

# Promoting Better Business Practices and Growth in Small Firms

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# Motivation

- Productivity (labor and TFP) is low in Brazil (and is falling since 2008)
  - Worse among MSMEs
  - Problem: 99% of businesses are MSMEs (2/3 of jobs)
- Large productivity gains can be obtained with adoption of existent (simple) technology such as good management practices

# Puzzle

- Mgmt. practices affect productivity of firms and countries
  - Bloom et al. (2007); Bloom et al. (2013 and 2018); McKenzie and Woodruff (2015); Bruhn et al. (2018)
- **Why don't more firms have good management practices?**

# Lack of information seems to prevent firms from using better business practices

- Bloom et al (QJE, 2013) document two barriers to adopting better management practices
  - **For the common practices**, firms had heard of the practices but thought they would not be profitable to adopt
  - **For uncommon practices**, firms were simply not aware of these practices
- Nguyen and Nguyen's RCT in Vietnam: providing information on the benefits of quality control leads more firms to improve their quality control, reduces defects and increases sales

# Can simply providing information increase take-up rate of consulting (and firm performance)?

- Ongoing work in Brazil test if lack of information is a reason why firms don't adopt better business practices
  - Collaborative work with the Brazilian Business Support Service to Micro and Small Businesses (SEBRAE) in Parana and Rio de Janeiro states
  - SEBRAE in business since 1972 and an important public policy player – present in all Brazilian states

# The Program

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- The program 'Business to Business' (Negocio-a-Negocio) exists since 2015 and covers the state of Parana – ~ 30k micro and small firms reached annually
- **How it works:**
  - Eligibility: micro (80%) and small (20%) formal firms
  - SEBRAE agent applies a face-to-face questionnaire on 29 business practices – 1 hour visit
  - 1-2 weeks later agent returns to deliver a dense 6-page (boring – see next page) report including
    - (1) Areas for improvement; (2) links to relevant SEBRAE courses; and (3) how many practices the firms is already using
- The visits happen between March and September each year
- The program targets new participants every year

# Study design: Randomized Controlled Trial

- Target population: small firms (2-10 employees) from 3 regions of Parana state
- ~2000 (?) eligible firms identified in the 3 regions
- SEBRAE visited a certain number of business per week
- Stratification: number of weeks (21), whether a firm consumed any other SEBRAE service in the past, 3 regions – 82 strata in total
- 866 firms randomized into 5 groups:
  1. Control: received the status quo;
  2. Status quo + 1 pager benchmarking + invitation to participate in a SEBRAE's event
  3. Status quo + 1 pager benchmarking + invitation to participate in a SEBRAE's event + 'threat'
  4. Status quo + 1 pager benchmarking + automatic enrollment in a SEBRAE's event
  5. Status quo + 1 pager benchmarking + automatic enrollment in a SEBRAE's event + 'threat'

Você sabe como sua **EMPRESA** está em relação a adoção de **PRÁTICA DE GESTÃO**?

Prezado(a) **ADRIANO**,

Obrigado por receber nosso Agente de Negócios. Na visita realizada conversamos sobre práticas de gestão que são fundamentais para o seu empreendimento. Agora, você está recebendo os seus resultados e ainda os resultados de empresas que atuam no mesmo segmento de mercado e possuem em média a mesma quantidade de funcionários que você aqui no Paraná. Aproveite esse conteúdo para conhecer as práticas e identificar caminhos para o desenvolvimento da sua empresa.

Benchmarking

### ESCALA DA EXCELÊNCIA EM GESTÃO



**ADRIANO, sua empresa está localizada na escala 3 da excelência em gestão! Você adota de 10 a 14 práticas de gestão.**



Short-term (attainable) objectives

- Destacamos abaixo algumas ações simples que podem fazer você subir na escala acima:
1. Tenha um cadastro com informações dos clientes
  2. Faça pesquisa de satisfação com seus clientes
  3. Planeje ações para promover e divulgar seus produtos e serviços
  4. Avalie seus concorrentes para saber o que deve melhorar
  5. Tenha um plano de ação com prazos definidos para alcançar os objetivos planejados

EXTRA: O SEBRAE/PR está te oferecendo um evento gratuitamente! **Caso tenha interesse, inscreva-se nos canais abaixo!**

Evento: Oficina Atendimento a clientes: como conquista-los e mantê-los - NaN - Dia 26/06 das 18h30 às 22h30  
 R. Caeté, 150 - Prado Velho, Curitiba - (41) 3330-5757

Você sabe como sua **EMPRESA** está em relação a adoção de **PRÁTICA DE GESTÃO**?

Prezado(a) **ADRIANO**,

Você sabia que estar **1 escala abaixo** de seus concorrentes (adotar de 1 a 5 práticas a menos) faz com que sua empresa tenha, em média, **26% mais chances de morrer** do que a empresa deles dentro de 1 ano?

Obrigado por receber nosso Agente de Negócios. Na visita realizada conversamos sobre práticas de gestão que são fundamentais para o seu empreendimento. Agora, você está recebendo os seus resultados e ainda os resultados de empresas que atuam no mesmo segmento de mercado e possuem em média a mesma quantidade de funcionários que você aqui no Paraná. Aproveite esse conteúdo para conhecer as práticas e identificar caminhos para o desenvolvimento da sua empresa.

'Threat' (perception)



**ADRIANO, sua empresa está localizada na escala 3 da excelência em gestão! Você adota de 10 a 14 práticas de gestão.**



Procrastination bias

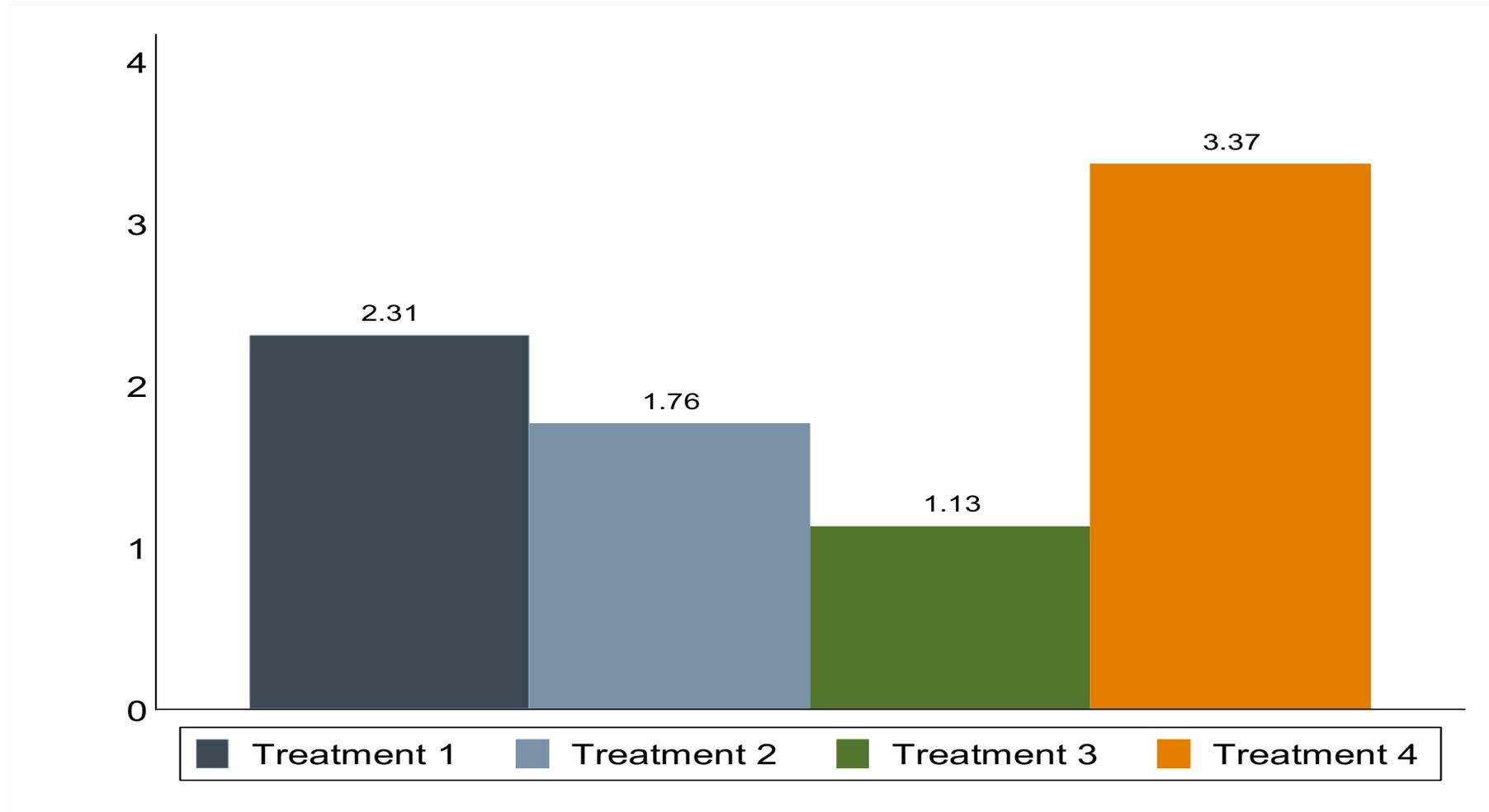
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EXTRA: **Você ganhou a inscrição em um evento do SEBRAE/PR! Você já está inscrito, basta comparecer!**

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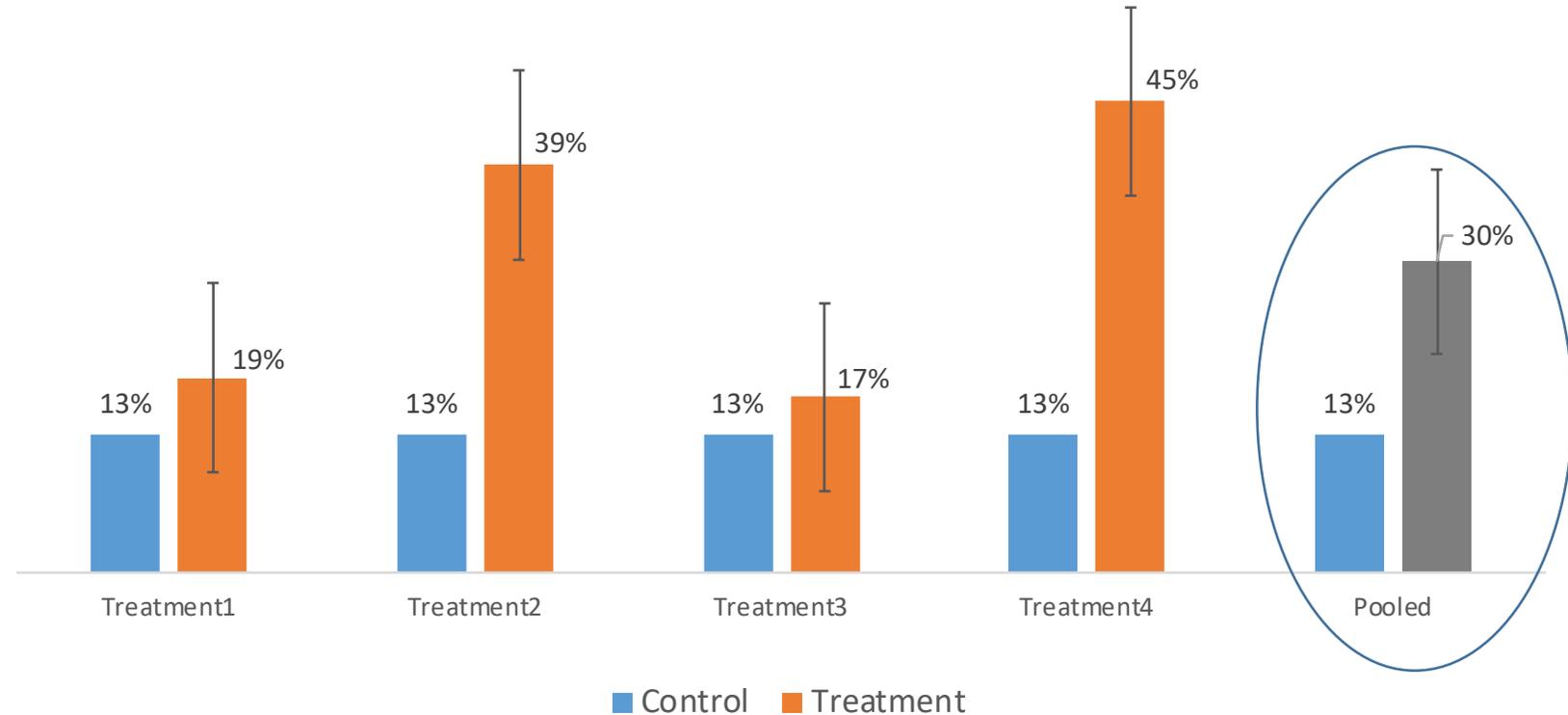
# Preliminary results on take up of consulting services

# Event attendance to SEBRAE's Event



# Firms that **CONSUMED** a consulting service from SEBRAE after the intervention - March 2019

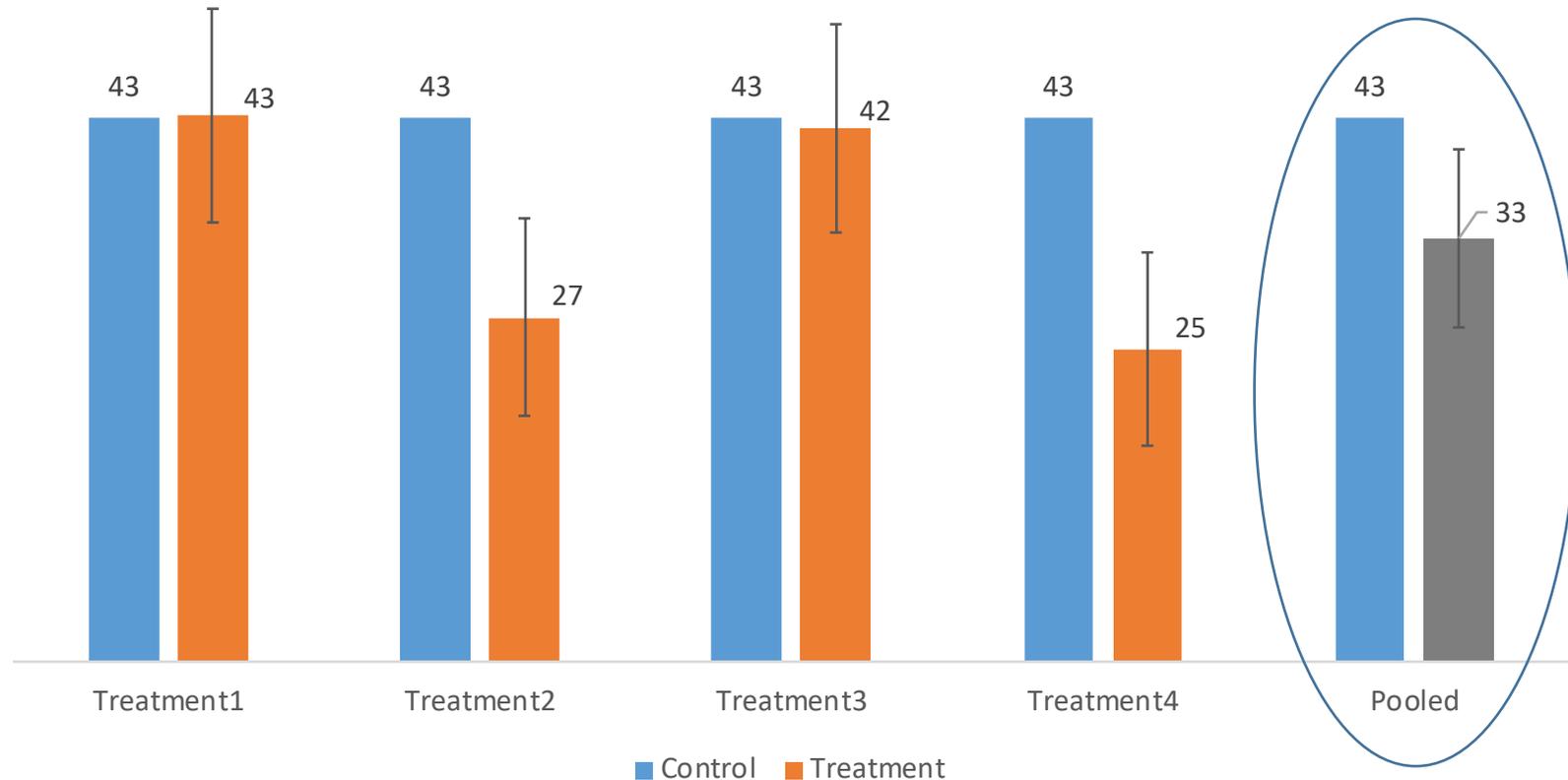
- **Treatment 1:** feedback + invitation
- **Treatment 2:** feedback + automatic enrollment
- **Treatment 3:** feedback + threat + invitation
- **Treatment 4:** feedback + threat + automatic enrollment



Note: treatment effects controlling for strata dummies and % of business practices adopted at baseline

# Avg number of days between the intervention and contact with SEBRAE - March 2019

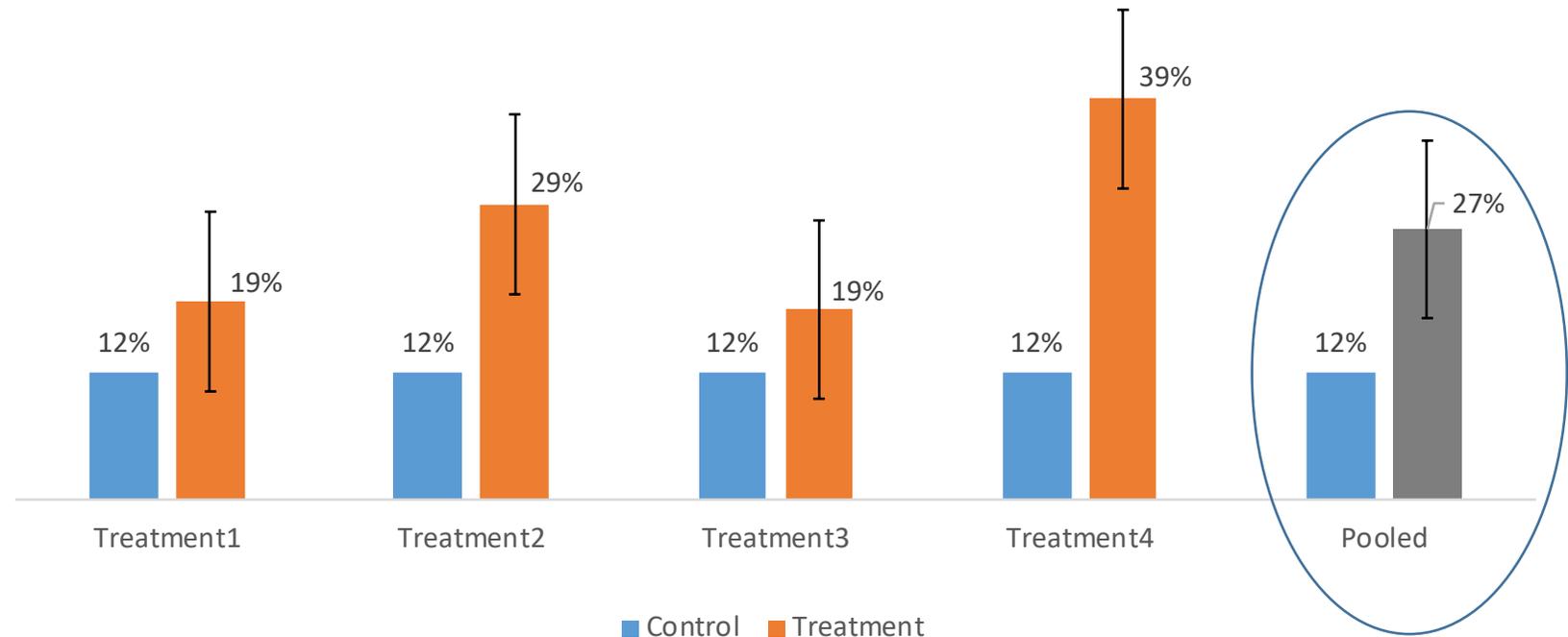
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Note: treatment effects controlling for strata dummies and % of business practices adopted at baseline

# Firms that **CONSUMED** a **LOW INTENSITY** consulting service from SEBRAE after the intervention - March 2019

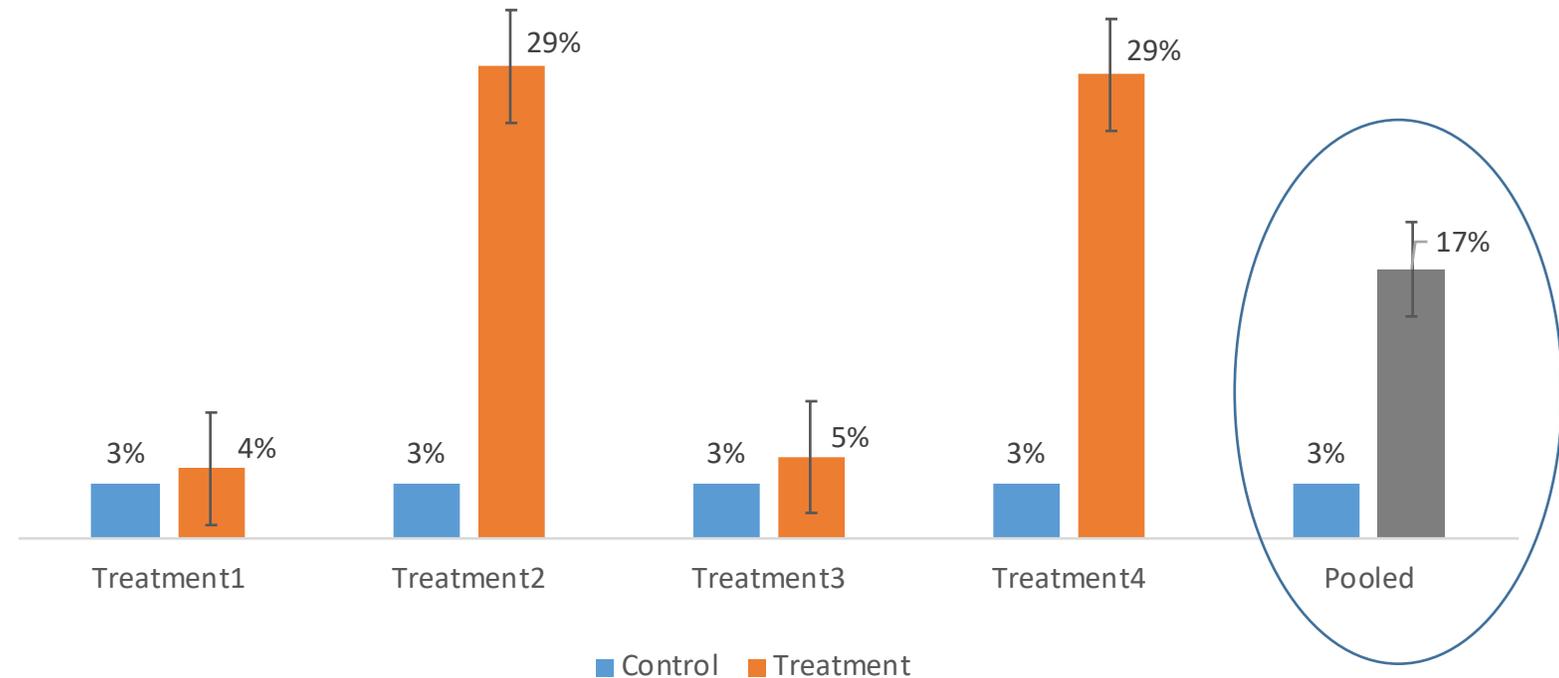
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- **Treatment 3:** feedback + threat + invitation
- **Treatment 4:** feedback + threat + automatic enrollment



Note: treatment effects controlling for strata dummies and % of business practices adopted at baseline

# Firms that CONSUMED a HIGH INTENSITY consulting service from SEBRAE after the intervention - March 2019

- **Treatment 1:** feedback + invitation
- **Treatment 2:** feedback + automatic enrollment
- **Treatment 3:** feedback + threat + invitation
- **Treatment 4:** feedback + threat + automatic enrollment



Note: treatment effects controlling for strata dummies and % of business practices adopted at baseline

# Heterogeneous Effects

Table – Average Treatment Effect on the Treated (ATT) for firms with # of business practices below and above the median at the baseline

	# BP ≤ median	# BP > median
consumption of consulting services	0.26*** (0.047)	0.1 (0.064)
<i>control mean</i>	0.15	0.3
# of services consumed	3.20*** (0.11)	-0.08 (0.69)
<i>control mean</i>	2.4	4.1
Avg return time - in days	-50.5*** (11.35)	5.1 (10.78)
<i>control mean</i>	62.8	45.05

Note: All regressions control for strata dummies and % of BP adopted at the baseline. The avg number of BP adopted by firms at first half of BP distribution is 8 (27%), and the avg. number adopted by firms at top half is 20 (70%). To estimate impacts on number of services consumed we use Tobit regressions to deal with censored data.

# Lessons Learned

- **Mkt frictions:** too much focus on ‘what to do’ instead of ‘how to do it’
- **Take up:** difficult to predict demand
  - A long set of observed characteristics of firms, owners, and employees poorly predict demand for consulting services:  $R^2=0.22$
- **Targeting strategies:** increase demand for consulting services (ex-ante) OR maximize impacts of the services (ex-post)
- **Scale:** Low intensity large scale vs. high intensity small scale programs?

# Cost-Effectiveness to SEBRAE: Integrate IE in operations pays off

**Sample of our study: 866 MEs    Eligible group: 9588 MEs**

## Cost of adding the benchmark page (USD)

Content development	5105.26	5105.26
Training	2631.58	2631.58
Data processing	3052.63	3052.63
Printing	136.74	1513.9297

<b>Total cost (USD)</b>	<b>10,926.21</b>	<b>12,303.40</b>
Total cost per firm	12.62	1.28

<b>Total cost (R\$)</b>	<b>43,704.84</b>	<b>49,213.60</b>
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## Additional revenue from enrollment in SEBRAE programs

Avg. amount paid by each firm (USD)	50	50
Number of firms	866*0.16 = 164.5	9588*0.16 = 1821.7

<b>Total revenue (USD)</b>	<b>8,227.00</b>	<b>91,086.00</b>
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<b>Total revenue (R\$)</b>	<b>32,908.00</b>	<b>364,344.00</b>
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<b>Rate of Return (n=5)</b>	<b>72%</b>	<b>156%</b>
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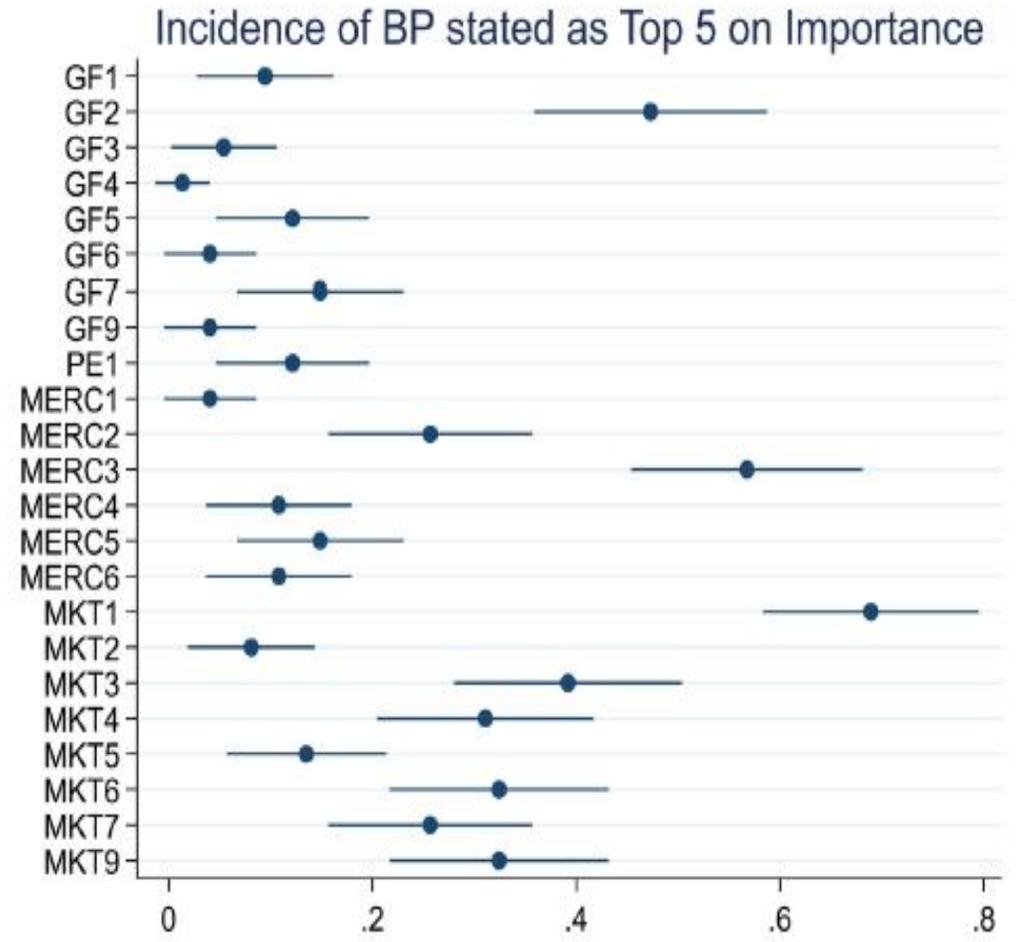
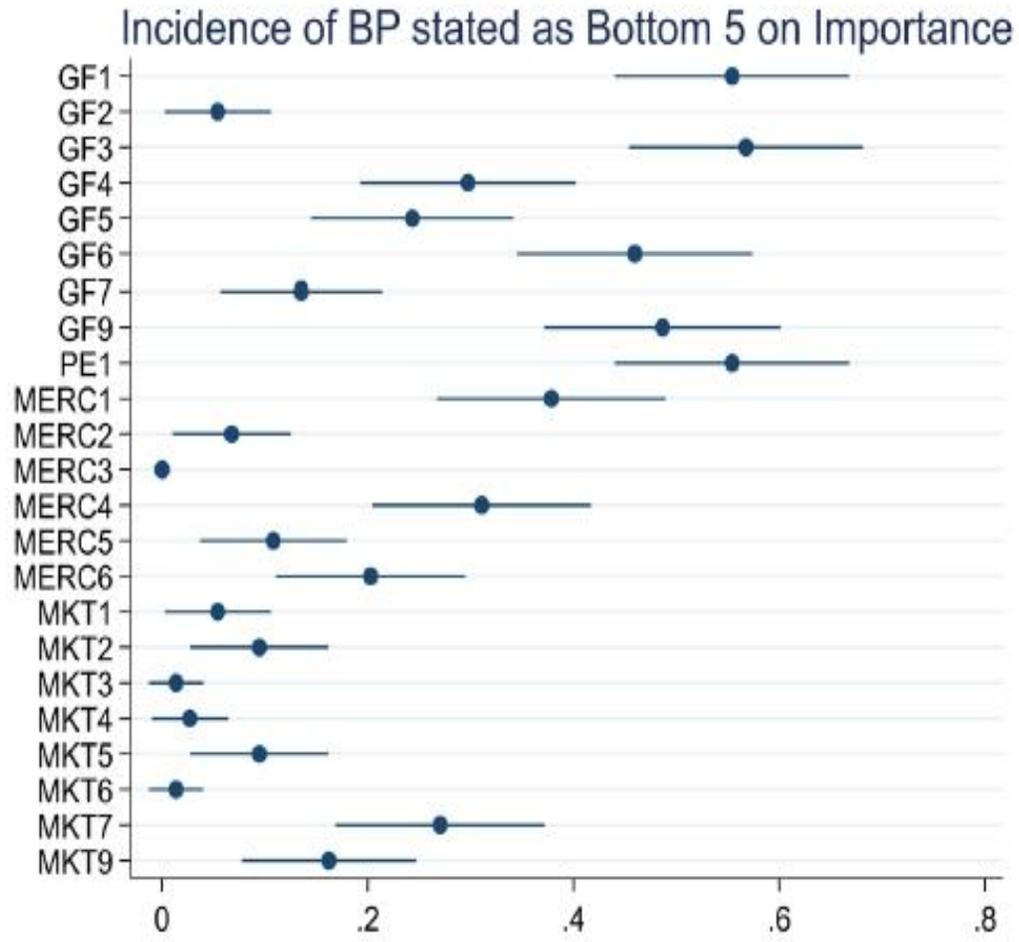
# Why aren't firms adopting best practices?

1. Maybe they already adopt the most common practices and lack resources (skill, \$, and time) to adopt others;
2. Maybe they lack incentives (e.g. low competition, regulation...?)
3. Firms are optimizing given the constraints – what constraint to relax?
4. **Quality of the consulting service/advice?**
5. **Firms don't really care (misperception of returns?)**
  - ✓ Should public policies target only who cares?
6. **Agency problem?**

# Signal and Noise: Does the quality of consulting services matter?

(with Miriam Bruhn, Xavier Cirera and Rafael Dantas with SEBRAE-Rio de Janeiro)

- Conduct survey with 76 SEBRAE-RJ agents asking them to rank business practices in terms of importance for firm growth and easiness to adopt
  - Select the top 5 and bottom 5 (out of 23)
- How to measure quality?
  - Examine heterogeneity in answers, controlling for experience
  - Check if ranks correlate with practices adopted by firms surveyed by SEBRAE
  - Conduct same survey with top consulting firms in Brazil and compare answers across consulting firms and SEBRAE

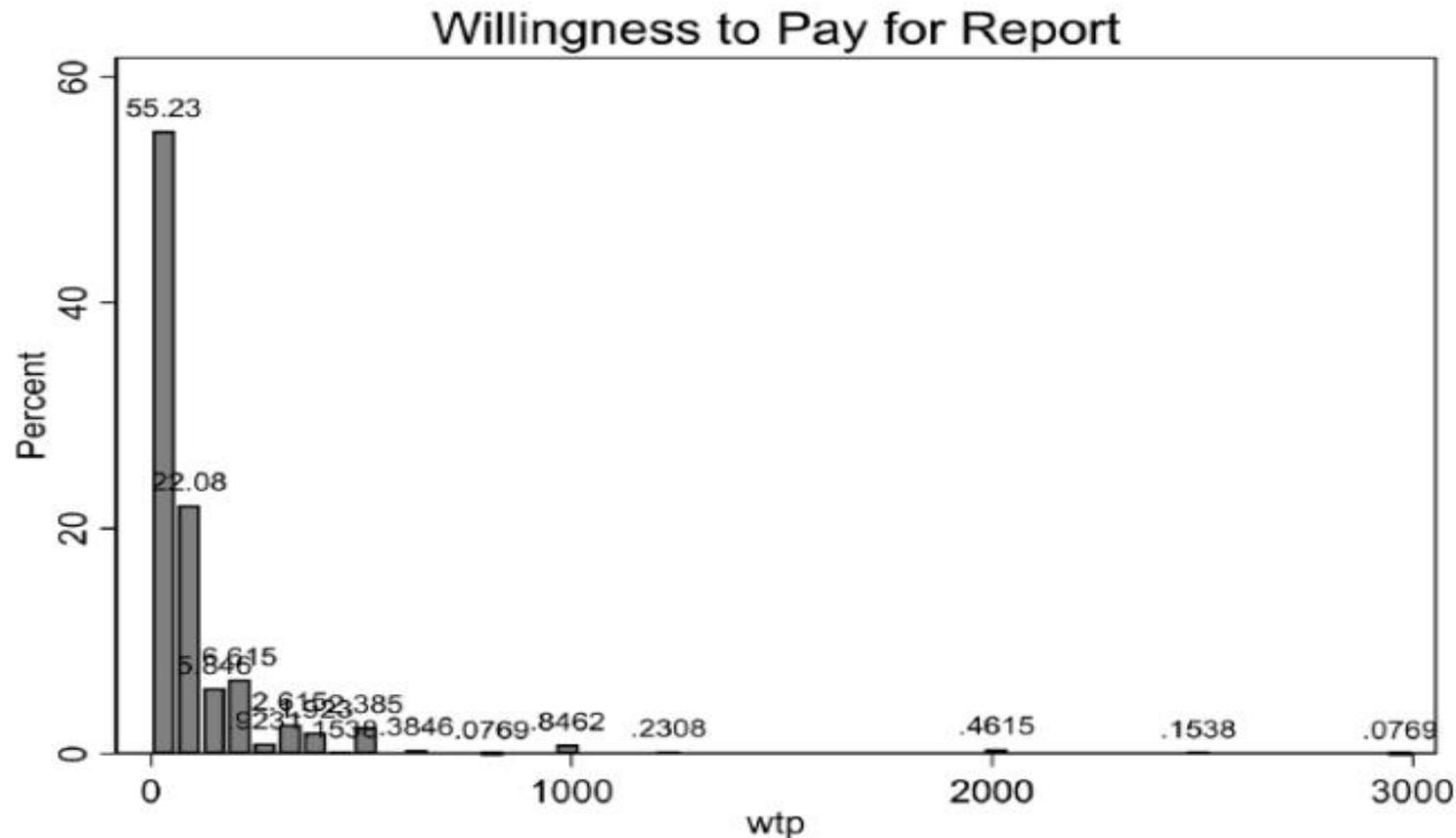


**Heterogeneous perception => Heterogeneous advice (noise)**

# RCT with SEBRAE-RJ

(with Miriam Bruhn and Rafael Dantas)

## Firms don't really care? (implications for targeting)

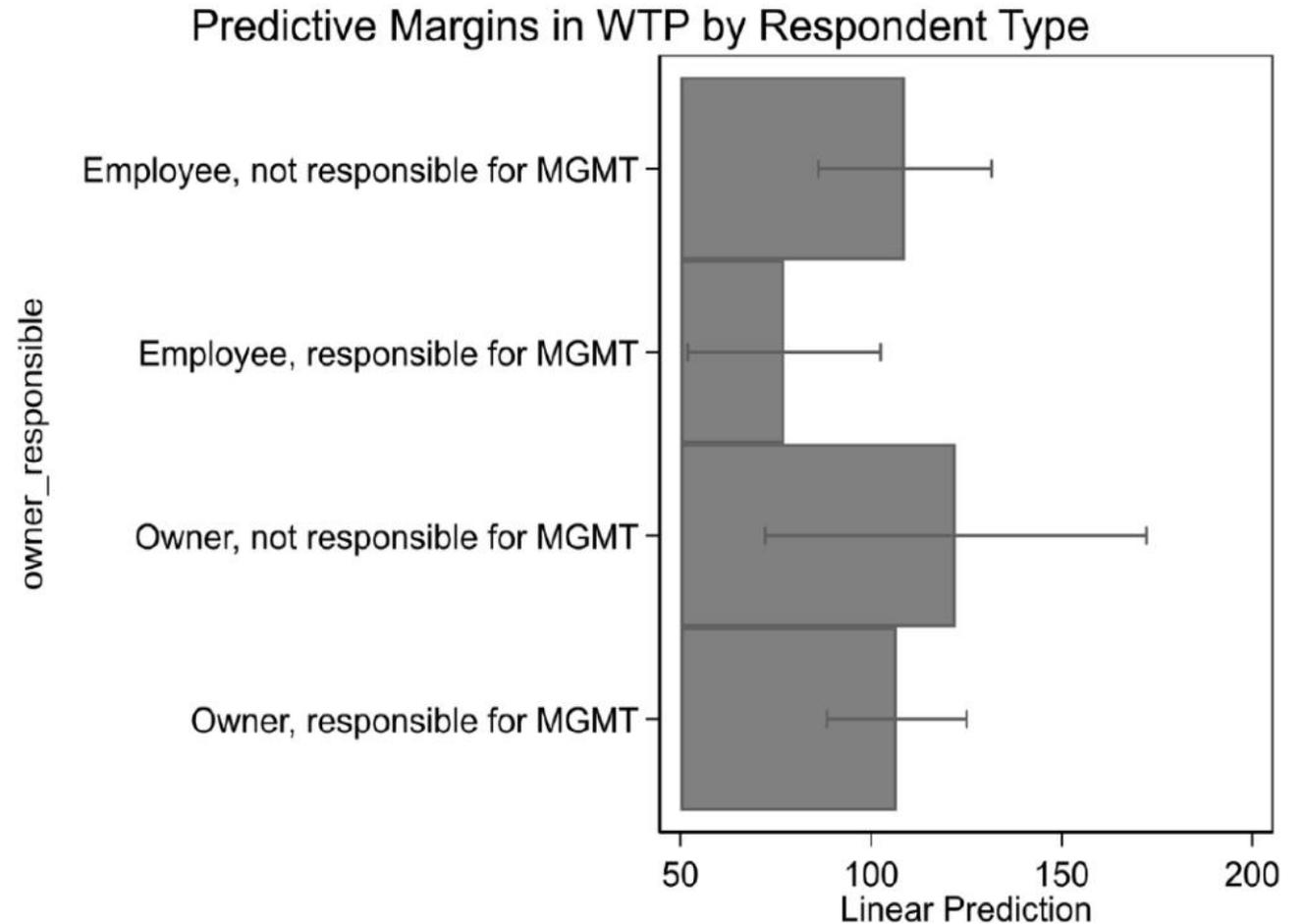
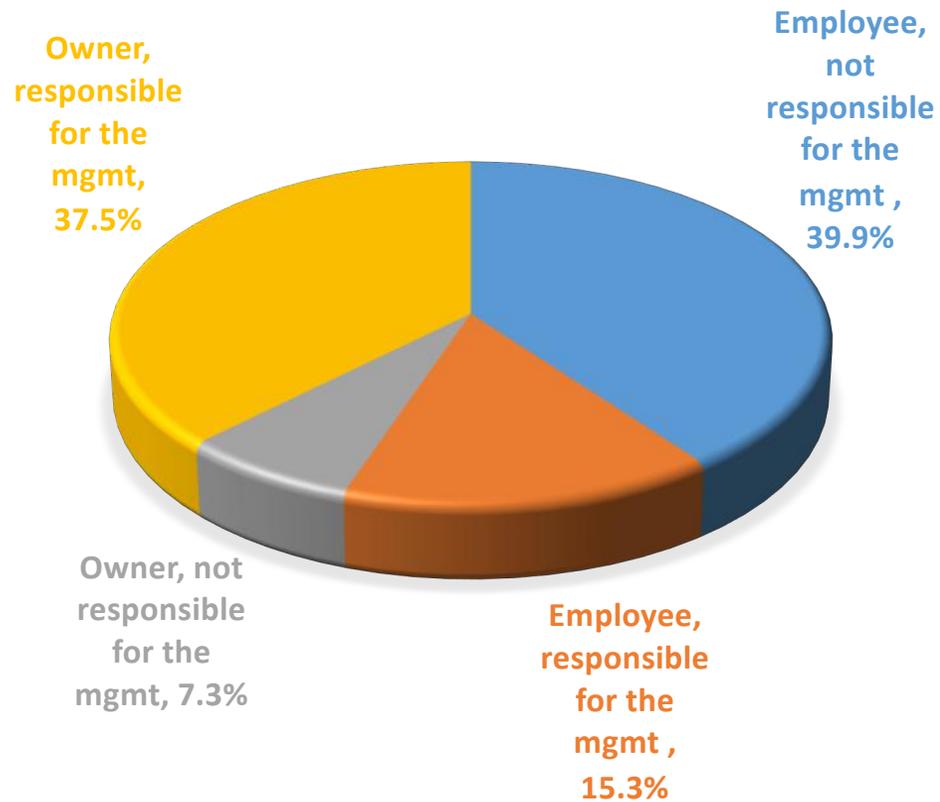


- Only ~50% answered this question
- Remarkable differences between 'respondents' and 'non-respondents'
- Among those that responded, the avg WTP is

# RCT with SEBRAE-RJ

(with Miriam Bruhn and Rafael Dantas)

## Agency problem?



# Thank you

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