



Management quality: The United States

Abstract

Over the years, the United States has emerged as a world leader in delivering management quality. Out of the top 10 best CEOs in the world, according to 2010 Harvard Business Review ranking, 7 work for American companies. Naturally, this might be because many successful global enterprises are located in the United States. Yet top-notch management quality may be exactly what gives these companies an extra edge on the global markets. How is the United States able to outscore any other country in the world? A cross-country study by Bloom and Van Reenen (2010) finds that great managers tend to become great when the broader policy environment gives them flexibility in doing business, permits a dynamic and deep labor market, and permits active competition from multinational firms that can allow for the import of new ideas and competitive practices (Bloom and Van Reenen 2010, 203–24). The United States scores very highly on each of these dimensions. First, competitive markets serve as an accelerator of management improvements. In 2008, product market regulation in the United States was the least restrictive among the OECD countries. Second, the United States is an unquestionable leader in people management thanks to its flexible labor markets. Its employment protection legislation is the least restrictive in the OECD, while labor mobility is high. Third, investing in education has paid off: two in five Americans attended tertiary education, while the United States is home to the best MBA programs in the world. Fourth, the United States is the major home for multinational firms. The presence of multinationals makes it easier for companies to adopt best management practices and accelerates the learning process.

Management quality is hard to measure. Its impact on country's economic prosperity is even more difficult to see. Yet how companies are managed matters for innovation processes and impacts the economy as a whole. Recent findings of Bloom and Van Reenen (2010) suggest that differences in productivity across firms might be partly linked to management practices. Over the years the United States emerged as a world leader in delivering management quality. Out of the top ten best CEOs in the world according to 2010 Harvard Business Review ranking, seven work for American companies.¹ Naturally, this might be because many successful global enterprises are located in the United States. But top-notch management quality may be exactly what gives these companies an extra edge on the global markets. How the United States was able to outscore any other country in the world?

World's best managers

The United States can pride itself on the quality of its managers (figure 49). And management practices matter. Well-managed enterprises record greater efficiency and output. Findings of Bloom and Van Reenen (2010) indicate that thanks to effective people management, US companies were able to recorded higher productivity growth than their European counterparts.² They also took greater advantage of IT improvements than their peers from the "old continent." And although the American strength lays more in the people management than operational , the country is still a global leader in management quality.

How to be the best?

What made American managers outscore the rest? There are several possible reasons.

First, competitive markets serve as an accelerator of management improvements. In 2008, product market regulation in the United States was the least restrictive among the OECD countries.³ Thanks to greater competition, best practices spread quicker. At the same time, low-performing companies are pushed out of the market. Competition intensity is reflected in high annual turnover rates of firms, amounting to 10 percent for entry as well as exit from the market, according to the US Small Business Administration.

Figure 49: Overall management practices score (1=worst practices, 5=best practices) in selected economies



Source: Bloom and Van Reenen (2010).

Second, the United States is an unquestionable leader in people management, thanks to its flexible labor markets. Employment protection legislation is the lowest in the OECD, while labor mobility is high. Labor turnover costs remain low, allowing American companies to tailor hiring processes according to their needs. A flexible labor market also indicates that managers are usually hired based on merit, not family connections. The latter is an important factor for management performance: badly managed companies often tend to be family managed.

Third, investing in education pays off. Two in five Americans attended tertiary education, one of the highest ratios in the OECD.⁴ Superb universities teach students how to combine individual performance with team work. The United States is home to the best MBA programs in the world. In the recent ranking by the *Economist* of MBA programs, 7 out of the world's top 10 were offered by American universities.⁵ High tertiary education attainment, together with quality and quantity of migration, increase the employment pool for US companies. Why does education matter? Because well-educated managers, as well as employees, in general tend to be better at their jobs, thus improving productivity and output of an entire company.

Finally, having many multinational enterprises facilitates the transfer of best practices from global to local market participants. In 2011, 12 out of 30 of the world's biggest corporations were American, according to *Fortune Magazine's* ranking of 500 biggest global companies.⁶ The



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Learning from the past, anticipating the future

American companies undoubtedly lead in terms of management practices. However, there are some shortcomings that need to be addressed. According to Bloom et al. (2007), Swedish and German companies score better on operation management than their American counterparts. And as the competition on the global market gains on momentum, Asian companies record impressive improvements on the management side. Already more than 15 percent of Indian and Chinese firms are better managed than an average US firm, according to Bloom et al. (2007). Nevertheless, the way the Americans manage their companies is still appreciated across the globe. According to *Fortune Magazine's* Survey from 2011, two-thirds of the 350 most admired companies in the world were American.⁷ What can others learn from the American example? The US case shows that there is plenty of room for policy makers to advance firms' management practices, beyond improvements in the business environment. Providing enterprises with a contestable market pushes them to constantly improve their management practices and to effectively use IT advancements, and facilitates learning from the best. Allowing employers to hire and fire more easily maximizes the output of prospective managers. Finally, improvement on the management side needs to be inclusive, because how well particular countries are doing depends not on their best performers but how bad the group of underperformers is (Bloom et al. 2007).

Sources

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Notes

- 1 The ranking assesses CEOs over their entire time at the helm of their companies. The sample includes close to 2,000 CEOs worldwide.
- 2 Authors use two micro-panel data sets to examine the performance of American companies in Europe. For empirical model specifications, see Bloom et al. (2010).
- 3 OECD Product Market Regulation aggregate score.
- 4 OECD, percentage of population aged 25-64, reference year: 2008. US: 41 percent; among OECD higher rates were recorded only in Canada (49 percent) and Japan (43 percent).
- 5 The Economist 2011 full-time MBA ranking.
- 6 Fortune Global 500 ranking, by revenue.
- 7 Fortune's survey among business people on who they admired most (any industry).