

BUSINESS MANAGEMENT TRAINING REDUCES CORRUPTION IN EMERGING MARKETS



Landing page for online restaurant training courses produced by the research team in Vietnam.

Corruption harms economic growth, impedes investment, damages public service delivery, and endangers public safety, but scholars and practitioners have struggled to find solutions to ameliorate the problem or even mitigate its effects in many developing countries. To combat corruption, analysts often point to restraining the grabbing hand of government through reforms designed to constrain politicians and bureaucrats and hold them accountable. While some successes have been achieved, these types of institutional solutions are hard to achieve without the acquiescence of the officials that the policies are intended to constrain, which limits their efficacy. Such supply solutions also underestimate the role of private business actors as initiators of corruption, viewing them as perpetrators rather than victims.

In a brand-new research project funded by USAID through the LASER PULSE mechanism, we suggest that businesses may proactively engage in regulatory-related bribery for two reasons not appreciated in the literature. First, uncompetitive firms resort to

cutting corners as a way to level the playing field with more productive competitors, and, as a result, must bribe inspectors to ignore regulatory violations (the *productivity hypothesis*). Second, in businesses with weak managerial control, subordinates may commit bribery for their own pecuniary gain, without the knowledge of top managers (the *internal controls hypothesis*). As a result, we argue that improving firm productivity can reduce their incentives to bribe and business-to-government bribery.

KEY TAKEAWAYS

Curbing business corruption requires changing incentives for both bribe payers as well as bribe recipients in government.

Improving the quality of business management reduces the need for businesses to pay bribes by enhancing firm competitiveness and internal controls.

Testing on small restaurants in Vietnam revealed that trained firms paid 1/5 as much in monthly bribes as those firms assigned to the placebo group.

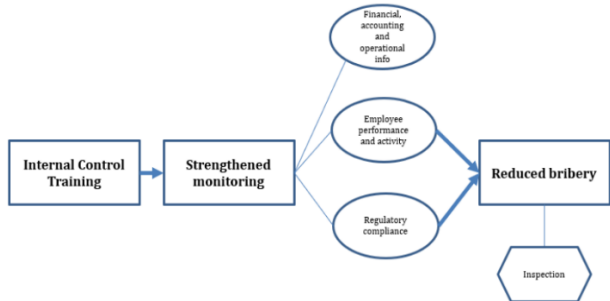
We tested these hypotheses by randomizing access to a set of three online management courses for restaurant owners and managers in Vietnam: 1) a Restaurant Management Course, a mini-MBA for the needs of restaurants; 2) an Internal Controls course; and 3) a classic Marketing course, which worked on sales promotion but omitted content on management practices or auditing processes. This third course served as a placebo treatment, because it included six weeks of content and commitment, but was not expected to influence treatment.

In designing the three courses, we worked with the Sustainable Development for Business Office at the Vietnam Chamber of Commerce and Industry (SDforB) and the Institute for Sustainable Development at the National Economics University (ISD-NEU) to incorporate the latest insights from the literature on management training and firm productivity.

In our *productivity* theory of change (see **Figure 1**), we expected the management course to encourage

streamlined and efficient management practices, helping SMEs to cut waste and become more efficient. Efficient businesses were expected to violate fewer regulations to stay competitive, reducing the risk of extortion by regulatory inspectors.

In our *internal controls* theory of change (See **Figure 2**), we expected better managers to monitor operations and the actions of lower-level employees, reducing the risks of subordinates violating regulations and bribing government officials without managers' knowledge.



2: Internal Controls Theory of Change

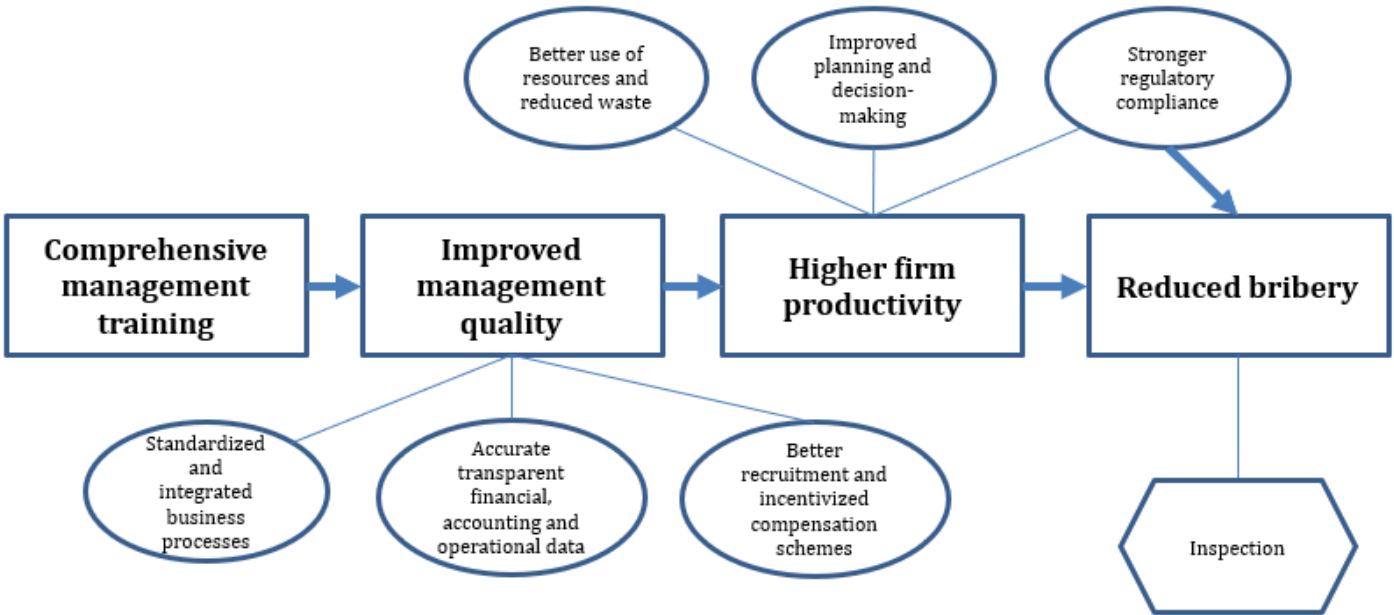


Figure 1: Productivity Theory of Change Figure

Experimental Evidence of Management Training Success

Accounting for the sample size and non-random selection bias, the treatment courses had striking effects on reducing bribery. Less than half of the students in the Restaurant Management course (41.2 percent) and Internal Controls course (43.8 percent) reported paying bribes in the previous month, compared to 75 percent of businesses in the placebo Marketing Course.

These differences had startling results on the bottom line. The average cost of bribery in the previous month for Marketing students was \$427, which was close to three times as much paid by those in Restaurant Management (\$153) and five times more than students in the Internal Controls course (\$87).

Because of the threat of social desirability bias, we also measured bribery using a shielded-response technique, called a List Experiment, that provides firms with plausible deniability in their answers.

We find a similar pattern, estimating that nearly every Marketing student paid bribes to regulatory inspectors in the past month, compared to 38 percent of Internal Controls students and 40 percent of marketing students. Again, the differences are not just limited to the frequency of payments. The amounts also differ. The average inspection bribe size for students in Marketing was \$34, compared to only \$3 and \$4 for Internal Controls and Management respectively.

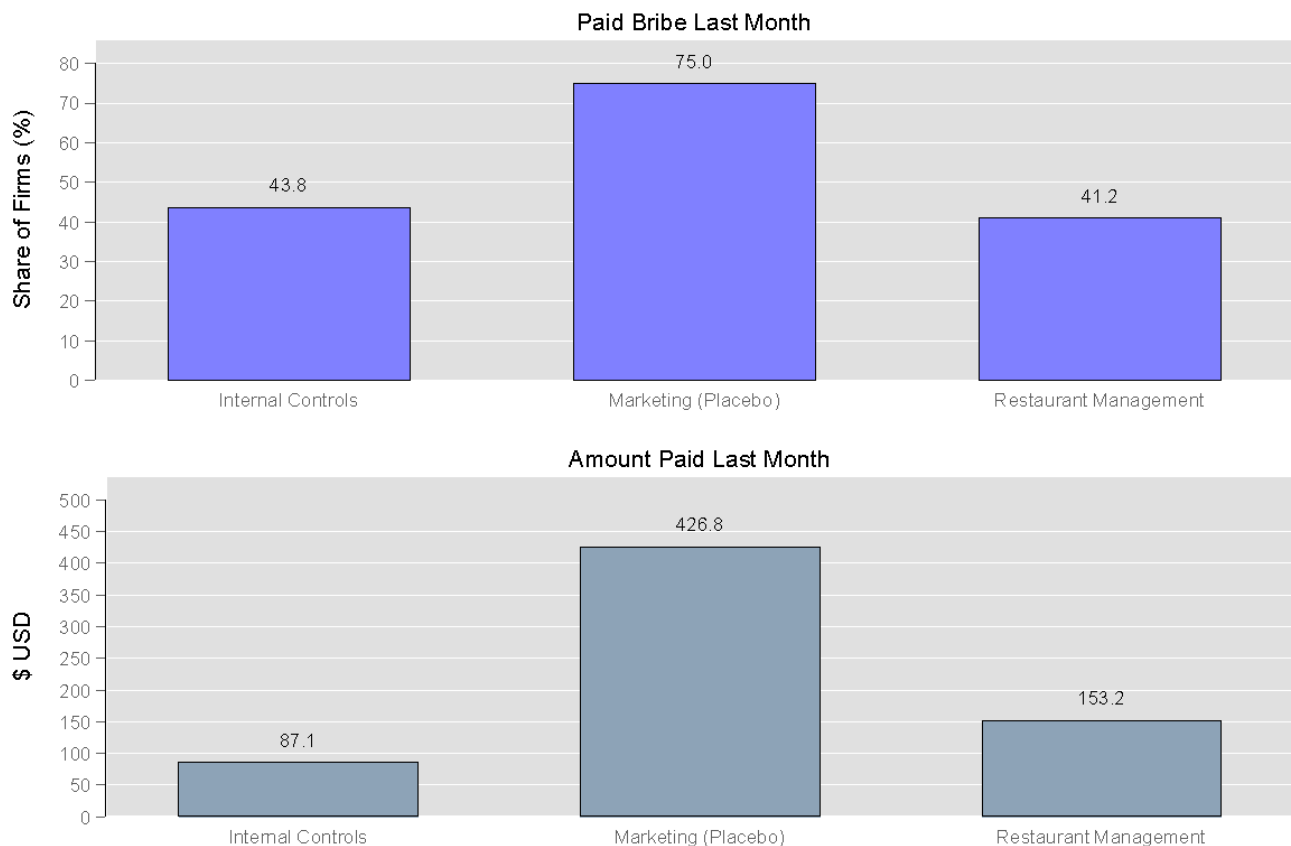


Figure 3: Firms in the Placebo Course Pay Far More in Bribes than Two Treatment Groups. Differences are statistically significant and confirmed by econometric analysis and randomization inference (See Technical Report)

The policy implications of this study are very clear. Government officials or non-state actors can place a large dent in corruption payments through broadscale Management and Internal Controls training that increases manager awareness of regulations and compliance within their firm. This will insulate them from malicious bribe requests, as regulatory inspectors are less likely to find obvious violations for which they can threaten fines to extract bribes. In Vietnam, we have already taken one large step toward achieving this goal by making the courses designed by ISD-NEU openly available on the [Vietcourse](#) to all participants.

While the results are sizable and in line with one of our pre-registered theories of change, sufficient caution is in order. Due to difficulties in recruitment, course completion, and attrition, our final sample of 45 firms is quite small. A small number of observations may be driving the results, reducing the ability to generalize to the larger population of Vietnamese businesses.

Before drawing definitive policy conclusions, we offer three recommendations for verifying these findings: 1) Expand to other industries to increase the sample and take-up of courses; 2) Move to in-person rather than online training to ensure greater commitment and higher completion rates; 3) Increase financial inducements to convince firms to enroll, complete courses, and fill out their accounting workbooks. Entrepreneurs of SMEs are extremely busy and operate at very narrow financial margins. Every moment away from the business counts and these pressures challenge their dutiful commitment to external coursework, even free and well-designed ones.

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LESS THAN HALF OF THE STUDENTS IN THE RESTAURANT MANAGEMENT COURSE AND INTERNAL CONTROLS COURSE REPORTED PAYING BRIBES IN THE PREVIOUS MONTH, COMPARED TO 75 PERCENT OF BUSINESSES IN THE PLACEBO MARKETING COURSE.



Graduation Ceremony of Ms. Vũ Thị Yến in her Phở Shop

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