

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

- 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**?

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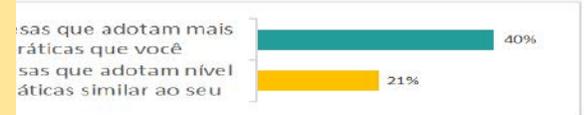
Você sabia que estar **1 escala abaixo** de seus concorrentes (adotar de 1 a 5 práticas a menos) faz com que sua empresa tenha, em média, **26% mais chances de morrer** do que a empresa deles dentro de 1 ano?

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'Threat' (perception)



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Procrastination bias

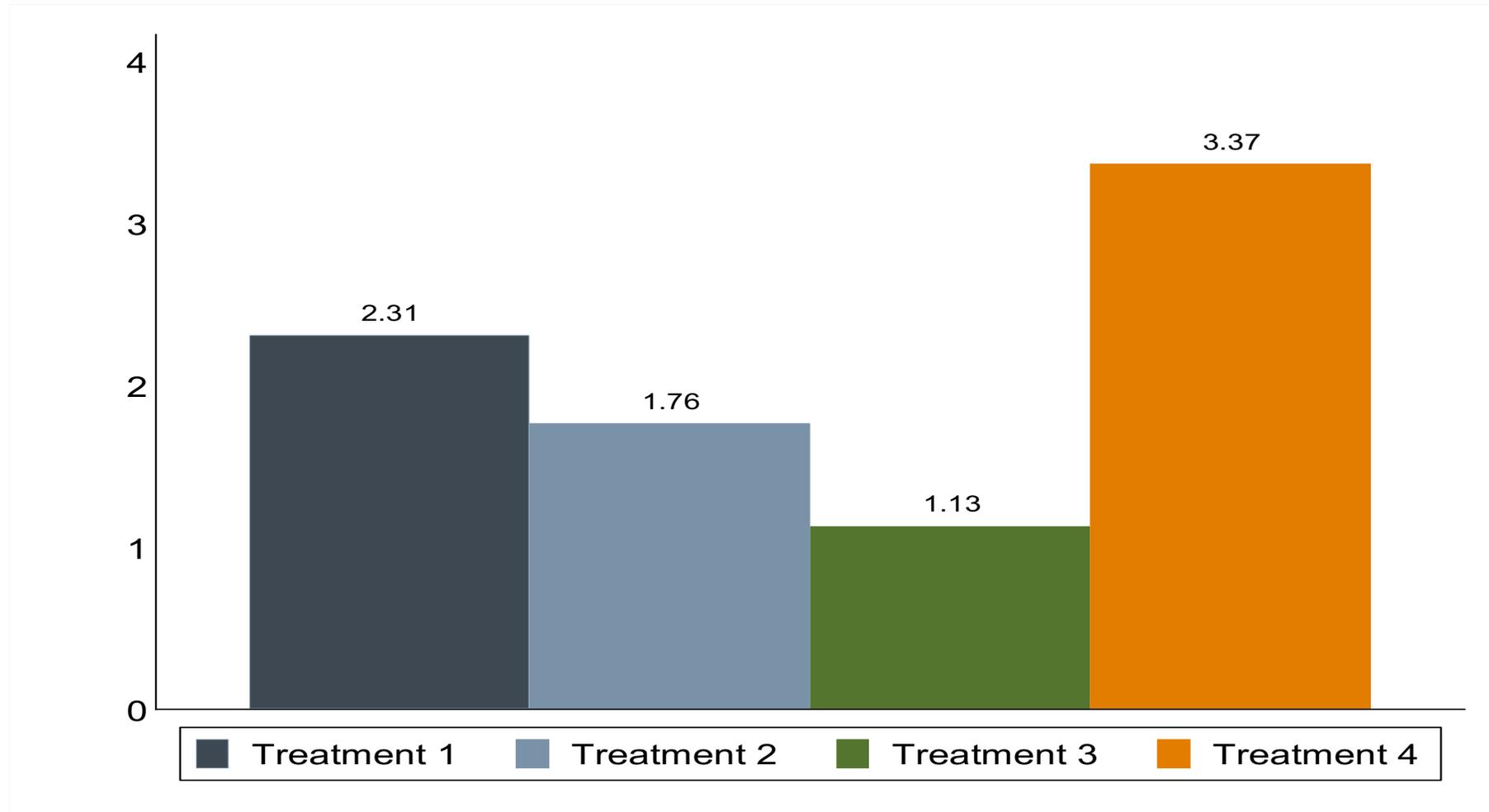
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EXTRA: **Você ganhou a inscrição em um evento do SEBRAE/PR! Você já está inscrito, basta comparecer!**

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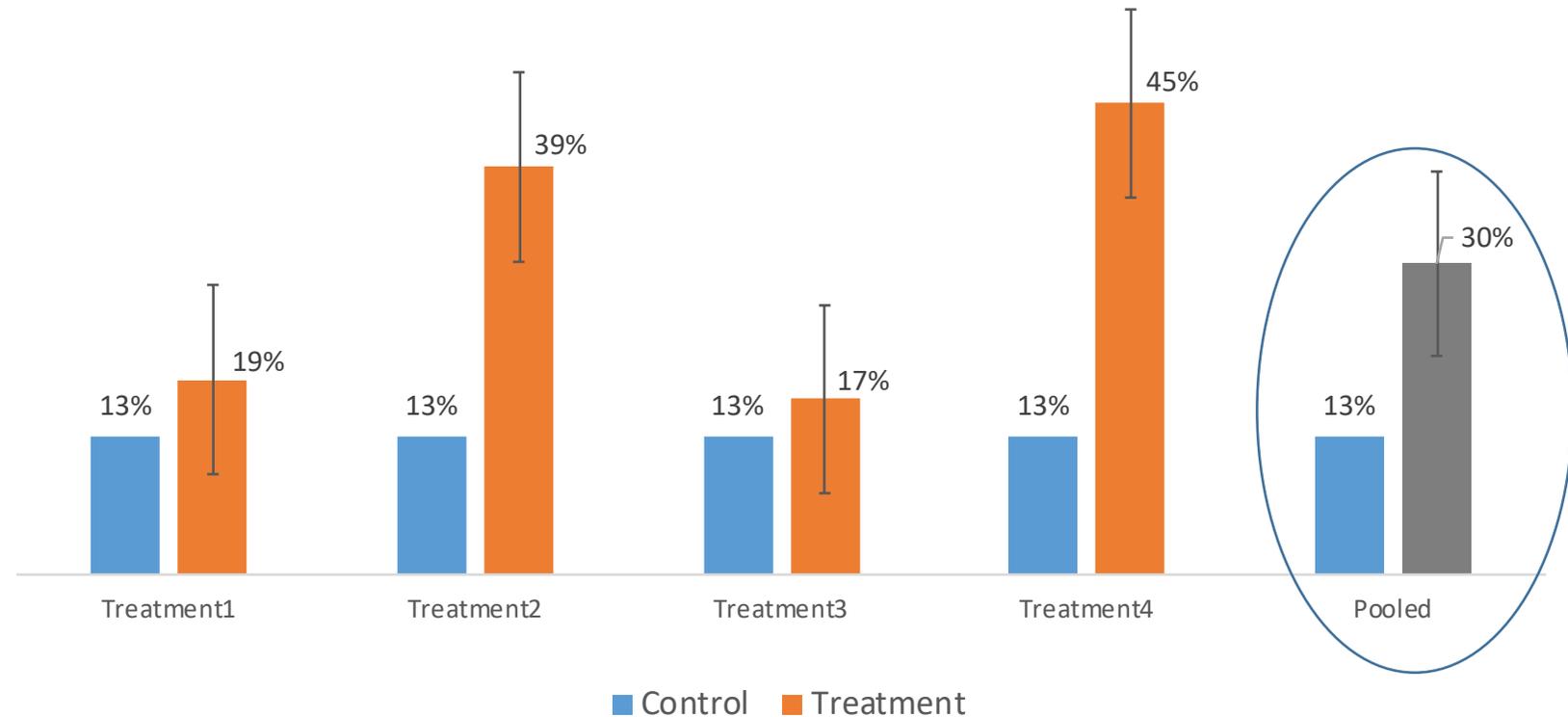
Preliminary results on take up of consulting services

Event attendance to SEBRAE's Event



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

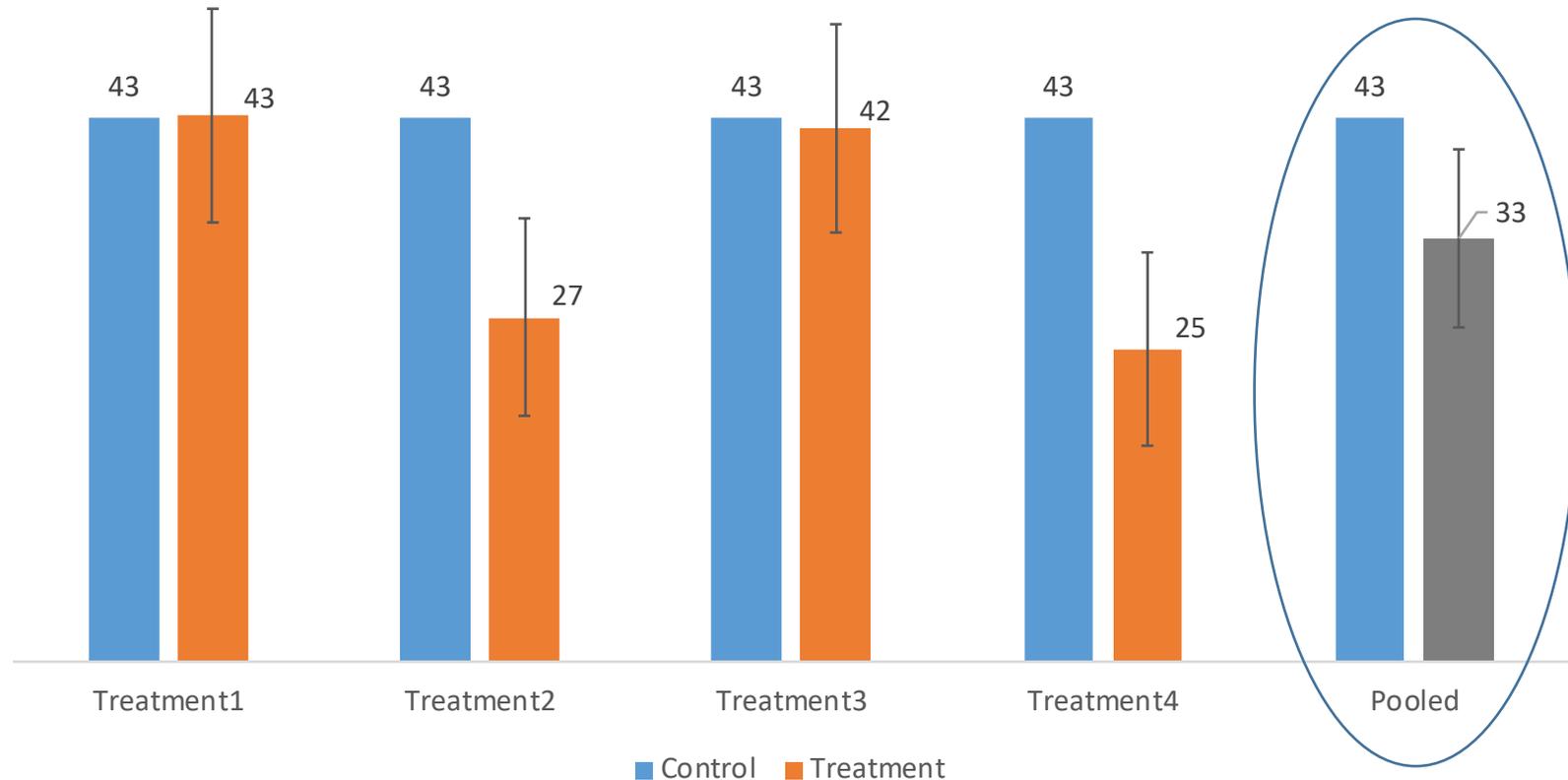
- **Treatment 1:** feedback + invitation
- **Treatment 2:** feedback + automatic enrollment
- **Treatment 3:** feedback + threat + invitation
- **Treatment 4:** feedback + threat + automatic enrollment



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

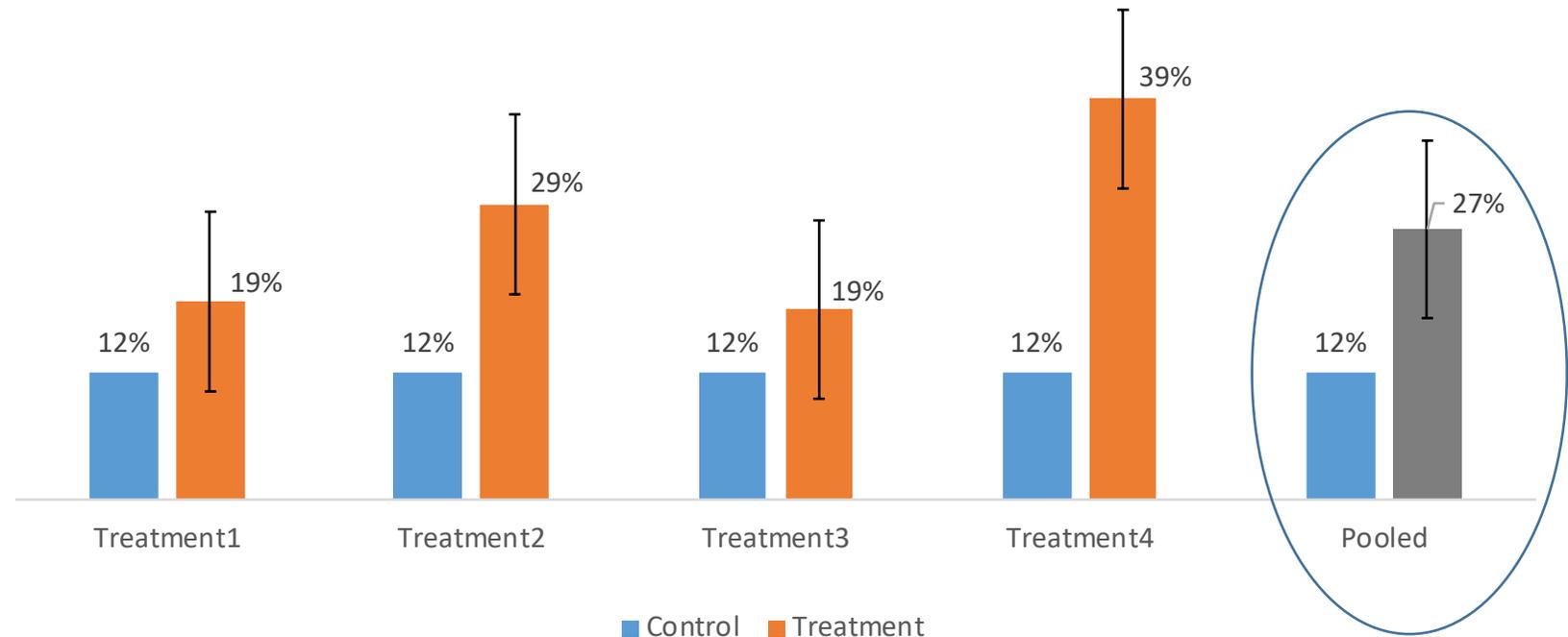
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Firms that **CONSUMED** a **LOW INTENSITY** consulting service from SEBRAE after the intervention - March 2019

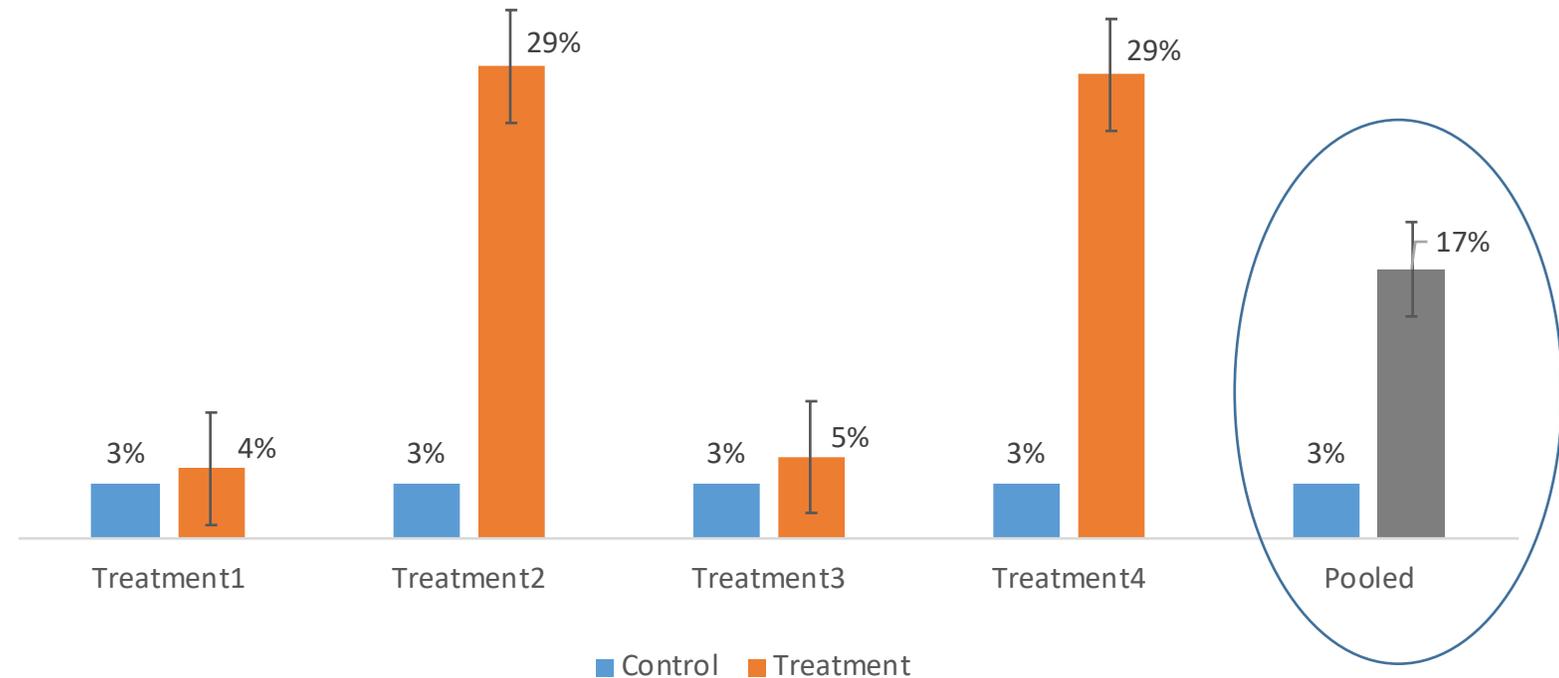
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- **Treatment 2:** feedback + automatic enrollment
- **Treatment 3:** feedback + threat + invitation
- **Treatment 4:** feedback + threat + automatic enrollment



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

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

Total cost (USD)	10,926.21	12,303.40
Total cost per firm	12.62	1.28

Total cost (R\$)	43,704.84	49,213.60
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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

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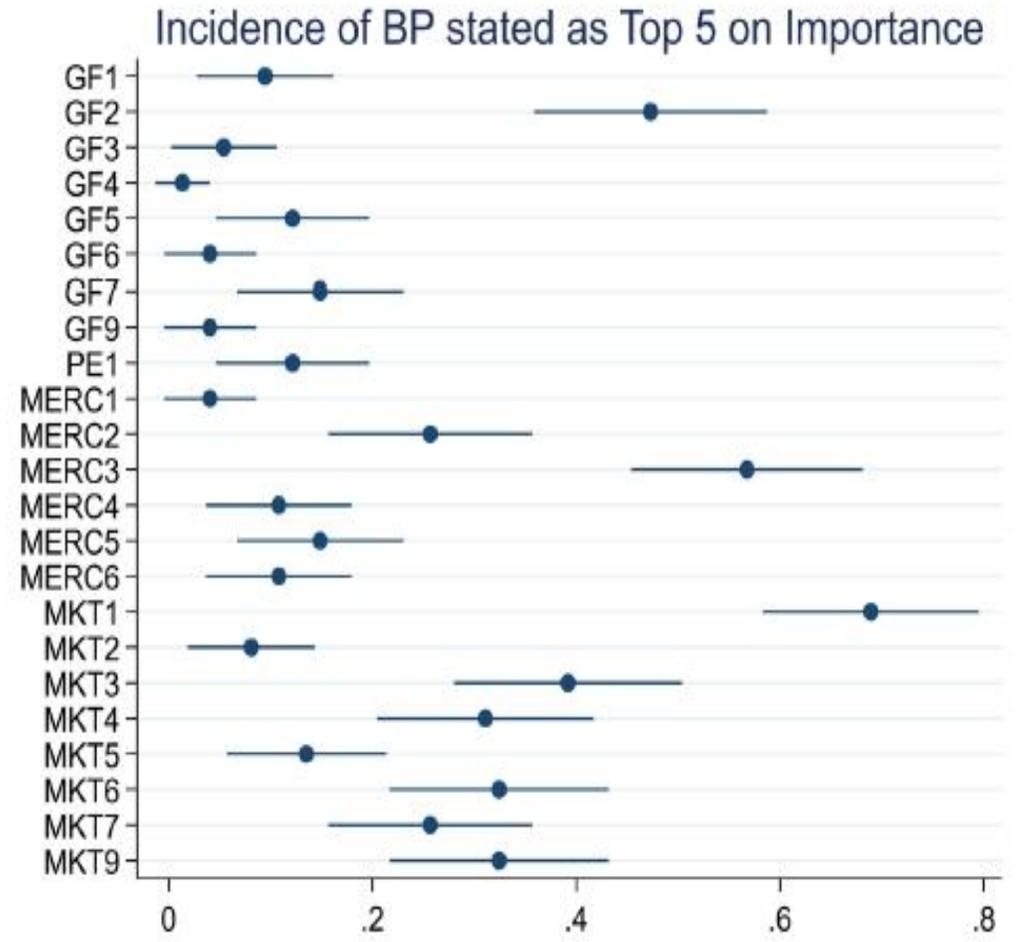
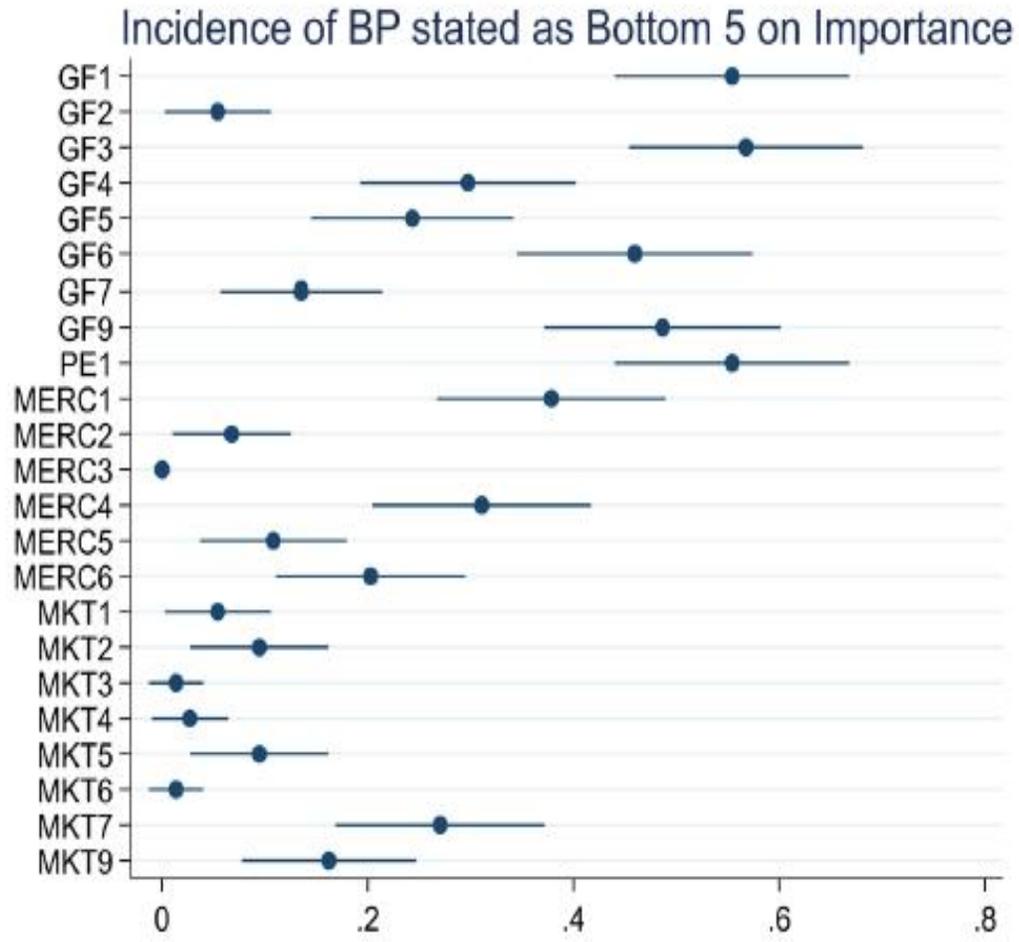
Why aren't firms adopting best practices?

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

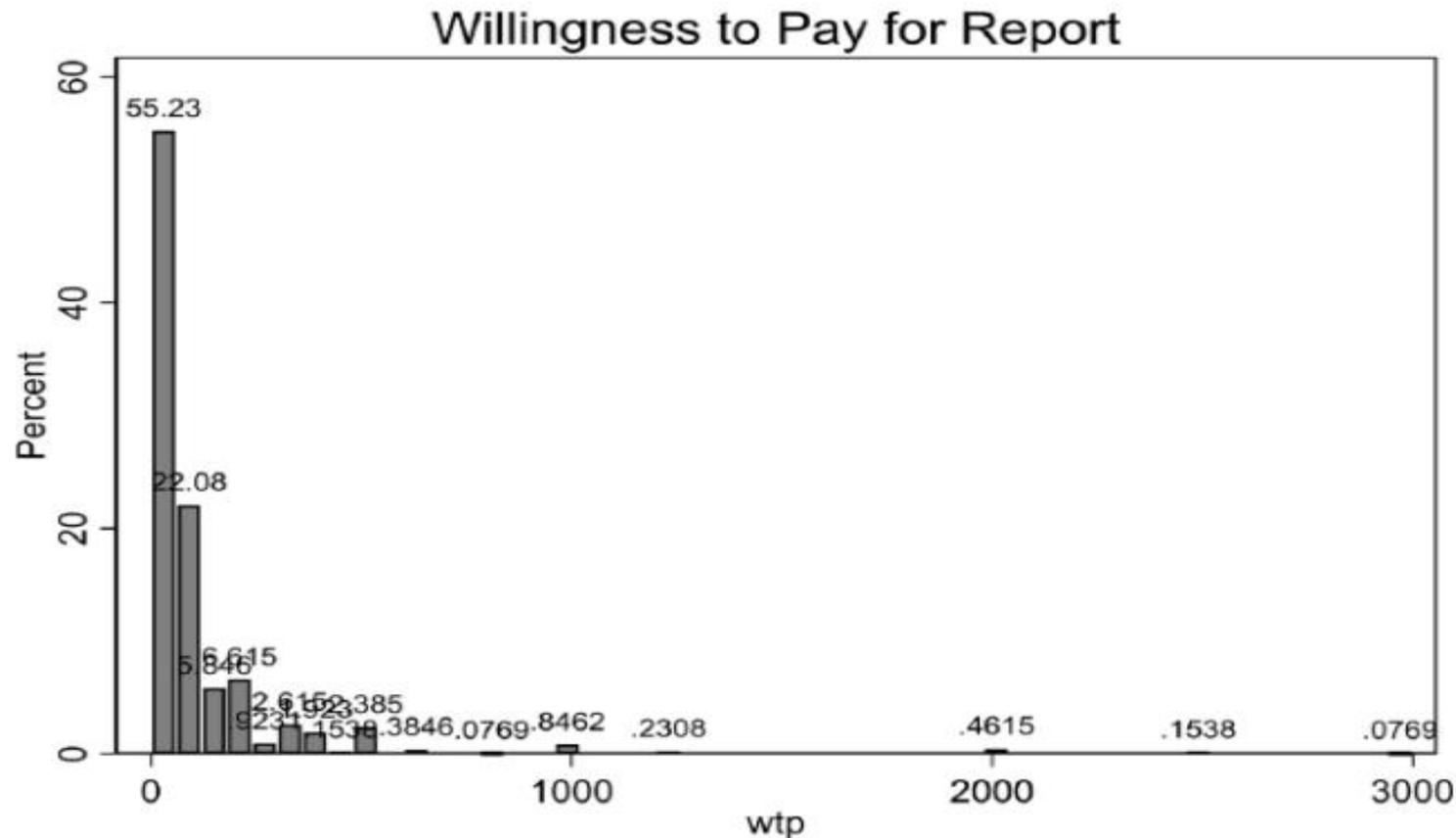


Heterogeneous perception => Heterogeneous advice (noise)

RCT with SEBRAE-RJ

(with Miriam Bruhn and Rafael Dantas)

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

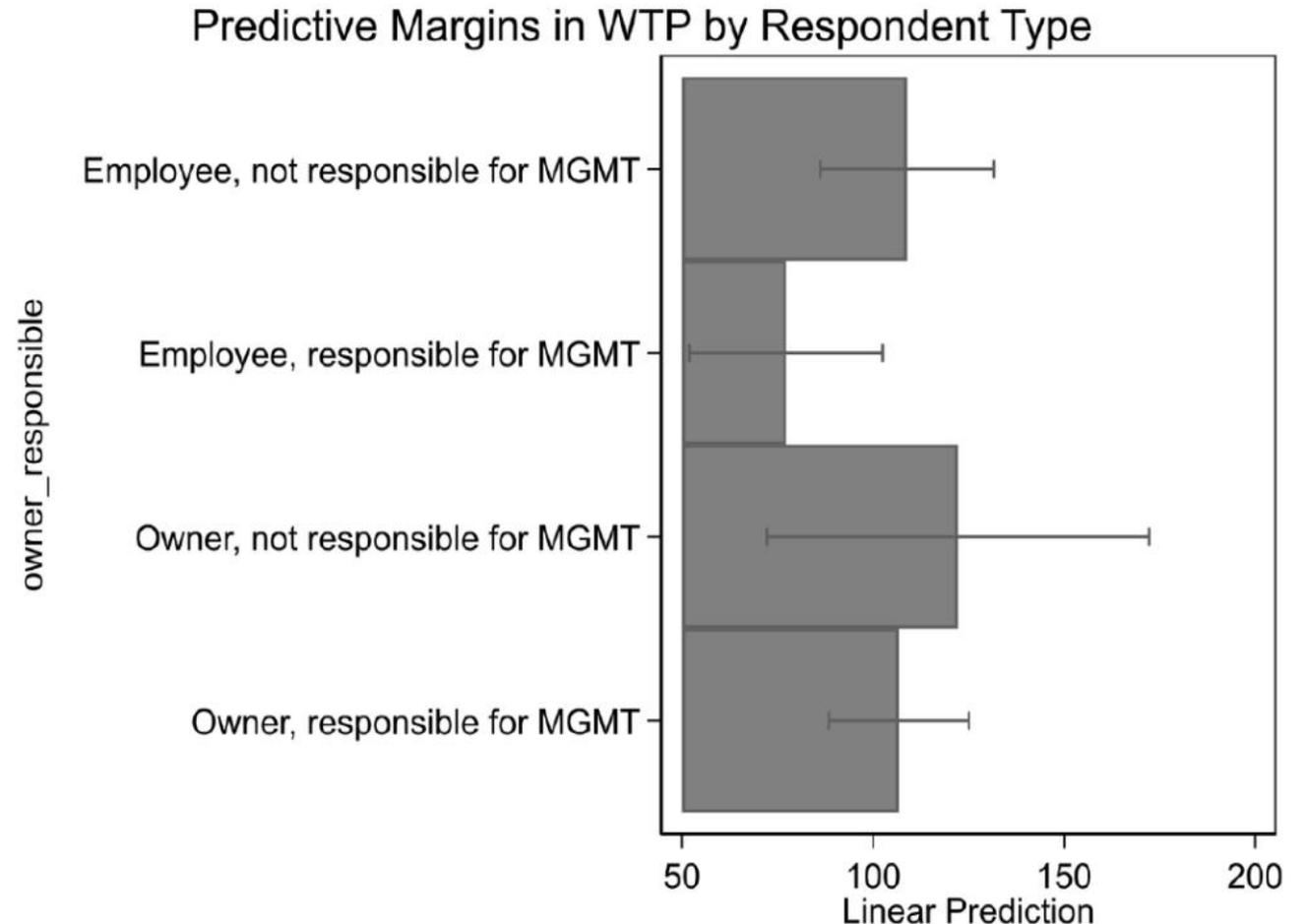
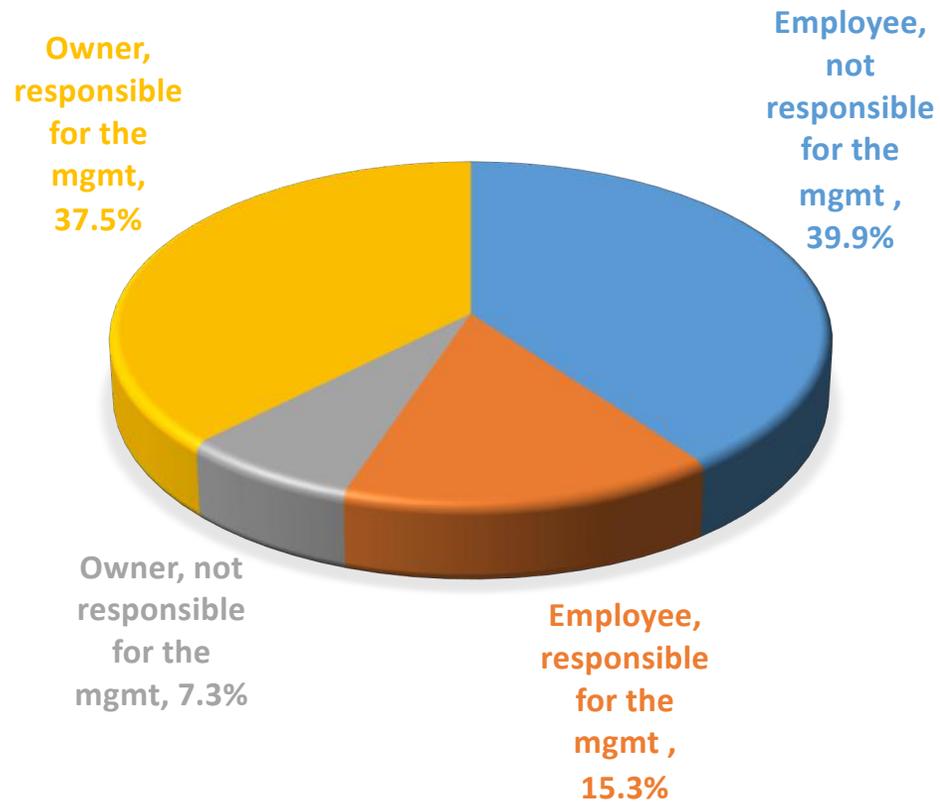


- Only ~50% answered this question
- Remarkable differences between 'respondents' and 'non-respondents'
- Among those that responded, the avg WTP is

RCT with SEBRAE-RJ

(with Miriam Bruhn and Rafael Dantas)

Agency problem?



Thank you

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