International Growth Centre

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Key lessons in management for developing countries

Good management seems like an obvious ingredient for better economic performance. Yet there are huge gaps between the best and worst firms and there are important lessons for countries looking to raise their game

From Basil Fawlty in the 1970s to David Brent more recently, the bad manager has long been an internationally acceptable figure of fun. Why is this so? Probably because everyone instinctively knows that good management leads to more successful firms.

Yes despite this, it is clear that how management is practised varies widely across the world and that closing the gap between the worst and best performers is a key ingredient to boosting economic growth.

As Professor Chris Woodruff, Research Director of the IGC Firms Programme, puts it: “Firms at different income levels differ in their management practices.”

Some of the clearest evidence has come from a project carried out by Professor John Van Reenen of the London School of Economics and Professor Nicholas Bloom of Stanford that studied management practices at 15,000 firms in 32 countries.

It showed that there was a correlation between the countries with the best average management scores and those with the higher productivity levels and the greatest economic output per person.

Skills transfer

However Van Reenen says what is even more fascinating is the huge differences within countries. For example in both India and the United States there are excellent performers but a long tail of poor managers.

He did a follow-up study in 28 garment firms in India that found that those that implemented a five-month programme run by Accenture achieved 20% higher productivity within just one year compared with those that did not benefit.

They key questions are how can companies eliminate the management deficiencies that are holding them back and what steps can policymakers apply in their own countries.

One finding that sheds some light on this is that multinational companies tend to outperform domestic companies – wherever they are operating. This would imply that skills are transferable and that countries with a weak management base should actively encourage foreign direct investment.

“Studies show that foreign investment is a way of improving quality on many dimensions but they do also bring in better management practices,” Van Reenen says. “So opening up not only leads to more investment but also to an improvement in management practices.”

Strong competition is also associated with better management – firms that reported having several rivals tended to score well. The lesson here is that governments should remove barriers to new entrants into markets from home and abroad, lower trade barriers, and establish a robust regime to police free competition and stamp out monopolies.

Failing family firms

A more worrying finding for developing countries is that family-owned firms where a member of the clan ran the business are the worst performers of all business types. Van Reenen believes this is simply because these firms are not looking to a wider potential talent pool.

He recommends family firms be encouraged to think about succession planning. However this may meet opposition in some countries. Louis Kasakende, Deputy Governor of the Bank of Uganda, says that trust is a key factor. “Family businesses have a fear of opening up because they believe they will dilute their ownership,” he said.

Finally there is clear evidence that firms with staff with higher average education levels – whether in the boardroom or the shop floor – outperform their rivals.

While the recommendations might be clear, applying them will be more tricky especially in developing countries. Faisal Farid, a Pakistani entrepreneur who has worked for PepsiCo and is now managing director of Maxim International, a dairy feed company, says applying these lessons will be challenging for small firms.

“How do you apply these concepts to 10- or 20-employee firms which in most developing firms provide 80% of the employment and 50 to 60% of GDP?” he asks. “You can’t use the same tools such as promotions.”

Size matters

Van Reenen acknowledges that size does matter and that it is not practical to survey small firms. However he points out that the challenge is to ensure that as small and micro firms grow, they do not carry on with the traditional management practices and instead embrace the world-class standards that are most successful at helping medium and large companies grow.

“What we have to think about here is that when a firm gets to a certain size the way you manage it informally no longer works and you need to think about ways in which you change the management system,” he says. “It comes in at a certain firm size threshold and I think even at 20 or 30 employees some of these things are quite relevant.

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Professor Ijaz Nabi, **IGC Country Director for Pakistan**, says there are also more imaginative ways of acquiring management skills. He points to examples in the garment industry where foreign firms that have given guarantees on the volume of production they would purchased have engaged with the suppliers to improve their management practices.

Van Reenen tells a story that sheds light on both the role of foreign investment and the issues that arise with family-owned firms. Nike wanted to improve the management practices at one of its Indian suppliers. When the CEO resisted the overtures, it came down to his own nephew, who worked for the firm, to persuade the family elders to open up to change. "There was incredible resistance and that is exactly the problem."

It is easy to dismiss management as a fad. Fifteen years ago airports bookshelves groaned under the weight of books praising the management skills at Enron, the US energy trading company that failed spectacularly in 2001. But thanks to research by Van Reenen and colleagues it is clear there are important lessons governments, shareholders and managers themselves can learn if they want to improve their productivity.