International Labour Organization

Issue Brief No 9, April 2018

The impact of management training on small enterprises in developing countries: Lessons from Ghana, Tanzania, and Vietnam

1. Key findings

- Management training based on the ILO's Start and Improve Your Business (SIYB) combined with basic elements of *Kaizen* on production management and quality control significantly improves performance of small firms. Enterprises from a garment cluster in Tanzania increased their value added by 50% compared to the control group. Firms from a metal cluster in Ghana and a garment cluster in Vietnam were able to cope better with the massive competitive pressure of cheap imports. Ghanaian firms reported only a 10% reduction in profit while the control group lost 30%. In Vietnam, where the control group lost 40%, the treatment group had virtually no reduction.

- The impact of management training might be higher in the longer run. The full impact on business performance in Tanzania could only be seen three years after the intervention. In Vietnam, training impact was much greater five years rather than two years after the training intervention. Entrepreneurs seem to need time in order to try out and adapt lessons learned in the training.

- Willingness to pay for participation in a management training programs increases after having participated in the program. Before the training only 65% of the treatment group in Tanzania were willing to pay a contribution of US$ 150. This willingness to pay increased to 100% after training attendance. Similarly, only 23% of the treated Vietnamese entrepreneurs were willing to pay US$ 150 to learn management, but the share increased to 53% after the training. Many entrepreneurs in the developing world underestimate the value of the training program until participating in it which indicates a serious market failure.

What Works in SME Development

The What Works in SME Development Series is presenting key findings of interventions promoting small and medium enterprises as a means to create more and better jobs. It covers ILO programs as well as interventions of other agencies using ILO products.

The main objective of the new Series is to increase the take up of effective SME programs by leading actors in this field. The issue briefs target ILO constituents, other policy makers, development practitioners, and the private sector presenting key evidence at a glance. Preference is given to rigorous quantitative research, but the Series also covers other research approaches contributing to more evidence on what works and what does not work.

The What Works Series is coordinated by the SME Unit of the International Labour Organization, for more info see **www.ilo.org/sme**

Participants in the ILO's
Start and Improve Your Business saw...

Tanzania Garments ▲ **50%** business value added

Ghana Metals ▲ **20%** resilience to profit loss*

Vietnam Garments ▲ **40%** resilience to profit loss*

...compared to non-participants

*difference between profit loss incurred by training participants and profit loss incurred by non-participants.

2. The challenge

Small and medium enterprises (SMEs) are widely recognized as a major source of employment and income in developing countries. They could contribute more to economic growth and poverty reduction if they increased productivity and firm size. In reality, however, their productivity and firm sizes remain low and small.

Their low performance was initially mainly ascribed to an unfavorable business environment, which is also often highlighted as a major hurdle for creating more and better jobs. In recent economic literature, however, internal management has been increasingly recognized as a major determinant of business performance, and there has been renewed interest in building managerial capacity through training. There is solid evidence that management has a large effect on the productive efficiency of small firms in developing countries[1]. The remaining question to be answered is whether management training programs offered to SMEs in developing countries have a significant impact on business practices and performance.

Existing literature presents a mixed picture on the effectiveness of management training. All studies show significant impact on improving intermediate results such as business practices, but sometimes face difficulties in finding impact on firm performance in terms of sales or profit increases. Second, these studies frequently only cover the shorter term impact relying on follow up surveys conducted a few months or a year after the end of the intervention. Finally, a concern is how basic training can be combined with ancillary services, such as additional content or on-site advice, to increase impact.

The research presented here aims to provide additional evidence on whether a package of basic management training and *Kaizen* can help small businesses grow, and what the longer term effects of such interventions are.

3. Program and evaluation design

Three impact assessments were run in Ghana, Tanzania, and Vietnam testing the effect of management training on improving small firm performance. In these countries, the training programs included two components consisting of (1) the ILO's SIYB training[2], which is a widely used curriculum on key issues of running a business such as costumer relationship, separating household and business finance, and record keeping, and (2) basic *Kaizen* which is an approach to production management and quality control from Japan. In the context of these programs, *Kaizen* mainly focused on coordinating the division of labor and reducing wasteful use of intermediary inputs and time.

1 See McKenzie, David; Woodruff, Christopher, Business Practices in Small Firms in Developing Countries

2 For details see www.ilo.org/siyb

The program in Ghana served a metalworking cluster in Kumasi, the second largest city of the country. The cluster consists of more than 10,000 SMEs. Based on the list of the industry association members, the researchers randomly selected 167 firms out of which 60 were randomly invited to attend the training. The average employment size of the enterprises under study was 4 (including apprentices). In 2007, these enterprises received three weeks of training delivered for 2.5 hours per working day in the evenings. A follow up survey was conducted one year after delivery of the program.

The program in Tanzania covered a garment producer cluster in Dar es Salaam counting some 250 SMEs. Based on the membership list of three local associations researchers randomly selected a sample of 114 enterprises in 2010. The typical firm had 5 workers and most of the enterprises were owned by women. Owners were relatively well educated and 60% had previous experience with management training. Of the 114 enterprises, 52 enterprises were randomly invited to attend the training, structured identically to the training conducted in Ghana. An additional 54 enterprises, including those invited to the training, were selected to receive on-site advice including a minimum of three visits to the workshop of the firms. As a result, researchers could build four groups including firms that (1) received training and on-site advice, (2) training only, (3) on-site advice only, and (4) no support at all. Three follow up surveys were conducted from 2011 to 2014.

The program in Vietnam targeted a garment cluster in sub-urban Hanoi, the capital city of Vietnam. In this cluster, knitwear products such as sweaters, caps, and socks are produced. All 161 enterprises in the cluster were included in the study, and their average employment size was 18. The training and on-side advice were provided to randomly selected enterprises so that researchers can compare four groups as in the Tanzania study. Three follow up surveys were conducted from 2011 to 2016.

4. What we found

Take up rates were very high in Tanzania and Ghana. 90 to 100% of the invited participants attended the trainings or on-site advice documenting a high interest for such support services. In Vietnam, however, the take up rate was lower at about 60% although the training was provided for free in all three clusters. This is presumably because the Vietnamese entrepreneurs, who tend to acquire business knowledge and resources from their parents operating in the same strand of business, did not see a need to further enhance their business skills.

Management practices as measured by a score based on 27 diagnostic criteria improved significantly in Tanzania. The average score was 11 points out of 27 points before the start of the program. All treatment groups had higher management scores than the control group after the intervention. The combination of training and on-site advice had the highest effect. The management score increased by 5.9 points (more than 50%). Participation in only the training or only the on-site advice increased the score by 2.7 points (25%). Improvements were achieved in the short run, but, most strikingly, the effect could still be seen over the long run (three years after the end of the training). Participants kept deploying the management practices over the years. Similarly, adoption rates of recommended business practices such as bookkeeping increased by 36% in the treatment group in Ghana compared to 6% in the control group. Vietnamese enterprises in the treatment group also increased their management score, with the increase being largest among those who received both training and on-site advice. The increase in management score was sustained even five years after the training intervention.

Turning to **business performance**, the group of enterprises in Tanzania that received training and on-site advice significantly improved in terms of value added (by 50%) and sales revenues (45%) compared to the control group. However, this impact could only be seen three years after the intervention. It therefore takes more time to detect the effect of management training on business performance than the effect on the intermediate outcome like management practices. The impact also goes hand in hand with a higher likelihood to invest into equipment. The effects on other treatment groups (only training or on-site advice) are statistically not significant. In Ghana the program also helped to improve business performance. Only

10% of participants in the training report a reduction in sales and profit compared with 30% in the control group. This is also a good illustration of why it is important to have an experimental design with a control group when assessing impact. Overall, all Ghanaian enterprises surveyed reported a reduction in sales and profits due to the massive competitive pressure from Chinese imports to Ghana. However, the training seemed to help enterprises to reduce the negative external effect of increased competition from imports, meaning that the intervention had a significant positive impact. The benefits of the program in Ghana in terms of gross profit are 18 times higher than the local cost of the program intervention in Ghana (US$ 740 per participant). Similar to the cluster in Ghana, the Vietnamese cluster experienced difficulty due to Chinese imports as well as lowered demand for low-quality products produced in the knitwear cluster. Despite the overall decline in business performance, the enterprises in the treatment group were better able to cope, and in particular, enterprises that received both training and advice experienced no loss to their business.

Willingness to pay for participation in management training programs increased after program participation. Before the training only 65% of the treatment groups in Tanzania indicated that they would be willing to pay a contribution of US$ 150. Willingness to pay increased to 100% after training participation. In Vietnam, only 23% of the treated entrepreneurs were willing to pay US$ 150, which was reflected in the lower take-up rate in the knitwear cluster. The initially low willingness to pay, however, increased to 53% after training participation. Many entrepreneurs in the developing world underestimate the value of the training program until participation which indicates a serious market failure and justifies initial subsidies for trainings. The willingness to pay also increased among the control group indicating that there are positive knowledge spill overs in the clusters.

5. Policy implications

Small enterprises in developing countries can improve firm performance by learning management techniques. Tracing impact requires patience. Final impact on firm performance can sometimes only be seen two or three years after the intervention. Monitoring and evaluation practices should subsequently take a longer term approach. More efforts are needed to also track the impact on job creation as well as the quality of jobs created.

If using a decentralized, local delivery mechanism like the ILO's SIYB, the cost of training provision should be outweighed by the benefits in terms of additional sales or profits.

Combined approaches of support relying on classroom training as well as on-site visits to the workshops seem to produce better results than stand-alone interventions.

The findings with regard to willingness to pay suggest that many SMEs are unaware of the value added of management training but are willing to change their views after having experienced the benefits of good quality services. Thus, the potential demand for business training is high, but the effective demand is low. In order to bridge this gap it is necessary to temporarily subsidize such training programs until the benefits are more widely known and demand increases. Complementary awareness raising campaigns should complement this approach of allowing for subsidies.

6. Further readings

Higuchi, Yuki; Mhede, Edwin Paul; Sonobe, Tetsushi (2016), Short and Longer-Run Impacts of Management Training: An Experiment in Tanzania. GRIPS discussion paper.

Higuchi, Yuki; Nam, Vu Hoang; Sonobe, Tetsushi (2015), Sustained Impacts of *Kaizen* Training, Journal of Economic Behavior and Organization, Vol. 120

Mano, Yukichi; Iddrisu, Alhassan; Yoshino, Yutaka; Sonobe, Tetsushi (2012), How Can Micro and Small Enterprises in Sub-Saharan Africa Become More Productive? The Impacts of Experimental Basic Managerial Training, World Development, Vol. 40, 3

Note on Impact Evaluation Technique: The methodology applied for the research was a lottery design (randomized control trial) meaning that a sample of potential beneficiaries is randomly assigned into those who receive the intervention and those who do not. Impact is the difference in outcomes between the groups. ***Based on this design results are of high reliability, but cannot be generalized for other contexts or countries.***

Author: Tetsushi Sonobe, National Graduate Institute for Policy Studies, Tokyo, Japan and Yuki Higuchi, Nagoya City University, Japan

Sponsors: World Bank Japan PHRD Trust Fund and the Japan Society for Promotion of Science