

SETTING

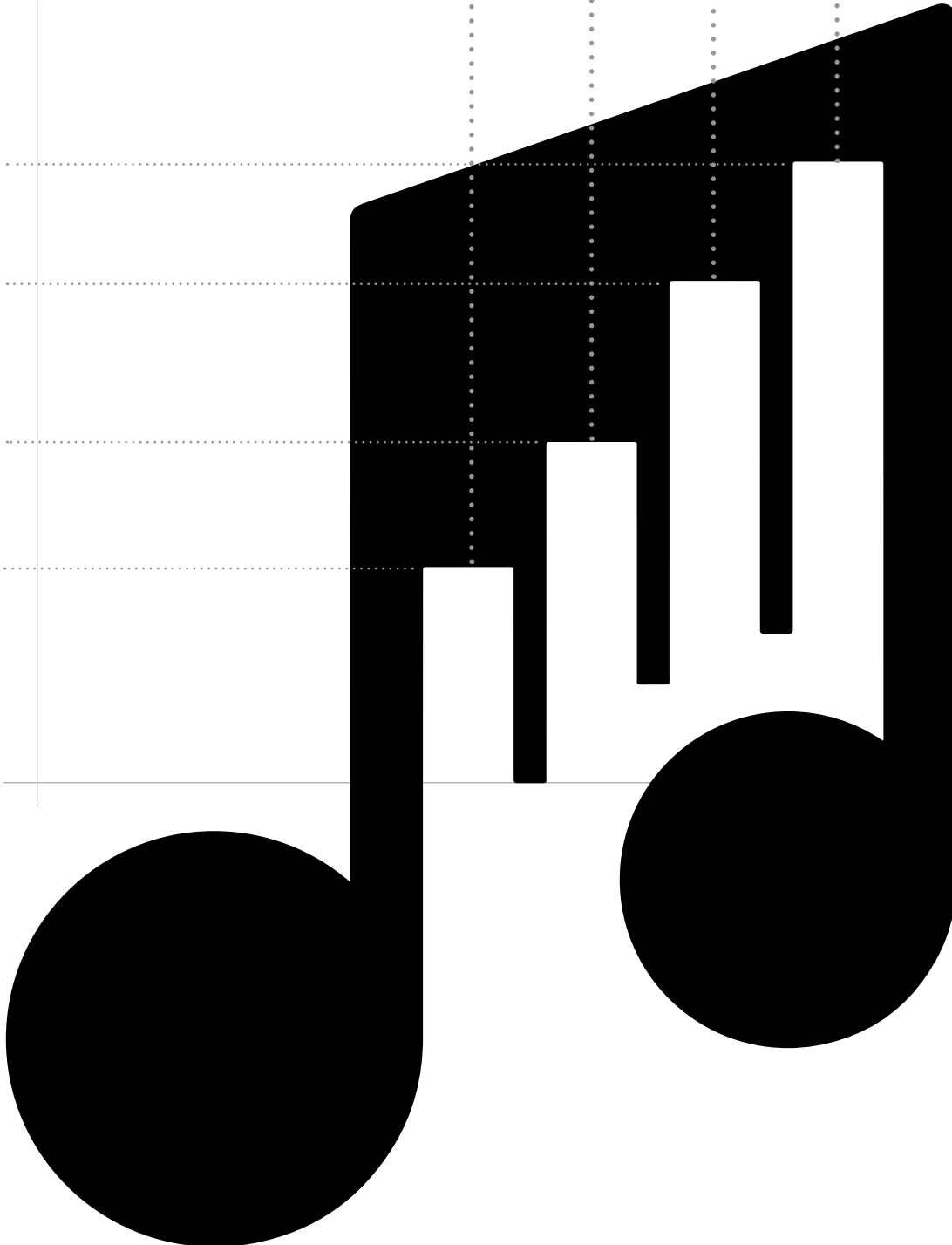
THE TONE

FOR

# PRODUCTIVITY:

RAFFAELLA  
SADUN

An  
**Economist's**  
Perspective



There is a strong relationship between the quality of management practices and productivity at the level of the firm.

## ISTMO EDITORIAL DEPARTMENT

In a world where it is not very typical for economists to want to study management, Professor Raffaella Sadun, a very prolific Harvard Professor, chose to be precisely an economist who studies management. Her interest in management stemmed from a hypothesis proposed by some scholars which suggests that efficiency is strongly correlated with the wealth of a country when we consider certain measures of how well resources and inputs are used in that specific country. Professor Sadun holds that looking at the determinants of efficiency is really a fundamental economic question and that those factors make up what she regards as

productivity. We recently had the opportunity to talk with Professor Sadun about the role managers have in increasing productivity and bringing the best out of workers in business, and this is what she told us.

### **What is the relationship between management and productivity in countries and companies?**

There is a strong relationship between the quality of management practices and productivity at the level of the firm. From the data we have collected, we know that firms that are better managed can also be more productive. They grow faster. And they tend to be more innovative, something that often goes unnoticed when people talk about management. We also know that a higher proportion of well-managed firms is strongly correlated with measures of productivity at the country level. Thus, at the end of the day, what we believe is that better management can be a driver of growth for firms and, in the aggregate, for economies.

### **Considering what you have learned from the World Management Survey, what role do CEOs and middle managers play in increasing productivity in companies?**

They both play a very important role, but it is a different kind of role. The CEO is the person who really sets the tone for the organization. CEOs must be able to communicate the message that management practices are important not only for the financial performance of the organization, but also for how the organization works. It will be easier for employees to communicate



Raffaella Sadun,  
Harvard Professor

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or surface problems if the manager is able to communicate that message. There has to be a sort of language for the whole organization. To achieve that, CEOs must be able to convince the other people in the firm that they are doing something that will also act in their own best interest. I do not believe in CEOs going around and telling people what to do. Management does not happen by top-down command. Good management takes place when the whole workforce believes in it. I think that the role of the CEO is basically to set the direction, communicate the priorities, and allocate decision-making responsibilities to middle managers.

That said, it is obvious that those who are closer to the action – and, in this case, it is middle managers – are the ones who should have the authority to do the work of persuasion and coordination with workers, as well as to adapt the system in any way that is most optimal for the whole organization. What looks optimal from the top – from the C-Suite – is often quite suboptimal on the front lines. And middle managers play this very important role of translation and continuous improvement of the whole system. Thus, both have a very important role.

**Considering the data from the World Management Survey, would you say there is a mistake CEOs often make when it comes to increasing productivity?**

I think that the biggest mistake one can make is believing that the firm is a machine. People often read something – maybe in a book – and then decide to implement it, expecting an

instant change. It is this idea that you can perfectly control what people do or that people will do things just because you give them the right financial incentives. These are two different shades of the same mistake, which is to not really understand what motivates people to follow your lead.

I would also add another category of problems related with believing that somebody else can bring about the change for you. Consultants can play a very important role. They often tell you what to do, but if you really want the workforce to believe in a new direction, you must put your face in it. You have to walk the talk. It is not something that can be fully delegated.

**In your experience, what leadership style tends to bring out the best of workers?**

The key word is respect. I think that people really want to be respected and take pride in what they do. And they also want leaders to understand the extent to which they are bringing their effort and their expertise to work. That is something which often happens with super-specialized workers, scientists having deep knowledge, or experts who really want to be recognized for their studies and all the amazing skills they bring to the organization, but it

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is equally true for positions that are really on the front line.

Shop floor workers often have very specific knowledge about what they were doing, and they often take immense pride in the work they do. In that case, the motivation to keep doing well comes from their knowing that leaders recognize their efforts and their expertise. As we are talking about leadership styles, and leadership is multidimensional, it is very difficult to bring it down to only one dimension, but one trait that I think is necessary is the ability to show respect and to actually respect workers at all levels of the organization.

### **What do you think is the relationship between innovation and productivity?**

I would distinguish between two kinds of innovation. One is more related to continuous improvement. It is innovation associated with having a sense of where you are going and trying to improve continuously to get there. That is a very important part of innovation. It happens gradually. And I believe that is a point where there might be a very tight connection between innovation and productivity.

Then there is a second type of innovation which requires going into the unknown. It requires going where you might get a sense of direction, but you have to make tremendous discovery to get there. This is the type of innovation that is more typically associated with pharmaceuticals and that kind of more visible innovative industries. With it, in the short

run, there can even be a negative relationship between productivity and innovation, because you are putting resources into an activity that is very difficult to define. And if you try to be productive as you engage with that activity, that might even backfire, because it can stifle the discovery process. But if things go well and you are able to make that discovery, in the long run you might actually see a greater increase, even an exponential increase, in productivity.

Innovation is something that we should always aspire to, and I think it is the key for competing today. The two things to keep in mind is that there are different shades of innovation, one that is more gradual and takes place every day, tinkering around with what is known, and another one which is more associated with the unknown and real discovery. The latter carries some costs, which may need to be incurred in the short run in order to deliver results in the long run. And that might even imply some short-run losses in productivity in view of these longer-term returns.

### **What is the manager's role when it comes to innovation and productivity?**

It is an important role, but it takes different forms. When we talk about continuous improvement and the kind of innovation that is more closely associated with what is already known to us, managers play a key role, but management processes do as well because they allow you to keep track of what you are doing and bring about a learning process. There is often knowledge scattered across different parts of the organization, and processes allow you to capitalize on all the knowledge that is being accumulated to give feedback, understand, and make incremental progress in any situation.

The manager's role in the other type of innovation, the one associated with new discoveries,

is very different. The manager becomes more of a coordinator of the expertise of others. When we have talked to scientists in private organizations, what they say is that good managers are the ones that are able to understand their language. They understand the process of discovery. They do not get in the way with continuous measurement of something that might be very hard to measure day by day. They do not put objectives that are going to be very hard even to define when you are dealing with the unknown.

Thus, the manager's role varies. It may be more hands-on in the more known type of innovation, and it becomes more of a coordinative role in the unknown type of innovation, making sure that the different elements of expertise come together in a practical fashion rather than monitoring day by day. The art lies in understanding who should be in charge of which type of innovation. It is a matter of fit, rather than of being a better or worse manager. You can be wonderful in continuous improvement while being a complete misfit in the other more unknown parts of innovation.

### **Considering what you have learned from research covering different countries and the World Management Survey, do you think there is a leadership style in each country?**

That is a very interesting question. We do find differences across countries in the average management score. But in another component that I think is more related to leadership and to the extent to which the C-suite delegates authority to other parts of the organization, some countries show a very clear tendency to keep control at the top of the firm while others make it easier to distribute authority down the hierarchy – partly for legal reasons and partly for cultural reasons.

Now, what is the issue with that? The problem is that companies that want to grow or that start to become more complex have to deal with more difficult problems, and, at some point, if you do not distribute decision-making, it will become a limit to growth. If every problem that arises has to be approved or solved by the top of the organization, you are basically defining the limits of where you can go. Thus, the costs that are incurred by the more controlling cultures is

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that they can eventually stifle growth, because they do not allow you to tap into the knowledge or competency that might exist in other parts of the firm.

Then, there is obviously the challenge of how to coordinate or decentralize decision-making. The question of how much I want to do myself and how much I want to let others do is something that varies tremendously across countries. That is, at the end of the day, a leadership decision. It reflects what type of manager you want to be.

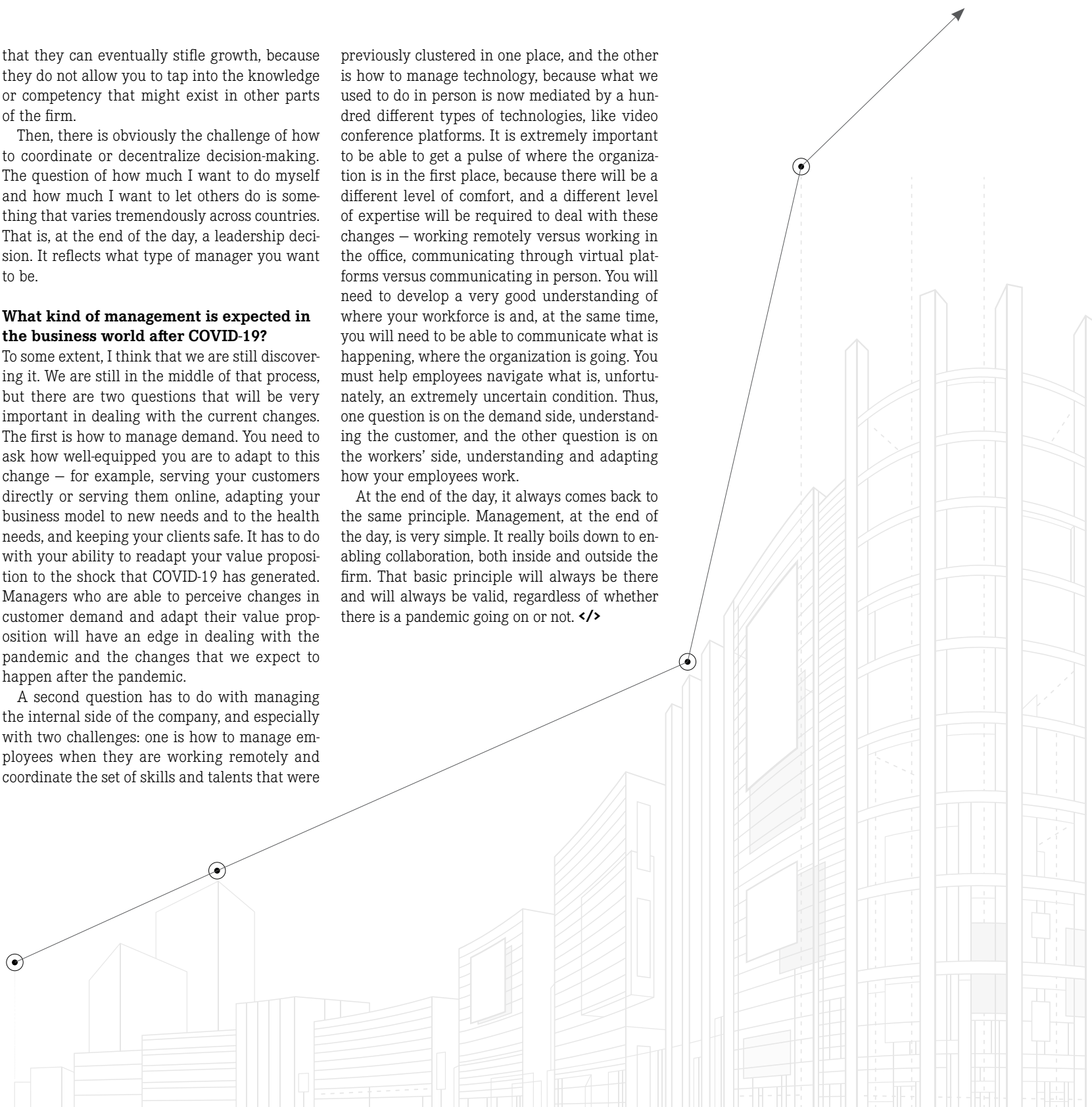
### What kind of management is expected in the business world after COVID-19?

To some extent, I think that we are still discovering it. We are still in the middle of that process, but there are two questions that will be very important in dealing with the current changes. The first is how to manage demand. You need to ask how well-equipped you are to adapt to this change – for example, serving your customers directly or serving them online, adapting your business model to new needs and to the health needs, and keeping your clients safe. It has to do with your ability to readapt your value proposition to the shock that COVID-19 has generated. Managers who are able to perceive changes in customer demand and adapt their value proposition will have an edge in dealing with the pandemic and the changes that we expect to happen after the pandemic.

A second question has to do with managing the internal side of the company, and especially with two challenges: one is how to manage employees when they are working remotely and coordinate the set of skills and talents that were

previously clustered in one place, and the other is how to manage technology, because what we used to do in person is now mediated by a hundred different types of technologies, like video conference platforms. It is extremely important to be able to get a pulse of where the organization is in the first place, because there will be a different level of comfort, and a different level of expertise will be required to deal with these changes – working remotely versus working in the office, communicating through virtual platforms versus communicating in person. You will need to develop a very good understanding of where your workforce is and, at the same time, you will need to be able to communicate what is happening, where the organization is going. You must help employees navigate what is, unfortunately, an extremely uncertain condition. Thus, one question is on the demand side, understanding the customer, and the other question is on the workers' side, understanding and adapting how your employees work.

At the end of the day, it always comes back to the same principle. Management, at the end of the day, is very simple. It really boils down to enabling collaboration, both inside and outside the firm. That basic principle will always be there and will always be valid, regardless of whether there is a pandemic going on or not. </>





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