Private Enterprise Development in Low-Income Countries

When Entrepreneurship Training Matters: Targeting Business Skills to Better Stimulate Firm Growth

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Providing entrepreneurs with business skills to help them grow their firms is important. But one size does not fit all – can better targeting of training programmes achieve greater returns to policymakers' investments?

Background

Small and Medium-sized Enterprises (SMEs) employing between 10 and 250 people are the engine of economic growth and prosperity for the majority of developed economies. For a number of reasons, however, only a very small percentage of the millions of micro-entrepreneurs in countries such as South Africa, Ghana, and Bangladesh scale up their businesses to become SMEs. Each year billions of pounds in aid are given to developing economies to help entrepreneurs establish and grow their ventures, yet evidence suggests that this money is having little impact in some of the key areas it is directed towards improving.

Business training programmes have often been implemented in an attempt to address this problem, yet few studies of these programmes have found significant and lasting improvements in firm sales or profits. The issue could lie with whom the training targeted, how it is delivered, and what it covered. First, not all emerging market entrepreneurs want to be entrepreneurs, but are likely subsistence entrepreneurs running business out of necessity. Second, the intensity of the training programme and method of delivery could influence results – programmes can range from two days to several months, with longer programmes involving less contact time. Finally, related to the method of delivery, is the issue of content. Most programmes teach general business skills such as record keeping and finance management, and a small number also build on skills in marketing and operations – yet none separate these dimensions of business expertise into different training courses for each skill.

Our Study

To address these limitations, we conducted a randomized controlled trial (RCT) in Cape Town, South Africa that focused on a group of more growth-oriented business owners, used a more intense intervention, and provided only one dimension of business skills per course (marketing *or* finance).

1) **Identifying higher growth-oriented entrepreneurs:** we implemented targeting and registration steps to identify micro- and small entrepreneurs who were slightly more established (e.g. operating their businesses out of physical structures for a minimum of 3 months) and had the potential and motivation to grow their businesses (as determined by a scoring rubric from their initial application form).
2) **Providing a more intensive training programme:** the business training courses were offered by a not-for-profit organization called The Business Bridge Initiative. Business Bridge's training courses ran over ten weeks, including one four-hour class per week and additional homework/application tasks requiring a minimum of five hours of an entrepreneur's time between sessions. Classes were facilitated by volunteer business professionals and delivered to entrepreneurs in groups of approximately 15-20.

3) **<u>Focusing on one business function at a time:</u>** unlike other training programmes, Business Bridge separates different key dimensions of business skills, providing one ten-week course on Finance & Accounting and one ten-week course on Marketing & Sales. Separating the impact of marketing skills versus finance skills would allow us better to understand how these different sets of skills lead to improvements in firm performance, and for whom.

Figure 1. Students learning to manage money during a Business Bridge course.

Between October and November 2012, 192 micro- and small business owners attended a course on Finance & Accounting and 189 attended a course on Marketing & Sales. 226 participants were assigned to the control group of no training.

The 'What': Improvements in Firm Performance

Our results show that both training programmes led to significant improvements in firm performance (when compared to those who received no training) in firm survival, employment, sales, and profits.

1) **<u>Survival:</u>** when compared with those who received no training, firms that received marketing training were 9.4% more likely to still be in business after eighteen months, whilst the proportion for those who received finance training was even higher at 12.2%.
2) **<u>Employment:</u>** those who received marketing training increased their staff count by 0.57 employees relative to the control (whose staff count went down), and those who received finance training increased their staff count by 0.41 compared with those who received no training.
3) **<u>Sales:</u>** On average, those who received marketing training increased their monthly sales by $350 USD (a 22% gain) compared with those in the control group, whose sales decreased.
4) **<u>Profits:</u>** those who received marketing training had an average monthly increase of $157 USD (43%) as compared with those who received no training. Similarly, those who received finance training had an average monthly increase in profits of $158 USD (48%).

The 'How': Pathways to Profits

Next, we wanted to understand the channel through which businesses in our study increased their business income. We found that marketing training and finance training led to roughly the same increase in monthly profits (~$157 USD), but the paths through which these profit changes occurred are different.

Marketing training tended to shift a firm owner's focus onto business 'growth' by encouraging the implementation of marketing/sales activities that increase scale (e.g. sales, employees) and in turn, lead to greater profits. For instance, firm owners in the marketing group demonstrated higher performance on growth-related policies (e.g. the within-firm percentage change in sales or employees) and were more likely to implement practices connected to top-line business growth such as market research and marketing/sales tactics.

By contrast, **finance training tended to shift a firm owner's focus towards greater 'efficiency' in the business through more finance/accounting activities that decrease costs and subsequently increase profits.** For example, firm owners in the finance group tended to perform better on efficiency-related policies (e.g. the within firm percentage change in costs or outputs-to-inputs). They were also more inclined to conduct practices focused on enhancing business efficiency such as financial tracking, financial analysis, and financial planning.

These patterns suggest that the mechanism of change may differ for marketing training (growth focus) versus finance training (efficiency focus), but both can increase profits for small business owners.

The 'Who': What Business Skills Work Best on Whom?

Finally, we wanted to gain a better understanding of the variation in impacts that each training programme had on different entrepreneurs – who might benefit more from marketing training, and who might benefit more from finance training?

Consistent with a 'growth focus' explanation, **we found that small business owners who had a lack of exposure to different market and business contexts before training tended to do better when they received the marketing/sales training program.** We believe marketing training would be most beneficial to individuals with 'narrow exposure', such as never having travelled outside Cape Town, because marketing encourages entrepreneurs to look outside their existing business context to develop new perspectives on managing products, customers, competitors, distributors, and suppliers. Indeed, for firms with narrow exposure, the marketing training led to an average increase in monthly sales of $633 USD (compared with the overall effect on monthly sales for those who received marketing training of $350 USD).

By contrast, one's prior level of exposure did not seem to matter for firm owners who received finance training. **Finance training did seem to have a greater impact, however, for businesses that were more established and were operating in a more permanent manner.** Business owners running more established businesses achieved an average increase in monthly profits of $270 USD, over 50% more than the average increase ($158 USD) of the overall group of businesses in the finance training treatment. Whether a business was more (or less) established seems not to have mattered for those who received the marketing training. This suggests, and is consistent with a 'efficiency focus' explanation, that once a firm reaches a minimum threshold in terms of size or scale, improved finance/accounting skills can be put into practice to reduce costs and increase efficiencies in the business.

Moving Forward…

Stimulating firm (and wider economic) growth is not just about macro solutions and improving access to money. As the saying goes (or should go), "give the man some money and he can profit for a day, but teach him how to be a marketer and he can profit for a lifetime." Our research suggests that there are opportunities for achieving greater impact by screening micro- and small entrepreneurs on growth potential, and channelling resources to help those business owners who have the motivation and potential to grow. Further, understanding what business skills to build, for whom to build them, or at what stage of the business life cycle to provide training, could further increase the impact that policymakers and practitioners have, enabling them to use scarce resources to the greatest effect.