PRESS RELEASE

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IMPROVING BRITISH MANAGEMENT IS VITAL FOR ECONOMIC RECOVERY

The coalition government’s current focus on macroeconomic policy is taking attention away from essential microeconomic reforms to help restore growth. In particular, we need a way forward built on improving the UK’s managerial capacity – especially in manufacturing.

These will be among the conclusions of Professor John Van Reenen, director of the Centre for Economic Performance, when he presents the Royal Economic Society’s annual public lecture today, Thursday 2 December.

He will argue that key ways of raising productivity growth by improving management include increasing education and skills (at both the high and low end of the skill distribution); promoting competition and innovation; and tax reform that gets rid of the distortions that promote inefficient family-run firms.

The lecture will draw on a large body of research on the impact of management practices on firm performance and national productivity growth, which has collected and analysed data on firms across Asia, Europe and the Americas. Among the findings:

- At the firm level, better management practices are strongly associated with higher firm-level productivity, profitability and survival. It seems clear that they also play an equally important role in country-level productivity growth.

- US firms have the best management practice on average, with a ‘Premier League’ of the Germans, Japanese and Swedes just below. The UK is distinctly mid-rank alongside France, Italy and Poland but ahead of Southern Europe and developing countries – Brazil, China, Greece and India – which stand at the bottom of the management league.

- Tougher competition boosts management quality. In particular, the tail of badly managed firms shrinks in highly competitive markets. Competition policy is a powerful tool for improving productivity.

- Firms that are both family-owned and family-managed tend to be very badly run. The worst managed firms are those that hand down the top position using the ancient practice of primogeniture (succession of the eldest son). Policy should encourage meritocratic selection of chief executives.

- Multinationals have good management practices wherever they are located – so multinational subsidiaries located in Brazil, India and the United States all appear to be well run. Policy should avoid protectionism and encourage greater trade openness.
Raising productivity through better management does not come at the cost of making workers miserable. Firms with better management scores also have superior work-life-balance and more family friendly policies.

In terms of the government’s fiscal policy, Professor Van Reenen concludes that extreme austerity is no answer:

‘Rebalancing the economy by reducing public spending and raising taxes is necessary, but the speed and scale is a political choice.

‘The planned fiscal contraction will have long-lasting negative effects on economic prosperity.’

ENDS

Notes for editors: ‘Does Management Matter?’ by Professor John Van Reenen, the 2010 Royal Economic Society (RES) Public Lecture, will be delivered at the Royal Institution in London at 4.30pm on Thursday 2 December and at the University of Manchester at 4.30pm on Friday 3 December

John Van Reenen is professor of economics at the London School of Economics and director of the Centre for Economic Performance (CEP).

The Royal Economic Society was founded in 1890. Now in its second century, the RES is one of the oldest economic associations in the world. Currently, it has over 3,300 individual members, of whom 60% live outside the UK.

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