

# Local Best Practices for Business Growth

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# Jakarta Small Retailers (warungs)



# I. Introduction

- Small-scale businesses are an important source of employment.
- Heterogeneity in efficiency of similar small-scale firms (de Mel et al, 2009).
- Important determinant of efficiency is business practices (McKenzie and Woodruff, 2017; Bloom et al., 2019).
- Most of these business owners did not study how to manage businesses.
- Informal local knowledge of practices is transmitted through family or close peers
- Creates knowledge clusters → heterogeneity
- How to improve efficiency of small-scale firms in developing countries?
  - Standard managerial training programs are not successful or very expensive
    - ✓ Low adoption of business practices (McKenzie and Woodruff, 2017)
    - ✓ None or small change on sales and profits (Fairlie, et al 2015)

# Our approach

- Standard training gather little insight on locally useful best practices. This is knowledge that has emerged and remained stuck within clusters.

What do we do?

- Instead of offering training with set courses, we learn about their practices and help businesses learn **best practices** of their successful peers.
- Main research questions:
  - ✓ Do small-businesses adopt the local best practices? If so
    - ✓ does it matter how the information is disseminated?
    - ✓ do firms become more efficient?

## II. Framework and Research Design

- Random sub-sample of 1300 of retail shops in Jakarta (warungs)
- Average warung: 13 sq mts shop; US\$ 900 monthly profits; 2 employees; informal; 70% female; 9 years of education.
- Heterogeneity in the goods they sell, but all share similar business model
- How do we learn about their best practices?
  1. Detailed **qualitative interviews** with 100 warungs (out of sample)
    - ✓ To understand their daily **practices, beliefs, constraints, tips.**
  2. Baseline **quantitative survey** with the 1300 in our sample
    - ✓ To **measure practices and outcomes** (profits, sales)
    - ✓ To **estimate the association** of business practices **with outcomes** (OLS regressions)
- What do we do with this information?

# Handbook of Best Practices

## Praktik Bisnis Terbaik untuk Keuntungan Lebih Tinggi

*Panduan langkah Demi Langkah  
Untuk Mencapai Bisnis yang Sukses*



*Berdasarkan studi kepada pemilik warung di Jakarta*

*Praktik Bisnis Terbaik untuk Keuntungan Lebih Tinggi*

# Handbook of Best Practices

- Five chapters: record-keeping, calculating profits, stock-up, attracting customers, cooperation in business decisions.
- Structure of each chapter
  - 1- Confronts common **false beliefs** about the usefulness of different practices.

*“Keeping records is hard for people without higher education, or that it is complicated”*

We show evidence that this is not the case and presents tips and rules of thumbs used by peers
  - 2- Provides arguments for **why** it is important to implement the practices.
    - Regression coefficients associating practices with profits and sales.
    - Other reasons to implement the practices.

*“From the survey we know that shops that use discounts to attract new and retain loyal customers have monthly sales that are 40% higher than the sales of shops which do not give discounts. Also, their monthly profits are 29% higher.”*

*“profit calculation is useful to plan finances and save up money”*

3- Provides **step-by-step** implementation guidance illustrated by **practical examples**.

✓ record-keeping 9 steps

✓ stocking-up 7 steps

✓ marketing 3 steps...

*“Imagine you are in the back of the shop making a list of items to stock up while your spouse is serving customers in front. It can only be beneficial to receive inputs from your spouse regarding popular items. That way, you will know better what exactly to stock up on and by how much.”*

4- Offers **tips and tricks** to help the implementation

*“Remember that the suppliers also want to find out how well the new product sells in the market.”*

*“By including your co-worker or spouse in the process of making decisions about the shop, chances are they will become more involved.”*

# Movie Screening



# Movie with Successful Peers

- 20-minutes documentary movie.
- 5 successful peers explain their own trajectory of growth adopting the best practices described in the handbook.
- Movie shot in shop.
- Public screened at local schools.
- Compensation and transport provided.
  
- Idea: **psychological and emotional involvement**
- Social learning is possible through **observing the successful experience of similar others** (Bernard, et al. (2014); La Ferrara et al. (2012); Chong and La Ferrara (2009); Berg and Zia (2013))

# Implementation Assistance

- In-shop implementation assistance.
  - Two visits of 30 minutes each.
  - Enumerators specially trained on the handbook.
  - Similar background of shop owners
  - Implementation advice on demand and on site.
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- Idea: hands-on involvement
  - Social learning is possible through **own experience, with a small nudge** (Kolb, 1984)



# Randomize Control Trial

Randomly assigned the 1300 retailers to 5 groups with 260 retailers each:

1. Handbook → information on best practices
2. Handbook + Movie → information + emotional involvement
3. Handbook + Assistance → information + implementation nudge
4. Handbook + Movie + Assistance
5. Control group

Data: baseline, mid-line (6 months) and end-line (18 months)

Low end-line (uncorrelated with treatment) attrition; Compliance: Movie (50%), Assistance (75%)

Analysis: ANCOVA intent-to-treat (ITT) estimation pooling both end-lines

# III. Results: Practices

- All treatments ↑ record-keeping practices (+ 6 pp → 33% improvement)
- “Handbook + Movie + Assistance” ↑ all types of practices
  - Planning (7 pp → 17%)
  - Stocking up (5 pp → 11%)
  - Marketing (6 pp → 25%)
  - Joint decision making (6 pp → 22%)
- No effect on practices of Handbook alone

# III. Results: Performance

Group	Monthly Profits	Monthly Sales	No. Customers	Total Expenses	No. Employees	Credit	Subjective Wellbeing
Handbook	-	-	-	-	-	-	-
Handbook + Movie	-	-	-	-	-	-	-
Handbook + Assistance	↑ 35% ↑ USD 310	↑ 16.7%	-	-	-	-	-
Handbook + Movie + Assistance	↑ 21%	↑ 16.2%	-	-	-	-	↑ 7.1%

# V. Mechanisms

## A. Efficiency gains and not just better record keeping

- ✓ Not only record-keeping practices improve. Businesses adopt practices that are bound to make the business more efficient.
  - Adjust stocks based on product profitability
  - Negotiate lower prices with suppliers
  - Consult with former customers
  - Offer discounts
  - Make joint decisions with a business partner
  - Reviewing financial performance to identify channels of improvement
  - Make anticipated budget for upcoming costs
  - Compare targets vs actual sales
- ✓ The variance in profits among the treated businesses does not converge.
- ✓ Causal mediation analysis confirm that stocking up and marketing practices contribute the most to sales

# V. Mechanisms

B. No evidence of changes in aspirations. Firm improvement seems to be due to **better knowledge** of business practices

C. No evidence of self-reporting bias

D. No evidence that treated businesses improve performance at the expense of the control group

Main mechanism: **firms become more efficient because they learn and adopt local best practices.**

## VI. Conclusion

- It is possible to stimulate efficiency and growth among small firms by sharing information on the best practices of successful local business peers.
- Pure information alone is not effective.
- Combining **best practices** information with **light in-shop implementation assistance** results in sizable and significant improvement after 18 months
- Cost per firm US\$125 → increase monthly profits by US\$ 310