

Researchers

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Timeline

2008-2012

Sample Size

335 entrepreneurs in Accra-Tema and Kumasi, Ghana

Research Implemented by IPA

Yes

Identifying Gazelles among Micro and Small Enterprises in Ghana

Key Finding Summary

Researchers conducted a business plan competition to determine whether survey instruments or panel judges were able to predict which participating firms would grow fastest. They found that a measure of ability correlated quite strongly with future growth, but that the panel scores add to predictive power.

Abstract

This study examines methods of identifying microenterprises with higher growth potential in developing countries. Researchers surveyed 335 small businesses in Ghana, invited them to participate in a business plan competition, and then tested whether business plan competition judges or survey instruments were better able to identify firms that would grow faster. Both methods worked to predict growth, but survey data were slightly more predictive, and the best growth estimates resulted when both methods were taken together. Training offered to enterprises had no effect, regardless of firm or owner characteristics.

Policy Issue

A large number of very small enterprises exist in developing countries, but very few ever scale to a point at which they hire additional employees, despite interventions meant to spur growth in this sector.¹ If the microenterprises with higher potential for growth could be identified, resources currently spent on interventions provided to the full set of

microenterprises could be diverted to provide more intense support to a much smaller target population. Researchers tested various methods used to identify such businesses and explored whether training could help them achieve growth.

Context of the Evaluation

This project targeted self-employed small business owners with modest levels of formal schooling and substantial experience running businesses in urban Accra-Tema and Kumasi. Rather than focusing on a few large businesses, the project aimed to identify a greater number of self-employed entrepreneurs, each with the potential to create a small number of new jobs. These individuals are not likely to be operating cutting-edge businesses but are great in number and provide products and services that are fundamental to the functioning of the local economy, including areas such as business services (e.g., marketing services), retail trade, and basic manufacturing (e.g., producing soap).

Details of the Intervention

Enterprises were identified through the publication of a business plan competition by radio, newspaper, and door-to-door marketing in neighborhoods containing large numbers of small businesses. To participate in the competition, applicants submitted a form with basic information to ensure compliance with eligibility criteria. Eligible entrepreneurs had to be between the ages of 20 and 55 and be owners of a business that had been in operation for at least one year with two to 20 employees.

Three hundred thirty-five applicants were invited to participate in a three-day program, offered by CDC Consult Limited, designed to guide them in writing a basic business plan. Training participants were asked to submit and present a business plan to a panel of four judges. Each panel, comprised of consultants and successful business owners, scored 12 to 16 business plans on several criteria.

Half of the entrepreneurs were chosen to receive more intensive follow-on training. The selection was random with probabilities increasing with the panel ranking. Those in the top quartile of the rankings had a 75 percent probability of receiving training; the middle two quartiles had a 50 percent chance, while those in the lowest quartile had a 25 percent chance. This second round of training by the National Board of Small Scale Industries consisted of a six-day group course based on the International Labor Organization's "Improve Your Business" model. CDC Consult Limited provided individual consulting advice after this course.

A baseline survey was conducted before the initial three-day business plan training course. The survey gathered information on the owner, the history of the business, and enterprise-level data on assets, current employees, and sales and revenues. It also included measurements of risk aversion, numeracy, logical skills, personality diagnostics, and other measures from the entrepreneurial psychology literature. To track growth, follow-up surveys were conducted with all applicants one and two years after the business plan competition.

Growth measures included level of sales, profits, and investment, along with the number of paid employees.

Results and Policy Lessons

Survey data measured five categories: ability, management practices, access to credit, and two attitudes, one an outlook on the potential for growth and another combining trust, optimism, and internal locus of control. The ability measure - a combination of non-verbal reasoning tests, numeracy tests, years of formal schooling, and financial literacy - was significantly associated with growth as were management practices measured at baseline. Access to credit and both attitude measures were not associated with growth.

The two summary scores provided by the panel of judges, overall prospect of growth and how attractive the enterprise would be to an angel investor correlated highly with growth. Compared with the survey data, the panel scores did not explain quite as much of the variance in growth, however. The two measures together were a stronger predictor of growth than either one alone. The survey measure was somewhat better at predicting growth for more competitive contenders, while panel scores were more useful for separating out those at the bottom of the distribution.

The evaluation of the final intensive training found little effect on growth, regardless of firms' panel or survey scores. In fact, on average, the training had a slightly negative effect on firm growth and was associated with some firms exiting the market. This finding is consistent with a number of other recent studies that find training has little or no effect on firm growth.

Sources

¹Schoar, Antoinette. "The Divide between Subsistence and Transformational Entrepreneurship." In *Innovation Policy and the Economy, Volume 10*, 57-81. University of Chicago Press, 2010. <http://www.nber.org/chapters/c11765.pdf>.

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