The Institute of Management Services is the primary body in the UK concerned with the promotion, practice and development of the range of methodologies and techniques for the improvement of productivity and quality, known collectively as ‘Management Services’. This embraces the disciplines of industrial engineering, work study, organisation and methods, systems analysis, and a wide range of management information and control techniques as illustrated in our Body of Knowledge.

The Institute acts as the qualifying body for the Management Services profession in the UK, focusing developments in practice and knowledge and acting as a forum for information exchange. This in turn enables our members who work under a variety of job titles across the whole of the UK economy, to make a more effective contribution to the well-being of their own organisation and to the nation’s economy as a whole.

In addition to creating and upholding professional standards for the practice of management services through the adoption of a code of ethics and the provision of a system of qualifying examinations, the Institute of Management Services collaborates with national and international professional bodies in similar fields.

The Institute is a member of, or represented on, a number of other bodies including the World Confederation of Productivity Science, the European Federation of Productivity Services, and the European Institute of Industrial Engineers.

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In this issue of Management Services...

In a software industry perspective which can be found on page 28, Dr John McManus, Dr Mingzhi Li and Deependra Moitra comment on structure and dynamics of the software industries in India and China, the implications China and India hold for the global software industry and how each country can strengthen its growing dominance.
Chairman’s column

Summer is traditionally a quiet time for the Institute and we start to think about the AGM which will be held on Friday 5 October in Lichfield. Every two years, prior to the AGM we have the elections to Council and half the Council (four) are re-elected. Nominations were sought in the Spring journal and as there were four nominations for the four available places, there has been no need for elections. The four individuals nominated for Council by the Institute membership are David Blanchflower, Julian Cutler, Geoff Mansfield and Dennis Whitmore. These four members will assume office on the Council following the AGM.

Current Council member Les Rose signalled his intention not to seek re-election and at the May meeting of Council he was thanked for his contribution to the establishment of the IMS policy on archiving and latterly for being responsible for membership matters.

The annual report and accounts are now almost completed and will be published in the September Journal. They demonstrate the continued sound financial position of our Institute. Institute financial reserves now stand in the region of £600,000. In 2006 our expenditure exceeded income by the small amount of £6,200. The IMS operating costs are at an all time low and the high level of reserves ensures the survival of the Institute for many more years. It is evident that the Institute’s decision to move towards life membership was sound and is now benefiting the existing membership who no longer pay an annual membership subscription.

The recently produced training DVDs for the certificate work measurement examination have been well received and we thank the education providers for their very helpful inputs. We feel sure that these DVDs will enhance the training provision provided to individuals sitting our certificate examination.

The Institute’s website is being improved and these changes will become live shortly. Better navigation and a restyling of the whole site should make it easier for members to find the information they want. I would encourage members to log on and let us have your comments.

Going forward, the website will become more and more important as an instrument for communicating worldwide, as well as a point of reference for those who are interested in improving productivity.

I hope the recent good weather continues during the summer period and you all have enjoyable and restful annual holidays.

John Lucey, Chairman

Management Services Summer 2007

Visit to the Reebok Stadium

On a sunny April afternoon a party of members and friends enjoyed a conducted tour of the Reebok Stadium. This remarkable edifice is visible for miles around and is now 10 years old. Dave, our guide, explained that Bolton’s former ground had not been capable of further expansion and the club had taken the courageous decision to go for a radical new stadium at the new location. And well it has turned out. It is not just a football ground, it is a complete business venture. Included in the structure is a hotel, restaurant, hospitality suites, commercial offices and TV interview rooms. Recently a 2000 guest wedding took place at the venue. Capacity is normally 27,000, but for the occasional rugby match it is increased to 28,000. Around 10% of seats are reserved for away teams’ supporters. Home and away teams are kept apart and emerge from separate tunnels. We were

Institute News

North West Region

Whilst at a classic car rally in August last year, IMS Fellow and NW Region Board member Frank Booth and his wife were invited to provide their car (a 1969 Morris Oxford automatic) for a guest appearance in a Life on Mars TV episode.

Four days later Frank, his wife and the Oxford were at BBC TV in Manchester before 7am. The morning filming was in a Piccadilly back street, where the car was eventually used ‘in-shot’. Frank had to position it at the entrance to a yard, for the filming sequence of two detectives (in the main BBC Granada and a BBC Marina) driving past at speed.

After lunch back at Oxford Road, the production team (and Oxford) drove to the afternoon filming location at a community hall at Fallowfield. After waiting and watching all afternoon, the director eventually decided no outside shots requiring vehicles were wanted (around 5pm). So the Oxford was free to go, otherwise it could have been kept until around 7pm.

It was a long but very interesting day, seeing the ‘stars’ and all the production teams and support staff (not forgetting the ‘extras’) but from a management services point of view, the waste of man hours appeared horrendous, with scores of staff and groups of ‘extras’ seemingly waiting around for hours.

Frank and his wife firmly expected that any brief exposure incorporating the Oxford would inevitably finish up on the cutting room floor. However, when episode seven of the 2nd series was shown recently, there it was.

The scene in question was when the two main characters (Philip Glenister and John Simm) rushed out onto an upper platform of a fire escape to see their colleagues (who had been duped into chasing a decoy driver) speed off, past the Oxford, which was parked outside the yard. It was over in a flash — blink and you could miss it.

As a brief ‘claim to fame’ it was far from a significant ranker, just something out of the ordinary and a small connection to the popular TV series.
**West Midlands Region**

**Visit to Shugborough Hall and Estate**

On 28 April a party of West Midlands Region members, family and friends visited Shugborough Hall between Stafford and Lichfield. Shugborough is the home of Lord Lichfield, but the Mansion House is now run by the National Trust and the surrounding parkland, gardens and Georgian Farm is supported by Staffordshire County Council.

The Anson family have lived at the Mansion House at Shugborough for a number of generations and part of our visit was an escorted tour of the Servants’ Quarters which included the kitchens, servants’ hall, the brew house – which included samples of the beer that is still brewed on the site, Victorian school room, laundry and a number of complete Victorian shop interiors which have been moved to the site from villages in Staffordshire, as well as a collection of carriages.

The Mansion House itself includes various treasures, paintings and furniture associated with the Anson family.

The Georgian Farm is a working example of a farm at about 1805, including animals and demonstrations of various crafts and skills which would have been used at that time. There is also a working water mill.

Outside there is extensive parkland and gardens, including a walled garden which is currently being restored. In Georgian and Victorian times the Hall, with its farms and gardens, would have been completely self sufficient.

A very interesting day and trip which can be recommended to any members.

**Summer events**

**Cruise on the ‘Orwell Lady’**

A cruise on the ‘Orwell Lady’ from Ipswich to Harwich, 8 July. Lasting around three and a half hours, journeying down the River Orwell past Pin Mill to the Stour Estuary. The cruise includes the opportunity to see (weather permitting) the UK’s largest container port at Felixstowe, Harwich Harbour, and historic Harwich, before returning back up river to Ipswich. (Guide price £12.)

**BA London Eye and river cruise experience.**

A flight on the BA London Eye, the world’s tallest observation wheel at 135m high, 9 September. Located on the banks of the River Thames it offers unrivalled views over London. Plus a 40 minute circular cruise on the River Thames with fascinating live commentary presented by trained guides. Highlights include the Houses of Parliament, St Paul’s Cathedral and the Tower of London. Suitable for all weathers, the boat has both covered and sun deck seating and is fully wheelchair accessible. Toilets are available onboard. (Guide price £24.)

**Autumn event**

An early evening meeting at Portcullis House, Westminster on the subject of ‘lean management’ 10 October. An opportunity to learn more about this subject and express your views on its future application. If members are interested it may be possible to arrange an escorted tour of the Houses of Parliament at the conclusion of the meeting.

In order to judge the level of support, prior to making the necessary arrangements to hold these events or if you want any more information, please contact Ray Martin, 020 8366 2445. Email: raymartin@lineone.net as soon as possible.

**Scott-Grant’s new IMS Certificate course is a winner**

Having been instrumental in encouraging the Institute to revise the IMS certificate course syllabus, Scott-Grant has seen ‘the proof of their pudding’ in the new four-week course they devised, says the company.

Since the launch of the new syllabus in September 2005 and during 2006 they delivered courses to delegates not just in the UK, but in other countries as far afield as Thailand, Austria, Poland, Hungary and Korea.

Gary McRae from Dundee City Council was one of many students who undertook the new Scott-Grant course in Manchester and he achieved the highest mark in each of the four modules across the year.

His employer has confirmed how he has benefited from this and subsequently performed in his role; Eddie Ogg, management services manager for Dundee City Council was enthusiastic in his praise.

“Gary is seen as someone with huge potential. He is a very, very good team player and is developing as a very confident, professional and committed management services officer with strong interaction at all levels.”

Left to right: Scott-Grant MD Richard Taylor, Eddie Ogg and Gary McRae from Dundee City Council and Mike Seaman, training and technical director
Companies with strong cultures are attractive

If a culture is dependent on certain personality types, there is little to leave in terms of a powerful legacy. The trend now and in the future is that few acquisitions will be made of businesses whose leaders are the sole or with people moving on up or being moved on out!

It would appear that if a company does want to create a larger strategic presence, then they might be courting several partners at the same time. The company with the strong performance driven culture will increasingly become the option that poses least risk. We know that companies purchase other businesses purely for their ‘order book’ but, increasingly, more than the strict value of harvesting key assets are driving acquisitions. Mergers are being driven by synergies and options to create significant impact in world markets.

The world is getting smaller and the competition for the best businesses is underway even the major influence on the firm. For a company to achieve consistent high performance levels requires a strong positive customer focused culture which will survive most catastrophes associated

Philip Atkinson and Dara Clarke conclude their analysis of due diligence and how strategies of soft due diligence can leverage the rewards of mergers and acquisitions and business expansion.

Part II

You are quick or you are dead

It is true that you are either quick or you are dead in many markets. While it is easy to make the wrong decision, the more that companies commit to understanding their adversaries and their partners, the more accurate intelligence will be on the relative performance of potential deals. We cannot afford to take risks in acquisition, and conversely, we have to take risks because some opportunities will never rise again.

Key issues that relate to soft due diligence

Balance sheets are a fine historical measure of value – but true value lies in what the culture can become if it’s built and shaped into a new entity.

• Do we really appreciate the value of the business beyond the tangible bricks, mortar, investments, assets etc?
• What opportunities are there to install best practice in technology, CRM marketing, product portfolio, distribution, routes to market, logistics, HRD?
• What opportunities, currently not pursued, could reap returns for the new business entity?
• What opportunities could never materialise without some form of joint venture?
• How would you value the talents and the value of the managerial group?
• How sure are you that the right chemistry will exist in the management group driving the new entity?
• What value do you put on the company’s core competence, and the competencies of the best management team?
• Can you value ‘talent’ and grow the business?
• How do you measure ‘human capital’ in the current business – the potential acquiree, and the new entity, which will evolve from coming together?
• Can you ensure that the output from your investigations into due diligence are the key drivers for post acquisition integration?

Developing a cultural audit for mergers and acquisitions, JV’s and business expansion

Soft due diligence is about finding out what makes the engine of the business tick, and how we can best leverage our skills to make the two or more businesses who are close to forming a partnership, acquisition or joint venture get the most from the alliance.

Cross border deals

Consider an example of working in Europe with a German and a Swedish business. The National cultures have similarities and major differences – of which these consequences have to be analysed, especially when the key markets for growth because of the acquisition (for illustration) will be in Southern and Eastern Europe. You will note, there is no more complexity here than in most businesses. Is this an impossible merger?

No, it will just require analysis that is more detailed and rigorous integration plans.

Another comparison is a British IT solutions provider with strong ambitions

Every CEO and senior person influences the culture and not always in a good way.

Forget any ideas of merging cultures. Merging or integrating cultures ends up in confusion and ambiguity. The resulting averaging process would create a cocktail of cultures, which would confuse all parties.

As it is required to consider strongly the dominant aspects of each corporate culture, it is worthy to note that most cultures have evolved more by accident than design. We do find that many organisations have been shaped by times of intense control in creating a specific culture to deal with a crisis or an opportunity, and periods of more or less slack or non-existent influence when the organisation has drifted.

Every CEO and senior person influences the culture, and not always in a good way. What you can be sure of when you look at a culture and assess its relative strengths and limitations, is that you need a rigorous and robust approach.

Robust and rigorous model

A variety of tools including interviewing, focus groups, and questionnaires to assess the relative health of merging the businesses are applied. These should be designed around a unique approach and a robust model for change.

The design of the initial diagnosis is important. Consider working in a cross border deal. As well as studying ownership, control and organisational culture, the context of the cross-border partnership and the transactions and markets, that will be focused upon are critical in supporting a correct diagnosis.
to form joint ventures in Germany and Austria to fill a strong market demand will have to assess their relative chances of success. Because they undertook soft due diligence of several businesses they now understand that they have to create a strong permanent presence in Germany before they can form any alliances. Being aware of the Germanic culture, that company will site an office in the heart of the major city that services their key market – in this case Stuttgart.

Consider several businesses in an African state of such as Nigeria. One would have to take account of the National culture, its religious and political heritage. It would also be wise to consider political conflicts that have arisen between the three key tribal groups and contemplate also how this will affect your business if you are going to trade in specific geographies. For instance, in some regions the dominant tribal grouping may exert more influence in some territories than others, and this could impact on human resource, supply and logistics issues.

We can see how one model may be suited for Sweden but would clearly be inappropriate for work in Africa. It is important to work extensively to understand the political and economic context in which the deal has to be finalised in order to avoid the potential of business failure.

Partnering with dealmakers
It is clear that one approach does not fit all, and the approach to cross border work is unique and tailored with precision. This is because those undertaking the research have to work very closely with the partners of the businesses and confront potential problems early on. Only by doing this, can we develop strategies to resolve key issues for immediate action.

What is important is that there should be no surprises along the tortuous route of business expansion due to merger or just organic growth.

Corporate culture
In some cases, nationality can have a profound effect on post acquisition integration because it may favour one particular style of management akin to the relative culture of a country or a region, but it is also important to consider corporate culture in different functions, territories and specific facilities.

Nobody has time to run around businesses handing out questionnaires, then assessing, and ranking these by site and function. Soft due diligence is not a corporate climate survey to assess the relative state of teamwork, communication and the role of training – rather it is strategic, not tactical, and focuses on how to resolve issues that will arise when the businesses come together to form the new larger business entity.

Speed and confidence in the approach
Speed is of the essence, and rapid improvement and implementation has to be the key strength. When one understands the process of change in this context, one can anticipate problems and address them before they become a major barrier to integration.

Of course, one has to realise the considerations of the strong Investor groups and institutions as well as the behaviour, both actual and predicted, of the existing and the new management team.

‘Sensitive’ and ‘incisive’ are two words, which come to mind in this study. The study is a quick and reliable series of storyboards and scenarios that capture the spirit, the opportunities, and the scope for growth are identified and presented.

Ultimately, the data generated from Soft Due diligence, and the decisions that flow from these studies are the direct input for post acquisition strategies for speedy integration.

The role of leadership and culture in post acquisition integration
The phrase ‘without Leadership there is no change’ is a dominant theme in any post acquisition strategy. Fundamentally, you need a plan to deliver results. The simplest way to do this is to agree specific deliverables within the period of 5, 10, 20, 40, 60-250 days after formation of the new business or formal takeover or merger. Simply charting the whole process helps people to understand that there is a plan for the way the management team want the business to evolve. A stronger, firmer view and plan is going to be very powerful in shaping the new entity. In reality, there is often no formal plan and
It is important to design the culture the way you want it to evolve.

many joint ventures, acquisitions etc, limp along rudderless. It is obvious these will never achieve the synergies for which the acquisition or new business deal was envisioned.

The big danger is believing that two or more cultures can be simply integrated. Doing so creates a cocktail of cultures where confusion and ambiguity reign. What is important is designing the culture and the post acquisition or expansion plan for the new business entity specifically to meet its strategic imperatives. Relying on a ‘jigsaw’ approach, with bits and pieces from here and there, is not coherent and does not work. Then, neither does flying by the ‘seat of the pants’ while hoping things will gel naturally.

Dangers – over promising and under delivering

Any business expansion – either joint venture or merger, is going to create winners and losers. There is a good bet that not everyone will be happy with the new relationships and direction. Some who are disgruntled will not air their dissent but still can be creating mischief and mayhem around the business. This has to be acted upon immediately. It cannot be allowed to gain ground. New standards and behaviours are critical and require to be reinforced and modelled with managers behaving as leaders. This requires some forceful direction and leadership. Here, leaders have to be careful not to ‘over’ promise or give guarantees. There are no guarantees in this M&A business. Although some may think this approach inhumane, the manager cannot just deliver platitudes to staff to make them feel comfortable. No one can guarantee that things will not change. Leaders cannot guarantee job security. Neither can they state with no confidence that there will be no change.

To be realistic, managers may not have control of all variables and would be foolish to pretend otherwise. They may have signed a ‘confidentiality agreement’ or simply not been included in the decision making process and do not have a response. In the inability to answer to a question, it’s better be honest. The truth is, “We don’t know as yet but we are working on it.” It is much better being truthful than fabricating an answer making guestimates or constructing untested scenarios!

Too many managers ‘make promises as they go along,’ because they feel it is better to give some direction than appear not to be in charge. We need to forget our own managerial vanity and adhere to a discipline.

It must be remembered that these situations can change radically overnight. New information and stakeholders come on the scene – unexpected responses evolve from Government, State Institutions and Regulatory bodies. Competitors complain, or anti ‘business expansion’ can appear as a major media threat to the deal finally going ahead. One can plan, but the plan must always be flexible, and have the degree of spontaneity to work outside the defined box.

If in doubt, when asked a question, ensure that every person in a leadership position either respond with the agreed message or make no comment at all. It is better to respond with, “We are still working through the key issues and will inform you as soon as we have arrived at a strategy and solutions”.

It is better to do this than to invent an uncertain response or story that you will have little chance of defending when things settle down. The danger of not doing this is that it destroys the credibility of the managers who are running the new business and does not get the business off to a new start from the key investor’s viewpoint.

Communication and the grapevine

According to Price Pritchett, Guru on M&A integration in the 80s, top executives should take charge of all communication as much as possible. This means controlling both formal and informal communication, and fuelling the unofficial grapevine with positive carefully designed messages.

Know with certainty that the grapevine takes a brand new dimension in terms of shaping dialogue. Pritchett even suggests that unofficial ‘grapevine chat and business’ can consume as much or 10-20% of the average day for the average employee. Even if this estimate is generous this negative ‘grapevine speak’ with others, using email and the phone can have tremendous negative impact and consequences on the business especially if the media are tuned into the conflict.

Remember, much of the information conveyed via the ‘grapevine’ is inaccurate, distorted, destructive or even spiteful, and not usually in the best interests of the new business. We suggest that we create a communications strategy that focuses on the use of a variety of media but concentrating on shaping the direction and content of the ‘unofficial grapevine’ to deliver new positive messages. The way to achieve this is to control communications, and agree a key and precise role for those in Leadership positions.

Moreover, it should be remembered that anyone with direct reports is a leader. This is the time to apply rigorous and high standards. If people are in leadership positions and not supporting the business in its venture – then replace them with others who will create the optimistic future. Holding on to managers who are not shaping the future for the better is the worst thing any company can do.
Post acquisition is like a fast breaking news story
Whether we like it or not, we will not have all the answers to all the difficult issues. A merger or business expansion reflects the pattern demonstrated in the media when a news story breaks that has special significance. Reporters and experts are commenting on events as they evolve, but often there is ‘no pattern to the story’ and where there are omissions in coverage or ambiguity exists, ‘uninformed opinion, conjecture or pure imagination fills the void’.

We do not want this approach to characterise the rise of any new business. If we do, we waste time and resources replying to ‘conjecture’ and ‘opinion’ rather than striving forward. Too many examples of ill-judged responses are evident in M&A activity. Why do management teams think they need to respond to speculative stories especially of the negative variety? It is best to state confidently, “At the time this is pure speculation and we have no comment.”

Not enough management teams develop a sound public and investor relations theme and see it through. We can see that when one does exist, there is a requirement for the managers to remain disciplined to adhere to the party line.

The key points above are all to do with managing the merger or expansion just after the news has been released – in the short-term.

Short and long term integration
You may be surprised just how badly ‘Post Integration Strategy’ is designed, engineered, implemented and managed in companies. To resolve such issues requires a simple message, control of formal and informal communication when and where appropriate, with a focus and plan on leading us through the early days. In the absence of leadership, there is chaos. We need strong decisive action to demonstrate the ‘business expansion’ has been thought through, and that this is going to be one of the acquisitions or expansions that actually work.

Post acquisition in the long term
Here, long-term can refer literally to just days and weeks. Any business should have considered who is going to be driving the business. Where practical, names need to be in positions in the hierarchy – even if these are only holding positions.

There are key issues
• What strategy do we have for moving forward rapidly with confidence?
• What impact will current expansionary activity have on our product mix, our customers, our markets, the stock market and investors?
• How can we create a structure that clearly articulates and communicates our plans and ambitions in concise and clear fashion?
• What culture will we shape, and what are the core values and behaviours that will take us where we want to go?
• What is the role of leadership in this process?
• How will the post acquisition plan roll out, and how do we communicate this to all our constituencies?
• How can we create a strong performance driven culture that will delight investors, and provide an excellent return on shareholder capital?

Operationalising post acquisition
In reality, things will go wrong. Some key people in the new structure will not live up to expectations and others may be the wrong selection for the demands of the role. Some employees will feel a degree of disappointment. There will be resistance to change – simply because people like living within their ‘comfort zones’. Systems will not always work, technological solutions may create problems in the short-term, there may be a breakdown in the supply chain and some customers and consumers will leave or express disdain for the new operation. This is natural, and not everything can be accounted for in advance.

Investing in prevention
However, it is possible to develop a risk assessment of the most likely scenarios, negative and positive, where problems arise and either put a ‘band aid solution’ in place temporarily, or resolve the issue completely. In reality, the usual remedy is the ‘band aid solution’ because there is so much going on companies will not have the resources to fix every problem. Although people may complain about partial solutions, action has been taken to resolve issues in the short term.

Leadership and post acquisition plan
For any business, you must have plans for 5, 10, 20, 30, 40 days after the business expansion, and these must focus on the bullet points above. People issues will be key. Our people are the most precious resource and will take you nearer to your goals if they are led sensibly with energy and a positive mindset.
Right from the first step in considering the acquisition or expansion, the businesses must plan for how change is to be implemented. It can only be implemented through people, and their relative degree of motivation towards making the ‘business expansion’ work is largely governed by the mindset of their managers.

Do the managers inspire their people to work towards building the new business entity? Is the new work culture strongly reinforced and rewarded by the actions of the management group? Can people clearly see the way forward and identify the behaviours that will enable them to achieve the new business? These are all questions that a post acquisition plan will answer.

Cultures’ consequences: summary
Methodologies exist and have to be tailored to meet the needs of any business expansion whether it be focused on cross border JV’s, mergers and acquisitions, or business expansion into new territories and markets.

In partnership with experts, the companies will have the building blocks and the expertise to build the culture of the new entity. A major error made by designers of such cultures is they think they can integrate two or more cultures into one. If you do this, what you get is a cocktail of cultures, with ambiguity as the main thrust.

It is important to design the culture the way you want it to evolve. Most companies fail to do that – either believing that culture is outside their remit, or that it is a difficult task beyond them and their advisors, when this is not the case.

Corporate culture is a very tangible technology and can be designed and managed with ease. Yes, it may be difficult at first, but you have to confront the issues with a risk assessment and contingency plans. Those who do this can make the synergies happen with ease.

Moreover, rest assured that those who fail to plan for their acquisition or expansion, plan to fail!

80% of mergers, acquisitions and business expansion fails to achieve the synergies for which they were designed, purely because the culture does not exist to create the new future for the partners.
NOTICE IS HEREBY GIVEN of the forty second Annual General Meeting of the Institute to be held at Committee Room, Guildhall, Bore Street, Lichfield, Staffordshire on Friday 5 October 2007 at 10.00 am to conduct the following business.

1) To receive the Annual Report and Accounts

2) To confirm the following Bye-Law No 1/2007

   Membership subscription for 2008 shall be for Life Membership at a rate of £220.00 for all members. An annual membership fee of £110.00 will be available on request.

3) To appoint Auditors for the ensuing year.

4) To note elections to Council

By Order of Council of Management

6 June 2007

Harry Downes
Secretary

Institute of Management Services
FORM OF PROXY – FOR CORPORATE MEMBERS ONLY

I (full name)…………………………………………of (full address)…………………………………………………………

……………………………………………………………………………………………………………………………………………………………………

Membership Grade……………………………………..… Membership No ………….……………………………...

Hereby appoint J Lucey of ‘Beechcroft’ Highfield Close, Foston, Near Grantham, Lincolnshire, NG31 2LH or failing him the Chairman of the meeting to vote for me and on my behalf in accordance with the directions, if any, given hereunder at the forty second Annual General Meeting of the Institute to be held at Committee Room, Guildhall, Bore Street, Lichfield, Staffordshire on Friday 5 October 2007 at 10.00 am and at every adjournment thereof.

RESOLUTION NO 2 FOR / AGAINST *
(Bye-Law No: 1/2007)

RESOLUTION NO 3 FOR / AGAINST *
(Appointment of Auditor)

as witness my hand the……………………………day of ……………………………………………………………2007

Signed…………………………………………………………

*delete as applicable

This proxy form must be deposited at the head office of the Institute by not later than 10 am on Friday 28th September 2007.

The name of J Lucey has been inserted (or chairman of the meeting) to ensure that your vote is cast in the way you have indicated. You may however, insert another proxy holder if you wish who must be a corporate member of the Institute, but your vote will not be recorded if he or she is not present at the meeting.
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Surveys suggest that in the five years to 2000 around half of all companies attempted to transform their performance measurement systems, while more recent data indicate that 85% of organisations had performance measurement initiatives under way in 2004. What goes for organisations also goes for individuals. By 1998, workers were subject to formal performance appraisals in 79% of British workplaces. For many, the individual performance management process is a key indicator of the way organisations establish employees' obligations and hence of how life in organisations is experienced. A sharp illustration of the spread of these ideas is provided by a study of a Norwegian hospital, where even the priest had performance measures that included not only calls made in and out of work hours, but also the number of last rites he performed.

The enduring challenges of measurement
Why is it that people designing measurement systems in organisations make such a mess of the task? Why are there so many reports of ill conceived measurement systems driving dysfunctional behaviour? And why, given all of the problems that measurement can cause do managers persist with their search for ever better measurement systems? To understand the difficulties of putting performance measurement into practice, companies and executives need to recognise three main challenges of performance management.

Desire to quantify
The desire to quantify remains. In 2004 the UK Government completed its last spending review. As part of this review the Treasury agreed 110 Public Service Agreements (PSAs) with some 20 central government departments. Effectively these 110 PSAs describe what the Treasury expects in return for its investment in different government departments. The PSAs are couched in rather generic language, so each department seeks to translate its PSAs into more specific targets. Consider the police force. The stated aim of the Home Office is to build a safe, just and tolerant society. In return for its budget allocation the Home Office agreed six PSAs and one value for money target with the Treasury in 2004. To enable the Treasury to measure the Home Office's progress against these targets the Home Office and the Treasury agreed 37 separate performance indicators (defined in publicly available ‘technical notes’). 10 of these 37 indicators relate directly to the Police Force (the others relate to other Home Office responsibilities – eg the criminal justice system, etc).

These 10 indicators feed into a document called the national policing plan, which refers to the PPAF (police performance assessment framework). The PPAF has six domains and 18 separate indicators covering issues such as reducing crime; investigating crime; promoting public safety, etc. To respond to the PPAF, local police authority's are expected to develop strategic plans explaining how they will address the priorities identified in the national policing plan, as well as other local priorities. If you take a region like Cambridgeshire, for example, the local strategic plan proposes 78 performance indicators that can be used to assess the
The problem lies in the fact that multiple other bodies also have an influence on police priorities and that these other bodies produce plans such as the National Policing Plan, the Local Policing Plan; the National Crime Reduction Strategy; the Best Value Plan, all of which contained targets and suggested performance indicators. The result is a plethora of performance measures for the police force that fail to communicate strategy or priorities. Recently I had the opportunity to raise this point with a Chief Constable, who replied very politely, saying that I had completely misunderstood the system.

The big advantage of having so many performance measures and targets was that he could always find a good news story for the media, because at any point in time something would be getting better! True, but hardly the intended use of the performance measures.

**Unanticipated consequences**

Although not a new phenomenon, management’s desire to quantify has some significant consequences. At the same time that Ridgway wrote his article bemoaning the tendency of management to measure everything that walks and moves, Chris Argyris published some interesting work which highlighted a second challenge of measurement – namely the unanticipated consequences that result. Argyris uncovered a common practice of “stuffing machines at the end of the month to meet budget quotas”. A fair question to ask is does this contrast with the behaviours that we see in organisations today? Not long ago I had the opportunity to work with a wholesaler of electrical components. The business, which consisted of around 140 separate branches, was struggling to solve the problem of inter-branch co-operation. While all of the branches were part of the same organisation, they used to compete with each other to win business.

Savvy customers knew that they could request a quote for 100 light bulbs from one branch and then phone a second branch to see if they were willing to undercut the first branch. If the second branch offered a lower quote the electrician would call the first branch again to tell them they would lose the order unless they were willing to beat the new ‘best’ price. In essence the branch managers in the business were trading away margin, competing with one another. Yet this behaviour, while completely illogical from the business perspective, was perfectly logical from the branch manager’s perspective. Only the branch credited with a sale was credited with the profit resulting from that sale.

Each branch manager was measured and rewarded based on the profitability of their branch. So it was perfectly logical for the branch manager to do everything possible to maximise the profitability of their branch.

The problem with single or narrowly specified sets of performance measures is that they encourage local optimisation. It is well known that if performance measures are inappropriately specified then they will encourage people to take actions that improve the performance of one part of the system, but that this can sometimes be at the expense of the system as a whole. The electrical firm’s measures of branch profitability encouraged optimisation at the branch level in terms of branch profitability, but simultaneously encouraged sub-optimisation at the firm level.

**The search for balance**

The way organisations can deal with this problem is encapsulated in the third challenge of measurement – the search for balance. This is not new. More than 50 years ago, that doyenne of management thinking, Peter Drucker, made the case for balance in measurement systems in the *Practice of Management*. He suggested that appropriate performance criteria for organisations were ‘market standing, innovation, productivity, physical and financial resources, profitability, manager performance and development, worker performance and attitude, and public responsibility’. It is interesting to note how the performance criteria suggested by Drucker not only encompass everything included in one of the most popular measurement frameworks of the moment – Kaplan and Norton’s balanced scorecard – but also extend this framework by foreshadowing interest in the corporate social responsibility agenda.

Today managers are using frameworks such as the balanced scorecard and the performance prism to achieve balance in their measurement systems. These frameworks are designed to encourage managers to think broadly about what success constitutes for their organisation and hence what should be measured. The performance prism, for example, asks five fundamental questions:

- Who are our key stakeholders and what do they want and need from us?
- What strategies are we pursuing to satisfy these sets of wants and needs?
- What processes do we need to have in place to enable us to achieve these strategies?
- What capabilities do we require if we are to operate these processes successfully?
- What do we want and need from our stakeholders too?

By emphasising these multiple dimensions of organisational performance, the performance prism seeks to encourage
managers to think more broadly about which measures they should introduce. Importantly, the performance prism makes a distinction between what the organisation wants of its stakeholders and what the stakeholders want from the organisation. Too often this distinction is missed in discussions about measurement. Some organisations appear to assume that customers want to be loyal and profitable. In reality customers want great service and excellent value for money. It is the organisation that wants its customers to be loyal and profitable.

Clearly both sets of wants – those of the organisation and those of the customer – are valid. The important point is to recognise that they are different wants. If the organisation fails to manage the delivery of value to customers, it is somewhat unrealistic to expect those customers to be loyal and profitable.

Addressing the enduring challenges: Learning not control

How might these three enduring challenges of measurement – the desire to quantify, the unanticipated consequences that result and the search for balance – be addressed? Part of the problem is that many people regard performance measurement systems simply as a method of control. Targets are set, performance is monitored and corrective action is taken when performance appears to fall short of expectations. Another way of approaching performance measurement is to think of them as learning systems rather than control systems. Measurement systems provide data that can be used to challenge the assumptions people hold about how their organisation operates.

Learning through measurement: The British Airways experience

British Airways have one of the most sophisticated customer satisfaction measurement systems in the world. Surveying over 1,000,000 passengers per annum, the firm collects data on every ‘moment of truth’ – every interaction between the firm and its customers. Research shows how this customer satisfaction data can be used to identify the key drivers of firm performance. Through a combination of statistical analyses the researchers identified correlations between specific dimensions of customer service and firm financial performance.

The most surprising finding was a negative correlation between on time departure of aircraft and cabin crew service. When planes leave late, customers tend to report that cabin crew service is better and when they report that cabin crew service is better they tend to report higher levels of customer satisfaction. Clearly this somewhat counter-intuitive finding – customer satisfaction is associated with late departure of planes – would cause some debate in any airline. But when thinking about the finding it becomes less counter-intuitive. Consider the service recovery process. When planes leave late the pilot often passes the blame to air traffic control – “I am terribly sorry to have to tell you ladies and gentlemen that air traffic control have delayed our take-off”. A few minutes later the pilot will often announce – “I am delighted to tell you ladies and gentlemen that I have been negotiating with air traffic control and we have agreed a reduced delay” – hence recovering the situation somewhat in the eyes of the passengers. Additionally there is an incentive for cabin crew to try harder when delays have been announced. They do not want to have to look after frustrated passengers for the duration of the flight, so when delays are announced they will offer people extra drinks, newspapers and blankets simply to damp down frustration levels.

The shift from measurement as a system of control to measurement as a system of learning requires some subtle organisational changes. Too often the performance review processes that exist in organisations are set up as interrogations. Senior managers visit particular sites or facilities to review performance. Team leaders gather their troops to explore whether or not they are likely to meet their budgets. But such reviews simply encourage defensive behaviour. People come to the performance reviews armed with reasons and excuses that justify why performance is not as good as it should be. A much more productive approach is to focus on the future – exploring issues such as how do we get to where we want to be.

Creating an organisational culture that focuses on the future

Creating an organisational culture that enables such conversations is far from trivial. All of the language that surrounds performance measurement – performance reviews, performance assessments, performance appraisals – suggests a defensive organisational routine. Even subtle...
changes, such as talking about ‘performance planning’ rather than ‘performance reviews’ can be a valuable first step.

Of course a simple change of language and tone is insufficient. Many organisations are now creating performance management teams to support their efforts to extract insight from performance data. These teams are not simply expected to support the performance measurement. Increasingly they are being asked to play an active role in the performance analysis process. Indeed a core role for performance management teams is to extract insight from data that can subsequently be used to make informed decisions.

The creation of performance measurement teams is a challenge in itself. Clearly the technological infrastructures that many organisations have developed provide access to enormous volumes of performance data. These data have to be analysed and interpreted if insights are to be extracted. Performance analysts need to be able to analyse the company’s data using valid statistical approaches. Having done so, they need the intuitive skills necessary to explain what these data mean and then they need the social skills to be able to persuade others of the validity of their analyses.

This combination of skills – the ability to analyse data, intuitively extract insight and sensitively communicate these insights – is in relatively short supply in many organisations, yet it is essential to develop it if the value of performance measurement is to be fully extracted.

The issue becomes ever more important when one considers how much organisations are spending to capture and analyse data. It is almost impossible to find an accurate response to the question: “How much are you spending on performance measurement?” The most common answer from senior managers is an exasperated: “too much”. Efforts to reduce the cost of measurement, while maximising the value it delivers have to continue. Measurement is not going to go away, but neither are the enduring challenges of doing it well. What is needed is careful and reflective thought, so that organisations introduce measures that are beneficial rather than problematic.

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Part I of Professor John Seddon’s ‘six steps’ which will be serialised throughout 2007/8 in Management Services Journal.

Step 1: Be prepared to change the way you think

Most managers receive this challenge as an affront. It is tantamount to saying there is something wrong with the way you currently think. Let me persuade you to stay with me by saying your problem – assuming you do need to change your thinking! – is not your fault. Through our organisations, government and educational institutions we have educated managers to think in ways that are sub-optimal. There is a better way.

To start at the beginning, I expect you recognise this: The organisation as a top-down hierarchy. Work designed in functional specialisms. Decision-making is separated from work – decision-making being management’s job. In making decisions, managers use measures of budget, activity, productivity, standards and the like. Managers believe their job is to manage budgets and manage people. Most organisations are designed and managed this way. The news (if it is news for you) is this doesn’t work very well.

Why do we teach this thinking? Because it worked originally – it is the thinking that was epitomised by mass production and at the turn of the century it led to a quantum leap in performance. Our problem is we have not continued to question; we invented a system of management and, over time, we have assumed it to be unsurpassable. Yet it has been surpassed. In case you doubt me, consider this: The number of man hours it takes to build a Lexus is LESS than the number of man hours used to RE-WORK a top-of-the-line luxury German car at the end of the line after it has been made. Just stop and think about that.

Are the Toyota managers smarter, more committed, more enthusiastic or is it perhaps because they are Japanese that they can achieve this? None is true. Toyota achieved this extraordinary leap in performance by using better methods. These methods weren't dreamt up in a boardroom, they emerged from solving practical problems while working against seemingly insurmountable odds. Is this better thinking unique to Toyota? No,
many organisations are learning to work this way. My consulting company has been dedicated to introducing these ideas to service organisations; we know they result in outstanding improvements to performance and morale.

So why aren’t more people thinking and working in this better way? Because this thinking represents a fundamental challenge to current managerial beliefs and, consequentially, it is hard to understand if you think the ‘other’ way – you are naturally inclined to interpret what you hear from your current point of view. You might be wondering why, therefore, I am foolish enough to attempt to help you change your thinking with a series of short articles. I fully recognise the limitation of the written word, but in each of the next five steps I’m going to give you something practical to do. I am sure that if you do these exercises with an open mind, you will learn. In any event, as my editor tells me, it might make for interesting copy.

The better way starts from a different point of view

While we have learned to think of our organisations as top-down hierarchies, they don’t look like that to our customers. If you assume (as I do) that the purpose of any organisation is to get and keep customers, to take the customers’ view of an organisation leads to a different and more productive set of problems to address. When you look ‘outside-in’, you always find out how unproductive your organisation is. What accounts for this, sometimes alarming damage to productivity? The way the organisation is designed and managed. Because, for example, measures are related to functions and managers of those functions need to meet targets, the parts achieve their goals at the expense of the whole.

Managers know this. They often give graphic accounts of the ingenuity they use to ‘win’ while others ‘lose’. Even this obvious madness does not encourage managers to question whether there is a better way, in part because to question the status quo is itself a dangerous thing to do. But if we are to gain a quantum leap in performance in UK organisations, we must learn about the better way.

While we might think of work as being managed and controlled through functional hierarchies and their associated measures, in practice work ‘flows’ through an organisation. If functional design and measurement can impede flow – which it always does – learning to manage flow will improve performance. The first step to managing flow is to think of your organisation as responding to customer demands. Think of it this way: if your organisation responds to a customer demand by doing what the customer wants and no more, your service will improve and your costs will fall. If Toyota’s Lexus line can respond to customer demand by making a car in a week it ought not to be beyond the realms of possibility for any organisation to do likewise. If your organisation produces goods that are less complex than a car and, bear in mind, many service organisations ‘make’ nothing at all, the gains from this way of thinking can be achieved in a very short time.

Paradox…good service always results in lower costs

Traditionally-minded managers don’t believe this, they think service and cost always need to be balanced.

If you are going to manage flow, you need measures that tell you about how well your flows work. These are capability measures. They should always be derived from what matters to your customers and they will tell you what you are predictably achieving for good or ill. This is to take

We invented a system of management and, over time, we have assumed it to be unsurpassable

management’s attention away from ‘costs’ and instead to focus on the causes of costs. And as managers learn to eradicate the causes of costs what do you suppose happens to costs? It is self-evident.

How many managers proclaim their people to be their most important
asset, yet design and manage the work their people do in ways that cause demoralisation? The answer is most. In traditionally designed organisations the managers see their role as managing people. They fail to recognise that their ‘people problems’ are caused by the way the work is designed and managed.

Paradox… standards are anathema to performance improvement
Working with standards focuses attention on achievement of standards. Working with capability results in learning about ‘how high we can go’.

When an organisation’s workers are judged by their managers on achievement of standards or targets, and, as is always the case in traditional thinking, their performance is governed more by their system than anything they can do, the workers become demoralised. By contrast, when workers have measures in THEIR hands that relate to purpose, and they have the freedom to experiment with method, they become tuned in and turned on. In short, changing the design and management of the work mobilises the people – it removes the causes of workers being disenfranchised.

Paradox… with every pair of hands you get a free brain – but whether the brain is engaged depends on the design of the work
Managers foolishly pursue the ‘engagement’ of their workers by employing ‘employee participation’ programmes. The better way to engage employees is to change the role of management. When managers learn to manage by acting on the system, they naturally engage their workers – who know what is going on – in improving the system. And this is the heart of the better way. The better way of thinking is to understand and manage your organisation as a system, to understand how the parts work together to achieve the aim. The final paradox is that this is the starting place for improving your productivity – to understand your current organisation as a system, regardless of how you currently manage it.

The next steps will take you through some simple exercises to do just that; but be warned. If yours is a traditional, functional, hierarchical organisation with all the attendant features, be prepared for some shocks. You will discover for yourself that what you currently do doesn’t work very well. It could give you the impetus you need to make a substantial change. I hope it does, for the future belongs to leaders of change.

This series Six steps to improving productivity is based on The Vanguard Guide to Understanding Your Organisation as a System, published by Vanguard Education. Downloaded from www.lean-service.com – improve service and cut costs.

Capabilities measures should always be derived from what matters to your customers
The costs of service continue to rise. The recent flood of outsourcing to India is no more than the latest tactic to reduce costs. So says John Seddon, author of Freedom from Command and Control arguing it is management thinking that is at fault. While out-sourcing work to India might reduce transaction costs, Seddon states that the real costs of service remain high because real costs are end-to-end, from the customers’ point of view.

Seddon’s book highlights management’s failings. Command and control thinking is a way of thinking about the design and management of work that, in short, does not work very well. Command and control management began with Henry Ford’s innovation of the assembly line in the early part of the 20th century. The principles rely on the control of workers, using measures and targets to ensure compliance.

The assumption then, was that management knew best. Seddon illustrates how this outdated philosophy creates what managers see as ‘people problems’ and management’s preoccupation with people management ‘solutions’ which wastes vast resources. He states that this philosophy has failed and we still have poorer service, poorer working environments and rising costs. While Seddon provides a clear picture of how management has created the problems that most organisations experience today, he also provides an alternative solution which he calls ‘systems thinking’.

The systems approach is a different way of thinking about the design and management of work which goes beyond most managers’ comprehension. The result is greater knowledge in operations. The systems approach works outside-in rather than top-down, so the true costs of service are established, understood and managed.

Seddon points out many obvious management failures and he describes managers of call centres as treating all demand as ‘units of production’. He states that there are two types of customer demand on call centres, value demands (what we want our customers to call about) and failure demands (caused by a failure to do something or do something right for the customer).

Seddon points out that failure demand can account for as much as 80% of all demands on call centres and they are all under management’s control. Seddon believes that managers are ignorant of this fact. He calls this ignorance ‘managerial blindness’ and states that it is often caused by the measures managers use. He believes that in call centres managers use measures associated with ‘production’ which undermine performance.

The systems view allows managers to discover how their current measures create unintended effects which undermine performance and morale. This can result in staff becoming disengaged with the company objectives, lead to dysfunctional behaviour and frustrate managers. Seddon argues it is incumbent on managers to learn how to manage their organisation as a system if they want to improve service and reduce costs.

In his book he charts the method. He shows that while you may run your organisation as a command and control hierarchy you can study it as a system right away. Staff should be free to contribute which will result in them becoming engaged, which puts them back in the heart of the organisation and will facilitate change in a sustainable way.
The Euro effect

To what extent does the European Union influence the business environment for UK firms?

By David Floyd, Senior Lecturer, University of Lincoln.
In terms of foreign policy there was success on the Cold War, South Africa and the Falklands in terms of electoral opinion though the many disputes with Europe including joining the European Exchange Rate mechanism at the wrong time was not always seen in a positive light.

On the economy the Labour Party has delivered economic stability and social justice has come second, unlike previous labour governments. In this sense Thatcher can be seen as the mother of New Labour according to Middleton 2006. This was a similar approach to the Thatcher government whereby inflation was brought under control, however in the late 1980s tax cuts did lead to inflation getting out of hand. Both the European Central Bank and UK political parties alike have a policy of controlling effectively the rate of inflation, therefore in this domain both domestic politicians and the EU have influenced the political agenda. In addition, trade union membership has declined and citizens have been given an EU Charter of fundamental rights which has greatly reduced the role of trade unions.

Blair, in a recent September 2006 speech stated that popular themes were migration and terrorism. It remains to be seen how effective he has been in these areas, though on immigration both conservative and labour politicians are opting for future policies of managed migration. There was however a difference in policy making between the Thatcher and Blair governments concerning immigration. Blair opted for a more open policy where immigrants may have helped put downward pressure on wage inflation. This lack of downward pressure in the Thatcher era helped contribute to inflation getting out of control in the late 1980s. However of late Blair has opted for a more restrictive policy on immigration from Bulgaria and Romania, similar to both other EU countries and the more strict policies of the Thatcher era. In some ways again EU politicians are having similar policies, since the UK was one of a few EU countries to have an open door policy on migration from Eastern Europe from 2004 to 2006.
In order to assess the contribution of former and current politicians it is necessary to examine key themes

The French viewpoint
In France politicians in the 1980s differed from those of the UK. Mitterand tried to pursue a government expansionist policy in the early 1980s which led to a balance of payments deficit. However since then France has embarked upon policies of privatisation and tax reduction though still maintains more social policy compared with the UK, including a 35 hour maximum working week, see Floyd 1999. However France remains more protectionist than the UK with a greater amount of government ownership in industry, although this is being reduced due to the Single European Market legislation.

France also has higher levels of unemployment than the UK and greater protection for workers, as well as higher levels of benefit for those unable to find work. Sapir 2006 suggests that further reforms are necessary to compete in the global economy. It must also be remembered that France has a higher level of educational achievement compared with the UK, though the UK is now beginning to catch up. Managed migration is also the main policy. As far as foreign policy is concerned, there has been less support for US policies, including the use of armed conflict to combat global terrorism. More recently the French government has lowered taxes in a similar fashion to the UK. Both France and Germany have also adopted a more positive outlook towards foreign direct investment and increasingly see this as potential for future job creation. The UK has attracted the highest level of FDI according to the World Investment Report, though other countries are starting to catch up.

The situation in Germany
Germany has also adopted reforms to reduce costs of employment as in France and the UK. Taxation has been reduced and Angel Merkel the first female chancellor, has introduced reforms to make it less costly to hire and fire workers similar to what has happened in the UK in earlier years. There is a neoclassical gradualist approach like that suggested by Kornai 1995 since countries like France and Germany were starting at a higher social welfare base than the UK. New member states from transition countries may also be prepared to move quicker in the neo liberalist direction since the collapse of communism destroyed some of the social values very quickly and many countries then rapidly looked for new alternatives, see Marangos 2004. However Germany remains different to the UK in that trade unions have greater consultation under the process of codetermination.

Scandinavian countries have also opted for high levels of skill and high levels of trade union representation, though these countries can afford to keep a social model due to the high level of skill and productivity. Sapir 2006 also states that the Mediterranean countries and Germany are under the greatest pressure to reform their labour markets and make them more flexible due to the fact that skill levels have not been as great as the Scandinavian countries. The German economy has failed to create enough jobs to absorb Eastern Germany. There is also less focus on encouraging people to take on more credit (like in the UK) as traditionally Germany has focused more on low inflation and stability, as well as increased investment. Much of manufacturing has now shifted to China and policy is starting to shift towards encouraging the service sector, as well as producing more low cost semi finished products abroad.

Immigration and establishing common standards
Germany, like France and the UK is managing migration though Germany adopts a similar policy to France concerning US Policies to combat global terrorism.

There have also been a number of measures to promote mutual recognition of qualifications across Europe. This has included the professions directive whereby qualified professionals are able to practice all over Europe. However, there are still cultural barriers to be overcome. In addition there is the Higher Education Directive whereby any one studying in Europe can transfer the...
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France remains more prot amount of credits they achieve to studying in another country. Language barriers however still need to be overcome though many institutions now offer programmes in different languages. Cultural barriers also restrict trade, in some cases there may be national preferences as well as major differences in the way business is carried out. Levels of corruption also vary across Europe despite the numerous directives that have taken place to establish common business laws across member states.

Measures in the social chapter also include equal rights for disabled, plus race and sex discrimination are also covered along with equal rights and benefits for part time workers. Minimum wages and a maximum working week is also included. All these developments lead to a more integrated Europe where similar types of policy and political decision making is taking place across member states.

**European policy making**

The EU influences policy making for member states and business in many ways. Firstly the single currency and the stability growth pact prevent countries from letting inflation get out of control. Daly 2006 shows how this policy has hampered developments in social policy as countries are prevented from investing more in this area due to the restrictions imposed by the ECB on budget deficits. In some ways therefore, the ECB have imposed more Thatcherite policies on EU countries that politicians cannot escape from. Some say this is Thatcher's revenge for her former disagreements concerning Europe.

In addition both the UK and Europe have left interest rate decisions in the hands of independent policy makers and most countries in Europe have been willing to raise interest rates as inflationary pressures have begun to creep in.

Finally it needs to be considered that the main areas of EU Policy making where integration is taking place is in member states. According to Dearden 2006, firstly the EU has the single market where all tariff barriers are removed. There also needs to be access to competition in all industries and this explains why privatisation is taking place across Europe, which recently included the telecoms and energy sectors. In this way economies become similar with an emphasis on freer markets and individual politicians have less influence on economic policy making. Some EU countries however, particularly the Mediterranean ones, have been slow to open up markets, for example Greece was given a five year extension to comply with opening up its telecom markets. In a similar way France still has a small amount of state ownership in its car industry for example.

There have also been variations in policy making in the energy sector. Recently France and Germany have stock piled energy supplies rather than selling them in the open market which indicates how difficult it is to create a single market for all types of goods and services. According to Sapir 2006 around 70% of the European Union economy is now attributed to the service sector, so more progress needs to be made here. However it is argued that in time further integration will take place and markets will finally open. Evidence has shown that prices in Europe have become more competitive due to the process of competition and integration, for example car prices in the UK have fallen in the last five years and are almost the same today in nominal terms and considerably lower in real terms.

There is also a single currency for many countries which means all countries have the same goals of low inflation and balancing their budget. The UK differs here from continental Europe in that historically the UK has experienced higher levels of inflation than Germany. There is a desire in the UK to avoid boom bust cycles and have a similar approach to Germany with more stability, though it is too early to tell if the historical past has been left behind. At present the...
world has experienced low levels of inflation partly due to the emergence of countries like China, where manufactured goods are being produced at low prices due to the benefits of the World Trade Organisation. There is currently some upward pressure on interest rates due to higher oil prices though interest rates remain low at present. There has also been wage restraint and declining trade union membership in many industrialised countries. Recent inflation levels in the UK show rates to be higher than the Eurozone and the UK has more debt similar to the US economy, however at present inflation rates are not varying significantly with the rest of Europe.

Inflation may be slightly higher than we think due to the new use of CPI measure rather than RPI which would include council tax and mortgage repayments, see Floyd 2006. There is also a Social Charter giving rights to workers, including a maximum 48 hour week and this has helped to integrate social policies across Europe. However the countries still vary since minimum wages are not the same all over Europe reflecting the income disparities that exist. It has also been argued that UK employment legislation has increasingly come in line with the policy of the European Union. For example the UK now gives equal rights for part time workers and a minimum wage, which did not exist under the Thatcher legacy. More recently matters of age discrimination and disability have been strengthened under EU legislation for all EU member countries.

Further EU policy making
There is also a competition policy to prevent monopolies and price fixing which can now be applied on a Europe wide basis. Environmental policy is also being developed and the EU has signed up to Kyoto to reduce emissions over the next decade. There are finally other policies common in Europe including regional aid to reduce income disparities all over Europe. These measures are designed to promote balanced growth across Europe whereby the poorer EU member states are given the lion’s share of funding. In this way European member states move closer together in terms of development prospects. The UK has also benefited from EU regional aid and this helped make up for government turning its back on regional policy over the Thatcher period of office and in this sense policy here came under the command of EU rules and regulations.

On matters of defence and security there have been measures and financial aid available to promote peace in Europe though the EU remains split on a common foreign policy. There have also been attempts to manage migration of late and the EU has begun to promote the use of identity cards. These policies are likely to become more integrated in the future.

Conclusion
It has therefore been shown that the influence of the EU has had a huge impact of the politics of EU member states. This has taken place in the fields of economic policy making, labour relations, environmental policy and business regulation. However as shown in the three country examples, there is variation in the degree of social provision being offered, though over time things have been moving in the same direction. The forces of globalisation are attributing to more common ground for the member states particularly concerning the opening up of the labour market. Opening up a single European market has led to all member states having to further embrace competition, free enterprise and capitalism.

There are also differences however over a single currency though all countries have the same goal of low inflation. Evidence has also been shown that opposition parties are offering little in the way of alternative policies in most EU countries. This is unlikely to change if EU policies move further forward in new areas such as migration and the further widening and deepening of the European Union.

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In recent times, both China and India have been variously described as ‘emerging superpowers’, ‘transitioning economies to watch’, and the like. Both countries are witnessing unprecedented inflow of foreign direct investment.

China and India, A Software Industry Perspective, by Dr John McManus, Dr Mingzhi Li & Deependra Moitra
Both China and India have achieved remarkable GDP growth rates in the last few years. And, while China’s prominence on the global landscape can primarily be attributed to its manufacturing industry, India has emerged on the world map because of its superior software capability and a growing software services industry. Increasingly we are seeing a convergence, with China achieving a rapid growth in its software industry and India in the manufacturing sector. China and India have assumed such critical dimensions that these days every boardroom meeting invariably includes a discussion on China and India strategy. This paper is an attempt to present the structure and dynamics of the software industries in China and India and what implications both countries hold for the global software industry, and how they can strengthen their growing dominance.

Early beginnings
For the last three decades, the United States of America (US) has maintained a dominant position within the global software industry at all levels, however, the increasing attractiveness and importance of the global software industry to developing economies such as China and India cannot be denied. Irrespective of country of origin, all firms have to start their business somewhere and it takes only a single company, as Microsoft proved, to jumpstart an entire industry. The US dominance of the software industry is attributed to its early advantages in research and development, and the investment made in emerging technologies. One of the hidden lessons from the many studies on international business is that investment does not happen by accident. Investment activities are organised and managed by firms and often by multinational firms. The multinational firm exists because it is able to carry out trade and investment at lower cost than its competitors and because it is able to exploit better the differential capabilities of nations.

In broad terms three market classifications may be noted within the global software industry. These are suppliers of professional services (eg EDS and Fujitsu), software products (eg Microsoft, Oracle and Sybase), and integrated systems (eg IBM and SAP). This broad structure has profoundly affected the shape of the software industry over the last 20 years. This rapid growth has created problems for the industry. The industry remains chronically short of skilled manpower. In Europe alone, it is estimated that the industry is short of some half a million skilled workers. Japan and the US are also severely short of computer service personnel. This shortage provides opportunities for countries to take up this slack and provide skilled people to fill the gap.

The international spread of the industry has not only resulted in capturing new markets, but also in providing opportunities to draw upon untapped pools of skilled workers. Although, 90% of the world’s exports in software is from the US and Europe, evidence would also suggest that outside the US, UK, and Japan the new and emerging countries within the software industry are China and India.

Emerging tigers
The rise of both China and India as potentially high technology software competitors and important participants in the world’s software industry has seemingly come as a big surprise to many foreign observers. While there are many important distinctions to be made between the Indian and Chinese cases, they are similar in that the development of software and technological capabilities in both countries has long been a goal of political, administrative, and industrial elites, and both countries have records of policy intent, planning, and resource commitments for meeting that goal. In this context both China and India are now getting increasingly integrated with the global economy as they open up their markets to international trade and investment inflows (foreign direct investment FDI).

A common worry for developing countries like China and India is FDI impact on domestic markets. As far as the labour market is concerned, the main question here is: does FDI export jobs? The question is complex, being not just related to job demolition, but also to job creation. In the category of job demolition, the negative effect on employment can result from a reduction in domestic output or it can originate from the existence of rigidities (poor mobility or excessive segmentation) in the labour market itself, which come into play when there is a shift in the composition of output.

In the provision of software, two focal dimensions can be identified: market location (sales to export and/or domestic markets) and output type (sales of software products/or services). Both China and India have experienced substantial gross domestic product (GDP) growth rates of late.

Growth in these countries has been led by a national strategy to promote their software industries generally and software exports in particular. The presence of a national software strategy for exports is therefore recognised as a vital part of software success. Critical to the success of each country has been a vision of what software could achieve for the country; a vision shared by a relatively small but committed group of government officials, CEOs and private entrepreneurs.
A Chinese perspective

In the last two decades, China has undertaken major restructuring and reforms of its markets. FDI as stated above was one of the main pillars of reform. The Chinese government has gradually liberalised its restrictions on FDI in order to reap the rewards of foreign investment in technology transfer, modern management skills, and foreign exchange. The results of the reforms have been breathtaking. Thousands of multinationals firms have invested in China, bringing with them billions of dollars in foreign investments. Many global software organisations have taken advantage of China’s market reforms and investor confidence. Many software organisations that have expanded into China have taken advantage of its cost structure and 1.3 billion consumers to enhance profits and shareholder returns.

If China is to attract further inward investment additional reform will be needed. In addition, the Chinese government recognises that entry into the World Trade Organisation (WTO) is the most effective way to encourage change and bring China into the global market place. After two decades of steady but halting reforms, Beijing is racing to dismantle the last vestiges of a command economy. Although China as made significant progress in the past two decades, there is still a long way to go before their economy can be characterised as market driven and open.

What next?

In spite of the opportunities available for attracting FDI, several challenges remain to be met in order for the economy to sustain an even higher rate of growth and enhanced competitiveness. China has gained some competitive advantage in technology-intensive goods, and has improved its capability in production and exports of components. China currently has an advantage over the majority of its competitors in other developing countries due to its low wages (and its ability to add value at the margin). If China is

to attract further FDI and preserve its competitive position, it will be absolutely crucial to maintain a low-cost strategy and build capacity (and capital reserves) in high technology sectors. The information, communications and technology markets have proven very lucrative for India, and China is now looking to attain comparative advantage in this area.

However, responding to this reality requires skilful execution in a global economy where established standards already provide a framework for successful economic activities. Skilful execution of a technology strategy under conditions of globalisation will require steering between extremes of a narrow technonationalism likely to cause friction and resentment from trading partners and a possible marginalisation of China’s industry, and a technoglobalism insensitive to national economic interests. The key here is a mixture of expanded state commitments and public private partnerships enthused with openness towards foreigners in national technology programmes, and greater commitment to international rule making and policy coordination.

If China is to attract further inward investment additional reform will be needed.
An Indian perspective

India did not begin to liberalise its economy until a decade later than China. India’s market-oriented economic reforms, undertaken in 1991, were directed towards increased liberalisation, privatisation and deregulation of the industrial sector, and to re-orient the economy towards global competition by reducing trade barriers, and gradually opening up its capital account. This has increasingly led to India becoming a favourable destination for foreign investors. With a consumer market of approximately 1.1 billion people, the increased globalisation of the Indian economy has opened up significant business opportunities for investors throughout the world. These opportunities are increasingly opening for the services sector, whose share in the economy has been rising significantly.

The Indian economy has been relatively successful in increasing its trade openness and attracting investment inflows, and also in promoting the services sector as an engine of future growth.

Although China has benefited more from inward investment, India remains attractive as a destination for FDI with its increased liberalisation of trade and investment policy regime. There has been a progressive liberalisation of the capital account, which has contributed to an increased flow of two-way investments both in and out of India. Before the economic reform in the 1990s, FDI was heavily concentrated in manufacturing activities, which was due to import substituting industrialisation that encouraged tariff-jumping investments to capture the protected domestic market. The trend in recent years has changed towards an increase in foreign investment in the tertiary sector that encompasses mainly service activities. These include the information and communication technology (ICT) sector (comprising of telecommunication, computer software, consulting services, etc), as well as power generation, and hotel and tourism.

What next?
In spite of the opportunities available for attracting further investment in India, several challenges remain to be met in order for the economy to sustain a higher growth path, and enhance competitiveness in order to position itself favourably in the global competition for FDI. The main challenge to sustaining globalisation in the Indian economy at the domestic level lies in the successful implementation and continuation of the second-generation reforms.

These reforms are directed towards reducing structural impediments to higher growth and are designed to focus on fiscal consolidation, institutional reforms, poverty eradication, and provision of adequate social safety nets, infrastructure development, enhancing manufacturing sector efficiency and attracting growth enhancing investment in the country. Such wide ranging reforms would enhance India’s capacity to engage effectively in international competition, thereby providing greater opportunities to harness its growth potential.

There is some evidence to suggest that the competition among states is intensifying and could act as a lever to utilise growth-oriented policies across the country. It is, however, important to ensure that inter-state competition in attracting domestic investment is healthy and promotes all-round development of the economy, a clear challenge for the Indian political class.

Conclusion

China’s accession to the WTO provides an important challenge for India’s global competitiveness. India’s strategy should be to avail itself of the opportunities that are offered by China’s domestic market. This would require a long-term economic investment strategy. One mechanism for Indian firms would be to partner Chinese firms in their domestic markets, particularly in software, wherein Indian firms have already established a comparative advantage.

Such a partnership would be helpful for Indian firms to draw lessons from their Chinese counterparts, and improve upon their capabilities. This implies that apart from attracting inward investment for development of domestic market capabilities, India would need to encourage further outward investment as well, in order to compete more effectively in the global market.

About the Authors

Dr John McManus, Dr Mingzhi Li & Deependra Moitra are the authors of China and India: Opportunities and Threats for the Global Software Industry, 2007, Chandos Publishing, Oxford, United Kingdom. ISBN 18433441581.
If you want to conclude swiftly that people and organisations are not so different from one another after all, you should consider the ways they learn versus the factors that disable them from learning. There are many similarities to be found in the lists that emerge. Although usually expressed through different wording, you will find that the motivators as well as the discouraging factors toward individual and organisational learning are fairly consistent. Let’s briefly consider these lists.

How do people learn?

1. By doing: When we undertake new actions, we learn from the unexpected complications that often surface. Depending on how important the goal we pursue is to us, we become creative, persistent, and very knowledgeable about the situation at hand.

2. Through education: This is an increasingly manifested requirement in today’s rapidly and vastly changing work environment. We obtain our education either formally, through college enrolment or informally, through self-education such as reading and following self-selected mentors; and internally at work, or externally, in an environment away from our immediate workplace.

3. From experience: When we reflect on our mistakes and successes, we apply emotional learning.

4. Through observation and contemplation: Not all of our learning happens through input from others or through experience. Sometimes our own minds can guide us toward learning through engaging in thinking about matters and processes.
5 Through communication with others: Our interactions with friends, spouses, colleagues, instructors, mentors, and others, are often also important pathways to increased knowledge.

6 From society’s expectations: Every society has its behavioural do’s and don’ts. We continuously learn from those as well. As we climb the ladder of success, the circles in which we move change, and so do the expectations.

7 From contacts with new/other environments: The confrontation with other cultures is an interesting and immense factor in the enlargement of our horizons.

8 From trends: This should not just be perceived as a process of tagging along with contemporary fashions. Trends surface in all areas of our existence, and most of us follow them without even realising that we do: think of our ways of communicating, dressing, and transporting ourselves today compared to 500 years ago.

How do organisations learn?

1 By undertaking and evaluating processes: When a new line of products or a new strategy is implemented, unexpected lessons emerge. Smart organisations take the time and invest the effort to learn from these lessons.

2 From new leadership, or government rules: When a new leader steps aboard, there are often new visions created, new directions given, and new processes developed. This is the internally generated reason for obtaining education. Government may also set new rules, which may require changed directions or procedures as well: this is the externally driven reason for obtaining education.

3 From operating experience: Like human beings, intelligent organisations learn from their experiences, whether these were successful or fruitless.

4 Through research and development: Organisations that want to advance in their industry and preferably also in other industries, have an R&D department that continuously explores innovative ways of performing. The implementation of innovations also requires learning.

5 Through communication with stakeholders, and by reviewing competitors’ actions: Employees, customers, suppliers, but also competitors, are important teachers and determinants to smart organisations and their future actions. Ignoring them is like asking for failure.

6 From economic, social, environmental and other requirements: Whether driven by the need for exploring new markets due to economies of scale; saturation of the local market; or obsolescence of the product in the current market; organisations today are facing a lot of pressure from ‘out there’ toward change and thus, toward learning.

7 From exploring and entering new markets: When an organisation starts thinking of entering new markets, a number of lessons need to be learned, such as: can we just sell our product there in its current state or do we need adaptation? Can we use the same advertisements or do we need different messages? What are our competitors doing here, and what share of the market do they control? What are our chances of succeeding? The list could go on and on.

8 From trends: Things change. Perceptions change. Procedures change. Rules change. Today’s organisations function differently from those in the 80s, and even more differently from those in the 50s.

What are some factors that disable people from learning?

1 Fear of failure: Unfortunately, many of us have learned to perceive failure as a shortcoming, and an occurrence that may alienate us from our peers. So the idea that we may fail could discourage us from trying new things.

2 Overconfidence and arrogance: This may initially sound as the opposite of point 1, but it’s not. It pertains to the false notion of some people that
they cannot be taught anything new, because they are so knowledgeable. These people forego valuable chances to enrich their insights by shutting themselves off from learning.

3 Resistance to and fear of change: One of the most common reasons why particularly mature workers refrain from learning in workplaces: they are ‘set’ in their ways and resist moving out of their comfort zone.

4 Prejudices and stereotyping: Although seemingly outdated, this disabling factor still occurs in our society today. Some people, out of sheer prejudice, maintain a stern reluctance to see differences among others, and learn from them. They stereotype members of other groups in a negative way, and fail to consider that there are differences in each ethnic, age, sexual, or ability group.

5 No positive affirmation: When people don’t receive encouragement from their environment, or worse: when they receive only negative feedback, they get discouraged and may cease future learning.

6 Unawareness of the big picture: Workers, who are denied crucial information about their organisation’s ultimate goals, don’t have the chance to realise the purpose of their work. This lack of vision results in inadvertent ignorance.

7 No social interaction: From your own experience you may recall that most learning (just like most business deals) happens informally. It is during the social gatherings and in-between the official sessions that imperative sharing happens.

8 Too much distraction from focus: Whether deliberately instigated or brought about by external factors, distraction from your focus may lead to discouragement and termination of further learning.

9 Lack of motivation: When someone doesn’t see the link between the learning process and his or her future, the driving motive and commitment to learn is missing.

10 Environmental factors: Although we increasingly learn that we should consider our fate as mainly being in our own hands, it remains a fact that some people have fewer opportunities than others, for either economical, social, or geographic reasons.

What are some factors that disable organisations from learning?

1 Set strategies: When organisations refuse to examine their strategies on a regular basis, they tend to blame setbacks on everything else. They refuse to ask themselves conscious questions and consequently fail to evolve.

2 Negative organisational culture/inflexibility: When an organisation maintains a culture that is either too rigid; too hierarchical, or too political, the chance of learning decreases.

3 No challenge toward exploring: Especially in the US – since this is such a vast market – organisations are satisfied with their current market and thus their status quo. This inhibits their urge toward exploring other markets, and therefore toward learning.

4 Groupthink: Unfortunately, there are still too many organisations with a homogeneous board at the top. This board, which has been together for many years, may have developed ‘groupthink’, the single-perspective syndrome that declines new processes and strategies, and keeps the organisation stationary.

5 No appropriate recognition of the go-getters in the organisation: Proactive workers get discouraged when they find that their efforts are not appreciated or recognised. They may subsequently fall in a pattern of apathy, or exit.

6 No communication (and follow up) with stakeholders: When organisa tions fail to listen to (and follow up on) the calls of important stakeholders such as employees, customers, suppliers, and community members, they restrain their own progression.

7 No benchmarking: Even organisations that consider themselves leaders in their industry should continue reviewing the actions of current and potential competitors.
**Five Steps**

Here are, as a concluding recommendation, 5 steps to improve personal and organisational learning:

1. Regularly assess and evaluate the status quo. Ask questions such as:
   a. Am I (are we) still satisfied with the direction in which I am (we are) heading?
   b. Am I (are we) still on top of developments with my (our) knowledge?
   c. In what areas do I (we) need upgrading?

2. Formulate the need that you may have identified in step 1. Try to be as clear and precise as possible.

3. Look for ways to fill the gap. The ultimate choice will be determined by your available financial sources, time, and determination.

4. If applicable, bring these sources to the attention of colleagues and supervisors as well. They may also be helpful to others, or you may need approval first.

5. Engage in the learning process and, while doing so, keep considering the link between what you learn, what you want to achieve with the learning, and how you will apply it.

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**About the Author**


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**Figure 2b: Barriers to learning in organisations**

**Figure 3: The five steps to improve personal and organisational learning**

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“An organisation’s capacity to execute its strategy depends on its ‘hard’ infrastructure – its organisation structure and systems – and on its ‘soft’ infrastructure – its culture and norms.”
Is your organisation one which invests a considerable amount of time and effort (and, therefore, cost) in looking to the future and creating a strategy and strategic plan? I hope so! However, what happens if the plan is not successful and the objectives not achieved? Is the blame put on to the market, the competition, the planners, the staff, or even the plan? The problem may be something more fundamental – the culture is not right for the strategic direction!

There are a number of variations about what is a strategy and what is involved in identifying and creating a strategy. The definition below is one which covers most of the key elements.

“An effective strategy is an integrated array of distinctive choices about which markets a company serves, what unique value proposition it offers to the customers, and how it arranges its functions to deliver that value.” Professor Jan Rivkin

In creating a strategic intent, Michael Porter suggests asking three questions:

- What is the business doing?
- What is happening in the environment?
- What should the business be doing?

For many years, when working with organisations in various sectors on creating their strategic plan we found that people approached the process with good intentions and wanted to be thorough and professional. The tools and techniques are generally well-known and are applied with varying degrees of effectiveness. Many managers know about the 7S’s, SWOT and PEST and suchlike. (How well they use them is another matter!) The better organisations have customer feedback data and may carry out some market research. Their analysis of the external environment is based on good information plus knowledge and experience. However, when they come to analysing the internal environment, they may not have such a clear understanding even presupposing they carry out the strengths and weaknesses thoroughly.

Combine running the day to day business with looking to the future and leading the people and the organisation and today’s executives and managers have plenty to deal with. Is it any wonder that they do not consider the culture of the organisation? Anyway, surely the culture is what it is, we cannot do anything about it can we? Not strictly true.

Corporate culture happens – the only doubt is if it is the culture you want to have (or be part of). What is the culture of an organisation – or the corporate culture? The simple statement saying, “the way we do things round here” is a good start point. A more wordy definition is ‘the moral, social, behavioural norms of an organisation based on the beliefs, attitudes and priorities of its members.’ This does provide for a better understanding of where cultures start to emerge. Corporate cultures evolve from a number of factors:

- The top management and how they behave and operate;
- The history and traditions within the organisation;
- Strong groups within the organisation;
- The policies and practices – including rewards, recognition and promotion.

Corporate culture happens – the only doubt is if it is the culture you want to have

Whether the present culture has been created by accident or design, it is what you have and is the platform from which the business will continue to operate. Before you can set out on the new strategic plan you need to know whether the culture and strategy are aligned. If they are, you have a chance of success. If not, ……..?

A close fit between the culture and the strategy will increase your chances of success. Where the culture encourages the right behaviours and actions to support the strategy, the people will have clear guidelines and KPI’s about what is good performance. If the culture has clear values, beliefs and behaviours which link to the vision, objectives and strategy – people will feel (and be) aligned and deliver more.

Where your culture does not fit with the strategy implementation, and required behaviours, you send mixed signals. People are in conflict. Should they be loyal to the culture and company traditions and resist actions and behaviours promoting better strategy execution? Or should they support the strategy by engaging in behaviours that run counter to the culture?
A close fit between the culture and the strategy will increase your chances of success

When a company’s culture is not right with what is needed for strategic success, the culture has to be changed as rapidly as can be managed!

How can you decide what your culture is – and if it will fit the strategic plan?
There are a number of ways of looking at corporate culture. There are some which assess the styles of the top leaders and can define the culture based on their behaviours. There are tools such as the Hofstead cultural orientation model, which look at various paired factors each on a continuum. The Johnson and Scholes cultural web offers a more anecdotal and subjective view using six inter-related elements. The one we have used with a number of organisations is the Denison organisational cultural model. This tool has been around for over 16 years and benchmarked across over 1,600 organisations. It provides a more objective view of organisations in four areas, see below.

The Denison Organisational Culture Survey has 60 items that measure specific aspects of an organisation’s culture in each of these four traits and twelve management practices identified in Dr. Dan Denison’s research. Individual surveys are collectively tabulated into a graphic profile that compares your organisation’s culture to that of higher and lower-performing organisations. The results are presented in a typical circumplex with reports being produced in bar charts.

One of the main strengths of this tool as that it provides a snapshot of the organisation’s strength and weaknesses. For example, when we used it with an organisation which was the result of a merger of two companies we could see that there were low scores in the ‘involvement’ area which told us that staff morale was low and they needed attention quickly if the good people were not going to leave! Also, the ‘consistency’ result was low – which meant that the systems were likely to lead to customer and service problems which was one area they wanted to compete on!

This had the potential to sabotage their strategy! We created ‘action teams’ to look at the detailed reports on each trait to address the major issues highlighted in these areas. Within six months they could see (and measure) significant improvements in these. Another client had a new strategy which involved re-positioning their business and becoming a lot more proactive in their market and towards their existing clients. The Denison results showed that they were low on the ‘adaptability’ trait – and this is currently being addressed.

Another plus which Denison offers is that you can judge your culture against high performing companies and see how well you compare.

There are many examples of organisations recognising the need to do improve their culture, driving this from the top and then seeing the benefits in their bottom-line.

The characteristics of organisations with a strong corporate culture will include most of the following:
• A clearly defined and communicated vision and mission;
• Clearly stated values underpinning behaviours throughout the organisation;
• A clear indication of the behaviours to be followed by EVERYONE in the organisation from the boardroom down;
• The top management work at creating and keeping the desired culture.

To ensure that the corporate culture supports your strategy it might pay dividends to carry out an assessment before you commit too much time and effort to the strategic planning process. Changing the culture is not necessarily easy, or even a quick task – but it can be done.

Your strategy needs solid foundations to build upon, make sure that the culture is strong and that you align the strategic intent and plan with it. You will achieve the business success you want, create an even stronger culture and develop the corporate resilience to succeed even more.

Judge your culture against high performing companies and see how well you compare.

Graham Yemm is a director of Solutions 4 Training Ltd. He has over 20 years of experience working with organisations in the UK and internationally helping them to assess their culture, align their strategy and develop their leadership. More information can be found at www.solutions4training.com and contacted at +44 (0)1483 480656.


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The early methods pioneers judged that there was “one best method” for carrying out a task and in particular it was F.B. Gilbreth who held and practised this belief. Today the UK MTM Association still practises the concept that there is one best method in the use of resources and from that is derived the most economical time for the job in hand. This takes account of all resources, human, material, machines and workplace layout. Our name has a specific meaning, in that the concentration upon the best working method and its derivation by a recognised MTM system will provide the best solution in terms of time and therefore cost. Where work is performed that contains a manual input, there will be an MTM system suitable for your needs whether the work is short-cycle and highly repetitive, or is based around small-batch manufacture.

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Productivity: What’s Going On in Europe

By John Lucey, IMS, Delegate to the EFPS

Productivity: value creation and measurement
Productivity is an expression of how efficiently and effective goods and services (i.e., goods and services which are demanded by users) are being produced. Thus, its key characteristics are that it is expressed in physical or economic units – in quantities or values (money) – based on measurements which are made at different levels: on the level of the economy overall, that of a sector or branch of the economy, that of the enterprise and its individual plants/units and that of individuals.

The relation between productivity and value creation
If productivity is to play a role for organisations, it has to be linked to other organisational objectives. In general, organisational success is dominated by three core factors (Van Ark, 2004):

1. The activities the organisation performs (‘what is done’)
2. The purchase and sales prices of goods and services (‘the price for which it is done’)
3. The productivity with which the inputs are transformed to outputs (‘how it is done’)

These effects (the activity effect, the price effect and the productivity effect) have a direct impact on the general organisational objective, the creation of value or the creation of added value by the factors of production: capital and labour (figure 1). Productivity improvements can be obtained through an improvement in operational efficiency (the recipes of production/production management) and technological progress or the introduction of a breakthrough innovation. The price effect is related to a fall in the costs of the inputs used and/or a rise of sales prices. Finally, the activity effect consists of three underlying factors: a change in the output mix can lead to a rise of value creation by marketing new products or services, whereas the input mix concerns a change in the input structure. Scale is related to economies of scale which create added value.

The effects, however, can neutralise one another, particularly in the service sector. For example, standardisation can raise productivity substantially; however, the negative consequences on the quality of the service, the comfort, or the custom-made character of the service may cause the customers to abandon the service. It is extremely important to balance the activities, the price and productivity as sources of value creation. The choice of engaging in certain activities determines the markets in which the organisation will be active, while prices determine the revenue. In order to raise productivity it is essential to manage the organisational processes such that the input mix is optimal, which guarantees the market share to be maintained or even raised in times of economic crisis and continuously adds value to the enterprise.

Productivity measurement
Companies use performance indicators to measure the productivity. The following table gives an overview of the most frequently used performance indicators.

<table>
<thead>
<tr>
<th>Output measures</th>
<th>Input measures</th>
<th>Physical volume (V)</th>
<th>Revenue (R)</th>
<th>Profit (Z)</th>
<th>Added value (A)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total investment (I)</td>
<td>V/I</td>
<td>R/I</td>
<td>Z/I</td>
<td>A/I</td>
<td></td>
</tr>
<tr>
<td>Fixed investment (If)</td>
<td>V/If</td>
<td>R/If</td>
<td>Z/If</td>
<td>A/If</td>
<td></td>
</tr>
<tr>
<td>Number of employees (N)</td>
<td>V/N</td>
<td>R/N</td>
<td>Z/N</td>
<td>A/N</td>
<td></td>
</tr>
<tr>
<td>Total of hours worked (H)</td>
<td>V/H</td>
<td>R/H</td>
<td>Z/H</td>
<td>A/H</td>
<td></td>
</tr>
<tr>
<td>Wages of employees (W)</td>
<td>V/W</td>
<td>R/W</td>
<td></td>
<td>A/W</td>
<td></td>
</tr>
<tr>
<td>Costs of material (M)</td>
<td>V/M</td>
<td>R/M</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total Costs (C)</td>
<td>V/C</td>
<td>R/C</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Table 1: productivity measurement
Source: S. Eilon (1985), A Framework for Profitability and Productivity Measures

The performance indicators in the first column of the table are based on physical output or quantities, such as tons or volume. They are particularly used in industrial companies. The second and third columns refer to financial indicators, which focus on profit and loss. The R/I and Z/I ratios represent capital revenues. These indicators are mainly used in financial reports. The last column refers to performance indicators based on added value. Added value is defined as revenues minus operational costs (materials, energy, and purchased services). It represents the added value that the company creates through employing labour and capital.
In order to be able to monitor productivity development it is recommended that productivity indicators be quantified. However, measuring productivity in the service sector is difficult and uncertain. For instance the productivity of a bank or a consultancy firm is hard to determine: the differences in the quality of the various services offered and the customisation of the service often lead to rough measures of productivity. The discrepancies in productivity figures which are presented in various on-line research databases are tantamount to this measurement problem. Nevertheless, the following link offers some of the most accepted databases on productivity, www.eco.rug.nl/GGDC/dseries/dataseries.shtml.

On the national level, productivity is usually measured in terms of the volume of labour used in relation to the output produced (GDP, Gross Domestic Product). For within enterprises, ‘labour’ (meaning human beings at work) tends to be either the single most important factor of production or that which is easiest to measure (in terms of persons employed or hours worked). Within the enterprise, technological and organisational changes serve to improve the effectiveness and the efficiency of the factor labour, without the outcome necessarily having been produced by labour working harder or longer.

‘Labour productivity’ is usually a proxy for ‘overall productivity’ or ‘total factor productivity’. Total factor productivity is a weighted expression of how well all the factors contributing to productivity development (labour, capital, resources, etc) are marshalled, enhanced and managed to produce the output demanded. Labour productivity does not, as such, measure the specific contributions of labour as a single factor of production. Rather, it reflects the joint efforts of many influences, including new technology, capital investment, capacity utilisation, organisational design, energy use, and managerial skills, as well as the skills and efforts of the workforce.

**Economic growth**

Productivity has been – and remains – the main component of economic growth: it is the ‘residual’ element that still has not been explained once all the increases in the amounts of the factors of production are accounted for. It is enhanced by substituting capital for labour, or ‘taking the labour out of work’. This has been continuously taking place since the beginning of the Industrial Revolution: labour intensive processes of producing materials, transportation, information and leisure, for instance, have all been substituted by capital-intensive processes using new machinery and devices. These drastically reduce the number of workers needed in the production processes, but through the additional wealth generated new demands for goods and services are opened up, thereby increasing employment elsewhere. At the same time, the continuous drive to make better use of labour – both as ‘brawn-power’ and ‘brain-power’ – generates new employment opportunities, at least for the qualified and healthy members of the workforce who are able to cope with change.

The factors of production are not limited to the traditional ‘labour’ (or ‘human resources’), capital (both money and ‘plant and machinery’) and raw materials, but increasingly cover time, space and all resources of the environment. Hence there is the emergence of new concepts such as ‘green productivity’, trying to ensure that the benefits of productivity development for the present generation will not be detrimental for the generations to come.

On the macro-economic level, productivity on the one hand influences the use of economic resources in order to achieve better results and, on the other, is also the result of the performance process.

Similar to its association with profitability, productivity is a significant component of competitiveness, the level of which is also determined by the prevailing national level of prices and costs. However, unlike productivity, these costs and prices are to all intents and purposes outside the influence of the individual enterprise.

The contribution of productivity to profits productivity accounting systems, rest on isolating the quantity and price components of monetary value changes for both revenues and costs. South Africa’s NPI has extended traditional ratio analysis by isolating the productivity and price changes that drive profit change and measuring total productivity in both percentage and financial terms. The basic concept is explained below:

**Sources of Profit Change**

- **Change in Sales Volumes**
- **Change in Profitability**
- **Change in Prices**
- **Change in Purchases Quantity**
- **Change in Purchase Costs**
- **Change in Purchased Prices**
- **Change in Revenue**
- **Change in Profit**
- **Change in Price Recovery**
- **Change in Selling Prices**

The centre column represents the conventional financial accounting definition.
Productivity has been – and remains – the main component of economic growth. Of profits as the difference between revenues and costs. To increase profits, revenue must increase faster than costs.

However, corporate revenues and costs comprise various controllable and uncontrollable factors. Merely to monitor revenue and cost changes does not provide knowledge about the interaction of these various factors, interactions that are ultimately translated into the bottom line. Nevertheless, basic accounting information can be used to gain insight into precisely what is driving profits.

Revenue can change only as the result of changes in sales quantities or of changes in selling prices as depicted by the top row. Similarly, costs and expenses will only change when either the volume of resources used or their purchase prices changes, as shown by the bottom row.

The left-hand column then identifies productivity as the ratio between product quantity (output) and resource quantity (input). A productivity level exists for each resource contributing to the business (thus, labour productivity is only one of many components of total productivity). It is now possible to show directly the effect of productivity change on corporate profits. Furthermore, it is clear that if all other factors are held constant, productivity becomes the only source of profit growth.

Productivity does not depend on monetary fluctuations which can lead to windfall gains (and losses) by intermediaries and speculators in future developments; rather, it requires perseverance, being a continuous process of doing things better today than yesterday and tomorrow better than today. And the inevitable driver behind this process is ‘competition’ in its many forms.

The EANPC and its members strive to pursue a ‘holistic concept’ of productivity. The input side covers not only the volume of labour but the quality and quantity of all resources – including the natural, infrastructural and organisational – which enterprises use to achieve their results. In this way a whole range of options are opened up for the efficient design of performance processes. On the output side of the production process it has to be mentioned that nowadays outputs not only include products and services, but also the social and ecological impacts of the production process. The approach of the EANPC and its members covers the whole gamut of measures for fostering productivity focusing on the ‘human factor’. This human factor consists of two notions of capital: on the one hand human capital constituted by the individual skills competencies and attitudes of the employees and on the other social capital, the mutual trust and confidence, the collaboration and cooperation, the spirit of partnership among the labour and management of enterprises.

Thus, human factor can be a valuable element in enterprise competitiveness only when it consists of two equally important aspects: high quality human resources and good organisation of people’s work. Improving the productivity of the enterprise and its supply chain results from how this social capital (organisation of work) enables the enterprise to make effective use of its human capital to make the most of its economic capital. This social capital facilitates innovation and change for productivity and competitiveness. There are various examples of enterprises that have managed to optimise the human factor. Measures of particular importance to foster productivity focusing on the human factor include giving more responsibility to employees at the workplace, providing work that sustains health, designing workplaces which require skills and organisations that thrive on individual and collective learning, critically monitoring and using new understanding and knowledge, facilitating cooperation and collaboration between management and labour, etc.

In other words, it means taking the ‘high road’ to enhanced performance – improving the quality of the factors of production and the ways in which they are used, having the medium and long term development of the enterprise in mind – rather than the ‘low road’ of unthinkingly economising on the use of the factors of production for the benefit of short-term profit, which is, unfortunately, prevalent in today’s world.

A broad approach is also taken for recording the results of performance. It is not just figures for turnover, profits and yields which are important, but also the societal benefit of the results from the performance processes, including the benefits for employment, improving working conditions and sustainable development within a shrinking world.

John Lucey will continue his series of articles on European productivity, with part III being published in the Autumn edition of Management Services Journal.

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Sustaining productivity and competitiveness increases through business improvement techniques training.

To enable the UK manufacturing industry to compete globally, its capability and capacity needs to expand through ‘smarter’ working. Additional evidence gathered in the research phase of SEMTA’s Sector Skills Agreement (SSA) endorsed the need to increase productivity and competitiveness, making it one of the priorities identified in the SSA. Business-Improvement Techniques (B-IT) qualifications based on lean manufacturing and related principles were seen as an important tool in meeting this need.

SEMTA had previously worked with the Society of Motor Manufacturers and Traders (SMMT) Industry Forum and West Midlands LSC to develop a productivity and competitiveness (PAC) framework for use in the automotive sector. The framework linked employee training to process and operational changes in increasing productivity and bringing about sustainable bottom-line benefits through the development of a continuous improvement culture. To test the effectiveness of the model on smaller companies within its wider sector, SEMTA ran a pilot with 14 SMEs from a variety of sub-sectors in the West Midlands.

Trained PAC analysts visited each company to gather data and assess its performance on seven standard measures covering quality, cost and delivery, acknowledged as indicators of competitiveness. From the information collected, they analysed organisational and process needs and individual training needs, enabling plans to be drawn up. The plans identified the focus for intervention from SMMT Industry Forum engineers and indicated where employees needed B-IT VRQ/NVQ training. After process improvement engineers had worked with company management to implement organisational changes and colleges.
had delivered skills-based training, PAC analysts revisited the companies to re-assess performance against the key measures.

**Business benefits**
Companies completing the pilot programme realised profit increases averaging £93,752 per company initially, with potential further increases identified. Across the 14 companies a total increase in profitability of over £1.3 million is anticipated. Bottom-line benefits have been achieved through:

- Reduced direct labour costs;
- Reduced machine down time;
- Reduced scrap levels;
- Reduced reject levels;
- Increased flexibility;
- Increased production capacity;
- Ability to meet previously unmet market demand.

**Additional benefits include:**
- Better management information on products and processes;
- Increased workforce understanding, knowledge and skills through B-IT VRQ/NVQ training;
- Continuous improvement culture.

The pilot proved the success of the PAC framework as a high value-added mechanism. It demonstrated how workforce training is key to the sustainability of improvements that will boost productivity and competitiveness.

**Delivery partners**
- FE colleges: Dudley College of Technology;
- Sutton Coldfield College;
- Telford College of Arts and Technology;
- Warwickshire College;
- SMMT Industry Forum.

**Funding partners**
- DfES;
- LSC.

**Benefits realised by participating companies:**
- 100% increase in people productivity;
- 89% improvement in equipment usage;
- 73% reduction in product assembly time;
- 2.6% increase in production capacity for single product;
- ‘not right first time’ cut to almost 0.

**Future**
The success of the West Midlands PAC initiative has proved the case for rolling out the approach in other regions and established a process for doing so. If this were to happen it could have a major impact on the manufacturing sector in terms of improving productivity, enhancing supply chains, up-skilling the workforce and safeguarding employment.

Based on gains achieved in the pilot, engaging with 50 engineering companies per region could yield around £4.7 million increased profitability per region year on year, with the delivery of more than 250 B-IT NVQ Level 2 trained employees. Across the nine English regions this equates to sustainable profitability gains of around £42 million and 2,400 B-IT NVQ Level 2 trained employees. The PAC approach to B-IT training is seen as a key strategy in delivering the national Train to Gain initiative within the sector.

Initial assessment and selection methods for PAC analysts which the SMMT Industry Forum has developed, along with the standard course to train them for their role, provide a model for increasing the pool of people able to act in this capacity. This work lays the foundations for a quality-controlled national register of competent analysts. The National Skills Academy for Manufacturing will act on the outcomes of the pilot and identify how the PAC framework can be offered within a developing regional and national brokerage system.

**Company comment**
“The PAC programme has enabled us to make dramatic improvements in our quality, cost and delivery measures. We’ve reduced scrap and increased our overall equipment effectiveness so we can produce more of the component that accounts for 65% of our business.

We wanted to see how business improvement techniques worked by experience, rather than an academic exercise, and the experiential learning has worked well. Now we have trained people in different areas of the business who have achieved the B-IT Level 2 NVQ so they have the skills and knowledge to facilitate further improvements.

Activities we’ve carried out since completing the programme have led to more percentage points improvement and we keep pushing the bar up. Our intention going into the exercise was to keep the impetus going in the business and that’s what we’re doing.”

Noel O’Donnell
Quality Engineer, Valve Train Components
As a leader at a security software company, I’m often asked: what’s the most common type of hacker and attack? Over time I’ve discovered that the general public holds a somewhat romantic image of hackers. One mental picture involves an emaciated young man in a poverty-stricken corner of the world. Greasy-haired and red-eyed, he types late into the night on an old TRS-80 workstation, trying desperately to get your American Express account number for nefarious purposes.

Another favourite image is of a cherub-faced pre-teen with extreme computer skills and little knowledge of law and order. Thanks to too much hardware and too little parental supervision, she creates a new virus that brings down every business on the Eastern seaboard.

Both images couldn’t be more wrong. According to the FBI, the most common hacker is probably sitting in the cubicle next to you, right now. This is someone who gets to work early, takes his or her turn cleaning out the office fridge, tells funny stories at lunch and, at some point, makes a very dumb move. It often starts when this hacker-next-door sees a file directory or workstation that’s just too juicy to pass by, like one named ‘salary comparison.’ It’s simply too tempting NOT to peek inside.

Curiosity or espionage
In other words, curiosity is one scenario motivating the most common hacker. Another is revenge. These situations take place when a web-savvy employee gets ticked off. Maybe their Christmas raise didn’t make them too merry. Perhaps their boss just handed them a work improvement plan and a reason to cause trouble. This same hacker-next-door spends some time on the network and wonders... what if I could get into the email...

Why do most enterprises leave their privileged passwords, the keys to their kingdom, open and unmanaged?
server files? What if I could open a few financial statements?

Finally, another common reason is industrial espionage. What organisation has time to do professional, in-depth background checks on every temporary IT consultant? Often this part-time help is called upon when times are roughest, and corners are most easily cut. The result is people who get easy access to the most sensitive and impenetrable systems (more on that later).

However, no matter what the reason, internal hacker attacks make up 70% of all security breaches according to the FBI. The next question is... how do these attackers get access to critical systems?

The answer is: all too easily. Once that hacker-next-door decides to break into a target system, their next stop is a search engine. A few key words later, and anyone can discover that the most common – and effective – type of hack into a target system is to become what's called a 'script kiddie.' Script kiddies use default lists of privileged passwords, or the super-user/administrative codes built into every piece of hardware and software. Have you ever noticed the 'administrator' ID next to your name when you login to your workstation? That's a privileged user and password, a backdoor into your system built by the manufacturer. It cannot be disabled or destroyed.

Easy access

Let's turn back to our hacker-next-door who wants into the 'salary comparison' workstation. They don't know who owns this workstation, but they can search to find what the default administrator passwords are for a Dell Latitude D600. According to a recent survey, 20% of all workstations have an administrator ID that's still set to the default password (Cyber-Ark Enterprise Privileged Password Survey 2006, www.cyber-ark.com/survey.asp). If the built-in default doesn't work, the would-be hacker may try some simple passwords like CompanyName123. You'd be stunned how often these basic password scenarios – also available as mini computer programs on the web – are the fastest way into any organisation's data.

Once the hacker enters a target system with a privileged password, the evil-doer now has more access to data than the system's legitimate users. I know of one company, for example, where a disgruntled IT professional changed every password on the network. All software had to be reloaded. The company was basically shut down for days. Meanwhile, the angry ex-employee denied all knowledge of the incident. And who could prosecute him? The deed was done under an anonymous identity, the administrator.

Another recent example of a script kiddie in action took place at the FBI (see Consultant Breached FBI's Computers by Eric Weiss, Washington Post, 7/6/2006). In this case, the hacker-next-door was a paid consultant. The suspect used computer programs easily found on the internet to go snooping into passwords and files throughout the FBI's organisation, including data related to the witness protection program. In no time, the suspect gained access to the passwords of 38,000 employees, including that of FBI Director Robert S Mueller III.

So there you have it: the most common hacker is actually someone working in your organisation today, a non-professional trouble-maker who – when tempted – can easily find his or her way into your organisation's most sensitive data.

Protection

This leads to another question I am commonly asked: why do most enterprises leave their privileged passwords, the keys to their kingdom, open and unmanaged? The reason is simple: manually changing these codes is extremely time-consuming, so these back doors generally stay open. Visit professional hacker sites, and their biggest complaint about script kiddies is not that they exist... but that once these amateurs do something flagrant and dumb with privileged passwords, these wonderful secret passages into a company's data get closed to the professionals.

Of course there are automated ways to securely change privileged passwords, and to tie an individual ID to a shared one – this very software is now being used by many security savvy enterprises around the world. However until these solutions become standard tools in most enterprises, I'd keep a close eye on the folks around you. You never know who is privileged to YOUR information!

For more information from Cyber-Ark Software contact Calum Macleod on 00 31 621 827253 or email calum.macleod@cyber-ark.com or visit www.cyber-ark.com.
With the advent of life membership we are attracting new members. There are still people who are engaged in management services who are not members and we would like them to join the Institute.

We can use our ‘direct entry’ route to fast track this and information is available from Brooke House.

We very much hope that our existing members will make potential members aware of this option.

- Actively promoting the IMS in your place of work
- Encourage colleagues at work as well as professional and social contacts to join the Institute
- Refer potential new members to the Journal as an example of what the IMS is about
- Remind potential members of the benefits of IMS membership, e.g. education system, regional structure, recognised professional qualification
- Up to the minute information via the IMS Journal and website professional support
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Incentive
A Prize Draw at regional level will be established and all current members who recruit new members will be entered. The prize draw will take place later this year.

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