

The Developing Country Perspective: Management Quality, innovation and Risk

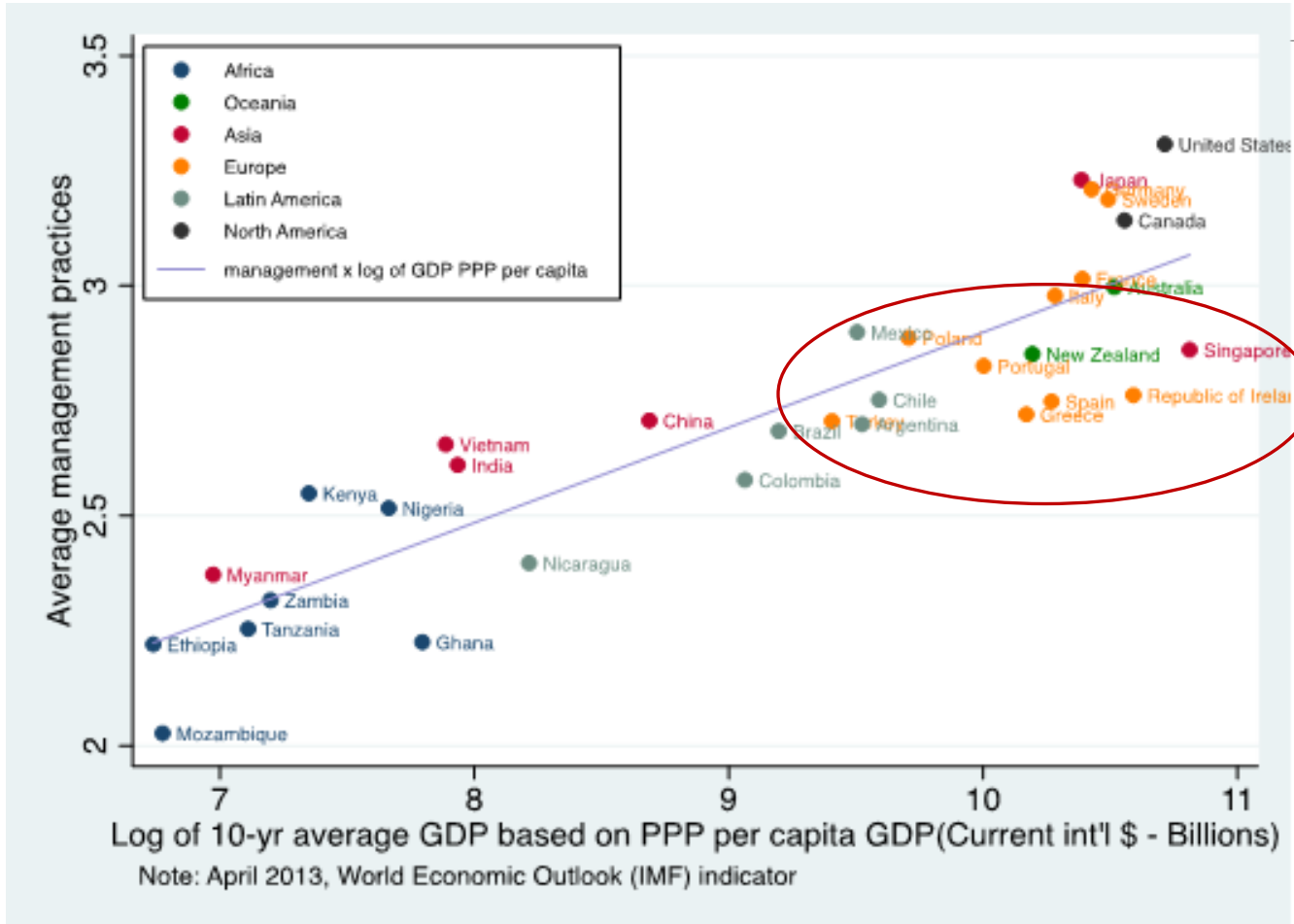
BILL MALONEY, WORLD BANK

COMPNET, BRUSSELS, JUNE 29, 2017

FORTHCOMING: *THE INNOVATION PARADOX: DEVELOPING COUNTRY CAPABILITIES AND THE UNREALIZED PROMISE OF TECHNOLOGICAL CATCH-UP*

WORLD BANK PRODUCTIVITY PROJECT: [HTTP://WWW.WORLDBANK.ORG/EN/EVENTS/2016/09/23/SECOND-GENERATION-PRODUCTIVITY-ANALYSIS-AND-POLICIES](http://www.worldbank.org/en/events/2016/09/23/second-generation-productivity-analysis-and-policies)

Managerial Quality and Innovation



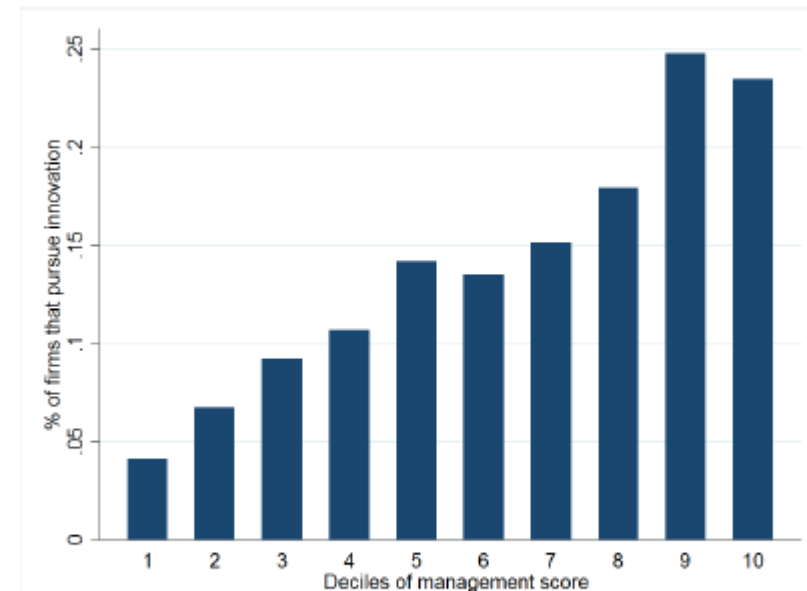
- Bloom (2016) Explains 35% of cross country differences in income
- Channels:
 - Basic organization
 - Inventories, plant layout, sales,
 - Strategy: key complement to competition/ trade liberalization.
 - Innovation
 - Risk taking

Source: World Management Survey; Bloom et al various.

New evidence that management complements innovation

- Cirera (2016) using WB Enterprise Survey:
 - Management quality (MQ) correlated with process and product innovation.
- Iacovone and Pereira- Lopez (2017) using Mexico micro data (ENAPROCE)
 - MQ leads to more innovation, tech capabilities.
 - Increase impact of human capital and R&D expenditure.
- Maloney and Sarrias (2018) using linked ORBIS/WMS survey:
 - MQ very correlated with patenting in knowledge creation function.
- In all cases, MQ more important than R&D

Figure 9: Technological capabilities vs. Management score: Manufacturing



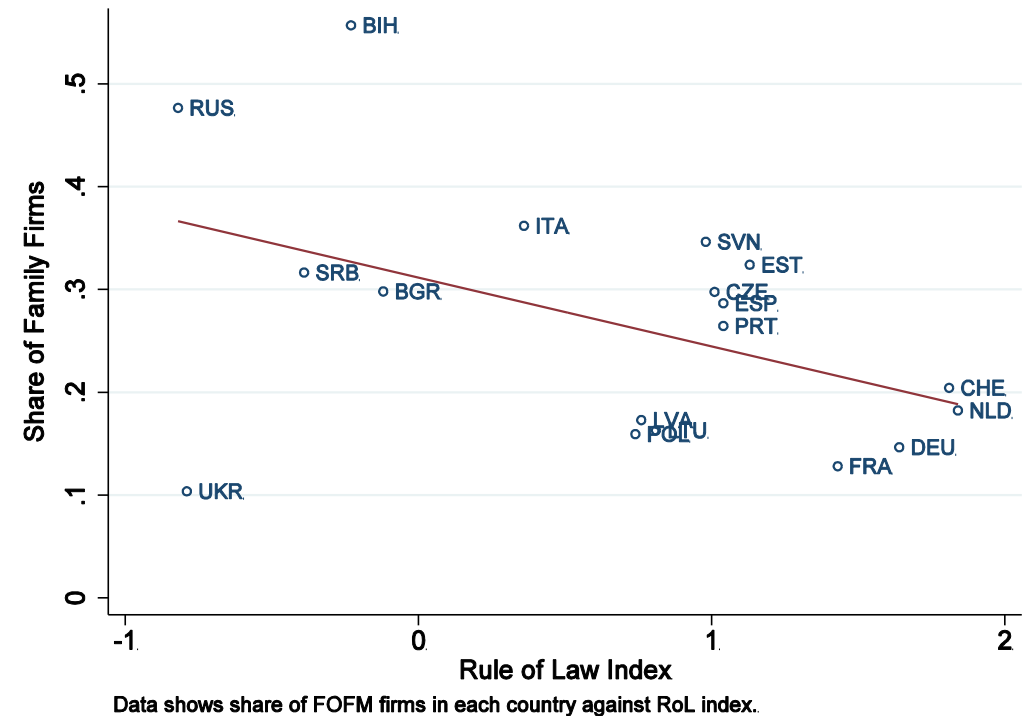
Source: Authors' calculations with data from ENAPROCE 2015, INEGI.

Iacovone and Pereira- Lopez (2017)

Weak management: response to local conditions, or barriers to technological adoption?

- Contracting Environment?
 - Ownership of firm-Family owned firms perform worse (span of control vs. information, commitment)
- Iacovone et al (2017)- Orbis/World Value Survey, European subnational data
 - Weak trust leads to more family management and 25% fall in productivity
 - Moving from worst trust to and much worse productivity 14.5% increase in TFP

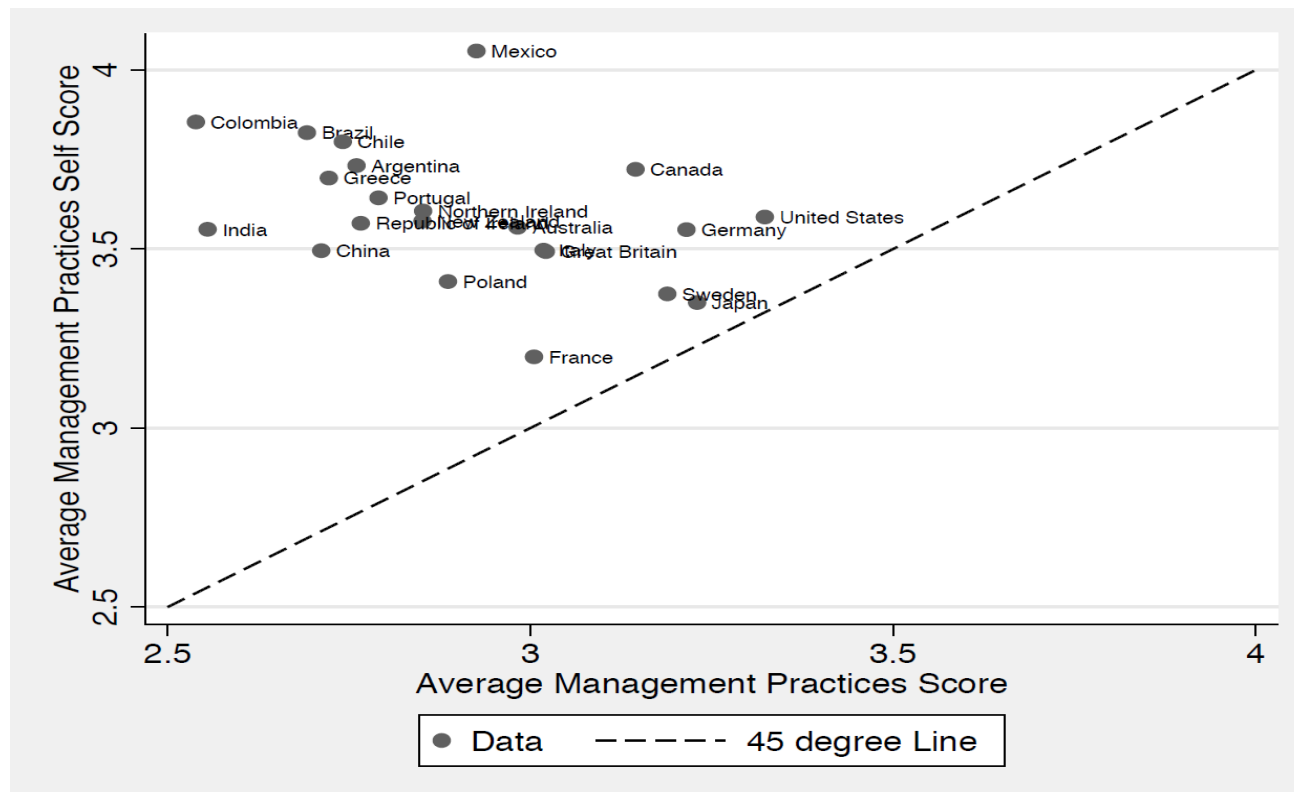
Family Firms vs. Contracting Environment



Iacovone, Maloney, Tsivanidis (2017)

Tech transfer impediments: Managers don't know what they don't know.

Managerial Hallucination Gap



- Bounded Rationality: Key issue in the National Innovation System Literature (Lundvall, Nelson etc)
- Lack of info on
 - Impact
 - Quality of supplier
 - Learning
- Managerial upgrading programs have high rates of return.
- Advanced countries massively subsidize them
 - Japan: 65%
 - Singapore: 100% for first 20K, 60% after
 - Korea: 100%
 - Scotland- 100%

Competition and Innovation?

Effect of competition on tech adoption/innovation (including managerial quality) is ambiguous (Aghion 2005, Melitz, today).

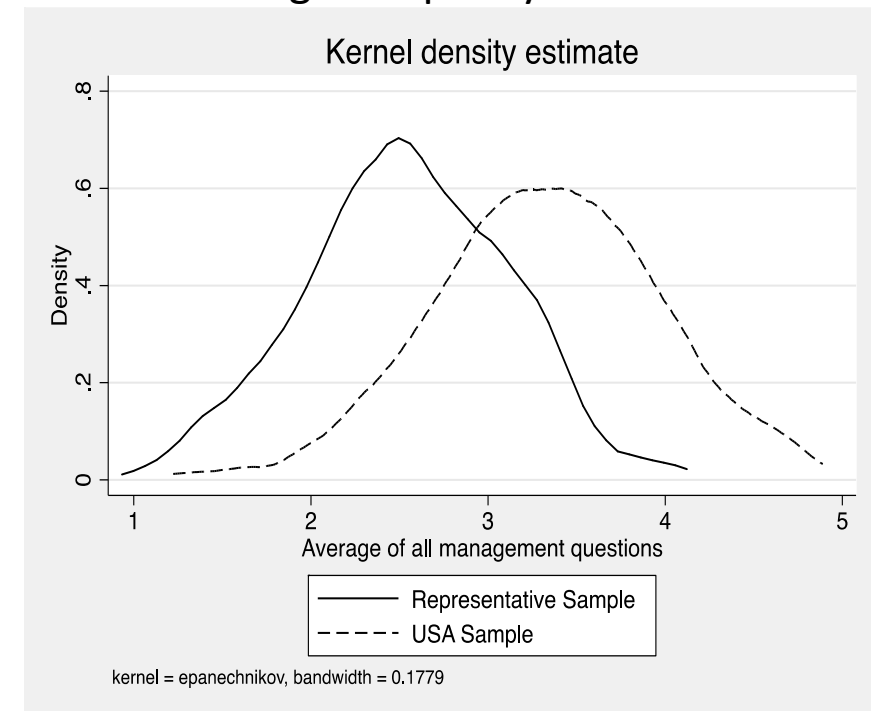
Managerial quality?

- Bloom and Van Reenen: Increased competition increases management quality.
- Maloney and Sarrias (2017): not just left tails and competition effect disappears with DCs.

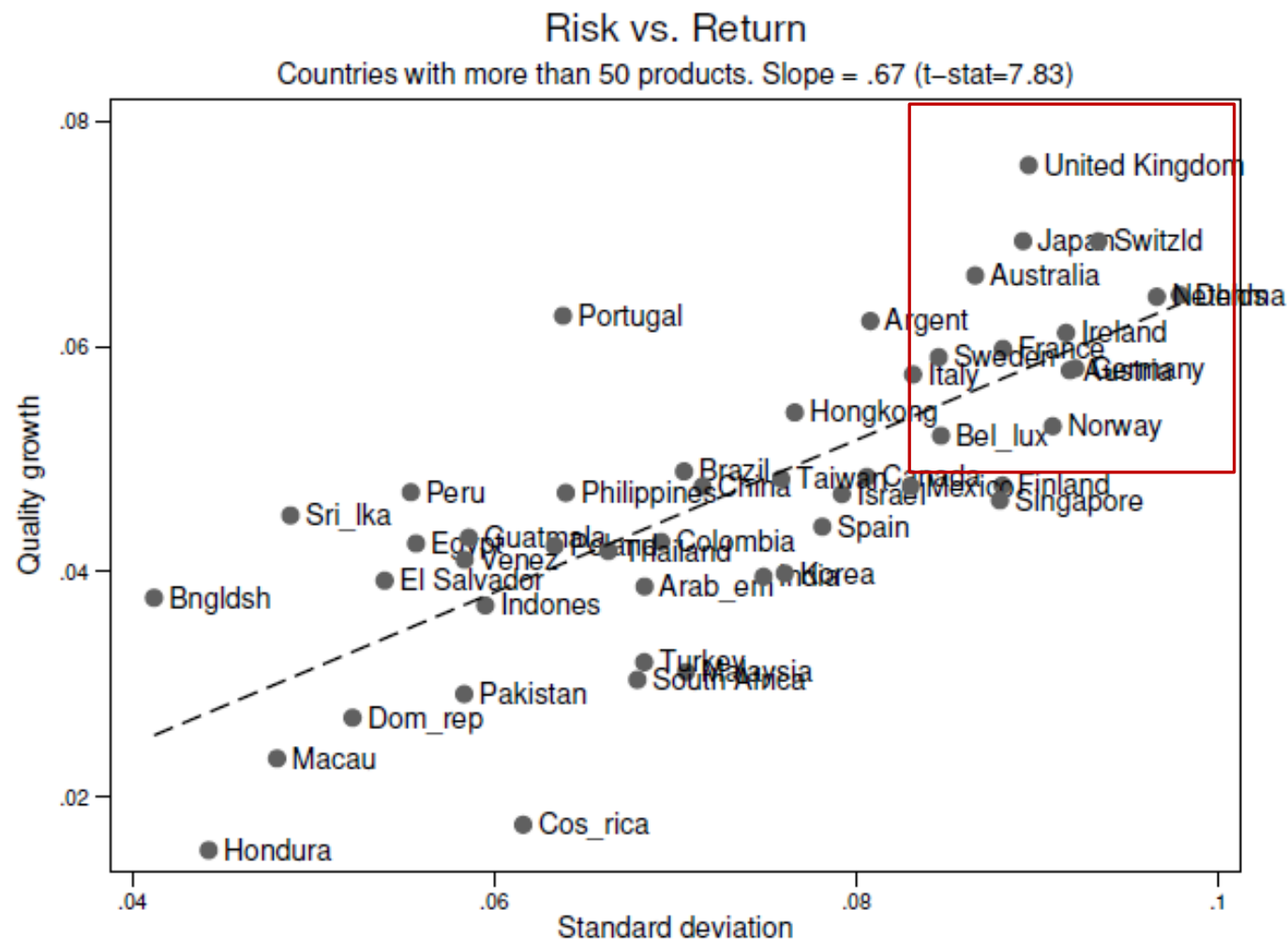
Chile (Cusolito et al 2017)

- Positive relationship between mark-ups and TFPQ
- Channel appears to be through innovation (at least 50%)
- Correlation with financial dependency-inability to manage risk?
- Margin effect largest for laggards

Managerial quality: Chile vs US



Managing risk is critical to quality/productivity growth



Krishna, Levchenko, Maloney (2016)

THANKS

