Do Consulting Services Promote Small and Medium Enterprise Growth?
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Small and medium-sized enterprises in developing countries tend to struggle with growth compared to their counterparts in more developed economies.

Attempts to understand impediments to SME growth have traditionally focused on access to finance. More recently, business practices have also drawn attention as another potential driver of SME growth. But we still have little evidence on whether implementing better business practices really leads to higher SME growth and on how to best change business practices. It’s also not clear whether any such changes persist in the long-run.

Studies of business training courses taught in a classroom setting typically find some improvements in business practices, but modest if any improvements in firm performance or growth.

It may be the case that more intense programs are needed to generate larger changes in business practices and SME growth. We studied the effects of such a program in Mexico, for up to five post-program years.

Matching Grants for Consulting Services
The program we studied was implemented in the state of Puebla and provided management consulting services to micro, small, and medium-size enterprises. Participating enterprises had to be formal, i.e. they had to have a taxpayer number.

The services were provided by nine local consulting firms and the state government paid for most of their fees. Beneficiary enterprises contributed only between 10% and 25% of the cost, depending on firm size. The total cost of the services provided through the program was about US$12,000 per enterprise.

Consultants met with enterprises for at least four hours a week for a one-year period and were asked to (1) diagnose the problems that prevented the enterprises from growing, (2) suggest solutions to solve the problems, and (3) assist in implementing solutions.

Participating enterprises belonged to different sectors and case studies show that they worked on different issues with the consultants. The most commonly covered topics were goal setting, accounting, clearly assigning responsibilities, and marketing.

Study Design and Data
A total of 432 enterprises expressed interest in the program, but the program only had resources for 150 firms. We thus randomly selected 150 treatment firms among all applicants, with the other 282 serving as a control group. All 150 treatment firms were offered a spot in the program, but ultimately only 80 of them participated. Others said they had changed their mind or did not have sufficient funds to pay their share of the costs anymore.

We conducted a baseline survey before the program started. At baseline, enterprises in the study had an average of 14 employees, US$63,000 in monthly sales and US$12,000 in monthly profits.

To measure the effect of the consulting services on firm performance we conducted a follow-up survey at the end of the program. This survey re-interviewed 88% of firms interviewed at baseline. To look at longer-run effects we also tried to conduct a second survey a couple of years later, but had a very low response rate.

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We used firms’ taxpayer numbers to request administrative data from the Mexican Social Security Institute (IMSS) on number of employees and the wage bill. There was a limit on how many years of data we could request and we chose years for which we did not collect survey data: two years before the baseline and five years after the follow-up survey.

**Results**

Data from the follow-up survey at the end of the program show that
- The program increased productivity by one-fifth of a standard deviation.
- But there was no effect on sales, profits, or employment in the short-run.
- In terms of business practices, we find more firms keeping accounts and launching a marketing campaign.

IMSS data show that enterprises in the treatment group had about 50% more employees and a 50% higher wage bill than enterprises in the control group. This large effect emerged about 2 years after the program and persists and in fact grows over time (see figures 1 and 2).

**Policy Implications**

The consulting services provided through the program in Mexico increased firm productivity and led to SME growth. The fact that the effect on growth only emerged 2 years after the program suggests that it’s important to include longer term evaluations of SME programs.

The effects on growth were much larger than those typically detected for business training given in a classroom setting. At the same time, the consulting services had a much higher cost per firm than classroom training. This raises questions about scalability of these intense programs.

In Puebla, the government paid a large share of the cost of the consulting services, but another open question is whether these matching grants are necessary.

Given the large effects on productivity and employment, why don’t more firms hire management consultants themselves?

Based on our study, we can only provide an anecdotal answer. Our follow-up survey shows few control firms hired consultants on their own. Others stated financial constraints as the main reason for not doing so, suggesting a role for matching grants.


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