

Management Practices in Europe, the US and Emerging Markets

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Lecture 2: Management and firm Performance



Monitoring management practices

Incentives/People Management

Some drivers of good management

Lincoln Electric



Some dimensions of management

5 dimensions on monitoring management (questions 1 to 6)

The concept is around the collection and use of information.

6 dimensions on people/incentives management

The concept is around improving human capital – rewarding effort and ability through pay and promotion; careful hiring, dealing with underperformers

While the data we have shown is for manufacturing, these questions have been used in retail, hospitals, schools, healthcare clinics, tax collection agencies, nursing homes and law firms

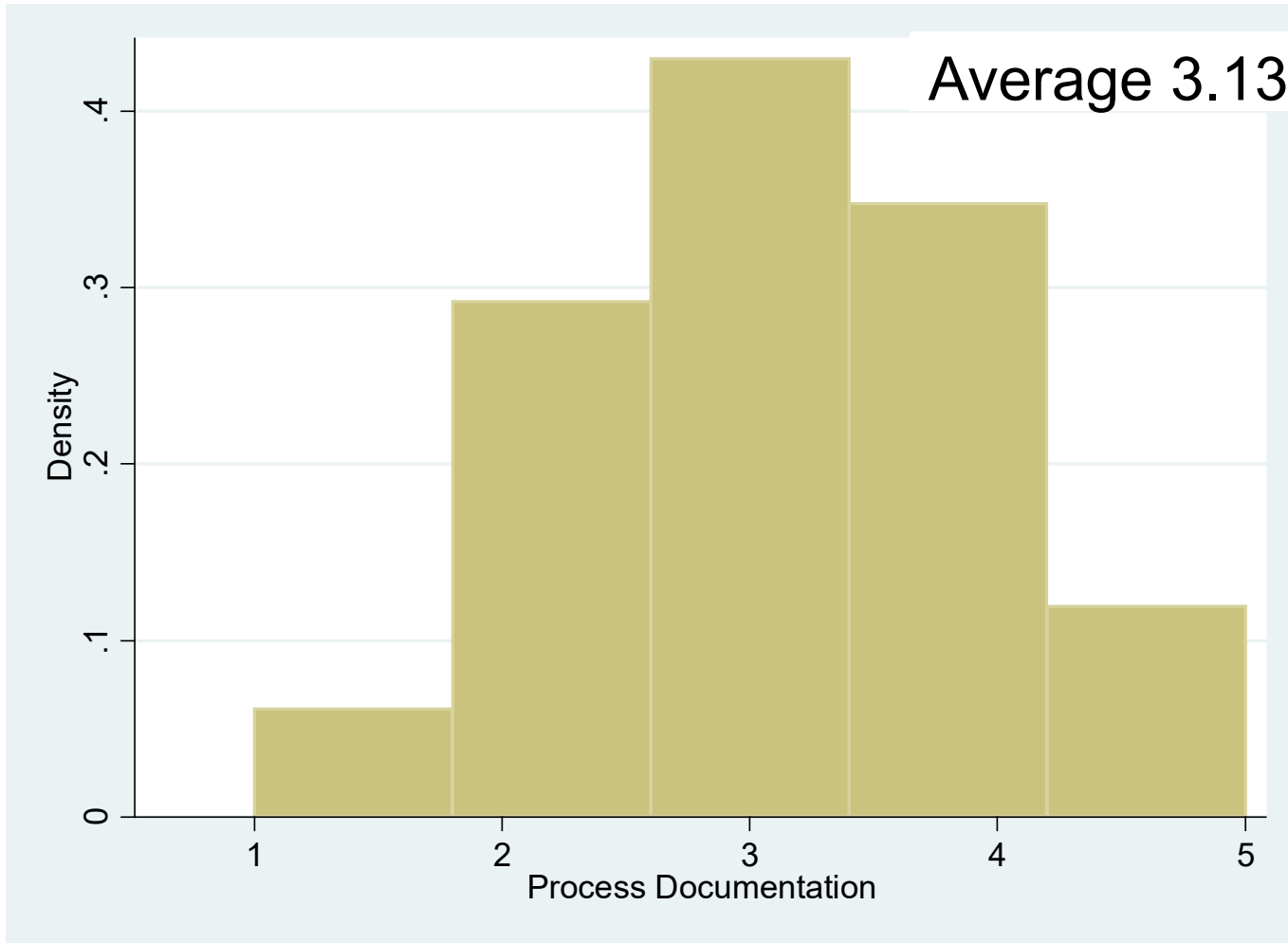


(3) Process problem documentation

Score	(1): No, process improvements are made when problems occur.	(3): Improvements are made in one week workshops involving all staff, to improve performance in their area of the plant	(5): Exposing problems in a structured way is integral to individuals' responsibilities and resolution occurs as a part of normal business processes rather than by extraordinary effort/teams
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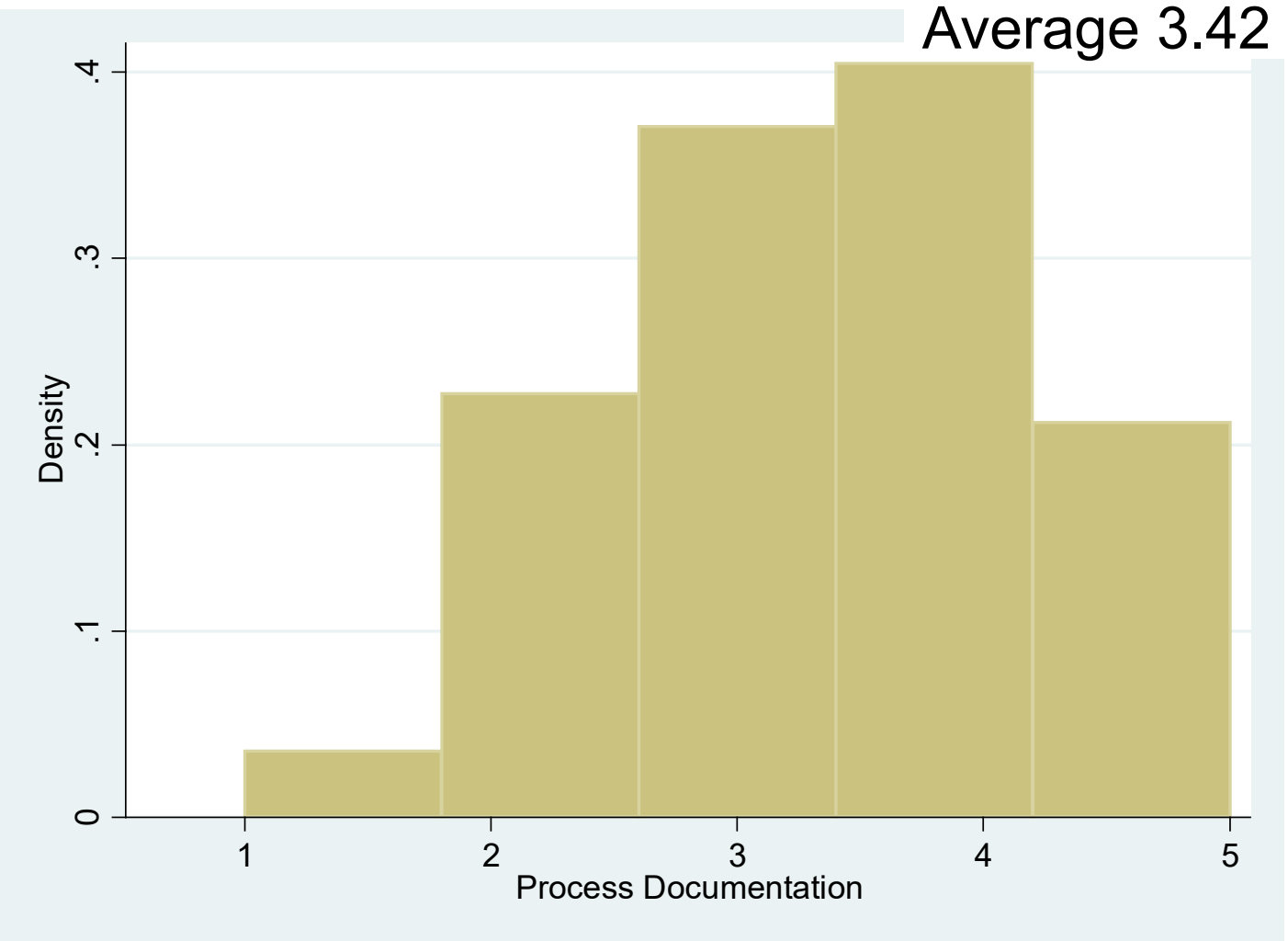


The survey scores to question (3), process problem documentation – all countries, manufacturing



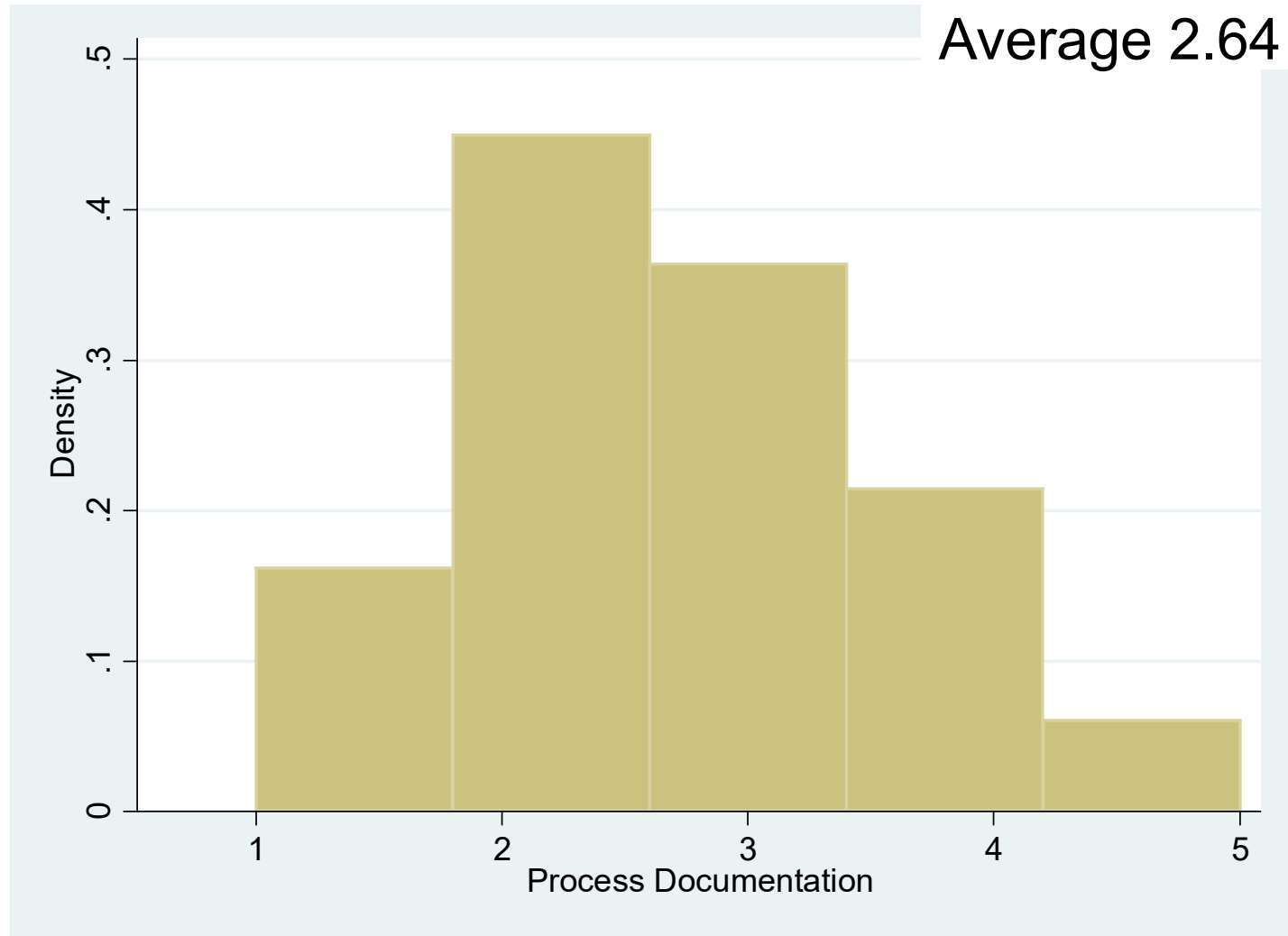
All countries, manufacturing firms (100 to 5000 employees),
9840 observations

The survey scores to question (3), process problem documentation – US, manufacturing



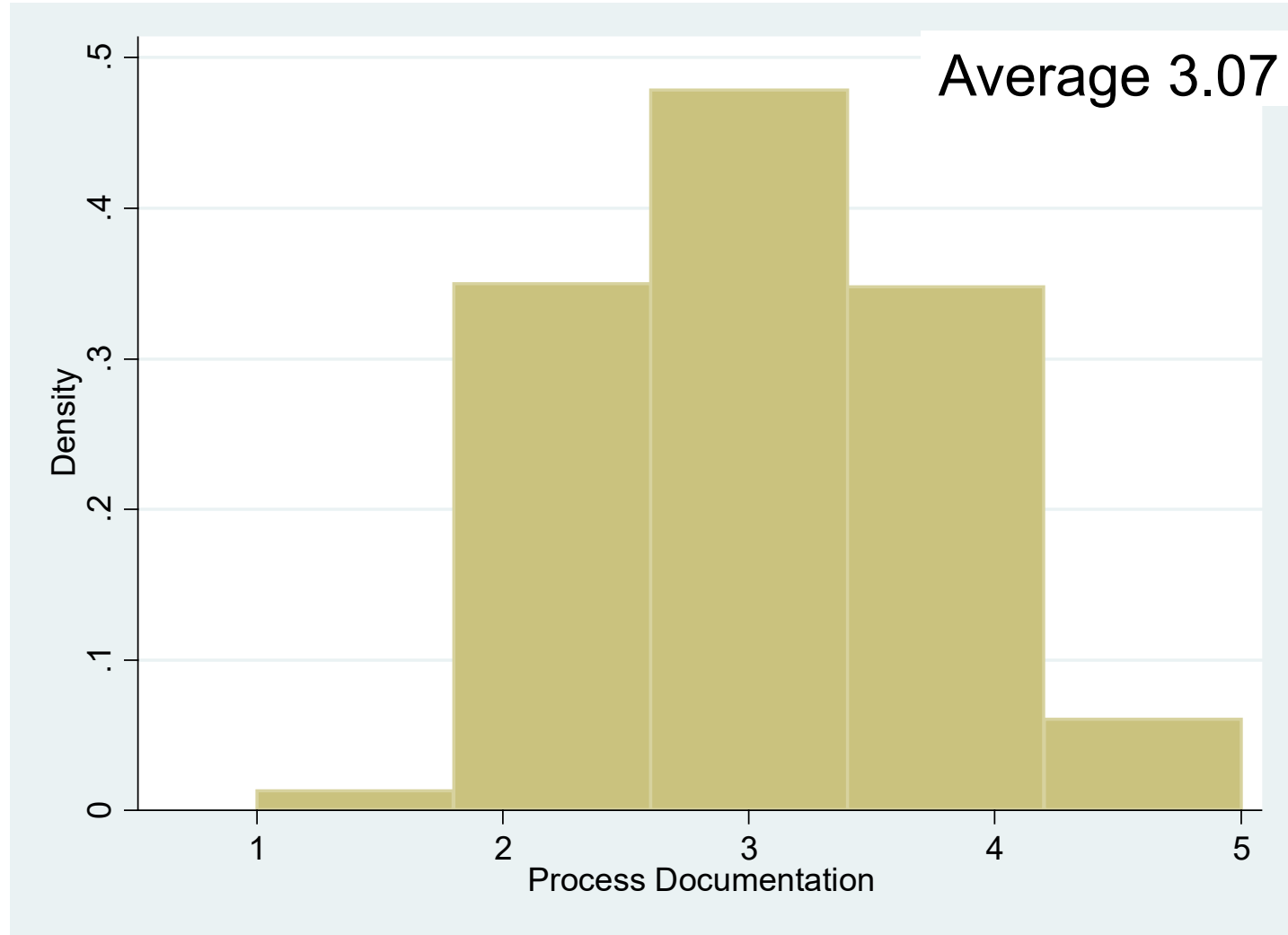
US, manufacturing firms (100 to 5000 employees),
1298 observations

The survey scores to question (3), process problem documentation – India, manufacturing



India, manufacturing firms (100 to 5000 employees),
1137 observations

The survey scores to question (3), process problem documentation – US, Canada and UK, retail



All countries, retail firms (100 to 5000 employees)
661 observations

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Some drivers of good management

Lincoln Electric

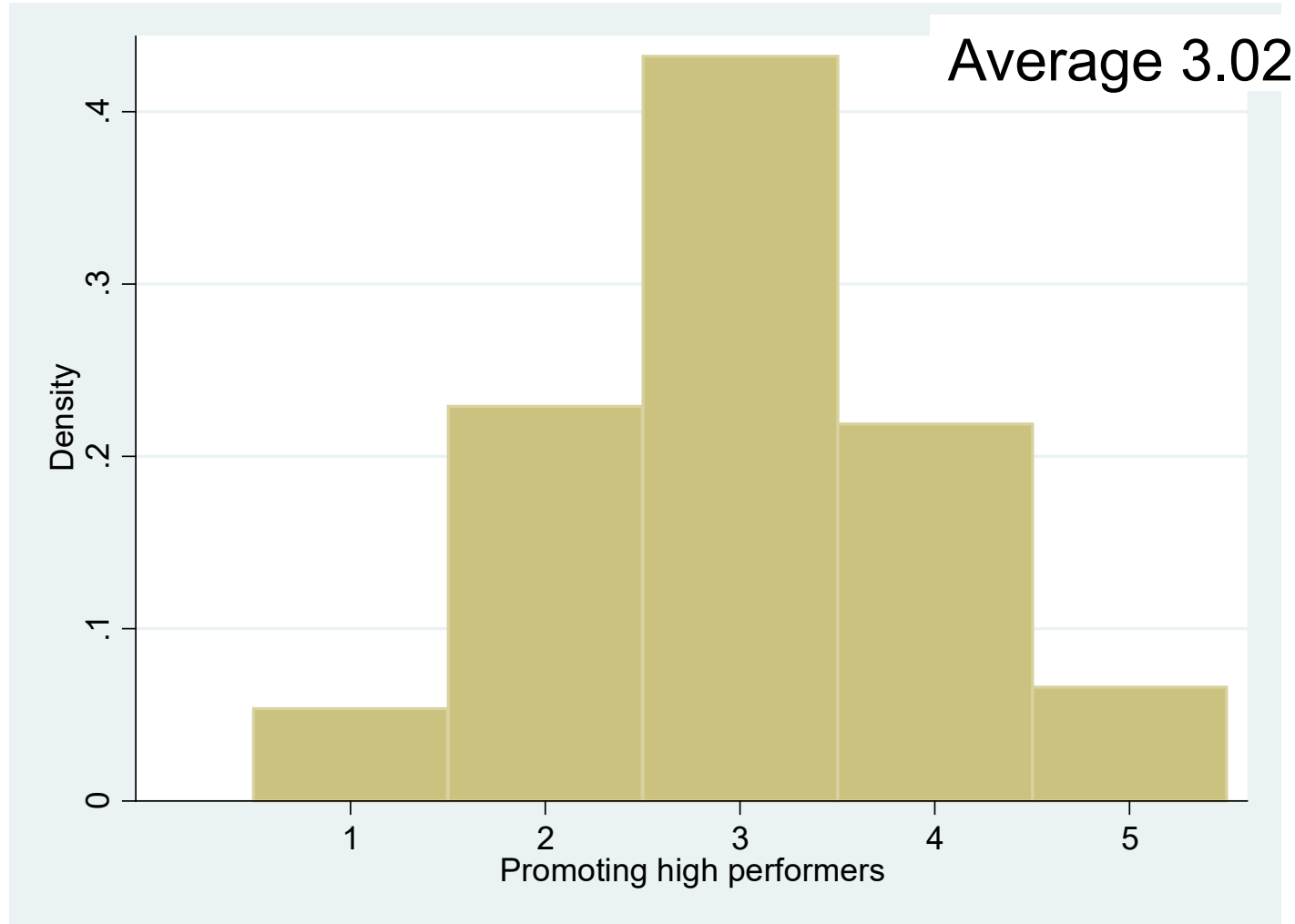


(16) Promoting high performers

Score	(1): People are promoted primarily upon the basis of tenure	(3): People are promoted upon the basis of performance	(5): We actively identify, develop and promote our top performers
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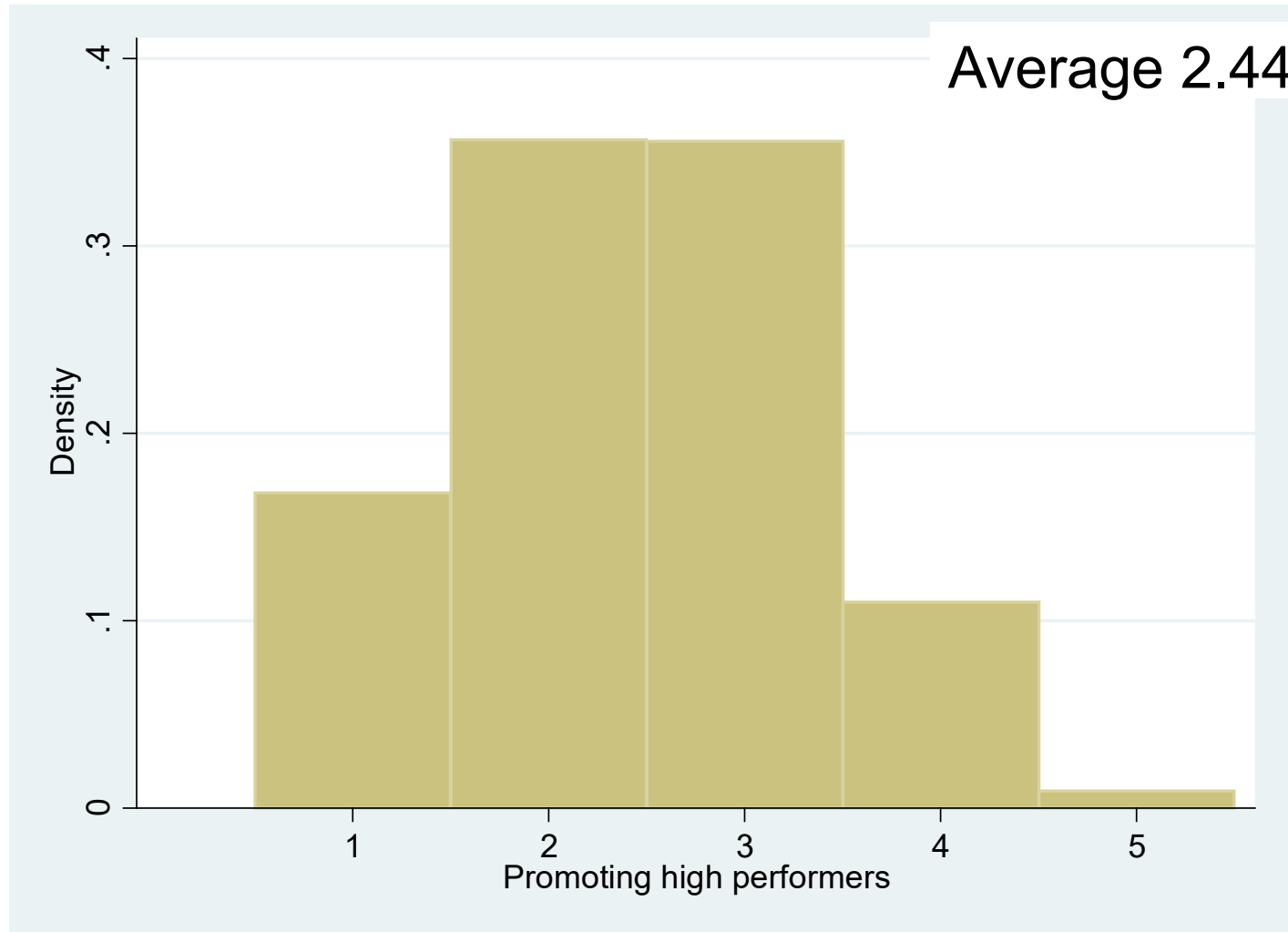


The survey scores to question (16), promoting high performers – all countries, manufacturing



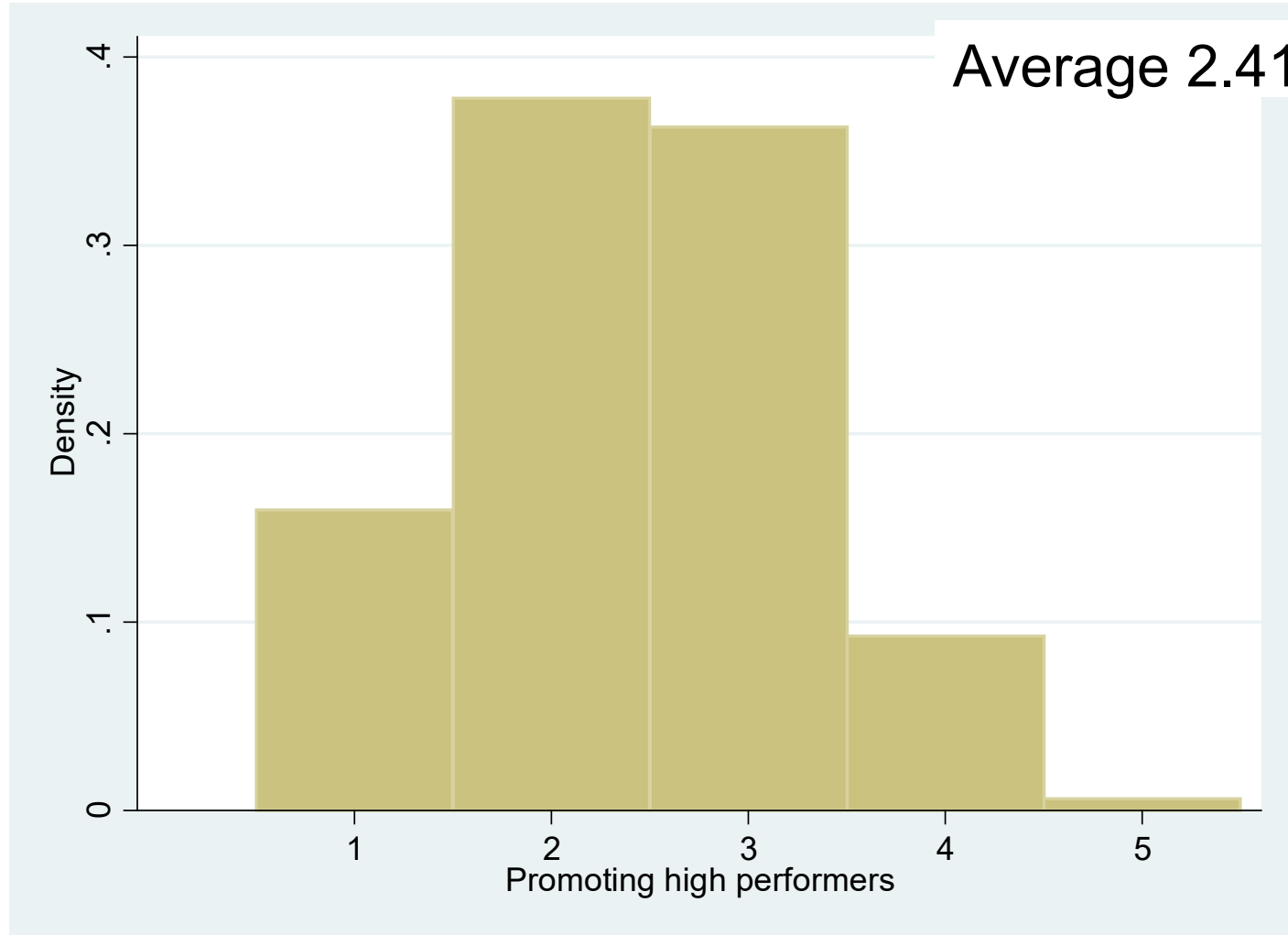
All countries, manufacturing firms (100 to 5000 employees),
9820 observations

The survey scores to question (16), promoting high performers: developed countries, hospitals



Hospitals, Canada, France, Germany, Italy, Sweden, UK, US,
1183 observations

The survey scores to question (16), promoting high performers : developed countries, schools



Schools in Canada, Germany, Sweden, UK, US
777 observations

(14) Rewarding high performance

(1): People within our firm are rewarded equally irrespective of performance level

(3): Our company has an evaluation system for the awarding of performance related rewards

(5): We strive to outperform the competitors by providing ambitious stretch targets with clear performance related accountability and rewards



(15) Removing poor performers

(1): Poor performers are rarely removed from their positions

(3): Suspected poor performers stay in a position for a few years before action is taken

(5): We move poor performers out of the company or to less critical roles as soon as a weakness is identified



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COMPETITION & MODELS OF MANAGEMENT

Various ways that competition may influence management

- Selection – badly run firms more likely to exit
- Effort – incentivizes firms to try harder to survive/gain market share

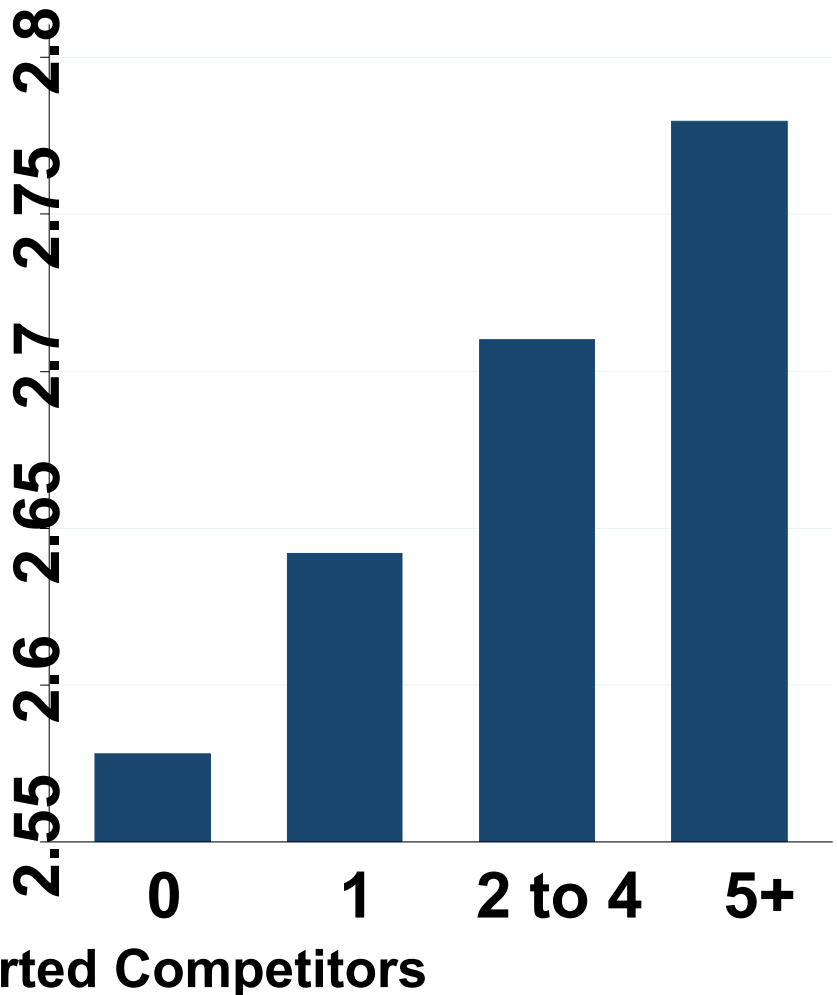
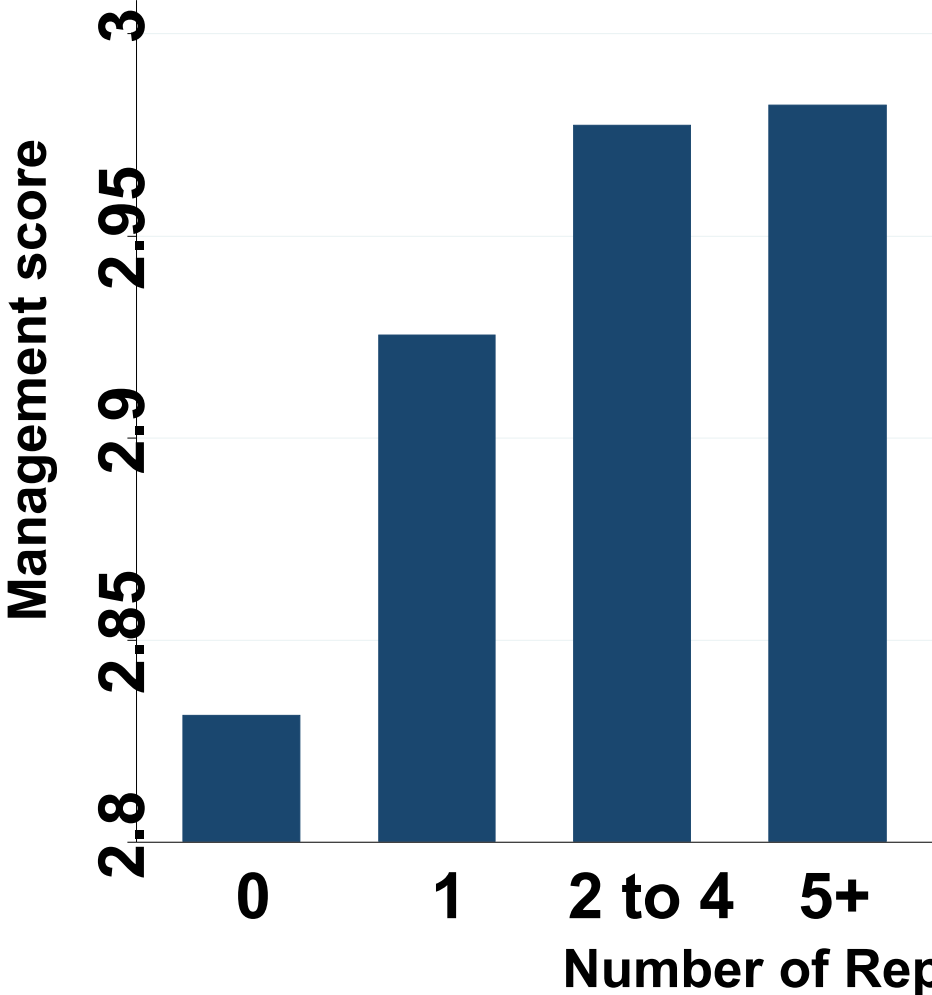
We find competition is strongly linked with better management through a mixture of selection & effort



COMPETITION IMPROVES MANAGEMENT

Manufacturing and Retail
(the private sector)

Hospitals and Schools
(the public sector)



Sample of 9469 manufacturing and 661 retail firms (private sector panel) and 1183 hospitals and 780 schools (public sector panel). Reported competitors defined from the response to the question “How many competitors does your [organization] face?”

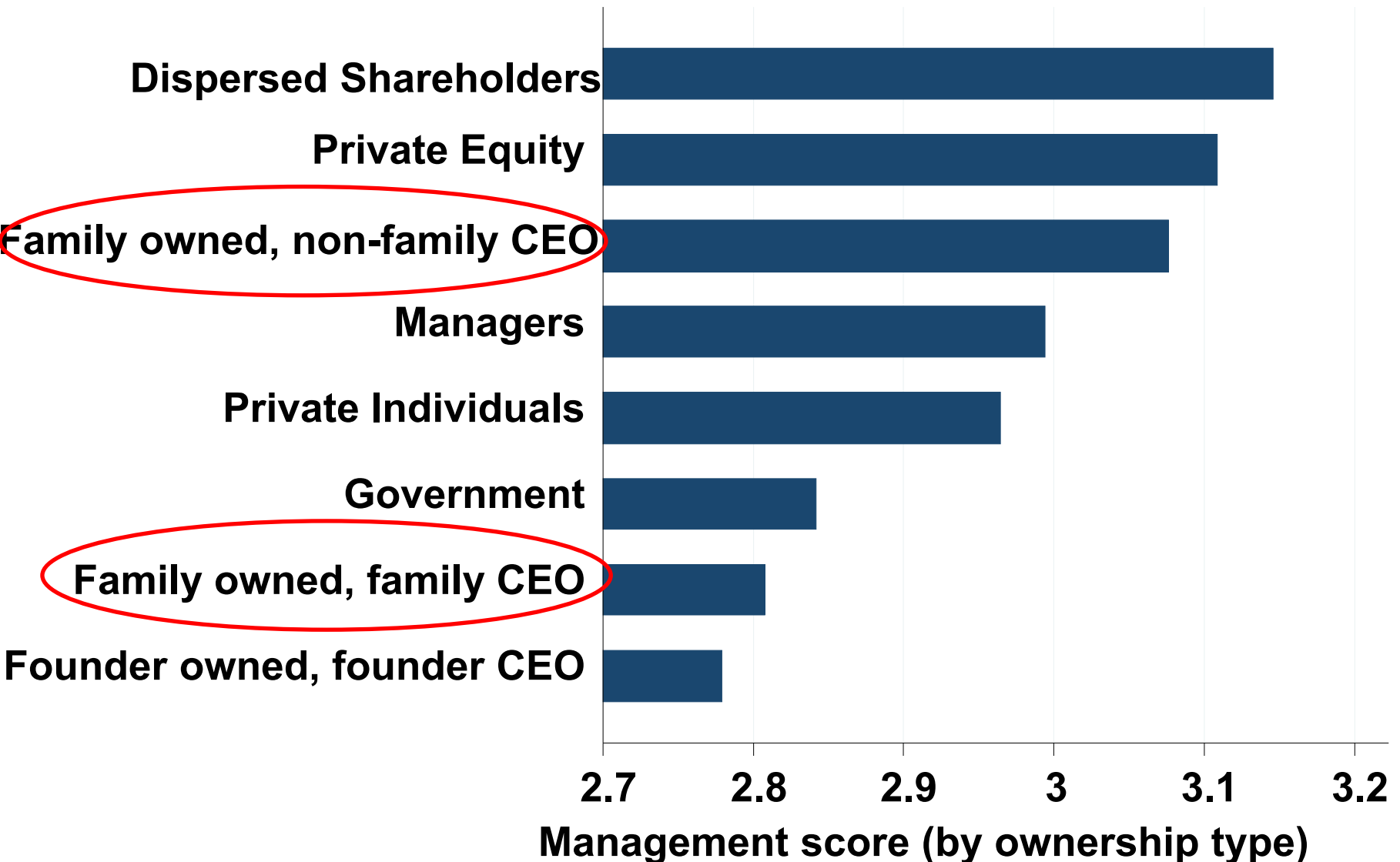
FAMILY FIRMS AND MODELS OF MANAGEMENT PRACTICES

Impact of family firms depends on involvement

- Ownership but not management probably positive
 - Concentrated ownership so better monitoring
- Management probably negative
 - Smaller pool to select CEO from
 - Possible “Carnegie” effect on future CEO’s
 - Less career incentive for non-family managers



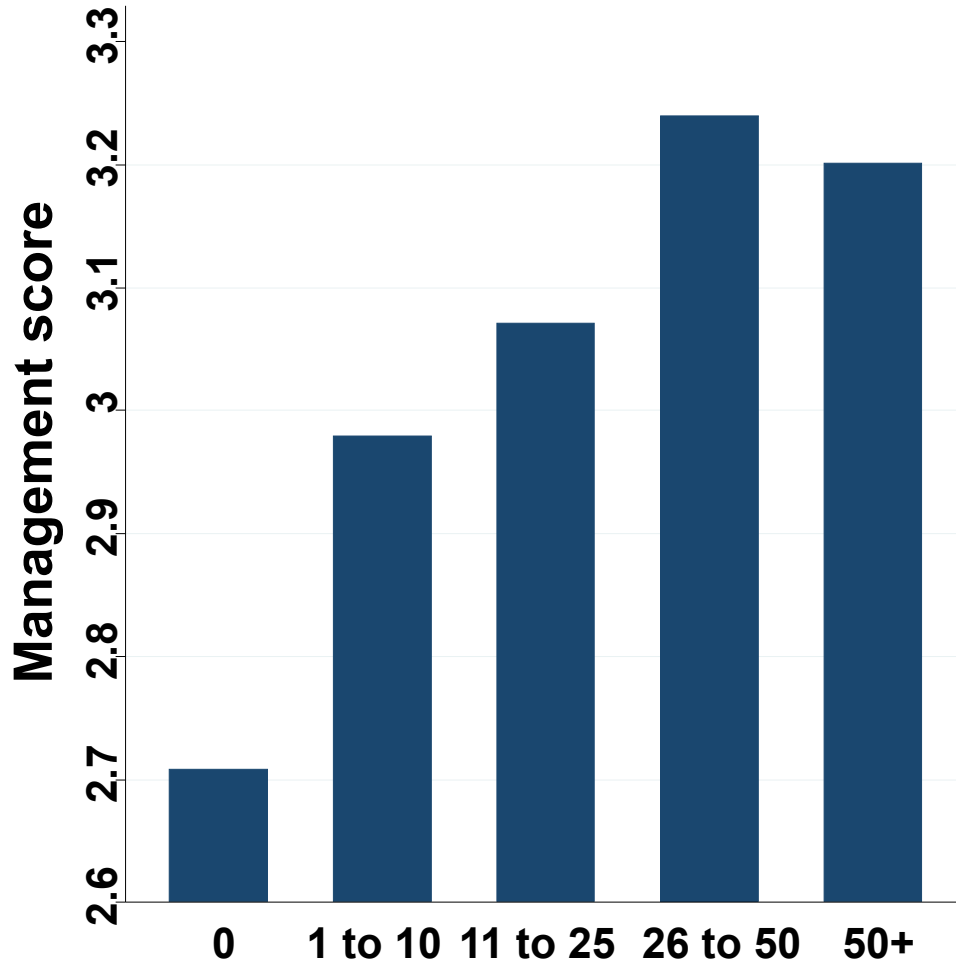
FAMILY FIRMS & GOVERNMENT OWNED FIRMS TYPICALLY HAVE THE WORST MANAGEMENT



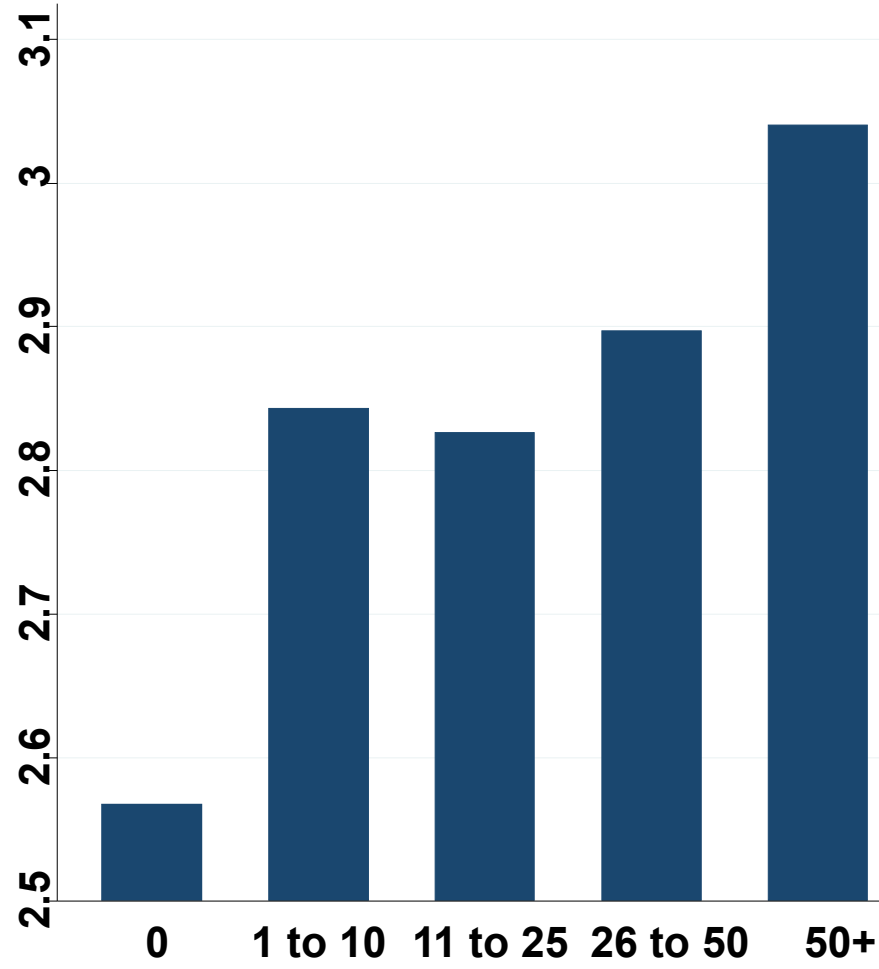
Management scores after controlling for country, industry and number of employees. Data from 9085 manufacturers and 658 retailers. "Founder owned, founder CEO" firms are those still owned and managed by their founders. "Family firms" are those owned by descendants of the founder "Dispersed shareholder" firms are those with no shareholder with more than 25% of equity, such as widely held public firms.

EDUCATION FOR NON-MANAGERS AND MANAGERS APPEAR LINKED TO BETTER MANAGEMENT

Non-managers



Managers



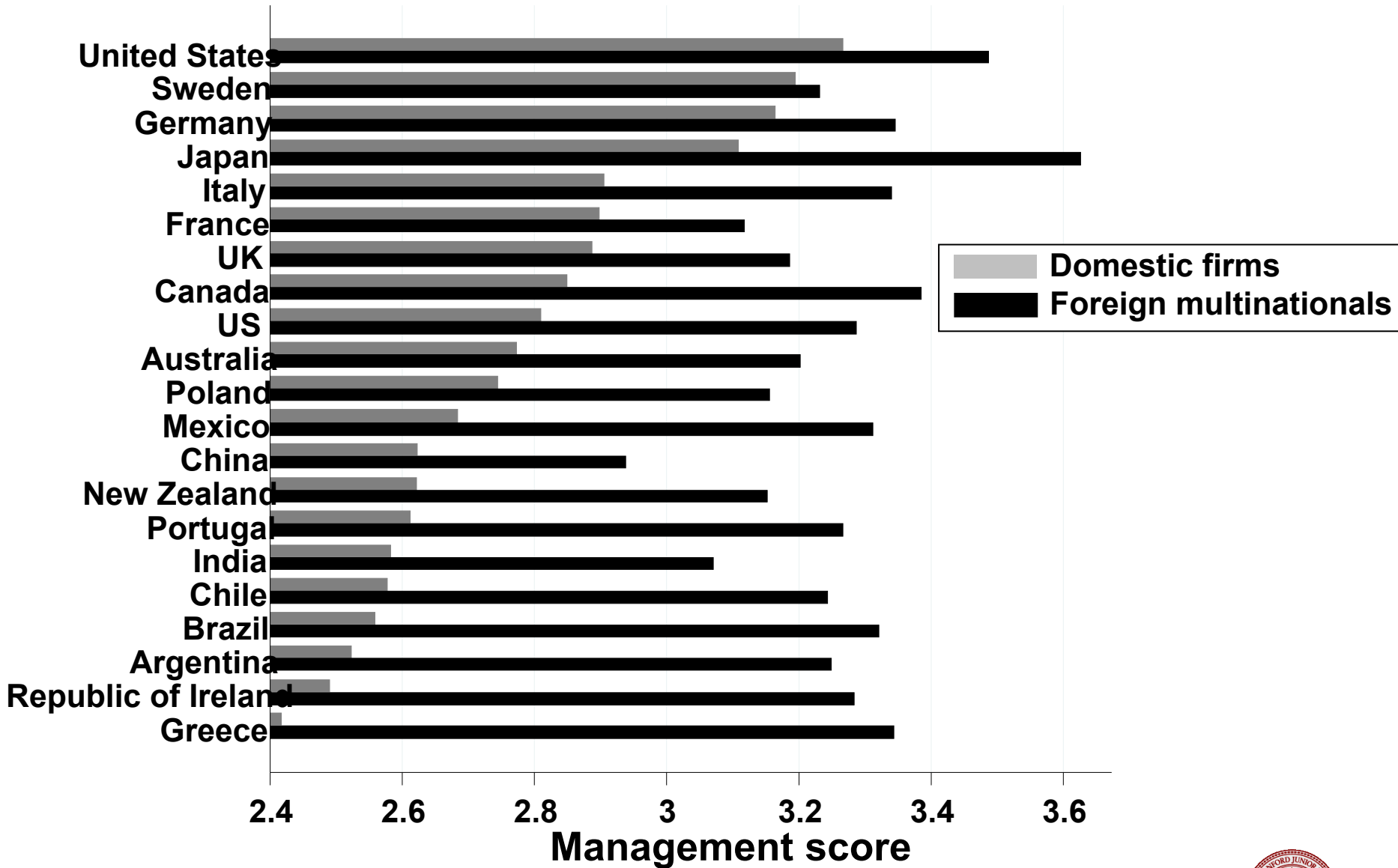
Percentage of employees with a college degree (%)

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Sample of 8,032 manufacturing and 647 retail firms.



MULTINATIONALS APPEAR TO ACHIEVE GOOD MANAGEMENT PRACTICES WHEREVER THEY LOCATE

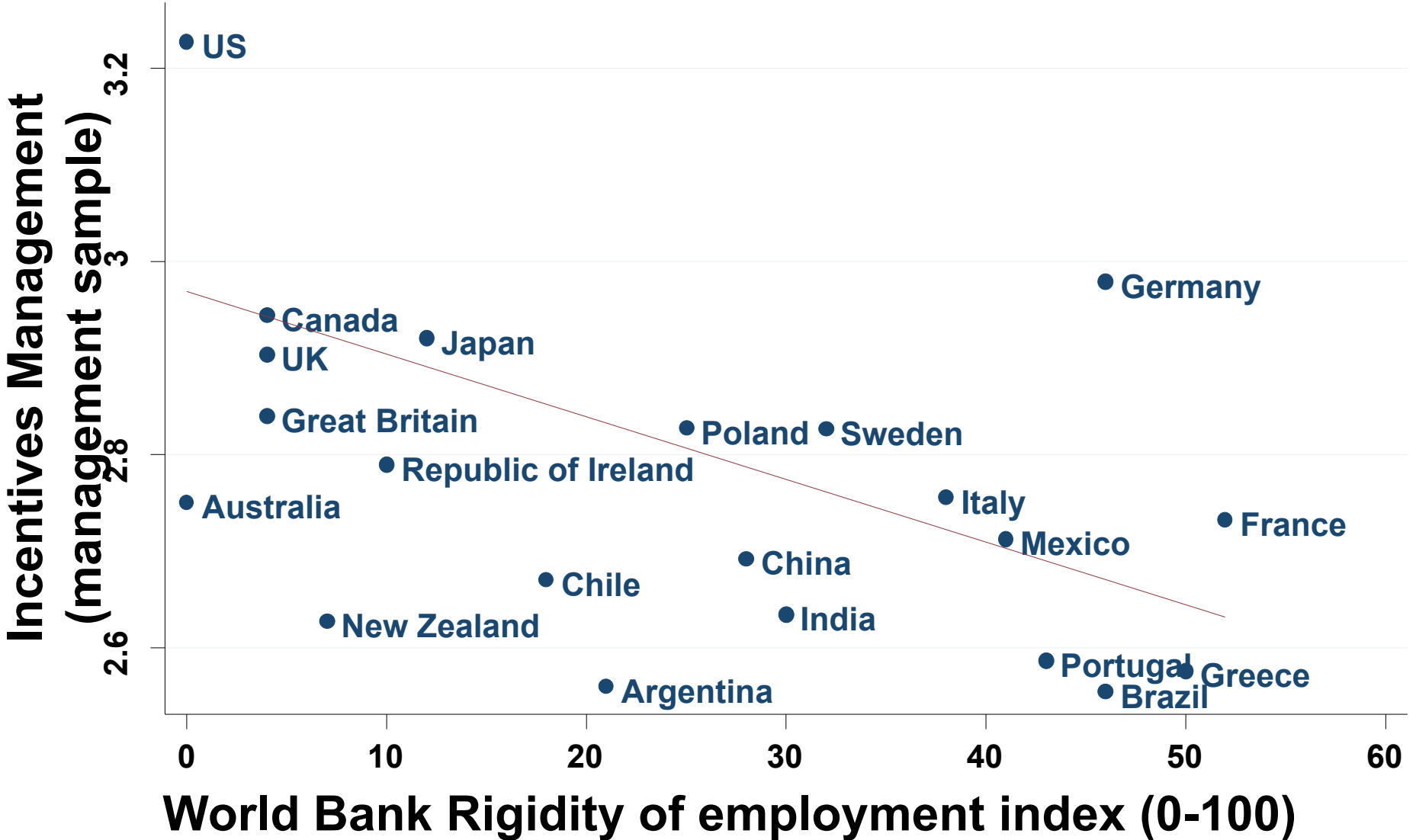


Sample of 7,262 manufacturing and 661 retail firms, of which 5,441 are purely domestic and 2,482 are foreign multinationals. Domestic multinationals are excluded – that is the domestic subsidiaries of multinational firms (like a Toyota subsidiary in Japan).

Nick Bloom and John Van Reenen, 991, 2012



LABOR MARKET REGULATION INHIBIT GOOD INCENTIVES MANAGEMENT



Note: Averaged across all manufacturing firms within each country (9079 observations). We did not include other sectors as we do not have the same international coverage. Incentives management defined as management practices around hiring, firing, pay and promotions. The index is from the Doing Business database

Nick Bloom and John Van Reenen, 591, 2012

<http://www.doingbusiness.org/ExploreTopics/EmployingWorkers/>



My favourite quotes

The traditional British Chat-Up

[Male manager speaking to an Australian female interviewer]

Production Manager: “Your accent is really cute and I love the way you talk. Do you fancy meeting up near the factory?”

Interviewer “Sorry, but I’m washing my hair every night for the next month....”



My favourite quotes

The traditional Indian Chat-Up

Production Manager: “Are you a Brahmin?”

Interviewer “Yes, why do you ask?”

Production manager “And are you married?”

Interviewer “No?”

Production manager “Excellent, excellent, my son is looking for a bride and I think you could be perfect. I must contact your parents to discuss this”



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Q1 *What types of performance incentives does Lincoln Electric provide, and how have these helped to drive performance*



Q2 *Do you think Lincoln electric's incentive systems would work outside the US? Prepare to discuss their success/failure in another country you know.*



Q3 *What are the downsides of Lincoln Electric's performance incentives – try to relate this to experiences you have had with strong performance incentives*



BACK UP



(13) Managing human capital

Score	(1): Senior management do not communicate that attracting, retaining and developing talent throughout the organization is a top priority	(3): Senior management believe and communicate that having top talent throughout the organization is a key way to win	(5): Senior managers are evaluated and held accountable on the strength of the talent pool they actively build
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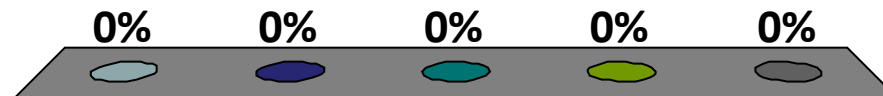


(13) Managing human capital

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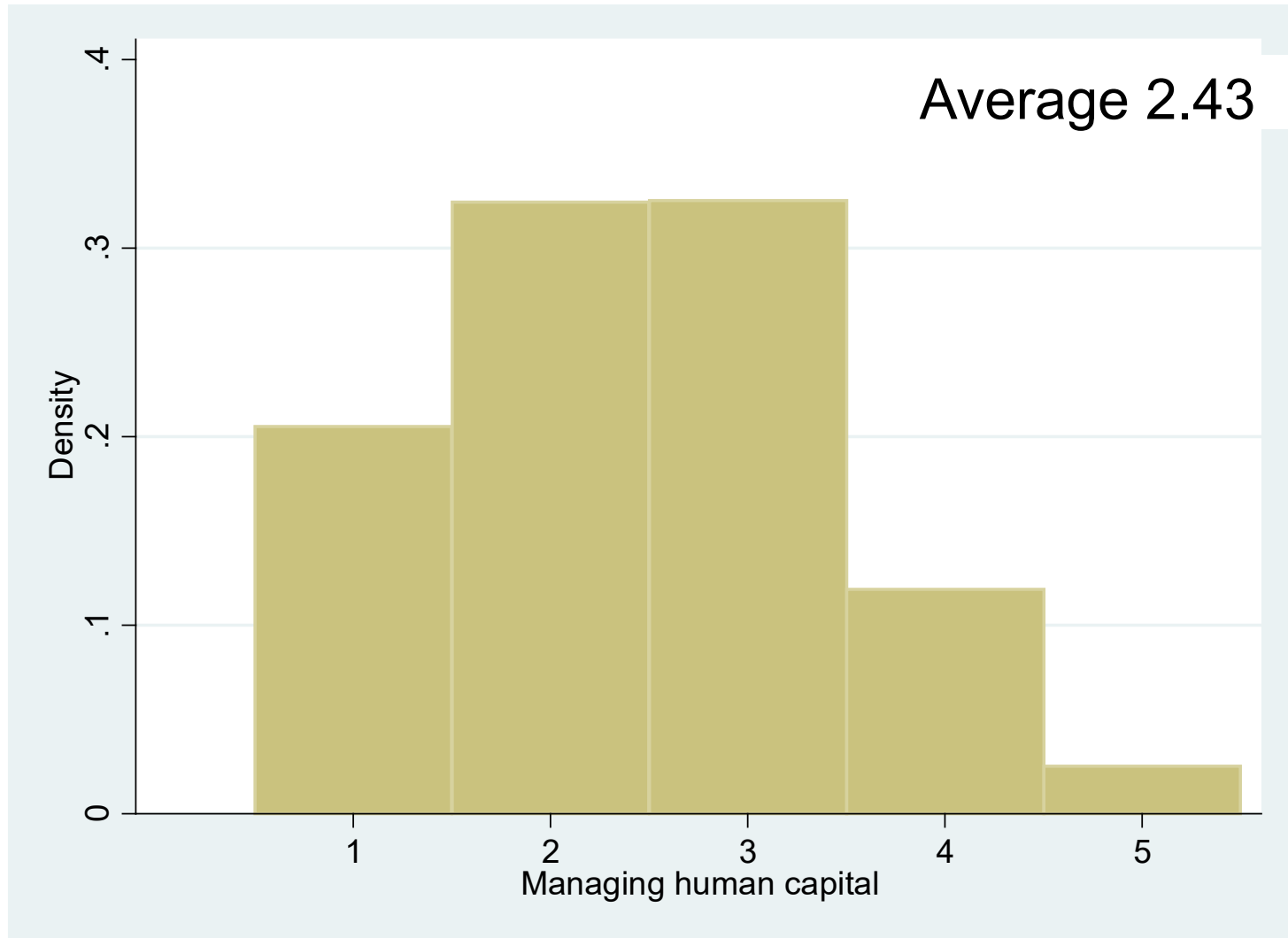
(5): Senior managers are evaluated and held accountable on the strength of the talent pool they actively build



Nick Bloom and John Van Reenen,¹ 591, 2012²



The survey scores to question (13), managing human capital – all countries, manufacturing



All countries, manufacturing firms (100 to 5000 employees), 9806 observations

(7) Consequence management

Score	(1): Failure to achieve agreed objectives does not carry any consequences	(3): Failure to achieve agreed results is tolerated for a period before action is taken.	(5): A failure to achieve agreed targets drives retraining in identified areas of weakness or moving individuals to where their skills are appropriate
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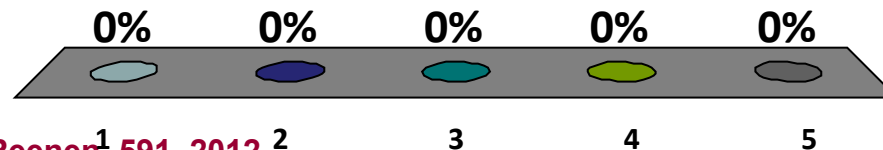


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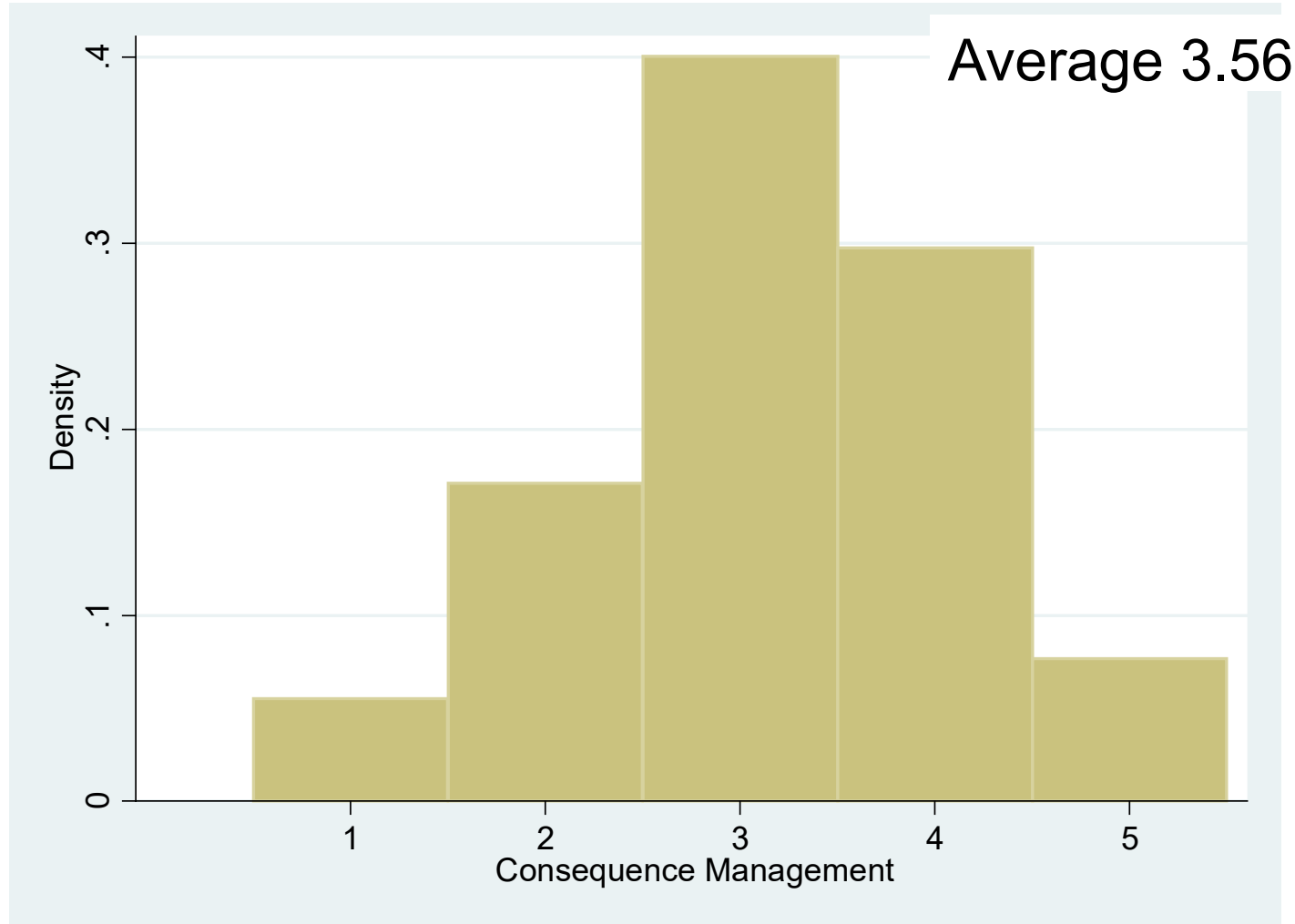
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Nick Bloom and John Van Reenen,¹ 591, 2012²



The survey scores to question (7), consequence management – all countries, manufacturing



All countries, manufacturing firms (100 to 5000 employees),
9820 observations

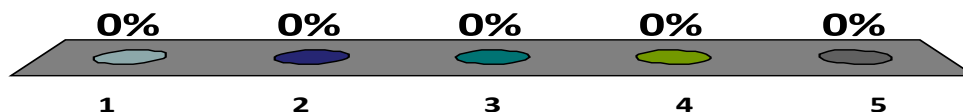
(6) Performance dialogue

(1): The right data or information for a constructive discussion is often not present or conversations overly focus on data that is not meaningful. Clear agenda is not known and purpose is not stated explicitly

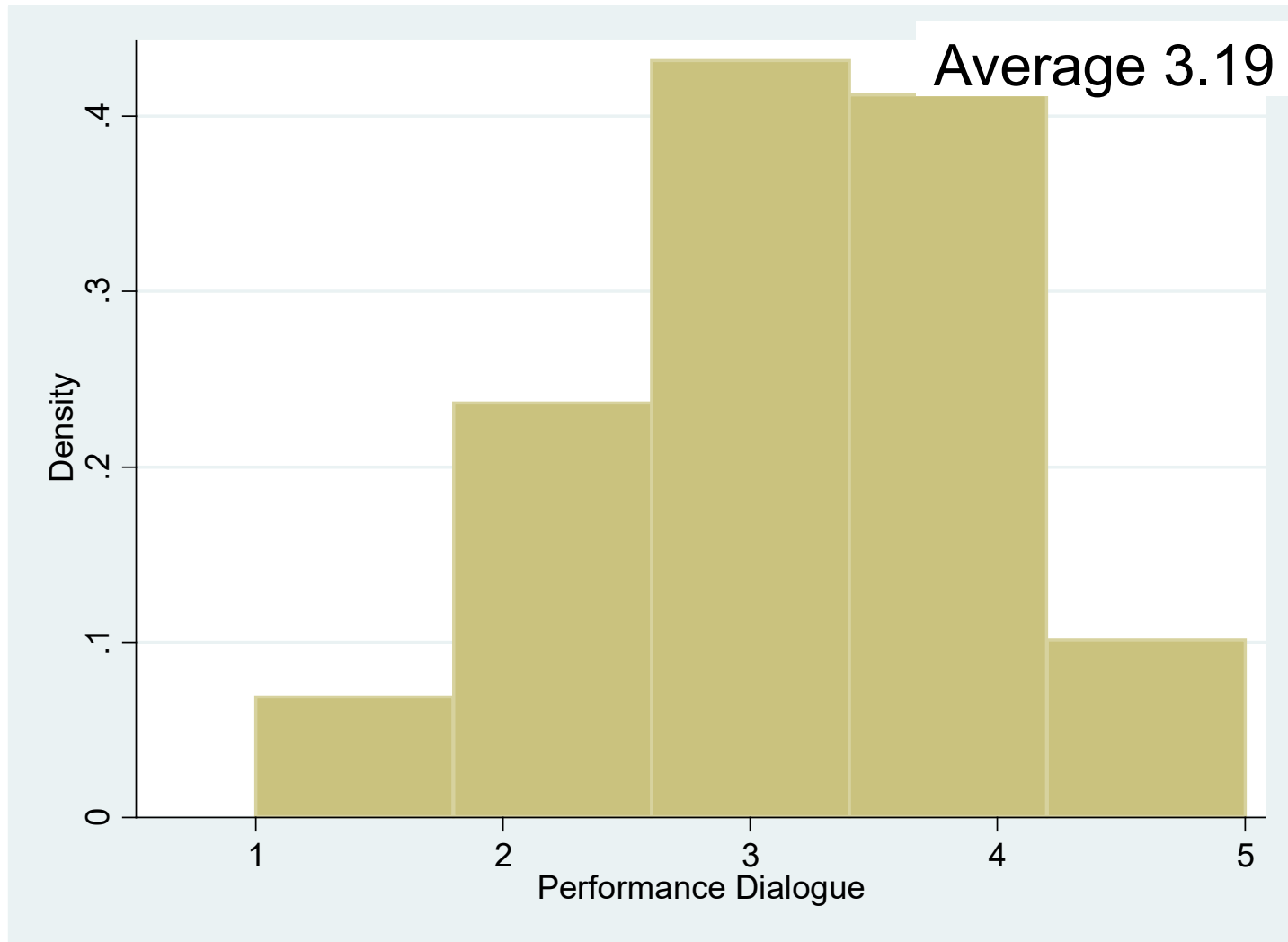
(3): Review conversations are held with the appropriate data and information present. Objectives of meetings are clear to all participating and a clear agenda is present. Conversations do not, as a matter of course, drive to the root causes of the problems.

(5): Regular review/performance conversations focus on problem solving and addressing root causes. Purpose, agenda and follow-up steps are clear to all. Meetings are an opportunity for constructive feedback and coaching.

Nick Bloom and .



Performance dialogue (6): all countries, manufacturing



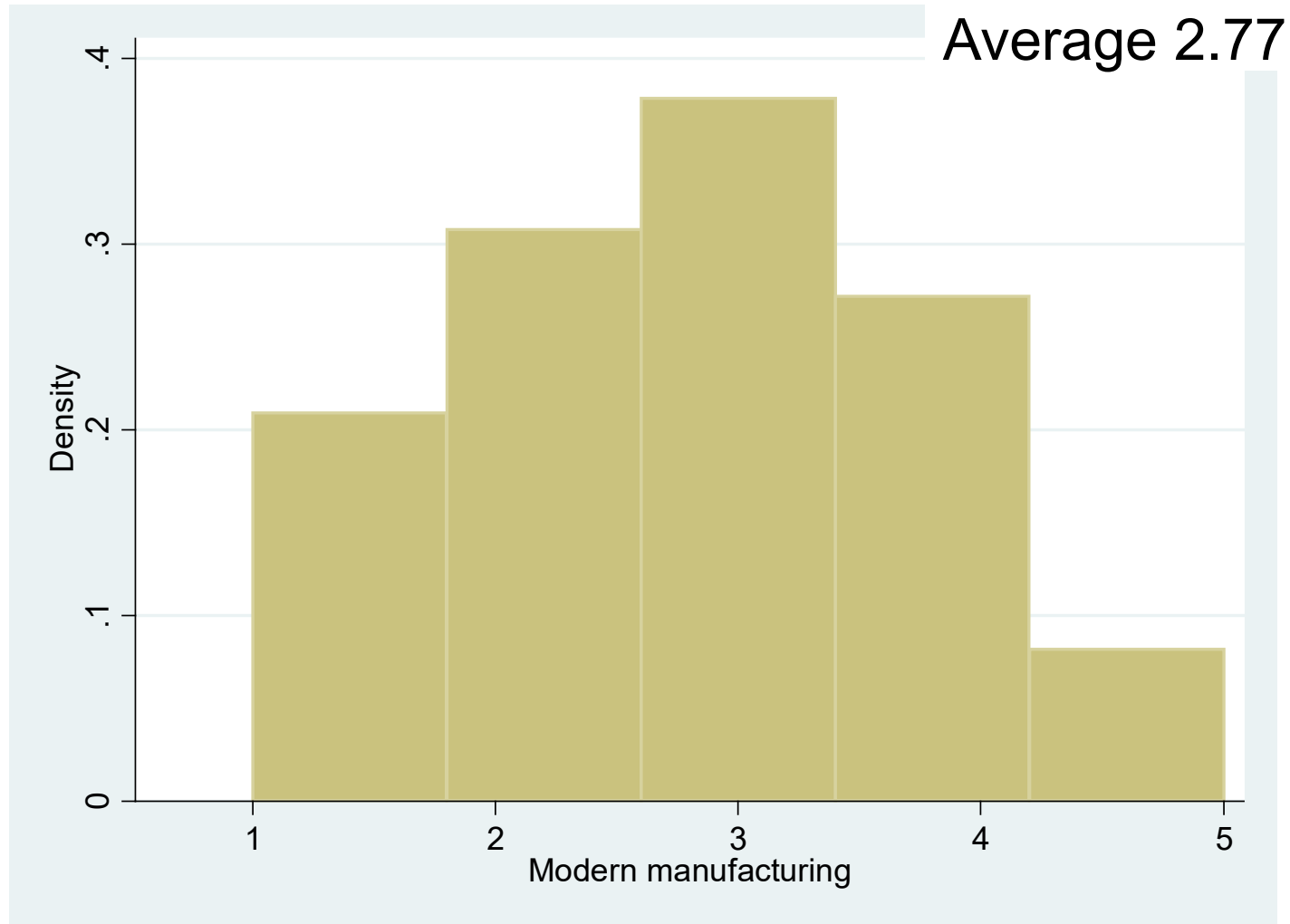
All countries, manufacturing firms (100 to 5000 employees),
9794 observations

(1) Modern manufacturing, introduction

Score	(1): Other than JIT delivery from suppliers few modern manufacturing techniques have been introduced, (or have been introduced in an ad-hoc manner)	(3): Some aspects of modern manufacturing techniques have been introduced, through informal/isolated change programs	(5): All major aspects of modern manufacturing have been introduced (Just-in-time, automation, flexible manpower, support systems, attitudes and behaviour) in a formal way
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Modern manufacturing (1): all countries, manufacturing



All countries, manufacturing firms (100 to 5000 employees),
9830 observations

Marking out a factory floor



Nick Bloom and John Van Reenen, 591, 2012

41



(5) Performance review

Score	(1): Performance is reviewed infrequently or in an un-meaningful way e.g. only success or failure is noted.	(3): Performance is reviewed periodically with successes and failures identified. Results are communicated to senior management. No clear follow-up plan is adopted.	(5): Performance is continually reviewed, based on indicators tracked. All aspects are followed up ensure continuous improvement. Results are communicated to all staff
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