

Improving management skills key to higher productivity

Good management plays a key role in driving improvements in productivity and growth at both a firm and country level. Companies should make greater use of targets and incentives, while policymakers could focus on maintaining free markets, encouraging inward investment, providing training but avoiding inheritance tax subsidies for family firms.

While there has been a large amount of research into the causes and variations in levels of productivity, economists have tended to overlook management as a driving factor for the varying levels of productivity around the world.

In order to understand how management practices vary across different sectors and between different countries, a research project part-funded by the ESRC (Management practices across firms and countries) has carried out a survey of 10,000 firms in different industries and countries over the past decade to build up one of the first large internationally comparable management datasets.

The survey aims to measure management practices according to three operations-focused categories: performance monitoring; target setting; and incentives and people management. The scoring grid was based on a model developed by McKinsey & Co that targets a set of core operational management practices that have a direct impact on an organisation's performance.

Key findings

- Better managed organisations within the same industry and country tend to earn more profits, grow faster and – for hospitals and schools – reduce patient mortality rates and improve student test scores.
- Government-owned organisations have the worst management practices, due to weaker incentive practices that mean promotion is more likely to be based on tenure than performance.
- Within the private sector, multinationals and private-equity owned businesses tend to have good management practices in almost all countries while family-run firms tend to be badly managed.
- Organisations with good management practices tend to operate in highly competitive markets and to have a higher level of education among both managers and staff generally. Well-managed firms tend to support superior work/life balances and are less polluting.
- US manufacturing firms are the best managed in the world and Canada, Germany, Japan and Sweden score highly but firms in developing countries, such as Brazil, China and India, do worse. The US also leads in management of retailers and hospitals but scores poorly on secondary schools, while UK schools are the best managed in the world.

Policy relevance and implications

The results of the survey provide convincing evidence that the wide range in quality of management practices explains differences in productivity among firms and countries - implying that better management will lead to higher rates of growth, productivity and innovation. Helping companies improve their management skills should be a key priority for policymakers in the current economic environment.

- Governments should invest more in basic business education such as capital budgeting, data analysis and human resource practices, as top-performing companies tend to have higher education levels across the workforce as well as among managers.
- The finding that firms operating in more competitive markets do better means that policymakers should focus on maintaining open markets. Governments should also ensure they attract multinational firms to ensure domestic firms share the better practices they bring to their host country.
- Policy should avoid providing inheritance tax subsidies to family firms, as managers drawn from subsequent generations of the company's founders underperform those who employ external managers.
- Firms should make greater use of operational practices such as improved monitoring, tougher targets and stronger incentives, while governments should ensure that the labour market regulation is light-touch, as a restrictive system tends to be associated with weak incentives.

BRIEF DESCRIPTION OF THE RESEARCH

An international survey of 10,000 organisations across 20 countries employing 100-5,000 workers over the past decade has built up one of the first large internationally comparable management datasets. This briefing identifies policy actions that could encourage higher levels of management performance.

Nicholas Bloom, Christos Genakos, Raffaella Sadun and John Van Reenen: Management practices across firms and countries (NBER Working Paper 17850)

Web: www.nber.org/papers/w17850

FURTHER INFORMATION

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