



## Does Management Matter? Evidence from India

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Organizing Theme	Economic Opportunities and Access to Assets
Status	Completed
Intervention Category	Business Training
Sector	Finance and Private Sector Development
Abstract	<p>A long-standing question is whether differences in management practices across firms can explain differences in productivity, especially in developing countries where these spreads appear particularly large. To investigate this, we ran a management field experiment on large Indian textile firms. We provided free consulting on management practices to randomly chosen treatment plants and compared their performance to a set of control plants. We find that adopting these management practices raised productivity by 17% in the first year through improved quality and efficiency and reduced inventory, and within three years led to the opening of more production plants. Why had the firms not adopted these profitable practices previously? Our results suggest that informational barriers were the primary factor explaining this lack of adoption. Also, because reallocation across firms appeared to be constrained by limits on managerial time, competition had not forced badly managed firms to exit.</p>
Gender Connection	Gender Informed Analysis
Gender Outcomes	Productivity of male family members
IE Design	Randomized Control Trial
Intervention	The experiment took large, multiplant Indian textile firms and randomly allocated their plants to treatment and control groups. Treatment plants received five months of extensive management consulting from a large consulting firm. The consulting firm diagnosed opportunities for improvement in a set of 38 operational management practices during the first month, followed by four months of intensive support for the implementation of these recommendations. The control plants only received one month of diagnostic consulting.
Intervention Period	The first round of the intervention started in September 2008, the second in April 2009 and in July 2009 the diagnostics of control plants were carried out.
Sample population	The sample was comprised of 17 firms with 28 plants between them. At first 4 plants were chosen to be part of the treatment group, then a year later 7 additional plants were randomly chosen.
Comparison conditions	The treatment group received diagnostics and consulting, the control group just received diagnostics
Unit of analysis	Firm level



Evaluation Period	April 2008 - 2011
Results	The intervention led to significant improvements in quality, inventory and output. Within the first year, productivity increased by 17%, and annual profitability increased by over \$300,000. Better managed firms also grew faster. Treated firms spread these best practices to other firms with the same owner. Competitive pressures were heavily restricted by tariffs, lack of external finance and limited managerial time. Managerial time was constrained by the number of male family members, Non-family members were not trusted with any decision making power, and firms could not expand beyond the size that could be managed by close (male) family members.
Primary study limitations	The sample size from the experiment is very small. There is a potential conflict of interest because the consulting firms also measured the results. Positive results of treated firms may be due to the Hawthorne Effect, where observed groups improve outcomes as the result of observation, not necessarily as a result of the intervention.
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Reference(s)	Bloom, N., Eifert, B., Mahajan, A., McKenzie, D., & Roberts, J. (2013). Does management matter? Evidence from India. <i>The Quarterly Journal of Economics</i> , 128(1), 1-51.
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