

Management practices and public policy: an overview

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Abstract This paper introduces and summarizes this issue of the *Oxford Review of Economic Policy*, on management practices. We outline key concepts in the empirical study of structured management practices, then summarize each of the eight papers that follows. We conclude by speculating on future directions for research and policy development in this area.

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Introduction

Discussions about factors of production have been prolific in economics—along with the study of how such factors can be combined, through a given technology, for production. The role of managers and management practices—in combining such factors, and in adopting new technologies—has been recognized from the very first issue of the *Quarterly Journal of Economics* (Walker, 1887), though it has only been in the past couple of decades that it has been explored empirically in a more systematic way. Much of the earlier work focused on theory, featuring managers as principals or agents (e.g. Berle and Means, 1932; Fama and Jensen, 1983; Demsetz and Lehn, 1985)—or on specific case studies in which managers were seen as pivotal for a particular outcome. Recent leaps in computing power and unprecedented access to administrative datasets—as well as new survey methodologies—have reignited this important topic, and researchers have now amassed enough empirical evidence that it is feasible to draw broad policy implications and reasonable conclusions from the body of work.

This issue of the *Oxford Review of Economic Policy* provides an overview of recent empirical work on management practices, with an emphasis on the variety of ways in which government policy can help organizations to manage themselves more effectively. The purpose of this brief introduction is to set the stage for the characters who follow: we take the opportunity here to outline the general narrative arc of the journal

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issue, and to explain how we see the various different papers as complementing each other—and, ultimately, how we see the papers as suggesting innovative possibilities for policy development.

To set the scene, we must first understand what is meant by ‘management’. Should we speak here of the managers themselves, as individuals? Of the top management team? Should we include in our definition the role of mid-level supervisors? Or should we focus instead on bureaucratic processes? In this journal issue, we want to think about management primarily in terms of *practices and processes*. It is worth highlighting that we are specifically *not* focusing here on managers (or leaders and leadership). Understanding the effect of managers or leaders is certainly important, but we see it in this journal issue as a springboard and complement to the recent body of research that focuses on practices.¹ Rather, the focus of this issue is on the *practices and processes* that make up an organization’s day-to-day framework. In many respects, we can think of such practices and processes as providing a kind of supporting ‘scaffold’ structure in which managers operate.²

For example, consider a manufacturing firm with very few formal management processes in place: workers show up to work, pick up their tools, and start making widgets. Similarly, consider a school that provides little guidance, support, or feedback to its staff: a place where teachers arrive, go into their classrooms, and start teaching the content of the day. If the workers are excellent widget-makers, or the teachers are excellent communicators, then this kind of informal arrangement might function well—though would do so more as a result of idiosyncrasies than anything else. If such an organization is fortunate in having an effective individual as manager, again things might work well—but if a disorganized manager were in place, performance could quickly take a turn for the worse. Without a solid scaffolding, much is left to chance.

But consider instead a firm or a school that has a minimal set of formal processes in place, such that there is a basic level of organizational scaffolding to structure workers’ daily activities. The set of people who would work in such an organization is likely already different from that in an organization with no scaffolding (Bender *et al.*, 2018; Leaver *et al.*, 2019; Cornwell *et al.*, 2020), and when they arrive there is less left to chance: such workers have clear parameters of what they are expected to achieve and how. If this organization has a very poor manager, the workers will still have at least a basic clarity on what they are expected to achieve, and how their performance will be assessed; in many respects, this provides an effective ‘floor’ to the organization’s performance.

To be sure, one can imagine having too much scaffolding—rigid structures might, for example, start to limit workers’ ability to build effectively or creatively. For example, too much administrative burden on teachers can be detrimental to their work as educators if it takes away from important teaching or planning activities. Similarly, firms clearly need the organizational agility to adapt to new challenges; in the current COVID-19 pandemic, for example, many firms have pivoted quickly into different

¹ There is an active research stream considering the role of individual leaders, of time use of these leaders, and their characteristics in both the public and private sectors; see, for example, Bandiera *et al.* (2020).

² This metaphor is inspired by Gillian Hadfield’s work, that views formal contracts as ‘scaffolds’ for informal, relational contracts between organizations (Hadfield and Bozovic, 2016).

production processes to respond to drastic changes in product demand and working conditions. Effective management practices should be considered as structures within which working relationships can evolve and adapt.

This type of scaffolding has been shown to matter across all types of organizations: in a variety of settings, we now have robust evidence of clear positive relationships between strong formal management practices and better organizational performance; firms are more productive, hospitals are safer, schools have higher learning outcomes, and so on. Bloom *et al.* (2016) suggest management structures account for up to one-third of the gap in productivity between the United States and other countries. As such, it is important for policy-makers to understand how and where such structures matter.

So what can or should policy-makers do? How should they think about managers, management, and the development of both leaders and better processes in organizations? If these practices are useful, why have not all firms and organizations already adopted them? What are the main barriers to adoption, and how can the government help organizations overcome them? These are the kinds of questions that this issue of the *Oxford Review of Economic Policy* explores.

Part I: Setting the scene

In Part I of the issue, Daniela Scur, Raffaella Sadun, John Van Reenen, Renata Lemos, and Nicholas Bloom (Scur *et al.*, 2021) write about the coming of age of the World Management Survey (WMS)—an initiative for which those authors together form the core research team. Launched about 18 years ago at the Centre for Economic Policy at the London School of Economics, the WMS has been instrumental in systematizing the measurement of structured management practices in a wide range of organizations—manufacturing firms, retail outlets, hospitals, schools, and, more recently, adapted to university departments and public bureaucracies. Of course, the WMS hardly marked the first time that economists had studied structured management practices; the topic had certainly received attention in economics journals before, to say nothing of the very extensive study devoted to the issue by scholars in management science, strategy, and operations research, to name a few. But the WMS does mark a turning point in our collective understanding of structured management practices, for at least two reasons. First, the WMS draws on extensive sampling frames (representative frames where possible) to enable researchers and policy-makers to speak sensibly about the distribution of management quality across a population of different organizations. This is a stark contrast—and a clear improvement for policy interests—to the alternative previous practice of relying on isolated case studies. Second, the WMS systematizes and standardizes the measurement of structured management practices, allowing a potentially amorphous concept to be understood quantitatively in a high-dimensional space and, ultimately, through a single index.³

As Scur *et al.* (2021)—as well as other papers in this issue—describe the methodology and practices measured in some detail, we do not do so extensively here. In short,

³ As Scur *et al.* (2021) explain, the ‘original WMS method yields individual measures ranging from 1 to 5 across 18 different topics in manufacturing, 19 in retail, 21 in hospitals, and 23 in schools’.

the types of practices measured in the WMS and WMS-inspired surveys are generally basic, core types of practices: do managers have standard and transparent practices around the performance indicators used to measure the organization's outcomes; do they share this progress with staff, how, and how often; does the organization have an appropriate target-setting process based on its own past outcomes, future plans, and competitors; are these targets linked across the organization; do workers know they even have targets; and how are personnel hired, fired, and incentivized. This is by no means an exhaustive list—the paper discusses the many other important organizational design items that are ostensibly not part of the measure in service of tractability. It should be seen as a very basic set of practices, and indeed, it is astounding that even in these basic practices there is such substantial variation across organizations.

Of course, any time that economists reduce a big concept to a single number, there is some over-simplification and some need for care in interpretation—this, after all, is the nature of quantitative measurement (compare, for example, the concept of ‘national production’ with the statistic that is gross domestic product (GDP)). But with appropriate caveats in hand, the quantification allowed by the WMS has proved useful in allowing for quantitative comparisons of management qualities and management styles—as the numerous empirical examples in [Scur *et al.* \(2021\)](#)'s paper attest.⁴

The insights generated by the WMS are not limited to academic research, and in fact the tool itself and offshoots motivated by the methodology have inspired and equipped projects across a range of institutions. For example, since 2014 the World Bank has included data collection using these survey tools in 15 operations projects and 26 technical assistance, advisory services, and knowledge management products. The overall projects amounted to around US\$2.6 billion in direct IDA/IBRD lending to countries; while data collection was a tiny fraction of the total cost, the projects themselves were aimed at improving the quality of management across various sectors of government influence, including firms, schools, and hospitals. In that spirit, [Scur *et al.* \(2021\)](#) provide an extensive summary of possible policy levers that might encourage firms and other organizations to improve their management practices—and, in doing so, their performance. These are the themes explored by the other authors in the issue.

Part II: Policy and management practices in the private sector

The second part of the issue considers the role of policy in supporting management practices in the private sector. As discussed in Part I, management practices are a driver of TFP and, put simply, could improve aggregate production levels at current labour and capital endowments by ‘simply’ re-organizing the way firms combine them and organize that process. There is also evidence that this better organization yields improvements in outcomes, such as energy efficiency and worker well-being. As such, projects that aim to support firms in improving their practices have garnered interest from

⁴ The original index was built using simple standardization methods to keep the raw relationships as transparent as possible, but it has proven remarkably resilient to alternative (and more complex) index-building techniques such as Principal Component Analysis and the more recent [Anderson \(2008\)](#) index.

policy-makers across the world, focusing on domestic as well as international industry development.

Our discussion here begins with a fascinating historical perspective by Michela Giorcelli (2021). Giorcelli tracks the economic history of structured management practices in the US, and then considers the crucial role of policy in encouraging the diffusion of those practices in both Europe and Japan. This paper serves two complementary roles: (i) it provides useful historical context to underpin the discussion throughout the journal issue (emphasizing that the formal study of management practices has a rich and interesting past), and (ii) it provides specific historical case studies that show directly how government policy can help firms to improve the quality of their management. In particular, Giorcelli discusses the US government's 'Training Within Industry' programme during the Second World War (through which the government provided in-plant management training to a large number of manufacturing firms involved in the war effort), the 'Productivity Program' in Europe (involving study visits for managers of European manufacturing plants to US plants, followed by US consulting visits to European firms), and the creation of the Economic and Scientific Section in Japan under General MacArthur. Giorcelli argues that, in each of these cases, a cohesive government policy succeeded in improving the quality of structured management practices.

Of course, there are many contexts in which policy-makers may be keen to improve firms' management practices, but without resorting to the kind of large-scale coordinated implementations described by Giorcelli. The next paper in the issue explores exactly this theme. Here, David McKenzie (2021) summarizes evidence on the effectiveness of small business training in developing countries. His paper in this issue updates an earlier review piece (McKenzie and Woodruff, 2013). The earlier paper noted that most previous management training experiments had failed to find statistically significant impacts; as McKenzie explains in this issue, the earlier result 'has been interpreted by many readers as showing that traditional business training does not work'. In this review piece—subtitled 'Re-assessing the evidence for “training doesn't work”'—McKenzie runs a formal meta-analysis of training experiments, incorporating more recent results. He finds that 'training increases profits and sales on average by 5–10 per cent': an effect size that, while certainly not transformational, is likely to make many small business training programmes worthwhile from a policy perspective. For this reason alone, McKenzie's paper deserves to shift substantially the current policy thinking on the role of business training programmes in developing countries—and, more generally, serves as a useful illustration of the potential advantage of such programmes even in high-income settings.

Management training is an important and specific way in which policy can help firms to improve management practices. Of course, policy also serves an important role more generally through encouraging and facilitating formal education—in particular, through support for universities, and the 'knowledge clusters' that often surround them. The third paper in Part II of the issue, by Anna Valero (2021), explores the relationship between formal education and structured management practices. Valero starts by noting a series of robust conditional correlations between human capital (as measured by education) and management practices: as she explains, evidence from the WMS shows that this positive relationship holds across manufacturing establishments and across

hospitals. Importantly, Valero's review shows that this relationship also holds when considering policy-induced improvements in human capital—specifically, through the presence of land-grant colleges, and through the construction of business schools. In this regard, Valero's paper provides both a fascinating complement and a useful counterpoint to McKenzie's work: she suggests that policy can support management practices both through specific and targeted training programmes, but also through general support for formal education, including education in management.

Part II of the issue concludes with a discussion by Margarita Tsoutsoura (2021) of a particular type of firm that is both 'the most common type of firm in the world' and has been relatively resistant to adopting structured management practices: family firms. In her paper, Tsoutsoura reviews the recent literature on family firms, performance, and management practices. She outlines some of the most common pitfalls of work in this area, namely that a lack of common definition of this ownership type makes reconciling different research outcomes challenging. For example, the literature has not yet decided whether to group together founder-run firms alongside firms where the founder-family holds controlling shares but has non-family management in place (such as Ford). With these caveats, Tsoutsoura reviews the evidence that family control causes lower productivity (Bennedsen *et al.*, 2007) as well as lower adoption on management practices (Lemos and Scur, 2019) and considers several competing theories as to why this might be the case. She concludes that this is explained both by such firms having a different set of internal incentives, and by such firms facing additional constraints on implementation of such practices.

Part III: Policy and management practices in the public sector

In recent years, a body of research has built on the WMS to expand it to various public-sector settings.⁵ One particularly fruitful expansion has been the inclusion of public bureaucracies (see, for example, Rasul and Rogger, 2018; Rasul *et al.*, 2020; Azulai *et al.*, 2020). In Part III of the issue, our authors broaden their gaze, from the private-sector firms that one might traditionally think of as the focus of policy on management practices, to the wider firmament of public-sector organizations. Public-sector organizations have some fundamental differences from private ones particularly as relates to their personnel: people working in public service tend to have different selection, retention, and professional development issues.⁶ It is also not always as clear what the 'objective function' of a particular unit is, as what counts as productivity is less straightforward.

Part III opens with a contribution by Aisha Ali, Javier Fuenzalida, Margarita Gómez, and Martin Williams (Ali *et al.*, 2021), on the challenge of 'people management in the

⁵ From some of its earliest days, the core WMS research team included schools and hospitals, in addition to manufacturing firms.

⁶ For example, there might be higher levels of intrinsic motivation in those seeking public-sector jobs (say, teachers), but public service also often comes with tenure-based progression and few (if any) performance-specific rewards or promotion opportunities.

public sector'. Ali *et al.* provide an extensive review of the literature on this theme, which they organize by four 'lenses': individuals, organizations, teams, and relationships. The authors argue that, across all four lenses, previous research and policy practice has 'overemphasized formal management tools and financial motivations'—and, instead, urge greater attention on what the authors term 'relational public management'. Specifically, the authors argue that there is scope to improve public-sector performance by placing greater emphasis on supporting the relationships between public-sector employees—rather than by focusing so heavily upon individuals, organizations, and teams as the 'primary units of analysis'.

Part III then turns to the specific challenge of management practices in schools, with a piece by Yue-Yi Hwa and Clare Leaver (2021). The authors open with a brief review of the data collected in the Education WMS, including additional focus on the distribution of scores across countries—in particular people management. They discuss the movement in the education literature since the inception of the Education WMS in 2010, and highlight the areas where further research can build on the WMS and expand to incorporate the latest evidence and thinking. For example, they highlight the framework espoused by the Research on Improving Systems of Education (RISE) team at the University of Oxford; this framework includes five distinct 'design elements' for accountability: delegation, finance, support, information, and motivation. Hwa and Leaver relate these principles to some of the WMS topics measured, but also call attention to what clearly is *not* measured by existing tools. The authors weave a review of the existing methods with evidence from more recent education literature and the 'systems framework', providing an assessment of the way forward—both for researchers and policy-makers interested in improving management and governance in education systems.

Part IV: Management strategy

Finally, the journal issue turns from management practices to management strategy. Mu-Jeung Yang (2021) covers this theme from the perspective of complementarities in different aspects of business strategy. Specifically, Yang defines two management practices as complementary 'if the adoption of one practice increases the benefits of adopting the second practice'. Management strategy, then, involves consideration of multiple such complementarities within the organization. As Yang explains, this approach leads quickly to a consideration of the organization as optimizing on a 'rugged performance landscape', often by the use of heuristic decision rules. In recent years, several related microeconomic models explore ways in which organizations might develop heuristic rules for such landscapes—for example, Ellison and Holden (2013), Callander and Clark (2017), and Callander and Matouschek (2019). It will be exciting to see in the years ahead how these models are developed, and whether they can be readily amenable to empirical analysis.

Having described the problem of heuristic-based optimization on a rugged landscape, Yang turns to a fascinating discussion of measuring management strategy; this includes a discussion of the previous efforts by Statistics Canada to collect data on the relative importance of strategic decisions among employer firms. Yang then describes the new

‘World Strategy Survey’: an effort, modelled on the World Management Survey, to use open-ended but structured questions to capture heterogeneity in the way that firms think about management strategy.

In many respects, Yang’s discussion of the World Strategy Survey brings our journal issue ‘full circle’. The issue begins with a discussion of the World Management Survey, and the ways in which that survey has spurred innovative and policy-relevant ideas over the past 18 years. It then travels through uses of the survey and its methodology in different fields and areas, as well as its limitations and possible alternatives. The issue ends by discussing exciting possibilities for structured measurement of management strategy. Indeed, Yang’s paper—among several policy recommendations—calls on national statistical agencies to do more to measure strategy, as a direct complement to previous efforts to measure structured management practices.

The road ahead

This is an exciting time to be thinking about management practices and policy. As a speculative exercise, one could imagine how governments might use the stylized facts of this type of firm heterogeneity when devising policy. After all, it is managers who ultimately decide, for example, whether to take up any offers of government help or incentives, or to comply (and to what extent) with government regulations. The quality of these decisions will depend on the extent to which they have the *structure in place* and the data on which to base choices, and present the government with the appropriate documentation. There is a new wave of exciting work in this area, which promises timely and policy-relevant insights ahead. In the early stages of the COVID-19 pandemic, for example, governments allocated funds to halt waves of layoffs. However, the decision of which employees to furlough, and how many, was very much a *managerial* decision—and heterogeneity in management structures appears to have been important in explaining heterogeneity in firms’ responses (Bennedsen *et al.*, 2020; Lamorgese *et al.*, 2020). Ultimately, the landscape of management quality across firms, schools, hospitals, bureaucracies, and other public and private entities matters both for policies looking to improve the organizational capacity of these entities as well as policies looking to impact their ultimate outcomes. We hope this issue serves as a starting point for thinking of policy in this way.

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