Innovations for Poverty Action

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RESEARCH

ECONOMICS

Teaching personal initiative beats traditional training in boosting small business in West Africa

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Standard business training programs aim to boost the incomes of the millions of self-employed business owners in developing countries by teaching basic financial and marketing practices, yet the impacts of such programs are mixed. We tested whether a psychology-based personal initiative training approach, which teaches a proactive mindset and focuses on entrepreneurial behaviors, could have more success. A randomized controlled trial in Togo assigned microenterprise owners to a control group (n = 500), a leading business training program (n = 500), or a personal initiative training program (n = 500). Four follow-up surveys tracked outcomes for firms over 2 years and showed that personal initiative training increased firm profits by 30%, compared with a statistically insignificant 12% for traditional training. The training is cost-effective, paying for itself within 1 year.

A large share of the labor force in most developing countries is engaged in small-scale entrepreneurship (1). However, most of these businesses are "too small and utterly undifferentiated from the many others around them" (2) to ever grow beyond subsistence size. What distinguishes those individuals who end up growing their businesses from the rest? There has been a long-running debate about whether such successful entrepreneurs are "born" or "made" (3). The "born" view argues that entrepreneurs differ from others in their innate personality traits and desire to succeed, whereas the "made" view argues that entrepreneurs can be created through education and experience.

The billions of dollars spent by governments, microfinance organizations, and nongovernmental organizations providing business training programs indicate a strong belief by many policymakers that entrepreneurship can be taught. Traditional business training programs such as those offered by the U.S. Small Business Administration, the International Labor Organization's Start and Improve Your Business program, the International Finance Corporation's Business Edge program, and Freedom from Hunger's programs for microfinance clients aim to teach small business owners to use better business practices—for example, record-keeping, stock control, and simple marketing. There is increasing evidence in economies that better management and improved business practices matter for productivity in both large (4) and small (5) firms. However, few evaluations of traditional business training programs offered to existing firms have found sustained impacts on profits, particularly for women-owned firms (6–10). In addition to methodological issues such as a lack of statistical power in many existing randomized controlled trials, two possible explanations for this lack of impact are (1) that traditional training does not result in a large enough change in the business practices that it aims to teach and (2) that it is not teaching the right set of skills (11).

One promising approach to improving these outcomes has been to incorporate insights from other fields into the standard accounting and economics-based approach. Examples include a "rules of thumb"–based training program drawing from behavioral economics (6) and programs based on insights from marketing science (12). What characterizes these programs is that they aim to improve managerial knowledge. In contrast, the psychology literature has long noted predictors of entrepreneurial success that go beyond knowledge and standard economic variables (13). However, few attempts have been made to experimentally evaluate the success of teaching such attributes to owners of small-scale businesses in developing countries. Here we show how the use of a psychology-based training program that develops key behaviors associated with agentic entrepreneurial mindset can deliver lasting improvements for small business owners.

Personal initiative is defined as a self-starting, future-oriented, and persistent proactive mindset (14, 15). Such a mindset implies a readiness to act as a result of cognitive, affective, and motivational orientation and organization that is in tune with solving entrepreneurial challenges. The personal initiative mindset is key to entrepreneurial success, because it involves looking for ways to differentiate one's business from others, anticipate problems, better overcome setbacks, and foster better planning for opportunities and long-term preparation. A pilot experiment (16) with a sample of 100 Ugandan business owners suggested the potential for a short training to instill a mindset of greater personal initiative, leading to business improvements within a year. Using a large sample and a more comprehensive training program, we conducted a randomized controlled trial that directly compares personal initiative training with traditional business training and demonstrates the greater effectiveness of the former approach. Our results provide a middle ground between the "born with an entrepreneurial personality" and "made by learning specific entrepreneurial practices" viewpoints by showing that training can teach people to develop a mindset with attributes such as proactiveness that are often assumed to be innate.

We worked with a sample of 1500 microenterprises in Lomé, Togo, selected from applicants to a government project financed by the World Bank. Applicants had to be in business for at least 12 months, have fewer than 50 employees, operate outside of agriculture, and not be a formally registered company. Section 1 of the supplementary materials provides full details of the selection process and a timeline (17). A baseline survey of these applicants was undertaken between October and December 2013. The business owners were almost equally split by gender (39% female), had an average age of 41 years, and had an average of 9 years of education (table S2). The sample contained a broad mix of industries (27% manufacturing, 46% commerce, and 27% services), with the businesses earning a mean of 94,512 CFA francs (US$188) and a median of 40,000 CFA francs (US$84) in monthly profits at baseline (18). Firms had a mean of three employees and a median of two.

The initial state of business practices in these firms suggested considerable scope for improvement. This was particularly true for record-keeping: Only 37% of firms kept accurate books, and only 4.7% had a written budget. We also measured marketing, operations management, information seeking, and human resource practices and found that only one-third of firms used advertising or publicity, 7.1% compared sales performance with objectives, and 64% visited competitors to compare prices or product offerings. Firms were using a mean of 16 out of the 29 different practices that we measured at baseline. Business owners started with a reasonably high mean personal initiative level—4.2 on a five-point Likert scale, with values ranging from 2.1 to 5.0—but still had room for improvement. Section 2 of the supplementary materials describes the scale and its construction in greater detail.

The 1500 firms were stratified by gender and sector, then grouped into triplets according to baseline profits. Within each triplet, firms were randomly assigned to a control group (n = 500), traditional business training treatment group (n = 500), and personal initiative training treatment group (n = 500). Table S2 shows the balance of baseline characteristics among the three groups.

The traditional business training treatment group was invited to receive the Business Edge training program, which is an internationally accredited program developed by the International Finance Corporation. The content of the training

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Academic Paper

Thinking like an Entrepreneur: Boosting Small Business Growth with Mindset Training in Togo

In This Image
Leila Salifou believes personal initiative training was like teaching her to fish rather than being given a fish. © 2018 Erick Kaglan / World Bank

Abstract

What makes someone a successful entrepreneur? Is it a matter of teaching the right business skills, or instilling a proactive entrepreneurial mindset? If the latter, can these personal qualities be taught? This research in Togo investigated these questions, and found that a training focused on personal initiative skills, such as self-starting, future-oriented, and persistent behavior, was more successful than a traditional business training at increasing

sales and profits.

Policy Issue

There are competing beliefs on what knowledge and skills could make an entrepreneur succeed. Many programs, for instance, are founded on the belief that business management skills will be conducive to entrepreneurial success. Several evaluations of these trainings, however, have not found sustained impacts or have suffered from methodological challenges.

Some others believe that entrepreneurial success is determined by innate traits such as personal initiative as well as other traits associated with better entrepreneurial performance. However, few programs have attempted to instill these personal attributes in entrepreneurs, let alone compared the impact of such training to traditional business training. This research contributes evidence on whether the personal attributes that are considered to drive success can be taught, and if so, whether teaching these skills improves the business performance of microentrepreneurs.

Context of the Evaluation

In Togo, a majority of firms (90 percent) is small and most of the workforce is employed informally. However, unlike many of its low-income peers, Togo's financial sector boasts a relatively high level of development and reach, with only 24 percent of Togolese firms rating access to finance as a major constraint to doing business. Therefore, the development of human capital and skills is a promising approach for raising the productivity of Togo's firms.

Details of the Intervention

Researchers conducted a randomized evaluation measuring the impact of a psychology-based mindset training on business survival, sales, and profits, and evaluated how it compared to a traditional business training.

Researchers randomly assigned 1,500 microentrepreneurs, who had applied to a government project, to one of three groups:

1. **Traditional business training**: This group was offered a program based on the IFC's Business Edge training program, which covers accounting, financial management, marketing, human resource management and formalization.
2. **Personal initiative training**: This group was offered a program focused on teaching a mindset of self-starting behavior, innovation, identifying and exploiting new opportunities, goal setting, planning and feedback cycles.
3. **Comparison group**: No training was offered to this group during the study period.

Both training programs were delivered in three half-day sessions per week, over four weeks, followed by four monthly, three-hour visits by a trainer to each business for three hours to answer follow-up questions and anything related to implementation. Entrepreneurs attending

either training paid a program fee of $10.

Researchers measured impacts up to 2.5 years after the trainings took place, collecting follow-up data four times.

Results and Policy Lessons

Business survival: Neither training showed statistically significant effects on firm survivability compared to the comparison group.

Sales: The effects of traditional business training on monthly sales was not statistically significant, while the personal initiative training represented a 17 percent increase (or $241) relative to the control mean.

Profits: The personal initiative training had a positive impact on recipient firms' monthly profits, representing a 30 percent increase (or $60) relative to the comparison group. The business training did not have a statistically significant effect, on the other hand.

Mechanisms: Looking at how the personal initiative training led to improved profitability and sales, researchers concluded that:

- Without focusing on traditional business skills, the personal initiative training increased the business practices index by a comparable amount to the traditional business training. Conversely, the traditional business training was only half as effective in jumpstarting personal initiative practices.
- While both traditional and personal initiative trainings had a significant effect on capital and labor usage, innovation, diversification, and access to finance, the effects were at least twice as large for personal initiative trainees.
- The personal initiative training is extremely cost-effective, paying back the cost within approximately one year. A lower bound on the return on investment is 82 percent,

Taken together, these results suggest certain entrepreneurial attributes can be taught and can make a positive impact on firm performance. More broadly, the results show the promise of psychology to better influence how small business training programs are taught, and the importance of developing an entrepreneurial mindset in addition to simply learning the business practices of successful entrepreneurs.

Read more in this brief by the World Bank's Gender Innovation Lab.

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