

Workhorses or White Elephants? The Effects of Earned Autonomy on State Owned Enterprises

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Abstract

State Owned Enterprises (SOEs) comprise a significant proportion of economic activity in many countries, and typically trade-off profitability with political objectives such as employment generation. Using a newly constructed dataset, I causally estimate the impact of an earned autonomy program in India on SOE performance. Managerial autonomy allowed the board of directors of profitable SOEs to undertake strategic decisions without political interference. I find that autonomy allows managers to increase the capital stock of the firm, as well as increase their sales and profits; these impacts persist for at least twelve years after the program. I identify SOE managers' career concerns as a mechanism for the programs' impacts: the probability a manager of a SOE joins a private firm board increases after it receives autonomy. These results indicate that large gains in SOE performance are possible without privatization, and may occur partly through SOE managers' career concerns.

Speaker Profile

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