

DEBATE – Session 3

Cornelia Hulla: I was contemplating the question, “could Europe lead the way for more modern and global management?” The question for me was: with globalization and corporate organization, may that be a call for corporate governance? Yesterday, I already drew a little on the benefits of globalization and, quoting Professor Stiglitz, globalization has led to the benefits of many people in the world living longer, has reduced the sense of isolation felt in much of the developing world, and given many people in developing countries access to knowledge well beyond the reach of even the wealthiest in any country. Now especially with the later phase of globalization, there was the emergence and growth of multinational enterprises, which seem to be central to the evolving pattern of the industrial and investment processes of globalization. So there is an overwhelming impact of corporations on economy and societies across the globe, which therefore draws attention to the importance of corporate governance. Nowadays of course, we see the principles of corporate governance. Good corporate governance is when corporations use their capital efficiently. They take into account the interest of a wide range of constituencies, as well as of the communities in which they operate. Boards are accountable. The ultimate goal is to be able to maintain foreign and domestic investors’ trust and to attract more patient long-term capital. Now the question is, how are corporate organizations affected by globalization? Global corporations have to adapt to standardized practices of global governance. For instance, they increasingly strive to be listed on the new London stock exchange. You see this with Ali-baba nowadays, which is interesting. Even the Chinese embark on those stock exchanges. And they need to accept the Anglo-Saxon model of corporate governance, although corporations are not normally international legal institutions but constructs of domestic law. At the same time, global changes that occur at an accelerated rate push different systems of corporate governance and management to converge and become alike. National governments also accept global corporate standards as they seek to attract foreign investments. So there is governance not only from the companies themselves but also from national governments. There is a lot of evidence that, putting financial reporting standards aside, more and more standardization is taking place. Corporate management systems, as well as corporate practices, are established as global standards. For instance, within the last year, some multinationals have implemented compliance systems. They have implemented their codes of conduct globally. They have established risk boards. They have a greater say in performance indicators, like performing voice of the customer, measurements or employee opinion survey analytics. They draw on corporate social responsibility. They have to give evidence and be transparent on those. This is more and more seen across sectors and industries. More global companies have defined, trained and rolled out corporate values and diversity agendas in order to shape their strategy and define their corporate culture for the future. On the other hand, especially management compensation came under both regulatory and academic scrutiny within the last years, so I couldn’t find any kind of clear emerging global pattern in this area so far. Definitely investors want to invest their money in companies whose system of governance they trust. They want assurance that the interest of the shareholders will be of primary importance to the management. This shows that the process of globalization produces positive pattern changes regarding corporate governance when it is placed on the international agenda. Now the EU has its own white paper to this. They are thinking about it, they are supporting our corporate governance and having a more standardized approach. I will not go into any details. That’s in the paper but there are, of course, within the EU, difference because Germany, France or Italy have more coming

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historically from a more concentrated ownership structure. They have more often bank-oriented financing system, relatively illiquid capital market and enterprise-based corporate laws. Whereas the UK and Ireland have more dispersed ownership, liquid capital market, and corporate laws which rely heavily on stock markets to monitor the firm's performance. Other European companies are more in between. Those kinds of roots drive agendas and the kind of international standards you would like to apply. Germany specifically has an effective accountability in the governance of corporations. Long-term survival is more important than short-term profit. There is a sense of responsibility to shareholders and workers. We have discussed this and talked about this many times in various circles. German law provides for a two-tier board and management has to take into account the interest of other stakeholders. There is no duty to maximize the value of shares. At the end of the day, there will never be a perfect system of corporate governance, because corporate governance has to draw from risk management, that is the underlying driving force. But institutional investors, especially after the shock of the market collapse in 2008, increasingly press for responsible and accountable operations. Financial results are not enough anymore. Demonstrating social and environmental responsibility all the way is the prerequisite for making both globalization and corporate activities a socially acceptable phenomenon. Now what is the role of HR? Any HR manager, especially for HR executives, needs to drive HR governance and HR has been and remains the interface between systems and organizations, people and people. It's our responsibility to stimulate and steer developments responsibly. As HR professionals, we have a key insight into the challenges that societies face. We are at the forefront of new developments in behavioural and management sciences, which we will integrate, with lasting impact, into corporate environments. We want to enable our people to benefit personally from what we do. With every personal development realized, our corporations and societies alike will benefit. As HR managers, we proudly represent a dual role as corporate citizens and guardians of human values and capabilities.

Claudia Eder: I just want to wrap up on how to handle virtual teams, and proximity management vs. remote management. I wanted to start with the definition of those two things. The virtual team, or remote team, consists of people who are based in different geographical locations. They are from different cultures and backgrounds, speak different languages and were raised in different countries with different value systems. Having worked in Singapore, I know what this means in dealing with different behaviours. In communication especially, when you have to work with different Asian countries, because Singapore is not Japan or China. You have to handle different topics over communication. Just with telecommunication, and it is not an easy way. It is quite hard to build mutual trust actually. With proximity management, you sit down with your employees and get to know them as people. You know how they feel with different topics, and you can structure time and stand with them in the hallways and talk with them about topics in the general meetings. This is close management, which actually builds trust, and you can have payoff and performance later. With virtual teams, you can reduce costs. You have overlapping functions and sharing the best of practices in between the teams. Baxter is separating and they start with those trends in the national teams and they will have the HR manager in Germany, and their marketing manager in America. They try to build up a good community so you don't have to employ somebody in Germany as well for marketing, and somebody in HR in America. They try to fix that and they said they invested 30 million in HR, telecommunication and information. Another thing is to drive innovation. You can integrate diverse knowledge and skills. Different backgrounds bring a lot of creativity to processes and can drive innovation. You have complex tasks and can address them more effectively. Another

thing that comes along is the increase of productivity. You can focus more on the task. You can use your time efficiently because if you go to the hallway, there is nobody you can talk to. So you can work at your desk and you have a telephone call or a Skype conference. Productivity is surely raised with the 24 hours 7 days a week but working across global times is also a health issue. When Daimler-Chrysler separated in 2007, they were working from Singapore to Germany to America. You started in Singapore at 8:00 am. You had the next meeting with Germany at 3:00 pm. At 11:00 pm, a US person checks in. As a manager there, you really have to focus on your health as well. It's an important issue to keep in mind when talking about virtual teams and globalization. Another thing is the lack of physical interaction between the members. You really need structure and formal processes so that the results are evident, and you can use them in the end. And you always to rely on electronic communication. The most important thing is that you really can't build trust. It's hard to build trust and that means you have to implement formal processes and try to understand the culture and the way people behave and act. What is important for the leaders who have to act with that? You have to communicate effectively. You have to build a community based on mutual trust. You have to respect different cultures and try to be fair as well. You have to especially to establish clear and inspiring shared goals and focus on a vision, on a main goal. You have to lead by example with a focus on visible results. Here, the health issue also comes along. You have to coordinate and collaborate across organizations and countries.

Jean-Christophe Dumont: It seems to me that there are two very different questions. One is about managing diversity, managing the diversity of workplaces, with people working in different part of the world. But there is a very different type of question, which was introduced by the first speaker, about the case for fostering diversity within the workplace. Clearly the two questions are not unrelated because you might argue that, like in the case of SNCF, if you think that the costs of managing diversity are very high, which may reduce your incentive to foster diversity. Regarding workplace diversity, if migration policy makes things very difficult, it may be better to have people in different workplaces in the world rather than bringing people to the same unit. I won't try to argue but I think that there is an interesting link between the two. I really want to focus my question on the second one, that of fostering diversity in the workplace. There are possibly two ways to justify that. One is a philosophical argument and the other is economic. Are we talking about the social role of the enterprise, or are we talking about the business case for diversity? In many cases, there can be a strong economic argument for diversity fostering innovation, improving the image of the company in general and diversity levels were also aiming at that in a way. And also the capacity to increase the pool of potential employees in which you can tap. Should we wait for demographic ageing to play its role? When it becomes clear that there is no choice? Or can we build the case already now that diversity might actually be a good thing for your business.

Wendy Cartwright: Perfectly put. We hadn't dealt with the issue of business rationale. But that kind of hearts and minds, that ethics, of course that's the right thing to do. There is a lot of data out there now that says there are no masses of cost with investing in this area. And it does actually pay dividends.

Rainer Gröbel: One of the major things is that you need trust. It's not easy to build up trust. From a German and union perspective, the German industry is normally highly qualified, with skilled workers. You cannot steer qualified workers only with orders. You must handle them with respect.

From the union side, one of our problems is that unions are normally strong in Germany. Even more, they are decision-makers. At global level, very often there are no unions, no strong unions anyway. For example, I sit in an advisory boards. When I go to France, very often there are no unions there. France is Europe, with its middle-sized companies. We tried to go to the USA, but unions were not able to build up their rights. This is sometimes a problem. We have the ETUC, we have IndustriAll, but there are major differences. In Germany, we discuss, find a compromise and then do it, it's our culture. It is not the same elsewhere in the world, which is why we sometimes have problems. When we want, from the German side, to build up globalized companies, we must also discuss workers' rights. In China, we have not had many problems, nor in the bigger companies. They are new, they build more rights for workers, more than in the southern part of the US, for example. If you need qualified workers, you must have solutions as unions, or works councils in our case, are part of the decision making process.

Carl Azar: I just want to add maybe two comments from a practitioner view, who has been recruiting for 15 years very diverse candidates for very diverse companies. In a lot of those companies are really effective in promoting and making diversity happen, what I have seen is that they have clearly identified and stated the business benefits. It might be understanding markets better, or a better marketing position as a diverse company. Whatever it is, identification of those benefits has been the key criterion for companies to really embrace diversity, not only as a tool to avoid discrimination. Making it happen is even more difficult but of course, recruiting is a key process in increasing diversity. There also is a lot of ignorance. We all have our comfort zone and we need to adjust. But we absolutely need in the recruiting process as a consultant or in-house recruiting people with high social skills, multicultural mindset who have real interest in understanding the value systems of the others. Because even though you want to do real diversity recruitments, you need to make a strong assessment of the candidate. I lived five years in Japan, so I'm very comfortable to do a diagnostic for a Japanese candidate. But for an African or a Chinese applicant, it would be much more difficult. It's very important to have translators or people who combine the tools, not only to get rid of the bias and adjust but also to assess the candidate's drive and motivation.

Catherine Carradot: I would like to raise another point that hasn't yet been raised regarding the issue of diversity in businesses. For instance, I conducted a survey on the army, a structure that considers itself to be in service of the nation as well as its image. This survey was on the army recruiting youngsters of immigrant descent and women. A dominant aspect was the conflict of opportunity between top hierarchy (convinced by diversity) and "lower managers" (more sceptical). I would like to know if this conflict happens in businesses as well.

Loic Hilaire: Absolutely! Top hierarchy defines standards and goals on the subject of diversity but is facing reluctance in the field – hence the importance of educational actions, sometimes combined with disciplinary sanctions against people who still have a discriminatory behaviour.

Bernard Perry: It's really about the unintended consequences of diversity. There are two examples. The first is in Norway where quotas were introduced. We found many companies delisting in order to escape the requirements of the quota system. In the UK, we have a different dynamic. It's about gender and the heavy drive towards diversity on boards as non-executives for female candidates. Karl and I probably share an example where you're demanded or asked by a chairman to produce an only-

women shortlist, which we'll agree to but won't comply with. The best candidate needs to be at the job, not the token candidate. But with a relative shortage of senior female executives, what happens is the head-hunter dives deeper into the organization looking for women with any board experience, whether it's a charity or a local school council. Any type of non-related commercial experience perhaps, and approach them to be on the board. Now the consequence is that they then go to their CEO and say I've just been appointed, or they would like to appoint me on this board. The CEO or the HR director says I'm sorry but it's not within our policy to allow you to have an external appointment. What is the reaction of the female employee? She either says okay I agree with that, or she says, you're blocking my interest, you're blocking my career progression. I get these calls all the time so they leave the company. They take a portfolio. They can't go back. They regret it sometimes. But what happens is, all of the high calibre female talent deeper within the organization have suddenly disappeared. Look at the leadership of large companies in the UK, and you say where are all the CEOs of FTSE 250 companies, they're all non-executives now. They're not executives. This again is something that needs to be addressed. I know that there are a number of well-meaning pressure groups in the UK, but that non-intended consequence of actually draining or raping the organizations for female talents has actually a negative impact longer term.

Philippe Vivien: Of course, this big battle happens but the point is that, from the very beginning, you have to understand that you will have to tackle it. Don't think that if you have good ideas, if you're humanist, things will happen smoothly. I can give you two very specific examples that I had to deal with. I worked for many years in an energy/nuclear company. You can imagine that it's a highly educated, French, white, male company if I can describe it easily. We decided with the CEO at the time that we really wanted to change the culture. There was no other way. The way was the diversity culture. I'm going to give you two examples. First, we integrated and recruited a lot of people, fresh graduates in particular, whom we saved for a few years. One day, we had a big meeting with 200 newly integrated fresh graduates. We are all here and we are very proud to be a part of it. And one guy, in this office, said: okay guys, I'm going to break the momentum. You see, I'm a black man and today I joined my office for the first day. There was a banana on my computer. I was even more shocked because I worked in that particular plant some years ago, and I could not even imagine it would happen. So the point is that really never forget that you will have to tackle this kind of issue one day or another. The second, and I've just confessed it – I even received some blackmail at home – sir, you were supposed to be a good guy, you were supposed to be an executive. What are you doing? It was really interesting because it was somebody that probably had been working in the company for many years, knowing exactly what my track record was, knowing that I'd been working here or there. So my point is, you know you will have to deal with it. But the more you install this diversity culture, the better you are. But don't think it does not exist. It is part of the game, and you have to win this as with all the games you're playing with.

Yves Barou: To give Catherine an answer, I am going to give examples of recruitment programs proposed by Thales Group that have all failed:

- the recruitment program for people who graduated from a business school,
- the recruitment program for chinese students coming from Shanghai universities,
- the recruitment program for youngsters of immigrant descent.

In all three cases, the manager actually wanted the same employee they had 2 years ago, namely a French engineer from an engineering school. One could think that it's 'basic management' that is not open to diversity, but I actually believe that everyone roots for diversity but elsewhere, not in my own team. For my team, I want comfort. In other words, no high potential who could put me in the shade, no troublemakers that are hard to manage, and no diversity. It is true that diversity is hard for managers – it helps the community but makes their job harder.

Loic Hislaire: You also need to know that one bad element in a team pollutes the team's work for years and costs the company a lot. For instance, the SNCF was forced to set up a conciliation committee that deals with cases like these, and there are more and more of them.

Wendy Cartwright: I do think that if we look at the trend, things are getting better. If you look back to the position when legislation started to be introduced, for example on equal pay in the UK, the gap between what men and women earned was 45%. It is 17% now. It's closing but it's not quite there yet, and the fact that we're having this conversation now is very healthy. But I would like to sort of reinforce the points that Jean-Christophe made about the economic benefits of it. Companies are seeing that now but there are no easy fixes, or quick solutions on it. You can't just introduce an initiative and then walk away from it in six months. It's a constant strategy for organizations to do that.