Are Developing Countries Held Back by their Management?

Nick Bloom (Stanford), Renata Lemos (LSE), Daniela Scur (LSE), Raffaella Sadun (Harvard), John Van Reenen (LSE)
Two results from 10+ years of management research

1) Developing country management poor by global standards

2) Management practices play a key role in economic growth

Huge potential for faster growth. Potentially raising Indian & African management to US levels could double GDP
Surveyed over 15,000 medium sized (50 to 5000 employee) manufacturing firms globally
<table>
<thead>
<tr>
<th>Score</th>
<th>(1): Measures tracked do not indicate directly if overall business objectives are being met. Certain processes aren’t tracked at all</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>(3): Most key performance indicators are tracked formally. Tracking is overseen by senior management</td>
</tr>
<tr>
<td></td>
<td>(5): Performance is continuously tracked and communicated, both formally and informally, to all staff using a range of visual management tools</td>
</tr>
</tbody>
</table>

Example monitoring question, scored based on a number of questions starting with “How is performance tracked?”
Example incentives question, scored based on questions starting with “*How does the promotion system work?*”

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

We find wide variation in management: US and Japan leading, and Africa, Central America and India trailing.
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)
Two results from 10+ years of management research

1) Developing country management poor by global standards

2) Management practices play a key role in economic growth

Very positive: huge potential for faster growth. Potentially raising Indian & African management to US levels could double GDP
Management scores are correlated with GDP – so potentially this is an important driver of growth.
But does management *cause* these GDP differences between firms and countries?

Massive literature of case-studies and surveys but no consensus

Syverson (2011, JEL) “*no potential driving factor of productivity has seen a higher ratio of speculation to empirical study*”.
To investigate we ran an experiment on 28 large textile plants near Mumbai (with a team including David McKenzie at the World Bank)
Inventory Control: Before
Inventory Control: After
Factory operations: Before
Factory operations: After
Stores: Before
Stores: After
# Factory Information: Before

<table>
<thead>
<tr>
<th>Design No.</th>
<th>Beam No.</th>
<th>Beam Length</th>
<th>No. of Pieces</th>
<th>Reel Length</th>
<th>Total Ends</th>
<th>Selvedge</th>
</tr>
</thead>
<tbody>
<tr>
<td>5A 160 09 10</td>
<td>3464</td>
<td>160</td>
<td>100</td>
<td>150</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Warp Weight</th>
<th>Weft Weight</th>
<th>Total Quality Weight</th>
</tr>
</thead>
<tbody>
<tr>
<td>12</td>
<td>10</td>
<td>22</td>
</tr>
</tbody>
</table>

## Warp Pattern

<table>
<thead>
<tr>
<th>Pattern</th>
<th>Drawing Pattern</th>
<th>Peg Plan</th>
</tr>
</thead>
<tbody>
<tr>
<td>21-A</td>
<td>1-2-0-4-5&lt;&gt;x4</td>
<td>1-2-3-5-7</td>
</tr>
<tr>
<td>1-B</td>
<td>6-7-8-9-10</td>
<td>1-2-3-4-5</td>
</tr>
<tr>
<td>1-B</td>
<td>1-2-3-4-5&lt;&gt;x4</td>
<td>1-2-3-5-7</td>
</tr>
<tr>
<td>1-P</td>
<td>4-1-3-2-1-5</td>
<td>1-2-4-5-8</td>
</tr>
<tr>
<td>21-A</td>
<td>6-1-2-1-2-5</td>
<td>1-2-4-5-10</td>
</tr>
<tr>
<td>1-A</td>
<td>12-4-6-8-0-1</td>
<td>5-14</td>
</tr>
</tbody>
</table>

## Selvedge

- 12 des = 76 x 100 (approx)
- 8 des = 5 x 1152
- 4 des = 2 x 1152
- G des = 10 x 1152

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Note: The document appears to be an internal factory record, detailing various specifications and measurements related to fabric production. The data includes design numbers, beam lengths, and various weights and measurements. The text in red is highlighted, possibly indicating important or highlighted information.
Factory information: After
These simple management improvements increased productivity by 20% within 1 year alone.

Source: Bloom, Eifert, Mahajan, McKenzie & Roberts, forthcoming *Quarterly Journal of Economics*
Also increase firm employment by 20% within 3 years from the opening of more plants
So why do badly managed firms exist?

Competition heavily restricted by:
- trade restrictions
- lack of finance for new firms
- inability of good firms to expand (they only trust family)

Information is limited: firms either not aware of modern practices or simply do not believe they matter (“not worth it”)
Policy implications

1. Better rule of law – allows good firms to expand

2. Trade and FDI – bring over best practices

3. Training – basic numeracy and problem solving
More results and data available here

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

The WMS generates data and reports that help managers and policy makers understand the drivers of better management practice.

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
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…”
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”

Interviewer: “Is this hospital for profit or not for profit”

Hospital Manager: “Oh no, this hospital is only for loss making”