MANAGEMENT QUALITY
FROM THE PERSPECTIVE OF THE PROVINCIAL COMPETITIVENESS INDEX (PCI)

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General Director, Legal Department, VCCI
Director of PCI Program
Agenda

1. Overview of PCI

2. 2017 PCI Main Findings & Foreign Invested Enterprises (FIEs) views of Vietnam’s Business Environment

3. Management Quality through PCI survey results
Overview of PCI
Overview of PCI

• **What does the PCI measure?** Actual provincial economic governance quality through best governance practices already found in localities.

**10 PCI Subindices**

1. Entry Costs  
2. Land Access  
3. Transparency  
4. Time Costs  
5. Informal Charges  
6. Policy Bias  
7. Proactive Leadership  
8. Business Support Services  
9. Labor Training  
10. Law & Order
Size of the 2017 PCI survey

10,295 Domestic private enterprises
2,003 Newly registered enterprises

A random sample stratified by province/city:
- Legal form
- Business sector
- Firm age
13 Years of PCI 2005-2017

105,000 Domestic private firms
12,263 Foreign invested enterprises

1 out of every 5 firms in operation has responded to the PCI survey

Number of Respondents over Time

Domestic Private Firms
Foreign Invested Enterprises
2017 PCI Main Findings & Foreign Invested Enterprises (FIEs) views of Vietnam’s Business Environment
2017 PCI Map
PCI and Core PCI over Time
Improvement in Core Index between 2006 and 2007
The 2017 Quality of Infrastructure Index and Improvements over Time

Gray lines depict trajectories of all 63 provinces. The solid green line represents the median score in each year.
The wealthiest and fastest growing locations are those that excel in both governance and infrastructure.
Positive Trends

Improving Administrative Procedures

- **72%** Local government officials are effective
- **67%** Agree “Time to complete APs is shorter than specified in regulations”
- **59%** Local government officials are friendly, 2015
- **67%** Local government officials are friendly, 2017
- **26%** Share of firms receiving overlapping regulatory inspections, 2015
- **13%** Share of firms receiving overlapping regulatory inspections, 2017
POSITIVE TRENDS

DECLINING CORRUPTION

66%  59%
2016  2017
of firms pay bribes

11.1%  9.8%
2015  2017
Percentage of firms paying over 10% of their revenue in informal charges
POSITIVE TRENDS

GOVERNMENT AS FIRMS’ PARTNER FOR DEVELOPMENT

35% 2015
45% 2017

Positive attitude of provincial government toward private sector

67% firms agree that “Provincial authorities handle firms’ difficulties raised in PPD dialogues quickly”
WORRISOME TRENDS

LAND ACCESS

40% 2013
Only 25% of firms face no difficulties with land-related procedures

25% 2017

2.8 2013
High expropriation risk
(1 = Very high; 5 = Very small)

1.6 2017
Worrisome Trends

Transparency

<table>
<thead>
<tr>
<th>Year</th>
<th>Score</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>2013</td>
<td>3.14</td>
<td>Access to planning documents (1 = Impossible; 5 = Very easy)</td>
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<tr>
<td>2017</td>
<td>3.06</td>
<td>Access to planning documents (1 = Impossible; 5 = Very easy)</td>
</tr>
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</table>

50% of firms said “Relationship is important or very important to get access to provincial documents”

<table>
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<tr>
<th>Year</th>
<th>Score</th>
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</thead>
<tbody>
<tr>
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<td>2017</td>
<td>2.44</td>
<td>Access to legal documents (1 = Impossible; 5 = Very easy)</td>
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</tbody>
</table>

Only 50% of firms found transparency in procurement bidding.
Worrisome Trends

Legal Institutions

60% 2013
Willingness to use court when a business dispute arises

36% 2017

67%
Of firms agree “Provincial court resolves economic cases quickly”
Foreign Invested Enterprises (FIEs) views of Vietnam’s Business Environment
THE 2017 PCI-FDI

1765 FIEs respondents, from 46 countries and territories

<table>
<thead>
<tr>
<th>Year</th>
<th>Firms Increasing Investment (%)</th>
<th>Firm Adding Employees (%)</th>
<th>Firms Reporting Profits (%)</th>
<th>Firms Reporting Losses (%)</th>
<th>Median Sales (Constant Millions of 2010 USD)</th>
<th>Median Expenditures (Constant Millions of 2010 USD)</th>
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<tbody>
<tr>
<td>2012</td>
<td>5.2</td>
<td>31.0</td>
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<td>63.3</td>
<td>59.0</td>
<td>33.4</td>
<td>0.73</td>
<td>0.49</td>
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</table>
Legal Form

Registration as domestic company under Enterprise Law on the rise
A positive trend toward higher-value-added products among FIEs!
FIEs are mainly export-oriented

Question A14: Who are your customers?

<table>
<thead>
<tr>
<th>Year</th>
<th>SOEs (%)</th>
<th>Agency (%)</th>
<th>Home (%)</th>
<th>Third Country (%)</th>
<th>Individual (%)</th>
<th>Both (%)</th>
<th>Enterprise (%)</th>
<th>Individual (%)</th>
<th>Both (%)</th>
<th>Enterprise (%)</th>
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<td>41.0</td>
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</table>
**FIEs’ inputs are largely imported, but significantly declined in 2017**

**Question A16: Who are your suppliers of intermediate goods and services?**

<table>
<thead>
<tr>
<th>Year</th>
<th>State Owned Enterprise (%)</th>
<th>Private Firm (%)</th>
<th>Household Business (%)</th>
<th>In-House (%)</th>
<th>Home Country Businesses (%)</th>
<th>Third Party (%)</th>
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<td>16.1</td>
<td>6.9</td>
<td>49.2</td>
<td>26.6</td>
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</table>
The time needed to complete entry procedures is on the decline.
## Burden of post-entry regulations in decline

<table>
<thead>
<tr>
<th>Year</th>
<th>Over 5% of Time Spent on Bureaucratic Procedures (%)</th>
<th>Inspections (Median)</th>
<th>Harassment (8+ Inspections)</th>
<th>Days for Exports to Clear Customs (Median)</th>
<th>Days for Imports to Clear Customs (Median)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2010</td>
<td>56.6</td>
<td>2.00</td>
<td>6.3</td>
<td>1.00</td>
<td>2.00</td>
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<td>2011</td>
<td>68.1</td>
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<td>2.9</td>
<td>1.50</td>
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<td>2012</td>
<td>79.4</td>
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<td>77.8</td>
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<td>70.2</td>
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<td>2016</td>
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<tr>
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<td>2.00</td>
<td>3.4</td>
<td>1.00</td>
<td>2.00</td>
</tr>
</tbody>
</table>
Informal charges on a downward trend

<table>
<thead>
<tr>
<th>Year</th>
<th>Regulations are an Excuse for Bribery (%)</th>
<th>Paid informal charges to Inspectors (%)</th>
<th>Bribe during Customs Procedures (%)</th>
<th>Bribe during Land Procedures (%)</th>
<th>Bribes Were a Deterrent to Using Court’s (%)</th>
<th>Service Delivered after Bribe Payment (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2010</td>
<td>32.0</td>
<td>64.9</td>
<td>9.3</td>
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<td></td>
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<td></td>
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<tr>
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<td>56.2</td>
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<td>2014</td>
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<td>66.2</td>
<td>21.9</td>
<td>58.2</td>
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<td>2015</td>
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<td>56.4</td>
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<td>45.3</td>
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<td>2017</td>
<td>44.6</td>
<td>53.0</td>
<td>17.5</td>
<td>18.9</td>
<td></td>
<td>50.3</td>
</tr>
</tbody>
</table>
Difficulty in recruiting skilled employees

- Manual Workers
- Technicians
- Accountants
- Supervisors
- Managers
Only 31% FIEs are satisfied with labor quality

Scores of vocational training quality have not improved much over time
Labor relations have improved

<table>
<thead>
<tr>
<th>Year</th>
<th>Experienced strikes/work stoppages (%)</th>
<th>Number of work days lost (%)</th>
<th>Share of annual revenue lost due to strikes (%)</th>
<th>Considered workers’ demands legitimate (%)</th>
<th>Accommodated workers’ demands (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2014</td>
<td>9.0</td>
<td>2.0</td>
<td>3.0</td>
<td>80</td>
<td></td>
</tr>
<tr>
<td>2017</td>
<td>4.9</td>
<td>1.5</td>
<td>3.1</td>
<td>62</td>
<td>92</td>
</tr>
</tbody>
</table>
Business confidence is growing!

Percentage of firms planning to increase the size of operations over the next 2 years (%)

Business Thermometer
Management Quality through PCI survey results
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
Measuring Management Quality
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.
Measuring Management Quality: Performance Monitoring

In the past year, what best describes the use of data to support decision making at this establishment?
Measuring Management Quality: Target Setting

In the past year, how many key performance indicators 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.
Measuring Management Quality: Incentives

In the past year, what was the primary way non-managers were promoted at this establishment?
Distribution of Average Management Quality

Source: PCI 2017 (Section E5) & PCI-FDI 2017 (Section F2) Surveys
Who is a Good Manager?
Management Quality by Legal Form

![Graph comparing management quality by legal form for domestic and foreign firms. The graph shows the average management quality for different types of enterprises, including sole proprietorships, limited liability companies, joint stock companies, and listed companies, for both domestic and foreign firms.]
Management Quality by Level of Education

![Bar Chart]

Source: PCI 2017
Range Bars=95% Confidence Intervals
Management Quality by Main Customer

Average Management Quality (1-4)

Domestic Enterprise
- SOEs & State Agencies
- Foreign Firms & Individuals in Vietnam

Foreign Enterprise
- VNese Firms & Individuals
- Direct or Indirect Export

Values:
- Domestic Enterprise: 2.94, 3.01, 3.08
- Foreign Enterprise: 3.14, 3.11, 3.13, 3.20
Business Performance by Management Quality
A one point change in management quality leads to...

**Domestic Enterprises**

- Profitable (Prob.)
- Planning to Expand (Prob.)
- Labor Growth (%)
- Capital Growth (%)

**Foreign Enterprises**

- Profitable (Prob.)
- Planning to Expand (Prob.)
- Labor Growth (%)
- Capital Growth (%)

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.
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

CHỈ SỐ NĂNG LỰC CẠNH TRANH CẤP TỈNH
The Provincial Competitiveness Index
Results of Econometric Analysis

• Re-calculated PCI at firm-level
• Looked for correlation between firm’s management score and it’s 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.
• 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

![Bar chart showing bribe size for domestic and foreign enterprises with good and bad managers.]

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

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.
Final Thoughts

• 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.
Conclusion
Clear Policy Implication

We need to provide better training for the managers of Vietnam’s future.
THANK YOU!

www.pciavietnam.vn
www.pciavietnam.org