Improving productivity through better management practices

Up until recently, economists studying productivity lacked any robust way to quantify basic aspects of management practices. By creating the World Management Survey (WMS), ***John Van Reenen, Nicholas Bloom,*** *and* ***Raffaella Sadun*** *offered the first robust evidence on the wide range of management quality across firms and countries, and on the relationship between management practices and productivity. Their research provided evidence for designing industrial strategies to tackle low productivity.*

Impact Case -- Research Excellence Framework (REF)

There is a long history of research on the causes and implications of variations in productivity across firms. Differences in management practices are now widely recognised as having a central role in these productivity differences. Until recently, however, empirical economists had largely ignored management as a factor, in part because they lacked any robust way to quantify basic aspects of management practices.

In the UK context, the so-called “productivity puzzle”, the slowdown in productivity growth in the UK since the Great Recession, has been a particular focus of concern for economists and policymakers. Understanding what lies behind this poor productivity, and establishing what role management practices might play, is the first step in designing effective policy interventions to improve it.

What did we do?

In 2004, we established the World Management Survey (WMS) to collect and measure management practice information from hundreds of medium-sized firms, initially in the US, UK, and France. Our novel methodology allowed interviewers to obtain information about core management practices used by organisations across different sectors, and to evaluate and score these based on how they would be expected to impact efficiency.

These data provided the first robust evidence on the wide range of management quality across firms and countries, and, crucially, on the relationship between management practices and productivity. It showed that managerial practice was strongly associated with firm-level productivity, profitability, stock market valuation, and firm survival. This scoring builds up a picture of management practices in several dimensions likely to improve a firm’s productivity, particularly around monitoring (tracking meaningful data on what goes on in a firm), targets (setting stretching but achievable goals), and people (promotion, pay, and hiring).

To date, more than 20,000 interviews in over 35 countries have been undertaken for the WMS. Its focus has extended from medium-sized manufacturing firms to include (among others) hospitals, retail stores, and schools. Reviewing our findings over WMS’s first 18 years, we confirmed a significant link between management practices and productivity, suggesting that between a quarter and one-third of cross-country and within-country total factor productivity gaps could be attributed to management. Research with the US Census Bureau, based on a survey of 35,000 manufacturing plants, further showed that management practices account for more than 20 per cent of total variation in productivity. This model of working directly with national statistical agencies has now been extended to many countries, including the UK, where we launched the Management and Expectations Survey (the latest wave took place in 2020).

Our research has also demonstrated that management practices affect the outcomes of other types of investment. For example, in industries that make intensive use of information technologies (IT), US multinationals obtained higher productivity from IT than non-US multinationals even when located in Britain or other parts of Europe. Moreover, this difference could be almost entirely explained by the different forms of managerial capability. This helps to explain why so many new technologies produce such disappointing results, as the tech spend needs to be complemented by organisational innovations driven by better management. We calculated that around half of the faster productivity growth between the US and Europe in the decade after the mid-1990s could be accounted for by managerial differences.

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Crucially, variation in the quality of management practices is shown to be related to structural characteristics that can be influenced by policy interventions. The first of these is market competition. This improves management both by driving out badly managed firms, and by providing an incentive for managers to improve performance. Our research on hospitals, for example, showed a strong incentive effect of competition on management quality – and health outcomes for patients.

WMS data also suggest that firms owned and managed by descendants of the founders (especially eldest sons) tend to have the worst management scores. We therefore recommended against tax incentives to protect family firms, which exist in many countries (including the UK). Our research also supported recommendations to improve access to advice on better management practices, as poor information is a factor in inhibiting improvements in management.

What happened?

The World Management Survey has generated robust, large-scale data to support the first empirical analyses of the relationship between management practices and productivity across firms, industries, and countries. These insights have important implications for policymakers and for private and public sector organisations.

Our research has been particularly influential in media, economist and policymaker debates about the so-called UK "productivity puzzle" and the narrative that has emerged to identify causes of and solutions to this puzzle. This includes being cited in an influential 2017 speech by Andy Haldane, then chief economist of the Bank of England, who confirmed our work has informed the Bank's work on productivity.

The research has clarified that at least some of the structural catalysts for poor management practices can – and should – be influenced by policy interventions. Several UK policy initiatives have responded to this, including the Business Productivity Review conducted in 2018/19 by the Department for Business, Energy and Industrial Strategy (BEIS). Our message that industry bodies and firms should focus on improving management practices has been widely embraced in private and public sectors. Publications by the Confederation of British Industry (CBI), for example, identify management skills as a key area for improvement for British businesses.

The focus on management quality has informed the creation of business- and government-led initiatives aimed at increasing the diffusion of best practices to boost firm-level productivity. These include a series of measures announced in the industrial strategy in 2017, including the Business Basics Programme (BBP), which provides grants to design and test innovative ways for small and medium enterprises to improve productivity, including through management practices. Similarly, Be The Business (BTB) provides businesses with access to interactive benchmarking tools, peer-to-peer mentoring, and structured executive leadership and management training. In 2021, a new GB £0.5 billion Help to Grow government training scheme was launched to address the management practice and skills gap.

The research has also had a significant impact beyond the UK, with several countries using its data and insights to inform their own industrial policies, including Australia, France, and New Zealand. As a 2017 World Bank report noted: "the WMS initiated by Bloom and Van Reenen … has permitted a quantum leap in the comparative quantitative analysis of management practices and their implications for productivity and innovation."

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Notes:

- *This blog post appeared first as an LSE Research Excellence Framework (REF) impact case study.*
- *The post represents the views of its author(s), not the position of LSE Business Review or the London School of Economics.*
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