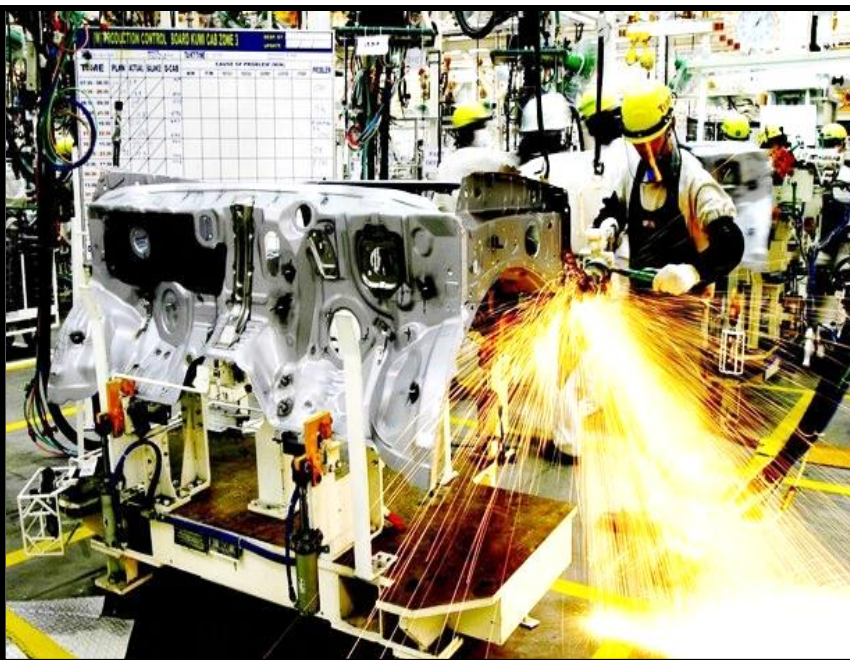


# Are Developing Countries Held Back by their Management?

John Van Reenen (LSE) IGC Growth Week  
With Nick Bloom (Stanford) & Raffaella Sadun (HBS),



Ohio, USA



Maharashtra, India



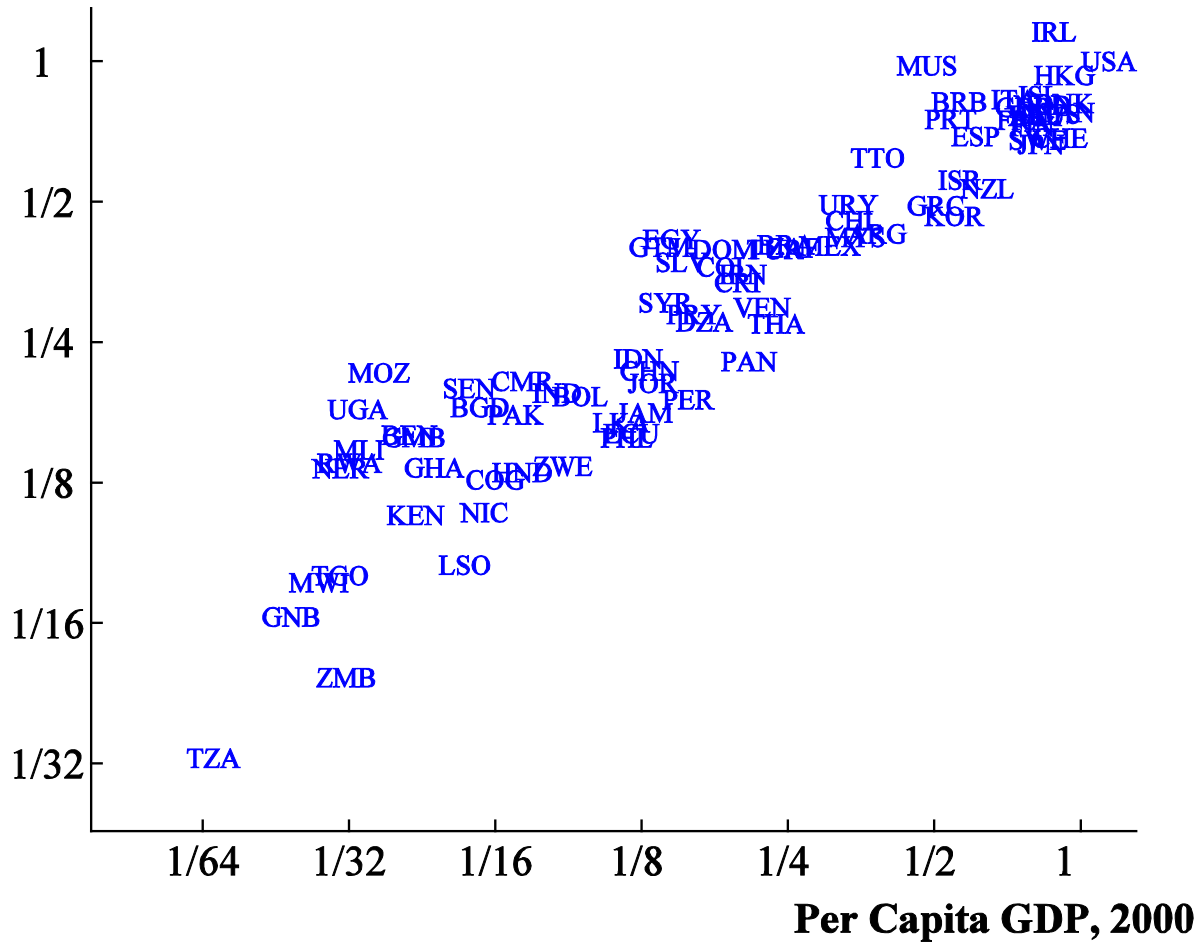
# Key results from a decade of management research

- 1) Developing country management poor by global standards
- 2) Management practices play a key role in productivity
- 3) What holds back management & how can policy change?

**Huge potential for faster growth.**

# LARGE PRODUCTIVITY DIFFERENCES BETWEEN COUNTRIES

**Total Factor Productivity, 2000**



Source: Jones and Romer (2010). US=1

**But there is still a wide debate – many people claim management is all “hot air”**

*“No potential driving factor of productivity has seen a higher ratio of speculation to empirical study”*

- Chad Syversson (2011, Journal of Economic Literature)



# BLOOM - VAN REENEN (2007) SURVEY METHODOLOGY

## 1) Developing management questions

- Scorecard for 18 monitoring (e.g. lean), targets & people (e.g. pay, promotions, retention and hiring). ≈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, Bank of England, RBI, etc.
- Run by 150 MBA types (loud, assertive & business experience)

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

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

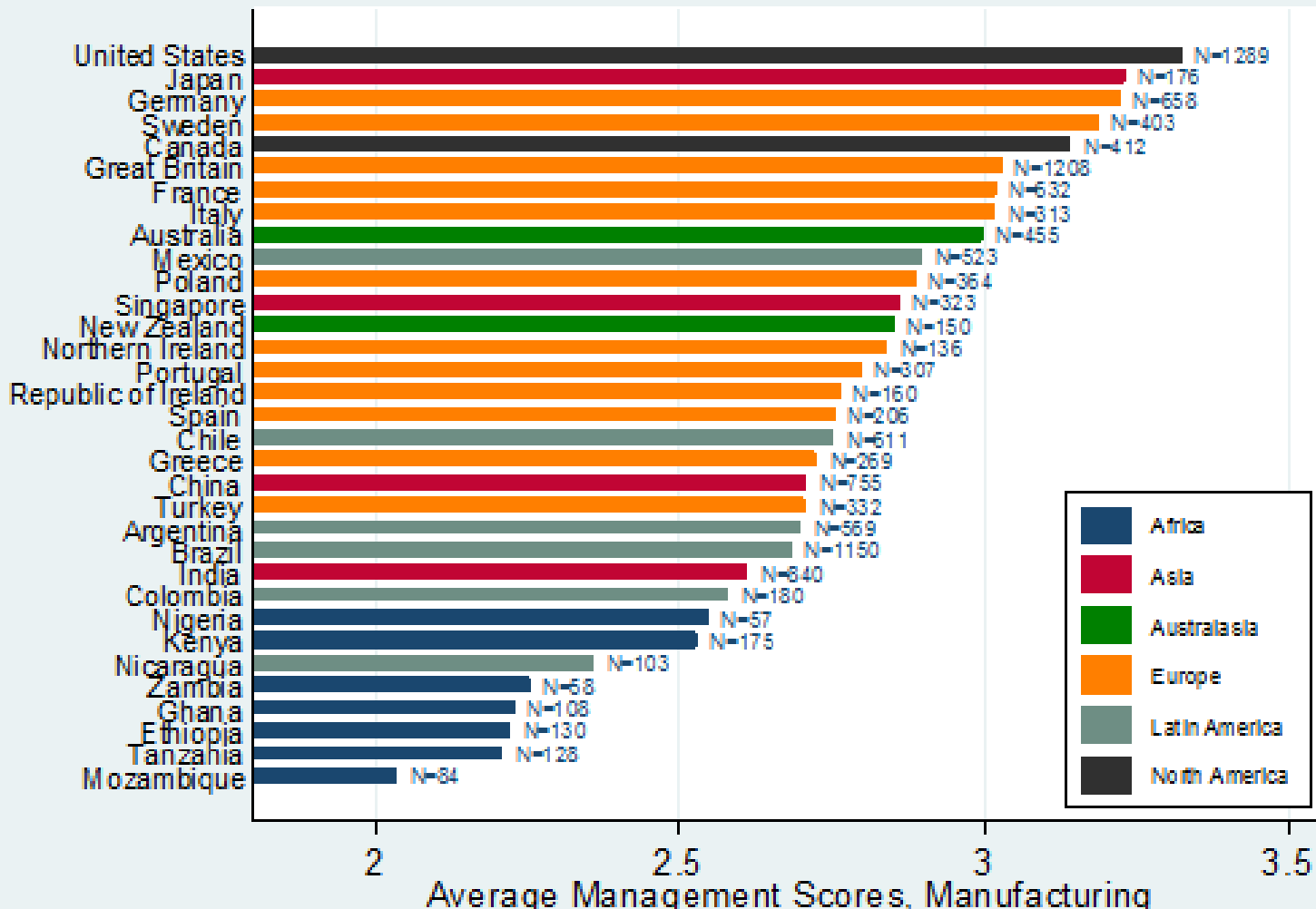
<b>Score</b>	<b>(1) People are promoted primarily upon the basis of tenure, irrespective of performance (ability &amp; effort)</b>	<b>(3) People are promoted primarily upon the basis of performance</b>	<b>(5) We actively identify, develop and promote our top performers</b>
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# Methods

- 15,000 firms in 32 countries
- 4 major waves: 2004, 2006, 2009, 2013 (& now!)
- Plant managers in medium sized manufacturing firms (50-5,000 workers, median $\approx$ 250)
- Now extended to hospitals, retail, schools, etc.
- Extension to Census surveys (e.g. US MOPs; pilot in Pakistan with Ali Choudhary of PSB)



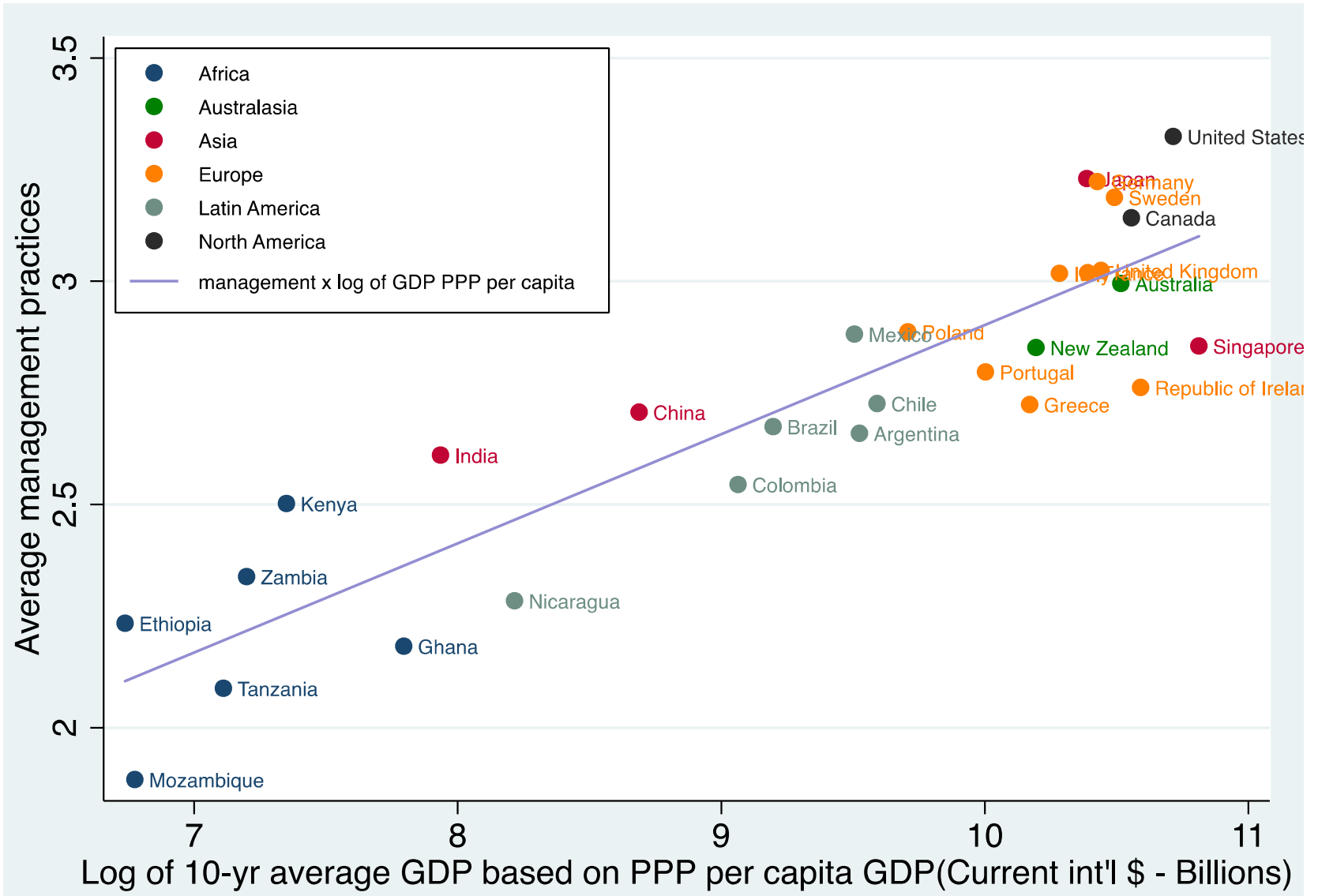
# MANAGEMENT PRACTICE SCORES ACROSS 32 COUNTRIES



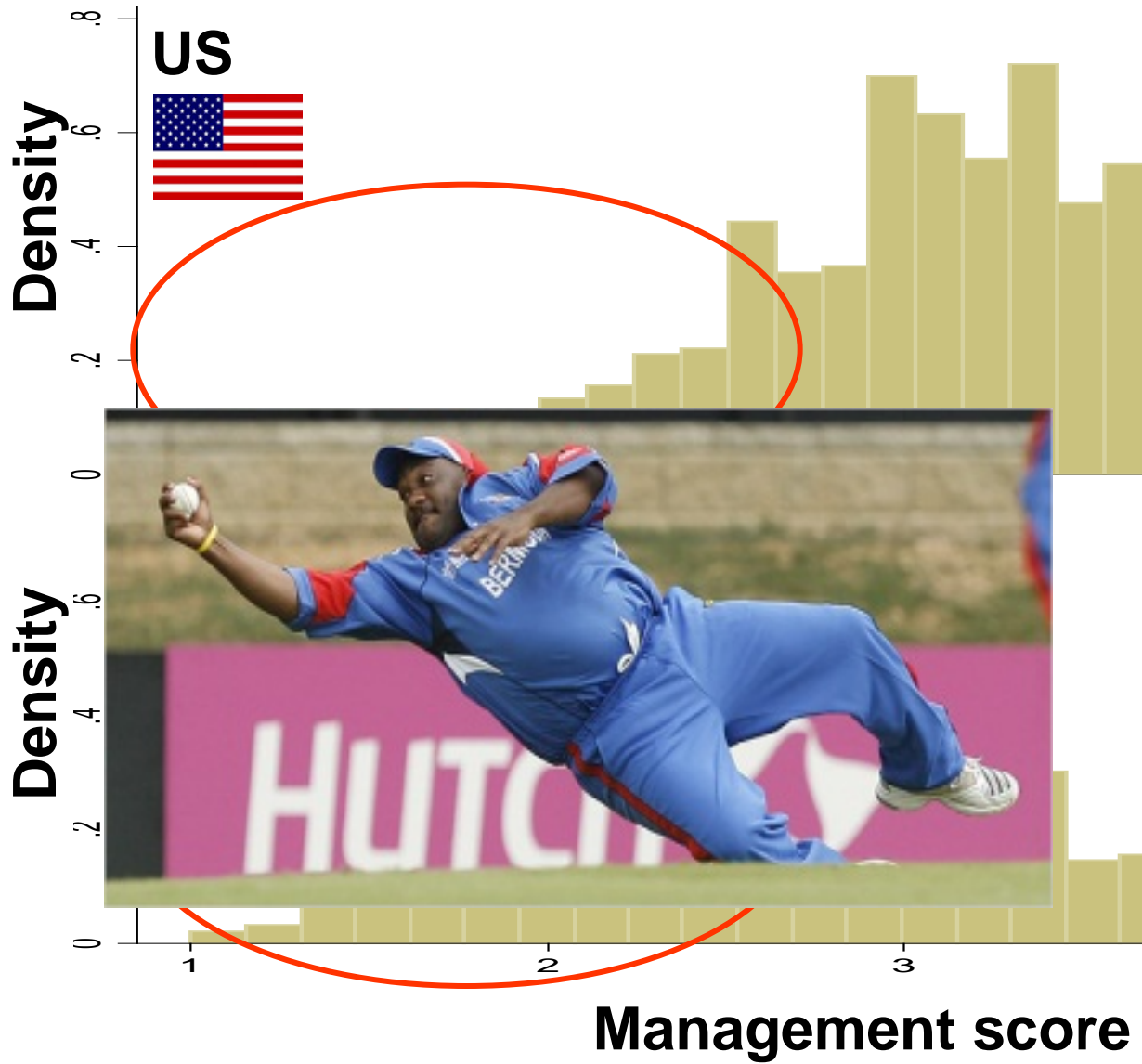
Note: Firms between 50 and 5000 employees

Note: Data as of April 2014; 13,264 observations over 10,668 firms; 32 countries

# Average management scores across countries are strongly correlated with GDP per capita



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



Source: [www.worldmanagementsurvey.com](http://www.worldmanagementsurvey.com)

# 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 traditional Indian Chat-Up

*Production Manager:* “Are you a Brahmin?”

*Interviewer* “Yes, why do you ask?”

*Production manager* “And are you married?”

*Interviewer* “No?”

*Production manager* “Excellent, excellent, my son is looking for a bride and I think you could be perfect. I must contact your parents to discuss this”

# Key results from a decade of management research

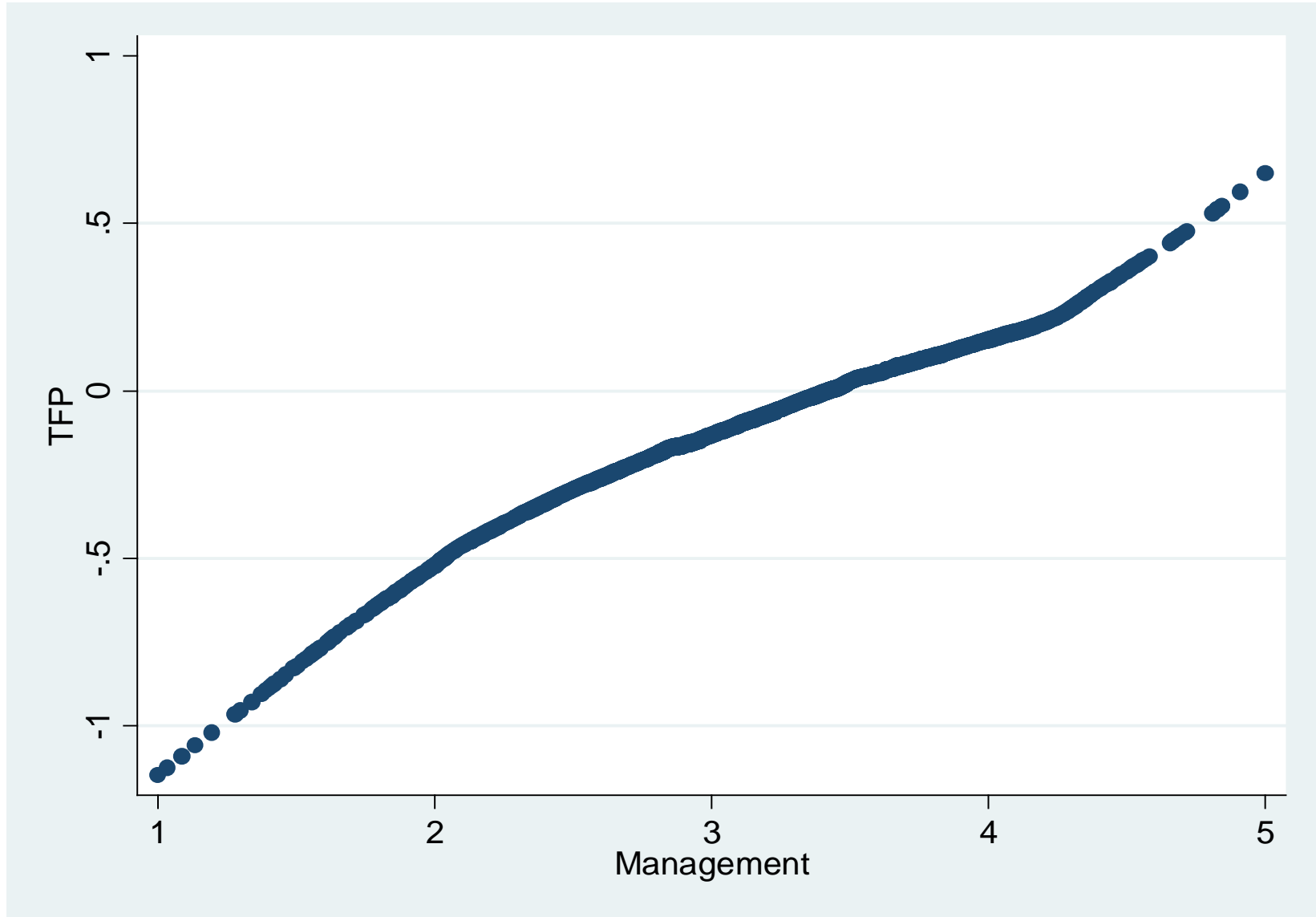
1) Developing country management poor by global standards

2) Management practices play a key role in productivity

3) What holds back management & how can policy change?

**Huge potential for faster growth.**

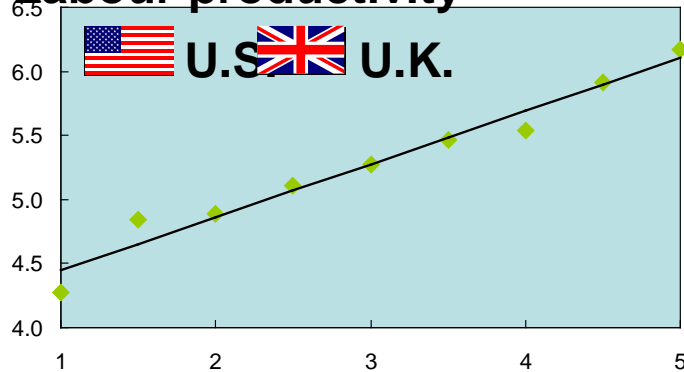
# Productivity is higher in better managed firms



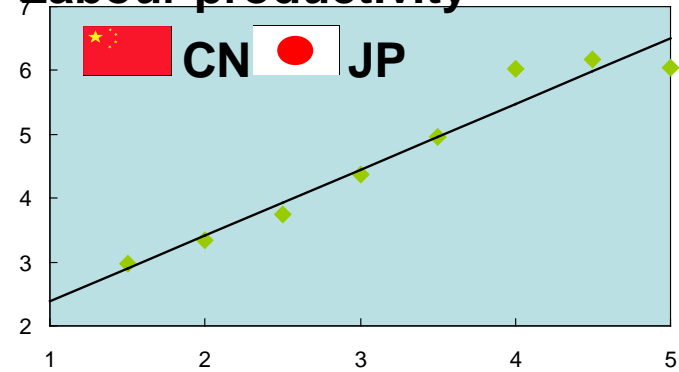
Management is an average of all 18 questions (set to  $sd=1$ ). TFP residuals of sales on capital, labor, skills controls plus a full set of SIC-3 industry, country and year dummies

# LINK BETWEEN PRODUCTIVITY & MANAGEMENT HOLDS TRUE ACROSS DIFFERENT COUNTRIES

Labour productivity\*

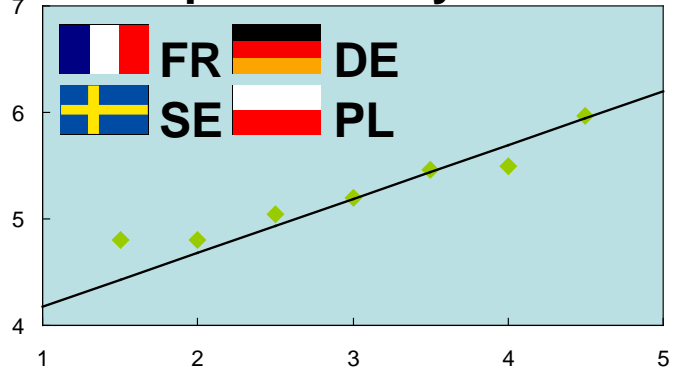


Labour productivity\*

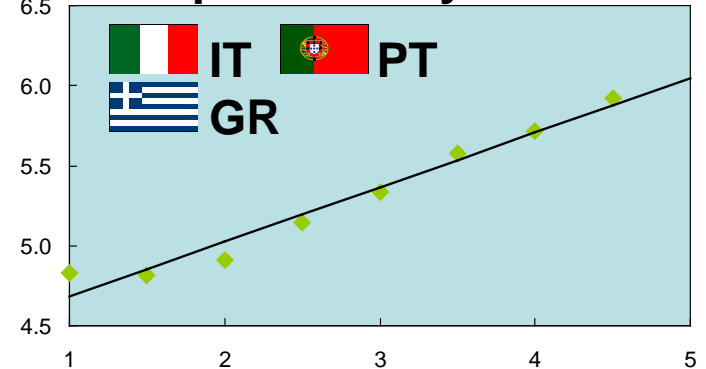


management practice score\*\*

Labour productivity\*



Labour productivity\*



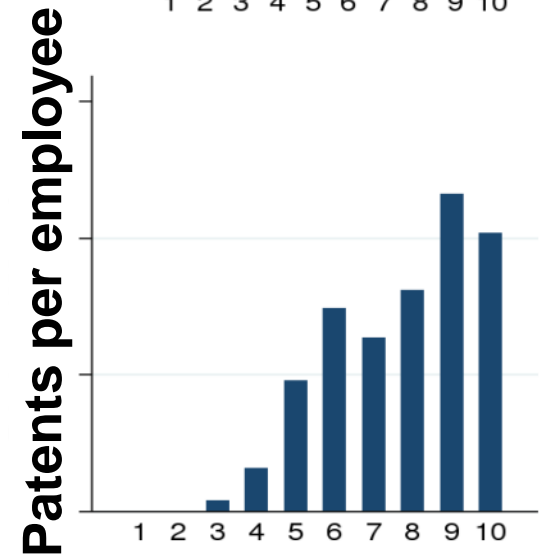
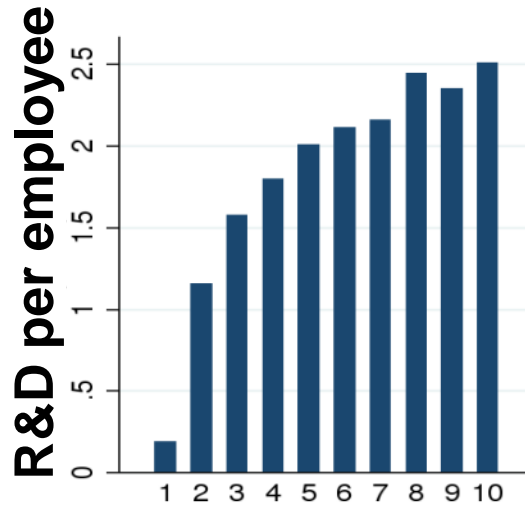
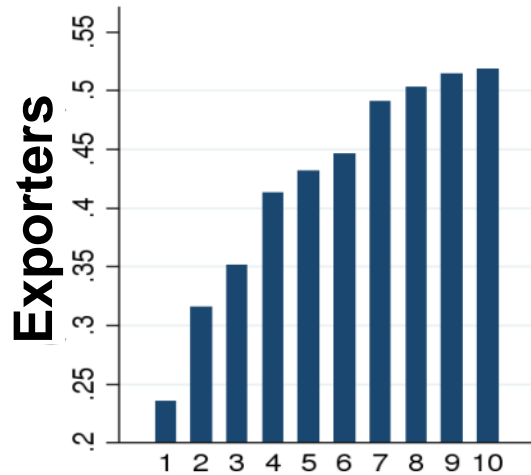
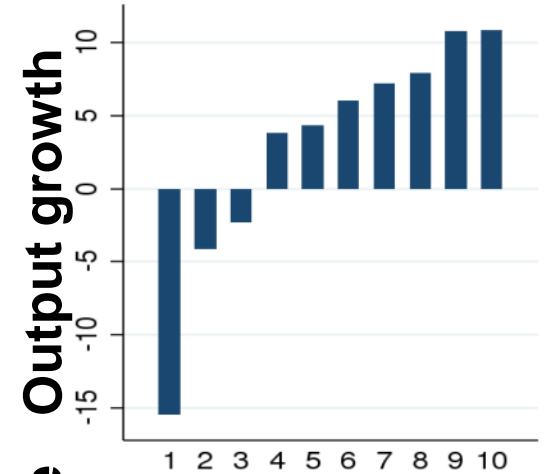
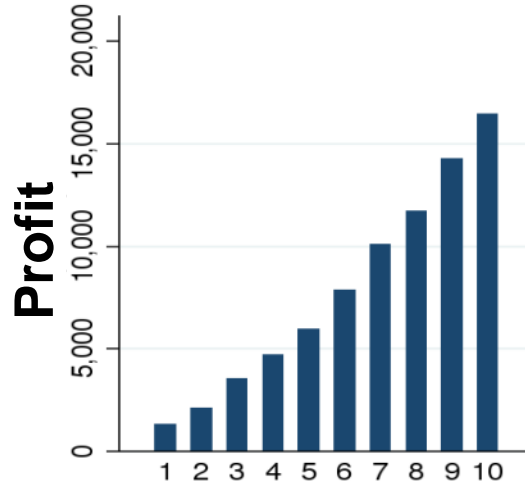
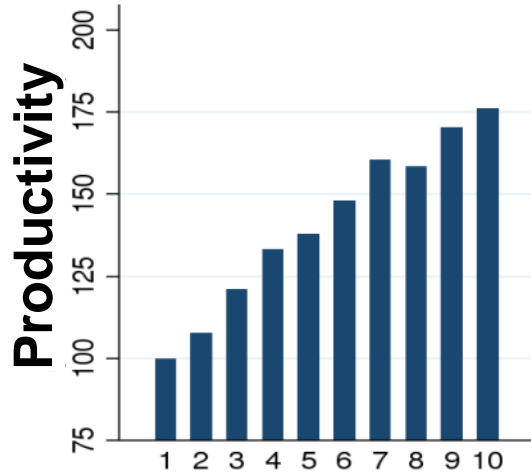
\* Log scale (sales per worker)

management practice score\*\*

\*\* Firms are grouped in 0.5 increments of assessed management score



# These management scores positively correlated with many other measures of firm performance



Management score decile

**To investigate causality we ran an experiment on 28 large textile plants near Mumbai**



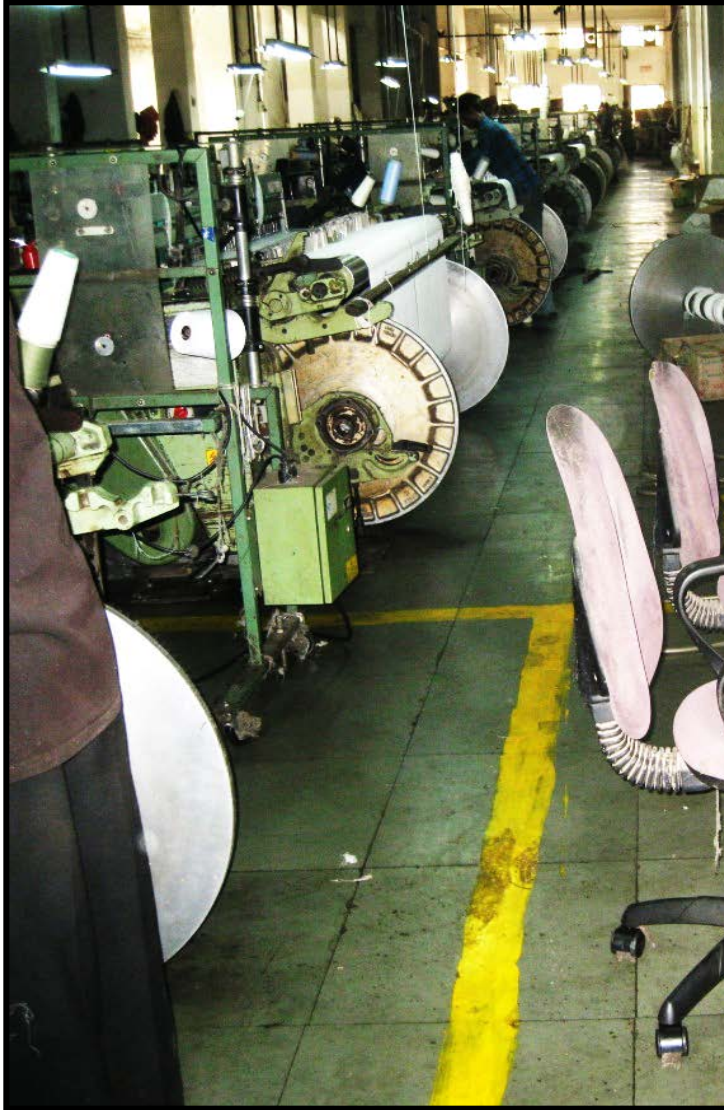
# Inventory Control: Before



# Inventory Control: After



# Factory operations: Before



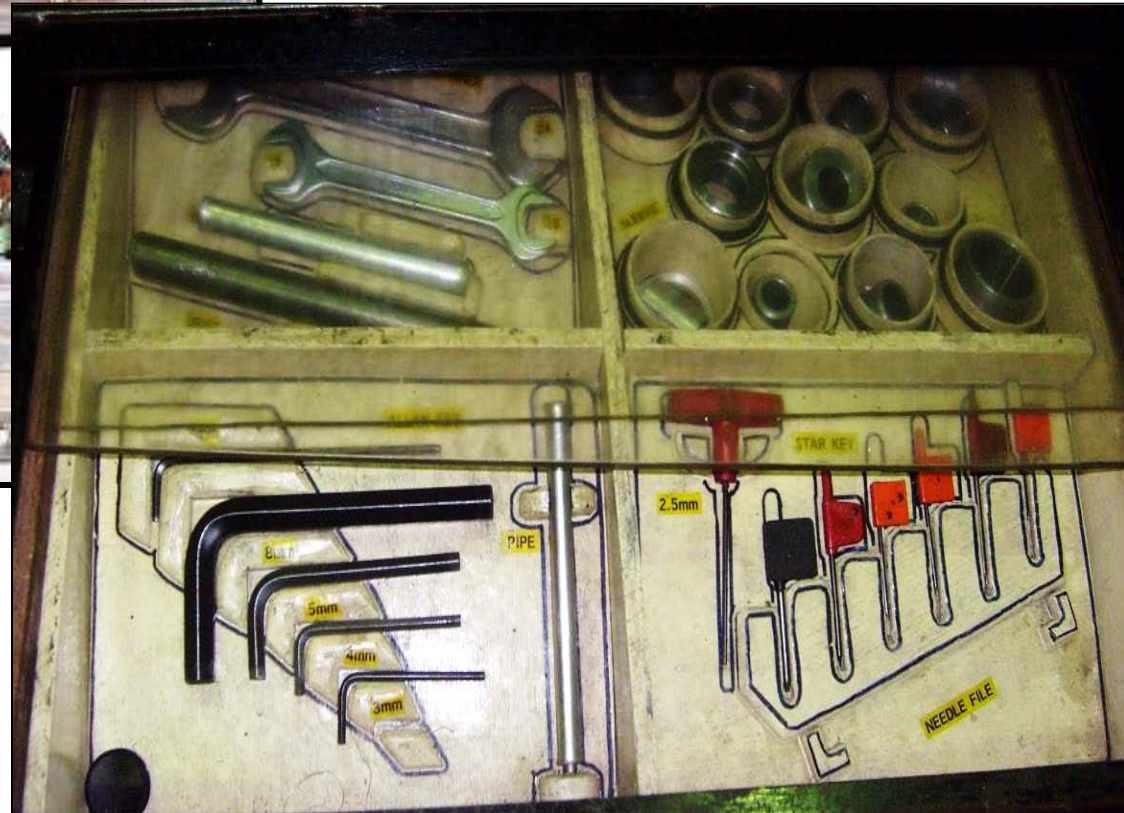
# Factory operations: After



# Stores: Before



# Stores: After





# Factory information: Before

**FABRICS PVT. LTD.**

Design No. 50-16009/2 Beam Length 1150/1094 Getting Date: \_\_\_\_\_  
 Beam No. 166 No. of Pieces 10x10 Finish Date: \_\_\_\_\_  
 Reel 515 Total Ends 108-5180-4108 Beam Weight: \_\_\_\_\_  
 Reed Space 65" Selvage 8396 Warp Weight: \_\_\_\_\_  
 Picks 34 Grey Total Quality Weight: 21-200 →  
 Loom No. 13 703 [15-51-49-38] Weft Weight: \_\_\_\_\_

WARP PATTERN	DRAWING PATTERN	PEG PLAN
21-A	1-2-3-4-5-x4	1-2-3-5-7
1-B	6-7-8-9-10	1-2-4-5-3
1-A	1-2-3-4-5-x4	1-2-3-4-6
1-B	4-3-2-1-5	1-2-4-5-8
21-A	2-3-1-2-5	2-3-4-5-10
2-C	4-3-2-1-5	5 PK
5-A	12 dent / 60 cent	
1-C		
5-A		
2-C		
60 SPR		

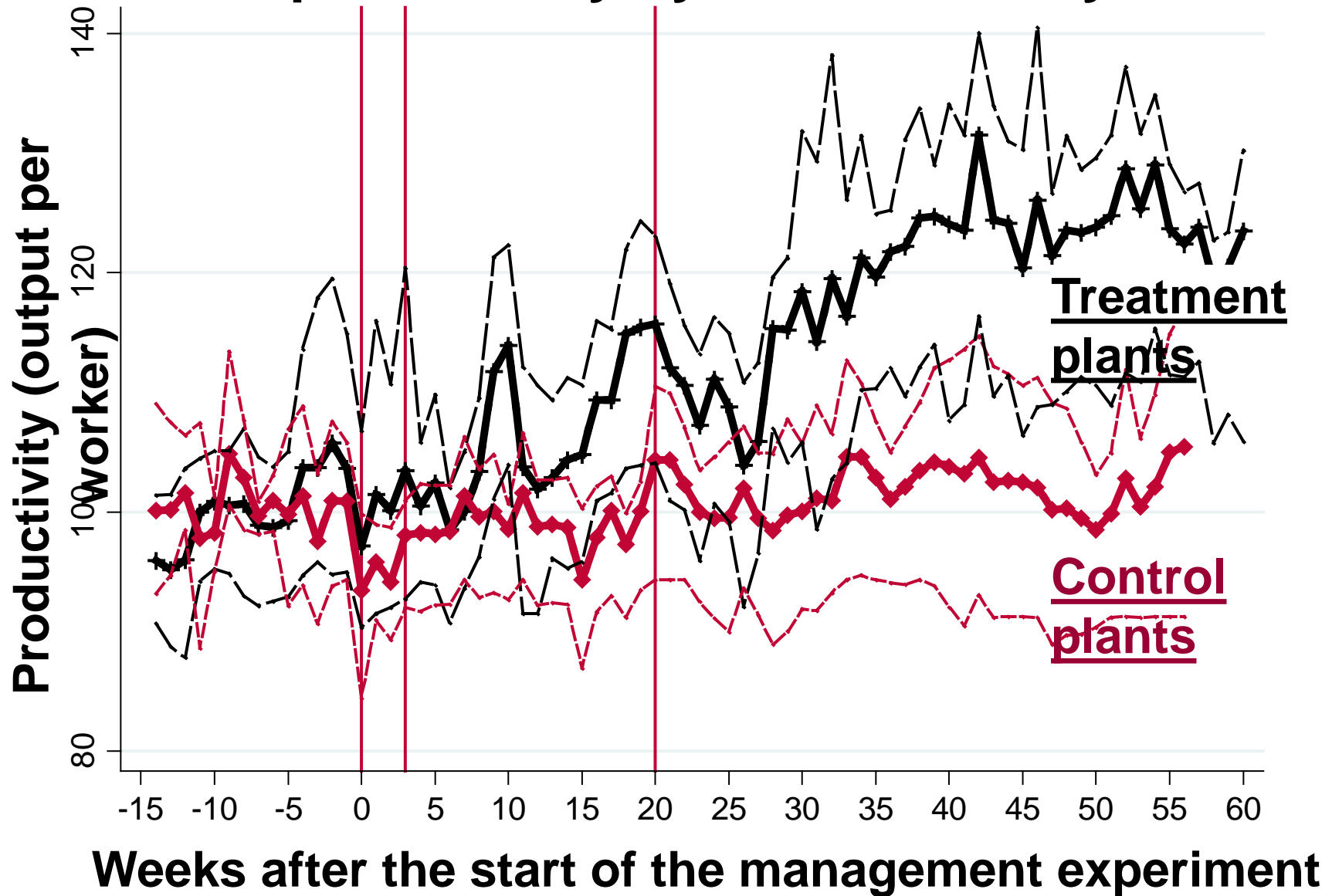
A - 160 dt. damindaw 115-1113/507  
 B - 160dt. white top  
 C - 160 dt. Shirley right white  
 8100  
 1150  
 1176  
 1196  
 1196  
 1196

selvage  
 12 dent = 26-1100 1196  
 2-1152  
 5 dent = 20-1152  
 2-1196  
 2-1152  
 26 dent = 108-ends

# Factory information: After



# These simple management improvements increased productivity by 20% within 1 year alone



# Management gaps with US account for ~20% of productivity differences

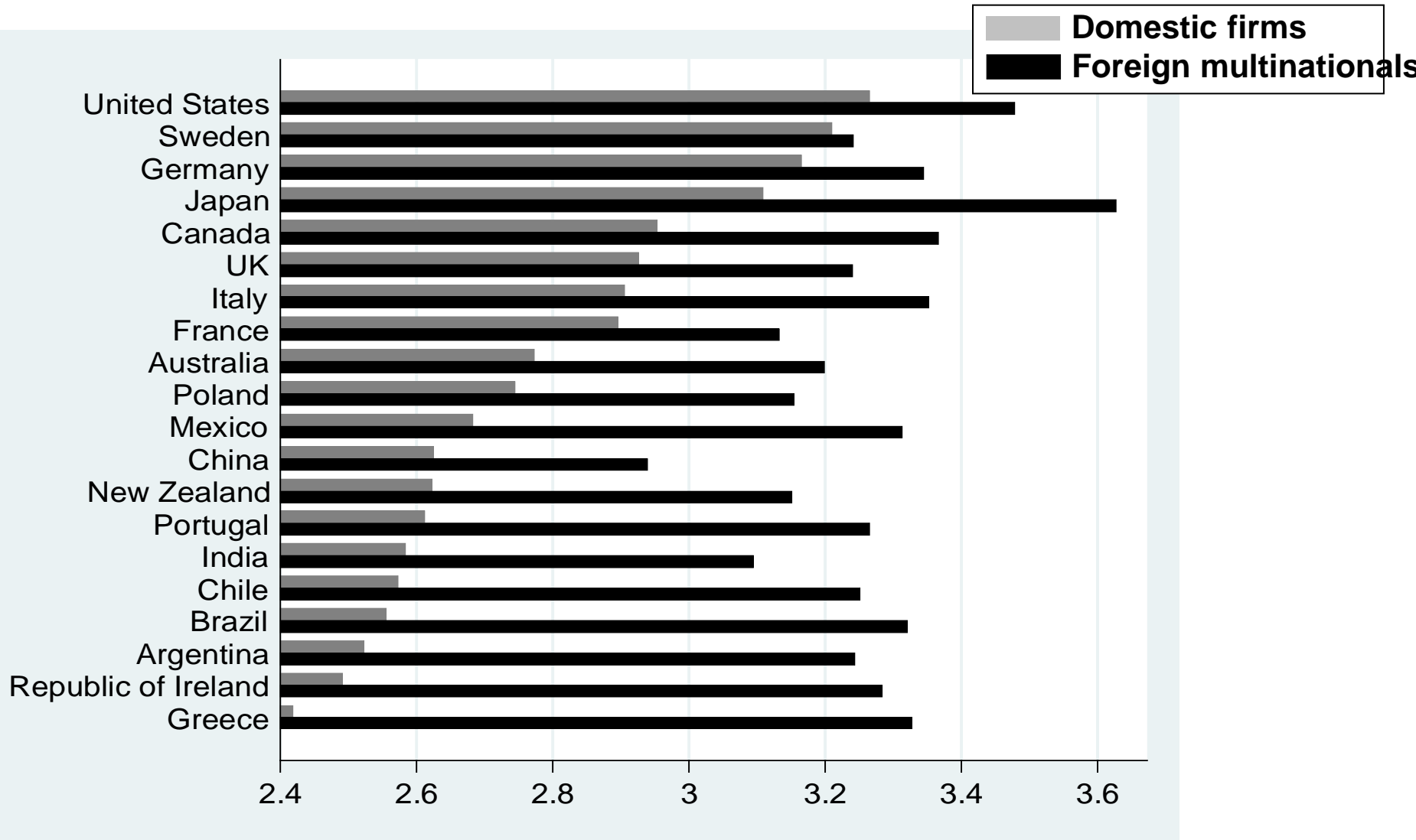
	<b>Management Deficit with US</b>	<b>TFP Deficit With US</b>	<b>% accounted for By management</b>
Sweden	-0.27	0.32	0.04
Japan	-0.34	0.34	0.05
Germany	-0.45	0.18	0.19
Canada	-0.49	0.22	0.17
Britain	-0.75	0.20	0.27
Mexico	-0.77	0.60	0.12
Poland	-0.81	0.20	0.32
Italy	-0.82	0.17	0.31
Spain	-0.93	0.31	0.30
France	-1.02	0.25	0.29
Brazil	-1.02	0.60	0.15
Chile	-1.02	0.54	0.18
India	-1.09	0.81	0.12
Kenya	-1.14	0.98	0.10
China	-1.19	0.78	0.12
Argentina	-1.2	0.57	0.17
Tanzania	-1.3	0.97	0.15
Ghana	-1.8	0.87	0.17
Zimbabwe	-2.09	0.95	0.17
Mozambique	-2.17	0.79	0.25

# Key results from a decade of management research

- 1) Developing country management poor by global standards
- 2) Management practices play a key role in productivity
- 3) What holds back management & how can policy change?

**Huge potential for faster growth.**

# MULTINATIONALS APPEAR TO ACHIEVE GOOD MANAGEMENT PRACTICES WHEREVER THEY LOCATE

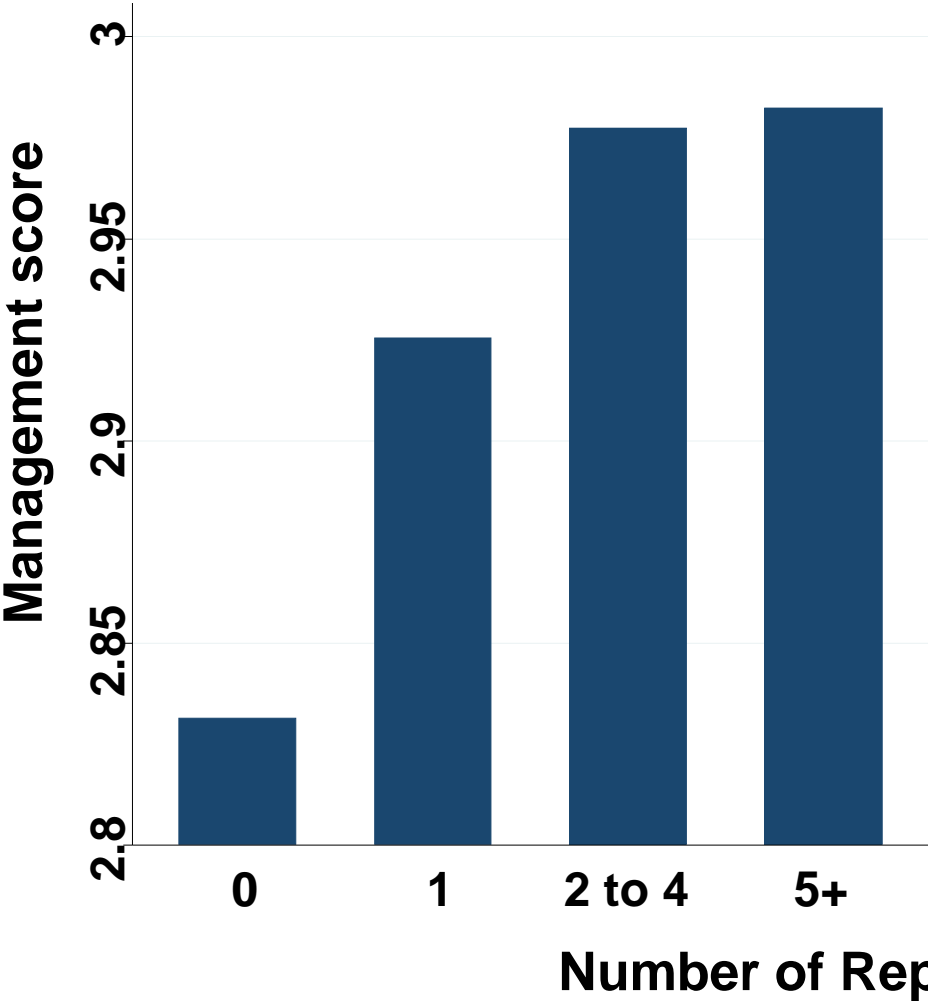


## Management score

Sample of 7,303 manufacturing firms, of which 4,926 are purely domestic and 2,377 are foreign multinationals. Domestic multinationals are excluded – that is the domestic subsidiaries of multinational firms (like a Toyota subsidiary in Japan).

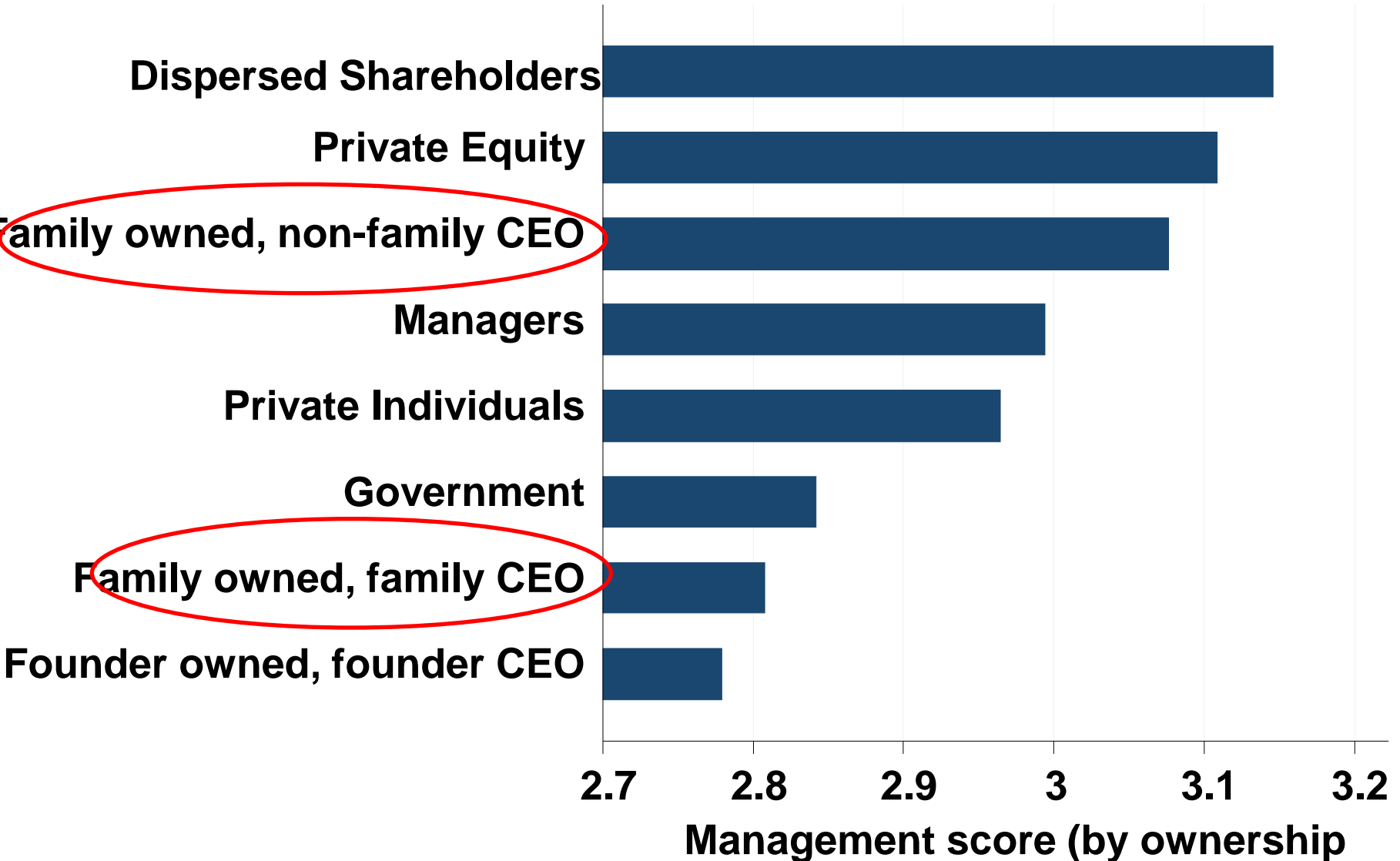
# COMPETITION ASSOCIATED WITH BETTER MANAGEMENT

## Manufacturing and Retail (the private sector)



Sample of 9469 manufacturing and 661 retail firms (private sector panel) Reported competitors defined from the response to the question “How many competitors does your [organization] face?”

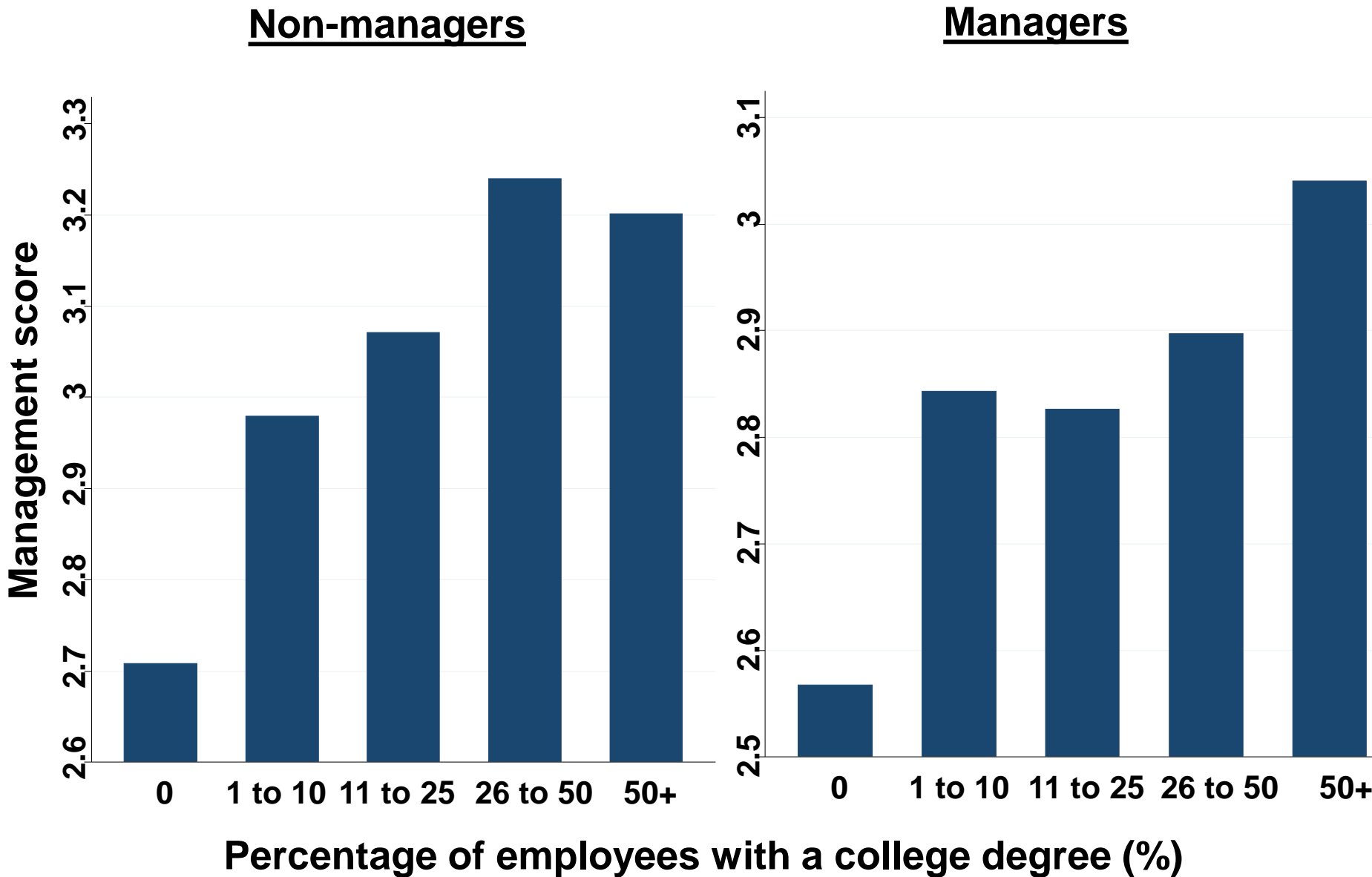
# FAMILY-RUN FIRMS TYPICALLY HAVE THE WORST MANAGEMENT



Management scores after controlling for country, industry and type of employees. Data from 9085 manufacturers and 658 retailers. "Founder owned, founder CEO" firms are those still owned and managed by their founders. "Family firms" are those owned by descendants of the founder "Dispersed shareholder" firms are those with no shareholder with more than 25% of equity, such as widely

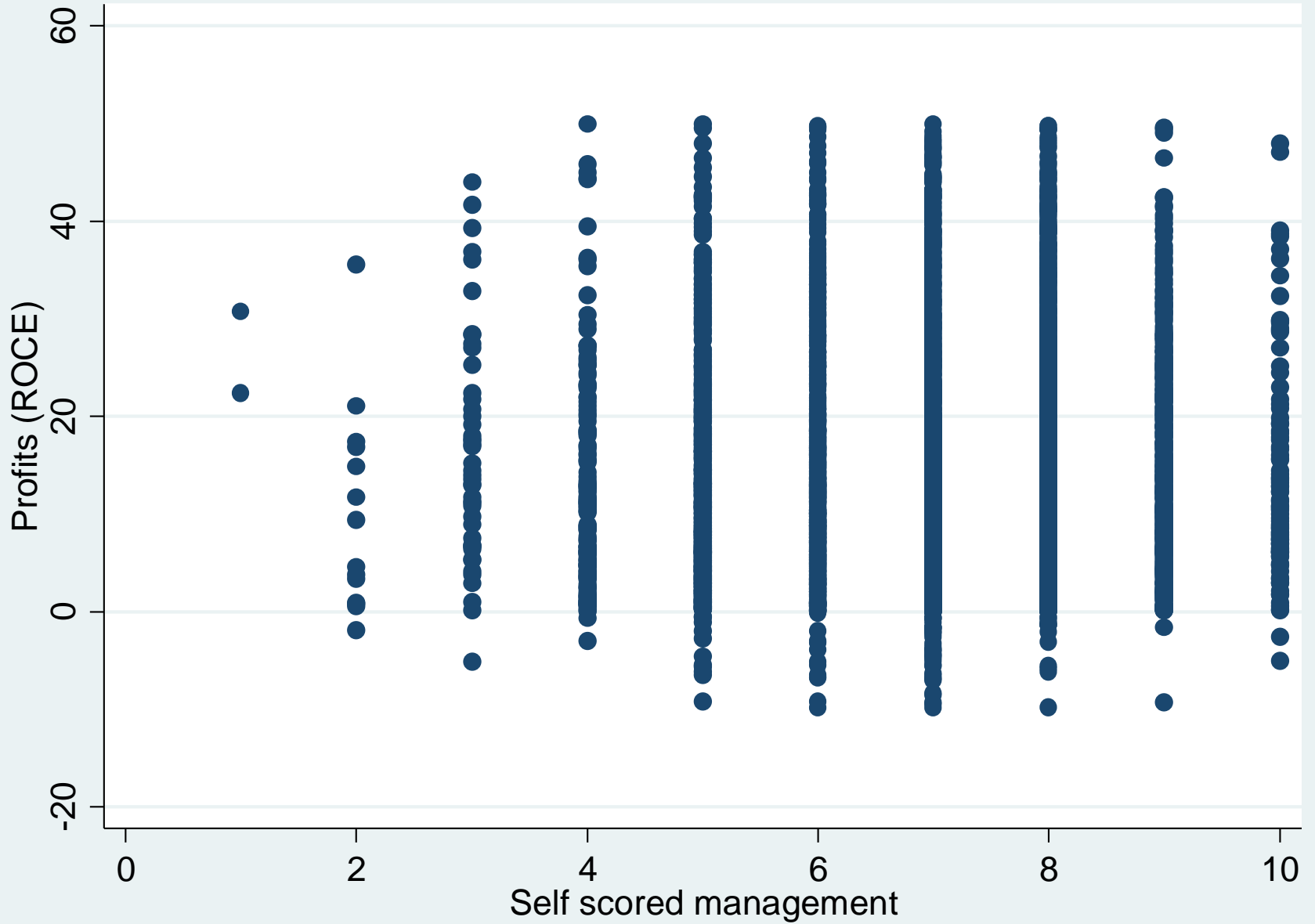


# EDUCATION FOR NON-MANAGERS AND MANAGERS APPEAR LINKED TO BETTER MANAGEMENT



Sample of 8,032 manufacturing and 647 retail firms.

# ...and self-scores show no link to performance

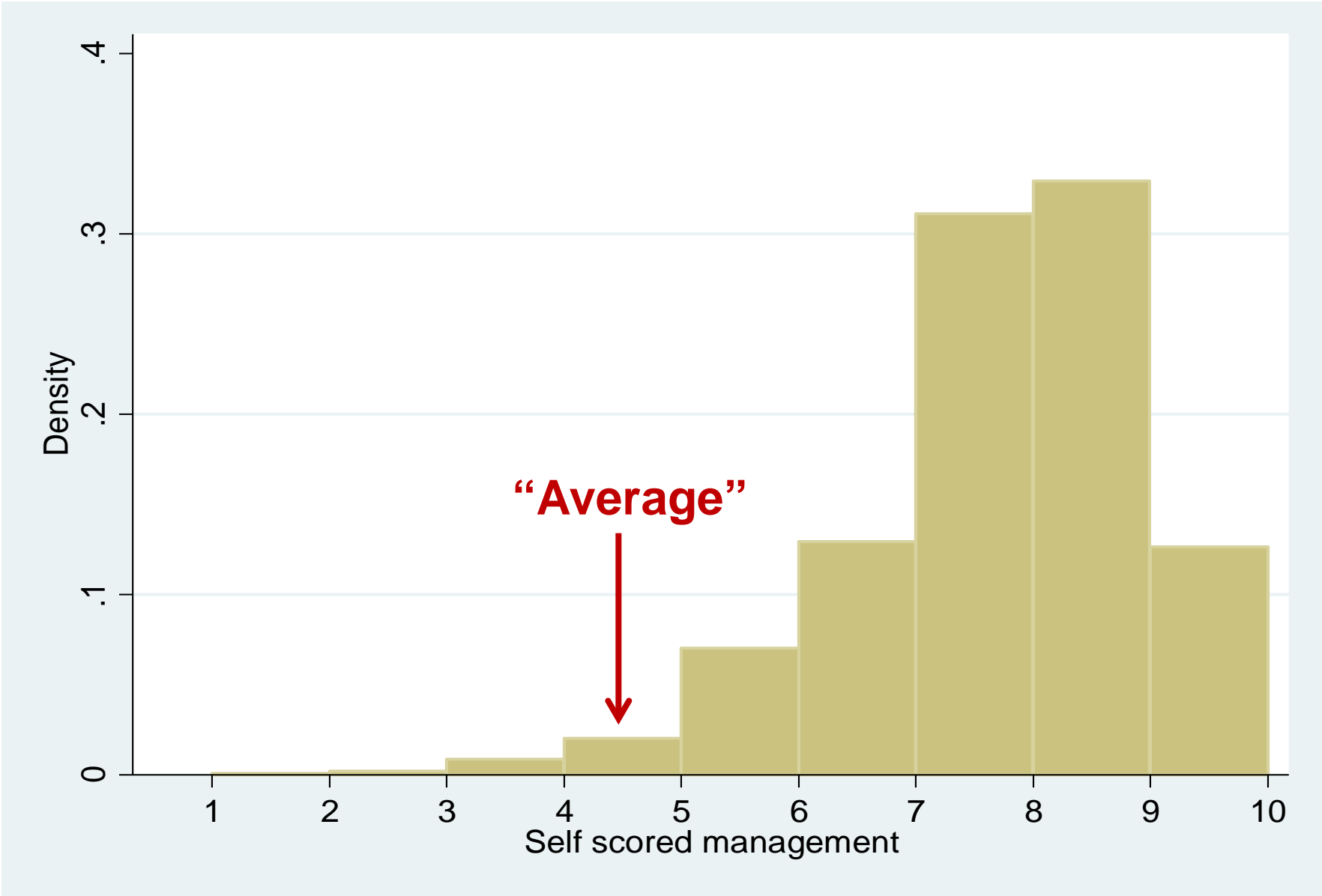


**In fact we formally investigated if firms can self-assess their management practices....**

**We asked at the end of the survey:**

***“Excluding yourself, how well managed would you say your firm is on a scale of 1 to 10, where 1 is worst practice, 5 is average and 10 is best practice”***

# ...and found firms are too optimistic on management



# **POLICY IMPLICATIONS**

- Openness to FDI
- Competition
- Succession planning for family firms
- Human capital
- Role for advice/information
- Barriers to expansion
  - Trust outside family
  - Rule of law

## 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”

## 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 track our performance? It is a waste of money!”

*Interviewer* “How do you identify production problems?”

*Production Manager:* “With my own eyes. It is very easy”



# MY FAVOURITE QUOTES:

## Don't get sick in India

*Interviewer* : “Do you offer acute care?”

*Switchboard*: “Yes ma'am we do”

*Interviewer* : “Do you have an orthopaedic department?”

*Switchboard*: “Yes ma'am we do”

*Interviewer* : “What about a cardiology department?”

*Switchboard*: “Yes ma'am”

*Interviewer* : “Great – can you connect me to the ortho department”

*Switchboard?*: “Sorry ma'am – I'm a patient here”

# More results and data available here



Home	Policy & Business Reports	Academic Research	Teaching Material	Survey Data	Media	Network
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The WMS generates data and reports that help managers and policy makers understand the drivers of better management practice.

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

**Benchmark your organization**

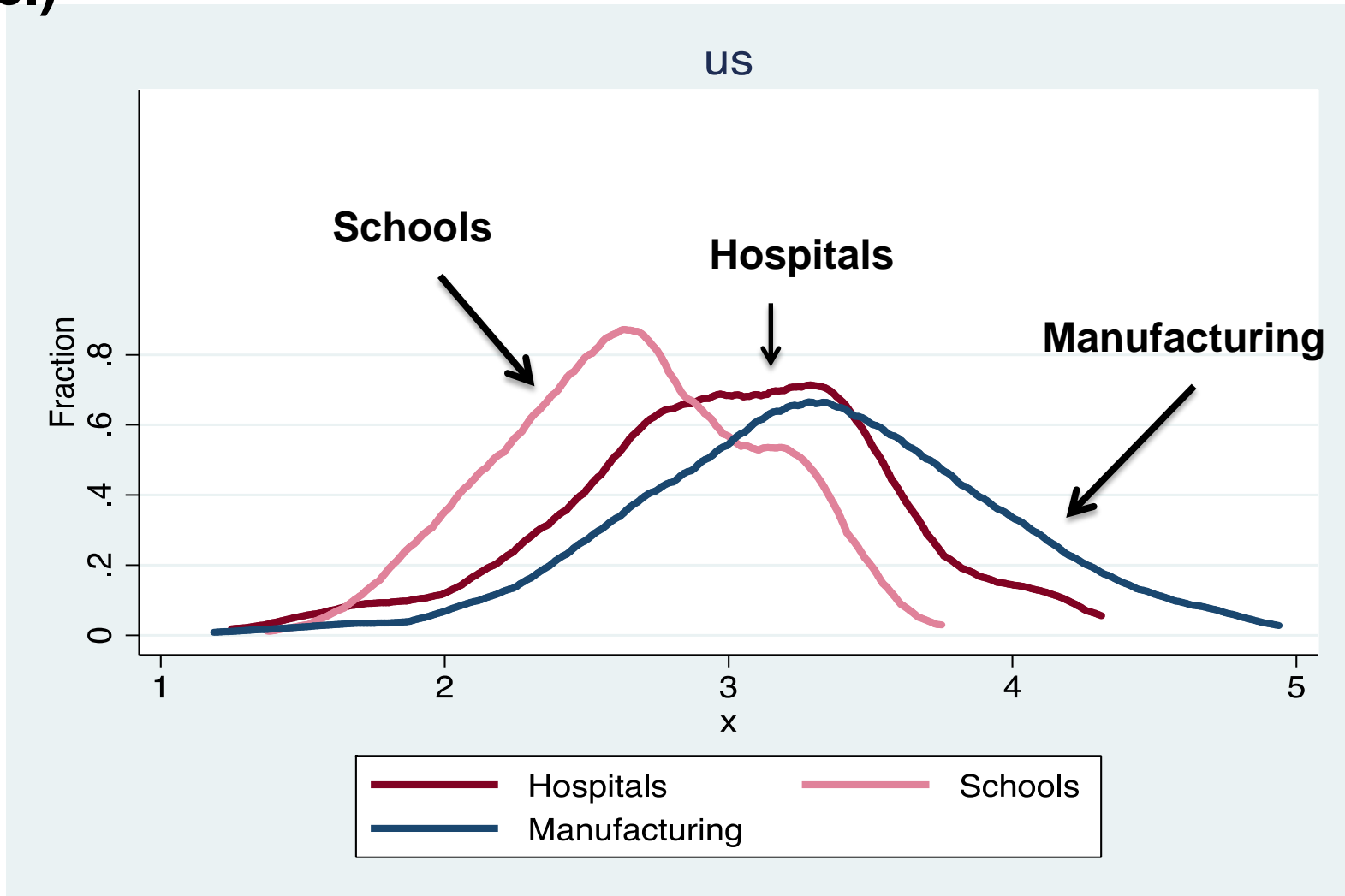
### Featured publications

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

Management scores across firms  
WMS team analyses the distribution of management practices within countries by type.



# Management across 3 sectors in US: Main reason for difference is people management (e.g. hiring/firing; promotion, etc.)



Source: Bloom, Lemos, Sadun, Scur & Van Reenen (2014)

# Management gaps with US and fraction due to reallocation

