

# Managers and Productivity in Retail

Based on BFI Working Paper No. 2023-64, “Managers and Productivity in Retail,” by Robert D. Metcalfe, University of Southern California; Alexandre B. Sollaci, International Monetary Fund; and Chad Syverson, Chicago Booth

*Individual managers impact retail business productivity substantially; replacing a manager at the bottom of the quality distribution by one at the top could increase a store’s productivity by between 50% and 100%.*

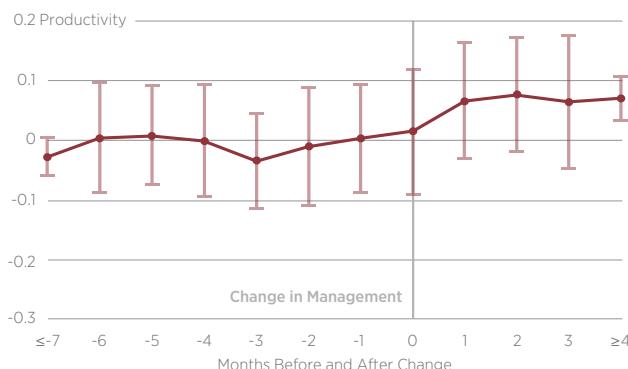
A good (or bad) manager can make (or break) a business. What makes a good manager? Company policies, or individual traits? Identifying the channels by which management impacts business performance is important for designing strategies to improve performance, as well as for determining the appropriate pay for good managers, and estimating how much improving management might bolster productivity on a national scale. Past efforts to study this issue have been hindered by empirical challenges; identifying manager effects has typically required observing performance across several different businesses, making it difficult

to isolate the role of managers separate from other dynamics that vary across firms. In this paper, the authors study manager moves across different retail storefronts that share mutual ownership to clearly identify how managers drive performance.

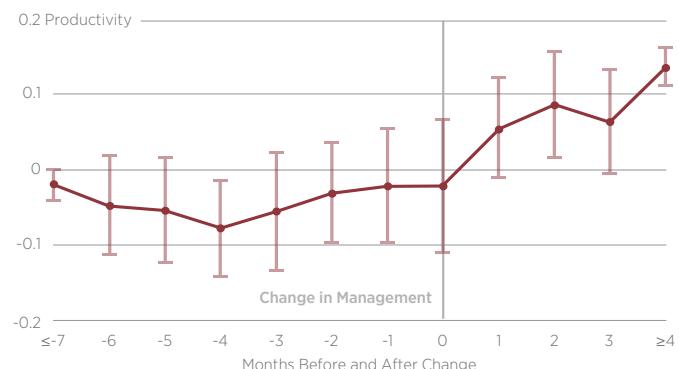
The authors use data on store-level operations for two large retail companies that each run many locations. Noting that retail managers tend to change jobs relatively frequently, the authors track manager moves across stores and study how productivity changes as managers come and go. They find the following:

**Figure 1** • Switching from a Bad Manager to a Good Manager

A) Productivity (Company A)



B) Productivity (Company B)



Note: These figures plot productivity in stores in the two companies studied here (A and B) around the time of a change from a bad manager (one in the bottom 50% in terms of their team’s productivity) to a good manager (one in the top 50%). The vertical lines show the range of the 95% confidence interval for the estimates plotted here. As you can see, productivity tends to rise with the introduction of a manager who is associated with leading more productive teams.

- Individual managers matter for productivity. The impact of replacing a manager who is at the 10th percentile in terms of their team's productivity with a manager from the 90th percentile could increase productivity by 50% to 100%, an improvement roughly equivalent to that of adding a fifth employee to a team of four. Overall, managers explain between 25% and 35% of the variation in productivity across stores.
- High-productivity managers tend to work in low-productivity stores (that is, stores that tend to have lower average productivity regardless of who the manager is), and vice versa. The authors offer several explanations for this surprising result, including the possibility that companies prefer to place high-performing managers in low-performing stores, perhaps because they view store failures as especially costly for the firm. Or it could be that firms are unaware of the benefits of placing high-performing managers in more productive stores, which they calculate could raise company-wide sales by 2-6 percent. The authors also note that statistical bias (explained further in the paper) may drive the negative correlation observed here.
- Manager changes impact both stores and managers. At one company studied here, old managers' earnings fall in the months prior to their exit. At the other company, stores' productivity and sales fall before manager departure, but this trend reverses once a new manager arrives.
- Female managers are less likely to move stores than male managers. This pattern is not explained by tenure, features of their initial store (size, revenue, number of employees, format), or the quality of the store-manager match, and is consistent with the literature showing that women's family responsibilities often constrain them to a single geographical area.
- Manager quality is hard to explain using the data studied here. Manager tenure, gender, distance to the nearest competing store, and even wages do not have a statistically significant association with manager quality, suggesting that less measurable characteristics of managers (such as their leadership style and charisma) could play an important role.
- Manager quality and energy efficiency are positively correlated, meaning that managers who drive high labor productivity also tend to drive high energy productivity. This suggests some breadth in managers' skills applicability.
- Managers who perform highly during stable growth times also tend to perform well amidst turbulence. In addition, managers who were observed as high quality before COVID-19 also performed better than average during COVID-19.
- Disruptions have a strong negative impact on productivity, but higher-quality managers can mitigate these effects. In addition, managers of all quality levels who were exposed to more disruptions pre-COVID were better at limiting COVID-related productivity disruptions. This was especially true for lower-quality managers, raising the possibility that lower-quality managers learn more from experience.

The upshot is that managers have an impact on productivity that is distinct, quick, and separate from company-level management practices. These results point to the crucial role of managers and suggest possible avenues for unlocking substantial productivity increases through, for example, better allocation of managers across stores.

#### READ THE WORKING PAPER

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#### ABOUT OUR SCHOLAR



##### **Chad Syverson**

*George C. Tiao Distinguished Service Professor  
of Economics, Chicago Booth*  
[chicagobooth.edu/faculty/directory/s/  
chad-syverson](http://chicagobooth.edu/faculty/directory/s/chad-syverson)

