

Training Entrepreneurs

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*This policy brief outlines the key policy takeaways from our VoxDevLit on **Training Entrepreneurs**. VoxDevLits are living literature reviews that summarise the evidence base on topics in development economics.*

Five things we have learned:

- Entrepreneurship can be taught.
- Better business practices matter for all sizes of enterprises.
- Training can at least modestly improve business practices for microenterprises.
- More intense consulting improves performance of larger firms and their subsequent growth.
- Innovating the content and delivery methods for training is important.

Training Entrepreneurs: The need

There are a wide range of business and management practices that most firms benefit from adopting. For small firms, these include separating household and business accounts, keeping basic records, monitoring inventory, offering discounts and promotions to attract customers, and budgeting and planning. As firms grow, it is also desirable to have human resource practices that reward good employees and improve or remove less productive employees; processes for quality control and basic lean manufacturing; and practices to set and communicate production targets and monitor performance towards these targets. Systematic measurement of these types of practices across a range of countries and firm types documents that firms using better management practices are more productive and grow faster (Bloom and van Reenen 2010, McKenzie and Woodruff 2017).

Despite the potential benefits, many firms fail to adopt better business and management practices. Business training and consulting programmes are one popular approach to improving business practices. McKenzie (2021) notes that, although numbers are fragmentary and incomplete, at least US\$1 billion is spent annually training at least 4-5 million potential and existing entrepreneurs in developing countries. This raises the questions of whether this money is well spent, and whether the

efficacy of these training programmes can be improved.

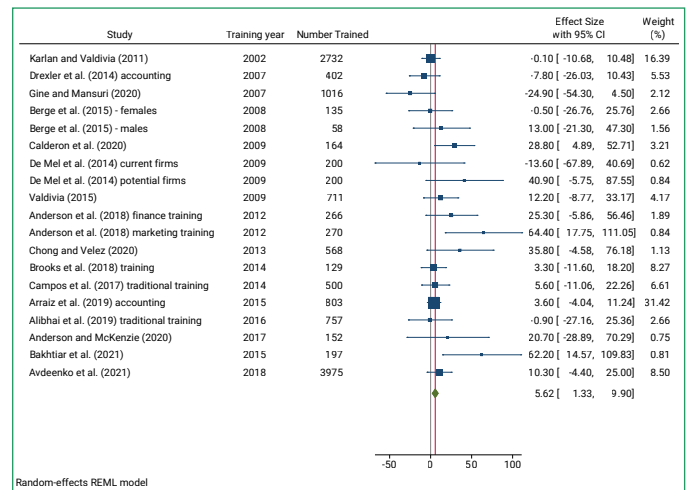
Training Entrepreneurs: The Evidence

There is now a growing evidence base that does provide guidance on the effectiveness of different ways of training entrepreneurs. This policy brief summarises what we know to date based on the evidence covered in the VoxDevLit, and highlights areas where much more work is needed.

What has the most promise?

Traditional entrepreneurship training (i.e. classroom-based training in basic business practices) has modest but (across studies) significant effects on improving business practices and business outcomes for microenterprises, but no impact on employment. There is a lot of heterogeneity in both samples and results, so there is less guidance on which groups benefit most from traditional training.

Figure 1: Estimates of the impact of business training on firm profits



Source: Original version McKenzie (2021), updated to include new studies

Personal initiative training (which aims to develop a proactive entrepreneurial mind-set) and heuristic training (simpler training that focuses on heuristic guidelines or rule-of-thumb) can work well for subsistence entrepreneurs, although the quality of the trainers appears to matter a lot. It seems doubtful that medium-sized business owners would benefit from initiative training, as they are unlikely to lack drive and initiative.

Kaizen (based on the Japanese-inspired concept of lean production) offers promise for smaller manufacturing firms above the subsistence level, although there are still fewer studies of this approach, and it has not been benchmarked against other training programmes.

Consulting (which is a more customised, intensive, and individually tailored approach) appears to work, leading to improvements for both medium/large firms, and also for smaller firms with an average of 14 workers. However, consulting is expensive, and it is less clear how to scale such programmes. A group-based consulting approach offers potential.

The evidence on the effectiveness of **mentoring** is limited, but there is some evidence that mentoring improves outcomes, particularly with more advanced firms looking to innovate. Mentoring does not appear to add value when combined with traditional in-person training provided to subsistence firms. Matching firms with well-performing peers also offers promising results, although the impacts depend on the type of peer and only certain information will diffuse this way.

There is also limited high-quality evidence on the effectiveness of **incubators and accelerators**. This is a particularly challenging area because participating firms are typically very highly selected and cohorts are typically small. However, the limited evidence suggests there is some value added in the specific programmes evaluated, including increased survival rates and increased access to finance.

Online delivery of training and consulting is increasingly being used and shows some promise. The early evidence suggests smaller, subsistence level firms can also participate in such

References

Bloom, N and J van Reenen (2010), "Why do management practices differ across firms and countries?", *Journal of Economic Perspectives*, 24(1): 203-224.

McKenzie, D and C Woodruff (2017), "Business practices in small firms in developing countries", *Management Science*, 63(9): 2967-2981.

McKenzie, D (2021), "Small Business Training to Improve Management Practices in Developing Countries: Re-assessing the evidence for "training doesn't work"", *Oxford Review of Economic Policy*, 37(2): 276-301.

training, but have to date had only modest benefits from doing so. Impacts have been larger when training is coupled or replaced with one-on-one virtual consulting and is directed to larger and more growth-oriented firms. This is a fast-changing area, and the evidence base outside of the COVID-19 period remains limited. Television edutainment and SMS messages have not shown detectable impacts.

Five important knowledge gaps

- What are the longer-term effects of training?
- How do we improve the cost-effectiveness of training, for example, by better matching entrepreneurs to the appropriate type of training, or using online interactions?
- What are the factors that limit the adoption of proven beneficial business practices by entrepreneurs and managers?
- How do we make markets for training and consulting work better?
- How do we design and evaluate incubator and accelerator programmes?

For a deeper dive into the research underlying these broader takeaways, check out the full VoxDevLit [here](#).