

Institutional Reforms for an Inclusive Productivity Movement

UNU-WIDER International Development
Conference in collaboration with the Central
Institute of Economic Management (CIEM)

June 30, 2014

Tetsushi Sonobe

National Graduate Institute for Policy Studies (GRIPS)

1. Productivity movement and inclusive growth in Europe

- After WWII, US provided massive reconstruction assistance to Europe (Marshall Plan).
- The assistance evolved from material assistance to less expensive technical assistance, featuring productivity movement ...
- productivity improvement would
 - increase profits and investment,
 - increase in salaries and wages,
 - reduce prices,
- inclusive growth would be achieved.

2. East Asia

- After the Korean war, US government found Japan strategically important and established the Productivity Center in Tokyo in 1954.
- From Tokyo, the productivity movement was transferred to other Asian countries.
- East Asia accepted it enthusiastically...
- To have successful industrial development, developing countries have to improve productivity at least as fast as the rest of the world.
- This is possible only if both workers and managers are willing to learn new ideas and acquire new skills.
- The productivity movement is a set of practical knowledge and know-how conducive to such transformation of people.

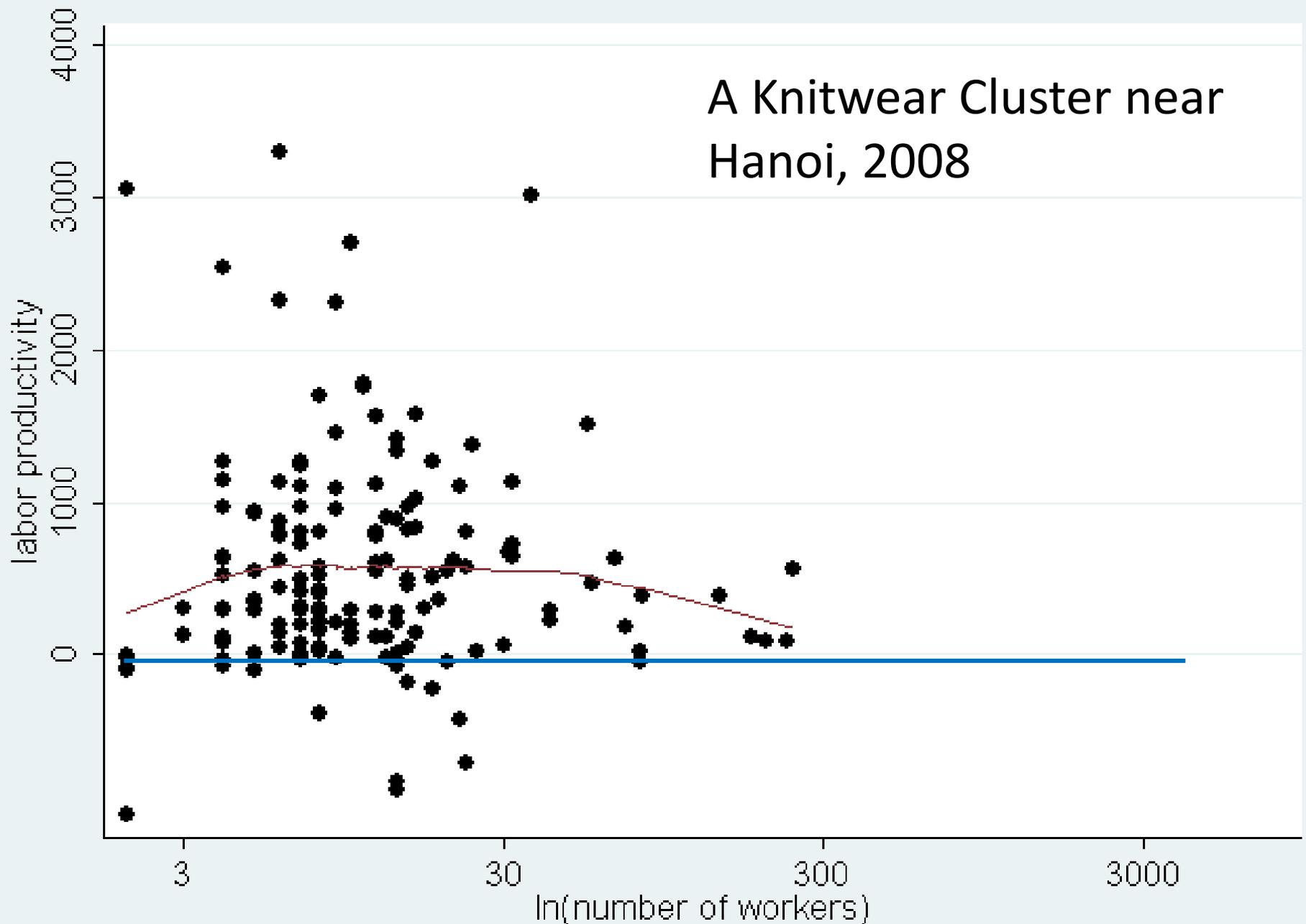
3. Productivity and management

- N. Bloom, J. van Reenen, Syverson, M. Bertrand, A. Schoar, D. Karlan, M. Bruhn among others view management as a major determinant of productivity.
 - Although the same view was held by the US government officials 60 years ago, they did not offer empirical evidence.
- More recently, a number of randomized controlled trials and non-randomized interventions have been conducted addressing the following questions:
 - Can management be taught to entrepreneurs in developing countries? Can it really improve productivity in developing countries?

4. Management training experiments

- These new studies commonly find
 1. The majority of business owners and managers are unaware of standard management practices
 2. Training improves management practices
 3. It may or may not improve business performance significantly
- I have conducted RCTs and non-randomized interventions in Ghana, Kenya, Ethiopia, Tanzania, and Vietnam and obtained the same qualitative results as above.

A Knitwear Cluster near Hanoi, 2008





They continue producing without knowing the number of pieces they have in stock.



Cannot count!

5. What to teach to managers?

- How to make it a habit to keep workplace neat and tidy, to maintain machinery, and to keep records.
 - People know the importance of these practices but do not know how ...
- More generally, trainers taught managers how to make workers and managers more productivity-conscious, quality-conscious, and proactive in learning new ideas and acquiring new skills.

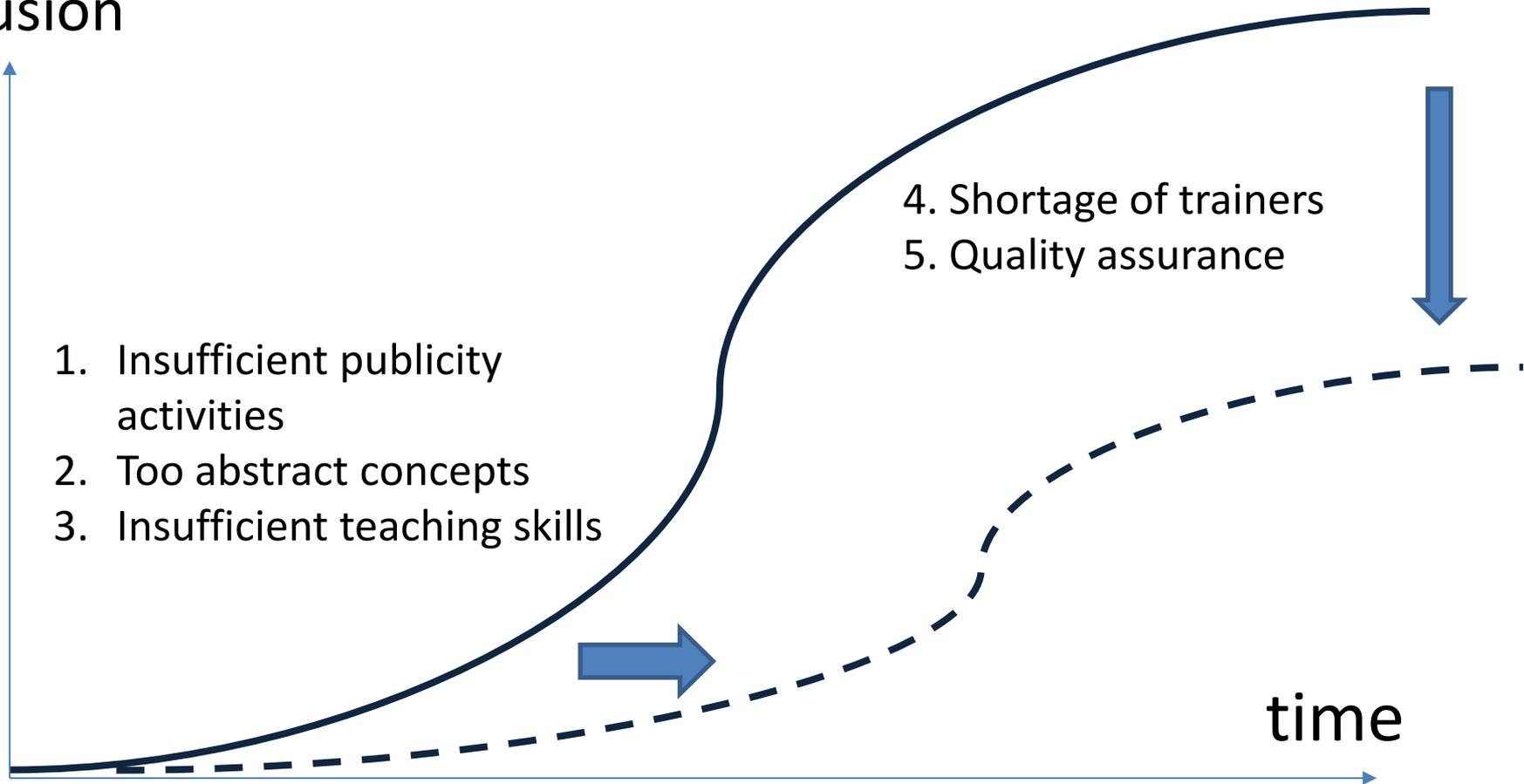
	Group 1	Group 2	Group 3	Group 4
	CR & OS	CR only	OS only	No training
	Coefficient	Coefficient	Coefficient	Mean
Management score				
Just before	-0.2	-0.2	0.6	3.8
	(-0.64)	(-0.89)	(1.14)	[3]
Just after	3.9***	0.4	3.5***	4.0
	(13.1)	(1.3)	(10.9)	[4]
2 years later	4.1***	1.2***	4.0***	4.0
	(16.1)	(3.7)	(14.9)	[4]
Value added				
2008 (before)	-445.7	-1066.8*	-159.3	1,685
	(-0,7)	(-1.7)	(-0.2)	[492]
2010 (training)	-0.6	-285.6	223.5	1,150
	(-0.00)	(-1.0)	(0.4)	[481]
2012 (2 years later)	663.8*	-32.7	2072.0	559
	(1.8)	(-0.2)	(1.6)	[176]
# observations	32	57	16	54 ¹⁰

Willingness to pay for training

- Initially low
- After training, very high
- Those who need to learn about management do not know the value of learning
- After receiving training, they want to receive further training.
- Maybe, introductory course and advanced courses should be provided
- Training programs with better design and contents will improve business performance, too.

2. Diffusion of knowledge

Diffusion rate



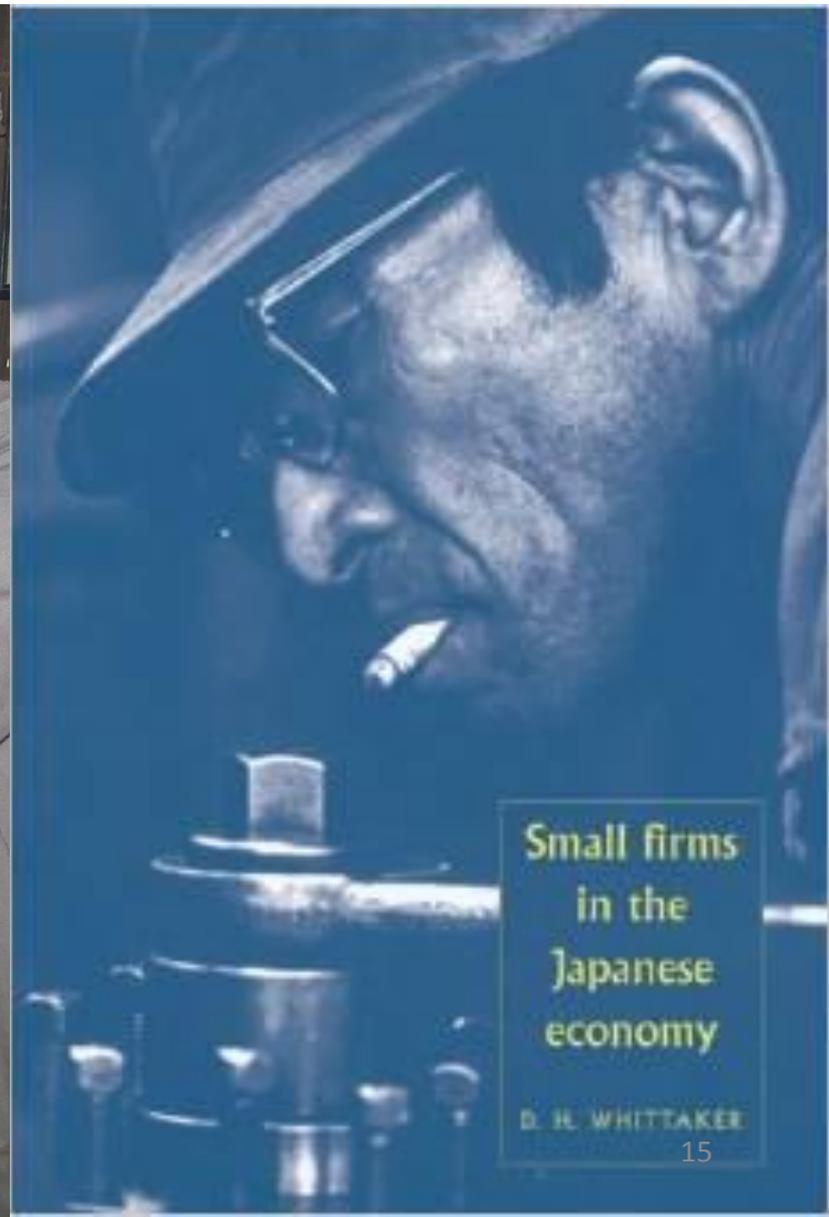
Japan

- The concept of productivity movement was enthusiastically accepted by large firms.
- Labor unions were reluctant or opposed to the introduction of the productivity movement for the fear of increasing unemployment.
- In the 1950s and 1960s, large firms devised ways in which every worker could participate in the productivity movement and feel good effects, and these firms exposed analytical tools to workers so that they could find solutions and suggest improvements in procedures and practices.
- This bottom-up version of the productivity movement came to be called KAIZEN.

Japan (conti.)

- Thus, large firms did a good job spontaneously in solving problems (1) to (3) in the initial phase.
- But the diffusion of KAIZEN among SMEs was delayed.
- Until the mid-1970s, Japan was said to have a dual economy consisting of the modern large-firm sector and the backward SME sector.
- The spread of KAIZEN was under way in the SME sector, however.
- In the mid-1980s, SMEs came to be viewed as bolstering the strength of the Japanese economy.

A master lathe turner in a metalworking cluster in Tokyo, which is now a high-tech cluster



Small firms
in the
Japanese
economy

D. H. WHITTAKER

Japan (conti.)

- As the diffusion rate increased among SMEs, there were institutional reforms.
- E.g., the qualification system of Registered Smaller Enterprise Consultants was reformed several times by the government and quasi government organizations to increase the supply of training and consulting services and to maintain the quality of the services.
- These reforms are generally considered to be successful.

Singapore

- Productivity movement began around 1960. The government upgraded the National Productivity Center to the National Productivity Board (NPB) in 1973.
- In 1981, however, Prime Minister Lee Kuan Yew found the diffusion rate and too low and the productivity levels of various sectors too low. He ordered institutional reforms. What was wrong with the previous efforts to disseminate the productivity movement?
- NPB and JICA, the Japanese aid agency, found that the knowledge about the productivity improvement that had been brought to Singapore in the 1960s and 1970s was too abstract to have impacts on enterprises.
- The JICA experts began to teach practical ideas that were easy to put into action and allowed enterprises to feel the impacts soon.
- This turned out to be a breakthrough and was followed by appropriate institutional reforms.

Ethiopia

- The government of Ethiopia adopted the policy of setting KAIZEN at the center of the country's modernization movement after attempting to introduce some other management approaches.
- The government established the Ethiopian KAIZEN Institute in 2011 to publicize KAIZEN and to nurture consultants who teach medium and large enterprises.
- The government also began training TVET (technical and vocational education and training) teachers so that they can serve as extension service workers for micro and small enterprises.
- The demand for training and consulting services is expected to increase rapidly. Can the current top-down system meet the increasing demand?

Conclusions

- It seems critically important for business people in developing countries to learn about management and start the productivity movement.
- What management style works well will depend on the culture of each society. . . Ghanaian, Ethiopian, Tanzanian versions of KAIZEN.
- Institutional arrangements for promoting the productivity movement should be different in different countries.
- However, successful institutions should have a commonality because they must address these market failure problems:
 - Those who need to learn do not know the value of learning.
 - The asymmetric information problem makes it difficult to transact knowledge.
 - There are second mover (or imitators') advantages, which reduces incentives to be first movers .
- No concrete policy recommendations have emerged at this early stage of research.