introducing the types of basic operational practices that are standard in European, Japanese and US factories, leading to a rapid improvement in performance.

So in summary, management practices in developing countries appear extremely poor on average, and this appears to hold back economic growth. But good management is a technology and can be spread to developing countries through good policy and direct assistance. This should help firms in developing countries to improve productivity and growth, enabling India to replicate China's stunning success in reducing poverty.

Further Reading

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Managing Development in India
by Nick Bloom

Prior management practices in India and elsewhere are holding back economic growth. Good management is a technology, and it can be spread to developing countries through good policy and direct assistance. This should help firms in developing countries to make significant productivity improvements.

The biggest single reduction in poverty in the history of mankind was achieved by the industrialisation of China from 1978 to 2000. About 300 million people were lifted out of poverty in 30 years, an improvement in human welfare on an unprecedented scale.

India has yet to achieve this level of poverty reduction through growth, a primary reason for which is that its manufacturing firms have not achieved the rapid productivity gains seen in China. Firms in the 1990s and 2000s, improving Indian management practices could therefore play an important role in addressing this failing. This represents one of the simplest, and potentially most effective, development tools.

Measuring Management Practices
In recent years, I have been involved in a large international project with SIEPR at Stanford University and the CEP at the London School of Economics to investigate and compare management quality in China, India and a number of developed countries (Bloom and Van Reenen, 2009). During the summer of 2010, our team contacted over 4,000 medium-sized manufacturing firms across Europe, India, Japan and the United States and spoke directly with plant managers about their firms’ management practices. In the summer of 2007, we extended this survey to China. Measuring management in a systematic way requires collecting the concept of good and bad management into a measurable application to different firms. We used an interview-based management practice evaluation tool that

About the Author
Nick Bloom is an assistant professor of economics at Stanford University. He is a research fellow of SIEPR. His work on the impact of uncertainty on innovator activity from much related work to SIEPR's management and organizational practices action. He previously worked at McKinsey & Company, and HM Treasury at the London School of Economics.
defines and scores from 1 (worst practice) to 5 (best practice) across 18 of the key management practices that appear to matter to industrial firms, based on McKinsey’s extensive experience in working with thousands of companies across several decades. (For full details of the survey methodology, including all the questions, see Bloom and Van Reenen, 2007.)

The 18 practices fall into four broad areas:

• Target setting: Do companies hire, develop and keep their most promising managers, even if the two don’t tally?
• Incentive setting: Are companies hiring, developing and keeping the right people and providing them with incentives to succeed?

For each company in the study, researchers interviewed one or two senior plant managers, who knew only that they were taking part in a “research” project. These managers were selected because they are senior enough to have a reasonable perspective on what happens in a company but not so senior that they might be out of touch with the shopfloor. The interviews relied on open questions and the interviewers were trained to probe for details of practices on the ground.

The interviews were run by an international team of postgraduate students (mainly MBAs), who worked from CEP postgraduate students (mainly MBAs), who worked from CEP in a specially created survey team based at the University of London and the Oxford Said Business School and led by an international team of 47 experts. This was a 24-hour probe for details of practices on the ground. (1=worst practice, 5=best practice) by country

Figure 1 - Chinese and Indian Firms Are the Worst

Average score on the 18 management practice questions

Domestic Firm, Family Owned

Domestic Firm, Non-Family Owned

Foreign Multinational

Foreign Domestic

Average score on the 18 management practice questions

Average score on the 18 management practice questions

Average score on the 18 management practice questions

Average score on the 18 management practice questions

Figure 2 - The Average Chinese and Indian Firm is Better Managed Than About 15% of U.S. Firms

Aggregate score on the 18 management practice questions

Average score on the 18 management practice questions

Average score on the 18 management practice questions

Average score on the 18 management practice questions

The research finds that Chinese and Indian firms are among the world’s worst at management practices. The differences are most striking for practices that require large investments: these two countries are not only the laggards in manufacturing, but also underperform in terms of incentive structures and people management. By comparison, firms from more developed countries— Germany, Japan, Sweden, the United States—are well managed France, Italy, Poland and the U.K. are all solidly middle-ranking, which worryingly for Portugal and Greece, and the United States average slightly better than those in China and India. This suggests that the OECD countries’ advantages in management practices should not be overestimated and that China and India may be catching up. Where’s more, although the average Chinese and Indian firm perform badly, this disguises tremendous variation in management practices within each country. The best Chinese and Indian firms are as well managed as those in the United States (see Figure 2).

Indeed, rather alarmingly for the Americans, many of their firms are actually worse managed than the average Chinese and Indian firms. We find that about 15 percent of U.S. firms are more poorly managed than the average Chinese and Indian firm. And while roughly one-third of these well-managed Chinese and Indian firms are foreign multinationals, two-thirds are excellently run domestic firms.

Another notable result illustrated in Figure 2 is the marked variation in management practices across different ownership categories. We find that multinational firms are well managed everywhere. These firms are typically the Chinese and Indian manufacturing operations of successful European, Japanese and U.S. firms, which have transformed their local management practices. In stark contrast, foreign joint ventures—in which foreign and domestic firms share ownership—are barely managed. Most of these joint ventures are located in China. They date from regulations implemented in 1979, which required foreign investors to join ventures with local firms in order to gain entry to the market. (Bloom and Van Reenen, 2006)

In recent research with Santi Bandyopadhyay and John Roberts at Stanford University and the Indian Institute of Management, Ahmedabad, we have been collecting data on firm performance, workplace practice, family business, etc., through repeated visits to firms in India and China. These visits have been conducted in the past five years with more than 300 firms, which have been categorized into four ownership types: Domestic Firm, Family Owned; Domestic Firm, Non-Family Owned; Foreign Multinational; and Foreign Domestic. We find that foreign multinationals appear to have the highest management practices, followed by non-family owned domestic firms, and then family owned domestic firms. In contrast, government and family-run joint ventures (in which foreign firms share ownership with local firms) are the worst managed.

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