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Figure 3:

Foreign multinationals are well managed in China and India, but foreign joint-ventures are not

Average score on the 18 management practice questions (1=worst practice, 5=best practice) by country

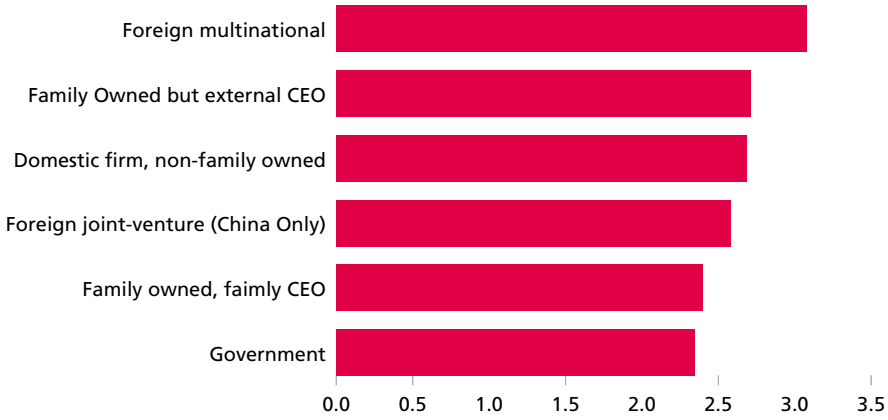
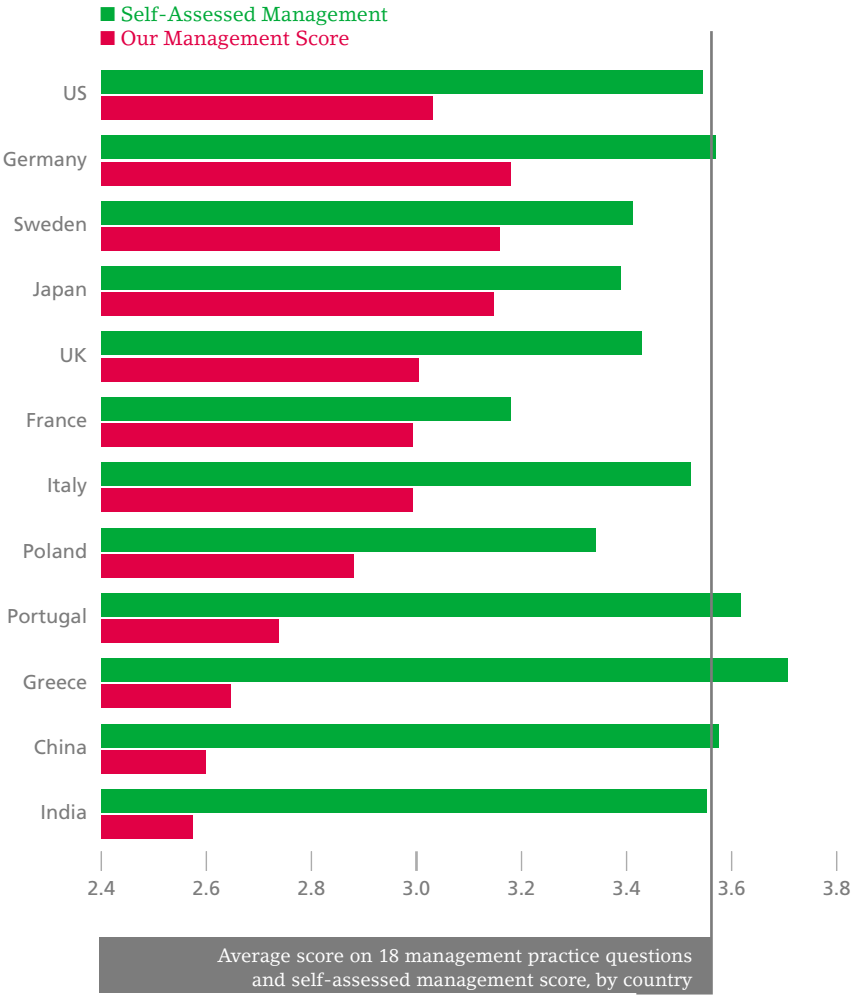


Figure 4:

Chinese and India managers were more over-confident then European, US and Japanese managers



Note: Self-assessed management the response to the question "Excluding yourself, how well managed is your firm on a scale of 1 to 10, where 1 is worst practices, 10 is best practice and 5 is average". Scores are divided by 2 to put them on the same scale as our management scores

Government firms are also extremely badly run in both countries (and indeed across all the countries in the sample), with particularly weak management of workers and a lack of modern manufacturing techniques.

In recent years, there has been a strong push in former Chinese state-owned firms towards dispersing ownership among their workers. With reforms to India's legal system, government and family-run firms may diminish in importance there as well. This may pave the way to a brighter future for their manufacturing sectors if firms can adapt their practices to match those of their competitors.

Managerial over-optimism is not equated with strong management practices

Since good management is strongly linked with good performance, why is it that not all firms make a priority of improving their practices? To examine the possible causes of this disconnect, we asked managers as a final question in the interview to assess the overall management performance of their firm. To avoid false modesty, they were asked to exclude their personal performance from the calculation.

The answers indicate that Chinese and Indian managers are particularly over-optimistic about their management practices. The average Chinese and Indian firm's self-assessment is that its management is better than the average French, Italian, Japanese, Polish, Swedish, UK and US firm.

This is particularly striking given how poorly managed the average Chinese and Indian firms are in comparison with their European, Japanese and US counterparts. In fact, the only country with distinctly more optimistic managers is Greece, which has the third-worst managed firms in the sample.

Chinese and Indian firms tend to be highly centralised

More than management practices, the degree of management autonomy within a firm can affect its productivity, especially in terms of its ability to implement processes and make timely decisions. We find huge variations in the extent to which power is centralised within firms' corporate headquarters rather than delegated to individual plant managers.

The corporate headquarters of some firms treat their production plants almost as independent entities, letting plant managers make decisions on hiring, investment, sales and product development. But others directly control almost every aspect of their plants' activities, leaving little decision-making power to plant managers.

To investigate this variation in decentralisation, we asked plant managers about the degree of autonomy they had in four activities: hiring new full-time workers; making capital investments; controlling their sales and marketing; and introducing new products. We combined these four indicators into one overall measure of plant managers' autonomy, where high values indicate that decisions are decentralised to plant managers and low values indicate that they are taken at corporate headquarters.

Figure 5 plots this measure of autonomy across countries. The substantial variation is evident as firms in Northern Europe and the United States are typically decentralised compared with the very hierarchical ones in Asia and Southern Europe.

In related work (Bloom, Sadun and Van Reenen, 2007), we find that this degree of decentralisation is positively related to the productivity of information technology (IT). Firms in which managers and workers are more autonomous appear to make much better use of IT, presumably because their greater operating freedom enables them to experiment and adapt the IT to their local environment.

This highlights a potential future problem for Chinese and Indian firms. Their highly centralised management structures are likely to be less effective as production technologies become increasingly computer-intensive.

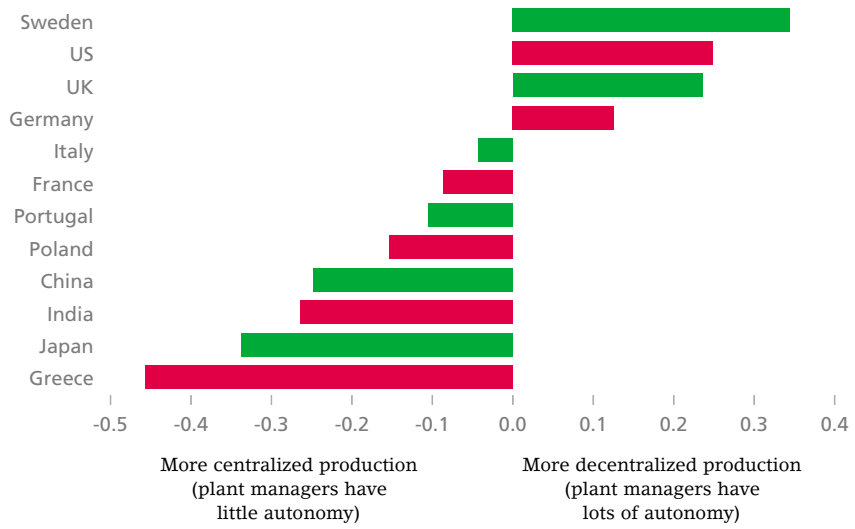
The future of Chinese and Indian manufacturing

While the results of our survey highlight the fact that Chinese and India firms have below average management practices, this is mainly due to a long tail of poorly run government and traditional family firms. As the two countries develop, both in terms of local markets and ownership structures, the proportion of these firms should continue to shrink rapidly.

The newly organised and changing firms that adopt competitive best practices should push average standards of management practices towards those in Europe and United States. Thus, even as Chinese and Indian wage rates and raw materials costs start to rise, the negative effects could be offset by an improvement in management practices.

But a possible cloud on the horizon for these countries is the hierarchical organisation of their firms, which, as our research shows, impedes the effective adoption of IT. Whether Chinese and Indian firms can also modernise the organisation of their firms alongside their management practices is a key question, and one that CEP researchers will continue to investigate.

Figure 5:
Asian firms are much more centralized (hierachical) then Northern European and US firms



Average degree of plant manager autonomy over hiring, investment, sales & new products, by country

Centralised management is likely to be less effective as production becomes more computer-intensive

This research was jointly funded by the Advanced Institute of Management Research, the Anglo-German Foundation, the Economic and Social Research Council and the Kauffman Foundation.

Nick Bloom is an assistant professor of economics at Stanford University and a research associate in CEP's productivity and innovation programme.

Rebecca Homkes is management research project manager in CEP's productivity and innovation programme, and has been overseeing the Chinese survey.

Further reading

Nick Bloom, Stephen Dorgan, John Dowdy, Christos Genakos, Raffaella Sadun and John Van Reenen (2007),'Management Practices and Productivity: Why They Matter' (http://cep.lse.ac.uk/management/Management_Practice_and_Productivity.pdf).

Nick Bloom and John Van Reenen (2007), 'Measuring and Explaining Management Practices across Firms and Nations', *Quarterly Journal of Economics* 122(4): 1351-408 (earlier version available as CEP Discussion Paper No. 716: http://cep.lse.ac.uk/pubs/download/dp0716.pdf).

Nick Bloom, Raffaella Sadun and John Van Reenen (2007), 'Measuring and Explaining Decentralisation across Firms and Countries', LSE/Stanford mimeo (http://www.stanford.edu/~nbloom/decent.pdf).