



Australian Government  
Department of Industry,  
Innovation and Science

Office of the  
Chief Economist

# Strategic management in Australian firms

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Insights and Analysis

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# Overview

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# Overview

## Aim

Develop a simple, broadly applicable classification of strategic management practices to facilitate self-assessment.

## Method

Classify firms into four levels of strategic management.

Classification of firms' strategic management according to:

- Strategic planning (including formal and informal);
- The number of key performance indicators (KPIs) monitored; and
- The number of areas covered by KPIs

Descriptive analysis of relationship between strategic management and firm characteristics, behaviours and outcomes

## Findings

Management practices vary substantially across industries and with firm size

Higher levels of strategic management are associated with higher levels labour productivity

Firms with higher levels of strategic management collaborate and innovate more

Education and foreign ownership appear to be important drivers.

# Why management?

Existing literature and economic rationale

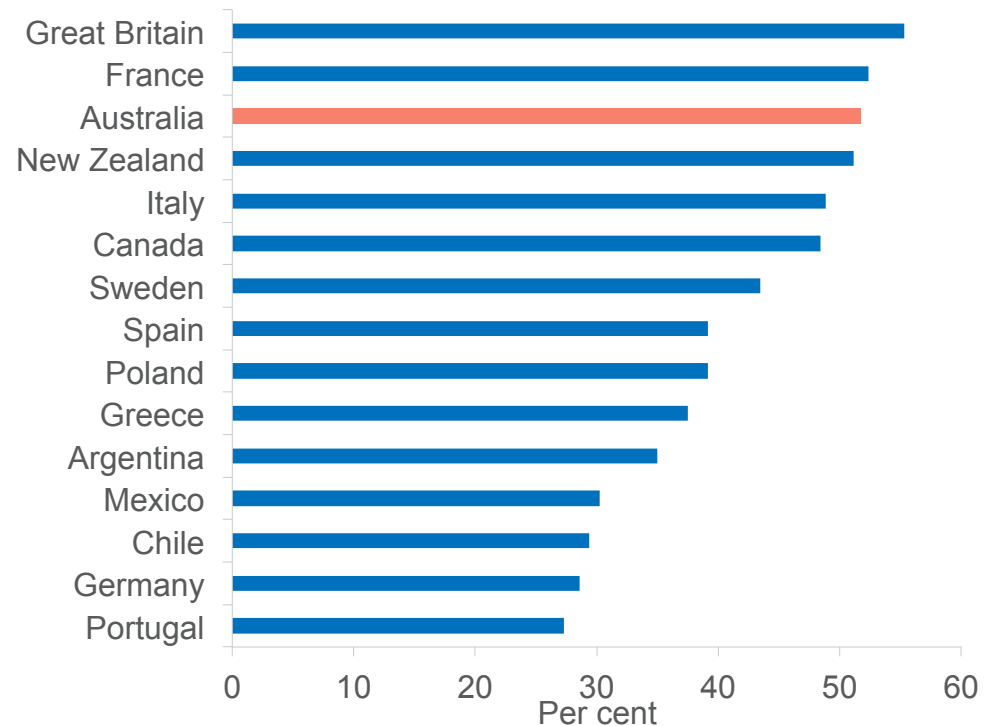
Management practices are important for firm performance

Firm-level

Economy-level

Firms self-assessment of management practices is often inaccurate

**Figure 1: Share of TFP gap with US explained by management**



Source: Bloom, Sadun and Van Reenen (2017)

# Why management?

Existing literature and economic rationale

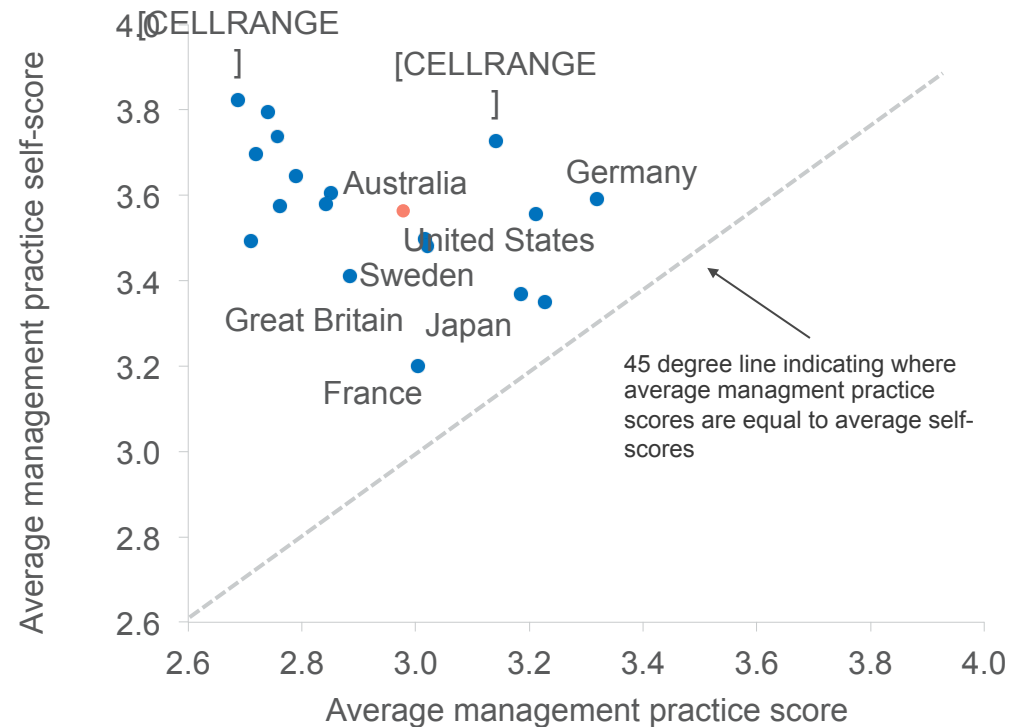
Management practices are important for firm performance

Firm-level

Economy-level

Firms self-assessment of management practices is often inaccurate

**Figure 3: Actual and self-assessed management scores by country**



Source: Data were digitally extracted from Maloney (2017, p.5)

# Data

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# Data

## MCM and BLADE

### The Management Capabilities Module

ABS Business Characteristics Survey

Over 14,500 firms

Aspects of management measured:

- Key performance indicators
- Use of data in decision making
- Strategic planning
- Digital Business

Firms characteristics:

- Industry
- Firm size (employment)
- Foreign ownership
- Years of operation
- Characteristics of principal manager

Firm activities:

- Innovation
- Seeking out collaborative activities
- Response to supply chain/skill issue

Weights

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### Business Longitudinal Analysis Environment (BLADE)

Environment linking administrative and survey datasets

More detailed data from MCM

Data from the Management Capabilities Module linked with administrative data on:

- Turnover
- Exports
- Operating expenditure



# Method

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# Classification of strategic management

## Classification of firms

Low Engagement, Ad hoc, Narrow-Focus, Strategic

## Criteria

Developed a priori

Loosely based on Balanced Scorecard (BSC) framework (Kaplan and Norton 1992)

Focus on:

- Monitoring a variety of indicators
- Aligning firms KPIs with overall strategy

Level of strategic management	Description
Strategic	The firm has active management practices, reporting structured planning, monitoring of performance across a range of indicators.
Narrow-Focus	The firm may demonstrate active management in one area but lack either formal strategic planning or comprehensive monitoring.
Ad hoc	The firm has a reactive approach to management with limited strategic planning and managerial practices occurring on ad hoc basis.
Low Engagement	The firm does not undertake strategic planning and does not monitor its performance.

# Classification of strategic management

Criteria according to strategic planning and use of KPIs

## Written strategic plan

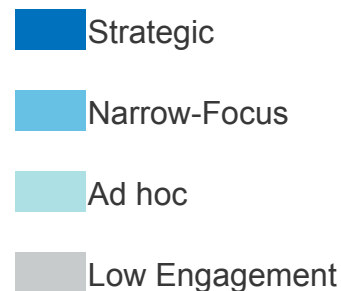
Number of KPIs	Number of KPI topics			
	0	1	2	3 or more
Zero or don't know	Low Engagement	Low Engagement	Low Engagement	Low Engagement
1 to 2	Low Engagement	Narrow-Focus	Narrow-Focus	Narrow-Focus
3 to 5	Low Engagement	Narrow-Focus	Strategic	Strategic
6 or more	Low Engagement	Narrow-Focus	Strategic	Strategic

## Unwritten strategic plan

Number of KPIs	Number of KPI topics			
	0	1	2	3 or more
Zero or don't know	Low Engagement	Low Engagement	Low Engagement	Low Engagement
1 to 2	Low Engagement	Ad hoc	Ad hoc	Ad hoc
3 to 5	Low Engagement	Narrow-Focus	Narrow-Focus	Narrow-Focus
6 or more	Low Engagement	Narrow-Focus	Narrow-Focus	Narrow-Focus

## No strategic plan

Number of KPIs	Number of KPI topics			
	0	1	2	3 or more
Zero or don't know	Low Engagement	Low Engagement	Low Engagement	Low Engagement
1 to 2	Low Engagement	Ad hoc	Ad hoc	Ad hoc
3 to 5	Low Engagement	Ad hoc	Ad hoc	Ad hoc
6 or more	Low Engagement	Ad hoc	Ad hoc	Ad hoc



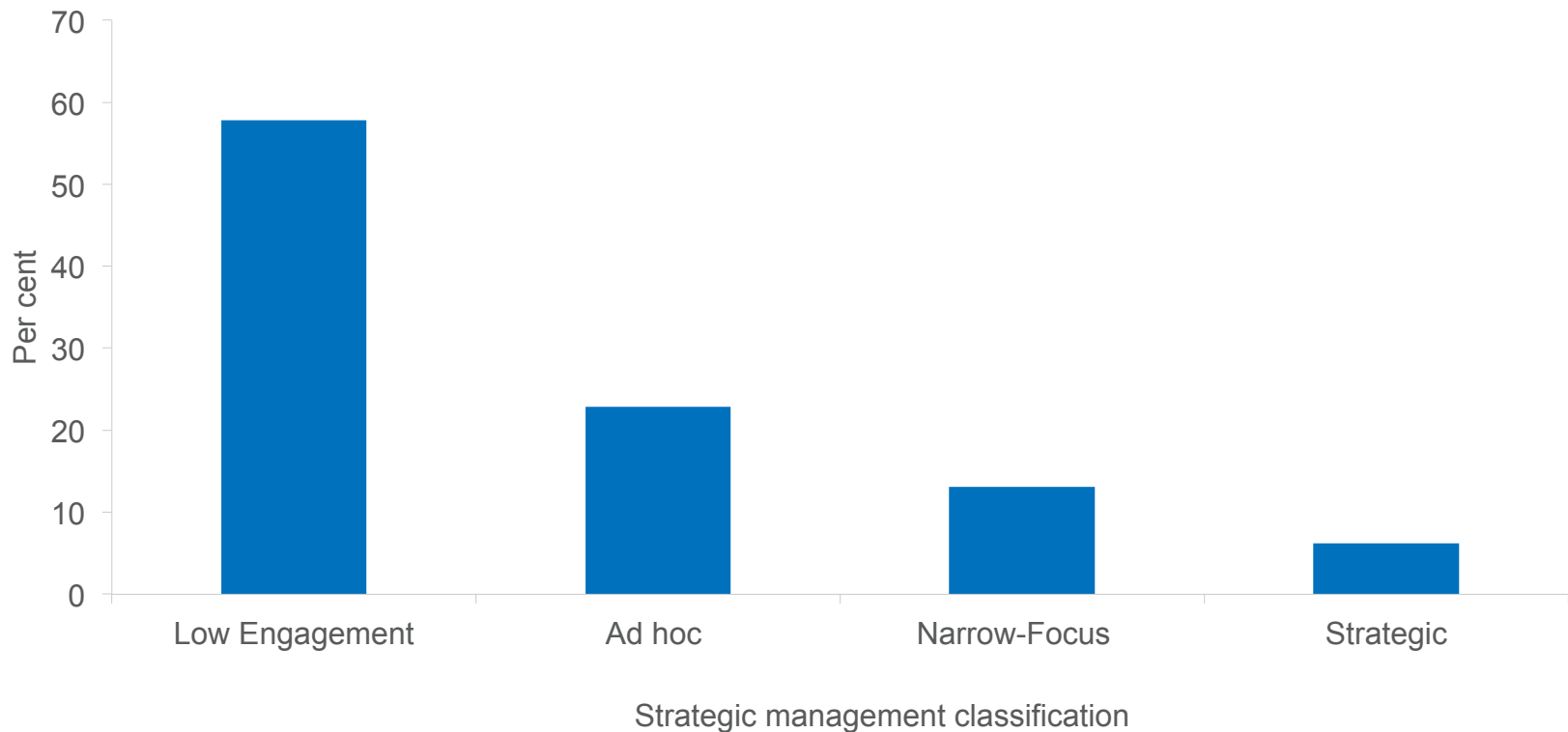
# Results

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# Distribution of strategic management

Representative estimates of Australian firms

**Figure 4: Distribution of the management capability taxonomy**



Source: Source: ABS Management and Organisational Capabilities of Australian Business Microdata, 2015-16 Cat. No. 8172.0.55.001

# Strategic management and other practices

Validating the classification

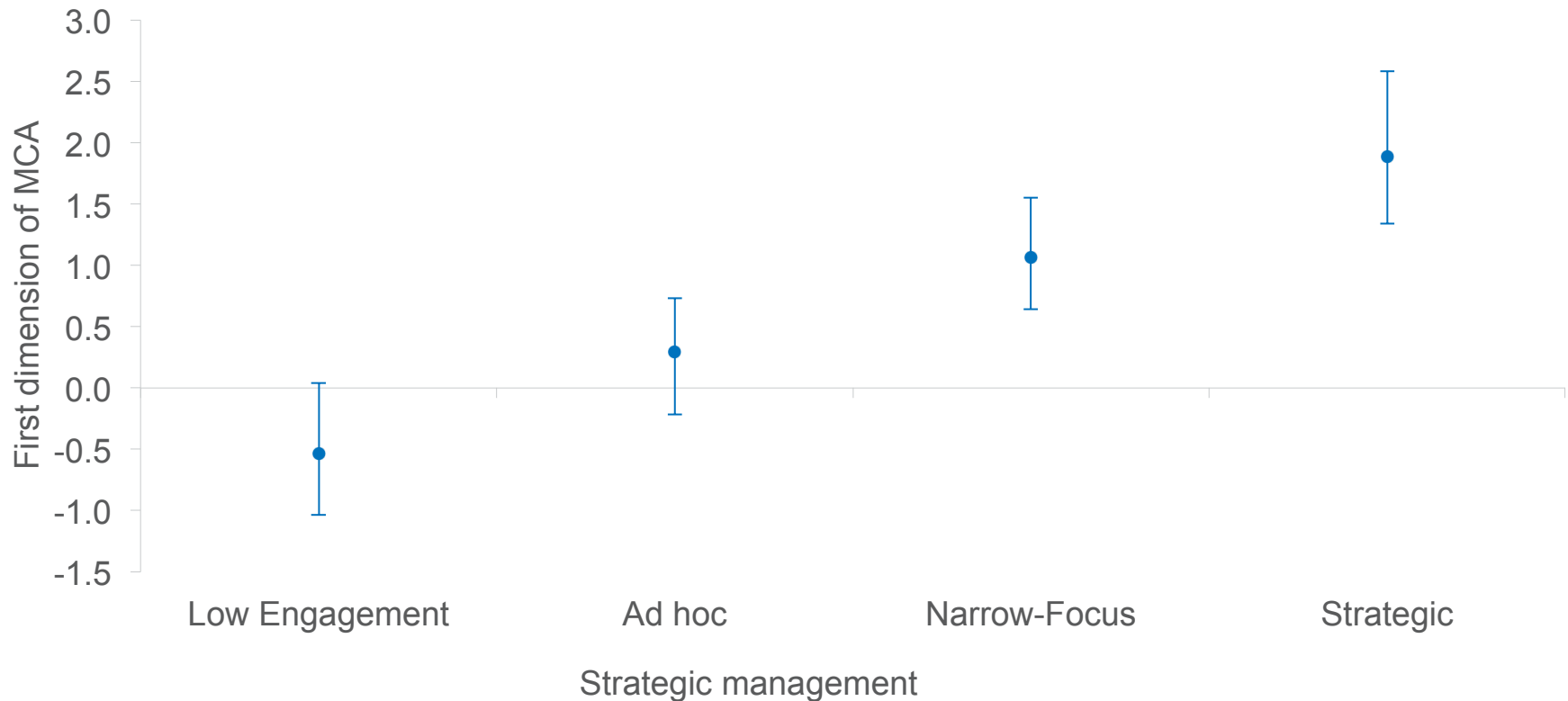
**Table 1: Correlations between strategic management categories**

Management practices	Correlation coefficient
Number of contributors to strategic plan	0.74
Number of employees listed as having responsibility for strategic plan implementation	0.73
Number of areas covered in the strategic plan	0.73
Number of information sources accessed for management practices	0.61
Use of KPIs for promoting non-managers	0.56
Use of KPIs for promoting managers	0.55

# Strategic management and MCA

Validating the classification

**Figure 5: Strategic management capability and the first dimension of MCA**



Source: OCE estimates based on ABS Management and Organisational Capabilities of Australian Business Microdata, 2015-16 Cat. No. 8172.0.55.001

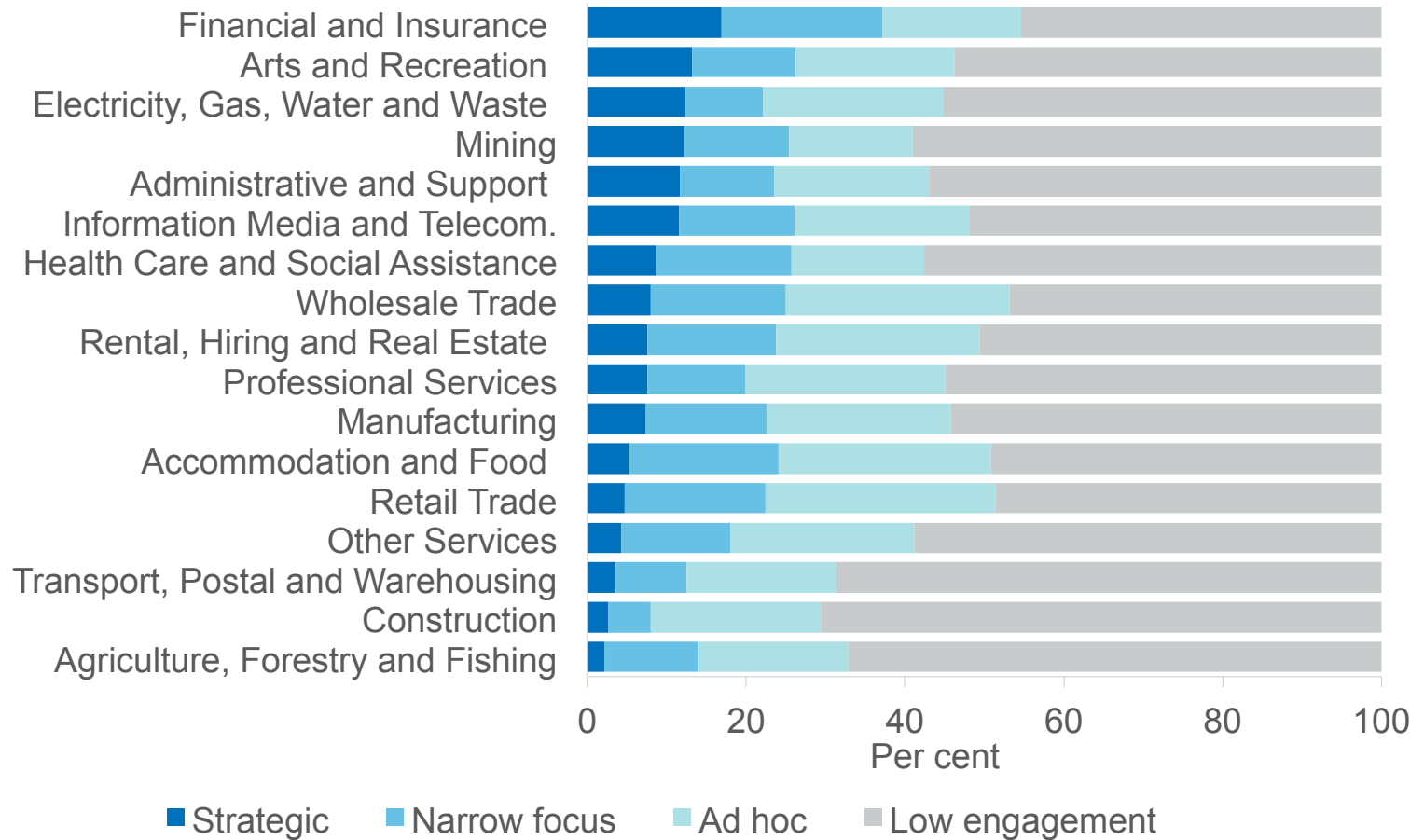
# Findings

Firm characteristics  
Firm behaviors  
Firm performance  
Determinants



# Firms characteristics and strategic management

Figure 6: Strategic management and industry

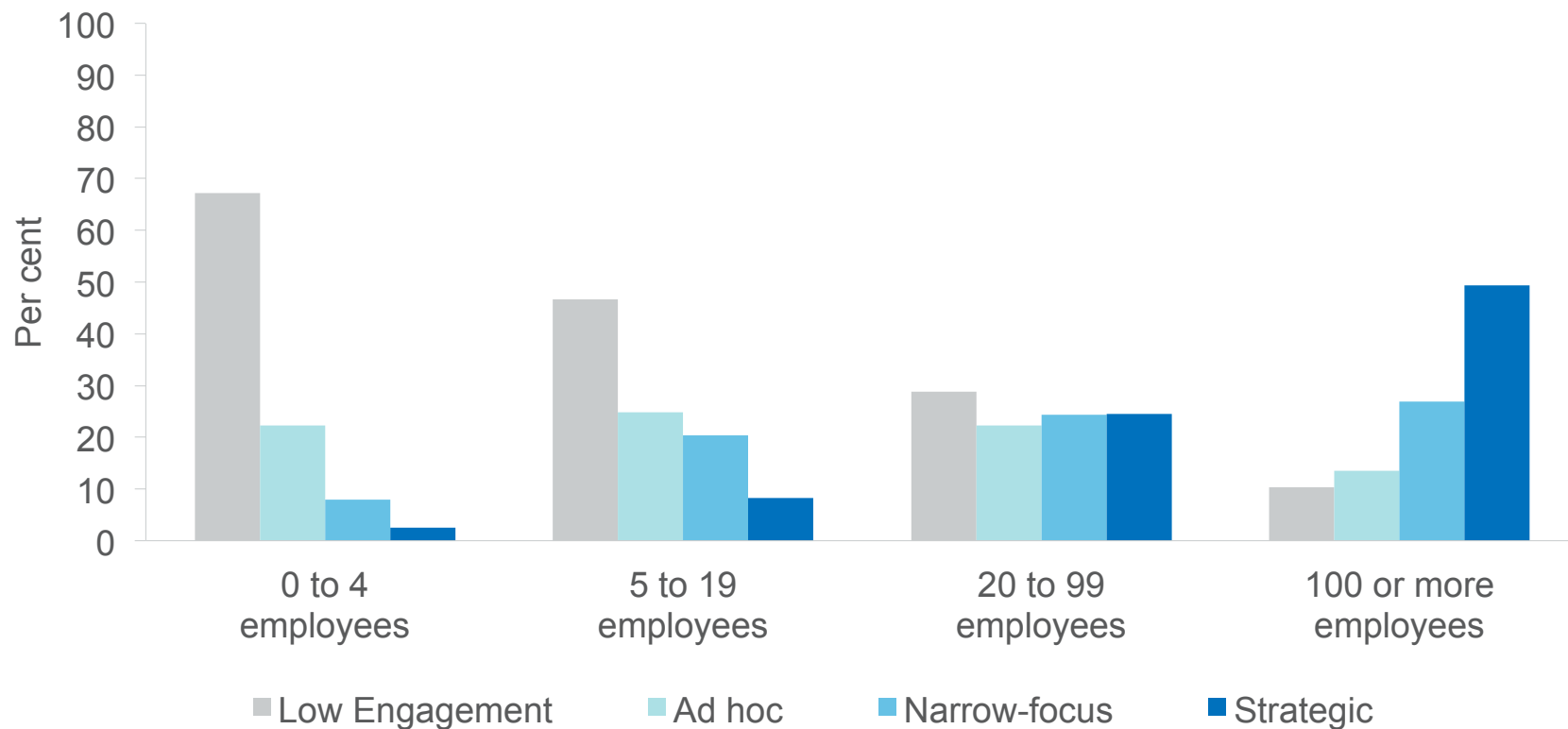


Source: Authors' estimates based on ABS Management and Organisational Capabilities of Australian Business Microdata, 2015-16 Cat. No. 8172.0.55.001 and ABS (2018) Counts of Australian Businesses, including Entries and Exits, Jun 2013 to June 2017. Cat No. 8165.0

# Firms characteristics and strategic management

Size is important

**Figure 7: Size and strategic management capability**

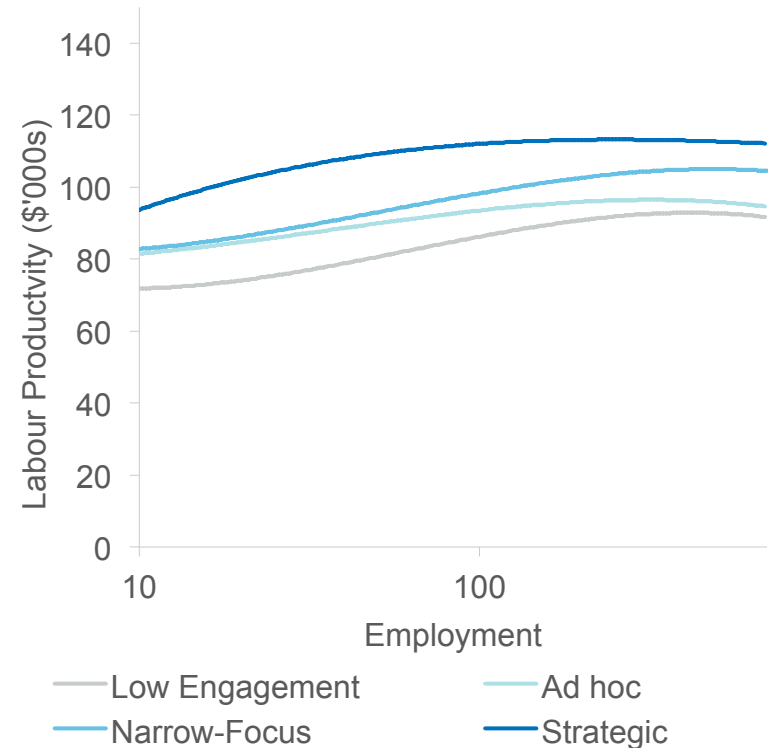
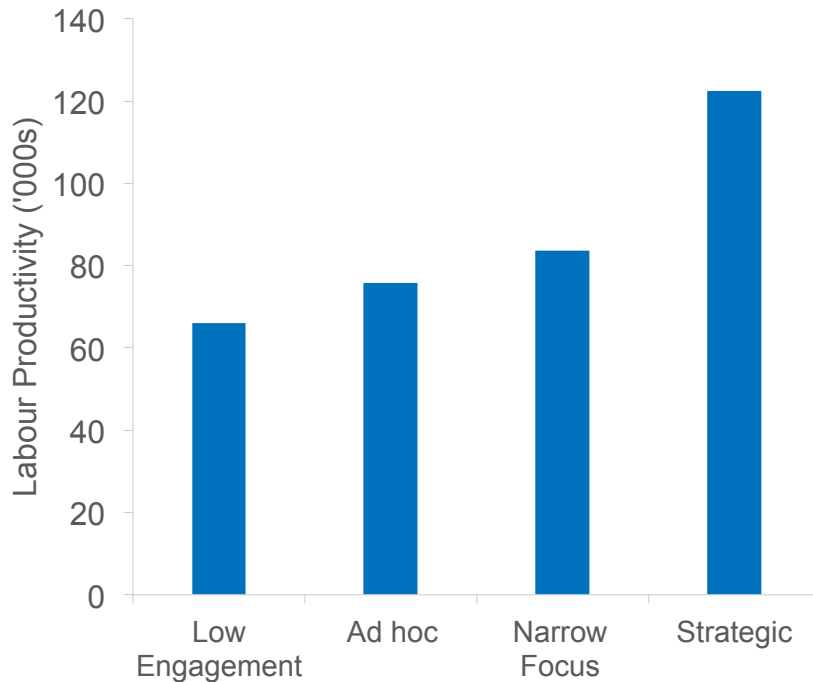


Source: Authors' estimates based on ABS Management and Organisational Capabilities of Australian Business Microdata, 2015-16 Cat. No. 8172.0.55.001 and ABS (2018) Counts of Australian Businesses, including Entries and Exits, Jun 2013 to June 2017. Cat No. 8165.0

# Firm performance and management capability

Productivity gains associated with management

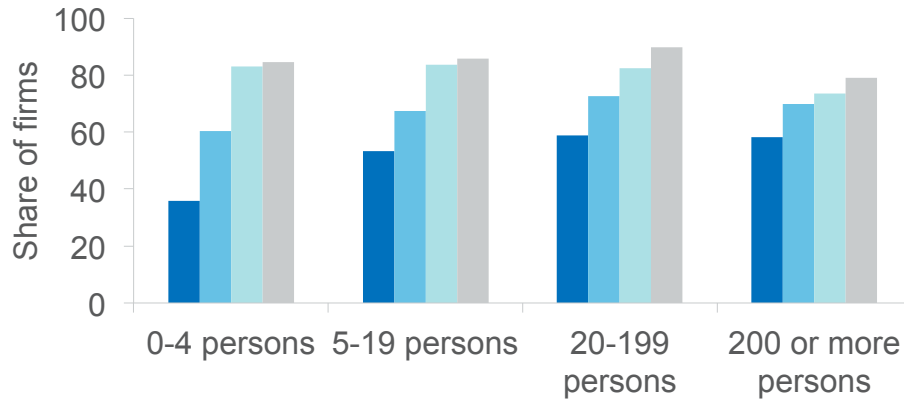
**Figure 8: Strategic management and labour productivity**



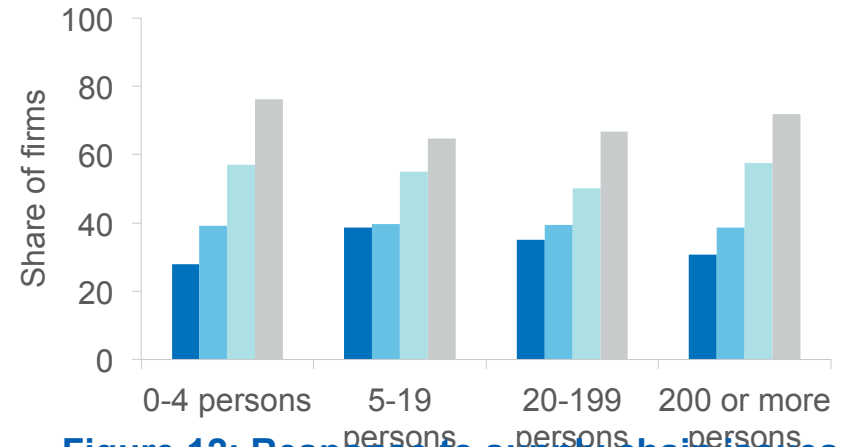
Source: OCE estimates based on Business Longitudinal Analysis Data Environment (2018)

# Firm behavior and strategic management

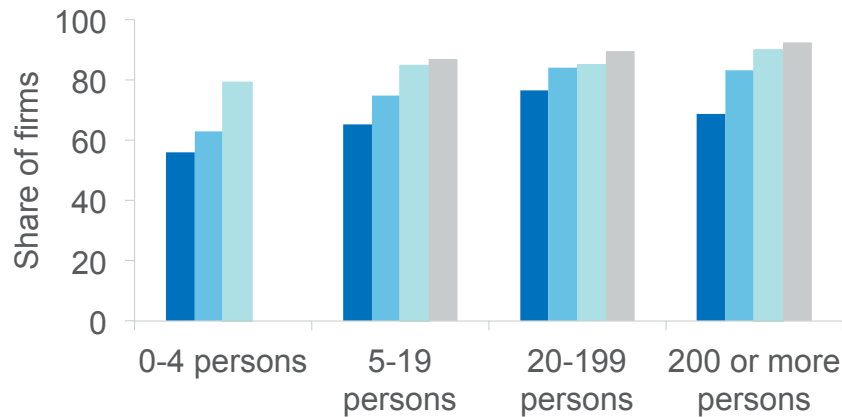
**Figure 9: Rate of Innovation**



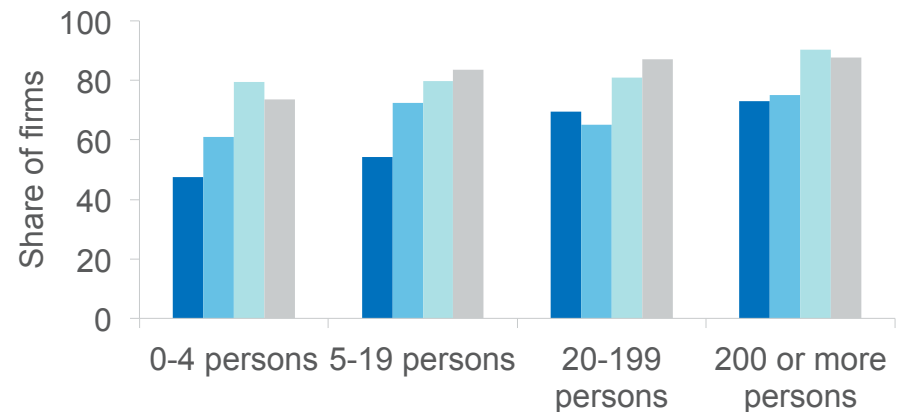
**Figure 10: Search for collaboration**



**Figure 11: Response to skill deficiency**



**Figure 12: Response to supply chain issues**

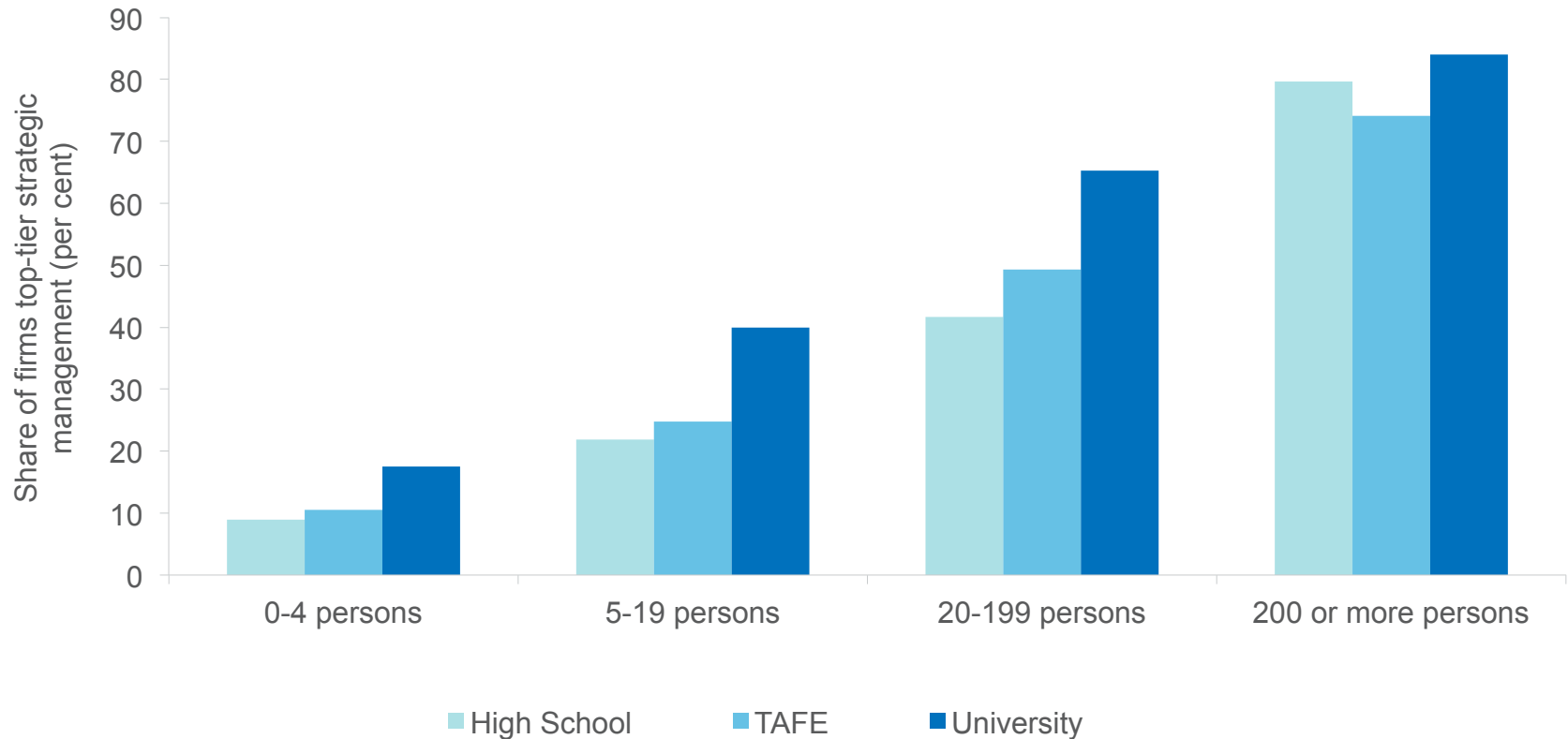


Source: Authors' estimates based on Business Longitudinal Analysis Data Environment (2018)

# Determinants of strategic management

## Education

**Figure 13: Education of principal management and strategic management**

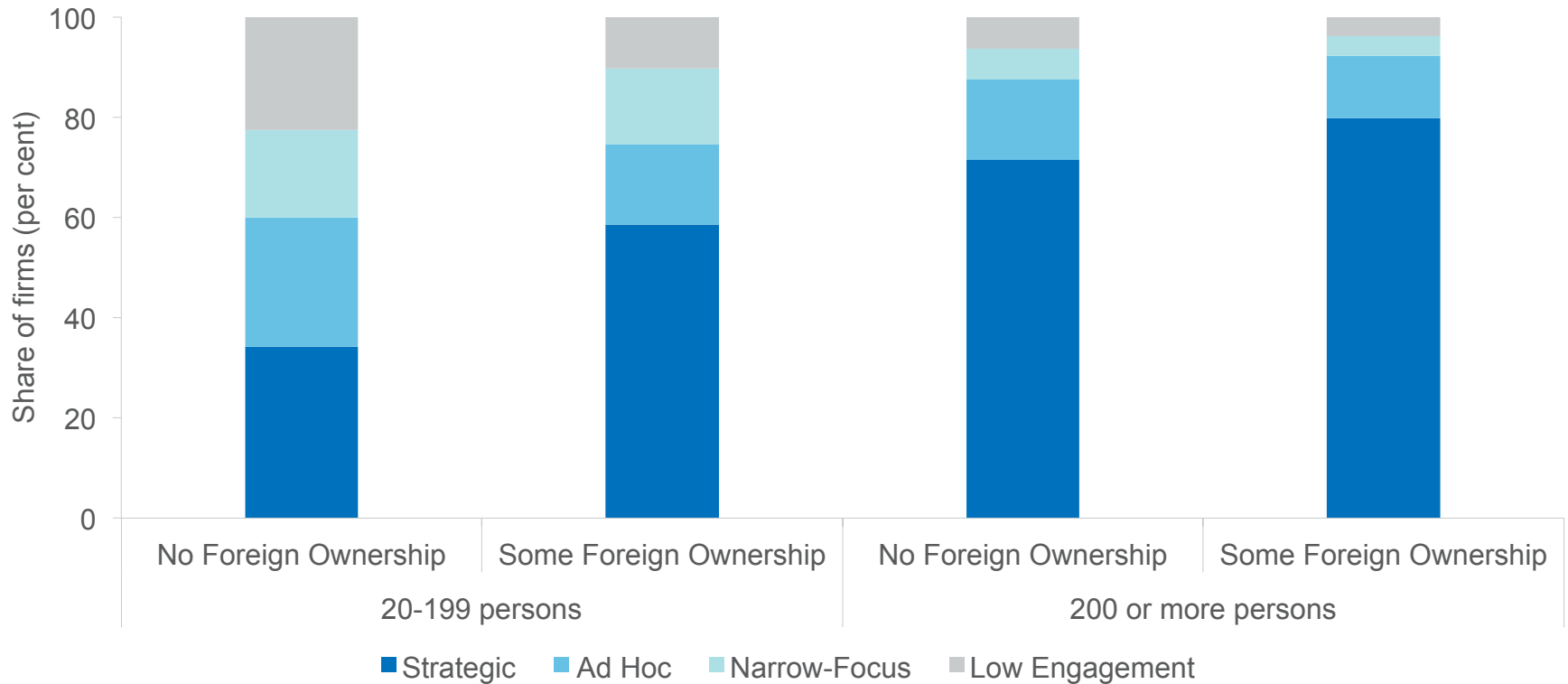


Source: Business Longitudinal Analysis Data Environment (2018)

# Determinants of strategic management

## Foreign ownership

Figure 14: Foreign ownership and strategic management



Source: Business Longitudinal Analysis Data Environment (2018)

# Conclusion

# Conclusion

Management capability appears to be an important driver of firm outcomes

Differences between firms

Differences between national economies

Firms with higher levels of management capability are more likely to:

Seek out collaboration

Seek out innovation

Respond to supply chain issues

Address skill shortages/deficiencies

Strategic management is positively associated with:

Principal manager education

Foreign ownership