

Business Practices in Small Firms in Developing Countries[#]

David McKenzie, *World Bank*
Christopher Woodruff, *University of Warwick*

Abstract

Management has been shown to have a large effect on the productive efficiency of large firms. But the majority of the labor force in developing countries works in enterprises with fewer than five workers. Do the practices of the managers of these firms matter for efficiency? We develop a set of 26 questions that measure business practices in marketing, buying and stock-keeping, record-keeping, and financial planning. These questions have been administered in surveys in Bangladesh, Chile, Ghana, Kenya, Nigeria and Sri Lanka. As in Bloom and Van Reenen (2007), our measure is self reported, but independent auditors blind to the survey measure report measures which are very highly correlated with the self-reports. We show that variation in business practices explains as much of the variation in outcomes – sales, profits and labor productivity and TFP – of microenterprises as in larger enterprises. Using panel data from Sri Lanka, Kenya and Nigeria, we show that better business practices are associated with higher business survival rates and faster sales growth. The effects of business practices is robust to including numerous measures of the owner’s human capital. When we examine the variation in business practices themselves, we find that owners with higher human capital, sons and daughters of entrepreneurs, and firms with paid employees employ better business practices. The effect of competition has less robust effects.

[#] We gratefully acknowledge funding from the Knowledge for Change Trust fund, as well as the funders of the underlying surveys which we use. We thank participants at the AEA meetings for useful comments.

1. Introduction

Bloom and Van Reenen's (2007) work measuring management practices in large firms around the world has been both path breaking and eye opening. They and their collaborators show that better managed firms perform better, and that the quality of management practices is strongly correlated with per capita income at the country level. But the majority of the non-agricultural labor force in most low- and middle-income countries is employed not in the large firms this blossoming literature studies, but in firms with fewer than 10 employees. Bloom et al (2012) justify the focus on larger firms by noting that "...the formal management practices we consider will not be so important for smaller firms...where more formal management practices may not be necessary."

In this paper, we test the assertion that management practices are less important for smaller firms. We examine the relationship between management practices and firm outcomes using several samples of micro- and small enterprises in six countries. In each of these samples, firm owners were asked 26 questions related to business practices using a common survey instrument first used in de Mel et al (2014). Management in the small-firm context is less focused on human relations than is the case in larger firms. Our diagnostic instrument reflects this, with questions covering the areas of marketing, record keeping, financial planning, and stock control. We refer to these as "business practices" rather than management practices to reflect the fact that HR management is less important in our context.

Our samples come from two South Asian, three African and one Latin American country. The samples were all drawn for purposes other than testing our business practices instrument, and most were selected to reflect very specific sub-populations of interest for particular studies. They range from female-owned firms to a sample of highly-educated owners applying to a business plan competition. But while the samples were not formally designed to be representative of micro- and small-scale enterprises in any single country, collectively they reflect the ranges of enterprises in low- and middle-income countries quite well.

Our measures of business practices are designed to be collected in closed-end surveys, and we code each of the 26 as either carried out or not. For most of the analysis, we focus on a simple aggregation which measures what percentage of the 26 practices a business implements. We

examine first the correlation between business practices and firm outcomes – sales, profits and productivity – in the cross section. The exercise is very much in the spirit of Bloom and Van Reenen (2007). And our results for the sample of microenterprises are remarkably similar to those in Bloom et al (2012): a one standard deviation improvement in business practices is associated with a 43 percent increase in labor productivity and a 25 percent increase in total factor productivity. The comparable relationships for much larger firms based on data from Bloom et al (2012) are 43 and 17 percent, respectively.

The cross-sectional analysis provides correlations without providing any evidence on the direct of causation. We then take two steps in the direction of uncovering causality. First, we provide some evidence using panel data available from three countries – Kenya, Nigeria and Sri Lanka. Using these data, we show that business practices measured at baseline are associated with higher rates of enterprise survival and higher rates of sales growth in the following year or years. Second, we assess evidence from the literature measuring the impact of microenterprise training programs. Overall, the evidence from entrepreneurship training programs disappointingly finds little evidence that training induces faster rates of growth (McKenzie and Woodruff 2012).¹ Focusing on five studies which measure business practices with a version of our instrument, we show that the effects on sales and profits found in these studies are always consistent with the predicted effects given the observed changes in business practices. Most of the studies find small, and statistically insignificant, effects on sales and profits because they find small effects of the training programs on business practices. Thus, we cannot conclude from the literature that business practices do not matter. The correct conclusion is that most of the existing training programs have effects which are too weak to generate statistically significant effects on outcomes.

In interpreting the data, we should keep in mind two ways in which the situation of small firms differs from that of larger firms. First, all of our data on both practices and outcomes are self reported. We might be concerned that individuals who are prone to overstatement will overstate both practices and outcomes. We address this head on by conducting auditing exercises in two of the samples. We find that assessments of auditors hired by us, and blind to the survey responses

¹ Calderon, Cunha and De Giorgi (2013) and Anderson-MacDonald et al. (2014) are recent exceptions, each showing more substantial growth following microenterprise training.

of the owners, are correlated very highly with the self-reports. We also note that the strong association between practices and enterprise survival supports the voracity of the measures. Second, the owner is almost always the top manager in our firms. Both practices and outcomes may be affected by characteristics of the owners that we cannot measure. We show that the correlation between practices and outcomes is almost unchanged by the inclusion of several measures of owner ability, most of which themselves are strongly associated with business practices.

2. Defining and Measuring Business Practices in Small Firms

2.1 Defining and Scoring Business Practices

We developed a set of 26 questions which measure key business practices used in the day-to-day running of small businesses. These questions were motivated by the content of the International Labour Organization (ILO's) *Improve Your Business* training curriculum, which covers marketing, buying and stock control, costing and record-keeping, and financial planning (Borgenvall et al., 1999). The questions cover practices which apply broadly across a range of different sectors and countries. As in Taylor (1911), they should be seen as “best practices” which are universally good so that all firms would benefit from adopting them. To give one example, we ask whether firms maintain written records which allow them to determine sales patterns for particular products or services. Since our focus is on a set of practices which can be applied in the vast majority of small firms, we exclude practices which might apply only to certain industry sectors, or firms of a certain size. In particular, we do not include human resource practices, since the modal small firm in most of the world has no paid workers.

Our goal was to design questions that could be included in large-scale surveys taken of owners of small firms. In practice these surveys in developing countries are typically administered by survey enumerators. For this reason, we rely on closed-ended questions. The surveys are usually administered on the premises of the business, but also can take place at the dwelling of the owner, or in a third location such as the offices of the survey firm. As such, we rely on questions that can be asked regardless of location. This precludes the use of measures involving physical inspection of the business premises or of the businesses' books by the interviewer. We discuss reporting issues in Section 2.6.

In order to reduce the subjectivity associated with ordinal scales, we use binary measures of each practice – the firm is either doing the practice or it is not. For many practices this involves imposing a time frame on the frequency of the practice. For example, under marketing practices, we measure whether or not a firm has visited at least one of its competitor’s businesses to see what prices its competitors are charging within a period of the last three months. A firm which only checks on the prices of the competition less frequently would then be coded as not employing this practice. Appendix 1 details each of the 26 practices.

We then define our main measure, the *business practices score*, as the proportion of these 26 business practices used by a firm. This method of aggregation has several attractive features. It naturally lies between 0 and 1, so coefficients can be interpreted easily as the effect of employing none of the practices to employing all of the practices. It also allows to compare practices even when not all 26 questions are asked in a particular country or answered by a given firm, since we can scale by the proportion of questions answered.² Nevertheless, for robustness purposes we also considered the first principal component of the individual practices, as well as the average of standardized z-scores for each practice. The correlations between all three of these aggregates range between 0.965 and 0.997. As such, our results are robust to these alternative methods of aggregation, as we show in Table A1.

2.2 Data Collection

These questions were included in surveys of micro and small enterprises conducted in six countries between 2008 and 2014. These samples vary in their representativeness and size, since they were in most cases conducted as part of impact evaluations of particular programs. The surveys conducted in Bangladesh, Kenya, and Sri Lanka provide representative samples of firms of particular size cutoffs, while those in Ghana and Nigeria come from applicants to business plan competitions. The Chile survey was administered to a sample of applicants to a government microenterprise training program. Appendix 2 provides more detail on each sample. A consequence of these differences in sample frames in different countries is that we will not be able to compare the levels of business practices across countries, as Bloom and Van Reenen (2007) did for management practices. Instead, this sample of over 10,000 small firms provides

² Four of the questions on financial planning were not asked in Kenya and Nigeria.

rich data that enables us to examine how business practices relate to outcomes within countries, and to explore what determines differences in business practices among firms within each country.

In addition to providing a cross-section of over 10,000 small firms, four of the countries (Ghana, Kenya, Nigeria and Sri Lanka) also provide panel data on the sampled firms. These allow us to examine survival rates over a one year horizon using data from 7016 firms, and the stability of business practices over a one year horizon with data from 5,742 firms. The Sri Lankan data also provide a longer panel, enabling us to examine the relationship between business practices and subsequent survival over a 5.5 year period.

2.3 Summary Statistics

Table 1 provides summary statistics for the full sample, and for each of the six countries. In the combined sample, the median firm has zero employees and earns US\$94 per month. 95 percent of the sample has nine or fewer workers. The gender distribution varies across countries, from the all-female sample in Kenya, to a sample of 99 percent male owners in Bangladesh. The average business owner is 37 years of age and has 10.8 years of education; the average firm age is 8 years. Owners are youngest and most educated in the Nigerian sample, which comes from a youth business plan competition. Across all samples, most firms are informal, with only 39 percent in the combined sample reporting that they are registered for taxes. The businesses are a mix of trade, manufacturing and services, with this mix varying across the different countries.

2.4 Distribution of Business Practices

Table 1 shows that on average firms in the samples employ 48 percent of the 26 business practices measured. The most frequently used practices are knowing which goods make the most profit per item (91%), attempting to negotiate with suppliers for lower prices (74%), and working out the cost of producing each main product sold (74%). The least frequently used practices are preparing a balance sheet (7%), cashflow statement (10%), profit and loss statement (14%), and doing advertising (21%). This is reflected in the four main subcomponents: the financial planning score is lower on average than the scores for other components. Table A4 reports means for the individual practices by country.

Figure 1 plots histograms of the distributions of business practice scores in each country. Recall that differences in the sample frames across countries make inter-country comparisons less meaningful. For example, the Nigerian sample of highly educated young entrepreneurs who were selected through a nationwide business plan competition averages much higher scores than the other samples. However, we do see a large dispersion in business practices within each country. This echoes the large spread of management practices found by Bloom and Van Reenen (2007) across larger firms within countries. The dispersion is evident even within samples that screened the firms to be similar in terms of size and industry. For example, the Kenyan sample consists of female-owned firms largely operating retail trade businesses in small markets, with less than 3 employees and profits below 4,000 KSH per week (US\$47). The standard deviation of the business practice score is still 0.19 relative to a mean of 0.52 even in this relatively homogenous sample. Thus even among very small firms there are large differences in the way they operate.

2.5 Stability of Business Practices over Time

The data from Ghana, Kenya, Nigeria, and Sri Lanka enable us to examine how stable these practices are over a one year period. Figure 2 plots the business practices score in a one-year follow-up survey against that in the baseline.³ The mass lies close to a 45 degree line, but there are also firms which change their practices dramatically from one year to the next. The Pearson (Spearman) correlation is 0.591 (0.593). There is thus a strong persistent component of these scores. It is unclear how much of the variation over time reflects genuine change in practices versus measurement error. By way of comparison, Bloom and Van Reenen (2007) report that for a sample of 64 firms for which repeat interviews were done by different interviewers of different managers in a plant, but at the same point in time, the correlation was 0.73, while Bloom et al. (2012) report that their correlation in re-interviews was 0.51 when done for 222 re-interviews.

2.6 Reporting Issues and Audit Results

Our measures of business practices come from survey self-reports. This raises three potential concerns. The first is that the survey responses may not be informative if everyone claims to be

³ We exclude the firms in Sri Lanka and Kenya who were assigned to receive business training treatments for this part of the analysis in order to examine the stability of practices in the absence of an intervention intended to change these practices: the correlation falls slightly to 0.56 if we include treated firms.

employing good practices. The second is that there is a systematic bias in reporting after a training intervention, with individuals who have gone through training claiming to employ more practices than they actually employ because they want to show they have done what the training instructed. The final concern is that a systematic bias arises because more able business owners are better at knowing what the correct answer to these practices should be, and also do better in business.

We employ several methods to address these concerns. The first consists of *audit visits*. We selected a random sample of 135 firms in Nigeria and 200 firms in Sri Lanka that we had interviewed one to two months earlier. These businesses were visited by a business mentor – individuals experienced in business and/or business training – hired by us. The visits were framed to firm owners as a chance to receive individualized feedback on their business. The mentors were given a set of open-ended questions to ask (e.g. “what methods do you use to ensure your customers are satisfied with your products?”, “Tell me about any advertising you have done lately”, “can you tell me how you keep track of inventory?”, “what are your targets for the business for the coming year?”, etc.), and typically spent 2-3 hours with the business owner. At the end of the interview, they provided the owner with suggestions for areas where she/he could improve practices and provided us with an independent assessment of whether or not the firm owner was using each of the 26 business practices.

When we compare the business practice score based on this audit with the survey responses, we find a Pearson (Spearman) correlation of 0.74 (0.73). This is higher than Bloom et al. (2012) report for their repeat interviews by different surveyors using double-blind surveying. Figure 3 plots the audited score against the survey score, along with a 45 degree line and line of best fit. Note that the fitted line has slope less of less than one, implying that it is more common for the audit visit to suggest a lower score than the survey than vice versa. This could reflect some over-reporting by firm owners, or could reflect that mentors are not able to always tell whether a practice is being implemented on the basis of the visit. Nevertheless, the strong positive correlation provides us with some confidence that the reported scores contain a strong signal of actual business practice.

In Sri Lanka, 90 of the 200 firms audited had been assigned to a business training course. The Sri Lankan audit sample can therefore also be used to assess the extent to which training biases the self-reported responses. In Appendix Table A1 we show the results of regressing the difference between the audited business practice score and the survey score on treatment assignment. The treatment effect is small in magnitude (0.01) and not statistically significant, suggesting there is no systematic bias in reporting coming from some individuals having done business training. Finally, on the possibility that more able business owners report more business practices than they actually employ, and also do well in business, we show below that controlling for multiple measures of owner ability does not change our results. Taken together with the audit results, this provides some confidence that the associations we find between business practices and business performance are not an artifact of biased survey reporting.

3. Validating the Data

We follow the approach of Bloom and Van Reenen (2007) in viewing the correlations of our business practice scores as a form of validation that the business practices are likely to be picking up a quantity of interest. As with their management practices, the purpose here is not to identify or claim a causal relationship between business practices and firm outcomes of interest, but rather to demonstrate that these measures do seem to at least have some predictive power for explaining differences in performance across firms.

3.1 Business Practices and Firm Productivity

Consider a standard production decision of a small firm, in which the owner is choosing labor L , materials M , and capital K inputs to maximize output $Y=f(A,L,M, K)$, with output price p , cost of labor w , cost of raw materials s , cost of capital r , and productivity factor A . With a given wealth level W , the owner's production decision is:

$$\max_{K,M,L} pf(A, L, M, K) - wL - sM - rK \quad s. t. \quad wL + sM + rK \leq \lambda W \quad (1)$$

Where λ reflects the tightness of borrowing constraints on both fixed and working capital. How then might business practices affect this production decision? Bloom et al. (2012) discuss several views of management that have analogs here. The first is to view management as another factor

of production, which itself has a market price and is chosen by the firm owner like other inputs. In micro and small firms the owner is typically the manager (and often the only worker), so managers are not hired through the labor market. But owners may be able to purchase better business practices by investing in business training. A second view is that management is a technology, with better management allowing firms to produce more out of the same inputs. In our context this would mean have business practices affect the A term in this optimization decision. For example, better stock-keeping, record-keeping and planning ahead may result in less spoilage and wastage, and less downtime that comes from not having the right parts or goods.

However, we believe that the types of business practices we measure also are likely to matter in ways other than productivity. In particular, marketing practices are likely to affect the demand faced by firms, which is reflected in the price p it receives. Better buying practices such as seeking an alternative supplier can result in low raw materials prices s , while better record-keeping and financial planning can potentially affect the willingness of banks to lend (λ), and cost of finance r . As a result, both prices and inputs are likely to be endogenous to business practices B . But in general the different channels all suggest we should expect firms with better business practices to have higher revenues and to be more profitable, so we can examine whether these associations hold.

We start by simply examining whether firms with better business practices have higher revenues. To do this we run local linear regressions of log sales on our business practices index. Next, we examine cross-sectional associations with labor productivity by estimating for firm i in industry j in country c :

$$y_{i,j,c} = \alpha_c + \beta_{c,j} + \theta B_{i,j,c} + \mu' l_{i,j,c} + \varepsilon_{i,j,c} \quad (2)$$

where y is log sales or log profits, B is our business practices index score, and l is labor. This specification controls for country and industry dummies. Industry sector is defined differently across the datasets, so we allow for the industry to vary by country. Typically industry is at the 2 or 3 digit SIC level, and in total we have 291 industry*country dummies. For labor, we control for log of the owner's labor hours, and log of the number of workers. To deal with zero hours or zero workers, we include separate dummy variables for having zero hours and for having zero

workers, as well as for having missing values of these variables.⁴ A positive value of θ then shows that better business practices are associated with higher labor productivity in the cross-section.

We then add controls for the log of the value of inventories and log capital stock, again including separate dummies for zero and missing values, in order to capture total factor productivity. Next, we add a set of controls for owner and firm characteristics that might be correlated with both firm productivity and the business practices used: the gender, age, and schooling of the owner, their ability as measured by raven and digitspan recall tests, and the age of the firm. Finally, we allow the coefficients on all of these control variables to differ by country.

3.2 Econometric Results for the Association of Business Practices with Productivity

Table 2 reports the results of estimating equation (2) on the combined sample. Column 1 shows a strong positive and significant association between better business practices and higher labor productivity. A one standard deviation (0.24) increase in the business practices score is associated with 0.36 log points (43 percent) higher labor productivity. Controlling for inventories and raw materials reduces this association from a one s.d. change in business practice scores to 0.25 log points (28 percent). Adding the set of owner and firm controls in column 3 does not change the coefficient on business practices much, despite the controls themselves being highly significant. From column 3 we find that a one standard deviation increase in business practices scores is associated with a 27 percent increase in productivity. Allowing for additional flexibility in the production function in column 4 by allowing all control variables to have country-specific coefficients does not change this very much, with a one standard deviation increase in business practices still associated with a 25 percent increase in productivity.

Columns 5 through 8 show the corresponding regressions with log profits as the outcome; business practices are again statistically significant in all specifications. From column 8 we find a one standard deviation increase in business practices is associated with an 18 percentage point

⁴ About 1.3 percent of respondents report sales of zero, and 0.5 percent report negative or zero profits. We exclude these from the regressions reported in the body of the paper. We think this is likely the proper treatment because, for example, there are many observations with zero sales but positive profits. However, we find almost identical results when we define the left hand side variable as $\log(\text{sales}+1)$ and $\log(\text{profits}+1)$.

increase in profits, conditional on labor, raw materials, capital, and owner and firm characteristics.

Because the survey respondent is also typically the manager, there might be a concern that the reported measures of business practices and outcomes are both influenced by characteristics of the owners which we are unable to control for. High ability owners, for example, may report better business practices either because they are more likely to use better practices or because they are more likely to know what the “correct” answer to the questions is. Even if higher ability owners employ better practices, the relationship between practices and sales or profits may be biased upward by the exclusion of variables positively correlated with both practices and outcomes. In that regard, the comparison of column 2 with column 3, or column 6 with column 7 is reassuring. These results indicate that the inclusion of several controls for the ability of the owner has almost no effect on the relationship between measured business practices on the one hand and sales or profits on the other. While the variables included are not exhaustive measures of owner ability, the fact that the coefficient on business practices moves hardly at all suggests that the relationship is not driven by unmeasured owner ability.

The estimations reported on Table 2 impose a linear functional form between business practices and firm performance. One might alternatively hypothesize that business practices either have strongly decreasing returns (what matters is having a few in place), or strongly increasing returns (they don’t matter unless you are doing almost all of them). We therefore relax the linearity assumption in two ways. First, Figure 4 shows local linear regressions of log sales against our business practices score for the combined sample, and for each country separately. Point-wise 95 percent confidence intervals are also shown. In some of the individual country cases the confidence intervals are wide at one or the other tail, reflecting few observations in this range. This is particularly the case for the smaller Chilean sample. In all cases we see strong positive, and reasonably linear, relationships. Firms with better business practices have higher sales on average. Second, in Appendix Figure A1 we re-estimate column 8 of Table 2, allowing for non-linearity in the association with business practices by including nine dummy variables for different business practice ranges instead of the linear term. The relationship is fairly linear, showing if anything slightly increasing returns to business practices. We therefore proceed with a linear specification for the remainder of the paper for ease of interpretation.

In Appendix Table A2 we examine the robustness of our results to alternative methods of aggregating the business practices. We do this for the subsample of observations with no missing business practice data, since principal components drops observations in which one or more business practices are missing. We see from the foot of Table A2 that the estimated change in log sales from a one standard deviation change in the business practice measure is robust to how business practices are aggregated, and we get a positive and strongly significant association in all cases. Appendix Table A3 examines the association between business practices and productivity country by country. Panel A shows labor productivity, and Panel B total factor productivity. We see positive and significant associations with labor productivity in all countries, and positive associations with total factor productivity in all countries, which are statistically significant in five out of six countries (the exception being Ghana, which has a relatively small sample size). Therefore our results are not being driven by any one country, or by the method of aggregation.

Our specifications in Table 2 are similar to those in the first few columns of Table 3 of Bloom et al. (2012). It is therefore of interest to compare the magnitude of association of outcomes with business practices in our sample to the associations of outcomes with management practices in their sample. In their equivalent of column 1, a one standard deviation increase in their management practices score is associated with a 42.6 percent increase in labor productivity, while in their equivalent of column 4, a one standard deviation increase in management is associated with a 17.1 percent increase in total factor productivity. These are similar in magnitude to our estimated effect sizes of 43 percent and 25 percent respectively.⁵

3.3 Association of Business Practices with Business Subcomponents

Table 3 separates our overall business practice measure into the four subcomponent indices: marketing, buying and stock control, record-keeping, and financial planning. Column 1 shows that each component has a positive and significant association with labor productivity. Column 2 shows this is also true for total factor productivity, although the buying and stock control measure loses its significance in column 3 once owner and firm characteristic controls are added. Column 6 shows that it is the record-keeping and marketing practices that have the strongest associations with profits, conditional on input use and owner and firm characteristics. Table A4

⁵ Note that the standardized effect sizes are much smaller in Bloom and Van Reenan (2007), which has a much smaller spread of management practices over which to draw inferences.

presents the coefficients from estimating (2) separately for each practice, and finds that 25 out of the 26 practices have a statistically significant positive correlation with labor productivity (the exception being whether they run out of stock frequently).

3.4 Association of Business Practices with Firm Survival and Firm Growth

Table 4 uses our panel data to examine the extent to which baseline business practices help predict subsequent firm survival and firm growth.⁶ Columns 1 through 4 use data from Kenya, Nigeria, and Sri Lanka and look at survival over one year. Column 5 uses only the Sri Lanka data to examine a longer-term horizon of 5.5 years. We see from column 1 that baseline business practices do positively and significantly predict one-year survival. A one standard deviation improvement in business practices is associated with a 1.3 percentage point higher likelihood of survival, in a context where on average only 8.8 percent of firms exit in one year. Baseline practices continue to significantly predict survival even after conditioning on initial employment levels (column 2), and on owner and firm characteristics (column 3). However, they lose their significance once we condition on baseline sales and profitability (column 4), suggesting that one of the main channels in helping firms survive is through making them more profitable. Column 5 shows that our business practice measure also predicts survival over longer periods – a one standard deviation increase in baseline practices is associated with 2.2 percentage point higher survival rates over a 5.5 year horizon.

Columns 6 through 8 show that there is a strong positive association between initial business practices and subsequent sales growth (conditional on survival).⁷ Sales growth here is measured as the change in log sales. This positive association holds over the one year horizon (columns 6 and 7), and in our Sri Lankan sample over the 5.5 year horizon (column 8). A one standard deviation increase in business practices is associated with 7 percent higher growth over one year (column 7), and with 15 percent higher growth over 5.5 years (column 8).

⁶ Note in our survival probits we control for industry classification at the level of manufacturing, trade, and services, in order that the probit does not drop observations from industries with small numbers of firms in our sample and in which all the firms survive or all fail.

⁷ Since sales growth can be noisy, for robustness we also considered sales growth truncated at the 5th and 95th percentile, and using this truncated growth measure also results in a positive and statistically significant association.

3.5 Discussion of Business Training Experimental Literature

The above analysis shows that there exists a strong positive association between our measure of business practices and business performance and growth. In order to show that this relationship is causal, we would ideally experimentally change business practices and measure their impact on firm growth. A growing experimental literature, summarized in McKenzie and Woodruff (2014), has attempted to do this. However, much of this literature has struggled to find significant impacts of business training on firm performance. This raises the question of whether the strong associations we see in our data are inconsistent with experimental results, and therefore suggest that we are not capturing a causal phenomenon.

To examine this, we use the fact that three of our datasets were collected as part of business training experiments. The first three rows of Table 5 show the effects on business practices of the International Labor Organization (ILO) Start-and-Improve-Your-Business and Get Ahead training programs in two of our Sri Lankan sub-samples and our Kenyan sample. The first column shows the measured effect of training on business practices. In all three experiments, the treatment effect on our business practices measure is between 0.04 and 0.06, implying the owners undertake an additional 1 to 1.5 practices after training. The next two columns present the 95 percent confidence intervals for the treatment effects on log sales and log profits one year after this training. Many of these contain zero, which is consistent with the general struggle in the literature to find significant impacts of training on sales and profits. In the final two columns we use the coefficients from columns 4 and 8 of Table 2 to predict changes in profits and sales, given the change in business practices that the training causes. Given the small change in business practices, the earlier regressions suggest we should see only a 3-4 percent increase in sales and profits in each study. These estimates lie well within the confidence intervals of the estimated treatment effects.

Although most other business training evaluations have not measured business practices in as comprehensive a way as our measures, the evidence summarized in McKenzie and Woodruff (2014) shows that other existing training programs have generally also only increased the use of good business practices of around 6 or 7 percentage points, or 0.1 to 0.2 standard deviations. This contrasts with the experimental evidence on management practices in large firms provided

in Bloom et al. (2013), in which intensive consulting resulted in a 37.8 percentage point increase in management practice use.

The bottom two rows of Table 5 summarize two recent studies that have used more intensive training programs and also found larger impacts on business practices, using measurement tools based on our survey instrument. The control group data from Martínez et al. (2013) provides the Chile data used in our paper. In their experiment, they find an approximate 0.18 increase in the business practice score, which is about four times as large as in the ILO training experiments. This results in a statistically significant increase in business income. Our associations from Table 2 would again yield an estimated treatment effect within their confidence interval.⁸ Anderson MacDonald et al. (2014) use a 10 week course in South Africa, and obtain increases that average 26 percentage points in business practices. Based on Table 2 we would predict that this would lead to 17-24 percent increases in profits and sales. These predictions are lower than their point estimates, but lie within the confidence intervals for their estimated effects.

Taken together, we therefore view the experimental evidence on business training as being consistent with the strong associations we find between business practices and firm performance. The reason most business training studies struggle to find effects would then seem to be that relatively short training courses do not lead to much of a change in business practices, leaving the studies with limited power for measuring impacts on sales and profits.

4. What explains the variation in business practices across firms?

We have found that there is large variation within countries in terms of the business practices used by small firms, and that these business practice differences are strongly correlated with firm performance and survival. This raises the question of what causes business practices to vary so much across firms. We consider several key factors, examining the extent to which factors identified as explaining differences in management practices among larger firms also play a role in determining business practices among small firms.

⁸ Note that their intervention combined the training with a grant, and they are unable to separate the effect of training from that of the grant. This may explain why our estimated effect based on Table 2 is near the bottom of a confidence interval for their effect size.

4.1 Human Capital

In small firms the business practices used are to large extent implemented by the firm owner. Without intermediate levels of management and workers, we expect the human capital of the owner to play a key role in determining which business practices are used. We have seen that our business practice measures retain significance even after controlling for multiple measures of human capital, suggesting that it is not that business practices are simply capturing owner ability. But it does seem likely that more educated and more able owners will find it easier to learn and adopt business practices.

Figure 5 shows local linear regressions of business practices on years of schooling for the combined sample, and country by country. We see a strong positive association. The association is weakest in Nigeria, where most of the sample has post-secondary education. Column 1 of Table 6 examines this association in more detail, also controlling for owner gender, age, country, and business sector, and for two other measures of human capital: digitspan recall and Raven test score. These latter two measures are both measures of analytical and cognitive ability, and were only collected in some countries (see Table 1). We see that business practices tend to be better in male-owned firms, and don't vary with the age of the owner. Conditional on this, each year of education is associated with a 1.1 percentage point increase in business practices: so a one standard deviation increase in education is associated with a 0.17 s.d. increase in business practices. Digitspan recall and Raven test both have positive and significant associations as well, but the magnitudes are smaller: a 1 s.d. increase in either measure is associated with a 0.04 increase in business practice scores, conditional on the other variables in this regression. Formal education therefore appears to have a stronger association than innate ability in explaining the practices used.

4.2 Family History of Entrepreneurship

Evidence from higher-income countries indicates that children of self-employed parents are more likely to become self-employed themselves. Dunn and Holtz-Eakin (2000) find that the effect parents' self-employment on occupational choice remains large even after controlling for wealth levels, suggesting that the transition of human capital from parent to child is the most important channel for the intergenerational effect. Motivated by this, in column 2 of Table 2 we examine

whether owners whose parents were business owners have different business practices. We see that having a father who owned a business, and a mother who owned a business are both positively associated with business practices. This provides support for the idea that parents who are business owners transmit human capital relevant to running a business to their children.

4.3 Product Market Competition

Bloom and Van Reenen (2007) emphasize the role of product market competition in driving out poorly managed firms or getting them to improve. We have three different measures of competition in our surveys. The first is the number of competitors the firm faces in their local area (typically in their marketplace or census tract). Many firms face a lot of competition, with the median facing 8 competitors, and the mean 30. We split this variable into categories in order to see how different degrees of competition associate with business practices, and to avoid the results being driven by outliers (one firm reports 7,000 competitors!). Column 3 shows the results. There is no significant association between any level of competition and business practices.

Our second measure of competition is whether the most important competitor is located within 1 kilometer of the business, reflecting close competition. This question was asked only in the Bangladesh, Ghana and Sri Lanka samples. In those samples, 81 percent of firms say yes to this. Our third measure is whether the firm owner says that customers could replace them in a less than 1 day if they shut down. 44 percent of the respondents in Bangladesh, Ghana and Nigeria, where the question was asked, report this is the case. Columns 4 and 5 of Table 6 show negative and significant correlations with both measures of competition.

While the results using the latter two measures of competition appear to be much more strongly negative than the results when using the number of competitors, the difference is driven as much by the difference in samples as the differences in the way competition is defined. When we run the regression from column 3 on either of the samples where the other competition measures are defined, all four coefficients are negative, those for between 5 and 20 competitors significantly so. Conversely, when we run the column 3 regression on the sample where the other measures of competition are not defined, we obtain four positive coefficients, with those for between 1 and 9 competitors both just missing the .10 significance level. Taken together, these results suggest

that the effect of competition varies across the samples, but is at least as likely to be associated with worse business practices among small firms. This is in strong contrast to the results for larger firms. One reason that competition effects may differ for small firms is that competition itself is endogenous to business practices. Better managed small firms will market differently, differentiate their products, and choose locations such that they may not have to compete with as many other firms. In contrast, firms with poor business practices are likely to be producing goods that are the same as those produced by many other firms, and thus face large amounts of competition.

4.4 Firm Size

Finally we examine whether larger firms have better business practices. The causation here may go both ways: firms with better practices will sell more and be able to grow larger – consistent with the results for sales growth we show on Table 4 – in the end hiring more employees. But being larger may also allow owners to hire specialists to perform some of the functions we measure (such as record-keeping) and give the owner more time for strategic planning and marketing rather than day-to-day operations. Column 6 of Table 6 shows that larger firms do have better business practices. A firm with 1 to 4 paid workers has a 0.084 higher business practices score than a firm with no workers, and the coefficients increase with each category of firm size, so that a firm with 21 or more workers has a 0.216 (almost one s.d.) higher business practice score than a firm with no workers.

The last column of Table 6 considers all these factors together. We continue to see positive associations between better business practices and human capital, having parents who owned a business, and firm size.

5. Conclusions

Micro and small enterprises are the predominant form of economic activity in low- and middle-income countries. There is broad recognition that the microenterprise sector is highly heterogeneous, with some owners drawn by opportunities to create a business and others drawn by the necessity to scrape out a living. Aspirations and education have been viewed as the main underlying sources of heterogeneity. We show that the enterprises are also differentiated by

the quality of the business practices they employ, and that business practices have effects on enterprise outcomes which are independent of the effects of basic human capital.

Our index of business practices is designed to be easily implemented in closed-end field surveys and is customized to microenterprises. Most of our data are self-reported, but we show that the reports of owners are highly correlated with measures from independent auditors visiting the businesses and spending several hours asking open-ended questions about practices. Using data from six countries, we show that the index of business practices is highly correlated with enterprise heterogeneity in the cross-section. Owners implementing better business practices have higher sales, profits, labor productivity and total factor productivity. Moreover, better business practices are associated with higher rates of firm survival, and substantially higher rates of sales growth. The effect of business practices on outcomes is not only statistically significant but economically meaningful. A one standard deviation improvement in business practices is associated with an increase of 43 percent in labor productivity and 25 percent in total factor productivity – relationships almost identical to those found for large firms in Bloom et al (2012).

The correlation between business practices and business outcomes raises the obvious question of whether the correlations we find in the data line up with causation. That is, can practices be improved with training or consulting and, if so, do the improved practices lead to improved firm outcomes? A growing literature tests the effectiveness of training programs which aim to improve management of small enterprises. The literature generally shows insignificant effects of training on firm outcomes. But our data show that these negative findings are explained by the fact that the training programs have only a very modest effect on improvement of business practices. The changes in sales and profits predicted by cross-sectional data for the given changes in business practices are all well within the confidence limits for increases in sales and profits found in the experimental literature. Our findings thus point to the need for more intensive training programs that have larger effects on business practices.

References

- Anderson MacDonald, Stephen, Rajesh Chandy and Bilal Zia (2014) “The impact of marketing (versus finance) skills on firm performance: evidence from a randomized controlled trial in South Africa”, Mimeo. London Business School.
- Bloom, Nicolas and John Van Reenen (2007) “Measuring and Explaining Management Practices Across Firms and Countries”, *Quarterly Journal of Economics* 112(4): 1351-1408
- Bloom, Nicolas, Raffaella Sadun and John Van Reenen (2012) “Management as a Technology”, Mimeo. Stanford.
- Bloom, Nicolas, Benn Eifert, Aprajit Mahajan, David McKenzie and John Roberts (2013) “Does Management Matter? Evidence from India”, *Quarterly Journal of Economics*, 128(1): 1-51
- Borgenvall, Mats, Håken Jarskog, Barbara Murray and Cecilia Karlstedt (1999) *Improve Your Business: Basics*. International Labour Office, Geneva.
- Calderon, Gabriela Calderón, Jesse M. Cunha, Giacomo De Giorgi , 2013, “Business Literacy and Development: Evidence From a Randomized Controlled Trial in Rural Mexico,” working paper Barcelona GSE.
- De Mel, Suresh, David McKenzie and Christopher Woodruff (2009) “Innovative Firms or Innovative Owners? Determinants of Innovation in Micro, Small, and Medium Enterprises”, *World Bank Policy Research Working Paper* no. 4934.
- De Mel, Suresh, David McKenzie, and Christopher Woodruff (2010) “Wage Subsidies for Microenterprises”, *American Economic Review Papers and Proceedings*, 100(2): 614-18.
- De Mel, Suresh, David McKenzie and Christopher Woodruff (2013) “What Generates Growth in Microenterprises? Experimental Evidence on Capital, Labor and Training”, Mimeo. World Bank.
- De Mel, Suresh, David McKenzie and Christopher Woodruff (2014) “Business Training and Female Enterprise Start-up, Growth, and Dynamics: Experimental evidence from Sri Lanka”, *Journal of Development Economics*, 106: 199-210.
- Diwan, Faizan, Grace Makana, David McKenzie, and Silvia Paruzzolo (2014) “Invitation Choice Structure Has No Impact on Attendance in a Female Business Training Program in Kenya” *PLOS ONE*, 9(10): e109873
- Dunn, Thomas and Douglas Holtz-Eakin, 2000, “Financial Capital, Human Capital, and the Transition to Self-Employment: Evidence from Intergenerational Links,” *Journal of Labor Economics*, Vol 18(2), pp. 287-305.

Fafchamps, Marcel and Christopher Woodruff (2014) “Identifying Gazelles: Expert panels vs. surveys as a Means to Identify Firms with Rapid Growth Potential”, Mimeo. Warwick.

Martínez, Claudia, Esteban Puentes and Jaime Ruiz-Tagle (2013) “Micro-Entrepreneurship Training and Asset Transfers: Short Term Impacts on the Poor”, http://works.bepress.com/claudia_martinez_a/5

McKenzie, David (2010) “Dimensions of informality in Bangladesh”, Mimeo. World Bank.

McKenzie, David (2014) “Identifying and Spurring High-Growth Entrepreneurship: Experimental Evidence from a Business Plan Competition”, Mimeo. World Bank.

McKenzie, David and Christopher Woodruff (2014) “What are we learning from business training evaluations around the developing world?”, *World Bank Research Observer*, 29(1): 48-82.

Taylor, Frederick (1911), *Principles of Scientific Management*, New York and London: Harper and Brothers.

Appendix 1: Business Practices Measured

The *total score* – the composite business practice score -- ranges between 0 and 1. The total is the proportion of the following 26 business practices used by the firm:

Marketing Practices: coded as 1 for each of the following that the business has done in the last 3 months:

- M1: Visited at least one of its competitor’s businesses to see what prices its competitors are charging
- M2: Visited at least one of its competitor’s businesses to see what products its competitors have available for sale
- M3: Asked existing customers whether there are any other products the customers would like the business to sell or produce
- M4: Talked with at least one former customer to find out why former customers have stopped buying from this business
- M5: Asked a supplier about which products are selling well in this business’ industry
- M6: Attracted customers with a special offer
- M7: Advertised in any form (last 6 months)

Note: M1 and M2 are coded as zero if the firm says it has no competitors. M4 is coded as zero if the firm says it has no former customers.

Buying and Stock Control Practices: coded as 1 for each of the following:

- B1: Attempted to negotiate with a supplier for a lower price on raw material

- B2: Compared the prices or quality offered by alternate suppliers or sources of raw materials to the business' current suppliers or sources of raw material
- B3: The business does not run out of stock monthly or more (coded as one if the business has no stock)

Costing and Record-Keeping Practices: coded as 1 for each of the following that the business does:

- R1: Keeps written business records
- R2: Records every purchase and sale made by the business
- R3: Able to use records to see how much cash the business has on hand at any point in time
- R4: Uses records regularly to know whether sales of a particular product are increasing or decreasing from one month to another
- R5: Works out the cost to the business of each main product it sells
- R6: Knows which goods you make the most profit per item selling
- R7: Has a written budget, which states how much is owed each month for rent, electricity, equipment maintenance, transport, advertising, and other indirect costs to business
- R8: Has records documenting that there exists enough money each month after paying business expenses to repay a loan in the hypothetical situation that this business wants a bank loan

Financial Planning Practices: coded as 1 for each of the following:

- F1: Review the financial performance of their business and analyze where there are areas for improvement at least monthly
- F2: Has a target set for sales over the next year
- F3: Compares their sales achieved to their target at least monthly
- F4: Has a budget of the likely costs their business will have to face over the next year
- F5: Has an annual profit and loss statement
- F6: Has an annual statement of cash flow
- F7: Has an annual balance sheet
- F8: Has an annual income/expenditure sheet

Note that F5 through F8 were not asked in the Kenya and Nigeria datasets, so the business practices score for these two countries is the proportion of the other 22 practices implemented.

Appendix 2: Additional Details on Surveys

Bangladesh:

The survey was conducted between March and May 2010 as part of a World Bank project intended to investigate the differences between formal and informal firms in Bangladesh (McKenzie, 2010). The data consists of 1725 enterprises, selected from a sample frame formed by a census of 55,817 firms in the randomly selected areas in urban parts of the 19 old districts. The sample was stratified by firm size (in terms of full-time employment) and broad industry (manufacturing, trade or services. Oversampling of

firms with 10-99 full-time workers was done to ensure sufficient sample sizes of these firms. Only one round of this survey was taken.

Chile

The data consist of the follow-up survey from individuals owning enterprises in the control group of Martínez et al. (2013). The original sample consists of beneficiaries of Chile's anti-poverty program (Chile Solidario) who applied to a government microentrepreneurship support program in 2010, and who were located in the metropolitan area of Santiago. 566 individuals were assigned to the control group. The follow-up survey, which measured business practices, took place between October and November 2011. We use the sample of 158 individuals in the control group who were found to be running enterprises in this follow-up survey. Only one round of business practice data are available, and we use time-invariant characteristics of the business owners from the baseline survey coupled with the outcome and business practice data from the follow-up survey.

Ghana

The sample consists of 335 applicants to a business plan competition in Accra and Kumasi, described in Fafchamps and Woodruff (2014). Baseline data were collected in 2010, and then two rounds of follow-up surveys were collected in July-August 2011, and August-September 2012, approximately one and two years after the baseline. 257 individuals were surveyed in the first follow-up, and 279 in the second follow-up. The survey did not collect detailed survival data, and so we only use the time dimension of this data for examining the persistence of business practices over time.

Kenya

The sample comes from an ongoing evaluation of a business training program for women in four counties of Kenya: Kakamega and Kisii in the Western region, and Embu and Kitui in the Eastern region. In each county a census was taken of market centers, and then a screening was done to select a sample in which the business did not have more than 3 employees; the business had profits in the past week between 0 and 4000 Kenyan Shillings (KSH) (1 US Dollar averaged approximately 85 KSH over the survey period); sales in the past week less than or equal to 50,000 KSH; and the individual had at least one year of schooling (Diwan et al, 2014). The survey is therefore representative of microenterprises of this size run by women in these four counties. The baseline survey took place between June and November 2013, and consisted of 3,537 individuals. The survey is missing responses on business practices F5-F8 (financial statements) in the baseline, because the question only allowed for one response, rather than a yes/no for each type of financial statement (70.2% report not having any accounting statement prepared). A follow-up survey was conducted one year later, with survival data collected for 3,446 individuals and follow-up business practices data for 2,860 individuals.

Nigeria

The sample consists of applicants to a nationwide business plan competition, described in McKenzie (2014). The first round data consist of 1725 individuals surveyed between November 2012 and April 2013 who were operating businesses at that time. The sample consists of applicants who had been selected for a business plan training workshop, or had scores close to the threshold for being selected. A second follow-up survey was conducted between October 2013 and February 2014, allowing

measurement of survival over a 1 year horizon, and of the stability of business practices. The business questions asked did not include F5-F8 (financial statements).

Sri Lanka

The business practice questions were asked in three separate surveys undertaken in Sri Lanka, and we use the data from all three.

The first sample comes from the Sri Lankan Longitudinal Survey of Enterprises (SLLSE), a long-term panel survey of microenterprises designed by the authors in collaboration with Suresh de Mel (de Mel et al, 2010, 2013). The baseline survey was intended to be a representative survey of male microenterprises with 2 or fewer employees in the Colombo, Kandy, and Galle-Matara areas of Sri Lanka, and was conducted between April and October 2008. This gives 1562 individuals with business practice scores. These enterprises were then subsequently re-interviewed in 10 additional follow-up rounds, in April and October of 2009, 2010, 2011 and 2012, and in April of 2013 and 2014. This enables us to examine survival over periods of as long as 5.5 years.

The second sample consists of a representative sample of current female business owners operating in greater Colombo and greater Kandy areas, who had monthly profits of 5,000 Rs or less (US\$43). These 628 women were first interviewed in January 2009, and form the current enterprise sample for a business training intervention described in de Mel et al. (2014). Four rounds of follow-up surveys were conducted in September 2009, January 2010, September 2010, and June 2011. We use the January 2010 follow-up to measure the one-year survival rates and stability of business practices over a one-year horizon.

The third sample consist of small and medium enterprises that were a booster sample to the baseline of the SLLSE, which were surveyed in order to generate a larger sample of firms of this size (de Mel et al, 2010). The baseline sample consisted of 610 of these firms, but did not ask business practice questions. We use the 471 firms that were reinterviewed and still surviving in April 2009.

Figure 1: Variation in Business Practices Within Countries

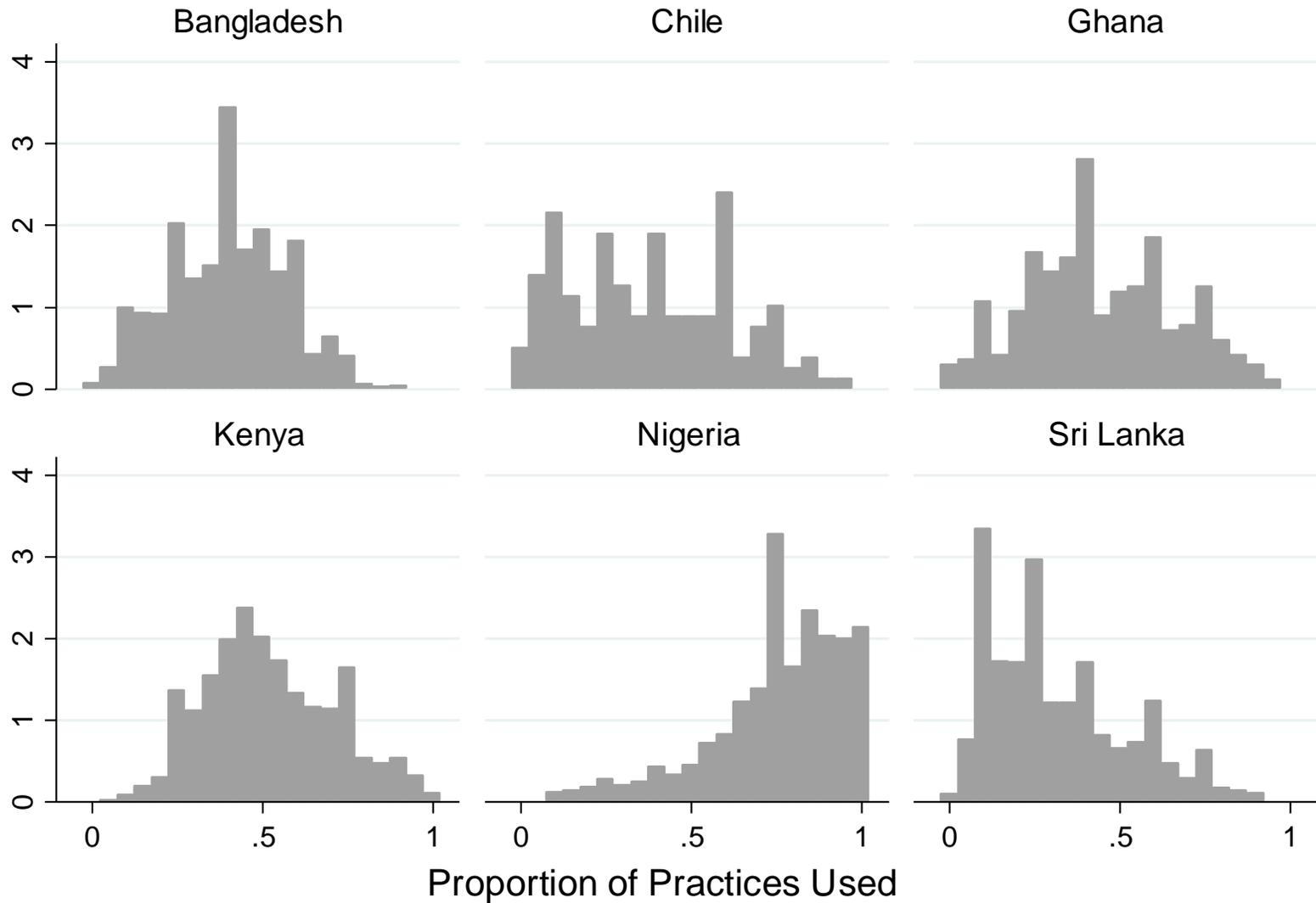


Figure 2: Stability of Business Practices Over 1 Year

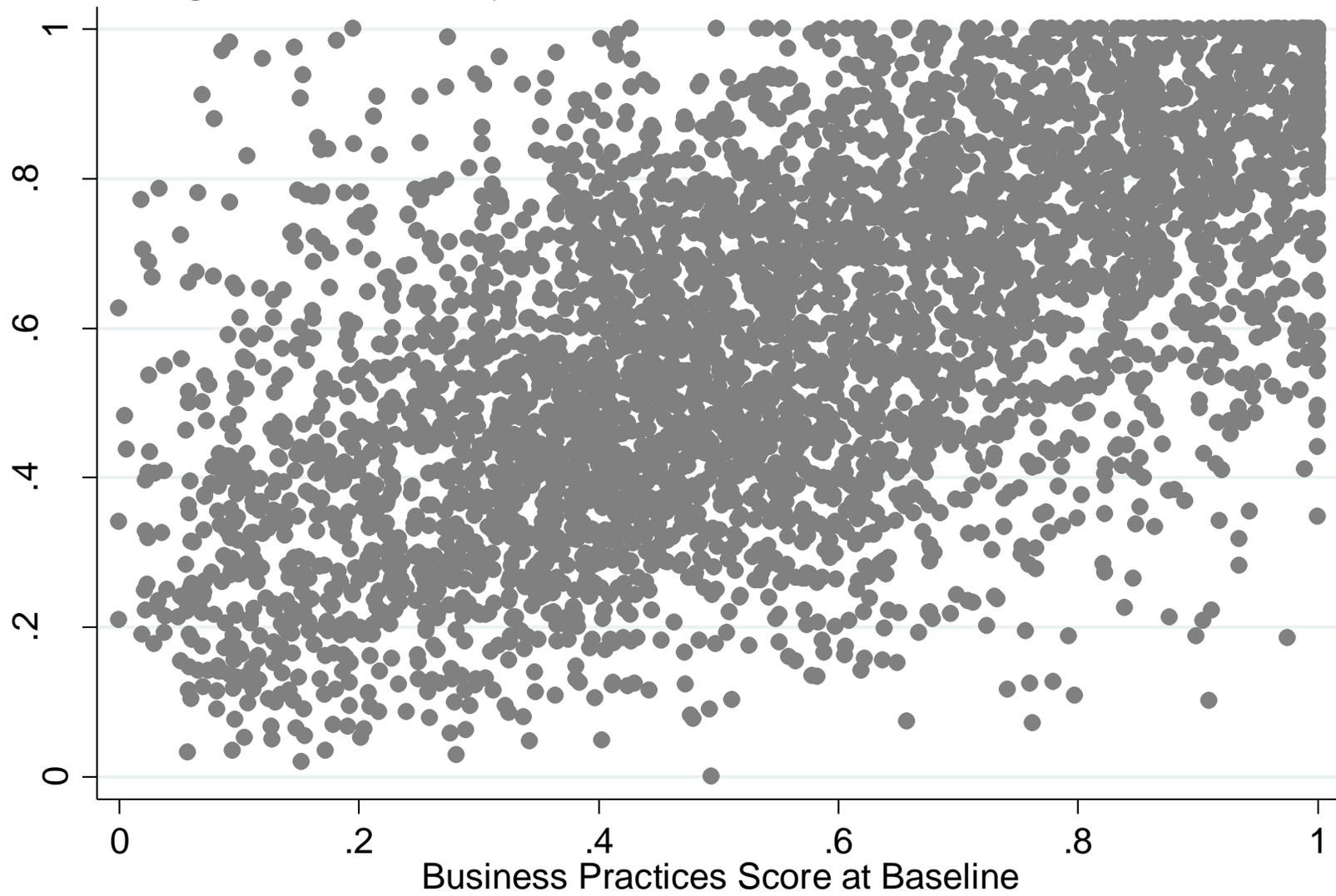


Figure 3: Audited Scores vs Survey Scores

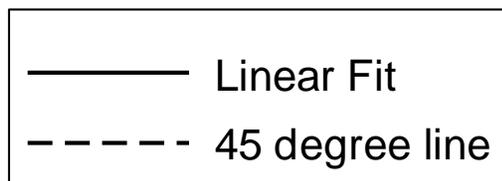
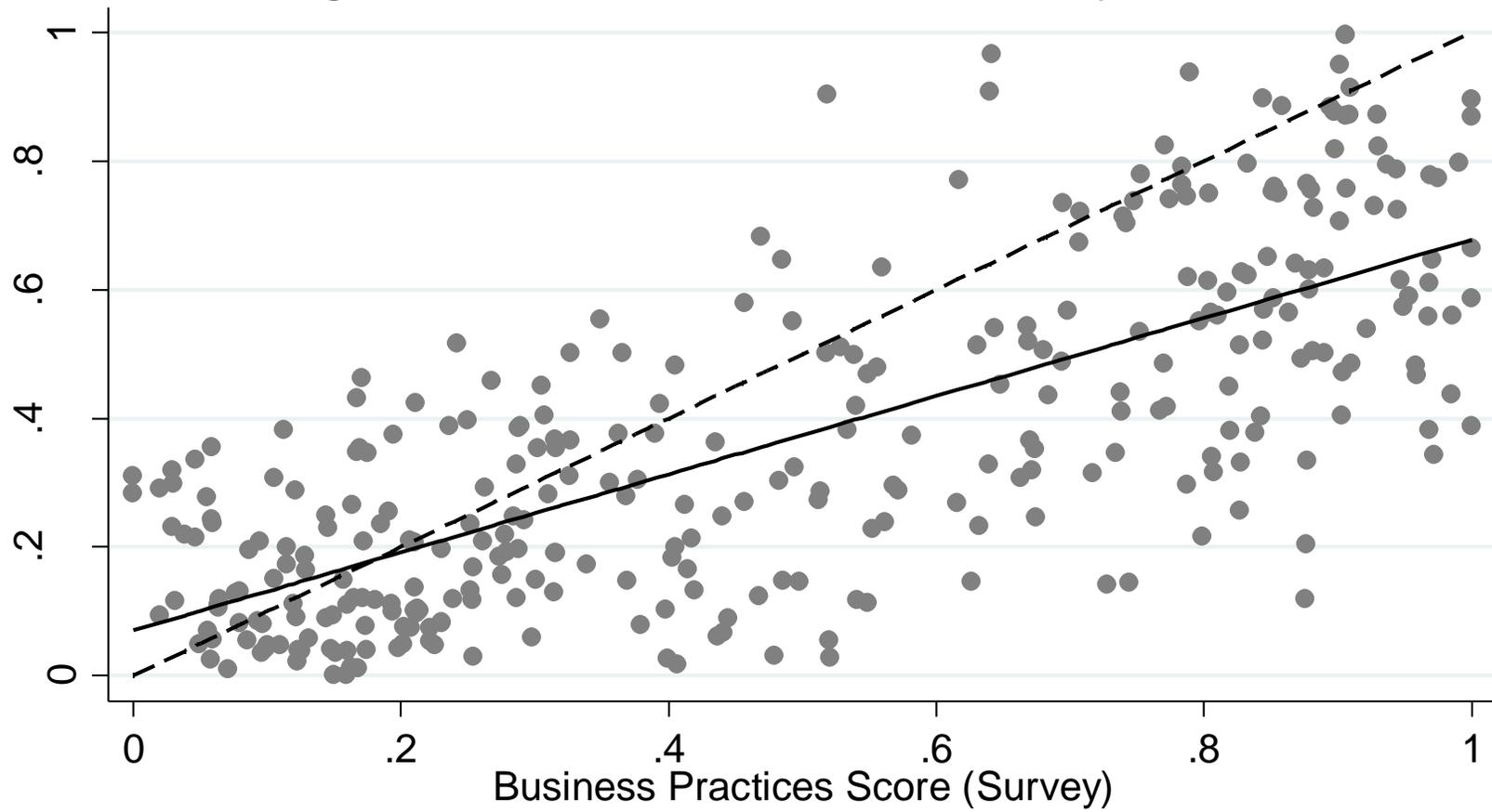


Figure 4: Local linear regressions of Log Sales on Business Practices

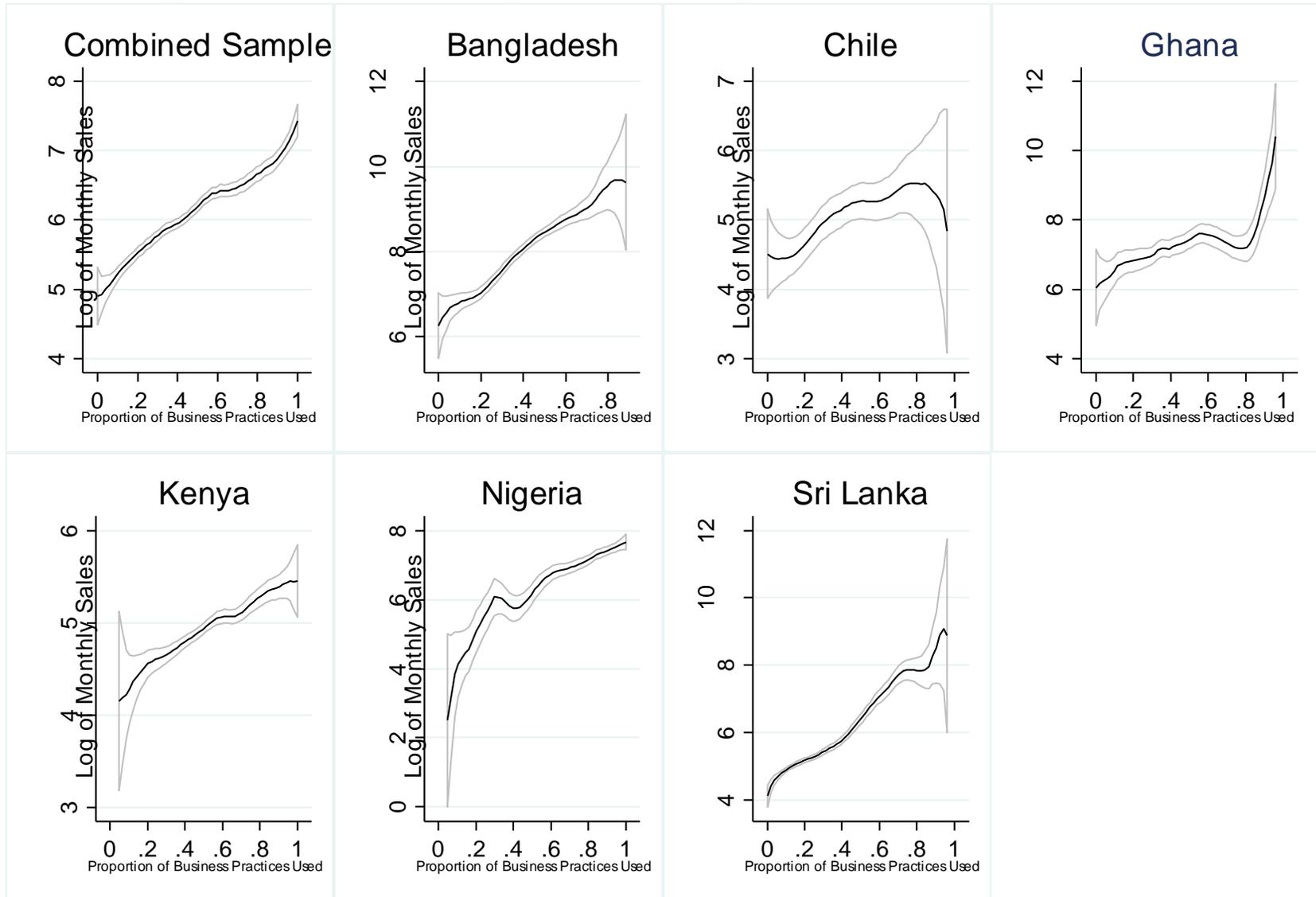


Figure 5: Local linear regressions of Business Practices on Education

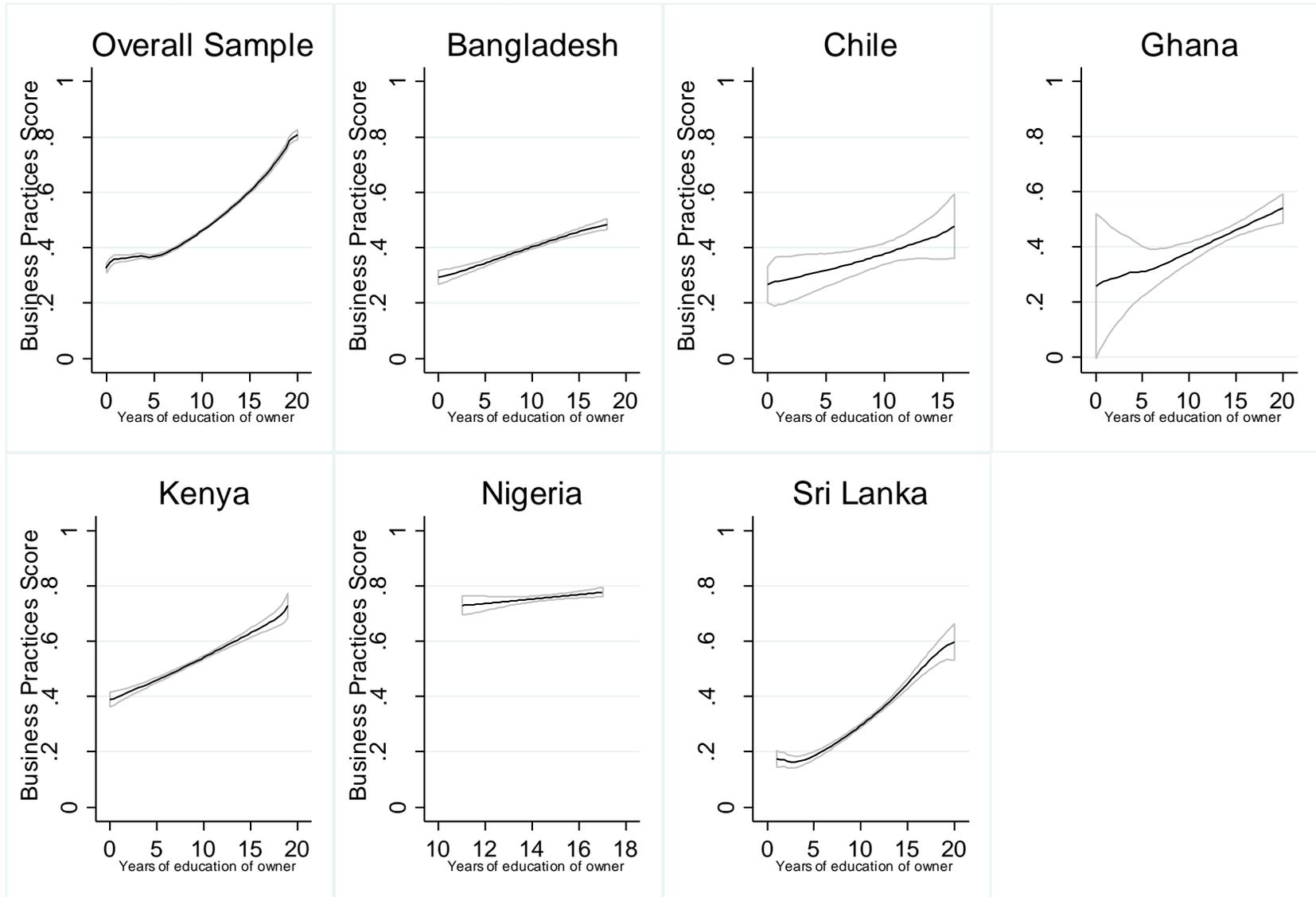


Table 1: Summary Statistics

	Full Sample		Means by Country					
	Mean	SD	Bangladesh	Chile	Ghana	Kenya	Nigeria	Sri Lanka
Male	0.46	0.50	0.99	0.09	0.78	0.00	0.85	0.47
Owner's Age	36.6	9.3	41.9	36.6	39.3	35.7	30.9	37.3
Years of Educ	10.8	3.7	9.7	10.0	14.0	9.0	14.8	10.8
Digitspan recall	5.88	1.72	5.45	n.a.	6.49	4.99	7.48	6.37
Raven test score	5.15	3.19	n.a.	n.a.	n.a.	6.88	4.42	3.23
Father Owned a Business	0.35	0.48	n.a.	n.a.	0.36	0.30	n.a.	0.42
Mother Owned a Business	0.28	0.45	n.a.	n.a.	0.53	0.41	n.a.	0.07
Trade	0.47	0.50	0.51	0.73	0.44	0.76	0.04	0.34
Manufacturing	0.18	0.39	0.28	0.37	0.24	0.00	0.24	0.31
Firm age (years)	8.14	9.80	12.41	3.50	10.66	6.39	4.54	9.98
Number of Paid Workers	4.39	36.32	12.55	0.21	4.18	0.15	6.66	3.59
Monthly Sales (USD)	4022	34395	13999	293	3571	279	3835	2818
Monthly Profits (USD)	763	7470	1461	195	2067	53	1996	280
Capital Stock (USD)	50141	1353183	42757	n.a.	9809	163	229730	6740
Registered for Taxes	0.39	0.49	0.46	n.a.	0.61	n.a.	0.38	0.33
Closest competitor within 1km	0.81	0.39	0.96	n.a.	0.63	n.a.	n.a.	0.70
Customers can replace in <1 day	0.44	0.50	0.59	n.a.	0.71	n.a.	0.24	n.a.
Business Practice Score	0.48	0.24	0.40	0.38	0.44	0.52	0.76	0.32
Marketing Score	0.47	0.32	0.27	0.37	0.41	0.62	0.66	0.30
Buying and Stock Score	0.68	0.30	0.55	0.57	0.42	0.81	0.78	0.57
Record-Keeping Score	0.54	0.34	0.66	0.44	0.62	0.42	0.85	0.42
Financial Planning Score	0.33	0.35	0.20	0.26	0.31	0.35	0.73	0.14
<i>Medians</i>								
Median Sales (USD)	329		2676	128	1135	132	1290	231
Median Profits (USD)	94		294	96	355	47	645	93
Median Capital Stock (USD)	474		1176	n.a.	2128	39	45161	926
Median number paid workers	0.00		4.00	0.00	3.00	0.00	4.00	0.00
Number of Observations	10135		1724	158	335	3532	1725	2661

Notes:

n.a. denotes not asked in this dataset

Table 2: Cross-Sectional Associations of Business Practices with Sales and Profits

	Log Sales	Log Sales	Log Sales	Log Sales	Log Profits	Log Profits	Log Profits	Log Profits
Business Practices Score	1.493*** (0.079)	1.037*** (0.078)	0.986*** (0.080)	0.929*** (0.081)	1.055*** (0.073)	0.741*** (0.073)	0.706*** (0.075)	0.672*** (0.075)
Log(Paid Workers)	0.663*** (0.028)	0.497*** (0.028)	0.486*** (0.029)		0.513*** (0.027)	0.391*** (0.028)	0.381*** (0.028)	
Log(Owners Hours)	0.219*** (0.029)	0.178*** (0.028)	0.177*** (0.028)		0.154*** (0.027)	0.125*** (0.026)	0.123*** (0.027)	
Log(Capital Stock)		0.064*** (0.009)	0.057*** (0.009)			0.040*** (0.009)	0.033*** (0.009)	
Log(Inventories)		0.217*** (0.010)	0.214*** (0.010)			0.171*** (0.009)	0.169*** (0.009)	
Owner is male			0.123*** (0.045)				0.161*** (0.045)	
Age of owner			0.001 (0.001)				0.001 (0.001)	
Years of education of owner			0.009** (0.004)				0.006* (0.004)	
Digitspan recall			0.033*** (0.010)				0.017* (0.010)	
Firm age (years)			0.003*** (0.001)				0.003*** (0.001)	
Raven test score			0.017*** (0.006)				0.012** (0.006)	
Control coefficients vary by country	No	No	No	Yes	No	No	No	Yes
Sample Size	9561	9561	9561	9561	9605	9605	9605	9605

Notes:

Robust standard errors in parentheses, *, **, *** indicate significance at the 10, 5, and 1 percent levels respectively

Regressions also include dummies for zero or missing values of each control.

All regressions include country dummies and country*industry sector dummies.

Columns 4 and 8 allow the coefficients on all control variables to vary by country.

Table 3: Cross-Sectional Associations with Index Subcomponents

	Log Sales	Log Sales	Log Sales	Log Profits	Log Profits	Log Profits
Proportion of marketing practices used	0.402*** (0.050)	0.281*** (0.049)	0.259*** (0.049)	0.265*** (0.045)	0.187*** (0.044)	0.168*** (0.045)
Proportion of buying and stock control practices used	0.126*** (0.047)	0.053 (0.045)	0.046 (0.045)	0.018 (0.044)	-0.038 (0.042)	-0.042 (0.042)
Proportion of record-keeping practices used	0.677*** (0.051)	0.482*** (0.048)	0.464*** (0.048)	0.551*** (0.045)	0.417*** (0.045)	0.409*** (0.045)
Proportion of financial planning practices used	0.193*** (0.054)	0.138*** (0.052)	0.136*** (0.052)	0.108** (0.048)	0.067 (0.047)	0.067 (0.047)
Log(Paid Workers)	0.665*** (0.028)	0.499*** (0.028)	0.487*** (0.029)	0.513*** (0.027)	0.390*** (0.028)	0.381*** (0.028)
Log(Owners Hours)	0.223*** (0.029)	0.181*** (0.028)	0.180*** (0.028)	0.158*** (0.027)	0.129*** (0.026)	0.126*** (0.027)
Log(Capital Stock)		0.063*** (0.009)	0.057*** (0.009)		0.039*** (0.009)	0.033*** (0.009)
Log(Inventories)		0.217*** (0.010)	0.214*** (0.010)		0.172*** (0.009)	0.169*** (0.009)
Owner is male			0.126*** (0.045)			0.166*** (0.045)
Age of owner			0.001 (0.001)			0.001 (0.001)
Years of education of owner			0.008** (0.004)			0.005 (0.004)
Digitspan recall			0.033*** (0.010)			0.017* (0.010)
Firm age (years)			0.003*** (0.001)			0.003*** (0.001)
Raven test score			0.018*** (0.006)			0.012** (0.006)
Sample Size	9559	9559	9559	9603	9603	9603

Notes:

Robust standard errors in parentheses, *, **, *** indicate significance at the 10, 5, and 1 percent levels respectively

Regressions also include dummies for zero or missing values of each control.

All regressions include country dummies and industry sector dummies.

Table 4: Baseline Business Score and Survival Dynamics

	1-year Survival	1-year Survival	1-year Survival	1-year Survival	5.5 Year Survival	1-year Sales Growth	1-year Sales Growth	5.5 Year Sales Growth
Baseline Business Practices Score	0.055*** (0.017)	0.039** (0.017)	0.038** (0.016)	0.022 (0.017)	0.110** (0.053)	0.476*** (0.087)	0.277*** (0.089)	0.556*** (0.196)
Baseline log(paid workers)		0.025*** (0.007)	0.015** (0.007)	0.011 (0.007)	-0.019 (0.015)		0.110** (0.043)	-0.025 (0.088)
Male			0.028*** (0.010)	0.023** (0.010)			0.142*** (0.052)	
Owner's Age at Baseline			0.002*** (0.000)	0.002*** (0.000)			-0.004** (0.002)	
Owner's Years of Education			-0.001 (0.001)	-0.001 (0.001)			0.034*** (0.006)	
Digitspan Recall			0.000 (0.002)	-0.000 (0.002)			-0.010 (0.011)	
Age of Firm at Baseline			0.003*** (0.001)	0.003*** (0.001)			0.001 (0.002)	
Raven test score			0.003*** (0.001)	0.003*** (0.001)			0.013** (0.006)	
Baseline Log Sales				0.005* (0.003)		-0.697*** (0.015)	-0.760*** (0.017)	-0.798*** (0.035)
Baseline Log Profits				0.006* (0.003)			0.079*** (0.018)	
Sample Size	7016	7016	7015	6847	1413	5689	5629	1152
Mean of Dependent Variable	0.912	0.912	0.912	0.913	0.874	0.394	0.392	0.483

Notes:

Marginal effects from probit estimation shown in columns 1-5, regression estimates in columns 6-8. Robust standard errors in parentheses, *, **, *** denote significance at the 10, 5, and 1 percent levels respectively.

Columns 1 to 4, and 6 and 7 are data from Kenya, Nigeria, and Sri Lanka. Columns 5 and 8 are from Sri Lanka only.

All specifications include sector and country dummies, and controls for missing values of the control variables where needed.

Sector is defined as manufacturing, trade, services or other for columns 1 to 5, and defined at the detailed country*sector level for columns 6 to 8

Table 5: Reconciling our results with experimental estimates

Sample	Training Program	Treatment Effect on Business Practices	95% confidence interval for treatment effect on		Implied Effect from Association in Table 2	
			Log(Sales)	Log(Profits)	Log(Sales)	Log(Profits)
Sri Lankan women	ILO SIYB five day course	0.058*** (0.016)	[-0.23, +0.15]	[-0.12, +0.17]	0.054	0.039
Sri Lankan men	ILO SIYB five day course	0.056*** (0.010)	[-0.06, +0.17]	[+0.01, +0.18]	0.052	0.038
Kenyan women	ILO GET Ahead five day course	0.042*** (0.007)	[+0.00, +0.18]	[-0.01, +0.16]	0.039	0.028
<i>Related studies</i>						
Chilean unemployed (Martínez et al., 2013)	MESP: three weeks intensive training + 3 months mentoring (+ grant)	0.180***		[+0.08, +0.79]		0.121
South African firms (Anderson MacDonald et al, 2014)	Business Bridge: 80 hours over 2 months	0.260***	[+0.18, +1.39]	[-0.00, +1.36]	0.24	0.17

Notes:

Treatment effects on log sales and log profits for Sri Lankan women taken from Table 3 of de Mel et al. (2014).

Treatment effects for Sri Lankan men and Kenyan women calculated approximately one year after training.

Implied effects from association in Table 2 are calculated by multiplying the treatment effect on business practices by the coefficient in column 4 (sales) and column 8 (profits) from Table 2.

Chile estimates: estimated effect on business practices calculated as 4.493/25 from Table 4 of Martínez et al. (2013); estimated effect on log profits approximated by change in self-employment income relative to control mean

South African estimates: estimated effect on business practices calculated from marketing treatment as average of effect sizes on each of 30 practices measured; effect on profits and sales approximated by percentage change in levels relative to control means.

Table 6: Which Factors are Associated with Higher Business Practices?

Dependent variable: Business Practices Score

Years of education of owner	0.011***						0.009***
	(0.001)						(0.001)
Digitspan recall	0.006***						0.005***
	(0.001)						(0.001)
Raven test score	0.003***						0.003***
	(0.001)						(0.001)
Owner is male	0.027***	0.030***	0.027***	0.015**	0.030***	0.026***	0.009
	(0.007)	(0.007)	(0.007)	(0.007)	(0.007)	(0.007)	(0.007)
Age of owner	0.000	-0.000	-0.000	-0.000	-0.000	-0.001***	0.000
	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)
Father owned a business		0.017***					0.011**
		(0.005)					(0.005)
Mother owned a business		0.021***					0.015***
		(0.006)					(0.005)
Has between 1 and 4 competitors			0.007				0.013
			(0.010)				(0.009)
Has between 5 and 9 competitors			-0.001				0.007
			(0.010)				(0.010)
Has between 10 and 20 competitors			-0.001				0.005
			(0.010)				(0.010)
Has 21+ competitors			0.011				0.015
			(0.010)				(0.010)
Most important competitor is located within 1 km of business				-0.014*			-0.009
				(0.008)			(0.008)
Would take less than a day for customer to replace them					-0.018***		-0.005
					(0.007)		(0.006)
1 to 4 paid workers						0.084***	0.074***
						(0.007)	(0.007)
5 to 9 paid workers						0.127***	0.109***
						(0.009)	(0.009)
10 to 14 paid workers						0.157***	0.136***
						(0.011)	(0.011)
15 to 20 paid workers						0.173***	0.148***
						(0.015)	(0.014)
21+ paid workers						0.216***	0.185***
						(0.014)	(0.014)
Sample Size	9907	9907	9907	9907	9907	9907	9907

Notes:

Robust standard errors in parentheses. *, **, *** denote significance at the 10, 5 and 1 percent levels respectively.

All regressions also control for sector, country, and for missing values of the control variables where needed.

Table A1: Business Training Does Not Affect Reporting**Dependent variable:** Business practice score from audit less business practice score from survey

Randomly Assigned to Training Treatment	0.013 (0.027)
Sample Size	200
Mean Difference between Audit and Survey	-0.065
SD of Difference	0.189

Robust standard error in parentheses.

*, **, *** denotes significance at the 10, 5, and 1 percent levels respectively.

Note: data are from Sri Lanka only

Table A2: Robustness to Form of Aggregating Business Practices

	Log Sales					
Business Practices Score	1.361*** (0.096)			0.614*** (0.089)		
First Principal Component of Business Practices		0.120*** (0.008)			0.057*** (0.008)	
Average of Z-scores of Business Practices			0.628*** (0.044)			0.287*** (0.041)
Log(Paid Workers)	0.793*** (0.027)	0.776*** (0.027)	0.788*** (0.027)	0.553*** (0.027)	0.545*** (0.027)	0.550*** (0.027)
Log(Owners Hours)	0.106*** (0.030)	0.113*** (0.029)	0.107*** (0.029)	0.078*** (0.027)	0.079*** (0.027)	0.078*** (0.027)
Log(Capital Stock)				0.082*** (0.009)	0.081*** (0.009)	0.082*** (0.009)
Log(Inventories)				0.232*** (0.011)	0.231*** (0.011)	0.232*** (0.011)
Sample Size	4474	4474	4474	4474	4474	4474
Business Practices Mean	0.353	-0.073	-0.203	0.353	-0.073	-0.203
Business Practices SD	0.196	2.468	0.433	0.196	2.468	0.433
Implied Effect of a 1 S.D. change in business practices	0.267	0.296	0.272	0.120	0.141	0.124

Notes:

Robust standard errors in parentheses, *, **, *** indicate significance at the 10, 5, and 1 percent levels respectively

Regressions also include dummies for zero or missing values of each control.

All regressions include country dummies and industry sector dummies. Columns 4 through 6 also control for owner and firm characteristics (sex, age, education, digitspan, raven test score, age of firm).

Table A3: Cross-Sectional Productivity Relationships by Country

	Bangladesh	Chile	Ghana	Kenya	Nigeria	Sri Lanka
Panel A: Labor Productivity						
Business Practices Score	1.140*** (0.150)	0.944*** (0.338)	0.661* (0.337)	0.973*** (0.098)	2.636*** (0.284)	1.604*** (0.127)
Log(Paid Workers)	0.825*** (0.030)	0.720 (0.722)	0.817*** (0.126)	0.325** (0.126)	0.437*** (0.062)	0.636*** (0.066)
Log(Owners Hours)	-0.061* (0.034)	0.667*** (0.100)	0.325** (0.152)	0.625*** (0.056)	0.201*** (0.072)	0.358*** (0.056)
Panel B: Total Factor Productivity						
Business Practices Score	0.471*** (0.129)	0.650* (0.334)	0.121 (0.279)	0.572*** (0.094)	2.481*** (0.287)	0.862*** (0.126)
Log(Paid Workers)	0.540*** (0.030)	0.256 (0.570)	0.510*** (0.116)	0.215* (0.125)	0.402*** (0.064)	0.484*** (0.070)
Log(Owners Hours)	0.005 (0.031)	0.592*** (0.104)	0.113 (0.128)	0.382*** (0.056)	0.190*** (0.071)	0.210*** (0.056)
Log(Capital Stock)	0.048*** (0.011)	n.a. n.a.	0.263*** (0.040)	0.057*** (0.016)	-0.038 (0.027)	0.090*** (0.014)
Log(Inventories)	0.303*** (0.016)	0.223*** (0.063)	0.177*** (0.036)	0.278*** (0.016)	0.192*** (0.036)	0.190*** (0.017)
Sample Size	1724	146	321	3413	1499	2458

Notes:

Robust Standard Errors in Parentheses, *, **, *** indicate significance at the 10, 5, and 1 percent levels respectively.

All regressions also include sector dummies, and controls for zero or missing values of the factors of production.

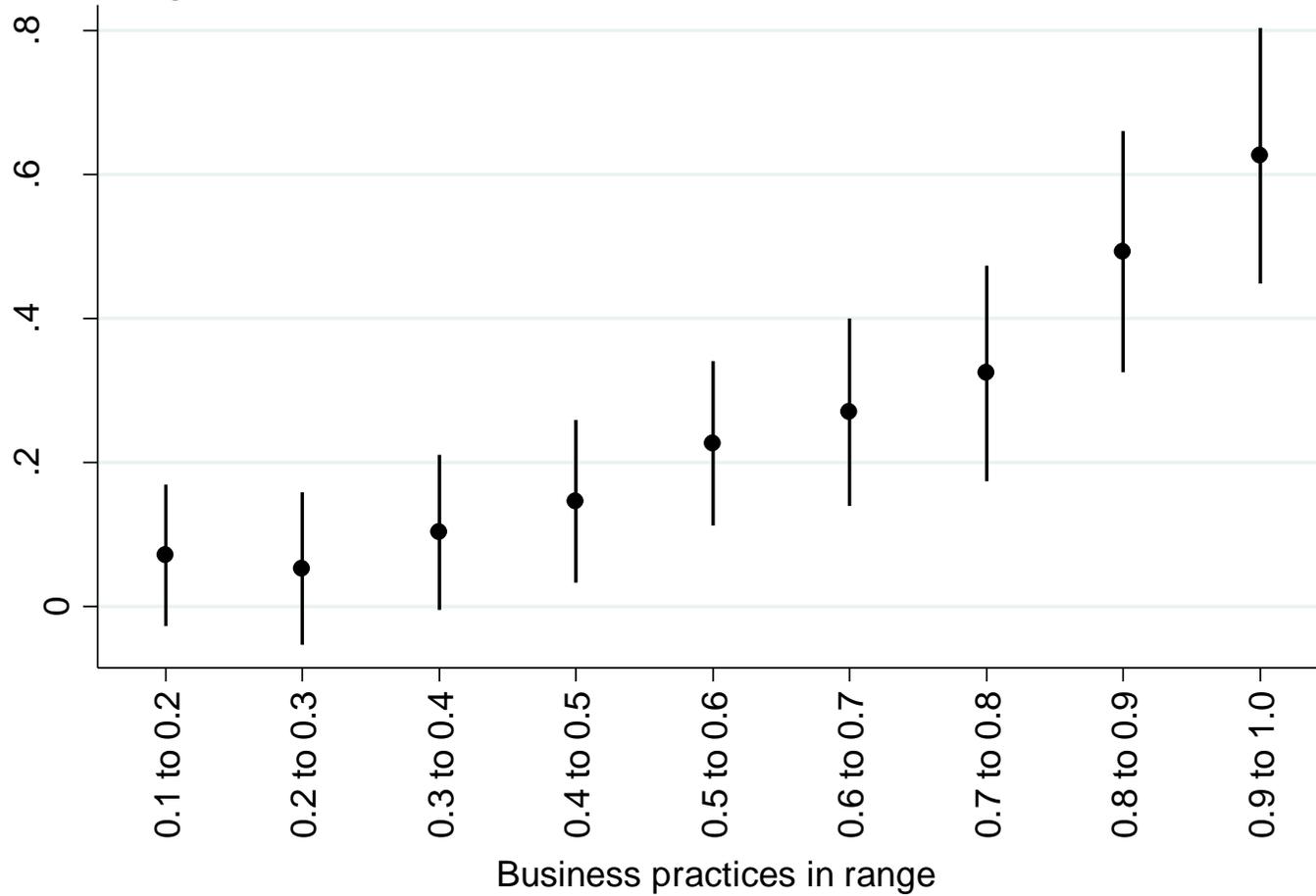
n.a. Capital stock not available in Chile data

Table A4: Practice Means by Country and Association of Labor Productivity with Individual Practices

	Bangladesh	Chile	Ghana	Kenya	Nigeria	Sri Lanka	Labor Productivity	
							Coefficient	Std Error
Marketing 1: Visited competitor's business to see prices	0.36	0.44	0.49	0.73	0.74	0.41	0.164	0.027
Marketing 2: Visited competitor's business to see products	0.36	0.41	0.52	0.75	0.70	0.34	0.181	0.028
Marketing 3: Asked existing customers what other products they should offer	0.40	0.44	0.59	0.82	0.74	0.43	0.214	0.030
Marketing 4: Talked with former customer to see why stopped buying	0.33	0.15	0.40	0.76	0.59	0.26	0.233	0.029
Marketing 5: Asked supplier what products selling well	0.37	0.39	0.38	0.67	0.62	0.33	0.224	0.027
Marketing 6: Used a special offer to attract customers	0.02	0.55	0.32	0.45	0.61	0.18	0.337	0.032
Marketing 7: Have done advertising in last 6 months	0.04	0.23	0.18	0.14	0.61	0.15	0.331	0.041
Buying & Stock Control 1: negotiate for lower price	0.81	0.37	0.51	0.89	0.72	0.55	0.207	0.033
Buying & Stock Control 2: compare alternate suppliers	0.59	0.54	0.49	0.84	0.75	0.48	0.293	0.030
Buying & Stock Control 3: Don't run out of stock frequently	0.26	0.82	0.26	0.71	0.88	0.68	-0.086	0.026
Costing & Record Keeping 1: Keep written records	0.76	0.45	0.80	0.33	0.97	0.36	0.321	0.028
Costing & Record Keeping 2: record every purchase and sale	0.60	0.43	0.66	0.24	0.80	0.30	0.378	0.031
Costing & Record Keeping 3: can use records to know cash on hand	0.60	0.42	0.61	0.23	0.79	0.28	0.370	0.032
Costing & Record Keeping 4: use records to know whether sales of product increase or decrease	0.48	0.42	0.59	0.21	0.77	0.25	0.382	0.032
Costing & Record Keeping 5: worked out cost of each main product	0.77	0.61	0.73	0.74	0.89	0.63	0.328	0.029
Costing & Record Keeping 6: know which goods make most profit per item	0.86	0.72	0.84	0.97	0.92	0.88	0.444	0.055
Costing & Record Keeping 7: have a written budget for monthly expenses	0.49	0.33	0.38	0.27	0.85	0.20	0.372	0.030
Costing & Record Keeping 8: have records that could document ability to pay to bank	0.67	0.22	0.38	0.38	0.83	0.41	0.398	0.028
Financial Planning 1: review financial performance monthly	0.25	0.45	0.38	0.36	0.67	0.26	0.234	0.028
Financial Planning 2: have sales target for next year	0.36	0.59	0.41	0.56	0.86	0.21	0.229	0.027
Financial Planning 3: compare sales goal to target monthly	0.15	0.41	0.35	0.29	0.61	0.06	0.278	0.034
Financial Planning 4: have a budget of costs for next year	0.22	0.28	0.25	0.21	0.79	0.11	0.229	0.035
Financial Planning 5: prepare profit and loss statement	0.12	0.05	0.40	n.a.	n.a.	0.13	0.337	0.060
Financial Planning 6: prepare cashflow statement	0.12	0.07	0.14	n.a.	n.a.	0.09	0.227	0.064
Financial Planning 7: prepare balance sheet	0.05	0.05	0.15	n.a.	n.a.	0.10	0.553	0.090
Financial Planning 8: prepare income and expenditure statement	0.36	0.21	0.39	n.a.	n.a.	0.17	0.167	0.039

Notes: columns 1 to 6 show the proportion of firms in each country sample which use the particular business practice. Columns 7 and 8 report the regression coefficient and standard error respectively from regressing log sales on this individual practice, along with controls for labor usage, industry, and country as in column 1 of Table 2.

Figure A1: Are the Returns to Business Practices Non-linear?



Notes: Figure plots coefficients from estimating column 8 of Table 2, but using nine dummies for different business practice score ranges instead of a linear term in business practice score.