Policies for Improving Firm Productivity

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Business practices may matter a lot for growth

- Business practices vary widely across countries and within countries
  - Accounting, marketing, financial planning
- Firms with better practices have higher productivity, sales, profits
  - Bloom, Van Reenen & coauthors; McKenzie and Woodruff

- "Managerial capital" can affect productivity, as well as quantities of labor and capital used in the firm, affecting firm growth (Bruhn, Karlan, Schoar AER P&P 2010)

- How to improve business practices?

Business training often does not improve firm performance

- A typical business training course is offered in a classroom setting and takes about a week
  - ILO Start and Improve Your Business program has trained 6 million people in more than 100 countries
  - IFC's Business Edge program has trained 200,000 people in 54 countries

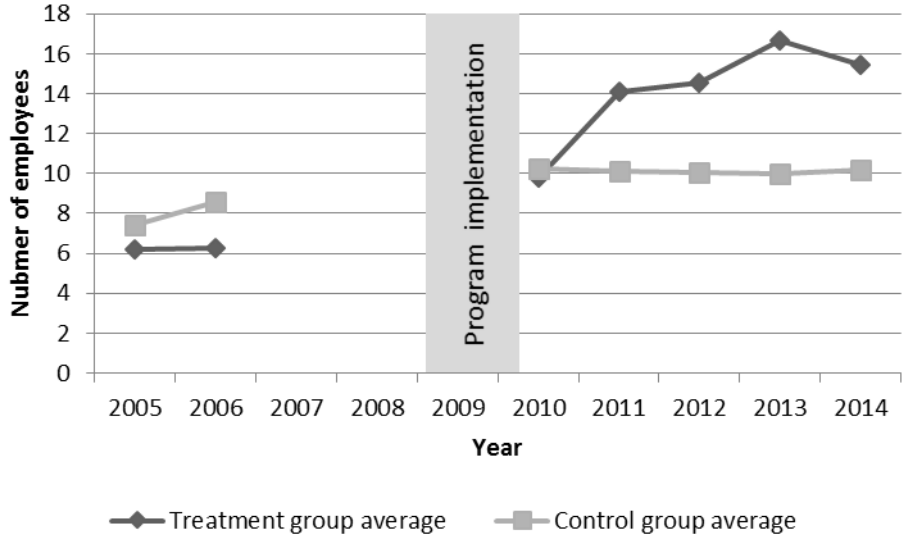
- Randomized control trials have found
  - Low take-up rates (39% in Bosnia, Bruhn and Zia 2013)
  - Improvements in business practices
  - BUT little or no impact on business performance (or only for subgroups)

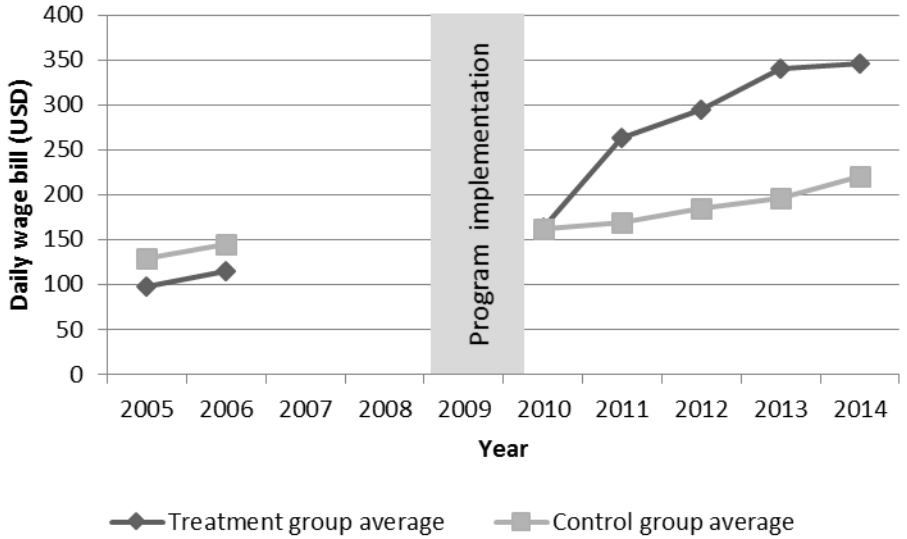
→ Try more intensive programs that are tailored to specific needs

Classroom business training (Bosnia)

Consulting services improve SME performance

- Randomized control trial with 432 SMEs in Mexico (Bruhn, Karlan, and Schoar 2018)
  - Firms received one year of management consulting services
  - A survey right after the program ended shows improved accounting, marketing, “entrepreneurial spirit”, and productivity
  - Two to five years after the intervention, administrative data from Social Security Institute (IMSS) shows 50% increase in employees and wage bill





On-site consulting services (Mexico)

Matching grants

- One of the most commonly used policy tools for small and medium enterprise growth

- Consulting program in Mexico implemented via a matching grant
  - Beneficiaries paid only 10 to 25% of the cost of the consulting services (US$12,000 on average), depending on firm size
  - Other share paid by the state government
  - One of the first rigorous impact evaluations of a matching grants program

- Are these subsidies really needed?

Why don’t more firms use consulting?

Self-Reported Reasons for Not Using Consulting Services in Control Group Firms	
Reasons for not using consulting services	% of enterprises mentioning this reason (multiple mention)
Would be a good investment, but don't have funds	46.3
Don't know what the benefits would be	22.2
Simply hadn't considered it	18.5
Didn't need the services	13.9
Other	11.1
Didn't know these services existed	7.4
Not worth the cost	5.6
N	108
This table includes all control group firms that, at the time of the follow-up survey, reported never having used consulting services.	

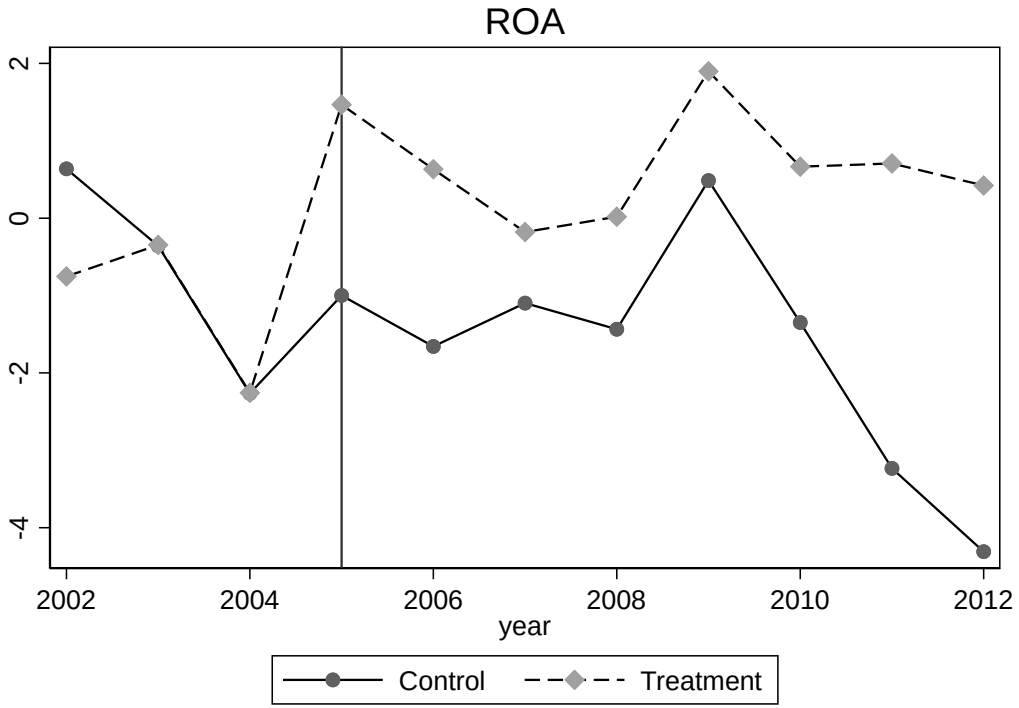
Source: Bruhn, Karlan, and Schoar (2018)

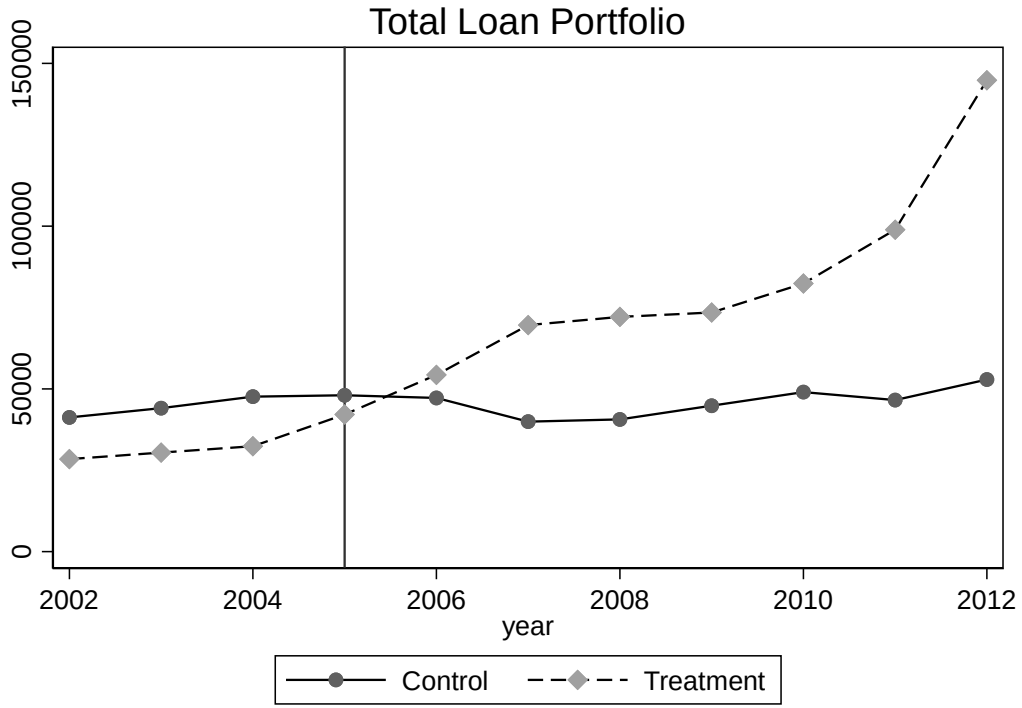
Can simply providing information improve SME performance (and take-up of consulting)?

- Ongoing work in Brazil (with Caio Piza)
  - SME owners will fill-out a questionnaire on business practices
  - Randomly select sample into a control group and 2 treatment groups
    1. Information on benefits: Receive information on the business practices where deficiencies were detected. Information will also state that business practices vary across firms and that better practices are associated with higher revenues
    2. Coaching program: This group will be invited to participate in a coaching program where SMEs work with a consultant for one year
  - Compare effect of providing information only to effect of the coaching program
  - Test if simply receiving information causes SMEs to seek out improvements and/or consulting on their own

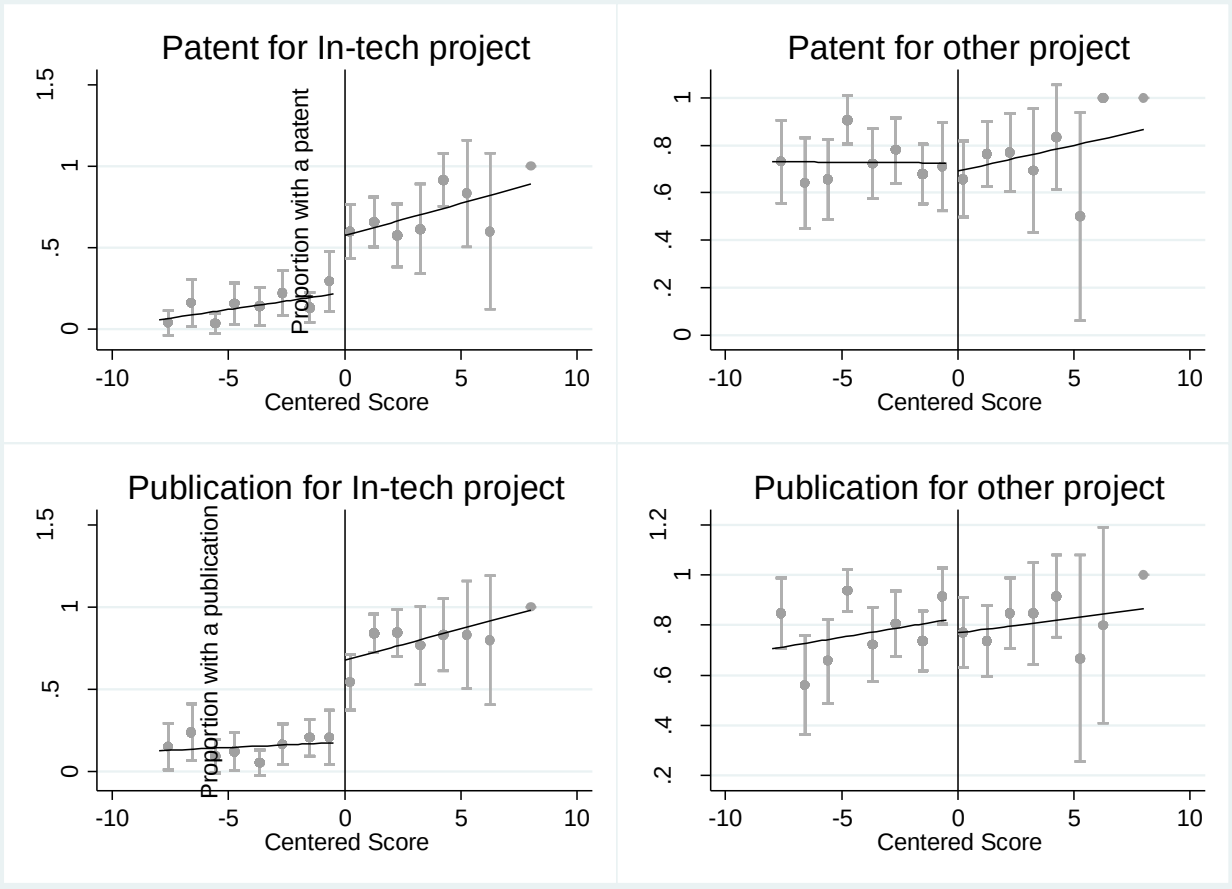
Technical assistance makes credit unions more efficient and allows them to grow

- A program in Mexico that provided grants for technical assistance to credit unions lowered operating costs and lending interest rates, and increased ROA and the loan portfolio (Bruhn, Reddy, Ruiz Ortega)





Grants for science-industry collaboration increase patents and publications



- In-Tech program in Poland assigns applications a score and gives grants to projects above a cutoff
- The program increased patent applications and publications related to In-Tech projects (Bruhn and McKenzie)
  - No spillovers to other projects launched by the same applicants
- Grant recipients were more likely to commercialize the project, but value was only 1% of overall sales (2-3 years after grants)