The research has consistently found a link between management practices and performance

**EXHIBIT 3**

**Impact of improving management practice on output**

*Labour investment*

- Management score: 100
- Management score + 1: 111

*Capital investment*

- Management score: 100
- Management score + 1: 135

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* Number of employees
** Book value of capital

Source: McKinsey/LSE analysis
The link between management practice and performance holds true across countries and cultures.

* Log scale
** Firms are grouped in 0.5 increments of assessed management score

** Labour productivity**

- U.S.
- U.K.
- China
- Japan
- France
- Germany
- Sweden
- Poland
- Italy
- Portugal
- Greece

** Assessed management practice score**

- Labour productivity

- 4.0
- 4.5
- 5.0
- 5.5
- 6.0
- 6.5

- U.S.
- U.K.
- FR
- DE
- SE
- IT
- CN
- JP
- PT
- GR

** Assessed management practice score**

- * Log scale
- ** Firms are grouped in 0.5 increments of assessed management score
We see a similar relationship in between management practices and outcomes in services organisations such as hospitals.

A one point increase in management practice quality is associated with

**UK Hospitals**
- 6.5% reduction in risk adjusted 30 days AMI mortality rates
- 33% increase in income per bed
- 20% increase in the probability that the hospital is above average in terms of patients satisfaction

**US Hospitals**
- 7% reduction in risk adjusted 30 days AMI mortality rates
- 14% increase in EBITDA per bed
- 0.8 increase in the percentage of people that would recommend the hospital
The management practices of multinationals are better than those of domestic firms

Management practice score – by country*

<table>
<thead>
<tr>
<th>Country</th>
<th>Multinationals</th>
<th>Domestic firms</th>
</tr>
</thead>
<tbody>
<tr>
<td>US</td>
<td>3.48</td>
<td>3.16</td>
</tr>
<tr>
<td>India</td>
<td>3.36</td>
<td>2.54</td>
</tr>
<tr>
<td>Italy</td>
<td>3.32</td>
<td>2.88</td>
</tr>
<tr>
<td>Germany</td>
<td>3.29</td>
<td>3.02</td>
</tr>
<tr>
<td>Portugal</td>
<td>3.24</td>
<td>2.61</td>
</tr>
<tr>
<td>Sweden</td>
<td>3.17</td>
<td>3.13</td>
</tr>
<tr>
<td>UK</td>
<td>3.17</td>
<td>2.85</td>
</tr>
<tr>
<td>Poland</td>
<td>3.12</td>
<td>2.74</td>
</tr>
<tr>
<td>France</td>
<td>3.07</td>
<td>2.85</td>
</tr>
<tr>
<td>Greece</td>
<td>3.06</td>
<td>2.47</td>
</tr>
<tr>
<td>China</td>
<td>3.00</td>
<td>2.63</td>
</tr>
</tbody>
</table>

* Japan excluded due to low multinational sample size
Greater MNE presence in a country is associated with improved management practice in domestic firms

Source: Data collected from interviews as of Jan 15, 2007
Better management is linked with higher skills

<table>
<thead>
<tr>
<th>Degree educated non-managers, %</th>
<th>Management practice score</th>
<th>Degree educated managers, %</th>
</tr>
</thead>
<tbody>
<tr>
<td>5</td>
<td>1.5</td>
<td>53</td>
</tr>
<tr>
<td>6</td>
<td>2.0</td>
<td>53</td>
</tr>
<tr>
<td>11</td>
<td>2.5</td>
<td>54</td>
</tr>
<tr>
<td>12</td>
<td>3.0</td>
<td>60</td>
</tr>
<tr>
<td>15</td>
<td>3.5</td>
<td>63</td>
</tr>
<tr>
<td>20</td>
<td>4.0</td>
<td>66</td>
</tr>
<tr>
<td>20</td>
<td>4.5</td>
<td>75</td>
</tr>
<tr>
<td>25</td>
<td>5.0</td>
<td>84</td>
</tr>
</tbody>
</table>

INCLUDES ALL DEGREES
The average manager believes their company has above-average management practice

*controlled for ownership type, sector, country, competition and interviewer bias

Source: Interviews as of Jan 15, 2007; team analysis