Acquisitions, Management and Efficiency: Evidence from Rwanda's Coffee Industry*

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Abstract

Markets in low-income countries often display long tails of inefficient firms and significant misallocation. This paper studies Rwandan coffee mills, an industry initially characterized by widespread inefficiencies that has recently seen a process of consolidation in which exporters have acquired control of a significant number of mills giving rise to multi-plant groups. We combine administrative data with original surveys of both mills and acquirers to understand the consequences of this consolidation. Difference-in-difference results suggest that, controlling for mill and year fixed effects, a mill acquired by a foreign group, but not by a domestic group, improves both productivity and product quality. The difference in performance is not accompanied by changes in mill technology or differential access to finance. Upon acquisition, both foreign and domestic group change mills' managers. Foreign groups, however, recruit younger, more educated and higher ability managers, pay these managers a higher salary (even conditional on manager and mill characteristics) and grant them more autonomy. These "better" managers explain about half of the better performance associated with foreign ownership. The difference in performance reflects superior implementation, rather than management knowledge: following an acquisition, managers in domestic and foreign groups try to implement the same management changes but managers in domestic groups report significantly higher resistance from both workers and farmers and fail to implement the changes. The results have implications for our understanding of organizational change and for fostering market development in emerging markets.

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