



# Surviving and thriving

Can innovation among micro-entrepreneurs in South Africa teach global corporations a lesson? **Rajesh Chandy, Stephen Anderson-Macdonald and Bilal Zia** reckon so

**M**ass poverty is a huge world problem, typically addressed through multi-billion aid programmes. But a grass-roots research project in South Africa's impoverished townships suggests another, sustainable solution. It isn't the first study into the impact of skills training on micro-entrepreneurs in developing countries. But prior initiatives have tended to show that any benefits are small or short-lived. This project is remarkable because it is the first to demonstrate the opposite. "You can solve many of the problems of poverty and growth in the world by doing better business," says LBS's Rajesh Chandy, one of the three academics who devised the project. "Micro-entrepreneurs represent the most common type of business in the

world. Yet we tend to ignore them – even though they are hiding in plain sight. If we can help them transform their business lives, then we will probably also transform the lives of their communities, given the prevalence of these kinds of businesses." Not only that, but the lessons learnt that will inform policy in emerging economies such as those in southern Africa could also be applied in developed markets. "By studying the lives of business people many thousands of miles away, we might even learn a bit about ourselves," says Chandy.

These are grand claims. With co-researchers Stephen Anderson-Macdonald (formerly of LBS, now at Stanford University) and Bilal Zia of the World Bank, Chandy worked with Business Bridge, a not-for-profit organisation that offers business skills training. Anderson-Macdonald moved to South Africa and was

personally involved in establishing the base for the work, which formed his LBS PhD dissertation. This involved door-to-door visits to 10,000 micro-entrepreneurs, which meant that participants could be selected differently from previous studies.

"Our definition of an entrepreneur is a person who sets up a business or businesses taking on financial risks in the hope of profit," explains Anderson-Macdonald. "But we realised that to benefit from business skills training, people had to display aspiration to grow and needed basic capability. So we asked the entrepreneurs: 'Do you want to grow your business in the next five years?' A lot of people said 'No'. They were entrepreneurs out of necessity, not choice. They were making ends meet until they could get a job. We defined basic capability as having premises – even if those premises were a shack."

The team whittled the project down

to about 800 micro-entrepreneurs, with hair and beauty service providers representing 12 per cent of the group – making it bigger than any other single industry or service. “We divided them into three,” explains Anderson-Macdonald. “One group would receive intensive financial training, the second marketing training and the third would be the control group. We told this last group that places were full and that we would provide the training 18 months later, a commitment that we upheld.”

The micro-entrepreneurs were randomly allocated to a group. That was important because the thesis was not only that business training would improve their prospects, but to establish what kind of training would best support different entrepreneurs. Unlike earlier studies, the training offered more than general business skills – differentiating between finance and marketing – provided 60-70 hours across ten weeks and followed their fortunes initially for 18 months. Perhaps not surprisingly, this project delivered a strikingly different set of conclusions to earlier work. Both the finance and marketing groups did much better than the businesses that had received no help.

**Survival:** The most basic measure of performance is business survival – was the business still operating 18 months later? Strikingly, almost a third of those in the control (business as usual) group were not. In contrast, roughly 80 per cent of those in the marketing and finance groups were.

**Profitability:** For the finance and marketing groups, monthly profits were more than 40 per cent ahead of the control group’s. Yet the routes to higher profits were very different according to the type of training given.

**Employment:** While control group businesses saw employee numbers go down, average employee numbers in the businesses that had received finance training increased – and the record of the marketing group was even better. In round terms, an average firm involved in the study would have 1.5 employees – excluding the proprietor – before training got under way. But following the course in marketing, an average firm would have two employees, whereas those in the control group actually shrank to one employee during the 18 month period of the study. The increase in employment in firms with finance training was more modest.

has reached a certain threshold in terms of size and scale, improved finance and accounting skills can make a real difference in reducing costs and increasing efficiency.

Meanwhile, the marketing and sales training programme appeared to bring the greatest gains for micro-entrepreneurs with little experience of markets and businesses outside their own limited area. Participants who had never travelled outside Cape Town or worked in a different business benefited most from the marketing programme: they achieved far greater sales increases than entrepreneurs who had broader experience. “The effectiveness of training is likely to depend on who is receiving it,” says Zia. “One size does not fit all. Customisation is key.”

Chandy has evidence that this finding can be applied thousands of miles away from townships. “We’re doing some research with CEOs of large US organisations,” he says. “Very much like the micro-businesses in South Africa, those with a marketing background talk about growth and focus on top-line issues more than those with finance backgrounds, whose focus tends to be more on efficiency. Some general principles seem to transcend geography.”

The project is already impacting on policy in South Africa, and the team hopes to influence a wider sphere. “There are millions of micro-businesses around the world,” says Anderson-MacDonald. “If better business skills can help them do better, then the impact of interventions like these could be truly profound.” ■

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## “If we can help people transform their business lives, we will probably also transform the lives of their communities”

**Sales:** Both types of training helped businesses to increase sales and, after 18 months, enterprises that had gone through the marketing course had sales more than one-fifth higher than those of the control group.

**Marketing vs finance:** Marketing training tended to shift a firm owner’s focus towards top-line growth – pursuing bigger sales and using more staff. Meanwhile, the finance group concentrated more on improving efficiency by controlling costs. Says Bilal Zia: “Both types of training help improve profits as long as they’re targeted at the right people; but the route to that improvement depends on what sort of training was received.”

The study also suggested that the more established firms benefited most from the finance training. They were the ones that achieved the greatest increases in monthly profits. The implication is clear: once a firm

The research team visited 10,000 micro-entrepreneurs in South African townships



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