

Being Competitive in the Global Economy: Management matters

John Van Reenen

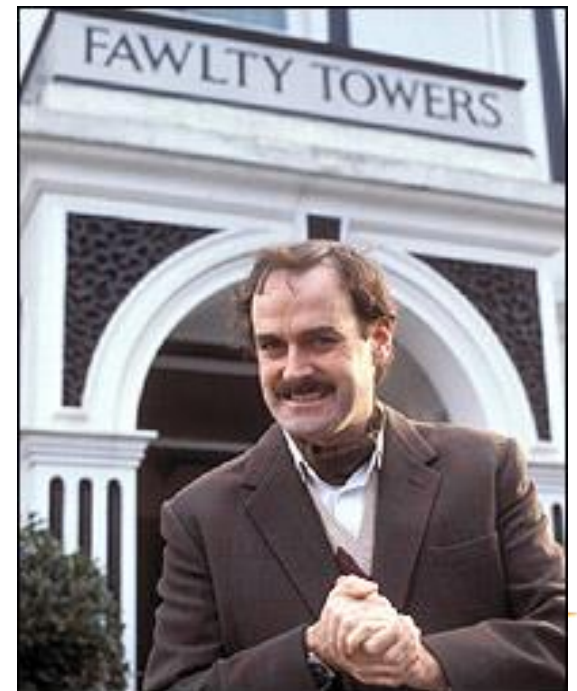
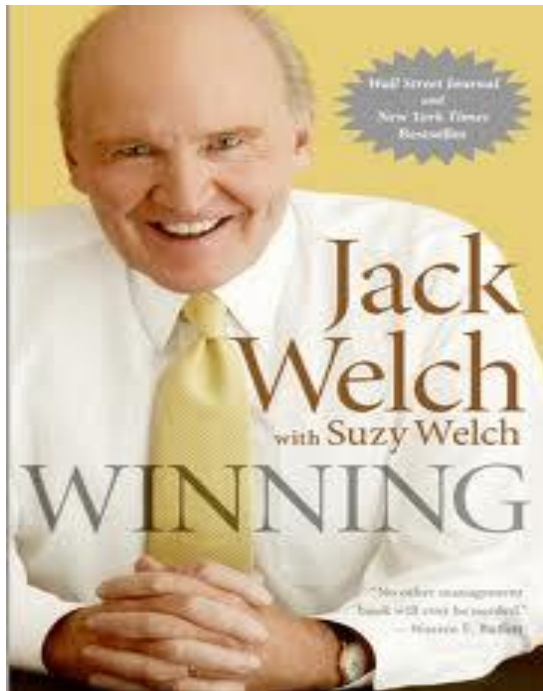
Cambridge

January 31st 2015



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MOTIVATION

- World is still suffering hangover from global financial crisis. EU growth particularly weak
- What is to be done?
- Draghi/Abe “3 pillars”
 - Expansionary Monetary Policy
 - Expansionary Fiscal Policy
 - **Structural Reforms (focus today)**



Mario Draghi



Shinzō Abe

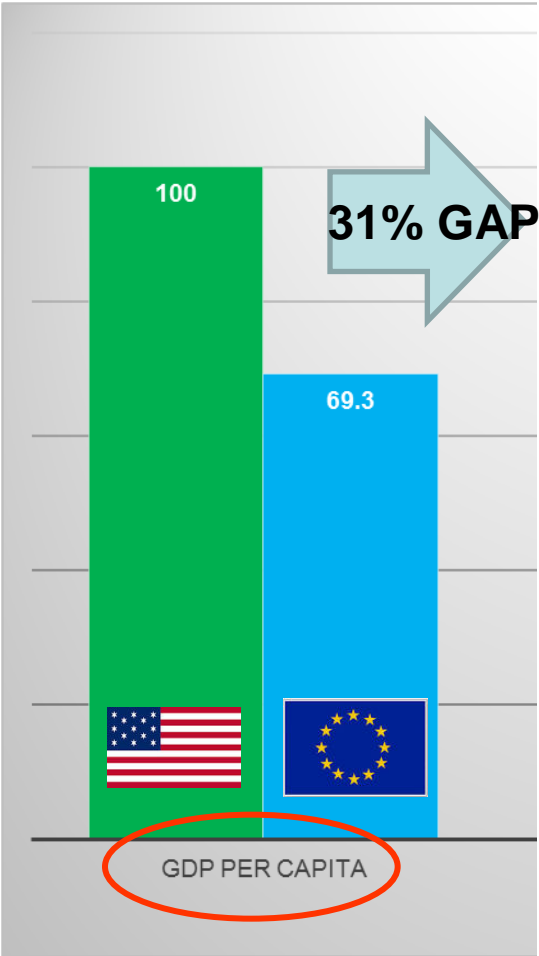
The Economic Challenge

Measuring Management

Management & Performance

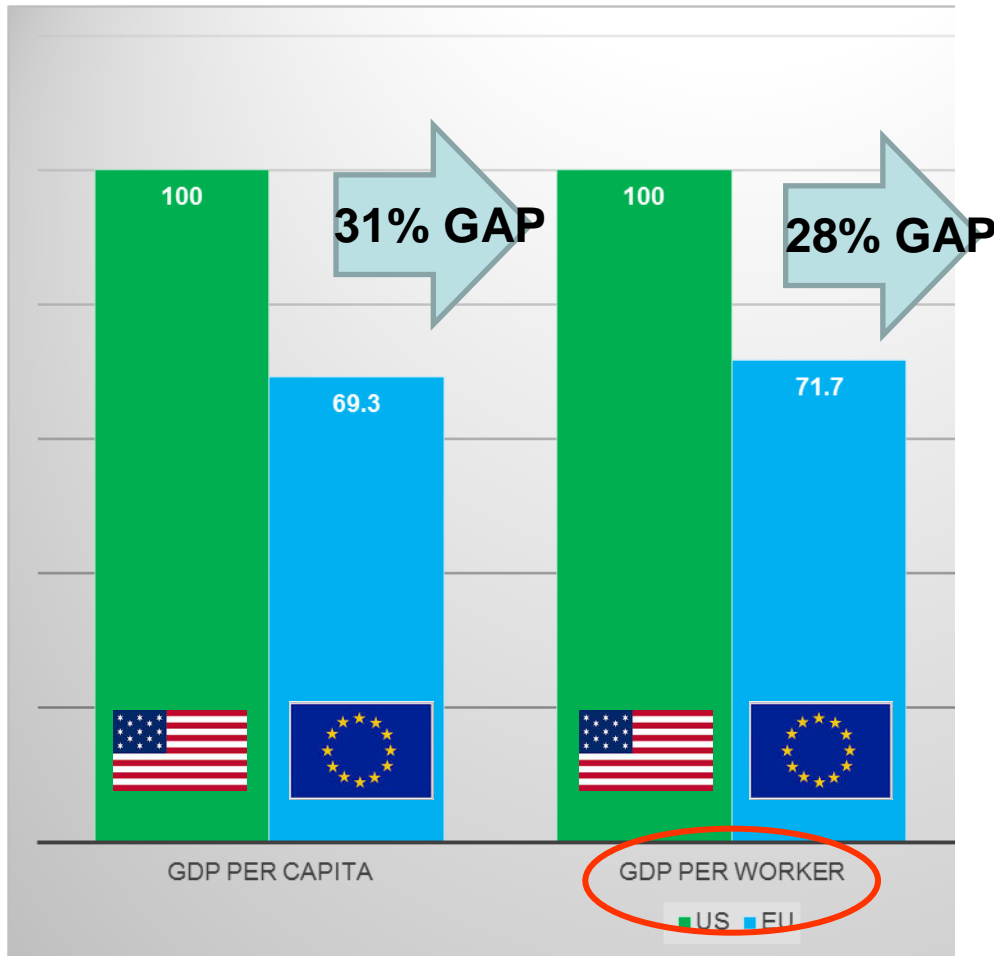
Drivers & Policy

Europe about 30% lower income (GDP per head) than US; EU-15 2014



Source: Conference Board (2014), TED Table 8 derived, EU-15
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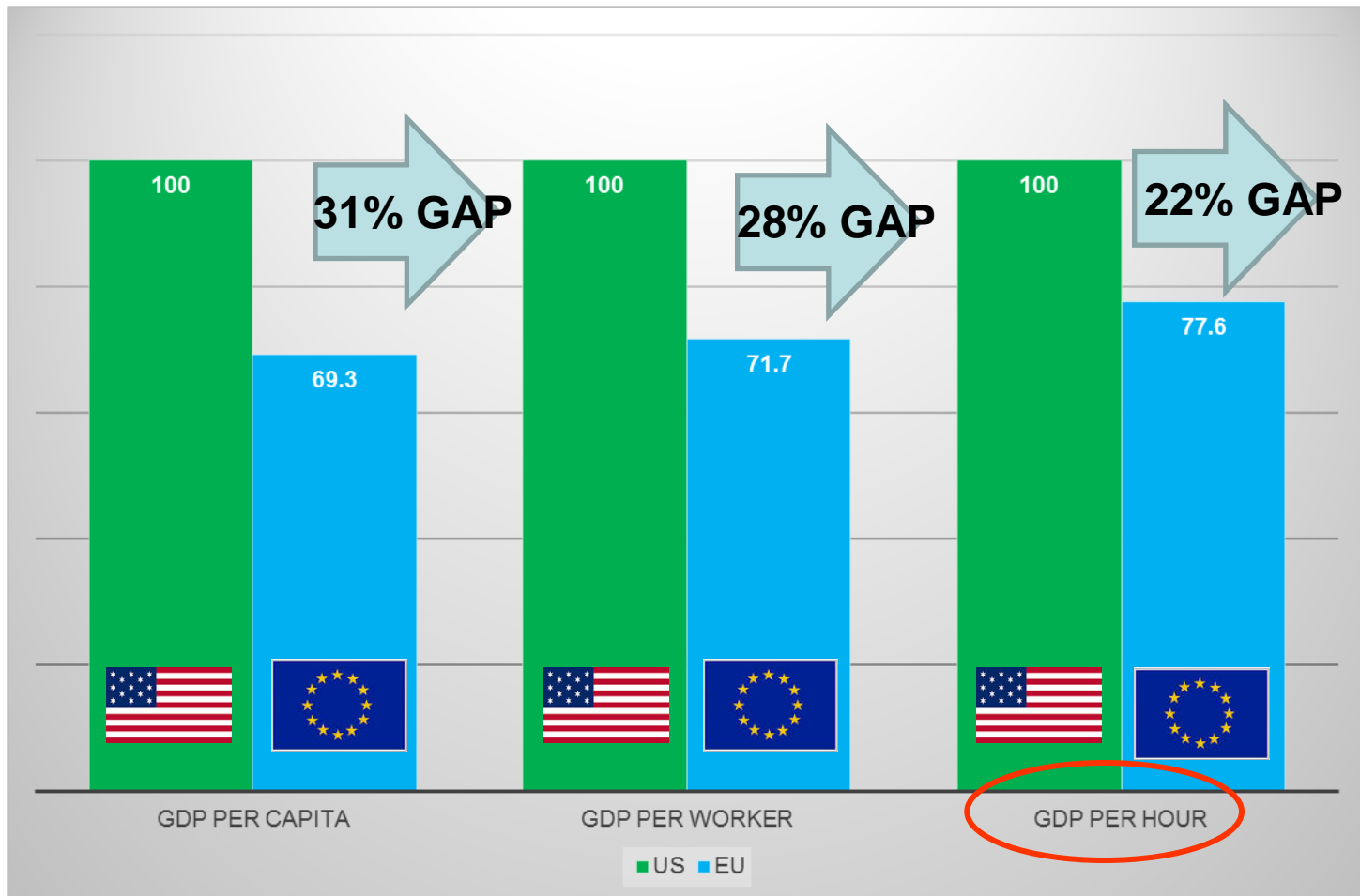
It isn't just less jobs



Source: Conference Board (2014), TED Table 8 derived, EU-15

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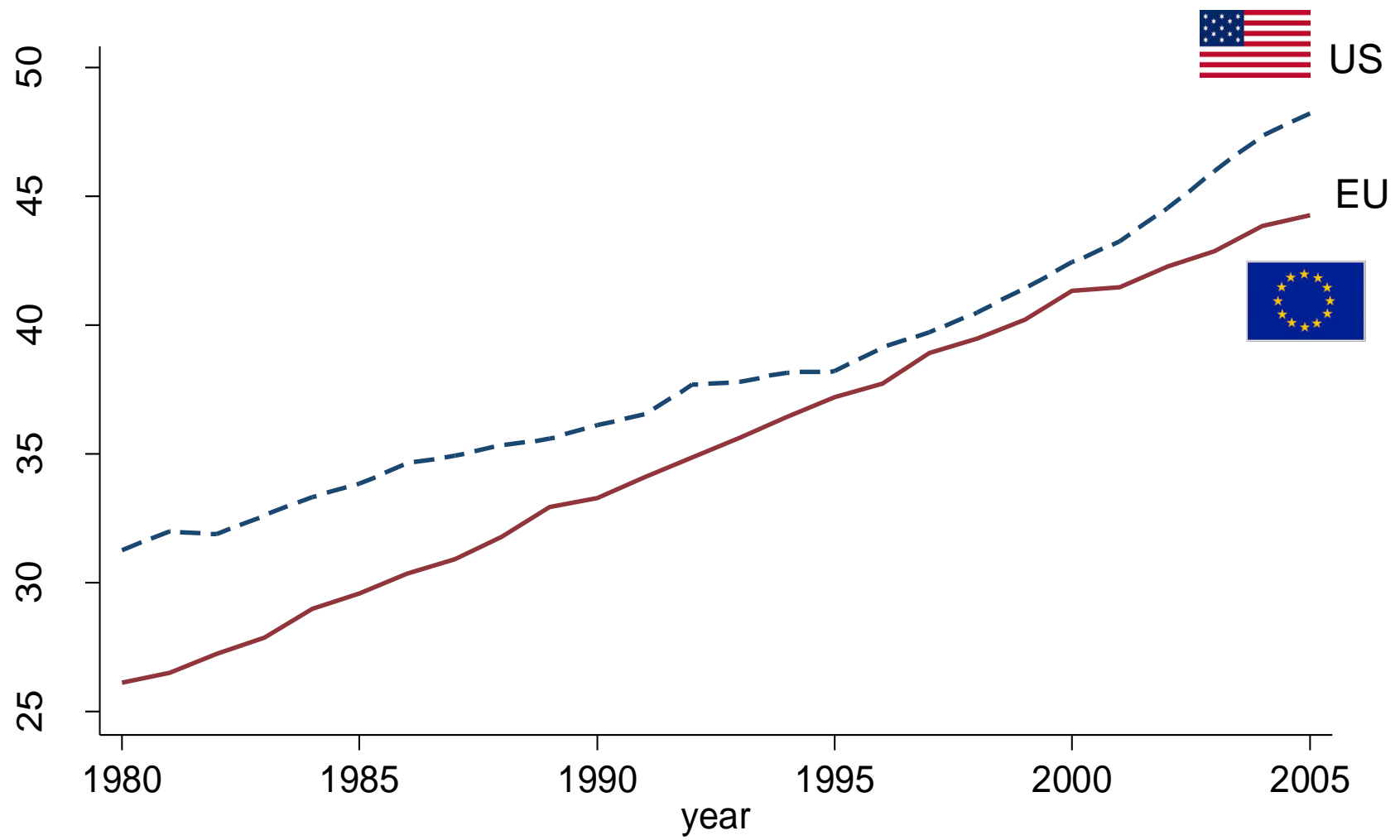
It isn't just less jobs; nor longer holidays: EU productivity 22% lower than US



Source: Conference Board (2014), TED Table 8 derived, EU-15

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PRODUCTIVITY PROBLEM PRE-DATES GLOBAL FINANCIAL CRISIS: POST WAR EU CATCH-UP WITH US REVERSED FROM MID 1990s



PRODUCTIVITY GAPS AT FIRM LEVEL WITHIN COUNTRIES

- Big macro productivity gaps mirrored at the firm level
- In a typical narrow industry (e.g. US concrete) most efficient top 10% of plants have 4x higher labor productivity than those in bottom 10%
 - Controlling for other inputs (e.g. capital), remaining productivity (TFP) difference still enormous (~2:1)
- In EU & developing countries these gaps even bigger
- Macro productivity trends disguise “creative destruction”
 - About $\frac{1}{2}$ of aggregate productivity growth is “creative destruction”: more productive growing bigger & less productive shrinking/exiting

WHAT ARE REASONS FOR LARGE DIFFERENCES IN FIRM AND COUNTRY PERFORMANCE?

- **Technological innovation matter a lot, but:**
 - After controlling for technology, still mostly unexplained
 - Productivity effects of computers depend on firm management/organization (e.g. Bloom, Sadun & Van Reenen, 2012, AER)
- **So are management practices also important?**
 - Business case studies
 - History of economic thought

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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)

MONITORING – e.g. “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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Note: All 18 questions and over 50 examples in Bloom & Van Reenen (2007)

<http://worldmanagementsurvey.org/>

World Management Survey (~15,000 firms, 5 major waves: 2004, 2006, 2009, 2014; 34 countries)



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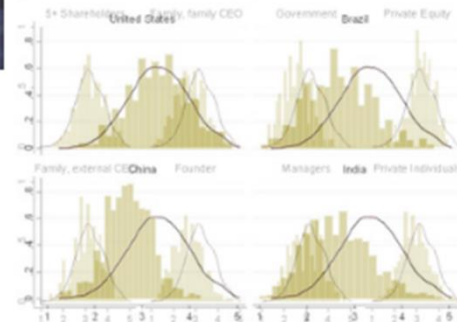
Featured publications

- » [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.

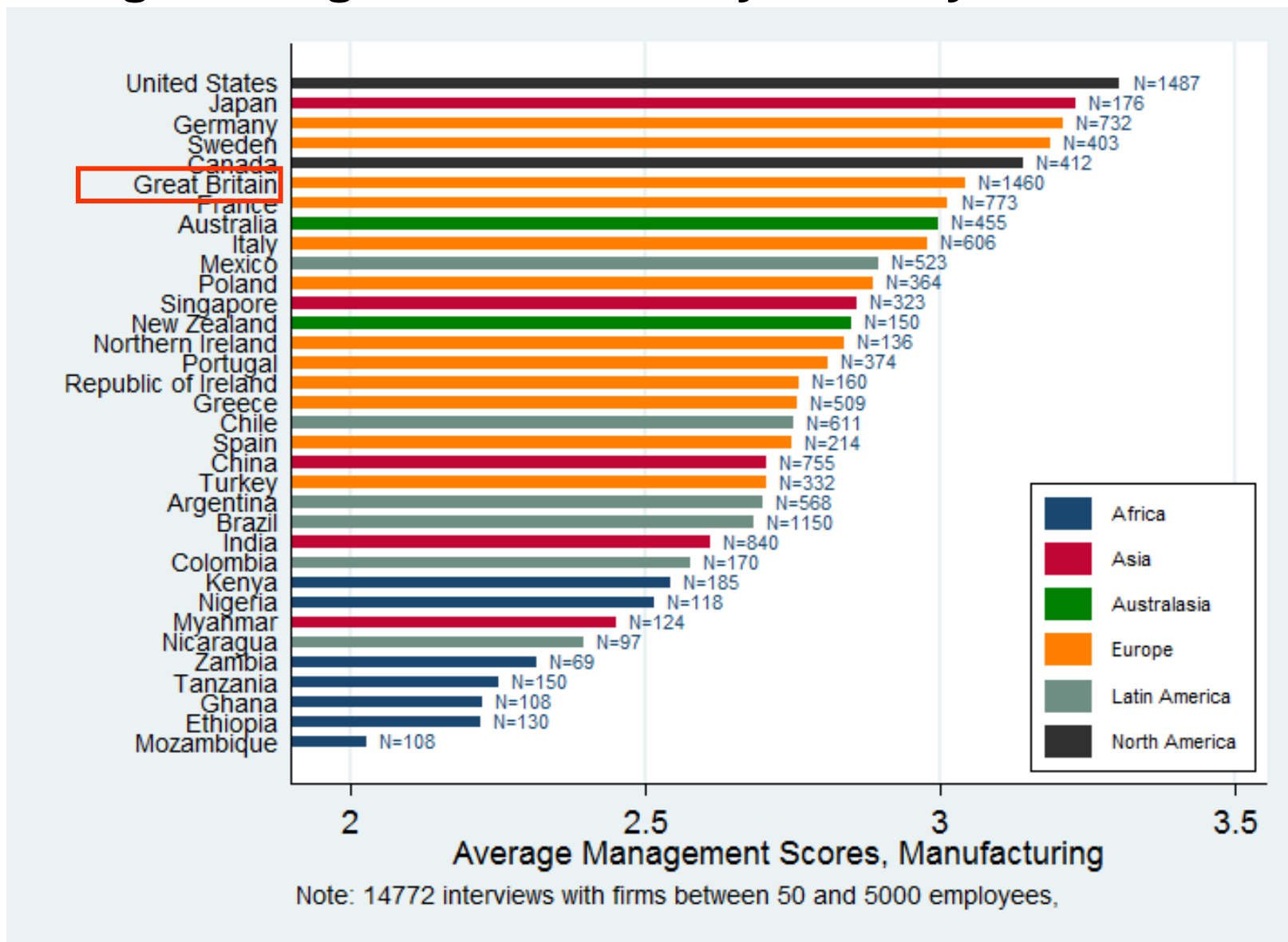
Benchmark your organization

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



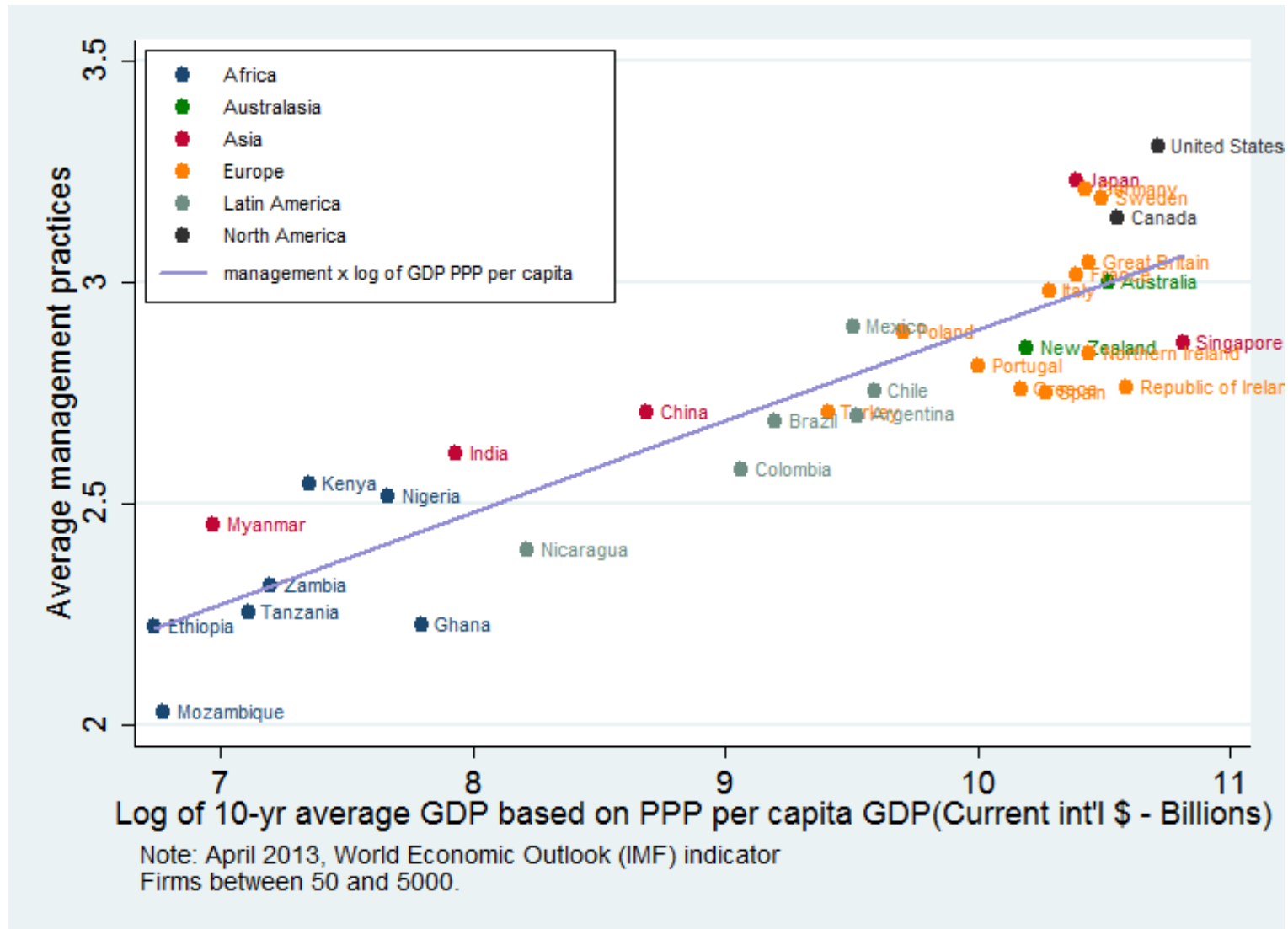
Medium sized manufacturing firms(50-5,000 workers, median≈250)
Now extended to Hospitals, Retail, Schools, etc.

Average Management Scores by Country



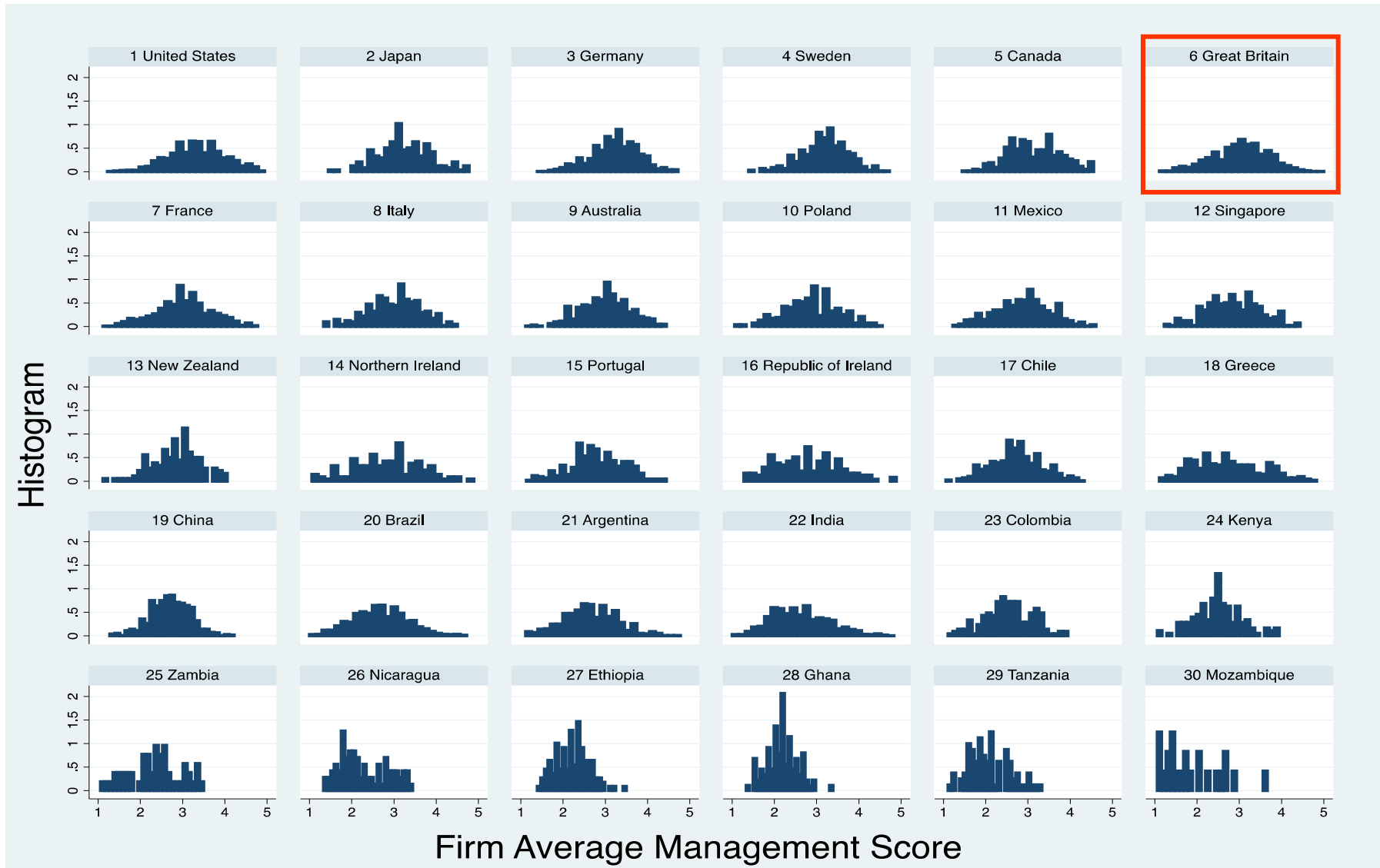
Note: Unweighted average management scores (raw data) with number of observations. All waves pooled (2004-2014)

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



Data includes 2014 survey wave as of 12/1/2014

Large variation of firm management within countries



Firms with 100 to 5000 employees randomly surveyed from country population. Dec 2014.

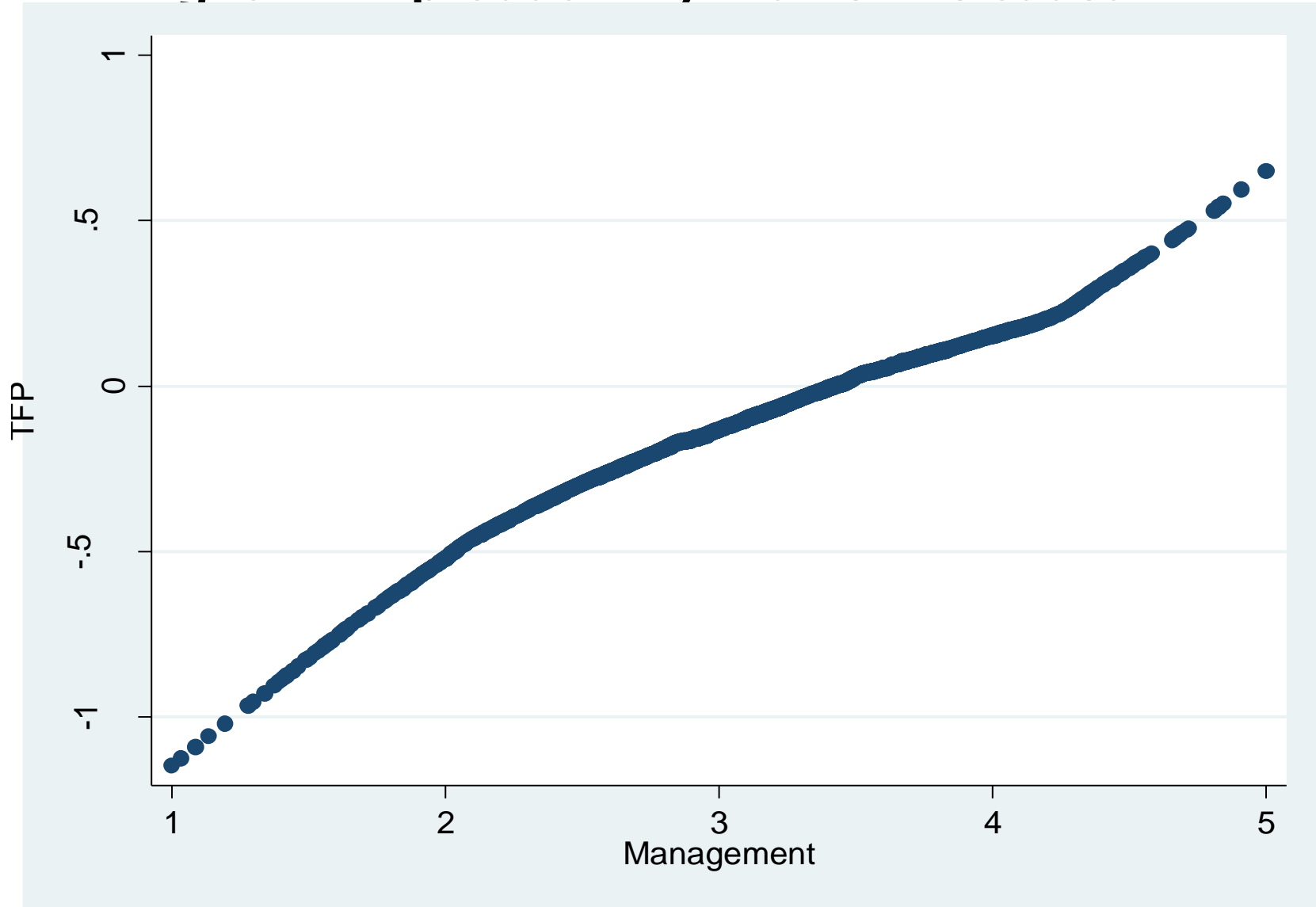
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Higher firm management scores strongly correlated with higher firm productivity. But is this causal?



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 controls. N=8314

RANDOMIZED CONTROL TRIALS: BLOOM ET AL (2013)

- Experiment on plants in Indian textile firms outside Mumbai
- Randomized treatment plants get heavy management consulting, control plants get very light consulting (just enough to get data)
- Collected weekly performance data on all plants from 2008 to 2011
- Improved management practices led to large & significant improvements in:
 - **Productivity:** 2sd increase in management index & 20% higher productivity (TFP)
 - **Profitability:** around \$325k p.a. compared to ~\$200k market cost of consultancy

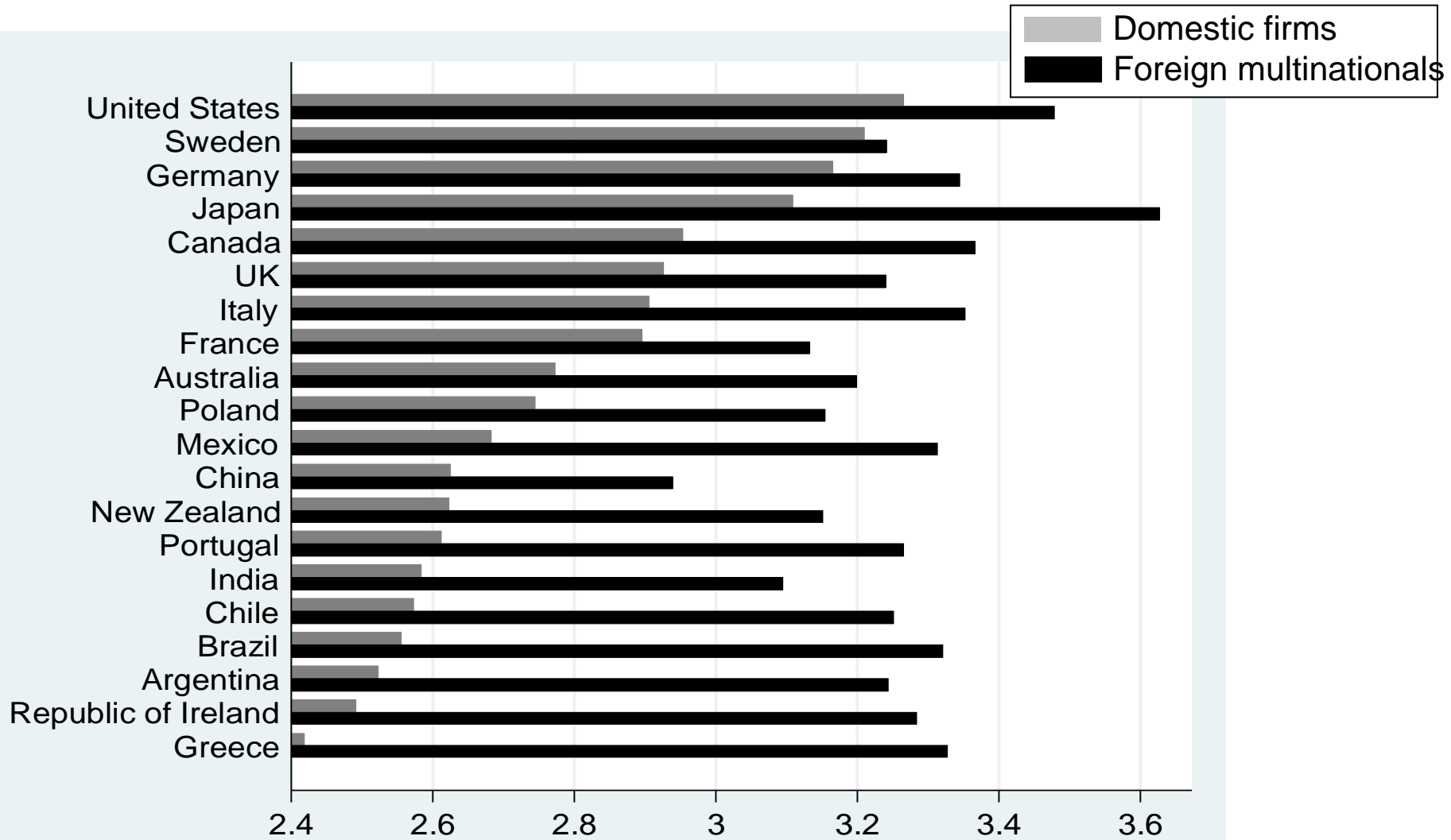
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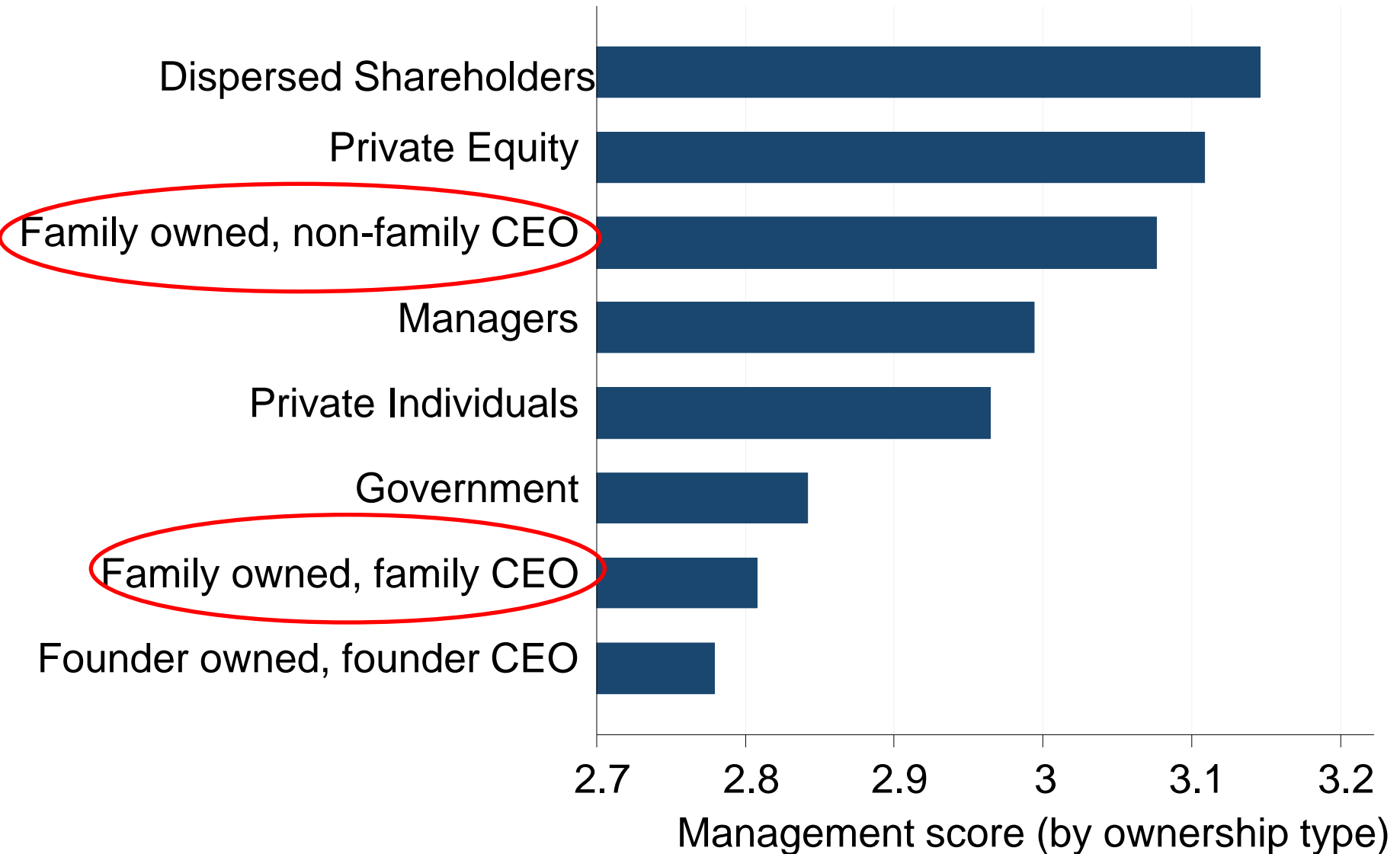
MULTINATIONALS APPEAR TO ACHIEVE GOOD MANAGEMENT PRACTICES WHEREVER THEY LOCATE



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).

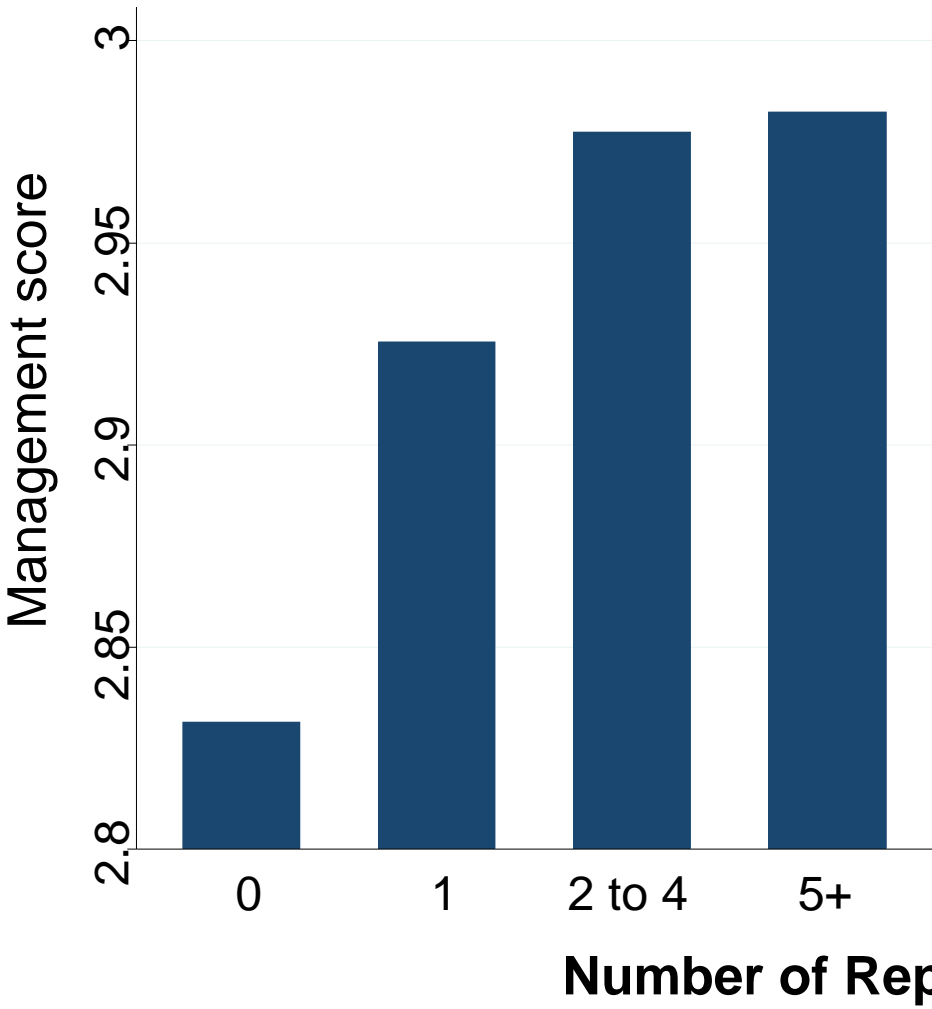
FAMILY-RUN FIRMS TYPICALLY HAVE THE WORST MANAGEMENT



Management scores after controlling for country, industry and number 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 held public firms.

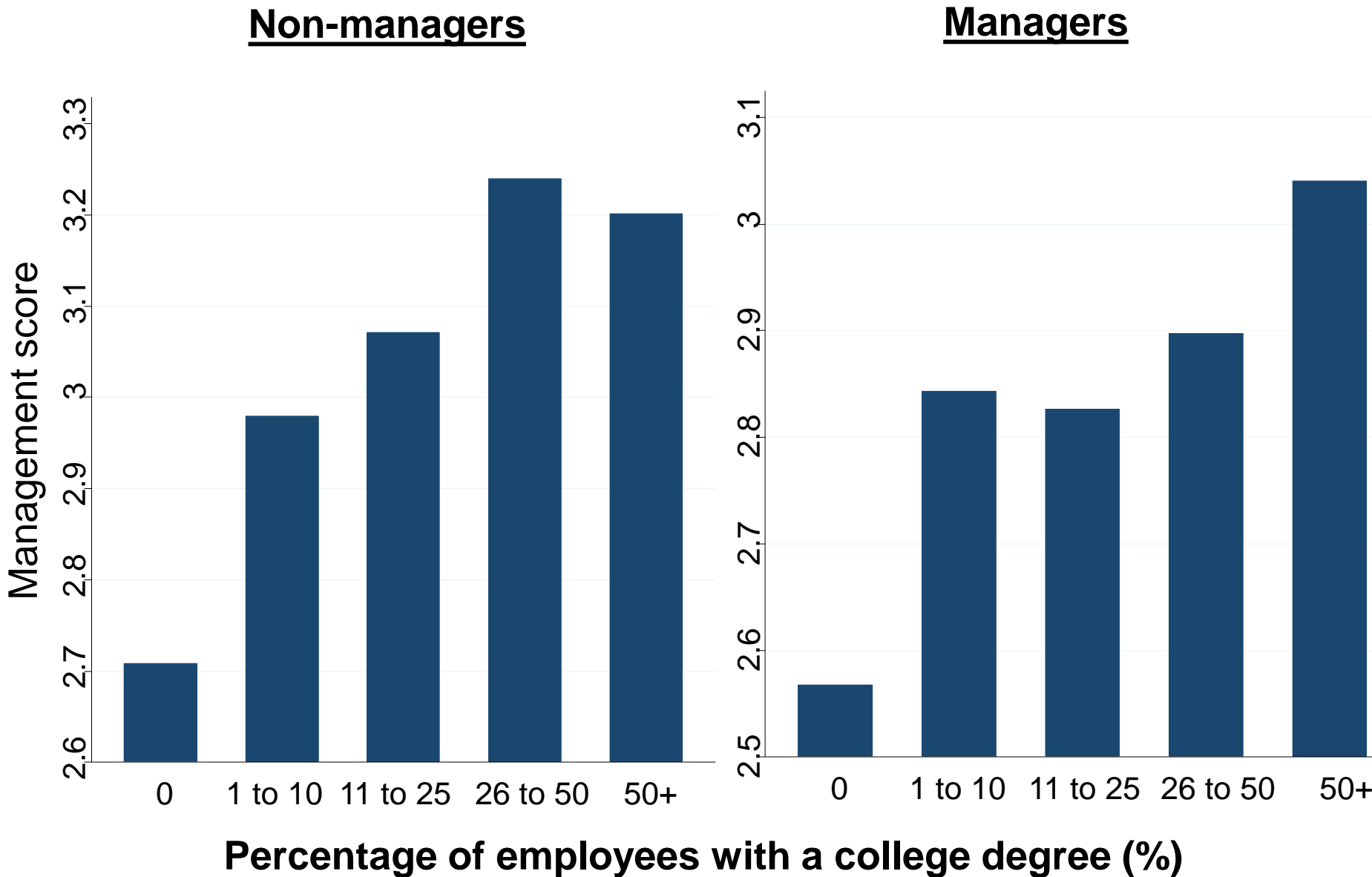
COMPETITION ASSOCIATED WITH BETTER MANAGEMENT

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?”

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



Sample of 8,032 manufacturing and 647 retail firms.

CONCLUSIONS

- Policies
 - Education & skills
 - Increase competitive intensity (Deepening internal market, TTIP, banking & energy markets)
 - No tax breaks for family firms (exit/entry)
 - Openness to foreign investment
- **Europe at a crossroads**
 - Major successes in integration over last 50 years creating largest single market in world
 - But facing slow growth unless reform

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:

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”

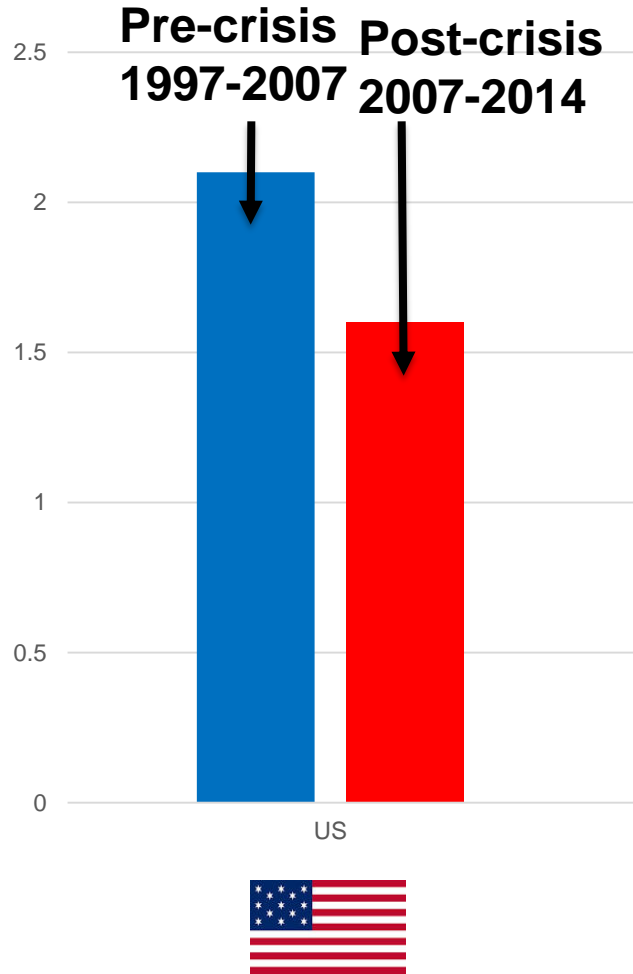
The unbelievable

[Male manager speaking to a female interviewer]

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

[End of interview...]

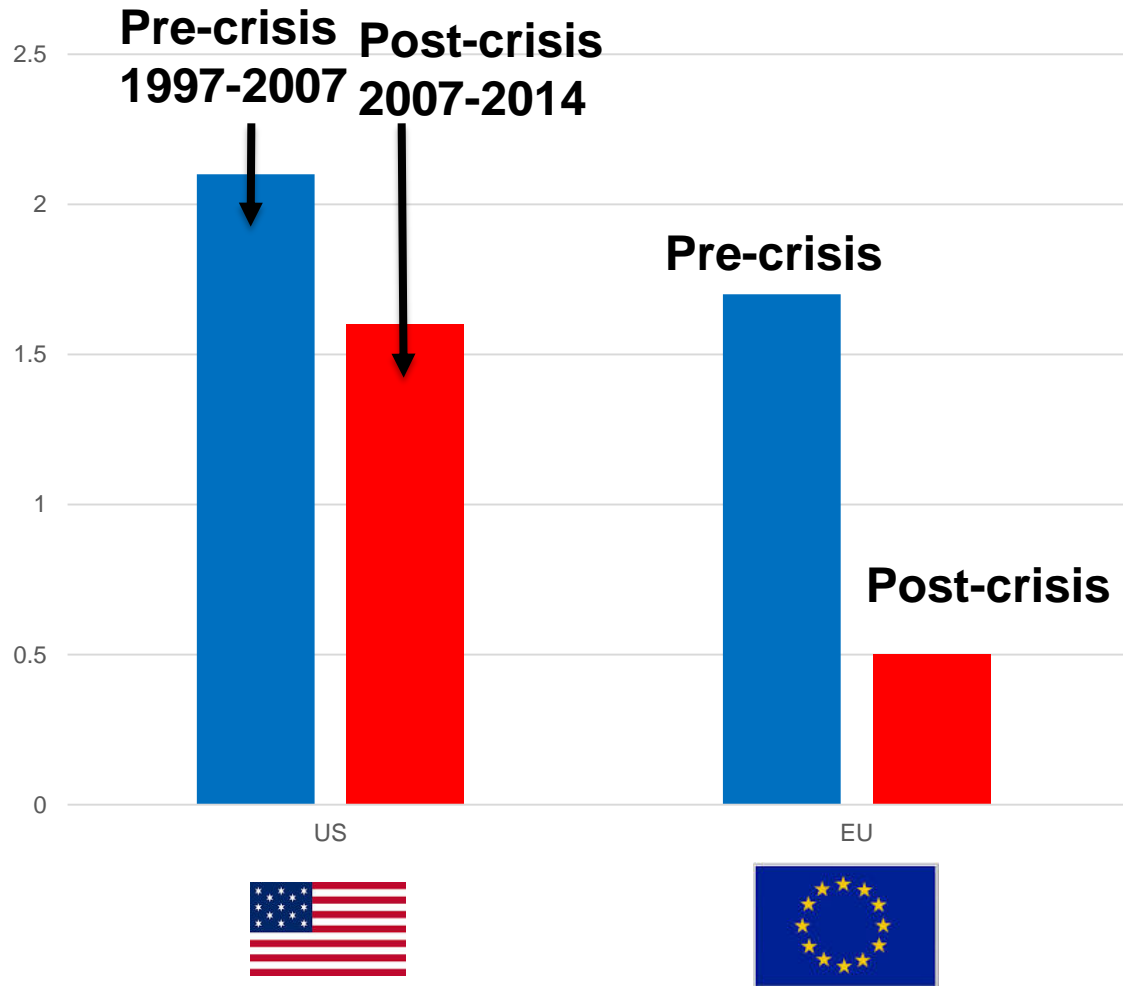
Average Labour Productivity (GDP per worker) Growth before and after the Global Financial Crisis



Source: Conference Board (2014), TED Table 9 derived

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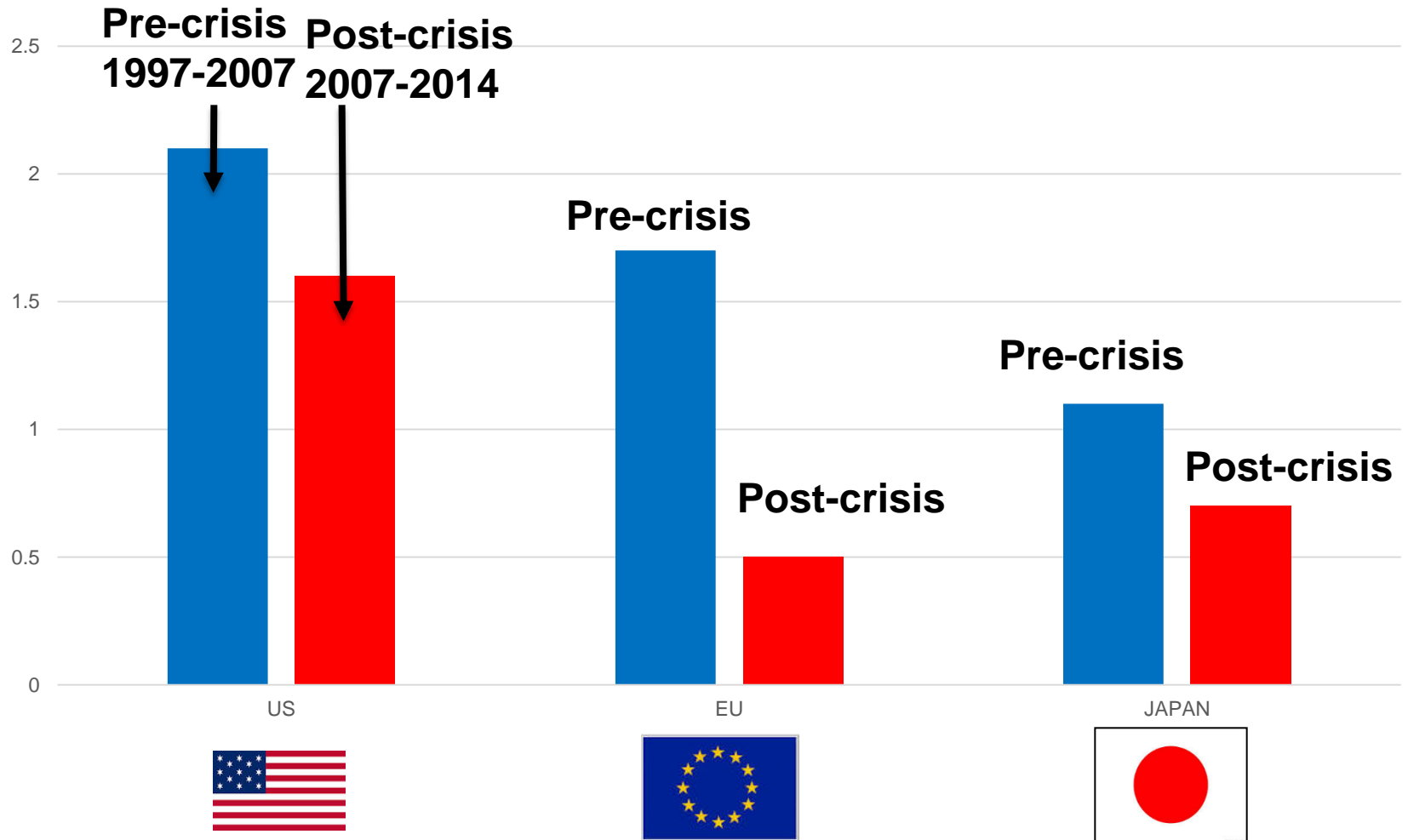
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