# 4.2. Does a firm hiring an experienced manager improve its performance?

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## 1. Motivation

*"Managers are conductors of an input orchestra [...] Just as a poor conductor can lead to a cacophony rather than a symphony, one might expect poor management to lead to discordant production operations."*

– Chad Syverson, *What Determines Productivity (2011)*

The majority of businessmen, practioners, and policy-makers—as well as football fans!—would probably agree with the above quote. What is instead definitely less consensual is the magnitude of the effect, i.e., how important managers are in determining the performance of a firm, and which characteristics of the managers are crucial in determining the performance of a firm. As an example, let's consider a firm that starts exporting right after having recruited a manager with established experience in the foreign market. Can we attribute the successful entry of the firm into the foreign market to the arrival of the manager? It seems natural to do so.

However, most of us would be less sure about this conclusion if we knew that the firm had, at the same time, obtained an ISO 9001 quality certification that both made its products more competitive—and therefore more desirable to the foreign market—and made the firm a more attractive workplace—and therefore more desirable to experienced managers.

How important was the manager then? And, if there was a positive contribution, was that related to the export experience that the manager had gained in the past or to some intrinsic capability of the manager, like her education, leadership, and communication skills? A precise answer to all these questions is important both for firms looking to operate in the foreign market, and for policy-makers that care about the solidity of the educational system and the efficiency of the labor market.

This chapter, based on Mion and Opromolla (2014) and Mion *et al.* (2016), shows that firms where there is a manager with export experience are more likely to start (or continue) exporting, and are more likely to export more. The presence of a manager with export experience turns out to be as important as the productivity of the firm, especially for firms whose products are more difficult to evaluate, or heavily rely on external financing, or compete with Chinese products.

The literature studying how managers and managerial practices affect firm performance is fairly recent and fast-growing. Bloom and Van Reenen (2010), Bloom *et al.* (2013), Bloom *et al.* (2016) and Guiso and Rustichini (2017) among others, have established that better managers and managerial practices lead to better firm performance. Artopoulos *et al.* (2013) explain how the diffusion of business practices from export pioneers to followers can lead to sustained export growth.

## 2. The analytical framework

The analysis relies on a database that includes all manufacturing firms, as well as their workers, located in Portugal from 1995 to 2006. Besides some core characteristics of the firm, like size, age, and productivity, the dataset informs us if the firm is exporting, to which countries, and the amount of exports by destination. We also know if the firm employs a manager with experience in exporting to a specific country (e.g. France), or in exporting a specific product (e.g. shoes). This latter information comes from the fact that we can track workers, including managers, from one year to the other so that we know, for example, if the manager ever worked in a firm exporting to France or exporting shoes.

With the above data in hand, we follow a very simple—but nonetheless powerful— three-steps strategy to understand how the entry of a firm in a particular foreign market (e.g. France, shoes) depends on the presence of a manager that has experience in exporting toward that market. As an example, consider a firm in 2002. The first step is to check if the firm employs a manager with experience in exporting to any of the following markets: (1) Spain, (2) Other EU top five export destinations (Italy, France, Germany, U.K.), (3) Other EU destinations, (4) Other OECD destinations, (5) Community of Portuguese Language Countries (CPLP), (6) China, and (7) Rest of the World. Suppose this particular firm in 2002 has a manager with experience exporting to China, and a manager with experience exporting to CPLP countries. Figure 36 summarizes this situation:

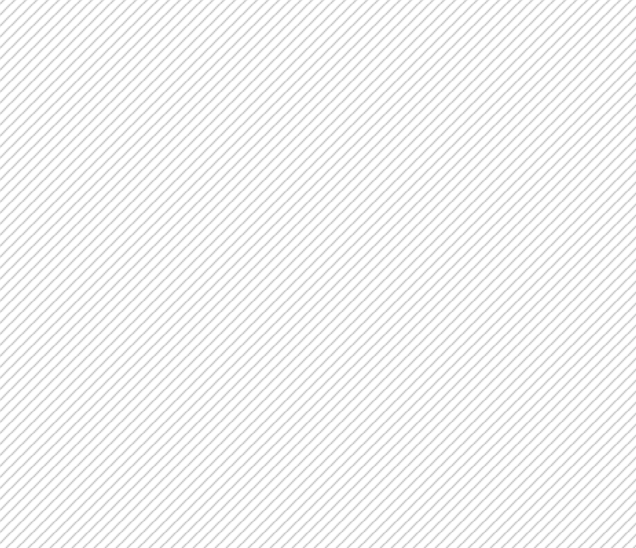

Figure 36: Export entry and the presence of managers with export experience

the markets with the diagonal stripes are those for which the firm has a manager with export experience (China, and CPLP).

The second step is to check to which markets the firm starts to export in 2002. Suppose this particular firm in 2002 starts exporting to China, CPLP countries and Spain. Figure 36 again summarizes this situation: the markets with a dark grey component are those in which the firm enters in 2002.

The last and final step is to note that our firm is more likely to start exporting to the countries for which the firm has a manager with export experience: 2 out of 2 vs. 1 out of 5.

The power of this approach relies on the fact that, by exploiting the export destination variation for a given firm in a given year, it allows us to control for all those firm characteristic that can vary over time—both those observed like productivity, and size, and those that are unobservable to us, like the acquisition of an ISO 9001 certification that makes the firm more competitive in every market—that may affect the decision to export or not and confound our results.

While definitely powerful, this strategy may not always be enough, since it does not control for firm-time-destination factors. For example, it could be the case that the previous firm had in 2002 undertook some investments that made it more competitive specifically on the Chinese and CPLP markets, and attracted managers with experience to these specific markets. In order to overcome this potential issue, we return to our example above and check if the firm employed a

manager with experience in exporting to China or CPLP countries in 1999, that is three years before the time we are interested in. If that was the case then this firm is likely to mantain those managers in 2002 as well. At the same time we can be sure enough that those managers were not hired in 1999 in anticipation of what would have happen three years later.

In more technical terms, we use the data described above to run an instrumental variable regression where the dependent variable is a dummy variable equal to one when a firm starts exporting to a given market in a given year; the main covariate of interest is another dummy variable equal to one if the firm employs a manager with experience in exporting to that market in a given year; the instrument is the third lag of the same main covariate; and where we control for firm-year and destination-year fixed effects.

The use of the third lag of the main covariate as instrument seems to be a good strategy. It relies on the large evidence regarding the fixed sunk costs (including market-specific ones) associated to export activity and therefore on the fact that the time frame corresponding to firms' decisions today affecting export performance tomorrow (like setting up or increasing investments in quality and/or productivity) is about 2 years.

The results, reported in detail in Mion *et al.* (2016), show that the presence of a manager with specific export experience increases the probability of starting to export by 2-4% which represent a very large number since only a few firms start to export in a given year.[24] Similarly, we find that the presence of a manager with specific export experience increases the probability to continue exporting, and increases the level of exports by about 57% for export to a specific destination conditional on continuation.

## 3. Final remarks

What determines the success of a firm in the foreign market? Knowledge of the specific foreign market, as embodied in a manager, seems to be an important factor. If that's the case, when a firm successfully enters into a foreign market it creates a body of knowledge that is absorbed by its managers and can benefit other firms when managers change jobs. In other words, the export knowledge and experience acquired in a firm seems to be fairly portable. To this extent, if the regulatory environment allows the most efficient firms to take

24 2-4% roughly corresponds to half of the unconditional probability of starting exporting to a specific destination or a specific product.

advantage of the opportunites in the foreign markets, and it allows an healthy functioning of the labor market then this can lead to a better performance of firms, and potentially to higher growth.

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