Private Enterprise Surveys of the Business Environment

Recognizing the private sector’s efficiency at allocating resources and spurring economic growth, the World Bank Group seeks to identify obstacles to its development. Listening to the problems of active entrepreneurs is an important step toward identifying needed reforms in the enabling environment and support systems for private enterprise. Surveys give greater confidence in the Bank’s conclusions and credibility to its recommendations. Recent initiatives in the Bank have attempted to bring greater uniformity to the questions asked and the implementation methodology of surveys, in order to better leverage resources to generate internationally comparable indicators of investment climate conditions.

The use of surveys offers a number of advantages that complement other methods in identifying business experience in, and perceptions of, the local investment climate. Bank staff often have limited sources of information on the local business environment: official statistics, contacts with public officials, discussions with a limited number of experts and representatives of large firms, as well as the collection of other existing data. In the context of brief missions often centered in the seat of government, Bank staff have limited possibilities to obtain a complete and objective understanding of the views and experiences of the entire business community. A properly structured survey can help to break out of this box. Surveys can generate a rich body of fact (and anecdote) that illuminate: (a) the relative priorities for reform as perceived by businesses; (b) the private costs imposed by constraints in the enabling environment and support systems (and/or their impact on firm-level performance); and (c) the functioning of policies “on the ground” in a country’s unique institutional environment.

For example, the Pakistan Private Sector Assessment Survey (1995) showed that Karachi firms lost an average of 25 working days a year to ethnic and political unrest. The unreliability of the electric power supply cost Pakistani firms an average of 21 working days a year, and two-thirds of firms owned generators to compensate for the faulty public power supply. These generators cost an average of $240,000 to buy (although prices varied widely) and $62,000 a year to run.

The results of uniform questionnaires uniformly administered may also be compared across countries to better evaluate responses using international comparators, and to begin to understand patterns in economic and institutional problems facing private enterprise both by location and over time. For example, the 1999–2000 World Business Environment Survey (WBES) was implemented in 80 countries around the world. Econometric analysis of the results of the WBES shows that perceived severity of policy uncertainty and instability as a constraint and perceived severity of corruption as a constraint are both negatively associated with firm-level sales growth and foreign direct investment at the national level.

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Hence, the use of properly designed survey instruments should enhance the credibility of Bank analysis and recommendations in the eyes of governments, the business community, and other donors. However, for results to be useful, care must be taken in the design of a questionnaire ("survey instrument"), the selection of a sample, the administration of the survey, and the analysis and interpretation of the results. While surveys can be performed economically, it is unwise to cut corners in planning and implementation.

Equally important, survey results must be kept in perspective. The value of this new source of information in no way argues for the abandonment of other sources, such as traditional economic analysis. Firms’ responses have certain biases—in general they would like lower costs and less competition—suggesting that results should always be weighed against other information sources and interpreted with common sense. In other cases, the main contribution of surveys is to make private sector priorities clear. For example, although “taxes and regulations” ranks high on the list of constraints in most regions, the majority of African firms responding to the WBES did not place this even among their top five problems. Instead, the issues of financing, corruption, infrastructure, inflation, and “street crime/theft/disorder” led the priorities of private enterprises in Africa.

In addition, private enterprise surveys can document the state of business practice, including financial management, personnel management, technological innovation, and marketing. Information on business practice can help the Bank to understand both where enterprises are starting from (which will shape the design of interventions) and what services they would find useful.

Detailed studies and panel studies such as the Regional Program on Enterprise Development (RPED) conducted in Africa and the series of studies described in Tan and Batra’s Enterprise-Led Training in Developing Countries allow econometric analysis of the determinants of firm-level productivity and performance in various dimensions, such as investment, growth and exports. If repeated, they can allow the tracking of trends over time. An RPED study using cross-country data from Ghana, Kenya, and Zimbabwe, for example, finds that access to short-term working capital increases value added in firms by as much as 40 percent.

### Survey Design

The focus of a survey can be determined by:

- Collecting and reviewing existing knowledge about the private sector through relevant documents and discussions with operational staff, and in the process, learning what experts currently understand to be the priorities for promoting private sector development.
- Identifying gaps in knowledge on key issues and on the role and structure of the private sector.

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158 Tan and Batra 1995.
159 Biggs and Srivastava 1996.
Increasingly, however, the World Bank Group relies on standardized core questions applied across multiple countries to represent the experiences and perceptions of businesses in comparable ways across countries and over time.

In the field, surveys should be accompanied by traditional information described above. Most surveys to date have relied on some form of stratified random sampling. Strata have been chosen either broadly to represent the entire economy (such as by sector, location, and/or size), or more narrowly to investigate priority areas of the economy (such as the manufacturing sector) or to highlight phenomena of special interest (such as industries with long contracting horizons versus industries with short ones, nontraditional exporters, etc.). Across or within selected strata, a list of industries is acquired which constitutes the sample frame. Then a random, structured, or stratified selection method is employed. In cases where available lists are known to have systematic biases, nonrandom methods (such as quota sampling) or area-based methods have been used to improve representation of smaller or less formal enterprises, or to highlight characteristics of certain groups (such as foreign investors). Sample design often suffers from rushed implementation and limited budget.

Business environment enterprise surveys have generally been performed under strict time and budgetary constraints. Therefore, the instrument itself has been kept short, so that it can be completed in a single one- to two-hour sitting with an entrepreneur, and so as to ensure that randomly selected entrepreneurs will complete their responses. In order to achieve this brevity, survey designers have been forced to make tradeoffs between breadth and depth. In general, the breadth approach is more useful for charting unknown terrain, while the depth approach is more useful in countries where the terrain is known, but economic or institutional details in a few areas are unknown. Some efforts have used much longer surveys, but have asked only a limited amount of time from each of several individuals associated with the enterprise (such as the director, the chief financial officer, workers, etc.).

Questionnaires are usually divided into sections, beginning with simple (and safe) background information and moving on to a series of substantive areas of the designer’s choosing, such as “regulation,” “finance,” and “infrastructure.” A typical sequence of questions would move from the general to the specific to the comparative. For example, a section of a questionnaire on regulation often begins with an open-ended question such as: What are your three worst problems with regulation and regulatory agencies? This allows researchers to gain an unbiased overview of what is bothering entrepreneurs before they possibly bias that view by suggesting specific issues of concern. Next, detailed questions, combining short-answer questions and multiple choice, address the specific agenda. Finally, either at the end of each section or at the end of the entire survey, a ranking question can elicit the relative importance of the constraints just discussed. In a “nested” approach, each section of the questionnaire ends with a ranked constraint question on a particular category (such as regulation, infrastructure, or finance). Then, either at the beginning or the end, each category of constraints is compared in a ranking question, which also adds general constraints not previously covered in the detailed sections of the survey (such as some macroeconomic and political constraints).

A critical concern of surveys has been to evaluate business costs—particularly the burden imposed on businesses by the fiscal and regulatory environment and by inadequate public
infrastructure, financial systems, and other services. Initially surveys focused on relative costs, using ranked responses. This methodology rests on the hypothesis that the constraint rankings assigned by firms reflect the (unobserved) incremental costs associated with the constraints. Therefore, constraint scores reveal the ranking of the shadow prices for different constraints. Such rankings allow comparisons, and allow investigators to determine the enterprise characteristics associated with high and low constraint scores, as well as to identify the collective business perspective on priorities for reform. For example, the WBES survey is based on a nested structure of constraint and qualitative rankings, with a general constraint question and specific sets of questions on regulatory constraints, financial constraints, quality of public services, etc. However, ranking does not assign a monetary equivalent to the constraint score.

Increasingly, surveys have also focused on obtaining quantitative estimates of costs. Direct cost estimates prove particularly useful for the analysis of regulatory burden and other costs involving discrete payments or expenditures of time by the firm. Direct questions ask about expenditures of money or time on particular activities or items, such as the cost of business licenses or the monthly operating cost of a generator to compensate for poor public power supply. In addition, questions may concern lost days of business due to, for example, inspections, power interruptions, or strikes. Indirect questions attempt to get entrepreneurs to assign values to items without well-defined monetary or labor costs. Contingent valuation questions ask entrepreneurs what percentage of gross sales they would sacrifice to be free from particular constraints.

As noted above, enterprise surveys are increasingly designed to maximize comparability with work in other countries or periods. The use of “core” groups of questions in surveys is beginning to allow international comparisons of the severity of, and costs imposed by, different constraints in the investment climate. For valid comparisons to be drawn, sample design must also be standardized.

**Survey Implementation**

Before a survey is launched, the questionnaire itself must be tested to ensure that the questions are comprehensible to respondents, that they elicit the desired information, that none of the questions seriously offends or threatens respondents, and that the entire survey does not take too long. There will always be problems or opportunities to improve questions, and opportunities to adjust language and questions to local usage and local institutions—something that will increase respondents’ enthusiasm.

Survey costs vary substantially depending on a number of conditions, including the length and design of the survey itself, the number of firms to be included, the number of different economic sectors examined, and the number and dispersion of locations at which the survey will be administered. They also depend on who administers the survey. For multi-country surveys, the use of international survey firms may bring greater standardization, but also increases costs. Local consultants usually bring with them important local knowledge, language skills, and the ability to quickly mobilize local surveyors, and they cost much less than international consultants.

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160 Several standard survey modules can be found at the following site: http://www1.worldbank.org/beext/resources/assess-wbessurvey-alt.htm
or Bank staff. However, the feasibility of using them depends on local supply conditions and the intensity of supervision they require.

In assessing a local consultant, the following factors are key:

- Experience carrying out enterprise surveys or, next best, public opinion or market research surveys;
- Knowledge of business issues from an entrepreneurial and a policy perspective;
- Access to sources of information on firms required to construct the sample frame;
- Access to firms;
- Ability to mobilize, train, and supervise surveyors (enumerators);
- Ability to control quality in survey implementation, data entry, and analysis;
- Ability to analyze or assist in analyzing results both quantitatively and qualitatively.

Even with experienced local consultants, proper orientation and training are key. Very few have administered a World Bank private enterprise survey, so the type of questions being asked and even the subject of the survey may be unfamiliar to them. It is important to orient them to the purpose of the survey, the etiquette of interviewing, the importance of confidentiality, and the correct methods of recording and encoding data. It is useful to illustrate the value of surveys with examples from past Bank work. Completed forms must be checked to ensure accurate and consistently recorded responses. Inadequate supervision may lead to large data losses because of errors in entry, unreadable responses, or incomplete forms.

Before responses can be analyzed, they must be put into a tractable form, generally by entry into a spreadsheet, database, or statistical software program. In the process, most responses are coded so that a number represents a particular response (for example, 0 for “no” and 1 for “yes”). Clearly, the accuracy of this process is vital to the usefulness of all the work that precedes it. Data should be scanned for obvious errors, and entries should be checked against the actual survey forms from which they were recorded. In general, effective reporting on survey results combines quantitative analysis with qualitative interpretation.

**Ongoing International Initiatives**

Different survey instruments are appropriate for different purposes. Some recent examples:

- The World Business Environment Survey focuses on perceptions of factors external to a firm. Based on samples of about 100 firms in some 80 countries, the WBES covers perceptions of the national business environment as shaped by local economic policy; governance; regulatory, infrastructural, and financial impediments; and the quality of public services.
- The Regional Program on Enterprise Development in Africa (RPED) and Firm Analysis and Competitiveness Survey (FACS) focus on selected factors, both internal and external to the enterprise, and relate them to firm productivity and performance, based on detailed firm-level financial data.
- Regulatory and administrative costs surveys document time and monetary costs of various procedural requirements, such as tax and customs compliance, business registration, obtaining land and premises, and complying with product conformity.
assessment procedures. These have been implemented in a number of Eastern European countries.

• The SME mapping survey which adds to the WBES core details on financing, business services, and business information.

In a major recent initiative, the Bank Group has created an Investment Climate Unit (ICU)\(^{161}\) to standardize its approach to assessment through surveys and indicators. This unit has already generated a standard core instrument for investment climate assessment, drawing on the best elements of each of the above-mentioned instruments. The core survey provides the basis to link investment climate conditions to firm-level productivity. Additional modules of questions are under development to evaluate regulatory compliance costs, SME and foreign investor concerns, and details of financing and labor issues. The ICU is now working to develop a standard methodology for a core survey sample design.

**Using Results**

In order to use survey results appropriately, staff should understand their applications and limitations. Firm-level surveys fill gaps in existing information by supplying firm-specific information. In general, survey data is better at identifying problems than identifying solutions, so the survey represents only one step in improving the business environment.

However, properly designed surveys have a distinct legitimacy with local businesses and policy makers, and thus make an excellent focal point for consultations on policy and projects. In order to make survey results useful to clients and country strategy and operations, surveys should be followed up by direct consultation with both government counterparts and the private sector on priority issues and implications arising from the survey.

In 2000–01, the FACS India survey was carried out by the World Bank in collaboration with a leading local business association, the Confederation of Indian Industries. Results were discussed at two seminars (in Bangalore and Hyderabad) in 2001 involving representatives of government, business, NGOs, and donors. Further consultative conferences in Delhi, Bombay, and other locations will disseminate findings and discuss their implications for policy reform.

**Resources**


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\(^{161}\) See the ICU website at http://rru.worldbank.org