Chapter 11
Managerial Practices in a High Cost Manufacturing Environment:
A Comparison with Australia and New Zealand

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ABSTRACT

This chapter explores the management strategies adopted by manufacturing firms operating in high versus low cost economies and investigates the reasons for differences in the management practice choices. The study reported in this chapter identifies a subset of countries that have either high or low labour costs, with USA, Sweden, and Japan being high, and India, China, and Brazil being low labour cost economies. The high labour cost manufacturing firms are found to have better management practices. In this chapter, the authors find that Australia and New Zealand manufacturing firms face relatively high labour cost but lag behind world best practice in management performance. The chapter concludes by highlighting the need for improvement in management capability for Australian and New Zealand manufacturing firms if they are to experience a reinvigoration of productivity, competitiveness, and long-term growth.

INTRODUCTION

Operating in a high labour cost environment presents practical challenges for manufacturing firms attempting to achieve a competitive advantage (Roos, 2012). The manufacturing sector is particularly susceptible to changing competitive pressures which over time can significantly influence the nature of the economic landscape in which it operates and thus its performance and viability. The manufacturing sector's productivity and competitive advantage is also influenced by

DOI: 10.4018/978-1-4666-5828-8.ch011

the labour-capital intensity of production, which in turn is shaped by the local (national) economic conditions. These conditions vary across countries and are underpinned by structural differences in the economy and society. They are the result of a myriad of factors including legislative and institutional which influence the cost of labour, private and public investments in education and research, capacity for technology and labour transfer across national borders, industries and firms, access to market information and efficient mechanisms for managing risk and uncertainty. Much has been written about the causes and consequences of these structural factors, including the investigation of actions taken by firms to maintain competitive advantage when faced with structural disadvantage (Deraniyagala & Fine, 1999). Green et al (2012) suggested three integrated measures to improve productivity, namely enhanced innovation capability, participatory work organisation methods and skills utilisation, and the adoption of better management practices, as significant alternatives to deliver productivity gains at an organisational level.

With this backdrop, the objective of this chapter is to provide descriptive evidence on the differences in management practices of manufacturing firms, paying particular attention to Australia and New Zealand and how these compare to manufacturing firms that operate in high and low labour cost environments.

Understanding how management practices are influenced and become adaptive to the environment in which they occur provides valuable lessons for future productivity gains, commercial success and contributions to economic growth and well-being of a nation. Developing an understanding of (and evaluation of) the causes and consequences of management practices in different jurisdictions has been expensive and difficult to do given the absence of empirical datasets necessary for making such comparisons.[1] Given this problem, studies which make available empirical data on similarities and difference on management practices across different institutional settings will take us closer to developing evidence-based frameworks to better understand these practices. In this context, the management practices of Australian and New Zealand manufacturing firms are of practical and theoretical interest, as firms operating in these economies face a number of contextualised challenges including the combination of factors such as high labour costs, spatial distance affecting transport costs and other legislative and institutional considerations (including government policy interventions on investment and infrastructure).

The potential benefits from investing in management capability for innovation and organisational performance was emphasised in the Australian context in a comprehensive report on leadership and management skills by Karpin (1995), *Enterprising Nation*. Subsequently, a series of Australian workplace employment relations surveys (for example, Alexander & Green 1992; Callus et al, 1990) demonstrated that superior management behaviour and techniques have a correlation with productivity gains. Similar arguments have been raised in the New Zealand context (New Zealand House of Representative, 2013; Green et al. 2010; Agarwal et al. 2012). Given the competitive pressures faced by Australian and New Zealand firms, lessons may be learnt from studying the organisations that have been able to exist in this context. Therefore an understanding of the management practice choices by firms operating in countries such as Australia and New Zealand provides valuable insights, especially when benchmarked against countries operating in high and low cost economic environments.

Since the work of Bloom & van Reenen (2007), which introduced a new instrument to measure and compare management practices within and between economies, there has been a plethora of benchmarking studies using the instrument under the auspices of the World Management Survey (WMS). Bloom & van Reenen (2007) developed a unique approach which allows for firms to be categorised as better or worse on 18 dimensions