Managerial Capital at the Top: Evidence from CEOs Time Use in India

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IGC Growth Week 2012
The questions

• Differences in productivity account for a large share of cross-country income differences
• Differences in managerial practices can explain differences in firm productivity
• Yet little is known about the people who shape such practices

• what do CEOs do?
• does it matter for firm productivity & growth?
We ask them

- Develop a new survey methodology to collect data on time use of CEOs
- **Time use:**
  - what they do
  - who they meet
  - where they meet
  - how far in advance they plan
  - ..
Our sample

- 364 CEOs of listed manufacturing firms

Firm characteristics
- 1230 employees avg. (median=400)
- 15 states (Maharashtra 36%, Gujarat 15%)
- 75% family owned (70% also family CEO), 2% government

CEO characteristics
- 50 years old
- 13 years in post
- 41% with MBA
Collecting time use data

• Team of 15 analysts and 3 managers based in Mumbai- May to July 2011

• Call each CEO’s PA every day for a week

• Collect detailed information on all activities longer than 15 minutes
Collecting time use data

Monday night
• ask about activities done on Monday and schedule for Tuesday

Tuesday night
• ask about activities done on Tuesday and schedule for Wednesday

Wednesday night
• …
EXAMPLE

• We first ask for a list of all the activities undertaken during a day

• We then ask a LOT of detail for each activity
A week in the life of the average CEO

<table>
<thead>
<tr>
<th></th>
<th>Mean</th>
<th>Standard deviation</th>
<th>Min</th>
<th>Max</th>
</tr>
</thead>
<tbody>
<tr>
<td>Days worked</td>
<td>5.3</td>
<td>0.5</td>
<td>4.0</td>
<td>7.0</td>
</tr>
<tr>
<td>Hours reported</td>
<td>46.2</td>
<td>9.5</td>
<td>24.3</td>
<td>88.3</td>
</tr>
<tr>
<td>Hours recorded</td>
<td>43.4</td>
<td>8.9</td>
<td>17.0</td>
<td>76.3</td>
</tr>
<tr>
<td>Personal activities</td>
<td>4.4</td>
<td>4.3</td>
<td>0.0</td>
<td>25.3</td>
</tr>
<tr>
<td>Work</td>
<td>39.0</td>
<td>9.4</td>
<td>14.0</td>
<td>75.5</td>
</tr>
<tr>
<td><strong>Planned</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Planned</td>
<td>29.2</td>
<td>11.2</td>
<td>0.0</td>
<td>70.8</td>
</tr>
<tr>
<td>Unplanned</td>
<td>9.8</td>
<td>6.8</td>
<td>0.0</td>
<td>44.0</td>
</tr>
<tr>
<td><strong>Face to face interactions</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Face to face interactions</td>
<td>26.7</td>
<td>8.6</td>
<td>5.5</td>
<td>57.8</td>
</tr>
<tr>
<td>E-meetings</td>
<td>4.6</td>
<td>3.5</td>
<td>0.0</td>
<td>19.0</td>
</tr>
<tr>
<td>Work alone</td>
<td>4.6</td>
<td>4.2</td>
<td>0.0</td>
<td>20.5</td>
</tr>
<tr>
<td>Travel</td>
<td>3.1</td>
<td>4.3</td>
<td>0.0</td>
<td>23.7</td>
</tr>
<tr>
<td><strong>Other</strong></td>
<td>0.0</td>
<td>0.5</td>
<td>0.0</td>
<td>8.5</td>
</tr>
</tbody>
</table>
CEOs work very different hours
Do different things..

![Graph showing share of time spent on e-meetings, meetings, and work alone. The graph illustrates the distribution of time across different activities.]
..with different people
Some plan a lot, others don’t

First Quartile = .56
Median = .67
Third Quartile = .8

Kernel = epanechnikov, bandwidth = 0.0487
So what?

• Do CEOs differ systematically in style?
• Is this correlated with productivity?
• Is it shaped by their preferences or by the environment they operate in?
Looking for “style”

• Clustering analysis helps us find “styles”
  – differences along different dimensions related in a systematic way
  – e.g. is more planning associated with more work? more work inside or outside the firm? more or fewer meetings?
Two styles

<table>
<thead>
<tr>
<th>share of time spent in:</th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>activities planned in advance</td>
<td>.72</td>
<td>.64</td>
</tr>
<tr>
<td>at the firm</td>
<td>.74</td>
<td>.52</td>
</tr>
<tr>
<td>in meetings</td>
<td>.67</td>
<td>.49</td>
</tr>
<tr>
<td>with insiders</td>
<td>.68</td>
<td>.45</td>
</tr>
<tr>
<td>with production</td>
<td>.27</td>
<td>.22</td>
</tr>
<tr>
<td>with many different functions at the same time</td>
<td>.35</td>
<td>.18</td>
</tr>
</tbody>
</table>
One style is definitely more productive

- Style 1 is associated with 50% higher productivity.
External constraints or choice?

• External constraints play almost no role in explaining style
  – no differences across industries
  – no differences by several measures of development (gdp, credit pca, banking penetration, communication infrastructure, labor regulation)
  – with one exception

the more productive style 1 is more likely to be found in states with good transport infrastructure (roads and rail)
Who chooses which?

• Style 1 is more likely to be chosen by CEOs of:
  – large firms
  – multinational or export oriented firms

• Style 2 is more likely to be chosen by:
  – 2\textsuperscript{nd} generation family CEOs
  – but only in domestic/non-export firms
Why are family firms different?

• Two hypothesis
  – optimal response to a different environment
    • e.g. no need to plan meetings with your brothers
  – softer focus on productivity/profits
    • e.g. stronger preference for leisure
Two tests

• Idea: find events that make it more costly for all CEOs to go to work to the same extent
• Test whether family CEOs reduce hours worked to the same extent
• Events:
  – extreme rain
  – cricket matches
Going to work with extreme rain
Family CEOs work less when cost of effort goes up

• Family CEOs are much more responsive:
  – to extreme rain (9% difference)
  – to cricket matches than other CEOs (18% difference)

• Family CEOs who lead multinational or export oriented firms do not respond differently
In a nutshell

• Time use analysis reveals that different CEOs have different “styles”
• Style is correlated with productivity
• 2\textsuperscript{nd} generation family CEOs choose the less productive style
• Consistent with putting less weight on productivity/profit, more on leisure
• Only true in less competitive environments