Measuring and Explaining Management Practices in Italy

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We use an innovative survey tool to collect management practice data from more than 900 medium sized manufacturing firms across Europe and the US. Our measures of managerial practices are strongly associated with several measures of firm level performance. Management practices display significant cross-country and within-country differences, with US firms on average better managed than European firms. Italian firms show a significant managerial gap vis-à-vis the US, particularly among Italian companies that are owned and run by families. We document a positive association between product market competition and the overall level of skills within the firm. Product market competition and family-owned, family-run firms account for 60% of the American managerial advantage over Italians. [JEL Classification: L2, M2, O32, O33]

Key words: management practices, productivity, competition, family firms, Italy.

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1. - Introduction

While the popular press and business schools have long stressed the importance of good management, empirical economists have had relatively little to say about management practices. A major problem has been the absence of high-quality data that are measured in a consistent way across countries and firms. Over the past few years, we attempted to fill this gap, developing a new approach for the robust measurement of a company's management practices, which allows their direct comparison with real business performance. In this paper, we discuss the main managerial features of a sample of 205 Italian companies, which we interviewed over the summer of 2006 (Bloom *et* al., 2008). We frame our analysis in an international context combining our Italian sample with the survey data collected in 2004 on 742 middle sized manufacturing firms in the UK, France Germany and the US (Bloom and Van Reenen, 2007).

Understanding the strengths and weaknesses of manufacturing firms is a matter of crucial importance in Italy, where the manufacturing sector employs approximatively 20% of the labour force (Euklems, 2007). The relevance of this study is further reinforced if we consider the disappointing productivity performance registered by the Italian economy in recent years, summarised in Table 1[1]. In Italy (Panel A), labour productivity growth fell from 2.4 per cent in the period 1970-1995 to an average of annual growth rate of 0.6 per cent in 1995-2004. The decline is particularly stark in manufacturing, where productivity growth fell from 3.6% in 1970-1995 to –0.1% in the decade 1995-2004[2]. The recent productivity deceleration registered by the Italian economy is even starker when compared with the US experience (Panel B), where manufacturing labour productivity accelerated from 1.3% in the period 1970-1995 to 2.4% between 1995 and 2004 (from 1.8% to 3.1% in manufacturing). Using detailed firm level data de-

[1] The table is based on EUKLEMS data, November 2007.

[2] Note that the decline in labour productivity growth in Italy was associated only with a marginal improvement in employment growth, which went from -0.3% during 1970-1995 to -0.2% over the 1995-2004 period.

TABLE 1

PRODUCTIVITY COMPARISONS ITALY *VS.* US

A. Italy	1970-1995	1995-2004
Labor Productivity growth, all sectors	2.4	0.6
Labor Productivity growth, manufacturing	3.6	-0.1
B. US	1970-1995	1995-2004
Labor Productivity growth, all sectors	1.3	2.4
Labor Productivity growth, manufacturing	1.8	3.1

Notes: Labor productivity is gross value added per hours worked.
Source: EUKLEMS (2007).

scribing management practices prevalent across Italian firms is a first step to understand the reasons behind the recent difficulties and, ultimately, to formulate appropriate policy responses to these problems.

Our study shows that firms that apply accepted management practices well perform significantly better than those that do not. This suggests that improved management practice is maybe one of the most effective ways for a firm to outperform its peers. The spread of management performance between firms, even those of similar size operating in the same industry sectors in the same regions, is very broad, suggesting that management excellence is a matter of internal policy and not just the business environment. The techniques of good management are well known and in the public domain so the fact that they are so poorly disseminated suggests either that successful implementation is elusive or that it is not a priority for many firms.

The size and breadth of our study allows us to gain a deeper understanding of a range of factors that affect a company's management performance. In general, the less likely an organization is to make use of professional managers and to appoint its managers on merit, the poorer its performance — with family-owned, family-run firms bringing up the rear. Furthermore, greater competitive intensity is associated with improved management practice, while labour market flexibility correlates with

particularly good people management habits. Better-managed firms also have a more highly educated workforce, among managers and non managers alike. By developing environments that promote good management practices across all firms and by devoting as much attention to the followers as to the leaders, governments can drive the competitiveness of their entire economies.

The direct comparison with their international peers shows that Italian firms fare significantly worse than US and German firms, and similarly to French and UK companies in terms of management practices. While Italian firms excel in their operational skills (for example, in keeping track of production and setting appropriate targets for the firm), they are much more reluctant to adopt modern managerial approaches to the management of people, and in particular in attracting talent and systematically evaluating and rewarding the performance of their employees. Furthermore, our empirical analysis shows that family firms where the CEO is a family member account for most of the Italian gap *vis-à-vis* the US. This finding suggests that the reluctance of Italian entrepreneurs to formally hand over the management of the firm to professional figures may have severe productivity implications. Competition and skills also appear to have a key role in the context of the Italian economy and, with family ownership, they account for about 60% of the overall managerial gap *vis-à-vis* the US.

The paper is organized as follows. Section 2 discusses the management data, while section 3 summarises the basic result of the survey. In section 4, we focus on the Italian sample and we discuss possible factors accounting for the Italian management gap. Section 5 concludes.

2. - The Survey

In order to construct a robust measure of management practices, we have to overcome three hurdles: scoring management practices, collecting accurate responses, and obtaining interviews with managers. We discuss these issues in turn.

2.1 *Measuring Management Practices*

Management practices were scored following the methodology of Bloom and Van Reenen (2007), with practices grouped into four areas: *operations* (three practices), *monitoring* (five practices), *targets* (five practices) and *incentives* (five practices). The shop-floor operations section focuses on the introduction of lean manufacturing techniques, the documentation of processes improvements and the rationale behind introductions of improvements. The monitoring section focuses on the tracking of performance of individuals, reviewing performance, and consequence management. The targets section examines the type of targets, the realism of the targets, the transparency of targets and the range and interconnection of targets. Finally, the incentives section includes promotion criteria, pay and bonuses, and fixing or firing bad performers, where best practice is deemed the approach that gives strong rewards for those with both ability and effort. Our management measure uses the un-weighted average of the z-scores of all 18 dimensions, which are detailed in Appendix A.

With this evaluation tool, we can provide some quantification of firms' organizational practices. However, an important issue is the extent to which we can obtain unbiased responses to our questions from firms. In particular, will respondents provide accurate responses? As is well known in the surveying literature a respondent's answer to survey questions is typically biased by the scoring grid, anchored towards those answers that they expect the interviewer thinks is correct. More generally, a range of background characteristics, potentially correlated with organizational structure may generate some kinds of systematic bias in the survey data.

To try to address these issues we took a range of steps to obtain accurate data. First, the survey was conducted by telephone without telling the managers they were being scored on organizational or management practices. This enabled scoring to be based on the interviewer's evaluation of the firm's actual practices, rather than their aspirations, the manager's perceptions or the interviewer's

impressions. To run this "blind" scoring we used open questions, rather than closed questions. Following the initial question the discussion would continue until the interviewer can make an accurate assessment of the firm's typical practices. Second, the interviewers did not know anything about the firm's financial information or performance in advance of the interview. This was achieved by selecting medium sized manufacturing firms and by providing only firm names and contact details to the interviewers (but no financial details). Consequently, the survey tool is "double blind" — managers do not know they are being scored and interviewers do not know the performance of the firm. The interviewers were incentivized on the number of interviews they ran and so had no interest in spending time researching the companies in advance of running the interview. These smaller firms (the median size was 675 employees) would not be known by name and are rarely reported in the business media. The interviewers were specially trained graduate students from top European and US business schools. All interviews were conducted in the manager's native language. Third, each interviewer ran 50 interviews on average[3], allowing us to remove interviewer fixed effects from all empirical specifications. This helps to address concerns over inconsistent interpretation of categorical responses (Manski, 2004), standardizing the scoring system. Fourth, the survey instrument was targeted at plant managers, who are typically senior enough to have an overview of organizational practices but not so senior as to be detached from day-to-day operations of the enterprise. Fifth, we collected a detailed set of information on the interview process itself (number and type of prior contacts before obtaining the interviews, duration, local time-of-day, date and day-of-the week), on the manager (gender, seniority, nationality, company and job tenure, internal and external employment experience, and location), and on the interviewer (we can include individual interviewer-fixed effects, time-of-day and subjective reliability score). Some of these survey

[3] This figure refers to the 2004 survey wave. During the 2006 wave of the survey — during which the Italian data was collected — each interviewer ran 85 interviews on average.

controls are significantly informative about the organizational practices and are used as “noise controls” to help reduce residual variation.

2.2 *Ensuring International Comparability*

In comparing management surveys across countries we have to be extremely careful to ensure comparability of responses. To maximize comparability we undertook three steps. First, every interviewer had the same initial three days of interview training, provided jointly by the Centre for Economic Performance and our partnering international consultancy firm. This training included three role-play calibration exercises, where the group would all score a role-played interview and then discuss scoring together of each question. This was aimed at ensuring every interviewer had a common interpretation of the scoring grid. In addition every Friday afternoon throughout the survey period the group met for 90 minutes for training and to discuss any problems or interpretation issues with the survey. Second, the team operated from one location, the Centre for Economic Performance at the LSE. The different national survey teams were thus listening in on each others surveys on a daily basis, were organized and managed in the same way, and ran the surveys using exactly the same telephone, computer and software technology. Third, the individual interviewers interviewed firms in multiple countries. The team language was English, with every interviewer able to complete English language interviews, so that interviewers were able to interview firms from their own country plus the UK and US. This enabled us to remove interviewer fixed effects in the cross-country analysis.

2.3 *Obtaining Interviews with Managers*

Each interview took on average fifty minutes and was run in the summer of 2004, with the exception of the Italian sample,

which was collected during the second wave of our survey in the summer of 2006. Overall, we obtained a relatively high response rate of 54%, which was achieved through four steps. First, the interview was introduced as "a piece of work"[4] without discussion of the firm's financial position or its company accounts, making it relatively uncontroversial for managers to participate. Interviewers did not discuss financials in the interviews, both to maximize the participation of firms and to ensure our interviewers were truly "blind" on the firm's financial position. Second, the survey was ordered to lead with the least controversial questions on (shop-floor operations management), leading on to monitoring, incentives and organizational structure. Third, interviewers' performance was monitored, as was the proportion of interviews achieved, so they were persistent in chasing firms. The questions are also about practices within the firm so any plant managers can respond, so there are potentially several managers per firm who could be contacted[5]. Fourth, the written endorsement of many official institutions[6] helped demonstrate to managers this was an important academic exercise with official support. Fifth, the involvement of Cambridge, LSE and Stanford Universities, along with the institution of the interviewers[7], provided a signal of the research focus of the work.

2.4 *Sampling Frame and Additional Data*

Since our aim is to compare across countries we decided to focus on the manufacturing sector where productivity is easier

[4] We avoided using the words "research" or "survey" as many firms link these to market research surveys, which they often refuse to be involved with.

[5] We found no significant correlation between the number, type and time-span of contacts before an interview is conducted and the management score. This suggests while different managers may respond differently to the interview proposition this does not appear to be directly correlated with their responses or the average management practices of the firm.

[6] The Banque de France, Bundesbank, European Central Bank, European Commission, Ministero delle Finanze and UK Treasury.

[7] Interviewers were drawn from the following universities: Berkeley, City of London, Columbia, Harvard, Insead, Kellogg, LSE and Yale.

to measure than in the non-manufacturing sector[8]. We also focused on medium sized firms selecting a sample of firms with predicted employment of between 50 and 10,000 workers (with a median of 675). Very small firms have little publicly available data. Very large firms are likely to be more heterogeneous across plants, and so it would be more difficult to get a picture of organization in the firm as a whole from one or two plant interviews. We drew a sampling frame from each country to be representative of medium sized manufacturing firms and then randomly chose the order of which firms to contact. Comparing the responding firms with those in the sampling frame, we found no evidence that the responders were systematically different on any of the performance measures to the non-responders. They were also statistically similar on all the other observables in our dataset.

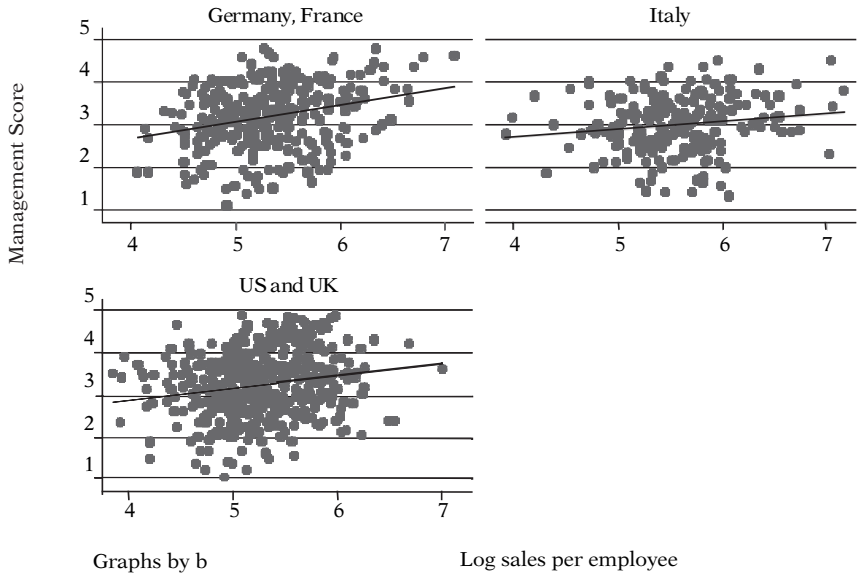
2.5 *External Validation*

Reassuringly, the management scores are correlated to a range of corporate performance metrics including labour productivity, sales growth and return on capital employed. Graph 1, for example, shows the relationship between management scores and labour productivity for a sample of 932 firms across Europe and the US. We found the same strong relationships between management and labor productivity holds true across the different countries and cultures we analyzed, with an average correlation of 0.16, significant at the 1% level. Better management practices are associated with large increases in productivity and output. Across all the firms in the research, a single point improvement in management practice score is associated with the same increase in output as a 25 percent increase in the labour force or a 65 percent increase in invested capital. We found this observation is

[8] Note however, that the survey tool can be easily extended to other sectors. BLOOM N. - SEILER S. - VAN REENEN J. (2008) use an adapted version of the management survey to measure management practices in more than 150 hospitals in the UK.

GRAPH 1

MANAGEMENT PRACTICES AND LABOUR PRODUCTIVITY



Notes: The graph shows the relationship between the management score (average across 18 questions) and log labour productivity (sales over employees). Single cross section, N=932.

true even after controlling for a host of other factors like the firms' country, sector and skill levels[9].

Management practices are also associated with other interesting outcomes beyond productivity. In recent research (Bloom, Sadun and Van Reenen, 2007 and Bloom, Sadun and Van Reenen, 2008), we show that management practices are complementary to the use of information technology, and that this explains much of the productivity advantage shown by US firms across the globe. Furthermore, we find that better management practices are associated with improved work-life balance outcomes for employees (Bloom, Ktretschmer and Van Reenen, 2006) and lower energy usage (Bloom, Genakos, Martin and Sadun, 2008).

[9] See BLOOM N. - VAN REENEN J., Table 1 for further details.

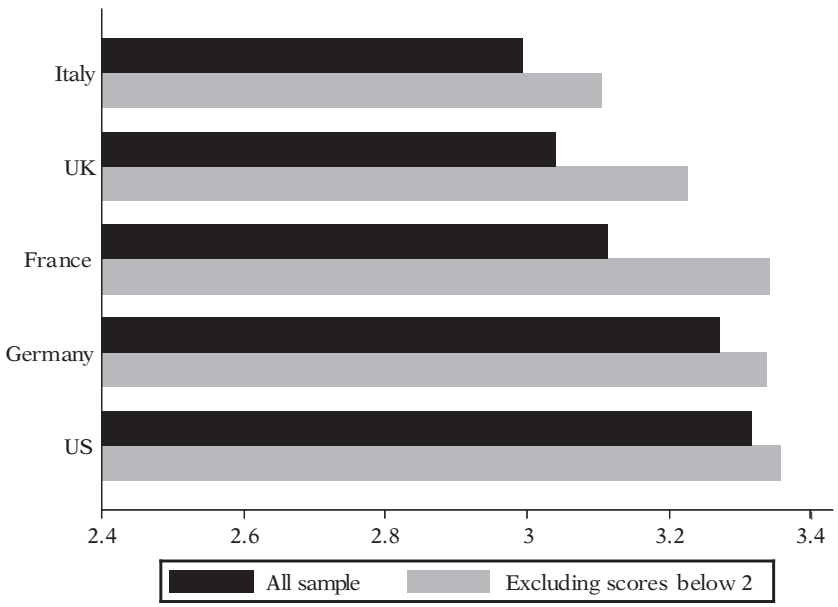
3. - Management Practices around the World

3.1 *The Spread*

The data reveals significant differences in management performance between countries. The US is at the top of the table with an average score 3.31, while Italy and the UK bring up the rear with average scores of 3.04 and 2.99 (Graph 2). The US is not entirely dominant, however. US firms score particularly highly for people management (such as promoting and rewarding talented workers quickly), but in shop floor operations management France, Italy, Germany and the UK do better. This is illustrated in Graph 3, which plots the difference between the average management score for operation management (derived from the first three questions of the

GRAPH 2

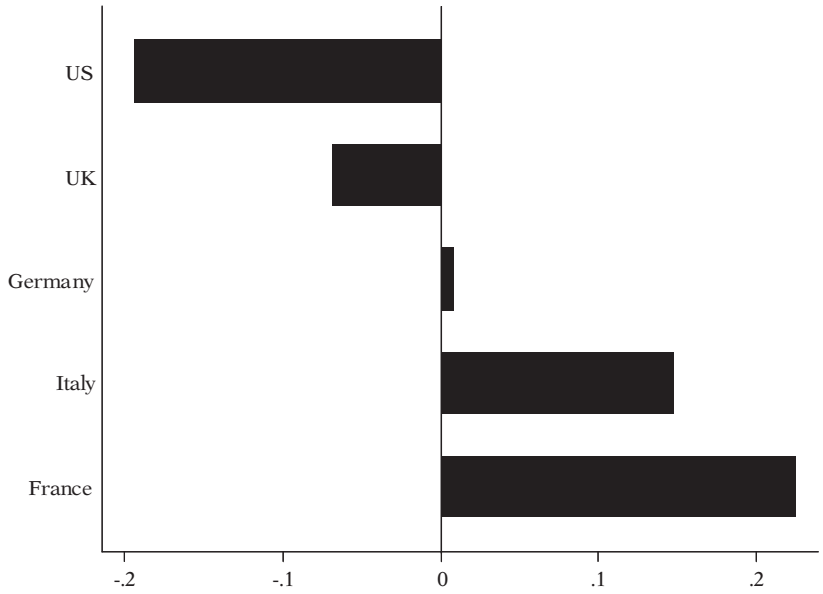
MANAGEMENT PRACTICES BY COUNTRY



Notes: The graph shows average management score by country (average across 18 questions). N=932. France=135; Germany=156; Italy=205; UK=151; US=290.

GRAPH 3

DIFFERENCE BETWEEN OPERATIONS AND PEOPLE MANAGEMENT BY COUNTRY



Notes: The graph shows the difference between the average scores in operation management (derived from the first three questions of the survey) and people management (derived from the last six questions of the survey). See Appendix A for further details on the survey questions. N=932. France=135; Germany=156; Italy=205; UK=151; US=290.

survey) and people management (derived from the last six questions of the survey)[10].

Importantly, the largest differences between high performing nations and the rest are to be found in the tail of low performing companies. Eliminating the worst managed firms (those with an overall practice score of less than 2 from the sample has little effect on the average score of the leading countries, but it raises the score of low performing countries significantly (Graph 2, light bars).

Overall, regional differences accounted for only 9 percent of the difference in management practice. Performance differences between companies in the same country were far larger than any

[10] Details on the survey questions can be found in *APPENDIX* A.

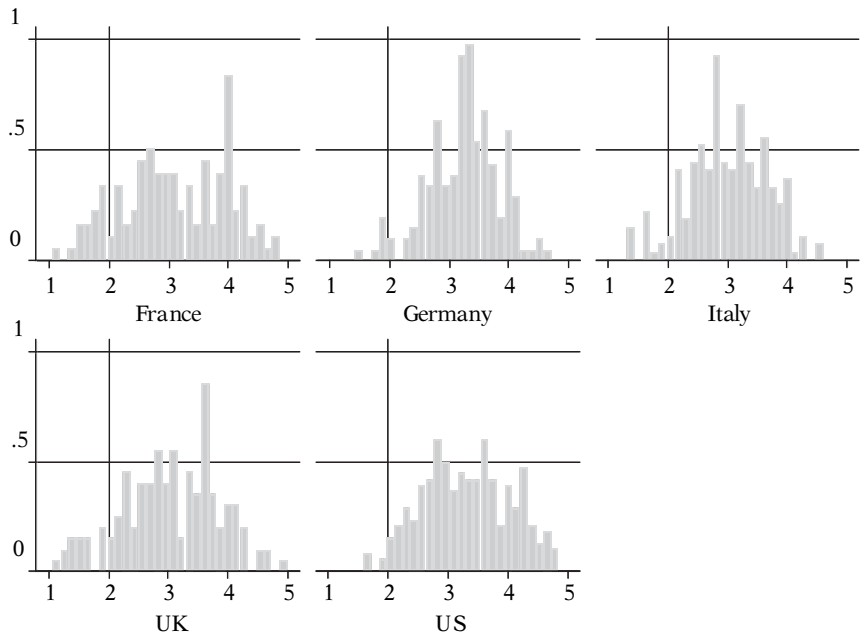
regional variations, and there is substantial overlap between regions. The best 20 percent of firms in Italy, for example, performed better than the average US firm and 73 percent of US firms are worse managed than the top 10 percent of Italian firms. Graph 4 illustrates the histogram of the management score across countries.

3.2 *Ownership and Family Firms*

Several studies have documented differences in the diffusion of family firms across countries (La Porta *et* al., 1999). Our data confirms this stylized fact, and reveals its implications in terms

GRAPH 4

THE DISTRIBUTION OF THE MANAGEMENT SCORE BY COUNTRY

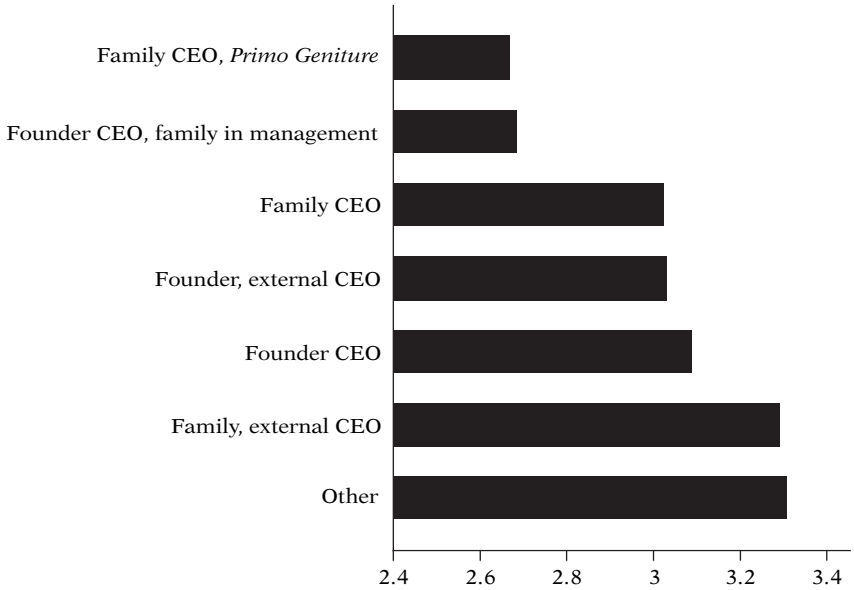


Notes: The graph shows the histogram of the average management score (average across 18 questions). N=932. France=135; Germany=156; Italy=205; UK=151; US=290.

of management practices[11]. When the firms in our survey were grouped according to ownership type we found pronounced differences in both management practice score and performance (Graph 5). In general, organizations owned and run by families

GRAPH 5

MANAGEMENT AND OWNERSHIP



Notes: The graph shows the average management score (average across 18 questions) across different ownership types. N=932. "Family CEO", N=93; "Family CEO, *primo geniture*", N=70; "Family, external CEO", N=73; "Founder CEO", N=73; "Founder CEO, family in management", N=54; "Founder, external CEO", N=39; "Other", N=534.

[11] Family firms, defined as companies where the largest shareholding block is a family (second generation after the company's founder) represent approximatively 25% of the overall sample. Following BLOOM N. and VAN REENEN J. (2007), we differentiate family firms on the basis of the ties between the CEO and the owners, and the criteria leading to CEO selection. This generates three distinct ownership category for family firms: 1) "Family, external CEO", where the CEO is not related to firms owners; 2) "Family CEO, *primo geniture*" where the CEO belongs to the family and is the first born son or daughter of the owners; and 3) "Family CEO", where the CEO belongs to the family but it is not selected on a *primo geniture* basis. We also look in detail at firms in which the original founder still owns the largest shareholding block. In this case, we distinguish between three different cases: 1) "Founder, external CEO", where the firm is managed by an external CEO; 2) "Founder CEO", where the firm is managed by the founder; and 3) "Founder CEO, family in management".

performed poorly. Worst performing of all were family firms where the CEO was chosen on a *primo geniture* basis, with an average management score of 2.67.

Interestingly, it is not family ownership *per se* which seems to affect management practices, since family firms with a professional CEO performed much better in comparison (in fact, the difference between firms that are family owned and have an external CEO, and non-family business is insignificant). Furthermore, the negative association between family management and our management scores seems to develop quite early in the firm life span. This is shown by the similarity between family-run firms and companies managed and owned by their founder in association with other family members[12]. Finally, when the management scores are broken down across their different components, they reveal that family-run firms perform particularly poorly in people management and, in particular, in the questions relative to the recruitment of talent, and to the evaluation and reward of the their employees' performance.

There might be multiple reasons for the substantial negative effect of family management. For example, in family-owned and family-run firms the knowledge that family members will receive management positions in the future may generate a "Carnegie effect" of reducing the investment in human capital earlier in life of the potential successors. Furthermore, family-owned firms may choose family management even is this is suboptimal for performance because family members receive "amenity potential" for managing the family firm (Bloom and Van Reenen 2007).

3.3 *Policy*

A variety of policy factors have an effect on companies' adoption of good management practices. Most significant among these were

[12] This finding is consistent with VILLALONGA B. - AMIT R. (2006), who show that Fortune 500 companies where the founder remains Chairman, but is succeeded by a descendant in the role of CEO, have a significantly lower *q* across family and non family firms. Note also that scale and sector effects cannot fully account for these differences. Although larger firms did tend to perform better in the survey, this effect could account for only a third of the difference between *primo geniture* and non family firms.

their competitive environment and the flexibility of the local labour market. Companies in the survey were asked to estimate the number of competitors operating in their market, and the more competitors a company reported, the higher its management practice scores[13]. This could be as a result of two effects: 1) good practice spreads quickly in highly competitive environments, and 2) poor practice is eliminated by natural selection as poorer performing companies are removed from the marketplace.

Flexible labour markets should encourage companies to adopt better people management practices in order to attract and retain the best employees. Companies operating in countries with more flexible labour polices (measured using the World Bank's measure of employment law rigidity index) scored markedly better in people management practices[14]. The US, with its extremely flexible employment laws, had by far the best people management record, a factor which contributed strongly to its overall top position among surveyed companies.

The availability of skilled people, both in management and among the workforce in general, is another important difference between better managed firms and the rest. 84 percent of managers in the highest scoring firms were educated to degree level or higher, as were a quarter of the non-management work force. Among the lowest scoring firms, by contrast, only 54 percent of managers and 5 percent of the wider workforce had degrees.

4. - Explaining Management Practices in Italy

Can management practices help to explain the recent productivity deceleration experienced by the Italian economy? In this section we address this question looking in more detail at the management practice adopted by a sample of 205 Italian

[13] For example, going from "no competitors" to "more than 5 competitors" is associated with a significant increase of 0.44 in the management score (about 13% of the sample mean).

[14] The correlation between people management and the World Bank labour market flexibility is -0.197 (significant at the 1% level).

manufacturing companies which we interviewed over the summer of 2006.

In overall performance, Italy sits in a second tier of companies, with a significantly lower management score than the US and Germany, and similarly French and UK companies. Italy has a very rigid labour market, and its scores for people management practices reflect this, being among the lowest of any region in the survey. Its scores for operations management were relatively high in comparison, indicating that Italian manufacturers have been adopting many of the modern production techniques that have been applied with great success elsewhere (Graph 3).

Comparing Italy's performance in specific dimensions of management delivers further insights. While Italian firms are among the best in their approaches to tracking performance and the establishment of effective, well structured targets for the company, they rank relatively worse in their approaches in attracting talent, and in the use of appraisals and incentives for the systematic evaluation and reward of the performance of their employees. The implication is that while Italian companies strive to achieve operational efficiency, they seem to be more reluctant to work hard to attract good people, and at motivating them to do their best.

We investigate the possible determinants of the management gap showed by Italian companies, focusing on three specific factors which appeared to be associated with significant differences in management practices in Bloom and Van Reenen (2007): family ownership, competition and skills. Table 2 shows that in our sample of medium-sized manufacturing firms family involvement is much more common in Italy than in any of the other countries included in the sample. In 37% of the Italian sample the largest shareholding block is a family (defined as second generation after the company's founder), versus the 10% of US firms. The second row of the table shows that many of these firms have a family member as CEO, suggesting families are reluctant to let professional managers run their firms. In France and the UK, family CEOs tend to be chosen according to their *primo geniture*, while this seems to be relatively less frequent in

TABLE 2

FAMILY INVOLVEMENT BY COUNTRY

%	France	Germany	Italy	UK	US
Family largest shareholder	30	32	37	31	10
(of which) Family largest shareholder and family CEO	19	11	32	23	7
(of which) Family largest shareholder and family CEO, and *primo geniture*	14	3	9	15	3
Founder largest shareholder	26	5	25	15	18
(of which) Founder largest shareholder and CEO	19	1	25	12	11
(of which) Founder largest shareholder and CEO, and family members in management	7	0	16	2	3
Number of firms	125	152	205	150	290

Notes: These mean values are taken from a sample of 922 firms. Family shareholding is combined across all family members. Family involvement is defined as second-generation family firms or beyond. "Family largest shareholder" firms defined as those with a single family (combined across all family members, whom are all second generation or beyond) as the largest shareholder; "Family largest shareholder and family CEO" firms are those with additionally a family member as CEO; "Founder largest shareholder and CEO, and family in management" firms are those where at least one founder's family member has a managerial positions.

Italy, Germany and the US in comparison. Interestingly, in Italy family involvement is particularly pervasive in founder firms — companies where the largest shareholder is the individual who founded the firm. The sixth row of the table shows that, in 16% of the Italian sample, founder firms are characterised by the active managerial involvement of other family members, while in the US this only occurs in 3% of the sample, and in the UK only in 2% of the cases. Overall, the percentage of firms with some degree of family ownership and/or managerial involvement (including those owned by the founder, but with other family members in top managerial positions) amounts to 53% in Italy, *vs.* 13% in the US[15].

[15] This is broadly similar to the findings of LA PORTA R. *et* AL. (1999), who report about 60% of medium-sized firms were family owned in Italy and about 10% were family owned in the US.

Turning to competition, Italian firms report a slightly lower number of competitors compared to the US. This is shown in Table 3, where we summarise the mean of the variable valued zero if the manager reported to have "no competitors", one for "less than 5 competitors" and two for "5 or more competitors". Italy also shows significant differences in terms of the average level of managerial skills. The share of the workforce with a college degree is about 16% in Italy, against the 30% reported by US managers[16].

TABLE 3

COMPETITION, SKILLS, EMPLOYMENT AND PUBLIC FIRMS BY COUNTRY

	France	Germany	Italy	UK	US
Number of firms	125	152	205	150	290
Number of competitor index, 1="none", 2="a few", 3="many"	2.32	2.35	2.45	2.56	2.56
Share of workforce with degrees, %	15.48	14.26	16.41	13.99	30.98
Employment	1,065	2,035	655	1,806	2,526
Listed firm, %	16.3	41.0	1.5	28.5	100.0

In Table 4 we test if differences in ownership, skills and competition can account for the Italy-US gap. In column (1) we regress management on dummy variables for Germany, France, the United Kingdom and Italy (with the US as the omitted baseline category). The regression shows that Italian firms are on average worse managed than US firms, with a gap of 0.202. In column (2) we include controls for firm size and stock market listing status, as a possible worry is that Italian firms tend to be smaller

[16] This finding is broadly consistent with the macro statistics suggesting a significant skills gap in Italy. For example, according to OECD (2006), in 2002 the 38% percent of the US population between 25 and 64 years had attained a tertiary education degree, *versus* the 10% in Italy.

TABLE 4

ACCOUNTING FOR MANAGEMENT PRACTICES ACROSS COUNTRIES

Estimation Method	(1) OLS	(2) OLS	(3) OLS	(4) OLS	(5) OLS	(6) OLS	(7) OLS
Dependent Variable	Management Raw Score						
Country is the US	Baseline	Baseline	Baseline	Baseline	Baseline	Baseline	Baseline
Country is Italy	-0.323***	-0.274***	-0.274***	-0.216**	-0.201**	-0.136	-0.085
	(0.067)	(0.100)	(0.099)	(0.099)	(0.100)	(0.101)	(0.105)
Country is Germany	-0.045	-0.100	-0.113	-0.122	-0.092	-0.031	-0.018
	(0.072)	(0.085)	(0.084)	(0.083)	(0.083)	(0.084)	(0.084)
Country is UK	-0.276***	-0.289***	-0.253***	-0.252***	-0.232**	-0.158*	-0.174*
	(0.073)	(0.090)	(0.090)	(0.089)	(0.090)	(0.090)	(0.098)
Country is France	-0.202***	-0.193*	-0.167*	-0.146	-0.104	-0.058	0.003
	(0.076)	(0.098)	(0.097)	(0.096)	(0.097)	(0.096)	(0.112)
Family largest shareholder, family CEO and *primo geniture*			-0.450***	-0.486***	-0.482***	-0.441***	-0.375***
			(0.090)	(0.090)	(0.090)	(0.089)	(0.088)
Founder largest shareholder and CEO, and family in management				-0.449***	-0.441***	-0.411***	-0.335***
				(0.103)	(0.102)	(0.101)	(0.107)
Number of Competitors					0.128***	0.133***	0.155***
					(0.045)	(0.044)	(0.046)
ln(Proportion of managers with college degree)						0.146***	0.103***
						(0.030)	(0.031)
Controls for size and listed status	no	yes	yes	yes	yes	yes	yes
Controls for industry	no	no	no	no	no	no	yes
Observations	936	936	936	936	936	936	936

Notes: Coefficients from OLS regression. The sample is a single cross-section. “Family largest shareholder, family CEO” is a binary indicator for whether the family is the largest shareholder and the CEO is chosen by *primo geniture*. “Founder largest shareholder and CEO, and family in management” is a binary indicator for whether the founder is the largest shareholder and CEO, and other family members have key managerial positions within the firm. “Number of competitors is constructed from the response to the survey question on number of competitors and is coded as zero for “none” (1% of responses), 2 for “less than 5 (51% of responses)”, and 2 for “5 or more” (48% of responses).

than their European and US counterparts[17], and only 1% appears to be listed. This slightly reduces the magnitude of the Italian dummy (to -0.193), but leaves unexplained most of the gap.

In column (3), we analyse the role of family firms, including a dummy for a *primo geniture* family firm, whose coefficient is negative and significant at the 1% level as expected. Notice that this variable causes a significant drop in the UK and France dummy variable, but leaves substantially unchanged the Italian dummy. This reflects the extensive presence of family firms which select their CEO based on *primo geniture* in France and the UK relative to Italy. In column (4), we include as additional control a dummy for founder firms which employ other family members in executive managerial positions. The variable appears with a negative coefficient, significant at the 1% level, and the coefficient on the Italian dummy drops by about 0.28 reflecting the extensive presence of founder owned firms with family managers in the country. The variable alone accounts for about 33% of the original gap *vis-à-vis* the US (33%=100*(0.323-0.216)/0.323), while it does not seem to affect the other country dummies.

In column (5), we include a control which measures the number of competitors faced by the firm, as reported by the plant manager during the interview. Consistent with our previous results, we see that the competition measure enters the regression with a positive and significant coefficient. The coefficient on the Italian dummy drops substantially (to -0.201), reflecting the lower level of reported competition in Italy in comparison with the US. In column (6), we analyse the percentage of the gap accounted for by differences in the average level of skills in both managerial and shop-floor employees. This control reduces the gap between Italy and the US further by 0.07, bringing it to insignificance.

Overall, family firm status, competition and skills account for about 60% of the original gap between Italy and the US. In column (7) we repeat the estimation including controls for the broad

[17] Table 3 shows that Italian companies tend to be about half the size of the US companies in the sample (695 employees in Italy *versus* 1,143 in the US).

sector of activity, as described by three digit sectoral dummies, to control for the fact that Italian firms tend to be concentrated in low-value added manufacturing activities (ISTAT, 2006)[18]. We can see that including controls for firm size and sector accounts for 74% of the original gap. Interestingly, however, firm size and industry controls hardly influence the dummies associated with family-ownership and family management, which both remain significant at the 1% level.

5. - Conclusions

This paper summarizes the results of a recent research undertaken to measure and compare management practices across manufacturing firms in Europe, Asia and the US, with a specific focus on Italian companies.

The managerial measures developed in this study are strongly associated with superior performance along different dimension of firms'. The data shows a substantial spread in management practices, even within countries and narrowly defined sectors of activity, with a long tail of extremely badly managed firms. The tail of bad performers accounts for most of the cross country disparities.

The relationship between management practices and specific types of ownership is among the key findings of this study. In particular, family-owned, family-run firms fare relatively worse in terms of management practices than professionally run firms, especially when the choice of the CEO is not linked to well defined selection criteria. We also find that strong competition and open labour markets both are associated with improved management performance. Relentless improvement in educational standards is also essential. Better-managed firms need more

[18] Including the industry controls before column (7) would not change the broad magnitude of the founder CEO dummy. For example, if we repeat the estimation of column (3) and (4) with industry dummies, the founder CEO dummy explains approximatively 24% of the gap *vis-à-vis* the US, while including industry dummies and age controls the founder CEO dummies exaplains 26% of the gap.

highly skilled workers and they make better use of them, while better educated managers will be a key component of the performance transformation that both established and emerging economies must undertake if they are to maintain and improve their global competitive position.

Our analysis suggests that family run firms are a crucial factor in explaining the managerial gap shown by Italian firms *vis-à-vis* the US. This should not be taken as a sign that family ownership *per se* is associated with worse management practices. On the contrary, family owned firms which are run by external CEOs are statistically undistinguishable from non family firms. Understanding the factors behind the extensive managerial involvement of family members across Italian organizations is a key issue that requires further investigation. In particular, the diffusion of founder-run firms employing younger members of the family in managerial positions may reflect the inability to find managerial position outside family networks, but also cultural preferences for managerial cohabitation[19].

Effective management practices help firms achieve high standards of performance across different regions cultures and markets. These techniques are easily accessible to many organizations, wherever they operate. Yet surprisingly few firms have made any attempt to gain an insight into the quality of their management behaviours. Those that do so give themselves the opportunity to access rapid, cost effective and sustainable competitive advantage. Governments can play their part in encouraging the uptake of good management behaviour. Doing so may be the single most cost-effective way of improving the performance of their economies.

[19] For example, MANACORDA M. - MORETTI E. (2006) argue that the one factor contributing to the extremely high rate of cohabitation of Italian men with their parents is parents' taste for co-residence.

APPENDIX A

DETAILS OF THE SURVEY QUESTIONNAIRES

TABLE 5

MANAGEMENT PRACTICE INTERVIEW GUIDE AND EXAMPLE RESPONSES

Any score from 1 to 5 can be given, but the scoring guide and examples are only provided for scores of 1, 3 and 5. Multiple questions are used for each dimension to improve scoring accuracy.

(1) Modern manufacturing, introduction

a) Can you describe the production process for me?
b) What kinds of lean (modern) manufacturing processes have you introduced? Can you give me specific examples?
c) How do you manage inventory levels? What is done to balance the line?

	Score 1	Score 3	Score 5
Scoring grid:	Other than Just-In-Time (JIT) delivery from suppliers few modern manufacturing techniques have been introduced, (or have been introduced in an *ad-hoc* manner).	Some aspects of modern manufacturing techniques have been introduced, through informal/isolated change programs.	All major aspects of modern manufacturing have been introduced (Just-In-Time, autonomation, flexible manpower, support systems, attitudes and behaviour) in a formal way.
Examples:	A UK firm orders in bulk and stores the material on average 6 months before use. The business focuses	A supplier to the army is undergoing a full lean transformation. For 20 years, the company was a spe-	A US firm has formally introduced all major elements of modern production. It reconfigured the factory floor based on value stream

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	on quality and not reduction of lead-time or costs. Absolutely no modern manufacturing techniques had been introduced.	cialty supplier to the army, but now they have had to identify other competencies forcing them to compete with lean manufacturers. They have begun adopting specific lean techniques and plan to use full lean by the end of next year.	mapping and 5-S principles, broke production into cells, eliminated stockrooms, implemented Kanban, and adopted Takt time analyses to organize workflow [these are all forms of lean/modern manufacturing techniques].
(2) Modern manufacturing, rationale a) Can you take through the rationale to introduce these processes? b) What factors led to the adoption of these lean (modern) management practices?			
	Score 1	Score 3	Score 5
Scoring grid:	Modern manufacturing techniques were introduced because others were using them.	Modern manufacturing techniques were introduced to reduce costs.	Modern manufacturing techniques were introduced to enable us to meet our business objectives (including costs).
Examples:	A German firm introduced modern techniques because all its competitors were using these techniques. The business decision had been taken to imitate the competition.	A French firm introduced modern manufacturing methods primarily to reduce costs.	A US firm implemented lean techniques because the COO had worked with them before and knew that they would enable the business to reduce costs, competing with cheaper imports through improved quality, flexible production, greater innovation and JIT delivery.

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(3) Process problem documentation

a) How would you go about improving the manufacturing process itself?
b) How do problems typically get exposed and fixed?
c) Talk me through the process for a recent problem.
d) Do the staff ever suggest process improvements?

	Score 1	Score 3	Score 5
Scoring grid:	No, process improvements are made when problems occur.	Improvements are made in one week workshops involving all staff, to improve performance in their area of the plant.	Exposing problems in a structured way is integral to individuals' responsibilities and resolution occurs as a part of normal business processes rather than by extraordinary effort/teams.
Examples:	A US firm has no formal or informal mechanism in place for either process documentation or improvement. The manager admitted that production takes place in an environment where nothing has been done to encourage or support process innovation.	A US firm takes suggestions via an anonymous box, they then review these each week in their section meeting and decide any that they would like to proceed with.	The employees of a German firm constantly analyse the production process as part of their normal duty. They film critical production steps to analyse areas more thoroughly. Every problem is registered in a special database that monitors critical processes and each issue must be reviewed and signed off by a manager.

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(4) Performance tracking

a) Tell me how you track production performance?
b) What kind of Key Performance Indicators (KPIs) would you use for performance tracking? How frequently are these measured? Who gets to see this KPI data?
c) If I were to walk through your factory could I tell how you were doing against your KPI's?

	Score 1	Score 3	Score 5
Scoring grid:	Measures tracked do not indicate directly if overall business objectives are being met. Tracking is an *ad-hoc* process (certain processes aren't tracked at all).	Most key performance indicators are tracked formally. Tracking is overseen by senior management.	Performance is continuously tracked and communicated, both formally and informally, to all staff using a range of visual management tools.
Examples:	A manager of a US firm tracks a range of measures when he does not think that output is sufficient. He last requested these reports about 8 months ago and had them printed for a week until output increased again.	At a US firm every product is bar-coded and performance indicators are tracked throughout the production process; however, this information is not communicated to workers.	A US firm has screens in view of every line. These screens are used to display progress to daily target and other performance indicators. The manager meets with the shop floor every morning to discuss the day past and the one ahead and uses monthly company meetings to present a larger view of the goals to date and strategic direction of the business to employees. He even stamps napkins with key performance achievements to ensure everyone is aware of a target that has been hit.

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(5) Performance review

a) How do you review your Key Performance Indicators (KPIs)?
b) Tell me about a recent meeting
c) Who is involved in these meetings? Who gets to see the results of this review?

	Score 1	Score 3	Score 5
Scoring grid:	Performance is reviewed infrequently or in an unmeaningful way, *e.g.* only success or failure is noted.	Performance is reviewed periodically with successes and failures identified. Results are communicated to senior management. No clear follow-up plan is adopted.	Performance is continually reviewed, based on indicators tracked. All aspects are followed up ensure continuous improvement. Results are communicated to all staff.
Examples:	A manager of a US firm relies heavily on his gut feel of the business. He will review costs when he thinks there is too much or too little in the stores. He admits he is busy so reviews are infrequent. He also mentioned staffs feel like he is going on a hunt to find a problem, so he has now made a point of highlighting anything good.	A UK firm uses daily production meetings to compare performance to plan. However, clear action plans are infrequently developed based on these production results.	A French firm tracks all performance numbers real time (amount, quality etc). These numbers are continuously matched to the plan on a shift-by-shift basis. Every employee can access these figures on workstations on the shop floor. If scheduled numbers are not met, action for improvement is taken immediately.

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6) Performance dialogue

a) How are these meetings structured? Tell me about your most recent meeting.
b) During these meeting, how much useful data do you have?
c) How useful do you find problem solving meetings?
d) What type of feedback occurs in these meetings?

	Score 1	Score 3	Score 5
Scoring grid:	The right data or information for a constructive discussion is often not present or conversations overly focus on data that is not meaningful. Clear agenda is not known and purpose is not stated explicitly.	Review conversations are held with the appropriate data and information present. Objectives of meetings are clear to all participating and a clear agenda is present. Conversations do not, as a matter of course, drive to the root causes of the problems.	Regular review/performance conversations focus on problem solving and addressing root causes. Purpose, agenda and follow-up steps are clear to all. Meetings are an opportunity for constructive feedback and coaching.
Examples:	A US firm does not conduct staff reviews. It was just "not the philosophy of the company" to do that. The company was very successful during the last decade and therefore did not feel the need to review their performance.	A UK firm focuses on key areas to discuss each week. This ensures they receive consistent management attention and everyone comes prepared. However, meetings are more of an opportunity for everyone to stay abreast of current issues rather than problem solve.	A German firm meets weekly to discuss performance with workers and management. Participants come from all departments (shop floor, sales, R&D, procurement etc.) to discuss the previous week performance and to identify areas to improve. They focus on the cause of problems and agree topics to be followed up the next week, allocating all tasks to individual participants.

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(7) Consequence management

a) What happens if there is a part of the business (or a manager) who isn't achieving agreed upon results? Can you give me a recent example?
b) What kind of consequences would follow such an action?
c) Are there are any parts of the business (or managers) that seem to repeatedly fail to carry out agreed actions?

	Score 1	Score 3	Score 5
Scoring grid:	Failure to achieve agreed objectives does not carry any consequences.	Failure to achieve agreed results is tolerated for a period before action is taken.	A failure to achieve agreed targets drives retraining in identified areas of weakness or moving individuals to where their skills are appropriate.
Examples:	At a French firm, no action is taken when objectives are not achieved. The President personally intervenes to warn employees but no stricter action is taken. Cutting payroll or making people redundant because of a lack of performance is very rarely done.	Management of a US firm reviews performance quarterly. That is the earliest they can react to any underperformance. They increase pressure on the employees if targets are not met.	A German firm takes action as soon as a weakness is identified. They have even employed a psychologist to improve behavior within a difficult group. People receive ongoing training to improve performance. If this doesn't help they move them in other departments or even fire individuals if they repeatedly fail to meet agreed targets.

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(8) Target balance

a) What types of targets are set for the company? What are the goals for your plant?
b) Tell me about the financial and non-financial goals.
c) What does Company Head Quarters (CHQ) or their appropriate manager emphasize to you?

	Score 1	Score 3	Score 5
Scoring grid:	Goals are exclusively financial or operational.	Goals include non-financial targets, which form part of the performance appraisal of top management only (they are not reinforced throughout the rest of organization).	Goals are a balance of financial and non-financial targets. Senior managers believe the non-financial targets are often more inspiring and challenging than financials alone.
Examples:	At a UK firm performance targets are exclusively operational. Specifically volume is the only meaningful objective for managers, with no targeting of quality, flexibility or waste.	For French firm strategic goals are very important. They focus on market share and try to hold their position in technology leadership. However, workers on the shop floor are not aware of those targets.	A US firm gives everyone a mix of operational and financial targets. They communicate financial targets to the shop floor in a way they found effective - for example telling workers they pack boxes to pay the overheads until lunchtime and after lunch it is all profit for the business. If they are having a good day the boards immediately adjust and play the "profit jingle" to let the shop floor know that they are now working for profit. Everyone cheers when the jingle is played.

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(9) Target interconnection

a) What is the motivation behind your goals?
b) How are these goals cascaded down to the individual workers?
c) What are the goals of the top management team (do they even know what they are!)?
How are your targets linked to company performance and their goals?

	Score 1	Score 3	Score 5
Scoring grid:	Goals are based purely on accounting figures (with no clear connection to shareholder value).	Corporate goals are based on shareholder value but are not clearly communicated down to individuals.	Corporate goals focus on shareholder value. They increase in specificity as they cascade through business units ultimately defining individual performance expectations.
Examples:	A family owned firm in France is only concerned about the net income for the year. They try to maximize income every year without focusing on any long term consequences.	A US firm bases its strategic corporate goals on enhancing shareholder value, but does not clearly communicate this to workers. Departments and individuals have little understanding of their connection to profitability or value with many areas labelled as “cost-centers” with an objective to cost-cut despite potentially disproportionately large negative impact on the other departments they serve.	For a US firm strategic planning begins with a bottom up approach that is then compared with the top down aims. Multifunctional teams meet every 6 months to track and plan deliverables for each area. This is then presented to the area head that then agrees or refines it and then communicates it down to his lowest level. Everyone has to know exactly how he or she contributes to the overall goals or else they will not understand how important the 10 hours they spend at work every day is to the business.

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(10) Target time horizon

a) What kind of time scale are you looking at with your targets?
b) Which goals receive the most emphasis?
c) How are long term goals linked to short term goals?
d) Could you meet all your short-run goals but miss your long-run goals?

	Score 1	Score 3	Score 5
Scoring grid:	Top management's main focus is on short term targets.	There are short and long-term goals for all levels of the organization. As they are set independently, they are not necessarily linked to each other.	Long term goals are translated into specific short term targets so that short term targets become a "staircase" to reach long term goals.
Examples:	A UK firm has had several years of ongoing senior management changes - therefore senior managers are only focusing on how the company is doing this month versus the next, believing that long-term targets will take care of themselves.	A US firm has both long and short-term goals. The senior managers know the long-term goals and the short-term goals are the remit of the operational managers. Operations managers only occasionally see the longer-term goals so are often unsure how they link with the short term goals.	A UK firm translates all their goals — even their 5-year strategic goals — into short-term goals so they can track their performance to them. They believe that it is only when you make someone accountable for delivery within a sensible timeframe that a long-term objective will be met. They think it is more interesting for employees to have a mix of immediate and longer-term goals.

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(11) Targets are stretching

a) How tough are your targets? Do you feel pushed by them?
b) On average, how often would you say that you meet your targets?
c) Are there any targets which are obviously too easy (will always be met) or too hard (will never be met)?

Do you feel that on targets that all groups receive the same degree of difficulty? Do some groups get easy targets?

	Score 1	Score 3	Score 5
Scoring grid:	Goals are either too easy or impossible to achieve; managers provide low estimates to ensure easy goals.	In most areas, top management pushes for aggressive goals based on solid economic rationale. There are a few "sacred cows" that are not held to the same rigorous standard.	Goals are genuinely demanding for all divisions. They are grounded in solid, solid economic rationale.
Examples:	A French firm uses easy targets to improve staff morale and encourage people. They find it difficult to set harder goals because people just give up and managers refuse to work people harder.	A chemicals firm has 2 divisions, producing special chemicals for very different markets (military, civil). Easier levels of targets are requested from the founding and more prestigious military division.	A manager of a UK firm insisted that he has to set aggressive and demanding goals for everyone - even security. If they hit all their targets he worries he has not stretched them enough. Each KPI is linked to the overall business plan.

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continued TABLE 5

(12) Performance clarity

a) What are your targets (i.e. do they know them exactly)? Tell me about them in full.
b) Does everyone know their targets? Does anyone complain that the targets are too complex?
c) How do people know about their own performance compared to other people's performance?

	Score 1	Score 3	Score 5
Scoring grid:	Performance measures are complex and not clearly understood. Individual performance is not made public.	Performance measures are well defined and communicated; performance is public in all levels but comparisons are discouraged.	Performance measures are well defined, strongly communicated and reinforced at all reviews; performance and rankings are made public to induce competition.
Examples:	A German firm measures performance per employee based on differential weighting across 12 factors, each with its own measurement formulas (e.g. Individual versus average of the team, increase on prior performance, thresholds etc.). Employees complain the formula is too complex to understand, and even the plant manager could not remember all the details.	A French firm does not encourage simple individual performance measures as unions pressure them to avoid this. However, charts display the actual overall production process against the plan for teams on regular basis.	At a US firm self-directed teams set and monitor their own goals. These goals and their subsequent outcomes are posted throughout the company, encouraging competition in both target setting and achievement. Individual members know where they are ranked which is communicated personally to them bi-annually. Quarterly company meetings seek to review performance and align targets.

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continued TABLE 5

(13) Managing human capital

a) Do senior managers discuss attracting and developing talented people?
b) Do senior managers get any rewards for bringing in and keeping talented people in the company?
c) Can you tell me about the talented people you have developed within your team? Did you get any rewards for this?

	Score 1	Score 3	Score 5
Scoring grid:	Senior management do not communicate that attracting, retaining and developing talent throughout the organization is a top priority.	Senior management believe and communicate that having top talent throughout the organization is a key way to win.	Senior managers are evaluated and held accountable on the strength of the talent pool they actively build.
Examples:	A US firm does not actively train or develop its employees, and does not conduct performance appraisals or employee reviews. People are seen as a secondary input to the production.	A US firm strives to attract and retain talent throughout the organization, but does not hold managers individually accountable for the talent pool they build. The company actively cross-trains employees for development and challenges them through exposure to a variety of technologies.	A UK firm benchmarks human resources practices at leading firms. A cross-functional HR excellence committee develops policies and strategies to achieve company goals. Bi-monthly directors' meetings seek to identify training and development opportunities for talented performers.

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continued TABLE 5

(14) Rewarding high-performance

a) How does you appraisal system work? Tell me about the most recent round.
b) How does the bonus system work?
c) Are there any non-financial rewards for top-performers?
d) How does your reward system compare to your competitors?

	Score 1	Score 3	Score 5
Scoring grid:	People within our firm are rewarded equally irrespective of performance level.	Our company has an evaluation system for the awarding of performance related rewards.	We strive to outperform the competitors by providing ambitious stretch targets with clear performance related accountability and rewards.
Examples:	An East Germany firm pays its people equally and regardless of performance. The management said to us “there are no incentives to perform well in our company”. Even the management is paid an hourly wage, with no bonus pay.	A German firm has an awards system based on three components: the individual's performance, shift performance, and overall company performance.	A US firm sets ambitious targets, rewarded through a combination of bonuses linked to performance, team lunches cooked by management, family picnics, movie passes and dinner vouchers at nice local restaurants. They also motivate staff to try by giving awards for perfect attendance, best suggestion etc.

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continued TABLE 5

(15) Removing poor performers

a) If you had a worker who could not do his job what would you do? Could you give me a recent example?
b) How long would underperformance be tolerated?
c) Do you find any workers who lead a sort of charmed life? Do some individuals always just manage to avoid being fixed/fired?

	Score 1	Score 3	Score 5
Scoring grid:	Poor performers are rarely removed from their positions.	Suspected poor performers stay in a position for a few years before action is taken.	We move poor performers out of the company or to less critical roles as soon as a weakness is identified.
Examples:	A French firm had a supervisor who was regularly drinking alcohol at work but no action was taken to help him or move him. In fact, no employee had ever been laid off in the factory. According to the plant manager HR "kicked up a real fuss" whenever management wanted to get rid of employees, and told managers their job was production not personnel.	For a German firm it is very hard to remove poor performers. The management has to prove at least three times that an individual underperformed before they can take serious action.	At a US firm, the manager fired four people during last couple of months due to underperformance. They continually investigate why and who are underperforming.

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continued TABLE 5

(16) Promoting high performers

a) Can you rise up the company rapidly if you are really good? Are there any examples you can think of?
b) What about poor performers - do they get promoted more slowly? Are there any examples you can think of?
c) How would you identify and develop (*i.e.* train) your star performers?
d) If two people both joined the company 5 years ago and one was much better than the other would he/she be promoted faster?

	Score 1	Score 3	Score 5
Scoring grid:	People are promoted primarily upon the basis of tenure.	People are promoted upon the basis of performance.	We actively identify, develop and promote our top performers.
Examples:	A UK firm promotes based on an individual's commitment to the company measured by experience. Hence, almost all employees move up the firm in lock step. Management was afraid to change this process because it would create bad feeling among the older employees who were resistant to change.	A US firm has no formal training program. People learn on the job and are promoted based on their performance on the job.	At a UK firm each employee is given a red light (not performing), amber light (doing well and meeting targets) a green light (consistently meeting targets very high performer) and a blue light (high performer capable of promotion of up to two levels). Each manager is assessed every quarter based on his succession plans and development plans for individuals.

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continued TABLE 5

(17) Attracting human capital

a) What makes it distinctive to work at your company as opposed to your competitors?
b) If you were trying to sell your firm to me how would you do this (get them to try to do this)?
c) What don't people like about working in your firm?

	Score 1	Score 3	Score 5
Scoring grid:	Our competitors offer stronger reasons for talented people to join their companies.	Our value proposition to those joining our company is comparable to those offered by others in the sector.	We provide a unique value proposition to encourage talented people join our company above our competitors.
Examples:	A manager of a firm in Germany could not give an example of a distinctive employee proposition and (when pushed) thinks the offer is worse than most of its competitors. He thought that people working at the firm "have drawn the short straw".	A US firm seeks to create a value proposition comparable to its competitors and other local companies by offering competitive pay, a family atmosphere, and a positive presence in the community.	A German firm offers a unique value proposition through development and training programs, family culture in the company and very flexible working hours. It also strives to reduce bureaucracy and seeks to push decision making down to the lowest levels possible to make workers feel empowered and valued.

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continued TABLE 5

(18) Retaining human capital

a) If you had a star performer who wanted to leave what would the company do?
b) Could you give me an example of a star performers being persuaded to stay after wanting to leave?
c) Could you give me an example of a star performer who left the company without anyone trying to keep them?

	Score 1	Score 3	Score 5
Scoring grid:	We do little to try to keep our top talent.	We usually work hard to keep our top talent.	We do whatever it takes to retain our top talent.
Examples:	A German firm lets people leave the company if they want. They do nothing to keep those people since they think that it would make no sense to try to keep them. Management does not think they can keep people if they want to work somewhere else. The company also will not start salary negotiations to retain top talent.	If management of a French firm feels that people want to leave the company, they talk to them about their reasons for leaving and what the company could change to keep them. This could be more responsibilities or a better outlook for the future. Managers are supposed to "take-the-pulse" of employees to check satisfaction levels.	A US firm knows who its top performers are. If any of them signal an interest to leave the firm pulls in senior managers and even corporate Head Quarters to talk to them and try and persuade them to stay. Occasionally they will increase salary rates if necessary and if they feel the individual is being underpaid relative to the market. Managers have a responsibility to try to keep all desirable staff.

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