



The Business Environment: Does Management Matter?

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**WE ARE EXTREMELY GRATEFUL FOR THE SUPPORT
RECEIVED FROM OUR FUNDERS**



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WHY CARE ABOUT PRODUCTIVITY AND MANAGEMENT?

- **Despite the importance of productivity our understanding of what causes productivity differences is poor**
 - Even after controlling for human and physical capital, there is a large “unexplained residual” in productivity both between countries and within countries
 - Is the US productivity miracle due to the information & communication technology revolution? But this is common across the world: why have Americans managed to “do I.T. better”?
 - **Our approach:** what is the role of management practices?



AGENDA

Measuring management practice

Evaluating the management measure

Describing management across Firms and countries

Explaining management across Firms and countries

Management practices in the EU.



ASSESSING MANAGEMENT PRACTICE

Scoring management practice

- Created a robust assessment tool to score management of operations, people and performance

Setting the sampling frame

- 4,000 medium sized* manufacturers across U.S., Asia and Europe
 - Medium sized as intra-firm practices more homogeneous
 - Manufacturing as productivity easier to measure

Obtaining unbiased responses

- Conducted 'Double-blind' interviews
 - Managers unaware of the scoring methodology
 - Interviewers unaware of corporate performance
- Executed by 46 MBA-trained interviewers with business experience

Getting firms to participate

- Obtained Central Bank, Ministry and Employer Association endorsements

* Median ~250 employees



TO SCORE COMPANIES, WE USED DESCRIPTIONS OF POOR, AVERAGE AND GOOD PRACTICE FOR EACH DIMENSION

Management practices

Operations management

Performance management

People management

Example dimensions evaluated

Quality of targets

Interconnection of targets

Performance tracking

Time horizon of targets

Consequence management

Dimension scoring criteria

1	<i>Measures tracked do not directly indicate if overall business objectives are being met. Tracking is ad hoc</i>
3	<i>Most key performance indicators are tracked formally. Tracking is overseen by senior management</i>
5	<i>Performance is continuously tracked and communicated, formally and informally, to all staff, using a range of visual management tools</i>

Measuring management practice

Evaluating the management measure

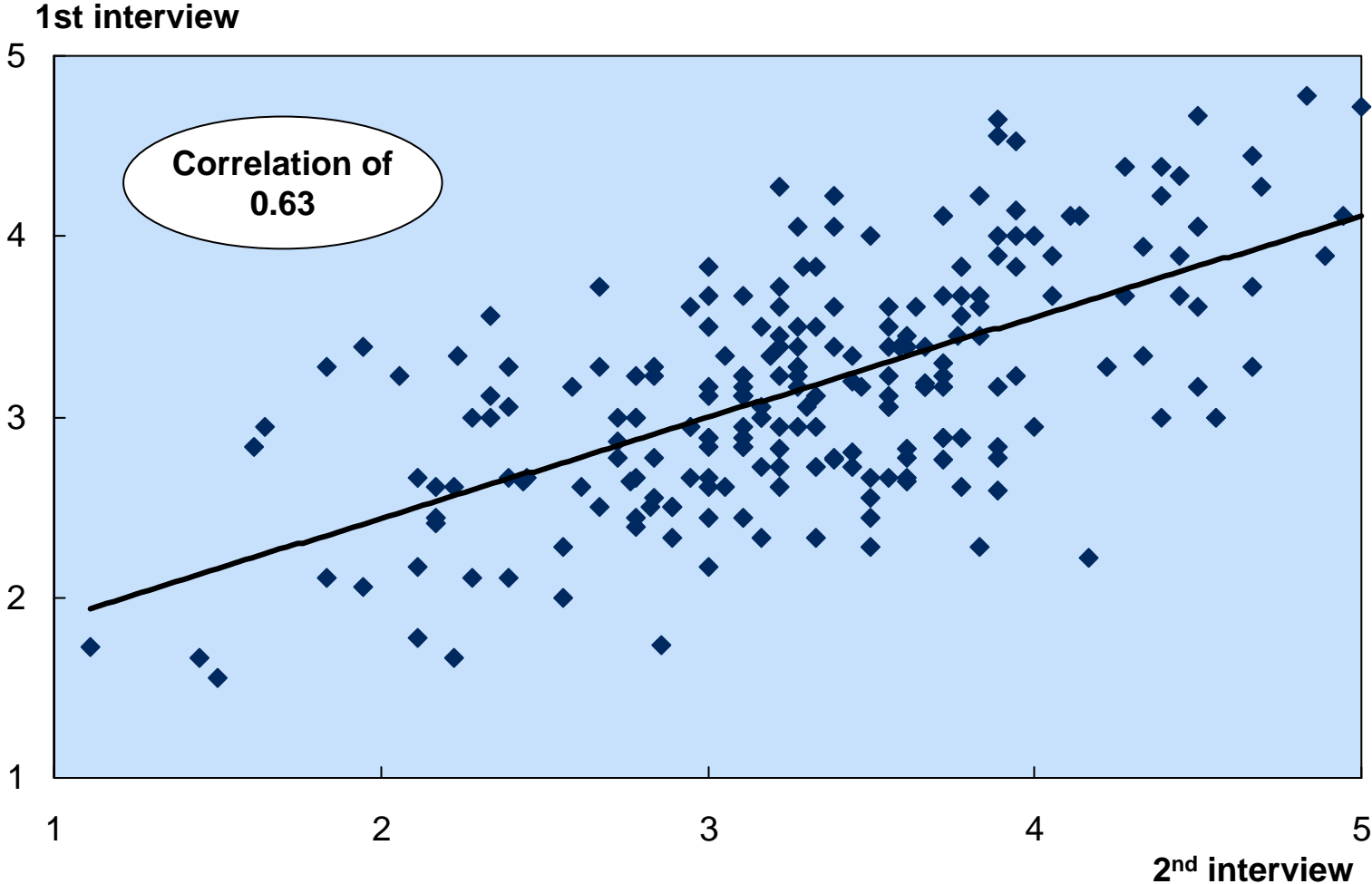
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INTERNAL VALIDATION SUGGESTS THAT OUR ASSESSED MANAGEMENT PRACTICE SCORE IS INFORMATIVE

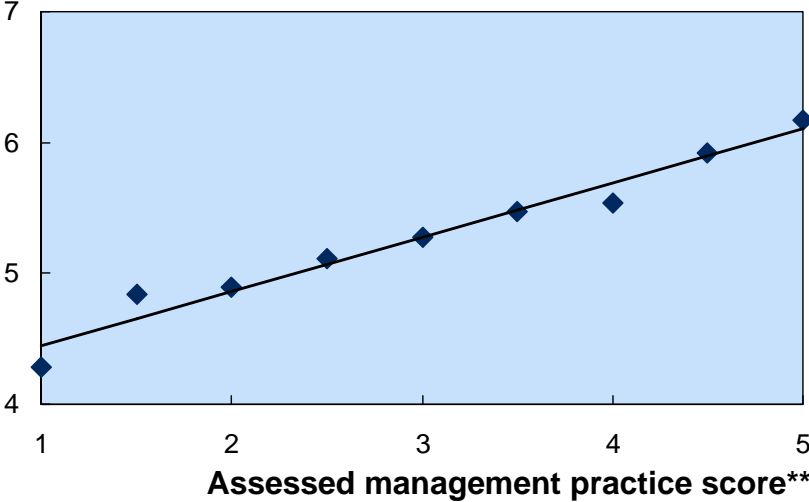
Assessed management practice score*



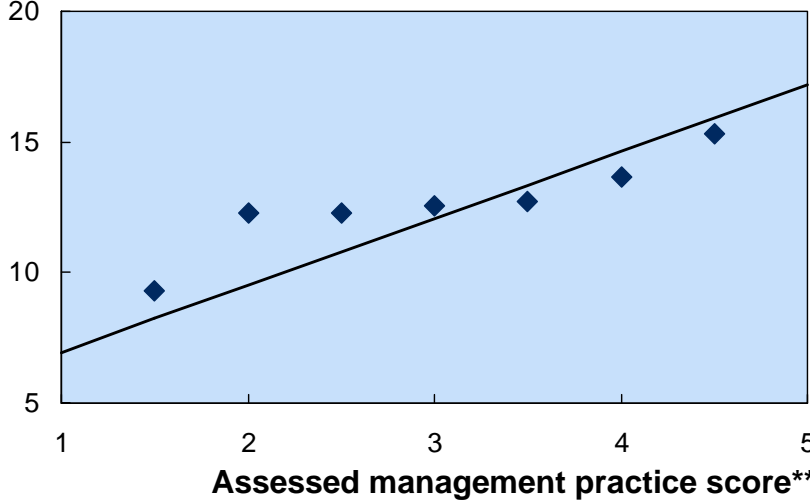
* 222 firms interviewed by 2 different interviews, interviewing 2 different managers

THE ASSESSED MANAGEMENT PRACTICE SCORE CORRELATES WELL WITH A NUMBER OF FINANCIAL PERFORMANCE METRICS

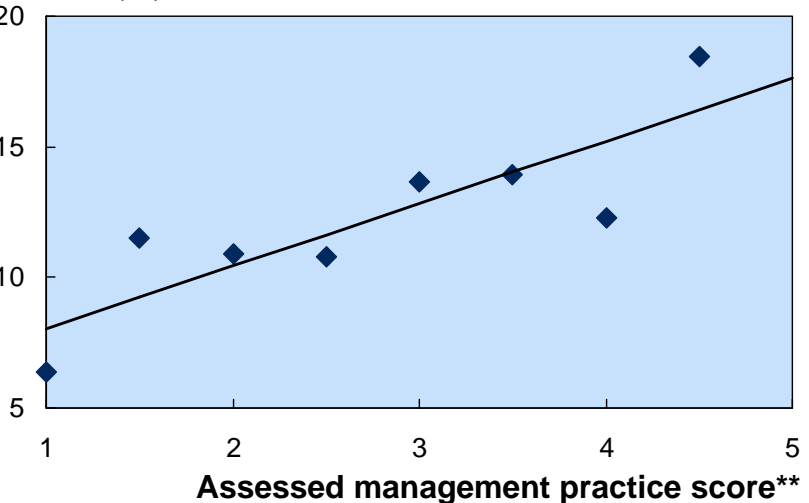
Labour productivity*



Sales growth (%)



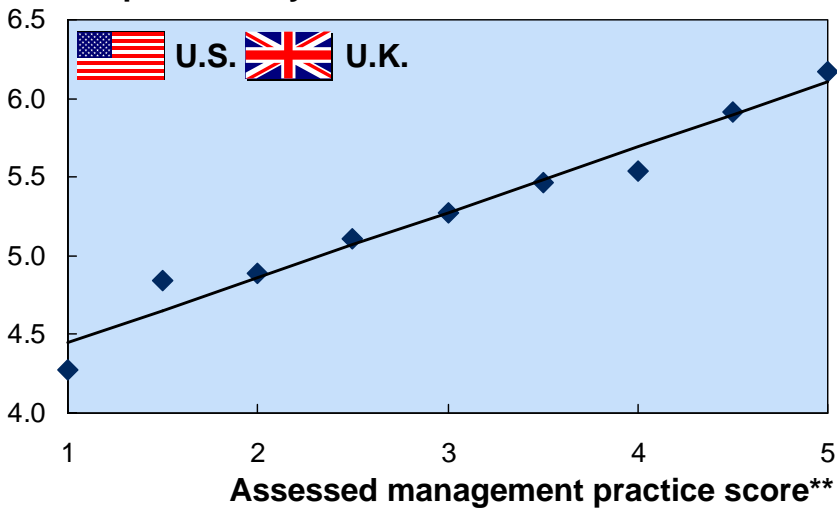
ROCE (%)



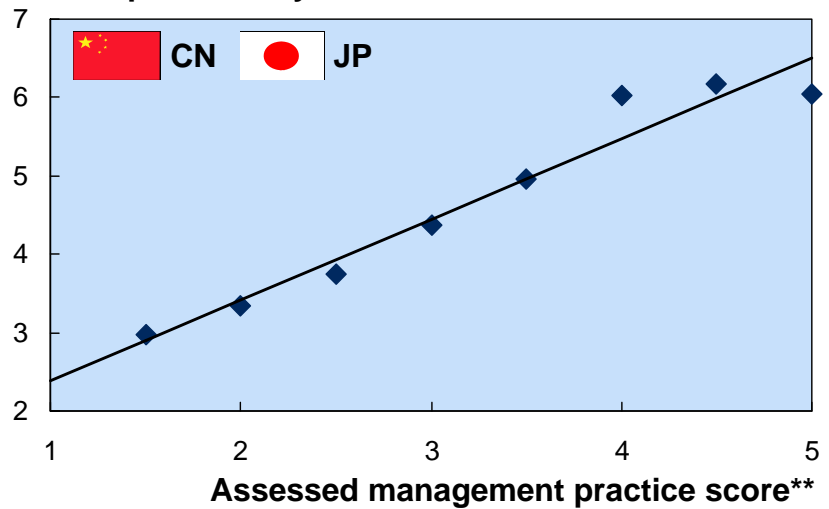
* Log scale
** Firms are grouped in 0.5 increments of assessed management score

THIS LINK HOLDS TRUE ACROSS DIFFERENT COUNTRIES AND CULTURES

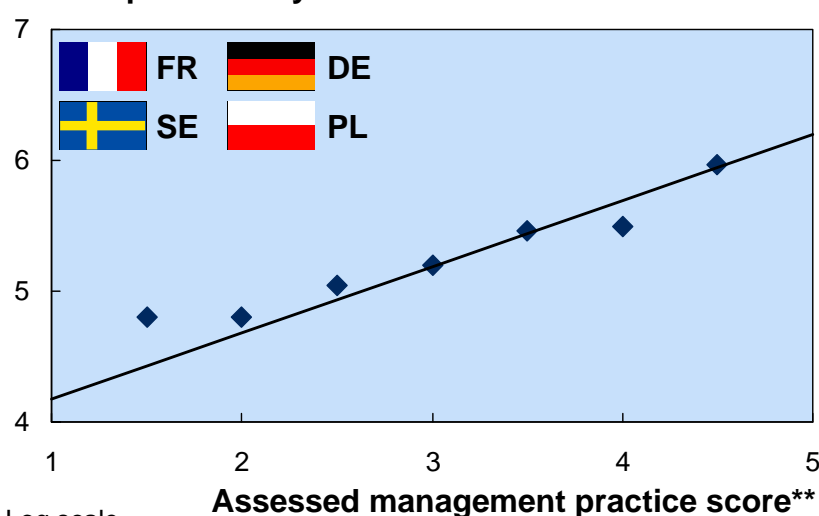
Labour productivity*



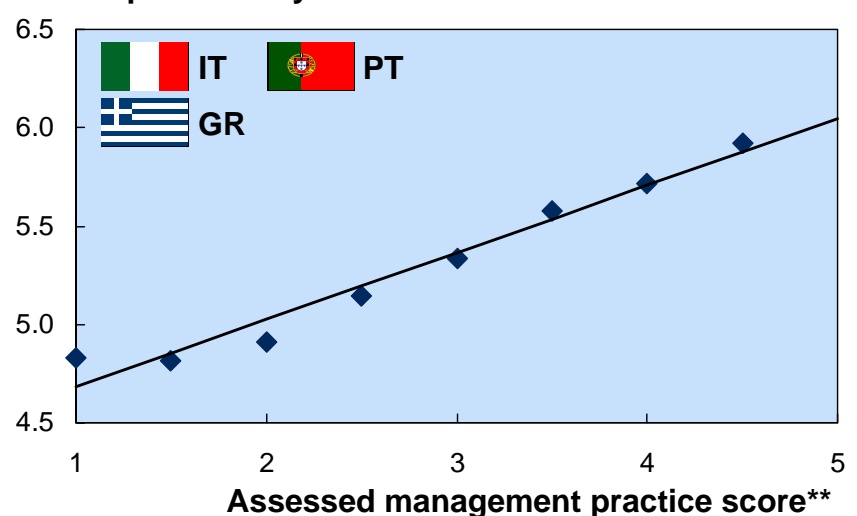
Labour productivity*



Labour productivity*



Labour productivity*



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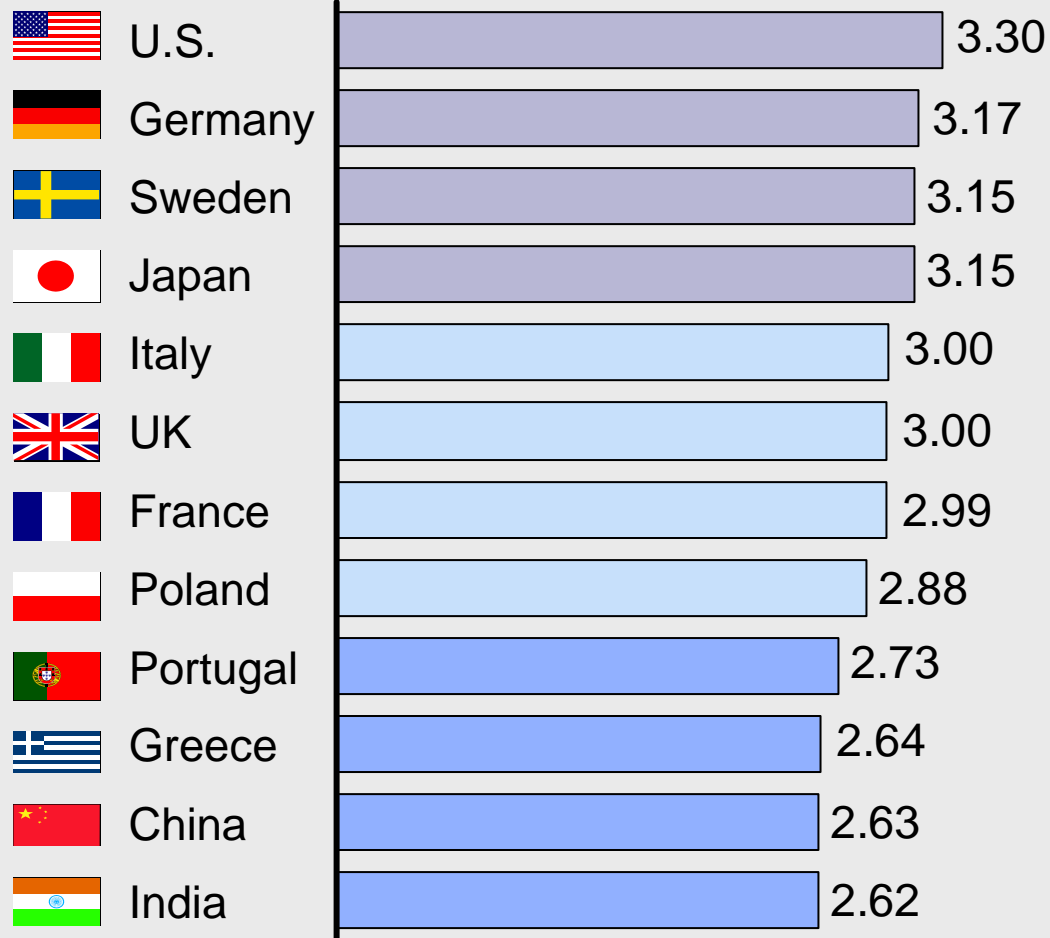
Explaining management across Firms and countries

Management practices in the EU.



THERE IS SUBSTANTIAL INTER-COUNTRY MANAGEMENT PRACTICE VARIABILITY

Assessed Management Practice Score – by country

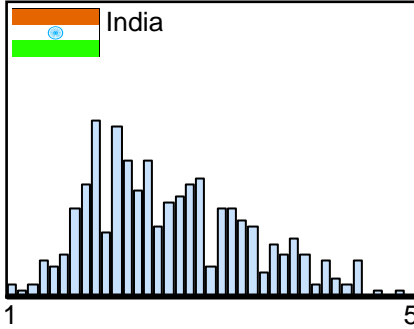
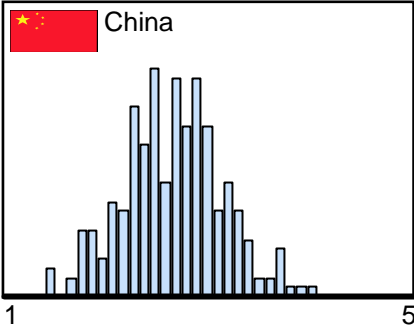
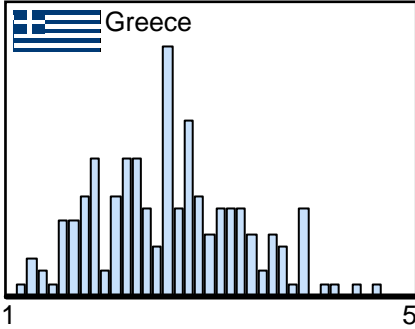
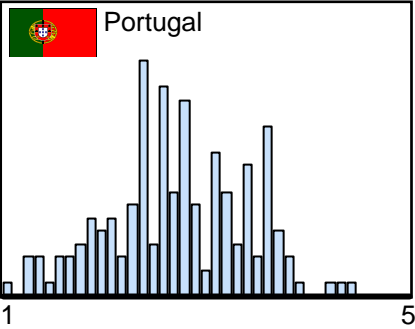
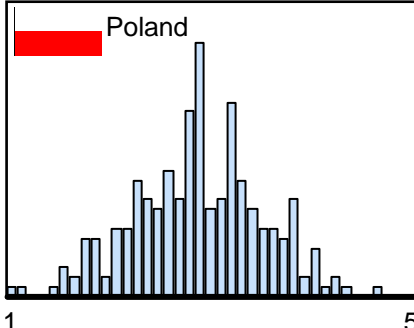
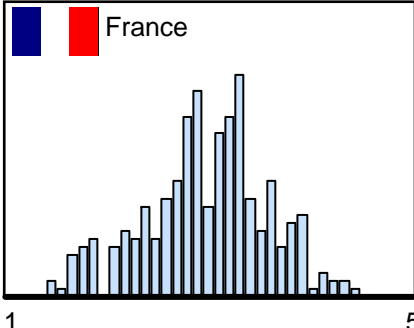
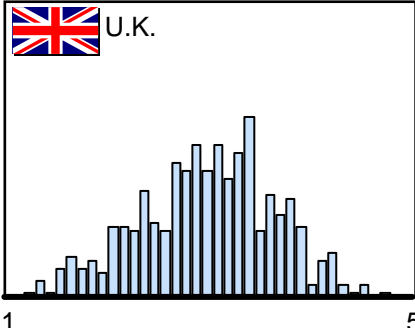
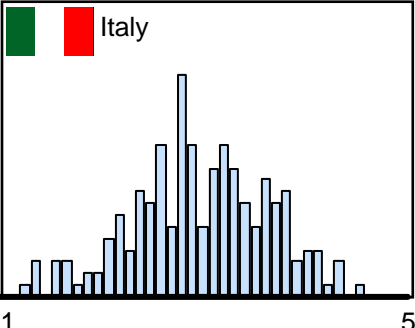
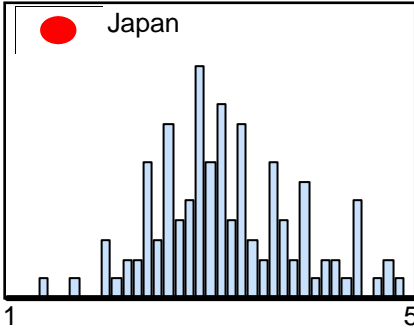
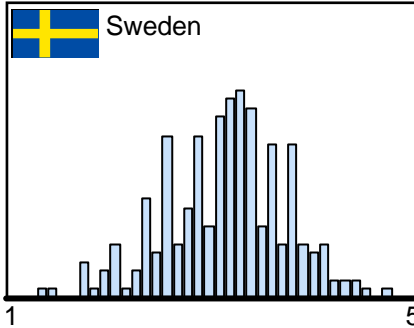
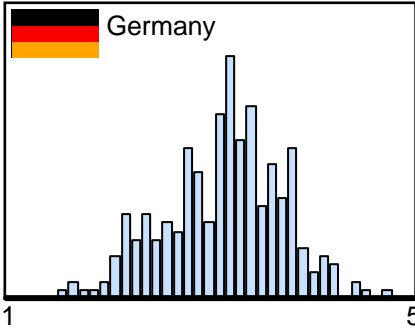
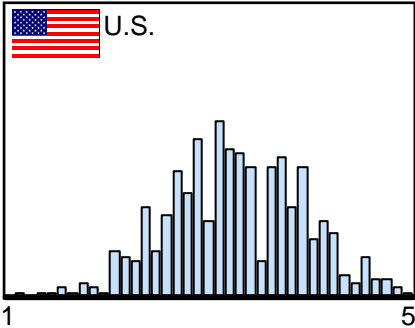


3 distinct groups appear

- U.S., Germany, Sweden and Japan
- Italy, U.K., France, and Poland
- Portugal, Greece, China and India

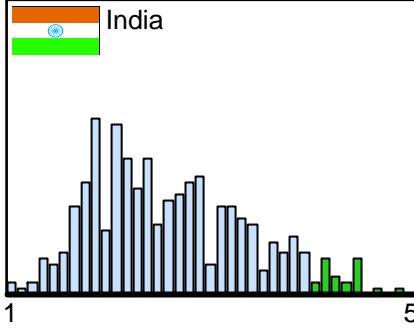
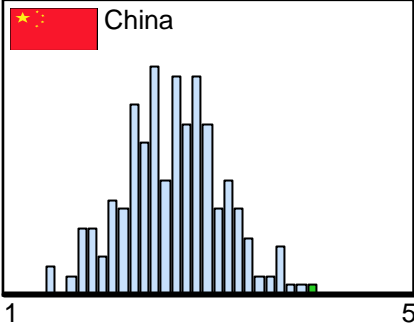
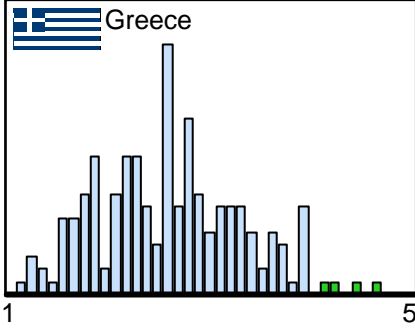
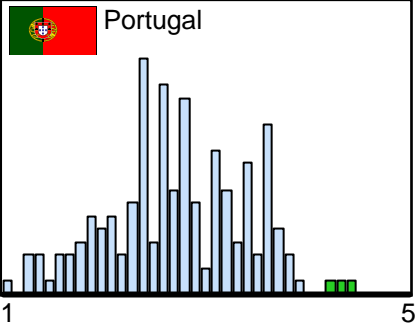
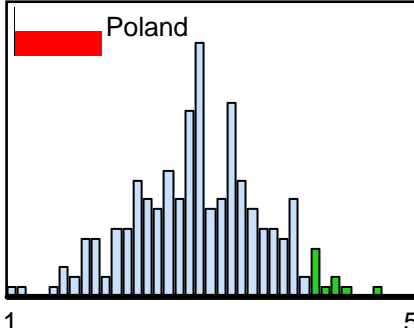
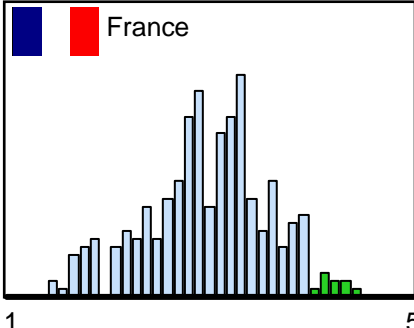
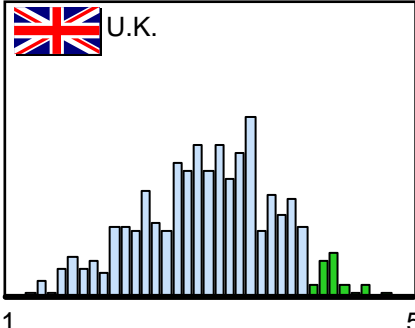
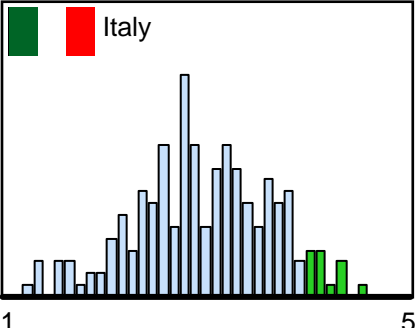
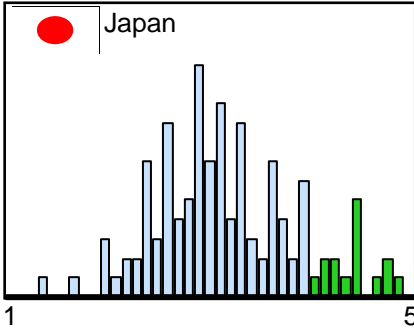
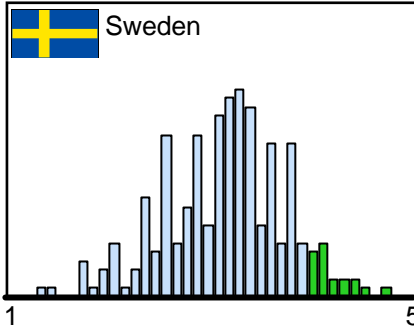
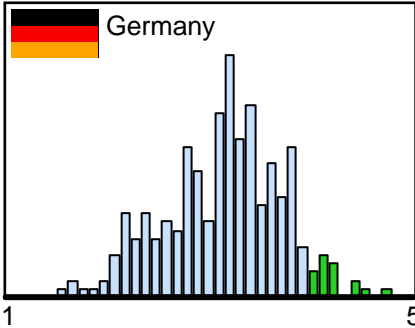
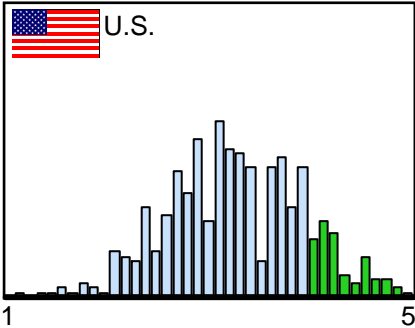
HOWEVER, MANAGEMENT PRACTICES VARY MUCH MORE WITHIN THAN ACROSS COUNTRIES

Distribution of firm level management practice scores – by country



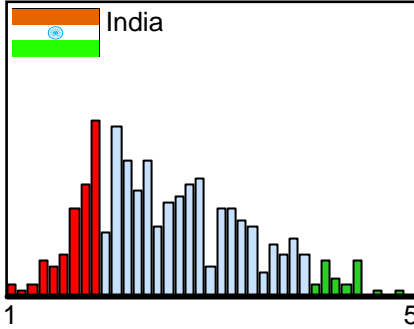
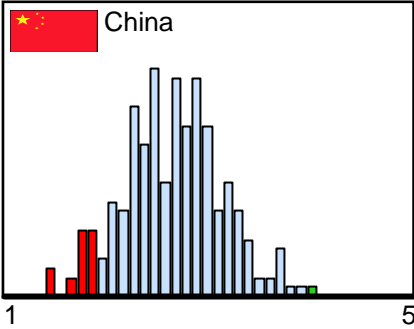
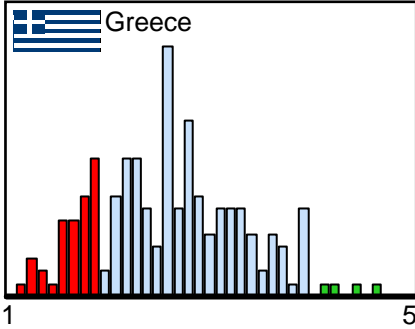
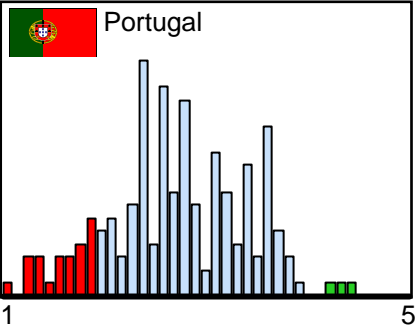
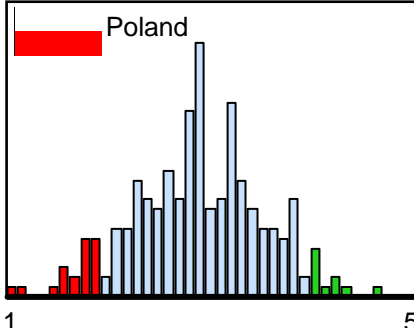
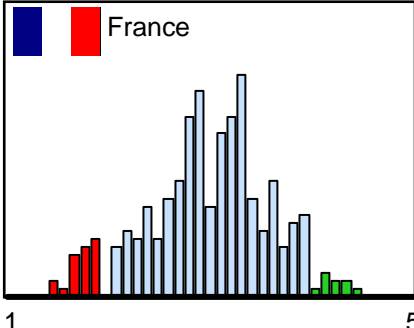
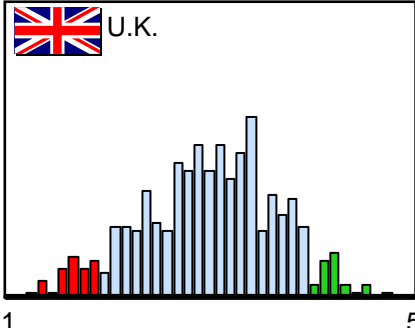
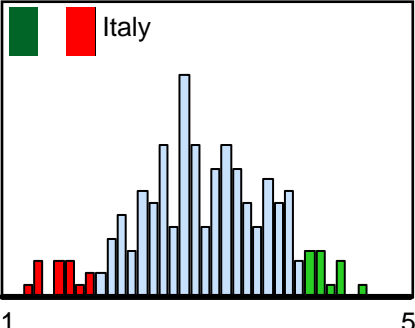
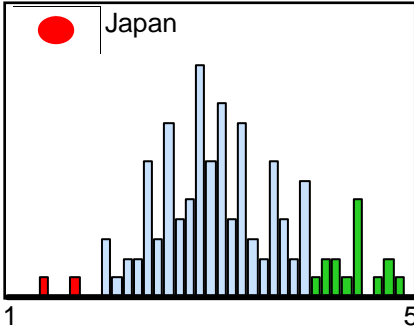
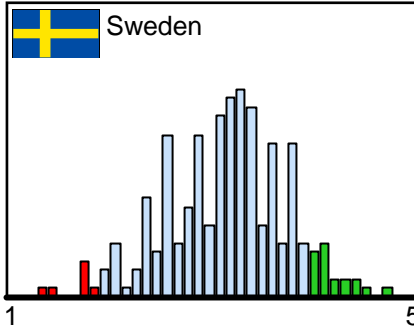
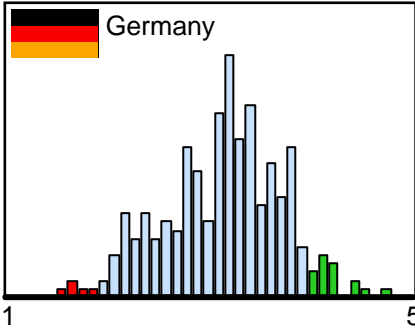
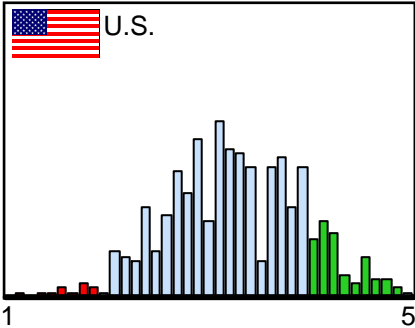
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Distribution of firm level management practice scores – by country



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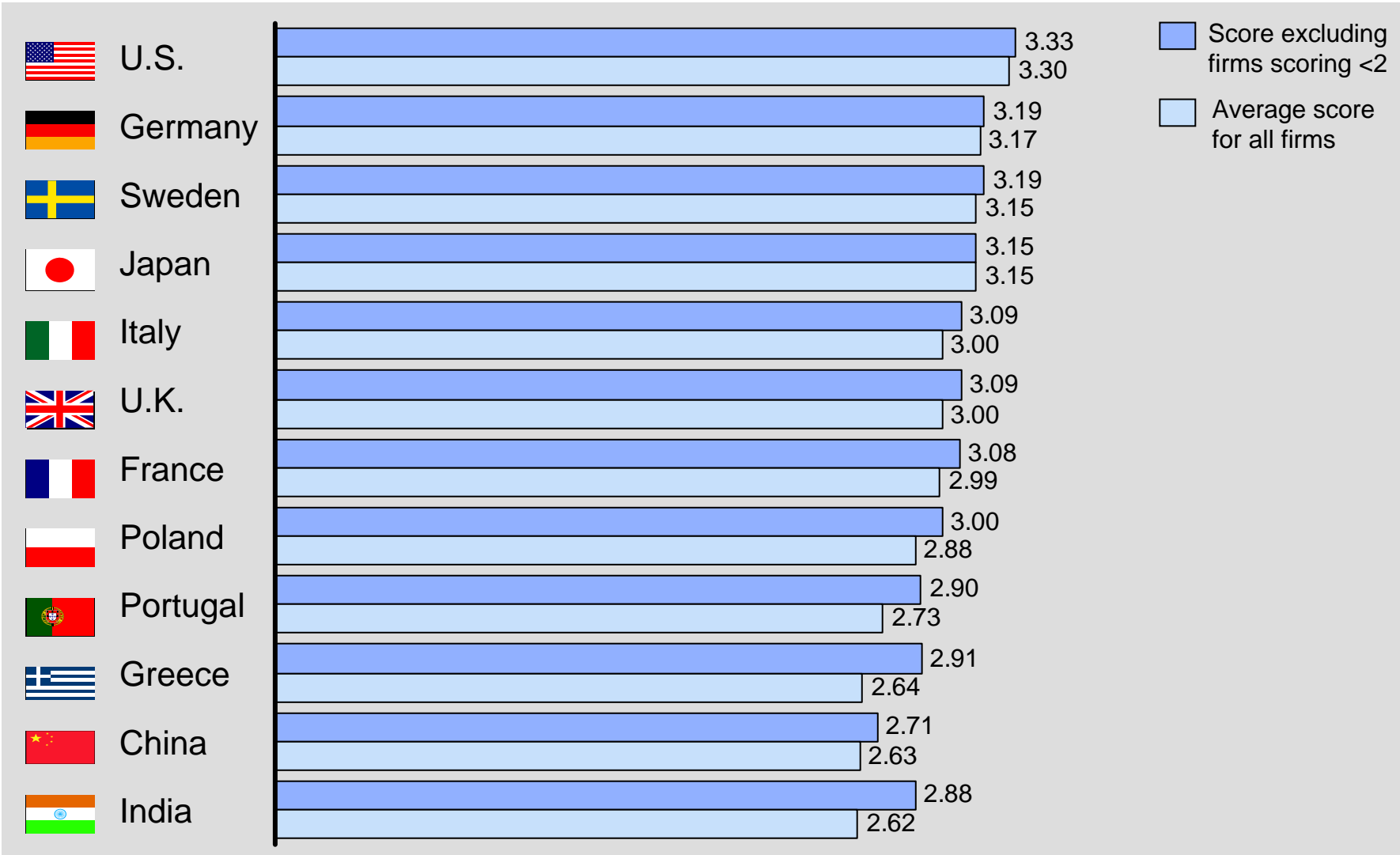
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THE LONG 'TAIL' OF POORLY MANAGED FIRMS PULLS DOWN THE AVERAGE MANAGEMENT SCORE OF LOW PERFORMING COUNTRIES

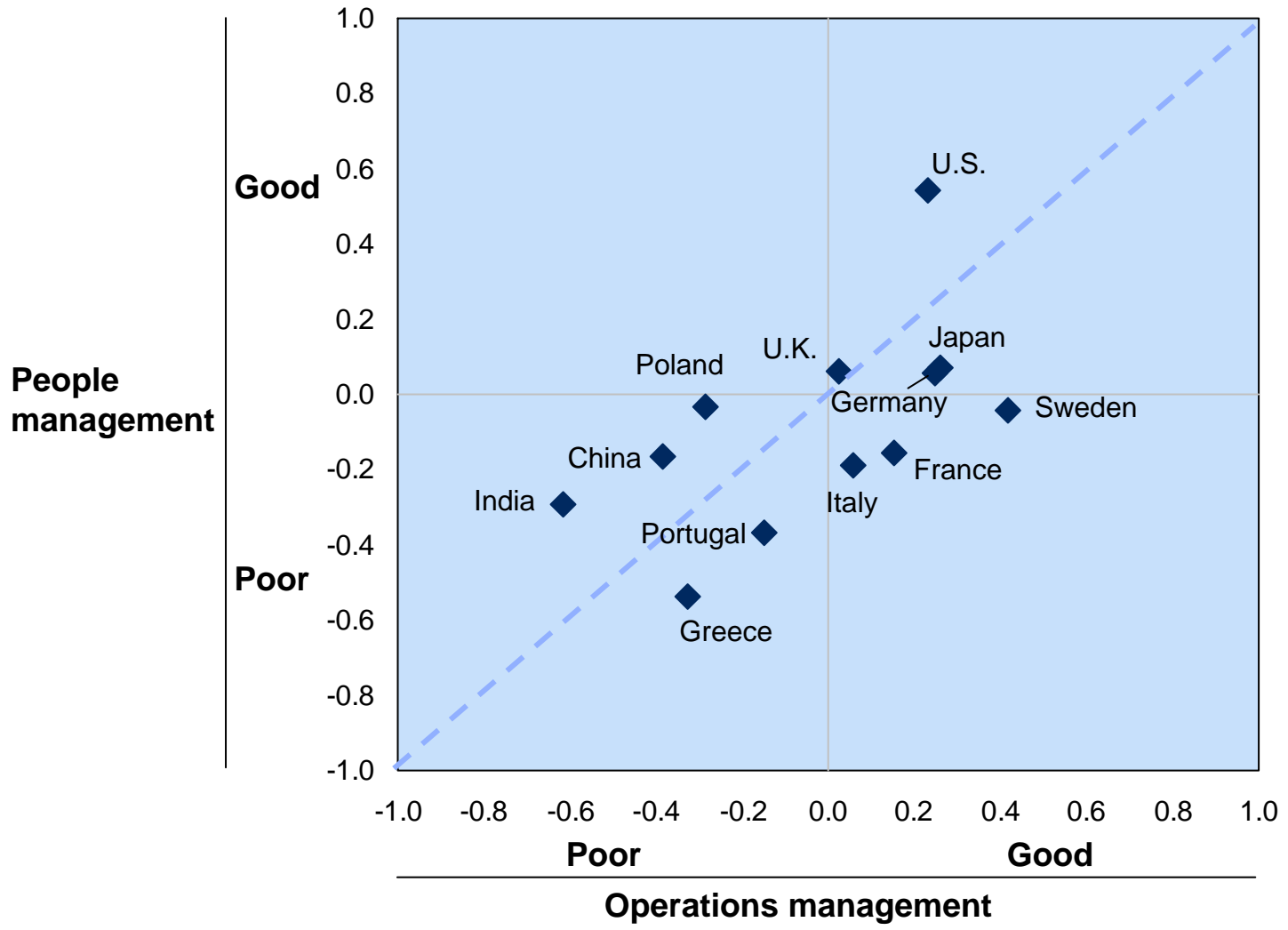
Assessed management practice score – by country



Source: Management Matters dataset; team analysis

THE U.S. IS NOT BEST AT EVERYTHING – THERE ARE NATIONAL STRENGTHS & WEAKNESSES

Average operations and people management practice scores* - by country



*Z-scores, i.e. normalized to zero mean and standard-deviation 1 by question

AGENDA

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Describing management across Firms and countries

Explaining management across Firms and countries

Management practices in the EU.

WHAT WE THINK WE ALREADY KNOW . . .

2004 wave

- 2 factors associated with better management practice
 - Competition and free trade
 - CEO selection: appointment based upon merit rather than eldest son (Primogeniture)

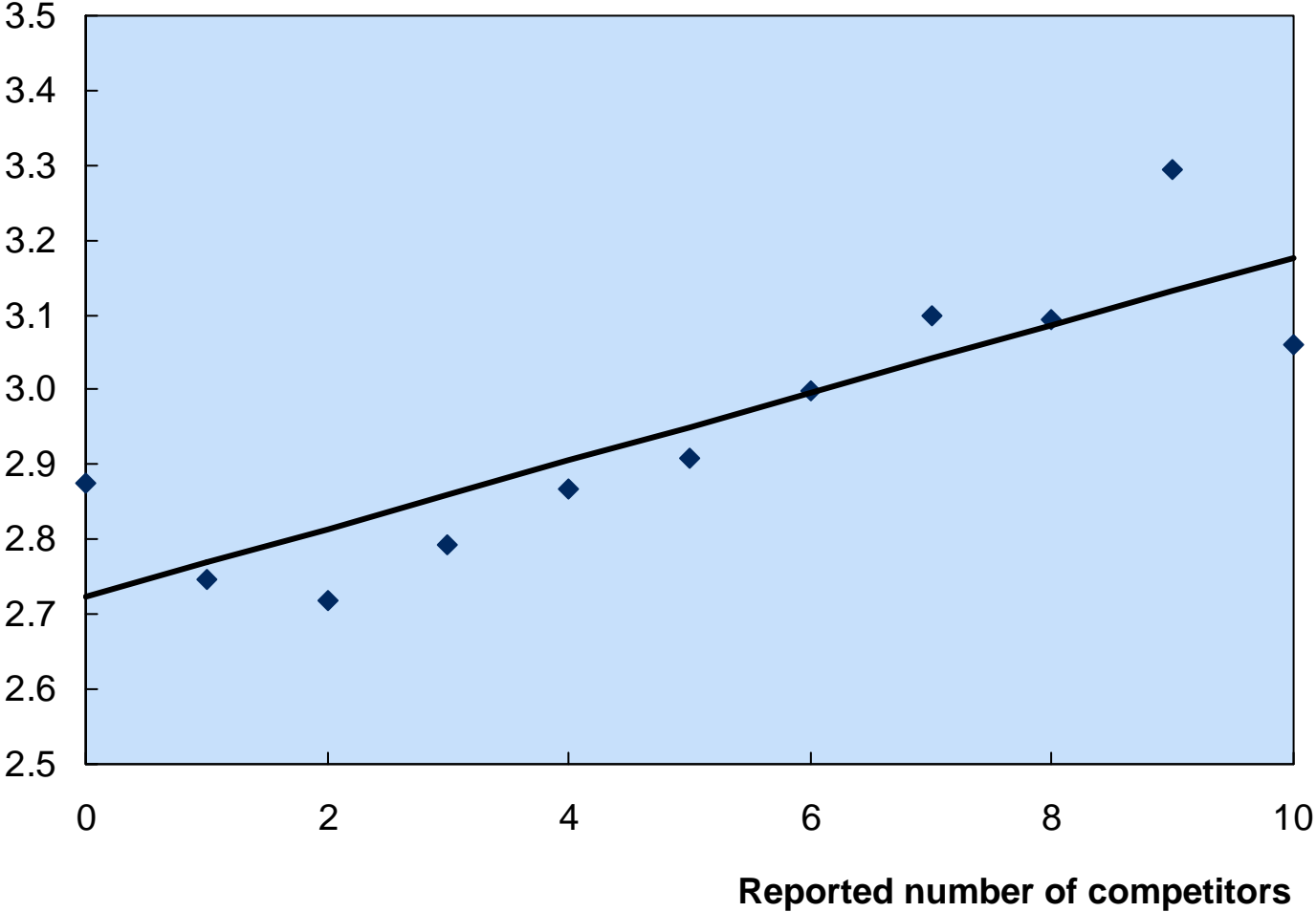
2006 wave

- Confirm key role of
 - Competition and free trade
 - CEO selection: appointment based upon merit
- Identify other key drivers
 - Labour market regulation
 - Ownership type
 - Skills
- Find managers are poor at assessing their own performance



MORE INTENSE COMPETITION IS CLEARLY ASSOCIATED WITH BETTER MANAGEMENT PRACTICES

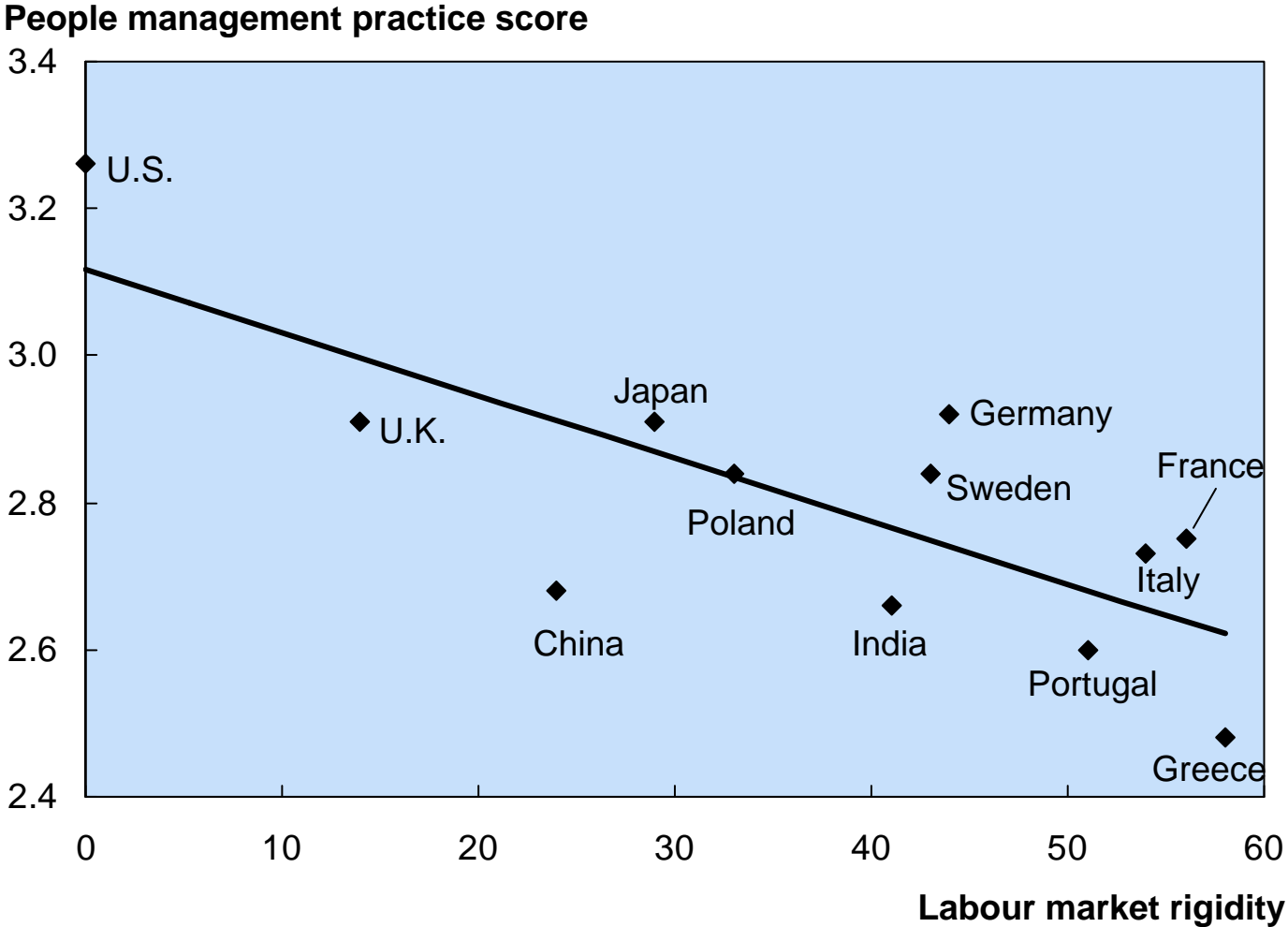
Assessed management practice score





COUNTRIES WITH MORE RIGID LABOUR MARKET REGULATIONS HAVE LOWER PEOPLE MANAGEMENT SCORES

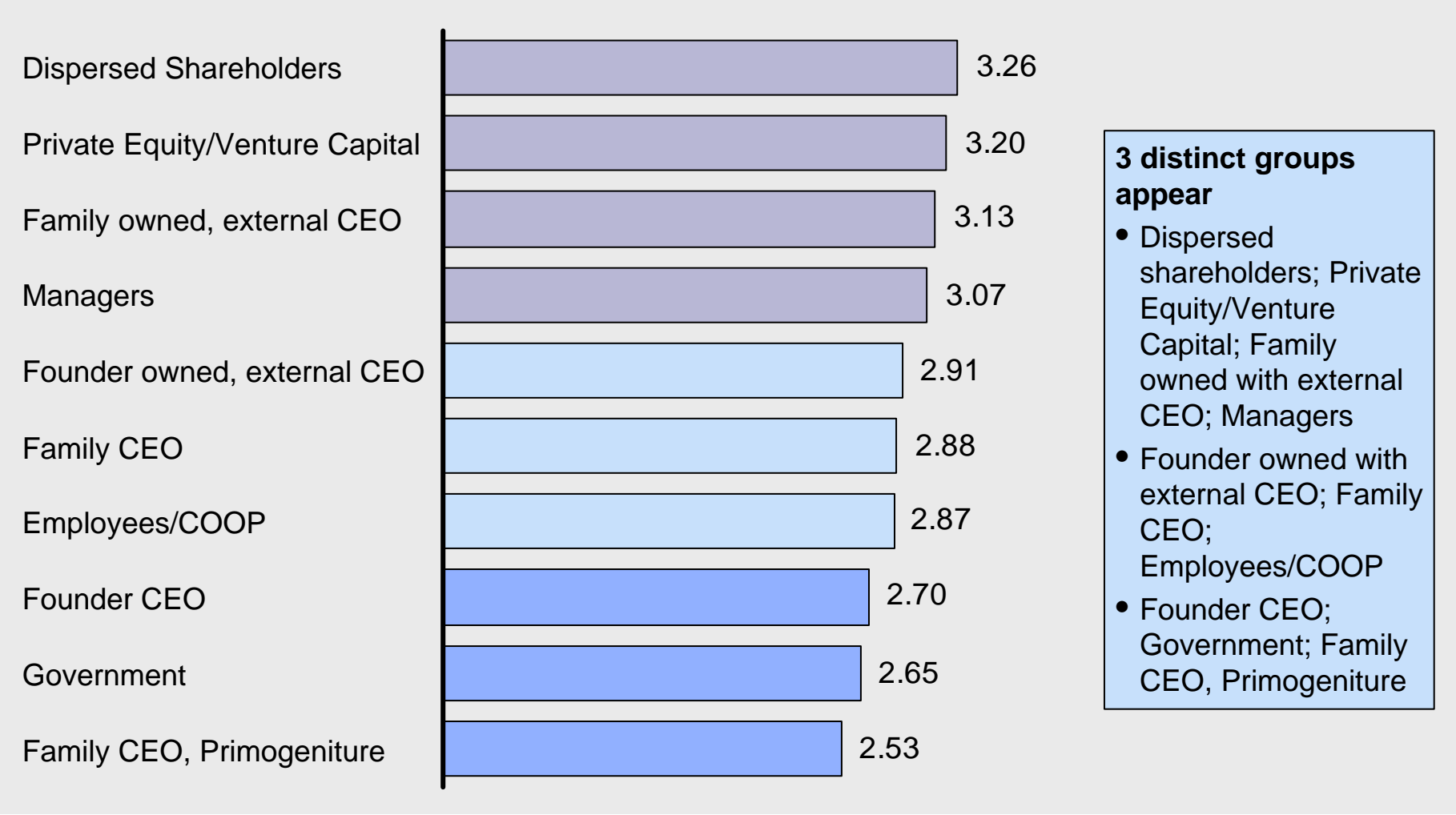
Labour market rigidity* vs. people management practice score – by country



* World Bank "Employee rigidity index"

WE FIND MANAGEMENT PRACTICES TO VARY SUBSTANTIALLY BY OWNERSHIP TYPE

Management practice score* – by ownership type

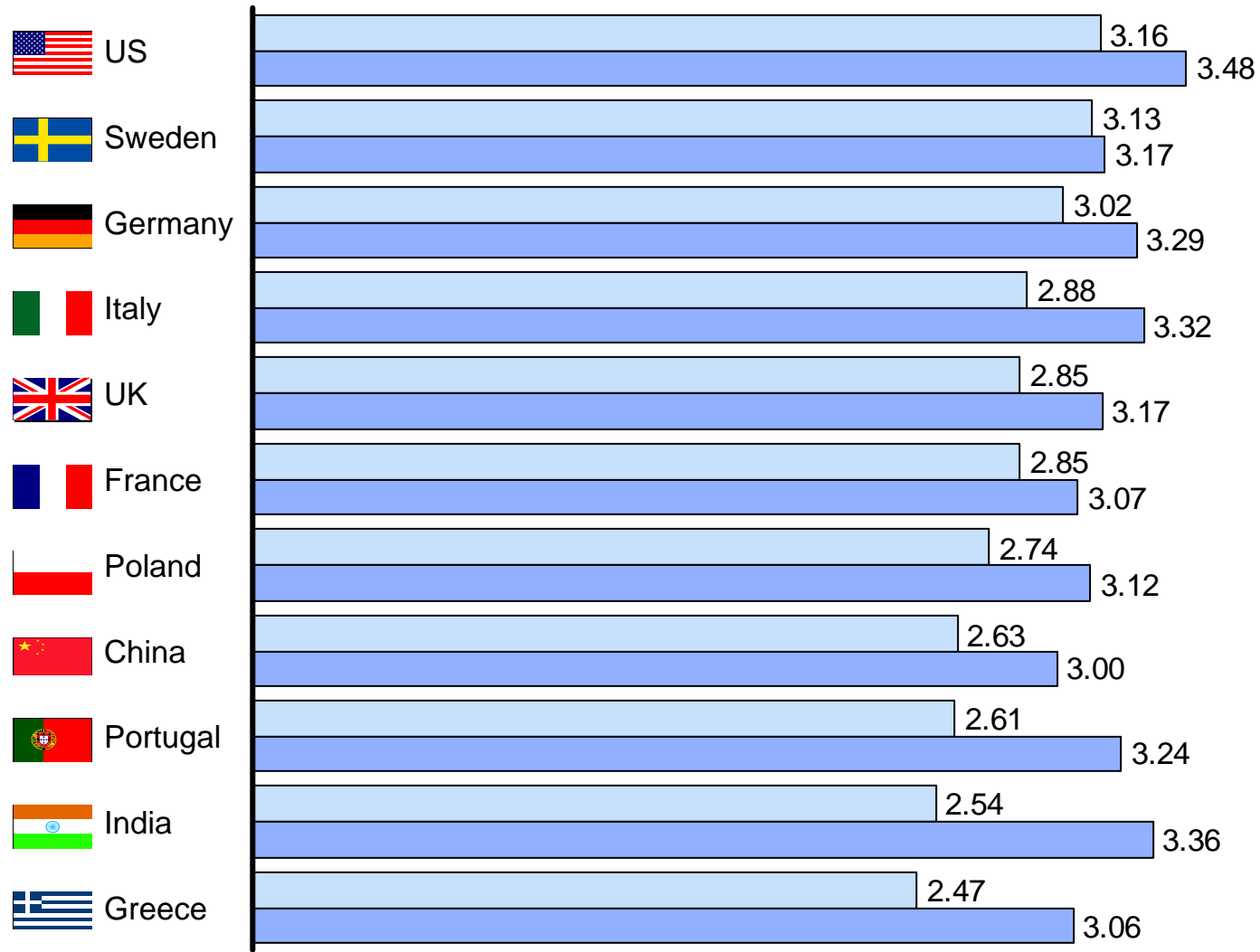


*All 12 countries

MULTINATIONALS ARE WELL RUN EVERYWHERE

Management practice score – by country*

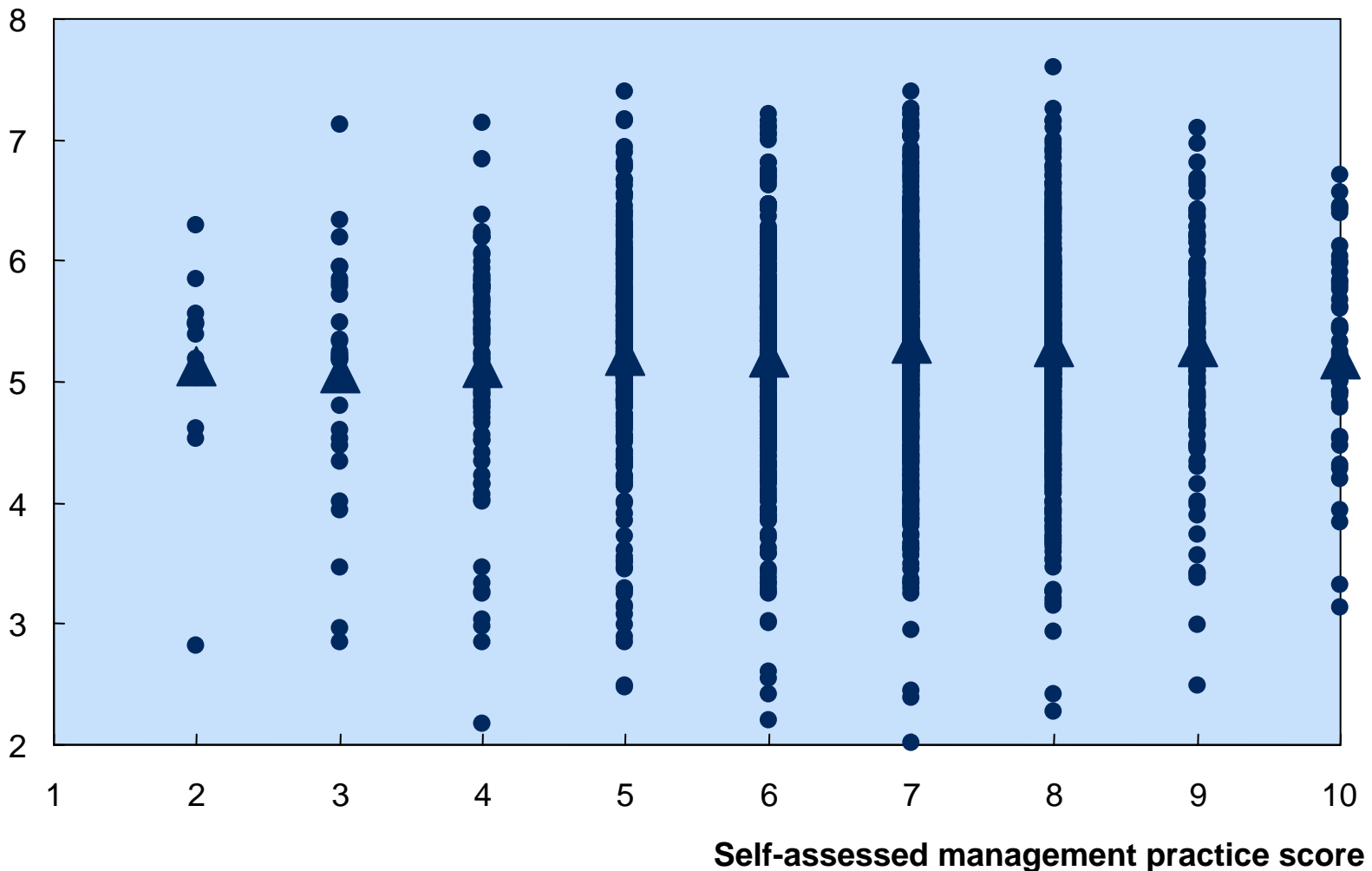
Domestic firms
Multinationals



* Japan excluded due to low multinational sample size

IT TURNS OUT MANAGERS APPEAR TO BE POOR AT SELF-ASSESSING THEIR FIRM'S MANAGEMENT PRACTICE

Labour productivity



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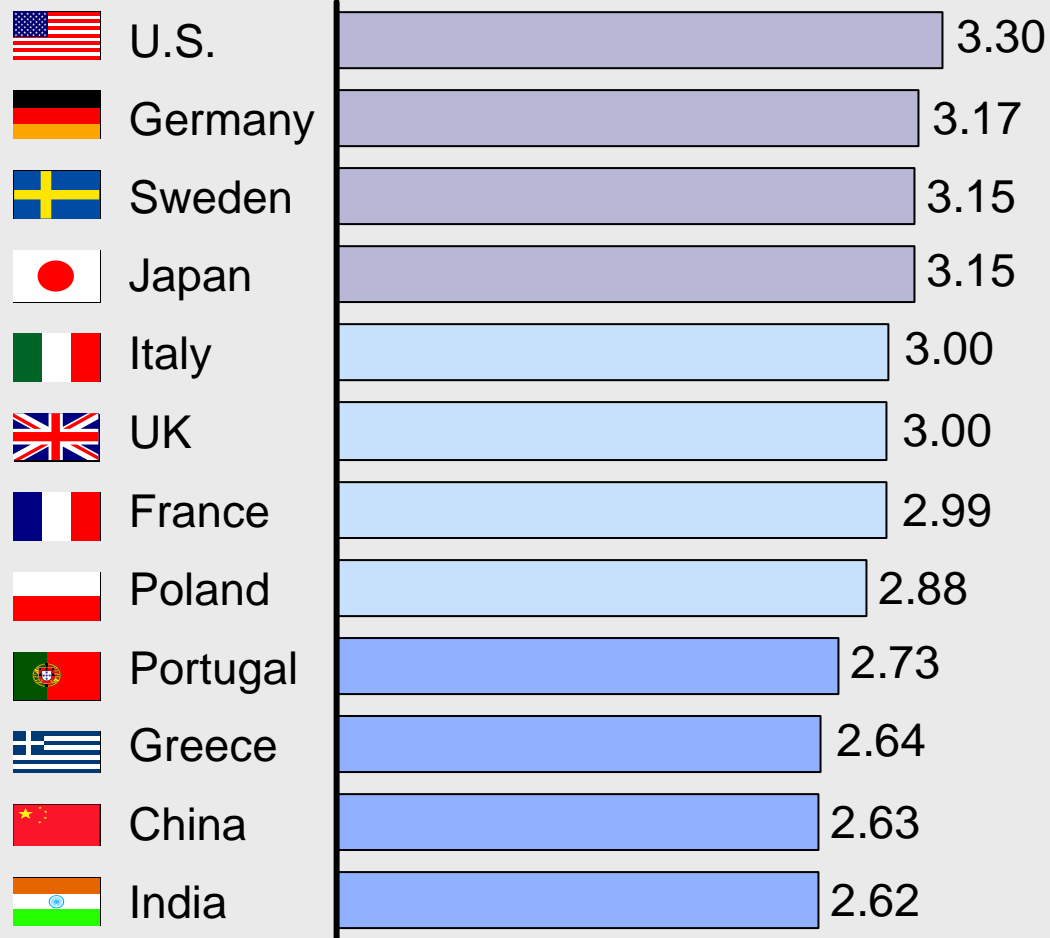
Explaining management across Firms and countries

Management practices in the E.U. and U.S.



MOST EU COUNTRIES OUTSIDE THE TOP (GERMANY & SWEDEN THE EXCEPTION)

Assessed Management Practice Score – by country



3 distinct groups appear

- U.S., Germany, Sweden and Japan
- Italy, U.K., France, and Poland
- Portugal, Greece, China and India

DIFFERENCES BETWEEN MANAGEMENT IN THE EU AND US

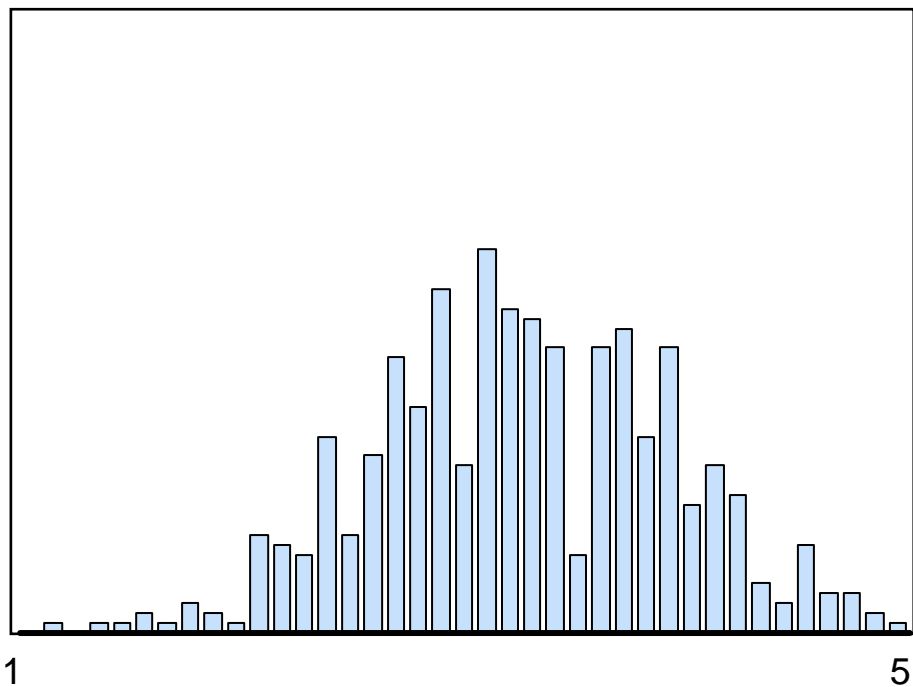
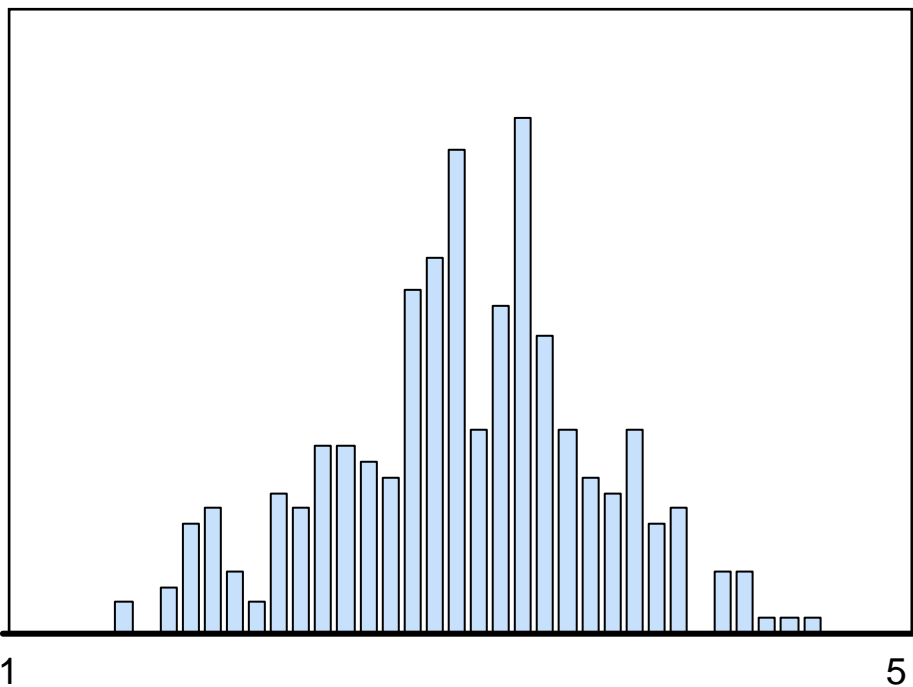
- US is at top, but Germany and Sweden in “Premier League”
 - US excels at talent management (labour market flexibility)
 - Germany/Sweden excel at shopfloor operations
 - But most of EU languishes in middle tiers
- Three main factors:
 - Product market competition
 - Family firms much more prevalent in EU
 - Lower skill levels
 - these account for almost all the EU-US management gap

ONE REASON FOR U.S. SUCCESS COMPARED TO EU AVERAGE IS THE REMOVAL OF UNDERPERFORMING COMPANIES IN THE ECONOMY

Distribution of firm level management practice scores

France

U.S.



Assessed management practice score

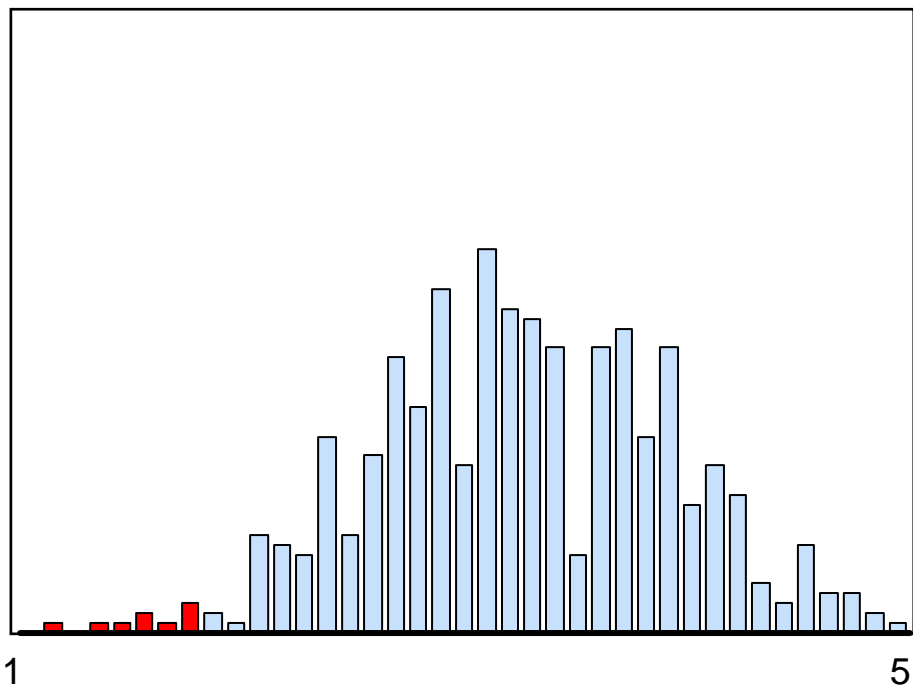
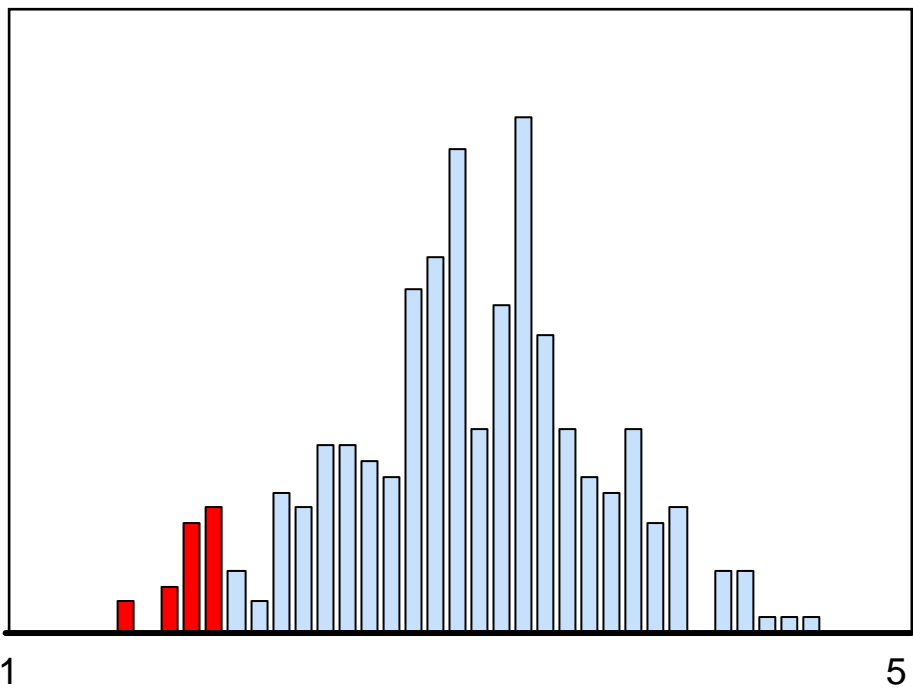
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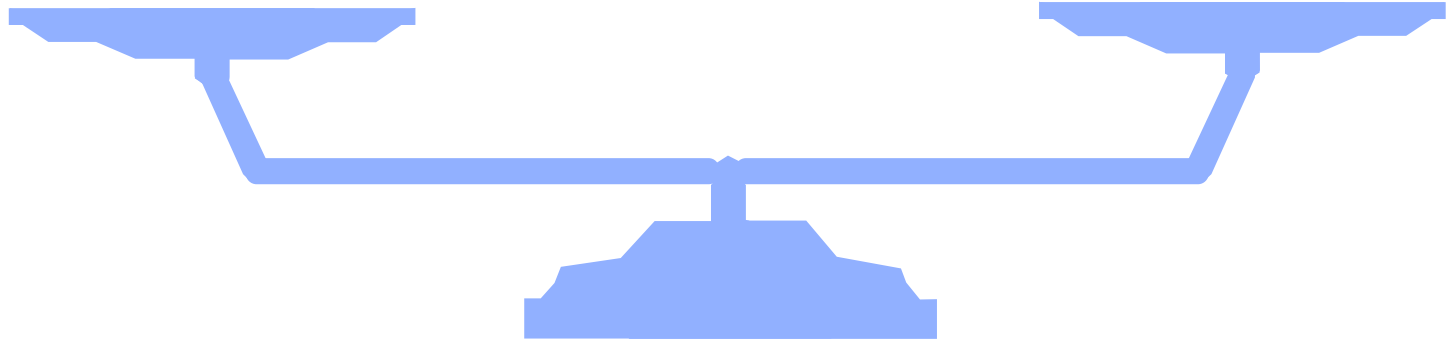
CONCLUSIONS

For Businesses

- Some can thrive even in tough conditions
- Self- assessment may be poor
- Meritocratic CEO selection important

For Policy makers

- Competition vital
- Ownership
- Skills
- International competitors catching up fast



MY FAVOURITE QUOTES:

The Swedish manufacturing goals

Production Manager: “Workers individual goals?
They just want to go home!”

Americans on geography

Interviewer: “How many production sites do you have abroad?
Manager in Indiana, US: “Well...we have one in Texas...”

The difficulties of defining ownership in Europe

Production Manager: “We’re owned by the Mafia”
Interviewer: “I think that’s the “*Other*” category.....although I guess I could put you down as an “*Italian multinational*” ?”

MY FAVOURITE QUOTES:

Staff rewards the American way

Production Manager: “For example, if an employee suggests a company slogan, and his name is used, he gets a TV.
If he is employee of the month, he gets a parking space”

Staff retention the UK way

Interviewer: “How would you persuade your top performers to stay?”
UK Chairman: “Sex is a great thing! If the employee finds a new girlfriend somewhere else, I can't do anything!”

MY FAVOURITE QUOTES:

The Indian alternative

Production Manager: “Are you a Brahmin?”

Interviewer “Yes, why do you ask?”

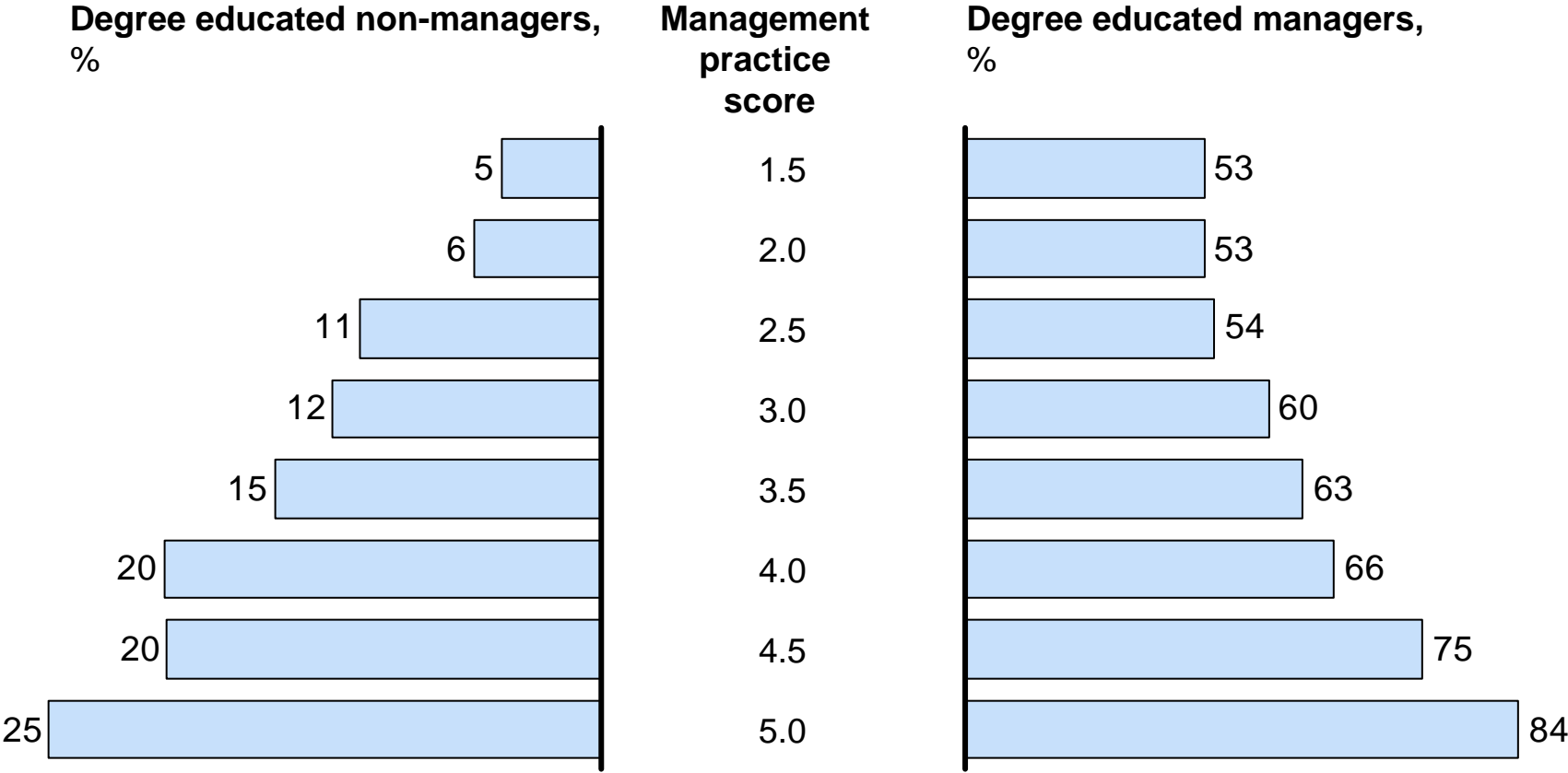
Production manager “And are you married?”

Interviewer “No?”

Production manager “Excellent, excellent, my son is looking for a bride and I think you could be perfect. I must contact your parents to discuss this”

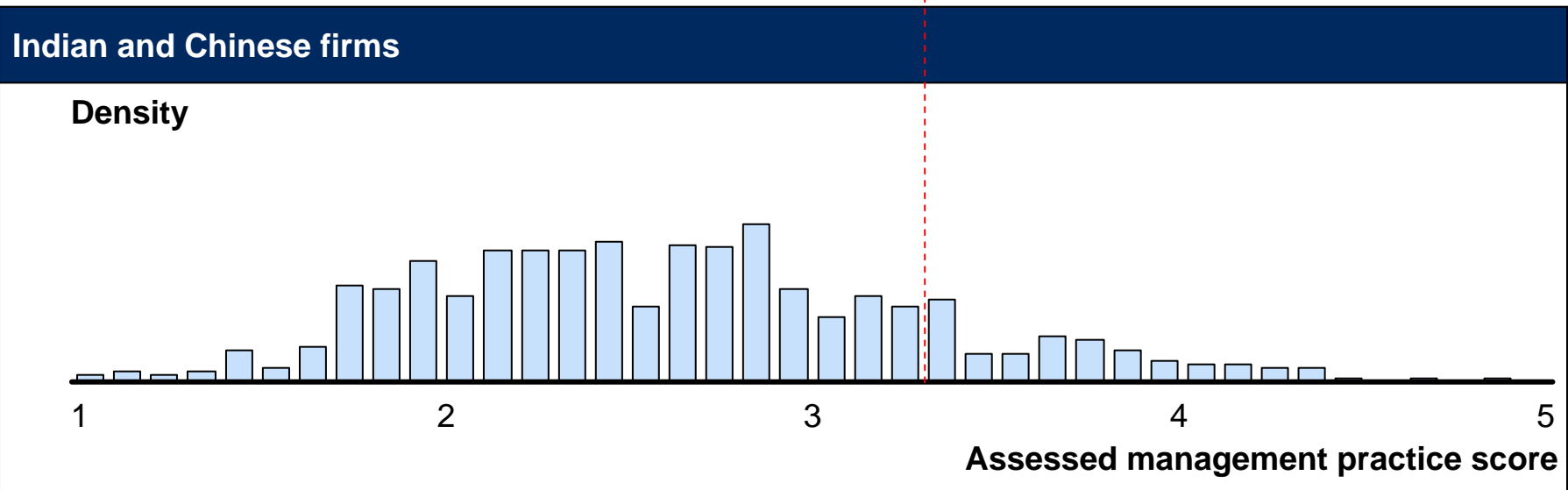
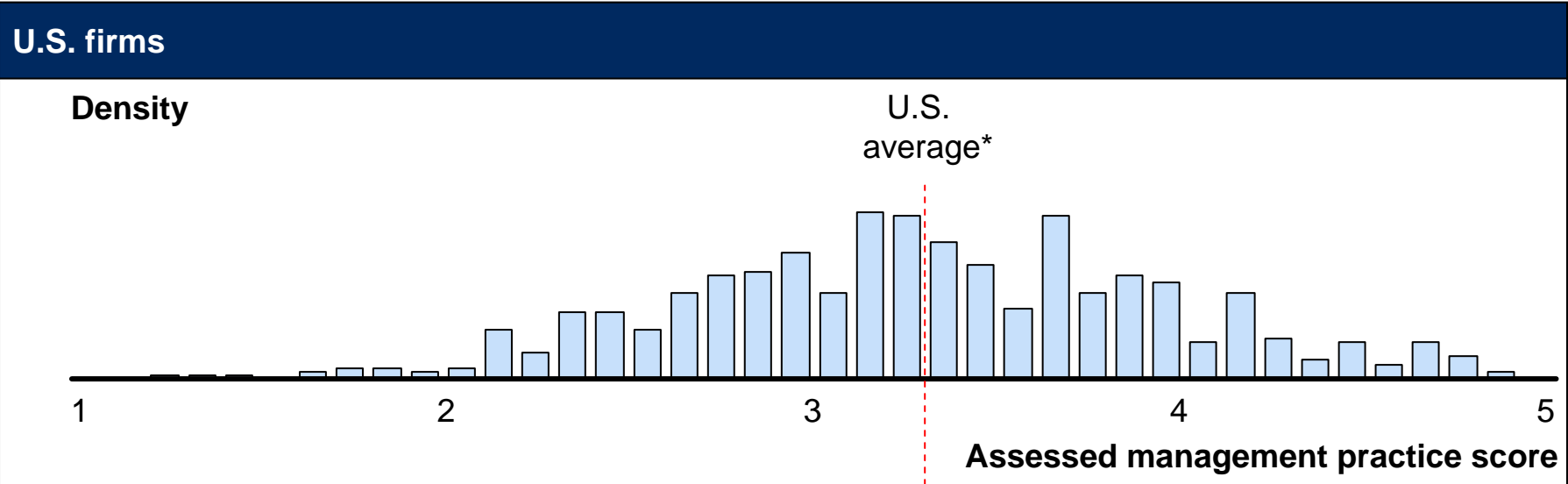


BETTER MANAGEMENT IS LINKED WITH HIGHER SKILL LEVELS OF BOTH MANAGERS AND NON-MANAGERS





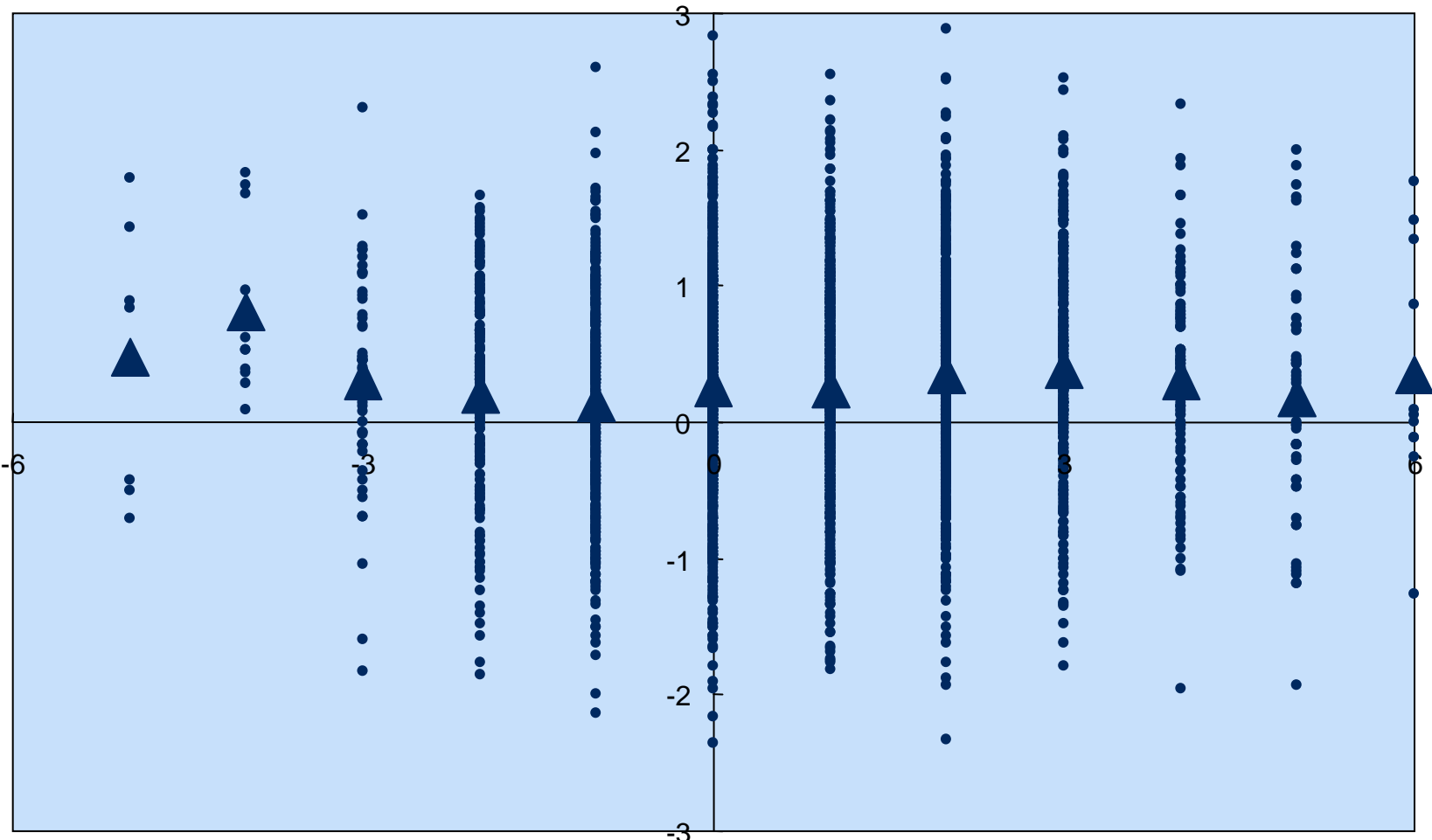
OVER 15% OF INDIAN AND CHINESE FIRMS ARE ALREADY BETTER MANAGED THAN THE AVERAGE U.S. FIRM



* 3.30

MANAGERS EVEN APPEAR POOR AT ASSESSING THEIR RELATIVE STRENGTHS AND WEAKNESSES

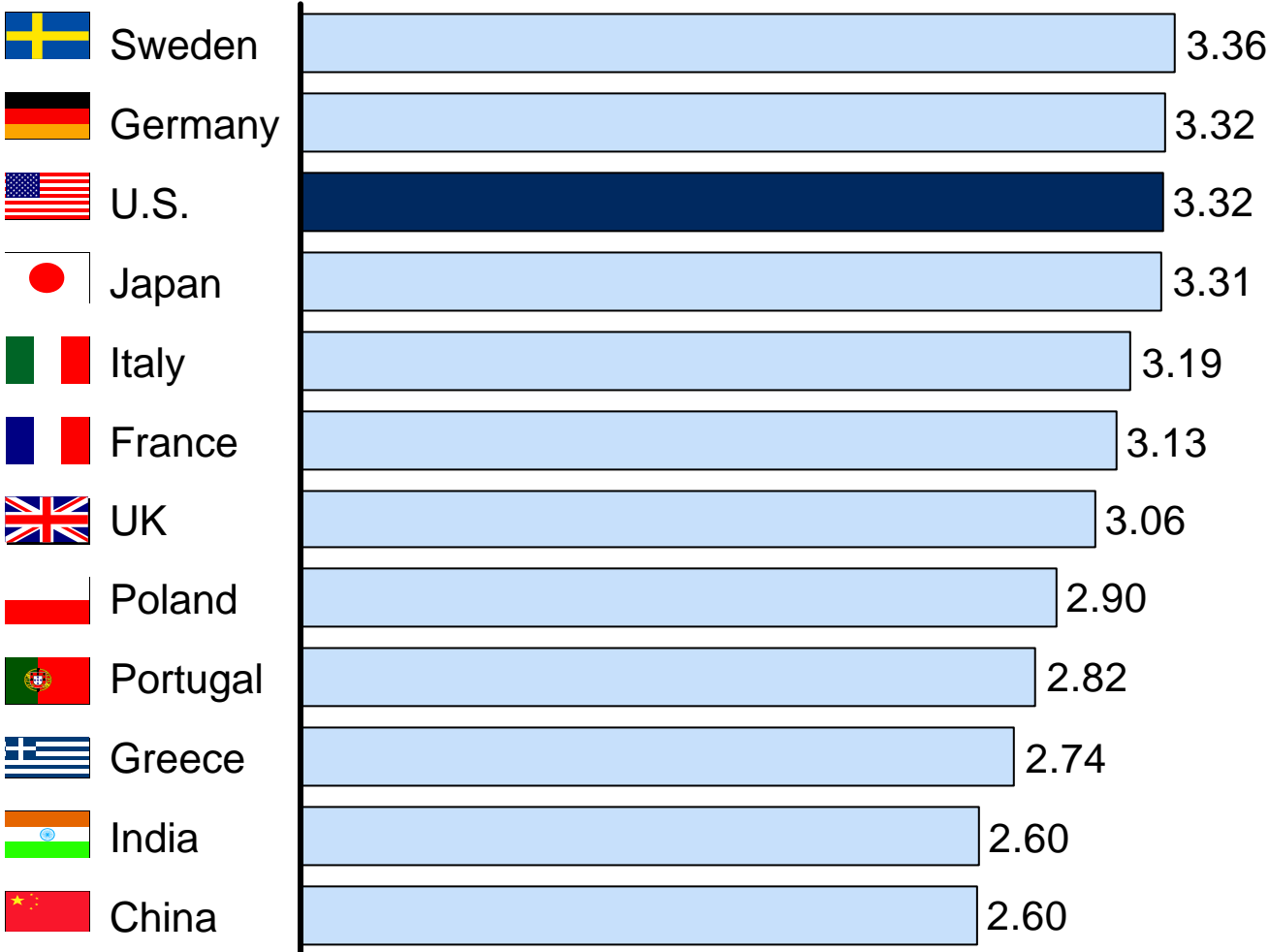
Assessed gap operations vs. people management practice score



Self-assessed gap operations vs. people management practice score

SWEDISH AND GERMAN FIRMS ARE ON AVERAGE BETTER AT SHOPFLOOR OPERATIONS

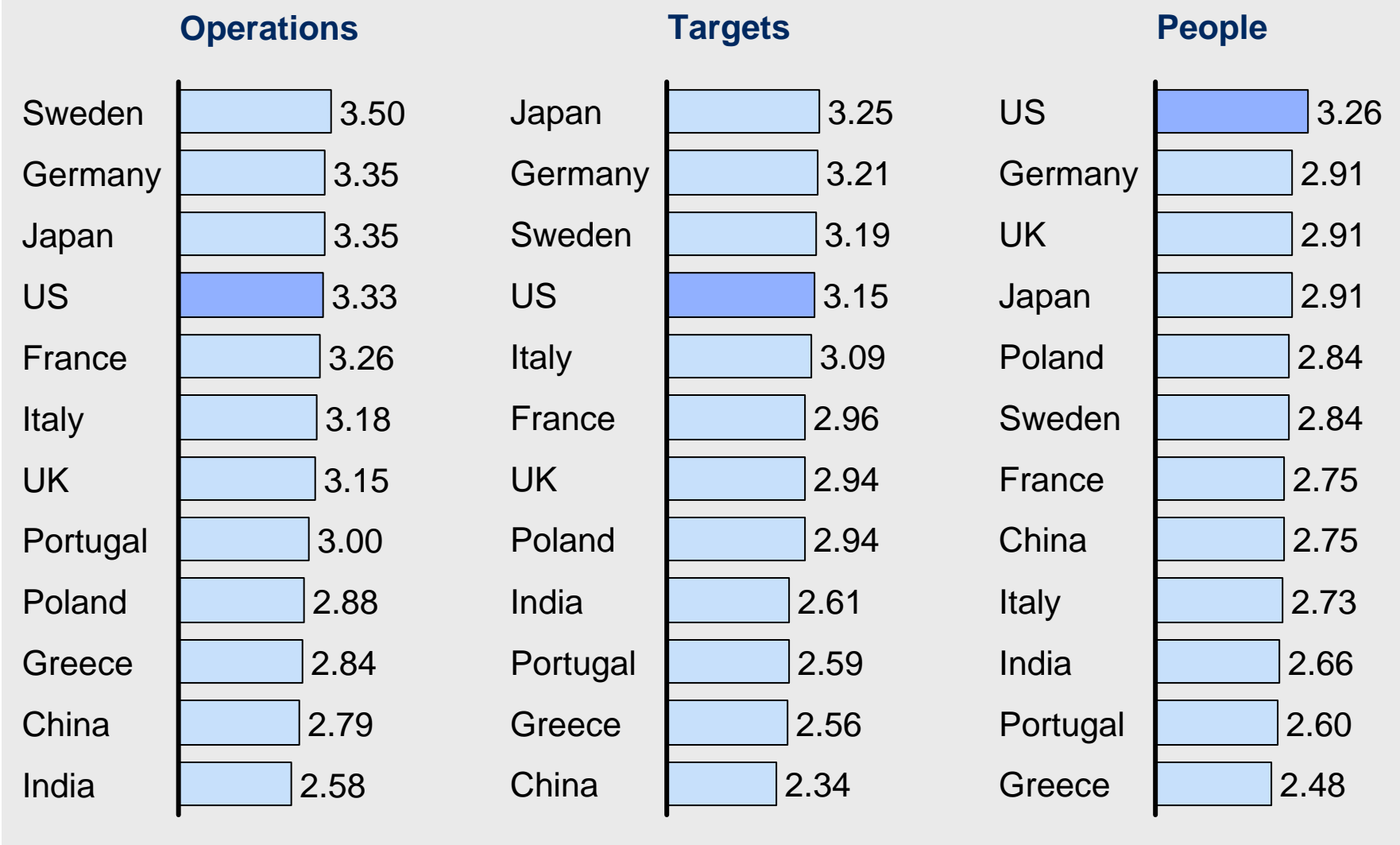
Average operations and targets score – by country



Source: China: Chinese interviews as of 11/10/2007; U.S. and India: Interviews as of 21/09/2007

THE US IS NOT THE BEST AT EVERYTHING, ALTHOUGH IT IS DISTINCTIVE IN PEOPLE MANAGEMENT

Assessed Scores across three dimensions – by country



Source: Data collected from interviews as of Aug 01, 2007; team analysis

THE AVERAGE MANAGER BELIEVES THEIR COMPANY HAS ABOVE-AVERAGE MANAGEMENT PRACTICE

%

