

Skills, Practices, and Aspirations of Small-scale Entrepreneurs in Low-income Settings

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Lecture Overview

1 PART I: Lecture

Business Practices and Training

- Business Practices Around the World
- Classical MSME Training
- Extensions of the Classical Approach
- Measurement of Firm Performance
- Mechanisms
- Alternative Approaches

2 PART II: Paper

Curating Local Knowledge

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Business Practices in Large Companies

- Bloom and van Reenen (2010, 2019): Business practices, motivation (Bloom, Mahajan, McKenzie, and Roberts, 2010; ?)

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- Bloom and van Reenen (2010): Heterogeneity across mid-sized and large firms (Bloom, Mahajan, McKenzie, and Roberts, 2010; ?; ?)

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Business Practices in Small Firms

McKenzie and Woodruff (2017) develop measurement instrument of **26 business practices**

- Administered in **7 countries** in Asia, Africa, and South America
 - 4 major domains of business practices
 - 1 Book-keeping and accounting
 - 2 Financial planning
 - 3 Inventory management and stock control
 - 4 Marketing
- **Vast heterogeneity** in business practices (comp. Bloom, Mahajan, McKenzie, and Roberts, 2010)
- **Strong persistent component** one year out ($r = 0.59$)

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Business Practices in Small Firms

McKenzie and Woodruff (2017) identify set of XX practices most closely associated with business performance

■ Example practices:

- 1 e.g.,
- 2 e.g.,
- 3 e.g.,
- 4 e.g.,

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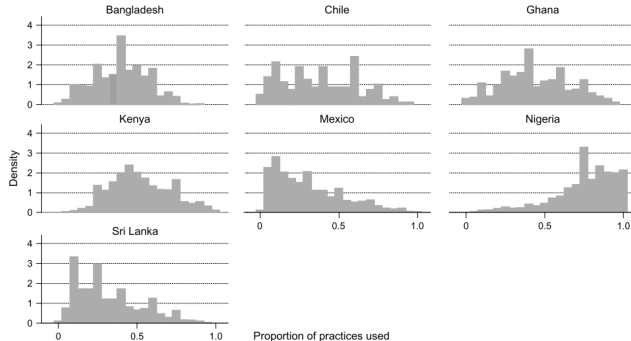
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Business Practices in Small Firms

McKenzie and Woodruff: *Business Practices in Small Firms in Developing Countries*
Management Science, 2017, vol. 63, no. 9, pp. 2967–2981, © 2016 INFORMS

Figure 1. Variation in Business Practices Within Countries



- Heterogeneity in business practices of MSEs across countries (McKenzie and Woodruff, 2017)

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Business Practices in the Production Decision

Standard Production Decision

- Owner maximizes output $Y = f(A, L, M, K)$ at given wealth W :

$$\max_{K, M, L} \{ p f(A, L, M, K) - wL - sM - rK \}$$

$$\text{s.t. } wL + sM + rK \leq \lambda W$$

.. where L is labor, M is materials, and K is capital.

.. where p is the output price, w the cost of labor, s the cost of raw materials, and r cost of capital

.. where A represents a productivity factor and λ parameterizes borrowing constraints

- 2 general conceptualizations of business practices

1 As factor of production B chosen by owner at market price p_B

2 As technology boosting productivity factor A

(see, McKenzie and Woodruff, 2017)

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Business Practices in the Production Decision

Further potential channels of impact

- 1 Better negotiation practices may affect raw material prices s
- 2 Record-keeping and financial planning practices may affect borrowing constraints λ through banks' willingness to lend (see, e.g., Bruhn and Zia, 2013)
- 3 Marketing practices may affect output price p by changing demand
 - Plausible association between business practices and revenues, profits, and business growth
 - Prices (p , s , and p_B) and inputs (K , L , and M) likely endogenous to business practices B

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Business Practices and Performance

- Using panel data and a model that treats managerial capital as technology, ? find differences in management practices account for about 30% of cross-country TFP differences
- Bloom and van Reenen (2019): Correlation with productivity across mid-sized and large firms (?)
- McKenzie2017: [Robust association with performance and firm survival](#) across industries and contexts in small firms

Open questions

- Does adoption of "best practices" *cause* performance to increase?
- How can adoption of practices best be encouraged?

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History and Prevalence

- At least **USD 1 billion per year** (to 4-5 million entrepreneurs; ?)
- Classical training programs *precede* evidence that business practices vary and are predictive for productivity
- Examples:
 - Start and Improve Your Business (ILO)
 - Business Edge (IFC)
 - EMPRETEC Entrepreneurship Training Workshop (UNCTAD)

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Typical Training Program

Content

- Training is delivered by 600 local certified trainers and by a pool of approximately 60 international master trainers. All trainers are also entrepreneurs.
- Empretec Training Workshops offer different levels of instruction that include:
- 6-day courses (48 hours); 32-hour (usually spread over 4 days) for micro-entrepreneurs with low levels of literacy; Interactive coaching based on real business challenges of participants.

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Typical Training Program

Delivery



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Impact on Performance

- First wave (Karlan and Valdivia, 2011, Bruhn and Zia, 2013; Giné and Mansuri, 2014; Field, et al., 2010; Bulte et al., 2017; Anderson, Chandy, and Zia, 2018) (?) (?) ? (Bruhn and Zia, 2013) (?) (Anderson, Chandy, and Zia, 2018)

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Impact on Performance

- Econometric and implementation issues (McKenzie and Woodruff, 2014)

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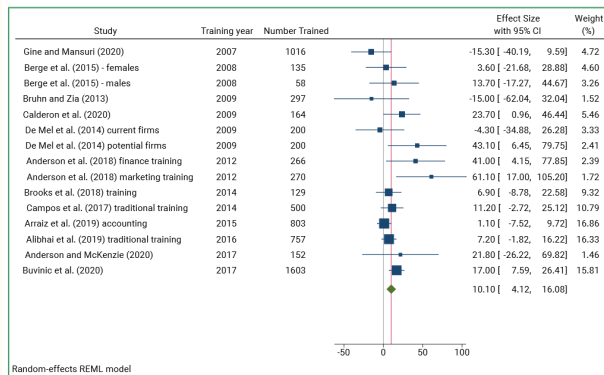
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Impact on Performance

Including more recent evaluations (see, ?)

Figure 2 Estimates of the impact of business training on firm profits



Source: McKenzie (2020)

- Small positive impact on practice adoption, profits, and sales

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Refinements of the classical model

- Targeting **specific subgroups** of the population
 - Alleviating **particularly severe constraints**
→ Marginalized or disadvantaged groups (e.g., women, youth)
 - Maximizing **treatment impact** or cost-effectiveness
→ Promising entrepreneurs (e.g., high-growth firms)
 - Plus: **Maximizing statistical power** through homogeneity
- Training of skills in **particular domains**
 - Alleviating **specific constraints**
 - Investigating mechanisms of treatment impact

Targeted Training

Female entrepreneurs

- **Most common type of targeted training** (potentially complementary to classical microfinance model)
- Example: Gender and Enterprise Together (GET Ahead, ILO; ??)
- ?
- More severe constraints, e.g., due to household-level reallocation (??)

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Targeted Training

Young entrepreneurs

- Typically embedded as entrepreneurship programs in school and university
- Example: University final year course in Tunisia (?)
 -
 -

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Targeted Training

High-growth businesses ("gazelles")

- Marcel Fafchamps and Simon Quinn, (?)
- Small literature on business accelerators and incubators (see, e.g., ???)

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Training Specific Domains

Anderson, Chandy, and Zia (2018) assign 852 South African MSEs to distinct types of training:

- 1 Marketing/sales skills
- 2 Finance/accounting skills

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Training Specific Domains

Anderson, Chandy, and Zia (2018) assign 852 South African businesses to two distinct trainings:

1 Marketing/sales skills

- 61% increase in profits
- "Growth focus" on higher sales, stock investments, and hiring
→ Benefits new businesses (= less market exposure)

2 Finance/accounting skills

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1 Marketing/sales skills

- 61% increase in profits
- "Growth focus" on higher sales, stock investments, and hiring
→ Benefits new businesses (= less market exposure)

2 Finance/accounting skills

- 41% increase in profits
 - "Efficiency focus" on lower costs
→ Benefits established businesses
- Different "pathways to profits"

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On-site Consulting

Typical Consulting Intervention

■ Three-step procedure

- 1 Diagnostic of practices
- 2 Identification of areas of improvement
- 3 Problem solving within interactive relationship

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■ Three-step procedure

- 1 Diagnostic of practices
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■ Sustained and intensive

- Total of 88 to 200 hours and more (?Bruhn, Karlan, and Schoar, 2018; ?; ?)
 - Typically several months
 - Meetings monthly to twice weekly, 2-4 hours
- Total cost between **USD 4,000 and 12,000 per firm** (?Bruhn, Karlan, and Schoar, 2018)

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- Sustained and intensive
 - Total of 88 to 200 hours and more (?Bruhn, Karlan, and Schoar, 2018; ?; ?)
 - Typically several months
 - Meetings monthly to twice weekly, 2-4 hours
 - Total cost between **USD 4,000 and 12,000 per firm** (?Bruhn, Karlan, and Schoar, 2018)
- Typically one-on-one (also group-based)
- Often gov't-subsidized (private contributions typically around 10%)
 - Empirical finding: Firms often unwilling to pay market price (?)
 - Matching-grant programs

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SME consulting (Bruhn, Karlan, and Schoar, 2018)

- Evaluation of a matching grants program in Mexico



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Multimedia delivery

TV shows

- Examples: Ruka Juu in Tanzania (?) and El Mashroua in Egypt (?)
- ?

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Multimedia delivery

Text messages

- (?) (?)

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Complementary Constraints

- McKenzie cash JDE paper

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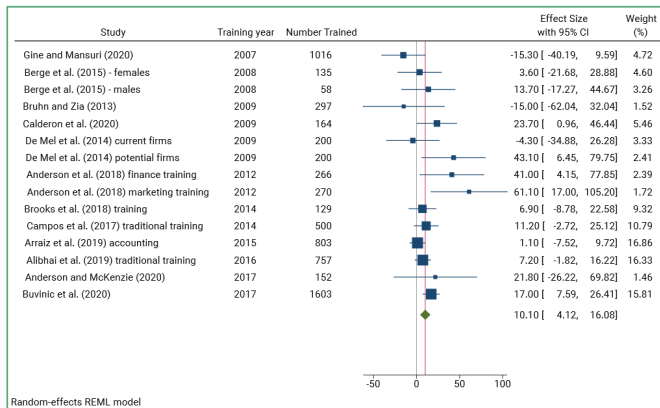
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Imprecision of Outcome Measures

Figure 2 Estimates of the impact of business training on firm profits



Source: McKenzie (2020)

- Extremely wide confidence intervals on impact estimates

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Self-reports and aggregation

- Self-reports of aggregate (?)

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Self-reports and aggregation

- Disaggregating quantities in self-reports (?)

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Self-reports and aggregation

- Direct measures (?)

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Sales vs. Profits

■ (?)

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Sales vs. Profits

■ (?)

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Direct measurements

- (?) Personalized Digital Assistants (PDAs) for MSEs in Ghana
 - Vast majority of large changes in sales and profits genuine income volatility



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Heterogeneity of Impact

Heterogeneity of treatment effects poorly understood across different approaches

- Potential constraints are manifold, and likely context-dependent
- Some more obvious constraints (already mentioned in passing):
 - Credit constraints (see, e.g.,) McKenzie cash paper
 - Gender norms and constraints
 - Age-related network and knowledge/skill constraints

→ More recent literature highlights behavioral constraints

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Education and literacy

Most MSE entrepreneurs have limited education

McKenzie and Woodruff: *Business Practices in Small Firms in Developing Countries*
Management Science, 2017, vol. 63, no. 9, pp. 2967–2981, ©2016 INFORMS

Table 1. Summary Statistics

	Full sample		Means by country						
	Mean	SD	Bangladesh	Chile	Ghana	Kenya	Mexico	Nigeria	Sri Lanka
<i>Male</i>	0.23	0.42	0.99	0.09	0.78	0.00	0.00	0.85	0.47
<i>Owner's age</i>	41.0	12.6	41.9	36.6	39.3	35.7	45.3	30.9	37.3
<i>Years of education</i>	9.7	4.1	9.7	10.0	14.0	9.0	8.6	14.8	10.8
<i>Digitspan recall</i>	4.5	2.1	5.4	n.a.	6.5	5.0	3.3	7.5	6.4
<i>Raven test score</i>	5.0	2.9	n.a.	n.a.	n.a.	6.9	4.9	4.4	3.2
...
Number of observations	20,400		1,724	158	335	3,532	10,265	1,725	2,661

Notes. "n.a." denotes not asked in this data set. Business practice score is the proportion of 26 business practices used by the firm. Marketing (seven practices), buying and stock (three practices), record-keeping (eight practices), and financial planning (eight practices) are subcomponents.

- Typical small-firm owner dropped out of highschool
- Test scores on digitspan and Raven's matrices about % of Western university samples (comp.)

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Potential for heuristics and rules of thumb

- Drexler, Fischer & Schoar (2014) (Drexler, Fischer, and Schoar, 2014)

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Dynamic complementarities in skill acquisition

Complementarities in skills



Learning styles



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Family Commitments

- Interesting; no beh const

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Segregated Markets

- Missing economies of scale
- Interesting; not behavioral constraint

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Aspirations



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Local Relevance of Business Practices



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Rules of Thumb

- Drexler, Fischer & Schoar (2014) (Drexler, Fischer, and Schoar, 2014)

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Rules of Thumb

■ (?) (?)

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Entrepreneurial mindset

■ (?)

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Role Models

- La Ferrara et al. (2012); Chong and La Ferrara (2009); Berg and Zia (2013); Riley (2018)

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Questions

Any questions?

.. before we move on to our paper?

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Curating Local Knowledge

Experimental Evidence from Small Retailers in Indonesia

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and Bilal Zia³

¹Tilburg University

²UC Berkeley, CEGA

³The World Bank

March 04, 2021

Paper Overview

1 PART I: Lecture

Business Practices and Training

2 PART II: Paper

Curating Local Knowledge

- Motivation
- Our Approach
- Data and Design
- Results
- Discussion
- Conclusion

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Background

- Micro and small firms (MSEs) are typically the main **source of employment** in the developing world
- In **Indonesia**, MSEs represent ..
 - .. 99% of all firms
 - .. 94.5% of employment
- Understanding the factors fostering efficiency and growth of MSEs is an important research and policy goal

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A Growing Focus on Management

- **Classroom Training:** Field, et al. (2010); Karlan & Valdivia (2011); Bruhn & Zia (2013); McKenzie & Woodruff (2014, 2017); Bulte et al. (2017); Anderson, Chandy & Zia (2018); Lafortune et al. (2018) (?)
- **Consulting:** Bloom, et al. (2013); Karlan et al (2015); Bruhn, Karlan & Schoar (2019)
- **Mobilizing Peer Knowledge:**
 - Brooks et al. (2018) → Local mentors (market information)
 - Cai & Szeidl (2018) → Business meetings
 - Abebe et al. (2019) → Management experience matching

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Harnessing Cross-Firm Heterogeneity

Some stylized facts about business practices in small firms

- Vast heterogeneity in business practices and performance across similar businesses (?)
- Variation in practices accounts for more than 20% of variation in productivity within the same firm in the US (?)
 - Research has largely overlooked this heterogeneity in program design and implementation

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Harnessing Cross-Firm Heterogeneity

Some stylized facts about business practices in small firms

- Vast heterogeneity in business practices and performance across similar businesses (?)
- Variation in practices accounts for more than 20% of variation in productivity within the same firm in the US (?)
 - Research has largely overlooked this heterogeneity in program design and implementation

We **make productive use of this heterogeneity** in our research design:

- Use cross-firm variation to identify **practices associated with business performance**
- **Curation** of local best practices
- Test different **modes of delivery**, and their cost-effectiveness

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Selecting Local Best Practices

- Detailed **qualitative interviews** with local business peers:
 - Understand and codify their practices (record-keeping, financial planning, stocking-up, marketing, and joint decision-making)
 - Identify implementation norms and beliefs regarding each practice (e.g. whether they are complicated, necessary, etc.)
 - Document locally relevant tips and rule of thumbs
- Baseline **quantitative survey**
 - Measure practices and outcomes
 - Quantitative association of business practices with profits and sales

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Disseminating Knowledge

Basic information intervention

- Handbook

- Pure information: Which practices, how to adopt, and why?

Two complementary behavioral interventions:

- Movie

- Psychological and emotional involvement → social learning is possible through observing the successful experience of similar others.
 - Bernard, et al. (2014); La Ferrara et al. (2012); Chong and La Ferrara (2009); Berg and Zia (2013).

- On-site Assistance

- Hands-on involvement → social learning is possible through own experience, with a small nudge (Kolb, 1984).
 - Facilitated by local lay person

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Research Questions

Characterization of local best practices

- Which practices are associated with high profits?
- How do successful businesses implement them?

Adoption of best practices

- Do retailers adopt these practices once peer best practices are aggregated and made common knowledge?
- If so, does the type of experiential involvement matter?

Impact on business performance

- Does firm profitability increase?
- If so, what are the channels?

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Sample

- Listing of 2042 small retail businesses from 29 sub-districts ("kelurahan") in urban Jakarta
- Selection criteria for firm listing:
 - At least $4m^2$ in size
 - At least two different product categories on offer
 - At least 30 meters distance to next business in sample → to minimize spillovers
- Random sample of 1301 from the list
- Randomization to treatment arms stratified by
 - Gender
 - Firm space ($4-6m^2$, $6-10m^2$, 10 and above m^2)
 - Composite score of business practices above or below median
 - Sub-district

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Experimental Design

Three types of information delivery:

- 1 **Handbook** with best practices and implementation tips
- 2 **Movie** with successful peers
- 3 **On-site assistance** with practice adoption

→ Movie, assistance exclusively based on handbook

Five experimental groups

- 1 **Handbook** only (N=260)
- 2 **Handbook** + invitation to **movie** screening (N=260)
- 3 **Handbook** + offer of two **assistance** visits (N=260)
- 4 **Handbook** + **movie** + **assistance** (N=260)
- 5 Control (N=261)

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Timeline

- 1 September 2015: **Qualitative** Interviews
- 2 January 2016: **Firm listing** (→ survey instrument)
- 3 Feb-Apr 2016: **Baseline** survey
- 4 Oct-Nov 2016: **Interventions**
- 5 Apr-May 2017: **Midline** survey
- 6 Apr-May 2018: **Endline** survey

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Typical Business in the Sample



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Typical Business in the Sample



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Best-practices Handbook



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Why you should try these best practices in your shop

*Evidence from a large-scale study
on Jakarta-based retailers*



RECORD-KEEPING

Shop owners who keep business records report 28% higher monthly sales and 26% higher monthly profits than those who do not keep business records.

Shop owners who track their customers' debts report 40% higher monthly sales and 36% higher monthly profits than those who do not track their customers' debts.



STOCK-UP SCHEDULING

Shops that maintain stock-up schedules earn 26% more in monthly sales and 25% more in profits than those that do not maintain stock-up schedules of their primary products.

Shops that stock up daily rather than weekly earn 48% more in monthly sales and 37% more in monthly profits.

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Handbook Content



A step-by-step guide to record-keeping

Step 1: Separating household and business finances

The best way to start keeping records is by establishing a clear separation between your personal and business finances. We do not mean this in the strictest sense of keeping your business cash away from your personal life completely, rather we advise you to not lose sight of your cash flow.

The most convenient and effective way to separate your personal and business finances is by **physically separating the funds into two different cash boxes, purses, or drawers. Label them clearly**; use one compartment for business purposes and another for personal.

Use only your business compartment to follow this handbook from this point forward. Make sure that money in your business compartment is used only for business purposes. Be meticulous about it - this is the first step to get your finances organized!

There is an activity at the end of this section that requires an additional compartment. If you have one more cash box, purse, or drawer available, please reserve it for this activity (**record-keeping, extra step**).

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Movie with Successful Peers



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Implementation Assistance for Business Practices



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Summary Statistics

	Control	HB only	HB & MOV	HB & HELP	HB & HELP & Business Practices
	N = 261	N = 260	N = 260	N = 260	N = 260
Firm Owner Characteristics					
Gender (Male=1)	0.28	0.3	0.29	0.3	0.3
Age	45.22	45.27	45.28	45.16	45.16
Education (Years)	9.1	9.52	9.36	9.42	9.42
Risk Preference (0 - 10 "Perfectly Risk-Seeking")	3.74	3.76	3.88	3.6	3.6
Time Preference (0 - 10 "Perfect Patience")	5.19	5.07	5.21	5.25	5.25
Firm Characteristics					
Firm Age (Years)	12.76	13.77	14.03	13.98	13.98
Family Member Is Business Partner	0.56	0.6	0.63	0.59	0.59
Total Number of Workers	2.03	2.05	1.9	1.99	1.99
Business Has Tax ID	0.2	0.21	0.2	0.15	0.15
Total Sales Last Month (USD PPP)	4454.37	4730.64	4840.55	4761.4	4761.4
Total Profits Last Month (USD PPP)	889.58	961.1	926.78	825.25	825.25
Applied for Bus Loan in Last 12 Months	0.2	0.17	0.15	0.22	0.22
Obtained Bus Loan in Last 12 Months	0.18	0.15	0.14	0.18	0.18

Movie: Take Up and Assessment

	(1)	(2)
	HB & MOV	HB & MOV & HELP
	(A)	(B)
	N=260	N=260
Attendance		
Business Owner or Partner Attended Film Screening	0.52	0.49
Evaluation (1-4 Scale):		
Has Learned Something New	3.34	3.21
Feels Inspired	3.31	3.30
Feels Hopeful	3.60	3.42
Feels Bored	0.83	0.97

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Assistance: Take Up and Assessment

	(1)	(2)
	HB & HELP	HB & MOV, & HELP
	(A)	(B)
	N=260	N=260

Attendance

Business Owner or Partner Attended 1st Session	0.77	0.78
Business Owner or Partner Attended 2nd Session	0.68	0.68

Evaluation (1-4 Scale)

Has Learned Something New	2.88	2.89
Feels Inspired	2.76	2.83
Feels Hopeful	2.88	2.97
Feels Bored	0.59	0.43

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Impact on Business Practices

Aggregate Scores

	Record Keeping (1)	Planning (2)	Stocking-up (3)	Marketing (4)
Assigned Handbook	0.025 (0.209)	0.027 (0.273)	-0.007 (0.694)	-0.011 (0.694)
Assigned Handbook & Movie	0.057*** (0.009)	0.043 (0.107)	0.038 (0.117)	0.040 (0.166)
Assigned Handbook & Assistance	0.065*** (0.004)	0.034 (0.166)	0.011 (0.664)	0.039 (0.166)
Assigned All Three	0.054*** (0.009)	0.068*** (0.009)	0.053** (0.020)	0.061** (0.032)
R-squared	0.204	0.192	0.187	0.150
Sample Size	2205	2204	2205	2205
Dependent Variable Mean of Control	0.196	0.402	0.471	0.250
Dependent Variable SD of Control	0.252	0.310	0.270	0.320
F-tests (p-value):				
Book = Book & Mov	0.069	0.487	0.014	0.028
Book = Book & Assistance	0.025	0.754	0.304	0.030
Book = All Three	0.096	0.073	0.001	0.002

Joint
Decision
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(5)

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(0.011
(0.694)

Motivation 0.040

Our Approach (0.217)

Data and Design 0.037

Results (0.239)

Discussion 0.059*

Conclusion (0.094)

Conclusion

0.120

2205

0.269

0.420

0.300

0.348

0.082

Business Profits

	Profits last month (win 5%) (1)	Profits last month (IHS) (2)
Assigned Handbook	-91.307 (78.400)	-0.067 (0.088)
Assigned Handbook & Movie	110.378 (86.841)	0.055 (0.092)
Assigned Handbook & Assistance	310.455*** (89.488)	0.261*** (0.096)
Assigned All Three	191.088** (84.662)	0.199** (0.094)
R-squared	0.179	0.211

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Business Sales

	ITT Sales last month (win 5%) (1)	TOT Sales last month (win 5%) (2)
Assigned Handbook	-396.976 (314.252)	-417.198 -417.198
Assigned Handbook & Movie	335.489 (337.881)	601.221 (606.634)
Assigned Handbook & Assistance	836.755** (372.924)	1031.692** (457.015)
Assigned All Three	807.462** (358.384)	1558.326** (696.317)

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Other Outcomes

- No significant impacts on:
 - Business expenses
 - Size of the shop
 - Number of employees
 - Number of customers
 - Business credit

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Efficiency Gains?

Impact on business practices → **efficiency practices:**

- Adjust stocks based on product profitability
- Negotiate lower prices with suppliers
- Consult with former customers
- Offer discounts
- Make joint decisions
- Review performance to identify ways to improve
- Make anticipated budget for upcoming costs

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Efficiency Gains?

Impact on business practices → **efficiency practices**:

- Adjust stocks based on product profitability
- Negotiate lower prices with suppliers
- Consult with former customers
- Offer discounts
- Make joint decisions
- Review performance to identify ways to improve
- Make anticipated budget for upcoming costs
 - **Non-record-keeping practices**
 - **Stocking up and marketing practices** appear to drive performance effects (causal-mediation analysis)
 - Variance in profits among treated firms does not converge
 - **Efficiency gains**

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Business Knowledge or Aspirations?

Impact on practice adoption and business performance may work through ..

- .. acquisition of **business knowledge** and/or
- .. strengthening of **business aspirations**

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Business Knowledge or Aspirations?

Impact on practice adoption and business performance may work through ..

- .. acquisition of **business knowledge** and/or
- .. strengthening of **business aspirations**

We directly measure **business aspirations** ..

- .. at baseline, midline, and endline
- .. for short (one year) and long ("ideal business") time horizons
- .. for various dimensions of potential business expansion
 - Sales on a normal day
 - Physical size
 - Customers on a normal day
 - Employees

→ **No impact on aspirations**

→ Performance likely driven by increase in **business knowledge**

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Business Stealing?

Do treated businesses improve performance at the expense of the control?

- Sales and profits of **control businesses do not decrease** from baseline to endline (roughly equal)
- Sales and profits of control businesses **closer to treated shops do not decrease by more** than those further away
 - **No evidence for business stealing**

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Cost-Effectiveness

Small costs (per firm):

- Cost Handbook alone: USD 100
- Cost Handbook & Movie: USD 125
- Cost Handbook & Assistance: USD 125
- Cost Handbook & Movie & Assistance: USD 150

Substantial Benefits

- Up to USD 330 per month in profits
- Adoption of top practices by retailers

Research design likely **scalable and portable**

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Takeaways

- Curating local knowledge has value for business growth
- Information alone does not have impact, only combined with behavioral interventions
- Mechanism likely knowledge-based, not aspirations-based
- Behavioral interventions are inexpensive and scalable
 - Attractive for policy

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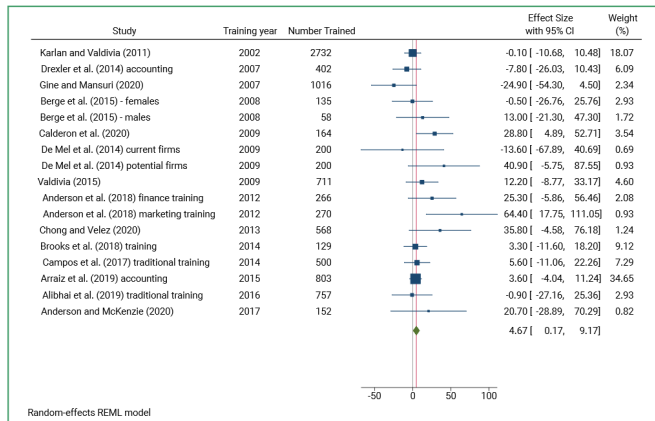
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Evidence of Impact

Figure 1 Estimates of the impact of business training on firm sales



Source: McKenzie (2020)

- Small positive impact on sales (back to ▶ profits)

References

APPENDIX