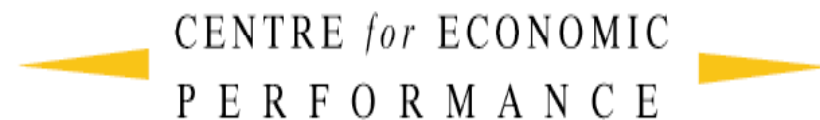


# SOURCES OF GROWTH

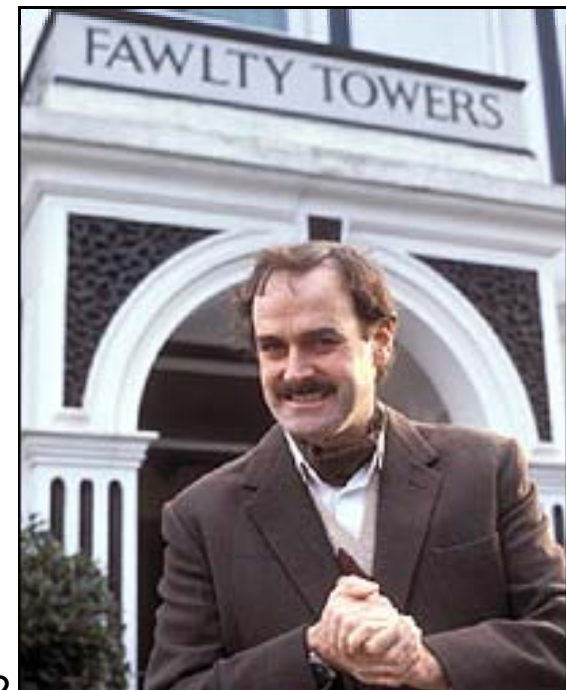
**John Van Reenen**

Department of Economics, LSE;  
Director, Centre for Economic Performance

BIS, November, 2010



# SOURCES OF GROWTH?!



# OUTLINE

**1. International Comparisons: How is the UK doing?**

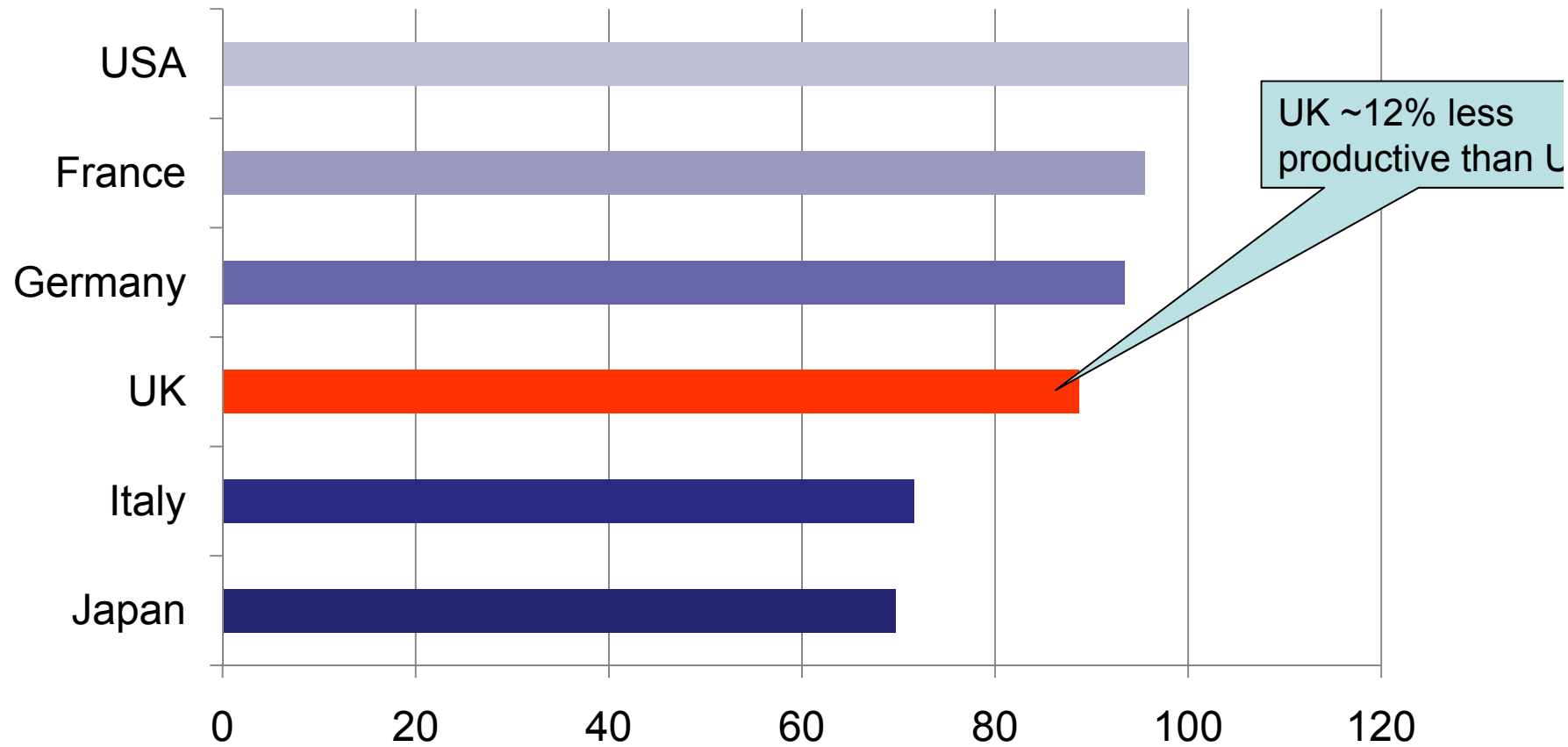
2. Why is there a productivity gap?

3. CEP/BIS/DIUS Project: Measuring Management

4. The drivers of better management

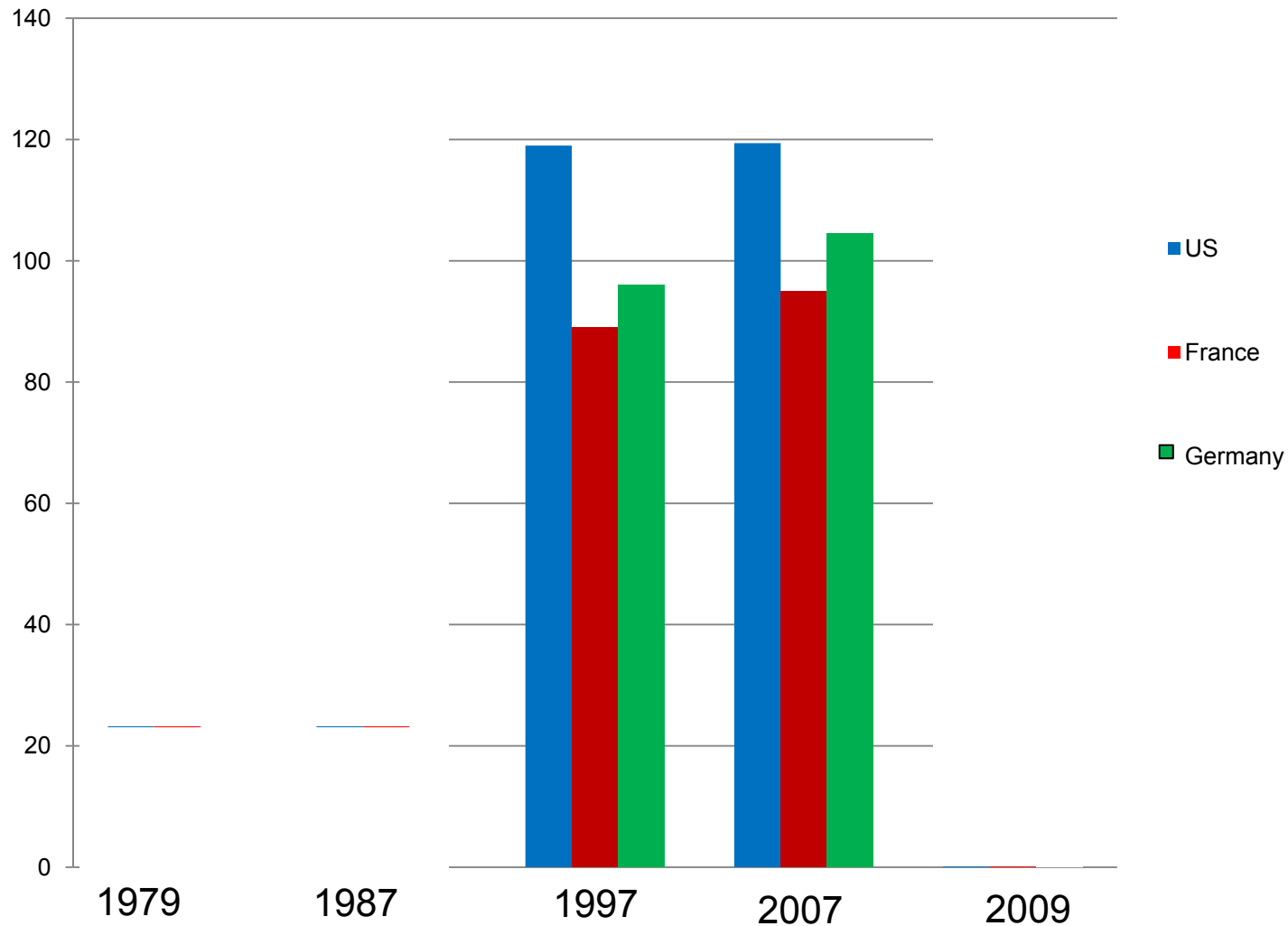
5. What can we do to improve things?

# RELATIVE LABOUR PRODUCTIVITY (GDP PER HOUR) IN 2009, US=100



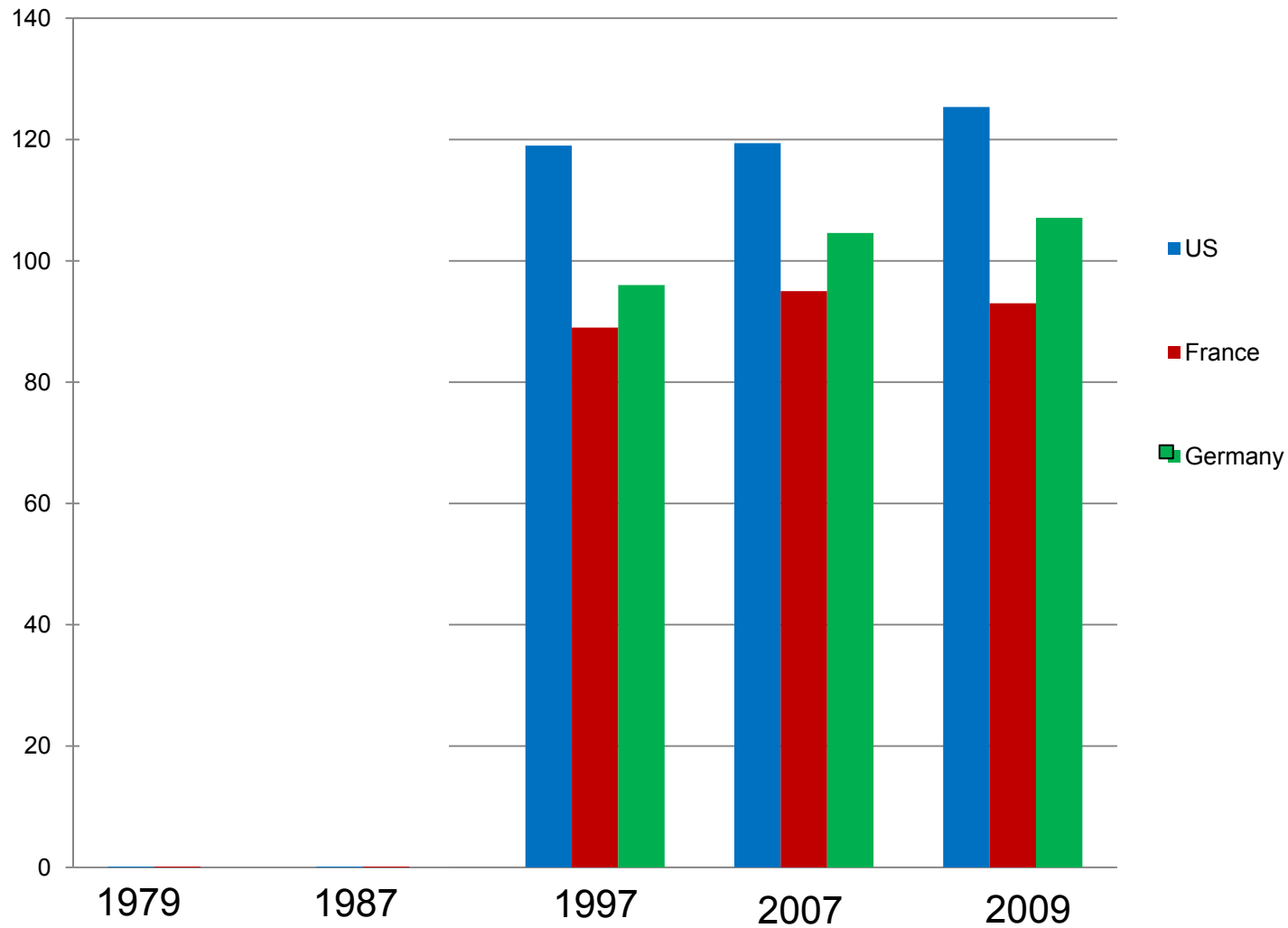
**Source:** Conference Board World Economy Database, September 2010

# TRENDS OVER TIME IN GDP PER WORKER (UK=100). UK CATCHING UP WITH FRANCE & GERMANY POST 1997



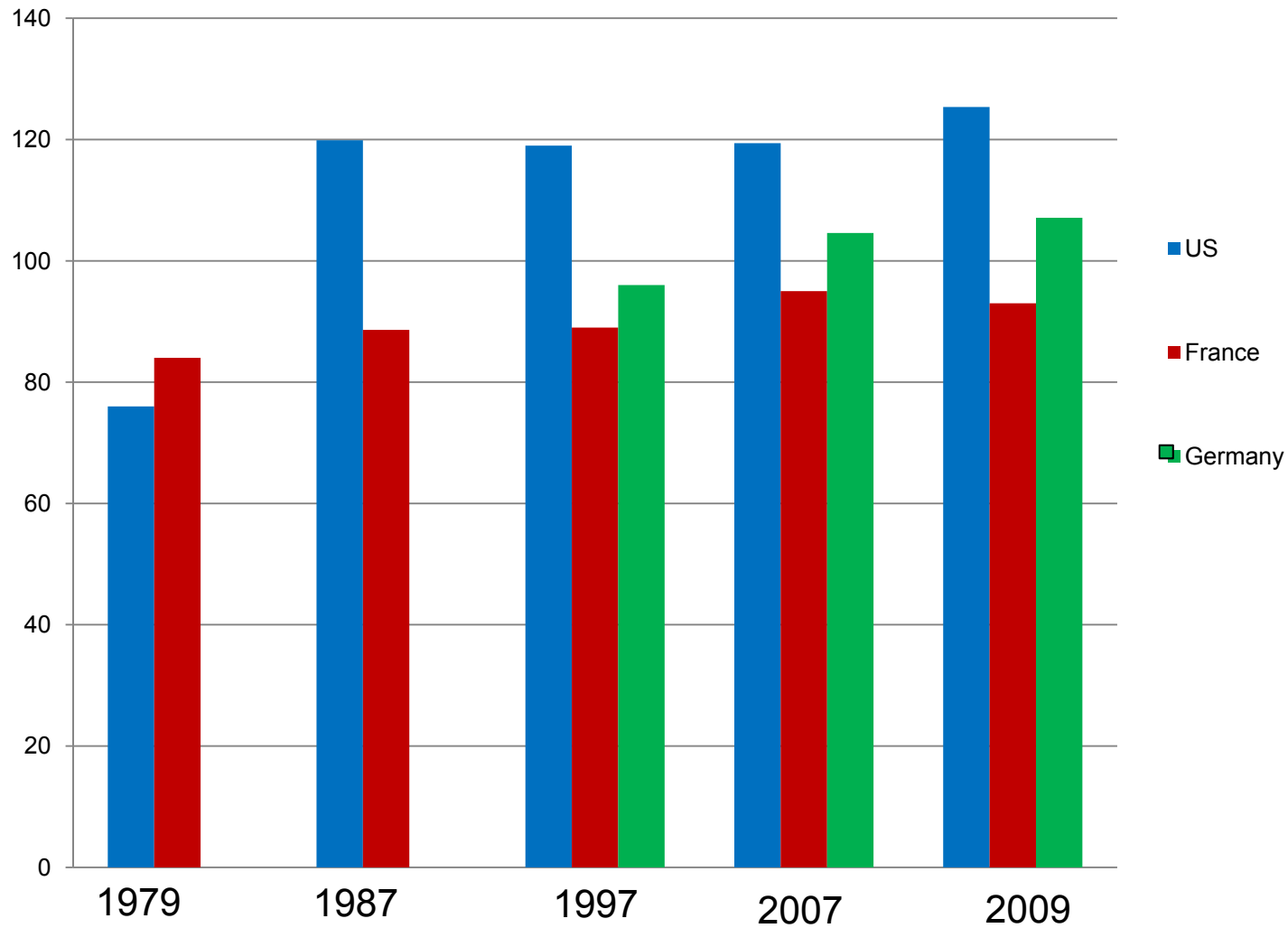
**Source:** Conference Board (2010), PPPs

# GDP PER WORKER RELATIVE TO UK IN SELECTED NATIONS (UK=100). CRISIS YEARS.



**Source:** Conference Board (2010), PPPs

# GDP PER WORKER RELATIVE TO UK IN SELECTED NATIONS (UK=100), 1979-2009



**Source:** Conference Board (2010), PPPs

# OUTLINE

1. International Comparisons: How is the UK doing?

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# TECHNOLOGICAL INNOVATION AS A CAUSE OF US PRODUCTIVITY GAP?

- **Partially correct.** UK has innovation deficit:
  - Although universities/basic science strong
  - Commercialization weak: (R&D), Patenting, etc.
- **But problem is not just “hard” technologies. Also problems with the way firms are managed.**
  - Firms response to challenges & opportunities: Crisis, technology & globalization

# MANAGEMENT A CAUSE OF PRODUCTIVITY GAP?

- Technologies global - why do some countries/firms not use?
- Large variation in productivity between firms as well as countries
- But how to quantify and compare across firms and countries?
- Research Program with Nick Bloom (Stanford) & CEP/LSE team over last 7 years
  - Why should management practices vary?
  - Measuring management across firms & countries
  - Describing management
  - Drivers of better management

# OUTLINE

1. International Comparisons: How is the UK doing?

2. Why is there a productivity gap?

**3. CEP/BIS/DIUS Project: Measuring Management**

4. The drivers of better management

5. What can we do to improve things?

# THE SURVEY METHODOLOGY

## 1) Developing management questions

- Scorecard for 18 monitoring, targets and people
- ≈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, PBC, RBI, etc.
- Run by 55 MBA types (loud, assertive & business experience)

## **MONITORING – e.g. *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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# MANAGEMENT SURVEY SAMPLE

- Interviewed over 6,000 firms across Americas, Asia & Europe
- Obtained ~45% response rate from sampling frame (with responses uncorrelated with performance measures)

Medium sized manufacturing firms:

- Medium sized (100 - 5,000 employees, median  $\approx$  250) because firm practices more homogeneous
- Manufacturing as easier to measure productivity
- Also examined management in Hospitals, Schools, Retail, Law Firms, nursing homes, charities, tax collection agencies

## CHANGES IN MANAGEMENT

- Follow-up survey of all firms interviewed in 2006 or 2004 (265 UK firms) Winter 2009/2010
- Same for firms in other countries (~1,500 in total) using other funders like World Bank, ADB, ESRC, EU
  - Unique *Panel* of internationally comparable management practices
  - Enables analysis of *changes* over time (managerial “innovation”)
- Also included extra (subjective) questions
  - What are the constraints to improving management?
  - Impact of the Great Recession on managerial decisions

## SUMMARY OF FINDINGS

- UK mid-table in Management League , but position improving since 2006
- Factors driving management
  - Competition, skills, managerial turnover
  - family firms, regulation
- Main constraint is access to managerial & worker skills
  - UK similar to other OECD countries
  - Less constrained by labour regulation/unions
  - Developing countries also face informational constraints
- UK response to recession
  - Cutting investment more than labor (or prices), like other OECD countries
  - UK more aggressive in shedding labour than Continental EU, but less than US
  - Better managed firms more “resilient”

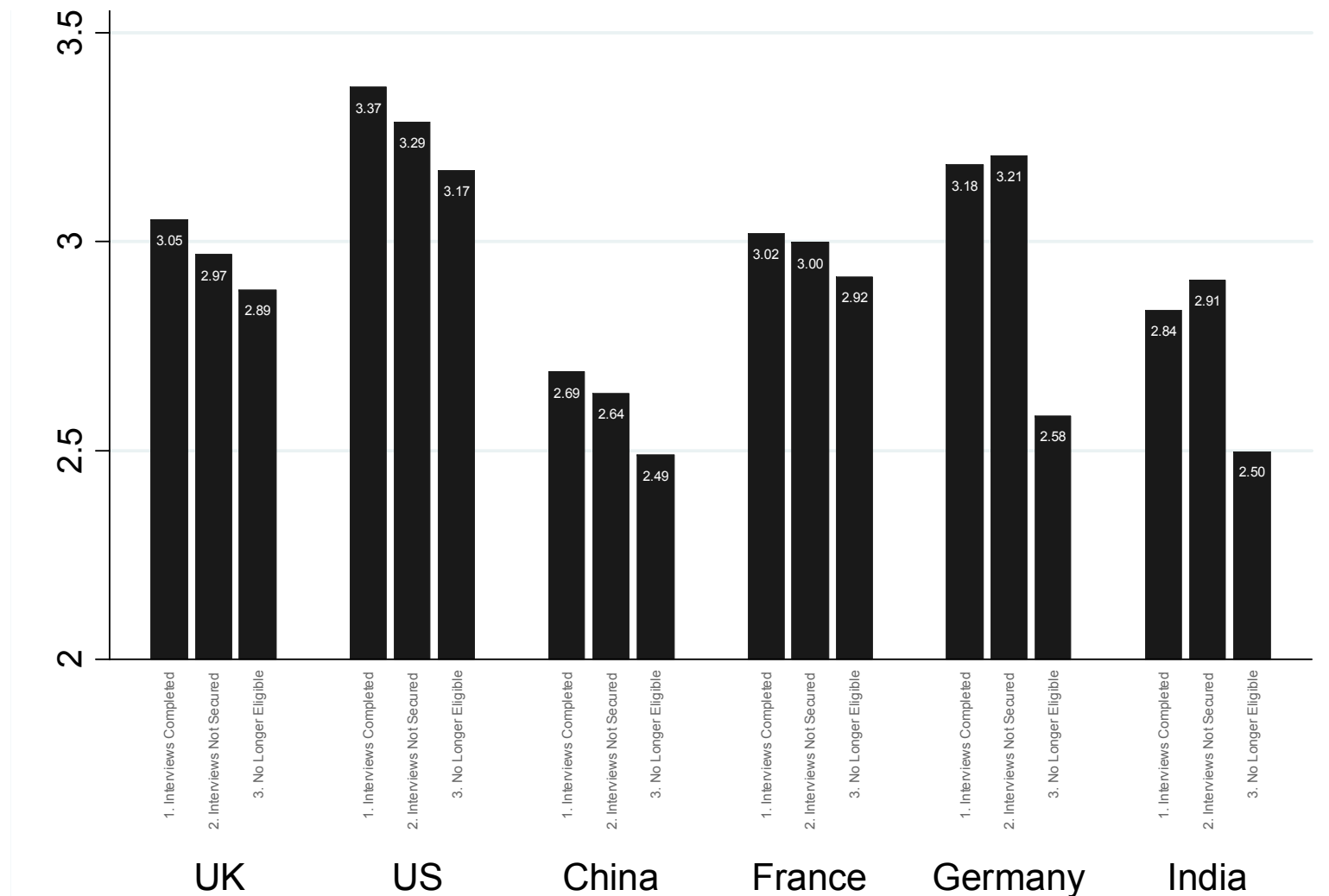


# UK COMPANY RESPONSE RATES

<b>STATUS</b>	<b>2006</b>	<b>2009/10 (All)</b>	<b>2009/10 (eligible)</b>
<b>Interviews Completed (%)</b>	<b>32.9</b>	<b>39.76</b>	<b>46.08</b>
<b>Interviews Refused (%)</b>	<b>19.6</b>	<b>16.79</b>	<b>19.45</b>
<b>Scheduling In Progress (%)</b>	<b>47.4</b>	<b>29.75</b>	<b>34.47</b>
<b>No Longer Eligible (%)</b>	<b>-</b>	<b>13.70</b>	<b>-</b>
<b>Survey Sample, Number Firms (#)</b>	<b>1,851</b>	<b>679</b>	<b>586</b>
<b>Interviews completed (#)</b>	<b>609</b>	<b>270</b>	<b>270</b>

**Note:** 1) “Interviews completed” reports all the companies contacted for which a management interview was completed. 2) “Scheduling in progress” reports all the companies contacted with no interview run nor any manager refusing to be interviewed. 3) “Interviews refused” reports all companies contacted in which the manager refused to take part in the interview. 4) No longer eligible reports all the companies interviewed which no longer manufacture in the UK, are out-of business or for which no phone number was found. Survey sample is the total number of firms that were randomly selected from the complete sampling frame (For 2009/10, the sampling frame constitutes all the companies previously interviewed in 2004 and 2006).

# BADLY MANAGED FIRMS MORE LIKELY TO DIE. RESPONDERS SIMILARLY MANAGED TO NON-RESPONDERS

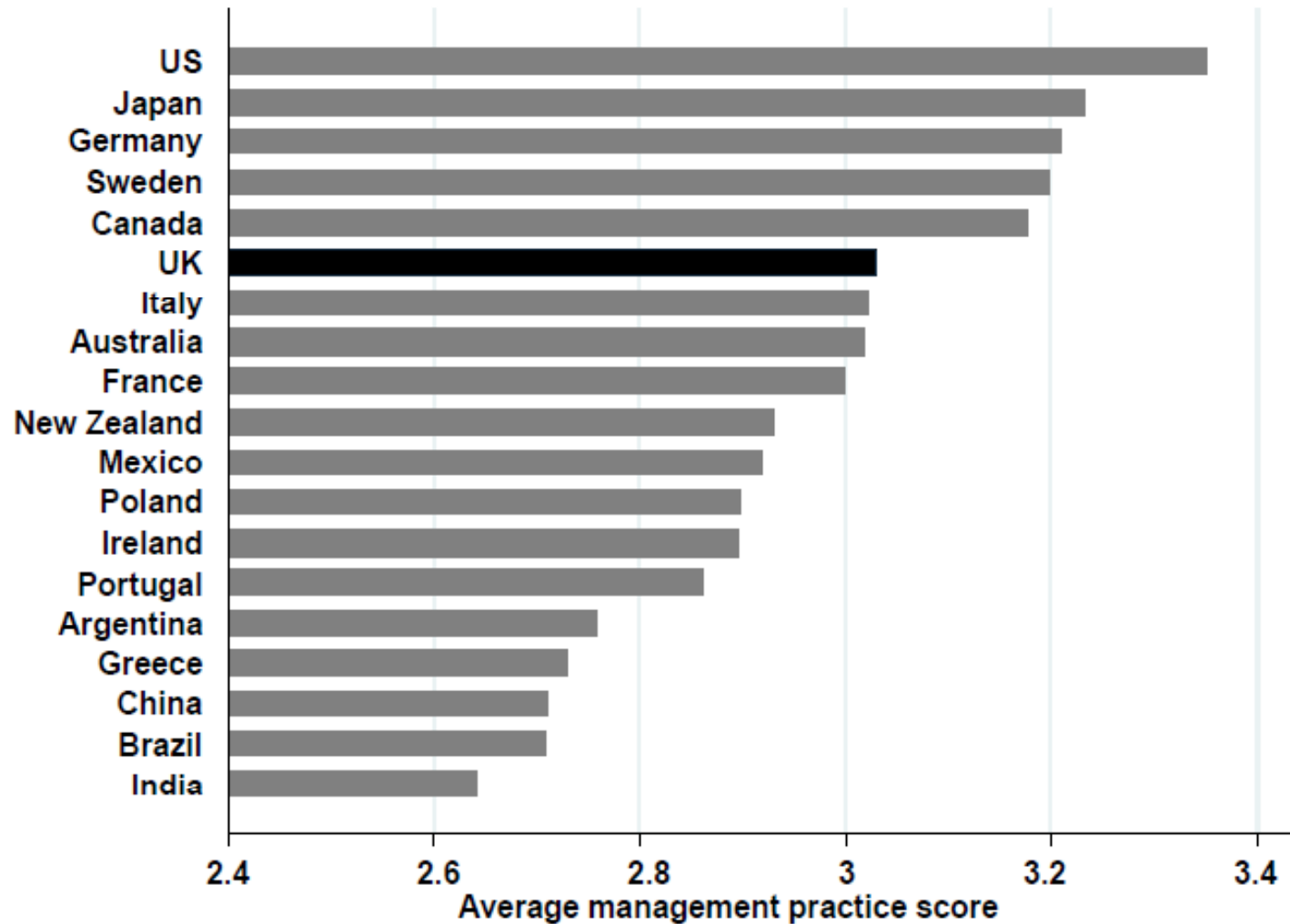


**Note:** In the UK, these are based on a sample of 582 firms, 256 "1. Interviews completed", 238 "2. Interview not secured" and 78 "3. No longer eligible". 1) Interviews completed reports all the companies contacted for which a management interview was completed in 2009/10. 2) Interviews not secured reports all companies contacted where scheduling an interview was still in progress or the manager had refused to take part on the interviews in 2009-2010. 3) No longer eligible reports all the companies interviewed in 2006 which no longer manufacture in the UK, are out-of business or for which no phone number was found.

# OUTLINE

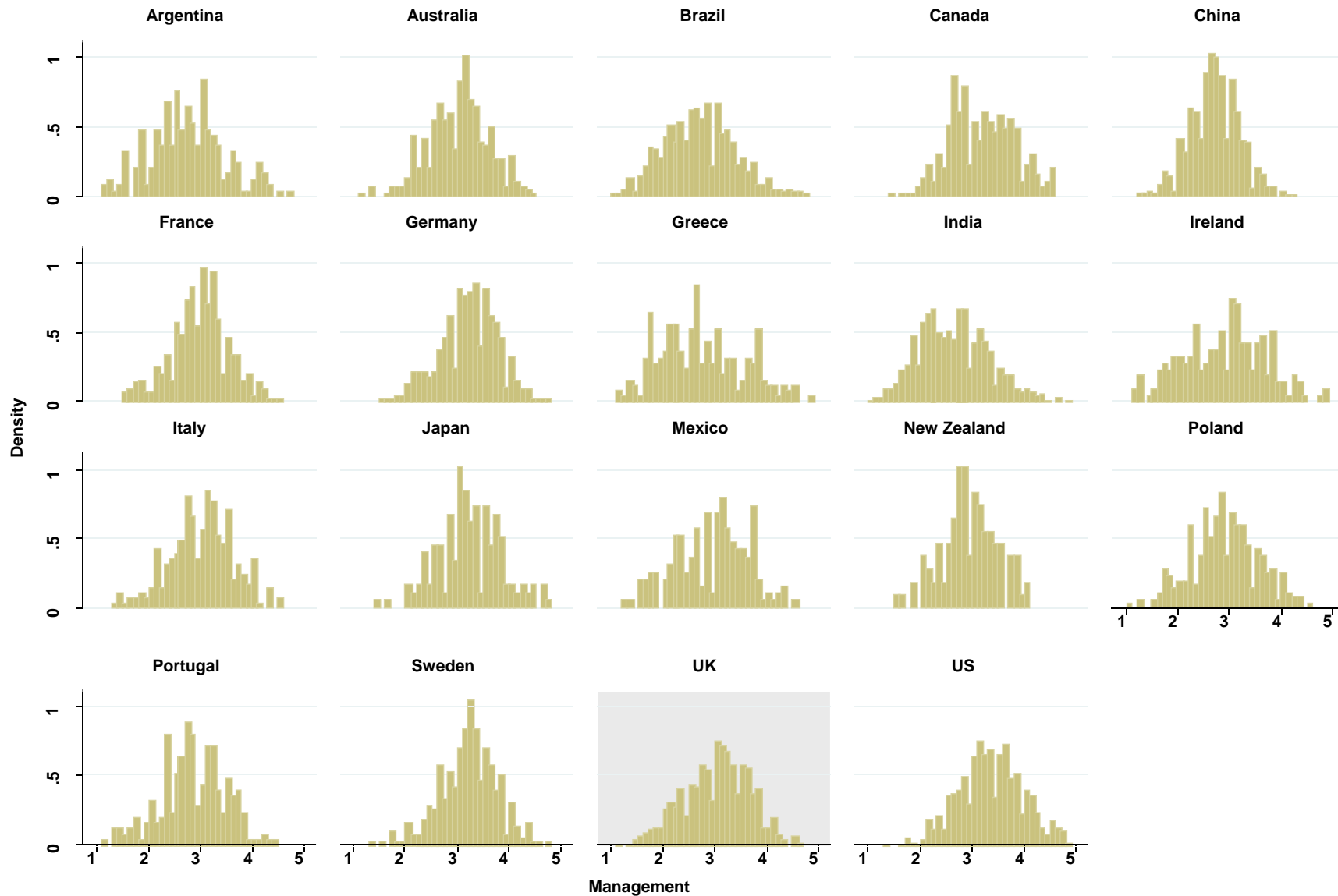
1. International Comparisons: How is the UK doing?
2. Why is there a productivity gap?
3. **CEP/BIS/DIUS Project: Measuring Management**
4. **Findings**
5. What can we do to improve things?

## UK MANAGEMENT MID-TABLE BY INTERNATIONAL STANDARDS



**Note:** Based on 8,261 management interviews between 2006 and 2010. We pool across multiple survey waves to maximize the extent of cross-country management comparison

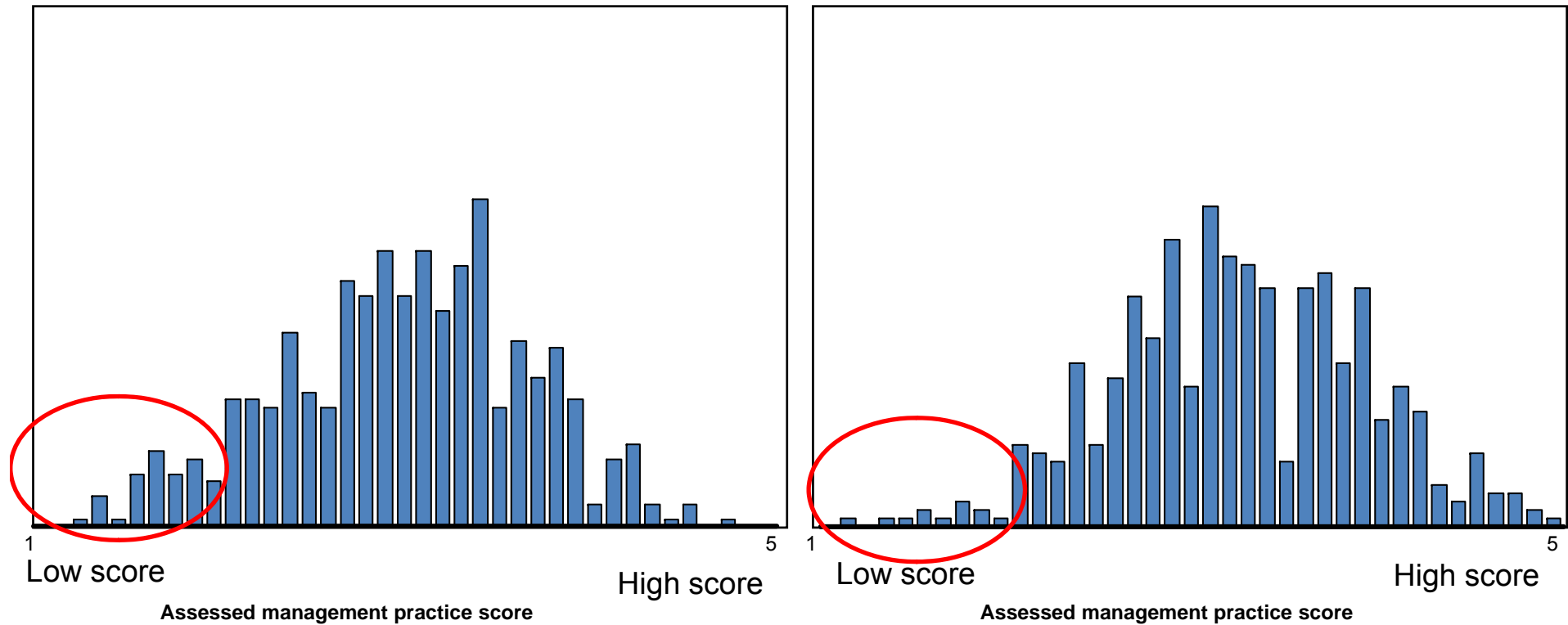
# HUGE VARIATION IN MANAGEMENT PRACTICES COMPARED ACROSS COUNTRIES



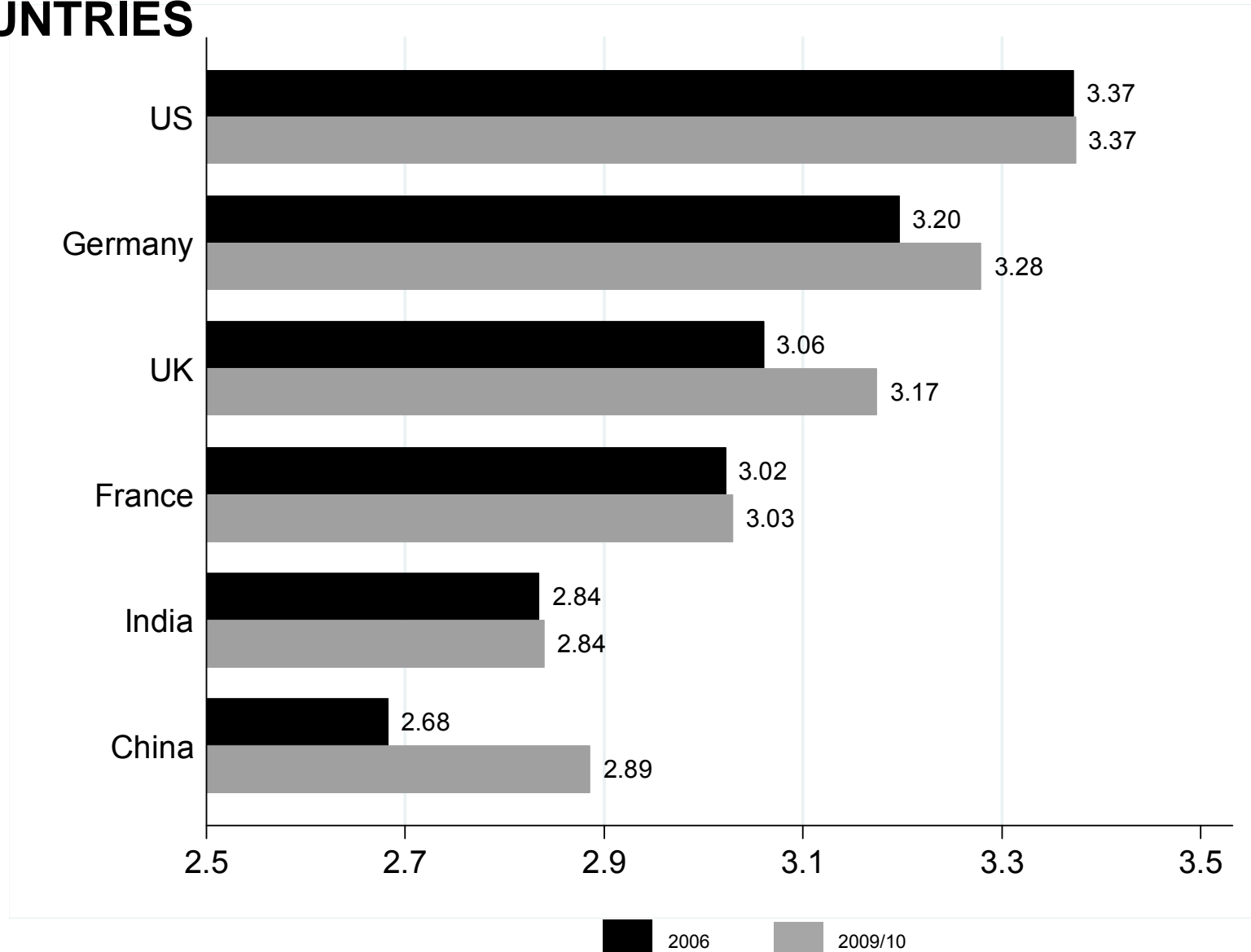
**Note:** Based on 8,261 management interviews between 2006 and 2010.

# MUCH OF THE CROSS-COUNTRY DIFFERENCES DUE TO THE “LOWER TAIL”

Distribution of firm level management practice scores



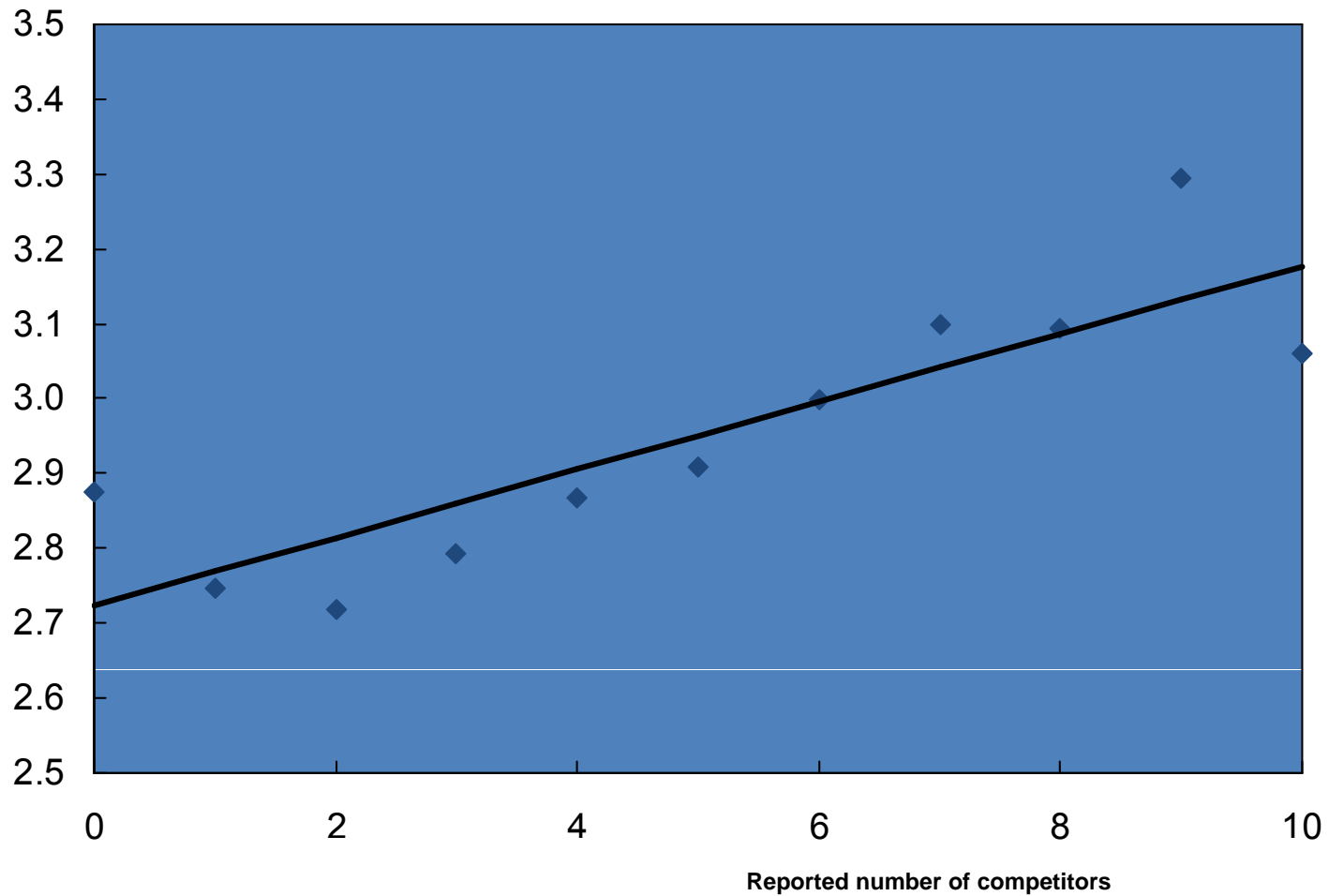
# CHANGES IN MANAGEMENT SCORES 2006-2009 ACROSS COUNTRIES



**Note:** Data from a total of 1,718 firms interviewed in 2006 and 2009/10 (263 US, 118 German, 253 UK, 157 French, 197 Chinese, 107 India firms).

# COMPETITION IS ASSOCIATED WITH BETTER MANAGEMENT PRACTICES

Assessed management practice score



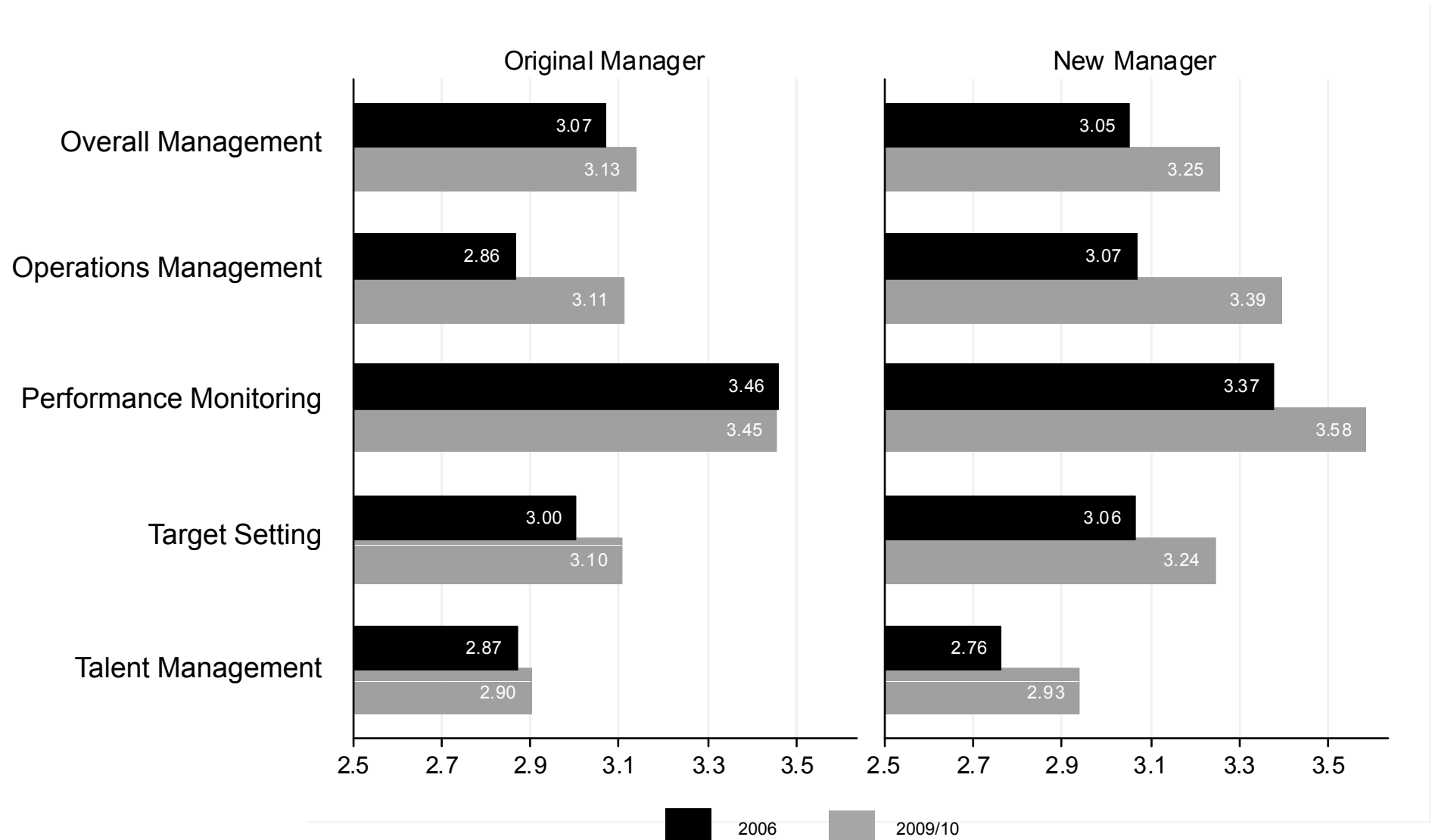


# FAMILY FIRMS (OWNED WITH ELDEST SON AS CEO) AND GOVERNMENT FIRMS HAVE WORST MANAGEMENT



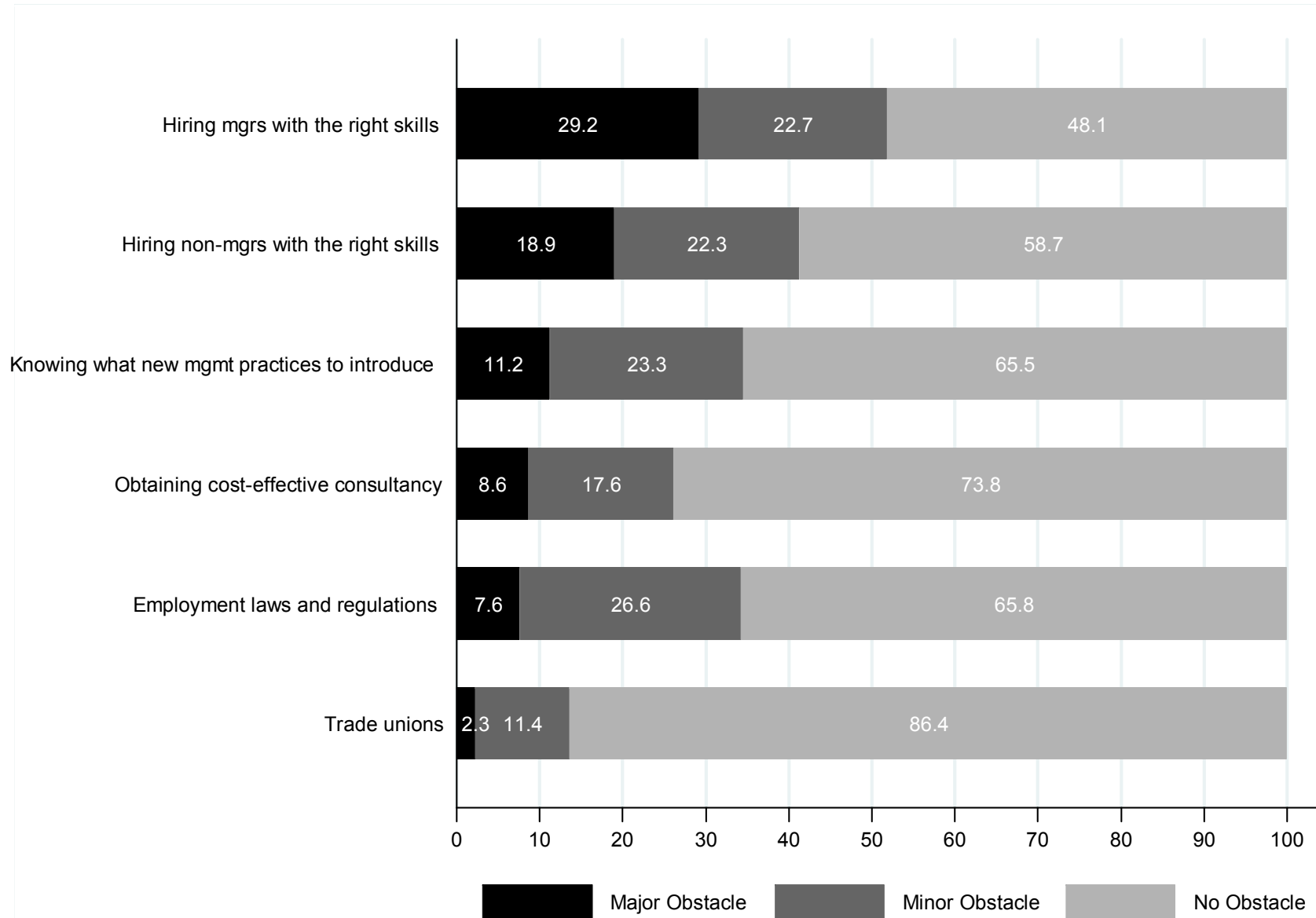
Note: Sample of 4,221 medium-sized manufacturing firms. The bottom bar-chart only covers the 3696 firms which have been in the same ownership for the last 3 years. The "Other" category includes venture capital, joint-ventures, charitable foundations and unknown ownership.

# NEW MANAGERS IMPROVE SCORES FASTER THAN OLD INCUMBENT MANAGERS



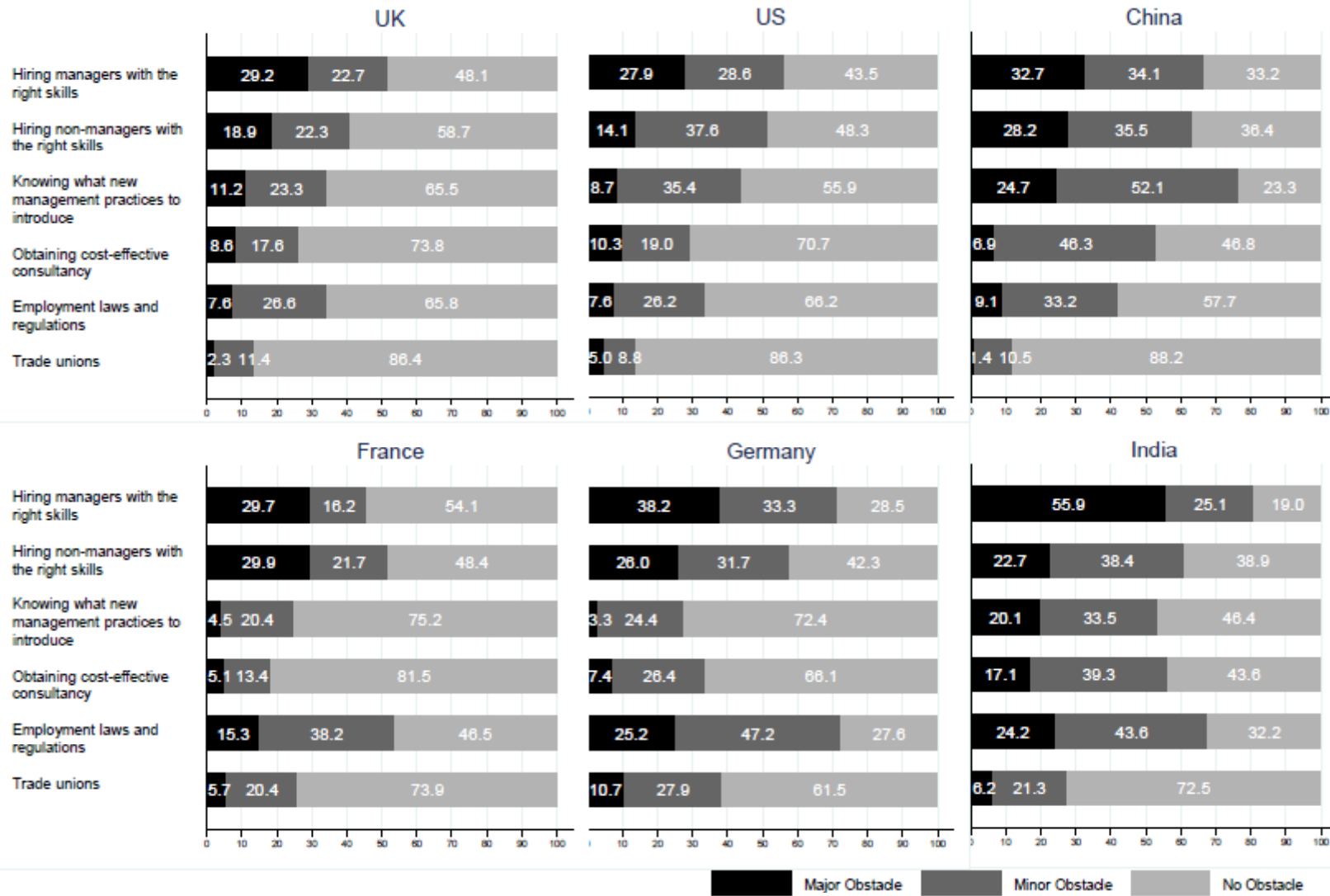
**Note:** Data from 253 companies interviewed in 2006 and 2009/10. 64% of the managers spoken to had already been interviewed in 2006 (161 interviews) while 36% were new to the project (92 interviews).

# CONSTRAINTS ON IMPROVING MANAGEMENT IN THE UK



**Note:** After discussing different aspects of management we asked plant managers to reflect upon the constraints they might face while trying to improve their management practices such as , 1) Hiring managers with the right skills, 2) Hiring non-managers with the right skills, 3) Employment laws and regulations, 4) Trade Unions, 5) Knowing what new management practices to introduce, 6) Obtaining cost-effective management consultancy. Data from 265 companies interviewed in 2006 and 2009/10.

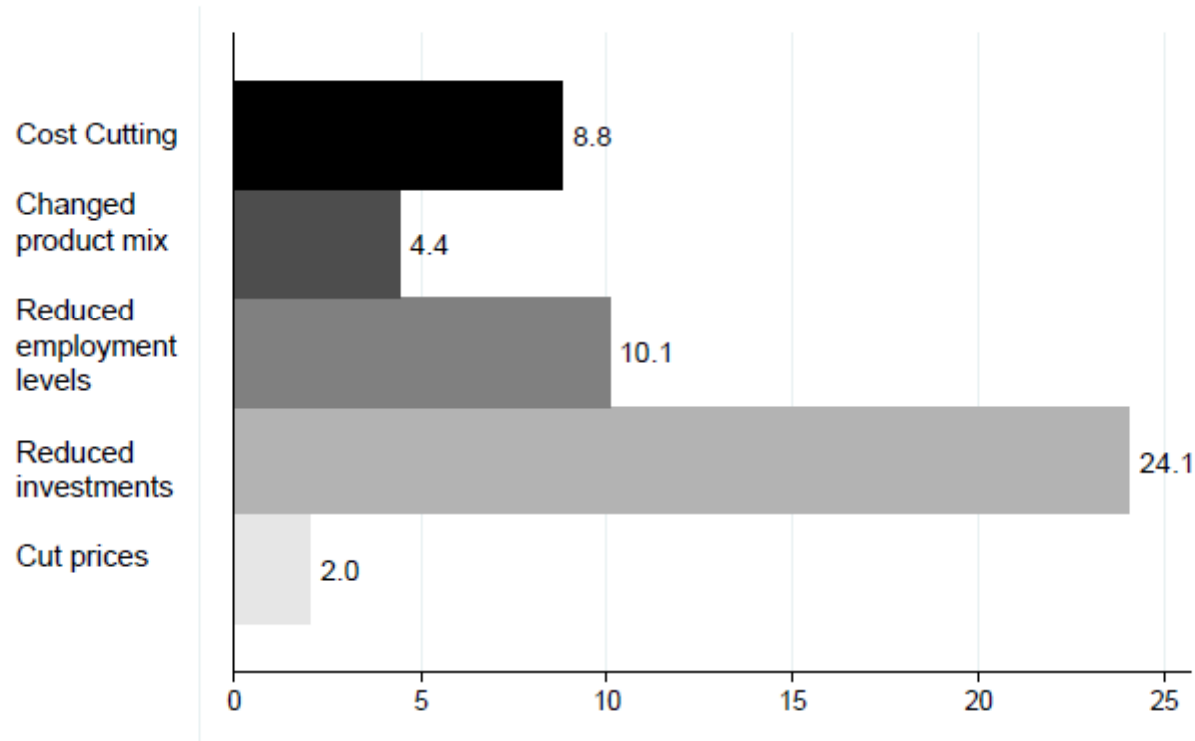
**Figure 15: Constraints on improving management internationally**



**Note:** Data from 265 UK, 266 US, 123 German, 157 French, 211 Indian and 221 Chinese companies interviewed in 2009/10.

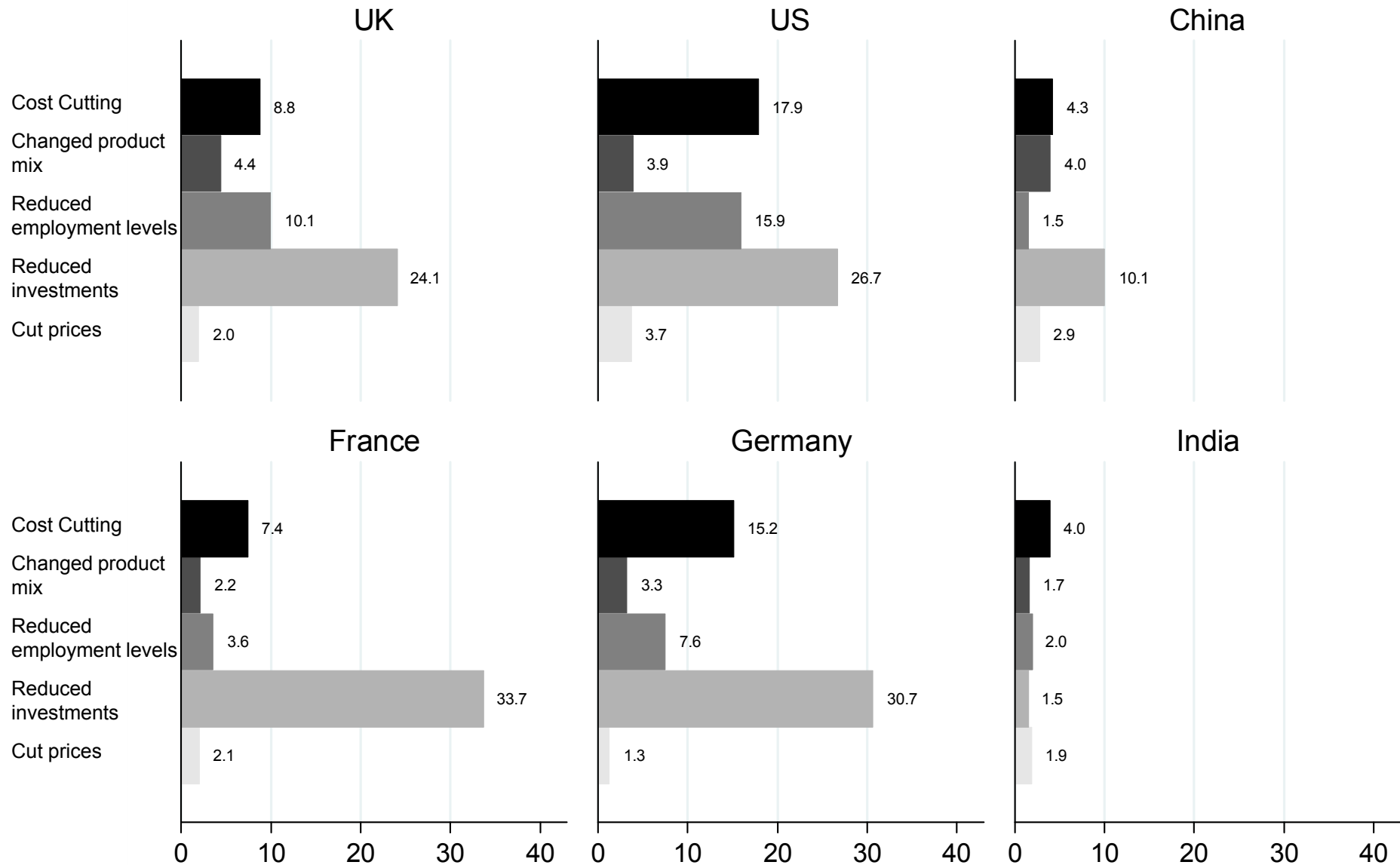
## Figure 16: The credit crunch impact in the UK

We also asked plant managers to reflect upon the impact of the credit crunch on the way they have managed their firms. Focusing on five main areas, we asked “By what percentage did you : 1) cut prices, 2) reduce investments, 3) reduce employment levels, 4) change your product mix, and 5) cut costs?”



**Note:** Data from 265 companies interviewed in 2009/10.

# THE CREDIT CRUNCH IMPACT INTERNATIONALLY



**Note:** Data from 265 UK, 266 US, 123 German, 157 French, 211 Indian and 221 Chinese companies interviewed in 2009/10.

# OUTLINE

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## SOME POLICY IMPLICATIONS

- Avoid accelerated budget reduction programme
- Family firms problem (remove inheritance tax break)
- Competition
  - Services Directive, Doha round, public sector
- Constraints
  - Firm with ~100-300 workers face largest constraints for skills & information. Focus here on business support
- UK response to recession
  - Benefits of labour market flexibility
  - Management quality aids *resilience*



## MY FAVOURITE QUOTES:

Who rules the home in Ireland

*Interviewer:* “Would you mind if I asked how much your bonus is as a manager?”

*Manager:* “I don't even tell my wife how much my bonus is!”

*Interviewer:* “Frankly, that’s probably the right decision...”

Staff retention the American way

*Manager:* “I spend most of my time walking around cuddling and encouraging people - my staff tell me that I give great hugs”

The trusted Secretary

*French secretary:* “You want to talk to the plant manager? There are legal proceedings against him, so hurry up!!”

## 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 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”

## FURTHER READING

1. Bloom and Van Reenen (2010) “Why do Management Practices Differ across Firms and Countries?” *Journal of Economic Perspectives* 24(1) 203-224  
<http://pubs.aeaweb.org/doi/pdfplus/10.1257/jep.24.1.203%20>
2. Bloom and Van Reenen (2007) “Measuring and Explaining Management practices across firms and nations” *Quarterly Journal of Economics*, 122(4), 1351–1408. CEP Discussion Paper (2006) <http://cep.lse.ac.uk/pubs/download/dp0716.pdf>
3. Bloom, Sadun and Van Reenen (2007) “Americans do I.T. better” CEP Discussion Paper No. 788, *forthcoming, American Economic Review*  
<http://cep.lse.ac.uk/pubs/download/dp0788.pdf>
4. UK productivity  
[http://cep.lse.ac.uk/briefings/pa\\_uk\\_productivity.pdf](http://cep.lse.ac.uk/briefings/pa_uk_productivity.pdf)