

Finance & PSD Impact

The Lessons from DECFP Impact Evaluations

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Our latest note looks at how different types of business training programs can offer different pathways to SME profits.

Pathways to Profits: Identifying Separate Channels of Business Growth through Business Training

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Business training programs are popular policy tools to foster growth among small entrepreneurs, yet their causal impacts are often weak, and the mechanisms by which such trainings can succeed to improve outcomes are poorly understood.

We address these shortcomings by studying a comprehensive business training program that spanned 10 weeks of client engagement, and distinguishing between two separate types of business trainings - finance and marketing - in order to identify mechanisms of impact. We distinguish between a "growth" focus in marketing training which emphasizes sales and revenue expansion, and an "efficiency" focus in the finance training which emphasizes cost savings.

Research Hypotheses

Our research design allows us to test the following four hypotheses:

1. Business owners with higher 'marketing' managerial capital will increase firm profits by implementing more growth focused policies.
2. Business owners with higher 'financial' managerial capital will increase firm profits by implementing more efficiency focused policies.
3. Business owners with higher 'marketing' managerial capital will increase firm profits to a greater extent when these owners also have narrow prior exposure to different business contexts.
4. Business owners with higher 'financial' managerial capital will increase firm profits to a greater extent when these owners are also operating more established firms.

Hypotheses 1 and 2 relate to primary pathways of impact related to the content of each training program, while hypotheses 3 and 4 refer to heterogeneous effects. Specifically, we predict that entrepreneurs who have previously not been exposed to different business environments may benefit more from marketing training as it offers them content that was previously unknown through experience. Similarly, we predict that larger, more established

businesses may benefit more from finance training as these are the businesses with the operational size and scale that can identify and benefit more from cost savings.

Data and Study Design

Our study utilizes a sample of 852 small businesses in the Cape Town area of South Africa through a randomized controlled trial. The study design comprises two treatment arms, with 266 businesses randomly assigned to finance training and 270 businesses to marketing training. A third group of 316 businesses, the control arm, did not receive any training but was surveyed in the same manner as the treatment groups at baseline and follow-ups. The study measured outcomes at two intervals after the trainings, at six months (midline) and again at twelve months (endline).

Results

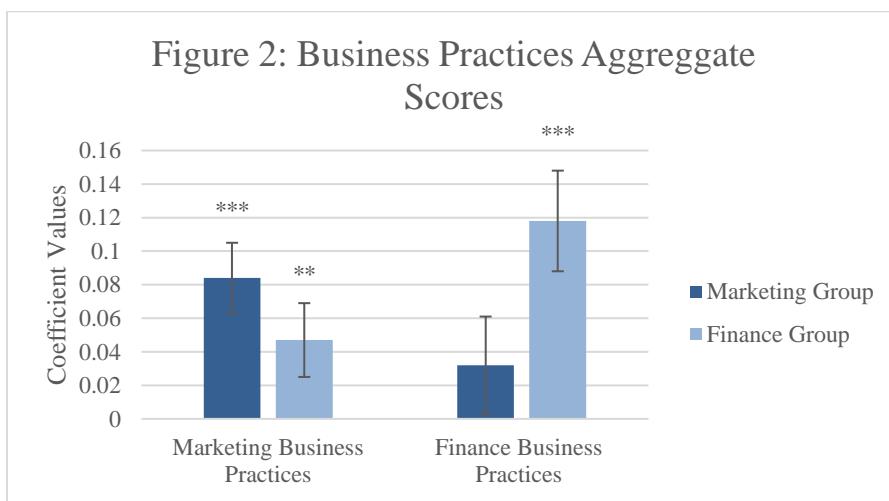
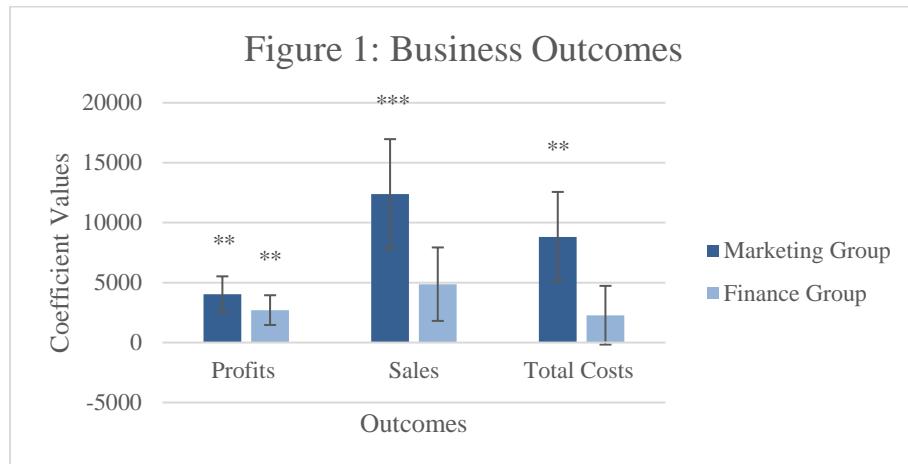
The results show that businesses in either training program increased their profits significantly when compared to the control group at endline, as shown in Figure 1. In contrast to previous literature, the magnitude of these effects is quite large, with profit improvements in the range of 41-61 percent over the control group. These effects are substantively important as well – the increase in monthly profits in either training group is within the salary range of a full-time employee in a regular job with a large South African corporate, such as KFC or Shoprite.

Despite these parallel improvements due to marketing and finance training, the mechanisms or pathways of impact are markedly different. As Figure 1 further illustrates, the marketing training shifted firm owners' focus onto business growth as seen in the significant increases in sales and costs. These firms also expanded by hiring more employees. Further, Figure 2 shows that businesses assigned to marketing training were more likely to implement practices connected to top-line business growth (e.g. market research, marketing tactics, and sales tactics).

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In contrast, finance training tended to shift a firm owner's focus towards greater efficiency in the business through more finance/accounting activities that economized on costs to boost profits. Specifically, Figure 1 shows that the profit gains for these businesses did not correspond to an increase in sales or costs, rather our results show a significant

improvement in their output-input ratio (a marker for efficiency). These firms were also significantly more likely to conduct practices focused on enhancing business efficiency (e.g. financial tracking, financial analyzing, financial planning), as shown in Figure 2.



Furthermore, the study results show that our hypotheses on heterogeneous treatment effects hold: marketing training was significantly more effective for businesses with lower prior business exposure, whereas finance training was significantly more effective for larger, more established businesses.

Policy Implications

The growth and prosperity of small businesses is vital for economic wellbeing and for generating jobs for a young and rapidly growing labor force in emerging market economies. Our findings show that managerial capital, delivered comprehensively and addressing the appropriate constraints, can help in these causes. Specifically, different types of businesses may benefit from different types of skills training, which can help shape and target future programs.

For further reading see: Anderson, Stephen, Rajesh Chandy, and Bilal Zia. (2016) "Pathways to Profits: Identifying Separate Channels of Firm Growth through Business Training" [World Bank Policy Research Working Paper no. 7774](#)
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