Managers and Productivity in the Public Sector

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Do Managers Matter?

I use a two-way fixed effect model to separately identify the impact of managerial ability and institutional factors on productivity

\[ \ln(P)_{it} = \alpha_i + \tau_t + \theta_{m(i,t)} + u_{it} \]

where \( i \) and \( t \) index office and quarters respectively, \( \alpha_i \) is the office FE, \( \tau_t \) time FE, and \( \theta_{m(i,t)} \) manager FE.

What Makes a Productive Manager?

I utilize manager rotations as a quasi-experimental analog of random assignment of managers to offices to characterize how managers matter.

\[ \Delta Y_k = \pi_i + \pi_k \Delta M_{k,i} + \Gamma X_i + \Delta \epsilon_i \]

where \( k \) represents event time and \( \Delta M_{k,i} = \hat{\theta}_{i,incoming} - \hat{\theta}_{i,outgoing} \).

The \( \hat{\theta}_{i} \)'s are the leave-out estimated manager effect of the incoming and outgoing managers, respectively.

Conclusions

These results imply that broadly empowering managers to make payroll decisions would generate large efficiency gains for public sector offices.

As passing such drastic civil service reforms may not be feasible, governments can substantially increase output by reallocating managers across sites.

Mechanisms

The rise in productivity associated with the arrival of a more productive manager is mainly driven by exit of older workers (retirement).

- Productive managers keep up production without resorting to more overtime hours to compensate for the reduction in FTE.

- No trade-off between productivity and quality of service provided.

Counterfactual Exercises

In the absence of civil service reforms, I evaluated efficiency gains from alternative managerial allocation schemes.

<table>
<thead>
<tr>
<th>Policy</th>
<th>( \Delta Y )</th>
</tr>
</thead>
<tbody>
<tr>
<td>1: Reassign</td>
<td>6.9%</td>
</tr>
<tr>
<td>2: Fire bottom 20%</td>
<td>2.9%</td>
</tr>
<tr>
<td>3: Fire bottom 20% + Reassign</td>
<td>7.4%</td>
</tr>
<tr>
<td>4: Random allocation</td>
<td>2%</td>
</tr>
</tbody>
</table>

Note: This table reports the biased corrected variance-covariance decomposition of log productivity. The sample includes the largest connected set, 2011q1-2017q2.

\[ \frac{\text{Var}(\text{Ln}(P))}{\text{Var}(\text{Ln}(P))} = 0.1106 \text{ (100%)} \]

\[ \text{Var}(\text{Manager}) = 0.0102 \text{ (9.22%)} \]

\[ \text{Var}(\text{Office}) = 0.0096 \text{ (8.68%)} \]

\[ \text{Cov}(\text{Manager, Office}) = 0.0015 \text{ (1.39%)} \]

N = 2,735

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