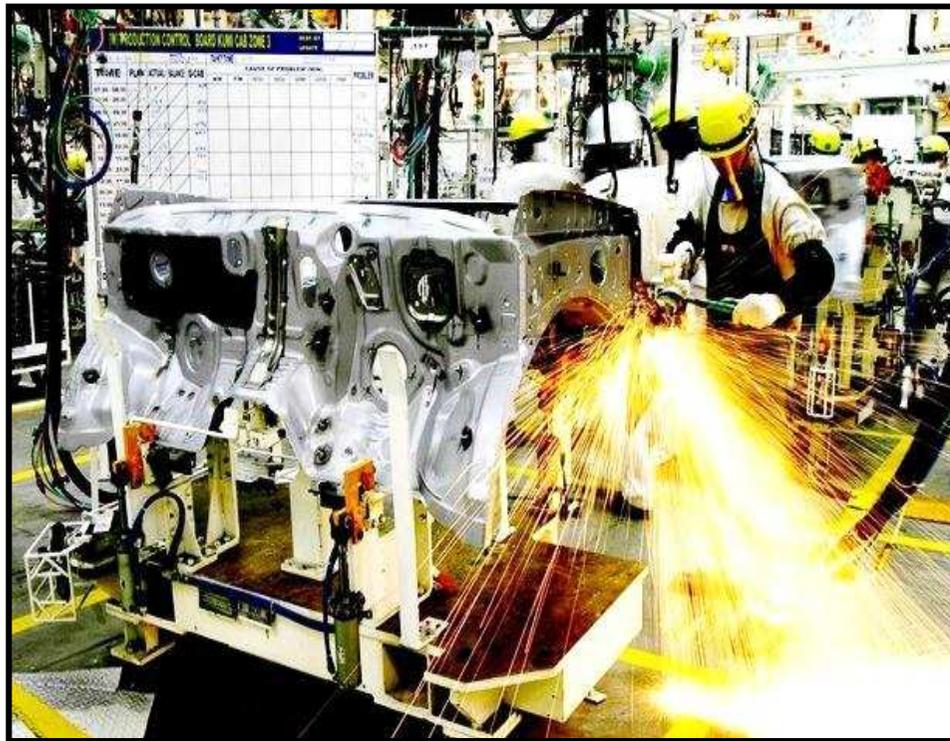


Are Developing Countries Held Back by their Management?

Nick Bloom (Stanford), Renata Lemos (LSE), Daniela Scur (LSE), Raffaella Sadun (Harvard), John Van Reenen (LSE)



Ohio, USA



Maharashtra, India

Two results from 10+ years of management research

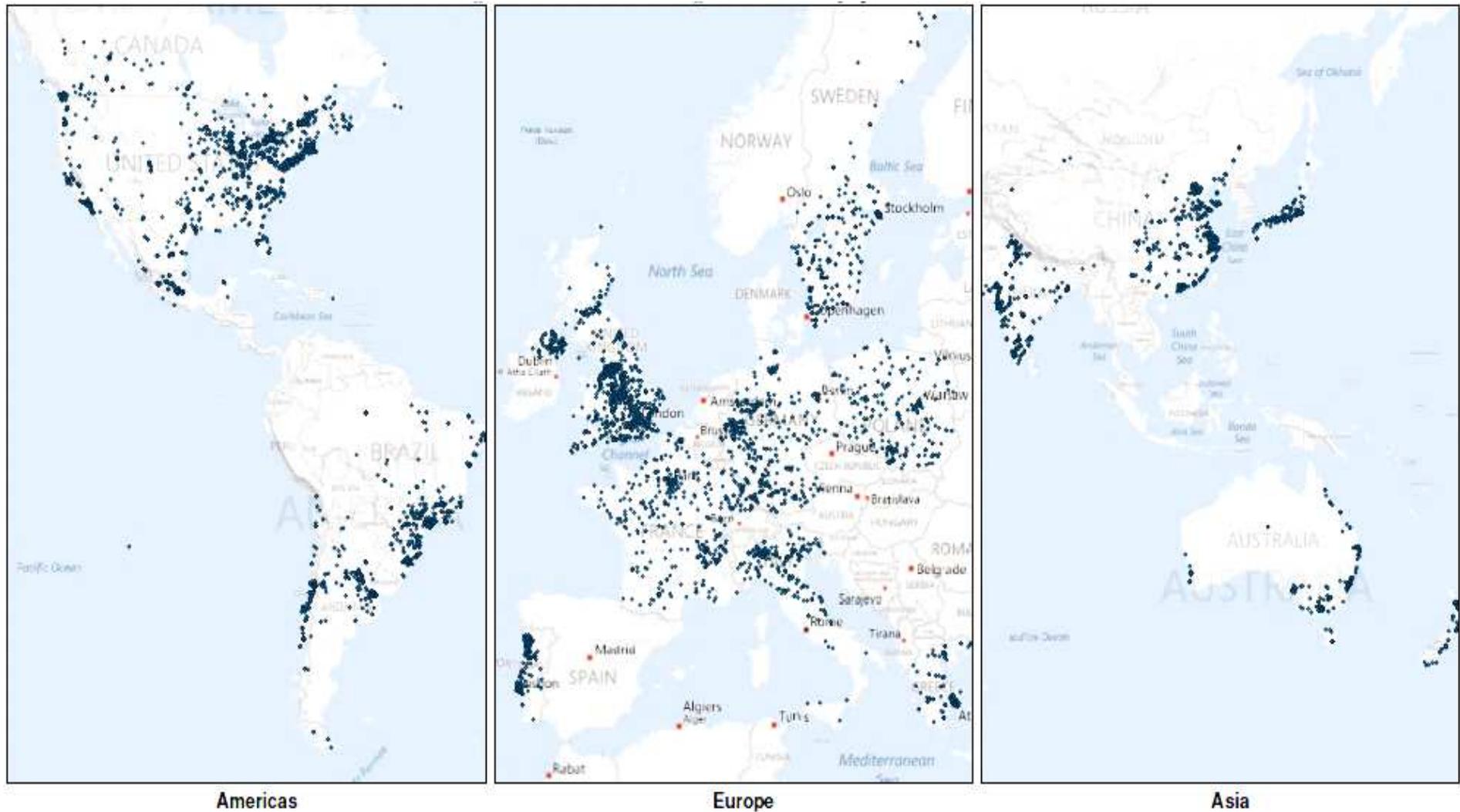
1) Developing country management poor by global standards

2) Management practices play a key role in economic growth

Very positive: huge potential for faster growth. Potentially raising Indian & African management to US levels could double GDP

Ideas For Growth
INTERNATIONAL GROWTH CENTRE

Surveyed over 15,000 medium sized (50 to 5000 employee) manufacturing firms globally



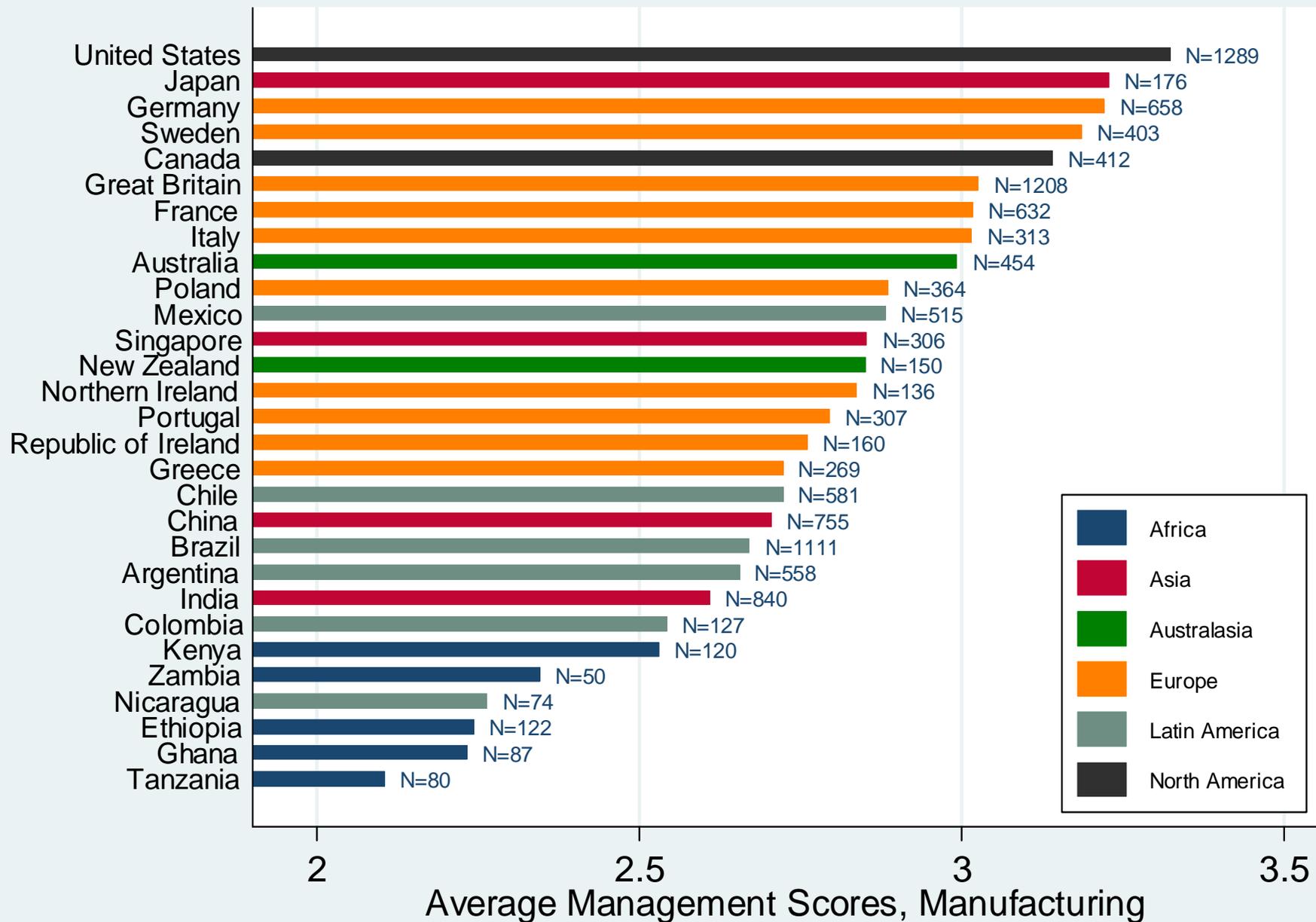
Example monitoring question, scored based on a number of questions starting with “*How is performance tracked?*”

Score	(1): Measures tracked do not indicate directly if overall business objectives are being met. Certain processes aren't tracked at all	(3): Most key performance indicators are tracked formally. Tracking is overseen by senior management	(5): Performance is continuously tracked and communicated, both formally and informally, to all staff using a range of visual management tools
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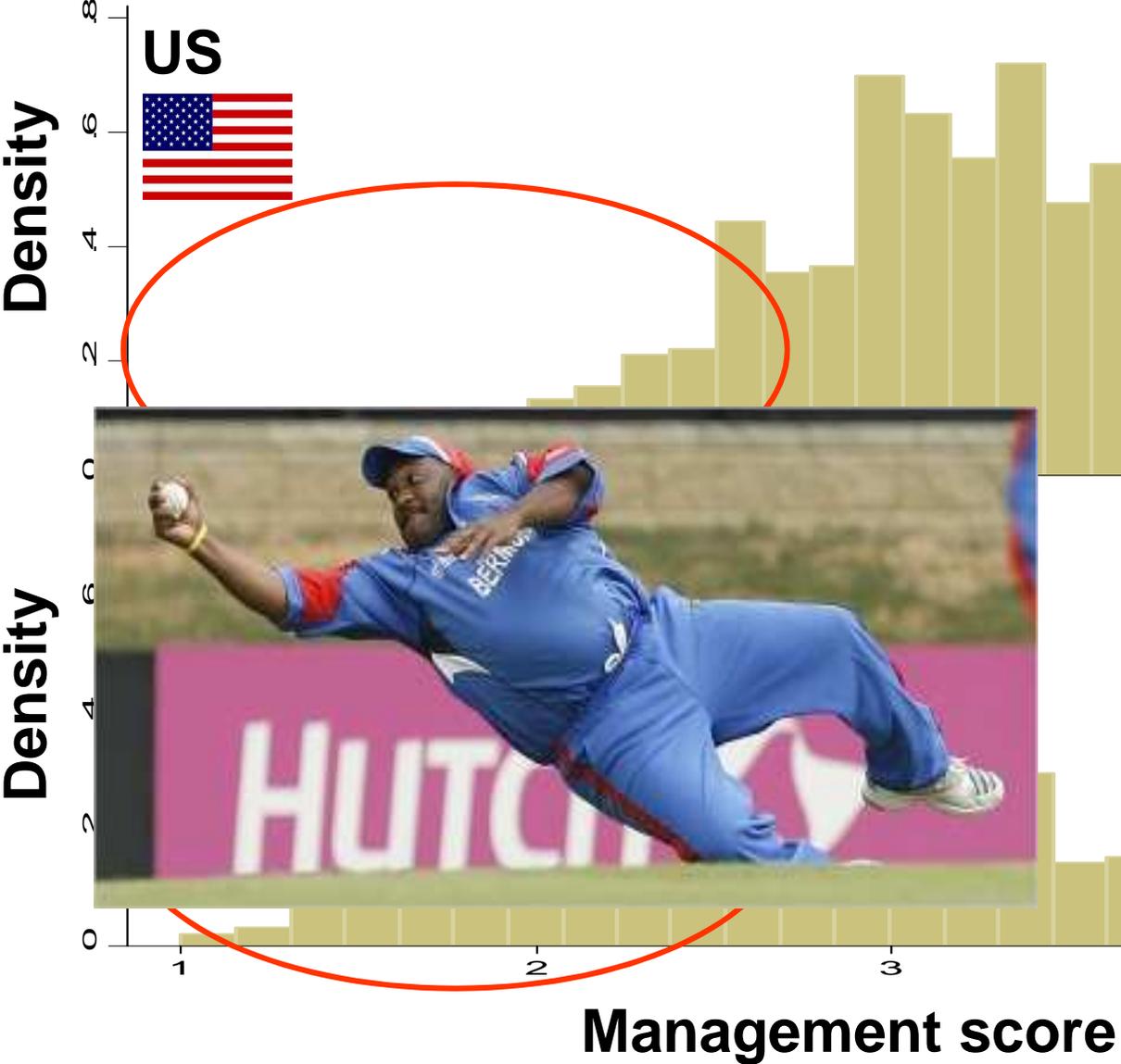
Example incentives question, scored based on questions starting with “*How does the promotion system work?*”

Score	(1) People are promoted primarily upon the basis of tenure, irrespective of performance (ability & effort)	(3) People are promoted primarily upon the basis of performance	(5) We actively identify, develop and promote our top performers
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We find wide variation in management: US and Japan leading, and Africa, Central America and India trailing

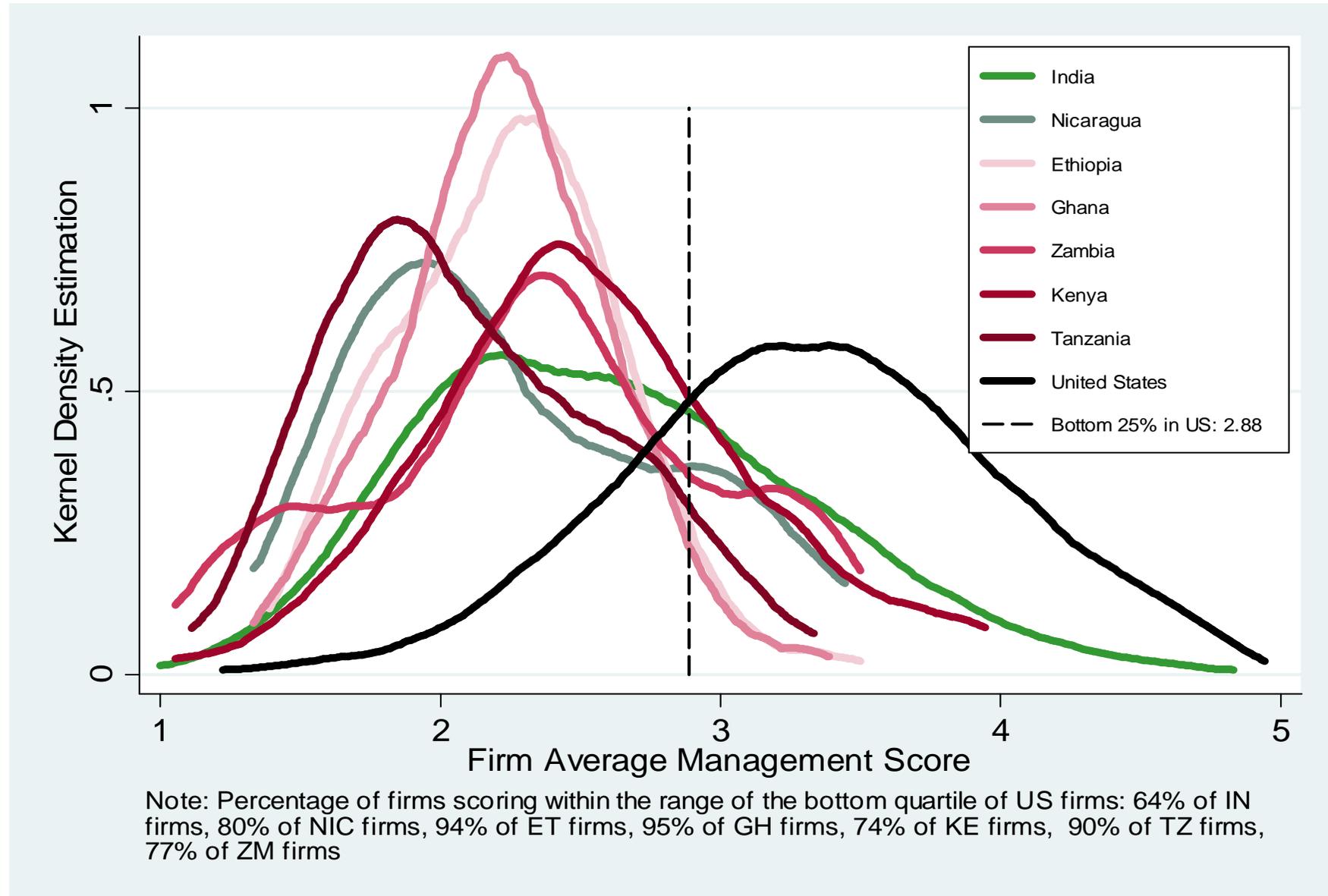


**In India not all firms are bad – many are world class.
The problem is the large tail of bad firms**



Source: www.worldmanagementsurvey.com

In Africa almost all firms appear pretty badly managed



Data includes 2013 survey wave as of 9/20/2013. Africa data not yet included in the paper

Some quotes illustrate the African management approach

Interviewer “What kind of Key Performance Indicators do you use for performance tracking?”

Manager: “Performance tracking? That is the first I hear of this. Why should we spend money to hire someone to track our performance? It is a waste of money!”

Interviewer “How do you identify production problems?”

Production Manager: “With my own eyes”

Two results from 10+ years of management research

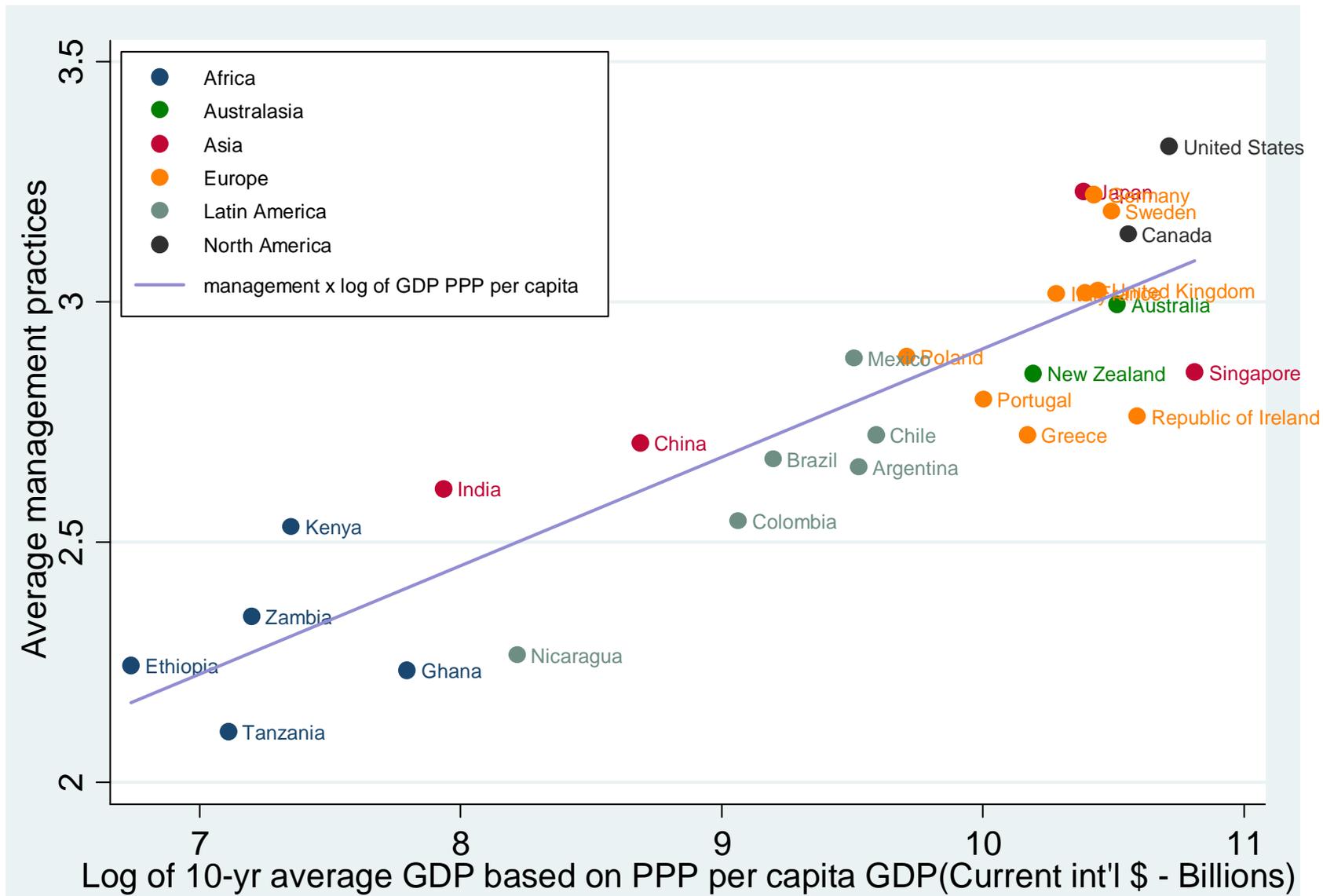
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Ideas For Growth
INTERNATIONAL GROWTH CENTRE

Management scores are correlated with GDP – so potentially this is an important driver of growth



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But does management cause these GDP differences between firms and countries?

Massive literature of case-studies and surveys but no consensus

Syverson (2011, JEL) *“no potential driving factor of productivity has seen a higher ratio of speculation to empirical study”*.



Took 28 large textile plants near Mumbai and randomized into treatment (improved management) & control (same as before)



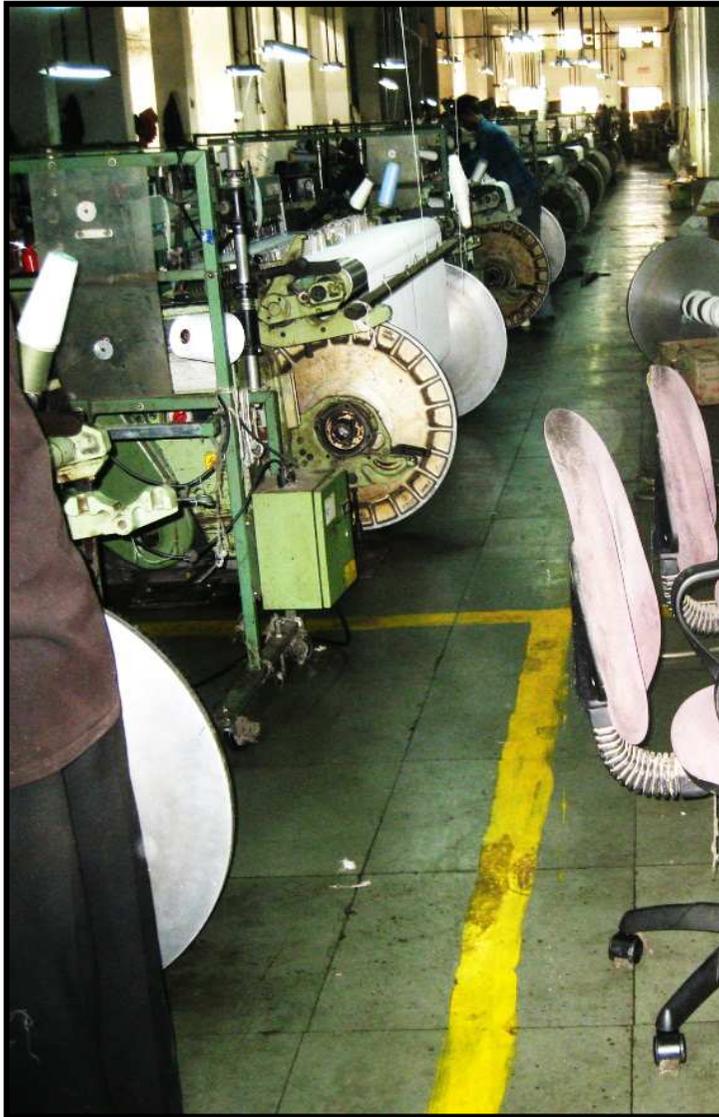
Inventory Control: Before



Inventory Control: After



Factory operations: Before



Factory operations: After



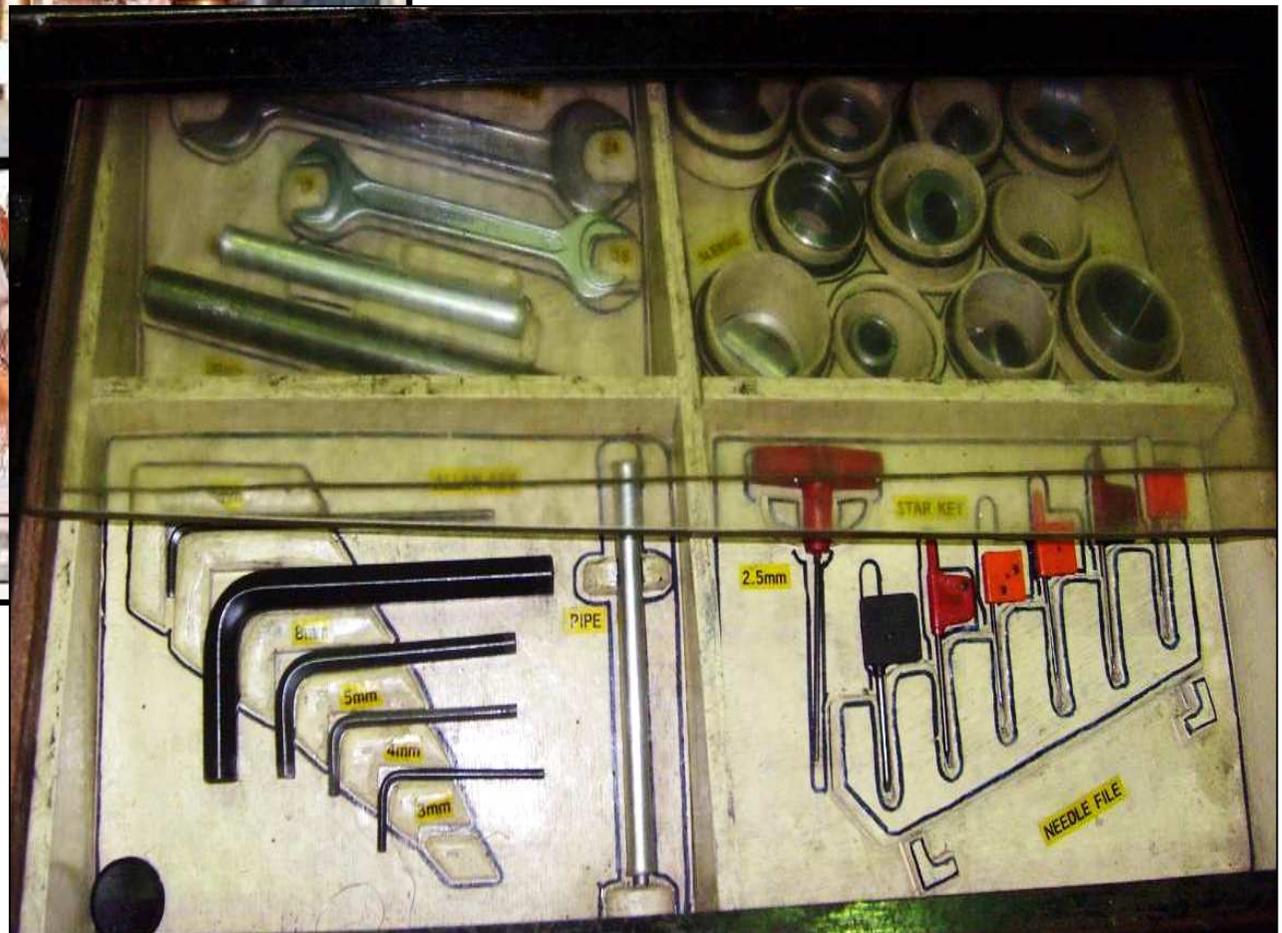
Spare parts: Before



Stores: After



Stores: After



Factory information: Before

FABRICS PVT. LTD.

Design No. <u>SA 16009/2</u>	Beam Length <u>1150/1140</u>	Getting Date _____
Beam No. <u>164</u>	Min. of Pieces <u>102101</u>	Finish Date _____
Beam <u>215</u>	Total Ends <u>102-5180-1108</u>	Beam Weight _____
Head Space <u>65"</u>	Salvage <u>8296</u>	Warp Weight _____
Picks <u>34 GRT</u>		Wash Weight _____
Lot No. <u>13</u>		Total Quality Weight: <u>21-100</u>

WARP PATTERN	DRAWING PATTERN	PEG PLAN
21-A	1-2-3-4-5-x4	1-2-3-4-5-7
1-B	6-7-8-9-10	10-11-12-13
1-A	1-2-3-4-5-x4	1-2-3-4-5-7
1-B	6-7-8-9-10	1-2-3-4-5-7
21-A	1-2-3-4-5	1-2-3-4-5-7
21-C	6-7-8-9-10	1-2-3-4-5-7
5-A	1-2-3-4-5	1-2-3-4-5-7
1-C	6-7-8-9-10	1-2-3-4-5-7
5-A	1-2-3-4-5	1-2-3-4-5-7
21-C	6-7-8-9-10	1-2-3-4-5-7
12.1001 / 8001		SPK

A - 160 d. damask 100-112/507
 B - 160 d. white top
 C - 160 d. damask 100-112/507

(110) 1126
1126 1126
1126 1126

Salvage
 12 dent = 26-100 1108
 5 dent = 1126
1126
1126
 25 dent = 108-600

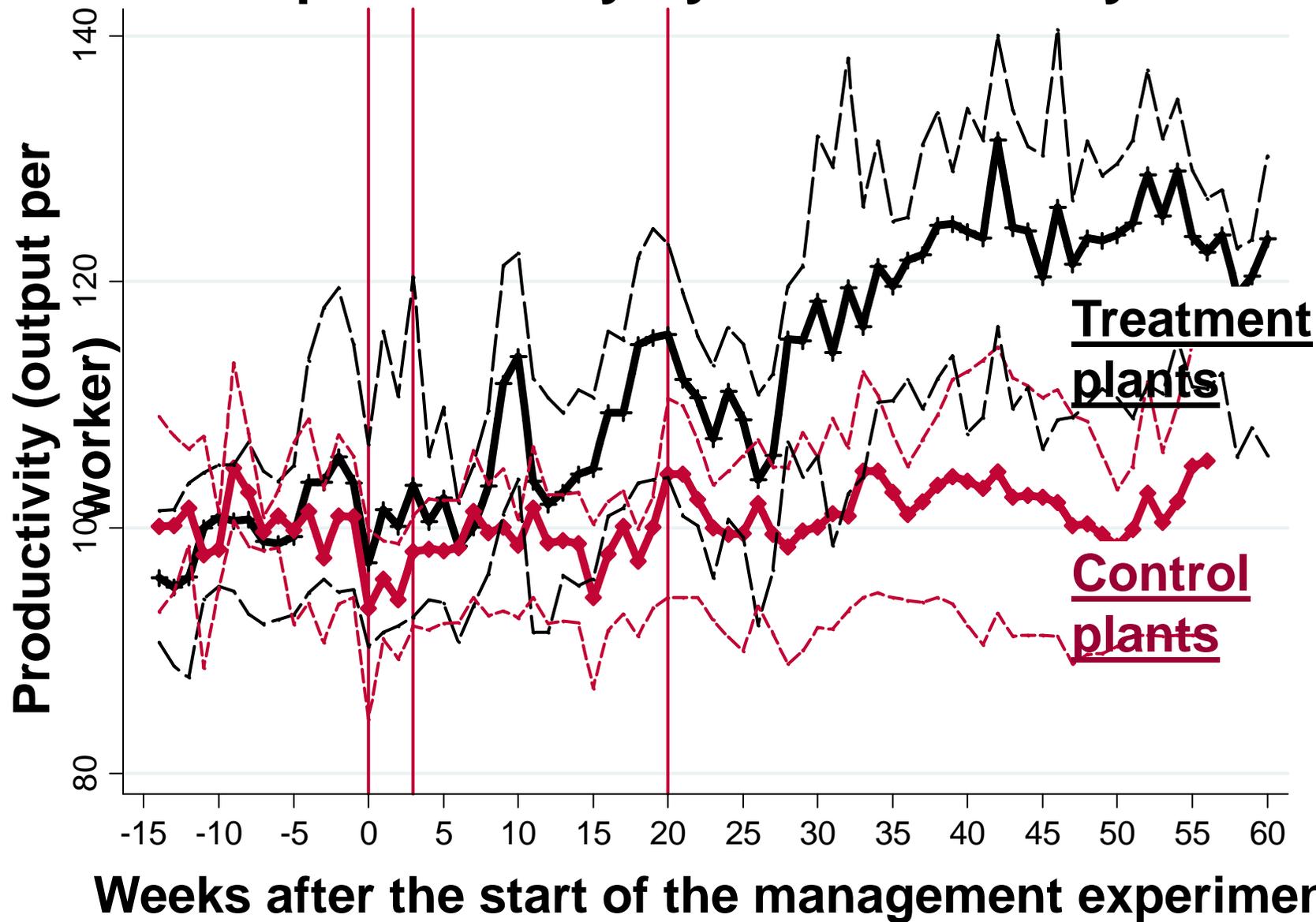
Before Mending was recorded only to cross-check against customers' claims for rebates



Factory information: After



Overall these simple management improvements increased productivity by 20% within 1 year alone



Source: Bloom, Eifert, Mahajan, McKenzie & Roberts, forthcoming *Quarterly Journal of*

Also found longer run increase in employment

Because of the intervention treatment firms started expanding, adding about 25% more plants after improving management

Not just India - African factories look similar (if not worse)



No floor markings for equipment, WIP or finished goods

No performance indicators

Lax safety: no gloves, goggles, visors or fire-equipment

Inventory control?



Inventory control?



Not tried flat packing furniture – with four men per truck could assemble on site quickly and carry 3x more goods



So why do badly managed firms exist?

Competition heavily restricted by trade restrictions, the difficulty of new firms entering (finance is hard to raise), and the difficulty of good current firms expanding (limited by family size)

Information is limited: firms either not aware of modern practices or simply do not believe they matter (“not worth it”)

Policy implications

1. Better rule of law – allows good firms to expand
2. Trade and FDI – bring over best practices
3. Training – basic numeracy, problem solving and Lean
4. Demonstration projects – I think these could be successful
(trying to start a project on this in Indian textiles)

Famous demonstration projects include US Agriculture and Japanese Textiles



Oregon Agricultural Demonstration Train

More results and data available here



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The WMS generates data and reports that help managers and policy makers understand the drivers of better management practice.

Featured publications

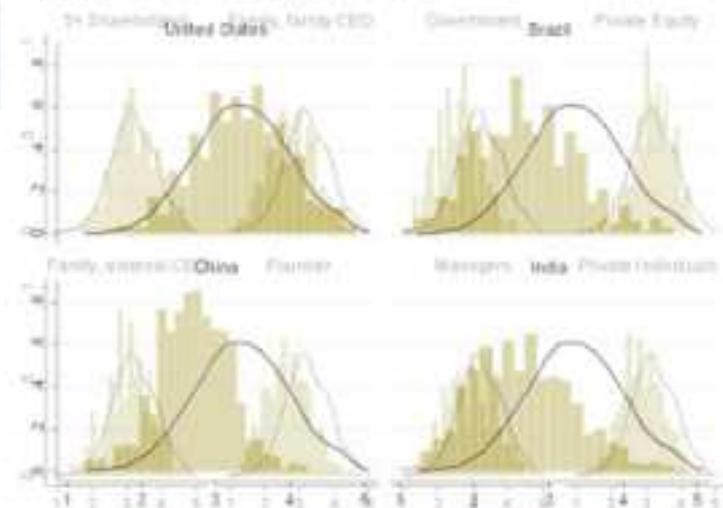
- [Why do management practices differ across firms and countries?](#)
- [Management Practice and Productivity: Why They Matter](#)
- [Management in Healthcare: Why good practice really matters](#)

Benchmark your manufacturing firm, hospital, school, or retail outlet against others in your country, industry or size class.

Benchmark your organization

Management scores across firms

WMS team analyses the distribution of management practices within countries



MY FAVOURITE QUOTES:

The traditional British Chat-Up

[Male manager speaking to an Australian female interviewer]

Production Manager: “Your accent is really cute and I love the way you talk. Do you fancy meeting up near the factory?”

Interviewer “Sorry, but I’m washing my hair every night for the next month....”

MY FAVOURITE QUOTES:

The difficulties of defining ownership in Europe

Production Manager: “We’re owned by the Mafia”

Interviewer: “I think that’s the “*Other*” category.....although I guess I could put you down as an “*Italian multinational*” ?”

Americans on geography

Interviewer: “How many production sites do you have abroad?”

Manager in Indiana, US: “Well...we have one in Texas...”

MY FAVOURITE QUOTES:

Don't get sick in Britian

Interviewer : “Do staff sometimes end up doing the wrong sort of work for their skills?”

NHS Manager: “You mean like doctors doing nurses jobs, and nurses doing porter jobs? Yeah, all the time. Last week, we had to get the healthier patients to push around the beds for the sicker patients”

Don't do Business in Indian hospitals

Interviewer: “Is this hospital for profit or not for profit”

Hospital Manager: “Oh no, this hospital is only for loss making”

MY FAVOURITE QUOTES:

The bizarre

Interviewer: “[long silence].....hello, hello....are you still there....hello”

Production Manager: “.....I’m sorry, I just got distracted by a submarine surfacing in front of my window”

The unbelievable

[Male manager speaking to a female interviewer]

Production Manager: “I would like you to call me “Daddy” when we talk”

[End of interview...]

And this is not a story about new technology....



The warping looms at Lowell Mills in 1854, Massachusetts

Survey methodology (following Bloom & Van Reenen (2007))

1) Developing management questions

- Scorecard for 18 monitoring (e.g. lean), targets & people (e.g. pay, promotions, retention and hiring) in \approx 45 minute phone interview of manufacturing plant managers

2) Obtaining unbiased comparable responses (“Double-blind”)

- Interviewers do not know the company’s performance
- Managers are not informed (in advance) they are scored
- Run from LSE, with same training and country rotation

3) Getting firms to participate in the interview

- Introduced as “Lean-manufacturing” interview, no financials
- Official Endorsement: Bundesbank, RBI, World Bank etc.
- Run >100 MBA types (loud, assertive & business experience)