Policy brief
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Managerial Capital at the Top

Evidence on CEOs Time Use and Firm Performance in India

In brief

- Little is known about managerial capital of the executives who shape managerial practices and thus, firm productivity - a key driver of growth. Recent experiments have shown that firms appear not to adopt valuable managerial practice due to information barriers, yet firms with bad practices are not driven out of the market as firms with good management practices are constrained by limits on managerial time.

- This study seeks to examine how CEOs allocate their time to different activities, and hence, provides a way of measuring any constraints. This may help in formulating policy regarding regulation, contract enforcement, credit and industrial relations.

- The authors record with unparalleled detail the activities of 357 CEOs of listed Indian manufacturing firms over a specific, exogenously chosen, window of time.

- CEOs work on average 39 hours a week, with the majority of their time spent on meetings in person (56%). On average they spend 43% of their time meeting with employees, 19% of their time with outsiders, and 11% with both types together. The rest of the time is working alone. Individuals related to production activities, such as logistics, business unit directors, R&D directors and suppliers.

- There is a great deal of variability in management style across CEOs, as suggested by the fact that the time shares for production, sale and finance overlap over a sizeable chunk of the support. Furthermore, a sizeable minority of CEOs do not plan in advance (the average CEO spends 1 in 3 hours doing activities that were unplanned).

- Firms perform better when their CEOs work longer hours and plan their activities. Thus, it is important to undestand the causes of CEOs inability to plan.

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Policy Motivation

"In a recent field experiment performed in the Indian textile industry, firms appear not to adopt valuable managerial practice because of informational barriers"

Managerial practices are a key determinant of firm productivity, and yet little is known about the managerial capital of the top executives who shape these practices. In a recent field experiment performed in the Indian textile industry (Bloom et al 2011), firms appear not to adopt valuable managerial practice because of informational barriers. However, firms with bad practices do not seem to be driven out of the market because management in good firms are constrained by limits on managerial time.

Policy Impact

The way CEOs allocate their time to different activities is indicative of the areas that require more of their attention, and hence of the most binding constraints they face. Our research provides a direct way of measuring such constraints and may help prioritize policy interventions in areas such as regulation, contract enforcement, credit, industrial relations and international trade.

Audience

The present research is of interest to both government and corporations, both in India and in other emerging countries.

Methodology, Findings and Policy Implications

Time use analysis measures managerial involvement at the top of the organisation

To investigate whether the presence of bottlenecks in top management may hamper firm growth in developing countries, we apply a methodology developed in Bandiera et al (2011) to collect time use data. We record with unparalleled detail the activities undertaken by 357 Chief Executive Officers of listed Indian manufacturing firms over a specific, exogenously chosen, window of time.

Time use patterns map CEOs' priorities

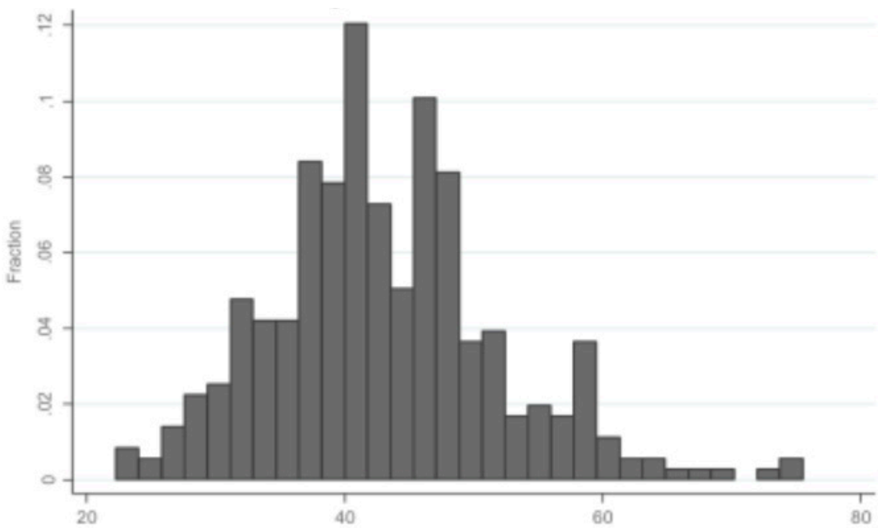
"The average CEO works 39 hours a week, and the majority of time (56%) is spent in meetings in person"

Our preliminary findings provide a unique perspective on what CEOs do, who they meet and how they organise their time. The average CEO works 39 hours a week, and the majority of time (56%) is spent in meetings in person. The average CEOs spends 43% of his time meeting employees of the company, 19% with outsiders and 11% with both types together, while the rest of their time is spent working alone. Grouping the people CEOs interact with by functional areas we see that individuals related to production activities (logistics, business unit directors, R&D directors, suppliers) take the largest share of CEOs time- about 9 hours per week, or 35% for the average CEO. These are followed by sales, finance and management.

There is a great deal of variability in management style across CEOs

The share of time that CEOs dedicate to these different functions exhibits considerable variation. For instance CEOs in the bottom quartile spend a fifth of their time with representative of production, CEOs in the top quartile almost one half. We also show that the densities of the time shares for the three most important functions (production, sale and finance) overlap over a sizeable chunk of the support, suggesting that despite being in the same broad sectors, CEOs in our sample give different priorities to different functional areas.

Figure 1: Number of Hours Worked in a Week



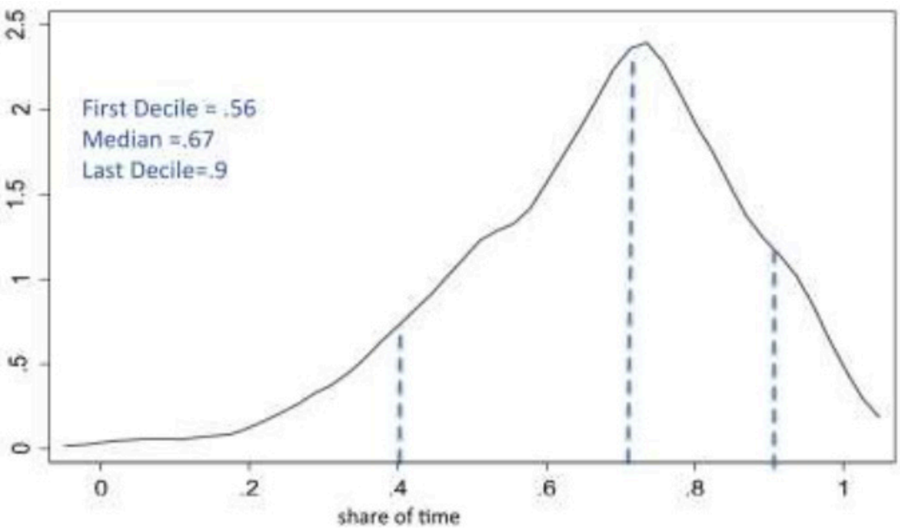
"At the extremes, 10% of the CEOs spend over 90% of their time in planned activities, whereas 10% of them spend over 60% of their time on activities not scheduled ahead of time"

A sizeable minority of CEOs do not plan in advance

We collect information about planning horizons, namely whether the activities were scheduled ahead of time. Surprisingly, we find that the average CEO spends one in three hours (13 hours over the course of one week) doing activities that were not planned in advance. The percentage is the same for activities that involve the CEO alone or with other people, suggesting that a sizeable share of meetings is not pre-planned. Different CEOs plan to different extents. At the extremes, 10% of the CEOs spend over 90% of their time in planned activities, whereas 10% of them spend over 60% of their time on activities not scheduled ahead of time.

"Firms' productivity is higher when CEOs work longer hours but not all CEOs' time is equally productive"

Figure 2: Share of Time Devoted to Planned Activities



Firms perform better when their CEOs work longer hours and plan their activities ahead

Matching our time use data with the firms' balance sheets reveals that firms' productivity is higher when CEOs work longer hours but not all CEOs' time is equally productive. In particular, the correlation between total hours worked and output is entirely driven by planned time with firm employees, especially those belonging to the functional areas of production, finance, and labour relations.

It is important to understand the causes of CEOs inability to plan

Future research will analyse how state policies, such as labor regulations, and the characteristics of the environment, such as the quality of infrastructure, shape CEOs' time use, with the goal of identifying which mix of policies and institutions make CEOs use their time more productively.

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About the authors

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