Teaching business skills to support microentrepreneurs

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Traditional business skills training programs lead to modest increases in microentrepreneurs' profits and sales. Alternative programs that are tailored to participants' needs or foster an entrepreneurial mindset have shown promising results, but some of these alternative methods are costly or require more definitive evidence of their effectiveness.

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Summary

Business training programs are a popular and widely studied method used to help firm managers implement practices designed to help grow and sustain businesses in high-income countries. Policymakers and donors have sought to introduce various training programs in low- and middle-income countries. Among the most common of these programs are traditional, classroom-based business trainings, with at least US$1 billion spent annually to train four to five million potential and existing microentrepreneurs in low-income settings. While curricula may vary, these traditional programs typically include some combination of modules on financial management, marketing, and accounting. The microentrepreneurs that these programs target are often members of poor households that heavily depend on the income that their businesses generate, and they typically have very few or no employees. Other types of programs have included trainings that deliver content one-on-one, focus on alternative curricula like developing soft skills, or combine trainings with loans. Researchers have also sought to evaluate the impacts of workplace-based trainings in larger firms (read more in our insight focusing on business training for larger firms).

A review of 28 randomized evaluations shows that traditional, classroom-based business skills training programs targeted toward microentrepreneurs often increased learning or use of some business practices. However, these may also be the least impactful

form of training, especially compared to workplace-based trainings delivered to larger firms, . In addition, a recent meta-analysis found that traditional business skill training programs for microentrepreneurs have modest impacts on key business outcomes, with sales rising by 5.6 percent on average and profits rising by 12.1 percent on average, which is insufficient to sustainably lift households out of poverty [1], . On the other hand, alternative training programs that are tailored to participants' needs, teach easy-to-apply skills, or foster an entrepreneurial mindset have shown promising results, but further research is needed to clarify which types of alternative trainings lead to the largest impacts. One evaluation found that the business improvements of some trained entrepreneurs did not come at the cost of lower sales for those who were not trained, though the effects of training on nearby untrained firms remain generally understudied [8], . Finally, when looking across all training methods, training did not lead to detectable impacts on new job creation [1].

There are several possible reasons why traditional training methods do not have a larger and longer-term impact on microentrepreneurs' business skills. One is that these programs did not teach the most relevant skills for the ever-evolving set of problems microentrepreneurs face. This may explain why customized courses or those that teach easy-to-apply skills have more frequently led to increases in profits. Conversely, participants may not be retaining everything from training curricula that include many business practices spread across disciplines [1], [2].

Another mechanism is that business training programs did not adequately address other significant barriers, like financial or gender-related constraints. For example, several studies found that combining business training with cash grants or credit often increased profits, although it remains unclear whether a combination of the two adds any additional impact to entrepreneurs compared to financial assistance alone. Business training programs that combine standard training with an additional focus on women's self-confidence, gender equality, or agency have shown promising results.

Supporting evidence

Microentrepreneurs applied some of the practices they learned from traditional business training programs at first but often reverted to old practices over time. In four studies examining traditional trainings, microentrepreneurs adopted business skills into their routines in the short run, but over time, they reverted to prior practices [3], [4], [5], [6], . In Kenya [6], , among those invited to four two-hour training courses, 86 percent of microentrepreneurs kept formal records, an increase of 19 percent compared to those who were not trained; these effects faded four months after the course. Similarly, six months after receiving ten hours per month of one-on-one training over the course of one year, entrepreneurial tailors in Ghana [4] increased their management practice score, the proportion of recommended practices they reported using, by 5.7 percentage points, against a baseline average of 40 percent. However, the tailors reverted to their prior business practices after one year. Nevertheless, it is still possible that firm owners kept only the practices that worked well for them even as they were dropping others.

It may take time for entrepreneurs to adopt, apply, and translate newly learned practices into improved business outcomes. However, the continued use of recommended practices by entrepreneurs were not necessarily accompanied by increases in profits. In Sri Lanka [3], microentrepreneurs who were offered an all-day, week-long course in general accounting, marketing, and employee management skills increased their use of new business practices up to two years later, but business owners did not see improvements in their profits.

Traditional training programs had modest impacts on key business outcomes, possibly because they were not well tailored to the participants' needs. Business training programs teach a broad set of general skills that might not be applicable to all businesses, especially those at different stages of growth. While a separate review of five evaluations found that consulting and business training for larger firms improved best practices and increased business profits, curricula that combine broad business principles like recordkeeping, accounting, financial management, and marketing may be less appropriate for the size,

scale, or maturity of microenterprises.

For example, in South Africa [7], microentrepreneurs participated in either a marketing or financial skills training program. Those with fewer years of job experience, less experience living outside of their hometown, and less prior exposure to sophisticated businesses benefited more from the growth-focused marketing training. Meanwhile, microentrepreneurs with more established businesses, as measured by factors like the number of employees, years in business, and availability of capital, benefited more from financial training that enabled their businesses to maximize efficiency. These findings suggest that shifting from a one-size-fits-all approach to one tailored to the circumstances or needs of the business may lead to higher impacts on firm outcomes.

Similarly, business training programs may present an overload of information for the average participant, who may not be able to take away which components are most important to their businesses. Traditional training programs can include twenty or thirty separate business practices taught over a short time [1], . In Sri Lanka [3], and Kenya [8], , business owners attended classroom-based courses that covered a myriad of business topics across disciplines, including business idea generation, accounting, financial planning, and human resources. These courses lasted between five and nine days. However, the effect of these programs on the uptake of new business practices was modest, with firm owners only undertaking one additional practice on average after the training [2], . On the other hand, the aforementioned program in South Africa [7], which consisted of eight hours of training per week for ten weeks and focused on one discipline, resulted in large increases in both businesses practices and profits. These findings suggest that increasing the intensity of training courses and narrowing their curricula to the most relevant concepts for participants can lead to stronger firm performance.

Alternative training methods that focus on soft skills or teach easy-to-apply skills show promise of improving firm sales and profits more than traditional training programs do, while those that deliver material through one-on-one mentorships do not. Three evaluations suggest that soft skills trainings that target psychological development may lead to greater impacts on firm profits than traditional trainings [9], [12], [13], [15], . In Togo [12], [13], , microentrepreneurs who attended a psychological training that aimed to foster an entrepreneurial mindset by teaching personal initiative increased adoption of business practices by 5.4 percentage points and profits by 30 percent relative to the comparison group 2.5 years after training [12], . However, the impacts of psychological training did not always last [9], . In Jamaica, a training on personal initiative improved business outcomes, but these effects faded after one year. In other cases, the impacts of psychological training were undetectable [9], [15]. Therefore, more research is needed to clarify whether psychological training does indeed have greater impacts on business outcomes compared to traditional programs.

Three evaluations suggest that teaching easy-to-apply skills like rules of thumb may also improve key business outcomes [11], [14], [24], . In the Dominican Republic [11], , some microentrepreneurs were invited to attend a rule-of-thumb financial training once a week for five weeks. Those with lower levels of business skills or less formal education before the program benefited the most from the program, in terms of adopting better business practices and making fewer financial reporting errors. Elsewhere, teaching rules of thumb enabled small enterprise owners to increase profits by 23.5 percent in Uganda and 8.1 percent in Ecuador [24].

Last, one-one-one mentoring may be a potential alternative to group training methods, especially if entrepreneurs face information overload from classroom-based trainings. However, the impacts of mentoring were not promising across three evaluations [6], [8], [25], . In Kenya [6], , new women entrepreneurs who worked with mentors increased their profits by 20 percent, but these effects faded after one year as mentors stopped receiving payments for attending the one-on-ones. In another study in Kenya [8], and in Ethiopia [25], two other mentoring programs had no long-term impact.

Teaching microentrepreneurs improved practices may be insufficient to spur growth if they face financial constraints. Seven studies tested the effects of simultaneously relieving financial constraints with cash grants or loans and teaching business best practices [3], [4], [5], [16], [17], [18], [19], . These programs increased profits for some microentrepreneurs in the short run.

However, it is also possible these impacts were driven by the financial assistance alone and that training did not add any additional impact even if the combination improved business outcomes for some participants on the surface. Studies have found mixed results on how the impacts of training compare to the impacts of simply providing cash, pointing to the plausibility of this scenario [4], [5], [17]. Moreover, these programs often had no effect on women. For example, microentrepreneurs in Uganda were offered a loan of US$180–$220 alongside traditional classroom training. Male entrepreneurs reported 54 percent higher profits, but the profits of female microentrepreneurs did not change.

Business training programs for women entrepreneurs that combine standard training with additional training content on topics such as women's self-confidence, gender equality, or agency have shown promise in improving business outcomes for women. Five studies evaluated the impact of programs that combined standard business training material with additional training content on topics such as women's self-confidence, gender equality, or agency [8], [15], [21], [22], [23], . Four out of five studies found improvements in improving women's business outcomes. For instance, two separate programs in Peru and Kenya offered women entrepreneurs a gender-focused business training that included training on gender equality, self-esteem, and soft skills. In Peru [22], , access to the training increased women's sales 7 to 10 months after program implementation. In Kenya [8], women with access to the training experienced an increase in weekly profits of 15.4 percent, or US$2.63, above the comparison group's profits three years after the intervention.

As a potential explanation of these effects, women may face social barriers that restrict their ability to use new skills learned from training. In three studies [5], [18], [20], , women learned and tried to implement new practices in their businesses, but they faced other barriers to profitability. Across five studies [5], [17], [18], [19], [20], women reported social norms, cultural restrictions, and domestic obligations as key barriers to their ability to use the skills and grow or start their businesses. For example, offering start-up loans and training to women entrepreneurs in Pakistan increased their likelihood of starting a business. However, because many women preferred to operate their businesses from their homes, they couldn't generate sufficient income to sustain their ventures. As a result, there wasn't a net rise in female business ownership overall.

Still, it remains unclear how much the additional content that is focused on women is driving the differences in impact from traditional business training alone. In the training program in Kenya [8] mentioned above, there were no detectable impacts on gender attitudes or self-efficacy, while the women who participated did not report finding the extra content to be particularly useful. Further research is needed to understand the extent to which social barriers may be restricting the performance of women entrepreneurs. In addition, while these results suggest that programs designed to consider social constraints to women entrepreneurs can positively impact their business outcomes, additional research is needed to assess the effectiveness of these programs in different contexts.

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