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Consulting and capital experiments with microenterprise tailors in Ghana ☆

Dean Karlan[a,b,c,d,*], Ryan Knight[b], Christopher Udry[a,c]

[a] Yale University, United States
[b] Innovations for Poverty Action, United States
[c] M.I.T. Jameel Poverty Action Lab, United States
[d] NBER, United States

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ABSTRACT

We conducted a randomized trial in urban Ghana in which tailoring microenterprises received advice from an international consulting firm, cash, both, or neither. We designed the study with a hypothesis that large infusions of financial and managerial capital could be transformative. We find that all three treatments led to their immediate intended effects: changed business practices and increased investment. However, no treatment led to higher profits on average, and certainly not to the large effects hypothesized. In fact, each treatment at some point led to lower profits. Then, in the long run, we find that the microentrepreneurs in either consulting treatment group reverted back to their prior business practices, and that microentrepreneurs in the cash treatment group reverted back to their prior scale of operations.

1. Introduction

We test whether providing urban microenterprises with capital, consulting services or both can help relax constraints and facilitate growth for microentrepreneurial tailors. The interventions were not intended to be scalable: the capital was provided as grants, not loans, and the consulting services were costly relative to the firm size. Rather, we ask whether the

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* Corresponding author at: Yale University, United States. Tel.: +1 2034324479.
E-mail addresses: dean.karlan@yale.edu (D. Karlan), ryan.knight@yale.edu (R. Knight), christopher.udry@yale.edu (C. Udry).

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transformation from microenterprise to small or medium business is possible, even with a concerted "big push" effort, given the mixed evidence on the impacts of credit and training programs.[1]

We conducted a randomized trial in Accra, Ghana with 160 microenterprise urban tailors from 2008 to 2011. A capital treatment group of 36 tailors received grants of 200 cedis (about US $133), doubling their average working capital. This is a similar size grant to those provided in other grant experiment studies (Beaman et al., 2014; Berge et al., 2014; De Mel et al., 2008; Fafchamps et al., 2014; Karlan et al., 2013). A consulting treatment group of 41 tailors received 1 year of management consulting services from Ernst & Young ("E&Y"), a major international consulting firm. Four talented and creative professional business consultants, who know the local business environment, were assigned to these 41 firms for 1 year to provide advisory services. A third treatment group of 36 tailors received both the cash grant and the management consulting. The control group contained 45 tailors.

The consulting treatment was thus interactive and tailored to the individual entrepreneur; this was one-on-one consulting, whereas most entrepreneurship training interventions in the literature are more generic training, often to a group (e.g., see Berge et al., 2014; Bruhn and Zia, 2011; Calderon et al., 2013; Drexler et al., 2011; Giné and Mansuri, 2011; Karlan and Valdivia, 2011; Valdivia, 2014). Two studies, however, are similar to ours in providing one-on-one consulting, rather than training: Bruhn et al. (2013) and Bloom et al. (2012) in India. Both find strong positive results, but are with much larger firms than our experiment.

The context and heterogeneity of experiences of tailors can be illustrated by the stories of two of the respondents:

"Jess" was 26 years old, had attended vocational school to be a seamstress, and financed her start-up capital herself. She was single with no children and cared for a sick mother. She had a bank account but had never applied for a loan from a bank or microfinance institution. She sewed out of a wooden kiosk, and the fair value of her total capital was 765 cedis ($510). She carried all of her materials back and forth from her home to the shop every day because she was worried they would be stolen from her shop, which lacked a secure padlock, and had been broken into before. A strong padlock would cost about 25 cedis ($17), but she had drained all of her working capital from the business caring for her mother. She had recently stopped sewing for an extended period of time because caring for her mother was time consuming, and when she returned she found her primary clients had found another seamstress. She wanted to rebuild her customer base, but did no marketing and had no advertising signs. She spoke softly, did not make eye contact and was shy with new people, but spoke briskly to well-known clients.

Across town, "Sarah" was 28 years old, had attended a polytechnic school for fashion, and had inherited her business 4 years before the baseline. She had two bank accounts, one for business and one personal, and unlike Jess had previously received a loan. The fair value of her capital was 2730 cedis ($1840). Sarah had two good sewing machines and a couple of special purpose machines, which she kept in her concrete shop. The quality of her sewing was good, and she was already keeping transaction records at the baseline. However, her shop was on an out-of-the-way street in a tough neighborhood, so she slept on the floor of her shop to protect her machines. She identified a new site on a main road that she wanted to move to, but she was having trouble saving up enough money. She had a natural ease with customers, but her relationships with her employee and apprentice were tense. The consultants judged Sarah to have great potential and they wanted to help her start marketing, but were concerned about her location and ability to effectively manage her employees as she grew.

Both of these women appeared to face capital constraints. Jess had liquidated her business money for a personal emergency, and could not afford a small amount for a padlock to protect her investment. Sarah believed that a new location would be more profitable, but she could not save enough to move.

Both also faced managerial challenges. Jess needed to work on her customer service and needed to develop a plan to reconnect with her old clients and attract new clients. Sarah needed to learn to be a more effective manager and begin doing marketing.

Jess and Sarah both received the double treatment of the mentoring and the capital grants. At the end of the study, Jess was mourning her lost mother and hardly working. She had not reclaimed her old clients or launched any new marketing campaigns. She tried out record keeping for a time, but stopped keeping any records. She invested the capital grant in fabrics that she hoped to sell from her kiosk, but still had no padlock and was still carrying her material back and forth from home every day. The consultant worked on a plan to put a little money away every day for the padlock, but she was not saving.

Sarah, on the other hand, stood out for how well she adopted the consulting. With her consultant's guidance, she began "sew and sell" – sewing products with no specific customer in mind and selling them from her shop. She saved the capital grant for improvements to her new shop and expanded her record keeping. She added a small dressing room area to her shop and gave purified water satchels and candies out to clients. She designed a label with her phone number on it that she started affixing to all of the items she sewed. She successfully helped an apprentice start her own business, found a new apprentice to replace her, and hired a second employee.

Sarah's experience shows that there is much that a microentrepreneur can do to expand her business and improve her business practices. Sarah's efforts increased her profits from 90 cedis in December 2008 to 333 cedis in December 2010,

[1] The impact of microcredit results is fairly consistent in showing modest but not transformative results (Angelucci et al., 2015; Attanasio et al., 2015; Augsburg et al., 2015; Banerjee et al., 2015; Crépon et al., 2015; Karlan and Zinman, 2010; Karlan and Zinman, 2011; Tarozzi et al., 2015; and for a summary, see Banerjee et al., 2014). The impact of entrepreneurial training programs is more mixed (e.g., see Berge et al., 2014; Bloom et al., 2012; Bruhn et al., 2013; Bruhn and Zia, 2011; Calderon et al., 2013; Drexler et al., 2011; Giné and Mansuri, 2011; Karlan and Valdivia, 2011; Valdivia, 2014).

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