

What's All This About New Zealand Management?

Last month Rebecca Macfie wrote an article in the *Listener* entitled “Our slack bosses”. In it she argued that “one of New Zealand's dirtiest little secrets is that our businesses are not very well managed” and that “the poor quality of New Zealand managers is holding the country back”.

Journalist Rod Oram has made similar claims. Do they stand up to scrutiny?

Start with some obvious reflections. Is the *Listener* run by “slack bosses”? That would be surprising: it has survived in the fiercely competitive weekly magazine market. But if it is, why don't its owners fire the “slack bosses” and hire better ones?

Next, if New Zealand firms are badly run, doesn't this present a golden opportunity for critics to start up in competition or take existing firms over? Why don't they put their money where their mouth is?

On management quality, I tend to be sceptical about the views of people not engaged in business – such as journalists, academics, government officials and vested interests such as management consultants and providers of management training.

The article draws on a report by Sydney's University of Technology and management consultants McKinsey & Co commissioned by the Ministry of Economic Development.

It relates only to manufacturing industry in New Zealand and other countries. Manufacturing is only 17% of GDP. Even if its findings were valid, it is not a basis for generalisations across the whole economy.

Its methodology also strikes me as dubious: “a conversation-based interview scoring grid.”

Nevertheless, some of the report's findings are unsurprising. For example, it finds that firm size is an important determinant of management performance: larger New Zealand firms significantly outperform smaller firms. Naturally their managers get paid more and, as elsewhere – and with exceptions – you generally get what you pay for.

This should have triggered the thought that the same finding applies internationally: managers like Bill Gates are found at Microsoft's Seattle headquarters not in Microsoft New Zealand. The local firm would go bust because it couldn't afford to pay him.

However, Microsoft wouldn't allow its New Zealand subsidiary to make inadequate returns, which is the ultimate test of management.

The report also finds that multinational corporations adopt and spread better management practices as compared with domestic firms. That is a positive argument for overseas investment.

Publicly listed firms are found to exhibit superior management performance relative to other firms such as cooperatives. The disciplines of capital markets are relevant here.

The *Listener* article suggests that improving management performance is “probably the lowest hanging fruit” in terms of closing the income gap with Australia.

However, on three of the four metrics it uses – overall management, operations management and performance management – the report finds that New Zealand is “statistically on par” with Australia.

It finds that New Zealand performs slightly worse than Australia on “people management”, and says this cannot be put down to inferior labour market flexibility. Yet dismissal rules are more restrictive in New Zealand than in Australia, and under the heading of labour market efficiency, the World Economic Forum's latest Global Competitiveness Survey puts New Zealand in 90th place for hiring and firing practices compared with Australia at 62nd.

I have yet to find research that suggests that the difference between low-growth and high-growth countries is due to the quality of their business management.

A more rigorous analysis of management performance would focus on two issues that were not considered in the MED report.

The first is whether New Zealand firms make normal returns on investment – returns that cover their cost of capital. The evidence is that on average and over time they do. This is to be expected: if they earned less, investors wouldn't keep putting money into them and if they earned more, competitors would enter markets and drive returns down.

Secondly, it is openness to competition that does most to keep managers on their toes. This means openness in all dimensions: the markets for goods and services, corporate control, international capital, and managerial labour.

Firms least likely to exhibit good management performance are those that enjoy monopoly positions, such as ACC or public entities more generally.

Thus to a large extent it is the quality of a country's institutions and policies that drives economic and management performance, not the other way round. There might have been top managers in the Soviet Union but we never heard of them.

Of course management performance is both important and variable. But we need more rigour in any debate about management quality.

When we see chief executives such as Sir Ralph Norris running one of Australia's largest banks, Rob McLeod heading an Australasian accounting firm, Graeme Hart building a huge international packaging business, and New Zealand firms exporting to the world and competing with imports, we should question claims about deficiencies in New Zealand's managerial DNA.

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