International Growth Centre

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When entrepreneurship training matters most

Providing entrepreneurs with business skills to help them grow their firms is important, but one size does not fit all. Policymakers can achieve greater impact by better targeting their training interventions. If you want to help micro and small businesses survive, grow and create employment, building their marketing skills may be a good place to start

Roughly 2 billion people in the world live on $2 a day or less. Of these, 50% are estimated to be micro entrepreneurs, running a small business to make ends meet but employing only a handful of people. If just a small proportion of these entrepreneurs were encouraged to grow and invest in their business, and hire more employees, it could transform the fortunes of developing economies, and billions of people living in poverty.

Business skills for small entrepreneurs

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. SMEs provide employment; many are great at innovation, and some go on to become major multinational corporations. 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 business to become SMEs. It is not for want of help. Each year billions of pounds in aid is 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.

Microcredit is a good example. Providing small loans to entrepreneurs unable to access credit through conventional channels has long been believed to be an important tool in stimulating firm growth and reducing poverty. However, a recent review of six randomised evaluations from 4 continents suggests that, while microcredit has some benefits, it has not led to the transformative improvements in business performance and poverty reduction widely expected.

Business training programmes have been one response to the question, “What else can we do?” Over the past few years, it has become a popular approach among policymakers, as illustrated by the likes of the ILO (Start and Improve Your Business), TechnoServe (Women Mean Business) and a host of local programmes provided by public, private, for-profit and charitable institutions around the developing world. However, among the field studies conducted to date, few have found significant and lasting improvements in firm sales or profits.

As business school academics, our reaction to these results is not that business skills don't matter. Rather, we think that the issue could lie with whom the training targeted, how it was delivered, and what it covered.

First, not all emerging market entrepreneurs want to be entrepreneurs. Indeed, the majority of micro and small business owners are subsistence entrepreneurs running businesses out of necessity. If given the chance, they would prefer to be employed. Providing training to such individuals may be somewhat of a lost cause, resulting in little or no improvements in business performance over time.

Second, the intensity of the training programme, and how it is delivered, could influence results. For example, the studies reviewed by McKenzie and Woodruff used training programmes ranging from two days to several months, the majority being quite short in duration, while the longer programmes involved less contact time overall.

Finally, and this is related to how these programmes are delivered, is what content they cover. Most teach general business skills, with a focus on record keeping and managing finances, though a number also build skills in marketing (e.g. pricing, customer relations) and operations (e.g. inventory management).

None of the programmes evaluated separated the dimensions of business expertise into different training courses focused specifically on marketing, or finance, or operations. Taken together, the lack of sustained impacts of building entrepreneurs' business skills could (in part) be due to prior study interventions providing general business skills to a mixed group of subsistence and growth-oriented entrepreneurs over a relatively short period of time.

Addressing the challenges

A study conducted by Bilal Zia, Rajesh Chandy, and ourselves 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 screening 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 organisation called The Business Bridge Initiative. Business Bridge's training courses ran over ten weeks, including one

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 entrepreneurs' time between sessions. Classes were facilitated by volunteer business professionals and delivered to entrepreneurs in groups of approximately 15-20.

3. Focusing on one business function at a time

Unlike other training programmes, Business Bridge separates different key dimensions of business skills, providing one ten-week course on finance and accounting and one ten-week course on marketing and sales. Separating the impact of marketing skills versus finance skills would allow us to better understand how these different sets of skills lead to improvements in firm performance, and for whom.

Improvements in firm performance

Our results show that both training programmes led to significant improvements in firm performance – when compared with those who received no training – in 1) Firm survival; 2) Employment; 3) Sales, and 4) Profits.

1. Survival

When compared with those who received no training, firms that received marketing training were 9.3% 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. Employment

Those who received marketing training increased their staff count by 0.57 employees when compared with the control group (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. Sales

On average, those who received marketing training increased their monthly sales by $350US (a 22% gain) compared with those in the control group, whose sales decreased.

4. Profits

Those who received marketing training had an average monthly increase of $157US (43%) as compared with those who received no training. Similarly, those who received finance training had an average monthly increase in profits of $158US (48%).

Pathways to profits

Next, we wanted to understand the channel through which businesses in our study increased their business income. For we found that, while both marketing training and finance training led to roughly the same increase in monthly profits (~$157US), 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 (e.g. market research, marketing tactics, 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 (e.g. financial tracking, financial analysing, 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.

What business skills work best when?

Finally, we wanted to gain a better understanding of the variation in impacts that each training programme had on different entrepreneurs; that is, 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 programme. For example, participants who had never lived or travelled outside of Cape Town who lacked exposure to how businesses are run in different places.

We believe that marketing training was most beneficial to such individuals with 'narrow exposure' 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 firm owners with narrow exposure, the marketing training led to an average increase in monthly sales of $633US (compared with the overall effect on monthly sales for those who received marketing of $350US).

By contrast, one's prior level of exposure did not seem to matter for firm owners who received the finance training. Finance training did seem to have a greater impact, however, for businesses that were more established; that is, firms that were operating in a more permanent manner. Business owners running more established businesses achieved an average increase in monthly profits of $270US, over 50% more than the average increase ($158US) 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 an 'efficiency focus' explanation – that once a firms 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.

The implications

The implications of our findings are three-fold: First, stimulating firm (and wider economic) growth is not just about macro solutions and improving access to money. Business skills can play a central role in helping business grow and scale up. Moreover, building entrepreneurs' business skills is a sustainable investment. 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." Second, business skills won't benefit everyone; investments in training should be targeted. Our research suggests that there are opportunities for achieving greater impact by screening micro and small entrepreneurs on growth potential, channelling resources to help those business owners who have the motivation and potential to grow. Finally, investments in training should be further targeted. Understanding what business skills to build, for whom (or at what stage of the business life cycle) could further increase the impact that policy makers and practitioners have, thus enabling them to use scarce resources to greatest effect.