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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 their 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 micro-entrepreneurs 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 2% 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 “so small and utterly under-invested 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 “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, non-profit organizations, and non-governmental organizations providing business training programs indicate a widespread belief by many policymakers that entrepreneurship can be taught. Traditional business training programs such as those offered by the USA 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 program 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 economics 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 “sales of the day”-based training program drawing from behavioral economics (12) and programs based on insights from marketing science (13). What characterizes these programs is that they aim to improve managerial know-how. In contrast, the psychology literature has long noted problems of entrepreneurial success that go beyond knowledge and standard economic variables (14). However, few attempts have been made to experimentally evaluate the efficacy 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 greater entrepreneurial success can deliver lasting improvements for small business owners.

Personal initiative is defined as a self-starting, future-oriented, and persistent goal-directed effort (15,16). 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 oversee needs, 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 course

to build 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 useful general lesson: 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 micro-entrepreneurs 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 (33% female), had an average age of 41 years, and had an average of 9 years of education (table S1). The sample contained a broad mix of industries (25% manufacturing, 40% commerce, and 25% services), with the businesses earning a mean of 10,200 CFA francs (16 EUR) and a median of 6,000 CFA francs (9 EUR) 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 27% of firms kept accounts books, and only 4.7% had a written budget. We also measured marketing, operations management, labor market practices, and human resource practices and found that only one-third of firms used advertising or publicity, 7% compared sales performance with objectives, and 46% visited competitors to compare prices or product offerings. Firms were using a mean of 16 out of the 30 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 1.1 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 villages according to baseline profits. Within each village, 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 accepted program developed by the International Finance Corporation. The content of the training

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Supplementary Materials for

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Materials and Methods
Supplementary Text
Figs. S1 and S2
Tables S1 to S16
References

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