



Management Practice and Productivity: Why They Matter

Stephen Dorgan, McKinsey & Company
John Dowdy, McKinsey & Company

Nick Bloom, Stanford University and Centre for Economic Performance
John Van Reenen, Centre for Economic Performance, LSE
Raffaella Sadun, Centre for Economic Performance, LSE

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





AGENDA

Measuring management practice

Evaluating the management measure

Describing management across firms and countries

Explaining management across firms and countries

Management practices in Italy



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

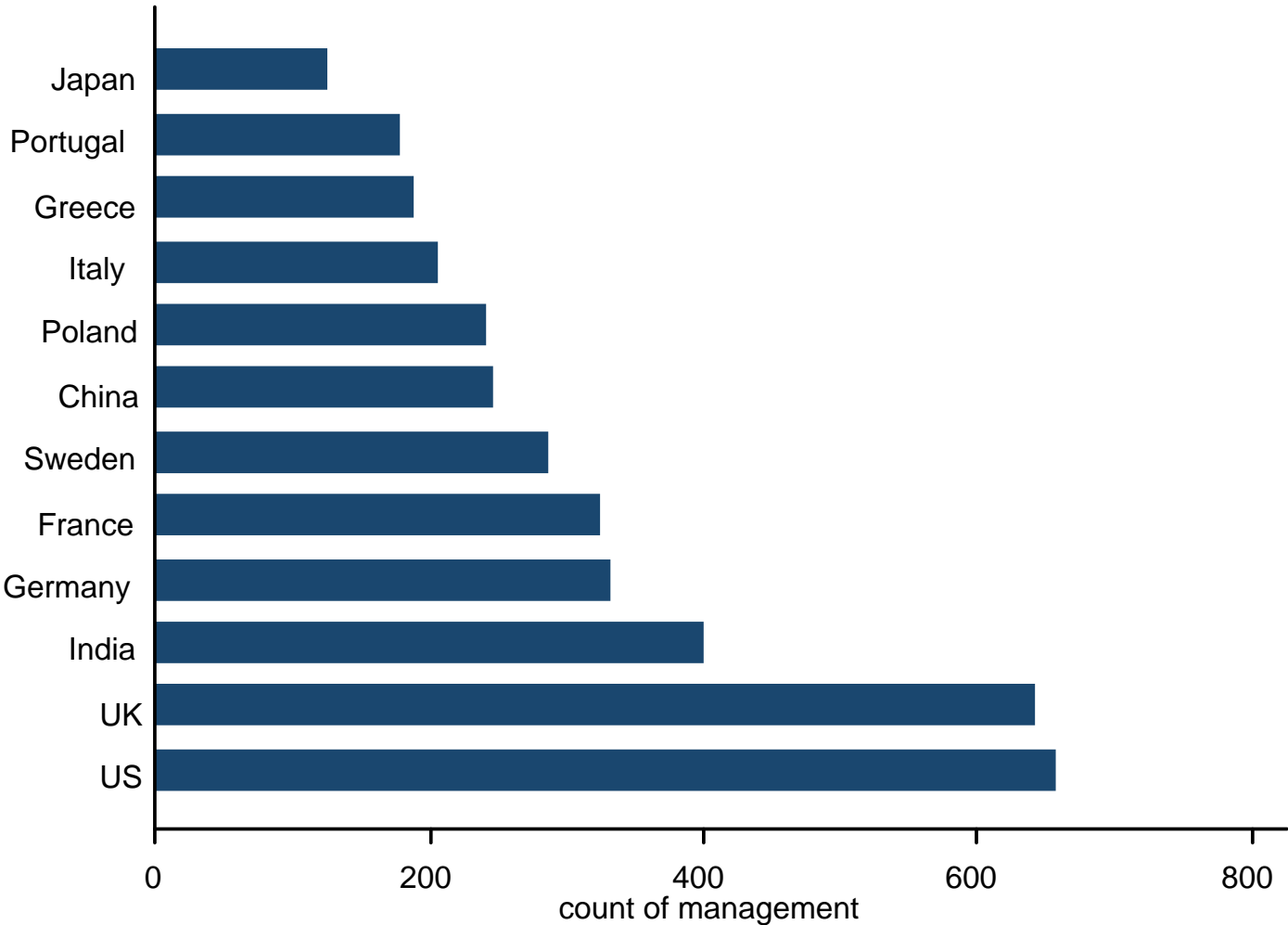
Time horizon of targets

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>

SAMPLE (3,802 FIRMS WITH 208 IN ITALY ALONE)



Measuring management practice

Evaluating the management measure

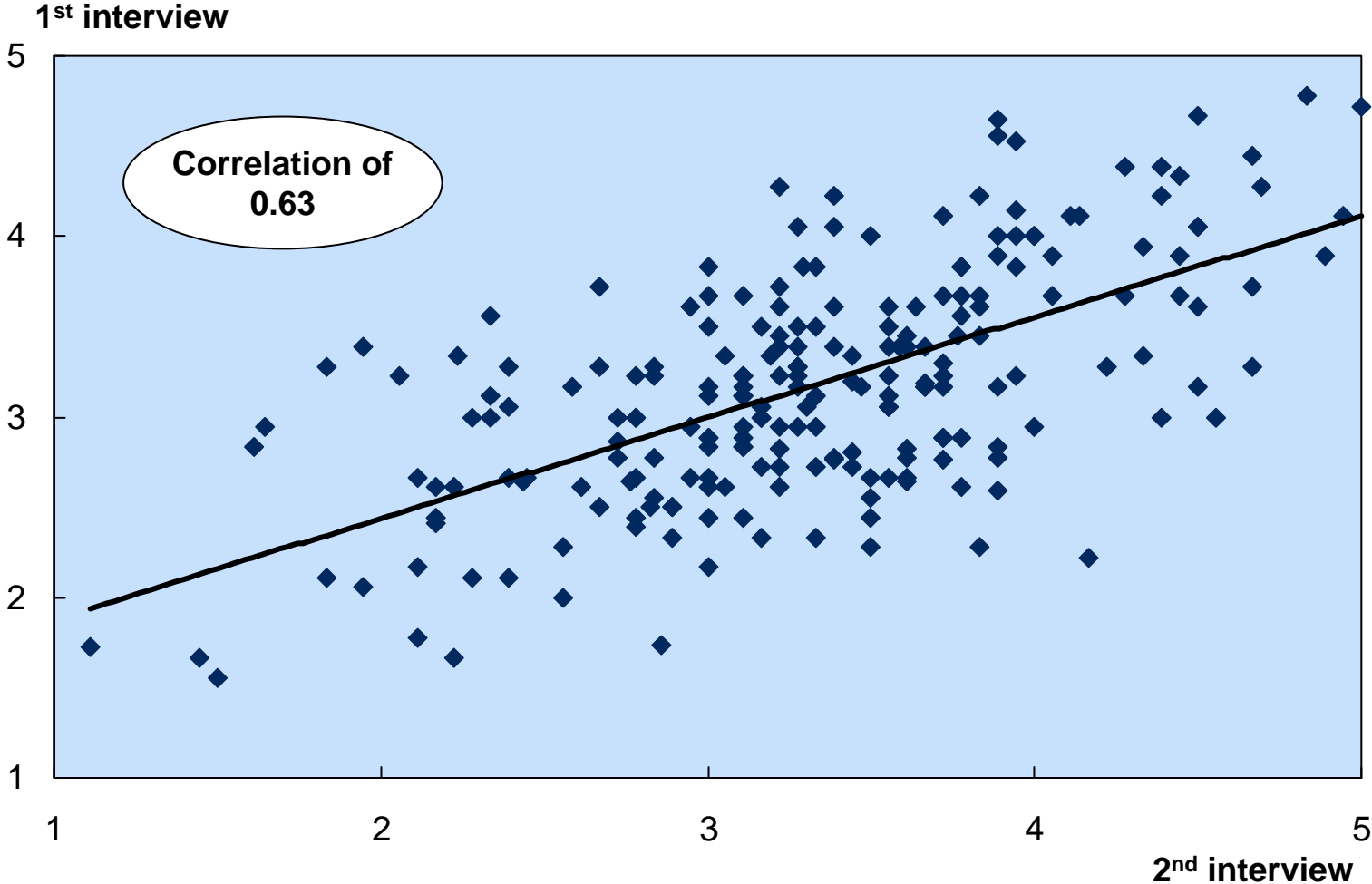
Describing management across firms and countries

Explaining management across firms and countries

Management practices in the U.K.

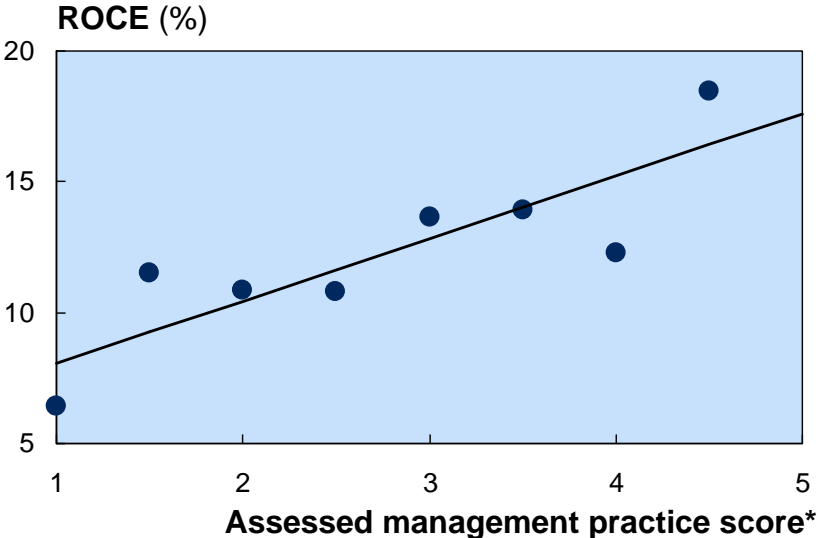
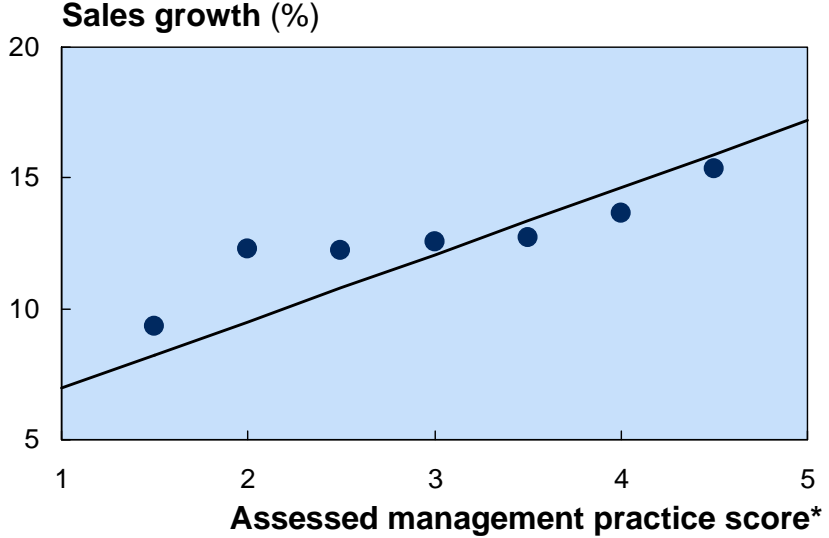
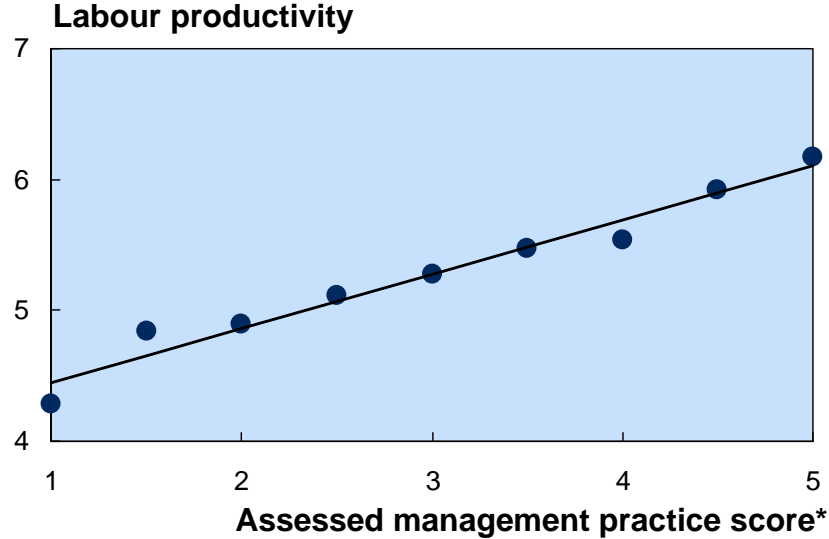
INTERNAL VALIDATION SUGGESTS THAT OUR ASSESSED MANAGEMENT PRACTICE SCORE IS INFORMATIVE

Assessed management practice score*



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

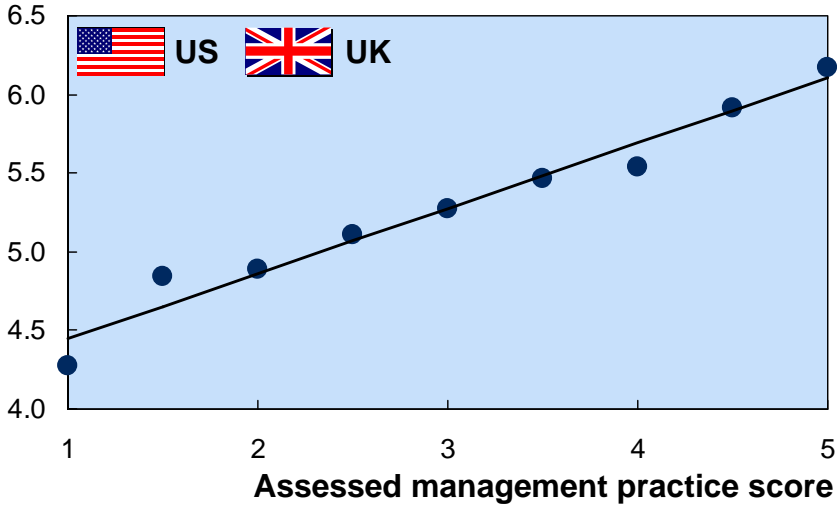
THE ASSESSED MANAGEMENT PRACTICE SCORE CORRELATES WELL WITH A NUMBER OF FINANCIAL PERFORMANCE METRICS



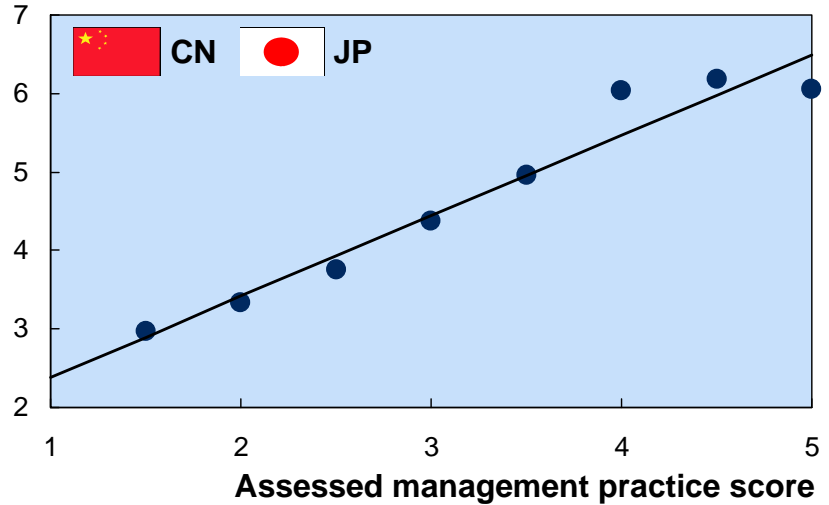
* Firms are grouped in 0.5 increments of assessed management score

THIS LINK HOLDS TRUE ACROSS DIFFERENT COUNTRIES AND CULTURES

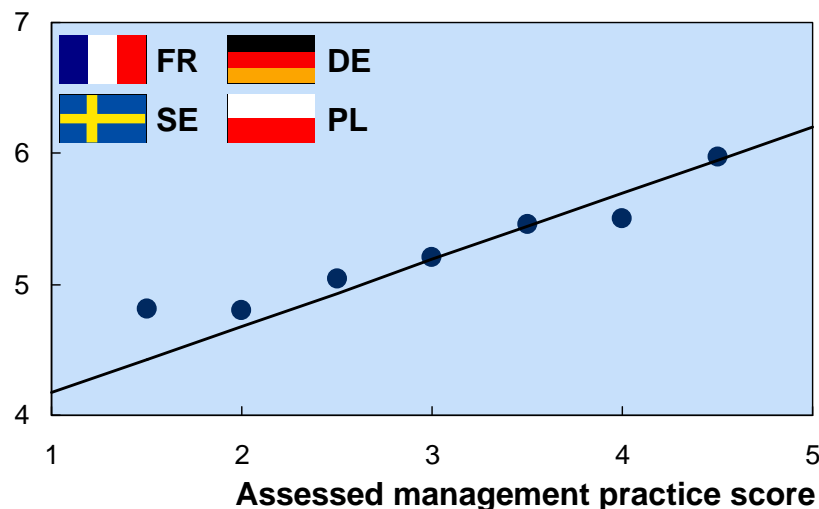
Labour productivity



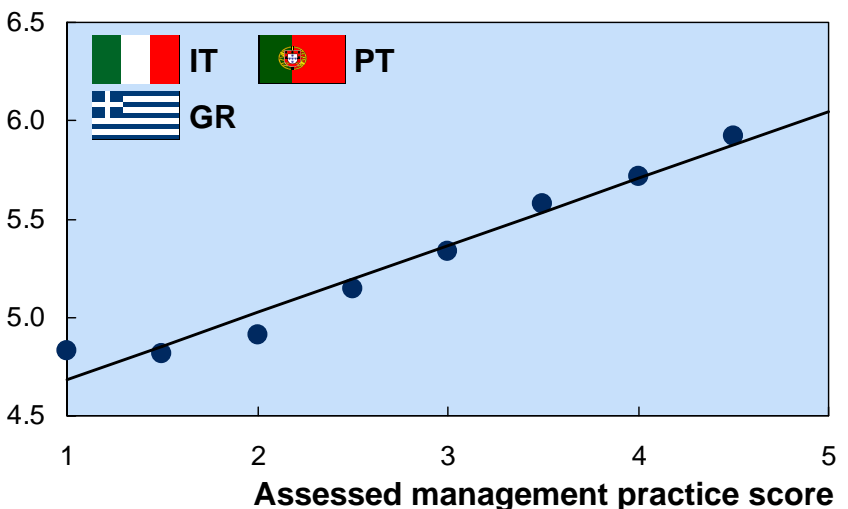
Labour productivity



Labour productivity



Labour productivity



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Evaluating the management measure

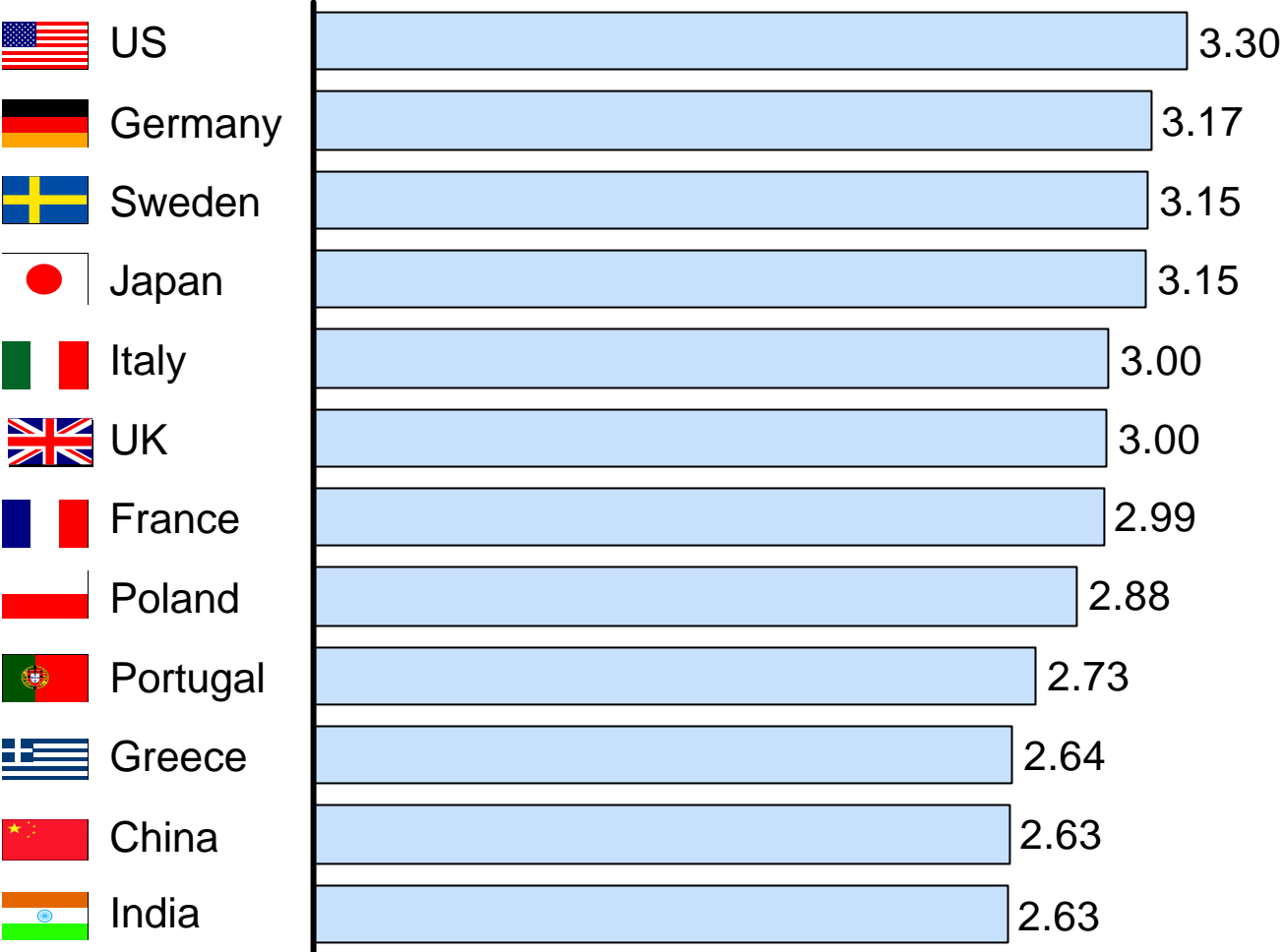
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THERE IS SUBSTANTIAL INTER-COUNTRY MANAGEMENT PRACTICE VARIABILITY

Average management practice score - by country*

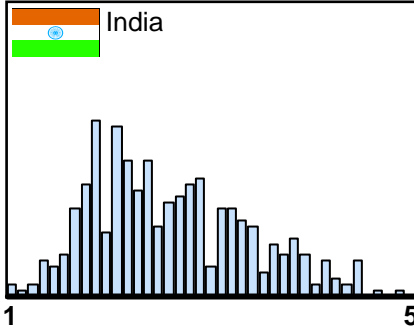
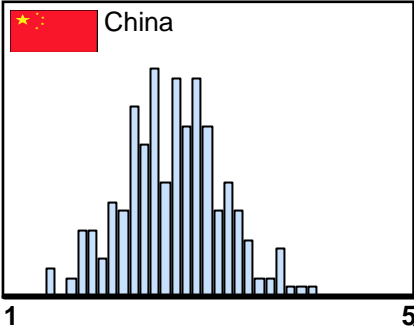
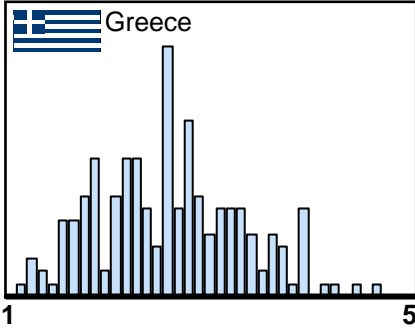
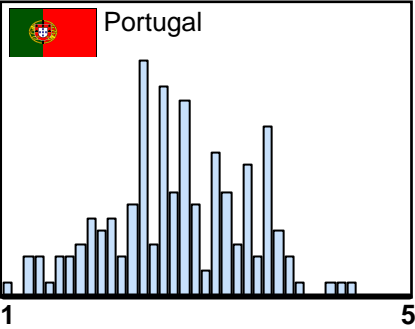
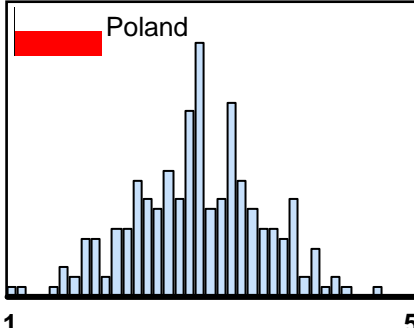
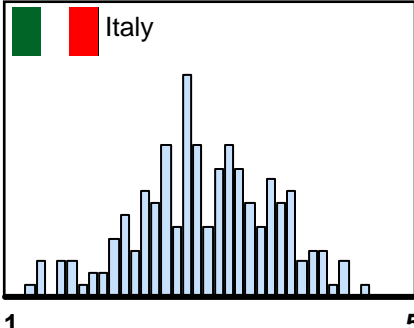
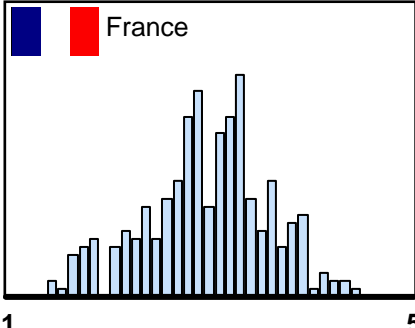
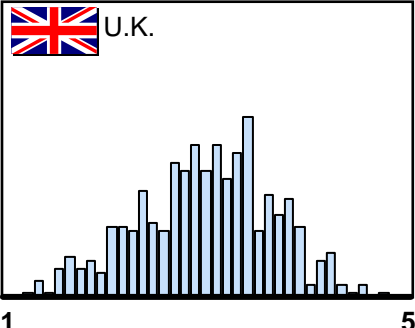
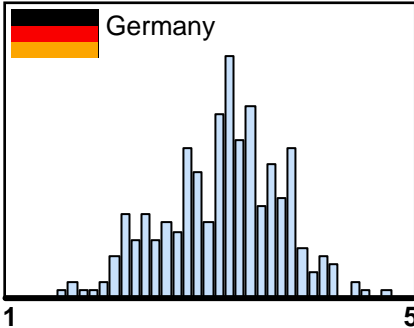
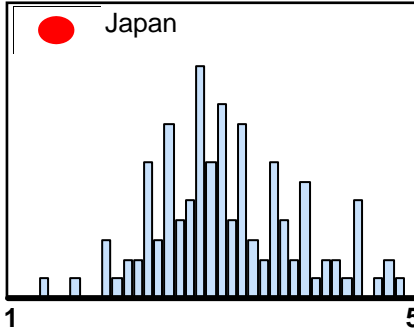
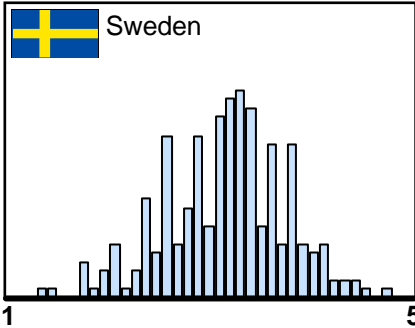
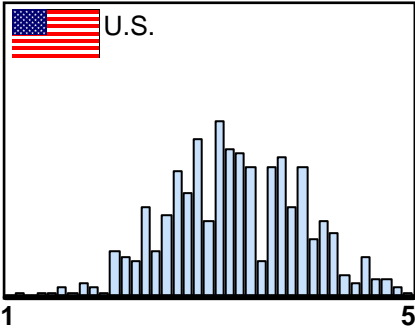


3 statistically distinct groups emerge

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

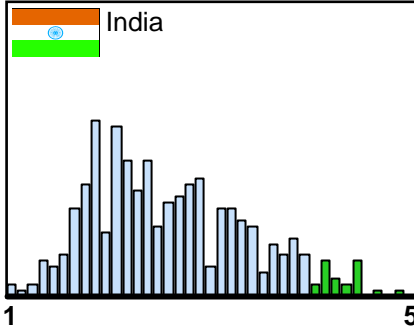
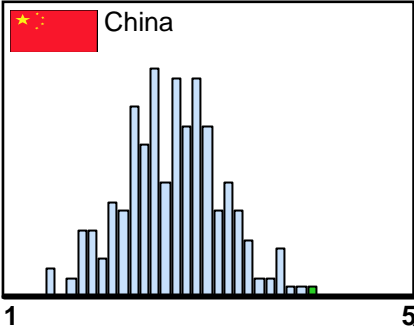
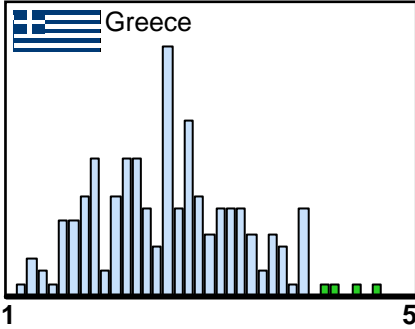
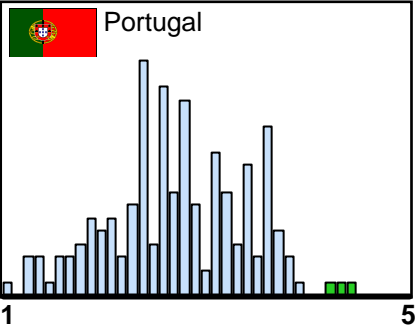
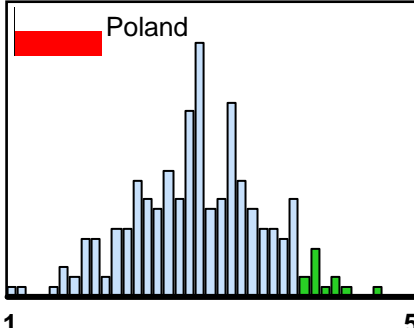
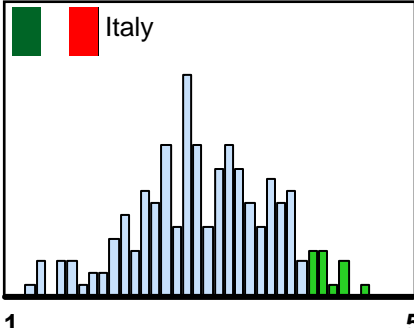
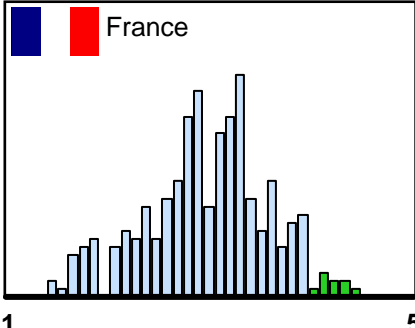
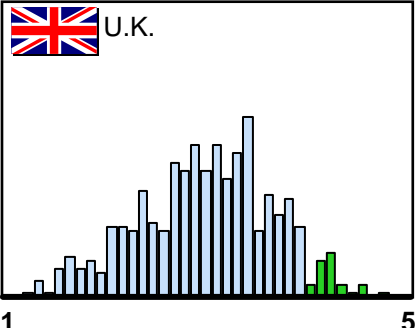
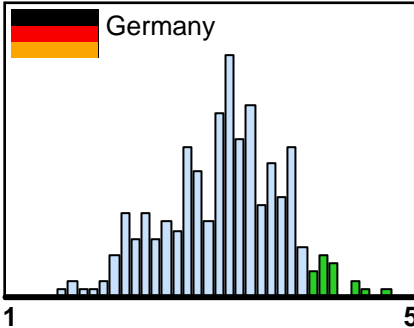
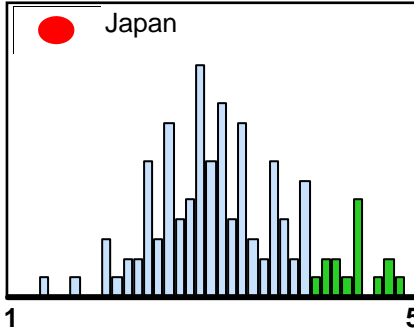
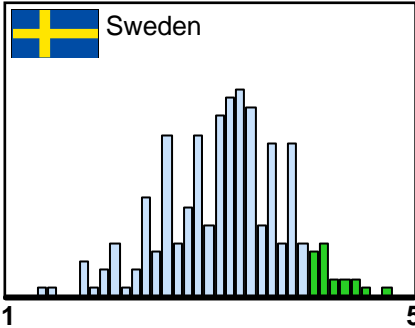
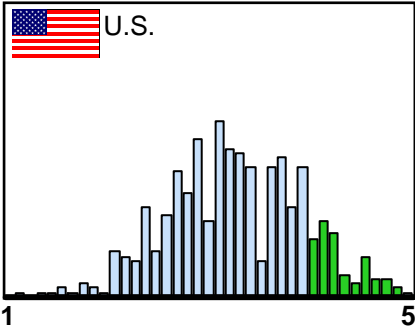
HOWEVER, MANAGEMENT PRACTICES VARY MUCH MORE WITHIN THAN ACROSS COUNTRIES

Distribution of firm level management practice scores – by country



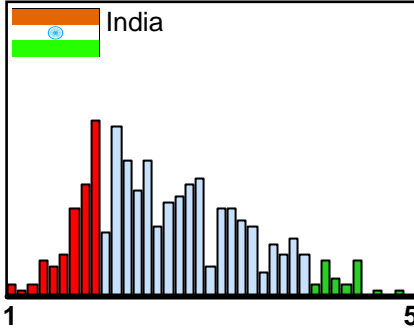
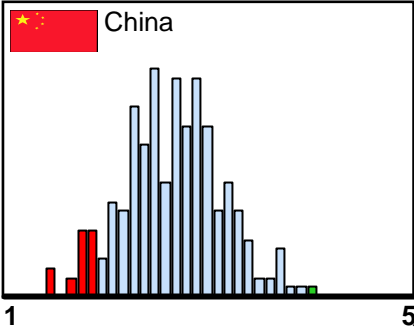
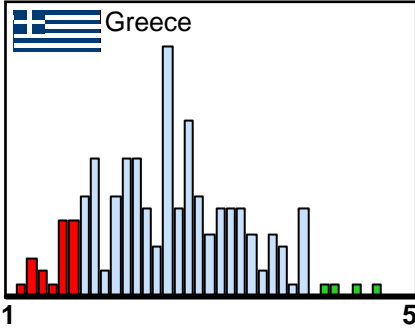
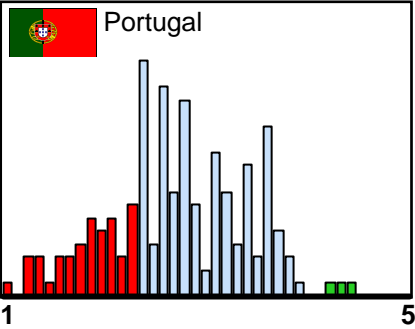
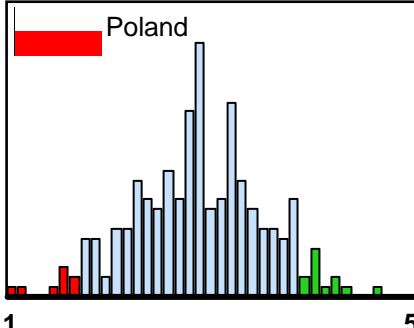
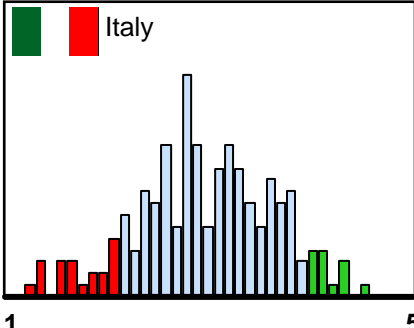
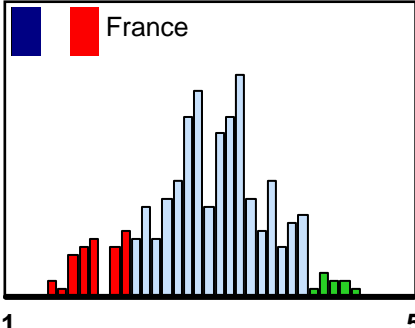
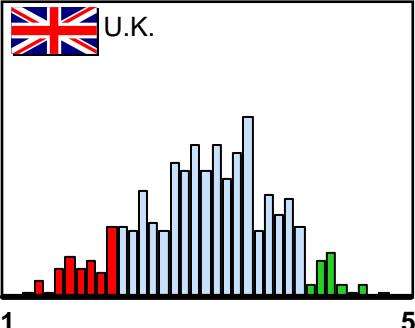
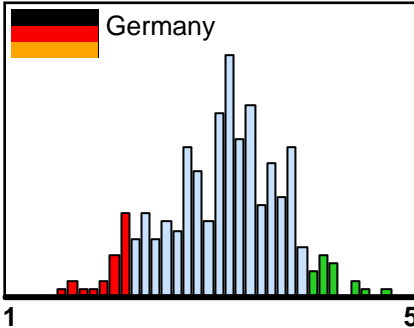
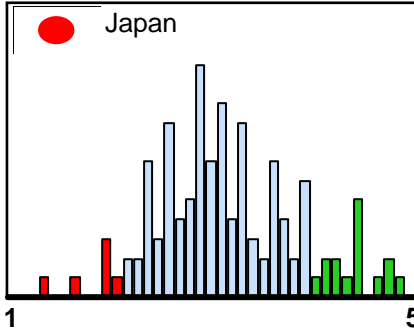
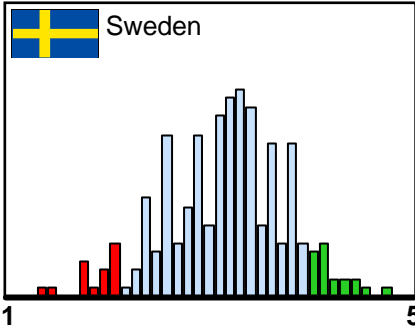
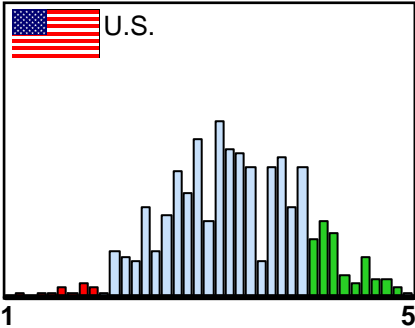
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Distribution of firm level management practice scores – by country



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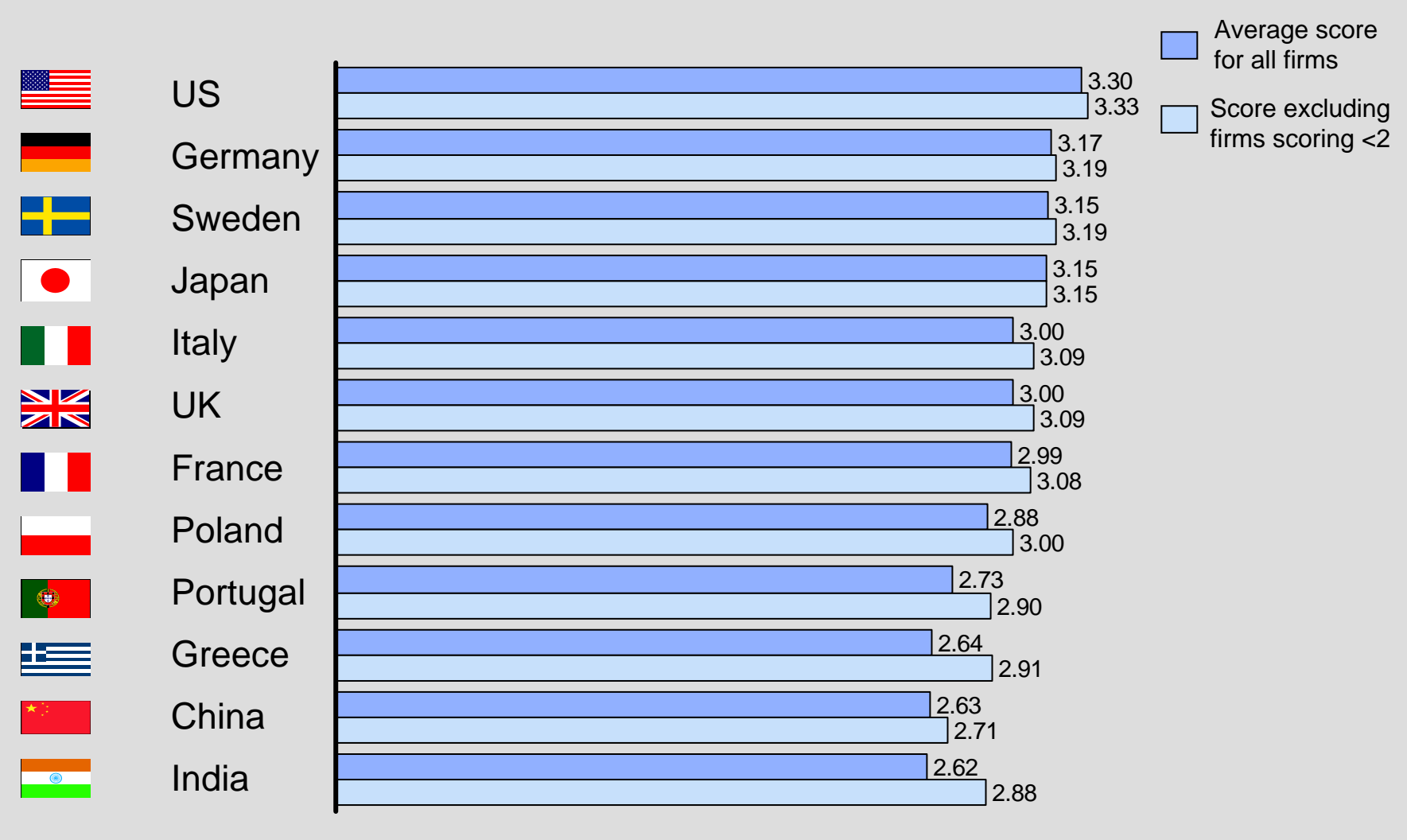
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THE LONG 'TAIL' OF POORLY MANAGED FIRMS PULLS DOWN THE AVERAGE MANAGEMENT SCORE OF LOW PERFORMING COUNTRIES

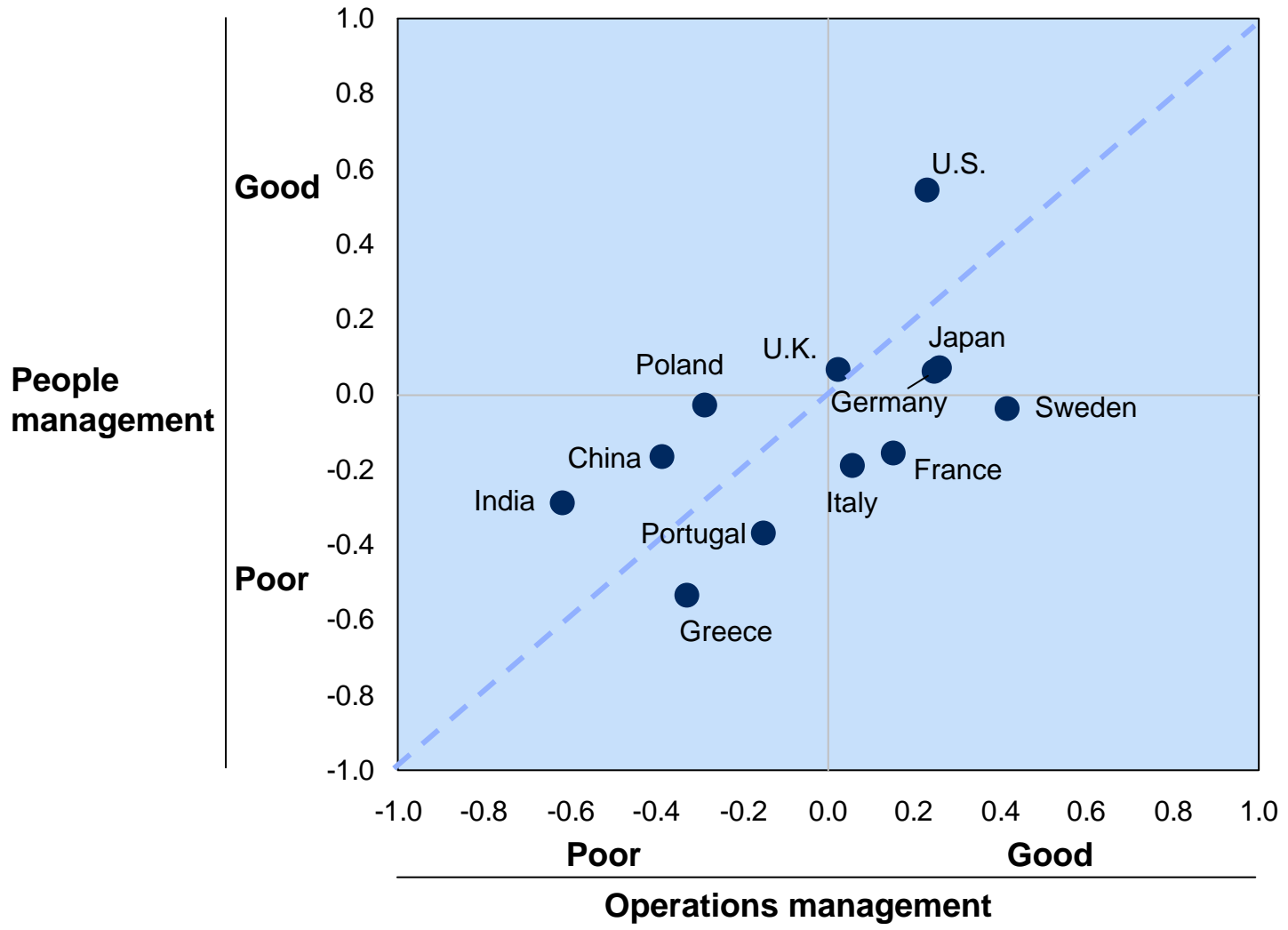
Assessed Management Practice Score – by country



Source: Data collected from interviews as of Sept 24, 2007; 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

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WHAT WE THINK WE ALREADY KNOW...

2005

- 2 factors associated with better management practice
 - Competition and free trade
 - Management selection/appointment based upon merit

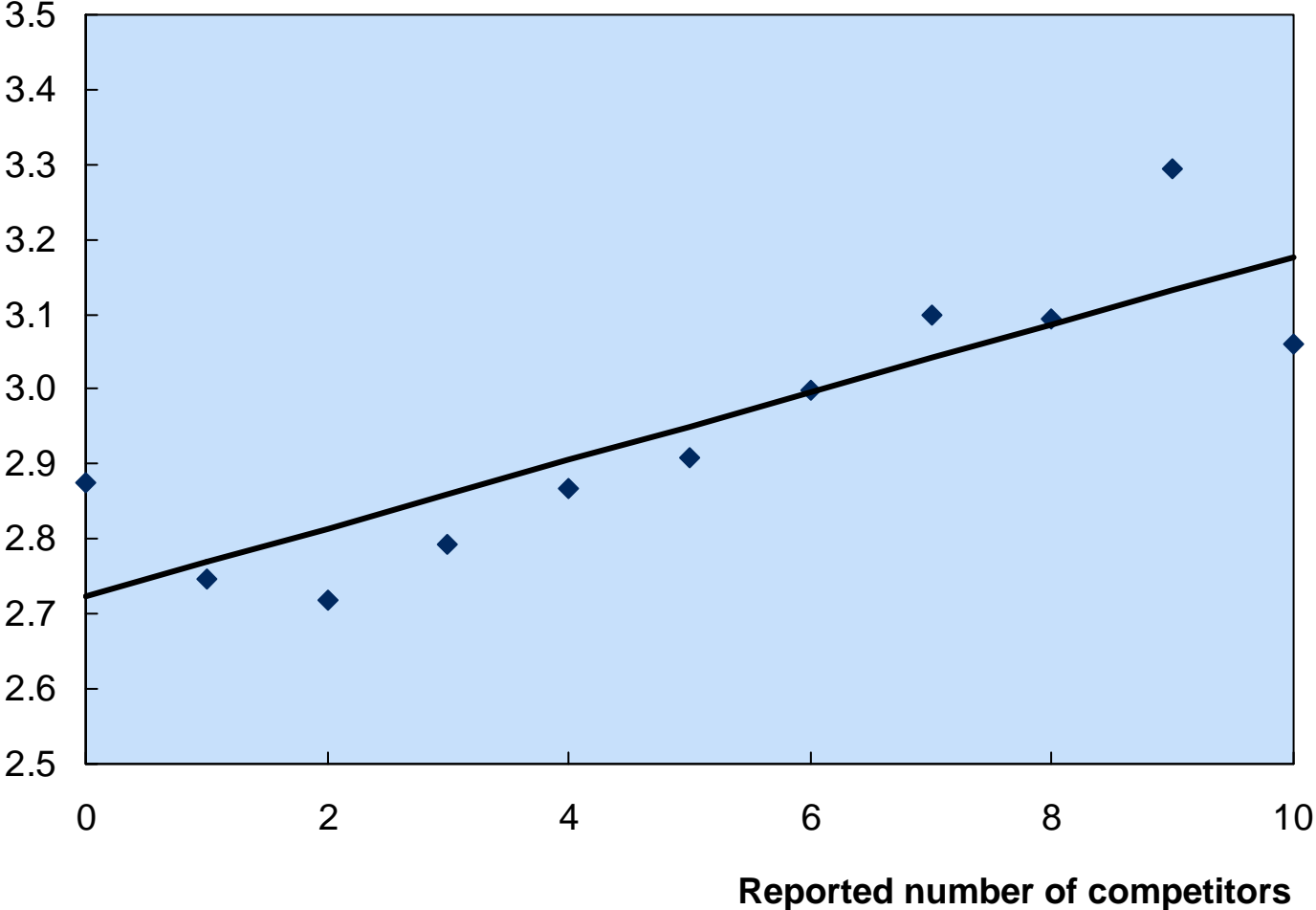
2007

- Confirm key role of
 - Competition and free trade
 - Management 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

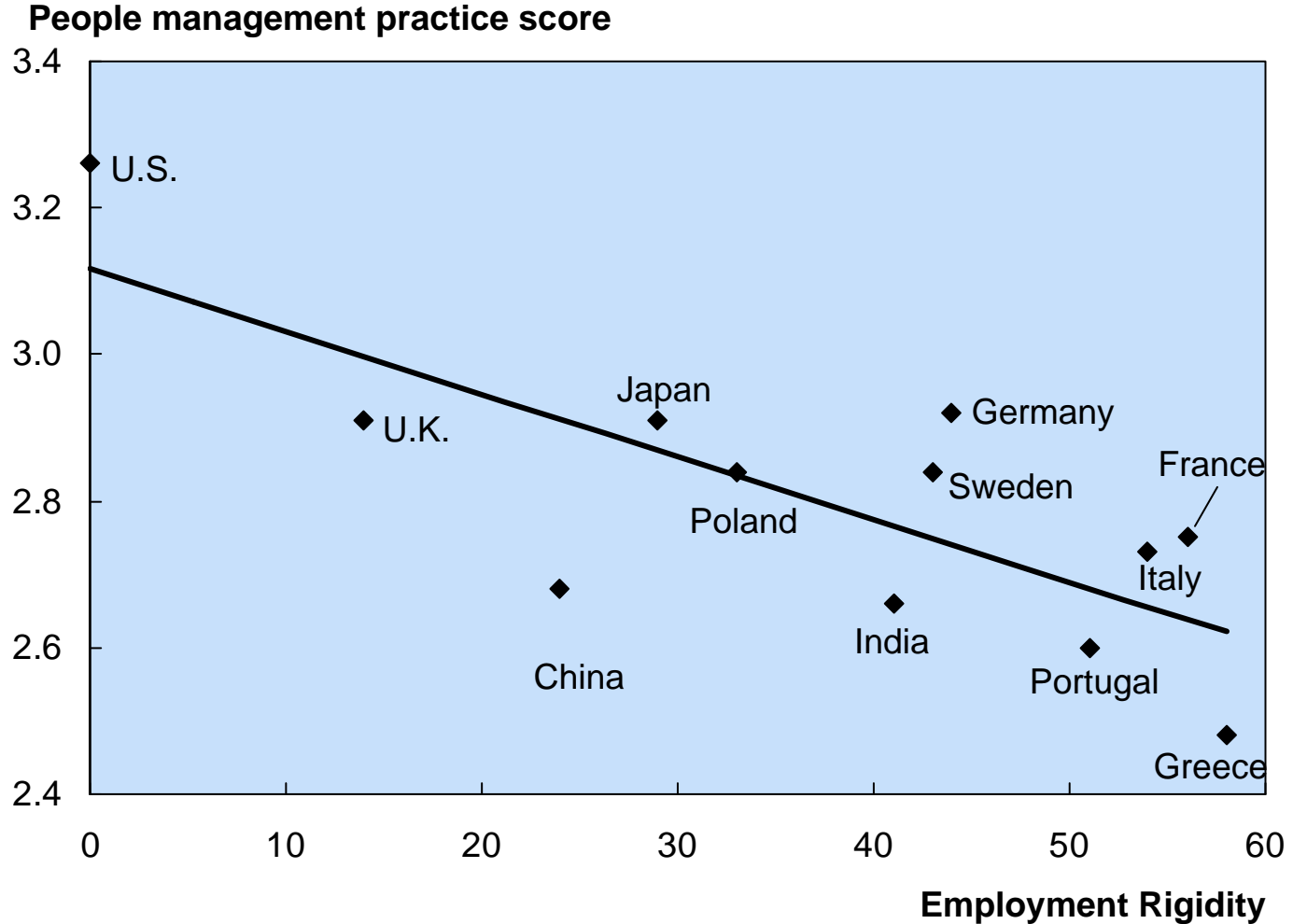
Assessed management practice score





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

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

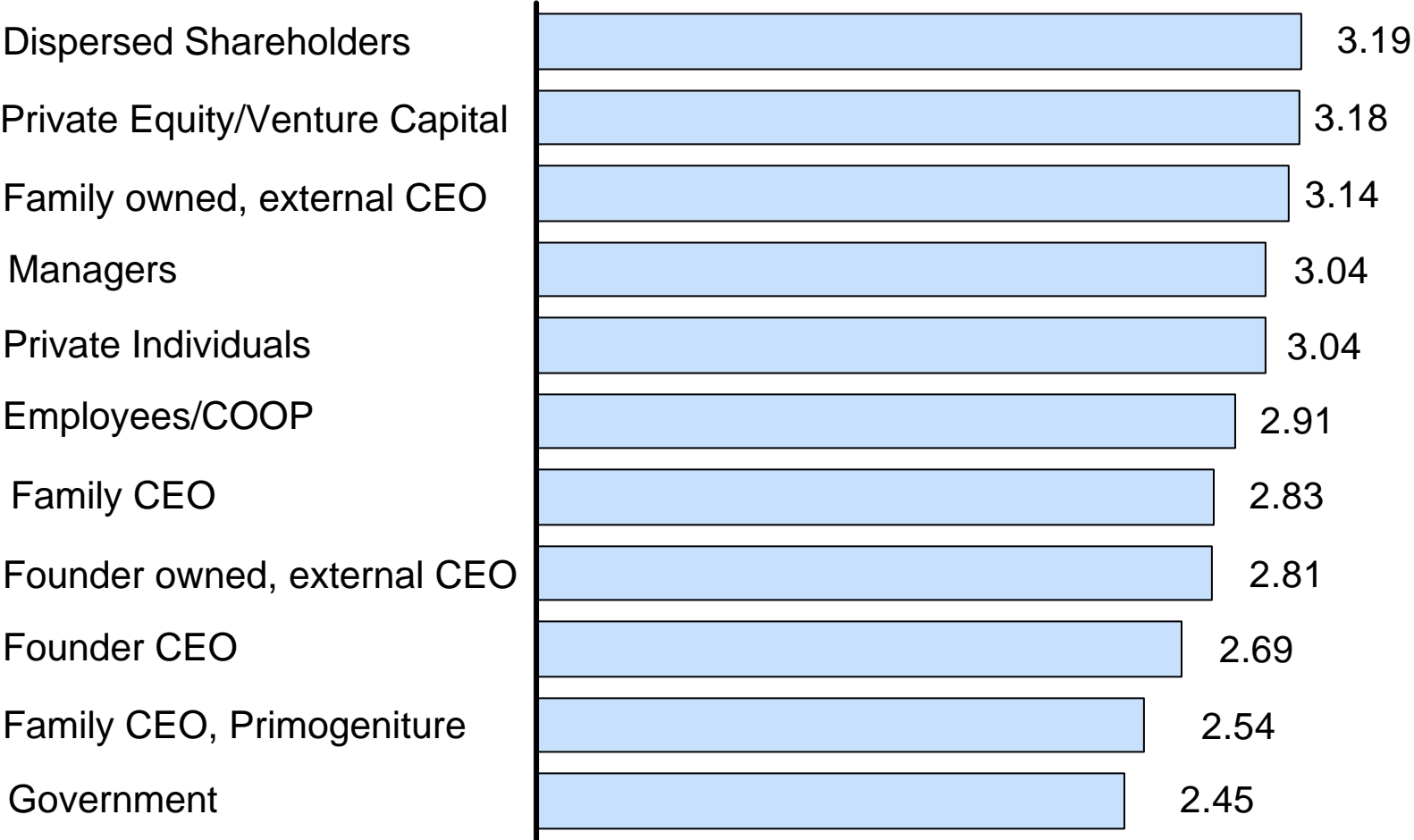


* World Bank "Employee rigidity index"

Source: World Bank; Management Matters dataset

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

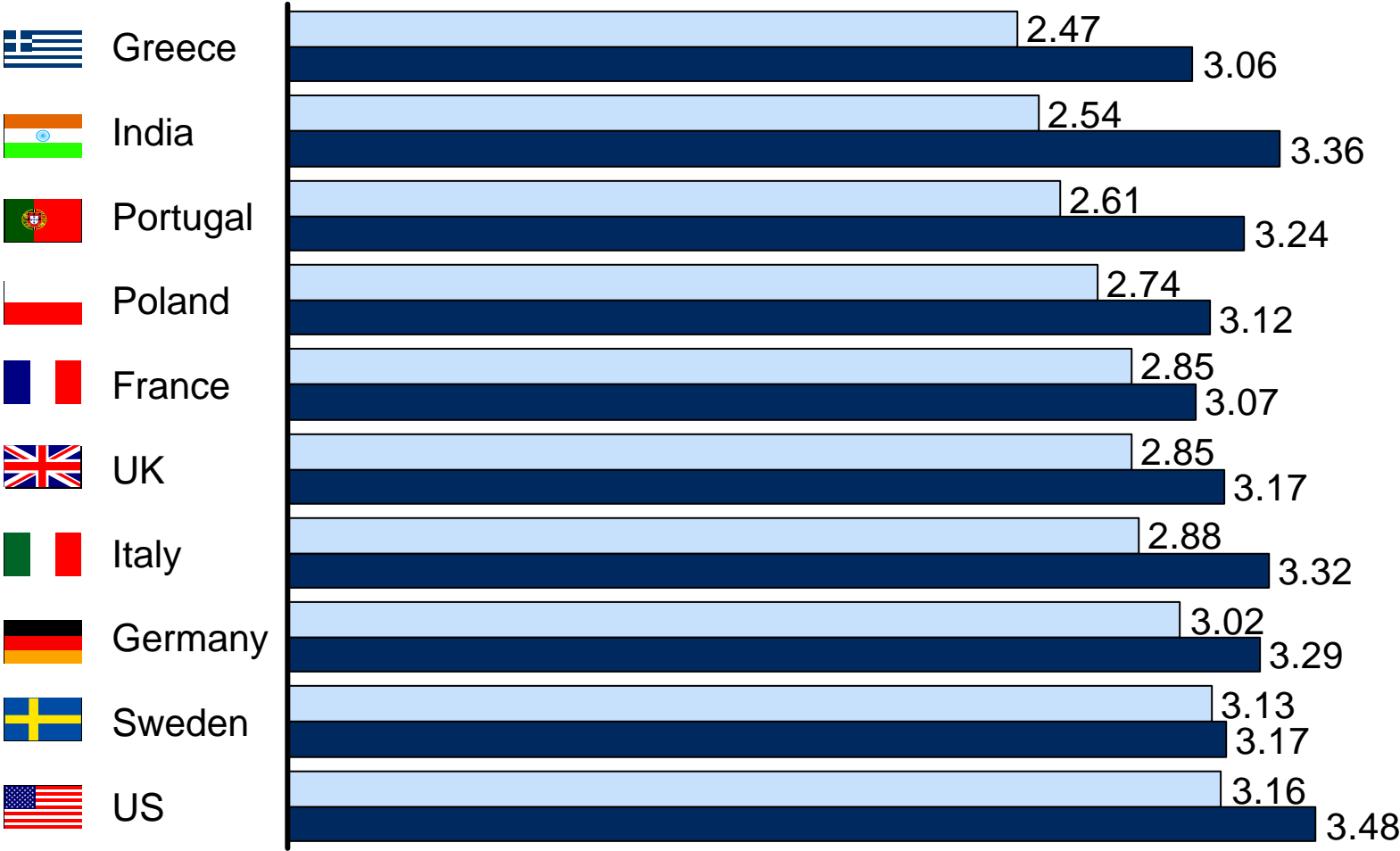
■ Domestic firms



MULTINATIONALS ARE WELL RUN EVERYWHERE

Management practice score— by country

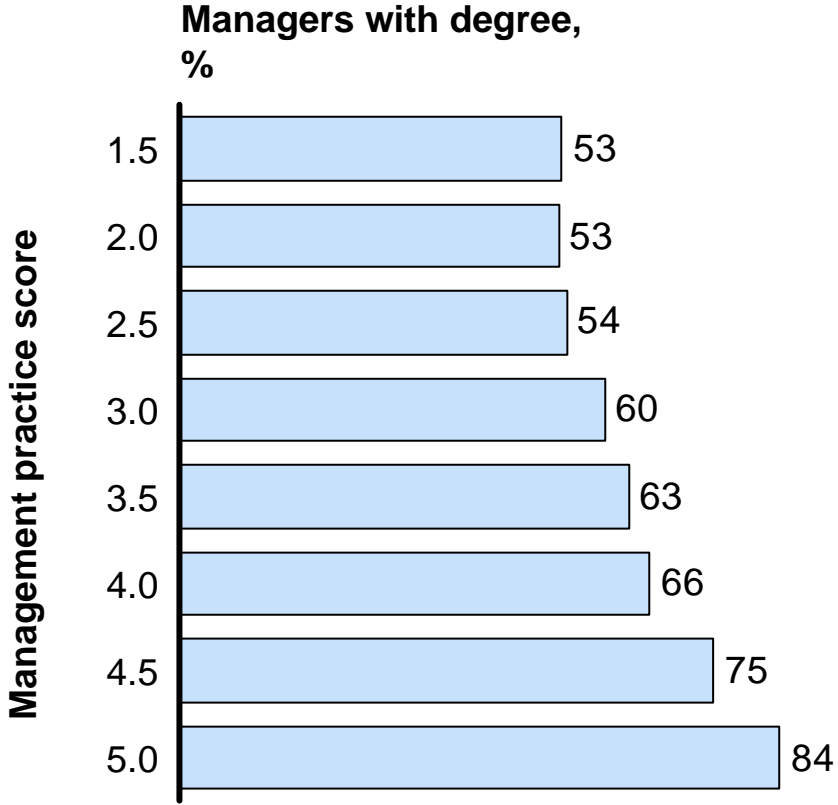
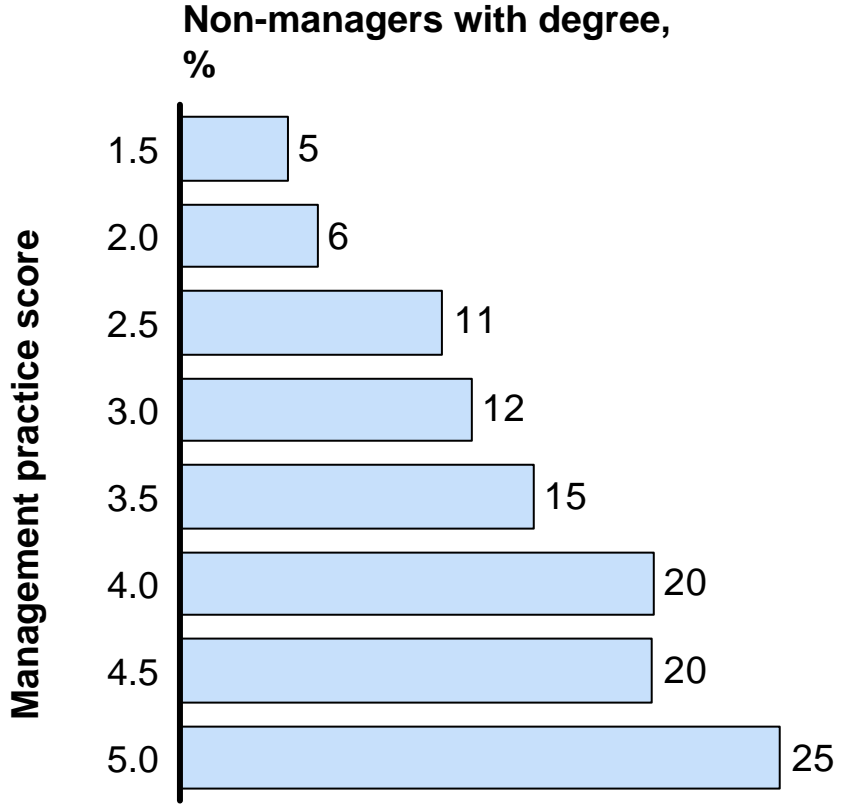
Domestic firms
Multinationals



* China and Japan excluded due to low multinational sample size

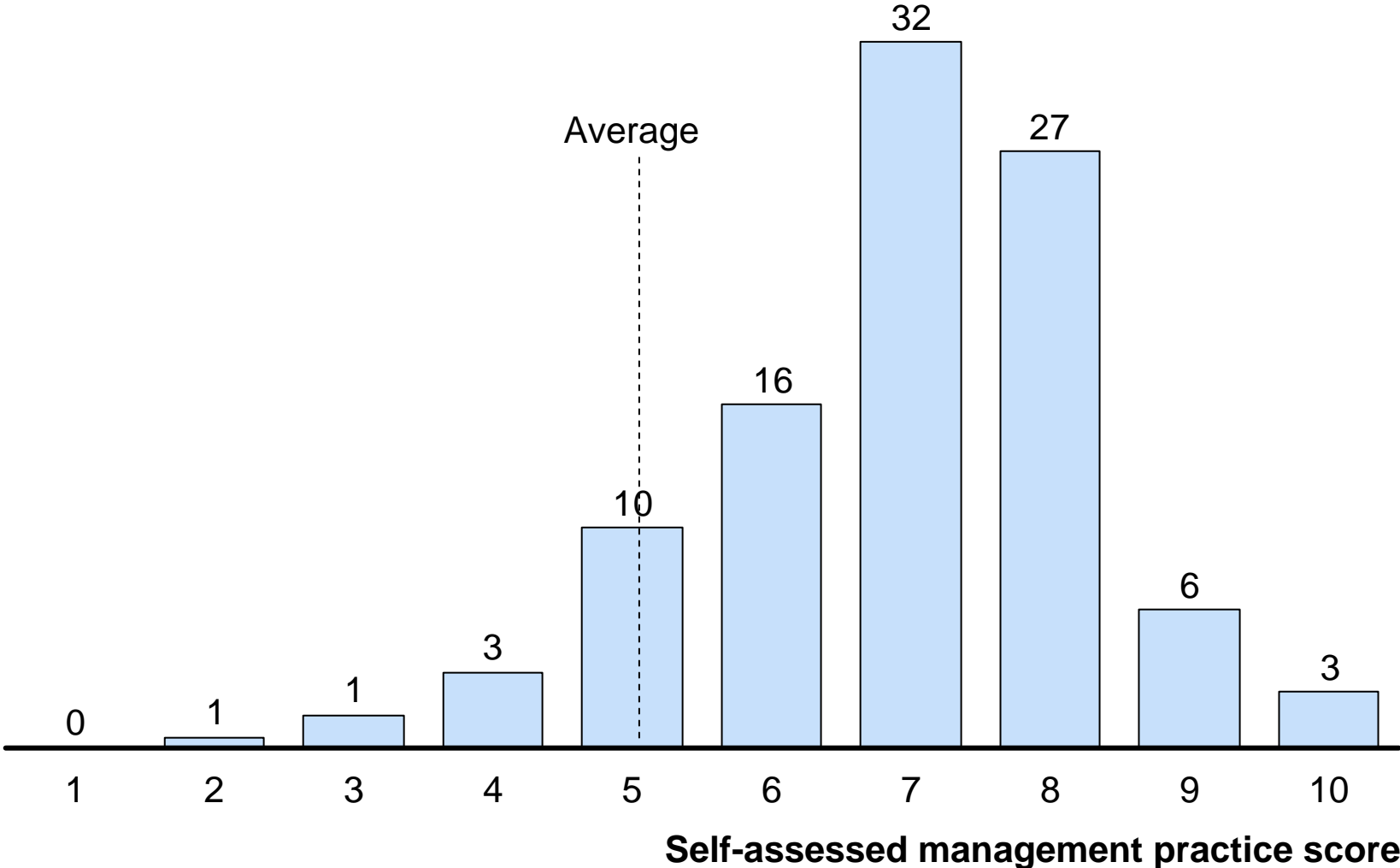


BETTER MANAGEMENT IS LINKED WITH HIGHER SKILL LEVELS OF BOTH MANAGERS AND NON-MANAGERS

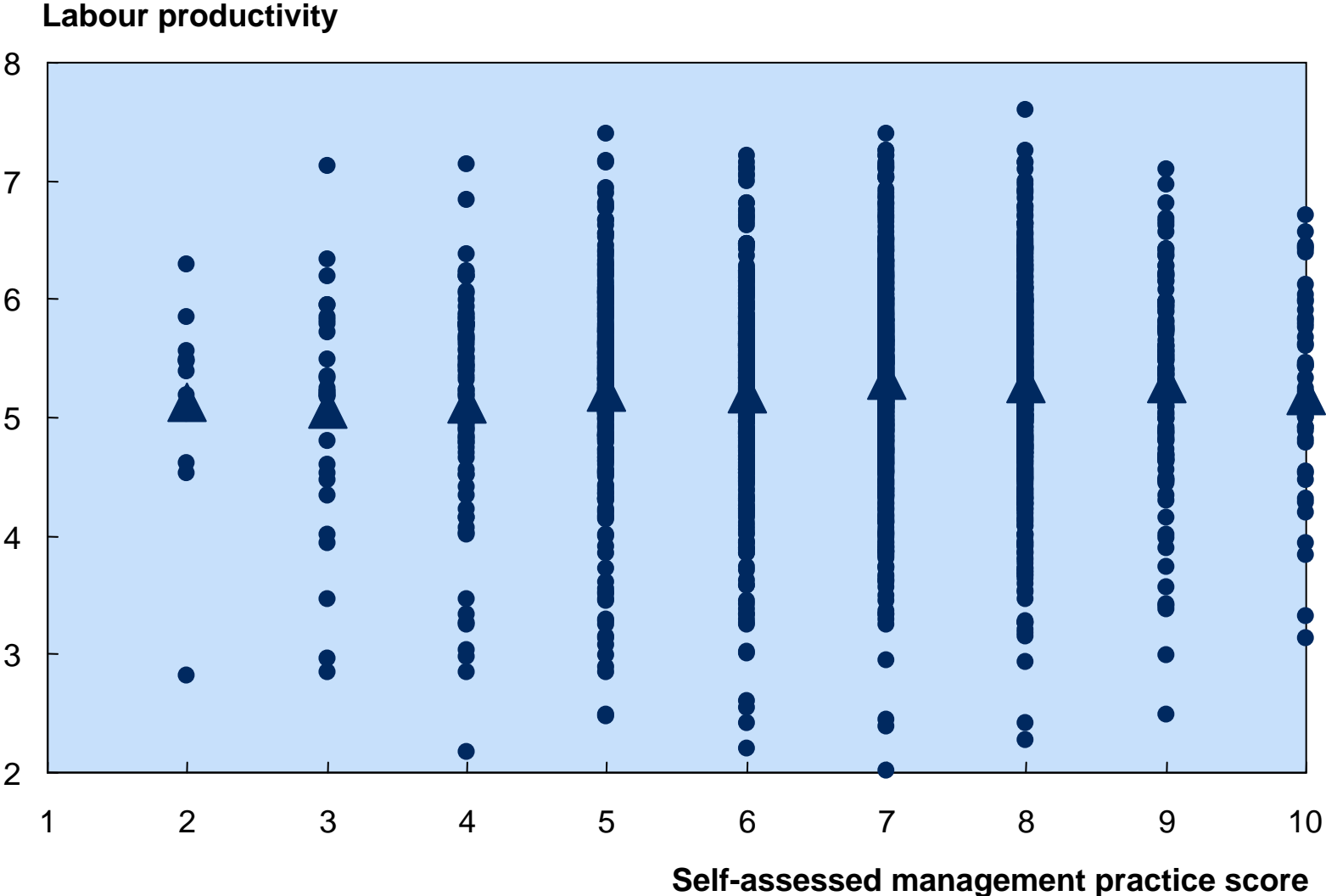


THE AVERAGE MANAGER BELIEVES THEIR COMPANY HAS ABOVE-AVERAGE MANAGEMENT PRACTICE

Percentage

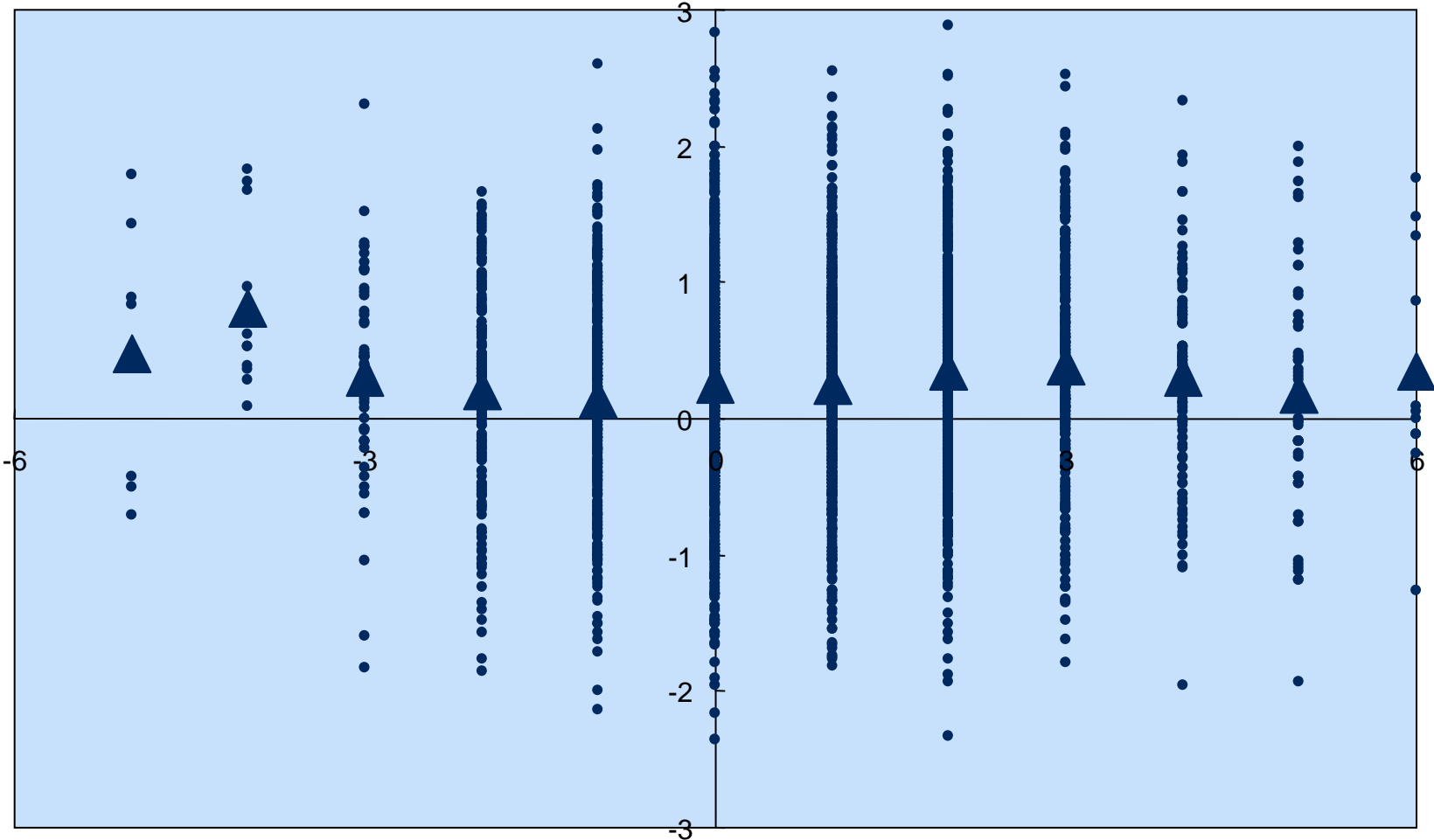


IT TURNS OUT MANAGERS APPEAR TO BE POOR AT SELF-ASSESSING THEIR FIRM'S MANAGEMENT PRACTICE



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

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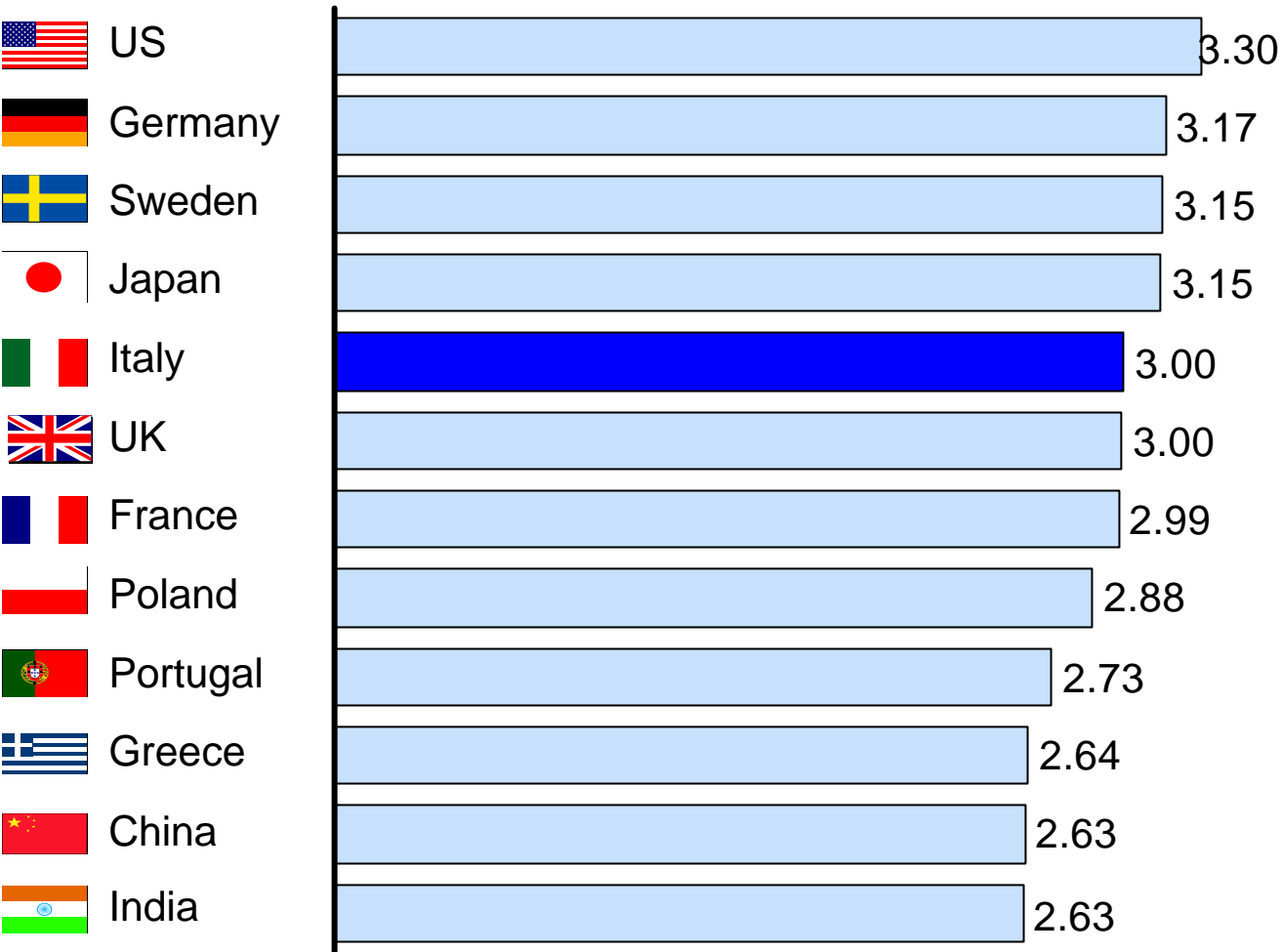
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ITALY IS IN “SERIE B” OF INTERNATIONAL MANAGEMENT LEAGUE

Average management practice score - by country*



Not surprising we showed that good management fostered by:

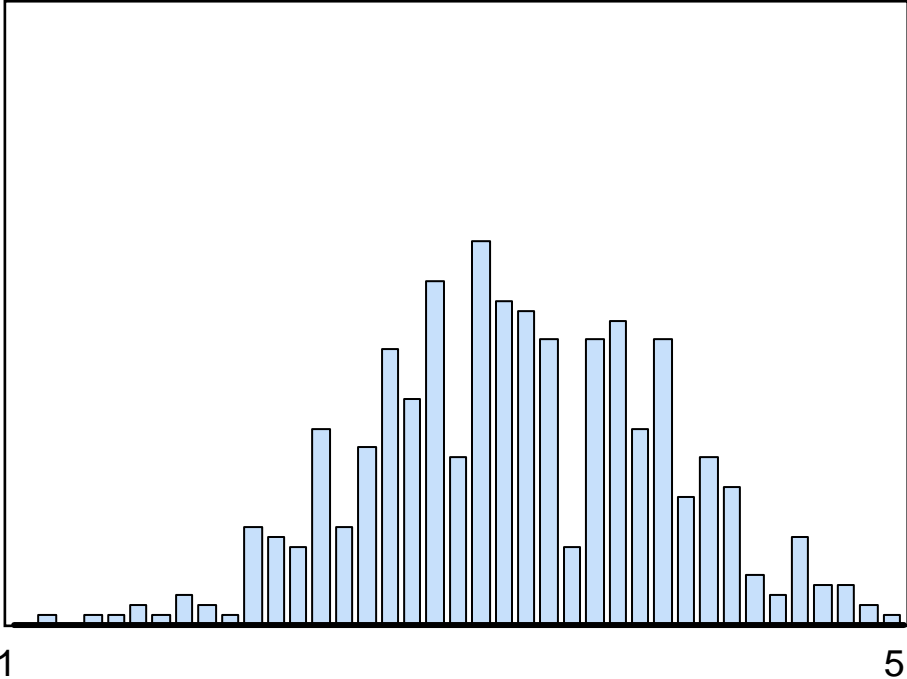
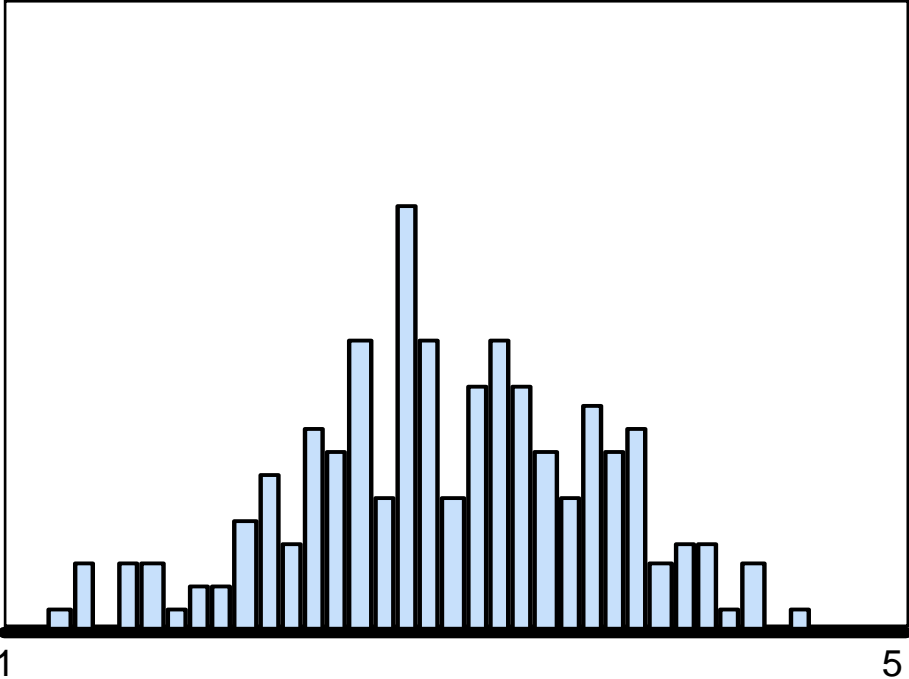
- Competition
- Job flexibility

ONE REASON IS THE PERSISTENT 'TAIL' OF UNDERPERFORMING COMPANIES IN THE ECONOMY

Distribution of firm level management practice scores

 Italy

 U.S.



Assessed management practice score

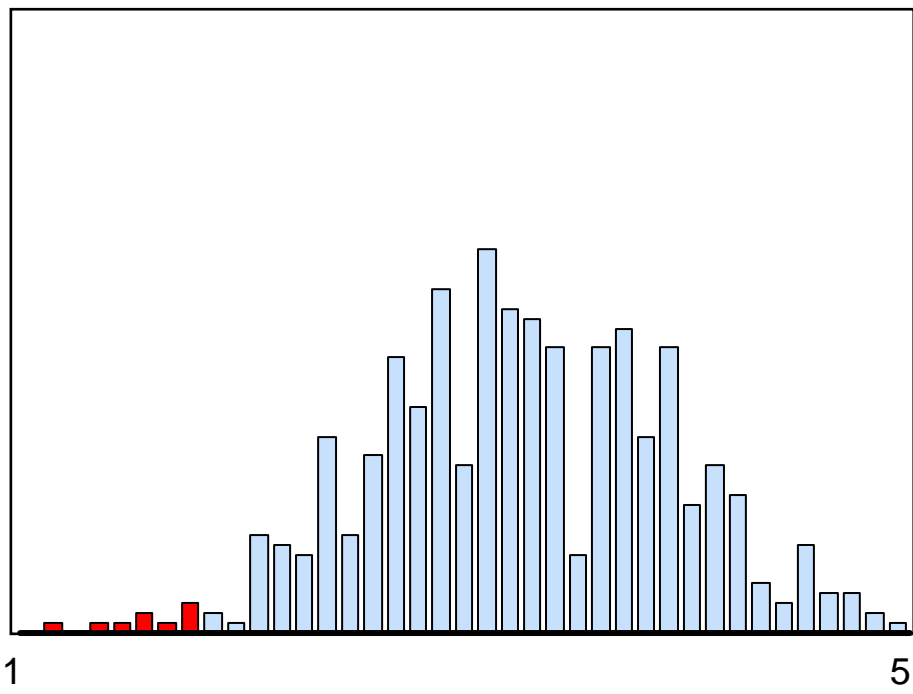
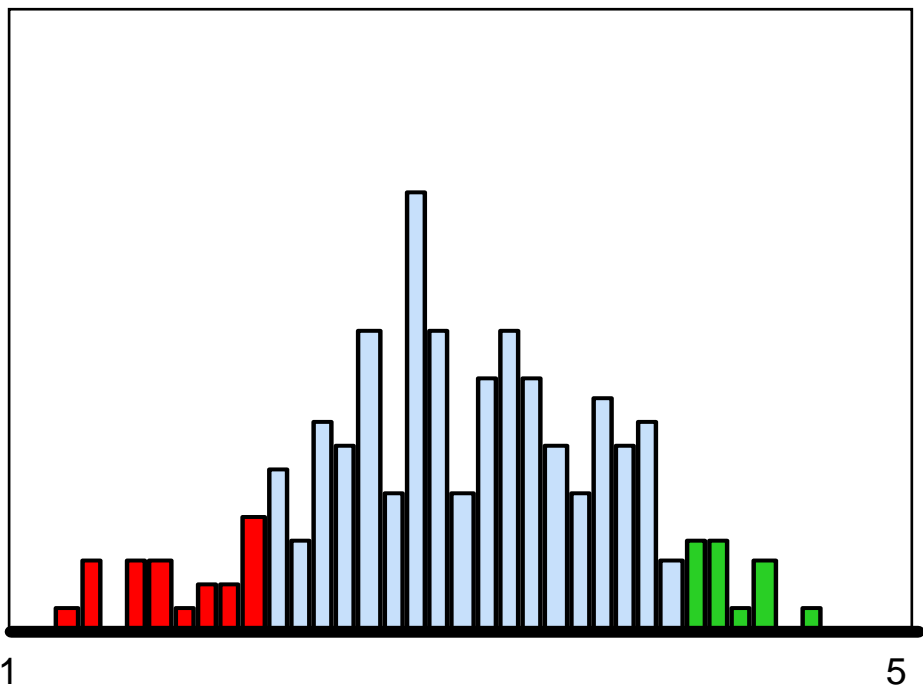
Assessed management practice score

ONE REASON IS THE PERSISTENT 'TAIL' OF UNDERPERFORMING COMPANIES IN THE ECONOMY (LOW COMPETITION)

Distribution of firm level management practice scores

Italy

U.S.



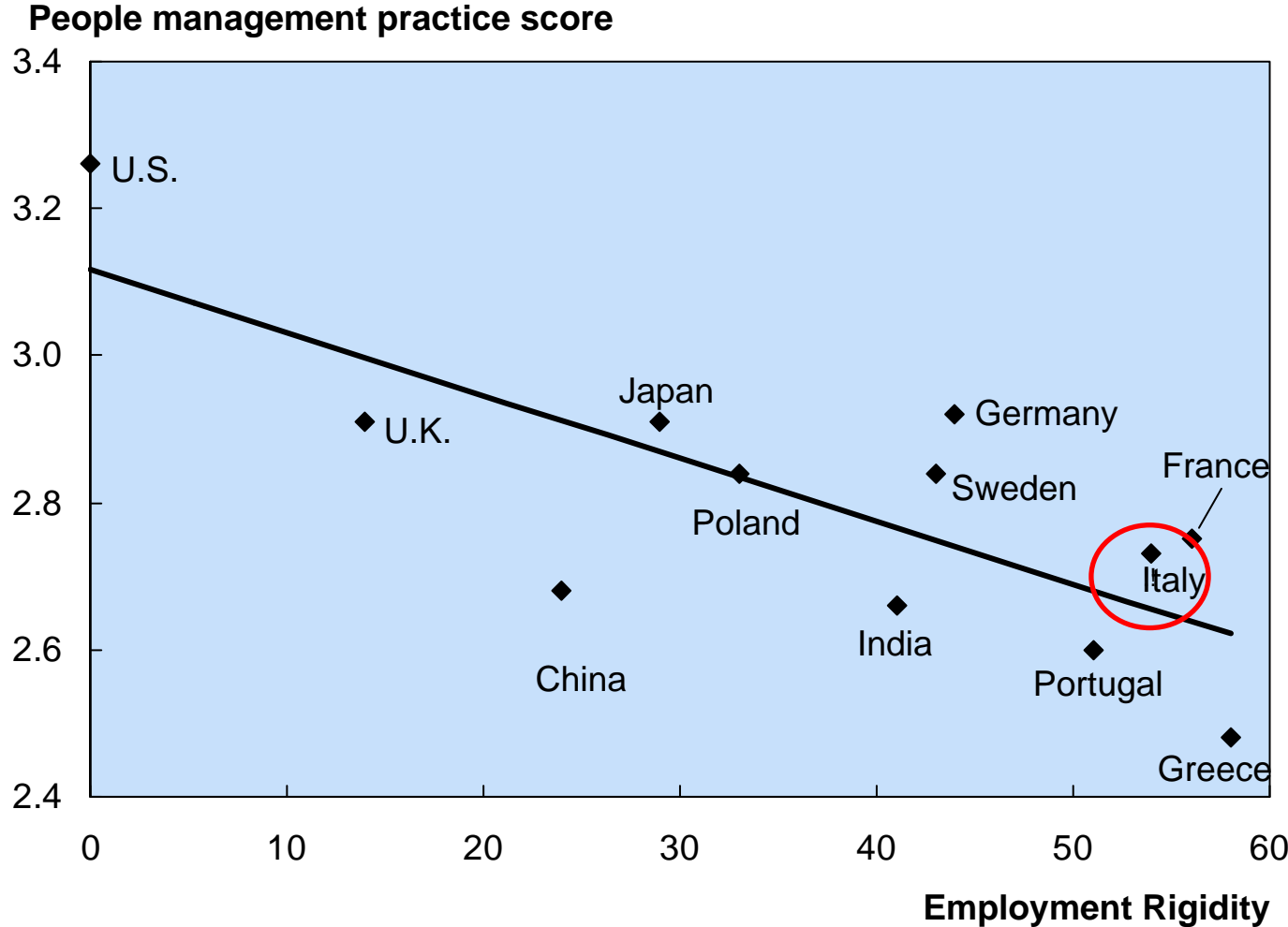
Assessed management practice score

Assessed management practice score



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

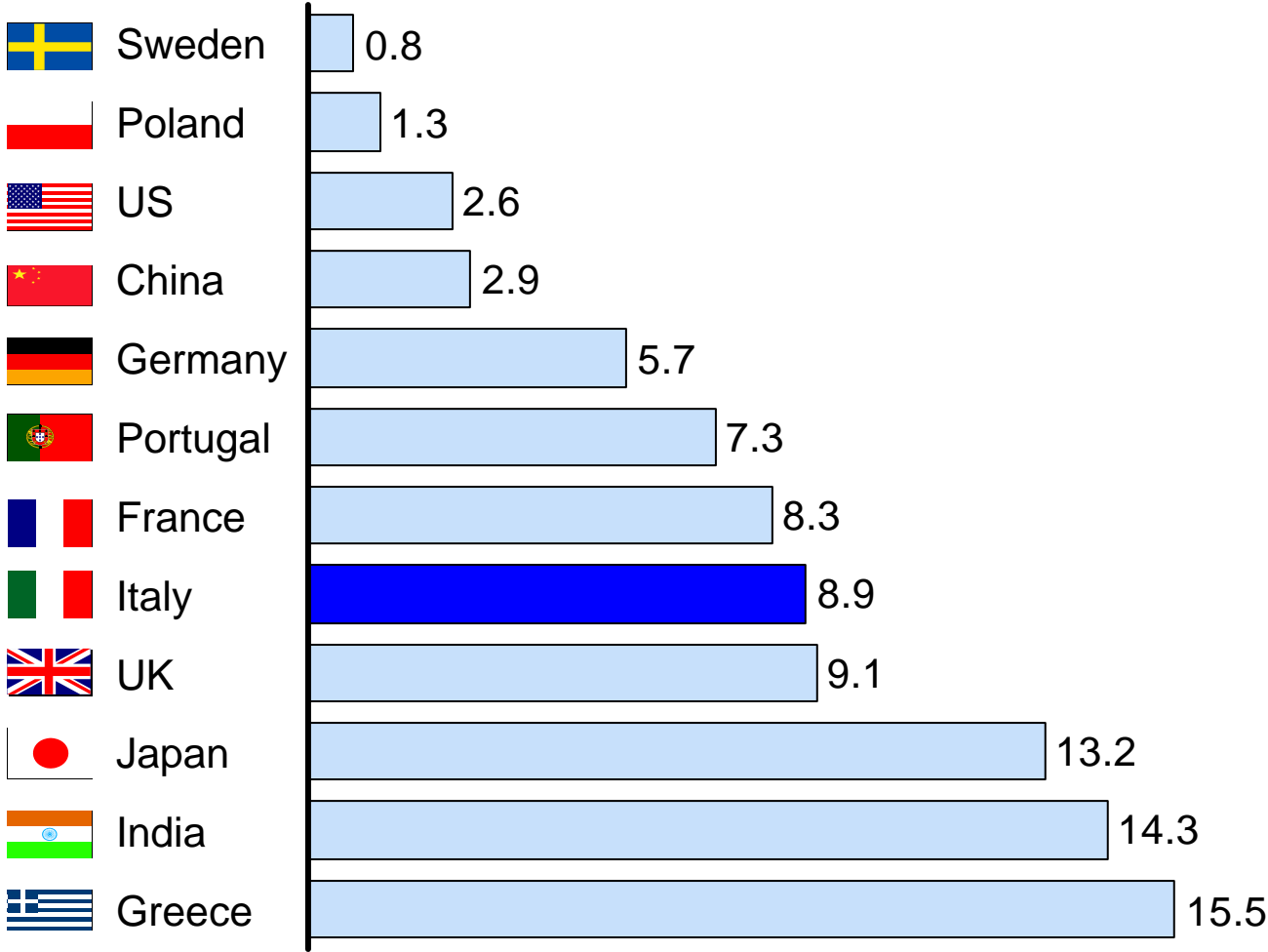


* World Bank "Employee rigidity index"

Source: World Bank; Management Matters dataset

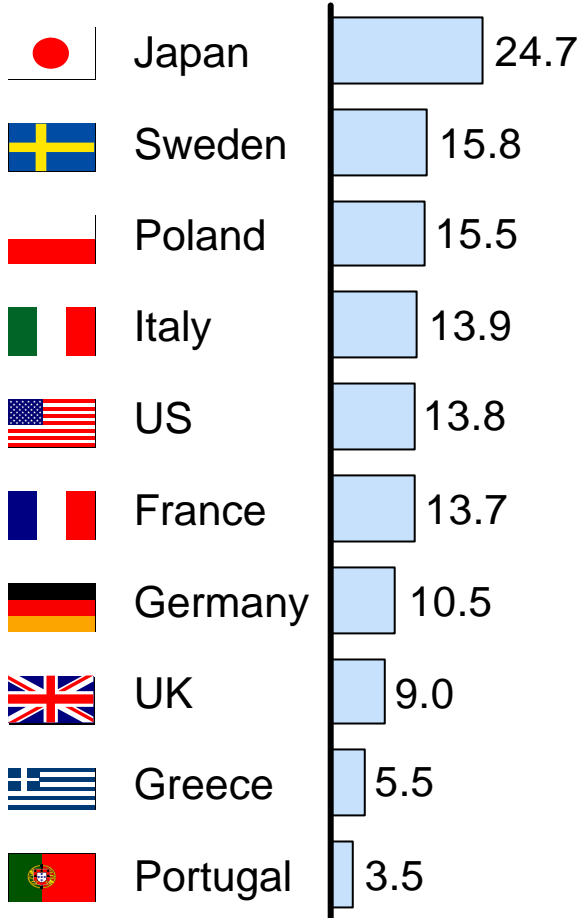
PRIMOGENITURE FAMILY OWNERSHIP IN THE ITALIAN SAMPLE IS MORE THAN THREE TIMES THAT OF THE U.S. SAMPLE

Percentage of firms family-owned with a CEO selected by primogeniture

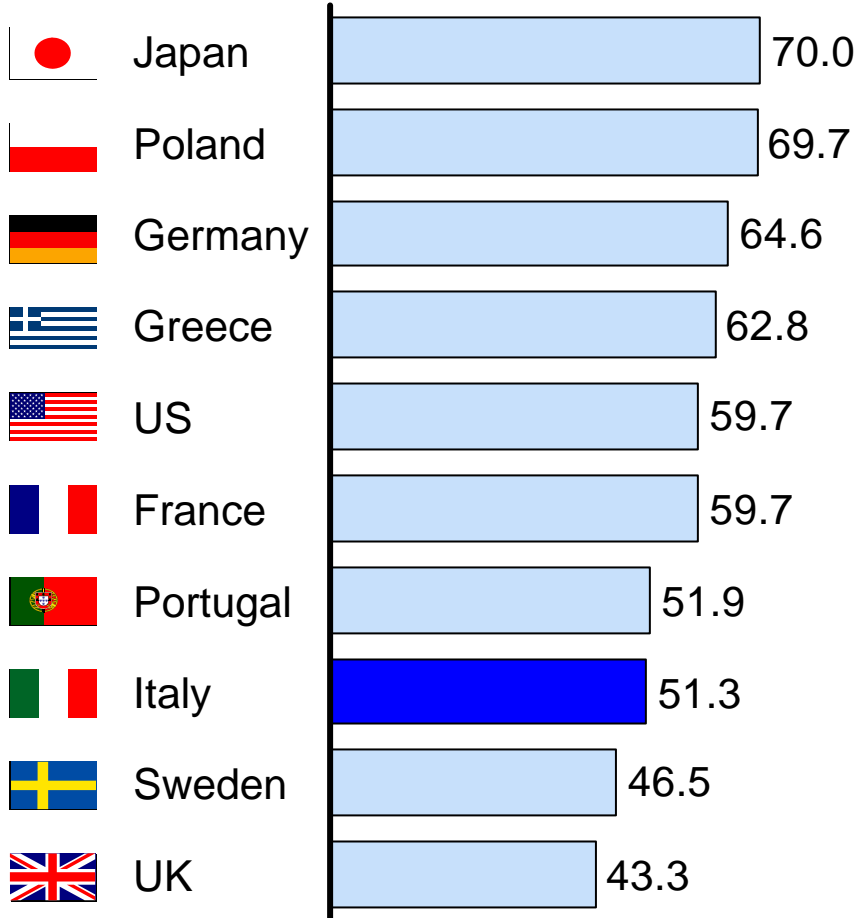


ANOTHER DRIVER OF THE ITALIAN AVERAGE MANAGEMENT SCORE IS ITS RELATIVELY LOW SKILL OF MANAGERS

Average share of non-managers with degree – by country



Average share of managers with degree – by country



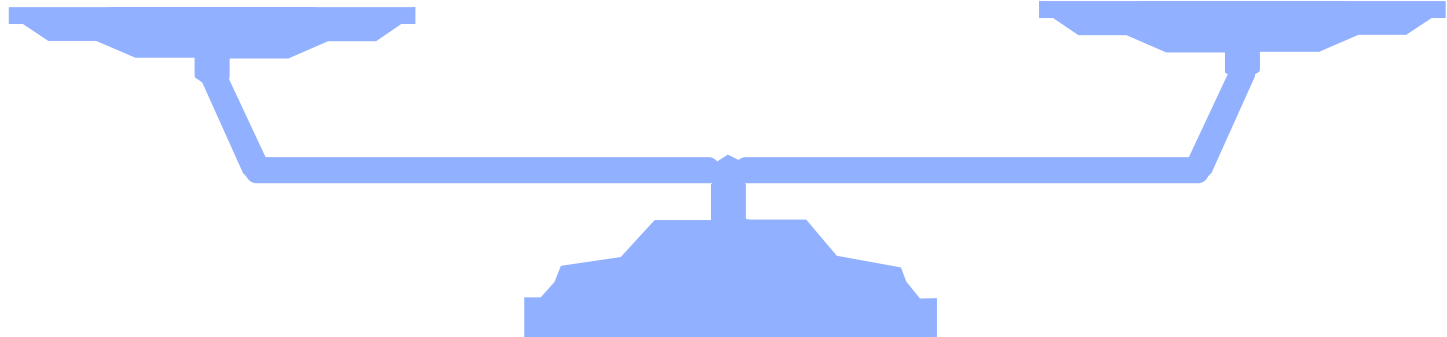
CONCLUSIONS

Positive influences

- Worker skills – design
- Specialized, export-orientated firms
- ??

Negative influences

- Primogeniture firms
- Poorer skills of managers
- Inflexible labour market





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