Management Makes the Difference

How focusing on improving firm management can boost firm performance and enhance Irish productivity

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Executive summary

Both for individual Irish firms facing competitive threats, and policymakers looking for ways to boost national productivity, the imperative for growth is clear. The challenges, especially in recent economic times, however, may seem daunting. Our research suggests that a focus on management is a key way to enhance performance, productivity and growth.

On a macro level, Irish growth depends upon improving Irish export performance. The path to sustainable growth and competitiveness rests on boosting the productivity of the manufacturing sector, which is the main contributor to Irish exports.

However, the contribution of the manufacturing sector to overall Irish Gross Value Added (GVA) has fallen since 2000. This fall in output raises concerns about the productivity of the firms in this sector. This is critical: overall sector productivity improvements must be made at the plant level.

Management is a key factor in determining productivity. A decade-long global study of management practices based at the London School of Economics, along with colleagues from Stanford and McKinsey & Co., shows not only that management can be measured, but also that strong management is linked to better productivity performance.

The standard of management in Irish manufacturing firms is not only poor but is losing ground globally. Ireland has not experienced the same improvements seen in the UK, US, China and India in the period since 2008 and still shows notable weakness in the area of people management, even within the multinationals.

Much of this lagging performance is driven by a few structural factors, mainly firm size, ownership and the overall level of skills of plant managers and employees. After taking these into account, poor Irish management is mainly explained by the failure of Irish managers to adopt the specific practices that are linked with better plant performance.

The failure to adopt these specific practices does not seem to be due to the impact of the financial recession or other external constraints on management but rather to factors which manifest themselves at the operational level. In particular, three factors prevent Irish managers from benefiting from potentially performance-enhancing practices:

- managers are not best placed to diagnose weaknesses in their own organisations;
- plant-level decision-making does not seem to be evidence based;
- and managers may not have the autonomy required to implement change.

Experiments to improve management practices at the firm level have shown that correctly designed interventions targeted at specific areas of weakness can overcome these barriers to the adoption of good practice and drive significant, quantifiable and sustainable improvements to productivity as well as to the firm’s bottom-line performance.

For both managers and policymakers, these findings lay out the challenges, but they also point to clear opportunities to boost productivity and performance through improvements to management practices.
Introduction: Manufacturing and Irish Growth

The path to sustainable growth rests in large part on boosting the productivity of the Irish manufacturing sector whose competitiveness is critical for Irish export performance. This export-led growth will boost national productivity, a key economic indicator.

As they operate in an open economy with a small domestic market, Irish firms must look to export markets in order to grow, realize economies of scale, and/or achieve specialisation.

Manufacturing firms are a key contributor to Irish exports and to the economy as a whole employing 12% of Ireland’s total labour force. Manufacturing output also accounted for over a quarter of Ireland’s total GVA in 2010. The contribution of the sector to the economy has fallen by over 6 percentage points since 2000 however, and this drop in output raises questions about its competitiveness (Figure 1).

![Figure 1 The contribution of the manufacturing sector to the Irish economy](image)

Improved competitiveness can be achieved through better productivity. At the national level, productivity determines the size of the “economic pie” available, so boosting productivity will bring with it higher levels of national prosperity and living standards. For the Irish manufacturing sector productivity improvements will need to be achieved at the plant level.

While firms understand the benefits of being more productive, the challenge for individual managers lies in maintaining and improving output, especially in an environment of increasingly limited labour and capital investment due to a highly competitive international trading environment.

This then presents a challenge for managers: in a complex operating environment, with limited resources, where can they look to achieve these productivity gains and performance improvements? One key consideration - and the focus of this report – is the standard of management practice.

Management practices can be measured, and they matter for productivity

Many factors such as innovation and technology play a role in improving productivity, but alone these are not the complete story. While the popular press, business schools and policymakers have long stressed the importance of

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2 Source: Central Statistics Office of Ireland, November 2010
management, economists have traditionally paid less attention to the role of management in determining firm performance, mainly due to absence of high-quality data to test this hypothesis.

Management can be measured
To address this research gap and investigate the role of management for performance a partnership between the Centre for Economic Performance (CEP) at the London School of Economics (LSE) and McKinsey & Co. in association with colleagues at Stanford University pioneered an approach to measuring management. They developed a tool to assess management practices and compare the standard of management practice with economic measures of performance.

The tool measures management practices across four broad areas:

- Shopfloor operations: Have companies adopted both the letter and spirit of modern manufacturing techniques?
- Monitoring and performance management: How well does the firm track and review its key operations? How are these measures communicated? How much are staff members engaged in this process?
- Target management: How does the firm set and track its main goals? What are the consequences for failing to meet targets?
- People management: What systems are in place to recruit staff? Does the firm evaluate employees and reward based on performance? Is there an active promotion system that strives to maintain and incentivise employees?

See the Appendix for a full description of the methodology utilised.

Better managed firms are better performing firms
While it is perhaps not surprising that management matters, what is significant is the extent to which it makes a difference for performance.

The global study of over 10,000 manufacturing firms and close to 700 retail firms across 20 countries over the past decade, has clearly established that higher-quality management practices are strongly associated with higher productivity. This same link also holds when studying public sector organisations, specifically hospitals and secondary schools across seven countries.

Better management, as scored according to this tool, is associated with higher labour productivity, greater return on capital employed and stronger sales growth across all countries and cultures studied. The relationship also holds when controlling for known firm-based differences, such as company size, location and sector background (Figure 2).

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3 See www.worldmanagementsurvey.org for an overview of the global study and related methodology and publications.
4 These associations are statistically strong and economically non-trivial. See Bloom & Van Reenan, 2007.
The effect of improving management practices on productivity, profitability and competitiveness should not be understated. When comparing across countries and firms, management practices can account for up to a third of the differences in productivity.

Improving management is associated with significant gains at the firm level. For example, a one point improvement (on the five point scale) in a firm’s score is associated with 57% higher sales per employee, 4.4% higher sales growth year on year (over 5 years) and 1.8% higher return on capital employed.7

The research also indicates that firms can achieve higher productivity gains through focussing on improving their weakest management practices and bringing these up to average – rather than focusing on becoming world class in one or two dimensions. For organisations, this suggests that the assessment tool can point to the specific management practices and highlight where firms should target resources for the greatest performance improvements.

**Management practices in Ireland**

The application of the methodology to Ireland in 2008 by the global study showed a standard of management lagging that in many other countries (McKinsey & Company, 2009).

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6 Figure adopted from Dorgan, Layton, Bloom, Homkes, Sadun, & Van Reenen, 2010.

7 Based on 3,338 manufacturing firms of greater than 100 employees. See Bloom & Van Reenen, 2010.
Following the publication of *Closing the Gap* (McCarthy, Homkes, Condon, O’Connor, & McMahon, 2010) which highlighted the implications of the Irish research for policy in Ireland as well as the application of the methodology to a broader Irish audience, the Irish Management Institute (IMI) extended the original Irish study by interviewing 150 manufacturing firms across Ireland.  

The results of this research are presented in this report and provide insights into Ireland’s ongoing performance and the potential effectiveness of government policy interventions to address the management gap.

**Irish management practice is still poor and losing ground globally**

The 2010 IMI research shows that despite the proven importance of good practice management in enhancing firm performance, the standard of Irish management practices is low. Ireland’s manufacturing firms still lag considerably behind the US (the top performing country) and the UK (Ireland’s closest competitor for exports). Ireland ranks 9th out of the 21 countries assessed to date, with an average practice score of 2.92 on the five point scale (Figure 3).

The recent 2010 work also did not show an improvement in Irish management practices between 2008 and 2010. This contrasts with the findings for other countries of the global study based at the LSE, which showed either stable or improving management over time when in 2009 the team re-interviewed six countries (originally interviewed in 2006/2007) including the UK, US, China and India (Homkes, 2010/11).

It is of concern that Ireland has not experienced the improvement in management scores seen in many countries since 2008. While on a methodological note, the same firms were not re-interviewed in the 2010 work as they were in the LSE study, our hypothesis is the findings would resonate even if identical firms were re-interviewed.  

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8 The IMI also interviewed 133 firms across the services (including the financial services) retail and wholesale trade sectors. The findings of this research are forthcoming.

9 This is because the 2010 sample of firms was representative of the spread of manufacturing firms in Ireland in order that it would contained the same breakdown of subsectors, firm size, ownership type and other firm characteristics as in 2008. See Figure 17 in the Appendix which outlines the spread of firms interviewed across subsectors.
Differences between firms in Ireland drive the cross-country management rankings

Though Ireland lags towards the bottom half of the global rankings, it is important to note most of a country’s management average score is determined by the variation across the firm scores within it. Over 80% of the cross-country rankings are due to internal-country variation in management.

Top performing countries have few low-scoring, underperforming firms. In contrast, over 20% of Irish manufacturing firms score less than a 2 on the 5-point scale, giving Ireland a significant “tail” of underperforming firms not seen in other countries (Figure 4).

![Management Score (1=poor management, 5=best management) distribution](image)

**Figure 4 Management in Irish manufacturing, 2010**

When compared with the UK, its main competitor for manufacturing exports, Ireland has approximately six times more underperforming firms (Figure 10).

**What explains persistent poor management in Ireland?**

The gap between Ireland and better performing countries globally can be attributed in part to factors which relate to the business environment and the structure of the firms. The global research identified certain factors which impact a country’s overall management performance, and this set of factors has shown to matter not only for the manufacturing industry but also for retail firms as well as public sector organisations, such as hospitals and schools.

Irish firms falter in specific management practice areas, however, and this latter point goes farther in accounting for the remaining management gap between Ireland and the best performing countries.

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10 The Ireland 2008 score is across 151 manufacturing firms interviewed. The 2010 score is the mean management score across 116 different firms interviewed taken from comparable sectors.

11 This score indicates a general absence of processes and practices across areas of accepted best management practice within the firm.
Structural factors account for some of the gap

The previous Irish management study noted approximately 40% of the management performance gap between Ireland and the US (the top performing country) could be accounted for by these structural factors.\(^{12}\) The three factors which most strongly related to performance are company size, firm ownership and the skills levels of managers employed. Our 2010 research confirmed that the relationship between these structural factors and management performance persists in Ireland.

Size matters: Larger firms are better managed. In Ireland, over 60% of the tail of underperformers is made up of firms with less than 150 employees (Figure 11).

Ownership plays a role: Certain types of ownership are associated with better performance. Family owned firms continue to be the worst managed, and this is especially the case for family-owned, family managed firms. In Ireland, nearly 30% of the firms sampled fall into the category of either family-owned or founder-managed, and these firms also represent over half of those within the tail of poorly performing firms (Figure 12).

Multinational enterprises (MNEs) are consistently better managed: Across the world, in terms of management MNEs perform better than their indigenous counterparts, and this is also the case in Ireland. The presence of multinationals within a region is associated with better management practice in domestic firms, possibly transmitted through migration of employees and knowledge and through commercial interactions. Despite the large multinational presence in Ireland,\(^{13}\) however, Irish domestic firms do not seem to be reaping the gains which occur in other countries. Irish domestic firms perform roughly 20% behind multinationals in terms of management practices (Figure 13). As this finding is of concern, it points to the need for further research to investigate why this might be the case.

Skills are key: Globally, better managed firms are those that employ highly educated managers and this link between skills and management is manifest within the Irish context (Figure 14). Not only are higher levels of education associated with better management, but skills clearly play a direct link in promoting productivity. A more skilled workforce and managerial team enables firms to innovate, respond more flexibly and develop and apply new ideas and knowledge, which translate to more efficient processes and business models.

Together, these structural factors provide insight into potentially effective ways of targeting management development interventions, education and training and other supply-side measures to improve Irish management.

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\(^{13}\) 10% of manufacturing firms in Ireland are foreign owned MNEs, which account for around 50% of employment in the manufacturing sector here.
A failure to adopt specific management practices accounts for most of the gap

The rest of the cross-country difference is driven by consistently poor performance on a specific set of practices. Country-level management varies across the management practices assessed, and Ireland trails in most practice areas when compared with the global average, the UK and especially the US scores. The scores across all practices measured are compared in Figure 5.

For Irish firms, the biggest weaknesses persist in the area of people management, and these scores have deteriorated since 2008.14

The people management practices include an examination of promotion criteria (e.g., purely tenure-based or including an element linked to individual performance), pay and bonuses, and fixing or firing poor performers.

Globally, top scoring organisations (exemplars of best practice) actively identify, develop and promote their top performers by providing ambitious stretch targets with clear performance-related rewards. These rewards include non-financial as well as financial measures. Best practice firms give rewards that provide incentives to those with proven track records of performance and evidenced ability. Underperformance is immediately identified and then consistently addressed via training and/or disciplinary measures where necessary. Better scoring firms also work hard to regain their top performers and create a distinctive value proposition for their workers.

Irish management is weak in the area of consequence management when monitoring organisational performance, but firms are particularly poor when it comes to dealing with employee underperformance.

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14 As mentioned above, the IMI study did not replicate the firms from the earlier Irish study, though the 2010 study is a comparative sampling of the universe of Irish manufacturing firms. See sample comparison in appendix.
In Ireland, many firms we interviewed lacked formal practices for comparing and motivating employee performance. Managers mentioned that while performance management systems were in place, these had ceased to be used once bonuses were no longer available (especially due to the recent weak economic environment). While some firms had reward systems which included non-financial incentives, in many firms there was a lack of awareness of what might constitute a relevant non-financial reward for performance; thus, few firms had these measures in place.

Irish managers often stated that the organisation did not tolerate underperformance, but it was rarely the case that consistently underperforming individuals had been moved to a less critical role or out of the firm.

While organisations reported valuing their most skilled employees, other factors such as tenure are often more determining of eligibility promotion. Few organisations interviewed had formal processes for succession planning.

Scores in people management were weak even in multinationals. This is significant as it indicates that specific cultural factors may resonate through to impact the management within Irish-based multinationals. One possible explanation lies in the fact that just under half of current Irish country managers in MNEs operating in Ireland have worked overseas in their current industry for more than a year. These managers may not been exposed to international best practice at corporate level within their organisations or across their respective industries (for further information see Survey of MNCs in Ireland (Irish Management Institute, National Irish Bank, 2011). The IMI aims to further explore how this lack of mobility could be addressed through policy incentives to improve the transfer of best practice.
What makes achieving better management so difficult?

Why do we not see more widespread adoption of good management? Given that the volume of information on what is considered to be good practice has increased so dramatically in recent years, a failure by firms and their managers to adopt these practices is perhaps surprising.

To explore possible reasons for this, in addition to interviewing managers about specific management practices in place within the organisation, the IMI also examined the potential impact on management of both external factors and those internal to the business.

The constraints of the business environment

It is a concern that good practice can be suspended during times of difficult trading conditions, as was the case with many performance management systems. As the effects of the financial crisis on the manufacturing sector have been particularly severe, its possible impact on management within these firms is an important consideration. Additional external factors which may impact on a manager’s ability to manage operations include the extent to which a business is dependent on trade unions, meeting regulatory requirements and the availability of relevant information and appropriately skilled employees.

The impact of the financial recession

Managers interviewed in 2010 were asked the degree to which varying aspects of their operations, such as costs, product mix and job cuts, were impacted by the recent downturn.

Managers in Ireland reported greater changes overall to the business environment than their counterparts in the UK, specifically in the area of cost-cutting and reductions in employee numbers (Figure 6).

Interestingly, in both the UK and US, better managed firms reported more impact across all dimensions. These findings provide important insights into the resilience of firms in times of adversity, but the Irish context differs from the UK story: in Ireland those firms which cut costs had on average poorer management practices than those that cut less.

Figure 6 The impact of the financial recession
The reaction in Irish firms to the credit crunch also differed from that of the UK and US with regard to where managers sought to gain efficiencies. Irish firms reported an average of 22% in price cuts (as opposed to only 10% in the UK and 18% in the US) and a reduction in employment levels of 22.9% (as opposed to 22.2% and 14.6% in the UK and US). Managers in the US and UK both reported reductions to their inventory levels of 22.2% and 25.5% respectively but Ireland’s managers reduced inventories by only 15.3%. Investment in Ireland also seemed to suffer less, with a reported reduction of 15% as opposed to 25% in the UK and 27% in the US.

Therefore, while US and UK managers sought to gain efficiencies by running down inventory levels it seems Irish managers sought instead to gain efficiencies through greater cost cutting and a reduction in staff costs while for the most part maintaining investment levels. While we are still exploring these effects, our research did not prove any conclusive link between the impact of the recession and the standard of management practices within the firm.

Other constraints on management

Another innovative part of the 2010 study was the addition of a set of questions where we asked managers to reflect upon the constraints they face while trying to improve their firm’s management practices. Figure 7 presents the results from this part of the survey.

What is striking is that nearly a quarter of firms cite hiring managers with the right skills as a major obstacle. Firms that reported constraints in terms of finding managers with the right skills tended to be those that were better managed, however. Managers in lower scoring firms seemed to be less aware of the importance of skills to the organisation. This contrasts sharply with the UK, where better managed firms were less likely to report feeling constrained.

Managers believed for the most part that they had adequate relevant information on good practice management. When asked whether knowing what management practices to introduce was an obstacle to effective management only 3% of respondents cited lack of information “as a major obstacle”.

We found that the operating constraints often cited as barriers to good management, such as employment laws and regulations, not only had much less impact than is commonly expressed but were also unrelated to the firms’ implementation good management practices.

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15 These questions were asked after we had already evaluated the 18 standard management questions.
Barriers to the adoption of best practice

If it is not the often cited constraints presented by the recession, the business environment or a lack of availability of knowledge or skilled employees which is preventing managers from implementing best practices, then we must look to other potential factors.

Our interviews outlined three factors which may be at work, as below:

- **Managers do not know what they do not know.** Those managers responsible for implementing practices and processes are not always best placed to judging the management performance and therefore weaknesses of their own organisations.

- **Managers may not always make decisions based on the right information** – either relevant real-time information is not available, or it is not used to inform decision making.

- **Managers often lack - or feel they lack - the autonomy to implement process improvements resulting in deferred decisions.**

Managers are poor at diagnosing their own firm weaknesses

An overriding finding from the study is an obvious disconnect between perception and reality regarding the state of management.

While the managers interviewed were in senior positions with operational oversight of the organisation and had expert knowledge of day-to-day operations, the study suggests they are not always best placed to diagnose opportunities for organisational improvements.

Despite a cited awareness of relevant good practice, managers were poor at assessing their organisation’s standard of management. When asked to rate the standard of their firm’s management overall, as well as across the three broad areas, Irish managers overestimated performance across the entire organisation and specifically within the areas of operations and people management.\(^{16}\)

This inability of managers to accurately diagnose management practices in the firm is seen across all countries (Figure 8) with managers overestimating the standard of management practices within their own companies by between 8-20%.\(^{17}\)

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\(^{16}\) Managers were asked to rate the standard of management across the rest of the organisation, excluding themselves, on a scale of 1 to 10.

\(^{17}\) Globally, on average managers overestimated management practices by 0.4 to 1.4 points on the 5 point scale.
Managers are not making decisions based on the right information, even when available

It also appears that management decisions are often not being made based on relevant, real-time information.

While processes for gathering data exist in many Irish firms, the information collected does not always ultimately inform decision-making processes and actions taken. Many managers noted that while there were processes in place for recording plant performance information, that this data did not ultimately inform management decisions. This was generally due to the absence of systems for capitalising on the information and/or noted weakness in related performance dialogues. For example, many key performance indicators (KPIs) were not tracked systematically. This meant that
often managers were working with old or irrelevant data when making decisions at operational performance meetings. In some cases, even where KPIs were tracked regularly, they were not made visible to all relevant managers. The low scores in the practice of process documentation also reflect a lack of adequate systems and standards for feeding relevant information back into the organisation for continuous improvement.

Managers do not feel they have the autonomy to implement change
Overall managers within Ireland enjoy a relatively high level of decision-making autonomy compared to their international peers. However, this is due to the high level of manager autonomy in independent domestic firms (Figure 16).

What was striking, from our interviews, was the significantly lower level of manager autonomy in MNEs operating in Ireland, and the average level of autonomy afforded to managers in multinationals has dropped considerably since 2008. Part of the reason for this fall seems to be a tightening of control by management at global headquarters, especially in relation to capital investment and hiring.

The drop in autonomy in the multinational operations is of concern as the extent to which managers are empowered to make decisions at a local level is linked to better adoption of best practice throughout the firm. Globally, better managed firms afford managers more decision-making autonomy than lower-performing firms (Bloom, Sadun, & Van Reenen, 2010). There are a number of reasons why this may be the case. Decentralizing decision-making reduces the costs of information transfer and communication, as information is processed at the level where it is used, and therefore the cost of communication is lower. More decentralized firms react more quickly when market circumstances change, generally because the managers making decision are closer to the relevant market information. Delegation of responsibility also contributes to greater employee involvement, better information sharing and a wider level of participation of direct reports.

If multinational operations located in Ireland are to maintain and grow their ongoing operations, it is critical that managers have the autonomy required to extend existing projects and make the necessary hiring and budget decisions in order to win new projects of strategic importance to their global operations. The seeming inability of Irish domestic firms to benefit in terms of management performance from these higher levels of autonomy also needs to be investigated further.

Manager autonomy was measured across four factors: how much capital investment a plant manager can undertake without prior authorisation from the corporate headquarters; where decisions are taken on hiring a new full-time permanent shop floor employee, where decisions are taken on new product introductions; and where decisions are taken on sales and marketing.
The Stanford-World Bank Indian Field Experiments

In 2008-2010, an experiment was run on a group of large textile firms in India. A group of firms were diagnosed using the World Management Survey (WMS) set of practices. Free consulting was then provided to a subset of the plants on the areas of weakness identified.

Based on their experience the consultants translated the WMS practices into a set of 38 practices on which to focus. These practices were used as a measure of changes in management practices as a result of the consulting intervention. The practices were in the following areas:

- **Quality control**: Recording quality problems by type, analyzing these records daily, and formalizing procedures to address defects to prevent their recurrence.

- **Inventory**: Recording yarn stocks on a daily basis, with optimal inventory levels defined and stock monitored against these. Yarn to be sorted, labelled and stored in the warehouse by type and colour, and this information logged onto a computer.

- **Human-resource management**: Performance-based incentive systems for workers and managers. Job descriptions defined for all workers and managers.

- **Sales and order management**: Tracking production on an order-wise basis to prioritize customer orders by delivery deadline. Using design-wise efficiency analysis so pricing can be based on actual (rather than average) production costs.

Productivity improvements of up to 18% as well as profit increases of on average $350,000 per firm were gained in the firms that received the management consultancy.

See Does Management Matter?: Evidence from India, Bloom, Eifert, Mahajan, McKenzie, & Roberts, 2011 and Figure 19.

Overcoming the barriers to good management – translating the complex into the simple

While the global study has established a clear link between the implementation of specific management practices and a firm’s performance, this in itself does not prove a causal link between the two. To directly examine the proven impact of management on performance, we must look to specific interventions that have resulted in performance improvements to the bottom line. These experiments can firstly, show that the adoption of practices can lead to performance improvements, and secondly, provide insight into the mechanism for designing effective interventions that overcome the barriers to adoption of those practices.

The effect of improving management practices

A management field experiment carried out in India by a team from Stanford and the World Bank from 2008 to 2010 showed that through active support a management intervention could deliver quantifiable sustainable improvements to the bottom line, even in a relatively short period of time (see sidebar: The Stanford-World Bank Indian Field Experiments). In addition, firms also spread these management practice improvements from their treatment plants to other plants they owned.

The effect of the introduction of a simple tool in facilitating best practice in an expert setting is also well illustrated in the case of in the case of the Surgical Safety Checklist (See sidebar: The Power of the Simple in a Surgical Context). Here, the surgeons and nurses involved in the hospital operating teams had previously had access to the WHO guidelines and were experts in their fields but it was the introduction of an appropriately designed checklist based around these guidelines which resulted in reduced rates of death and complications.

A mechanism for making sustainable changes to management practice

Interventions using simple tools derived from expert guidelines have shown to be powerful tools for marshalling and maximising the value of manager knowledge.

Managers in expert fields, while rarely limited by a lack of availability of information on best practice, are swamped with prescriptive guidelines on improving performance. This is particularly the case in manufacturing operations management where productivity targets must be met through continuous improvement. Across the manufacturing industry, the move over the past decade towards leaner operations and new inventory management systems has provided managers with a variety of prescriptive information on best practice.

From our experience interviewing managers, the increased level of information, guidelines, and literature on best practice could actually make good management practice harder for managers themselves to measure,
and thus potentially complex to implement.

The failure of “experienced, intelligent, motivated people who, both individually and collectively, knew what to do but couldn’t or wouldn’t act on that knowledge” has been termed the “Knowing-Doing gap” (Pfeffer & Sutton, 1999). The authors highlight that it is not simply a case of providing information on best practices and expecting these to be immediately and effectively implemented but that the organisations found to be better at translating knowledge into action are those that “understand the virtue of simple language, simple structures, [and] simple concepts.”

While the structures and concepts which work best to assist the implementation of good practice need to be simple, it is not simply a question of introducing more KPIs. In both the Indian management intervention study and the WHO Surgical Safety Checklist interventions, the creation of a procedural set of checks on practices relevant to managers as well as an intervention to support the implementation of those check were the critical factors in improving performance.

The designers in both studies note that each checklist should be carefully designed and evaluated to ensure that it supports operations. In India the original 5-point scoring tool was translated by consultants experienced in the sector into a set of 38 specific practices relevant to the operating managers. The team that introduced the Surgical Safety Checklist developed the checklist by analysing in-depth the successful design of similar tools in the airline industry.20

To translate the component elements into practice an intervention was required which reinforced training and knowledge and promote teamwork and communication. Feedback and continued monitoring were also carried out.

The consulting intervention in both experiments had three phases:

- A diagnostic phase, which diagnosed or identified opportunities for improvement in a set of specific operational practices;
- A consulting phase, which followed up on the diagnostic report to help introduce the practices;
- And finally, a measurement phase, which involved collection of performance data.

The examples discussed above demonstrate that interventions aimed at improving performance must arrive at the appropriate procedural tool which will allow managers to focus their expertise on complex issue by ensuring that simple ones are addressed and then provide the managers at the operational level with the appropriate support.

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20 See Perspectives in quality: designing the WHO Surgical Safety Checklist Weiser, et al., 2010).
**Conclusions**

Irish management lags when compared globally. This management gap is also persistent over time while other countries are improving management practices. Our research highlights a set of implications for both Irish managers and policy makers, and these micro and macro-level implications are briefly reviewed below.

**What can organisations do?**

Organisations can significantly increase productivity, profitability and overall competitiveness by improving management. A focus on people management is critical for reaping these gains, especially as these specific areas of practice continue to be the weakest for Irish firms.

Our research suggests managers are constrained in implementing best practice by an inability to diagnose their own needs, by decision-making that is not based on the evidence available and in part by a lack of autonomy to carry out the necessary changes.

The studies outlined above show that interventions to target areas of weakness must seek to translate the complex best practice guidelines into simple and relevant practices which will support managers in their day to day management of the firm’s operations.

Correctly designed management practice interventions can therefore overcome the barriers to the implementation of best practice, which have in the past prevented managers from making achievable productivity improvements at the plant level.

**What can policymakers do?**

The significance of firm size, ownership and skill level all point to specific, targetable areas for policy. There is a clear, obvious opportunity to assist manufacturing organisations to gain improvements to their bottom line.

The potential gains from improving management cannot be understated: the benefits to the Irish economy would be an improvement in the productivity and competitiveness of this key sector, which includes many strategically important multinational firms and a boost to Ireland’s export market. The 2008 research suggested that improving management practices in Irish manufacturing firms could be worth between €500m-€2.5bn in the Republic of Ireland.21

At both a national and a firm level, evidence-based knowledge of firm strengths and weaknesses is a necessary starting point. Firms need to identify the areas in which they should target resources for performance improvement, such as by benchmarking the firm’s management practices globally and against other firms in the sector. The barriers to implementation mean that it may not be sufficient to expect that managers can simply use self diagnosis and best practice guidelines to improve practices.

Our research suggests that policymakers should continue to target management development interventions at small and medium sized firms, especially those that are family-owned and/or managed. To see that Ireland benefits more from the presence of multinationals, policy should support the transfer of knowledge between multinationals and Irish domestic firms, for example through training networks and increased interaction. The importance of ensuring a well-trained, highly skilled employee and managerial workforce for the manufacturing industry should also be promoted.

To conclude, Ireland falls towards the bottom half of the management league table, and as there is an evidenced link between management and performance, improve Irish management could enhance individual firm performance and also go far in boosting national levels of productivity.

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21 The 2008 research was commissioned by the Management Development Council, Forfás, Department of Enterprise Trade and Investment, InvestNI, the Department for Employment and Learning, and InterTradeIreland. See McKinsey & Company, 2009.
In times of limited resources for organisations, firms need innovative ways to deliver operational efficiencies to improve export performance. Improvements to management can deliver these efficiencies. Supports for Irish industry at the policy level should include benchmarking of management practices to international best practice standards and support for correctly designed interventions that focus on translating the complex into the simple and measurable. Our research suggests the benefits would be substantial and sustainable.
Appendix

Supporting Data and Figures

Figure 10 Management in Irish and UK Firms 2010

Figure 11 Management and firm size

Figure 12 Management score by ownership type

Figure 13 Management of multinationals and domestic firms cross country

Figure 14 Management and skills

Figure 15 Managers in Irish multinationals have less autonomy
### Figure 16 Levels of manager autonomy cross-country

<table>
<thead>
<tr>
<th>Country</th>
<th>Decentralization Score</th>
</tr>
</thead>
<tbody>
<tr>
<td>Greece</td>
<td>2.1</td>
</tr>
<tr>
<td>Japan</td>
<td>2.11</td>
</tr>
<tr>
<td>China</td>
<td>2.14</td>
</tr>
<tr>
<td>Brazil</td>
<td>2.28</td>
</tr>
<tr>
<td>Italy</td>
<td>2.31</td>
</tr>
<tr>
<td>Argentina</td>
<td>2.33</td>
</tr>
<tr>
<td>India</td>
<td>2.39</td>
</tr>
<tr>
<td>Chile</td>
<td>2.46</td>
</tr>
<tr>
<td>Portugal</td>
<td>2.5</td>
</tr>
<tr>
<td>France</td>
<td>2.55</td>
</tr>
<tr>
<td>Mexico</td>
<td>2.56</td>
</tr>
<tr>
<td>Australia</td>
<td>2.61</td>
</tr>
<tr>
<td>US &gt;2009</td>
<td>2.67</td>
</tr>
<tr>
<td>Germany</td>
<td>2.69</td>
</tr>
<tr>
<td>Ireland 2008</td>
<td>2.7</td>
</tr>
<tr>
<td>Canada</td>
<td>2.83</td>
</tr>
<tr>
<td>Ireland 2010</td>
<td>2.9</td>
</tr>
<tr>
<td>Poland</td>
<td>2.91</td>
</tr>
<tr>
<td>GB &gt;2009</td>
<td>2.93</td>
</tr>
<tr>
<td>Northern Ireland</td>
<td>2.93</td>
</tr>
<tr>
<td>New Zealand</td>
<td>2.93</td>
</tr>
<tr>
<td>Sweden</td>
<td>3.11</td>
</tr>
<tr>
<td>World &gt;2009</td>
<td>3.33</td>
</tr>
</tbody>
</table>

Figure 17 Comparison between groups of firms interviewed

<table>
<thead>
<tr>
<th>SIC 2</th>
<th>Description</th>
<th># in GB 2009/10</th>
<th># in IR 2010</th>
<th>% of GB</th>
<th>% of IR</th>
<th>Pt difference (IR-GB)</th>
<th>Average score GB</th>
<th>Average score IR</th>
</tr>
</thead>
<tbody>
<tr>
<td>20</td>
<td>Food and kindred products</td>
<td>23</td>
<td>25</td>
<td>11%</td>
<td>23%</td>
<td>-1</td>
<td>2.90</td>
<td>2.59</td>
</tr>
<tr>
<td>22</td>
<td>Textile mill products</td>
<td>8</td>
<td>3</td>
<td>4%</td>
<td>3%</td>
<td>-1</td>
<td>2.98</td>
<td>2.59</td>
</tr>
<tr>
<td>23</td>
<td>Apparel and other textile products</td>
<td>1</td>
<td>1</td>
<td>0%</td>
<td>1%</td>
<td>0</td>
<td>3.67</td>
<td>1.60</td>
</tr>
<tr>
<td>24</td>
<td>Lumber and wood products</td>
<td>3</td>
<td>4</td>
<td>1%</td>
<td>4%</td>
<td>2</td>
<td>2.74</td>
<td>2.31</td>
</tr>
<tr>
<td>25</td>
<td>Furniture and fixtures</td>
<td>0</td>
<td>2</td>
<td>3%</td>
<td>2%</td>
<td>-1</td>
<td>2.76</td>
<td>1.50</td>
</tr>
<tr>
<td>28</td>
<td>Paper and allied products</td>
<td>4</td>
<td>2</td>
<td>2%</td>
<td>2%</td>
<td>0</td>
<td>3.34</td>
<td>2.33</td>
</tr>
<tr>
<td>27</td>
<td>Printing and publishing</td>
<td>12</td>
<td>2</td>
<td>6%</td>
<td>2%</td>
<td>-4</td>
<td>2.71</td>
<td>2.36</td>
</tr>
<tr>
<td>23</td>
<td>Chemicals and allied products</td>
<td>22</td>
<td>20</td>
<td>11%</td>
<td>16%</td>
<td>7</td>
<td>3.37</td>
<td>2.64</td>
</tr>
<tr>
<td>29</td>
<td>Petroleum and coal products</td>
<td>2</td>
<td>0</td>
<td>1%</td>
<td>0%</td>
<td>-1</td>
<td>2.97</td>
<td></td>
</tr>
<tr>
<td>30</td>
<td>Rubber and miscellaneous plastics products</td>
<td>13</td>
<td>6</td>
<td>6%</td>
<td>5%</td>
<td>-2</td>
<td>3.26</td>
<td>2.52</td>
</tr>
<tr>
<td>31</td>
<td>Leather and leather products</td>
<td>1</td>
<td>0</td>
<td>0%</td>
<td>0%</td>
<td>0</td>
<td>3.17</td>
<td></td>
</tr>
<tr>
<td>32</td>
<td>Stone, clay, glass, and concrete products</td>
<td>4</td>
<td>8</td>
<td>2%</td>
<td>7%</td>
<td>5</td>
<td>2.88</td>
<td>2.37</td>
</tr>
<tr>
<td>33</td>
<td>Primary metal industries</td>
<td>7</td>
<td>1</td>
<td>3%</td>
<td>1%</td>
<td>-2</td>
<td>3.07</td>
<td>2.61</td>
</tr>
<tr>
<td>34</td>
<td>Fabricated metal products</td>
<td>20</td>
<td>6</td>
<td>10%</td>
<td>5%</td>
<td>-4</td>
<td>2.94</td>
<td>2.37</td>
</tr>
<tr>
<td>35</td>
<td>Industrial machinery and equipment</td>
<td>15</td>
<td>5</td>
<td>7%</td>
<td>5%</td>
<td>-3</td>
<td>3.43</td>
<td>3.20</td>
</tr>
<tr>
<td>36</td>
<td>Electrical and electronic equipment</td>
<td>30</td>
<td>7</td>
<td>15%</td>
<td>6%</td>
<td>-8</td>
<td>3.12</td>
<td>3.62</td>
</tr>
<tr>
<td>37</td>
<td>Transportation equipment</td>
<td>14</td>
<td>3</td>
<td>7%</td>
<td>3%</td>
<td>-4</td>
<td>3.29</td>
<td>3.09</td>
</tr>
<tr>
<td>38</td>
<td>Instruments and related products</td>
<td>9</td>
<td>6</td>
<td>4%</td>
<td>5%</td>
<td>1</td>
<td>3.46</td>
<td>3.19</td>
</tr>
<tr>
<td>39</td>
<td>Miscellaneous manufacturing industries</td>
<td>12</td>
<td>11</td>
<td>6%</td>
<td>10%</td>
<td>4</td>
<td>3.40</td>
<td>3.32</td>
</tr>
<tr>
<td>Total</td>
<td></td>
<td>206</td>
<td>111</td>
<td>100%</td>
<td>100%</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Management Makes the Difference
Figure 18 Average Management Practice score by subsector, Ireland 2008 and 2010

Figure 19 The estimated median impact on profits in plants from the Stanford-World Bank study

<table>
<thead>
<tr>
<th>Change</th>
<th>Impact</th>
<th>Estimation approach</th>
<th>Estimated impact</th>
</tr>
</thead>
<tbody>
<tr>
<td>Improvement in quality</td>
<td>Reduction in repair manpower</td>
<td>Reduction in defects (43.2%) times median mending manpower wage bill ($41,000).</td>
<td>$18,000</td>
</tr>
<tr>
<td></td>
<td>Reduction in waste fabric</td>
<td>Reduction in defects (43.2%) times the average yearly waste fabric (5%) times median average sales ($6m).</td>
<td>$129,000</td>
</tr>
<tr>
<td>Reduction in inventory</td>
<td>Reduction in inventory carrying costs</td>
<td>Reduction in inventory (23.8%) times carrying cost of inventory (22%) times median inventory ($230,000)</td>
<td>$12,000</td>
</tr>
<tr>
<td>Increased efficiency</td>
<td>Increased sales</td>
<td>Increase in output (10.3%) times margin on sales (31%) times median sales ($6m)</td>
<td>$192,000</td>
</tr>
<tr>
<td>Total</td>
<td></td>
<td></td>
<td>$351,000</td>
</tr>
</tbody>
</table>

Notes: Estimated impact of the improvements in the management intervention on firms’ profitability using the ITT estimates in Table 2. Figure calculated for the median firm. See Appendix A for details of calculations for inventory carrying costs, fabric waste, repair manpower and factor shares.

Source: Does Management Matter?: Evidence from India, Bloom, Eifert, Mahajan, McKenzie, & Roberts, 2011
Methodology

Over the past decade, a partnership between the Centre for Economic Performance (CEP) at the London School of Economics (LSE) and McKinsey & Co. in association with colleagues at Stanford University has produced a global study of over 7,000 firms.

To test the hypothesis that the way a firm is managed has a strong impact on its performance, and that this might be stronger than other factors which determine whether or not a business succeeds or fails they developed a tool to assess management practices and compare this with economic measures of performance such as sales growth, return on capital employed and sales per employee.

The applied tool defines and scores from one (“worst practice”) to five (“best practice”) in 18 dimensions of practice across these four areas, with the management practice measure being an average of these 18 scores.

A team of trained analysts conducted interviews with manufacturing plant managers across each country. Interviewers were trained to use open questions and probe for details; thus, they were able to get to the actual implementation of management practices within the firms. Accurate and unbiased responses were assured as the analysts conducted “double blind” interviews with managers: managers were unaware of the scoring methodology and the criteria they were being scored against while the interviewers were unaware of the firm’s performance or other distinguishing features of the organisation in which they were conducting interviews.24

24 For more details on the survey methodology, please see worldmanagementsurvey.org or Bloom and Van Reenen 2010.
### Description of topics evaluated

<table>
<thead>
<tr>
<th>Topic</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Lean</td>
<td>Introduction of lean manufacturing: Tests how many lean principles and concepts are used</td>
</tr>
<tr>
<td>Why Lean?</td>
<td>Rationale for lean manufacturing introduction: Tests reasons why lean was introduced and how holistic the lean approach is</td>
</tr>
<tr>
<td>Process documentation</td>
<td>Documentation and improvement of processes: Tests process for and attitudes to continuous improvement and whether learnings are captured/documentated</td>
</tr>
<tr>
<td>Performance Tracking</td>
<td>Tests whether performance is tracked using meaningful metrics and with appropriate regularity</td>
</tr>
<tr>
<td>Review of Performance</td>
<td>Tests whether performance is reviewed with appropriate frequency and communicated with staff</td>
</tr>
<tr>
<td>Performance Review</td>
<td>Tests the quality of review conversations</td>
</tr>
<tr>
<td>Types of Targets</td>
<td>Quality of targets: Test whether targets cover a sufficiently broad set of metrics</td>
</tr>
<tr>
<td>Interconnection of Goals</td>
<td>Tests whether targets are tied to company objectives and how well they cascade down the organisation</td>
</tr>
<tr>
<td>Time Horizon</td>
<td>Target time horizon: Tests whether company has a ‘3 horizons’ approach to planning and targets</td>
</tr>
<tr>
<td>Goals are Stretching</td>
<td>Tests whether targets are appropriately difficult to achieve</td>
</tr>
<tr>
<td>Clarity of Goals</td>
<td>Tests how easily understandable performance measures are and whether performance is openly communicated</td>
</tr>
<tr>
<td>Consequence Management</td>
<td>Tests whether differing levels of (personal) performance lead to different consequences (good or bad)</td>
</tr>
<tr>
<td>Instilling a Talent Mindset</td>
<td>Importance of human capital: Tests what emphasis is put on talent management</td>
</tr>
<tr>
<td>Incentives and Appraisals</td>
<td>Building of high-performance culture: Tests whether good performance is rewarded proportionately</td>
</tr>
<tr>
<td>Making Room for Talent</td>
<td>Tests whether firm is able to deal with underperformers</td>
</tr>
<tr>
<td>Developing Talent</td>
<td>Promoting high performers: Tests whether promotion is performance based</td>
</tr>
<tr>
<td>Distinctive Employee Value Proposition</td>
<td>Attracting talent: Tests how strong the employee value proposition is</td>
</tr>
<tr>
<td>Retaining Talent</td>
<td>Tests whether company will go out of its way to keep its top talent</td>
</tr>
</tbody>
</table>
Works Cited


