in brief...
Improving management in India

Firms in developing countries are typically managed badly. Research by **Nicholas Bloom** and colleagues, looking at large Indian textile manufacturers, finds that improving basic management practices has a huge impact on corporate performance.

As the previous article describes, CEP research has found systematic evidence of a strong relationship between firms' management practices and their performance. Our latest work has used field experiments to evaluate if differences in management practices lead causally to differences in performance.

To do this, we improved the management of a randomly selected group of large Indian textile firms and compared the impact with a group of similar 'control' firms – a total of 20 firms, each with around 300 employees. All 20 firms were given an initial management diagnostic and then the first group received four months of free consulting from a major international management consultancy.

To evaluate the productivity benefits of improved management, we collected extremely detailed performance metrics on output, inventory and quality at the firms. The evidence suggests that Indian factories are typically disorganised, with inventories and spare parts chaotically organised, inadequate performance tracking and extremely poor quality control.

The consultants addressed these problems by introducing the types of basic operational practices that are standard in European, Japanese and US factories. The practices had massive effects on performance, cutting quality defects by 50%, reducing inventories by 40% and increasing overall productivity by 10%. They also increased firms' profits by about $200,000 and improved owners' ability to expand their firms.

So why have these practices not been adopted before? Our evidence suggests that one key factor was informational constraints: the firms were not aware of the importance of modern management practices.

Why doesn't product market competition drive the badly managed firms out of business? One reason is that the growth of well managed firms is constrained by the number of adult males in the owning family who can fill senior managerial positions. At the same time, entry by new firms is limited by a lack of finance, and competition from imports is restricted by heavy tariffs.

Finally, what are the policy lessons? First, competition and foreign investment should be enhanced by removing the legal, institutional and infrastructural barriers that limit multinational expansion in India, which in turn limits knowledge transfer about modern management practices. Abolishing tariffs would also help, as Indian firms would be driven to improve management practices to survive against lower cost imports from countries like China.

Second, improving the legal environment would expand the scope for well-managed firms to grow and drive out badly managed firms. At present, the rule of law is weak and fraud prosecutions are extremely hard, which makes owners wary of letting outside managers have much control over their firms.

Third, many of the shortcomings of Indian management practices could be addressed through more widespread training in basic operations management such as inventory and quality control. Three-month courses provided by a combination of industry, government and universities could address the problem of firms not implementing best practices on their own simply because of a lack of information and knowledge.

A stock room in one of the Indian firms before intervention

This article summarises 'Does Management Matter? Evidence from India' by Nicholas Bloom, Benn Eifert, Aprajit Mahajan, David McKenzie and John Roberts, CEP Discussion Paper No. 1042 http://cep.lse.ac.uk/pubs/download/dp1042.pdf).

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