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Developing markets: How training female entrepreneurs can improve business practices and profits – evidence from Kenya

1. Key findings

- Entrepreneurship training designed to help women overcome the challenges they face in running their businesses can improve both firm performance and overall levels of well-being. Three years after participating in training, female entrepreneurs had 18 per cent higher sales and 15 per cent higher profits. They also had improved mental health and a better standard of living. However, there was no sizeable impact on empowering women to make more autonomous household and business finance decisions.
- Business growth does not come at the expense of untrained competitors. Non-trained firms operating in the same market did not lose customers or sell any less. To boost their performance, trained businesses improved their customer service and introduced new products, leading to the overall growth of the market in which they were operating. Both the total sales volume and number of customers recorded in the market increased.
- While there were no negative firm-to-firm spillovers, there were no significant positive ones either. There is little evidence that untrained firms copied the successful practices adopted by the trained firms to become more productive.
- Training is estimated to be cost-effective in the short-to-medium term. Trained enterprises increase their profits by US\$2.60 a week, meaning it takes 18 months for the benefits of the programme to exceed the costs of US\$200 per participant.
- Mentoring support does not appear to deliver additional gains compared to training alone. Outcomes were near-identical for firms that participated in just training, or both training and business mentoring.

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



2. The challenge

Small and medium-sized enterprises (SMEs) play a key role in job creation, accounting for up to 80 per cent of employment in low-income countries. Micro-enterprises are the smallest type of business, often providing a source of income vital for livelihood and coping strategies¹.

Studies have shown that micro-enterprise development for women, in particular, can have a positive impact on economic development and innovation². Women-owned businesses are one of the fastest growing entrepreneurial populations in the world.

The situation is no different in Kenya, where 46% of the population lives below the poverty line. While women have traditionally played the role of housekeeper, mother, wife and child bearer, increasing female entrepreneurship has been associated with significant changes to societal norms as women become business owners, operate independently from their husbands and start providing for their families. A recent survey found that almost half of female entrepreneurs cite a lack of training opportunities as a major constraint to business growth, and that business management training is ranked as their top priority for external support³.

Entrepreneurship training refers to all types of training which teach the skills required to start a new enterprise or to improve the core management and administrative functions of existing enterprises. Such training is expected to improve the management skills of entrepreneurs who are either expected to start a business or expand their existing business.

However, two key concerns are whether this type of entrepreneurship training actually works, and if so, whether the success of trained firms comes at the expense of their competitors. This is particularly relevant when working with microenterprises in rural markets in developing countries, where it is easy to hypothesize that if firms are all selling similar products in a small physical location, then extra sales made by trained firms must come by taking customers away from untrained firms.

Existing literature presents a mixed picture on the effectiveness of entrepreneurship training. These studies suggest that training may be less effective for female business owners, either because they work in sectors with very low efficient scales or because they face many other constraints that limit the ability of their businesses to grow. Another concern is how business training can be combined with ancillary services, such as mentoring support, to increase impact.

The research presented here aims to provide new evidence on whether a package of training and mentoring can help female-owned businesses grow, and what the effects are both on competitors and wider market in which firms operate.

3. The program and evaluation design

The ILO's Gender and Entrepreneurship Together (Get Ahead) is a participatory training programme specifically designed for low-income women running small businesses. The five day full-time course covers both standard business training concepts (such as developing business plans, marketing, financing and bookkeeping), as well as topics designed to enhance entrepreneurial skills from a gender perspective (such as gender equality, cultural barriers, and balancing household and business tasks).

Researchers took a sample of 3,537 firms from across four counties in Kenya: Kakamega and Kisii in the Western region, and Embu and Kitui in the Eastern region. A baseline was administered at 157 market locations where women were operating a variety of businesses such as selling fruits, vegetables, grains, and dried fish products from tables; and offering services like hairdressing, dressmaking and small food kiosks.

Markets were then randomly separated in two: 93 markets where some women would be trained (the 'treatment market') and 64 markets where no one would be trained (the 'control market'). Next, researchers randomly assigned female-owned businesses in the 93 treatment markets to either be trained or not trained. This resulted in 1,172

¹ Small and medium-sized enterprises and decent and productive employment creation (ILO), 2015. Microenterprises are those with less than 10 workers, and consequently are often family-based enterprises.

² CIMR Research Working Paper Series, Working Paper No.26, The impact of female entrepreneurship on economic growth in Kenya by Rachel Lock (2015)

³ Lock (2015)



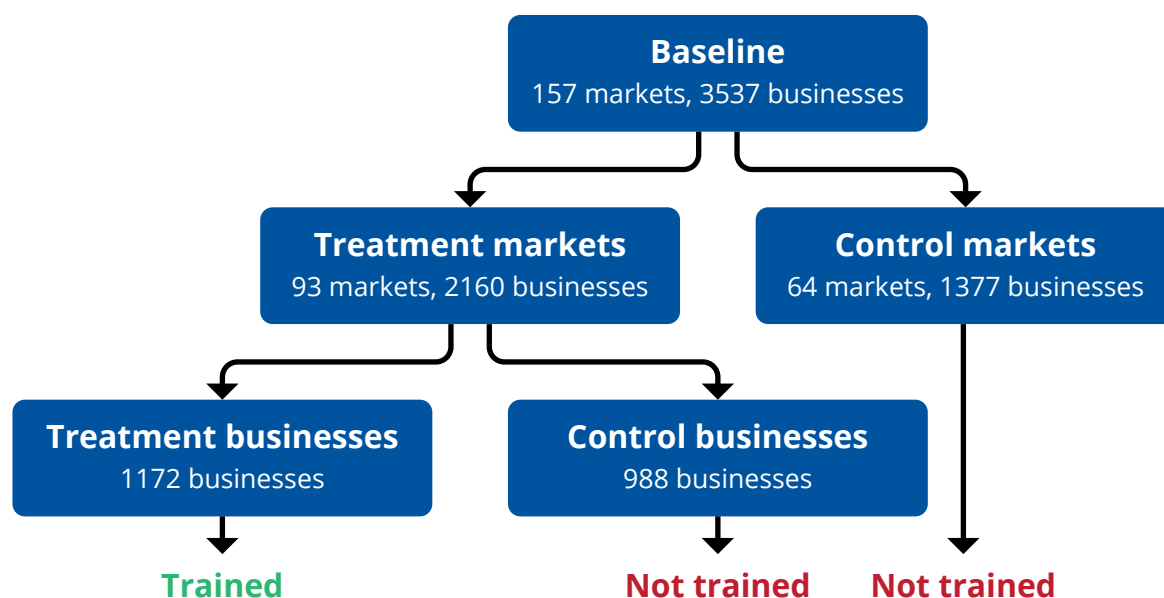


Figure 1: Impact evaluation design with sample sizes

individual business owners being invited to attend the Get Ahead course (the ‘treatment businesses’). It left two control groups which could be used to compare differences in the profitability, growth and survival of businesses: The 64 markets where no one would be trained, and the 988 non-trained women in the treatment market.

The five day training took place immediately after the baseline surveys. Of the 1,172 women invited to training, 78 per cent attended at least one day. Almost all of them (95 per cent) then attended all five days. Training was offered for free, and participants were provided transport subsidies of approximately US\$6 per day to cover the cost of travel. It cost the

programme in the range of US\$200 to US\$333 to train each woman.

A year and a half after the training took place, half of the sample assigned to training was then offered a subsequent mentoring intervention intended to test whether additional group-based and in-person support strengthens the impacts of training. Business owners met in a small group with a mentor every two weeks for 5 months, along with a monthly one-on-one meeting. This additional service cost the programme US\$553 per person.

Outcomes were measured one year and three years after training occurred.

4. What we found

Business practices and profits

The Get Ahead business training programme improved the survival, profitability and growth of businesses receiving training. After three years, the trained businesses’ profits were 15 per cent higher than the non-trained firms. Firm survival was 3 per cent higher, and weekly sales were 18 per cent higher.

As total sales of the business increased, so did the number of customers. This came from an expansion in both the number of customers (which was 9 per cent higher) as well as obtaining more revenue per existing customer. Why might business owners be able to get more customers? The research points to a better customer experience – shops were cleaner, more likely to open on time and had improved



customer service.

Trained firms also exhibited better business practices such as marketing, recordkeeping, stock control and financial planning of the firm. They also diversified the range of products sold: Trained firms were up to 11 per cent more likely to have introduced a new product in their business.

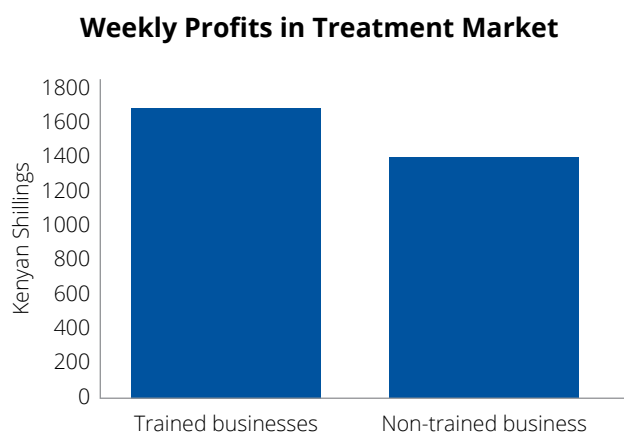


Figure 2: Weekly profits in the treatment market (Kenyan Shillings)⁴

Well-being and empowerment

Not only were the trained women entrepreneurs more profitable, but they also had improved mental health and a higher standard of living.

These broader life outcomes were measured in a number of subjective ways⁵. Trained entrepreneurs increased their well-being by up to 0.3 steps on a 10 step scale. They were also more optimistic about their future, seeing themselves as being on step 5 (out of 10) on the life ladder, but expecting to be on step 8 in five years' time.

Training, however, was found to have no sizeable impact on empowering women in terms of decision-making around finances and business. Measured against 10 different domains of change (such as being compelled to spend money on their husband or family, needing someone's permission to travel to sell a business asset, having some money with sole control), training did not appear to change individual or household decision-making dynamics.

Market development

Does the growth of trained firms come at the expense of their untrained competitors? It appears not. The

profits in the control businesses – the untrained firms operating in the same market as the trained firms – saw no significant change in their sales or profits over the three years. Researchers also found that the success of trained entrepreneurs did not come from crowding out new entrants into the market.

But while untrained firms did not suffer a loss of customers, there were no positive effects either. It had been hoped that untrained firms might copy the practices adopted by the trained businesses and also become more productive. However, beyond a few anecdotal cases of entrepreneurs passing on knowledge to other firms, there was no overall change in the market competition after the training.

Compared to the control market (where no firms were trained), the overall treatment market (made up of all the trained and untrained firms) grew in terms of both customers and sales. The number of customers in the market per week increased by 17 per cent, and overall sales per week by 14 per cent. This suggests that business growth does not appear to come from taking away sales from competitors, but instead arises from overall market growth.



Mentoring

Mentoring support did not deliver additional gains compared to training alone. Outcomes were near identical for firms that participated in training alone, or both training and mentoring. This is consistent with

⁴ The evaluation used the exchange rate of 85 Kenyan Shilling to 1 US Dollar

⁵ This research utilized the Cantril ladder and the MHI-5 index by Veit and Ware





other recent studies which find that individualized hand-holding or mentoring after training does not have sustained impacts relative to just training. It may be, however, that the impact of mentoring needs more time to be realized.

Cost-effectiveness of training and mentoring

One year after the training there were little effects in terms of business performance or well-being – it took three years for significant impact to be recorded. This has implications for both the timing of interventions and evaluation activities.

The cost of training was approximately US\$200, resulting in a weekly profit gain of US\$2.60. It would therefore take 18 months of this level of benefit flow for the programme to ‘break even’ and exceed its costs. While we do not have a long time series to examine whether impacts were sustained, benefits were greater at three years than at one year, making it plausible to conclude that training had a positive return on investment.

Evidence suggests the mentoring component – at a cost per beneficiary of approximately US\$550 - does not pass the cost-benefit test.

5. Policy recommendations

In underdeveloped markets, entrepreneurship training can help grow both trained firms and the overall market in which they operate. The primary

outcomes of training targeting low-income women running small businesses can be increases in firm survival, sales and profitability. Such microenterprise growth need not come at the expense of competitors. As many markets in developing countries have poorly managed firms selling a narrow variety of products, evidence from Kenya shows that training can be one way to develop these markets. Training is also associated with a range of secondary outcomes, with improvements in profits and sales translating into broader individual wellbeing.

However, one of the key policy implications is that there may be a need to adapt - or supplement - training interventions targeting women entrepreneurs in order to lead to greater empowerment outcomes. The Get Ahead business training programme already includes not only hard business skills, but also soft skills related to women's role in the workplace and family life. To complement this, additional interventions could target contextual or sector-specific barriers to women's economic empowerment. Female-owned enterprises often face a range of gender-specific constraints in accessing both financial and non-financial resources, as well as in social norms and the business environment, which cannot be solved by training alone. Public support to women's entrepreneurship should be based on understanding this wider set of constraints to both running a business and also in expanding that business to the extent that it can support economic growth⁶.

⁶ See Lock (2015)





6. Further readings

McKenzie, David J.; Puerto, Susana. 2017. Growing markets through business training for female entrepreneurs : a market-level randomized experiment in Kenya. Policy Research working paper; no. WPS 7993. Washington, D.C. : World Bank Group. <http://documents.worldbank.org/curated/en/197441488550003248/Growing-markets-through-business-training-for-female-entrepreneurs-a-market-level-randomized-experiment-in-Kenya>

David McKenzie, Can you help some firms without hurting others? Yes, in a new Kenyan business training evaluation, World Bank Blog <http://blogs.worldbank.org/impactevaluations/can-you-help-some-firms-without-hurting-others-yes-new-kenyan-business-training-evaluation>

Note on Impact Evaluation Technique: The methodology applied for this research was a two-stage randomized experiment, meaning that a sample of potential beneficiaries was 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 the results are of high reliability, but cannot be generalized for other contexts or countries.**

Author: Matt Ripley, International consultant for the International Labour Organization

Sponsors: International Initiative for Impact Evaluation (3ie), International Labour Organization, World Bank Group

Photos: D. Debru, N. Clegg, R. Kapur

