

PRESS RELEASE

Embargoed until: 00:01 hours Thursday 12 July 2007

Management Practices: New Survey Compares Firms in the UK, Europe, United States and Asia

American firms continue to have the best management practices in the world: only 1 in every 50 can be described as 'very badly managed', compared with roughly 1 in 12 in the UK and more than 1 in 5 in Greece and India. These are among the conclusions of a new survey of over 4,000 firms across the UK, continental Europe, the United States and Asia.

The research by the Centre for Economic Performance, McKinsey & Company and Stanford University uses an innovative approach to surveying management practices. The results of the study, which is launched today, Thursday 12 July 2007, reveal that:

- US firms are on average the best managed, with Swedish, Japanese and German firms also very well run. Greek and Indian firms are the worst managed, and UK firms are in the middle of the pack alongside France and Italy.
- These differences across countries are largely driven by the 'tail' of badly managed firms. Fewer than 2% of US firms are 'very badly managed', while the UK has 8%, and the Greeks and Indians have over 20%.
- Managers are very poor at self-assessment:
 - Over 85% of managers say that their firm is better managed than average.
 - Self-assessed management has almost no link with actual firm performance or the management 'scores' that the researchers calculate.
- Four factors help to explain management practices:
 - Tougher competition – which weeds out the badly run firms and spur existing firms to improve.
 - 'Traditional' family firms – those that appoint the eldest son as the CEO – are usually worse managed.
 - Education of both workers and managers – which improves management practices.
 - Strict labour market regulations impair the ability of companies to improve their people management.
- The UK-US management gap is driven predominantly by the UK's high share of 'traditional' family firms and lower levels of education of workers and managers.
- There are also differences across countries in *relative* management strengths:
 - UK, US and Indian firms are relatively stronger at *people* management (for example, performance rewards and merit-based promotion).
 - Japanese, German, French, Italian and Swedish firms are relatively stronger at shopfloor *operations* management (for example, monitoring and continuous improvement).
- Multinationals tend to achieve excellent management practices wherever they are located.

Professor Nick Bloom comments:

'These results are worrying for US and European firms. While the typical Indian firm is badly managed, they also have some extremely well run firms. In fact, the top 30% of Indian firms are better managed than the average UK firm. Combined with their cheap labour costs, this makes them formidable competitors.'

(continued...)

‘Family firms that hand down the CEO position to the eldest son are typically very badly managed. Imagine if we picked the England team as the eldest sons of the 1966 World Cup winners – I doubt we’d ever win a match.’

Raffaella Sadun comments:

‘The US supremacy in management practices appears to be driven by some simple ingredients: free markets, low regulation and merit-based promotion.’

‘Private equity owned firms are some of the best managed while traditional family firms are some of the worst. So, private equity firms may play an important role in preserving UK manufacturing when they buy out traditional family firms.’

Professor John Van Reenen comments:

‘It is surprising just how bad managers are at assessing their own firm’s management. The average manager’s self-assessment is ‘well above average’, bearing almost no relation to either their firm’s performance or actual management practices. Maybe this is why so many people find David Brent so painfully realistic in *The Office*.’

ENDS

NOTES TO EDITORS

Management Practices and Productivity: Why They Matter

by Nick Bloom (Stanford University), Stephen Dorgan (McKinsey & Company), John Dowdy (McKinsey & Company), Raffaella Sadun (Centre for Economic Performance, London School of Economics) and John Van Reenen (Centre for Economic Performance, London School of Economics)

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For more details of the results, see <http://cep.lse.ac.uk/management/>

The research will be presented for the first time at a seminar at the Institution of Mechanical Engineers, 1 Birdcage Walk, at 6pm on Thursday 12 July.

Speakers:

Stephanie Flanders, Economics Editor, BBC Newsnight

John Dowdy, Partner, McKinsey & Company

John Van Reenen, Director of the Centre for Economic Performance, LSE

Chair:

Dominic Casserley, Managing Partner, UK & Ireland McKinsey & Company

The research project is financially supported by the:

The Advanced Institute of Management Research

The Anglo-German Foundation (CSGE project)

The Economic and Social Research Council

The Ewing Marion Kauffman Foundation

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