STUDY SUMMARY

The Impact of Marketing and Finance Training on Firm Performance in South Africa

Entrepreneurs in developing countries face a number of constraints that limit their growth and therefore their contribution to employment and long-term economic development. This study assessed the impact of two intensive training programs, one on marketing skills and the other on financial skills, for small business owners in the Cape Town region of South Africa. Twelve months after the programs ended, both trained groups saw an increase in profits relative to the businesses that did not receive training.

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COUNTRY
South Africa

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PROGRAM AREA
Entrepreneurship and Private Sector Development

TOPICS
Human Capital & Skills, Training & Mentoring

TIMELINE
2012-2013

Policy Issue

Small and medium enterprises (SMEs) are thought to be important sources of innovation and employment in developing countries due to their flexibility in responding to new market opportunities and their potential for growth. However, entrepreneurs in developing countries face a number of constraints that limit their growth, and therefore their contribution to employment and long-term economic development. Poor managerial skills has been cited as one possible barrier to growth for small businesses. To address this constraint, governments and other institutions support a range of business training programs that vary widely in design and delivery. Rigorous evaluations of these programs have found mixed results, leaving policymakers with little guidance on which programs to support. Additional research is needed to understand the impact of different types of training programs. Results may inform policymakers' decisions to support specific programs.

Evaluation Context

South Africa's SME sector plays an important role in the country's economy, contributing more than 60 percent of jobs and over 51 percent of GDP. However, relative to the 65 countries in the Global Entrepreneurship Monitor (GEM) network, including those in the Sub-Saharan African region, South Africa's rate of total entrepreneurial activity is very low. Through its New Growth Plan, the government has set ambitious targets to create five million new jobs by 2020.

Details of the Intervention

This study compared the impact of two high-quality training programs for SME business owners. One program focused on marketing skills and the other taught financial skills. In addition to assessing the direct impact of the programs on firm sales, profit, and employment outcomes, the evaluation looked at how business owners applied the knowledge they gained in training.

Researchers partnered with the Business Bridge Initiative to identify and train the entrepreneurs in the greater Cape Town metropolitan area. The participants were selected through a three-stage recruitment process aimed at identifying firms with the potential to grow. Firms operating out of a physical structure, rather than a small stand or cart, were asked if they wanted to apply for the program by participating in a short screening survey. Using information from the survey, respondents were scored on their potential for growth based on entrepreneur and business characteristics like number of employees, business structure, level of education, and number of business practices employed. Those with the highest scores were invited to a one-hour long registration session.

Participating firms were randomly assigned to one of three groups: 270 business owners were offered the opportunity to participate in an intensive training on marketing and sales; 266 business owners were offered the opportunity to participate in an intensive training on finance and accounting; and 316 business owners were not offered training, and were the control group.

Each of the trainings ran for ten weeks, with entrepreneurs attending one four-hour class per week. Classes also involved four hours of work outside of class. Classes were taught by volunteer business professionals who had academic and corporate experience in marketing, finance, and/or running a business. Instructors attended a one-day training course that introduced them to course materials.

A baseline survey was conducted prior to the training. Surveys to track changes in business practices and business sales, costs, profits, and employment were conducted after six and twelve months.

Results and Policy Lessons

Twelve months after the programs ended, both trained groups saw an increase in profits relative to the businesses that did not receive training. The finance group's profits increased 41 percent, and the marketing group's profits increased by 61 percent. The pathways to these higher profits differed between the two groups. Entrepreneurs who received marketing training achieved gains by increasing sales and hiring more staff (i.e., they focused on growth). Finance trainees, on the other hand, enhanced profits by trimming costs (i.e., they focused on efficiency).

Less seasoned entrepreneurs tended to do better when they received the marketing program, as it encouraged them to look beyond their existing business context and develop new perspectives on products, customers, distributors and suppliers. More established firms, on the other hand, benefited more from finance and accounting skills to reduce costs and increase efficiencies in the business.

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