

# Managing the Empire

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## 1 Introduction

Leaders are critical for the success of organizations. A growing literature documents the importance of leaders in a wide range of empirical settings. Political leaders have a bearing on a country’s economic growth (Jones and Olken 2005; Besley et al. 2011); CEOs and managers affect aggregate firm-level performance (Bertrand and Schoar 2003; Bennedsen 2007; Bloom et al. 2013); colonial governors affect colony-level revenue performance (Xu 2018).

The standard empirical test in this literature links the senior-most individual of an organization to an aggregate level outcome. While shedding light on the importance of leaders, this reduced form approach leaves open what the underlying mechanisms are: while leaders occupy the apex of organizations, what lies beneath the “tip of the iceberg” remains understudied. While leaders matter, less is empirically known about *how* they matter.

Making progress is difficult for several reasons. First, we need organizations to be run by different leaders to obtain variation in management styles. Second, to credibly identify the effect of leaders requires a sufficient amount of organizational units with comparable tasks and performance outcomes over time. Finally and most importantly, we must be able to look *inside* the organization and observe changes in policies to shed light on mechanisms.

This paper opens up the black-box that links leaders to aggregate outcomes by studying the British Colonial Office over a hundred years (1862-1966). The Colonial Office provides a suitable setting to study the impact of “management styles” on performance. The Colonial Office was an organization headquartered in London that assigned governors to administer colonies around the world. Once assigned, governors enjoyed substantial discretion. As “the man on the spot”, their policies could plausibly affect aggregate economic outcomes. At the same time, governors varied substantially in their administrative style. As historical colonies map into modern day countries and subnational states, their performance has important implications for cross-country development.

The central contribution that underpins this study is a large-scale digitization of detailed personnel records from the *entire* colonial administration. This

allows us to take an unusually close look at the inner workings of a large multi-divisional organization that spanned the globe.

Our main channel of interest through which governors affect aggregate outcomes is through personnel policies. Such policies enable leaders to allocate personnel across jobs and seniority. Leaders can also use allocation decisions to improve the matching of talent to jobs, and to incentivize workers. At the same time, personnel policies can also reduce performance by introducing misallocation and disrupting the civil service.