

Teaching business skills to support microentrepreneurs

Last updated: December 2019

Business skills training programs increased microentrepreneurs' use of business best practices, but in most cases, there were no significant changes in their profits. Alternative programs that are tailored to participants' needs or foster an entrepreneurial mindset have shown more promising results than traditional programs.



Photo: Radiokafka | Shutterstock.com

Summary

Microentrepreneurs, defined as individuals who own a business with five or fewer employees, from low-and middle-income countries often do not implement the practices that are more common in small businesses in high-income countries. [1] Business training programs have typically taught broadly applicable skills intended to help microentrepreneurs start and sustain a business. While curricula may vary, traditional programs include modules on financial management, marketing, and accounting. A review of 22 randomized evaluations shows that being offered business skills training often increased learning or use of some business practices, but this did not always translate to significant increases in profits.¹ There are several theories for why microentrepreneurs improved their business practices without significantly increasing profits under traditional business training programs.

One is that profits actually did increase, but the nature of the research designs meant that even substantial improvements could not be separated from chance. Business profits are incredibly volatile, and many of the studies had relatively small samples, making it difficult to separate any increase in profits from improving business practices from all other reasons business profits change over time. [2] Beyond new studies with larger sample sizes, one way to address this challenge in future research could be

to pool samples and analyze results across studies through a meta-analysis.

A second theory is that these programs did not teach the most relevant skills for the ever-evolving set of challenges microentrepreneurs face. This may explain why customized courses or those that teach easy-to-apply skills have more frequently led to increases in profits.

Finally, another theory is that business training programs did not adequately address other significant barriers, like financial or gender-related constraints. This theory is supported by evidence that combining business training with cash grants or credit often increased profits. Future research should also test promising alternative approaches that combine training with programs that also relax other constraints.

Supporting evidence

Microentrepreneurs applied some of the practices they learned from business training programs² at first but often reverted back to old practices over time. In six studies [3], [4], [5], [6], [7], [8], microentrepreneurs adopted business skills into their routines in the short run, but over time, they reverted back to prior practices.

In Kenya [7], 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, though these effects faded four months after the course.

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 back to their prior business practices after one year.

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

Business training programs teach a broad set of general skills that small-scale microentrepreneurs may not perceive to be useful or applicable to their business. The programs tested in these 22 studies emphasized skills related to broad business principles like record-keeping, accounting, financial management, and marketing. While a separate review of five evaluations,³ found that consulting and business training for larger firms improved best practices and increased business profits, these skills may be less appropriate for the size, scale, or maturity of microenterprises.

For example, in the Dominican Republic [9], some microentrepreneurs were invited to attend a classroom training once a week for six weeks on standard accounting practices (e.g., expense report writing, inventory management, and investment planning). Microentrepreneurs with low use of business best practices, low interest in learning accounting practices, or low education levels before the program did not use the skills taught or improve their revenue after attending the training. This suggests that the training content may have been too broad for the maturity and scale of the business at the time of the program.

Training programs that are delivered one-on-one, tailored to participants' needs, teach easy-to-apply skills, or go beyond traditional curricula to foster entrepreneurial mindsets seem to increase microentrepreneurs' profits more frequently than traditional programs. Microentrepreneurs invited to these programs varied across a range of personal and professional characteristics that affected their initial skill levels and information needs. For example, in Ghana [10], a majority of microentrepreneurs studied as an apprentice for at least three years and had been operating his/her business for almost fourteen years prior to training. In Sri Lanka [3], about half of the participants were looking to start a new business. Similarly, participants' education levels varied. For example, more than 70 percent of participants in Ethiopia had completed secondary

school or higher education [11], , whereas microentrepreneurs in Pakistan had, on average, 3.9 years of schooling [12].

Eleven studies [4], [6], [7], [8], [9], [11], [13], [14], [15], [16] tested innovative training components, including soft skills (like fostering an entrepreneurial mindset of personal initiative), technical assistance or consulting services, and one-on-one mentoring with an experienced entrepreneur from the same industry who provided specific knowledge and advice on how to respond to changes in the local market. These program innovations were industry-specific or tailored to the microentrepreneur and his/her enterprise and often led to improvements in business practice use and profits.

In Togo [13], microentrepreneurs were invited to a psychology-based training program that aimed to foster an entrepreneurial mindset with an additional four months of mentorship. Those who were invited to the training increased their implementation of business practices by 5.4 percentage points and their profits by 30 percent relative to the comparison group 2.5 years after training.

In a similar study in Jamaica [6], microentrepreneurs who were offered personal initiative training but did not receive mentorship improved their profits after three months, but effects faded after one year. This result suggests that including one-on-one mentorship alongside personal initiative training in Togo could be the reason microentrepreneurs experienced more lasting improvements.

Teaching microentrepreneurs improved practices may be insufficient to spur growth if they face additional barriers like financial constraints and restrictive social or cultural norms. More research is needed to examine other barriers to growth. Four studies [3], [4], [5], [17] tested the effects of simultaneously relieving financial constraints with cash grants or loans and teaching business best practices. These programs increased profits in the short run, but in two cases, effects differed for men and women.

When female business owners in Sri Lanka [3] were offered a cash grant worth LKR15,000 (US\$129) upon completing a business training program, their profits increased three to eight months later, though this effect faded after two years.

In Uganda [17], microentrepreneurs 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.

In Tanzania [5], the combination of business training and a cash grant led to increases in profits for male microentrepreneurs of up to 54 percent but had no effect on women, whereas neither the business training nor the grant offered separately improved profits for men or women.

In addition to credit constraints, women may face other barriers more acutely; for example, there may be social barriers that restrict women's ability to use new skills or an influx of cash. In three studies [5], [12], [18], , women learned and tried to implement new practices in their businesses, but they faced other barriers to profitability. Across four studies, women reported social norms [12], , cultural restrictions [18], , and domestic obligations [5], [17] as key barriers to their ability to use the skills and grow or start their businesses.

Business skills training programs were well attended initially, but over time, participants dropped out and did not complete the full course, making it difficult to discern whether teaching business skills to microentrepreneurs can increase profits. In sixteen studies [3], [5], [6], [7], [8], [10], [13], [14], [15], [16], [17], [18], [19], [20], [21], [22], , initial attendance was relatively high, ranging from 65 percent [22], to 89 percent [21] of invited microentrepreneurs attending at least one class, helping to explain the increased use of new business practices.

However, the number of participants who completed the programs decreased in six studies [5], [6], [8], [15], [19], [22], . Participant dropout may help to explain why researchers did not see changes in profits; the program ceased to be measurable, as microentrepreneurs were no longer receiving the program and were not being taught new skills. Low participation could be because microentrepreneurs did not understand the benefits of training [15], , may have wrongfully judged the trainings as not

useful [9], , or found them to be too time-consuming [11].

Sector chair(s) or Academic lead(s)

David Atkin Marianne Bertrand Nicholas Bloom Bruno Crépon

Insight author(s)

Emily Sylvia

Abdul Latif Jameel Poverty Action Lab (J-PAL). 2019. "Teaching business skills to support microentrepreneurs." J-PAL Policy Insights. Last modified December 2019. <https://doi.org/10.31485/pi.2573.2019>

1. This policy insight reviewed results on a series of business outcomes, including sales, capital stock, investment, job creation, income, and firm start-up and survival. However, not all studies measured or reported results on all outcomes. For this reason, profits, the most commonly reported outcome, is used to standardize impacts across all 22 studies.

2. See citations [3][4][5][6][7][8][9][10][12][13][15][16][19][21][22][23]

3. Abdul Latif Jameel Poverty Action Lab (J-PAL). 2019. "Supporting firm growth through consulting and business training." J-PAL Policy Insights. Last modified December 2019. <https://doi.org/10.31485/pi.2594.2019>

1. McKenzie, David, and Christopher Woodruff, . 2014. "What Are We Learning from Business Training and Entrepreneurship Evaluations Around the Developing World?" *The World Bank Research Observer* 29(1): 48–82. DOI: 10.1093/wbro/lkt007 Research Paper

2. McKenzie, David and Christopher Woodruff, . 2017. "Business Practices in Small Firms in Developing Countries." *Management Science* 63(9): 2967–2981. DOI: 10.1287/mnsc.2016.2492 Research Paper

3. de Mel, Suresh, David McKenzie, and Christopher Woodruff, . 2014. "Business Training and Female Enterprise Start-Up, Growth, and Dynamics: Experimental Evidence from Sri Lanka." *Journal of Development Economics* 106: 199–210. DOI: 10.1016/j.jdeveco.2013.09.005 Research Paper, | J-PAL Evaluation Summary

4. Karlan, Dean, , Ryan Knight, and Christopher Udry, . 2015. "Consulting and Capital Experiments with Microenterprise Tailors in Ghana." *Journal of Economic Behavior and Organization* 118: 281–302. DOI: 10.1016/j.jebo.2015.04.005 Research Paper, | J-PAL Evaluation Summary

5. Berge, Lars Ivar Oppedal, Kjetil Bjorvatn, and Bertil Tungodden. 2015. "Human and Financial Capital for Microenterprise Development: Evidence from a Field and Lab Experiment." *Management Science* 61(4): 707–722. DOI: 10.1287/mnsc.2014.1933 Research Paper

6. Ubfal, Diego, , Irani Arraiz, Diether Beuermann, Michael Frese, Alessandro Marrioli, and Daniel Verch. "The Impact of Soft-Skills Training for Entrepreneurs in Jamaica." *Innocenzo Gasparini Institute for Economic Research Working Paper no. 645*, April 2019. DOI: 10.2139/ssrn.3374406 Research Paper

7. Brooks, Wyatt, , Kevin Donovan, and Terence R. Johnson. 2018. "Mentors or Teachers? Microenterprise Training in Kenya." *American Economic Journal: Applied Economics* 10(4): 196–221. DOI: 10.1257/app.20170042 Research Paper

8. Lafortune, Jeanne, , Julio Riutort, and José Tessada, . 2018. "Role Models or Individual Consulting: The Impact of Personalizing Micro-entrepreneurship Training." *American Economic Journal: Applied Economics* 10(4): 222–245. DOI: 10.1257/app.20170077 Research Paper, | J-PAL Evaluation Summary

9. Drexler, Alejandro, Greg Fischer, and Antoinette Schoar, . 2014. "Keeping It Simple: Financial Literacy and Rules of Thumb." *American Economic Journal: Applied Economics* 6(2): 1–31. DOI: 10.1257/app.6.2.1 Research Paper, | J-PAL Evaluation Summary

10. Mano, Yukichi, Alhassan Iddrisu, Yutaka Yoshino, and Tetsushi Sonobe. 2011. "How Can Micro and Small Enterprises in Sub-Saharan Africa Become More Productive? The Impacts of Experimental Basic Managerial Training." *World Development* 40(3): 458–468. DOI: 10.1016/j.worlddev.2011.09.013

Research Paper

11. Alibhai, Salman, Niklas Buehren, Michael Frese, Markus Goldstein, Sreelakshmi Papineni, and Kathrin Wolf. "Full Esteem Ahead? Mindset-Oriented Business Trainings in Ethiopia." Working paper, January 2019. DOI:10.1596/1813-9450-8892 Research Paper
12. Giné, Xavier, and Ghazala Mansuri. "Money or Ideas? A Field Experiment on Constraints to Entrepreneurship in Rural Pakistan." World Bank Policy Working Paper No. 6959, June 2014. DOI: 10.1596/1813-9450-6959 Research Paper
13. Campos, Francisco, Michael Frese, Markus Goldstein, Leonardo Iacovone, Hillary C. Johnson, David McKenzie, and Mona Mensmann. 2017. "Teaching Personal Initiative Beats Traditional Training in Boosting Small Business in West Africa." *Science* 357(6357): 1287–290. DOI: 10.1126/science.aan5329 Research Paper
14. Campos, Francisco, Michael Frese, Markus Goldstein, Leonardo Iacovone, Hillary C. Johnson, David McKenzie, and Mona Mensmann. 2018. "Is Personal Initiative Training a Substitute or Complement to the Existing Human Capital of Women? Results from a Randomized Trial in Togo." *AEA Papers and Proceedings* 108: 256–261. DOI: 10.1257/pandp.20181026 Research Paper
15. Anderson, Stephen J., Rajesh Chandy, and Bilal Zia. 2018. "Pathways to Profits: The Impact of Marketing vs. Finance Skills on Business Performance." *Management Science* 64(12): 5559–5583. DOI: 10.1287/mnsc.2017.2920 Research Paper
16. McKenzie, David J., and Susana Puerto. "Growing Markets through Business Training For Female Entrepreneurs: A Market-Level Randomized Experiment in Kenya." World Bank Policy Research Working Paper No. 7993, March 2017. DOI: 10.1596/1813-9450-7993 Research Paper
17. Fiala, Nathan. 2018. "Returns to Microcredit, Cash Grants and Training for Male and Female Microentrepreneurs in Uganda." *World Development* 105: 189–200. DOI: 10.1016/j.worlddev.2017.12.027 Research Paper
18. Field, Erica, Seema Jayachandran, and Rohini Pande. 2010. "Do Traditional Institutions Constrain Female Entrepreneurship? A Field Experiment on Business Training in India." *AEA Papers and Proceedings* 100(2): 1–5. DOI: 10.1257/aer.100.2.125 Research Paper, | J-PAL Evaluation Summary
19. Karlan, Dean, and Martin Valdivia. 2011. "Teaching Entrepreneurship: Impact of Business Training on Microfinance Clients and Institutions." *The Review of Economics and Statistics* 93(2): 510–527. DOI: 10.1162/REST_a_00074 Research Paper, | J-PAL Evaluation Summary
20. Martinez A., Claudia, Esteban Puentes, and Jaime Ruiz-Tagle. 2018. "The Effects of Micro-Entrepreneurship Programs on Labor Market Performance: Experimental Evidence from Chile." *American Economic Journal: Applied Economics* 10(2): 101–124. DOI: 10.1257/app.20150245 Research Paper, | J-PAL Evaluation Summary
21. Fairlie, Robert W., Dean Karlan, and Jonathan Zinman. 2015. "Behind the GATE Experiment: Evidence on Effects of and Rationales for Subsidized Entrepreneurship Training." *American Economic Journal: Economic Policy* 7(2): 125–161. DOI: 10.1257/pol.20120337 Research Paper, | J-PAL Evaluation Summary
22. Calderon, Gabriela, Jesse M. Cunha, and Giacomo De Giorgi. "Business Literacy and Development: Evidence from a Randomized Controlled Trial in Rural Mexico." Working Paper, July 2015. DOI: 10.3386/w19740 Research Paper
23. Bruhn, Miriam, and Bilal Zia. 2013. "Stimulating Managerial Capital in Emerging Markets: The Impact of Business Training for Young Entrepreneurs." *Journal of Development Effectiveness* 5(2): 232–266. DOI: 10.1080/19439342.2013.780090 Research Paper
24. Quinn, Simon, and Christopher Woodruff. 2019. "Experiments and Entrepreneurship in Developing Countries." *Annual Review of Economics* 11: 225–248. DOI: 10.1146/annurev-economics-080218-030246 Research Paper