credit, debt and tax management
• Resource acquisition, both tangible and intangible
• Access to talent and knowledge.

The ultimate driver is, of course, the increase in global competition and the corresponding erosion of national boundaries. As both trends are likely to continue, so will the increase in cross-border M&As. In this context, the obvious question to ask...
WHY DO ACQUISITIONS FAIL?

is to what extent all these corporate marriages have worked. Research seems to point to the fact that only a few of these deals in the 1990s achieved the promised financial results:

- A study by the American Management Association has found that only about 15% of M&As in the US during the early 1990s achieved the stated financial objectives.
- According to the 1999 study of cross-border acquisitions sponsored by KPMG, 17% of deals increased shareholder value, 30% left it unchanged and 53% decreased it.
- A similar study conducted by A.T. Kearney put the failure rate at 58% and concluded “on balance, mergers hurt shareholders”.
- A joint 1997 Mercer Consulting/Economist study reported said that two out of three deals have not worked as planned, and according to Fortune Magazine, only 23% of US acquisitions earned their cost of capital.

THE ACQUISITION PARADOX

Research on acquisitions highlighted numerous paradoxes. Here are a few examples.

- A study of US banks showed that merged banks cut costs more slowly than banks that did not merge. In other words, merged banks were too busy merging to cut costs, while those that didn’t got the message about the need for more efficiencies and looked for ways to improve their operations.
- In another survey, increasing revenues by 1% has five times greater impact than decreasing operating expenses, yet managers in most acquisitions spend the bulk of their time searching for ways to reduce expenses. In acquisitions and mergers, companies talk a lot about creating synergies and the lower costs of the combined operation. But, there may be a greater impact on shareholder value if merged companies focus on increasing revenues rather than reducing cost.
- According to one management scholar, nearly half the time top management spends on M&As goes into creating the deal, in contrast to 8% of time devoted to implementation. Far too much management time is spent on the deal itself rather than making it work.

Why do acquisitions fail?

There is little doubt that acquisitions, particularly those that reach across borders, are complex and difficult to get right. The business press is full of stories of international acquisitions that failed to meet the original objectives; after all, many of these deals are highly visible, thus they provide a good story. And with hindsight, many of the factors that cause these acquisitions to under-perform may seem obvious.
One of the major reasons why acquisitions fail, even when on the surface they should enjoy great benefits of synergy, is the difference in the vision about where the two sides want the combined entity to go. For the sake of the deal, this difference is often glossed over, but if firms do not start with a common and specific understanding of where they want to take the new organization and how they want to get there, reaching a successful end point is very difficult.

The acquisition can fail because of attrition of talent and capabilities, most likely when companies are not clear about their talent priorities or the right methods to retain key staff. Yet another reason for failure is the loss of intangible assets. Customers are not asked their opinion of a merger and might feel disgruntled about being passed on to another entity. That can lead to a loss of potential value almost overnight. Relationships with vendors, community and government can also suffer when the new owner is perceived, rightly or wrongly, as insensitive to local interests.

International mergers can also suffer from underestimation of the high transition and coordination costs linking the new entities due to time and physical distance, negating some of the advantages of the potential synergies. Related to that is the danger of “synergy” gridlock, a situation when management so desperately searches for ways to deliver the savings it promised to the stock market, while the costs are going up, that it loses track of the business. The larger the merger, the more difficulties in operational integration can be expected.

Finally, the frequent failures of international M&A deals may be linked to the lack of “cultural fit” between the two organizations. It is inevitable that merging organizations with differing history, environment and national cultures that amplify the variations in management style, will create challenges, and it is often said that companies should not entertain deals where a significant cultural mismatch might be a problem.

However, companies do not have the option of avoiding potential opportunities because of cultural issues as they seek to accelerate their international growth - the forces of market competition are unrelenting. This does not mean that cultural differences, and other soft factors should now be ignored. To the contrary, because they are so critical, they have to be well defined and managed.

What is the desired end-state?

In successful mergers and acquisitions, partners share the purpose and accept the terms of their relationship. However, the reality is that corporate marriages are often based on unattainable assumptions. Here, carefully defining and making explicit the end-state is the first step in making the new relationship work. Managers and employees in the new entity are then able to focus on the business and let go of any wishful thinking that may run counter to the reality of the deal.

There are a number of options (Figure 5.1), based on the direction and degree of anticipated integration, each with its own logic and set of guiding principles for implementation.
WHAT IS THE DESIRED END-STATE?

High
Assimilation
Acquired company conforms to acquirer; Cultural assimilation

Transformation
Both companies find new ways of operating: Cultural transformation

Best of both
Additive from both sides: Cultural integration

Preservation
Acquired company retains its independence: Cultural autonomy

Reverse merger
Unusual case Acquired company dictates terms: Cultural assimilation

Figure 5.1: Strategies for post-merger outcomes

Stand-alone acquisitions

When a deal is announced, it often contains a reference that the acquired company will preserve its independence and cultural autonomy. This often occurs when one of the rationales of the merger is to get hold of talented management, or other soft skills (such as speed of product development) and retain them, and when conformance to the acquiring company rules and systems could be detrimental to the acquired company’s competitive advantage.

The key to success here is to protect the boundary of the new subsidiary from unwarranted and disruptive intrusions from the parent, but this is hard to achieve. Even with the best intentions, there can be a form of creeping assimilation as the acquiring company encourages the acquired one to begin to work in the same way and develop systems and processes which match those of the parent organization.

Because of operational pressures, most stand-alone acquisitions do not last. More likely, while the acquired company may still appear independent to the outside world, internally, the acquired company, or at least some parts of it, is merged with the rest of the organization. Or, “stand-alone” is a temporary phenomenon, until other dimensions of the deal come through, such as additional acquisitions.
Assimilation acquisitions

This kind of acquisition is fairly straightforward and probably most common when there are differences in size between the two partners in the deal. The underlying philosophy of this approach is that the acquired company conforms to the acquirer's way of working, with a focus on full cultural assimilation. “If you do not want to change, don’t put yourself up for sale,” is the blunt advice given by GE Capital, the financial arm of General Electric, to the management of the companies they acquired.

Most of the synergies may be related to cost cutting, most likely on the side of the acquired company, although some may come from improvement in system and processes brought in by the acquiring firm. Such deals are particularly common when the acquired company is performing poorly, or when the market conditions force consolidation. The key to success is to choose the target well, move fast to eliminate uncertainty and to capture the available synergies.

It is not all black and white, of course. Cisco, for example, assimilates the companies it buys, for their technology and R&D talent, into the Cisco's culture, but it is still able to retain most of the employees, including top management, from the acquired firms. Here, the emphasis is on finding targets that will match Cisco's way of managing the business, increasing the likelihood of cultural compatibility.

Reverse merger

This is a mirror image of assimilation, although it does not happen very often. Usually, the organization that buys hopes to gain capabilities from the one bought. It typically involves an acquired business unit absorbing the operations of a parallel unit in the acquirer. When Nokia, for instance, bought a high-tech firm in California for its R&D knowledge, it gave the new unit global responsibilities, which meant that part of the business in Finland now reports to California.

Sometimes, the reverse merger is unintended. A few years ago, a French metal product company acquired its smaller British competitor. Today, to the surprise of many, the management style and systems of the new company resemble the culture of the acquired firm. What has happened? When the two companies merged, it was easier for everyone to adapt the explicit and transparent systems of the British firm, more suitable for cross-border business, than to emulate more ambiguous and subtle rules embedded in the old French organization.

Best of both

The intriguing option is the “best of both”, often described as a “merger of equals”. This holds out the promise of “no pain” since in theory it takes the best practices from both sides and integrates them. There are, however, very few examples of those that have truly succeeded since it is very difficult to do so. The danger in the “best of both” integration process is that it may become too political and time-consuming. Who decides what is “best”? 
WHAT KIND OF CULTURE DO YOU WANT?

The process of just making the decisions can be very complex, even to the extent of defining the terms. Also, if two companies declare that the merger is one of equals, does that mean top management is split 50/50 even if in terms of excellence the real split is 80/20? The controversy surrounding the Daimler Chrysler merger is only the most visible example. Without shared respect for the knowledge and skills of each company this kind of strategy will not work.

The key to success is the fairness of the process. The test of the “best of both” approach may be the ability to keep the people who do not get the top jobs. Having similar cultures helps. The AstraZeneca or Exxon/Mobil merger has proceeded relatively smoothly because the similarities were more pronounced than the differences, and the new group has been relatively successful at identifying the best practices from each side, as well as having a balance of top management from the two firms.

Transformation acquisition

With transformation, both companies are hoping to use the merger to transform themselves in a sharp break from the past. Merger or acquisition can be the catalyst for trying to do things differently, because it forces companies to review their past as a way of looking forward to new ways of operating as a combined entity. This can involve the way the company is run, or what business it is in, or both.

An example of transformation is Nortel, a telecom equipment manufacturer. Several years ago it bought Bay Networks in California to spearhead its shift away from voice to digital and optical networks. It also moved its headquarters to California – though retaining Canada as its legal base – with the aim of benefiting from Bay Networks’ culture of speed and entrepreneurship. This was a case of the parent company changing its culture by incorporating learning from the junior partner. It also led to a new name, new management style and new business strategy.

This kind of merger is usually most complex and most difficult to implement. It requires a full commitment, focus and strong leadership at the top (e.g., Percy Barnevik at ABB) to avoid getting trapped in endless debates, while ongoing business suffers. If change is what is desired, there may be easier ways to achieve it than through an acquisition.

What kind of culture do you want?

The new organization will have a culture, whether it is by default or design. The motives for the merger, the industry dynamics, coordination needs, management style, implementation skills, all will influence what kind of organization and culture will emerge from the deal.

In the case of a hostile takeover, or when a company is put up for sale due to its poor performance, it may be argued that the vision for the end-state is very clear: one company wants to take another over and assimilate it into its culture. In most international acquisitions, the reality is more complex. While hostile takeovers are
increasing (Vodafone’s acquisition of Mannesmann being the landmark event), most cross-border deals are still done through direct negotiations between the parties, not by solicitation of shareholder votes.

In such a case, articulating and sharing the vision of the desired end-state in terms of strategy, organization and management style are critical. It eliminates misconceptions about how the new organization will operate, and avoid misinterpretation of what people hear or may want to believe. It is also the first step in communication of the plan to the employees, assuring them that the management knows where it is going. When reality is different from the espoused strategy, the people on the front line are usually the first ones to know.

Clarity in communication gets rid of ambiguities. When BP took over Amoco, it did so for the oil reserves owned by Amoco. If you were a manager in Amoco with 25 years’ experience you might not be very happy about that, but you would probably have a good idea where you stood: you either go along with being absorbed into the BP way of working or leave. In contrast, when top executives speak about a “merger of equals”, as in the case of DaimlerChrysler, but actually mean absorption, the lack a shared purpose and the resulting conflicts lead to loss of valuable time, attrition of talent and, ultimately, to poor business results.

Just as bad is a lack of consistency in what top management is saying. In the failed Deutsche-Dresdner banking merger, mixed signals from the leadership about the future of the combined organization’s investment banking operations created opposition in both camps, ultimately forcing a cancellation of a deal that on paper looked very promising.

A complicating factor is that often there will be parts of each organization where a particular approach to the merger makes sense and others where it does not. There are very few M&As which achieve a perfect fit across the whole organization. For some parts of the business, a full assimilation may be the best approach; in others, a reverse merger could be a more appropriate strategy. It very much depends on the condition of the business, and the skills and competencies of people in it. Time and competitive environment are also important influences; the direction chosen may not be ideal, but one cannot search for a perfect partner forever.

Due diligence process

Getting the strategy right depends very much on doing the homework. Good planning is not possible without good data. Due diligence in an acquisition has two aspects to it. One is, of course, clarifying the legal, financial and business picture. The infrastructure to get this kind of information is well developed, as is the methodology for the analysis. The other, equally important, but often neglected, is about the culture and people in the organization to be acquired. It is important to understand the “soft” side of the deal before proceeding, so cultural and human issues can be addressed already in the early stages of the acquisition. In fact there is ample evidence (see Table 5.1) that the “soft” issues are among the most critical factors determining acquisition success.
Often companies believe that this kind of information is not available, especially during the initial planning stage where secrecy and confidentiality are important. However, in most cases there is a large amount of information accessible about companies, their cultural strengths and weaknesses, their management and people. What is usually lacking is not information, but the discipline and rigour in collecting and analysing the data. Two methodologies can be especially useful here: cultural assessment and human capital audit.

Cultural assessment

The purpose of cultural assessment is to evaluate factors that may influence the organizational fit, to understand the future cultural dynamics, and prepare a plan of how the cultural issues should be addressed if the deal goes forward. Depending on the stage of the negotiations and the resources available, cultural assessment can be formal or informal, using market intelligence, external data sources, surveys or interviews. What is important is to have at least a rudimentary framework that helps in organizing the issues and arriving at the proper conclusions.

Some assessment questions should look at the leadership of the target company and its view of the business environment, its attitude towards competition, customer and change:

- What are their core beliefs about what it takes to win?
- What drives business strategy: innovation and change or tradition?
- Is the company long- or short-term oriented?
- How much risk is the company used to accepting?
- What is its approach to external partners: competition or collaboration?
- Who are the important stakeholders in the organization?

Other questions may examine leadership principles and how the company manages internal systems:
Is the company result-oriented or process-oriented?
Where is power: concentrated on the top/in certain functions or diffused?
How are decisions made: by consensus, consultation or by authority?
How does the company manage information: is the flow of information wide or narrow?
What counts as being a valuable employee: values, skills and competencies, getting results?
What is the value of teamwork versus individual performance?

Some companies use cultural assessment as an input to a stop/go decision concerning the acquisition. For example, Cisco avoids buying companies with cultures that are substantially different from its own, as it recognizes that it would be difficult to tackle differences in expectations of how a business should be run and still retain the key staff, which it wants to do. On the other hand, GE Capital, with less concern about retention, is more aggressive in its approach to cultural differences. For GE, cultural assessment is also a “must” but mainly as a tool to plan integration. One cannot say that one approach is better than the other, but both companies are clear in where they want to go and how they want to get there.

The challenge in conducting a cultural assessment is to approach the subject with a proper perspective. After all, most difficulties in cross-border acquisitions can at a certain level of generalization be traced to culture. Even a disagreement about the price of the deal can be blamed on cultural differences. Where some see cultural obstacles, other may simply observe poor management. “It was like two drunks trying to hold each other up,” commented the Wall Street Journal on one case of spectacular cross-border merger fiasco attributed to cultural misunderstandings. At the same time, there may be a limit on how many cultural boundaries one can safely cross: every time a large Japanese “old-economy” company tried to buy a Silicon Valley start-up, the result was a failure.

**Human capital audit**

There are two dimensions to the human capital audit. One dimension is preventive, focused on liabilities such as pension plan obligations, outstanding grievances or employee litigation, or other employment-related constraints that may impact the acquisition – for example cost of anticipated restructuring. It also includes comparing the compensation policies, benefits and labour contracts of both firms.

The other dimension, and in the long run probably more critical to the success of the acquisition, is focused on talent identification. It is essential to confirm that the target company has the talent necessary to execute the acquisition strategy; to identify which individuals are key to sustaining the value of the deal; and to assess any potential weaknesses in the management cadre. It is also important to understand the motivation and incentive structure, and highlight any differences that may impact retention. Finally, understanding the structure of the organization helps to clarify who is who.

Some examples of questions to consider:
IMPLEMENTING ACQUISITIONS

• What unique skills do the employees have?
• How does the target’s talent compare to ours?
• What is the background of the management team?
• What will happen if some of them leave?
• What is the compensation philosophy?
• How much pay is at risk at various levels of the firm?
• What are the reporting relationships?
• How are decisions made?

Where does this information come from? Former employees, consultants, executive search firms and customers knowledgeable about the company are usually the best source. Some data are already in the public domain, and web-based search engines can speed up the process of finding the information.

Still, many companies ignore the talent question early in the M&A process. They do not take the time to define the type of talent critical to the success of the deal, relying instead on financial performance data as a proxy for talent. However, without early talent assessments, companies may acquire targets with weaker than expected talent or talent that has a high likelihood of departure. Early talent assessment helps to pinpoint the potential risk factors so that the acquiring company can begin developing strategies to address anticipated problems as early as possible. It also helps in speeding up the eventual decision about who should stay and who should leave.

Implementing acquisitions

A systematic and explicit integration process is at the heart of most successful acquisitions – people often talk about the importance of the “first 100 days” when it comes to post-M&A integration. All acquisitions require some degree of integration, but it is important to tailor what is integrated and how it is to be done – based on the purpose of the acquisition and the characteristics of the companies involved. Maintaining the focus on the key areas that create value is the critical part of the integration process.

To do this well, a number of elements must be put in place:

• Agree on the business model logic and strategic goals, creating a shared vision. Present a clear vision of how the acquisition/merger will create value and ensure that the employees understand the logic. Having a well-articulated message can also help deal with any potential political and/or competitive issues which can arise once the deal is announced.

• Identify key priorities that have the potential to impact significantly the performance of the new acquisition. These should be done very early in the integration planning process and integration projects launched immediately after the deal is closed.
• Develop understanding of each other’s capabilities, assist businesses to take advantage of existing resources, and identify and implement opportunities for business synergy, especially where results can be achieved quickly.
• Define value and norms for leadership behaviours. Clarify performance standards and rewards and recognition principles. Establish common ground for corporate governance, and spell out how decisions are made.
• Surface hidden issues and concerns that may create conflict in the new organization. This is an area that is often neglected, but which should be tackled as early as possible. Some companies today use the intranet to monitor online how people in the acquired company really feel so something can be done before unhappy staff walk away.
• Specify next steps for integration and post-integration planning, starting with feedback to speed up the integration, and capturing the learning from the process to enhance the capability of the organization to execute future acquisitions.
• Deliver and celebrate quick wins: nothing can be more motivating to the employees of the new company because it offers proof that the merger/acquisition was the right way to go.

The critical role of the integration manager

Integration of the acquired company with the new parent is a delicate and complicated process, but who should be responsible for making it happen? After closing, the due-diligence team with a deep knowledge of the acquired company disbands or goes on after another deal. At the same time, a new management team is not yet fully in place. This is why companies are increasingly turning to an integration manager to guide the process, to make sure the time-lines and targets are met, and that the people on both sides quickly learn to work with each other.

What is expected of this role? First, integration managers should facilitate and manage integration activities, making sure that time-lines are followed and critical decisions are made according to the agreed-on schedule, removing the bottlenecks and making sure that the speed of integration is maintained. They help engineer short-term successes that produce business results essential for creating positive energy around the merger. They should also act as the champions for behaviours and norms consistent with new standards, communicating key messages across the new organization.

An important aspect of the job is forging social connections and helping the acquired company understand how the new owner operates and what it can offer in terms of capabilities. The integration manager can help the new company take advantage of existing resources, educate the new management team about common processes, and help with essential but intangible aspects such as interpreting the new language, culture and customers. New companies often have little knowledge about the way things work in the business they are now part of. Equally important for the integration manager is the role of information “gatekeeper” between the two sides to protect the new business from the embrace of an owner.
eager to help but who could end up destroying what makes the business work. The integration manager can thus help the new owner understand the acquired business and what it can bring.

What combination of skills is required of the integration manager? First of all, a deep knowledge of the acquiring company is a must; where to get information, whom to talk to about various subjects, how does the informal system work. The integration manager must be tough about deadlines or about coming to a decision, but he also should be a good listener, able to relate to different levels of authority; thus flexible leadership style is another requirement. Comfort with chaos and ambiguity, emotional and cultural intelligence and willingness to take risk and make independent decisions are some of the traits expected in this role.

Retaining the talent

People problems are a major cause of failed mergers. Many acquired businesses lose key employees soon after the acquisition. When there is not sufficient communication, and especially if staff cuts are expected – employees will leave, and the best will exit first – they have other choices. And it can be taken for granted that after a deal is announced, and well before the actual closing, the headhunters move in immediately to pick off any promising managers unsure about their career opportunities in the new organization. For talented employees waiting to see what will happen to them in the new company, a concrete job offer from another company looks very attractive.

Retention of the key employees is therefore crucial to achieving acquisition goals. That means knowing exactly who they are, particularly if they are lower down in the acquired organization, building on the talent identification effort in the due diligence stage. Companies may offer stock options, retention bonuses, or other incentives to employees who stay through a merger or until a specific merger-related project is completed. What will ultimately work, however, depends on employees’ expectations as well as the labour and tax legislation in countries involved.

The key to success in retaining talent is fast and open communication. In Cisco, on day one of the acquisition, the integration team holds small group sessions with all acquired employees to discuss expectations and answer questions. Often, the key members of the integration team were themselves brought into Cisco by acquisition, so they not only understand well what the newly joined employees are going through, but their messages are received with additional credibility.

At the same time, even the most elaborate retention incentives cannot substitute for a one-on-one relationship of trust with executives of the acquiring firm. In communication with top talent, senior management involvement is critical to successful retention. High-potential employees at most companies are used to senior-level attention. Without the same treatment from the acquiring company, these employees may doubt their future and will be more likely to depart. Here, distance may be a hindrance, but it cannot be an excuse. Meetings and informal workshops in the early days of the acquisition, if not already before closing, can go a long way to build a foundation for a long-term relationship.
Yet, retention success cannot be taken for granted. In acquisitions involving knowledge-intensive firms, it is also important to protect the value of the deal from competitive implications of employee defection. When trade secrets and confidential information are important assets of the acquired companies, then it is wise to tie the closing to no-competition, no-disclosure agreements with key employees. It is also essential to clarify who has rights to technology, the acquired company or individual employees.

**Moving with speed**

When companies are asked what they have learned from their past M&A experiences, they *always* say: “We should have moved faster, and we should have done in nine months what it took us a year to do.” GE Capital, for example, has cut down the 100-day process to 60–75 both because it has learned how to move faster and because it has developed the tools to do so. And that is essential, because if a company is taking two to three years to integrate, not enough attention is being spent where it really counts - with the customers. According to GE:

*Decisions about management structure, key roles, reporting relationships, layoffs, restructuring and other career-affecting aspects of the integration should be made, announced, and implemented as soon as possible after the deal is signed, within days, if possible. Creeping changes, uncertainty and anxiety that last for months are debilitating and immediately start to drain value from an acquisition.*

Analysis should not be confused with indecision. There are very few occasions when the answer is unanimous – there is always another way to do things. If a company waits until there is total consensus it will take too long to do anything.

There will be a number of systems and processes that must be integrated quickly in order to attain synergies. Examples are IT, sales reporting systems, logistics and procurement. Once these key areas are identified, it may help to make sure that each one of these value drivers has a team of people associated with it, having a clear mandate, performance targets and accountability. At the same time, while such teams can smooth the path to integration, there is a limit to how many there should be, since too many committees can slow things down. Prioritization is critical. As stated by one experienced M&A manager: “We only attack things that would bring benefits to the business. We did not integrate just for the sake of integrating.”

Often, restructuring is an essential step to get to the necessary synergies. Restructuring should not be confused with integrating, but here the rule is similar: it should be done *early, fast and once*, minimizing the uncertainty of “waiting for the other shoe to drop”. A problem jeopardizing the success of many acquisitions has been a tendency to restructure slowly, with the best intentions not to upset the old culture, and give people the time to adjust. Meanwhile, of course, while time, effort and resources are being spent on reaching the consensus and negotiating the details of implementation, competitors come along and take away the business.
MOVING WITH SPEED

There is no doubt that the pressure of work caused by the need to manage integration as well as “doing the day job” can be formidable. Add to that the tendency for people to resist change and the shortage of appropriately qualified management talent and you have a recipe for an over-stressed, under-performing work environment. Managing this involves preparing the employees for the change, involving them to ensure understanding, preparing a schedule for the changes, implementing them, and then putting in place all the structures, policies and practices to support the new organization. Acquisition is a change process. Not surprisingly, companies that do well in managing change are also good in managing acquisitions.

Measuring M&A success

A well-thought integration plan should detail how progress is going to be measured. What gets measured gets done; without measurements, there is no accountability. Some of the ways to measure success include:

- retention of key contributors
- goals met in terms of schedule, revenue and cost
- integration of key systems and technologies
- best practices shared and adopted
- employee morale survey results
- creation of shareholder value.

However, in the long term, the only valid measure of success is the satisfied customer. Does the acquisition create customer value? From a customer’s point of view, has it made sense? If it has not, then there is not much chance for long-term growth. When short-term synergies are exhausted, deals that do not create customer value have not much chance of being sustained.

Strong focus on the customer can also help generate the energy to push through the required changes. It cuts down on internal politics and conflicts that divert management attention away from the business. And bear in mind that creating customer value occurs only after the deal is done, which makes post-merger integration a critical success factor.

M&As as an organizational capability

There is little doubt that companies that master the art of international acquisitions will gain significant market advantage. When there is a sound strategy behind the merger and when the acquisition process is well managed, M&As can become a major tool for international growth. For some companies, such as GE Capital or Cisco, expanding through acquisitions is already a well-proven part of their business strategies. They understand well that the capability to execute acquisitions is one of the core competitive capabilities for the future, and that the intangible aspects of an acquisition are just as important as its financial dimensions.

To capture its M&A capabilities, GE Capital has developed a tightly controlled process for acquisitions, as shown in Figure 5.2. It is a “live document” – as the company accumulates more experience, it is continuously fine-tuned. What this
The detailed process does is give guidance about what needs to be done, highlights the key issues and decision points, provides the methodology and resources; however, it also lets the GE staff involved in the process find the right answers for themselves. Flexibility in reaching solutions is important, because all deals are different. In acquisitions, learning never stops.

**GE CAPITAL’S WHEEL OF FORTUNE**

*The work starts at the pre-acquisition stage, where the framework for integration is set:*

- Begin cultural assessment
- Identify cultural barriers to integration success
- Select integration manager

---

**Figure 5.2:** The wheel of fortune at GE Capital

SUMMARY

The acquisition process starts with the creation of vision and strategy for the combined organization. There are a number of options, based on the direction and degree of anticipated integration, each with its own logic and set of guiding principles for implementation. Clarity in communication about the strategy is an essential foundation for success.

The “soft” part of the due diligence process is just as important as the financial analysis. Most M&A failures are linked to post-merger integration, and cultural and people issues consistently rank as one of the key causes of difficulties in executing acquisitions. A well-structured cultural assessment and human capital audit can help focus management attention on potential problems.

In any acquisition, retention of top talent should be on the list of key priorities. The retention efforts start during the due diligence process that should spotlight top talent. Retention incentives can help during transition, but in the long run, retention

- Assess strengths and weaknesses of business and function leaders
- Develop communication strategy

The next stage focuses on the integration process:

- Formally introduce integration manager
- Orient new executive to GE Capital
- Jointly formulate integration plan, including 100-day and communication plans
- Visibly involve senior management
- Provide sufficient resources and assign accountability

Integration is done rapidly:

- Use process tools to accelerate integration
- Use audit staff to audit key processes
- Use feedback and learning to adapt integration plan continually
- Initiate short-term management exchange

The final stage is assimilation:

- Continue developing common tools, practices, processes and language
- Continue long-term management exchanges
- Utilize corporate education resources
- Use audit staff for integration audit
MERGERS AND ACQUISITIONS

requires commitment from senior management to build personal relationships with top talent from the newly acquired organization.

After the deal is closed, it is imperative to move with speed. Key decisions about management structure, senior appointments and about anything related to people's careers should be made as soon as possible. Uncertainty and anxiety after the acquisition drain energy from the business. Ability to manage post-merger integration can become a major source of competitive advantage.

LEARNING POINTS

- Do your homework: mergers and acquisitions are always more complicated than at first glance.
- Think about the end-state before you start.
- Be clear about your intentions.
- Do not underestimate cross-cultural differences, but do not confuse culture with poor management.
- Make talent assessment an integral part of due diligence.
- Appoint an integration manager to speed up the process.
- Identify points of resistance and address them early.
- Secure and celebrate quick wins.
- Measure M&A outcomes and assign accountability.
- Capture the learning to improve future acquisitions.
- Keep in mind that the deal must make sense for the customer.
The flat globalized world is a beast that few leaders, if any, know how to tame. From Brussels through Hyderabad to Beijing and back to Los Angeles, the clock ticks remorselessly with challenges becoming ever greater and more daunting.

10 hours 25 minutes and 16 seconds.

Somewhere in the world, a number of ‘teenage entrepreneurs’, covered from head to toe in tattoos and piercings, are working quietly in a dingy garage at their own small revolution, which aspires to nothing less than radically disrupting the industry in which you work. Simultaneously, you are preparing your budget presentation, still not sure whether you have chosen to wear the right tie – for after all, today you are dealing with the ‘big guns’ from headquarters. Whereas you are normally confident and assertive, your staff barely recognizes you as the leader they know when the ‘top brass’ arrive. You work feverishly on the ‘content dimension’ of your speech, but even more so on the ‘persuasiveness’. Take heed of those teenage entrepreneurs, but also of the guys from HQ!

With the Arab spring spreading across one middle-eastern country after another, Belgian politicians, after setting an unenviable world record for the longest ever negotiations to form a new government, have cobbled together a coalition. In Vietnam, a young worker dreams of a life where she can afford a pair of the shoes she stiches every day for rich, fashion conscious kids in the West, whilst in Congo a young boy is beaten for complaining about the slave labour he is forced to perform in a deep underground cobalt mine to enable regularly upgrades to our mobile phones.

10 hours, 25 minutes and 17 seconds. Time is ticking. Never before in the history of mankind has a single second been so charged with drama. In this analytic number driven business world, the slightest bite of subjectively formulated information triggers a stock market plunge. We grab for twitter...

By the end of today, you will have processed more new information than medieval men or women were required to process in their lifetime. More new pages will be printed and more new products launched than in an entire year a few decades ago. Before you turn in tonight, tens of thousands of new film clips will have been posted on YouTube, and more than forty million will be viewed across the globe. In China, where more building cranes than in the rest of the
world will be hard at work, in excess of two hundred million modern day slaves will eek out the few euros they need to allow them and their families to survive for yet another day.

In Tunisia, Libya, Yemen, Egypt and Syria protesters have finally been tested beyond their endurance, persuading the majority of their fellow-countrymen to join them in their desperate search for the leaders who will hopefully make a positive difference to their lives. Similarly, many workers in organizations also yearn for leaders who are able to enhance the quality of their lives. It comes as no surprise that at the foot of the Dark Continent, people are deeply disturbed at the news that Nelson Mandela, their iconic leader, is hospitalized with a collapsed lung. The positive difference he made still clearly imprinted in their consciousness.

Never before in the history of mankind has a single second had such an impact. But, as a leader you can also make a positive difference... if you truly aspire to!

For which former ‘boss’ would you wish to work for again?

One day your curious grandchildren will undoubtedly ask: ‘Granddad, Grandma, who were the great leaders when you were young?’ Although history will probably confirm the names you mention, would you be equally able to predict the really important leaders of the future?

In all likelihood Obama may be one of those you mention. After many years of struggle, he finally realized Martin Luther King’s dream. Whereas King gave hope to black Americans, Obama went a crucial step further: he offered hope to all Americans. Would it not be a great pleasure when talking to your grandchildren in years to come, to tell them that Obama’s famous ‘Yes we can’ became ‘Yes we did’!

Or maybe you’re a fan of the current Chinese president, Hu Jintao, a more conservative figure than Obama, with a ‘low-key, reserved leadership style’? He presides over a nation that in recent years has experienced unparalleled economic growth. Should he be credited with this achievement? Only insiders will ever really know.

Will you talk about the Burmese opposition leader and Nobel Prize-winner Aung San Suu Kyi, the heroine of Myanmar, who on the very day after her release from years of house arrest, appealed for national unity, promising to continue her stubborn fight for the freedom of her people, regardless of the risks?

Would it be women leaders capture your attention, their ‘female thinking’ bringing a pleasingly holistic tint to the qualities of top management? But perhaps commercial success stories impressed you even more: the radical innovation of Apple’s Steve Jobs, the foresight of Microsoft’s Bill Gates, the risk seeking of Virgin’s Richard Branson, or the environmental consciousness of Anita Roddick of The Body Shop fame?
Quiz buffs are probably the only ones who will in years to come remember Tony Hayward. What will be remembered is that he resigned from BP (or was pushed) after the oil catastrophe in the Gulf of Mexico, just off the southern coastline of the United States. Was he, however, the person responsible for the explosion on the Deep-water Horizon drilling platform, and for the ensuing environmental disaster? Or was he as leader confronted by what Taleb refers to as a ‘Black Swan’?

Seen in retrospect, perhaps even the name of Herman Van Rompuy may enter your list. His calm, resolute style of leadership offered the only alternative to ‘loose cannons’ such as Sarkozy and Berlusconi when it came to electing the first permanent president of the European Union.

You will certainly not be telling your grandchildren about Saddam Hussein or Mummar Gaddafi ... although they may be very curious about what made them so bad!

Not without good reason Furnham posed the following question: ‘Of all the leaders you worked with, how many would you like to work with again in the future?’ Based on research conducted by Hogan et al., the researchers concluded that approximately fifty percent of employees definitely did not want to work for their old managers again, and that a further twenty percent would be less than happy to work for them again. Seen from a different perspective, only about thirty percent of these leaders received thumbs up!

By now you are probably itching to ask: Why and how do some leaders make a difference, whilst others do not? These and other such questions clamour for answers. They are crucial questions that beg honest answers! This is increasingly evident given the numerous revolts against ‘established leaders’, particularly in the Middle East, the horrific consequences of the triple disaster in Japan, and the continuing economic crisis: crises that cry out for leadership way above the average. Take a moment and ponder where and when you last encountered positive leadership that goes way beyond the average?

‘Who aims at excellence will be above mediocrity, who aims at mediocrity will be far short of it.’ Burmese saying

Do you and/or your organization collaborate with the competitive doomezmongering in today’s society, or do you celebrate what’s right in the world?

Notwithstanding the luxury life they live, people in the West are much more likely to succumb to fear, cynicism and frustration. How do we get a grip on things when nothing is really what it seems?

Are we to conclude that political parties have very little faith in the power of the ideas and values for which they profess to stand when they increasingly rely on
marketing bureaus to churn out the slogans and statements they should employ to win over votes? The media, driven by negative bias, plays an increasingly misleading and destructive role, all too often blowing bad news out of proportion to meet their need for sensational headlines on the front page of their early morning edition. Furthermore, what if the company you work for is preoccupied with detecting so-called ‘guilty parties’? Will creativity, innovation, and performance survive in such a guilt-seeking atmosphere? Despite companies professing to be all about the future, they sadly all too often become bogged down in the past.

_Beyonders_ know that the uppermost question in our minds should be: ‘what can we learn from this to create a better future?’

Are you the leader of whom co-workers without hesitation say: _For this leader I want to work again_?

Workers who respond positively are convinced that their leaders are committed to develop and use their unique talents for the better. Although they work hard, they experience their work as fun, meaningful and gratifying, the results visibly reflecting their enjoyment.

Do you experience fun, meaning, and gratification doing your work? Do your leaders create an environment in which you enjoy working or do they drive you towards the terrible experience of burnout? For Kay, the matter is clear. When, in the helter-skelter of our fast-paced modern way of life, we simply focus on the short term and on immediate gratification, it is inevitable that in the long term we lose sight of the essence of things; things that are really important. Finding a constructive balance between the short term and the long term, between ambition and meaningless, sterile growth. Does your organization really afford you the time and autonomy to attend to your priorities in a professional way, or are you transformed into a ‘big pretender’ by the burden of the rat race; by the stupidity of bureaucracy and the unpredictability of power?

We are all aware of colleagues who look as if they are paying attention during a strategic meeting, but in reality are steadily working their way through their emails, uttering vague generalizations when they are unexpectedly asked to respond. Should we condone their behaviour? Perhaps, even for them, everything is moving so quickly that it has become too intangible. Too quickly with technology evolving so fast that what we implement today is outdated tomorrow. Has their world become so intangible, with the structures needed to cope with a globalized world so complex, that they are unable to understand their position within these structures, and the impact of their actions?

Our testosterone-driven environment is a roller coaster ride with new loops being added again and again, launching us on a path of endless pursuit. Once immersed in this roller coaster ride, we are ultimately drawn into joining the ‘big pretender’ club. Should we keep playing this game simply because we do not
know how to stop? Fortunately, there is good news: Beyonders know how to respond and are able to stop the rat race. Competition and cooperation, moving forward and standing still, requires leadership of exceptional quality. In short: Beyondership!

Don’t be an average leader, become a Beyonder!

The average leader sits tight and is thrown helplessly from side to side and up and down as the roller coaster races along the track. His performance is at most ‘reasonable’, ‘not too bad’. Is this the way of thinking that got Nokia, RIM and HP into the trouble they have experienced in recent years? From being the clear leaders in mobile phones and computer technology, complacency and their failure to innovate blinded them to the coming of the smart phone and tablet era. They slipped from being highly revered companies to staring disaster in the face.14

The world is awash with average leaders. But what we desperately need is leaders with the courage to venture beyond and rise above mediocrity; not running with the crowd, but daring to do that which makes a difference and creates added value for themselves, their colleagues, their organization and for society at large – in the short term and the long term.

‘Beyonders’ are leaders who do not confuse the edge of the rut for the horizon. When the creativity guru, Ellis Paul Torrance first coined the word Beyonder in his book ‘The Manifesto’, he noted: ‘The word “Beyonder” is not in the dictionary, but everyone seems to understand what it means. [...] I found that there was a small number [of people] who had so many notable creative achievements that they did not fit on the same scale as the others’.15 This ‘exceptional few’, Torrance designated as Beyonders.

In similar vein, we use this term to describe leaders who do much more than what we could reasonably (and averagely) expect of them; leaders that are willing to make the crucial choice of stepping out of the darkness into the light. Leaders who are not afraid of new challenges, but appreciate these challenges, giving credence to the notion that challenges and excellent leadership are inextricably linked. They are not fazed by challenges, but eagerly seize them. In their book, ‘The truth about leadership’, Kouzes & Pasner (2010) support this argument, stating that ‘the historical leaders whom people admire most always faced and led others through major challenges.’16

A Beyonder is a person who possesses and radiates a deep-seated vision anchored in a clear set of values. He thinks and acts in an innovative and holistic manner. What others see as obstacles, a Beyonder welcomes as an opportunity. He chooses and creates environments that inspire passion, and perseveres until his goals are accomplished. He exudes creativity, possessing a myriad of ideas for solving any problem. He sees opportunities that others have not even become aware of. Even when not supported by powerful parties within his organization,
he courageously continues to fight for what he believes is right. A Beyonder is not focused on being the best in the world, but on being the best for the world.

The following diagram schematically depicts the seven key characteristics of a Beyonder:

‘Keep your eyes on the stars and your feet on the ground.’ Theodore Roosevelt

These seven building blocks are the basis on which you and your organization can continue to grow and prosper in a manner that creates added long-term value.

To test our insights we weighed them against research conducted in a number of finance departments. We invited managerial and non-managerial staff to comment on their Beyonder qualities and on the Beyonder qualities of their team leaders. The results strongly corroborated our assumption that leadership is primarily attitudinally determined, and that leadership training as we have know it in the past has largely skimmed across the attitudinal determinant.
Given the inevitable constraints of a mere chapter, only three elements of an attitudinal model of leadership, developed by two professors attached to the Vlerick Business School, Prof Herman van den Broeck and Prof David Venter, namely a Deep-seated Vision, Soaring on the Wings of Positive Bias, and Startle to Blossom are touched upon. Those wishing to explore these elements in greater detail, as well as the other four elements should consult the book Beyonders: Transcending average leadership by Herman van de Broeck and David Venter, published by Lanno Publishers in Belgium.

**A deep-seated vision**

‘If you want to build a ship, don’t drum up people to collect wood and don’t assign them different tasks and work; rather teach them to long for the endless immensity of the sea.’

Antoine de Saint-Exupéry

CEO’s and CFO’s when interviewed about Beyondership moments in their organizations, time and again referred to the crystal-clear vision of their organizations, noting that their all the activities of their organizations are first and fore-mostly geared to serving the needs of this vision. What was especially noticeable was their strong reference to the underlying values on which a vision should be based.

A deep-seated vision is a sharply focused vision underpinned by genuine and keenly felt values. It motivates leaders, people, and nations by encouraging them to pursue higher self-actualization. A Beyonder commits himself within the context of a clearly defined and inspirational framework, thereby finding a place and a reason for his existence within his socio-economic environment.

How sharp is your vision?

‘Vision controls perception, perception controls reality.’ Dewitt Jones

A sharp vision ensures a creative outlook on the world around you, from the perspective of your business. As Dewitt Jones says, ‘National Geographic wants to celebrate what’s right in the world.’ This inspired National Geographic to consistently produce the most stunning photographic essays.

A sharp vision always states what you wish to realize. As such it does not merely tell you what you should not do. Seen from this perspective, aspiring to ‘zero defect’ does not necessarily constitute a sharp vision, as it could dampen creativity and fail to clarify the bigger goals ahead.

A sharp, concise vision echoes in your head like a mantra. What it may lack in length is more than compensated by its power and positive appeal.

Sharp visions are always based on a forward-looking ideal; an ideal that relates to the desire to achieve something new; a hunger to move beyond what already exists. They are the red carpets for committed action. Those with a sharp vision see things that simply drift by others unnoticed. As Woodrow Wilson once said, a
Having a vision is not the secret: the secret is how you live the vision and give it meaning

Having a sharp vision is a key element in the success equation, but of even greater importance is how you invest that vision with meaning. You, as the leader, together with your team are the only people who can do this. Despite Goldman Sachs’s vision: ‘Our clients’ interests always come first’ \(^2\), the company has failed to fully live up to this vision, as is evident from the court cases brought against the firm for unethical trading practices.

A sharp vision, which is not underscored by a related set of meaningful values, remains a hollow shell that needs to be repeatedly juggled. The values underpinning a deep-seated vision, when embodied by Beyonder leaders and their teams in their attitudes and behaviour, affords the vision the authenticity to continue inspiring them to persist in their belief, even when the vision is challenged (as it inevitably will be). Values are crucial anchor points.

‘Everyone’s life tells a story and that is the story that will go on for generations to come. It is a story that you write yourself.’ Carol Stinson

Values as anchor points

Values are timeless beacons that keep your vision on course, while you surf the turbulent waves of change. They encapsulate that in which people believe, the things they really care about. As such they give meaning to our actions and projects, helping us discern when and where our actions and projects are taking us a bridge too far.

In societies where the fundamental cornerstones of our way of life are under increasing pressure, our values are key to making responsible choices.

Control systems can never compensate for the lack of a deep-seated vision

Our deep-seated values ensure that we prioritize and not get lost in the abundance of possibilities. They help us focus on high-level objectives, rather than aspiring to myopic short-term gains.

Despite an abundance of evidence pointing to control system not being able to compensate for the lack of a deep-seated vision, many continue to look to control systems as a way of gaining some form of grip on the improbable and unpredictable world in which we live. Although systems are necessary, they do not possess the ability to motivate people.

Yogi Bear new this when he proclaimed: ‘If you don’t know where you are going, you’ll end up some place else.’
Environments and deep-seated vision: a paradox?

When Marcel Proust when he wrote ‘À la Recherche du Temps Perdu’ at the beginning of the 20th century, relating how the bored bourgeoisie sat discussing the limits of self-fulfillment and the role of man in the cosmos (albeit within the confines of a tightly defined value framework), day-dreaming of dangerous voyages of discovery to an exciting new world, he failed to appreciate that this tranquility would in future be washed aside by wave upon wave of relentless change that has cast aside many seemingly absolute truths, leaving us without a well-defined value framework to guide us through this turmoil. In what is often described as a rat race, we feel compelled to run faster and faster, each creating our own truths as the only way of making a difference in this competitive world.

No matter whether we belong to generation X, Y or Z, we all need to discover what we really stand for. A Beyonder transcends these superficial labels. Driven by his deep-seated vision, a Beyonder does not see the complexity of modern society as a threat, but as a gift; the gift of limitless opportunity. His deep-seated vision guides him and his organization through the rough waters of progress and change.

Freedom: blessing or curse?

A Beyonder is not overwhelmed by the freedom we enjoy; greater freedom than ever before. Whereas people were in the past spoon-fed meaning and certainty from birth, usually based on dogmatic social values, successive generations have fought for the ‘right’ to determine their own values. But is this freedom used to positively and constructively do things that should be done, or is negatively employed, continually diluting our identity? The latter phenomenon prompted Friedman to suggest that multiple personality disorder will become the most common psychological illness of the 21st century.

In the business world, where mergers and acquisitions happen with predictable regularity, there is a growing tendency towards juggling values, employees are expected to change their deep-seated beliefs almost as often as changing their clothes. Old values are deposited in the ‘out’ tray on Friday evenings, and new values dropped into the ‘in’ tray on Monday mornings. Flashy consultants are paid small fortunes to re-define norms and standards, the results posted in high-definition colour on flashy corporate websites. But how feasible is this? Although employees have little choice to accept and put into practice these new values, their acceptance is often little more than a hollow commitment; mere window-dressing to please the new management.

For some companies, their vision, mission and value statements are merely useful PR tools to artificially enhance their image.
Freedom must be accompanied by responsibility

There is something in all of us that yearns for being a modern, unfettered world-warrior, whilst at the same time belonging to a ‘tribe’. Both are possible, on condition that we have a deep-seated vision and remain faithful to this vision. Beyonders, however, appreciate that freedom is not the final word, freedom being the negative part of a phenomenon in which behaving responsibly is the positive part. When not expressed within the context of responsibility, freedom is in danger of degenerating into mere arbitrariness.

Building a legacy

A Beyonder’s ultimate goal is to leave a positive legacy; a legacy that attests to the contributions he has made.

Every day, each of us lays a large number of different bricks – our daily actions. Simultaneously, we also construct a house – our project. In reality, we are building a home – our legacy. This begs the question whether it possible to remain focused on building your legacy in both your private and work environments? Herb Kelleher, the former CEO of Southwest Airline, emphasized this specific point in an address to his employees: ‘I hope you are not just mere bricklayers, but are here to build a home.’ For Southwest, ‘giving the people the freedom to fly’ was the legacy the airline wished to leave.

When strategic projects and daily actions are aligned to your deep-seated vision, this allows you to build a lasting legacy.

‘It isn’t where you come from, it’s where you’re going that counts.’ Ella Fitzgerald

Failing to properly align these different levels is one of the worst disasters that befall you or your company. Restructuring initiatives that merely focus on the rationalization of ‘daily activities’ all too often bankrupt companies within a few years. The consequence is a lack of useful slack for the realization of strategic projects – let alone the building of a legacy. Al Dunlap specialized in this approach, consequently earning the nickname of Rambo in Pinstripes.

Look at your agenda and that of your employees and check whether 75% of daily actions are aligned to strategic projects, and whether 95% of strategic projects are aligned to building a positive legacy.

Does your vision extend beyond achieving the Olympic qualifying standard? Are you merely interested in ‘taking part in the games’, or are you aiming at a ‘gold medal’? Average companies do their calculations properly: they know their financial ratios, employ functional specialists, and find customers that match their profile. Some are even well advanced towards cutting the classic Gordian knot of business decision-making: they focus on operational excellence, product leadership, or client intimacy. However, few think in terms of ‘integrated value’,
assessing both themselves and their market in terms of such value, not only focusing on narrowly defined (financial) ratios.

Of all companies with a Beyonder mentality, Apple stands out head and shoulders above the crowd. Whilst others were content to simply improve what they were doing, Steve Jobs had the courage to take a leap of faith into an area where others had previously ventured, but dismal failed. In the midst of one of the deepest financial crises in recent times, he launched the iPad as part of an integrated ecosystem; an ecosystem painstakingly built under his guidance since in 1995 returning to a near bankrupt company. The iPad was beautifully designed with an intuitive operating system that afforded a unique manner of seamless communication. In the spirit of a true Beyonder, Jobs not only reinvented Apple, but also reinvented the computer industry, leaving all his competitors languishing in disarray.

No doubt there are also competitors in your sector that are busy working to knock from your market perch by going ‘beyond’. By working towards integrated value, they transcend a purely functional approach, e.g. Senseo and Nespresso. They created ‘made-to-measure’ quality coffee for busy workers and housewives, offering them their own favourite coffee flavours, served in state-of-the-art machines that will grace any office or kitchen.

Is this not just plain common sense? Why then do insurance agents still not offer us integrated insurance packages, but different policies for different risks that cost us considerably more than an integrated policy. Business schools persist in concentrating their teaching on different theoretical models, whilst students and the market cry out for a stronger emphasis on ‘soft skills’. Do you really cater to genuine needs of your customers?

The significance of a deep-seated company vision

A deep-seated company vision extends far beyond the Beyonder as leader. Every employee must be possessed with the same vision that simplifies decision-making at the level of daily actions and of projects. A common vision creates a spontaneous and aligned commitment that enables the ‘orchestra’ to play beautifully harmonious music.

Research findings

- Legend

<table>
<thead>
<tr>
<th>Symbol</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>☐</td>
<td>No correlation</td>
</tr>
<tr>
<td>☀</td>
<td>Positive correlation</td>
</tr>
<tr>
<td>☀☀</td>
<td>Most determining positive correlation</td>
</tr>
<tr>
<td>☒</td>
<td>Negative correlation</td>
</tr>
<tr>
<td>☒★</td>
<td>Most determining negative correlation</td>
</tr>
</tbody>
</table>
Findings

THE LEADER’S DEEP-SEATED VISION AND HOW THE CO-WORKERS EXPERIENCE IT:

<table>
<thead>
<tr>
<th>Job satisfaction</th>
<th>Conscientiousness</th>
<th>Job fit</th>
<th>Leader/co-worker rapport</th>
<th>in-role performance</th>
<th>Management by exception</th>
</tr>
</thead>
<tbody>
<tr>
<td>✪</td>
<td>✽</td>
<td>☹</td>
<td>✽</td>
<td>✽</td>
<td>☹</td>
</tr>
</tbody>
</table>

THE LEADER’S DEEP-SEATED VISION AND HOW HE EXPERIENCES IT:

<table>
<thead>
<tr>
<th>Job satisfaction</th>
<th>Conscientiousness</th>
<th>Job fit</th>
<th>Leader/co-worker rapport</th>
<th>in-role performance</th>
<th>Management by exception</th>
</tr>
</thead>
<tbody>
<tr>
<td>☹</td>
<td>☹</td>
<td>☹</td>
<td>☹</td>
<td>☹</td>
<td>☹</td>
</tr>
</tbody>
</table>

Key findings:

- A deep-seated vision increases the conscientiousness with which co-workers approach their job and contributes to the underlying trust between leaders and co-workers.

- Of all the Beyonder characteristics, a deep-seated vision is the strongest determinant of solid mutual trust (dixit leader).

- By concentrating on deep-seated vision, a leader enhances his performance.

- Co-workers see their leaders as more competent when they espouse a deep-seated vision.

Surprising!

- Leaders, who have a deep-seated vision, do not often resort to management by exception (dixit employee).
Soaring on the wings of positive bias

The question ‘emotions: friend or foe?’ is frequently asked. There can be no room for doubt: emotions are our friend. Emotions are important alarm mechanisms that keep our reactions sharp and alert. A fear of heights ensures that we don’t try to balance precariously on the edge of a precipice. A bitter taste in the mouth makes us think twice before taking another bite of an unknown fruit. The uncertainty that you feel when making important decisions motivates us to carefully weigh up all the pros and cons before coming to a final conclusion. Therefore the first and most important lesson is: accept your emotions as they are and use them as the basis for your actions. To think that we would be better off without emotions is extremely naive. Stanley and Burrows (2001) emphasized soaring on the wings of positive bias. ‘Emotionless companies’ do not perform well in the market place. Commitment is not generated by facts and figures, but is a consequence of emotion, which is something Beyonders perfectly understand.26

Warm and cold leaders: what about your boss, what about yourself?

There are warm-blooded and cold-blooded leaders. As warm-blooded leaders, Beyonders speak enthusiastically about solutions, opportunities and successes; whereas cold-blooded leaders are constantly embroiled in complaining about difficult customers, tight budgets, and time-consuming bureaucracy. The latter infect their staff with their negative energy, draining away their motivation and enthusiasm. Instead of inspiring them to new levels of performance, they are ‘doom-and-gloom’ merchants that create an atmosphere of cynicism and pessimism, soon infecting the entire working environment. Due to their negative bias they always feel cornered, therefore reacting defensively.

The positive energy Beyonders radiate positively ‘infects’ others, conveying a message that says: ‘together, we can make a positive difference’. Consequently, they inspire an open corporate culture.

‘Life is not about waiting for the storm to pass... it’s about learning how to dance in the rain!’
Anonymous

Many authors, such as Ekman (2003), postulate a basic dichotomy between negative and positive emotions.27 However, this is very misleading. It is not the emotion as such that is important; it is what we do with the energy that the emotion releases. If you pick up a hot pan, you feel pain. Although this is not a pleasant feeling, it produces a ‘desirable’ result: you drop the pan preventing yourself from burning your hand more seriously. The reverse can, however, also be true. Some drugs may give a tremendous short-term kick, but in the long term create great pain and suffering. It is therefore necessary to make one point perfectly clear: all negative emotions (pain, sorrow, etc.) need not be banned,
only positive emotions (joy, happiness, etc.) sought. All emotions have their uses and purpose. Every Beyonder consequently accept that frank and open discussions about what is going right and what is going wrong could be an enriching experience!

The spider’s web inside your head

Our senses are constantly picking up signals. They work like a scanner which is always turned on to record the hum of your computer, the scraping of your chair as you stand up, the music on the radio in the background, your vague thoughts about that meeting coming up in ten minutes’. This, and so much more, is continually registered. Not only signals from outside, but also signals from within are picked up! These signals are then transmitted to the brain at lightning speed through your nervous system, enabling you to decide how to react.

Emotion mobilize

Social and emotional intelligence (SEQ) relates to the manner in which we channel the energy produced by our emotions. Cold leaders can for example ruin moments of triumph (such as the winning of a new contract) with their tendency to endlessly panic. What if we miss the deadlines? What if we have missed out on something in the small print?

Gene Brown aptly noted that the bridges we cross before we get to them are over rivers that aren’t there.

In contrast to the reflexes of your ‘reptile’ brain, your emotional brain reacts more slowly, albeit a difference that can only be measured in milliseconds. An obviously critical question from a colleague will increase your alertness, possibly causing you to activate your mental defense mechanisms. Your emotional brain also triggering many of your hormonal reactions, e.g. blushing when you embarrassingly mispronounce a word during a presentation or speech? Finally (although again just a few milliseconds later), your neo-cortex (responsible for your analytical and rational thinking) swings into action. You analyze your colleague’s question, searching for the data that will allow you to respond. Now you know why you have been advised to ‘always count to five before you answer’. This gives the different areas of your brain the necessary time to activate and coordinate their response, preventing responses that are too ‘impulsively’. This is, however, just the beginning!

Basic and related emotions

The concern (emotional brain), which you feel when your partner fails to show up on time for a meeting is reduced when you decide to telephone him and ask where he is (neo-cortex). When you hear the siren of an ambulance in the street outside your office (extra stimulation for your emotional brain), your anxiety levels shoot through the roof again. But then you remember that he is always late for everything, and your concern is quickly transformed into irritation.
Your basic emotion is concern, the related emotion is irritation. The key question is: how to react when your partner finally arrives? You can let your actions be guided by your basic emotion or the related emotion. If you raise your voice, this will betray condemnation rather than concern (‘Where were you?’). This may, not surprisingly, prompt your partner to automatically respond in the same manner (‘None of your business!’). Although neither are looking for a fight, this may nevertheless precipitate such an outcome.

Kruml and Geddes (2000) define emotional dissonance as the difference between ‘emotions displayed’ and ‘emotions felt’. Learning to manage and control this difference is known as ‘emotional labour’. Being aware of this difference is the best way of becoming more adept at social and emotional intelligence.

‘Speak when you’re angry, and you’ll make the best speech you’ll ever regret.’ Lawrence J. Peter

Beyonder behaviour is determined by their basic emotion. They do not ‘fight’ this emotion, but accept it for what it is. First and foremost, they try to understand the current situation, in order to develop alternative scenarios and translate the most appropriate scenario into action. This constructive attitude infects their environment with this same positive approach. This is, however, not as simple as it sounds: negative bias, whether we like it or not, always weighs more heavily than positive bias.

Negative bias

Cynics sometimes decree that our genes only have one purpose in life: to ensure their reproduction! If you don’t survive, you cannot reproduce. The most important thing from the perspective of your genes’ is therefore to ensure that you do not fall victim to the many dangers that surround you. Put in a different way: our distant ancestors who decided that it may be a nice idea to stop and have a chat with the dinosaurs are not amongst the ‘reproducers’. But those who hid behind a rock when the dinosaurs came, lived to fight – and reproduce – another day. Fear is therefore not necessarily a bad thing.

Your neural system is designed in such a way that you naturally seek to run the minimum amount of risk. What this means is that in any given situation you are more likely to see the dangers than the opportunities. Building trust with other people can take years; losing this very trust can happen in a couple of seconds. Stanley and Burrows (2001) claimed that our protective mechanisms are automatically mobilized, referring to the entirety of these mechanisms, which alert us to potential danger, as negative bias.

John Cacioppo of the University of Chicago, one of the founding fathers of social neuroscience, confronted a number of test subjects with three different kinds of...
stimuli: a neutral one (for example, a vase), a positive one (a laughing child), and a negative one (a hideous wound). The levels of electrical activity measured in the brain were much greater in response to the negative stimulus. This research showed that the brain is able to distinguish between a threatening stimulus and a positive stimulus in less than 100 milliseconds.

A study of decisions taken during a series of job interviews showed that more positive information was necessary to transform an initial rejection into an acceptance, whereas significantly less negative information was needed to turn an original acceptance into a rejection. More recent studies also concluded that negative events have a much stronger negative effect on a person’s attitude than the positive impact of positive events.

The conclusion is clear: a positive approach requires great degree of mental control, as the natural reaction of our brain is to constantly push us in the opposite direction. Beyonders understand this distinction and consequently always seek to keep their options open, consciously resisting the first impulses from their emotional brain.

How our brain plays tricks on us

There is no escaping the fact that when you are on your way to a follow-up meeting with your business partner, all the emotions you experienced during the previous meeting inevitably begin to surface. If the atmosphere at this previous meeting was hostile, your mood and hormonal reactions changes to reflect this fact. Fortunately, the opposite is also true. If the previous meeting was constructive, this too will be reflected in your attitude and feelings, which allows you to better prepare mentally for what lies ahead. But how does this work?

The amygdala, a part of your emotional brain, is the seat of your emotional memories, exercising a direct influence on both your autonomous nervous system and the hormonal responses of your body. Being ‘scared stiff’ is for example a reaction determined in part by the amygdala. The less-than-friendly atmosphere of the previous meeting with your business partner is stored here, ensuring that you will not be in the best of moods for your next encounter.

Moreover, the amygdala does not accept denial. ‘There is not a fly in my soup’ is a sentence that indicates to your neo-cortex that something – in this case, a fly – is not there. However, the amygdala refuses to accept this statement at face value, since ‘not there’ is an abstract concept. This results in only the association with the fly remaining. Try this at dinner with your family. They will be forced to agree that you are right – but no one will thank you, for all they will be thinking about is flies in the soup! This underlines the importance of speaking about what you want to achieve, rather than what you want to avoid.

‘You may be deceived if you trust too much, but you will live in torment if you don’t trust enough.’
Frank Crane
Are you able to keep your old emotions separate from new situations? Beyonders continually coax their amygdala in a more constructive direction. Thinking about their past successes helps to positively mobilize their brain.

Imagine that you are Lionel Messi, the famous football player. You have just dribbled past the last defender and you are bearing down on the opposition goalkeeper. What would you now think in this situation? Would you think: ‘I must make sure that I don’t aim my shot straight at the goalie’, or would you think: ‘I must make sure that I aim my shot between the goalie and the goalpost.’ Most leaders would tell their staff ‘not to aim at the goalie’, but would be better advised to say nothing of that kind, as positive signals achieve better results.

Quid pro quo

In the anterior insulate, the brain analyses and evaluates incoming signals on the basis of fairness. This is perfectly illustrated in the so-called ‘ultimatum game’. In this game, someone is asked to share one hundred euros between himself and another person. He is free (in theory, at least) to decide how he wishes to share this amount. The other person just has two choices: to either accept the deal as offered, or to reject it. There is no room for negotiation. If he accepts the deal, it goes through. If he rejects the deal, it does not go through and both parties get nothing. What the second person does not know, is that the researcher/moderator has instructed the person proposing the deal to keep ninety-nine euros and to only offer one euro to the other party. How do you think the different parties will react? Neither is very happy. The proposing party is not keen to put forward a proposal so blatantly one-sided, whereas the other party is even less inclined to accept such a deal that, for in his eyes, it is insultingly unfair. This perfectly illustrates how the anterior insulate works: it warns us when we risk finding ourselves in a situation where we are likely to give more than we receive. Yet, within the context of the ultimatum game, this flies in the face of logic. After all the other party effectively has a choice between gaining one euro and getting nothing at all. Rationally seen, the other party should always accept the deal. Unfortunately, emotions get in the way – he refuses, because his sense of fairness is offended.

Do you react furiously when someone makes an offer that falls far outside what you perceive to be ‘fair’? Or are you able to look beyond this impulsive first reaction, thus seeing the proposal on the basis of its intrinsic business value? Beyonders negotiate daily, but always try to avoid negotiating from a positional perspective. Instead, they always seeking to create added value for all concerned. This is but another example of Beyonders understanding the crucial importance of keeping their options open.

Friend or foe?

In our emotional brain, the anterior cingulate cortex has the task of evaluating the extent to which other people pose a threat to our well-being. Goleman describes this anterior cingulate cortex as a social bonding system that warns us when
something is about to go wrong in terms of our social relationships. In this context, it is important to note that numerous neural canals run from this cortex to other key areas of the brain. The consequence being that the first signs of any potential threat spread at lightning speed throughout the entire cerebral apparatus. This explains why social rejection is almost literally ‘painful’.

Consider the following example. Deva, young and ambitious chef is given the opportunity to show what he is able to do when put in charge of another section of the kitchen. Filled of enthusiasm, he commences the first meeting with his new team with the following words: ‘From now on, we are going to be 100% professional’. The awkward silence that follows his announcement surprises him. Although he did not mean to insult his new colleagues, he has inadvertently suggested that they have not been 100% professional in the past! When new leaders arrive people are always extra sensitive. They are therefore likely to react strongly if doubt is cast on the effectiveness of their past performance.

In much the same way, meeting attendees often react defensively to well-intentioned criticism. Without warning meetings can then rapidly degenerate into almost endless ‘yes/no’ discussions. Seen in this context, learning from negative feedback is largely a question of maturity. Beyonders welcome all forms of feedback as an opportunity to identify blind spots and to learn the right lessons from their mistakes. This is, however, not made easy by the workings of the anterior cingulate cortex. Imagine an environment where ‘political’ power games are the norm. In such circumstances, chaos can quickly ensue. With everybody focused on making the right move, there is nothing of the open-mindedness that is so crucial to finding a pragmatic solution.

‘A sculptor adds nothing; he only takes away’. Chinese proverb

Emotions are contagious

Emotions are contagious due to the presence of mirror neurons in our brain. These neurons absorb the emotional state of our surroundings, reflecting it inside our mind’s eye – just as a mirror would. We feel the external emotions (whether negative or positive) that we even adopt the same mood, purposes and/or behaviour. When we see someone yawn, we begin yawning seconds. If we stop for a quick chat at the coffee machine, meeting up with the company’s biggest moaner, we are guaranteed to feel depressed before the end of the conversation. Fortunately, this phenomenon also applies to positive emotions. Great chefs are for example often able to inspire their sous-chefs to even higher levels of culinary perfection. Positive emotional contagion improves cooperation, decreases conflict, and increases perceived task performance.

Strong emotions are infectious - this is something that every Beyonder realizes. When confined for more than a month to an environment that negatively infects you, this not only damages your mood but could also damage your health. Your immunity to negativism is gradually eroded. It is for example
known that a leader who behaves irrationally and inconsistently for an extended period of time, negatively affects the cardiovascular functioning of his team (in particular heightened incidences of high blood pressure).\(^{35}\)

**Positive bias far outweighs negative bias**

What are the consequences of your emotional mood for others? Do your employees feel energized when leaving your office? Do you feel energized? If this is true in 95% of cases, congratulate yourself, as you radiate a positive bias!

Beyonders with a positive bias are fully in contact with their surroundings, in a relaxed and creatively constructive manner. Consequently their decisions are more closely aligned to their deep-seated vision and with the environment in which they work. Beyonders are able to defend their views in a calm confident manner, and have no problem adapting these views to circumstances. They are more willing than others to learn. Driven by their positive bias, they feel comfortable with themself as a person, and are satisfied with who they are and what they have. This begs the questions as to what the underlying logic is, which paths they follow, and which path they should follow?

Driven by a positive bias, appreciation should always be the point of departure before making a decision and/or taking action. The better we are informed, the more sense our decisions make to those who are affected by them. Appreciation therefore means understanding the ‘what’, whilst simultaneously showing respect for the source of the message.

‘Reality leaves a lot to the imagination.’ John Lennon

**Appreciation**

In an open work climate there is relational capital with colleagues that are prepared to help each other and share information, thus creating economical capital. The inverse is true in a politically tense work climate, where information is withheld to promote self-interest and self-gain. Beyonders constantly seek to constructively build upon the common interests inherent in both content (the job, the task at hand) and relationships (genuine appreciation for others as people, colleagues, bosses, etc.). This enhances synergy and a climate in which there is a willingness to learn from mistakes. Appreciation is not about pleasing others, but about gaining insight and showing respect.

Despite our good intentions, these intentions often fail to come across as intended. It is therefore important that we take note of how our behaviour is (or could be) interpreted by others. It is futile to get embroiled in a discussion about what you intended or did not intend. Our focus should be on the consequences of what we said and how we should deal with these consequences.

Beyonders are empathic and compassionate. They are able to think the way
others think, pick up on their ideas, and understand how they feel. Consequently, they have access to better and much more relevant information when they take a decision!

Mobilizing possibilities

A man once asked Picasso why he didn’t paint women the way they really looked. Picasso responded by asking the man what he meant. He answered by showing a photograph of his wife. On seeing the photo, Picasso commented: “So your wife is small and flat, is she?” The most important lesson: people see the world through their own – and often very different - eyes. No person has sole ownership of the truth. Absolute truth does not exist. Because different views are possible, we need to remain open to different perspectives.

Positive bias empowers a Beyonder to transform the chaos around him into a series of attainable possibilities. Beyonders accept that reality is a dance of ever-changing patterns and forms. They see the day-to-day changes in their life as exciting new opportunities and possibilities and are therefore more mentally agile.

Being open to possibilities allows us to welcome all forms of diversity, as we are then able to align what at first glance seem inconsistent. We need to ask ourself: Where is the opportunity for me? How will I solve this? How can I succeed? How can I help? What would be a good way to look at this? What is possible? What contribution can I make?

in ‘The Art of Possibility’, Benjamin Zander advises us to play the game of ‘going for the best... ever’. Ultimately, the aim is to allow small moments to grow into important moments, thus stimulating us to see future possibilities. After all, do we not live to give something to others and to ourselves; not to deny others and ourselves the opportunity of growing.

Optimism

True optimism is not reflected in facile and artificial utterances such as ‘life is fantastic!’ Frankly, we all know that life is not always fantastic. Unpleasant experiences from time to time cross our path. Optimism departs from the conviction that all experiences afford us the opportunity to learn something new. It directs our focus towards the future and equips us to each time deal with the future in a better way, regardless of the circumstances. Beyonders refuse to become bogged down in the present or to simply complain about the past. They aspire to see things in a positive light.

Beyonders believe that they are able to make a difference. With this aim in mind, they use positive language. They say what they wish to achieve and do not dwell on what should be avoided. They prefer to talk about what they have and what they are able to do in given circumstances. They, however, never neglect reality, but use it as the basis of their plans for a better future!
As optimists, Beyonders accept who they are; their capabilities and limitations. They are able to laugh at themselves, acknowledging their weak points and seeing these weaknesses in perspective. Consequently, they are more playful and communicate more easily, they radiate a happiness that infects others.  

‘Our ancestors had time to beautify the things they did...’ Inuit saying

‘Ring the bells that still can ring Forget your perfect offering There is a crack in everything But that’s how the light gets in.’ Leonard Cohen

**Research findings**

**Legend**

<table>
<thead>
<tr>
<th>No correlation</th>
<th>Positive correlation</th>
</tr>
</thead>
<tbody>
<tr>
<td>☺</td>
<td>☺☺</td>
</tr>
<tr>
<td>Positive correlation</td>
<td>Most determining positive correlation</td>
</tr>
<tr>
<td>Negative correlation</td>
<td>Most determining negative correlation</td>
</tr>
</tbody>
</table>

### Findings

| THE LEADER’S DEEP-SEATED VISION AND HOW THE CO-WORKERS EXPERIENCE IT: |
|-----------------------------|---------------------|------------------|------------------|------------------|
| Job satisfaction | Conscientiousness | Job fit | Leader/co-worker rapport | In-role performance | Management by exception |
| ☺☺ | ☻ | ☻ | ☻ | ☻ |

| THE LEADER’S DEEP-SEATED VISION & HOW HE EXPERIENCES IT: |
|-----------------------------|---------------------|------------------|------------------|------------------|
| Job satisfaction | Conscientiousness | Job fit | Leader/co-worker rapport | In-role performance | Management by exception |
| ☻ | ☺☺ | ☻ | ☻ | ☻ |

**Key findings:**

- ... is the entry gate to excellent performance!

- Surprising!

  - Leaders strongly emphasize positive bias by performing their job very conscientiously, thereby also increasing the conscientiousness of employees.

  - Flying on the wings of your strengths (good job fit and good performance) affords a more positive view of the world, which is mutually empowering.

- **Remember!**

  - Positive bias is the Beyonder characteristic that most strongly determines the following three performance indicators: job satisfaction, trust in the leader (dixit co-worker), and the perception of the in-role performance of the leader.

  - Positive bias gives a co-worker comfort, in the sense of being convinced that the leader will not indulge in management by exception.
‘And the day came when the risk to remain tight inabud was more painful than the risk it took to blossom.’ Anais Nin

In a study of 1500 CEO’s in the financial sector, carried out by IBM, it was found that less than fifty percent were of the view that their organization was ready to face the challenges of the future. They generally agreed that the stimulation of creativity and the ability to innovate were key factors in any attempt to meet these challenges successfully.

How creative are you? Very? Not at all? In theory, we all have sufficient creativity to deal with unforeseen circumstances. The real question is, however: Are you and your organization structured in such a way that you are willing and able to think differently?

Peter Drucker, one of the greatest management theorists of recent times, once asked a group of senior executives if their companies contained much ‘dead wood’. Many in the audience raised their hands. Drucker reacted with the words: ‘Were these people dead wood when you interviewed and decided to hire them, or did they become dead wood after they arrived at your firm?’ This was his way of emphasizing that many leaders and organizations waste the brainpower at their disposal. Even worse, they turn this potential into useless dead wood.

Beyonders are not captives of the restrictive circle of the status quo circumscribed by others or by an organization. They use their own powers and abilities to constantly reinvent themselves and the environments in which they operate, permanently open to improvements, opportunities, alternatives, and innovations. This they achieve by maintaining sufficient creative tension within their thinking, their teams, and their organization. They understand and appreciate the meaning of ‘Startle to blossom’.

Making the difference between dead wood and green shoots

‘We delight in the beauty of the butterfly, but rarely admit the changes it has gone through to achieve that beauty.’ Maya Angelou

Business as usual’ has never been the way for an organization to truly make a difference. The challenge for every leader and every organization is to constantly stimulate innovation and creativity. They must allow green shoots to blossom, not break them off, and turn them into dead wood.

Beyonders create an environment in which employees are prepared to challenge and re-invent themselves, not becoming trapped in the rut of repetitive routine that gradually erodes their talent. Employees appreciate leaders who ‘encourage new thinking that leads to new ways of doing things, which are not simply a matter of business as usual’.
‘Startle to blossom’ in essence means that you are not satisfied with the first solution that comes to mind. Instead, you aspire to think more deeply about ideas and solutions that could really make a difference. Kobus Neethling and Raché Rutherford describe this as follows: ‘If we believe that excellence is a moving target, we must accept that it remains a constant quest. If we convince ourselves that we have attained excellence, we have boxed in and set limits to something that defies all limits.’ Johan Cruijff – one of the greatest footballers of all time – believes that a coach must be the antithesis of his team. Only then is he able to act as the counterbalance that is needed to adjust a prevailing mood. If things are going well, he must calm his euphoric players. If things are going badly, he must pep them up. In this way he keeps his team hungry, preparing them for the unexpected.

The art of excellent leadership involves guaranteeing constructive dissatisfaction, which unleashes a continual process of growth within a team and fosters a ceaseless desire amongst team members to perform to the best of their ability.

Here is a small challenge: Divide 27 sheep over four pens. In every pen there must be at least one sheep. In every pen there must be an uneven number of sheep. Difficult?

**Why some flowers blossom, whilst others wither and die?**

Every creative thinking guru will tell you that healthy frustration often leads to creativity and innovation. They define ‘constructively unsatisfied’ as experiencing a mixed emotion that comprises interest, amazement, disappointment at the absence of an efficient solution, a willingness to seek original answers, and a desire to achieve technical perfection.

Beyonders possess this emotional disposition, and therefore excel at ‘finding challenging opportunities’. Even problem situations prompt them to investigate how things could be done ‘differently and better’. In short, they see problems as a window on new insights and new solutions.

‘He who can no longer pause to wonder and stand rapt in awe is as good as dead; his eyes are closed.’ Albert Einstein

By adapting the David Perkins ‘snowflake’ model we are able to afford ‘startle to blossom’ the maximum chance of success. If the following three primary conditions are present, a company basks in the sunshine of an innovative climate, but if they are absent, its harvest is weak and lean:

- Constructive dissatisfaction: Never being satisfied with ‘the way things are’ and, constantly aspiring to ‘faster, further and higher’.

The so-called ‘burning platform’ is often held up as an indispensable condition for kick-starting creativity and change. In one sense this is true, but a burning platform in itself is not enough in itself. This sense of urgency may create the
frustration that sometimes generates new ideas, but there is no guarantee that this frustration will generate the will to be original and the desire to create something perfect. For this reason, according to Heath and Heath, it is essential that this frustration must be embedded in a deep-seated vision. In other words, it is only possible to satisfy this condition for success if constructive dissatisfaction is linked to a dream of the future. And this is precisely where the strength of a true Beyonder lies: he is especially sensitive to challenges that emanate from the deep-seated vision of the organization.

Professor Randy Pausch in a thought-provoking video on You Tube graphically illustrated the different ways people approach setbacks. In the video he tells his audience that the so called ‘brick walls’ are there for a reason. Not there to keep us out, but to allow us to show how badly we want something.

- Being a master in mobilizing possibilities

Average leaders cannot stand the insecurity of diversity, consequently becoming tense. They are preoccupied with the need for closure, consequently blocking any form of divergent thinking. They often use slogans such as, ‘noses in the same direction’, ‘alignment is a must’ and ‘the need for consensus’. Any fresh young shoot, sitting at the conference room table and waiting to blossom, immediately shrivels up and starts to wither.

True creativity requires the different pathways open to an organization to be explored in different ways. Look at the DHL advertising film on YouTube – it is not only a brilliant piece of advertising, but also perfectly illustrates the essence of inspiring creativity.

- Willingness to take risks

‘If you’re not prepared to be wrong, you’ll never come up with anything original.’ Ken Robinson

Unfortunately, most management systems are designed to minimize risk. This is particularly true of financial monitoring systems. As a result, most leaders simply do what they were taught and consequently think reactively. Sadly, the majority of people we refer to as leaders are little more than mediocre teachers, who at best produce clones that mirror their ideas and thinking.

In his book ‘Paradigms, The Business of Discovering the Future’, Joel Barker builds upon Peter Drucker’s observation that anticipation is one of the most important managerial skills in turbulent times. Both authors agree that the...
majority of average leaders only possess problem-solving skills that are predominantly reactive. They argue that leaders need to relinquish their old style of problem-solving where their focus is on solving problems after they have occurred, rather aspiring to anticipate possibilities and prevent problems before they occur.

Adapting structures to inspire creativity

In his book ‘Iconoclast’, Greg Berns records how Rite Solutions, a software company, tried to change the reactive habit. Jim Lavoie, the manager of Rite Solutions, describes a feeling with which most of us are familiar. ‘When we want to discuss a new idea, we have to appear before a ‘murder board’, a panel of managers, directors, etc. who do everything possible to prove that the idea presented to them is not a good idea. By adopting this approach they all too often humiliate the talent within the organization, merely imposing their authority.

To change this unsatisfactory situation, Rite Solutions adopted a fundamentally different approach. When a new member of staff is appointed, he is awarded $10,000 of virtual ‘opinion’ money, which he may allocate to ideas other members of staff have posted on the company’s intranet. Therefore, when someone thinks that an idea is a good idea, he can show support by allocating part of his opinion money to the idea. Based on the support an idea receives, an indication is gained of how interesting (and potentially successful) the idea might be – the so-called ‘interest money’. Finally, the possible long-term importance of an idea is gauged by the amount of time members of staff would be prepared to devote to the idea – this is referred to as ‘investment money’. This is a novel and useful way of ensuring that new ideas are not immediately dropped into the trashcan.

Is your organization ‘tolerantly inspirational’?

‘Automatic thinking destroys the creative process that forms the foundation of iconoclastic thinking.’ Gregory Berns

Tolerant... because creativity is often expressed in terms of ‘unfinished’ ideas. When your latest brainwave is criticized because it is not 100% water-tight, do you instantly lose heart, or do you persist like a true Beyonder, regardless of the criticism? As Kobus Neethling expresses it: ‘Beyonders feel comfortable pitching half-baked ideas.’ Furthermore, Beyonders have no difficulty maintaining two contradictory opinions about the same problem, and working with both opinions to ultimately determine which opinion is the best. The so-called Janusian thinking. They are not phased by ambiguity, but see it as a challenge. As F. Scott Fitzgerald once noted: ‘The test of a first-rate intelligence is the ability to hold two opposed ideas in the mind at the same time, and still retain the ability to function.’ To this John C. Maxwell, in his book ‘Failing Forward’, adds the very important rider that successful individuals and companies are motivated to continuously explore uncharted territories, notwithstanding the possibility of
failure, but safe in the knowledge that it is the response to failure that sets the achievers apart from the also-rans.\textsuperscript{53}

In the modern world speed counts. Organizations therefore need to accelerate their learning processes. Endless bureaucratic power-driven meetings need to be limited to the minimum, and creative minds need to be encouraged to experiment with new ideas and learn from the feedback. This is what Chris Church, Swift chief executive for the Americas, refers to as ‘fast failure’.\textsuperscript{54}

Inspirational... because the environment needs to be an open invitation to think and act creatively. How many people in your organization surprise you each week, if not each day, with original ideas? Dozens? Hundreds? None? Some work environments smother creativity in the cradle, others allow it to flourish and grow. What kind of organization is yours?

It is, however, necessary to hold up a caution: creativity without evaluation is little more than an expensive waste of time. According to Perkins, ‘creative people not only scrutinize and judge their ideas or projects, they also seek criticism.’\textsuperscript{55} There is no point in having twenty-five different ideas on the table if you are not prepared to see them evaluated critically to sort the wheat from the chaff. Beyonders recognize the divergent and analytical phases of the creative process. They appreciate that finding a diamond requires you to first painstakingly search through tons of potentially diamond-bearing material, critically analyzing every piece of material before finally picking out the diamonds. Only then can you proceed to evaluate the colour, texture, blemishes, and market potential, as the prelude to committing the diamond to the cutting and polishing wheel.

It is time to stop playing the ‘murder-board-game’! To quote Perkins again: ‘Creators are involved in an enterprise for its own sake, not for school grades or pay cheques. Their catalysts are the enjoyment, satisfaction and challenge of the work itself’. This will become even more apparent in our chapter on ‘flow through passion and discipline’.

Steve Jobs, arguably one of the most creative CEO’s of our time, uttered these wise words: ‘My model for business is The Beatles. They were four guys that kept each other’s negative tendencies in check. They balanced each other, and the total was greater than the sum of the parts. Great things in business are not done by one person, they are done by a team of people.’

By now, your brain has probably have told you that it is impossible to divide twenty-seven sheep over four pens in the way you were asked. But is it really impossible? When faced with such a seemingly insoluble problem, it is important to determine which mental models may be limiting your thinking. For example, why have you chosen to drawn the four pens all neatly next to each other? The instruction did not say that you had to do this! Is it possible to work it out now?
‘I would warn you that I do not attribute to nature either beauty or deformity, order or confusion. Only in relation to our imagination can things be called beautiful or ugly, well-ordered or confused.’
Baruch Spinoza

Shaking up mental models

We hold diverging views about various matters because we all operate according to different mental models.

Peter Senge describes mental models as deeply-held internal images of how the world works, noting the powerful influence they have on what we see, feel, think and do.65 We approach reality from the perspective of these mental models, often using them to make the world conform to our wishes. They therefore limit our ability to create alternatives by acting as blinkers that force us to look in a defined direction, believing that this is the only ‘correct’ way of seeing things. By their very nature, they therefore contain and constrain. Stated differently, they act as the lenses through which we see the world, controlling our attitudes and behaviours, which we cannot change unless we change the mental models on which they are based.

Beyonders are very aware of their mental models, and are always prepared to question the validity of these models. Berens (2008) states that in order to create, you first have to destroy: ‘An iconoclast acknowledges the fact that creation is also an act of destruction.’57 To create something completely new, you need to let go of everything that has gone before, including your mental imagery and your ‘old’ way of thinking.

Breaking the mould

‘Every exit is an entrance to somewhere else.’ Tom Stoppard

Why do Austrian waiters take away your plate the moment you have finished your meal, even though the others person at your table may still be busy with their meal? Why do waiters in Belgium wait until everyone has finished with their meal before clearing the table? Does this irritate Austrians when eating in a Belgian restaurant, and Belgians when eating in an Austrian restaurant? This habit is the product of two different mental models. Austrian waiters think: ‘Whoever allows others to finish their meal in the presence of an empty and dirty plate?’ Belgian waiters think: ‘Removing an empty plate when a person has finished his meal could create the impression that everyone else should now eat up and leave as soon as possible’. Both assume that they are being customer-friendly, but in their different ways.

In your next departmental meeting, listen carefully to your staff and notice how they all offer different solutions to the same problem, depending on whether they approach the matter from the perspective of operational excellence, product leadership, or client intimacy. Like our waiter friends, your colleagues also think that they are all acting in the best interests of the organization and customer.
A tandem hitch analogy: the wheeler and the lead horse

Every organization seeks to protect its stability by installing structures, rules, and procedures. But, as we all know, agility is an essential characteristic in today’s fast-changing world. This begs the question whether these two things – structure and agility – are compatible? When recently we were able to watch a horse and carriage parade in a resort town on Belgium’s North Sea coast, the answer became evident. As the carriages in the parade passed us with great elegance, we fortunately had an expert on hand to fill us in on all the important details. We were particularly intrigued by the fact the carriages were being pulled by two horses, and that they were behind and not alongside each other, as generally would be the case. Our expert explained that this was known as a tandem hitch, with stronger horse closest to the carriage, which is firmly attached to the carriage shafts, known as the wheeler. He then proceeded to explain that this was the horse doing most of the hard work to pull the carriage. The second horse, he said was called the lead horse, which was only loosely coupled with leather straps, and therefore running relatively freely ahead of the wheeler. In days gone by, the idea was to have the lead horse should do little work as possible whilst on the way to the hunt, the lead horse would be on arrival be uncoupled and saddled for use by the owner during the hunt. The poor old wheeler, who had done all the hard work getting to the hunt, was left behind, still firmly strapped to the carriage. Applying this principle to organizations in the business world, the wheeler represents the fixed company structure, which is a requirement for predictable work based on acquired knowledge and routines, whereas the free roaming, unrestricted lead horse represents the enthusiasm, freshness and flexibility, which is essential if a company is to continuously explore the new horizons of the ‘hunting ground’.

Research findings

- Legend

<table>
<thead>
<tr>
<th></th>
<th>No correlation</th>
</tr>
</thead>
<tbody>
<tr>
<td>😞</td>
<td>Positive correlation</td>
</tr>
<tr>
<td>😞�</td>
<td>Most determining positive correlation</td>
</tr>
<tr>
<td>😞</td>
<td>Negative correlation</td>
</tr>
<tr>
<td>😞��</td>
<td>Most determining negative correlation</td>
</tr>
</tbody>
</table>

- Findings

| THE LEADER’S DEEP-SEATED VISION AND HOW THE CO-WORKERS EXPERIENCE IT: |
|---------------------------|-----------------|-----------------|-----------------|-----------------|
| Job satisfaction | Conscientiousness | Job fit | Leader/co-worker rapport | in-role performance | Management by exception |
| 🎧 | 😞� | 🎧 | 😞 | 😞 | 🎧 |

| THE LEADER’S DEEP-SEATED VISION & HOW HE EXPERIENCES IT: |
|---------------------------|-----------------|-----------------|-----------------|-----------------|
| Job satisfaction | Conscientiousness | Job fit | Leader/co-worker rapport | in-role performance | Management by exception |
| 🎧 | 😞 | 🎧 | 😞 | 😞 | 🎧 |
• Surprising:
  - Don’t be afraid to startle: employees appreciate it, and their trust in you as leader increases.
  - A startle to blossom attitude is associated with strong in-role performance (dixit both leader and co-worker).

• Remember!
  - The more a leader inspires co-workers to reflect, the less likely he is to indulge in management by exception (dixit leader and co-worker).
  - Startle to blossom is the opposite of management by exception!
  - Startle to blossom contributes more than any other Beyonder characteristics to conscientiousness (dixit co-worker).

• Be aware!
  - Leaders who aspire to agreeableness are less tempted to startle to blossom. ‘Nice guys’ are less likely to jump-start employees into creative thinking!
Endnotes


16 Kouzes, J.M., & Pasner, B.Z. (2010). The truth about leadership. The no-fails, heart-of-the-matter facts you need to know. San Francisco: Jossey-Bass. Although to some extent we are able to follow the reasoning of Kouzes and Pasner, we would argue that the leaders who avoid disasters may be less ‘eye-catching’, but are nevertheless the better leaders.


18 Idem.


25 Al Dunlap used to say: ‘Trust no one, and if you want take a dog, and to be sure take two of them’.


31 The almond core is also characterized by different zones (a dozen or so in number) that each fulfill a different role. As far as fear conditioning is concerned, it is the lateral core of the amygdala that receives the signals form the thalamus and transmits these on to the central core. The central core of the amygdala is also linked to brainstem, which controls, amongst other things, heart rate. LeDoux (1998) pages 158-159.


46. Heath & Heath also point this out in their book Switch.


52. Janusian thinking: the Roman god Janus had two faces, each looking in a different direction.


54. Chris Church is chief executive for the Americas and global head of securities (2011) at Swift. Chris Church referred to this concept during an interview with him on 1 March 2011.


Evaluating Boards of Directors: what constitutes a good corporate board?*

L. A. A. Van den Berghe** and Abigail Levrau

This paper is an attempt to identify what constitutes a good board of directors, and this is based on a comparison between academic literature, corporate governance rating systems and our field research into board practices. We observed that “traditional” academic research focused on a limited number of quantifiable board characteristics, while practitioners attach greater importance to “soft” elements, which are nearly absent in the literature and in the governance ratings. These findings highlight the need for a better understanding of all elements that determine board effectiveness. Furthermore, our results identify three areas of improvement for boards of directors.

Keywords: Corporate governance, board of directors, board evaluation, board effectiveness, corporate governance rating

Introduction

Boards of directors in private sectors cope with a bad image. Nearly 50 years ago, a Harvard Business School professor observed that too many boards of directors were passive and rather decorative. They were called mere “ornaments on a corporate Christmas tree” (Bryne, 2002). Also Drucker (1974) described boards as follows: “... the board of directors is an impotent ceremonial and legal fiction ...”. Lorsch and Maclver (1989), in studying American boards, concluded that too many acted more like pawns of their CEO rather than the potentates the law intended them to be. The growing interest in the underperformance of boards is by no means restricted to the US. Much attention has been given to the “crony capitalism” found in many parts of East Asia, the “gangster capitalism” found particularly in Russia and the “political cronyism” found in Japan and many other countries (Garratt, 1999).

Perhaps not surprisingly, passive boards often came under attack first by corporate raiders during the 1980s. From then onwards, boards of directors were scrutinised by institutional investors and other market parties. Major institutional investors have put pressure on incompetent directors and have been demanding enhanced disclosure of board practices. Some of these investors are very active and do not shrink from attacking boards in public. In this respect, one of the most cited examples is the full-page advertisement in The Wall Street Journal by Robert A. G. Monks, calling the directors of Sears, Roebuck & Company “non-performing assets” (Monks and Minow, 2001). An indicator of the increased interest of other market parties in corporate boards is the rise of board rating tools and the scoring of boards as part of the broader corporate governance rating systems.

Recent scandals have again put the spotlight on the board of directors. In the wake of corporate failures, numerous suggestions have been made about how to improve the governance of companies in order to rebuild trust. These corporate governance reforms focus primarily on the make up and the working of the board. According to Adrian Cadbury (1999) this is understandable, given the fact that boards of directors are the bridge between the shareholders and the management in charge...
of the running the company. Besides, boards are responsible for the standing of their company in the community. Observable, most of the recommendations usually put great emphasis on formal board structures and board characteristics such as board size, number of independent directors, number of board meetings, board committees etc. The disclosure of these structural elements enables market participants to evaluate if boards of directors are complying with the corporate governance recommendations. However, as recent corporate failures have shown, living up to the "formal" standards is not enough. More attention should be paid to correct governance attitude and behaviour of directors and management. In fact, corporate governance is about "doing the right things" and "doing the things right": a twofold condition, often neglected.

The main purpose of this paper is to identify the key criteria of board effectiveness and to examine how they apply in practice. The paper is structured as follows. The next section provides key attributes for good boards of directors from three perspectives: an in-depth review of the academic literature, a comparison of the corporate governance rating systems and an analysis of directors' views. After this section, we use a sample of Belgian listed companies to examine and evaluate board practices. The final section discusses the overall findings and includes concluding remarks.

Identifying criteria for good boards of directors

Evidence from the literature

One of the widely discussed issues in academic literature concerns how to appropriately structure the board of directors and to what extent the make up of the board of directors influences board actions or corporate performance. In this respect, board size, board composition and board leadership structure are three main characteristics frequently used in academic research.

Board size

Board size is one of the well-studied board characteristics from two different perspectives. First, the number of directors may influence the board functioning and hence corporate performance. Yermack (1996) found a negative relationship between board size and firm market value, using a sample of large US public companies. Similar results were reported using European data. Eisenberg et al. (1998) studied small non-listed Finnish firms and found a negative correlation between firm's profitability and the size of the board. The study by Conyon and Peck (1998) showed an inverse relationship between return on shareholders' equity and board size for five European countries.

Second, researchers have started to study boards of directors as decision-making groups by integrating literature on group dynamics and workgroup effectiveness. Hence, board size can have both positive and negative effects on board performance. Expanding the number of directors provides an increased pool of expertise because larger boards are likely to have more knowledge and skills at their disposal. Besides, large boards may be able to draw on a variety of perspectives on corporate strategy and may reduce domination by the CEO (Forbes and Milliken, 1999; Goodstein et al., 1994). However, increasing board size might significantly inhibit board processes due to the potential group dynamics problems associated with large groups. Larger boards are more difficult to coordinate and may experience problems with communication and organisation. Furthermore, large boards may face decreased levels of motivation and participation and are prone to develop factions and coalitions. Finally, boards may have difficulties to further cohesiveness and may suffer from a diffusion of responsibility or "social loafing" often found in large groups. Consequently, these group dynamic problems may hinder boards of directors in reaching a consensus on important decisions and may put a barrier on the ability of the board to control management (Judge and Zeithaml, 1992; Goodstein et al., 1994; Eisenberg et al., 1998; Forbes and Milliken, 1999; Golden and Zajac, 2001).

In sum, academic evidence demonstrates that larger boards are less efficient and hence negatively influence corporate performance. Notwithstanding these observations, we may not ignore the fact that a minimum number of directors is needed to guarantee the required countervailing power and diversity. The latter can express itself in different ways such as the need for a balanced representation of multiple stakeholder groups, the need for non-domestic directors in multinational companies, the need for sufficient expertise in diversified groups etc. (Van den Bergh and De Ridder, 2002).

Board composition

Much of the academic research on boards of directors focuses on the role and the propor-
tion of inside, outside and independent directors. In general, two theories form the basis for the reliance on insider or outsider-dominated boards. Agency theory focuses on the conflicts of interest that occur among the shareholders (principals) and the managers (agents), stemming from the separation of ownership and control. Managers who gain control may have the potential to pursue actions that maximise their self-interest at the expense of the shareholders. The board of directors is one of the mechanisms designed to monitor these conflicts of interest (Jensen and Meckling, 1976; Fama and Jensen, 1983). Thus, from an agency perspective, boards should be able to act independent of management and therefore must include a preponderance of outside directors. The opposite perspective is grounded in stewardship theory. According to stewardship theory, managers are good stewards of the company assets. Managers do not misappropriate corporate resources at any price because they have a range of non-financial motives, such as the intrinsic satisfaction of successful performance, the need for achievement and recognition etc. Reallocation of control from shareholders to management leads to maximisation of corporate profits and hence shareholder returns (Muth and Donaldson, 1998).

Following this reasoning, boards of directors dominated by insiders are preferable.

Academic research provides evidence that support both perspectives. The effect of outsider-dominated board on performance is indeed contradictory. Greater representation of outside directors on the board has a negative impact on firm performance, as measured by Tobin’s Q (Agrawal and Kanober, 1996) and on Market Value Added (Coles et al., 2001). In contrast, Rosenstein and Wyatt (1990) found that a clearly identifiable announcement of the appointment of an outside director leads to an increase in shareholder wealth. Also Baysinger and Butler (1985) reported that firms with higher proportions of independent directors ended up with superior performance records. Wagner et al. (1998) conclude that both greater insider and outsider representation can have a positive impact on performance, while others conclude that there is virtually no relationship between board composition and firm performance (Dalton et al., 1998; Hermalin and Weisbach, 2000).

Evidence suggests that board composition is also related to strategic decisions taken by the board and to the monitoring of management. Outsider-dominated boards are more involved in restructuring decisions (Johnson et al., 1993) and positively influence diversification strategies (Baysinger and Hoskisson, 1990). Similarly, higher insider representation has a negative effect on overall board involvement in the strategic decision-making process (Judge and Zeithaml, 1992). The presence of outside directors has a negative implication for the intensity of R&D (Baysinger and Hoskisson, 1990) and other entrepreneurial activities of the company (Short et al., 1999). The inclusion of insiders in the board may be useful because they have access to information relevant to outside directors in assessing both strategic initiatives and managerial performance (Fama and Jensen, 1983; Baysinger and Butler, 1985).

Board leadership structure

Agency theory, as well as stewardship theory, is also applicable to board leadership structure. Advocates of agency theory favour the separation of the roles of CEO and chairman of the board. Splitting these roles dilutes the power of the CEO and reduces the potential for management to dominate the board. Conversely, stewardship theory suggests that if the CEO also serves as the chairman, this duality provides unified firm leadership, builds trust and stimulates the motivation to perform (Muth and Donaldson, 1998).

The results of academic research are inconclusive on the effects of leadership structure on performance. Coles et al. (2001) reported a positive relationship between a joint structure and Economic Value Added, while the results for the meta-analyses by Dalton et al. (1998) show no relationship between board leadership structure and firm performance. However, a robust interaction effect is suggested between firm bankruptcy and board structures. Firms that combine the CEO and chairman roles and that have lower representation of independent directors are associated with bankruptcy (Daily and Dalton, 1994a, 1994b).

Corporate governance rating systems

For several years now, different parties assess and score the quality of corporate governance, both of countries and companies. The development of these rating systems is stimulated by the need to compare corporate governance structures and practices between countries and companies. Indeed, there is a rising demand from investors for tools helping them to judge the level of corporate governance as part of their investment strategy. Remarkably, the available rating systems use different methodologies and weighting in measuring the level of corporate governance and they...
Table 1: Classification of the criteria used by corporate governance and board rating systems

<table>
<thead>
<tr>
<th>Category 1</th>
<th>Category 2</th>
<th>Category 3</th>
</tr>
</thead>
<tbody>
<tr>
<td>Independence of outside directors</td>
<td>Board size</td>
<td>Access to information</td>
</tr>
<tr>
<td>Board committees</td>
<td>Board leadership structure</td>
<td>Age limitation</td>
</tr>
<tr>
<td>Director and executive compensation</td>
<td>Role of the board</td>
<td>Board review</td>
</tr>
<tr>
<td></td>
<td>Frequency of board meetings</td>
<td>Education/training</td>
</tr>
</tbody>
</table>

...take varying approaches to reach their final conclusions. However, a company’s board structure and processes is one of the three minimum categories found in all corporate governance rating systems (for a comparison, see Van den Berghe and Levrau, 2003). Appendix I provides a detailed overview of the criteria used in assessing boards of directors as part of the overall corporate governance rating systems. Besides these overall rating systems, specific board ratings have also emerged. Since 1996, Business Week magazine publishes its ranking of the best and worst boards in Corporate America (Bryne and Melcher, 1996). Recently, a specific “board effectiveness” rating tool was launched by The Corporate Library (see Appendix 2).

The comparison of the rating systems reveals a large variety of the detailed set of criteria used to assess boards of directors. This variety concerns both the number and the content of the indicators. The differences in focus can, to a large extent, be explained by the underlying principles. Most of the rating systems rely on the internationally recognised corporate governance principles and codes (e.g. OECD, ICGN, World Bank), completed with national recommendations (Van den Berghe and Levrau, 2003). In particular, the latter may differ from one country to another. This is also reflected in the rating systems concerned. For example, the corporate governance scorecard developed by DVFA includes specific criteria relating to the two-tier board structure and the co-determination found in Germany. Furthermore, the differences in focus can also be explained by the varying quality of the legal environment. In some emerging countries, corporate governance rating systems intercept the weak legal environment by including criteria not fully covered by law. For example, the CLSA’s corporate governance scoring system includes a whole set of indicators a company must take to prevent and punish mismanagement.

A more in-depth examination of the rating systems entails a division of the main criteria in three categories: (I) criteria used by (almost) all rating systems, (II) criteria found in some of the rating systems and (II) criteria exceptionally included. The classification is presented in Table 1.

Almost all rating systems pay attention – explicitly or implicitly – to board independence. This is not a surprise given the fact that the independent board is the cornerstone of the actual corporate governance debate. It is widely recognised that independent directors have an important role to play, especially in those areas where there is a potential for conflicts of interest, such as financial control, nomination and remuneration. Consequently, criteria concerning the selection and election of those directors are also included. One theme that is consistent in all rating systems is board committees. Many arguments can be put forward to demonstrate that the installation of board committees leads to a more effective operation of the board. The audit committee receives particularly high priority. Emphasis is also placed on director and executive compensation, including stock option plans and stock ownership. The extent to which the remuneration of directors is linked to financial or other performance measures is, however, fairly controversial.

Moderate priority is given to board size and board leadership structure. A limitation of the maximum number of board members is advocated. The board of directors should be small enough to be effective, more cohesive and to enable more participation and discussion. Furthermore, there is an outspoken preference for a separation of the positions of chairman and CEO. Some rating systems also include specific criteria for CEO succession. The role of the board and more specifically the division of tasks between management and the board of directors also receives less attention. While the distribution of responsibilities in a two-tier board structure is perhaps straightforward, it is more vague in a unitary board model. In general, boards of directors are supposed to direct the company and not to manage it. Some rating systems include the frequency of board meetings as a criterion. After all, an active...
EVALUATING BOARDS OF DIRECTORS: WHAT CONSTITUTES A GOOD CORPORATE BOARD?

Abigail Levrau, L. A. A. Van Den Berghe

Board meetings

In order to have an effective and constructive board meeting, several conditions need to be fulfilled. The first issue concerns information. Information refers to the documents the directors receive in advance. Moreover, directors must take the time to prepare themselves. A well-prepared director is viewed as crucial. Information also includes data and the format in which these data are presented during the board meetings. For instance, information about the functional domains of the company and about the activities of competitors, presented in an analytic and comprehensive way, furthers efficient decision-making. Finally, information also refers to the willing-ness of directors to learn about the company’s business outside the board meetings. Directors must show interest in what the company and its business units are doing. The second issue, reported nearly as often as the previous one, is the quality of the discussions or debates. Real, open, in-depth debates are essential for an effective board meeting. Moreover, discussions must take place inside the board room and not “behind the scenes”. Each director should have the opportunity to speak up freely and to contribute, but the deliberations should be characterised by neutrality and objectivity. Or, as one director stated, “one should play the ball, not the man.” Finally, the board of directors must be critical, but at the same time preserve a comfortable and constructive climate. The third issue relates to the role of the chairman. According to the directors interviewed, the chairman needs to be a strong leader who keeps control, but without being dominant. He should be impartial and he is the driving force of the board. Finally, he must monitor the presence and preparation of the other directors. The fourth issue concerns the way the decisions are taken by the board of directors. The board of directors in making decisions may not be dominated by management or shareholders. Furthermore, important

Directors’ perspectives

Beyond the criteria used in academic research and corporate governance rating systems, directors themselves have own views on what constitutes a good board of directors. On the basis of in-depth interviews with 60 board members of Belgian listed companies, the directors were asked to sum up what they believe are elements of a good board of directors. A detailed overview is given in Appendix 3. Table 2 provides a summary of the results, grouped and sorted by frequency in descending order.

The interview results presented in Table 2 show that the quality of the board meetings is the most frequently reported element, followed by a balanced composition of the board and the board of directors as a decision-making group. The latter expresses more qualitative and human elements of the board. Less frequently mentioned elements are the role the board of directors is supposed to play and the relationship of the board with management and shareholders.

Table 2: Elements of a good board of directors: directors’ perspectives

<table>
<thead>
<tr>
<th>Elements of a good board of directors</th>
<th>Frequency this element is reported</th>
</tr>
</thead>
<tbody>
<tr>
<td>Group 1: Quality of the board meetings</td>
<td>N = 71</td>
</tr>
<tr>
<td>Group 2: Composition of the board of directors</td>
<td>N = 48</td>
</tr>
<tr>
<td>Group 3: Board of directors as a decision-making group</td>
<td>N = 33</td>
</tr>
<tr>
<td>Group 4: Role of the board of directors</td>
<td>N = 16</td>
</tr>
<tr>
<td>Group 5: Board–management–shareholder relationship</td>
<td>N = 7</td>
</tr>
<tr>
<td>Total</td>
<td>N = 175</td>
</tr>
</tbody>
</table>

© Blackwell Publishing Ltd 2004

Volume 12 Number 4 October 2004
items should be well thought out and therefore might appear on the board agenda more than once. Finally, the resolutions taken by the board must be respected and be reproduced in the board minutes in a correct way. The last issue is the engagement or involvement of the directors. Directors must be “mentally” present and actively involved in the decision-making process.

Composition of the board

The board of directors needs to have the appropriate structure. This involves several related dimensions. The two most frequently reported dimensions are diversity and complementarity. The board should comprise a mix of people having different personalities and educational, occupational and functional backgrounds, but they must be complementary. A board of directors including only “clones” does not work and is even dangerous. However, having these skills at the disposal of the board is not enough. Board members should also effectively use their skills and not lock themselves into their own speciality. During the years, the composition of the board should be reviewed regularly, depending on the required skills. The third dimension relates to the proportion of inside and outside directors. In general, the board of directors should pursue a balance between executive directors, shareholders’ representatives and outside independent directors. Or, as one director expressed, “Corporate democracy is effectively exercised within the board”. However, few directors favour an overweight of outside or independent directors. The fourth dimension refers to the experience and knowledge of the directors. Beyond diversity and complement, this dimension was cited separately as one of the key criteria. Members of the board of directors must have a minimum knowledge of accountancy, law and the industry. Preferable, board members have some years of experience in directing a company. The fifth dimension concerns the size of the board. In order to operate more effectively, the board of directors should not be too large. An “ideal” number, however, was not mentioned. The last dimension relates to the internationalisation of boards. Depending on the business environment, adding foreign directors to the board of directors may be an advantage. But consequently, having non-domestic board members may hinder board meetings due to the difficulties (e.g. language and transportation) involved.

Board of director as a decision-making group

Much attention is also paid to the more qualitative side of board operations. The frequencies of the reported issues are very close. Most important, the board of directors must act as a team. Board members should work together, respect each other and be positive minded. The board must strive to stimulate dialogue and interaction among its members. Second, the moral principles and values of the board members are indisputable. Furthermore, directors must feel responsible and be independent of mind. Third, the board of directors needs to pursue a common vision or interest. Fourth, boards need the right chemistry and must foster cohesiveness. Fifth, trust between the members is essential. Finally, directors should have a sense of humour and meet outside the boardroom at informal occasions.

Role of board of directors

In general, there are widely diverse perspectives on the role of the board. Directors themselves place emphasis on strategy and monitoring. Board members need to have insight in the company’s strategy and stimulate management in strategy formulation and implementation. Therefore, they must be able to estimate the evolution of the socio-political environment and to apprehend the complexity and uncertainty involved. Or, as one director explained, “We need to be able to see the present, whilst keeping an eye on the future”. Furthermore, the board of directors must be to some extent entrepreneurial and have the courage to take risks. Too many boards are too defensive and put their feet on the brakes. The second role relates to monitoring and control. Boards must establish proper rules in order to prevent mismanagement and monitor these rules. Installing a system that discourages corruption is a minimum condition. Furthermore, they should strictly monitor the evolution of the outcomes, and confront these with the financial plans.

Board–management–shareholder relationship

The relationships between the board and management on the one hand, and between the board and shareholders on the other, are the heart of the corporate governance triangle. Surprisingly, these relationships were least frequently reported. Only a few directors place value on a constructive relationship with management. A board of directors depends on a strong and honest management. The board must support and challenge the management.
Evaluating Boards of Directors: what constitutes a good corporate board?

Abigail Levrau, L. A. A. Van Den Berghe

Exploring key attributes of effective boards in Belgian listed companies

Given the increasing interest in boards of directors, a research project was set up to examine the working of the boards of listed companies in Belgium and to trace “best practices”.

Research methodology

The study of the boards of directors of Belgian listed companies was divided into two stages. Initially, all companies listed on Euronext Brussels and Belgian companies listed on Nasdaq Europe were included. For these 131 companies, publicly available information was gathered, including annual reports, press releases, data published on the web-site and the company’s articles of association. In the first stage, this information was analysed and companies were selected if they satisfied nine key criteria. These criteria are seen as minimum conditions for a good board of directors and concern “structural” elements such as the number of independent directors, board leadership structure, presence and composition of the audit committee etc. These criteria are derived from the Belgian corporate governance recommendations and supported by a broad national and international consensus. Twenty-eight companies scored the maximum. In addition, importance was attached to the level of board disclosure. Seventeen indicators of transparency were also examined and yielded 11 companies. Companies who were not selected but who scored relatively well (so-called “runners up”) were given the opportunity to inform us of recent adjustments. Taken into account the responses and excluding some of the selected companies due to important changes (e.g. de-listing), 30 companies finally took part in the second stage.

The second stage consisted of in-depth interviews with two directors of each company, including an inside director (preferably the CEO) and the chairman of the board. In cases where the chairman was not independent, an independent director was contacted instead. In total, 60 directors were interviewed. In-depth interviews were carried out by two persons and each interview took at least 90 minutes. In order to support the interviews, a survey instrument was developed using a mix of semi-structured and open questions. In addition, a written survey of the factual data was checked and completed by the directors. The aim of the second stage was to track down the practical operation of the board and the use of in-depth interviews allowed going beyond the “box ticking” approach. Furthermore, interviewing multiple directors serving on the same board generates different perspectives and produces a more subtle view on the strong and weak points of board practices.

Analysis and findings

To analyse and compare the data an evaluation tool was developed. This tool was the outcome of an international comparison of the corporate governance codes, former research results and practitioners’ views. Figure 1 summarises and illustrates the evaluation tool.

The right structures

In order to have an effective working of the board, a company needs, above all, the right board structure. In this respect, “right” implies a two-fold condition: (I) the board structure needs to pass the test of the international and national corporate governance recommendations. This includes, among others, a high level of transparency of board issues, the need for countervailing power, an appropriate structure of the board and the establishment of board committees. (II) The board structure needs to be adapted to the stage of the company’s development and its strategy (cf. Chandler’s paradigm (1966) “structure follows strategy”).

The right people

Structures are no guarantee for an effective board working; they are only a facilitator. Structures are “brought alive” by people. Therefore, most emphasis is placed on the process of selection and re-election of directors. Concerning outside directors, the preparation of a director’s profile is crucial as well as the integration of a new director into the board. Additional characteristics are required in appointing the chairman of the board. Finally, given the importance of insiders on the board, they need to be selected with care.

© Blackwell Publishing, Ltd 2004

Volume 12 Number 4 October 2004

Evaluating Boards of Directors: what constitutes a good corporate board? | Abigail Levrau, L. A. A. Van Den Berghe
The right culture

Culture includes the “soft” elements of the board of directors and, contrary to board structures, is more difficult to explore. This component focuses on the “style of meeting” and “style of debate”. The first issue includes different criteria relating to the degree of formality in the boardroom, while the second issue refers mainly to the openness and the critical attitude of directors in the discussions. Finally, the decision-making process and the relationship among the board members are also taken into account.

The right issues

Much attention was paid to the tasks and responsibilities of the board, the top management and the board committees. The board of directors needs to fulfill a two-fold role. On the one hand, boards are expected to control and monitor the company and on the other hand they need to be involved in strategy. Furthermore, the board can delegate some of its responsibilities to the executives. Finally, the tasks of the board committees are closely examined. Given a detailed set of tasks, the aim of this component is to examine who is responsible in practice and how the parties involved interact.

The right information

An effective decision-making requires informed directors. The big challenge for the board is to properly inform its outside directors. Indeed, outside directors depend to a large extent on the goodwill of the management to obtain relevant and correct information. The quality of information, the direct contact between directors, management and the external auditor, the possibility to consult external advisers etc. were all included. But information rights go hand in hand with the duty of discretion and directors’ liability. These elements were also taken into account.

The right process

An effective board presumes some procedural aspects. This component refers to the format of board and committee meetings. For instance, frequency and duration of board and committee meetings, the degree of attendance of the board members, their role in setting the agenda, voting procedures, minutes of the meetings, and so on, are all included. But the key issue in this component is the follow-through (The Right Follow-Through).
EVALUATING BOARDS OF DIRECTORS: WHAT CONSTITUTES A GOOD CORPORATE BOARD?

The right remuneration

As mentioned before, directors’ remuneration and, in particular, performance-related pay of outside directors is quite controversial. Instead of judging the level and the nature of the compensation, this component focuses on the remuneration policy for both inside and outside directors. The disclosure of board remuneration is also examined.

The right follow-through

A critical aspect of an effective board is the evaluation of its own performance and of its management. An evaluation of the board should comprehend three elements: the composition of the board, the working of the board and the individual board members. Also the CEO and top management must be evaluated and monitored by the board.

Using this evaluation tool, 1000 individual criteria were explored and classified into the above-mentioned groups. The boards of directors were then scored on 132 aggregated criteria.11 Table 3 provides the overall findings.

<table>
<thead>
<tr>
<th>Component</th>
<th>Criteria</th>
<th>Mean</th>
<th>Min</th>
<th>Max</th>
</tr>
</thead>
<tbody>
<tr>
<td>The right structure</td>
<td>N = 30</td>
<td>44.2%</td>
<td>-2.4%</td>
<td>68.2%</td>
</tr>
<tr>
<td>The right people</td>
<td>N = 12</td>
<td>45.1%</td>
<td>0.0%</td>
<td>80.0%</td>
</tr>
<tr>
<td>The right culture</td>
<td>N = 16</td>
<td>73.0%</td>
<td>14.3%</td>
<td>95.0%</td>
</tr>
<tr>
<td>The right issues</td>
<td>N = 21</td>
<td>72.6%</td>
<td>29.2%</td>
<td>100.0%</td>
</tr>
<tr>
<td>The right information</td>
<td>N = 12</td>
<td>63.7%</td>
<td>-11.1%</td>
<td>92.3%</td>
</tr>
<tr>
<td>The right process</td>
<td>N = 23</td>
<td>65.9%</td>
<td>28.6%</td>
<td>84.8%</td>
</tr>
<tr>
<td>The right remuneration</td>
<td>N = 7</td>
<td>38.2%</td>
<td>0.0%</td>
<td>62.5%</td>
</tr>
<tr>
<td>The right follow-through</td>
<td>N = 11</td>
<td>18.0%</td>
<td>-50.0%</td>
<td>100.0%</td>
</tr>
<tr>
<td>Total</td>
<td>132</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Discussion and conclusion

The primary concern of this paper has been to provide a better insight into the criteria that constitute a good and effective board of directors. The analysis presented reveals some interesting points of discussion.

Confronting the three perspectives: academic literature, corporate governance rating systems and directors’ views

“Structural” elements versus “soft” factors

Although the board of directors is frequently studied in academic research, scholars traditionally have been focusing on a limited number of characteristics, such as board size, board composition and board leadership. In contrast, the corporate governance rating systems are more elaborated. In measuring the boards of directors of mainly listed companies, they evaluate a wide variety of criteria. In our comparison of the corporate governance and board rating systems, we have pointed out the great diversity of the number of criteria used, as well as the differences in focus, due to the underlying principles and legal environment. However, the emphasis on “structural” elements is striking. Furthermore, it is not clear how specific criteria are judged by the different rating systems. For example, while all rating systems include directors’ remuneration as a criterion, performance-related pay and, in particular, stock option plans are rather controversial. In this respect, different opinions flourish and to this day it is not transparent what is seen as “best practice” by the rating systems.

The interview results reveal a huge discrepancy between the criteria found in academic
literature or corporate governance rating systems and the perspectives of the directors themselves. In practice, directors place great emphasis on the quality of board meetings, including appropriate and sufficient information, open and critical debates and the chairman as the driving force. Also, more importance is attached to diversity and complementarity of board members rather than board size or the proportion of outside, independent directors. Finally, frequently mentioned by directors was team spirit, mutual respect and trust. However, most of these factors are intangible and common sense, in fact they are not new. Consultants and academics working closely with directors have already drawn attention to the importance of the human element in board effectiveness. A climate of trust and candour, a culture of open dissent, collective wisdom, collective strength and behavioural expectations are all put forward as elements to increase board performance (Demb and Neubauer, 1992; Charan, 1998; Conger et al., 2001; Kautman, 2002; Sonnenfeld, 2002). A missing element, however, is power. Power refers to the ability to make and influence decisions and it can be derived from multiple sources (e.g., the authority of an individual, his knowledge, a person’s rank or position in the hierarchy of an organisation etc.) (Demb and Neubauer, 1992; Conger et al., 2001). Although power is also seen as a key attribute of effective boards by those authors, it was not cited by any of the directors in our poll. This divergence likely stems from the interview technique that was used and needs to be examined further using other research techniques.

Role of the board

More similarity and consensus is found regarding the role of the board. In the academic literature, six board roles are identified, derived from the different (competing) theories of corporate governance:2 linking role, coordinating role, control role, strategic role, maintenance role and support role. The linking role refers to access board members may provide to valuable resources and information as well as to inter-firm connections. The coordination role implies the board negotiates and compromises with different stakeholders. The board’s control role refers to its duty to monitor management and corporate performance in general. The strategic role involves taking important decisions on strategic change, while the maintenance role focuses on maintaining the status quo of the organisation. Finally, the support role refers to the fact that boards do not get involved in strategic setting and only support the decisions of professional management (Hung, 1998). Others also recognise the service role of the board, which essentially holds that the board may provide advice and counsel to the CEO and other top managers otherwise unavailable from other staff (Dalton et al., 1998; Forbes and Milliken, 1999). Two of these roles are demonstrated by the interview results. Directors themselves put great and exclusive emphasis on the strategic and control role. These results also support similar findings of other directors’ polls. Demb and Neubauer (1992), for example, reported that in their surveys a high priority was consistently given to establishing strategic direction and controlling/monitoring/supervising management. Besides, according to their findings, boards address the same portfolio of tasks, irrespective of board structure or legal framework. A slightly different approach is taken by the rating systems. If they include criteria on the role of the board, they focus primarily on the division of tasks between the board of directors and management. Again, it is not clear how the distribution of responsibilities is judged and what is considered to be “best practice”. After all, in practice, the duties of the board and management differ substantially.

The differences and similarity found in comparing the perspectives of academic literature, corporate governance rating systems and practitioners’ views are strengthened by the evidence of our own evaluation of the boards of Belgian listed companies. The boards of directors included in our second phase and who consequently had passed prior screening, perform the best on the right culture and the right issues.

Areas of improvement: challenges for the board

Beyond the findings reported above, we can identify three areas of improvement for the boards of directors.

Evaluation of the board and the directors

Although advocates of corporate governance plead for a formal board and director evaluation, this is still a bridge too far for most boards of directors. Only a small number of companies evaluate the performance of the entire board. Individual evaluation is also exceptional and occurs mainly if a director stands for re-election. Furthermore, in inter-

---

2. The nine existing board roles have been reduced to six. References for the original roles are Demb and Neubauer (1992), Conger et al. (2001), and Charan (1998).
viewing the directors, it was striking to observe the different and even contradictory responses of directors who are members of the same board. As the concerns and expectations of inside and outside directors may diverge, we believe the issue of board evaluation should be addressed more explicitly.

Selection of outside directors
Another challenge for the board is the professionalisation of the selection process of outside directors. While it is evident that top management is recruited through an increasingly professional process, new outside directors are still attracted in an informal way. As a consequence, one may not underestimate the importance of the “old-boys network”. Even if a director’s profile is made up formally, the first search for suitable candidates is limited to own networks. We expect the use of networks will remain important, while the pool of potential candidates will extend.

Information to outside directors
It is generally accepted that outside directors face a disadvantageous position with regard to information gathering. Interviewing outside directors of Belgian listed companies underlines this information gap. Our findings point to different shortcomings, such as a lack of information provided to the outside directors by the company, poor communication between inside and outside directors or a disinterested attitude of the outside directors to inform themselves. We support the suggestions made by other academics such as Taylor et al. (2001) and Conger et al. (2001) to increase the use of information technologies in the boardroom. Boards can take advantage of such technologies to improve the communication between the board members and to speed the flow of information. Also the different websites provide a wealth of information to outside directors.

Further research
Our evaluation of the boards of directors was limited to 30 companies listed on Euronext Brussels and Nasdaq Europe, who were selected after satisfying a minimum number of key criteria. Expanding the sample to all listed companies and also including non-listed companies could make our findings more robust. Furthermore, it would enable us to examine differences according to the firm typology in more depth. The data already indicate differences in board and governance practices between large, well-established companies and smaller and younger mainly high-tech companies on the one hand and within the group of family owned enterprises on the other. Further research could ground this factual information. Enlarging the sample to include an international scope of different countries would further improve the quality and the robustness of these research findings and the value for developing useful corporate governance tools.

A large amount of empirical literature on boards of directors examines how board characteristics relate to profitability. As we have pointed out, most of the results are inconclusive. It can be stated that the methods used to study such a relationship cause numerous problems. First, firm performance is indeed a complex issue, hard to measure and it is finally the outcome of many inter-locking factors. Second, the complexity of the board of directors itself requires more extensive research methods. Up till now, most scholars only focus on one or a very limited number of board characteristics, which are quantifiable. In contrast, our evaluation tool is an attempt to incorporate a wide variety of criteria in order to capture the real value of the board. Also, recent research by Dulewicz and Herbert (2003) recognises the importance of attitudinal aspects in board research. Hence, further research is encouraged to get a better insight into the characteristics that determine board performance.

Moreover, in order to measure the quality of corporate governance at a firm level, the focus on the board of directors alone is not enough. The board is one among many elements of corporate governance mechanisms. Others include institutional/block-holder shareholdings, management incentive plans, CEO succession, etc. Further research is required to examine the interaction and the interdependence between the various governance mechanisms in order to identify those criteria that really impact corporate performance.

Notes
1. See Appendix 3, Table A.
2. See Appendix 3, Table B.
3. See Appendix 3, Table C.
4. See Appendix 3, Table D.
5. At the end, this research project has led to the presentation of the “Best Board Award”, a partnership of the Belgian Directors’ Institute, Ernst & Young, Schelstraete & Desmedt Executive Search and Trends/Tendances.
6. The selection of directors who took part in the interviews was done autonomously by the researchers. In other words, the companies themselves did not designate the directors involved.
8. Started in 1997, a survey was conducted at 500 companies in Belgium, listed and non-listed, to examine the corporate governance practices.
9. These views stem from directors’ participation in different workshops organised by the Belgian Directors’ Institute.
10. The scheme was originally developed by the National Association of Corporate Directors (2001), but the content was adapted and extended based on our expertise.
11. Boards could receive a positive (+1), a neutral (0) or a negative (–1) score.
12. These theories are: resource dependency theory, stakeholder theory, agency theory, stewardship theory, institutional theory and managerial hegemony.

References


Dulewicz, V. and Herbert, P. (2003) Relationships Between the Practice of UK Boards of Directors and the Performance of their Listed Companies, Does the Composition and Practice of their Boards have any Effect on the Performance of UK Listed Companies? Forthcoming.


---

**Lutgard Van den Berghe** obtained her PhD in Economics at the Ghent University on the topic of the economic value of insurance. She is extra-ordinary Professor at the Ghent University in corporate governance. She is Partner of the Vlerick Leuven Gent Management School and President of the Research Centre for Entrepreneurship, Governance and Strategy. She is Executive Director of The Belgian Directors’ Institute and member of the board of numerous (international) companies.

**Abigail Levrau** holds a degree of Applied Economic Sciences from Ghent University. She is Senior Researcher at The Belgian Directors’ Institute. Her research and interests are on corporate governance, board effectiveness and corporate governance ratings.

---

### Appendix 1

<table>
<thead>
<tr>
<th>Board structure</th>
<th>S&amp;P</th>
<th>ISS</th>
<th>CLSA</th>
</tr>
</thead>
<tbody>
<tr>
<td>election of the board: selection and appointment of board members, number of directors, age limitation</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>composition and workings of the board: presence of non-executive and independent directors, diversity, division between the role of Chairman and CEO</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>functioning of the board: workings of the board, internal conduct</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>director and executive remunerations policy, stock option plans</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>workings and authorities of board committees</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Board structure &amp; process</th>
<th>Board</th>
<th>Board composition</th>
<th>Nominating committee</th>
</tr>
</thead>
<tbody>
<tr>
<td>board size and composition; board leadership and committees; representation of constituencies</td>
<td>Board size</td>
<td>Compensation committee</td>
<td></td>
</tr>
<tr>
<td>Role and effectiveness of board definitions of board role; board-level processes for identifying, evaluating, managing and mitigating risks faced by the company; board and committee meeting’s agenda and papers; management</td>
<td>Board size</td>
<td>Governance committee</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Cumulative voting</td>
<td>Audit committee</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Boards served on – CEO</td>
<td>Board structure</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Boards served on – other than CEO</td>
<td>Board size</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Former CEOs</td>
<td>Changes in board size</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Chairman/CEOs separation</td>
<td>Cumulative voting</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Board guidelines</td>
<td>Boards served on – CEO</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Response to shareholder proposals</td>
<td>Remuneration committee</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Board attendance</td>
<td>Executive management committee</td>
<td></td>
</tr>
</tbody>
</table>

---

© Blackwell Publishing Ltd 2004

---

Evaluating Boards of Directors: what constitutes a good corporate board? | Abigail Levrau, L. A. A. Van Den Berghe

**Volume 12 Number 4 October 2004**
### Role and independence of outside directors

- Relationship between outside board members and senior management; history of involvement of outside directors with company; terms of outside director engagement; control committee independence and activity; articulation of the specific role of outside directors, director election procedures

### Directors and executive compensation, evaluation and succession policies level and form of compensation; the extent to which pay is connected to financial or other performance measures; performance evaluation criteria; independence and integrity of compensation setting process; succession planning

### Executive and director compensation

- Cost of option plans
- Option re-pricing
- Shareholder approval of option plans
- Compensation committee interlock
- Director compensation
- Pension plans for non-employee directors
- Option expensing
- Option burn rate
- Corporate loans

### Qualitative factors

- Retirement age for directors
- Board performance review
- Meetings of outside directors
- CEO succession plan
- Outside advisers available to board
- Directors resign upon job change

### Ownership

- Director ownership
- Executive stock ownership
- Guidelines
- Director stock ownership
- Guidelines
- Officer and director stock ownership

### Director education

- Director education

<table>
<thead>
<tr>
<th>Démor</th>
<th>S&amp;P</th>
<th>ISS</th>
<th>CLSA</th>
</tr>
</thead>
<tbody>
<tr>
<td>Board vacancies</td>
<td>Related party transactions</td>
<td>Executive and director compensation</td>
<td>No representatives of banks or other large creditors on the board</td>
</tr>
<tr>
<td>Role and independence of outside directors</td>
<td>Cost of option plans</td>
<td>Board plays a supervisory rather than executive role</td>
<td>Accountability</td>
</tr>
<tr>
<td>relationship between outside board members and senior management; history of involvement of outside directors with company; terms of outside director engagement; control committee independence and activity; articulation of the specific role of outside directors, director election procedures</td>
<td>Option re-pricing</td>
<td>Non-executive directors demonstrably independent</td>
<td></td>
</tr>
<tr>
<td>Directors and executive compensation, evaluation and succession policies level and form of compensation; the extent to which pay is connected to financial or other performance measures; performance evaluation criteria; independence and integrity of compensation setting process; succession planning</td>
<td>Shareholder approval of option plans</td>
<td>Independent, non-executive directors at least half of the board</td>
<td></td>
</tr>
<tr>
<td>Executive and director compensation</td>
<td>Compensation committee interlock</td>
<td>Foreign nationals’ presence on the board</td>
<td></td>
</tr>
<tr>
<td>Director compensation</td>
<td>Director compensation</td>
<td>Full board meetings at least every quarter</td>
<td></td>
</tr>
<tr>
<td>Pension plans for non-employee directors</td>
<td>Pension plans for non-employee directors</td>
<td>Board members able to exercise effective scrutiny</td>
<td></td>
</tr>
<tr>
<td>Option expensing</td>
<td>Option expensing</td>
<td>Audit committee that nominates and reviews work of external auditors</td>
<td></td>
</tr>
<tr>
<td>Option burn rate</td>
<td>Option burn rate</td>
<td>Audit committee that supervises internal audit and accounting procedures</td>
<td></td>
</tr>
<tr>
<td>Corporate loans</td>
<td>Corporate loans</td>
<td>Responsibility</td>
<td></td>
</tr>
<tr>
<td>Retirement age for directors</td>
<td>Retirement age for directors</td>
<td>Acting effectively against individuals who have transgressed</td>
<td></td>
</tr>
<tr>
<td>Board performance review</td>
<td>Board performance review</td>
<td>Record on taking measures in cases of mismanagement</td>
<td></td>
</tr>
<tr>
<td>Meetings of outside directors</td>
<td>Meetings of outside directors</td>
<td>Measures to protect minority interests</td>
<td></td>
</tr>
<tr>
<td>CEO succession plan</td>
<td>CEO succession plan</td>
<td>Mechanisms to allow punishment of executive/management committee</td>
<td></td>
</tr>
<tr>
<td>Outside advisers available to board</td>
<td>Outside advisers available to board</td>
<td>Share trading by board members fair and fully transparent</td>
<td></td>
</tr>
<tr>
<td>Directors resign upon job change</td>
<td>Directors resign upon job change</td>
<td>Board small enough to be efficient and effective</td>
<td></td>
</tr>
</tbody>
</table>

### Cooperation between management board and supervisory board

- Is there a written understanding between the management and supervisory boards with regard to regular, timely and comprehensive information by the management board?
- Do terms of reference exist for the supervisory board detailing its rights and duties, stipulating inter alia the transactions

**Board composition:**

- Representatives of minority shareholders or well-known independent industry experts serving on the board usually help to install confidence that minority shareholders will at least be informed of the board’s activities

**Board of directors and management structure**

- A number of questions analysed as part of the Corporate Governance Rating
- Methodology concern independent directors
- A study is also carried out of the board of directors’ role in the management of the company and other matters pertaining to the distribution of powers between

---

**Volume 12 Number 4 October 2004**

© Blackwell Publishing Ltd 2004
EVALUATING BOARDS OF DIRECTORS: WHAT CONSTITUTES A GOOD CORPORATE BOARD?

<table>
<thead>
<tr>
<th>DVFA</th>
<th>Brunswick Warburg</th>
<th>ICLG</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>required approval and the information duties of the management board? Do the representatives of the shareholders and of the employees of co-determined supervisory boards meet separately to prepare the supervisory board meetings? Is a general meeting generally convened in case of a takeover offer? Does an appropriate deductible exist for any D&amp;O insurance policies for management and supervisory board members? <strong>Supervisory board</strong> Do defined criteria exist to ensure the qualification of supervisory board members (e.g., professional qualification and experience, sufficient time, international experience)? Are there no more than two former members of the management board on the supervisory board and do supervisory board members refrain from directorships or advisory tasks for important competitors of the company? Do re-appointments of management board members take place at the earliest one year before the end of the original appointment period and with due consideration of age limits? Does the supervisory board have a sufficient number of committees in order to adequately handle complex issues? Does an audit committee exist? Is the audit committee not chaired by the chairman of the supervisory board? Does the supervisory board receive a performance-related variable compensation linked to the long-term company results, which is reported individually in the notes of the financial statements? Is additional compensation received for advisory or agent services of supervisory board members separately listed on an individual basis? Are potential conflicts of interest and own-account transactions disclosed to the supervisory board and to the general meeting (such as purchase and sale of own shares and share options, transactions with the company or its board members, company loans, directorships with important competitors)? Does the supervisory board conduct an annual review of its activities?</td>
<td>and have their concerns heard.</td>
</tr>
</tbody>
</table>
Appendix 2

Board Effectiveness Ratings

The Corporate Library has devised a proprietary system for rating board effectiveness, an important indicator of potential investment risk. Board Analyst’s rating system, available as an add-on module for investment-oriented subscribers, relies on a small number of statistically significant indicators. Most importantly, we consider:

- **CEO Employment Contracts and Compensation Practices**
  Indicative of the board’s overall commitment to shareholder value, these screens review CEO short and long-term compensation practices.

- **Outside Director Shareholdings**
  Are the personal interests of the firm’s outside directors aligned with the interests of the public shareholders?

- **Board Structure and Make-up**
  Do the directors provide an appropriate range of skills and experience? Are committee assignments appropriately independent? Does the board maintain a healthy degree of independence from the CEO? Not every element examined here will apply to every board – the system is flexible in allowing for such variables as industry-specific practices, company ownership structure, individual company history and variations in state of incorporation or home country legal and regulatory environments.

- **Ownership**
  The presence of controlling or dominant shareholders can have an enormous impact on overall board effectiveness. So too can the inverse – the absence of vested owners, as in those companies that are fully “indexed”, where no single shareholder owns more than 1 per cent of the outstanding shares.

- **Accounting and Audit Oversight**
  The board is directly responsible for the overall integrity of the corporate accounting system. Does the board permit frequent special charges or earnings restatements? Does the board approve of pro forma
reporting, and if so, to what degree of transparency? Is the audit committee fully independent of management and comprised of members adequately versed in the intricacies of corporate accounting and reporting? Does it provide effective oversight of the audit process? These aspects of board responsibility are absolutely critical to the overall well-being of the firm.

**Board Decision-making**

What do the strategic decisions made by the board tell us about their overall effectiveness? We consider, among others, M & A decisions, re-incorporations, new stock offerings and buy-backs, corporate debt structures and takeover defence implementations.

Individual scores in each area are combined to provide an overall Board Effectiveness Rating for each board. Given two firms with similar earnings and commercial prospects, the one with the stronger board will be the better choice for most investors.

Source: The Corporate Library
http://www.thecorporatelibrary.com/

### Appendix 3

#### Research method

Sixty directors of Belgian listed companies were interviewed and were asked to sum up what they believe are elements of a good board of directors. We used an open question in order to receive “top of mind” answers. In total 175 elements were mentioned. These elements were sorted and similar issues were grouped. Consequently, some elements have a low response rate. Each group was then labelled. Although we are aware of the limits and the disadvantages of such a qualitative research method, the findings provide some valuable insights on board practices and experience of Belgian directors. Still, the results need to be further examined using other research techniques.

<table>
<thead>
<tr>
<th>Table A: Detailed overview of sub-elements of group 1</th>
</tr>
</thead>
<tbody>
<tr>
<td>Board meetings</td>
</tr>
<tr>
<td>Frequency this sub-element is reported</td>
</tr>
<tr>
<td>Information                                         N = 25</td>
</tr>
<tr>
<td>Quality of the discussion/debate                    N = 24</td>
</tr>
<tr>
<td>Role of the chairman                                N = 9</td>
</tr>
<tr>
<td>Resolutions/decisions                               N = 7</td>
</tr>
<tr>
<td>Engagement/involvement                              N = 5</td>
</tr>
<tr>
<td>Formal versus informal board meetings               N = 1</td>
</tr>
<tr>
<td>Total                                                N = 71</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Table B: Detailed overview of sub-elements of group 2</th>
</tr>
</thead>
<tbody>
<tr>
<td>Composition of the board of directors</td>
</tr>
<tr>
<td>Frequency this sub-element is reported</td>
</tr>
<tr>
<td>Diversity                                           N = 12</td>
</tr>
<tr>
<td>Complementarity                                     N = 12</td>
</tr>
<tr>
<td>Balanced composition: insider/outside representation N = 9</td>
</tr>
<tr>
<td>Experience, knowledge                               N = 8</td>
</tr>
<tr>
<td>Board size                                          N = 4</td>
</tr>
<tr>
<td>Internationalisation                                N = 3</td>
</tr>
<tr>
<td>Total                                                N = 48</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Table C: Detailed overview of sub-elements of group 3</th>
</tr>
</thead>
<tbody>
<tr>
<td>Board of director as a decision-making group</td>
</tr>
<tr>
<td>Frequency this sub-element is reported</td>
</tr>
<tr>
<td>Board of directors as a team                         N = 8</td>
</tr>
<tr>
<td>Ethics                                               N = 6</td>
</tr>
<tr>
<td>Common vision/interest                               N = 5</td>
</tr>
<tr>
<td>Cohesion and chemistry                               N = 4</td>
</tr>
<tr>
<td>Trust                                                N = 4</td>
</tr>
<tr>
<td>Social contact outside the board                     N = 2</td>
</tr>
<tr>
<td>Humour                                               N = 2</td>
</tr>
<tr>
<td>Other                                                N = 2</td>
</tr>
<tr>
<td>Total                                                N = 33</td>
</tr>
</tbody>
</table>
Table D: Detailed overview of sub-elements of group 4

<table>
<thead>
<tr>
<th>Role of the board of directors</th>
<th>Frequency this sub-element is reported</th>
</tr>
</thead>
<tbody>
<tr>
<td>Role of the board in strategy</td>
<td>N = 11</td>
</tr>
<tr>
<td>Board of directors as monitor</td>
<td>N = 5</td>
</tr>
<tr>
<td>Total</td>
<td>N = 16</td>
</tr>
</tbody>
</table>

“If it [shareholder engagement] is done constructively, you actually find many companies saying, ‘that makes sense, we’ll do it.’ If your first appearance is in a tank on the lawn, you are not likely to get very much response.” Alastair Ross Goobey, Chairman, International Corporate Governance Network.
Vision, leadership and emotional intelligence transforming family business

Richard E. Boyatzis
Organizational Behavior Department, Case Western Reserve University, Cleveland, Ohio, USA, and

Ceferi Soler
Department of Human Resources, ESADE, Barcelona, Spain

Abstract
Purpose – The purpose of this paper is to illustrate the role of emotional and social intelligence in family business leaders and how it can lead to a shared vision and dramatic increase in success of a family business.

Design/methodology/approach – Single organization case study interpreted through Intentional Change Theory.

Findings – Using emotional and social intelligence, two fifth-generation family business members inspired others by building resonant relationships with them. They created a shared vision among the various stakeholders in the family, the organization and the community. They got others excited about the vision using positive, emotional contagion. The contagion and resonance spread to others in the family, organization, and region.

Research limitations/implications – Although a case study, the implications for future research are to focus on the shared vision or lack thereof in family businesses, focus on resonant leadership, and multi-level leadership.

Practical implications – Visionary leadership, with emotional intelligence (EI) and resonance can inspire renewal in organizations, families and regions.

Originality/value – Research on the power of vision and EI to transform businesses is emerging, but none of it has focused on family businesses, and in particular, multi-generational ones. This paper shows how such leadership can transform a family, its business, and a region.

Keywords Family firms, Leadership, Vision, Emotional intelligence, Family business, Vineyards

As they drove south from Barcelona on that sunny day in September 1998, the Llagostera brothers did not know that their lives were about to change dramatically. Ramon postponed meetings in his job as CFO of Schlumberger/Actaris Spain. Valentin postponed teaching classes, avoided scheduling public lectures, and adjusted his writing as a tenured, full professor at ESADE. This was done so that they and their families could pick grapes. It was not obligation that drove them. It was a labor of love. It was a trip they had made every Fall for most of their lives – going to assist in the grape harvest in the family vineyards in Priorat. They were part of the fifth generation of the family to be involved in the wine business.

Their uncle, the fourth generation, Juan Doix, had been following the family tradition of selling their grapes to the cooperative in Poboleda, Tarragona in Catalunya, of which he was one of the founding members. Their grapes were part of a regional blend. Juan’s children, now adults with their own careers, had lost interest in the vineyard as the prospects of making a living from the harvest decreased each year over the past number of years. While picking grapes, the Ramon and Valentin remarked
that some of the grapes were of very high quality. They wondered out loud if they could produce high quality, estate-aged wines.

They began a dream. In discussions with their uncle, they built a shared vision. It was possible to salvage the vineyard while creating a new wine. The next discussions included their cousins, who agreed the idea had merit and would support them in whatever way possible, but they had their own careers at this point. Next, Valentín and Ramón shared the idea with one of the most well-known producers in the region, who also blessed the project and was excited to see if they could go ahead with it. Then they set about developing the plan.

Taking leave from their full time jobs and careers, they pruned the vines worth saving, added acreage, left some fields fallow, and decided to replant a number of the fields. A mere five years later, their wines (Doix and Salanques) won international acclaim. Their Doix 2001 was awarded 98 points by Robert Parker in his *Wine Advocate*, which surpassed all other Spanish wines that year. This was just the beginning. The Doix 2003, the 2004 and the 2005 were awarded 98 points by Parker, were also very high rated by the *International Wine Cellar*, and mentioned by Jancis Robinson of the *Financial Times*. They presented their wines throughout Europe, North America, and began to show them in Asia and other markets. Orders were flowing into the vineyard. The dream of the Mas Doix vineyard, begun in 1850 and developed by the Doix and Llagostera families over five generations had become a reality. Other vineyards in the area saw the possibilities and began their own transformation.

Creating a shared vision
This would not have been possible without Ramón and Valentín using their emotional and social intelligence, along with their cognitive ability. Emotional intelligence (EI) and social intelligence (SI) has been defined as the intelligent use of your emotions in managing yourself and others (Goleman et al., 2002). At work and in social settings, people are observed to apply these abilities and demonstrate them as a set of behavioral habits, which are called competencies. The EI and SI competencies have been developed from studies of effective managers, leaders, and professionals in many organizations around the world (Boyatzis, 2009).

Besides some abilities that are threshold competencies (i.e. distinguish average from poor performance), like memory and deductive reasoning, there are three clusters of competencies that distinguish the most effective leaders across organizations and countries. Boyatzis (2009) reported them as:

1. EI competencies, in particular emotional self-awareness, emotional self-control, achievement orientation, adaptability, positive outlook;
2. SI competencies, in particular empathy, organizational awareness, inspirational leadership, influence, coach and mentor, conflict management, teamwork; and
3. cognitive competencies, in particular systems thinking and pattern recognition.

During the months, the following were some key actions taken by Ramón and Valentín with their key competencies that were engaged to make it work. First, they saw the possibility of estate bottled, high-quality wine in the grapes. This required the use of pattern recognition to see the possibility and emotional self-awareness and
adaptability to enable them to contemplate the possibility of something so radically different from the family and region’s tradition.

Being sensitive to the family dynamics, they knew that the next step was to meet with their uncle, Juan Doix, to discuss the possibility and vision. They approached him with respect and understanding about his dreams for the vineyard and disappointment that things had not gone smoothly in the prior few decades. They were using their empathy to know how to approach Uncle Juan. Their positive outlook drove them, with hope, to be excited in their conversation. But it was their gentle use of inspirational leadership that allowed them to bring him along into their vision, and share their sense of hope. There was emotional contagion at work.

Following this crucial meeting, Ramon and Valentin met with their cousins, Juan’s son and daughter, to discuss the vision and explore their role. They were still using their empathy, but appealing to working together, using a competency called teamwork.

With their cousins blessing and empowered by their excitement about the emerging shared vision, Ramon and Valentin believed it important to meet with key leaders in the community to gain their support, based on their use of a competency called organizational awareness. Again, they were using the emotional contagion of their vision to help these others get excited, a competency called influence.

Of course, the effort involved to bring these others along with the emerging shared vision paled in comparison to the sensitive conversations they were having with their wives. This would be a dramatic change in lifestyle. They discussed the career change implications on their lifestyle with their wives using as much emotional self-control and empathy as they could call upon. It also required that they anticipate the types of objections their wives would raise and be prepared with compelling arguments as to how these issues can be addressed. This required the use of conflict management and influence competencies.

Once all of these many people were excited about the merging shared vision, they needed to make it practical and design the implementation. Fortunately, these were competencies they used often in the jobs of the prior three decades. They organized the business plan, tested their assumptions, anticipated quite a few potential obstacles, and proceeded to manage the first year of major transitions. This required many of the competencies, but in particular their achievement orientation and systems thinking.

Building the commitment and talent of the staff of the vineyard involved getting others excited about the shared vision and understanding the clarity of roles and jobs needed to implement the business plan. They were using their positive outlook, inspirational leadership and coach and mentor competencies.

Each of the discussions added new elements to the vision. Each conversation added the emotional excitement of another person to the venture. More than building commitment, they were building a shared vision. It was shared in concept and emotionally. As explained in the collective model of the Ideal Self in Intentional Change Theory (ICT) (Boyatzis, 2009), the vision must emerge from an image of the ideal future, building on a core identity with the past and distinctive strengths, and have the emotional driver of hope (Boyatzis and Akrivou, 2006).

**Resonant leadership relationships**

Having a vision for the vineyard was not enough. They had to get others excited about it. Like Ramon and Valentin, effective leaders can be called resonant leaders (Boyatzis and McKee, 2005). They inspire people in their organizations, institutions, and
communities. They find new opportunities and create hope. The Llagostera brothers knew they had to move people toward a purpose. They had to use their passion to hopefully inspire others as to the possibilities. Resonant leaders build relationships with others that can be described as being in tune with those around them (Boyatzis and McKee, 2005). The result is that people are working in sync with each other, in tune with each others’ thoughts (what to do) and emotions (why to do it). This is an excellent illustration of when using teamwork as a SI competency leads to better working relationships and self-reinforcing resonant relationships.

Just as we saw the Llagostera brothers create a vision and get others to catch the positive fever, in addition to being great to work with, they got results. Of course, to be great, a leader needs to understand the market, the technology, the people, and a multitude of things about the organization. In this case, the brothers had to know wine and the terroir. While this knowledge is necessary, it is not sufficient to produce sustainable, effective leaders. Others in Priorat had known how to make great wine, but until recent years, many of the vineyards did not seek that path.

Resonant relationships maximize the benefits from emotional contagion. They help the free flow of emotions between two or more people. In a recent study, Boyatzis et al. (2012) examined the neural activation of people when recalling specific moments with resonant and dissonant leaders in their past. The fMRI results showed that experiences with resonant leaders activated neural areas such as the bilateral insula, right inferior parietal lobe, and left superior temporal gyrus. These are regions associated with the mirror neuron system and default mode network. They are viewed as key to the process of interpersonal emotional contagion – the spreading of emotions from one person to another within seconds or milliseconds. Boyatzis et al. (2012) also showed that experiences with dissonant leaders negatively activated regions associated with the mirror neuron system and those involved in narrowed attention.

**Vision as a driver of change**

A shared vision for our teams and organizations can fill us with hope and inspire new possibilities or delude us into following false prophets. Although proselytized by consultants for decades, the idea of a shared vision as a driver or setting for sustainable change was elusive in the academic literature, but growing. Bennis and Nanus (1983) showed that distinctive leaders managed attention by the vision. Although others in the practitioner literature proclaimed vision as key to change, Conger and Kanungo (1998) discussed its link to charismatic leadership. Around the same time, positive psychology appeared in the forms of Appreciative Inquiry (Cooperrider et al., 2000) and positive organizational scholarship (Cameron et al., 2003). In this context, a shared vision or dream became a legitimate antecedent to sustainable change. But again, empirical measurement has been elusive.

A shared vision is the driver of sustainable change. Building on ICT (Boyatzis, 2009) at team, organization and larger levels of social systems, shared vision has more recently been the focus of a number of dissertations. It does it through activation of neural networks (Boyatzis et al., 2010) that arouse endocrine systems and allow a person to consider the possibilities of a better future. Boyatzis and Akrivou (2006) discussed the role of a shared vision as the result of a well-developed set of factors that produce a desired image of the future.

Positive visioning has been known to help guide future behavior in sports psychology (Loehr and Schwartz, 2003), medical treatment (Roffe et al., 2005), musical performance (Meister et al., 2004), and academic performance (Curry et al., 1997).
Ironically, leaders and managers often know the importance of a shared vision, yet they often do not take the time to articulate its formulation. When bosses tell people on a team or in an organization something should be different, they are describing the organization they want. This is called the “ought” self and often causes conflict with the Ideal Self (Higgins, 1987). Often, people take an easy way out to reduce the cognitive and emotional dissonance, they capitulate to the expectations of others, the “ought self.” As a result of these factors, people often feel lost and without a sense of purpose or get anesthetized to their possible dreams.

In studying factors that resulted in long-term financial success of family businesses, Neff (2011) found that shared vision among the family and management was a crucial variable. Among other factors like trust, confidence in management, and developing a learning network, shared vision was the most powerful predictor. Overbeke (2010) showed that a shared vision for a family business increased the likelihood that a daughter will become the successor in generational transitions. It built upon the daughter’s sense of efficacy and allowed her to overcome the implicit (and sometimes explicit) sexism of parents or grandparents.

A shared vision is built from three major components, with each of them emerging from other components, as shown in Figure 1. Adapting the model of the Ideal Self (Boyatzis and Akrivou, 2006), this describes the elements that Ramon and Valentin activated in themselves and others to build the shared vision. They drew upon the five generations in the family business and the commitment to land and region to remind people of their shared passion and a sense of calling. It provided a deep purpose to the lives of the Doix and Llagostera families, as well as their friends in the Poboleda community in the Priorat wine region. They sparked a new fantasy of a wine they might create that was consistent with the shared values of the family members. It reversed the slide of attention of possibilities often caused by later generations, land thought to be exhausted, and economic forces considered to be insurmountable. Through the integration of these images, they forged a new image of a future possibility for the Mas Doix vineyard. They enhanced that image with each conversation. As the image became a possibility, it ignited a new sense of efficacy, feasibility, and an optimism that the dream was possible – it created or recreated a shared sense of hope. Built on the terroire, generations of the family committed to the land, vineyards and each other, and the community, they used deep strengths in their system. When added to the EI/II of Ramon and Valentin, the recipe was complete for a delicious dream and a new possible future.

**Creating a positive emotional attractor (PEA)**

The PEA is a state in which the person is predominantly aroused and activated in the parasympathetic nervous system, a high intensity of arousal and activation, and in more positive emotions than negative (Boyatzis, 2009). This state results in a person being cognitively, perceptually, and emotionally more open and performing at higher levels than alternate states (Boyatzis, 2009) and allows the person to renew themselves (i.e. ameliorate the damages caused by chronic stress) (Boyatzis and McKee, 2005; Boyatzis et al., 2006). Because of the effect of emotional contagion, as explained briefly earlier, this “infects” others around the person. Like waves expanding from a stone tossed into a pond, this PEA helps to change the mood and openness to new possibilities of those around the person. Resonant leaders arouse and activate the PEA more often than not, with most of the people around them, just as Ramon and Valentin did at Ms Doix. Arousal and activation of the negative emotional attractor (NEA)
causes people to suffer cognitive, perceptual, and emotional impairment. Again, dissonant leadership can spread NEA quickly to those around us and eventually permeates our organizations.

Using a test developed to assess the degree of shared vision, called the PNEA Survey (Boyatzis, 2009) emerging research is showing how powerful the PEA and one of its major components, shared vision, is. The PNEA Survey assesses the degree of shared vision, shared compassion, and shared positive mood of dyads, groups, and organizations. Clayton (2009) showed that shared vision was the most powerful independent variable affecting championing behavior, which has been shown to result in effective mergers and acquisitions (versus their less effective counterparts). Mahon (2009) showed that shared vision is stimulating increased organizational engagement in IT teams, amplifying the effect of the average level of EI competencies shown by the team members. Khawaja (2010) showed that the degree of PEA to NEA experienced by a patient was the most powerful variable in explaining treatment adherence for Type II
diabetics when analyzed along with nine other variables considered important in the current medical literature. Buse (2011) showed that a strong sense of personal vision was the most powerful predictor of which women decide to stay in engineering and science careers.

When examined in the context of this emerging research, it becomes clear as to both how and why Ramon and Valentin creating a shared vision became such a driving force for positive change in the Mas Doix family business.

**Concluding thought**

Leaders can create value, just as the Ramon and Valentin Llagostera did with the Mas Doix vineyards. They helped to continue the fifth generation of the family business and produce an elixir of the Gods. Using EI and SI, the brothers inspired others by building resonant relationships with them. They created a shared vision among the various stakeholders in the family, the organization and the community. They got others excited about the vision using positive, emotional contagion. The contagion and resonance spread to others in the family, organization, and region.

Resonant relationships are more effective than dissonant ones. Since emotions are contagious, when the leader uses his/her EI and SI, the leader and the people around him/her shift into using the PEA, and then the other person catches it. Resonance begets resonance and dissonance begets dissonance. The use of models EI and SI nurtures resonant relationships. Through shared vision and arousal of the PEA, they help people to be their best and accomplish positive results we previously thought were not possible.

**References**


Buse, K. (2011), “Why they stay: individual factors predicting career commitment for women engineers”, unpublished doctoral qualifying paper, Weatherhead School of Management, Case Western Reserve University, Cleveland, OH.


Clayton, B. (2009), “When practice and theory conflict: do financial incentives influence championing behaviors in mergers and acquisitions?”, unpublished doctoral qualifying paper, Weatherhead School of Management, Case Western Reserve University, Cleveland, OH.


Khawaja, M. (2010), "The mediating role of positive and negative emotional attractors between psychological correlates of doctor-patient relationship and treatment of Type II diabetes", doctoral dissertation, Case Western Reserve University, Cleveland, OH.


Mahon, E. (2009), "Factors that drive employee engagement: organizational and individual elements interact to intensify employee engagement", unpublished doctoral qualifying paper, Weatherhead School of Management, Case Western Reserve University, Cleveland, OH.


Neff, J. (2011), "Non-financial indicators of family firm performance: a portfolio model approach", unpublished doctoral qualifying paper, Weatherhead School of Management, Case Western Reserve University, Cleveland, OH.

Overbeke, K. (2010), “Into the family and business nexus: succession and daughters in family owned businesses”, unpublished doctoral qualifying paper, Weatherhead School of Management, Case Western Reserve University, Cleveland, OH.


Further reading
Doix, J. (2010), Personal communication with one of the authors.

About the authors
Richard E. Boyatzis is Distinguished University Professor and Professor in the Departments of Organizational Behavior, Psychology and Cognitive Science at Case Western Reserve University. His research focuses on emotional intelligence competencies, leadership development and coaching. Richard E. Boyatzis is the corresponding author and can be contacted at: Richard.boyatzis@case.edu

Ceferi Soler is Professor of Human Resources at ESADE. His research has focused on family business, entrepreneurship and innovation in multiple industries.

To purchase reprints of this article please e-mail: reprints@emeraldinsight.com
Or visit our web site for further details: www.emeraldinsight.com/reprints
The differential effect of team members’ trust on team performance: The mediation role of team cohesion

Merce Mach\(^1\), Simon Dolan\(^1\) and Shay Tzafrir\(^2,3\)

\(^1\)Institute for Labour Studies, IEL Research Centre, ESADE Business School, Ramon Llull University, Barcelona, Spain
\(^2\)Department of Human Services, University of Haifa, Israel
\(^3\)IEL Research Center, ESADE Business School, Barcelona, Spain

This study examines team performance as affected by various trusting relationships: trust between team members and the team’s trust in their direct manager and in top management. Data for the study were collected from a survey of 690 professional elite athletes (belonging to 59 different sports clubs) playing in the regular, top professional Spanish leagues. The model was tested at the team level. Findings reveal that team member trust with respect to the different foci has both a direct and indirect effect on team performance, and that team player trust and cohesion play a mediating role. This study illustrates the dynamic relationship within teams, and, as such, trust among teammates mediates the relationship between trust in the coach as well as team cohesion in determining team performance. The implications for managing teams in other contexts are also evaluated.

During the entire last season two words have been unavoidable when referring to the Barcelona Football Club (also known as Barça): ‘dream’ and ‘team’. In the build-up to the Champions League final match, Pep Guardiola, the team’s young coach, was asked if, in a roundabout sort of way, it didn’t matter if Barcelona lost. ‘Of course it matters!’ he replied. ‘We have to think it is absolutely fundamental to win; Manchester United is the best team in the world, thus, if you go there thinking that this is not a big deal, then there is a 100% chance of losing. Yes, we have had a great season [they won all the tournaments they participated in], but we want to show the world how we have been playing! I don’t have a method. I have good players. I would not be in the final without these players. They are the team! And most important, they trust very much in what they are going to do,’ said Guardiola (Millward, 2009; The Guardian, 2009).

\(^\ast\) Correspondence should be addressed to Dr Merce Mach, Avinguda de Pedralbes 60-62, 08034 Barcelona, Spain (e-mail: merce.mach@esade.edu).

DOI:10.1348/096317909X473903
As shown in this opening statement, trust is highly beneficial to the functioning of an organization (Kramer, 1999; Lewicki, McAllister, & Bies, 1998). By and large, research has suggested a link between trust and a variety of work behavior including: organizational citizenship behavior (Brower, Lester, Korsgaard, & Dineen, 2009; Konovsky & Pugh, 1994); employee performance, both individual and as a group (Dirks & SKarlicki, 2009; Mayer & Davis, 1999); open communication (Smith & Barclay, 1997); a commitment to the team’s objectives (Costa, Roe, & Tailieiu, 2001); team performance (Hempel, Zhang, & Tjosvold, 2009; Lawler, 1992); and increased coordination and cooperation (McAllister, 1995). Consequently, a stream of researchers has focused on ways and means to reinforce and intensify trust within organizations (i.e., Dirks & Ferrin, 2002; Gambetta, 1988; McKnight, Cummings, & Chervany, 1998; Tzafrir, 2005).

Although general consensus that trust enhances organizational relationships by increasing the ability of group members to work together (Mayer, Davis, & Schoorman, 1995; McAllister, 1995), the findings that specify exactly why trust is expected to enhance team performance are far from reaching consensus. Prior research on working teams has demonstrated a positive relationship between trust and performance (Costa et al., 2001; Schippers, 2003) although this relationship has not always been significant (Aubert & Kelsey, 2003). Studies on the relationship between team trust and performance have yielded inconsistent results (Dirks, 1999; Langfred, 2004). For instance, Dirks’ study of 42 experimental group projects found that trust influenced group processes and performance indirectly and that groups with higher levels of trust did not necessarily perform better than groups with lower levels of trust (Dirks, 1999). Rather, it was found that trust indirectly affected performance through other group processes. Langfred (2004, 2007) studied the performance of 111 teams and found that trust does not always lead to positive outcomes and that it could even act as a negative mechanism or have a dysfunctional effect depending on the situation. While these studies took into account team trust, they failed to address the issue of trust as a multifaceted phenomenon in an organizational context.

In recent years, there has been increased interest in understanding team dynamics and the role of interpersonal and organizational trust (Carron, Colman, Wheeler, & Stevens, 2002; Mullen & Copper, 1994). Trust is an integral part of teamwork because team tasks require a high level of interdependence between members. This mutual dependency may generate synergy in the form of cooperation and interaction amongst team members (De Vries, 1999; Fiore, Salas, & Cannon-Bowers, 2001) and, subsequently, it may explain variations in team performance. The sports world offers a wide range of examples of teams that work well together and teams that do not (Katz, 2001). If we consider the large amount of money and resources invested in this sector, it is not difficult to imagine the great pressure placed on professional sports teams. Players need to perform well from the beginning and maintain a high level of performance until the end of the season. Thus, professional sports teams provide an ideal context to explore the manifestations of group dynamics and their relationship to performance. To analyze trust within organizations that are structured as a team, the context of professional sports provides an excellent opportunity to examine these factors because sports teams have a self-contained nature and clear performance outcomes.

In this sense, observers of the sporting world (Turman, 2003) often ask why a team that has successfully performed 1 year may not repeat the same success the following season or vice versa. How is it that, against all logic, a team whose members seem less capable can become the league champions? How can we explain these contrasting results? Can differences in a team’s performance be explained by the trust relationships
and cohesion between its members, management, and the organization? The literature is not completely clear whether performance affects cohesion or if team cohesion and trust stimulate good performance. Only limited results have been obtained through empirical research (e.g., Carron & Bray, 2002; Fontayne, Heuze, & Raimbault, 2006).

The purpose of our research is to examine how the multiple targets of trust affect team performance (namely: trust amongst members of the team, trust in the direct supervisor, coach or manager, and trust in top management). We also explore the mediating role team cohesion plays in the relationship between team trust and team performance.

Theory and hypotheses
A careful review of the management literature on trust reveals that there has been little consensus among scholars to settle on a single working definition of trust (Kramer, 1999; Rousseau, Stikin, Burt, & Carmerer, 1998). While the broad definition is debatable, there does seem to be stronger consensus regarding the conditions for trust. Tzafrir and Dolan (2004) summarized that three conditions might clarify the point of mutuality in trust-based relations. The first condition is vulnerability, which involves the uncertainty of the future and the willingness of the parties to take a risk. The second is previous mutual interactions, which are perceived by the parties as positive and reciprocal. The third condition involves expectations over time regarding reliable conduct. Lewicki, Tomlinson, and Gillespie’s (2006) summary of various models of interpersonal trust concluded that trust from a psychological perspective (Rousseau et al., 1998) is a mental state that implies positive expectations regarding the other party’s intentions and behaviour. In this respect, the act of trusting reflects a willingness to accept vulnerability from the trustee’s perspective, and an expectation that the other party, the trustee, will reciprocate trustworthy (Dietz & Den Hartog, 2006).

Rousseau et al. (1998) assert that trust involves individual processes, group dynamics, and organizational or institutional contingencies, simultaneously. Thus, trust may be conceptualized differently depending upon the level at which the data are aggregated (between individuals, groups, systems, organizations, etc.). The literature on trust also emphasizes different foci of trust within different levels of analysis. Rotter (1971) focuses his definition of trust at the individual level, while Mayer et al. (1995) establish a dyadic model. Moreover, Zucker (1986) focuses on institutional trust in her seminal work. These arguments may be the main reason for Lane’s (1998) suggestion that any theory on trust needs to incorporate its ‘multidimensional social reality’, possibly serving as a bridge between the micro- and macro-levels (Lewis & Weigert, 1985). For this reason, trust is considered a ‘mezzo’ concept given that it integrates psychological and group dynamic processes at the micro-level and organizational and institutional forms at the macro-level (Rousseau et al., 1998). When it is asserted that employees make judgments regarding the trustworthiness of their organization (Gillespie & Dietz, 2005), these employees are thinking about multiple actors, including their immediate work colleagues (Davis, Schoorman, Mayer, & Tan, 2000); their managers (Crecic & Miles, 1996; Mayer & Davis, 1999); groups (Costa, 2003; Dirks, 1999); and the organization as a whole (Shockley-Zalabak, Ellis, & Winograd, 2000).

Team trust, cohesion, and exchange theory
According to social exchange theory, organizations are forums for economic and social transactions (Cropanzano, Prehar, & Chen, 2002). The distinction between social and
economic exchanges is that ‘social exchanges entail unspecified obligations’ (Blau, 1964, p. 93), they involve a series of interactions that generate obligations (Emerson, 1976), and they are usually seen as interdependent and contingent upon the actions of another person (Blau, 1964). Social exchange relationships evolve and generate beneficial consequences when employers ‘take care of employees’. In this sense, the social exchange relationship is a mediator or intervening variable that produces effective work behaviour and positive employee attitudes (Cropanzano & Mitchell, 2007).

Salas and Fiore (2004) assert that an effective team is expected to perform to an extent that is greater than the sum of the individuals’ performance. This is especially true when team members perform a conjunctive and highly interdependent task, with a single output, and where the performance of the team is potentially measured by the poorest group member’s performance along with that of the other teammates as occurs in interactive sports teams such as soccer, basketball, and so on (Saavedra, Earley, & Van Dyne, 1993). According to social and economic exchange theory, team effectiveness could result from interaction, coordination, and collaboration between the team members (Hackman & Morris, 1975).

Furthermore, social exchange theory explains social change as a process of negotiated exchanges between parties (Konovsky & Pugh, 1994). By seeing trust as a primary variable in these exchanges (Blau, 1964) and if we also consider the norm of reciprocity (Gouldner, 1960), we can understand the team’s output.

In our study, we attempt to examine the exchange through which trust in different organizational actors (other team players, the coach, and the top management) translates into more effective behaviour that helps the team perform better through processes such as cohesion. Positive feelings and perceptions regarding one actor (e.g., the coach, teammates, and top management) as well as positive expectations about her/his goodwill engender an obligation on the part of employees to reciprocate (Lewis & Weigert, 1985). As such, a positive cycle of reinforcement takes place thanks to the dynamic relationship within the team. This implies the various actors being trustworthy while at the same time being open, reliable, and concerned for others, something which can be seen in and lead to team cohesion.

Team cohesion is the degree to which team members work together as they pursue the team’s goals. It is defined as ‘a dynamic process that is reflected in the tendency of a group to stick together and remain united in the pursuit of its instrumental objectives and/or for the satisfaction of member affective needs’ (Carron, Brawley, & Widmeyer, 1998, p. 213). Calnan and Rowe (2007) also discuss the importance of trust in creating team cohesion among healthcare teams. Hansen, Morrow, and Batista (2002), using 71 responses from two different marketing co-ops, found a consistently positive relationship between trust and group cohesion.

Based on these findings, we argue that the creation of cohesion among a team is strengthened when one member interprets another’s words, attitudes, or actions as being reliable, honest, and containing genuine concern, thereby indicating a relationship of trust. This is in line with Mayer et al’s (1995) idea that understanding trust and its causes can facilitate cohesion. For example, Grossman, Wineburg, and Woolworth (2001) conclude in their study on teachers that trust is one of the necessary elements to build cohesion. Similarly, Thau, Crossley, Bennett, and Sczesny (2007) conducted a field study of a Dutch healthcare organization and found that trust in organizations is related to work-group cohesion. Another study (Luria, 2008) also found evidence linking leadership style and cohesion. In sports settings, several reports also
corroborate this view. Gardner et al. (1996) and Westre and Weiss (1991) found a significant relationship between coaching behaviour and group cohesion. Finally, Gilbert and Tang (1998) found in a US federal governmental agency study that group cohesion was positively associated to organizational trust. Consequently, the following hypotheses are advanced:

**Hypothesis 1a**: Trust in the coach is positively related to team cohesion.  
**Hypothesis 1b**: Trust in teammates is positively related to team cohesion.  
**Hypothesis 1c**: Trust in top management is positively related to team cohesion.

**Team cohesion and performance**

Weick and Roberts (1993) describe the effectiveness of a team as the result of the interrelated activities based on a given mentality or collective consciousness, where the members of the group see how their actions are interrelated. Due to the fact that interactive sports require a high level of task interdependence, highly cohesive teams show a significant relationship with performance (Carron et al., 2002; Mullen & Copper, 1994). A meta-analysis of team settings found that the relationship between cohesion and performance in sports teams is significant and stronger than in other working teams (Carron et al., 2002). It seems that highly cohesive teams tend to be more united and committed to success than groups with little cohesion. The explanation of why teams might perform better than the sum of the individual performers or why teams consisting of brilliant individual players might collectively underperform might be found in the role cohesion plays in linking group processes and team results; to rephrase, united groups will be able to use their capabilities more efficiently since they know their teammates better and they are committed to successfully finishing the task before them. There have been numerous studies describing the relationship between team cohesiveness and success. However, what these findings do not tell us is whether the teams studied were more successful because they were already more cohesive or whether, in fact, they became highly cohesive because they shared the experience of winning. It is quite possible that both of these are correct in light of the inconclusive findings from empirical studies. Some studies have addressed the connection between cohesion and performance in a variety of interactive sports. Slater and Sewell (1994), for example, measured team cohesion in hockey teams at different points of the season. They concluded that cohesiveness and success were mutually dependent and that the cohesion–performance relationship should be examined by means of a circular model in which cohesion and performance are interdependent. From Gould, Guinan, Greenleaf, Medbery, and Peterson (1999) study of Olympics athletes in different interactive sports, we see that teams with little cohesion were more likely to underperform, but that cohesiveness was just one of several important factors affecting performance. In an experimental study, other researchers (Grieve, Whelan, & Meyers, 2000) did not find any relationship between cohesiveness before the games and performance. However, successful performance was associated with high levels of cohesiveness at the end of the games. Taking into account all these findings and looking at them through the lens of social exchange theory and norms of reciprocity (Gouldner, 1960), reciprocal positive feelings between team members and towards the group as a whole lead to each individual contributing more towards group success. Thus, it is reasonable to hypothesize the following:
Hypothesis 2: Team cohesion is positively related to team performance.

According to McAllister, trust is defined as, ‘the point to which a person has confidence in another person and is prepared to act based on the words, deeds, and decisions of the other person or/and a group’ (1995, p. 22). As such, colleagues that trust each other achieve better measures of performance, and the consequences of trusting behaviour may even extend beyond organizational purposes. Dirks (2000) demonstrated in his study of basketball teams that trust in the leader is related to team performance. The explained variance for trust was nearly equivalent to the explained variance for the team members’ abilities. Furthermore, in a context like sports, where it might seem that trust in teammates is fundamental for success, Dirks and Ferrin (2002) found that trust in the manager is more closely related to work variables, while trust in top management is much more closely related to organizational variables due to the operative versus more strategic role coaches and management play, respectively. Trust in top management and the organization appear to depend, to some extent, on the degree to which organizational systems produce trust (Creed & Miles, 1996). Several studies have found that trust in top management affects employee performance (Davis et al., 2000; Lo & Aryee, 2003); we suggest that team cohesion intermediates this relationship.

Integrating social exchange and attribution theories, which are concerned with the ways in which people explain (or attribute) others’ behaviours, helps us understand the role of cohesion as mediating the relationship between trust and team performance. Trust acts simultaneously along with belief and expectations regarding the behaviour of the other party. It also serves as an information source (attributional processes) for future obligations (norms of reciprocity). On the other hand, Simons and Peterson (2000) explore the importance of trust in the group process through its effect on interpretation mechanisms. The consistent arguments and findings in existing literature support the conclusion that cohesion may serve as a preliminary stage to actual behaviour (Hansen et al., 2002). It is reasonable, therefore, to conclude that cohesion mediates the relationship between trust and team performance because trust helps people to stick together and also because members of a cohesive group, a group with which they are identified and with which they have affinity, are more cooperative and willing to help each other (Mullen & Copper, 1994). This argument is in line with findings revealing that team cohesion plays an important role in fomenting team performance (e.g., Beal, Cohen, Burke, & McLendon, 2003; Carron et al., 2002). It accomplishes this by influencing the performance relationship processes (Barrick, Bradley, Kristof-Brown, & Colbert, 2007) or by having a main effect (Chansler, Swamidass, & Cammann, 2003). Other scholars report that cohesiveness functions as a mediator in the relationship between leadership, employee attitudes, and performance (e.g., Loughead, Colman, & Carron, 2001; Organ, Podsakoff, & Mackenzie, 2006). Given the above, then, the third hypothesis of this study is:

Hypothesis 3: Team cohesion mediates the relationship between multifaceted trust and team performance.

Consistent with Whitener, Brodt, Korsgaard, and Werner (1998) and others, this study focuses on the perceptions that employees have regarding interpersonal, group, and organizational trust, using the context of social exchange paradigms (Blau, 1964; Zucker, 1986). The conceptual framework for the study presented here is summarized in Figure 1.
Methods and procedures
The data for the study were collected from a survey carried out among professional athletes (belonging to 59 different sports clubs) playing in the regular, top professional Spanish leagues (2004–2005 season): basketball (ACB), handball (ASOBAL), roller hockey (OK-Liga), and indoor football (FNFS). Players were asked to complete a questionnaire after a training session held at the beginning of the second half of the regular season. Questionnaires were prepared following 10 preliminary in-depth interviews with players, coaches, top managers, and scholars. In addition, 25 more interviews with team players were held to pre-test the survey questionnaire. Lastly, we organized a half-day focus group with 14 experts, including academics and former and current professional players, coaches, and sports celebrities, to validate the proposed model.

Performance indicators and control variables stem from additional independent sources (specialized sports databanks) and were collected for each team. Data on the criteria were gathered from independent sources in order to increase their reliability. Final results for the teams were obtained from the official league records. The study is based on a ‘quasi-longitudinal design’ (combining cross-sectional features for the independent variables with some longitudinal data for the dependent variable). A time lag of 3 months served to check whether the output exhibited differences in the results.

Sample
We chose interactive sports such as basketball, handball, indoor football, and roller hockey because they present similar features in terms of game rules and the degree of professionalism. Table 1 presents the general team profile for each sport. After all the teams in each professional Spanish league were mapped out, 778 players playing on 66 teams were approached to participate in the study. Of these, 690 professional players on 59 teams participated, resulting in an 89% response rate. The average size of teams was 11.7 members ($SD = 2.3$), the average age of the respondents was 25.5 years ($SD = 1.6$), the average tenure with the organization, 3.6 years ($SD = 1.4$), and the average tenure with their coach was 1.8 years ($SD = 0.9$). The key characteristics tended to correspond to those of the sample population.

![Tri-foci trust model](image-url)
Table 1. Sample: Descriptive statistics by team, according to type of sport (N = 690 players)

<table>
<thead>
<tr>
<th></th>
<th>Number of teams</th>
<th>Mean</th>
<th>SD</th>
<th>Mean</th>
<th>SD</th>
<th>Mean</th>
<th>SD</th>
<th>Mean</th>
<th>SD</th>
</tr>
</thead>
<tbody>
<tr>
<td>Average player age</td>
<td></td>
<td>24.6</td>
<td>1.5</td>
<td>9.9</td>
<td>0.7</td>
<td>4.1</td>
<td>1.6</td>
<td>1.9</td>
<td>1.0</td>
</tr>
<tr>
<td>Size of team (members per team)</td>
<td></td>
<td>26.0</td>
<td>1.6</td>
<td>11.4</td>
<td>1.75</td>
<td>3.4</td>
<td>1.2</td>
<td>1.7</td>
<td>0.9</td>
</tr>
<tr>
<td>Permanence (seasons on the same team)</td>
<td></td>
<td>25.1</td>
<td>1.4</td>
<td>14.5</td>
<td>2</td>
<td>3.6</td>
<td>0.7</td>
<td>2.1</td>
<td>1.0</td>
</tr>
<tr>
<td>Tenure with the coach (seasons)</td>
<td></td>
<td>26.4</td>
<td>1.2</td>
<td>10.9</td>
<td>1.2</td>
<td>3</td>
<td>1.6</td>
<td>1.5</td>
<td>0.7</td>
</tr>
<tr>
<td>Number of nationalities within teams</td>
<td></td>
<td>25.5</td>
<td>1.6</td>
<td>11.7</td>
<td>2.3</td>
<td>3.6</td>
<td>1.4</td>
<td>1.81</td>
<td>0.9</td>
</tr>
</tbody>
</table>

MCC Leadership Programme Reader | Volume I.

The differential effect of team members’ trust on team performance: The mediation role of team cohesion

Merce Mach, Simon Dolan, Shay Tzafrir
Statistical analyses strategy

Before examining the relationship between trust and team performance, some preliminary analyses were conducted in order to check the psychometric properties of the measures (i.e., the internal reliability and consistency of the scales). These analyses were performed first at the individual level. Then, data were analysed in different stages, employing different statistical techniques ranging from bivariate analyses (correlations and one-way analysis of variance, ANOVA) in the first stage, to a series of multivariate analyses in the second stage, including structural equation model testing.

All psychometric properties of the multi-item variables employed in this study were first tested at the individual level ($N = 690$), and results were very satisfactory. We also checked whether or not there were significant differences between the different professional sports included in the sample. In reference to the preliminary analyses of the constructs, confirmatory factor analyses (CFAs) were performed at the individual level, while structural equation models and alternative model specifications were performed at the group level ($N = 59$).

Before aggregating the data into each group, several prior steps were taken. The average scores for the different team members were determined in keeping with Rousseau’s (1985) recommendation to adjust the analysis level to the focus of the unit under study, in this case, the team. Team performance is a function, an aggregation, of the efforts of the entire team (Dirks, 1999). To determine whether or not we could justify aggregating individual responses to the team level, two statistical tests were employed. First, an intra-class correlation (ICC) coefficient was calculated for all constructs of the model except for the control variables and performance (ranging from .82 to .93). The ICC compares within and between team variances using a one-way ANOVA test that assesses whether membership on a given team leads to more homogenous answers (McGrath & Wong, 1996). Second, an inter-rater agreement coefficient ($R_{ww}$) was calculated based on James, Demaree, and Wolf’s (1984) formula for multi-item constructs. It assesses variables at the team level based upon answers given by individuals (Kozlowski & Hattrup, 1992) and determines whether there is some agreement among evaluators regarding a common target versus whether those ratings match a random pattern. This indicator ranges from 0 (complete disagreement) to 1 (complete agreement). The $R_{ww}$ estimate achieved acceptable levels, ranging from .71 to .82, thus suggesting substantial agreement among raters.

Inspired by Wright, Gardner, and Moynihan (2003), teams were randomly split into two parts. As such, we eliminated the possibility of within-person common method variance on percept-percept correlations which can be biased by collecting different measures from the same source and using the same method at the same time. In all subsequent analyses, we gathered information on multi-foci trust (in teammates, coaches, and top management) from half of the players and information on team cohesion from the other half.

---

1 The results show that there were no significant differences between the dimensions presented in this study. Differences among the four teams were assessed using a one-way ANOVA. A Levene Test of Homogeneity of Variance conducted prior to the ANOVA did not indicate that the assumption of homogeneity of variance was violated ($p > 0.5$) except for Trust in top management which was significant. Thus, the variances for the four sports samples are not equal for only that predictor. Additionally, a Brown–Forsythe Robust Test of Equality of Means was conducted for Trust in top management and the result was not significant: $F(3, 40.88) = 0.78, p = .515$, allowing us to assume from this analysis that such a single homogenous subset sample was applicable to all the predictor variables.
780 Merce Mach et al.

Measures

Dependent variable
This study focuses on team performance. We measured the total points won for every game by each team at the end of the season, divided by the points they could have earned potentially if they had won all their games, then multiplying this figure by 100. We carried out the same calculation at the middle of the season.

Independent variables
The nine-item Trust Questionnaire developed by McAllister (1995) and adapted to sports settings by Dirks (2000) was used to assess coach and team members’ perception of their trust in teammates (eight items) and trust in coach (nine items). We modified this scale by adjusting the referent person to ‘players/teammates’ or ‘head coach’ depending on whether respondents were assessing teammates or their head coach. Respondents indicated how much they agreed or disagreed with each statement on a nine-point Likert scale ranging from 1 (strongly disagree) to 9 (strongly agree). Cronbach’s alphas for these two instruments at the individual level were .83 and .92, respectively. Sample items on these assessments included: ‘If I share my problems with team players, I know they would respond constructively and with care’ and ‘I would feel a sense of loss if the coach left to take a job elsewhere’.

To assess Trust in top management, the four-item subscale developed by Tzafrir and Dolan (2004) was used. Respondents indicated whether they agreed or disagreed with each statement using a nine-point scale ranging from 1 (strongly disagree) to 9 (strongly agree). This scale measured the perceived (individual) reliability and concern of top management. Cronbach’s alpha for this instrument was .87. Sample items included the statements: ‘The club keeps the promises it makes’ and ‘The actions the club takes are consistent with its words’.

We then used a modified version of the Group Environment Questionnaire (Carron, Widmeyer, & Brawley, 1985) to measure players’ perceptions regarding team cohesion (task and social). Consistent with the critique of how cohesion is conceptualized (specially, in terms of the interpersonal attraction to the group, see Hogg, Abrams, Otten, & Hinkle, 2004), only the nine items from the two subscales called ‘group integration task’ and ‘social group integration’ were selected and eventually aggregated into a single dimension. This is due to our wanting to capture the groups’ feelings about the task and social-oriented correspondence, nearness and ties within the team as a single unit. Respondents indicated how much they agreed or disagreed on a nine-point Likert scale ranging from 1 (strongly disagree) to 9 (strongly agree). Cronbach’s alpha for this instrument at the individual level was .81. Sample items included: ‘Our team is united in trying to reach its performance goals’ and ‘Members of our team would rather go out on their own than go out together as a team’. A CFA was also performed at the individual level for this reduced scale of team cohesion as one single factor. The modified scale provided a good fit for this data: \( \chi^2 = 129.403 \text{ (27 df)} \), comparison fit index (CFI) = .929, goodness-of-fit index (GFI) = .956, Tucker-Lewis index (TLI) = .906, root mean square error of approximation (RMSEA) = .074, \( p = .000 \).

Control variables
Several contextual factors pertaining to team performance in professional sports were identified as control variables. These were based on the focus group discussion as well
as on existing literature (Brown, Farrell, & Zorn, 2007; Mullen & Copper, 1994; Ryska, Yin, Cooley, & Ginn, 1999; Webber & Donahue, 2001). The control variables included in this study were: ‘Type of sport’, ‘previous match performance’ (win/loss in the match prior to filling in the questionnaire), ‘permanence’ ((the average number of seasons on the team), ‘seasons trained by coach’ (time that the team has been under the orders of the head coach), ‘age’ (the average age of the team members), and ‘diversity’ (number of team nationalities). Notice that, in keeping with previous research (Hirst, 2009; Hyatt & Ruddy, 1997), except for seasons trained by coach and permanence on the team, no significant correlation between these control variables and the dependent variable (team performance) was found at the team level of analysis. Finally, we selected the control variable ‘seasons trained by coach’ because it was the only one that did not present differences between sports samples: $F(3, 46.70) = 2.07, p = .117$; the Brown-Forsythe Robust Test of Equality of Means shows no significant differences; a single homogeneous subset sample was displayed for the seasons trained by coach variable.

**Confirmatory factor analysis**

In order to check the possibility of mono-method bias, two extra CFAs were employed using AMOS 16. The first was performed at the individual level of analysis for the totality of the 21 items which constituted the three foci of team trust: trust in teammates, trust in coach, and trust in top management (8, 9, and 4 items, respectively). According to the CFA results, the three-factor structure was acceptable. The CFA yielded an acceptable fit level, but with a relatively high $\chi^2 = 666.23$ (186 $df$), CFI = .874, TLI = .844, and RMSEA = .087. In order to validate the three-factor structure, an additional CFA was conducted in which all items were allowed to load on one factor, meaning that all inter-factor correlations were forced to be 1. The CFA yielded an unacceptable fit level, with $\chi^2 = 2,102.26$ (189 $df$), CFI = .499, TLI = .598, and RMSEA = .172. Comparison between these fit indexes as well as the chi-squared difference test ($\Delta \chi^2 = 1,436.03, p = .000$) suggested that the three-factor model for trust foci provided a better fit to the data (Byrne, 2001).

The second CFA was performed at the team level of analysis in order to determine empirically whether team cohesion and trust in teammates are two different constructs. The two model factor solution produced a fit index of $\chi^2 = 501.59$ (118 $df$), CFI = .898, GFI = .910, TLI = .882, RMSEA = .069, $p = .000$, while the hypothesized one-factor model resulted in $\chi^2 = 228.44$ (119 $df$), CFI = .866, GFI = .688, TLI = .847, RMSEA = .126, $p = .000$. Results from the significance chi-squared differences test ($\Delta \chi^2 = 273.15, p = .000$) suggest that the two-factor model provides a better fit to this data (Byrne, 2001), suggesting that these two constructs perform a differentiated role.

**Results**

Table 2 presents the means, standard deviations, reliability coefficients, and correlations for the research variables. The scales show good levels of reliability, with Cronbach alpha coefficients above the $.75$ level (Nunnally, 1978) both at the individual level of analysis and at the team level of aggregation. The pattern of relation among variables was similar in both samples. The correlation between team performance and team cohesion was approximately .30 ($p < .05$) for both samples. Trust in teammates was positively related to performance measures, ranging from .30 to .35 ($p < .05$) in both subsamples.
Table 2. Means, standard deviations, and correlations\(^1\) (N = 59 teams)

<table>
<thead>
<tr>
<th>Variables</th>
<th>Mean(^b)</th>
<th>SD(^b)</th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>5</th>
<th>6</th>
</tr>
</thead>
<tbody>
<tr>
<td>Team performance</td>
<td>46.46</td>
<td>18.54</td>
<td>46.46</td>
<td>5.99</td>
<td>6.02</td>
<td>6.37</td>
<td>6.76</td>
<td>1.80</td>
</tr>
<tr>
<td>Trust in top management</td>
<td>6.03</td>
<td>1.19</td>
<td>0.30*</td>
<td>0.28*</td>
<td>0.13</td>
<td>0.45**</td>
<td>0.81**</td>
<td>0.21</td>
</tr>
<tr>
<td>Trust in coach</td>
<td>6.36</td>
<td>1.35</td>
<td>0.00</td>
<td>0.37**</td>
<td>-0.01</td>
<td>0.29*</td>
<td>0.39**</td>
<td>0.02</td>
</tr>
<tr>
<td>Trust in teammates</td>
<td>6.77</td>
<td>0.82</td>
<td>0.28*</td>
<td>0.35***</td>
<td>0.82***</td>
<td>0.29*</td>
<td>0.39***</td>
<td>0.20</td>
</tr>
</tbody>
</table>

\(^a\)Correlations for half sample (cohesion measure taken from the first half sample, and trust measures from the second) are shown above the main diagonal. Correlations for the second half (cohesion measure taken from the second half sample and trust measures from the first) are shown below the main diagonal.

\(^b\)Means and standard deviations for the first half sample are displayed in the horizontal axis, and for the second half sample in the vertical axis.

* \(p < .05\); ** \(p < .01\).

and trust in top management .28 \((p < .05)\). In general, these findings are consistent with trends revealed in the literature about the positive relationship between trust and performance (Costa, 2003; Schippers, 2003). Nevertheless, the relationship between trust in the coach and performance, and trust in top management and team cohesion were not significant. Our findings also indicate that the relationship between trust in the coach and team cohesion was .37 \((p < .01)\) and .30 \((p < .05)\) and that trust in teammates and team cohesion was around .81 \((p < .01)\). The latter correlation, trust in teammates and team cohesion, is an interesting one, but not surprising considering that trust has been found to be an antecedent for the related construct of cohesion and team efforts (Dirks, 1999) and cooperative behaviour (Morgan & Hunt, 1994). As previously mentioned, we used different sources for each construct in order to avoid the possibility of common method issues.

A structural equation modelling (SEM) analysis of 59 teams was then undertaken using the AMOS statistical program (version 16). The SEM approach was selected as the methodology because of the advantages it provides over multiple regression. These advantages include the desirability of testing models globally rather than coefficients individually. SEM’s ability to model mediating variables rather than being restricted to an additive model as in regression, its modelling of error terms, testing of coefficients across multiple between-subjects groups, and the desirability of its strategy comparing alternative models to assess the relative model fit (Garson, 2008).

Prior to evaluating specific direct or indirect relationships, we carried out a test on the overall fit of the entire conceptual model. Here, the question was not about individual paths but, rather, how the conceptual model as a whole fit with the sample data. A good fit suggests that we have specified a model that is consistent with the data, while a not ‘true’ model is one that is plausible for the current sample. At the group level of analysis, we tested and evaluated the fit of the research initial model shown in Figure 1 above. This initial model was found to not fit the data.
We conducted further analyses in an effort to improve the fit of the hypothesized model. To identify the most significant and meaningful modifications, we examined modification indexes and freed paths that were most likely to improve the fit of the model and which made theoretical sense.\(^2\)

The findings of the SEM analysis are presented in Figures 2 and 3, respectively. They suggest only partial support for our stated hypotheses. Only results from the final path diagrams are shown, first for the hypothesized model and then for the modified models. The statistics of the overall fit model are presented in Table 3 which summarizes the fit index results for the path models. As can be seen in the latter, the initial model did not fit the data especially well (i.e., the GFI and CFI < .92; adjusted goodness-of-fit index (AGFI) < .83; and RMSEA > .100).

The high correlation found between trust in other team players and team cohesion (both represented within team dynamic relationships) required testing the possible interchangeability between them in the proposed model. Several additional structural equation models were carried out and confirmed via the other split sample. We compared several models with each construct and also created a second order factor for team cohesion and trust in team players. The resulting path models (Figure 3) substantially improved the fit indices: \(\chi^2 = 11.1 \ (10 \ df), \ CFI = .99, \ GFI = .93, \ AGFI = .88, \ RMSEA = .043\). The same pattern can be seen with the confirmatory model carried out on the other half of the sample: \(\chi^2 = 8.54 \ (10 \ df), \ CFI = 1.0, \ GFI = .96, \ AGFI = .91, \ RMSEA = .000\).

The direct effects and statistical significance tests are presented in path figures. The final model which is also displayed in Figure 3 was found to fit the data adequately. The rationale for using this new model is that it preserves the multi-foci approach that creates and maintains trust within the team. In addition, Trust in teammates is now the variable which plays the primary mediation role versus Team cohesion as originally hypothesized. However, Team cohesion still plays a mediating role for Trust in coach and Trust in teammates.

Examination of the standardized regression estimate weights indicates that all the variables except for seasons trained by coach were significant. These results support most of our hypotheses. Specifically, a statistically significant parameter estimate was found for the path between top management trust and trust in teammates (\(\hat{\beta} = 0.18; \ p < .01\)), for the path between trust in coach and team cohesion (\(\hat{\beta} = 0.37; \ p < .01\)) and between team cohesion and trust in teammates (\(\hat{\beta} = 0.82; \ p < .01\)). As expected, the within-team dynamics represented by trust in teammates had a positive impact on team performance (\(\hat{\beta} = 0.35; \ p < .01\)). AMOS displayed a squared multiple correlation for each variable (Byrne, 2001). Thus, taking into account path model results (see Figures 2 and 3), we can corroborate hypotheses H1a and H1b (Trust in coach and Trust in teammates are positively related to cohesion) and H2 (Team cohesion is related to performance). Unexpectedly, however, H1c (Trust in top management) and H3 (the mediation role of cohesion) were not confirmed. However, we did find a positive relationship between Trust in top management and Trust in Teammates (\(\hat{\beta} = 0.18; \ p < .01\)).

---

\(^2\)Many SEM experts warn against purely empirically driven model trimming (MacCallum, Razzowski, & Nezalwitz, 1992). We were highly aware of this fact when switching from a confirmatory to a more exploratory application of SEM. We tried to keep the essence of the initial theory intact by maintaining the core idea of team experience contribution to performance. All adjustments were made via single-degree freedom tests (freeing a parameter at a time); \(\chi^2\) difference tests were conducted to ensure that trimming had not incurred too high, a cost in terms of fit (the final model is more parsimonious but provides a statistically equivalent fit to the initial model).
Testing for mediation

Using Model 3, we tested for the fit of two overall mediation paths: (i) Trust in teammates as a mediator between Team cohesion and Team performance and (ii) team cohesion as a mediator between Trust in coach and Trust in teammates. The first mediation only resulted in an indirect path because one of the mediation conditions was not met (i.e., the direct path between the predictor and outcome was not significant, albeit the fact that Sobel Test result was significant ($z = 2.67$, $p < .01$). However, the indirect effect of cohesion on performance through trust in teammates was significant (Preacher & Leonardelli, 2005).

The assessment of the second path did show full mediation. When testing the fit of overall model (X–M–Y) paths with mediator (X–M and M–Y) and the direct path (X–Y), our results indicated that all paths were significant. When there is a mediation effect, the addition of the X–M and X–Y paths to the constraint model should not improve the fit. In other words, the previous significance of the X–M and X–Y paths become insignificant when the mediator is taken into account (this SEM process is analogous to Baron and Kenny’s (1986) regression approach). The Sobel Test also indicated that cohesion ($z = 2.91$, $p < .01$) was a significant mediator for the influence of Trust in coach on Trust in teammates.

The final model also explains a reasonable amount of variance in performance outcomes (12% for objective team performance). The variance explained in the

Table 3. Goodness-of-fit results for hypothesized and derived models ($N = 59$ teams)

<table>
<thead>
<tr>
<th>Goodness-of-fit</th>
<th>Hypothesized model</th>
<th>Derived model</th>
<th>Confirmatory model</th>
</tr>
</thead>
<tbody>
<tr>
<td>$\chi^2$</td>
<td>16.495</td>
<td>11.082</td>
<td>8.335</td>
</tr>
<tr>
<td>df</td>
<td>10</td>
<td>10</td>
<td>10</td>
</tr>
<tr>
<td>$p$</td>
<td>.086</td>
<td>.351</td>
<td>.596</td>
</tr>
<tr>
<td>CFI</td>
<td>.925</td>
<td>.990</td>
<td>1.000</td>
</tr>
<tr>
<td>GFI</td>
<td>.918</td>
<td>.944</td>
<td>.957</td>
</tr>
<tr>
<td>AGFI</td>
<td>.827</td>
<td>.883</td>
<td>.909</td>
</tr>
<tr>
<td>RMSEA</td>
<td>.106</td>
<td>.043</td>
<td>.000</td>
</tr>
</tbody>
</table>

Note. df, degrees of freedom; $p$, probability level; GFI, goodness-of-fit index; CFI, comparative fit index; RMSEA, root mean squared error of approximation.
mediating variables of trust is high. This may not be surprising given the contextual and procedural factors that might influence the perceptions among team players. Multi-foci trust variables together with cohesion explained 71% of the variance in the relationship dynamics within the team. All subsequent results and the ensuing discussion are based on this final derived model.

Lastly, the integration of all these findings suggests that trust and its three foci are important for the functioning of groups in organizations, and contribute, albeit indirectly, to their performance.

**Discussion**

This study has tested the direct and indirect relationships between three foci of trust and team performance. Our findings confirm that these relationships work in a rather complex manner; the dynamic relationship within the teams, represented as team cohesion and trust in other team players, mediates the relationship between the perceptions of team trust (in top management and trust in the coach) along with the team’s overall performance. This finding is different from the mediation originally hypothesized. Our findings, however, do corroborate the multiple targets of the trust construct in organizations, and that high levels of team trust are related to team performance with both direct and indirect effects. Finally, they also demonstrate that trust in leadership (direct management and top management) has a different relationship with performance than originally hypothesized.

**Team trust**

While earlier research on trust has focused primarily on the direct effects of trust on individual, team, and organizational performance (Collins & Smith, 2006; Tzafrir, 2005), the results of our study suggest that the relationship is more complex than just a simple direct relationship. It has long been assumed that a high level of trust is related to better performance in organizations or teams, though how this occurs is less clear. Consistent with the results reported elsewhere (Dirks, 1999; Costa, 2003; Webber, 2008), this study provides empirical support for the statement that trust within teams allows members to work cooperatively towards achieving organizational goals and add value to their organization (McKnight et al., 1998; Schippers, 2005).
This pattern of results leads us to suggest that, at least in the context of interactive sports teams, researchers must take into account trust as an exchange mechanism when predicting team performance. Many theories of trust are, in fact, based on exchange theory (Whitener et al., 1998). The latter assumes that trust arises from repeated exchanges between different parties (Blau, 1964). As Lewis and Weigert (1985, p. 971) assert, ‘when we see others acting in a way that implies that they are trusting us, we become more disposed to engage in reciprocal behaviors of trust towards them. Conversely, we usually do not trust people whose actions appear to breach our trust or who do not trust us’. Thus, one possible justification for an increase in the cohesion and trust within the team is rooted in the norm of reciprocity (Gouldner, 1960). This implies that we help and do things for others who help and do things for us. In doing so, team members reduce inappropriate behaviour and work towards the attainment of collective goals.

In addition to the exchanged reciprocity, we should also consider other mechanisms that might indicate the relevance of trust while studying social interaction in the sports context. Due to the fact that this research examines trust in different foci (in colleagues, in the manager, and in the organization), performance might also be due to the effect of members’ inference about overall team cohesion and team trust. Attribution theory explores how individuals ‘attribute’ causes to events and how this cognitive perception affects their motivation and behaviours and use this to make judgments (Heider, 1958; Kelley, 1973). Therefore, trust may serve as information to make inferences about different social and workplace behaviour, thereby influencing the judgment individuals make. In this way, trust appears to be a reliable cognitive process through which past action becomes future action. In the present study, team members may perceive the team’s present effectiveness and will probably (correctly or otherwise) attribute this action to several sources such as top management, the head coach, and their fellow players. Team members may, therefore, make judgments about future behaviour and attitudes from such attributions and may be more willing to trust their teammates, coach, and the institution. Our results, nevertheless, demonstrate that the united relationship within the team is a key variable to increase or decrease the team’s performance. Nonetheless, these results should be considered with caution due to the small sample size or perhaps to the fact that our measures did not provide enough variation between the relevant variables (team cohesion and team trust).

**Trust in leadership**

Our findings reveal a different pattern from the hypothesized relationships, specifically in terms of the direct effects of some trust targets and also with respect to the mediation role played by team cohesion. One interesting and unexpected finding is the fact that we do not find a direct relationship between Trust in coach and performance nor between Team cohesion and Trust in top management. These results could be explained from both a statistical and conceptual point of view.

Statistically, one could argue that these weak relations could be a matter of artefact because of the high correlation between the Trust in teammates and Team cohesion variables. However, it is through these combined measures that Trust in coach exerts an influence on performance. Thus, Team cohesion and Trust in teammates has a mediation role between Trust in coach and the team’s final performance. In terms of Trust in top management, only Trust in teammates mediates its relation with performance.
On the other hand, we can use different conceptual explanations to elucidate these unexpected findings. First, Trust in coach is probably the result of a more individualistic focus and behaviour in terms of the interpersonal relationship between players and the coach. This is similar to other constructs in management literature such as citizenship behaviour (Podsakoff, MacKenzie, Paine, & Bachrach, 2000) where individually directed behaviour is distinguished from organizationally directed behaviour. We can reasonably infer that the role played by the direct manager leads to benefits for the team process, whereas the role played by top management may benefit the team but it specially affects the organization.3 Another plausible explanation concerns the different level of the phenomena. Team cohesion is part of the group process, while Trust in top management is part of organizational interaction. However, both processes make a positive contribution to the level of interaction within the team. This can be appreciated in the high degree of variance explained by trust, though they are not linked to one another.

The key role played by team management has been dealt with implicitly in the literature on team performance (Guzzo & Salas, 1995; Hackman, 1987). Within a sports context, Dirks (2000) reported that trust in the coach amongst basketball players channelled the team’s energy towards the roles specified by the latter and eventually lead to the application of his strategies and to better team performance. Thus, trust in the coach is important because it encourages the team to be willing to accept the leader, his/her actions, goals, and decisions, and to work harder to attain the communicated objectives. The findings reported here confirm the importance of trust in the leader. However, the link between trust in leadership and effectiveness do not appear to be direct.

Finally, the aim of this study was to examine team performance via an organizational model of trust. Examining how organizational trust has an impact on performance over time has important conceptual, methodological, and practical implications. First, from a conceptual perspective, we can learn more about team dynamics by examining the influence of different levels of trust over time. Second, from a methodological perspective, a quasi-longitudinal approach and the path analysis techniques used herein allow researchers to draw conclusions about dependency. Lastly, from a practical perspective, it is useful to know whether trust has long-term effects within teams. To summarize, the findings regarding a high level of trust provide an explanation of why, in a context such as the focus of this study, it is likely that teams with trustworthy relationships will perform better. High levels of team trust increase the likelihood of better team performance.

In fact, given that in top professional sports teams all players possess technical competences of the highest level, it is plausible that what makes the difference in terms of the team’s overall performance is the synergy and cooperation between the team as a whole rather than the individual technical skills of each single player (Beal et al., 2003).

---

3 As suggested by an anonymous reviewer, the different measures to assess trust in the coach and in top management may be a concern due to the different patterns of association and their antecedents. These different patterns of association might also be due to a wording-based phenomenon. However, in the context of sports settings, the main coach and top management play conceptually different roles within the organization (e.g. a more strategic role versus a more operative one). It is possible for employees to trust their direct manager but not trust top management (or vice versa). Some authors suggest that trust in top management is not based on the direct relationship between trustor and trustee but on how organizational systems work and the appropriateness of strategic decisions. By contrast, trust in direct managers (the coach) is based more on observed actions and behaviour (Costigan, Ilter, & Berman, 1998; Creed & Miles, 1996; McCauley & Kuhnert, 1992).
Managers, coaches, and sportsmen can achieve organizational goals more effectively, if they cooperate and generate behaviors of mutual trust. We propose that the costs associated to ‘deficits in trust’ are enormous.

Conclusions, limitations, and future research
From the outset, this study has aimed to evaluate the phenomenon of trust at the team level as a multiple-target construct, paying attention to its relationship to team performance as a function of the cohesion among team members. Our findings reveal the significance the work environment has for team performance. Environments that foment clarity, reliability, concern for others, and openness, and in which there is a relatively high degree of harmony and cohesion among the players and the other actors have the potential to improve their performance. By contrast, environments in which players do not trust each other, the coach, or top management will likely have poorer results.

Theoretical implications
The results of this study provide additional support to the growing body of empirical literature on trust within organizations by contributing to the theory of social exchange to help describe work relationships. The major contribution of this study is that multi-foci trust explains team members’ relationships and their relative contribution to the organization’s overall performance. In fact, the relationship between trust and its interaction with the other variables considered in this study suggest that the three different targets of trust are important for how groups function within organizations.

While trust is generally considered an individual phenomenon, it is also possible to understand it at the organizational level (Atkinson & Butcher, 2003). Organizational trust has to do with the employees believing in the achievement of corporate objectives and trusting their managers so long as these lead to actions which are beneficial for the employees (Kim & Mauborgne, 1993). Organizational trust has to do with managers’ attitudes and behaviours since they contribute through their managerial practices to gauge the levels of global trust (Creed & Miles, 1996).

Practical implications
Several practical implications arise from this study. The results obtained may help managers to better understand how trust is constituted within organizations. They may also foment interventions that strengthen and encourage interpersonal links between the different actors and promote interpersonal behaviours of trust. They may also stimulate cooperative behaviour instead of competitiveness by promoting organizational policies and social norms that ensure interdependence and links between team members.

The study provides further support to the contention that high levels of trust within teams facilitate team cohesion which in turn leads to better performance. Management and organizations must therefore stimulate multi-foci trust in their members. Management should strive to find a way to create and maintain the mechanisms that make this possible within the organization. This mechanism could be achieved by sending reliable messages, taking the various actors’ interests into account, and building and developing team trustworthiness (Tzafrir & Dolan, 2004).
**Strengths, limitations, and boundary conditions**

In order to avoid an over-reliance on cross-sectional work, we have used a quasi-longitudinal design for this study, where data on the dependent variables comes from objective sources collected retrospectively. In addition, we split each team into two halves and examine different measures in each group as well as use a CFA test. The fact that the *Trust in teammates* variable was highly correlated to team cohesion is an important finding. We could say that this represents a similar construct or even a possible problem in the measurement tool’s sensitivity. Nevertheless, we have used a validated construct as well as different sources for each of the constructs. However, our study has not solved the problem of causal ambiguity in terms of which comes first, performance or trust (Staw, 1975).

Regardless, the group level of analysis provides a more coherent perspective to assess the dynamic of interdependent team processes and it provides a level of explanation more suitable for the phenomenon under study. That notwithstanding, we only gathered data from 690 players on 59 different teams resulting in a relatively small sample. Despite participation by 89% of the population in these interactive and professional teams and within this specific context (top sports teams), examining this phenomenon among a larger sample would be ideal. Further research will serve to corroborate the consistency of these findings.

The mechanism or construct that mediates the relationship between employees’ attitudes and organizational performance is a matter of debate, and researchers have not yet reached agreement on the subject. Thus, exploring this phenomenon further could become a key issue in organizational life. Our research focuses on trust as an informal mechanism to improve performance. How the level of organizational trust impacts performance is a very interesting path for future research.

It is also important to note that the use of sports teams as a target group in this study implies some limitations in terms of external validity. Generalizing these findings to other sectors should be done with caution. There are obvious differences between sports teams and other organizational teams in terms of how resources are measured and relationships between members are maintained, though, a full discussion of these issues is beyond the scope of this article. However, as Wright, Smart, and McMahen (1995) assert, both share some common traits: they exist in highly competitive environments with well-established measures of performance, and both types of organizations have people who make decisions and choose and implement strategies to enhance their competitiveness.

**Acknowledgements**

An early version of this paper was presented at the 2008 Academy of Management meeting in Anaheim, CA, USA. The authors would like to thank Xavier Suriol for his participation in the study and help with the fieldwork. The authors would also like to thank the senior and associate editors of the *Journal of Occupational and Organizational Psychology* as well as anonymous reviewers for providing invaluable comments in finalizing this manuscript. Portions of this manuscript were completed while the first author was a visiting research fellow at John Molson School of Business, Concordia University, Montreal, Canada.

**References**

The differential effect of team members’ trust on team performance: The mediation role of team cohesion

Merce Mach et al.


The differential effect of team members’ trust on team performance: The mediation role of team cohesion

Merce Mach, Simon Dolan, Shay Tzafrir


The differential effect of team members’ trust on team performance: The mediation role of team cohesion

Merce Mach, Simon Dolan, Shay Tzafrir

Received 26 September 2008; revised version received 19 August 2009
Challenges for New Managers

Guido Stein

“Leadership, like any other art, is easier to recognize than to define.”
(The author)

Introduction

To become a manager is to take on a unique professional challenge. Management embraces two poles. One is the people a manager must manage: without a group of people to manage, however small or large, there can be no management, and no manager (except euphemistically speaking). To manage is to manage people and their work. Certainly, a manager may also manage economic resources, IT resources, logistical resources, even intangible resources such as a brand, a reputation (sometimes a bad reputation), customer loyalty, etc. But in these cases, rather than “managing,” it seems more appropriate to speak of controlling, coordinating, supervising or administering resources.

The other pole is results: a manager manages people and administers resources in order to achieve something that goes beyond either. Managing and getting results are two sides of the same coin. As we shall see, there are many different kinds of results, although two are indispensable: the all-round development of the people being managed, and a sufficient, economically measurable return. If a manager does not achieve these two, he does not deserve to be called a manager.

From the above we may draw two provisional conclusions. Becoming a manager usually brings a higher professional and social status, compared to other jobs, and this confers certain rights and privileges: above all, it confers rank and wealth. Before that, however, and more importantly, it entails a set of obligations and responsibilities. A manager who fails to understand that the obligations and responsibilities come first, and rank and wealth second, is already off the mark.

Like other professions, managers are made, not born. However, certain character and personality types are better suited than others. That is beyond the scope of this note, however; this brief mention will have to be enough.

Here I shall be discussing some of the most important - and most neglected - aspects of what it means to become a manager. Let me say in advance that becoming a manager involves a profound personal and professional transformation, but that, as in other practical spheres of life, it is much more difficult to describe in the abstract than it is to put into practice.

I have drawn from three sources: the managers who have taken part in the training programs I have taught and with whom I have had dealings as a consultant; the knowledge I have gained from colleagues; and my own experience as a manager.
Taking on a New Identity

“I never thought promotion could be so painful”

(Anonymous manager)

The moment a person is appointed to be a manager, two things happen: he sees his ambitions fulfilled and finds himself in a new environment; and at the same time, those around him, especially his new subordinates, revise their expectations and start to behave differently toward him.

“You get this label put on you and everybody else believes it,” confessed a perplexed doctor, recently appointed head of department in a large hospital. He was experiencing the satisfaction of being listened to attentively, obeyed promptly, and flattered and praised in public.

Newly appointed managers are often surprised at the effect their new rank has on others by the mere fact of having been announced before they actually have to perform as managers. Let’s look more closely at these first few steps:

– There is no second chance to make a first impression. That means a manager must think carefully about his first public gestures and actions, as they will have a lasting impact: confirming or contradicting expectations, and influencing expectations for the future and thus also the manager’s professional performance. A prudent approach would be to maintain the tension between being respected as a boss and being liked as a person.

In any case, it would be wrong to exaggerate early successes or mistakes. To do so would be to forget that there are always second chances for second impressions.

– Starting by persuading people generates more managerial capital than resorting to command and control. Giving in to the temptation to use command and control rather than persuasion is either a sign of failure to realize that giving orders is not the mark of a strong manager, or a lazy desire to spare oneself the effort while still appearing to be effective and save time. Any manager who succumbs to this temptation is forgetting what any mountaineer could tell him: there are no shortcuts without hard work, that is, the “quick method” is bound to have hidden costs, which we shall talk about later. A manager must learn to give orders, but that does not necessarily mean giving orders all the time. Many companies nowadays are over managed: bossy managers are two a penny.

The manager must understand that his position is one both of authority and of dependency. He must realize that he will be more effective if he manages those who work under him properly and makes them realize that it is up to them to achieve the desired results, including their own personal development.
One of the things a manager who has been promoted for his personal commitment and effort finds most difficult to accept is not that the people he manages are not necessarily like him, nor is it desirable that he turn them into clones of himself. Managing entails accepting the diversity of the people one has to manage, and acting accordingly. The realization that others have their own motives, talents, limitations, ambitions and circumstances, in a word, their own lives, can be brought sharply home by having to face the trauma of personally dismissing a subordinate, rather than passing the buck to the human resources department or a minion. Learning to dismiss people properly is part of learning to manage properly and to be careful when hiring and, above all, when dealing with people.

The new manager must take care not to act impulsively, as others will take note of his decisions and actions, and he will have to live with the consequences. He should listen carefully before acting, especially at first. When a new manager is asked for an opinion, he must stop to think and not react spontaneously; otherwise people may think he is not taking the question seriously enough.

Over the first few months, or even the first year, the manager gradually comes to realize that he must achieve an unstable or dynamic equilibrium between his motivations, competencies and limitations, and that to do this he needs to know himself better. As he faces his responsibilities, he matures and starts to see his own strengths and weaknesses as a manager more clearly. The lure of rank and wealth gradually give way to a desire to be equal to the real challenges of being a manager: resolving complicated, multi-faceted problems and, in doing so, developing his subordinates. This commitment and the satisfaction of fulfilling it, usually put rank and wealth in to a proper perspective. Most likely the new manager will not yet have developed his own style; but already he thinks and acts like a manager. This is a big step forward. Becoming a manager is a major personal experience. Often it is associated with changes in personality and character, as a person rises to the new responsibilities.

The new manager has a great task ahead. His new identity is taking shape and he still misses his old self. The new challenges force him to bring into play facets of his personality that he has never used before or did not even know he had. It will take him time and practice to find out whether he is comfortable with his new identity, and whether he has what it takes to be a manager. At the same time, he must find the management style that suits him and that will allow him to develop his competencies and achieve his goals.

The requirements of the managerial role and the manager’s ability to assume a new identity do not always go hand in hand.

One of the difficulties a manager faces as he matures is the sense of impotence: “I’m giving it all I’ve got, I can’t do more than this... yet I still get the feeling I’m not doing as much as I should be.” That is because subordinates want the boss to attend to a host of different matters. Then there’s the pressure from above. And all the while, the manager has to carry on dealing with customers and addressing issues of marketing, finance, innovation, and so on.
Managing is probably incompatible with actually doing things; it has more to do with helping others to do things. This creates certain pressures that affect every manager, especially at the start of a career. Managers have to learn to live with imperfection. They have to realize that they cannot control everything. They have to manage their own ignorance and make decisions without having “all” the information, and working to tight deadlines. In other words, they have to make sub-optimal decisions.

Added to this is the unforgettable realization of the difficulties: when a person climbs for the first time out of the valley onto the hilltops of management, he starts to see no end of problems he could scarcely have imagined before. He will learn that some of them can be solved, while others have to be managed, and quite a few simply endured. In dealing with difficulties, it is important to distinguish between subordinates who come to the boss with problems and those who are the problem.

Becoming a manager is usually accompanied by a feeling of disorientation, of having wandered into no-man’s-land. You are no longer just one of the team; they already see you as the boss; but you don’t yet feel comfortable among or fully accepted by your new colleagues. Management education has too often focused on relations with subordinates, neglecting relations with peers and superiors.

The temptation is to put up protective barriers that keep a person isolated. But this is not the time to show fear, anxiety or insecurity, when others are expecting an example of maturity, professionalism and serenity. A distinctive trait of a mature manager is precisely that he does not pass stress or anxiety on to the people, who depend on him, but absorbs and masters it.

In fact, a manager must absorb interpersonal conflicts, emotional tensions and worries prompted by the uncertainty surrounding decisions and their consequences. And he must assume the weight of those decisions. If he still has a mentality inherited from his previous technical or functional role, he will most likely not understand the new situation: he needs to change his old way of seeing things and start to look at them differently

- Managing business (operational and financial) and personal risks. Linda Hill suggests that it is at the end of their first year that managers start to gain confidence in their ability to calculate the risks and control the emotions that come with them. They accept their limitations and mistakes, adjust their expectations to reality, and learn to exercise power and influence with skill.

- The responsibility of having the power to influence other people’s lives. This is one of the heaviest burdens for a new manager. It is felt most intensely in two types of decisions: on disciplinary action, and on the relative priority of individual or group interests.

In light of these considerations, one may wonder whether the newly appointed manager still has time and enthusiasm to actually enjoy his job. In fact, one might ask, why do people choose to become managers and leaders? Particularly considering that being a manager is very demanding and challenging, even in the most favourable circumstances, and requires considerable effort and personal commitment.
In summary, as a manager’s career progresses, he becomes increasingly aware that the competencies that got him promoted are insufficient to enable him to continually improve his performance. He tends not to know exactly what it is he needs to learn. Many think that the technical expertise and skills that have served them well so far will be enough. That it is true for tasks that require the kind of experience a person needs in order to achieve results individually, as in the case of a producer, technician, sales representative, etc. A manager, however, needs more general competencies; competencies that enable him to sift the huge and often bewildering amount of information he receives; competencies that facilitate a management style which inspires trust and enables a manager to exercise influence without possessing formal authority (which is increasingly the case as a person rises in the organization chart); competencies that help a manager to build flexible, innovative teams, and manage any interpersonal conflicts that arise; competencies that foster versatile leadership of an increasingly diverse set of people, in terms of background, education, culture and interests; in a word, competencies that prepare a manager for continual change. Foremost among these competencies are self-knowledge and effective knowledge of others (empathy+sympathy).

Help for the Beginner

The first critical resource at the beginning is on-the-job experience. The new manager immediately faces challenges and problems that demand decisions and actions. He can start to learn immediately from what he does and its consequences. At the same time, he can watch what colleagues do in similar situations and learn from them. Colleagues are a good source of instruction about the most appropriate competencies and attitudes, and the prevailing values. They may also provide much needed psychological support.

Previous bosses can be a valuable source of advice and guidance, without personal commitment or professional implications. In fact, the new manager’s style will be partly assimilated and partly borrowed from bosses he has worked for previously. A person’s first boss tends to make a deeper impression than those that follow, which is why this should be a serious consideration when choosing a first job.

A good boss who is also a good teacher or mentor is rare. To teach you have to reserve the right to make mistakes; you have to open up the horizon beyond the manager’s specialized field; you have to find a balance between the business risks that can be dealt with rationally and the psychological tensions and stress that require a mature control of the emotions; you also have to help the manager discover his own way of assimilating attitudes, styles and values that will later become a source of energy and motivation; and you have to foster a way of thinking that melds the technical and the human is de of managing business activities. Of course, the manager’s current boss may also be a source of guidance at the beginning, but it is wise to be cautious.

Lastly, there are colleagues past and present. Once the suspicions generated by the atmosphere of rivalry have been overcome, colleagues are the most convenient source of help and the one most used by new managers. They are also a good sounding board for judging the risks of plans and initiatives, and weighing any challenges that may arise. Generally speaking, colleagues are also best for quick, spontaneous feedback.
Corporate training programs can be a great help in this orientation phase. Official company programs tend be useful for learning about the corporate culture, and they also offer opportunities to build contacts with colleagues. These contacts can help a new manager feel his way into the new role. Manager development is a long process, driven by exposure to a variety of intellectual, emotional and ethical challenges. Confronting challenges that lead to personal and professional self-realization is rarely a comfortable process. The key lies in learning to learn from experience. And this learning process is too important in the early stages of a career to be left to chance.

Management competences are acquired and refined on the job. The new manager must acquire habits that enable him to get the most out of his experience, most notably the habits of introspection and learning. The most efficient managers are the ones that get maximum benefit from the experiences the environment provides People who enjoy learning seek out new opportunities and challenges, so that they continue to grow. This gives them the mental elasticity and self-knowledge to combat stress.

The managerial task contains a certain paradox, in that managers are expected to act as managers before they fully understand what a manager is or does. That is why, before accepting promotion, the candidate must understand not only what he is required do, but also “how” and “why,” as this will tell him a lot more about his new identity. Once promotion has been accepted, it is very difficult to go back, particularly to the same situation. In the social sciences and specifically in management, unlike in the natural sciences, an experiment can never be repeated under exactly the same conditions, as the first experiment will affect any subsequent attempts. Reversing a promotion, withdrawing a pay rise, or repeating an interview does not take things back to the way they were before, as the people involved are influenced by the initial experience: in some cases favourably, in others unfavourably, never neutrally.

Managing People or Managing Teams

“Managers cannot order people to work as a team. Designing, facilitating and monitoring team work is an art.”
(Anonymous manager)

As Linda Hill, Harvard’s Professor, points out team management is an increasingly crucial part of a manager’s job nowadays. Because of technological change and globalization, managers have to get to grips with ever greater complexity and interdependence in team roles. They have to deal with huge differences in experience, age, background and culture, as well as virtual team work, horizontal networks and cross-functional teams (in contrast to hierarchical and functional organizations).

Management, properly speaking, is evolving towards a complex form of coordination, in which delegation and participation are essential. Decision making belongs to whoever has the necessary experience and the most direct and relevant information. Collaboration by whoever who can contribute to the solution takes the place of individual solutions, as this has been found to improve decision and implementation quality.
New managers tend to behave in a particular way when training and managing teams. They believe that the most effective way to manage a team is by building relations with each individual team member: if the team members are effective, the team will be effective. They identify managing individuals with managing teams of individuals. This is a mistake right from the start: they fail to realize that people behave differently in groups; individual behaviour gives way to group behaviour. How differently people behave will depend on a variety of factors, including personality, group pressure, and leadership.

New managers tend to concentrate on a small select group of subordinates, whom they expect to be the most productive and most effective. This means they have limited information and their decisions about one subordinate may have unpredictable negative effects on the morale or contribution of others.

In order to stop managing subordinates individually and start managing them as a team it is important to understand what an effective team is, how it can be created, and how it develops. To manage a team it is essential to set goals, and to realize that achieving those goals requires interdependence among team members. The fact that people theoretically belong to a team or share tasks do not make them a team. More than that, they need to share goals and act collectively. The more the members are involved in setting the goals, the more leadership the manager will need to show, and the more committed the team will be to achieving the goals. Participation has its limits, however, as there are situations where the leader must decide for himself.

Peter Drucker distinguishes three types of teams: baseball, rugby, and tennis doubles. A baseball team is like a surgical team doing open-heart surgery, or the assembly line at Ford. The players act in a team, but not as a team; they play set roles that rarely change. This allows perfect specialization and assignment of responsibilities. As there is little interdependence, there is no need for constant adjustments.

A rugby team is like an orchestra or an emergency department dealing with a heart attack. Each member has a fixed role to play, but together they act as a team. There is only one score and the orchestra must play it right, so subordination and cooperation are essential.

Lastly, a tennis doubles team is like a jazz band improvising, or an independent production team. Each member has a primary position (rather than a fixed position), from which he contributes by adapting to changing circumstances. But it is the team that does the real work.

Leadership style and strategy vary in each type of team. When selecting members, it is important to seek a balance of homogeneity and heterogeneity: managers must be aware of the tendency to select people similar to themselves. On the one hand, homogeneity in values, opinions and experiences provides a solid foundation for trust and commitment, and facilitates communication. On the other, heterogeneity injects creativity and new problem-solving skills. These two poles can be filtered and aligned to good effect through careful coaching. The aim should be to help team members be effective not only on a technical level but also as parts of a whole, to build trust among them, to evaluate them and give them feedback on their progress and achievements, and to resolve conflicts. Teams either get better or degenerate, they never stay the same.
Whether they improve depends on how the manager deals with certain paradoxes of team management:

- How to adopt a collective identity and purpose, without ignoring individual differences, and how to mobilize those differences to achieve the collective purpose.

- How to foster support and confrontation at once. Conflict management is a critical task for any new manager. Conflict arises when group behaviour clashes with critical, creative thought. One of the advantages of a team work is the diversity of viewpoints that members bring to their tasks.

- If conflict becomes a problem because there is no criticism or because criticism becomes emotional, then it is unlikely that all viewpoints will be taken into account. Also, if intense negative feelings are merely papered over, they are likely to re-emerge later with vengeance.

- How to concentrate on contributions, learning and development. Getting results today while generating the ideas that will drive tomorrow’s innovations is a tall order. Precisely for that reason, a team environment is ideal for assessing and cultivating member’s leadership and general management competencies.

- Whether to rely on managerial authority or team member’s judgement and independence. The more freedom team members are given, the more important it is that they commit to certain common goals. In teams that work, where mutual trust and credibility prevail, managers have more freedom to make decisions without constantly having to explain or justify them. Without trust, team members will question even the simplest and most harmless proposals.

Managing these paradoxes requires a particular style of management. The paradoxes mark continuum. Some managers are more comfortable at one extreme or the other. A versatile manager will adapt his behaviour (that is, taken up a position along the continuum) according to the specific needs of each situation.

**Managerial Learning: A job for life**

“Can management be taught?” is a rhetorical question. Despite Mintzberg’s timely boutade in *Managers, not MBAs*, business schools and quality universities have long since proven that it can. The crux of the question, however, is how. All learning is originally the learning of a trade, be it science, technology, art, or of a combination of all three, as in the case of management. Its purpose, therefore, is to instil a habit, a vital power that will enable a person to acquire knowledge and learn to learn, that is, to think rigorously, deeply and creatively.

The important thing is not to teach; the important thing is to learn. Precisely for that reason, the manager must learn to manage. He is the material he has to work with, so if the wants to be useful in his profession, he must take decisive control of his own development: no one can do it for him. He will need to seize or create opportunities within his functional responsibilities and the projects he is involved in, as managers learn by managing.
It should be clear by now that becoming a manager worthy of the name involves lifelong learning and development. Drucker said as much when he described effective leaders as eternal apprentices who persist in constantly reinventing themselves. A fruitful career begins with adopting the right staring position, starting at the right moment, setting oneself broad-ranging tasks full of potential and building relationships (mentors and sponsors) that will assist one’s development. One way to help people learn on their own account is precisely by teaching them to be “docile protégés.”

New managers must be very wary of shortcuts and fast tracks that seem to lead effortlessly to the destination, as they prevent a manager from learning to live with the consequences of his actions in the long run and absorbing the lessons of experience.

To learn, a manager must listen to what his subordinates, colleagues and superiors have to tell him, not just in what they say, but above all through what they do and how they react to what he says or does. An effective leader will find clues as to how they feel about working with him, and whether he is having a positive effect on them or not, and why.

All management development is ultimately self-development. Nobody can teach a manager to manage or lead: he must learn it for himself. As a manager, he must work on himself. And if he wants to be useful in his career, he must take responsibility for his own improvement in an innovative way. He must seek out, pursue or create opportunities within his functional and project-related roles that will afford him experiences and relationships from which he may learn to lead. Managers learn primarily on the job. The most powerful and fastest way to get a manager to learn is by taking him out of his comfort zone, once his existing competencies give him full control of the current situation. To achieve that he must be given greater responsibilities and broader challenges that force him to improvise and acquire new competencies (that is, practice new behaviours that will become operational habits).

To optimize this learning, people need to feel a certain psychological security and know that making risky decisions is safe within their team and organization.

In today’s hypercompetitive environment, which the implacable capital markets merely intensify, managers are not encouraged to manage the trade-off between short-term financial results and the long-term needs of personal development. The greater the pressure to achieve short-term results, the more reluctant people will be to seek help within the company. Some authors have suggested that either the rules of the game and the prevailing culture must be changed, or it will be impossible to develop management competencies that foster talent and risk taking. Mistakes are both a consequence of risk taking and an opportunity to learn.

Until companies actually start to assess their managers on their success in developing subordinates, merely proclaiming the need for emotional intelligence and empathy, or declaring that people are the company’s most valuable asset, will change nothing.

Learning in general, and personal learning in particular, requires accepting that one does not know what one is learning. In other words, it is an exercise in humility and vulnerability for which most
organizations are unprepared. Also, the increase in employee mobility dissuades companies from investing in employee development, only to see a competitor reap the benefits.

Linda Hill asks what can be done to establish a culture of learning in which, instead of selecting excellence, the company focuses instead on developing excellence. A simple and valid possibility would be to apply new criteria when selecting managers for promotion, such as their capacity to assimilate negative and positive criticism, their willingness to learn from experience, their openness to having a mentor and go to the board for help, or their aptitude for introspection and self-analysis. These are all competencies that go to make a practical and reflective manager, what Drucker called a “reflective practitioner.”

At the same time, besides removing organizational barriers that inhibit learning, such as those mentioned above, this procedure would help to identify the habits, attitudes and values that enable managers to contribute now and in the future. It would also help companies to determine which internal career moves (job rotation) will give managers the most all-round education, and which will help them acquire the necessary responsibilities and build a network of relationships that will be crucial to their future performance.

The mere fact of going to work in a different country invites a manager to open his mind, ask questions, negotiate with a greater variety of people, make decisions with greater uncertainty, tolerate a diversity he neither fully understands nor controls, anticipate the effects of his actions, and strive to communicate.

The Culture of Example

“The greater the ideals, the smaller the obstacles.”

(Aristotle)

Our companies suffer from hyper management by visionary and authoritarian agents of change. It has long been time to replace this paradigm. To promote a culture of continuous learning, the person who leads, instead of being at the top and at the front, must situate himself at the bottom and at the back, like a shepherd with his flock.

I have limited confidence in the ability of tools such as measurement to cure managerial short sightedness, but I stand with Ortega and Gasset in proclaiming the need to get people “hooked” on improvement. In any case, the treatment requires a determined effort by those who today hold power and responsibility in companies.

As Hill points out, managers must stop asking themselves whether they are managing and consider the deeper issue: “Am I creating an environment in which others will learn to manage and lead?” If they genuinely want tomorrow’s managers to put the talk about implementing a new way of doing things and a new culture into practice, the leaders of today will have to invest time and effort in developing managers, starting with the older ones. They will have to discover what managers need
to learn and how it can be learned. They will have to create environments of trust in which “trial and error” does not mean getting it right first time, but represents a safe space in which to exploit opportunities and exercise creativity and innovation. And they will have to be bold in their approach to the dichotomy of “short-term performance” versus “learning and personal growth.”

Summaryzing, being a manager means setting an example and creating a business. Certainly, what leaders do is always a message; that is why they should never be chosen for what they think, but for what they are. Their example consists of always striving to improve, while remaining one among equals, willing to share risks and difficulties. This is precisely how others learn the best competencies. Aristotle, who helped to educate the ancient world’s most famous leader, said that virtue becomes contagious when the soldier learns from the virtue of his commander.

Leaders like this stand out because they know the limits of their power, seek advice when they need to go beyond those limits, and correct their own mistakes. They are bold because they believe themselves capable of achieving very demanding goals, and magnanimous because they believe they will continue to grow for as long as they live, and because they never allow themselves to imagine they have reached the end in any sense, as they can and must go further. Lastly, they are humble, because they know that a leader proves his worth when he stops being a leader, and that their true worth will only be known when they are gone.
GLOBAL LEADERSHIP IN MULTICULTURAL TEAMS

Chapter prepared for Globalization and Leadership Development in a More Integrated Global Economy, Edited by Jordi Canals

Yih-teen Lee
IESE Business School

INTRODUCTION

As business activities go increasingly globalized, there is a surging need for global leadership to ensure effective collaboration across national boundaries. Global leadership can be defined as the process of influencing the thinking, attitudes, and behaviors of a global community to work together synergistically toward a common vision and common goal (Beechler & Javidan, 2007; Bird, Mendenhall, Stevens, & Oddou, 2010; Osland, 2008). Scholars have identified key competences of global leadership, such as global knowledge, inquisitiveness, resilience, cognitive complexity, cosmopolitanism, mindful communication, multicultural teaming, building community and social capital (Bird & Osland, 2004; Morrison, 2000; Osland, 2008). To make these broad concepts actionable, however, it is necessary to translate them into concrete behaviors in specific contexts. In this chapter, I will focus specifically on global leadership in multicultural teams, and discuss its various facets and development.

The use of multicultural teams in work setting has become frequent over the last decades. It is not rare that workers nowadays need to cooperate with team members with different cultural backgrounds to achieve common objectives. The proliferation of multicultural teams is also fueled by the fact that the workplace is in transit to a knowledge society, characterized by extensive information exchange and processing. Individuals possessing the most required knowledge or competences not necessarily come from similar cultural backgrounds. As a result, it is crucial for organizations to make sure that their multicultural teams function well.

The objective of this chapter is to offer insight on global leadership in multicultural teams. After a brief overview on the concept of multicultural teams, I will discuss key tasks/challenges in leading multicultural team along different stages of team process (Tuckman, 1965), and address deep-level factors contributing to global leadership development. It is important to acknowledge at the outset that there are no hard and fast rules and recipes for leading multicultural teams, and that the issues covered in this chapter are far from comprehensive. However, with an in-depth understanding of complexity embedded in multicultural teams, global leaders may be able to make sound judgment balancing multiple and often conflicting demands when leading such teams. Furthermore, the role of global leadership may not always reside on one single person. Shared leadership refers to a team property whereby leadership is distributed among team members rather than focused on a single formally assigned leader (Pearce, 2004). It is likely that different members would assume shared leadership role in multicultural teams when performing team tasks. Hence, even though I use the term “global leader” in this chapter, it is supposed to refer to global leadership function assumed by multiple members in teams instead of focusing on specific individuals as formal leader.
MULTICULTURAL TEAMS: CONCEPT AND CHALLENGES

Multicultural team can be defined as “a group of people from different cultures, with a joint deliverable for the organization or another stakeholder” (Stahl, Makela, Zander, & Maznevski, 2010: 439). In such teams members are jointly responsible to accomplish certain task despite possible cultural differences inherent in the team composition. Multicultural teams usually have the advantages of a larger pool of skills, knowledge, and viewpoints, with multiple perspectives that foster creativity (Stahl, Maznevski, Voigt, & Jonsen, 2009; Stahl et al., 2010). Moreover, multicultural teams may have a wider range of capabilities to serve a variety of client needs across space and time.

However, working with multicultural teams also implies increased complexity because of the presence of cultural diversity. Culture can be defined as the “the collective programming of the human mind that distinguishes the members of one human group from those of another” (Hofstede, 2001: 9). In other words, culture is a kind of mental programming or frame of reference that shapes the way we make sense of the world. Consequently, it affects people’s underlying view of the nature of teams such that members from different cultural backgrounds hold diverse assumptions and expectations on how people should work together in teams (Gibson & Zellmer-Bruhn, 2001).

Cultural diversity in multicultural teams can easily generate management challenges. For example, cultural diversity often hinders communication effectiveness and social integration in teams (Stahl et al., 2009). Members from different cultural backgrounds may not share similar understanding or expectation in terms of how work should be handled. Tensions and conflict can arise and prevent multicultural teams from reaching their full potential in delivering desirable work results. As cultural diversity can be both a blessing and a curse for multicultural teams (Bachmann, 2006), global leadership is needed to ensure smooth functioning of multicultural teams so as to reap the full benefit of diversity.

One particular leadership challenge in such context is about leader legitimacy. Research generally suggests that teams are likely to be effective to the extent that their cultural values match those of the work environment (Halevy & Sagiv, 2008). However, in multicultural teams where multiple cultural values and preferences are simultaneously present, leaders may have difficulties to identify one set of values or leadership style that can satisfy members from multiple cultural backgrounds. Global leaders thus face the issue of power paradox, which refers to “a position where parts of the team question his/her legitimacy and authority for the same reasons that make other team members give the leader the ‘licence to lead’” (Zander & Butler, 2010). Although treating members differently according to their cultural values may sound like a solution, study also indicates that such differentiated leadership within groups can diminish group effectiveness through creating divergence in leader identification and member self-efficacy, which reduces team collective efficacy (Wu, Tsui & Kinichi 2010). To resolve the challenge of power paradox, global leaders need to skillfully deploy a dynamic combination of tailoring leadership to each team member as well as group-focused leadership that orchestrates common team norms (Maznevski & Zander, 2001). I present a framework of global leadership in multicultural teams in Figure 1, and will discuss it point by point in the following sections.
LEADING MULTICULTURAL TEAMS

Adopting the classic four-stage model of team development (i.e., forming, storming, norming, and performing, see Tuckman, 1965), I will discuss specific tasks and challenges that are particularly relevant in each stage when leading multicultural teams. However, team processes should be understood as intertwined in a continuous and cyclical manner (Ilgen, Hollenbeck, Johnson, & Jundt, 2005). Furthermore, although certain tasks may be more pressing or salient in specific stages of team collaboration, all of them may be required at all times in leading multicultural teams.

Forming

Forming is usually the starting point of the teamwork process. In this phase, team members gather together, get to know one another and explore their similarities and differences. Global leaders need to manage such process by performing the following tasks: (1) assess specific team configuration; and (2) create initial mutual knowledge and trust.

Assess Specific Team Configuration

Not all multicultural teams are the same (Bachmann, 2006; Maznevski, 2008). Each type of multicultural teams faces distinct challenges and different leadership modes are required to successfully lead the team (Zander & Butler, 2010). In the forming stage global leaders have to design proper team setup that fits organizational purposes. If not given the discretion to determine team setup, they need to carefully assess team configuration and understand its implications so as to effectively lead the team.

First, the degree of diversity may differ across teams. Bicultural teams (i.e., teams involving members from two different cultures) are less diverse than team with multiple cultures. Furthermore,
diversity can vary along a range of dimensions such as nationality, ethnicity, and religion. Whereas surface-level diversity (e.g., nationality and ethnicity) are more easily detectable, it is crucial for global leaders to capture deep-level diversity in teams (e.g., underlying values and assumptions) that are generally less visible but cast stronger effects on team functioning (Harrison, Price, & Bell, 1998).

Oftentimes, global leaders need to decipher issues subtler than cultural diversity, such as power dynamics among cultural groups. The proportion of members coming from specific cultures may determine which group has stronger voices. The presence of a large cultural group tends to have dominant power over other cultural groups, unless other groups form some kind of coalition. Multicultural teams composed of two cultural groups of equal proportion may create a sense of equality, yet it can also engender direct power confrontation. The issue can be more delicate when it is not only the quantitative proportion of a certain cultural group that counts for power, but the subjective perception of superiority versus inferiority (often related with the level of economic development of a country or past history of confrontation), that influence the status differential in multicultural teams. Global leaders need to develop a clear sense of power dynamics in the forming stage so as to guarantee smooth collaboration.

Multicultural teams can be collocated (i.e., when members are located in the same site) or distributed (i.e., the virtual teams where members are physically working at different sites often in different countries). Virtual multicultural teams are characterized by dispersion over many geographical sites and often time zones. Usually virtual teams face additional challenges to work together due to enlarged geographical, cultural, and temporal distance (Cramton, 2001; Maznevski & Chudoba, 2000). Global leaders should develop a more refined understanding of the types/degrees of virtuality (Kirkman & Mathieu 2005) within teams and manage it accordingly, instead of treat virtuality as a dichotomous question (i.e., whether a team is virtual or not).

Create Initial Mutual Knowledge and Trust

During early stage of team formation, it is critical to establish mutual knowledge among team members, including basic personal information, cultural backgrounds, and specific knowledge and competences each individual can bring to the team. Without shared experience or mutual knowledge, team members will rely on their individual past experiences to interpret persons, processes, and roles in teams, which can turn out to be very different (Cramton, 2001). They may fail to capture differences in value systems and working conditions and foster incorrect expectations of each other. Global leaders must help teams develop mutual knowledge and make sense of differences in the forming stage.

In addition to mutual knowledge, members of multicultural teams need to build up initial trust to develop into coherent teams. Whereas trust is beneficial for teams at all stages of teamwork (Jones & George, 1998), it is particularly critical in the forming stage. Without sufficient initial trust, team members may not be willing to share critical information or to accept the risk associated with relying on others (Salas, Sims, & Burke, 2005). It is more challenging to develop trust in multicultural teams where people share less common ground to build up mutual trust. Cultural differences can easily create a sense of separation (in-group vs. out-group), trigger biased attribution (i.e., explaining the behaviors of members from different cultural groups in unfavorable way), and engender distrust. Global leaders need to demonstrate trust building capabilities in two ways. First, global leaders need to gain trust from members with different cultural backgrounds. Whereas in some cultures trust
for leaders is based more on leaders’ formal position and interpersonal relationships (e.g., China, Japan), such trust may rely more on leaders’ demonstrated competences in other cultures (e.g., in the US, see Chua, Morris, & Ingram, 2009). Culturally adequate strategies need to be deployed to gain members’ trust. Second, it is also global leaders’ responsibility to cultivate trust among members of different cultural groups. Individuals from different cultures may favor different basis of forming trust. For instance, in individualist culture, people tend to reply more on costs/rewards calculation and capability assessment for granting trust, whereas in collectivist cultures trust is developed more on the basis of intention and predictability (Doney, Cannon, & Mullen, 1998). Global leaders need to understand such cultural variation in fostering trust among team members from various cultures.

**Storming**

After their formation, teams usually enter into the storming phase in which members have to confront the differences among one another and make decisions about how to approach tasks collectively. Global leaders are expected to undertake the following interrelated tasks during the storming stage: (1) leverage unique competences; (2) manage team conflict and emotion; and (3) foster team psychological safety.

**Leverage Unique Competences**

To reap the benefit of diversity within multicultural teams requires a clear understanding of unique value members from different cultures can offer to the teams. Open communication contributes to the identification of unique competences of each team member and to the crystallization of team agreement. It helps members develop deeper mutual understanding, and is found to be significantly related to team performance (Hyatt & Ruddy, 1997). Teams with an accurate and shared knowledge of other members’ expertise can better leverage unique competences within the team. In additional to conduct basic task and social skill coverage of teams (Maznevski, 2008), global leaders may even tap into implicit benefits embedded in cultural differences in this process. In other words, global leaders need to help teams assess differences in a constructive way so that team members can develop clear and accurate *transactive memory system* (i.e., the knowledge of team members as well as the collective knowledge of distribution of expertise, or an awareness of ‘who knows what’ in teams, Mathieu, Maynard, Rapp, & Gilson, 2008).

One challenge global leaders have to confront is to facilitate communication in teams with the presence of cultural differences because communication norms and styles are subject to culture’s influence. Whereas members from more individualistic cultures (e.g., USA, the Netherlands) are more willing to express their unique opinions, members from collectivist cultures (e.g., China, Mexico) prefer to hide their uniqueness and remain part of the group. Moreover, members from high power distance cultures (e.g., Arabic countries, the Philippines) may be quiet and express less during team discussion when high-status members are present. These cultural differences may prevent teams from identifying and leveraging unique competences at their disposal. Global leaders have to enable teams to communicate in culturally proper way and bring out unique knowledge of members from different cultures.
Managing Team Conflict and Emotion

Conflict is a common phenomenon in the storming process when members demonstrate their differences in direct or indirect ways. Cultural differences not only increase the likelihood of conflict but also impede team’s ability to manage affective conflict through openly discussing them (Von Glinow, Shapiro, & Brett, 2004). Generally recognized as detrimental to team performance (Jehn, Northcraft, & Neale, 1999; Lovelace, Shapiro, & Weingart, 2001), conflict may be beneficial to teams if maintained at a healthy level and of the right types (De Dreu, 2006; Van de Vliert & De Dreu, 1994). The capitalization on potential benefits of team conflict depends largely on the global leaders’ management of conflict.

Related to conflict is the issue of emotion. If not managed properly, conflicts in teams can fuel negative emotions leading to breakdowns in interpersonal understanding and collaboration. Cultural diversity itself can also create anxiety and discomfort. Managing emotions in multicultural teams is more complex than that in monocultural teams because culture also affects emotional process including emotion appraisal, emotional experience, emotional expression, and emotion recognition (Elfenbein & Shirako, 2006). First, people from different cultures differ in context sensitivity (Masuda & Nisbett, 2001). As a result, members of multicultural teams may work in the same objective setting yet find their emotions evoked by different stimuli within that environment. Second, people of different cultures differ in their tendency in experiencing particular emotional states (Aune & Aune, 1996). Consequently, members of multicultural teams are less likely to share the same emotional state following the same events, which would hinder the development of group congruence. Moreover, expression of emotion varies across culture as display rules are also conditioned by cultural norms. In some cultures individuals are not expected to express what they really feel but to display what is appropriate (e.g., displaying smile when angry in Japan). Finally, it is more challenging to recognize emotions of people from different cultures (i.e., with lower speed and accuracy, Elfenbein & Ambady, 2002). Global leaders should be aware of these cultural differences to manage conflict and emotions in multicultural teams.

Foster Team Psychological Safety

Closely related to the previous tasks, global leaders should create a sense of safety within the team so that members can contribute their unique values without suffering from conflict and negative emotions. Defined as a feeling that “one is not at risk of embarrassment or rejection in a particular setting or role” (Edmondson & Roloff, 2009: 186), team psychological safety help teams avoid evaluation apprehension (i.e., concern for how team members are perceived and evaluated by others) which may prevent members from communicating openly or presenting counter-arguments (Edmondson, 1999). It is more likely to preserve divergent thinking within multicultural teams when they are psychologically safe. Global leaders need to know that members from different cultures have different concern about psychological safety in teams. For example, fear of losing face is more pertinent in collectivist societies and might decrease members from such cultures to share ideas or create alternatives with others. As a result, global leaders need to pay special attention to guarantee a sufficient level of psychological safety in teams so that all the team members can contribute properly.

Global leaders should also ensure that uniqueness of members will not be sacrificed in pursuing commonality within teams by allowing for self verification in teams. As a process by which team members express their unique perspectives and receive acknowledgement about them from their
teammates, self-verification supports members recognizing, respecting, and sharing their different knowledge and opinions stemming from cultural diversity (Bachmann, 2006; Maloney & Zellmer-Bruhn, 2006). People are motivated to stabilize their self views. Moreover, for teams to leverage unique contributions in multicultural teams, allowing members to verify their self-views (i.e., express thoughts and feelings about the self) help them feel recognized and understood. Such feelings can in turn encourage them to offer unique ideas that they may “otherwise have felt too inhibited to share” (Swann, Polzer, Seyle, & Ko, 2004: 16). Global leaders should create a safe environment in teams so that members feel enabled and motivated to contribute to their teams.

Norming

Norming refers to the process in which team members develop shared norms to cooperate effectively and achieve collective goals. As members with different cultural backgrounds usually hold diverse rational assumptions and expectations on how people should work together in teams, developing shared norms can be particularly challenging in multicultural teams. Three specific tasks are relevant for global leadership in this stage: (1) build common norms of collaboration, (2) shape shared mental model, and (3) create social bonding and collective identity.

Build Common Norms of Collaboration

As mentioned earlier, members of multicultural teams usually hold very different preconceptions about teamwork (Earley & Gibson, 2002; Gibson & Zellmer-Bruhn, 2001). They come to teams with diverse understandings of how to interact with each other and how to approach the team task based on their prior cultural experiences (Janssens & Brett, 2006). Global leaders need to address this issue and establish common norms for members to work together. Otherwise, members would simply rely on norms shaped by their own prior cultural understanding in collaboration and are likely to enter into conflict over the processes to be used to perform the task.

Members of multicultural teams may have varying degree of desire or acceptance for norms with regard to empowerment, self-management, shared leadership, and time scheduling, just to name a few. Whereas empowerment is usually considered valuable and can contribute to team knowledge sharing and effectiveness (Mathieu, Gilson, & Ruddy, 2006), it is not that universally desirable: in high power distance cultures, empowerment (i.e., granting individual choices) may not always produce a high level of intrinsic motivation as it does in low power distance cultures (Iyengar & Lepper, 1999). Members from high power distance culture may even perform better under disempowered conditions (Eylon & Au, 1999). Global leaders need to understand the challenge and managing adequate degree of empowerment when establishing team norms.

Similarly, defined as “teams whose members collectively manage themselves, assign jobs, plan and schedule work, make production- or service-related decisions, and take action on problems” (Kirkman & Shapiro, 2001: 597), self-managing teams are found to related to many positive team outcomes such as higher levels of productivity, safety, job satisfaction, and organizational commitment in the USA. Yet, they may not be as effective for individuals holding cultural values different from those of the USA because individuals with high power distance value may rely more on those who are in power and demonstrate resistance to self-management (Kirkman & Shapiro, 1997; 2001). This is not surprising as the concept of self-managing work teams is heavily based on the idea of
empowerment discussed previously. This issue also affects the extent to which it is possible to instill shared leadership in multicultural teams. Although there is no research examining the relationship between cultural values and shared leadership to date, one may reasonably suspect that individuals from certain cultures (e.g., high power distance) will be more reluctant to undertake the role of shared leadership and expect team leader to give clear directions in teamwork. In building norms, global leaders need to pay special attention to the predominant cultural values inherent in the teams they lead.

Individuals from different cultures also hold diverse conceptualization about time (Hofstede, 2001; Kluckhohn & Strodtbeck, 1961). Team temporal diversity regarding time urgency, pacing style, and time perspective can create temporal ambiguity, conflict of temporal interests, and different time pressure experienced by team members (Mohammed & Nadkarni, 2011). Global leaders should help members identify temporal diversity in teams and set clear norms regarding the meaning of deadline and criteria for priority setting so as to effectively synchronize team member behaviors. In sum, without building clear norms for collaboration, team members are likely to experience confusion and incapability to allocate tasks fairly within teams. Global leadership hence involves confronting the power paradox mentioned previously in a culture-sensitive way, and establishing norms of collaboration acceptable to everyone. In such process, power and status difference among cultural groups may play a role in determining who adapts to whose norms. Global leaders need to be aware of possible status inequality in teams so as to maintain adequate balance of such subtle power dynamics.

Shape Shared Mental Model

Members of multicultural teams also need to develop a shared knowledge structure that provides them with a common frame of reference to perceive, interpret and react to their particular work environment. A shared mental model refers to a common knowledge structure or information held by team members (Klimoski & Mohammed, 1994). Shared mental models in teams not only facilitate coordination and communication among members, but also prevent misunderstanding and increase mutual trust within teams (Bachmann, 2006).

Shared mental models are complementary to common norms for team collaboration. Norms tend to be spelled out explicitly, whereas shared mental model tend to be more implicit. Because explicit norms cannot possibly cover all aspects of collaboration, shared mental models contribute to implicit coordination in teams that requires synchronization of members’ actions based on unspoken assumptions about what other team members are likely to do beyond explicitly stated norms. Global leaders have to devote time in shaping shared mental model while leaving rooms for individual unique contributions as mentioned in the storming section.

Create Social Bonding and Collective Identity

It is not sufficient for team members to cognitively understand each other; they also need to develop emotional connection to work together effectively. Global leadership should create social bonding beyond the initial trust developed in the forming stage. Especially, it is important for multicultural teams to develop a sense of collective identity and belonging in this stage, in contrast to developing trust that is dyadic among specific individuals within the team.

Creating social bonding in multicultural teams is challenging because cultural differences render similarity-based liking and attraction more difficult to happen. Moreover, people from different cultures develop different relational templates regarding what is proper ways of maintaining social
relationship (Lee, Reiche, & Song, 2010). For example, the work of Hinds, Liu, and Lyon (2011) suggests that the meaning of social network varies across culture in several ways. First, the expected network density and strength of ties may differ across cultures (e.g., high density in Israeli, low density in the USA). Second, there are cultural differences in norms about how to build and maintain social ties – members from different cultures may not feel equally comfortable with the same way of building social bonds. Finally, culture also shapes people’s expectation about the nature of relationship within work teams. Whereas in individualist cultures people tend to develop instrumental ties at workplace, people in collectivist cultures usually expect true friendship (to some degree) to enable them to work together. Individuals exercising global leadership in creating social bonding in multicultural teams need to understand cultural variation of such social dynamics so as to function properly.

Although a collective identity is generally beneficial to team performance (Brewer, 1996), global leaders need to be able to maintain the distinct aspects of different cultural groups in the process of collaboration. Over-emphasizing collective identity may force team members cede local identity, which leads them to discount the culturally based views and ideas from certain cultural groups (Janssen & Brett, 2006). The key task for global leaders in this regard is to balance the dual demands in fostering sharedness in teams (e.g., common norms, shared mental model, and collective identity), while at the same time maintaining rooms for uniqueness of each cultural group.

Performing

Performing is the stage during which team members undertake activities that are directly involved in implementing action plans and achieving their goals at both collective and individual levels (Marks, Mathieu, & Zaccaro, 2001). Global leaders need to perform two critical tasks in this stage: (1) facilitate team monitoring and feedback; and (2) manage multiple team boundaries.

Facilitate Team Monitoring and Feedback

Given the inherent diversity within multicultural teams, it is critical to develop monitoring and feedback mechanisms to coordinate members’ effort in action phase. Effective monitoring and feedback behaviors help teams make regular reality check and necessary adjustment, which in turn affect the allocation of resources and consequent performances (DeShon, Kozlowski, Schmidt, Milner, & Wiechmann, 2004). Global leaders are to facilitate monitoring and feedback so as to ensure that team action plans are executed properly following previously agreed norms, and that each team member’s unique contributions are leveraged in optimal ways.

Adequate intensity and style of monitoring and feedback, however, depend on team setting and cultural values. For example, members of virtual teams may have more difficulties to establish clear mutual expectation and to identify with their teams. Consequently, there is high risk that members will engage in effort-withholding behaviors (e.g., free riding) and damage trust and overall performance in teams (Shapiro, Furst, Spreitzer, & Von Glinow, 2002). Global leaders will need to enhance the intensity of monitoring and offer proper feedback to keep teams on the right track. In terms of style, people from individualist cultures tend to favor personal performance feedback while those from collectivist cultures would prefer collective feedback. Moreover, research suggests a stronger desire for failure feedback in Japan in contrast to a desire for success feedback in the US (Bailey, Chen, & Dou, 1997). When feedback is provided in culturally congruently way, such
feedback is considered as of higher quality and more effective (Van de Vliert, Shi, Sanders, Wang, and Huang, 2004). Global leaders need to take into account such cultural variation in facilitating effective feedback in multicultural teams.

**Manage Multiple Team Boundaries**

As most team tasks require extensive interaction between members and various parties outside the team (Maznevski, 2008), global leaders need to manage team boundaries both internally and externally in order to achieve optimal performance. Internally, global leaders need to manage faultlines, or “hypothetical dividing lines that may split a group into subgroups based on one or more attributes” (Lau & Murnighan, 1998: 328). Faultlines create a sense of separation in teams (we vs. they), encourage subgroup favoritism, limits information sharing across subgroups, hence significantly affects team learning, psychological safety, satisfaction, and expected performance (Lau & Murnighan, 1998; 2005). In fact, the challenges for leading multicultural teams rarely come from cultural diversity per se. Rather, it is how the team is partitioned into cultural subgroups and the salience of cultural faultlines that determine team cohesion and effectiveness.

Multicultural teams tend to develop strong faultlines among cultural groups (especially in global virtual teams when team members are distributed in different locations), preventing the development of social ties and effective collaboration. The issue of faultlines can be further accentuated when power is distributed unequally within teams (i.e., when specific a cultural group enjoys higher status and more power, Janssens & Brett, 2006). Global leaders are to help team members cross these internal faultlines so as to secure resources and commitment from all cultural parties in the performing phase. In order to reach this objective, global leaders need to strategically adopt different leadership modes (i.e., single, paired, rotated, and shared) when leading multicultural teams based on criteria such as the strength of faultlines and status difference within teams (Zander & Butler, 2010).

Global leaders also need to manage external boundaries to obtain critical resources (Morgeson, DeRue, & Karam, 2010). Teams need many different types of resources from outside, such as information, technology, financial and administrative support, etc. For multicultural teams, the relationship with outside stakeholders can be highly complex. As different team members may interact with different external stakeholders at different time and places, not only global leaders need to be the bridge between teams and external world, they also have to encourage all team members to share the responsibility of maintaining external connection.

To summarize, key competences for global leadership that stem from leading multicultural teams include (1) a heightened level of cognitive complexity and cultural knowledge to capture subtle differences of cultural sense-making regarding teamwork (in communication, setting norms, etc.); (2) the capability to cultivate people relationship across cultures (i.e., fostering trust and mutual understanding while managing conflict and team emotions); (3) the aptitude to identify unique knowledge and skills in teams and to leverage diversity; and (4) the savvy to manage internal and external boundaries and to create a coherent team. They help individuals perform critical global leadership tasks properly in various stages of team process as described earlier.
DEVELOPING GLOBAL LEADERSHIP IN MULTICULTURAL TEAMS

Because global leadership typically involving a complex mix of cognitive, behavioral, and social skills, its development is never an easy and straightforward task. Oddou and Mendenhall (2008) detailed a series of approaches for global leadership development, including conceptual learning (i.e., radically redraw provincial mental maps into global ones with contrast, confrontation, and replacement, Black & Gregersen, 2000), international business travel and seminars, international project teams and taskforce, global assessment centers, planned field experience, and short- and long-term international assignment, using various methods ranging from lecture, self-study, case analysis, role play, simulation, to in-depth information exchange. Such development often goes beyond the acquisition of surface-level technical skills and requires individuals to go through profound transformation in their deeper cognitive structures involving identity, meta-cognitive processes, and emotional regulation (Lord & Hall, 2005; Mendenhall, 2006). Unlike surface-level knowledge and skills, these deeper structures tend to more difficult (yet still possible) to change. However, developing these deeper structures can create much more profound impacts in foster global leadership than learning laundry-list-like knowledge about cultural difference. I will focus on three deeper structures critical for developing global leadership, namely cultural intelligence, learning goal orientation, and leadership and cultural identities. These qualities, once developed, enable individuals to make adequate decisions and act properly, facilitating their capability of taking initiatives and getting things done (i.e., with an action orientation), instead of being paralyzed by the novelty and uncertainty embedded in working in multicultural teams.

Cultural Intelligence

As discussed in the previous section, exercising global leadership in multicultural teams requires extensive cultural knowledge for subtle judgments and decision-making. Cultural intelligence (CQ), defined as the capability to function effectively in situations characterized by cultural diversity (Ang & Van Dyne, 2008; Earley & Ang, 2003), is valuable in helping individuals deal with the complexity of leading multicultural teams (Lee et al., 2010). Cultural intelligence includes features such as possessing cultural knowledge about values and norms (cognitive CQ), being consciously aware of and thinking strategically about culture (metacognitive CQ), directing attention and energy toward cross-cultural learning and interaction (motivational CQ), and generating appropriate behavior when interacting with people who are culturally different (behavioral CQ; see Earley & Ang, 2003). Individuals with high cultural intelligence will be able to capture and make sense of cultural differences in teams, and adopt appropriate behavioral strategy to influence members from various cultural backgrounds.

Cultural intelligence also facilitates cultural learning in the process of global leadership development. Ng, Van Dyne, and Ang (2009) argue that cultural intelligence is an essential learning capability that leaders can use to translate their international experiences into effective learning in culturally diverse contexts for becoming global leaders. Therefore, cultural intelligence represents another deep level structure to work on for developing global leadership.
Learning Orientation

Assuming the responsibility of global leadership and handling the cultural diversity within multicultural teams can be very stressful. Individuals need to tolerate setbacks and frustrations and constantly adjust themselves to the unfamiliar international environment. A learning orientation can be highly valuable to help individuals develop into global leaders when facing setbacks in the learning process. Learning goal orientation refers to an interpretative framework that shapes individual affective, cognitive and behavioral responses to challenging tasks, events, and situations. It channels individual attention towards developing ability and competence for accomplishing future tasks, instead of towards performing well (and looking well) at the current ones. Specifically, learning-oriented individuals view abilities as malleable, hence prefer to set goals in terms of competence development (or mastery) instead of ability demonstration (Dweck, 1986). Consequently, learning-oriented individuals focus more on self development and are less afraid of failure.

Scholars have demonstrated that a learning orientation is important not only for leadership development in general (Day, Harrison, & Halpin, 2009), but also for various types of cross-cultural adjustment (Gong & Fan, 2006; Wang & Takeuchi, 2007). In fact, learning-oriented individuals are more likely to emerge as leader in multicultural teams because they feel less threatened by unfamiliar cultural diversity and take initiatives to serve the team (Paunova & Lee, 2011). Hence, cultivating a learning orientation serves as another critical path that can facilitate individuals to become global leaders.

Leadership and Cultural Identities

The third personal transformation is to develop a clear global leader identity, specifically about one’s current and future roles in leading teams in a global context. A leader identity refers to “the sub-component of one’s identity that relates to being a leader or how one thinks of oneself as a leader” (Day & Harrison, 2007: 365). Identity is important because it regulates people’s understanding and motivation regarding whom they are and their major goals and objectives. As a result, developing global leadership requires individuals to consciously construct new leadership identity that incorporate the global component – in construing oneself as a global leader, such individual can better mobilize cognitive and emotional resources in handling heightened complexities related to the global context.

In multicultural teams, global leaders also need to pay attention also to their cultural identity and its effects on working with their team members. Social identity theory of leadership sees leadership as a group process generated by social categorization and prototype-based influence (Hogg, 2001; Hogg & van Knippenberg, 2003). Following this vein, global leaders need to manage the dynamics between their own cultural identity and that of team members so that they can maintain certain level of prototypicality for leverage their leadership influence. Moreover, in a two-culture team context individuals with a bicultural identity (Lee, Masuda, & Cardona, 2010) and marginalized identity (Fitzsimmons, Lee, & Brannen, 2011; Lee et al., 2010) are more likely to develop into global leaders than those holding one-sided cultural identity. Developing a global identity (a sense of belonging to the global community, see Shokef & Erez, 2006) may also facilitate individuals to emerge as leaders in multicultural teams (Lee et al., 2010). Such identity structure may provides an important structure around which relevant knowledge is organized and serve as a source of motivational and directional forces for individuals to undertake risks pertaining to global leadership tasks. Developing
dual or even multiple identities toward their team, organization, and external environment can also facilitate global leaders’ role as boundary spanner in multicultural teams (Richter, West, van Dick, & Dawson, 2006). It is thus indispensable to incorporate identity work when planning for global leadership development.

**MANAGERIAL IMPLICATIONS**

Given the strategic importance of global collaboration and the complexity involved in multicultural teams, CEOs and HR managers should proactively and systematically ensure that proper global leadership is in place in their multicultural teams rather than leaving it to chance. There are two important aspects that CEOs and HR managers need to pay special attention to in this regard.

**Global Leadership Identification**

CEOs and HR managers should set up clear selection criteria that allow them to identify individuals with global leadership competences to lead multicultural teams. Such criteria include general competences such as global knowledge, inquisitiveness, resilience, cosmopolitanism, building community and social capital (Osland, 2008) as well as deeper cognitive structures such as cultural intelligence, learning goal orientation, and proper leadership and cultural identities as discussed in the previous section. It is critical for organizations to establish a clear global leadership model beyond technical competences to identify and select proper individuals to assume global leadership responsibilities in multicultural teams. Putting the right persons at the right places for global leadership is the first step toward smooth multicultural collaboration within teams.

**Global Leadership Development**

CEOs and HR managers also need to create proper systems and culture to facilitate global leadership development in organizations. People with global leadership qualities still need support to develop such capability to its full potential. Companies may organize training activities focusing on specific skills and competences mentioned above to facilitate global leadership development. Moreover, in addition to training, it is equally important to build up a culture and mentoring system in favor of such development such that, via the joint effects of a consistent system (including mentoring, special assignment, projects and formal courses, etc.), organizations can ensure a fit between job demands in global leadership and the capabilities of individuals concerned (Kristof-Brown & Guay, 2010; Lee & Ramaswami, in press). In sum, CEOs and HR managers should enlarge the scope of their competence map by consciously and systematically incorporating global leadership in the map so as to better align their talent management with corporate strategy.
CONCLUSIONS

As global leadership encompasses a wide range of skills and capabilities, this chapter addresses global leadership in a specific context – leading multicultural teams. Using a process model of forming, storming, norming, and performing, I raised key tasks of leading multicultural teams and discussed special challenges global leaders need to address in each stage. However, and most activities mentioned in this chapter are continuous and relevant in all stages of team process. Moreover, this chapter is by no means to offer ready-to-apply recipe for managers to lead multicultural teams. Instead, I intend to show the complexity involved in performing these tasks. Global leaders face the challenge of complexity, duality, balancing conflicting demands and global-local tension, and making decisions with increasing reference points. As a result, they need to develop deeper knowledge of culture’s consequences in teams and a more comprehensive assessment of team dynamics so as to make sound judgment in leading multicultural teams. I hope this chapter will serve as a roadmap for those who aspire to become global leaders in multicultural teams to embark on the exciting journey.
REFERENCES


Haley, N., & Sagiv, L. (2008). ‘Teams within and across cultures’. In M. Peterson, P. Smith, & D. Thomas (Eds.), 


Global leadership in multicultural teams | Yih-teem Lee
First publications


Leleux, Benoit; Seifert, Ralf (2007) Shape up your technology start-ups! Or how to avoid the most common management problems in early-stage, science-based companies. *Perspective for Managers*, No. 153, December, pp. 1-4.


Venter, David (2012) Beyonder leadership. (First publication)


Lee, Yih-teen (2012) Global leadership in multicultural teams. (First publication)
Our Authors
Baroness Lutgart Van den Berghe

Prof. dr. Lutgart Van den Berghe is Executive Director of GUBERNA (Belgian Governance Institute) and Extra-Ordinary Professor at the University of Ghent (B). She is a Partner of the Vlerick Business School. In the school, she served for many years as Chairman of the Competence Center “Entrepreneurship, Governance and Strategy”, where she founded the MBA Financial Services and Insurance as well as the Impulse Centre Business in Society. For the last two decades, her main domain of interest has been corporate governance, a domain in which she published numerous books and articles. She is member of the editorial board of a number of governance journals.

She has been visiting or part-time professor at the universities of Rotterdam (Netherlands), Antwerp (Belgium), Lille (France), Bocconi (Italy), Vienna (Austria) and at the Georgia State University (USA).

She also has extensive governance experience gained as Member of the Belgian Commission for Corporate Governance and Non-Executive Director in several international companies, such as SHV (NL), ELECTRABEL (B), BELGACOM (B), DBB (B). At EcoDA (European Confederation of Directors’ Association), she is a Member of the Board and chairwoman of its policy committee.

Formerly she served as a non-executive director of the ING Group (NL, 1991-2003), KLM (NL, 2001 - 2004), Solvay (NL, 2003-2007), CSM (NL, 1998 - 2010), Capco NV (B, 2000 – 2003), DVV (B, 1995 - 1997), member of the Audit Committee of the Flemish Government (B, 2000 – 2004) and Chairman of the Proximus Foundation (until 2005). She was also a Member of the Advisory Board of Lazard (Benelux, 2007 – 2010)

Lutgart Van den Berghe is doctor in Business Economics of the University of Gent (B).

Gwyn Bevan

Gwyn Bevan is Professor of Policy Analysis and head of the Department of Management at LSE.

Previously Professor Bevan has worked as an academic at Warwick Business School and St Thomas’ Hospital and Bristol Medical Schools. He has also worked in industry, consulting, the Treasury, and for the Commission for Health Improvement (2001 to 2003), where he was Director of the Office for Information on Healthcare Performance.

Professor Bevan’s current research includes studies of outcomes of the natural experiment of different policies in UK countries for the NHS and schools following devolution; and the SyMPOSE (Systems Modelling for Performance Optimisation and Service Equity) project funded by the Health Foundation, which is a programme of collaborative research that aims to reduce expenditure on health care to create funding for new developments. He is a member of the Department of Health’s two advisory committees on resource allocation. With David Goodman (Center for Health Policy Research at the Dartmouth Institute for Health Policy and Clinical Practice) he has developed the Wennberg International Collaborative, which is a community of scholars that aims to understand how to reduce unwarranted variations in medical practice.
Richard E. Boyatzis

Richard Boyatzis is Distinguished University Professor, as well as Professor in the Departments of Organizational Behavior, Psychology, and Cognitive Science at Case Western Reserve University and Adjunct Professor at ESADE. He is the author of more than 150 articles and books on leadership, competencies, EI, and change from a complexity perspective, including: The Competent Manager (in 12 languages); Primal Leadership with Daniel Goleman and Annie McKee, in 28 languages; Resonant Leadership, with Annie McKee (in 18 languages); Becoming a Resonant Leader, with Annie McKee and Francis Johnston (in 8 languages), and Transforming Qualitative Information (in 2 languages).

Professor Boyatzis' current research includes several fMRI studies into the neural systems activated when engaged in Intentional Change efforts of arousing the Positive Emotional Attractor, as well as resonant versus dissonant leadership. He is also involved in numerous research studies of coaching, doctor-patient relationships and teacher-student relationships that foster sustained, desired change. His current writing includes exploration of Intentional Change Theory as it explains sustained, desired change at all levels of human functioning, from individual, to dyad, to team, to organization, to community, to country and global change.

Prior to becoming a professor in 1987, he had been President and CEO of McBer and Company (a research oriented human resource consulting company) for 11 years and COO of Yankelovich, Skelly & White (a market research company) for 3 years. During these years he worked on various projects from treatment of alcoholics and drug addicts to the development of competency based human resource systems and competency assessment validation. Prior to that he had been a psychologist for the Veterans Administration.

He received his Bachelor of Science degree in Aeronautics and Astronautics from the Massachusetts Institute of Technology, his Masters and PhD from Harvard University in Social Psychology.

Joseph J. DiStefano

Joseph DiStefano is Professor of Organizational Behavior and International Business at IMD.

His area of interest is in cross-cultural management, organizational effectiveness and human resource management.

Professor DiStefano joined IMD’s full-time faculty in January 2000 after serving as visiting professor in 1979-80 and adjunct professor during most of the intervening 20 years. He rejoined IMD from Hong Kong where he led the establishment of the first off-shore campus of The University of Western Ontario (Canada).

Professor DiStefano became Professor Emeritus at IMD upon his retirement in January 2005, but continues to direct several in-company programs at IMD and abroad. From January 1997 Joseph DiStefano was executive director of the Richard Ivey School of Business (Asia) and served as the Shirley Chan Memorial Professor of International Business at Ivey’s Cheng Yu Tung Management Institute.

Prior to joining IMD, Professor DiStefano’s appointments at the Ivey Business School included the Royal Bank Professor of International Business, founding director of business in Beijing (with Tsinghua University), associate dean - human resources, and organizational behavior area group coordinator.
He earned a BS in mathematics at Rensselaer Polytechnic Institute, an MBA at Harvard Business School, and an MA and PhD in social psychology at Cornell University. He is the recipient of The University of Western Ontario’s Pleva Award for Excellence in Teaching and Rensselaer’s Demer’s Medal for outstanding service. He has served on several private sector and voluntary boards of directors in the US and Canada.

Professor DiStefano has written over 115 cases and numerous articles and book chapters and has (co)authored several books and monographs, including International Management Behavior: From Policy to Practice (5th edition, 2005) and Effective Managerial Action. Joseph DiStefano has been actively teaching, researching and consulting in the North America, Europe and the Asia-Pacific region for over thirty years. He also co-edited a casebook, Human Resource Management and Development, as part of a 16 volume set specially created at Ivey and published by Chinese Machine Press in August 1998 (English) with a new edition published in April 1999 (Chinese).

Widely in demand as a teacher and consultant around the world, Joseph DiStefano’s clients are major multinational companies such as the OECD, The World Bank, as well as universities and governments.

**Simon L. Dolan**

Simon L. Dolan joined ESADE Business School in 2001 as Ramon Llul University professor of HRM and International OB. He had been the scientific director of IEL Institute and is currently the Future of Work chair in ESADE. He has been a full tenured professor of HRM and OB at the School of Industrial Relations (University of Montreal) since 1978. He had obtained his Ph.D. from the Carlson Graduate School of Management (University of Minnesota). Professor Dolan taught as visiting scholar in many universities throughout the globe primarily at the MBA and Ph.D. levels, such as Boston University, University of Minnesota, Tel Aviv and Haifa University, McGill University, Concordia University, Remin University of Beijing (China), Vienna University, HEC-Paris, Federal University of Rio (Brazil), ITESM (Mexico), etc.

Prof. Dolan has written extensively in the joint fields of human resource management, industrial and organizational psychology, occupational stress, business coaching and culture reengineering. He has published more than one hundred papers in refereed journals, refereed proceedings and chapters (i.e. *Journal of Applied Psychology; Journal of Organizational Behaviour; Journal of organizational & Occupational Psychology; International Journal of HRM, Chinese Management Studies, etc.*). He is the Editor-in-chief of *Cross Cultural Management: An International Journal* and serves on the editorial board and referee of other international scientific journals. He wrote (or co-authored) 53 books and monographs in multiple languages.

Prof. Dolan has been the president and co-founder of the “International Society for the Study of Work and Organizational Values” (1994-1996). He is also the president of the Montreal-based consulting firm (Gestion MDS Management Inc.) which provides services in broad issues of human resource management for over 30 years. He has consulted extensively to many national and international organizations, private sector companies, unions and government agencies at all levels.
Richard Hamblin

Richard Hamblin, a 2006–07 Commonwealth Fund Harkness Fellow in Health Care Policy, is head of analytic support at the Healthcare Commission, the English health services regulator where his primary responsibility was ensuring a rigorous analytic and evidential base for regulatory activities. His previous career encompasses NHS management and health services research, including as a research officer at the King’s Fund, where he produced studies on London’s health care system, the effect of the introduction of the internal market into the NHS in the 1990s and methods of modelling waiting list dynamics. He joined the Healthcare Commission’s predecessor body, the Commission for Health Improvement, at its inception to develop its analytic methods. His particular interest is in health informatics and the use of rigorous analysis of performance data as a tool for improvements in quality and efficiency of health services. He is a 1992 graduate of University College London. Currently he is the Director of Quality Evaluation, Health Quality and Safety Commission, Wellington, New Zealand.

Christopher Hood

Christopher C. Hood, CBE, FBA, ACSS, Gladstone Professor of Government and Fellow of All Souls College Oxford since 2001.

Christopher specializes in the study of executive government, regulation and public-sector reform. His current research is on changes central government administration over the past 35 years (funded by the Leverhulme Trust) and on the politics of fiscal squeeze (funded by the ESRC). Further details of both projects can be found on the website Reshaping Executive Government.

Christopher is a Fellow of the National Academy of Public Administration (United States), ESRC Professorial Fellow 2011-2014 and Visiting Professor, LSE, 2010-2014.

He has taught government, public administration and public management on three continents, has authored or edited over twenty books in the field and at least 100 journal articles, and received several awards for his research and publications.

He was Director of the ESRC Research Programme ‘Public Services: Quality, Performance, Delivery’ from 2004 to 2010. He chaired the Nuffield Council on Bioethics Working Party on Medical Profiling and Online Medicine whose report was published in 2010. He is currently serving as a member of a UK Government Office of Science Review of the Analytical Capacity of HM Treasury.

Yih-teen Lee

Yih-teen Lee is associate professor in the Department of Managing People in Organizations. He earned his Ph.D. at HEC, University of Lausanne, where he also participated in a research project as postdoctoral research fellow. He teaches subjects such as leadership, cross-cultural management, and strategic human resource management in MBA as well as executive programs. Prior to IESE, he taught at HEC University of Lausanne (Switzerland), Angers Graduate School of Business ESSCA (France), the American Graduate School of International Management Thunderbird Europe (France), and Lung-Hua University of Science and Technology (Taiwan, R.O.C.).
One of Prof. Lee’s papers on culture and the person-environment fit, titled “Satisfaction and Individual Preference for Structuring: What is Fit Depends on Where You Are From,” won the Best International Paper Award of the Organizational Behavior Division at the 2006 Academy of Management Annual Meeting, and was one of the three finalists of the academy-wide Carolyn Dexter Award. In addition to papers published in scientific journals such as Journal of Management, and Personality and Individual Difference, Prof. Lee also co-edited the books Les compétences culturelles (cultural competences, L’Harmattan, 2007), and the Cultural Contexts of Human Resource Development (Palgrave, 2009). He participates actively in research activities in cross-cultural comparative studies, cultural identities and cultural competences, and leadership in multicultural teams. He is also passionate about developing endemic cultural knowledge of the Chinese business context.

Prof. Lee is ad-hoc reviewer for journals such as Personnel Psychology, Leadership Quarterly, Organization Studies, and Management and Organization Review, among others. He is a member of the editorial board of the Revue économique et sociale, and also member of the Academy of Management, the Association of Psychological Science, the European Group of Organizational Studies, the Standing Conference on Organizational Symbolism, the Association francophone de gestion des ressources humaines (Francophone Association of Human Resources Management) and the Association internationale du management stratégique (International Association of Strategic Management).

Benoit Leleux

Dr. Leleux is the Stephan Schmidheiny Professor of Entrepreneurship and Finance at IMD in Lausanne (Switzerland), where he was also director of the MBA program (2006-2008) and director of Research and Development (2004-2008).

He was previously Visiting Professor of Entrepreneurship at INSEAD and Director of the 3i VentureLab and Associate Professor and Zubillaga Chair in Finance and Entrepreneurship at Babson College, Wellesley, MA (USA) from 1994 to 1999. He obtained his PhD at INSEAD, specializing in Corporate Finance and Venture Capital.

He is the author of “Investing Private Capital in Emerging and Frontier Market SMEs” (IFC, 2009), “Nurturing Science-Based Startups: An International Case Perspective” (Springer Verlag, 2008), “From Microfinance to Small Business Finance” (Palgrave Macmillan, 2007), and “A European Casebook on Entrepreneurship and New Ventures” (Prentice Hall, 1996). His teaching cases have earned a dozen European case writing awards over the last decade.

Prior to his academic career, he was the head of corporate venturing for a leading agribusiness conglomerate in South East Asia. Dr. Leleux earned a M.Sc. in Agricultural Engineering and a M.Ed. in Natural Sciences from the Catholic University of Louvain (Belgium) and an MBA from Virginia Tech (USA).
Abigail Levrau

Abigail Levrau obtained a master degree in Applied Economics at Ghent University in 1995. She started her professional career at Fortis Bank. In 1997, she joined GUBERNA (Het Instituut voor bestuurders/L’Institut des Administrateur/Belgian Governance Institute) as a research fellow. From then onwards she was involved in several research projects in the domain of corporate governance. In 2007, she successfully completed her doctoral dissertation on the topic of board effectiveness at Ghent University (Faculty of Economics and Business Administration). Today, Abigail Levrau is member of the Management Committee of GUBERNA and heads its division ‘knowledge development’. She acts as a project leader for various research projects on governance in both public and private sector. As a governance expert, she teaches in various training programs and represents GUBERNA in European and international organisations (e.g. ECGI, ecoDa, The Conference Board). Besides she is actively involved in board evaluation exercises for companies.

Martha Maznevski

Martha Maznevski is Professor of Organizational Behavior and International Management at IMD, and the MBA Program Director.

She teaches courses and modules spanning a broad range of organizational behavior topics, including teams and leadership in global and virtual (distance) contexts, diversity and inclusiveness, and the relationship between organizational and national culture. She teaches company programs for Borealis, Skanska, and others, and has served as a consultant and advisor to public and private organizations in North America, Europe, and Asia on issues of managing people globally.

Professor Maznevski has presented and published numerous articles on these subjects, most recently The Blackwell Handbook of Global Management: A Guide to Managing Complexity (Blackwell, 2004), and she is a co-author of the popular textbook International Management Behavior (Blackwell). Her current research focuses on the on-going dynamics of high-performing teams and networks in multinational organizations, and managing people in global complexity. Martha Maznevski co-developed the Cultural Perspectives Questionnaire, an instrument that measures individuals’ cultural orientations and is widely used as a diagnostic tool in global teams and organizations.

Before joining IMD, Professor Maznevski served as Faculty at the University of Virginia (USA) and the University of Western Ontario (Canada), and as a visiting researcher at the Stockholm School of Economics (Sweden). She earned degrees in education from the University of Toronto (Canada), and in anthropology (undergraduate) and business administration (PhD) from the University of Western Ontario.
Mercè Mach Piera

Merce Mach obtained her Ph.D. in Psychology from Ramon Llull University (Spain) in 2007. She has developed her career in consultancy, education, and the management of organizational projects. She is currently lecturer of management and organizational behavior at University of Barcelona (Faculty of Economics and Business) and visiting scholar at John Molson School of Business (Concordia University, Canada). She is also associate researcher in ESADE’s Institute for Labor Studies (IEL). Her research interests revolve around organizational trust, group process, effectiveness, as well as the emergent issues of human resource management and performance. She is the recipient of several competitive research grants and has published articles in peer reviewed journals in such areas as strategic management of human resources and organizational effectiveness, and on trust in work settings teams.

Dr. Mach has taught executive education and consulted for various sectors of business activity: finance, mass commodity, engineering and also the public sector. She has collaborated on projects to introduce policies on human resources (performance development, job description, salary policies, change management, continuous improvement programmes, etc.), on the development of management skills (social skills, negotiation and conflict, chairing meetings, decision-making, etc.) and multiculturalism management skills.

In the sphere of development co-operation, she is a Visiting Professor at several Central American universities and has managed the SUD-University Development Service of ESADE Business School, the objectives of which include the participation of ESADE students and lecturers in development co-operation projects in Latin America, and the promotion of social responsibility in professional practice.

Vladimir Pucik

Vladimir Pucik is a Visiting Professor at CEIBS in Shanghai, PRC and an Adjunct Professor of Management at the Hong Kong University of Science and Technology. Until his retirement in 2010, he was a Professor of International Human Resources and Strategy at IMD, in Lausanne, Switzerland. Dr. Pucik was born in Prague where he studied international economics, law, and political science, and started his professional career as programmer and system analyst. After falling out with the repressive government, he left Czechoslovakia and received a master’s degree in international affairs - specializing in East Asia - and a Ph.D. in business administration from Columbia University.

Before joining IMD, Dr. Pucik was Associate Professor and Academic Director of International Programs, at The Center for Advanced Human Resource Studies at the ILR School, Cornell University, and a faculty member at the School of Business, University of Michigan. He also spent three years as a visiting scholar at Keio and Hitotsubashi Universities in Tokyo.

Dr. Pucik has consulted and conducted workshops for major corporations worldwide, including ABB, Allianz, Amgen, Asahi Glass, Baxter, Baosteel, BMW, Citigroup, Canon, Daimler, Ford, GE, GM, Hitachi, IBM, J&J, KPMG, Nokia, P&G, Oracle, Shell and Toyota. He also teaches regularly in executive development programs for leading business schools in the U.S., Europe, and Asia.

His research and professional interests include globalization processes in large organizations, competitive strategy, cross-border M&A and strategic alliances, and international dimensions of human resource management with a particular emphasis on China, Japan and Central & Eastern Europe.

In addition to his work as an academic and consultant to senior management teams, Dr. Pucik is also a founding partner and strategic investor in several high-tech ventures focusing on business process optimization and B2B mobile software applications.
Ralf Seifert

Professor Seifert’s primary research and teaching interests relate to operations management, supply chain strategy and technology network management. He is also active in industry analysis, international project work and new venture formation.

Professor Seifert is director of the Mastering Technology Enterprise (MTE) program, a six-week management development program for technically trained managers offered in alliance with EPFL and ETH Zurich. Since joining IMD in 2000, he has also designed and directed numerous company-specific general management programs. He has actively coached more than 50 project teams and served as consultant and speaker to leading multinational companies.

Based on his work with companies, Professor Seifert has co-authored more than 30 case studies covering different industries. These efforts have been recognized by multiple international case awards granted by EFMD in 2012, 2009 and 2003, ECCH in 2011 and 2006, as well as POMS in 2004. He continues to actively research issues of supply chain strategy, supply chain finance and technology management and has more than 50 articles and international conference presentations to his credit. In addition, he co-authored two books: one focused on strategic supply chain management and another concerning start-up challenges of technology ventures. In parallel to his appointment at IMD, he is a tenured professor at the Swiss Federal Institute of Technology (EPFL) in Lausanne where he has held the Chair of Technology and Operations Management (TOM) since 2003.

Prior to joining IMD, Professor Seifert studied and worked in Germany, Japan and the US. He earned PhD and MS degrees in Management Science at Stanford University, a Diplom Ingenieur degree in Mechanical Engineering at the Karlsruhe Institute of Technology (KIT) and a Master’s degree in Integrated Manufacturing Systems Engineering from North Carolina State University. While in the US, he consulted for Hewlett-Packard and served as Teaching and Research Assistant at Stanford University. In Germany he worked for Booz & Company, McKinsey & Company and Freudenberg & Co. In addition, he spent one year as a Visiting Scholar in Operations Research at Waseda University in Tokyo.

During his studies, Professor Seifert was awarded three highly prestigious scholarships: an ERP Scholarship by the Federal Ministry of Economics and Technology of Germany; a Japan Scholarship by Mercedes-Benz and McKinsey & Company, Inc.; and a Fulbright Scholarship by the Fulbright Commission, Germany. Formerly, he was a member of the German National Merit Foundation and the Siemens International Student Circle. He is also a recipient of the Grashof Prize and of the Honors of the Jubiläums-Staats-Stiftung of the Karlsruhe Institute of Technology.
Ceferi Soler

Ceferi Soler has been linked to three organizations: Caixa d’Estalvis i Pensions de Barcelona, PriceWaterhouse (PW) and ESADE.

Corporate Training Director of “la Caixa”, Corporate Development Manager for Consultants in PW and an Associate Professor of ESADE since 1992. He has likewise been Director of Executive Education at ESADE and Director of the ESADE-Cranfield research project ‘Human Resource Management Trends’.

He is the author of two case studies: “Exploring the Learning Organizations Model in Multinational Companies. Preliminary Results according to the Perceptions of Spanish Managers” and “Merger Analysis: HP + Compaq = HP Invent. The Role of Carly Fiorina”.

Ceferí is author of the book Anticipation in advance. The book that was written in Spanish language is about management change in organizations. Publisher in Spain is LID Editorial.

He is also author of the book “Big ideas for Small enterprises”. It is about Family Business sector and the publisher is Spain Pearson Editorial.

He is a Visiting Professor at the Universidad Centroamericana of San Salvador and Managua, of the Instituto Tecnológico de Monterrey and of Berkeley (The Haas Business School), at Lima University and at MCC.

Guido Stein

Guido Stein is associate professor at IESE Business School in the Department of Managing People in Organizations. He is also executive president of EUNSA and EIUNSA. Prof. Stein is a consultant with firms in diverse sectors such as finance, industry, energy and professional services. He also serves as senior advisor at Inicia Corporate. He is member of The International Academy of Management and the International Advisory Board MCC (Budapest) and is a collaborator with People and Strategy Journal, Corporate Ownership & Control, Harvard Deusto Business Review, European Business Review and Expansión

Prof. Stein’s books include Managing People and Organizations: Peter Drucker’s Legacy, CEO: carrera y sucesión. Escalando la cima, El arte de gobernar según Peter Drucker. Las ideas que están transformando el mundo de la empresa, La aventura del liderazgo. El reto de los resultados, Dirigir en tiempos de incertidumbre. Ensayo sobre el esfuerzo directivo, Éxito y Fracaso en la Nueva Economía. Reglas para dirigir en la era de Internet, Cambiar o no cambiar: esa es la gestión y Kardinaltugenden effektiver Führung (Cardinal Virtues of Effective Guidance), edited by Peter Drucker and Peter Pascheck.

He is the author of 20 business cases and numerous technical notes. His current research focuses on undesirable turnover in top management and power.

He is an Associate Professor in Department of Managing People in Organizations in the IESE Business School. He holds a PhD in management from the University of Navarra. Professor Stein is also a business consultant for companies in the financial, industrial and professional services sectors. His areas of research are power and influence in organizations, coaching and change management and leadership. He is a guest professor at Mathias Corvinus Collegium (MCC).
Dr. Shay Tzafrir

Shay S. Tzafrir is a senior lecturer in the Graduate School of Management at the University of Haifa. He received his Ph.D. and M.Sc. in behavioral science from the Technion – Israel Institute of Technology. He also earned a B.A and M.A. in political science, as well as LLB, all from University of Haifa. He serves as an associate editor of the *Journal of Managerial Psychology* and *Journal of Trust Research* and part of the editorial advisory board in *Cross Cultural Management: An International Journal* as well as editorial review board in *Journal of Management*.

His current research interest includes the role trust play in various organizational factors such as, strategic human resource management, organizational performance, negotiation, and service quality. His articles have been published in journals such as *Industrial Relations*, *Human Resource Management*, *Journal of Organizational and Occupational Psychology*, *International Journal of Human Resource Management*, and others. He is the recipient of several competitive research grants and awards.

Wynand P. M. M. Van de Ven

Dr. Wynand van de Ven (1950) wrote his thesis “Studies in Health Insurance and Econometrics” at Leiden University. Since 1986 he is professor of Health Insurance at the Erasmus University Rotterdam. His teaching and research focus on regulated competition in health care, competitive health insurance market, risk equalization, managed care, risk selection and priority choices in health care. He has experience as a governor and adviser of insurance companies, political parties, government, research institute, hospitals and other health care organizations.

He serves (served) as member of many advisory committees and the editorial Board of scientific journals. As a consultant, e.g. for the World Bank and the World Health Organization, he has studied the health care systems in Chile, Ireland, Israel, New Zealand, Poland, Russia, South Africa and Sweden. He is one of the founding fathers of the European Risk Adjustment Network. Previous positions are Programme Director of the Master Health Economics, Policy and Law at Erasmus University and Chair of the iHEA Jury-Committee for the annual Arrow Award for best paper in health economics.

David Venter

He is a Professor of Management Practice and partner at the Vlerick Business School, also teaching in Beijing, St Petersburg and Stellenbosch. During his tenure in the South African public service as head of government communication, he was highly privileged to witness the transition from apartheid to democracy, ultimately serving under the inspiring leadership of President Nelson Mandela and Deputy President Thabo Mbeki.

Since moving back into the private sector he has trained hundreds of negotiators on behalf of many of the foremost South African and multinational companies, public sector bodies and government departments (for example: the South African Broadcasting Corporation, BMW SA, the South African Police Service, the National South African Defence Force, Nissan SA, the South African Air Force, the SA Communication Service, the Department of Trade and Industry, Standard Bank, the Corporate Lawyers Association of South Africa, the Graduate School of the International Negotiation Academy). He is a guest professor of Mathias Corvinus Collegium (MCC).