



# Private Enterprise Development in Low-Income Countries

## In Brief: Management in Pakistan: First Evidence from Punjab

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*What explains differences in productivity in developing countries? Working with the State Bank of Pakistan and the Pakistan Bureau of Statistics, we have conducted what is to date the largest survey of management practices in Punjab, Pakistan, to understand the role of management practices as an important factor in explaining variation in firm productivity.*

### Introduction

The causes and consequences of the vast inequality in productivity in developing countries has been the subject of research for decades and will doubtless continue to be so even as we dig deeper into the mysteries of economic development. In recent years, researchers have started to pay attention to establishment-level management practices in order to empirically investigate the relationship between management and performance.

In a partnership between the CEP, the State Bank of Pakistan (SBP) and the Pakistan Bureau of Statistics (PBS), we extended the US Management and Organizational Practices Survey (MOPS) – the largest survey of management practices to date - for the first time to Pakistan. We conducted face-to-face interviews of plant managers in almost 2,000 establishments in Punjab Province and the Capital Territory of Islamabad.

### Methodology

The management practices section of the MOPS comprised 16 multiple-choice questions about the establishment in three areas. First, data-driven performance monitoring practices section asked firms about their collection and use of information to monitor and improve the production process. Second, the targets section asked about the design, integration and realism of production targets. Third, the incentives section asked about non-managerial and managerial bonus, promotion and reassignment or dismissal practices. We aggregate the responses into a single summary measure of structured management scaled from 0 to 1, where 0 represents an establishment with no adoption and 1 represents an establishment with full adoption of structured management practices.

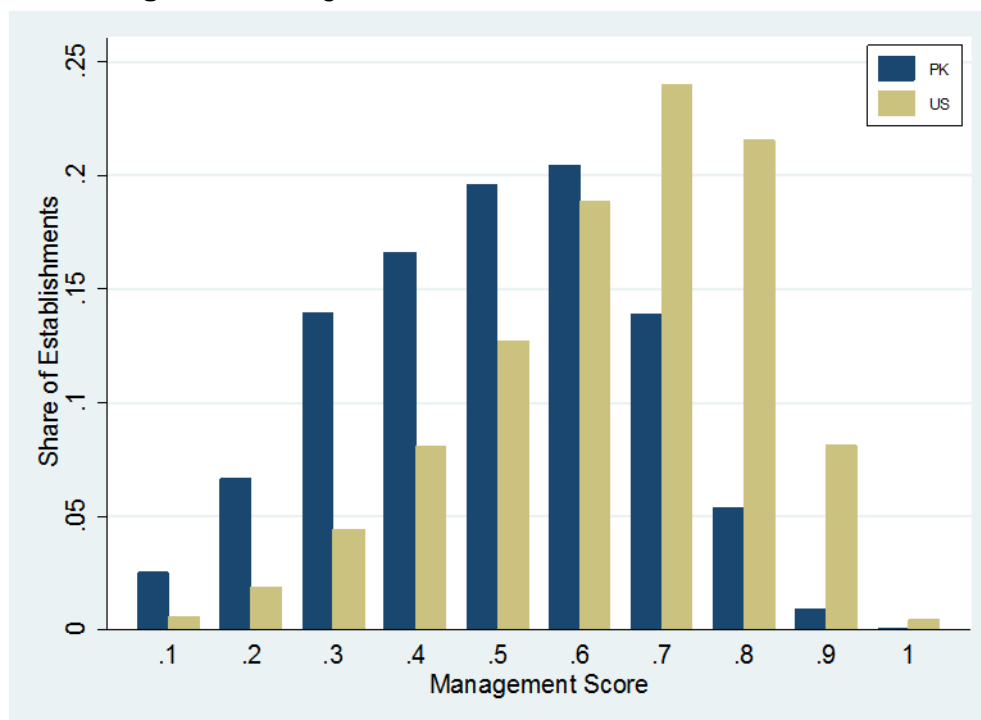
### Findings

The data collected allow us to document a number of interesting findings. First, as in other countries there is tremendous variation in management practices across establishments (Figure 1). There is, however, a much lower degree of adoption of structured management practices in Pakistan than in the US. The average firm in Pakistan adopts 44% (0.44 in the management score 0-1 scale) of overall structured management practices, 52% of data driven performance monitoring practices, and 42% of incentives and targets. These numbers for the US are 64%, 67% and 62%, respectively.



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**Figure 1:** Management distributions in Pakistan and the US



*Notes:* The management score is the unweighted average of the score for each of the 16 questions, where each question is first normalized to be on a 0-1 scale. The ten bars display the share of establishments in bins of 0.10.

The dispersion of management scores is also higher in Pakistan: the 90-10 is (the difference between the bottom decile and the top decile) is 46% (21% to 67%) in Pakistan and 38% in the US (from 43% to 81%). This finding is reminiscent of the results in the macro misallocation literature showing that there is greater dispersion of productivity and size in developing countries than in developed countries.

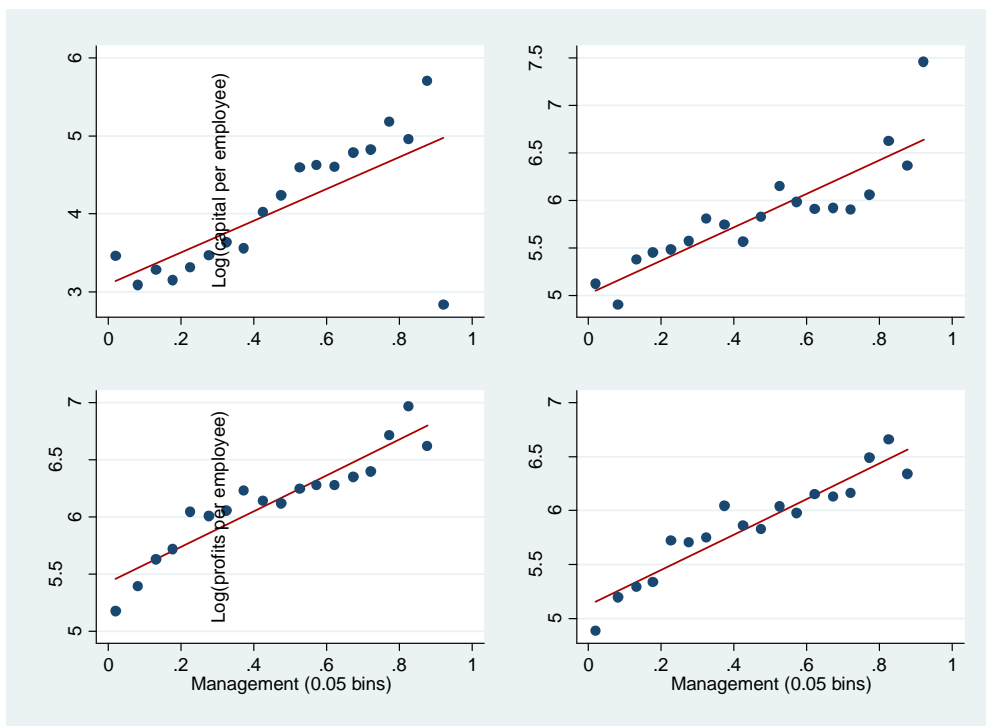
Second, establishments with more structured management practices seem to hire more employees, have more capital per employee, have higher labour productivity, higher profits per employee, and higher growth (Figure 2). Interestingly, the magnitude of the correlation is remarkably similar in Pakistan to the US: a one standard deviation improvement in management is associated with a 21% improvement in labour productivity in both countries suggesting a common (within industry) production technology.

Third, as with other countries, management scores are higher in establishments that are larger, older, which export, and which employ managers and non-managers with more skills. Conditional on these factors, however, establishments owned by non-Public Listed companies such as Private Limited, Partnerships and Individual ownership, seem to have higher management scores than establishments owned by Public Listed firms, the opposite from most other countries.



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**Figure 2: Management and Performance**



*Notes:* The establishment management score is the unweighted average of the score for each of the 16 questions, where each question is first normalized to be on a 0-1 scale, and averaged across establishments in bins of 0.05.

So where do managers in Pakistan learn about improved management practices? It seems the most common sources reported by managers are from external peers operating and interacting in the same sector such as external consultants (36%), customers (30%), trade associations (21%), competitors (20%) and suppliers (19%). Internal sources of improved management practices such as the headquarters seem to play a less important role (17%), opposite to what is found in the US where the headquarters is the most common source of learning (54%).

### Possible policy implications

Pakistan's ambitious target of 5.5% economic growth for the coming fiscal year calls for the identification of opportunities across all industries. Our research suggests that management practices in Punjab Province and the Capital Territory of Islamabad are poor, likely holding back their growth, and that low productivity and less structured management are significantly correlated. This evidence further confirms the relevance of management practices as a productivity enhancing tool in a developing economy setting.

A policy framework to improve management practices in Pakistan could include strengthening structural factors affecting management such as establishing a strong competition policy, opening to trade and foreign direct investment, improving human capital more generally through reinforcing basic education or stimulating university-industry collaborations, reducing barriers to entry that restrict firm growth, especially in the market for consultancy, and reduce distortions that favour family firms. Specific actions in this framework would involve the identification of areas of comparative advantage that could have the potential for growth, targeted interventions to improve managerial skills such as training, information-free benchmarking tools and demonstration projects.



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### Moving Forward...

This exercise has been a first step towards the understanding of the state of management practices in Punjab, Pakistan, raising the question of how well managed are establishments in other provinces and whether this explains any uneven growth within Pakistan. Moving forward, we plan to extend MOPS to firms in Sindh, Baluchistan and KPK provinces, which have been previously inaccessible to applied-micro researchers due to the lack of administrative data and difficulties in collecting data on the field (challenging law and order situation and difficult access). With this new data we aim to investigate the relationship between management practices and productivity, employment and growth as well as understand the drivers of management in other remaining three provinces of Pakistan.

For more information, please visit our website: <http://dsqx.sbp.org.pk/mgmtinpak/>.