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Impact of Managerial Effectiveness on Growth of a Country – A Comparison between Developed & Developing Nations

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Abstract: Literature review makes it evident that the growth and development of any country is dependent on its firms and any firm's performance is dependent on the managerial strategies and practices being followed by its managers. In this paper, we will be studying the impact of managerial strategies and practices on the Global Competitive Index of 40 countries from the list of 137 countries in the world. While doing so, we will attempt to compare the developed and developing nations in the list. We would be identifying a mechanism how developed countries are able to grow more as compared to the developing nations, giving an insight into relevant managerial factors

Keywords —Competitiveness, Development, Institutions, Managerial Strategies

I. Introduction

The growth, development and competitiveness of an economy is significantly dependent on the enterprises that are in operation because they are a major source of revenue for the country that would eventually be used for the development of people. That is why the quality of firms becomes significant from an economy's point of view.

Authors [5] observed, "Cross-national dissimilarities in institutional structures are likely to create management practices that vary from country to country, regardless of the fact that management theories are often rapidly disseminated across national borders". Therefore, we can say that there would be potential differences in the practices that vary from country to country. We would like to identify these factors influencing managerial effectiveness and bring out a comparative analysis between developed and developing nations giving an insight into the relevant managerial factors that help a country grow. The basis of our study would be the variables classified under the institutional pillars given by the Global Competitiveness Report as formulated by the World Economic Forum. The report ranks every country in the list of 137 countries on the basis of factors and institutions identified by theoretical and empirical research and gives a Global Competitiveness Index thereby helping the decision makers understand the complex and multifaceted nature of the development challenges to design better policies.

The variables that we would be considering for the study would be hiring and firing practices, extent of staff training, extent of marketing, ethical behavior of the firms, willingness to delegate authority as they all belong to the management practices being followed by firms in a country. After identifying the kind of impact they will have on competitiveness index would be able to list down the relevant managerial factors developing countries can take an action to restore confidence in the possibilities of continued economic progress.

II. Literature Review

According to the various economists, development of a country is based on the resources it has and the technology that it is able to adapt to or come up with. This was the view held in the past. In the recent years, a new perspective has come out and is being talked about. It talks about the normative framework and institutions established in a country and the impact they have on fostering development. The institutional structure defines a lot of things like the incentives that the nation gets by their development, the kind of penalties imposed, the social behavior that comes as a result of their establishment and the collective action taken up which has a major role in the development of any nation.

In the past few years, a lot of studies have been taken up that have supported the relationship between institutional quality and development of a nation but the ones that reflect the relationship between institutional quality and growth are less conclusive. The positive impact of institutional quality on development has been given by various studies through cross section analysis given by authors [6], [1], [9] or [2] [3] and also through case studies given by [10].

From economic decision makers viewpoint it is not sufficient to just say that institutions are important for a nation. What is even more important is to identify the

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determinants of this institutional quality. It is important to identify these determinants because they are the ones that would help in building of good institutions which would then materialize and help in a nation's progress which is becoming increasingly important for the prosperity of its people in the era of globalization. Empirical research is lesser in this area and the conclusions of whatever has been carried out in the past are lesser worthy of being trusted.

Therefore, we can see that studying institutional theory is important from the viewpoint of emerging nations as they are still in the transition phase and having good institutional framework can help them grow better on the path leading towards building a developed nation.

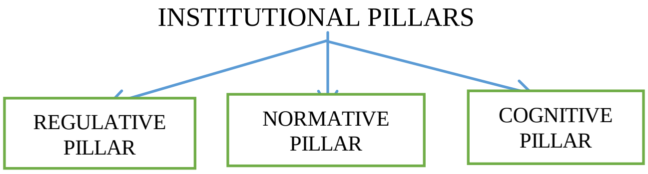
Institutional theory can be defined as the theoretical framework that provides a kind of direction for the institutions on the path of being rational, legal and being capable of being validated. It actually focused on the deeper areas of the social structure. Generally for socially accepted behavior, the various norms, rules and routines are figured out with the help of the institutional theory.

Institutional theory has varied components that are adapted and adopted over time and slowly and gradually they stop getting used due to the changing times and economies.

As per author [12], there is no single and universally agreed definition of an 'institution' in the institutional school of thought. Further, he asserts that" Institutions are social structures that have attained a high degree of resilience.

Developed nations have well developed institutional framework, eg. Laws, regulative and fully developed and functional institutions which is not so in the case of developing institutions. As developing/ emerging nations are in a transition phase, their institutional framework is also evolving overtime and going towards betterment.

Sub-Classifications of Institutional Pillars



According to author [13], an institution is made up of various regulative, normative and culture-cognitive elements which also form the basis of social life.

Authors [4] interpret these pillars in a relatively straightforward way as follows: "the regulative pillar defines what people are permitted or not to do", the normative defines "what is or is not right to do" and finally the cognitive pillar can be interpreted as "what can or cannot be done".

Regulative Pillar

The regulative pillar reflects the existing laws and rules and regulations in a particular nation that promote certain behaviors while restricts others [8]. These rules and regulations are defined by the regulatory institutions that are set up by governments, trade associations, professional organizations that are responsible for the smooth functioning of the various organizations together in national environment [12].

A country functions on the basis of the macroeconomic policies decided by the government for the wealth of the nation. Since they are decided by the government and enable regulation of the economy they are classified under the regulative pillar. That impacts the institutions of the nation significantly as any business is closely related to the government policies and procedures.

The various indicators of the macroeconomic policy of a country include money supply, national income, unemployment rate in the economy, growth rate, interest rate for borrowing funds to name a few. They have to be adequately monitored and accordingly formulated to ensure that a nation is in accordance with the global economies and is on the path of growth.

Normative Pillar

The normative pillar reflects the set of values and norms held by an individual in a given country [8]. Even in a given country, various individuals hold various values as they are influenced by a number of factors like religion, society, community, thought process etc. Therefore, work culture of various institutions is identified by the values adopted by people working together and how they are able to co-ordinate amongst themselves and reach the desired conclusions.

Cognitive Pillar

The cognitive pillar reflects the behavior of people in an economy. How people work together in institutions is dependent on how people notice, categorize and interpret stimuli from the environment.

The cognitive categories include the social knowledge, national symbols and the way and ability that the people understand and interpreted things in a certain country [14]. In general, they are deeply embedded in the socio-cultural environment and provide frameworks on which normative and regulative systems are constructed [11]. Cultural-cognitive institutions are "the rules that specify what types of actors are allowed to exist, what structural features they exhibit, what procedures they can follow, and what meanings are associated with these actions" [11].

Research has been carried out and these pillars have been studied for the EU nations by authors [7], and the worst performing ones out of those nations is Croatia. The main

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problems that have been identified with respect to Croatia are poor effectiveness of public administration and corruption in the perceptions of Croatian entrepreneurs. Inadequate levels of education and skills of labour are also high among identified obstacles for higher competitiveness of Croatian business sector. Therefore, if Croatia is able to invest in these areas where it is lagging behind then it can do better with respect to the development of its economy. Therefore, similar kind of a study for developing nations can be very fruitful as it will give a direction as to where to invest its resources as resources are limited in any nation and if they are put to the best use it can yield maximum results.

III. RESEARCH METHODOLOGY

For our analysis, we started with collecting the data for the GCI scores and the scores assigned under various variables to different developed and developing countries. Variables that are considered to impact the managerial effectiveness have been taken. These variables are Hiring and Firing Practices (X_{2i}), Extent of Staff Training (X_{3i}), Extent of Marketing (X_{4i}), Ethical Behavior of Firms (X_{5i}) and Willingness to Delegate Authority (X_{6i}). After collecting the data, normality testing was done on the GCI scores to be able to identify the technique to be applied for testing the data.

$$\hat{Y}_i = \hat{\lambda} + \hat{\delta}_2 X_{2i} + \hat{\delta}_3 X_{3i} + \hat{\delta}_4 X_{4i} + \hat{\delta}_5 X_{5i} + \hat{\delta}_6 X_{6i}$$

We have considered the following null hypothesis in our research:

- H_0 : Hiring and Firing practices do not impact the GCI level
- H_0 : Extent of Staff Training do not impact the GCI level
- H_0 : Extent of Marketing do not impact the GCI level
- H_0 : Ethical behavior of firms do not impact the GCI level
- H_0 : Willingness to delegate authority do not impact the GCI level

DEVELOPED COUNTRIES	GCI (1-7)	Hiring and firing practices	Extent of staff training	Extent of marketing	Ethical behavior of firms	Willingness to delegate authority
GERMANY	5.7	4.1	5.2	5.5	5.2	4.9
UNITED STATES	5.9	5.1	5.1	6	5	5.2
ESTONIA	4.8	4.7	4.7	4.4	4.8	4.5
CZECH REPUBLIC	4.8	3.5	4.5	4.6	3.8	4.1
NEW ZEALAND	5.4	4.6	5	5.2	6.2	5.5
UNITED ARAB EMIRATES	5.3	5.3	5.1	5.7	6	5
BELGIUM	5.2	3.2	5.2	5.3	5.6	5.1
KOREA, REP.	5.1	3.3	4.4	4.8	3.5	3.8
SPAIN	4.7	3.3	3.7	4.6	3.8	3.5
SWEDEN	5.5	3.3	5.5	5.4	6.3	5.6
ICELAND	5	5.6	5.1	5	5.3	5
NETHERLANDS	5.7	4	5.4	5.6	5.8	5.7
ISRAEL	5.3	4.5	4.6	5.4	4.7	4.2
AUSTRALIA	5.2	3.1	4.9	5.1	5.6	4.9
NORWAY	5.4	3.6	5.5	5.1	5.9	6
UNITED KINGDOM	5.5	5.1	4.9	5.8	5.6	5
CANADA	5.3	4.8	4.6	5	5.5	5.1
AUSTRIA	5.2	3	5.2	5.2	5.4	4.7
BAHRAIN	4.5	4.4	4.7	4.7	5.1	4
DENMARK	5.4	5.5	5.2	5.1	6.1	6.1

Table I: Data on Developed Countries

Source: Global Competitiveness Report (2017-18 & 2016-17)

With the help of SPSS software, we calculated the regression coefficients along with their calculated t-value and Sig. (P value). The variables which are significantly impacting the managerial effectiveness is based on a comparison between Sig. value (P value) and the level of significance.

- If P value < Level of Significance, we reject the null hypothesis.
- If P value > Level of Significance, we do not reject the null hypothesis.

We have taken 5% as the level of significance for our research. We have considered a multiple variable regression model for our analysis in which one dependent variable is regressed on five other independent variables

Data on these variables from the developed and developing countries has been summarized in the form of the tables given below:

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Table II: Results in reference to Table I using SPSS

Coefficients[a]

Model		Unstandardized Coefficients B	Unstandardized Coefficients Std. Error	Standardized Coefficients Beta	t	Sig.
1	(Constant)	1.663	.433		3.839	.002
	Hiring and firing practices	-.049	.037	-.121	-1.344	.200
	Extent of staff training	-.118	.141	-.144	-.842	.414
	Extent of marketing	.657	.084	.791	7.812	.000
	Ethical behavior of firms	-.223	.073	-.506	-3.041	.009
	Willingness to delegate authority	.438	.095	.879	4.605	.000

a. Dependent Variable: GCI17

Table III: Data on developing countries

DEVELOPING COUNTRIES	GCI (1-7)($\hat{Y}i$)	Hiring and firing practices (X_{2i})	Extent of staff training (X_{3i})	Extent of marketing (X_{4i})	Ethical behavior of firms (X_{5i})	Willingness to delegate authority (X_{6i})
INDIA	4.6	4.8	4.6	4.5	4.5	3.9
ZIMBABWE	3.3	2.3	3.7	3.7	3.4	3.6
NEPAL	4	2.8	3.1	3.6	3.2	2.9
BENIN	3.5	3.6	3.4	4.2	3.5	3.1
GUINEA	3.5	3.9	5.3	5.5	3.9	4.8
ZAMBIA	3.5	4.3	3.8	4.2	4.2	4
MONGOLIA	3.9	3.9	3.6	4.1	3.3	3.3
BOSNIA AND HERZEGOVINIA	3.9	3.3	3.1	3.7	3.1	3.6
SOUTH AFRICA	4.3	2.3	5	5.2	4.5	4.5
MEXICO	4.4	3.5	3.9	4.7	3.3	3.8
MOROCCO	4.2	3.3	3.2	4.3	3.7	3.6
NAMIBIA	4	3.6	4.3	4.2	4.3	3.6
GAMBIA	3.6	4	3.7	4.1	4	3.9
GEORGIA	4.3	4.6	3.3	4.3	3.9	3.2
GHANA	3.7	4.4	4	4.4	3.9	3.9
PAKISTAN	3.7	3.8	3.4	3.9	3.6	3.3
PHILIPPINES	4.4	3.7	4.6	4.9	3.8	4.7
ARGENTINA	4	2.4	3.8	4.6	2.7	3.5
CAMBODIA	3.9	4.3	3.5	4.2	3.8	3.4
EGYPT	3.9	3.9	2.7	3.8	3.8	4.2

Source: Global Competitiveness Report 2017-18 & 2016-17

Table IV: Results in reference to Table III using SPSS

Coefficients[a]

Model		Unstandardized Coefficients B	Unstandardized Coefficients Std. Error	Standardized Coefficients Beta	t	Sig.
1	(Constant)	2.414	1.026		2.354	.034
	Hiring and firing practices	-.020	.143	-.040	-.136	.893
	Extent of staff training	-.229	.284	-.430	-.808	.433
	Extent of marketing	.543	.364	.752	1.490	.158
	Ethical behavior of firms	.208	.271	.274	.769	.455
	Willingness to delegate authority	-.175	.255	-.252	-.686	.504

a. Dependent Variable: GCI17

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IV. FINDINGS & DISCUSSION

Looking at the variables impacting the GCI score in developed countries, we can say that out of the 5 variables we have studied, 3 variables have an impact on the GCI scores of these countries. These variables are:

1. Extent of Marketing
2. Ethical Behavior of the Firms
3. Willingness to Delegate Authority

Now, when we look at the variables studied for the developing countries, the observation says that none of the variables is impacting the GCI score of the developing countries.

Therefore, we need to identify the reasons why this is happening. There is a lot of differences in the culture being followed in the developing countries and the developed countries. The firms operating are majorly impacted by the culture being followed and that decides the managerial strategies and practices in operation in a firm.

What developing countries need to learn is how to give more emphasis on factors like marketing, ethics and delegation of authority to name a few. That is how we can also expect our managers to learn more in their fields thereby increasing the profitability of the firms which ultimately enhances the GDP growth rates and increases the competitiveness of an economy to make it follow the path of development.

This opens the way for us to explore more reasons why developing countries are not able to follow the practices as being followed by developed countries so as to enhance their operation and production profitability levels.

V. CONCLUSION

As was evident form the literature review, a country's development depends a lot on the institutions operating in the country and the performance of these institutions is dependent on the managerial strategies and practices being followed. Therefore, in our study when the managerial variables reflecting strategies and practices were studied for 40 countries out of the 137 countries listed in the Global Competitiveness Report published by the World Bank, we were able to identify certain factors like willingness to delegate authority, extent of marketing in a firm and ethical behaviour of the firms were impacting the competitiveness score of the developed countries whereas it was not having any impact on developing countries. Therefore, we need to identify the reasons why this is happening. It opens the way for future research where there is a need to identify what factors form a basis of this difference where it can be culture that is different in these countries or the managerial practices that are different . Once we are able to identify the reasons for the same, we will be able to identify a mechanism for the developing countries to put them on the right path of growth and development having an insight into the relevant managerial factors.

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