in brief...

Management practices in Pakistan

For more than a decade, CEP economists have been leading efforts to get measures of management incorporated into the statistical infrastructure used by governments and researchers. **Renata Lemos** and colleagues report on the latest initiative, assessing the use of performance monitoring, targets and incentives in firms in Pakistan.

The causes and consequences of the vast differences in productivity within and across countries have been the subject of research for decades. Recently, economists have woken up to the important role of management practices in firms to explain these differences. Working with the State Bank of Pakistan and the Pakistan Bureau of Statistics, we have conducted what is to date the largest survey of management practices in Pakistan. Almost 2,000 plant managers in Punjab were involved in face-to-face interviews, focused on three broad areas:

- Data-driven performance monitoring practices for the collection and use of information to improve production processes.
- The design, integration and realism of production targets.
- Incentives for employees, including bonuses and procedures for promotion, reassignment and dismissal.

We aggregate the responses into a single summary measure of 'structured management' scaled from 0 to 1, where 0 represents an establishment with no structured management practices and 1 represents an establishment where such practices are fully adopted. What do we find?

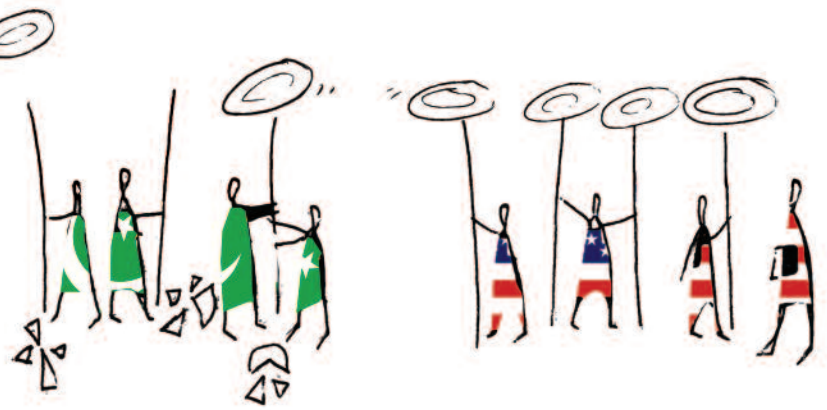
First, as in other countries, there is tremendous variation in management practices across establishments – see Figure 1. But the adoption of structured management practices in Pakistan is far lower than in the United States. The average firm in Pakistan adopts 44% of overall structured management practices (divided into 52% of data-driven performance monitoring; and 42% of incentives and targets). The comparable numbers for the United States are 64%, 67% and 62%, respectively.

The dispersion of management scores is also higher in Pakistan. The difference between the top and bottom 10% of management scores is 46% in Pakistan compared with 38% in the United States. This chimes with previous findings that productivity dispersion is much higher in emerging economies (such as India and Mexico) than in developed countries (such as Germany and the United States). Firms that are worse managed and have lower productivity seem to exit the market more slowly in emerging economies, which could be due to weaker competition and greater protection of insiders.

Second, establishments with more structured management practices are larger and more capital-intensive. They also have better performance in terms of productivity, profits and growth. Perhaps surprisingly, the magnitude of the correlation with performance in Pakistan is similar to the United States. Maybe the methods of 'good management' are not so different across diverse countries as is often assumed – at least in manufacturing.

Third, as in other countries, management scores are higher in establishments that are older, that are exporters and

Well-managed Pakistani firms are bigger, older, more skilled, more capital-intensive and more likely to export



that have more skilled managers and non-managers. But conditional on these factors, establishments owned by firms that are not publicly listed seem to have higher management scores than establishments owned by publicly listed firms. This is the opposite to what is found in more developed countries, which suggests that getting a stock exchange listing may be less related to performance than to other factors, such as business and political connections.

So where do managers in Pakistan learn about improved management practices? The most common sources reported by managers are external peers operating in the same industry such as external consultants (36%) and customers (30%), with trade associations, competitors and suppliers playing a lesser role. Internal sources of improved management practices such as firms' headquarters seem to play a less important role (17%), the opposite to what is found in the United States where headquarters are the most common source of learning (54%).

Pakistan's productivity would improve by removing barriers to the growth of better-managed firms

From a policy perspective, our results imply that governments in developing countries need to remove barriers to the growth of better-managed firms and allow the least well managed to exit. From a business perspective, fostering the spread of managerial best practice through greater efforts by headquarters and more openness to ideas from consultants, suppliers and customers could yield substantial improvements to the bottom line.

This article summarises 'Management in Pakistan: First Evidence from Punjab' by Renata Lemos, Ali Choudhary, John Van Reenen and Nicholas Bloom, published by the International Growth Centre at LSE (http://www.theigc.org/wp-content/uploads/2016/04/Bloom-et-al-2016-Working-paper.pdf).

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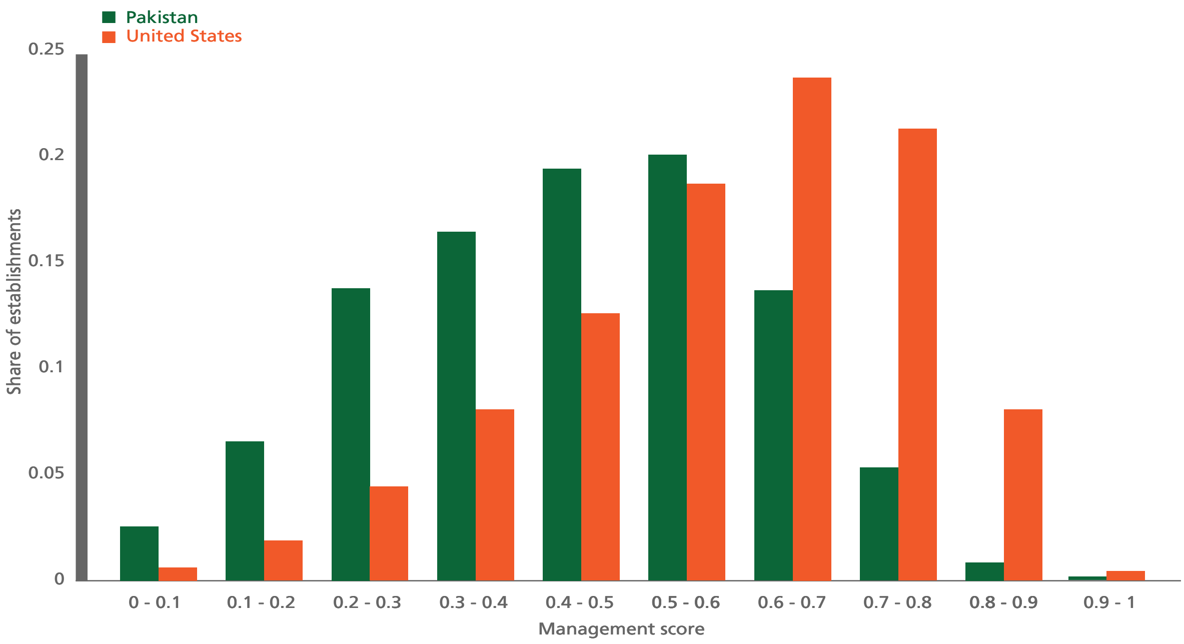
Figure 1:
The distribution of management scores in Pakistan and the United States



Notes: The management score is the unweighted average of the score for each of the 16 questions, where each question is first normalised to be on a 0-1 scale. The ten bars display the share of establishments with scores of 0-0,1, 0.1-0,2, etc.