

Structured management protocols help firms thrive

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It stands to reason that better-run companies attract and retain better workers, but what are the actual practices that make a business run better?

"We know a lot about the labor market, and we know a lot about incentives across firms and within firms," said Daniela Scur, assistant professor of strategy in the Charles H. Dyson School of Applied Economics and Management, in the Cornell SC Johnson College of

Business.

"But now we are learning more about how managers at different firms are actually going through the process of picking their workers—what's happening inside the 'black box,'" Scur said.

Using 10 years' worth of employee records from manufacturing firms in Brazil, Scur and colleagues found that companies with a culture of highly structured management practices, independent of the particular manager, were able to attract and keep top workers. In addition, companies with structured operations practices attracted top-flight managers.

Scur is co-author of "Building a Productive Workforce: The Role of Structured Management Practices," which published Oct. 4 in *Management Science*. Her co-authors are both from the University of Georgia: Christopher Cornwell, professor and chair of economics, and Ian M. Schmutte, associate professor of economics.

The group's work analyzed three different data sources from Brazil: the employer-employee matched dataset (2003-13); the annual industrial survey for productivity; and the World Management Survey (WMS) for management practices.

The group chose Brazil because it tracks the occupation of workers (production worker vs. manager) as well as the reason for a worker leaving the firm. Most other countries' datasets do not have this level of detail.

After filtering out single-employee firms and those at the very ends of the wage scale, they were left with more than 353 million unique observations involving 96.5 million workers and more than 4.4 million establishments.

The team started its analysis by defining firms with structured management practices as those registering a score of at least 3 out of 5 on the World Management Survey grid. The median score in the Brazilian sample was 2.66.

They then looked at employee movement from job to job, and estimated both the increase in salary they received and value of the "portable skills"—for example, those learned in a previous job—a worker takes to a new employer.

As the authors wrote, "A firm's [management practices](#) can be viewed as a type of technology that can influence its productivity." And the differences in that specific technology can be the difference between a firm's success or failure.

Scur said firms' decisions regarding whom to hire, and fire, can impact the entire [labor market](#).

"The better-managed firms are the ones who were growing in terms of employment," she said. "By the end of our sample period, they had a larger share of the workers, relative to the other firms in our sample. This suggests better managed firms are the ones growing.

"And workers move between [firms](#), and learn things along the way," she said. "So if you have a good worker who spends time at a good firm, there's going to be some sort of 'human capital' that is added to this worker. That then is going to be portable, something they're going to take somewhere else."

As Scur looks to the future of work, particularly as the pandemic has changed not only how but where people work, one aspect that will change is observability.

"What happens when a lot of people go and work from home?" she said. "So instead of sewing clothes in a factory, now you're doing it at home. You might be able to count how many [clothes you've completed], but if a count is lower on one day than another, it's hard for the manager to see if the worker was shirking or, say, if the sewing machine was broken. Work becomes harder to directly observe.

"The observability of work is going to be a much more important binding constraint for a lot of managers," she said. "And it's going to be interesting to see how many of these practices can actually still be used across different industries."

More information: Christopher Cornwell et al, Building a Productive Workforce: The Role of Structured Management Practices, *Management Science* (2021). [DOI: 10.1287/mnsc.2021.3960](https://doi.org/10.1287/mnsc.2021.3960)

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