Management Matters in Northern Ireland and Republic of Ireland

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Department of Enterprise, Trade and Investment
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Invest Northern Ireland
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THE MANAGEMENT DEVELOPMENT COUNCIL

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Executive Summary

Detailed investigative research into the management practices currently in use in the Republic of Ireland (ROI) and Northern Ireland (NI) was commissioned by the Department of Enterprise Trade and Investment, InvestNI, the Department for Employment and Learning, Intertrade Ireland, Forfás and the Management Development Council. The objectives of the research were to: compare the levels of managerial skills with those in Great Britain and other countries; identify areas of weakness in the management practices of manufacturing firms; identify the factors that may account for the differences; indicate where targeted improvements could improve performance and investigate whether similar issues also apply in tradable services firms.

McKinsey & Company was engaged to undertake this work because it has spent seven years, together with the Centre for Economic Performance at the London School of Economics, applying a robust approach to assess management practices and showing how these practices were connected to business performance.

Across the globe, the research has found that firms that are good at deploying accepted best-practice management techniques perform significantly better, in economic terms, than those that are not. This suggests that improving management practices may be a highly effective way for a firm to ensure it outshines its peers.

The potential impact on national economies of improving management practices is large. Globally, the research indicates that when management practices are rated on a scale from 1 to 5, a 1 point increase in management practices is associated with an increase in industrial output equivalent to that produced by a 25% increase in labour or a 65% increase in capital.

In this study researchers carried out structured interviews on management practices with plant managers in over 150 manufacturing firms in ROI and over 120 in NI, representing 40% of eligible firms in ROI and over 70% in NI. The firms sampled were representative of the manufacturing base in terms of size, ownership and sector. The research focussed on firms with more than 50 employees, as these firms account for more than 92% of the Gross Value Added (GVA) in ROI[1], and 75% of the GVA in NI[2].

The survey results were compared with those from similar interviews with over 5,000 manufacturing firms in 14 other countries in Europe, Asia and the Americas. Similar research was also piloted in service industries, based on interviews with a small number of managers in over 50 Irish firms in the tradable services sector[3]. For the methodology used and dimensions assessed, please see the Appendix.

ROI and NI show significant potential for improvement

Looking at the average management practice scores of all the companies surveyed in each country, the analysis highlights a significant gap between the scores in both ROI and NI and those in the countries with the best management practices. Both ROI and NI lie below the global average and below Great Britain in the ranking of countries, while the US is at the top.

The performance of high value manufacturing firms in ROI is much better, ranking ahead of Great Britain, and just behind the top performing tier of countries. Results from the pilot survey in the tradable services sector suggest that management practices are generally better in services than in manufacturing, and more in line with practices in high value manufacturing firms. Further detail on the tradable services pilot findings can be found in the appendix.

The breadth and depth of the study allowed for the examination of the factors associated with differing levels of capability and delivery in management practices and provided valuable insights into the reasons why there are such wide variances internationally.

Structural factors explain part of the lag in the management practice ratings

The research identified seven structural factors that appear to account for a significant part of the variation in management practice scores between countries, including the gap between Ireland and other countries:

- **Firm size:** Globally, larger firms are found to have better management practices than smaller firms, and this holds true in ROI and NI as well. The manufacturing base in ROI and NI includes a high proportion of smaller firms, and this bias has a negative impact on both countries' average scores.

[1] Census of industrial production, Exhibit 12, 2005

[2] Small and Medium size enterprises in Northern Ireland, Table 2, 2006

[3] A tradable service can be sold in a different location to where it is produced. For the purpose of this work, tradable services firms are those with the Standard Industry Classification (SIC) codes: Computer & Related Activities (SIC 72), Research & Development (SIC 73), Market Research (SIC 74.13), Business & Management Consultancy (SIC 74.14), Architectural & Engineering (SIC 74.2), Technical Testing & Analysis (SIC 74.3), Advertising (SIC 74.4) and Creative Entertainment (SIC 92.1-92.3)

- **Ownership**: The analysis indicates that management practices vary with ownership type and that firms owned by dispersed shareholders generally have the best management practices. ROI and NI have a high proportion of founder-owned and family-owned firms, which tend to have poorer management practices.
- **Skill levels:** The more educated its workforce, the better the management practices a firm deploys. In ROI and NI, relatively few managers and non-managers in manufacturing firms have degrees*, and this also accounts for part of the management practice gap.
- **Sector:** Management practices also vary significantly by sector, and high value manufacturing firms[4] in all countries surveyed have better management practices than the others. This difference is particularly marked in ROI, where there is a large gap between the performance of high value manufacturing firms and firms in the remaining sectors. This appears to be partly because high value firms in the Republic employ unusually large numbers of graduates, while other manufacturing firms in ROI have unusually low numbers of graduate employees.
- **Labour flexibility:** Firms in flexible labour markets tend to have better people management practices than firms in markets where labour rigidity rules. Labour flexibility in ROI and NI is relatively high, but not as high as in the US, and this also accounts for part of the gap.
- **Presence of multinational enterprises (MNEs):** Multinational enterprises, both domestic and foreign based, tend to have better practices than local firms in all countries surveyed. There is a higher proportion of MNEs among manufacturers in both ROI and NI than there is globally, and this helps to reduce the gap between the ROI and NI scores and those of higher ranking countries.
- **Competition:** Globally, the data illustrates that high levels of competition are associated with good management practices. This may explain why exporting firms in ROI and NI have better management practices than those serving only the domestic market.

In total, the combination of these structural factors can account for about 40% of the gap between ROI's average score and that of the US at the top of the league table, and about 50% of the shortfall in NI's score compared, again, with that of the US. The balance of the gap is explained by poorer performance in ROI and NI firms across a number of management practice areas.

There is scope to improve three areas of management practice in particular

After adjusting for the structural factors outlined above, the research was used to identify management practice dimensions where firms in ROI and NI are weakest. It transpired that many firms are poor at defining the balanced set of metrics necessary to align the shop floor with the corporate agenda. They are also relatively poor at reviewing performance against the metrics they do define, and when they identify poor performance they appear to be reluctant to take the actions necessary to address it.

ROI and NI both have a large proportion of firms with poor management practices

Globally, the analysis shows that the quality of management practices varies much more (between firms) within countries than between countries, and that it is typically a relatively high number of firms with poor management practices that drives down the average national score of a low ranking country.

Both ROI and NI have a large proportion of lowly rated firms, with 19% of firms in ROI and 12% of firms in NI scoring less than 2 on a management practice assessment scale from 1 to 5, compared with 7% in Great Britain and just 2% in the US.

Improving areas of weakness is more important than excelling in others

At the level of the individual firm, the analysis suggests that focusing on improving the worst areas of management practice – the weakest links in the chain – and achieving consistently good management practice scores across the board is probably the most effective way of achieving the higher overall scores that are associated with better business performance.

Successful companies, meaning those with the highest productivity, tend to have consistently high management practice scores with little variation across all the 18 dimensions measured.

* Degrees used as a proxy for skills levels

[4] High value manufacturing, as defined by the OECD, include: Mechanical Engineering (SIC 29), Pharmaceuticals. (SIC 24.4), Other Chemicals (SIC 24.6), Electrical & Optical (SIC 30-33) and Transport Engineering (SIC 34-45)

Closing the management practice gap could deliver substantial economic benefits

How could ROI and NI improve their positionings in the league table of management practice?
One obvious approach would be to focus on those firms where the quality of management practices is currently below average also helping them improve their management practices. Bringing the firms rated below average in ROI and NI up to the average level in each country by increasing their average management practice scores by one third of a point, would propel both countries into the top tier in the global ranking, the potential benefits to the economy are significant. The research suggests that such an improvement in management practice could be associated with an increase in the sector's GVA of £150m-£300m in NI and €500m-€2.5bn in ROI.

The takeaways

For companies in ROI and NI, this research is good news. Some companies in both jurisdictions have strong, effective, world class management practices in place and are already reaping the benefits in terms of higher productivity, better returns on capital and more robust growth. For those who are not yet at world class levels there is a significant prize to be had simply by adopting good management practices.

Improving management practices is a highly efficient way for firms to leverage their existing labour and capital. Yet surprisingly few firms have made any attempt to gain insight into the quality of their management behaviours. Those that do so give themselves an opportunity to access rapid, cost-effective and sustainable competitive advantage.

For policy makers, this research highlights some common issues in NI and ROI. There was an opportunity to collaborate with firms to significantly improve the economies of ROI and NI. The overall performance of most countries is determined not by the performance of its leading companies, but by the number of poorly performing companies. By developing environments that encourage and assist all firms to adopt good management practices, and by devoting as much attention to the followers as to the leaders, both governments can drive the competitiveness of their entire economies.

Management Matters in ROI and NI

Quantifying management practice worldwide

This research project started in 2001 with the hypothesis that the way a firm is managed has a strong impact upon its performance, and a belief that this effect might be stronger than many of the other factors that determine whether a business succeeds or fails. To test this hypothesis, McKinsey & Company developed a tool to assess management practices and compare this assessment with economic measures of corporate performance.

Since then, the same methodology has been applied to more than 5,600 companies in sixteen countries (Exhibit 1). Over 270 firms were recently surveyed in ROI and NI. In ROI 40% of eligible firms were surveyed. This represents a higher proportion than was surveyed in other countries, and provides a representative sample of manufacturing firms. In NI 74% of eligible firms were surveyed, which is the highest proportion of eligible firms surveyed in any jurisdiction to date.

Management matters

The robust methodology for the evaluation of management practice has enabled its association with corporate performance to be tested and clearly demonstrated. Analysis has shown that management practice scores are closely correlated with a range of corporate performance metrics, including labour productivity, sales growth and return on capital employed (Exhibit 2).

The same strong relationships between management practice scores and financial performance hold true across the different countries and cultures surveyed (Exhibit 3).

Exhibit 1: Number of interviews by country

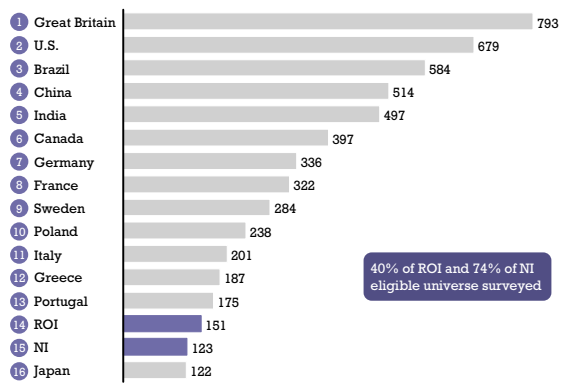
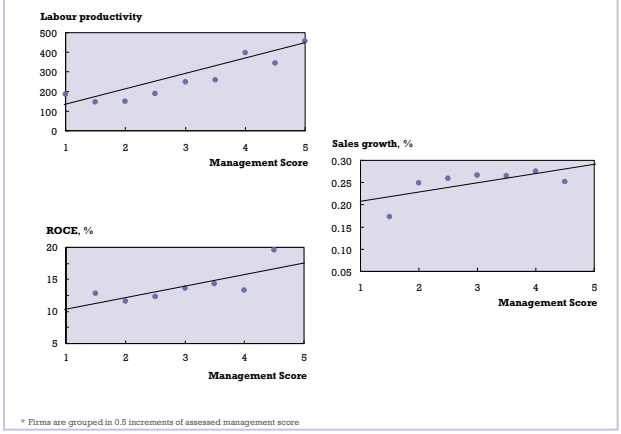
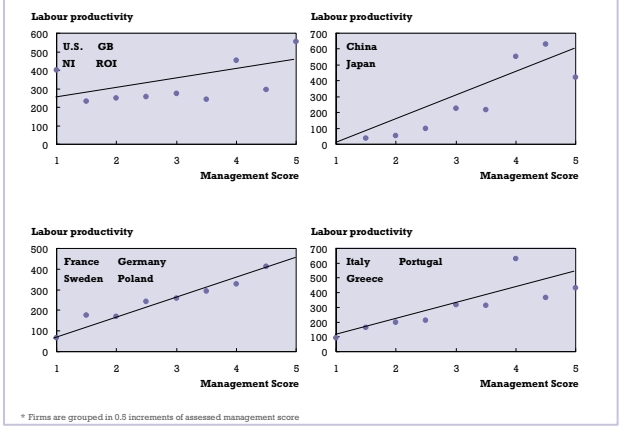


Exhibit 2: Management practice scores for manufacturing firms compared with economic metrics



* Firms are grouped in 0.5 increments of assessed management score

Exhibit 3: Management practice scores compared with labour productivity in different country groupings



* Firms are grouped in 0.5 increments of assessed management score

Improved management practice is also associated with large increases in productivity and output. The findings of the research suggest that a single point improvement in a firm's management practice score is associated with an increase in output equivalent to that produced by a 25 percent increase in the labour force or a 65 percent increase in invested capital (Exhibit 4). This observation holds true even after controlling for a variety of factors, including the firm's country, sector and skill level, ownership type, size, profitability etc.

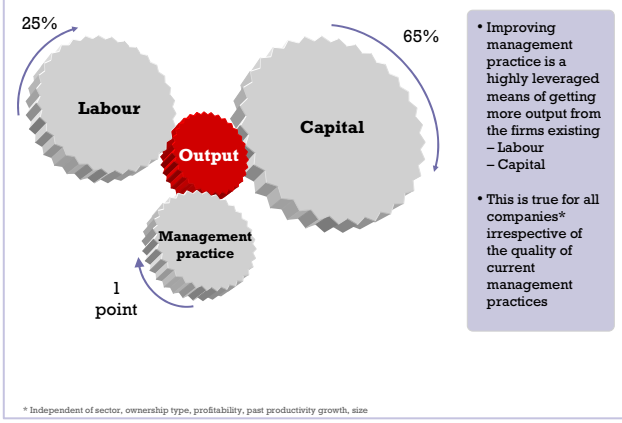
Scope for improvement in ROI and NI

The global research reveals significant differences in management performance between countries. The US is at the top of the table with an average score of 3.30, while India brings up the rear with an average score of 2.60. Although there are some strong performing firms in India, with scores above the US average, a significant proportion of poorer performers drags the average down. There is a wide gap between ROI/NI and the top tier countries, such as the US, Germany, Sweden and Japan. Both ROI and NI lie below the global average of 2.92, with lower scores than Italy, Great Britain and Poland (Exhibit 5).

ROI's high value manufacturing firms rank ahead of those in Great Britain, and just behind those in the top tier countries (Exhibit 6).

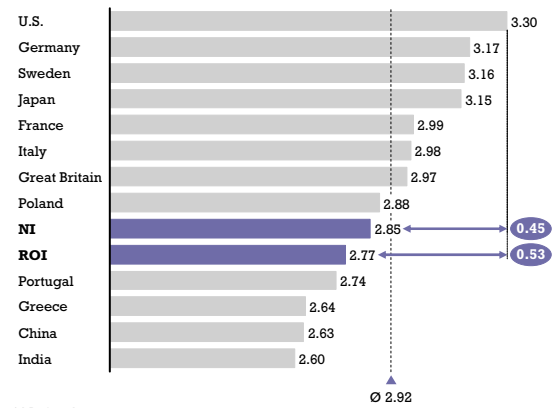
Results from a pilot survey of 50 firms in the tradable services sector suggest that management practices are better in services than in manufacturing in both ROI and NI.

Exhibit 4: Effect of increased factor inputs on output



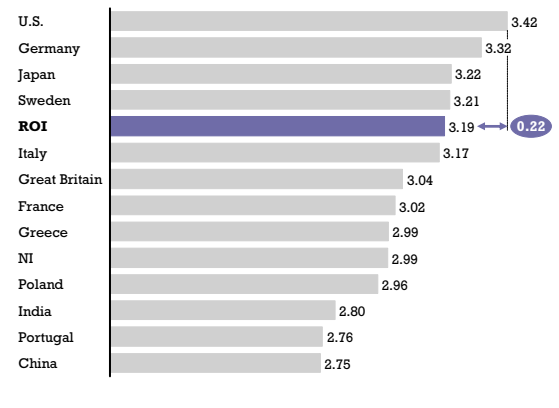
* Independent of sector, ownership type, profitability, past productivity growth, size

Exhibit 5: Mean management practice score by country



* 1-5 point scale
** Brazil and Canada data has been included in global regressions throughout this report but excluded from the rankings as their results have not yet been published

Exhibit 6: Mean management practice score of high value manufacturing firms* by country



* High value firms included have U.S. 3-digit SIC codes that unambiguously match to U.K. 2003 codes of 24.4, 24.6, 29, 30–33, 34 and 35

Structural factors explain part of the lag in management practice rankings

A number of structural factors, such as firm size and ownership type can account for 38% of the gap between the average score of manufacturing firms in ROI and those in the US (Exhibit 7). In NI the same structural factors account for 52% of the gap (Exhibit 8), with lower skill levels* accounting for a more significant portion of the gap

Exhibit 7: Gap in management practice score, ROI versus US

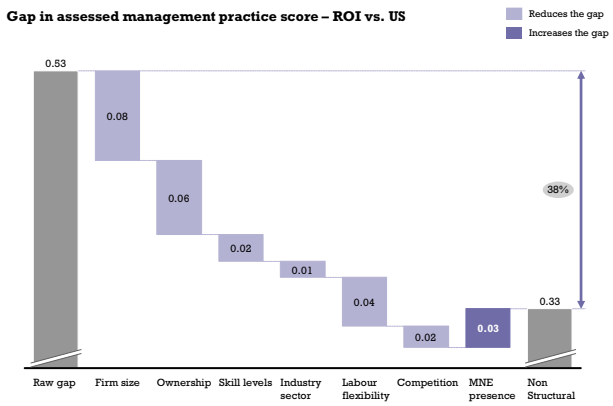
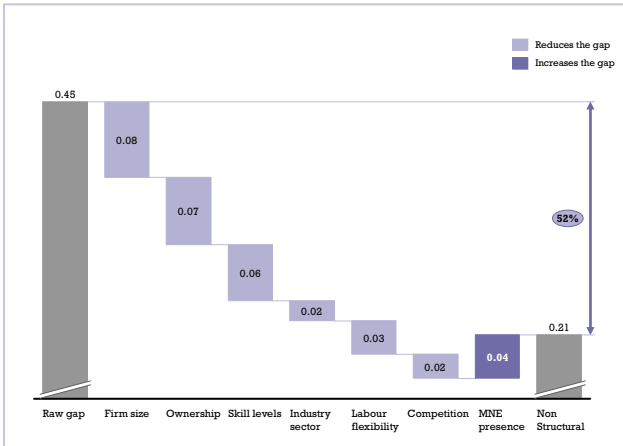
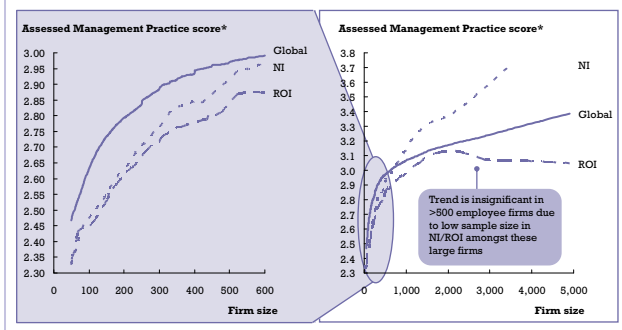


Exhibit 8: Gap in management practice score, NI versus US



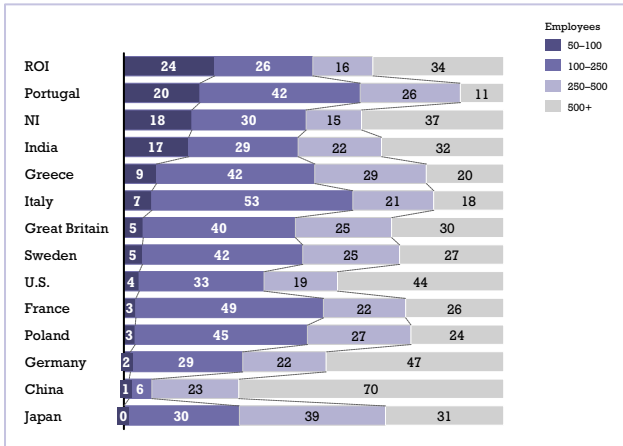
Size matters: Large firms, wherever in the world they operate, tend to have better management practices than small firms, and this holds true in ROI and NI (Exhibit 9).

Exhibit 9: Management practice score versus firm size, worldwide and in Ireland



The impact of size[5] on management practice score is particularly pronounced in firms of under 600 employees. Because smaller firms account for a particularly high proportion of all firms in both ROI and NI relative to the other countries examined (Exhibit 10), this factor accounts for approximately 15% of the gap between the management practice scores of ROI and NI and that of the top performing country (the US).

Exhibit 10: Proportion of firms in each country by headcount

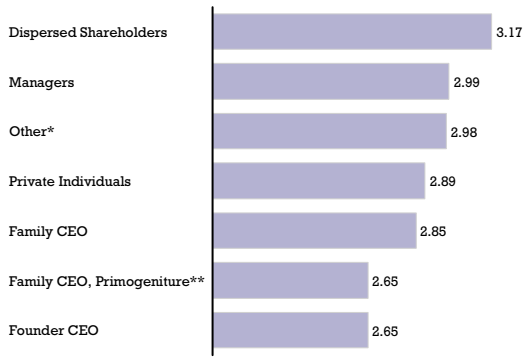


*No of degrees used as a proxy for skill levels

[5] The definition used for firm size is the self declared size of firm during interviews, which has been shown to be more up to date and accurate than relying on reported accounting data.

Ownership matters: When the firms in the survey are grouped according to ownership type, clear differences emerge in both management practice score and financial performance. Firms owned by dispersed shareholders perform best, while organisations owned and run by their founders or members of the founder's family perform less well, with primogeniture firms (those that are family-owned and run by the eldest son or grandson of the founder) bringing up the rear (Exhibit 11).

Exhibit 11: Mean management practice score by ownership type, controlled for size

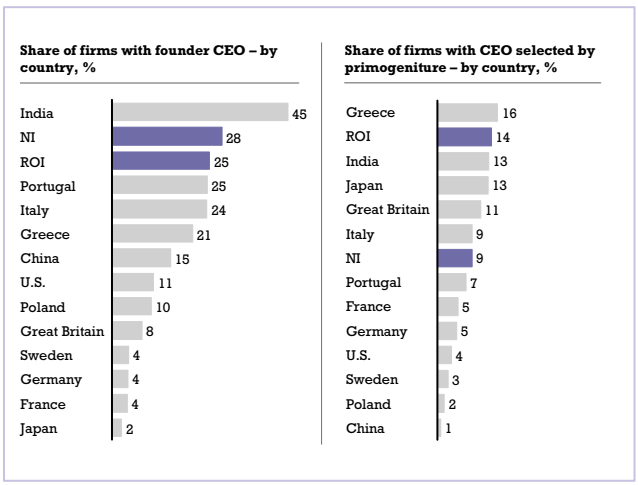


* Grouping of infrequent ownership types in ROI/NI, including "Private Equity", "Family, External CEO", "Founder, External CEO", "Government" and "Other"
** Firms with a controlling stake owned by a family which appoints the eldest son as CEO

Globally, the spread of management practice scores according to ownership type strongly suggests that a propensity to employ professional managers and to promote them on the basis of merit delivers better managed, better performing firms.

In ROI and NI there is a high proportion of firms in the ownership classes that typically have poorer management practices (Exhibit 12), and this factor accounts for a further 10% of the difference between their average management practice score and that of the US.

Exhibit 12: Share of firms by ownership type



Higher skill levels, better management practices*: The availability of skilled people, both in management and among the workforce in general, is another important difference between better managed firms and the rest. Globally, better management practices were observed in firms where a high proportion of staff and managers have degrees, and this link between management practice and skill levels is also apparent in ROI and NI (Exhibits 13, 14).

Exhibit 13: Global management practice score compared with skill level

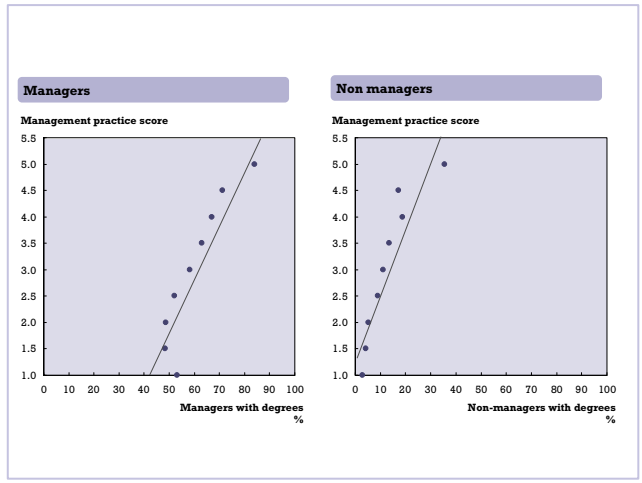
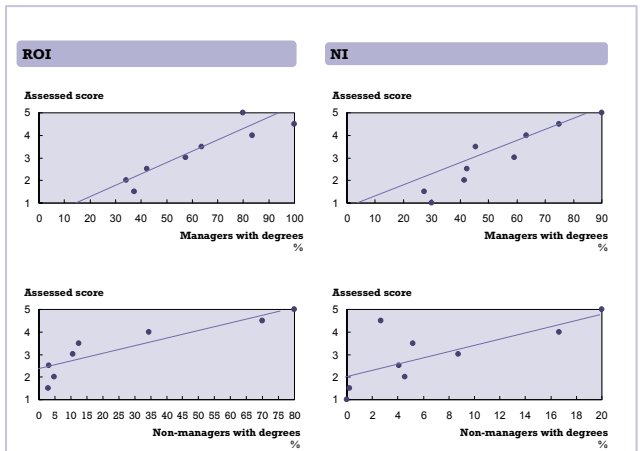


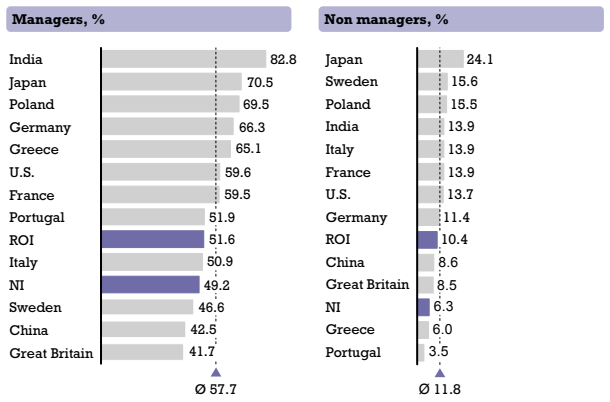
Exhibit 14: Management practice scores compared with skill levels in Ireland



*No of degrees used as a proxy for skill levels

In ROI and NI, fewer managers and non-managers in manufacturing firms have degrees than in the global sample (Exhibit 15), and this accounts for a further 10% of the gap compared with the average US management practice score.

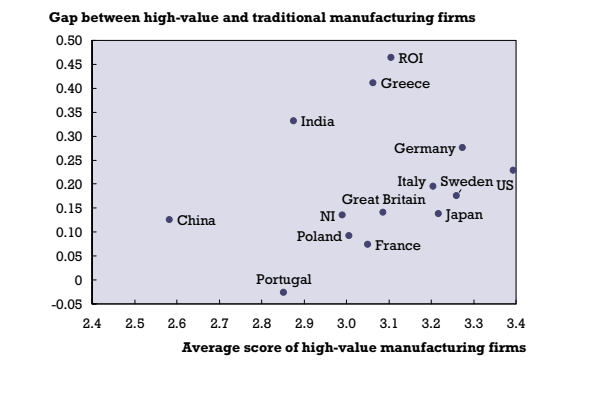
Exhibit 15: Share of employees with degrees by country



High-value manufacturing sectors have better practices:

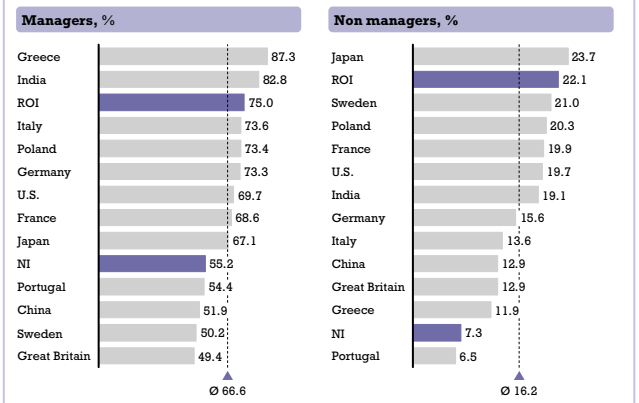
When firms are grouped by industry, it is not surprising to find that those in knowledge intensive, high value sectors have better management practices than the rest. In ROI, there is a big difference between scores in firms in these sectors and those in firms in more traditional sectors – greater than the difference in any of the other countries surveyed and more than three times greater than the difference in NI (Exhibit 16).

Exhibit 16: High value manufacturing compared with other manufacturing firms



The size of the gap in management practice scores between high value manufacturing firms and the remaining firms illustrates the importance of attracting skilled employees in these knowledge intensive sectors. In high value manufacturing sector firms in ROI, education levels are among the highest observed across all the countries surveyed, while NI firms in these sectors have a much lower proportion of skilled staff than those in other countries surveyed (Exhibit 17).

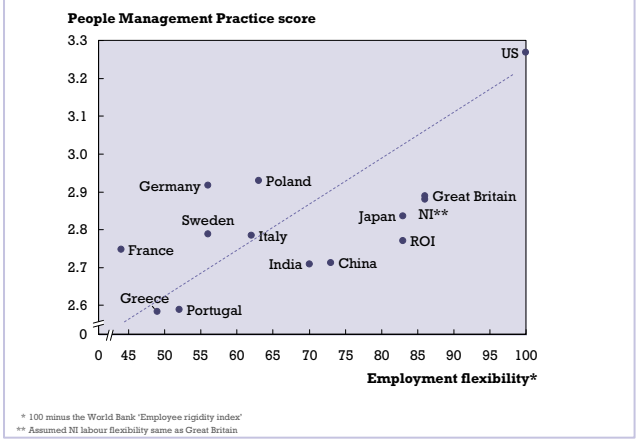
Exhibit 17: Share of staff holding degrees in high value manufacturing firms by country



Labour market flexibility is associated with better people management: Flexible labour markets should support companies in their efforts to adopt better people management practices to attract, develop and retain the best employees. The large number of countries included in the survey, with widely varying labour market environments, makes it possible to test this hypothesis.

The link between greater labour market flexibility and improved people management turns out to be a strong one (Exhibit 18).

Exhibit 18: People management scores related to labour market flexibility



Companies operating in countries with flexible labour polices (measured using the World Bank's employment law rigidity index[6]) score markedly better than the rest in people management practices. For example, the US, with its extremely flexible employment laws, has by far the best people management record, a factor which contributes strongly to its overall top position among the countries surveyed.

Labour markets in ROI and NI are among the most flexible in the world. Yet it appears that managers in both jurisdictions are deploying poorer people management techniques than might be expected, given this flexibility. This suggests they may be foregoing a real opportunity to increase their local management practice score, and this accounts for ~7% of the gap to US management practice scores.

Multinational enterprises (MNEs) are better managed: MNEs, regardless of size and geography, tend to outperform local competitors (Exhibit 19). This is no doubt a result of their need to compete effectively in global markets.

Scale effects cannot fully account for this difference in performance. Although larger firms surveyed do tend to perform better, this effect can account for only a quarter of the difference in management practice performance between multinationals and their domestic rivals.

It is not just the multinationals themselves who benefit from their better management practices. Globally, the research finds that 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 between the two groups.

This association is also apparent in ROI and NI but the relatively high prevalence of MNEs in ROI and NI does not seem to be linked with as high a level of management practice in domestic firms as you might reasonably expect, based on observations in other countries[7] (Exhibit 20).

Increased competition improves performance: Interviewees participating in the research are asked to comment on and assess the degree of competition they face. The more competitors they believe their company faces, the higher its management practice scores (Exhibit 21).

This could be a result of two effects: 1) good practice spreading quickly in highly competitive environments, and 2) poor practice being eliminated by natural selection as poorer performing companies are removed from the marketplace.

Exhibit 19: Multinationals compared with domestic companies by country

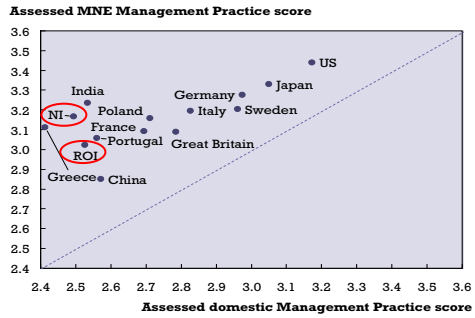


Exhibit 20: Link between MNE presence and domestic firm practices

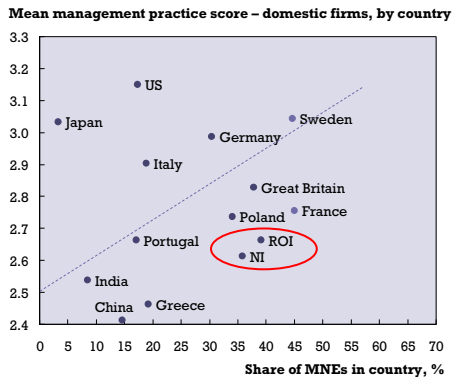
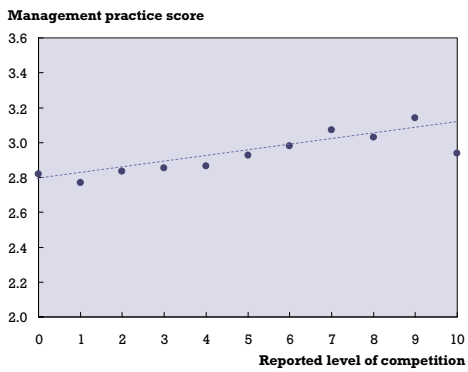


Exhibit 21: Correlation between management practice scores and reported level of competition

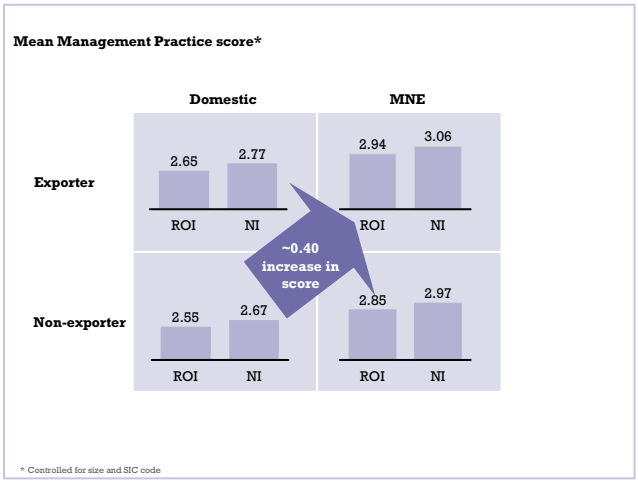


[6] www.worldbank.org – A composite index maintained by the world bank as a measure of labour market flexibility.

[7] For further discussion on the productivity spillovers from MNEs, see *"Productivity Spillovers from Multinational companies"*, Holger Görg, University of Nottingham, share of MNEs in Exhibit 20 is based on domestic and international MNEs surveyed

The research also indicates that exporting firms have better management practices than those solely serving the domestic market in ROI and NI, regardless of whether the firm is a multinational enterprise (MNE) or a domestic firm (Exhibit 22). MNEs that export score highest of all firms in both ROI and NI. This is further evidence to illustrate that competition matters, as both exporters and MNEs expose themselves to higher competition than domestic and/or non-exporting firms.

Exhibit 22: Exporters compared with non-exporters, both domestic and multinational



Taken together the combination of these structural factors can account for nearly 40% of the gap between ROI's average score and that of the US at the top of the league table, and over 50% of the shortfall in NI's score relative to the US. The balance of the gap can primarily be explained by performance in a limited number of management practice areas.

There is scope to improve three areas of management practice in particular

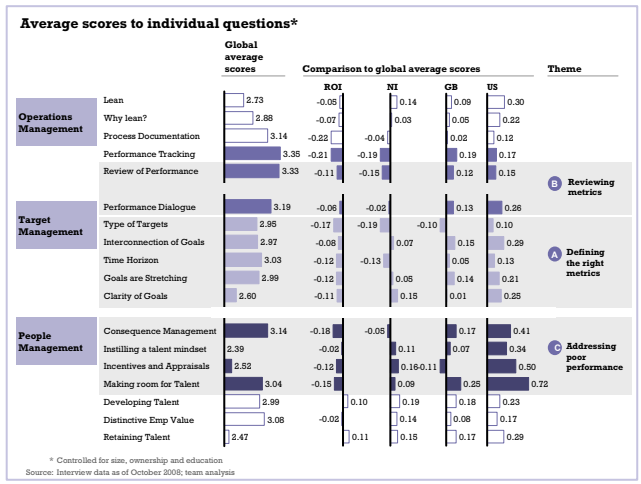
Operations management and target management are areas that have attained low scores in both NI and ROI, indicating that manufacturers have been slow to adopt many of the modern production techniques that have been applied with great success across industry and geography.

Scores in people management are relatively high in NI compared to global averages, appearing to reflect the relatively high level of market flexibility. However, despite similar flexibility in the Republic, people management there is below average .

The implication is that while the flexible labour market in ROI and NI (as well as competition from a thriving service sector) forces firms to work hard to attract good people, they are far less effective at equipping their employees to deliver improved performance and at motivating them to do their best.

A detailed examination of the criteria used in the survey to assess management practices (see the Appendix for explanation of each of the 18 dimensions) highlights three improvement themes for both ROI and NI. ROI and NI firms are particularly weak at defining the right metrics, reviewing them, and addressing poor performance (Exhibit 23).

Exhibit 23: Criteria grouped by area of management and by theme



Specifically, firms in ROI and NI are poor at defining the balanced set of financial and operational metrics necessary to align the shop floor with the corporate agenda. They are poor at reviewing performance against these metrics, and while NI firms are better than average at managing people, firms both north and south are reluctant to take the necessary actions to tackle poor performance.

In the best managed firms, these three themes have the characteristics described in Table 1.

Levels of practice in the three areas defined by these themes explain, between them, over 70% of the gap from best practice which remains when structural factors have been taken into account (Exhibit 24, 25).

Table 1

Defining the right metrics:

- ***Types of targets.*** Goals are a balance of financial and non-financial targets. Senior managers believe the non-financial targets are often more inspiring and challenging than financials alone
- ***Interconnection of goals.*** Corporate goals focus on shareholder value. They increase in specificity as they cascade through business units ultimately defining individual performance expectations.
- ***Time Horizon of Goals.*** Long term goals are translated into specific short term targets so that short term targets become a "staircase" to reach long term goals
- ***Goals are stretching.*** Goals are genuinely demanding for all. They are grounded in solid economic rationale
- ***Clarity of Goals.*** Performance measures are well defined, strongly communicated and reinforced at all reviews; and performance and rankings are made public to induce competition

Reviewing performance against these metrics:

- ***Performance Tracking.*** Performance is continuously tracked and communicated, both formally and informally, to all staff using a range of visual management tools
- ***Review of Performance.*** Performance is continually reviewed, based on indicators tracked. All aspects are followed up ensure continuous improvement. Results are communicated to all staff
- ***Performance Dialogues.*** Regular review and/or performance conversations focus on problem solving and addressing root causes. Purpose, agenda and follow-up steps are clear to all. Meetings are an opportunity for constructive feedback and coaching

Addressing poor performance

- ***Consequence Management.*** A failure to achieve agreed targets drives retraining in identified areas of weakness or moving individuals to where their skills are appropriate
- ***Instilling a talent mindset.*** Senior managers are evaluated and held accountable on the strength of the talent pool they actively build
- ***Incentives and appraisals.*** Ambitious stretch targets with clear performance related accountability and rewards are provided as the firm strives to outperform the competitors
- ***Making room for talent.*** Poor performers are moved to less critical roles or out of the company as soon as a weakness is identified.

Source: McKinsey

Exhibit 24: Gap in management practice score, ROI versus US

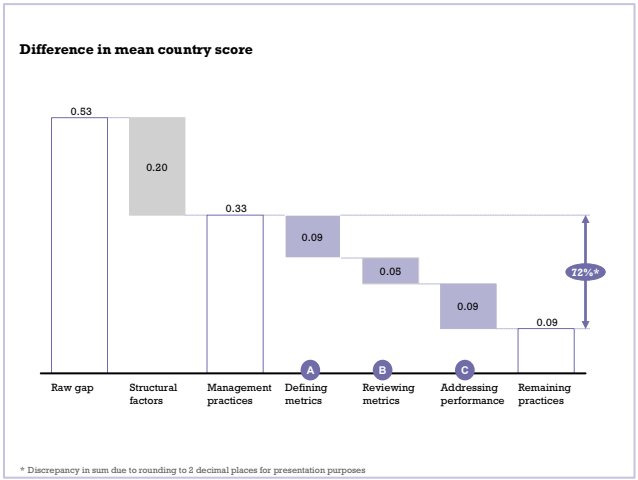
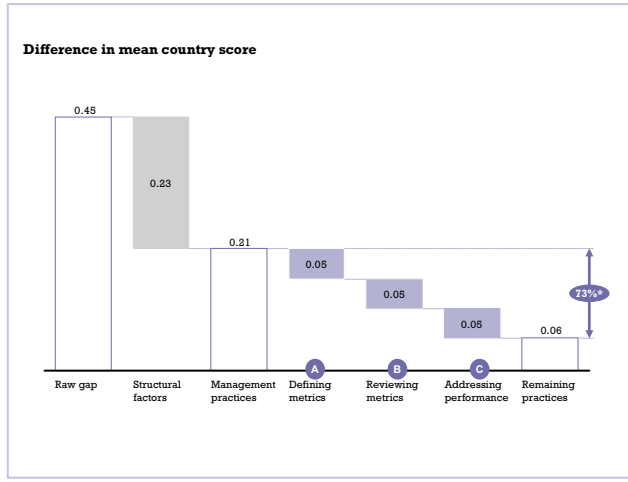


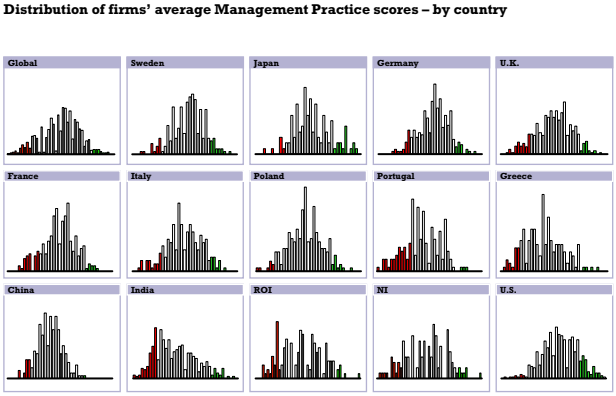
Exhibit 25: Gap in management practice score, NI versus US



A large proportion of low scoring firms drags down the average score

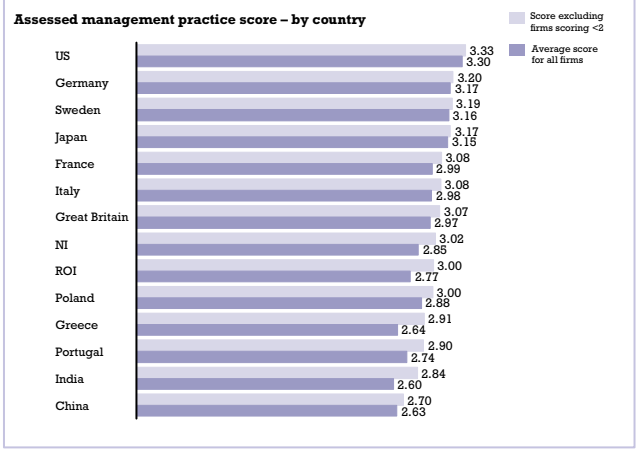
The spread of management practice performance between firms in the same country, even those of similar size operating in the same industry sectors, is very broad and significantly bigger than the inter-country spread, suggesting that management excellence is a matter of internal firm policy and behaviour rather than the business environment (Exhibit 26).

Exhibit 26: Big variations in management practices within countries



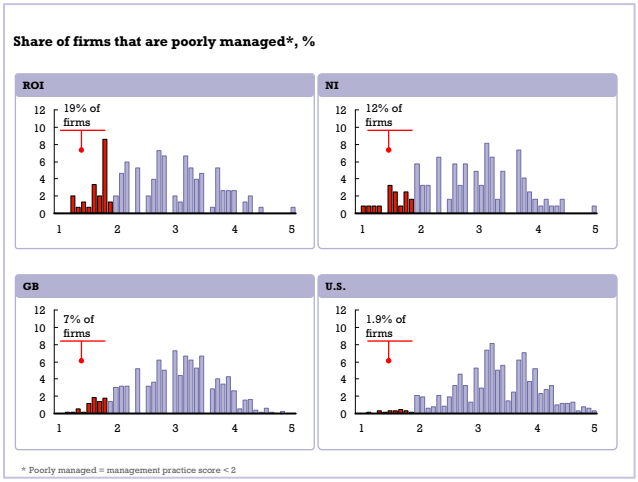
Improving the management practices of the worst managed firms (those with an overall practice score of less than 2) from the sample has little effect on the average score of the leading countries, but it has a significant impact upon the score of lower performing countries (Exhibit 27).

Exhibit 27: Impact of excluding poorly managed firms on countries' average management practice scores



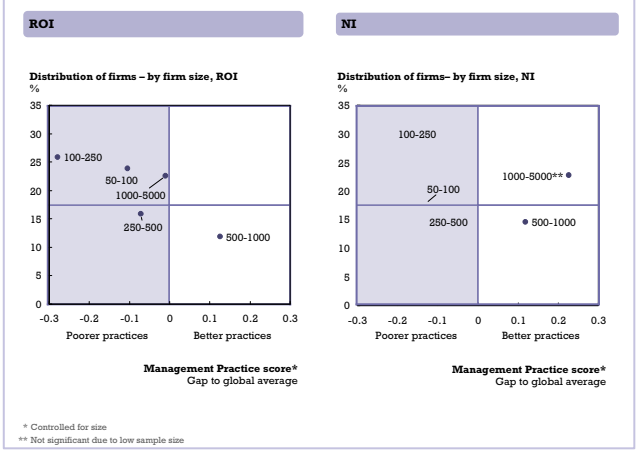
Both ROI and NI have a large share of firms scoring less than 2 with 19% of firms in ROI scoring poorly and 12% of firms in NI, compared with 7% in Great Britain and just 2% in the US (Exhibit 28). Improving management practices in the firms in these 'tails' of under-performance would significantly reduce the gap between the average scores of ROI and NI and those of the top performing countries.

Exhibit 28: Large share of poorly managed firms in ROI and NI



SME sector firms (those with less than 250 employees) perform particularly poorly in ROI and NI compared with SMEs elsewhere in the world (Exhibit 29).

Exhibit 29: Firms in ROI and NI compared with their global peers



In ROI, large firms (i.e. firms with more than 1,000 employees[8]) also appear to perform less well than their peers elsewhere . Even if some of these firms have large numbers of employees internationally, and significantly smaller branches in ROI, a small subsidiary of a large firm could be expected to perform better than a domestic firm of the same size. However, these small branches in ROI do not appear to be importing the management practices of their parent companies. The research finds the same result holds true when using other measures to define large firms.

Privately owned firms perform particularly poorly in ROI, where firms owned by private individuals or managers score one third of a point less than the global average (Exhibit 30). NI firms did not perform significantly differently from the global average.

Improving areas of weakness is more important than excelling in others

The scores for individual dimensions of management practice tend to be co-correlated for a given firm, implying that firms which are good in one dimension of management tend to be good in other dimensions as well. In general, the best managed companies show consistently high scores across all dimensions. Companies that achieve this consistency also appear to be rewarded for it, as they achieve higher productivity (Exhibit 31).

Analysis of the data suggests that focussing on improving the weak points in management practice in order to achieve consistently good scores across the board is an effective way of achieving a higher average management practice score and, presumably, the associated performance benefits. This would suggest that the individual scores in the assessment output can be beneficial in highlighting areas for targeted improvements (Exhibit 32).

Exhibit 30: Comparison between firms of different ownership types, ROI and Global

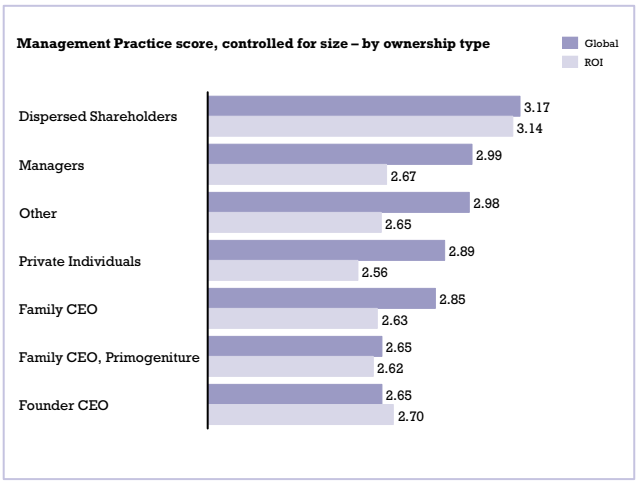


Exhibit 31: Illustrative profiles of companies with different levels of productivity

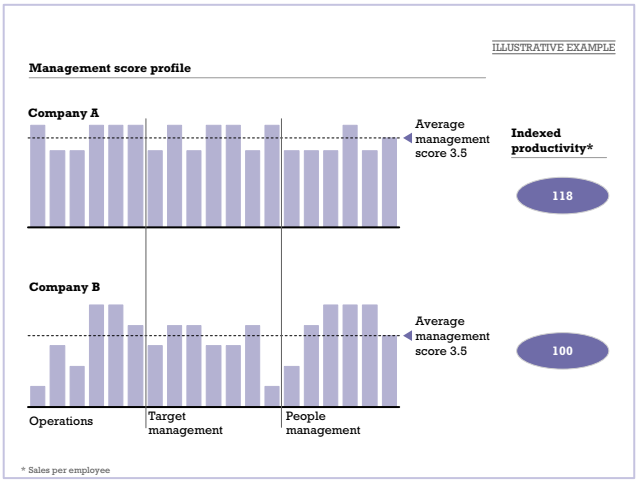
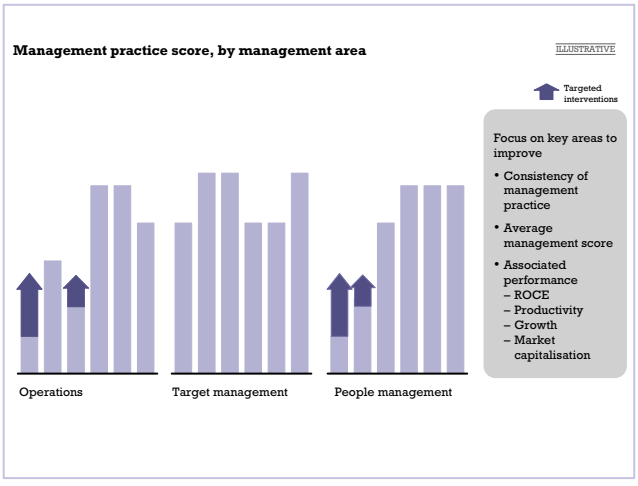


Exhibit 32: Targeted improvements suggested by assessment output



[8] Firm size is based on a self-declared employee number by the interviewee manager. The analysis of firm size is based on this self reported figure, the research to date has found it to be the most accurate and up to date measure of firm size.

Managers are poor at assessing their own performance: Good management appears to be so strongly linked with good performance that it might be reasonable to expect all firms to make improving management practices a priority. The techniques of good practice are, after all, widely available and easily accessible yet many firms remain poorly managed. The poor dissemination of management practices suggests either that successful implementation is elusive or that it is not a priority for many firms.

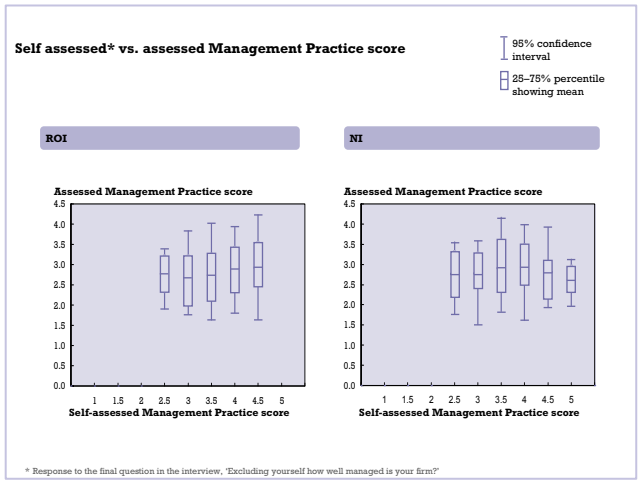
To examine possible causes of this disconnect, the latest round of research sought to evaluate managers' perceptions of their firms' performance. The final interview question asked them to assess the overall management performance of their firms on a scale of one to five. To avoid false modesty, they were asked to exclude their personal performance from the calculation.

Subjects' answers to this question were not well correlated with either their firms' management practice scores or their business performance. The research finds this lack of correlation in all countries, and in well managed and poorly managed firms alike.

This lack of self awareness implies that managers in most firms do not attempt to evaluate their management practices or to compare themselves with international benchmarks, or even with those in other firms in their owns sectors and territories. One consequence is that many organisations are probably missing out on opportunities to make significant improvements because they are simply unaware that their own managerial practices are poor.

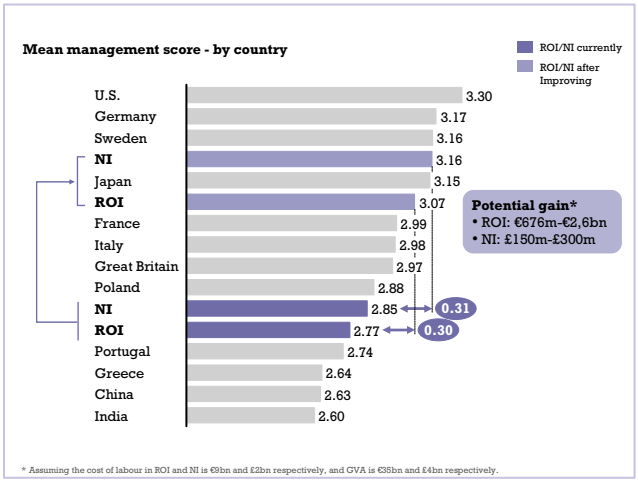
In common with managers elsewhere, Irish managers have a limited view of the strength of overall management practice performance within their own organisations (Exhibit 33).

Exhibit 33: Poor self-assessment of firm's management practice in ROI and NI



* Response to the final question in the interview, 'Excluding yourself how well managed is your firm?'

Exhibit 34: Impact of raising the scores of below average firms in ROI and NI to average levels



* Assuming the cost of labour in ROI and NI is €9bn and £2bn respectively, and GVA is €35bn and £4bn respectively.

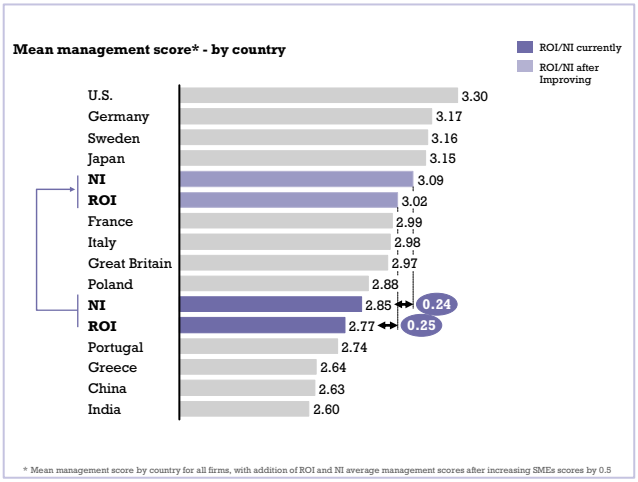
Closing the management practice gap could deliver substantial economic benefits

How could ROI and NI improve? One obvious approach would be to focus on those firms where the quality of management practices is currently below average. For example, bringing the lowest rated two quartiles of firms in ROI and NI up to the average level in each country would propel both countries into the top tier in the global ranking (Exhibit 34).

An alternative approach would be to focus on specific categories of firm, such as SMEs or firms with low levels of staff education. Improving the management practices of SMEs, for example, would help address the tail of poorer performing firms that is currently dragging down the average scores, and would similarly move both ROI and NI up into the top tier of countries examined (Exhibit 35).

Improving management practices could potentially generate significant benefits for the economy. For example, bringing the lowest rated two quartiles of firms in ROI and NI up to the average level in each country would increase average management practice scores by one third of a point. This could be worth between €800 million and €3 billion (€500m-€2.5bn in ROI and £150m-£300m in NI).

Exhibit 35: Impact of raising scores of SMEs in ROI and NI



The Takeaways

For companies

For companies in ROI and NI, this research is good news. Some companies in both jurisdictions have strong, effective, world class management practices in place and are already reaping the benefits in terms of higher productivity, better returns on capital and more robust growth. For those who are not yet at world class levels there is a significant prize to be had simply by adopting good management practices.

Improving management practices is a highly efficient way for firms to leverage their existing labour and capital. Yet surprisingly few firms have made any attempt to gain insight into the quality of their management behaviours. Those that do so give themselves an opportunity to access rapid, cost-effective and sustainable competitive advantage.

For policymakers

For policy makers, this research highlights some common issues in NI and ROI. There was an opportunity to collaborate with firms to significantly improve the economies of ROI and NI. The overall performance of most countries is determined not by the performance of its leading companies, but by the number of poorly performing companies. By developing environments that encourage and assist all firms to adopt good management practices, and by devoting as much attention to the followers as to the leaders, both governments can drive the competitiveness of their entire economies.

Appendix

Methodology

The research globally focused on assessing management practices in medium sized firms, with between 50 and 5,000 employees, because they tend to be more comparable with each other than larger firms and because the links between plant level management practice and corporate productivity are clearer in firms of this magnitude than they are in more complex transnational conglomerates.

To assess management practices, researchers conducted "double blind" interviews: the individual managers being interviewed were unaware of the criteria they were being scored against and of the scoring methodology, while the interviewers were unaware of the financial performance of the organisations where they were conducting interviews.

The assessment covered 18 topics in three broad areas: shop floor operations, target management and people management. Interviewers gave the firms a score from one to five in each of the 18 dimensions, depending on how well they performed according to pre-determined scoring criteria (Exhibit 36).

This approach has been proven to be robust. The interview results and scores for an individual firm can be reproduced even when the interviewers are changed. While conducting interviews, a second assessor often listens to an interview and independently conducts an evaluation. Their resultant scores show a very high correlation with the primary interviewer's scores (Exhibit 37).

The distribution of firms sampled for this study was representative of the universe of available firms in terms of size (Exhibit 38) and industry (Exhibit 39).

Exhibit 36: Topics areas covered

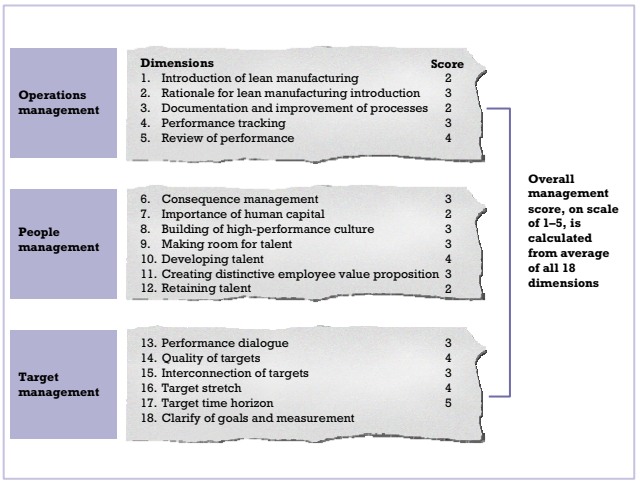


Exhibit 37: Management practice scores, interviewer versus listener, in ROI/NI

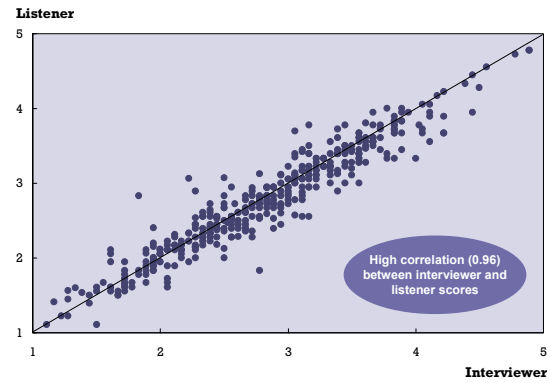
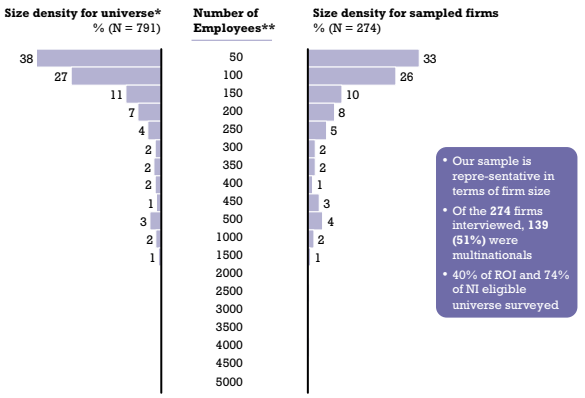
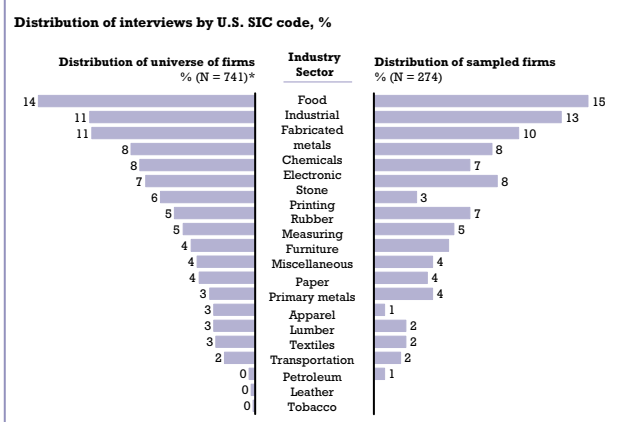


Exhibit 38: Distribution of manufacturing firms in ROI/NI and firms sampled – by firm size



* Firms based in ROI/NI, sourced from ORBIS and FAME, with 50-5000 employees, and classified as manufacturing
** Number of employees of firm as filed in accounts

Exhibit 39: Distribution of manufacturing firms in ROI/NI and firms sampled – by industry



* Excludes 50 firms with US SIC code not identified

Description of topics evaluated

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

Other Findings

The interviews in ROI and NI highlighted a number of other interesting findings. Two of them are summarised here:

Plant manager autonomy is linked to better management practices: The global research has demonstrated a link between higher levels of managerial autonomy and better management practices. Autonomy has a cultural element, with more hierarchical cultures giving less control to their managers. Given the relatively high level of plant manager autonomy in ROI and NI
(Exhibit 40), one would expect higher management practice scores (Exhibit 41).

Good management is correlated with rapid changes in manager's role: A strong link globally is found between management practices and plant manager tenure in position. Firms with managers in positions for a longer period of time are found to have poorer management practices than those with more recently appointed plant managers. The same link is observed in ROI/NI (Exhibit 42). However, while tenure in role is strongly correlated with management practice scores, tenure in the firm is not, indicating that it is the changes in individuals' roles within a firm rather than bringing new people into the firm that leads to better practices.

Exhibit 40: Relative levels of autonomy of plant managers in different countries

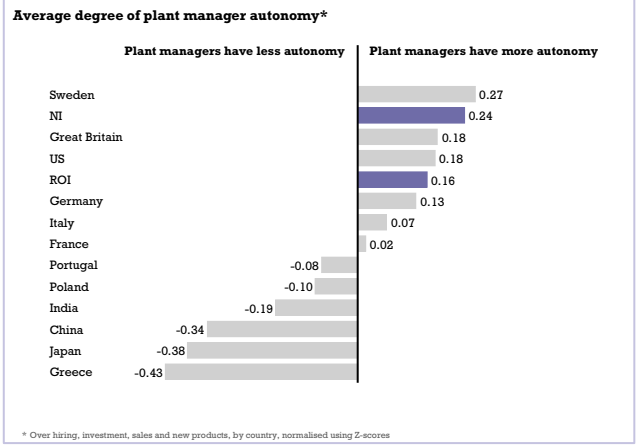


Exhibit 41: Mean management practice score versus level of autonomy, by country

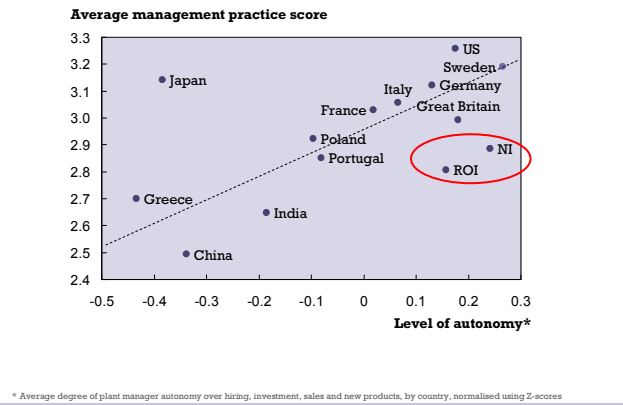
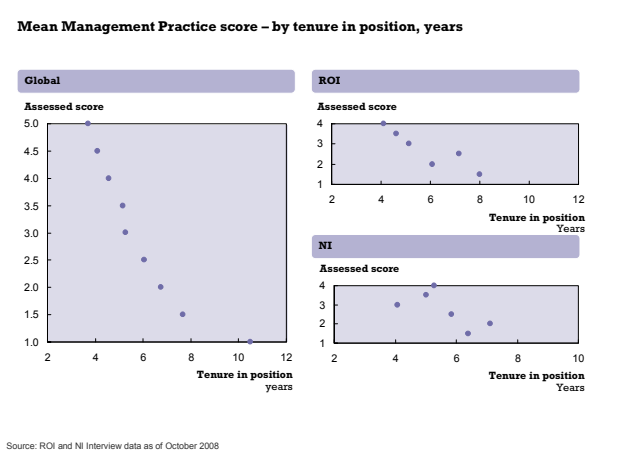


Exhibit 42: Mean management practice score compared with tenure of management in position



Tradable services pilot

Similar research has also been piloted in service industries, representing over 20% of the eligible universe of tradable services firms in each jurisdiction (Exhibit 43).

Results from the pilot survey suggest that management practices are generally better in services than in manufacturing, and more in line with practices in high value manufacturing firms (Exhibit 44).

Examining the raw scores the three themes identified in the manufacturing survey show potential for improvement in tradable services firms surveyed. In addition, scores are weak in the area of introducing new management techniques and having a continuous improvement mindset, indicating that firms are not striving to innovate in their work practices (Exhibit 45).

Exhibit 43: Scope of services pilot

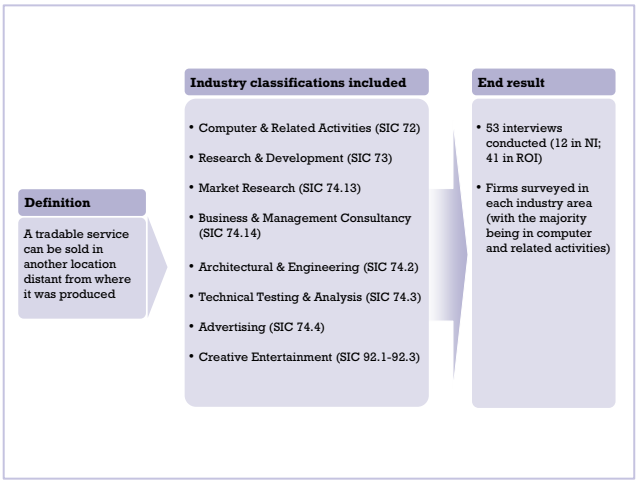


Exhibit 44: Management practices in tradable services sectors compared with manufacturing in ROI and NI

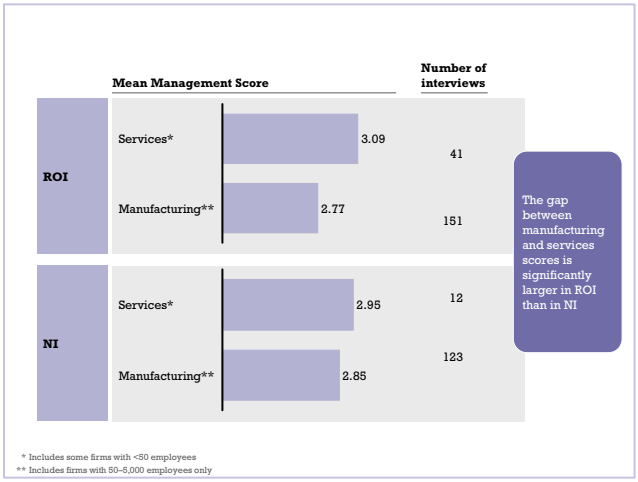


Exhibit 45: Tradable services criteria grouped by area of management and by theme