

Management key to growth

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KEVIN Rudd reminded us last week in an Australia Day speech that "productivity growth must play the central role in building Australia's future economic growth", highlighting the importance of new technologies and skills. But little has been said about the capability of Australian management to drive the productivity agenda.

The national accounts data should dispel any doubts as to the effectiveness of the government's fiscal stimulus package, which was well timed and calibrated. Consequently, Australia is one of only three advanced economies in the world to record positive growth in the past year. However, with the winding back of the stimulus, future growth and competitiveness are jeopardised by a legacy of poor productivity performance.

From being a leading performer in the late 1990s, following the last Labor government's microeconomic reforms, Australia slipped back to one of the laggards by the mid-2000s, despite the enhanced opportunities for investment in research and innovation afforded by the commodities boom.

Regrettably, the Howard government not only failed to exploit the windfall gains associated with the boom to build on these reforms, but allowed it to mask structural deterioration in the Australian economy.

Now the urgency of a coherent, co-ordinated approach to improving Australia's productivity performance has been sharpened by the prospect of a new resources boom, bringing with it the familiar "Dutch disease". Already we are seeing a higher exchange rate increasing pressure on trade-exposed industries and services beyond anything experienced in the 80s terms-of-trade crisis.

This is why economist Paul Krugman argues that "productivity isn't everything, but in the long run it is almost everything". He has also pointed out that the recent productivity spike in the US has more to do with short-term cost-cutting based on labour shedding than with the longer term dynamic efficiency gains sought by northern European countries through schemes to retain and upgrade skills during the downturn.

Certainly, the international evidence suggests that workforce skills and capabilities are a key factor in the creation of a high-productivity, high-wage economy, as well as contributing to social inclusion. While this has resonance in the government's "education revolution", particularly the role of Skills Australia, it is also important to understand skills development in the broader context of knowledge and innovation as an "unexplained residual" in the measurement of productivity.

Last year's innovation white paper *Powering Ideas: An Innovation Agenda for the 21st Century* not only lifted our sights with a 10-year program for public research and business innovation, but also recognised that innovation is more than science and technology and

increasingly encompasses "organisational innovation", including new business models, systems integration and high-performance work systems.

The white paper made it clear that a future focus of the government's industry and innovation policies will be on "building innovation capacity and performance at the enterprise level . . . Making innovation work requires a workforce with sophisticated skills of all kinds, including leadership and management skills." But how important is management to innovation and productivity?

Until now, reliable evidence on the quality of Australian management, and its link with productivity at the enterprise level, has been sparse, the last significant study being the 1995 David Karpin report, *Enterprising Nation*, on leadership and management skills. With this in mind, the Department of Innovation, Industry, Science and Research commissioned a new study, *Management Matters in Australia: Just How Productive are We?* as part of a global 16-country project led by the London School of Economics and McKinsey & Co.

The purpose of this study was to inform the evolving design of the government's Enterprise Connect advisory services for small to medium firms, mainly though not exclusively in the manufacturing sector. Enterprise Connect is an unsung public policy success story of the Rudd government, with monitored results for more than 2000 clients in its two years of operation. As the authors of the global project noted: "Governments can play their part in encouraging the take-up of good management behaviour. Doing so may be the single most cost-effective way of improving the performance of their economies."

A key finding of the Australian study by a multi-university team was that our managers, measured against 18 dimensions of management practice, rated about average for the countries surveyed but considerably worse in people management. While managers of large corporations rated highly across the sample, the differences among countries reflected the length of the tail of mediocrity.

Nor was it surprising that the study also found a statistically significant relationship between productivity performance and the quality of management, which in turn was closely related to level of education. Australia fared worse than most countries, with only 44 per cent of managers holding a tertiary qualification.

Education may not be everything, to paraphrase Krugman, but it is almost everything when it comes to productivity improvement. For Australia's growth momentum to become self-sustaining, the next stage of reform must integrate the innovation agenda with the education revolution to promote a transformation of management and workplace performance. In the post-Work Choices environment, this is something on which government, business and unions should be able to find common ground.

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