



Firms' global engagement and management practices



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HIGHLIGHTS

- We use new and unique data from a recent large scale firm survey of management practices in Germany (GMOP).
- We calculate management scores for firms which indicate how structured management is in a given firm.
- We find that switching into exporting, and to a lesser degree opening up affiliates abroad, is related to improving management performance in the sense of firms applying more structured management practices.

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ABSTRACT

We investigate whether firms' "global engagement", either in the form of exporting or opening up affiliates abroad, is related to the change in their management performance. Using new and unique data from a recent large scale firm survey of management practices in Germany, we calculate management scores for firms as in Bloom et al. (2013). These indicate how structured management is in a given firm. We find that switching into exporting, and to a lesser degree opening up affiliates abroad, is related to improving management performance in the sense of firms applying more structured management practices.

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1. Introduction

Recent firm level analyses of management practices show for the US and Germany that management in firms has changed over time, in the sense that firms tend to employ more structured management practices (e.g. Bloom et al., 2013; Broszeit et al., 2016). This echoes a somewhat related literature on organizational practices in firms, which shows that hierarchies have become flatter, that demand for managers has increased and that managerial compensation has risen in industrialized countries over time (e.g. Cunat and Guadalupe, 2009; Guadalupe and Wulf, 2010; Fabbri and Marin, 2012). These papers also argue that "competitive pressure", taking the form of domestic or global competition, can help to explain these developments.

Against this backdrop, the purpose of this paper is to investigate whether firms' "global engagement", either in the form

of exporting or the opening up of affiliates abroad, is related to changes in management performance in Germany. We have access to new and unique data from a recent large scale firm survey of management practices in Germany which we use for this purpose. We calculate management scores for firms as in Bloom et al. (2013), which indicate how structured management is in a given firm. We then investigate how these management indices change over time and whether firms' engagement abroad can partly explain these changes.

Why should we expect a nexus between a firm's management practices and its engagement abroad? In line with the cited literature, we posit that a firm engaging abroad is subject to competitive pressure in the destination or host country. In order to overcome this pressure, it may need to improve its management performance in order to be able to increase output and penetrate the foreign market. This harks back to the ideas formulated by Horn et al. (1995) who show theoretically that opening up to trade increases competition (the number of firms producing the same output), incentivizes firms to produce more output and thus induces managers to expend more effort.

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2. Description of the data

We use data from a new and unique establishment level survey on management practices and firm performance in Germany, called the “German Management and Organization Practices Survey” (GMOP), described in detail by Broszeit et al. (2016).¹ The survey was carried out in 2015 and provides detailed information on management practices and establishment characteristics. Specifically, we collect data for the years 2008 and 2013 pertaining to about 1900 establishments. As Broszeit et al. (2016) show, the sample can be considered representative of the population of establishments with 25 or more employees in manufacturing industries.² The information on management practices collected in the survey is very similar to the “Management and Organizational Practices Survey” (MOPS) which was carried out by the US Census Bureau in 2010 (see Bloom et al., 2013).³

The GMOP survey included 16 questions on management practices interrelated on three key criteria: *Monitoring* (measures to record, use and review how employees are performing), *Targets* (the timeframe for delivery and effort required to achieve production targets) and *Incentives* (the use of performance bonuses, promotions and penalties for underperformance). We aggregate information from these 16 questions into an aggregate synthetic management indicator taking on values between 0 and 1, where larger numbers signify the use of more structured management practices in the establishment.

We illustrate the calculation of the index using, by way of example, a question related to *Monitoring*. Specifically, establishments are asked ‘How many key performance indicators were monitored at this establishment?’ Respondents can select an answer from four categories, the lowest category being, “1–2”, suggesting the lowest level of performance structuring, and the most structured category corresponding to “50 or more”. Consistent with Bloom et al. (2013), the four categories in this question are assigned values of 0, 0.25, 0.75 and 1. The remaining 15 questions are similarly organized. An overall management score is then calculated as the unweighted average of the normalized responses, higher values implying more structured management. More details on the construction of this management indicator, is available in Broszeit et al. (2016) and Bloom et al. (2013).

The survey also provides information on some firm characteristics, such as employment size and ownership details and, most importantly from our point of view, on global engagement of firms. In particular, we know whether a firm exports or not, and whether it maintains affiliates abroad. It is these two aspects of firm performance that we focus on in this paper.

Fig. 1 shows the overall dynamic of management scores for the two years 2008 and 2013 for the surveyed firms. It is worth noting that the majority of management scores have improved over this period, with most points located above the 45 degree line. The average management score has risen from 0.50 (s.d. 0.17) in 2008 to 0.57 (s.d. 0.16) in 2013, suggesting that German management practices have become increasingly structured. At the same time, aggregate data show that German exports increased by 11% over the same time period, totaling 1.1 trillion euro in 2013, while German outward investment increased by 6%, amounting to 907

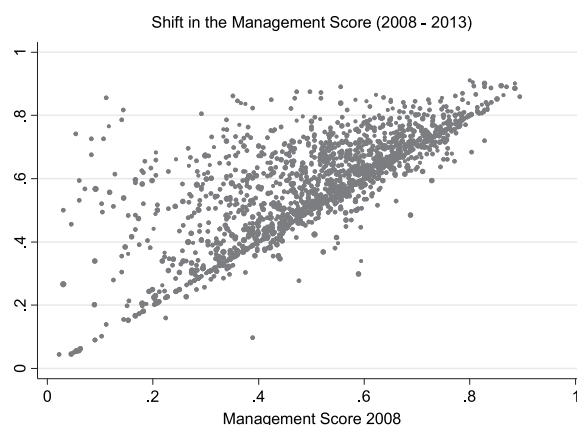


Fig. 1. Distribution of the management score in 2008 and 2013.

billion in 2013.⁴ The question we pose in this paper is whether changes in the global engagement of German firms can partly explain this increased structuring of management.

We start with some summary statistics. Overall, as Table 1 shows, about two-thirds of firms are exporters, and just under a quarter have affiliates abroad in 2013. Both exporters and outward investors have higher management scores than firms that are not globally engaged in these ways. There is no statistically significant difference in terms of employment size. Importantly, roughly 94 percent of firms with affiliates abroad are also exporters, while just under one third of exporters also maintain affiliates abroad.

3. Econometric model and results

In order to look more closely at whether international activities impact on management performance, we start by estimating a model that relates management to global engagement,

$$M_{i13} = \alpha \text{GLOB}_{i08} + \beta M_{i08} + \gamma \text{CRISIS}_i + \lambda X_{i08} + D + \varepsilon_{i13} \quad (1)$$

where M_{i13} is the management score for firm i in 2013, GLOB is a vector of export and outward investment dummies (1 if firm engages in the activity), where the latter are measured in 2008 to mitigate endogeneity concerns. As we are interested in the change in the management score between 2008 and 2013, we control for M in 2008 on the right-hand-side. Given that studies cited above show that competitive pressure may increase management performance, we also include a firm’s assessment of the 2008 crisis as an additional regressor. Specifically, we include a dummy equal to one if the firm perceives that it was negatively affected by the crisis (which may indicate increased pressure on the firm). X is a set of firm level controls, namely size, domestic ownership, and family ownership.⁵ D is a set of industry and area type dummies.⁶

Results are reported in Table 2. Columns (1) and (2) include export and outward investment dummies separately while column

¹ Access to the data is possible for external researchers via the IAB Research Data Centre, see http://fdz.iab.de/en/FDZ_Establishment_Data/GMOP/GMOP_Outline.aspx.

² Smaller firms were not sampled.

³ Both MOPS and GMOP are related to the World Management Surveys used by, e.g., Bloom and van Reenen (2007, 2010). They differ in a number of respects, however. Most importantly, GMOP and MOPS are based on larger samples of firms and include only closed ended questions (while WMS uses open ended questions in person-to-person interviews), making the calculation of an aggregate firm level management index quite straightforward.

⁴ Export data are provided by the Federal Statistical Office at destatis.de, while FDI data are collected by the German Bundesbank, see https://www.bundesbank.de/Navigation/DE/Publikationen/Statistiken/Statistische_Sonderveroeffentlichungen/Statso_10/statistische_sonderveroeffentlichungen_10.html.

⁵ We have grouped firms into three size classes, namely small (25–49 employees), medium (50–99 employees), and large (100 or more employees). Small is the omitted category in the regressions. The other two dummies are 0/1 dummies whether or not a firm is domestic owned or family owned.

⁶ Industry dummies are food and consumption, consumer products, industrial goods, investment and durable goods and construction. Area type dummies are larger cities, urban regions, and rural regions with signs of densification as well as sparsely populated rural regions.

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