

Management Practices in Europe, the US and Emerging Markets

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REVISION

- Last session we:
 - Management practices scores across countries
 - Discuss the scoring of talent management
- Today:
 - Why management practices can vary across countries
 - Discuss the scoring of targets management



Why management scores differ across countries

Target management



WE FIND FIVE FACTORS ARE ASSOCIATED WITH DIFFERENCES IN MANAGEMENT PRACTICES

Competition

Family firms

Multinationals

Labor market regulations

Education



TOUGH COMPETITION IS STRONGLY LINKED TO BETTER MANAGEMENT PRACTICES

Competition proxies	Dependent variable: Management		
	Import penetration (SIC-3 industry, 1995-99)	0.066** (0.033)	
“1-Rents” measure ¹ (SIC-3 except firm itself, 1995-99)		1.964** (0.721)	
# of competitors (Firm level, 2004)			0.158*** (0.023)
Observations	2499	2980	3589
Full controls ^{2,3}	Yes	Yes	Yes

¹ 1-Rents = 1- (operating profit – capital costs)/sales

² Includes 108 SIC-3 industry, country, firm-size, public and interview noise (analyst, time, date, and manager characteristic) controls

³ S.E.s in () below, robust to heteroskedasticity, clustered by country-industry

Nick Bloom and John Van Reenen, *Management Practices*, Spring 2009



A VARIETY OF WAYS COMPETITION CAN HELP TO IMPROVE MANAGEMENT PRACTICES

“Evolutionary” effect – competition selects out badly managed firms (they go bankrupt)

“Boot up the ass” effect – competition forces badly managed firms to improve performance

“Learning” effect – competition provides more firms in and industry, increasing experimentation and learning

At present we are working on trying to quantify these channels using panel data.

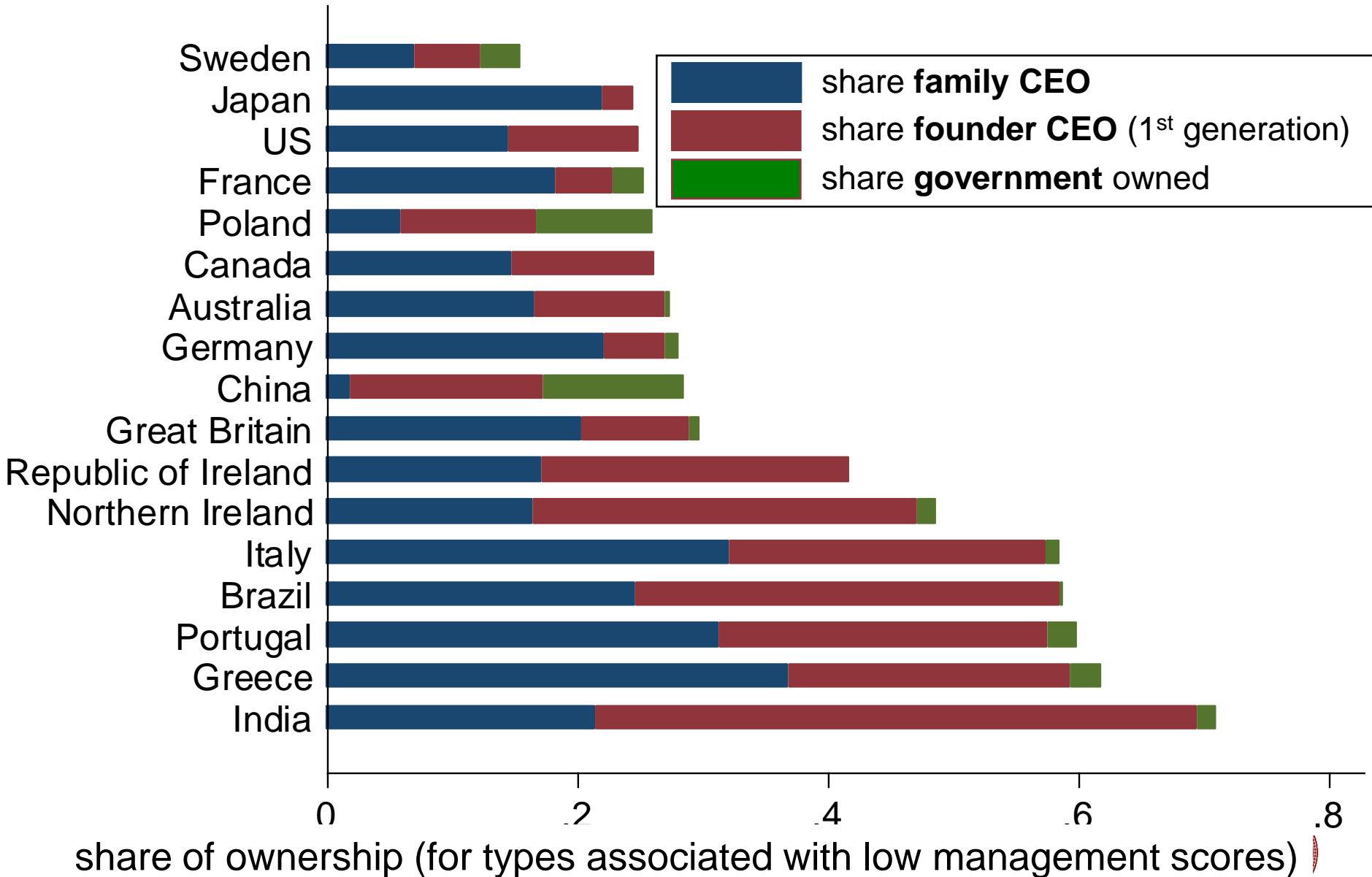


FIRMS WITH PROFESSIONAL CEOs ARE TYPICALLY WELL RUN. GOVERNMENT, FOUNDER FAMILY CEO MANAGED FIRMS ARE NOT

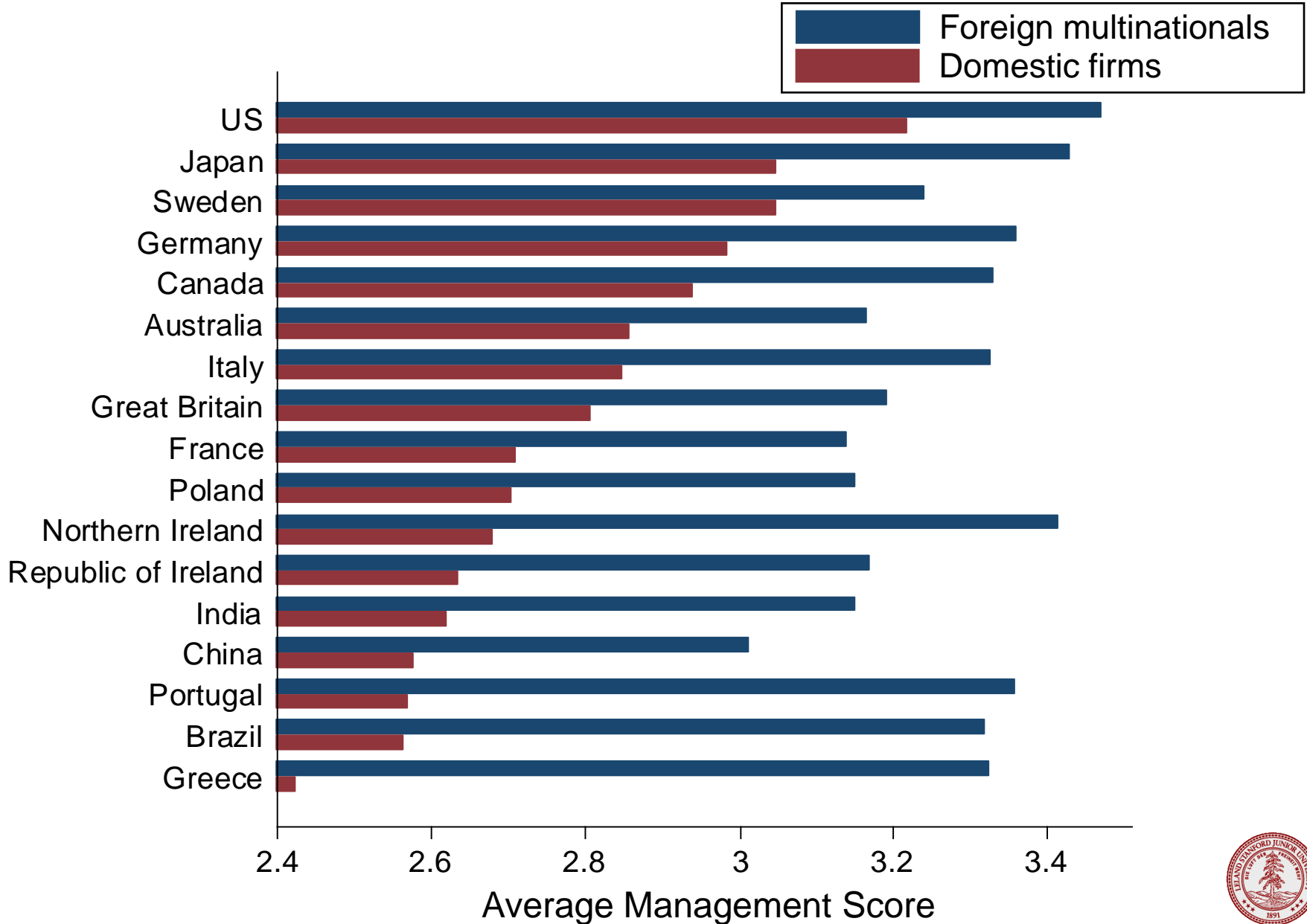
Distribution of firm management scores by ownership. Overlaid dashed line is approximate density for dispersed shareholders, the most common US and Canadian ownership type



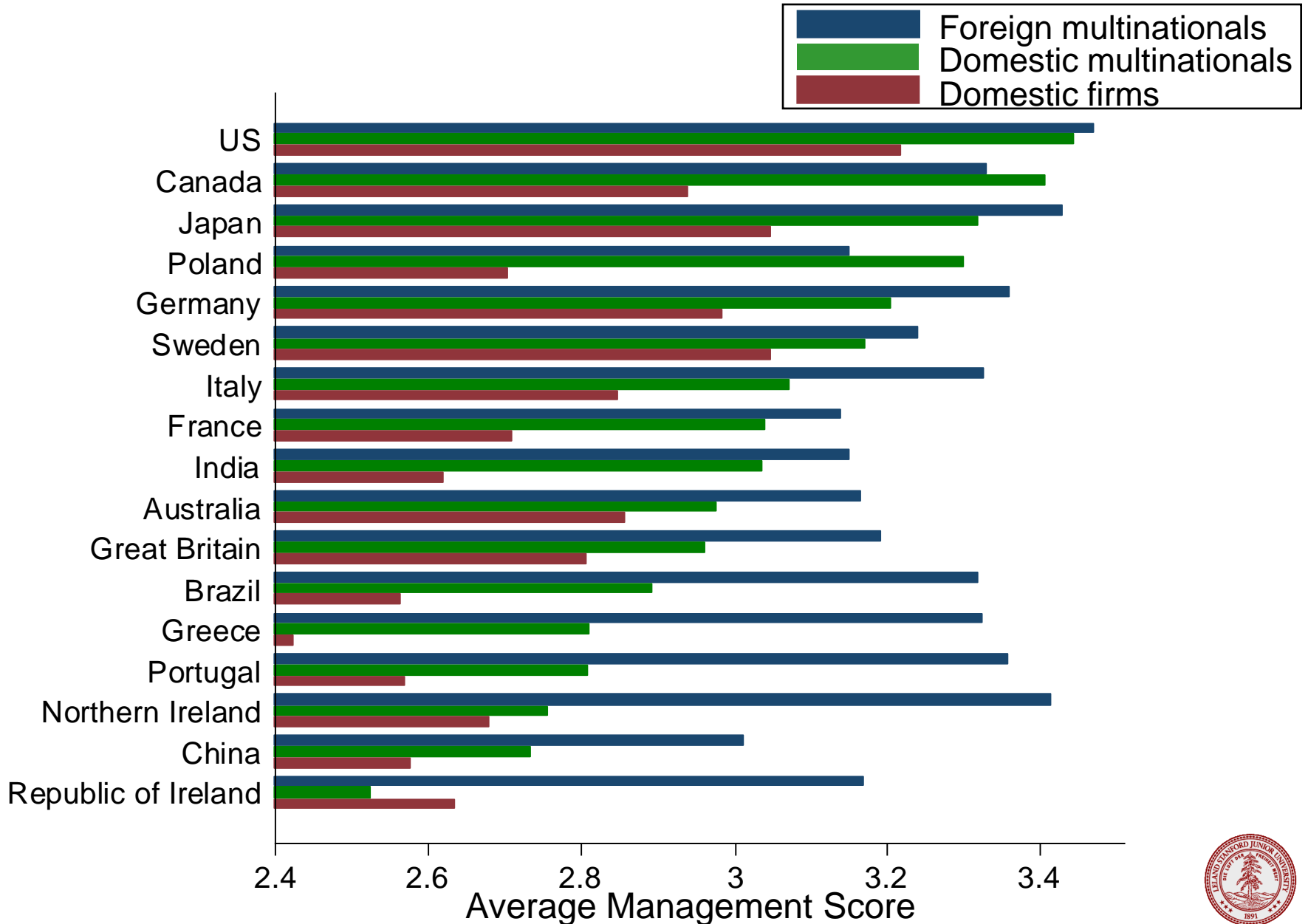
OWNERSHIP PATTERNS OF THESE “POOR MANAGEMENT” GROUPS VARY SUBSTANTIALLY



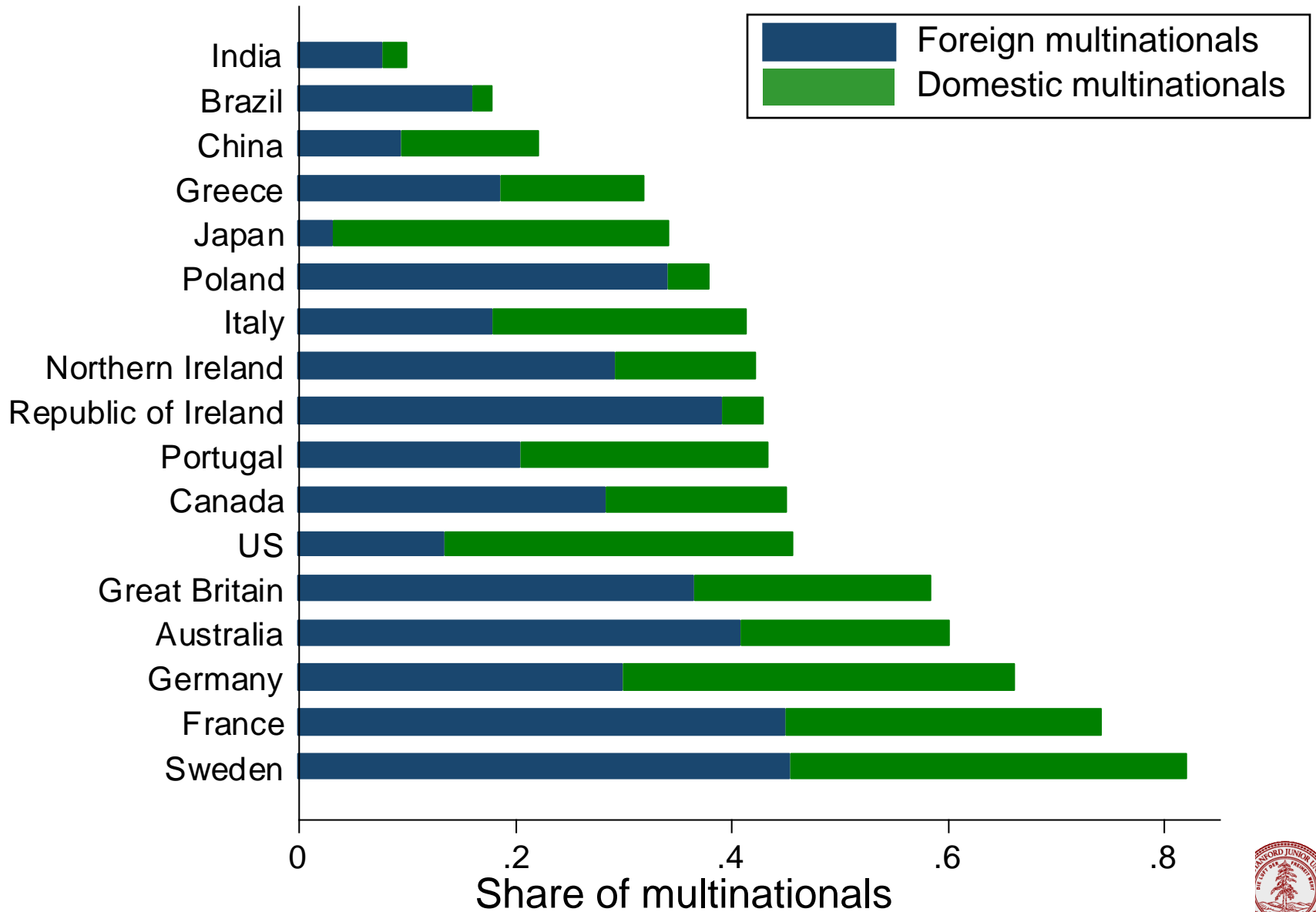
MULTINATIONALS APPEAR ABLE TO TRANSPORT GOOD MANAGEMENT AROUND THE WORLD



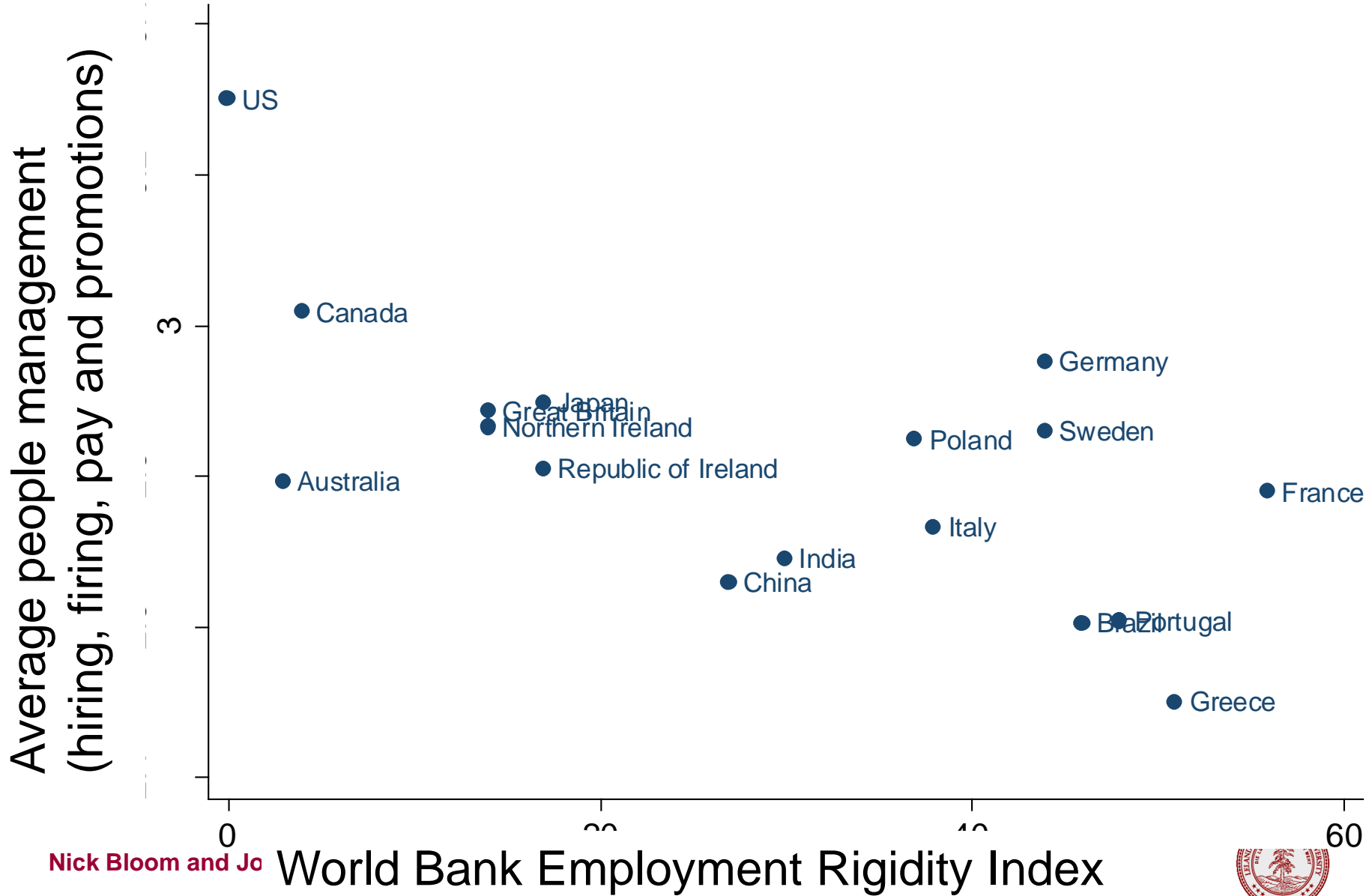
DOMESTIC MULTINATIONALS ARE IN BETWEEN FOREIGN MULTINATIONALS & DOMESTIC FIRMS



MULTINATIONAL OWNERSHIP VARIES SUBSTANTIALLY ACROSS COUNTRIES



LIGHT LABOR MARKET REGULATIONS ALSO FACILITATE GOOD PEOPLE MANAGEMENT

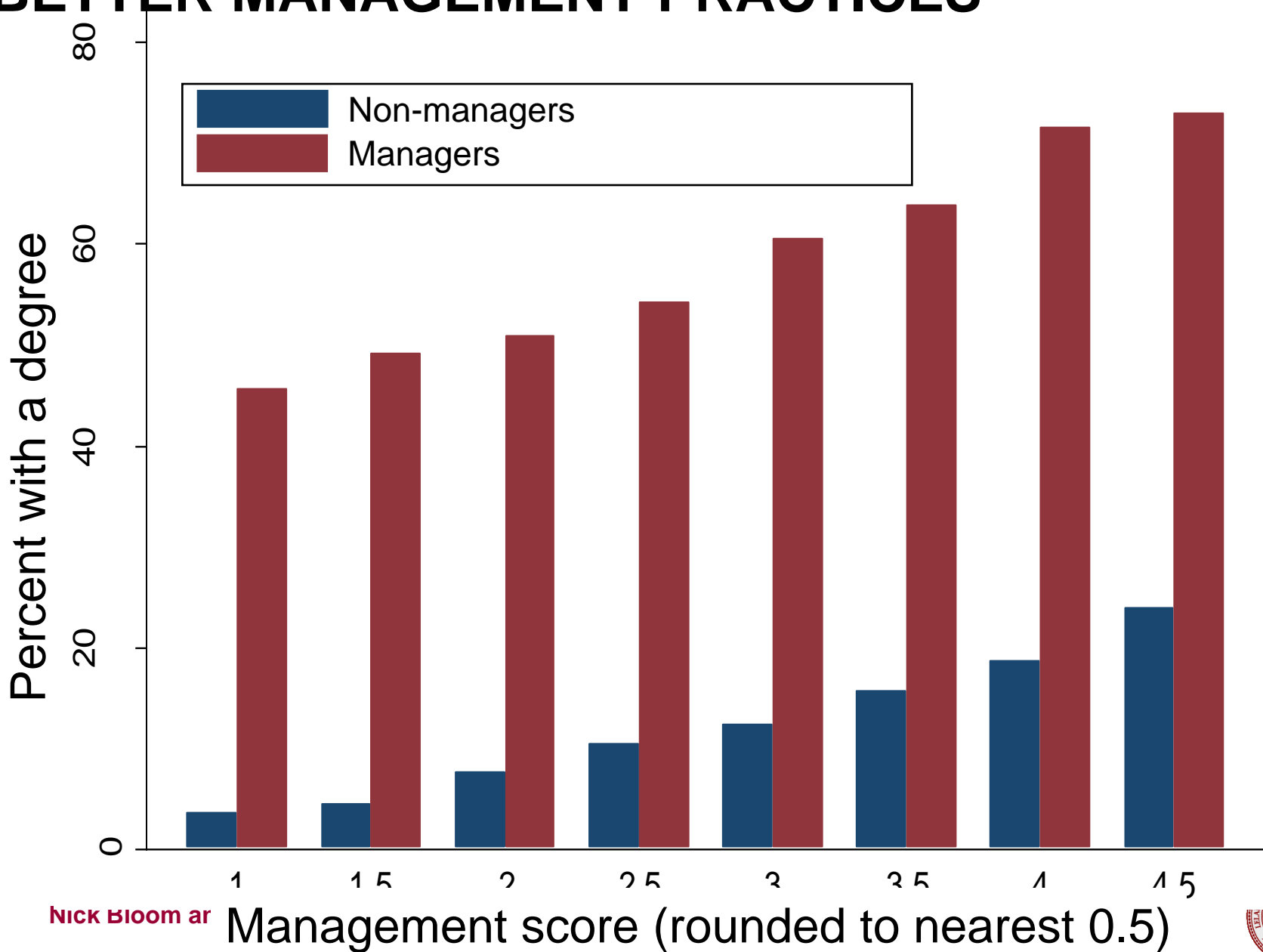


Nick Bloom and Jo

World Bank Employment Rigidity Index



EDUCATION IS ALSO STRONGLY LINKED WITH BETTER MANAGEMENT PRACTICES



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...”



Why management scores differ across countries

Target management



(8) Target balance

Score (1): Goals are exclusively financial or operational

(3): Goals include non-financial targets, which form part of the performance appraisal of top management only (they are not reinforced throughout the rest of organization)

(5): Goals are a balance of financial and non-financial targets. Senior managers believe the non-financial targets are often more inspiring and challenging than financials alone.



(9) Target interconnection

Score (1): Goals are based purely on accounting figures (with no clear connection to shareholder value).

(3): Corporate goals are based on shareholder value but are not clearly communicated down to individuals

(5): Corporate goals focus on shareholder value. They increase in specificity as they cascade through business units ultimately defining individual performance expectations.



(10) Target time horizon

Score (1): Top management's main focus is on short term targets .

(3): There are short and long-term goals for all levels of the organization. As they are set independently, they are not necessarily linked to each other

(5): Long term goals are translated into specific short term targets so that short term targets become a "staircase" to reach long term goals



(11) Targets are stretching

Score	(1): Goals are either too easy or impossible to achieve; managers provide low estimates to ensure easy goals	(3): In most areas, top management pushes for aggressive goals based on solid economic rationale. There are a few "sacred cows" that are not held to the same rigorous standard	(5): Goals are genuinely demanding for all divisions. They are grounded in solid, solid economic rationale
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(12) Performance clarity

Score (1): Performance measures are complex and not clearly understood. Individual performance is not made public	(3): Performance measures are well defined and communicated; performance is public in all levels but comparisons are discouraged	(5): Performance measures are well defined, strongly communicated and reinforced at all reviews; performance and rankings are made public to induce competition
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Policy Implications

- Governments
 - Importance of management for productivity and therefore wellbeing
 - Family firms often encouraged by the tax system (e.g. UK). Should be neutral
 - Openness to multinational investment (e.g. Alitalia)
 - Value of competition/trade



Business Implications

- Optimistic message – multinationals do well even when regulatory environment difficult (China, India, etc.)
- Much opportunity for gain (wide dispersion)
- Managerial self-knowledge often poor. Benchmarking advantages



Summary

Today we covered:

- Why management practices vary across countries
- Target management

On Monday we will examine the factors that shape the organization of firms across countries



BACK UP



EDUCATIONAL LEVELS VARY STRONGLY ACROSS COUNTRIES IN OUR SAMPLE

