



PCI Special Investigation: Does Management Quality Matter?

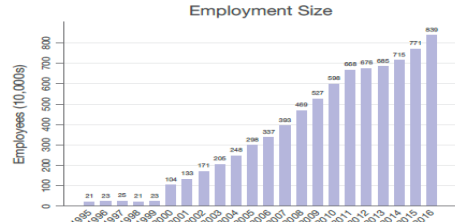
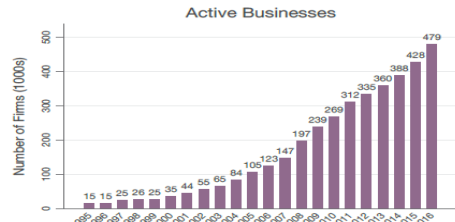
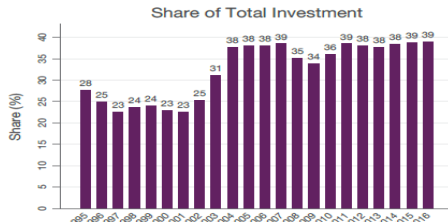
Edmund Malesky, Duke University
Lead Researcher, Provincial Competitiveness Index



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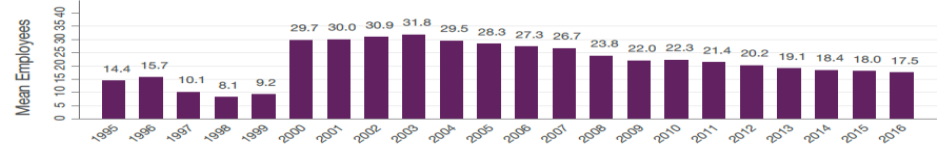
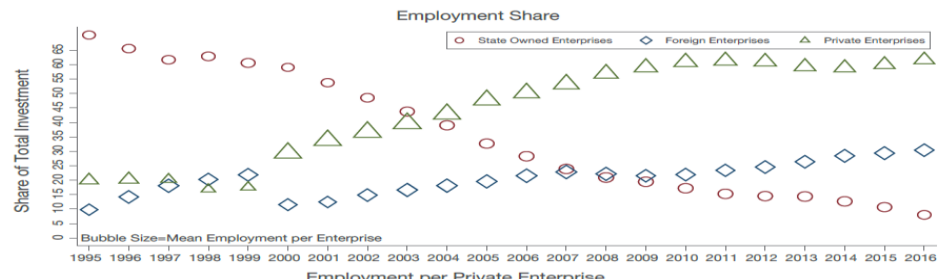
The Shrinking Vietnamese Private Firm

Growing Role of Private Sector in Economy



Source: General Statistical Office (Multiple Years). Statistical Handbook; Calculations by Authors.

The Puzzle of the Shrinking Vietnamese Firm



Source: General Statistical Office (Multiple Years). Statistical Handbook; Calculations by Authors

Explanations for Declining Firm Size

- Burdensome regulations
- Poor quality infrastructure
- Limited access to finance and land
- Hidden barriers of lack of transparency and corruption
- *All play some role, but all focus on the limitations of the bureaucracy*

Could differences between firms make a difference?

- Is management quality a limitation to firm growth?
- Influential research program of Nicholas Bloom (Stanford University) and co-authors has demonstrated in research around the world that better managers:
 - More productive
 - Exhibit greater growth
 - More likely to export
 - More likely to be connected to global supply chains

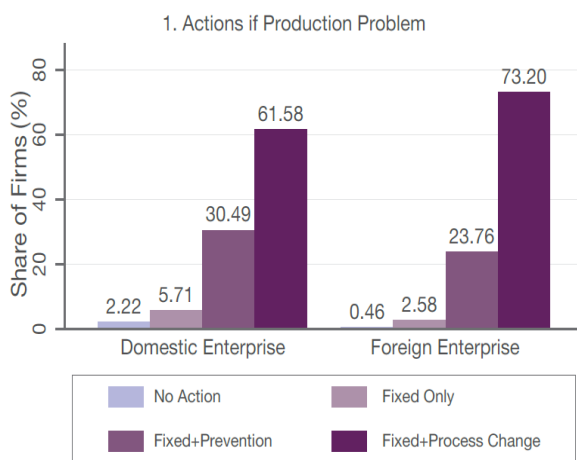
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Measuring Management Quality

Measuring Management Quality: Performance Monitoring

What describes what happened in the past year when a problem in the production/service delivery process arose?

Examples: Finding a quality defect in a product or piece of machinery. Identifying a weakness in the capacity of employees delivering a service to customers.

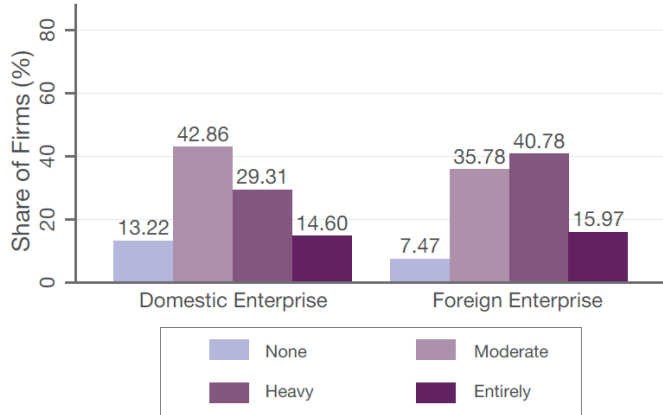


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The Provincial Competitiveness Index

Measuring Management Quality: Performance Monitoring

In the past year, what best describes the use of data to support decision making at this establishment?

4. Data in Decision Making



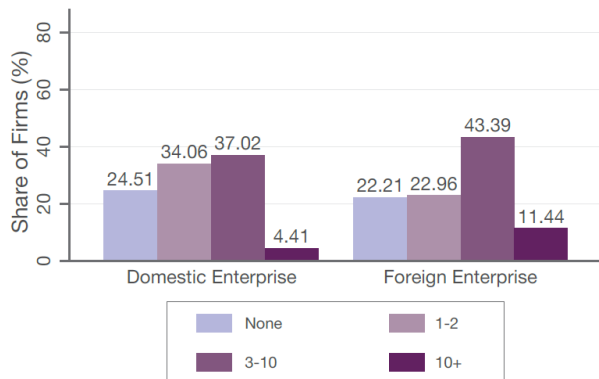
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Measuring Management Quality: Target Setting

In the past year, how many key performance indicators of were monitored at this establishment.

Examples: Metrics on production, productivity, costs, waste, quality, inventory, energy usage, employee absenteeism, delivery of goods or services on time

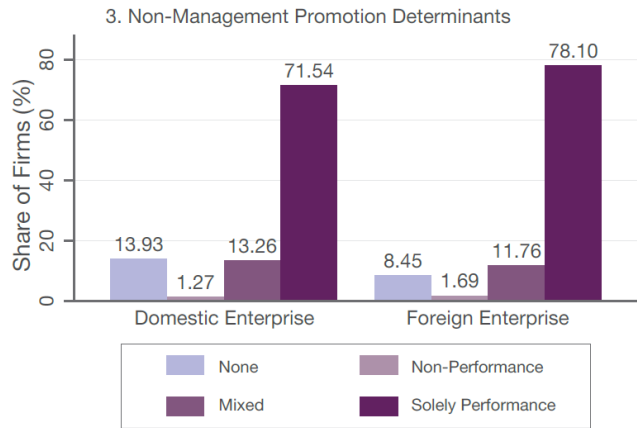
2. Performance Indicators



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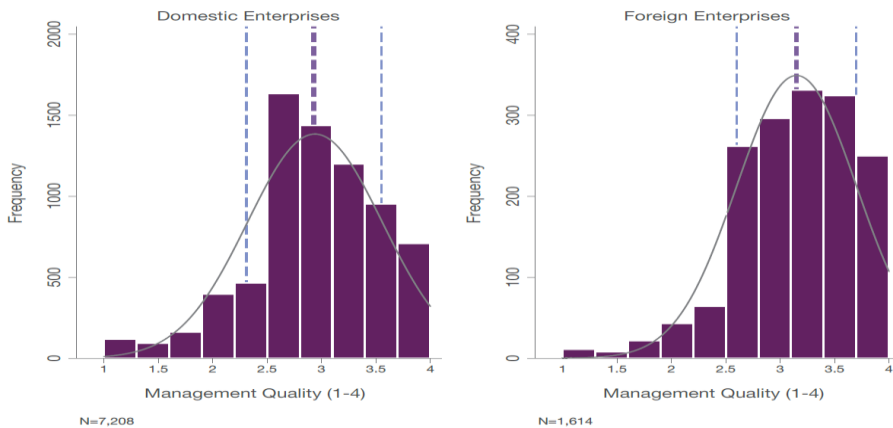
Measuring Management Quality: Incentives

In the past year, what was the primary way non-managers were promoted at this establishment?



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Distribution of Average Management Quality



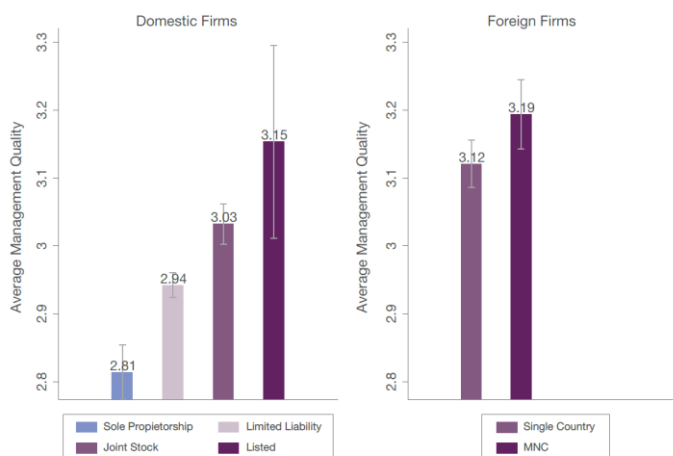
Source: PCI 2017 (Section E5) & PCI-FDI 2017 (Section F2) Surveys

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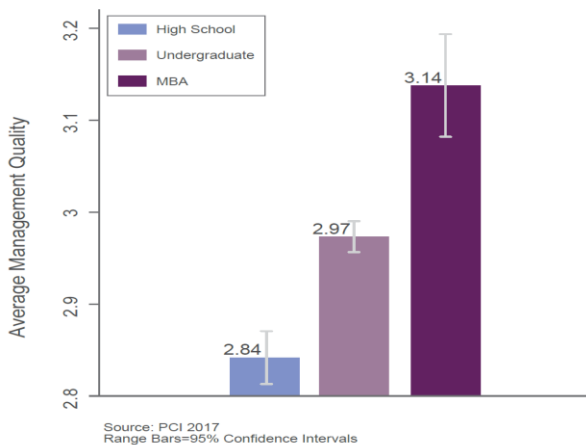
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Who is a Good Manager?

Management Quality by Legal Form

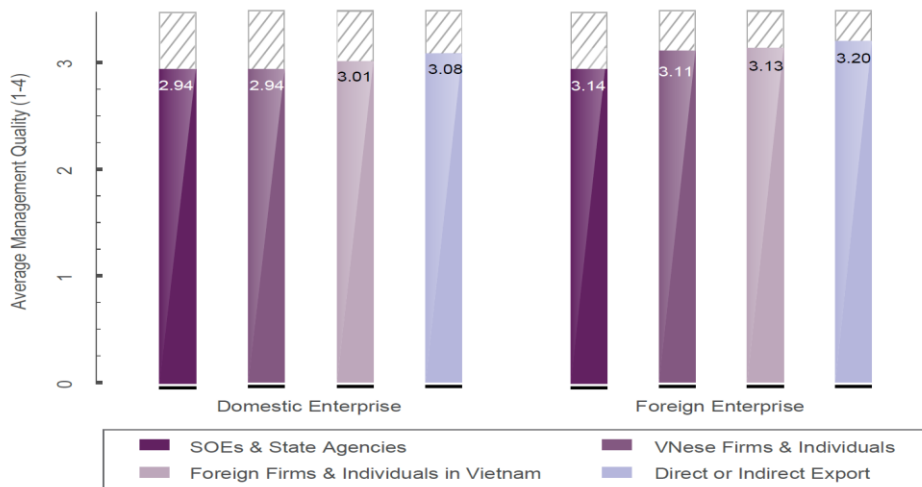


Management Quality by Level of Education



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Management Quality by Main Customer



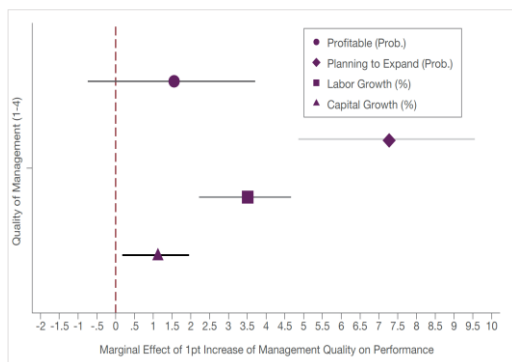
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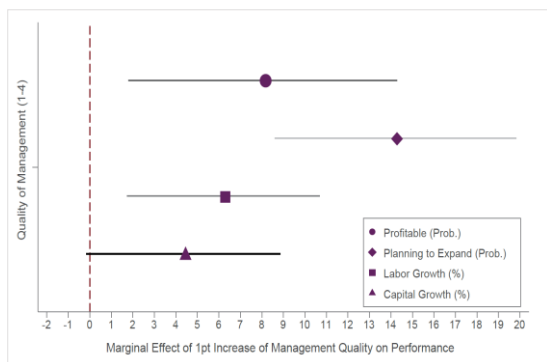
4 Business Performance by Management Quality

A one point change in management quality leads to...

Domestic Enterprises



Foreign Enterprises



Symbols=Regression Coefficients; Range Bars=95% CIs;
 OLS Regressions control for labor and capital size at establishment, two-digit industry fixed effects, education and gender of manager, and legal form of firm.



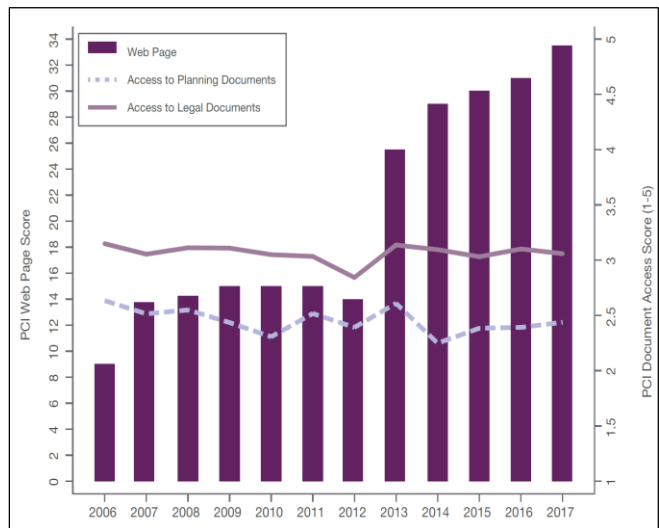
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Economic Governance Experiences

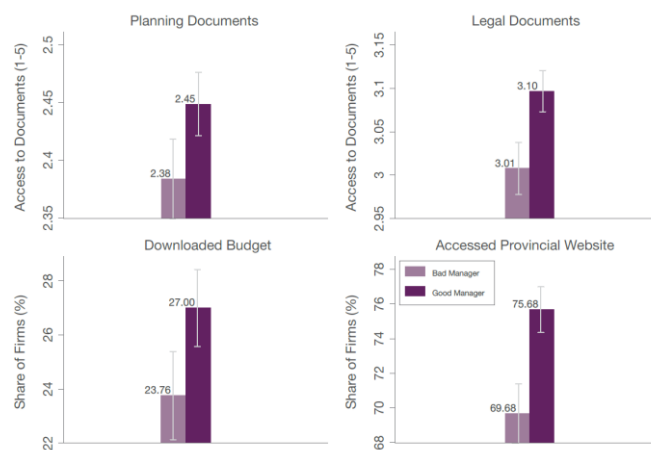
The PCI Diagnostic Puzzle

Why are some governance reforms not appreciated/noticed by the business community?

Could management quality make a difference?



Transparency Indicators by Management Quality



Source: PCI 2017 Survey; Range Bars=95% Confidence Intervals
Good Manager=>3 on Management Quality Index

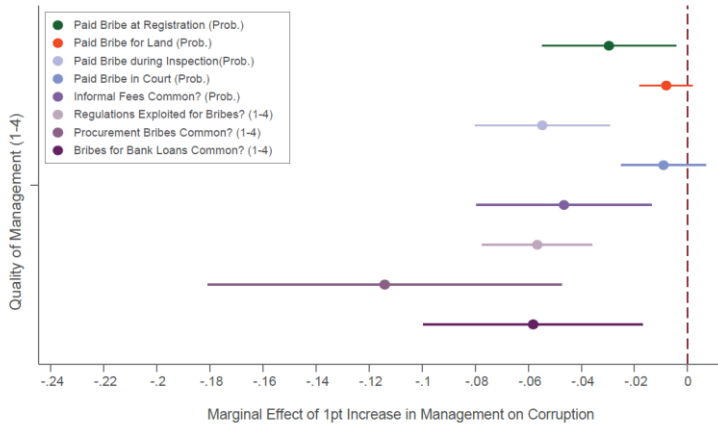
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Results of Econometric Analysis



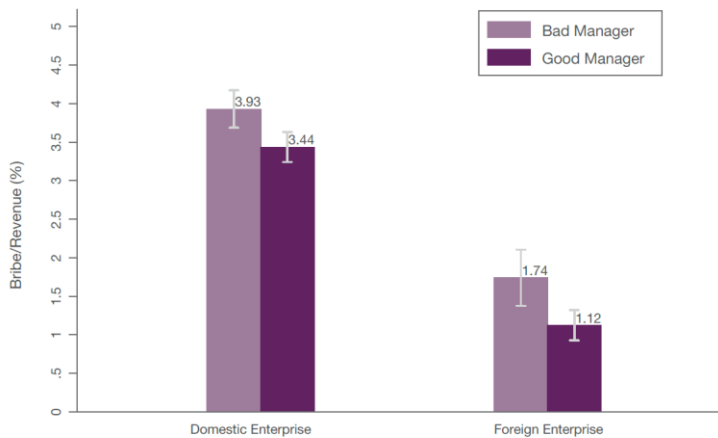
- Re-calculated PCI at firm-level
- Looked for correlation between firm's management score and its assessment of provincial governance.
- Accounted for firm employment, investment size, sector, gender and education of manager, and legal form.
- Strong association between individual firm's quality and the overall PCI score it.
- Strongly associated with transparency, informal charges, proactivity, legal institutions.
- Only weakly associated with entry costs and labor quality.

Management and Bribery: Domestic Firms



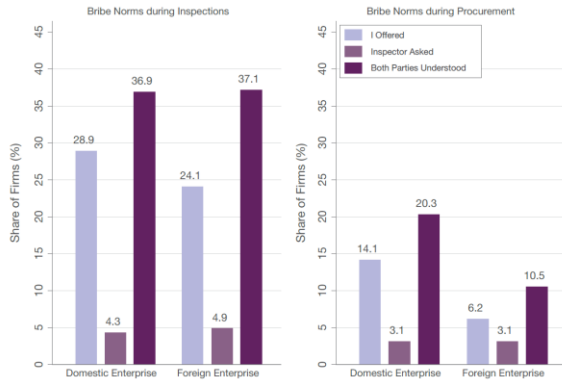
Symbols=Regression Coefficients; Range Bars=95% CIs;
OLS Regressions control for labor and capital size at establishment, two-digit industry fixed effects, education and gender of manager, and legal form of firm.

Management and Bribe Size

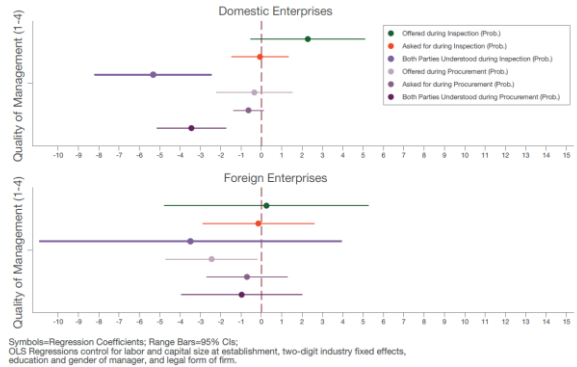


Source: PCI 2017 Survey; Range Bars=95% Confidence Intervals
Good Manager>=3 on Management Quality Index

Good Managers Don't See Bribery as a Social Norm



Source: PCI 2017 (Section D2 and D4) & PCI-FDI 2017 (Section D2 and D4) Surveys





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Final Thoughts

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- Major development challenge in Vietnam is the missing middle.
- Governance reforms have made some progress, but more is needed.
- Policy has not really explored the firm side of the story.
- We find that good managers are more productive, more export oriented, and demonstrate faster investment and labor growth
- They are better prepared to take advantage of local governance reforms.
- Good managers are also less likely to bribe or see bribery as a social norm.

Clear Policy Implication

We need to provide better training for the managers of Vietnam's future.

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THANK YOU!