Co-production in business training in microfinance institutions

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Co-production in Business Training in Microfinance Institutions: A conceptual approach

Abstract

Recent developments in service literature highlight the importance of co-production between the firm and the client in order to create value. This paper presents a model of co-production within the context of microfinance provision and investigates the dyadic relationship between Trainers from microfinance institutions (MFIs) and the Owner Managers of micro and small enterprises (MSEs). The paper develops a model that identifies the factors that facilitate co-production between Trainers and Owner Managers. It also goes on to examine how these factors foster the outcomes that ensue for the businesses and MFIs concerned. The model offers researchers a framework for empirical studies in the microfinance setting. Furthermore, microfinance policy makers can use this model to formulate strategies that offer numerous benefits to both MFIs and Owner Managers.

1 Introduction

The recent renaissance of co-production, fuelled by the paper on service dominant logic by Vargo and Lusch (2004) has spawned a revival of interest in the subject matter (Peters *et al*, 2012; Chen *et al*, 2011, Cheung and To, 2010; Etgar, 2007). The literature on co-production highlights the importance of active participation by the client in service production and delivery. The literature also presents the numerous opportunities for co-production between the firm and its customers to achieve competitive advantage (Prahalad and Ramaswamy, 2004). Given the active role played by the client in co-production, the client is considered a partial employee of the firm, and client selection and training (*i.e.* socialization) are key antecedent factors for successful co-production (Auh *et al*, 2007; Bettencourt *et al.*, 2002; Kelley *et al.*, 1992; Kelley *et*

al, 1990). The degree (high, moderate, low) of involvement of a client in co-production varies across services (Bitner *et al.*, 1997; Hubbert, 1995). For example, in services like training and counselling both the involvement and level of effort required on the part of the client for co-production is high. The client receiving counselling may need to co-produce with the counsellor by investing time in counselling, providing information to the counsellor and implementing what is agreed upon in the counselling session – all of which require high levels of client involvement. In contrast, a client's involvement is moderate when having a haircut and low when reserving an airline ticket. Furthermore, literature discusses two forms of co-production: collaborative co-production and collective co-production. Collaborative co-production consists of a partnership of clients which interact with a firm whereas collective co-production is the interaction between the clients to produce a service (Peters *et al.*, 2012; Humphries, 2008).

There are many studies done on co-production, in particular service domains (Van Eijk and Steen, 2014; Chen *et al*, 2011; Auh *et al*, 2007; Rice, 2002; Bettencourt *et al*, 2002; Gruen *et al*, 2000). However, a study that investigates the co-production between a microfinance institution (MFI) and a client in business training is novel. Further, there are number of studies done in the service domain that have introduced frameworks to analyse co-production between the service provider and client (Chen *et al*, 2011; Auh *et al*., 2007; Betencourt *et al*, 2002; Gruen *et al*, 2000). These studies have identified service provider related co-production factors such as communication, education and experience, readiness and client-related co-production factors such as expertise, willingness, and affective commitment in their frameworks together with co-production outcomes. But these frameworks have not identified contextual elements which influence co-production factors in the frameworks. Cepiku and Giordano's (2014) study on co-production in developing countries has identified several knowledge gaps in co-production

literature and one of the key knowledge gaps authors have pointed out was ignoring the contextual elements under which co-production takes place. Thus the purpose of this article is to provide an integrative framework which includes contextual elements in the analysis of the co-production in business training provided by MFIs. According to co-production literature business training given by MFIs requires high client involvement and also fits into both collaborative and collective co-production as clients co-produce, both with the MFI and other clients within the groups. The remainder of this article is organized as follows. Firstly, the paper discusses the importance of micro and small enterprises (MSEs) to economies in the world and identifies the services offered by MFIs such as microcredit and business training. Since the study focuses on business training given to clients/Owner Managers based on the concept of co-production, business training, characteristics of Owner Managers and the literature on co-production are discussed. Following this, the paper identifies the factors affecting the ability to co-produce business training and discusses the outcomes that result for both the business and the MFI. Finally, the paper presents a conceptual framework grounded on co-production to be applied in business training provided by microfinance institutions.

1.1 The Importance of Micro and Small Enterprises

Micro and small enterprises (MSEs) are considered as a major source of income and employment generation in developing countries (Merten and Paul, 2007; Tybout, 2000; Mead and Lieadhom, 1998). If MSEs grow in size they can contribute more to economic growth and poverty reduction in developing countries. However, in reality, most MSEs remain small with low productivity (Yukichi *et al*., 2012; Tybout, 2000; Mead and Lieadhom, 1998). Entrepreneurs of MSEs face external obstacles such as regulations, infrastructure and economic uncertainty which require macro level solutions (Datta, 2008; Djankov *et al*., 2002; Svensson, 1998). However, many

obstacles faced by entrepreneurs are idiosyncratic to the entrepreneur. For instance, an individual entrepreneur may not know how to navigate regulations, deal with finance institutions to fund the venture or market their product. An entrepreneurial spirit is often inherent in these entrepreneurs but these idiosyncratic obstacles may hinder the progress of the venture. Business training is a vibrant solution to overcome such obstacles faced by entrepreneurs (Bailey, K. and Mathias, S., 2011). Studies have shown that micro finance initiatives providing both credit and business training can play a vital role in supporting MSEs to overcome many obstacles (Merten and Paul, 2007; Rogerson, 2001; SAARC, 2000).

1.2 Microfinance and Business Training

Microfinance institutions (MFIs) provide microcredit and business training to entrepreneurs for the purpose of starting or expanding businesses (Merten and Paul, 2007; Karalan and Valdivia, 2006; Halder, 2003). Microcredit is the issuance of small unsecured loans to entrepreneurs. Business training is a non-financial service provided by MFIs to impart knowledge and skills to entrepreneurs so that they can carry out their ventures successfully (Merten and Paul, 2007; Khavul, 2010). The aim of microfinance is to spur entrepreneurship and empower borrowers to help themselves (Khavul, 2010). Generally services of MFIs are provided to low income people. MFIs use innovative methods such as group lending and group liability, pre-loan savings requirements and the gradual increase of loan size to provide services without any or little collateral (Khavul, 2010; ADB, 1997).

Microfinance is widely practiced in developing countries and targets the 2.2 billion people living on less than $2 per day (World Bank, 2014; Easterly, 2006). Increasingly, microfinance is also being offered in the developed world to those who desire to become micro-entrepreneurs but

cannot access credit. It is estimated that half of the world's population do not have access to credit (Chaia *et al*., 2009; Beck, Demirguc-Kunt, and Peria, 2008; Easterly, 2006; Sachs, 2005). Thus, there is potentially a large segment of the population available for microfinance institutions to serve. In 2010 alone, MFIs had catered to 205 million low income people in the world (State of Microcredit Summit Campaign Report, 2012).

MFIs have achieved some success in empowering entrepreneurs of MSEs through the provision of credit (Littlefield *et al*., 2003). However, it is evident that credit (capital) alone is not sufficient to achieve the desired development effect from promoting entrepreneurs (Gulli and Berger, 1999; Wright, 1999; Mosley and Hulme, 1998; Johnson and Rogaly, 1997; Rogaly, 1996; Hulme and Mosley, 1996). Entrepreneurs not only need credit (capital), but also training to become successful (Merten and Paul, 2007; Phillip, 2004). Therefore, increasingly, MFIs are also providing business training to entrepreneurs of MSEs.

1.3 Business Training

Owner Managers of MSEs require business training in areas such as costing, pricing, accounting, marketing and inventory control. Thus MFIs provide business training to its clients/Owner Managers covering these areas. Once Owner Managers receive the business training, they are equipped with the necessary skills to carry their businesses forward. The nature of the business training provided by MFIs is such that it allows Owner Managers to learn far more than the basics of running a business within a safe and supportive learning environment (Karalan and Valdivia, 2006; Halder, 2003; ADEMCOL, 2001).

The goal of the business training provided by MFIs is twofold: to improve the business outcomes for the client and to improve the institutional outcomes for the MFI. Business training could

improve the sales, profits and business knowledge of the clients/Owner Managers while establishing new MSEs and helping them grow in terms of assets, sales and having more employees for the MFIs (Yukichi *et al*, 2012; Karalan and Valdivia, 2006). A number of studies completed on business training in the microfinance context have shown that the above goals are achievable (Karalan and Valdivia, 2006; Halder, 2003; ADEMCOL, 2001).

When it comes to the delivery of business training, some MFIs have bundled it with the provision of credit at weekly or monthly client group meetings. Other MFIs provide business training separately to the provision of credit. MFIs can use their own in-house trainers and/or external trainers to instruct their clients (Halder, 2003; ADEMCOL, 2001).

1.4 Characteristics of the Owner Manager

An Owner Manager is an entrepreneur who owns and manages a MSE (Gibb, 2009). In this paper an Owner Manager is a client of a MFI who receives business training. Prior to providing business training, the unique characteristics of MSE Owner Managers are explored so that trainers can act as better learning facilitators and tailor-make the business training programmes (Gibb, 2009). Compared to a corporate business manager, the Owner Manager of a MSE enjoys independence and ownership in terms of finance and psyche (Ghobadian and O'Regan, 2006). The changes in income of the Owner Manager affect his monthly income and lifestyle. The way the business develops is based on the Owner Manager's personal experiences in which earlier problems have been addressed (Krueger, 2007; Thorpe *et al.*, 2006). Moreover, the Owner Manager takes a holistic view of management and is highly dependent on personal relationships and key stakeholders. Furthermore, Owner Managers often prefer to learn through peers and by doing things, rather than through the attendance of formal training programmes (Gibb, 2009).

Given these characteristics of the Owner Manager, trainers need to have a considerable degree of understanding of how these characteristics impact the management of a business.

2. Theoretical background and development of the model

We believe that in order to benefit from business training, the trainers of MFIs and Owner Managers of MSEs should collaborate (*i.e*. co-produce). Our study is based on this concept of co-production.

2.1 Co-production

The concept of co-production was originally developed by the workshop of Political Theory and Policy Analysis at Indiana University in 1973. Originally the concept of co-production related to a client or citizen's involvement in production (*i.e*. direct user participation in the public or private sectors). This concept created a great fervour among public administration scholars in the US in the 1970s and 1980s. According to Parks *et al*. (1981) co-production involves the joint efforts of two parties who jointly determine the output of their collaboration. Here, two parties mean the consumer and the producer. Contrary to the passive role played by the consumer in production, in co-production the efforts of the consumers are central to the creation of the output (Etgar, 2007; Vargo and Lusch, 2004; Parks *et al*., 1981).

The concept of co-production was initially studied in the context of industrial and service markets. Moreover, co-production was originally discussed in terms of economic efficiency gained from collaborating with a customer in business and the business context which resulted in a competitive advantage (Fitzsimmons, 1985). In the 1990s scholars began to discuss the use of the co-production concept in consumer markets. In consumer markets, a 'customizing consumer' was seen as one who takes an active role in the production process (Firat and Shultz, 1997; Firat

and Venkatesh, 1993, 1995; Firat *et al*., 1995; Firat, 1991). In recent times, the work of Prahalad and Ramaswamy (2004a, 2004b, 2002, 2000) and Vargo and Lusch (2006, 2004) on value co-creation and service dominant logic of marketing has propelled this new school of thought surrounding co-production. Until recently, the dominant thinking was that customer value creation accompanied the product (Goods Dominant logic, G-D). However, Vargo and Lush (2004) proposed the Service Dominant (S-D) Logic in which service provision rather than goods is the basis of economic exchange. These authors argue that value does not exist solely in the finished goods but value is defined and created in co-production with the consumer (Vargo and Lusch, 2006). They proposed that goods are part of distribution in service provision and that a customer is always a co-producer. Moreover, their S-D logic identifies how customer collaboration affects co-production and how it brings about benefits such as lower costs, customized service offerings and increased productivity. Furthermore, Etgar (2007) describes co-production as customers participating in the performance of various activities within the production process and encompasses all cooperation formats between the customer and the service provider.

By following Parks *et al*'s (1981) view on co-production (*i.e*. joint efforts) and the more recent work of Vargo and Lusch (2006) on co-production (*i.e*. S-D logic), the paper adopts the stance that co-production is a "joint effort between two parties who jointly determine the output of collaboration with the customer always being a co-producer". This study discusses how trainers of MFIs and Owner Managers of MSEs can collaborate with each other in business training to achieve desired performance outcomes. Figure 1 below depicts how collaboration/co-production takes place in business training within the microfinance context.

'Insert figure 1 here: Co-production in business training within the microfinance context'

2.2 Development of the conceptual model

Based on the adopted view of co-production, this study identifies the factors affecting co-production and co-production outcomes. The study examines trainer specific factors and Owner Manager specific factors that affect the co-production in business training. Furthermore, MFI specific co-production outcomes and Owner Manager specific co-production outcomes are also dicussed.

2.2.1 Trainer specific factors that affect co-production

Rice (2002) in his study of business incubators identified that educational qualifications and the experience of the incubator manager affects co-production. ADEMCOL's (2001) study focusing on business training in the Columbian microfinance context also highlights the importance of 'qualified' loan officers for the delivery of effective business training. Moreover, Chirsman (1989) emphasizes the importance of qualifications and experience of consultants in delivering business services to small and medium size entrepreneurs in his study based on small business development centres in the US. Similarily, in the proposed study, we believe that educational qualifications and the experience of trainers affect co-production as qualified and experienced trainers are in a better position to impart knowledge and skills to Owner Managers.

Gibb (2009) asserts that trainers of MSEs should work as learning facilitators. According to Rogers (2004) a learning facilitator possesses certain qualities such as the ability to empathize with the feelings of learners (accepting these often as more important than knowledge content), the ability to build upon the experience of learners and the ability to empower learners to take up ownership for their learning. In this study taking the view of Rogers (2004) and Gibb (2009), we

propose that trainers act as learning facilitators in the microfinance context. Hence the learning facilitation role of trainers affects co-production in training.

Follow up and feedback given by the service provider to the client enhances co-production (Peters *et al.*, 2012; Bettencourt, 2002). When training is given to the Owner Managers, trainers may need to provide follow up and feedback for classroom performance and the Owner Manager's implementation of the training in his business venture. Hence we propose that feedback given by the trainers to the Owner Managers affects co-production in business training.

In 2011, Douglas and Eileen found there was a positive correlation between the number of advisory hours spent and the growth of business and sales of small businesses in their study on publicly funded advisory services on entrepreneurial outcomes of selected SMEs in Canada. Schayek and Dvir (2009) investigated the effectiveness of coaching given by public assistance programmes on the performance of small businesses and found out the number of counselling hours and intensity (*i.e.* number of hours per client) were positively correlated with the performance of the business. According to Rice's (2002) study on business incubators, readiness of the incubator manager in co-production is dependent on the number of counselling hours the manager has spent for co-production and the number of counselling hours the manager spends on the client (counselling intensity). Following the same rationale, we believe the number of training hours spent by the trainers and number of training hours per Owner Manager affect co-production in business training.

ACCION's (2005) study on microenterprises found that trainers who provided training to Owner Managers in the microfinance context provided interactive training methods using role playing, group works, problem solving, and case study techniques to enhance the engagement of the

trainee with the trainer and other trainees in the classroom. Interactive training methods facilitate the deep learning of trainees. McCullouch (2009) asserts the importance of deep learning of the student as opposed to surface learning where the student is a co-producer. Similarly we propose that interactive training used by trainers is a factor that affects co-production in business training.

Having considered the literature above, the proposed model identifies the qualifications and experience of trainers, the learning facilitation role, follow up and feedback provided by trainers, number of training hours provided by trainers and interactive training as trainer specific factors affecting the co-production in business training.

2.2.2 Owner Manager specific factors that affect co-production

Harder (2003) and Yukichi *et al*. (2012) found the education of owner managers has an impact on their ability to follow training programmes successfully. In fact, years of education help entrepreneurs absorb skills faster. According to Gunathilka (1997) and Rice (2002), the previous experiences of entrepreneurs affect his/her business performance. Accordingly, we believe that the Owner Managers with educational qualifications and previous experience in business may follow the business training provided by MFIs more successfully. Hence we propose the education and experience of Owner Managers affect co-production in business training.

According to Auh *et al*. (2007), Chen *et al*. (2011) and Bendapudi and Leone (2003), a client's awareness of his issues and problems and familiarity with the solutions offered by the service provider affect the co-production. Similarly, we believe that in the microfinance context, an Owner Manager who is aware of his problems and familiar with different training programmes offered by MFIs may co-produce well. Hence we propose the expertise of an Owner Manager – a

combination of awareness and familiarity of training - as a factor affecting co-production in business training.

Willingness is important in co-production of counselling. According to Lengnick-Hall et al. (2000) in addition to being able to contribute, customers must be willing to get involved in co-production. Schayek and Dvir (2009) prove that willingness of the small business owner to take part in a business assistance programmes enhances the performance of the programmes. Furthermore, Rice (2002) found out that willingness of the entrepreneurs is essential in co-production of counselling. Therefore we propose willingness of Owner Manager to attend training as a factor that affects co-production in training.

Heish *et al*. (2004) and Bitner *et al*. (1997) find the commitment of a client in terms of effort expended in obtaining a service is key to the success of co-production. Owner Managers who attend business trainings need to spend time and effort to gain the required knowledge and skills. Thus we propose commitment of an Owner Manger as a specific factor that affects co-production of business training.

Studies have found that affective commitment of the client, in which the member is psychologically bonded to the organization on the basis of positive emotions has an impact on him co-producing with the service provider (Bruce *et al.*, 2012; Chen *et al*., 2011; Auh *et al.*, 2007; Etgar, 2007; Bhattacharya and Sen 2003; Gruen *et al*., 2000; Heish *et al*., 2004). Accordingly, we believe that the Owner Managers found with affective commitment to the MFI tend to attend trainings and collaborate with the trainers to reap the full benefits of the training. Thus we propose affective commitment as an Owner Manager a specific factor that affects co-production in business training.

Having taken into account the literature discussed above, the proposed model identifies education and experience, expertise, willingness, commitment and affective commitment of Owner Managers as factors affecting the co-production of business training.

2.2.3 Contextual factors that affect co-production

We have discussed how MFI specific factors and Owner Manager specific factors affect the co-production of business training. In addition, there are contextual factors which influence the collaboration between the trainer and Owner Manager and hence affect co-production. These contextual factors would act as moderating variables that have strong contingent relationships between independent variables (co-production factors) and dependent variables (co-production outcomes). Studies show that co-production of training can be influenced by client selection, lending methodology, whether the training is provided on a compulsory or voluntary basis, whether the training is provided for a fee or free, location, time of the training and training materials. Each of these factors is discussed below.

Client selection and Socialization

Studies have found that client selection and socialization is vital for co-production (Chen *et al.*, 2011; Bettencourt *et al.*, 2002). This is especially true for services which require high client involvment such as training and counselling. The service provider finds it easier to co-produce if the client possesses certain characterisitcs such as education and prior experience in the service. Thus, service providers who offer services, in particlar those which demand high involvment from a client, resort to client selection based on their criteria for better co-production outcomes. A number of studies done in the microfinance context on training elucidate that, Owner

Managers with good qualifications and reasonable income do well in training (Yukichi, 2012; Judith, 2004; Harder, 2003; Gunathilaka, 1997). In addition, client socialization is also considered as important for co-production. Providing insight to the client on the service provider and services on offer prior to the provision of actual services could enhance co-production (Bettencourt *et al.*, 2002; Kelley *et al.*, 1992). Some MFIs provide socialization programmes to its clients before providing services such as credit and business training. Under these socialization programmes, MFIs create awareness among potential clients about their services, establish groups and change their mindsets in order to help Owner Managers better prepare and absorb business training. This is important as better training requires high involvement from the client. Thus our premise is that client selection and socialization influence the collaborative relationship between the trainer and the Owner Manager.

Lending Methodology

MFIs provide credit to Owner Managers using an individual lending methdology or group lending methodology. In general, a group consists of 3-10 members. The basic idea of group lending is that loans are given to the individual members of the group but the group as a whole is responsible for the repayment of loans by each individual member to the MFI (*i.e.* group liability). In individual lending, MFIs provide credit to individuals who are not in groups. The main difference between group lending and individual lending is that individual lending demands collateral (Khavul, 2010; Denotes and Alexandar, 2004). MFIs that use group and individual lending methodologies provide business training to their clients. Studies show MFIs that use group methodology find it easy to deliver business training to its clients/ Owner Managers as these trainings are often provided at weekly/monthly credit group meetings, i.e. training bundled with credit (Halder, 2003; ADEMCOL, 2001). Our premise here is that the lending methodology

of a MFI, in particular group methodology, affects the co-production of business training. In support of this argument, Gruen *et al's* (2000) study on insurance shows that members of an association have an impact on co-production due to member interdependence. Moreover, Wood and Bandura (1989) assert that the commitment of entreprenurs can be fostered through emotional attachments and social interaction with others. Thus we believe the emotional attachment of the group and interaction with each other leads to the commitment of members towards attending training programmes and implementing what is learnt. Thus group lending methodology adopted by MFIs influences the co-production between the trainer and the Owner Manager. Furthermore, we believe that in a group setting, collective co-production can take place as group members collaborate with each other to achieve the goals of business training.

Training as a compulsory or voluntary element of the lending decision

Some MFIs have made training compulsory while other MFIs have made it voluntary. Merten and Paul (2007) assert that it is always better to make training voluntary so that Owner Managers have the autonomy to select the training programmes offered by MFIs. Bendapudi and Leone (2003) found when there was autonomy in decision making for a client, the client tended to take responsibilty of the co-production outcomes rather than shifting the responsibilty to the service provider. In contrast, other studies on small business trainings have shown that it is always better to make training compulsory to Owner Managers of MSEs as they do not attend if trainings are made optional. There is more literature to support this argument revealing that Owner Managers are in general reluctant learners (Bryan 2006; Hankinson 1994). Thus we propose that the compulsory or voluntary nature of trainings can affect co-production.

Free and fee paid

Some MFIs charge a fee for the provision of training while other MFIs provide training for free. MFIs who are not supported by donors in Business Development Services programmes tend to charge a fee for business trainings as it is necessary for sustainabilty purposes. The attendance of trainings can be affected by the MFI's pricing policy and thus influence co-production (Halder, 2003 and ADEMCOL, 2001).

Location, time, training materials, duration and near and far distinction

The location of the training, timing of the training (i.e. weekend, weekday, evenings), quality of the training materials and duration of the training programmes (i.e. short-term or long-term) can have a significant impact on the motivation of the Owner Managers to attend training (Bruce, 2012; Gibb, 2009, 1990) and hence affect the co-production in business training. For example, an Owner Manager would be more motivated to attend a business training programme conducted close to his home (*i.e*. location) over the weekend, thus attending the programme with minimal disturbances to his business. Moreover, the duration of the training programme influences the attendance of training programmes. It has been shown that business training of a short duration (e.g. half a day or full day) attract Owner Managers more often than training programmes of a longer duration (e.g. three days or 1 month). Furthermore, training programmes that disseminate practical knowledge which can be applied in a short term (*i.e*. near) are more popular among Owner Managers compared to programmes that disseminate knowledge which is applicable in the medium to long term (*i.e*. far) (Bruce, 2012). In addition, training materials provided must be in simple language and easy to understand as Owner Managers of MSEs are often not well-educated (Gibb, 2009). Therefore, training materials could also affect the motivation of Owner Managers attending business training.

2.4 Co-production outcomes in business training

So far we have discussed the factors affecting co-production in business training. The following section identifies the co-production outcomes for both MFI and Owner Manager.

2.4.1 MFI specific co-production outcomes

A number of studies have shown that providing business training to Owner Managers/clients of MSEs within a microfinance setting can help MFIs achieve co-production outcomes such as number of new MSEs being created, number of new employments being created and growth of MSEs in terms of assets and sales (Karalan and Valdivia, 2006; De Wildt and Ruijter, 2004; Halder, 2003; ADEMCOL, 2001). Hence we believe that better co-production in business training will allow MFIs to achieve the above outcomes.

2.4.2 Owner Manager specific co-production outcomes

Existing literature suggests that business training enhances the sales, profits and business knowledge of the Owner Manager of the MSE (Karalan and Valdivia, 2006; De Wildt and Ruijter, 2004; Halder, 2003; ADEMCOL, 2001). By providing business training to Owner Managers, MFIs attempt to increase their knowledge in areas such as record keeping, separation of personal funds and business funds, financial literacy, reinvestment of profits into the business, accounting and marketing (Karalan and Valdivia, 2006). Hence we believe that the effective co-production between trainers of MFIs and Owner Managers of MSEs will result in improved profits, improved sales and improved business knowledge for the Owner Manager.

Based on the information provided thus far, the following conceptual framework has been proposed for co-production in business training:

‘Insert figure 2 here: Conceptual framework for the study’

3. Discussion

The paper discusses the importance of co-production in business training within the microfinance setting. A number of studies conducted to assess the impact of business training on the performance of MFIs and Owner Managers of MSEs have found that there is a positive relationship between business training and performance. None of these studies however have used the concept of co-production to examine business training in a microfinance setting. Hence the aim of this paper is to introduce a conceptual model based on the concept of co-production to examine business training. In the proposed model, MFI factors, Owner Manager factors and outcomes of business training relevant to the co-production have been identified. The study shows that education, experience, learning facilitation, follow up and feedback, number of training hours and interactive training of the trainers affect the co-production while it is the education and experience, expertise, willingness, commitment and affective commitment of Owner Managers that contribute to co-production. The resulting outcomes of co-production are of two kinds: MFI specific and Owner Manager specific. MFI specific outcomes include number of MSEs being created, number of employments being created and growth of MSEs in terms of assets, sales and profits. Owner manager/client specific outcomes are improved sales, improved profits and improved business knowledge. In addition to this, the study also identified some contextual factors that could influence the co-production in business training such as client selection, lending methodology and training materials. Business training requires high involvement from Owner Managers. Therefore providing a socialization programme to Owner Managers may contribute towards successful co-production. Moreover Owner Managers in a

group-setting facilitate the co-production of business training resulting in collective co-production.

The framework developed in this study provides a starting point for empirical research about co-production in business training within the microfinance setting and can be used for the development of a testable hypothesis. Furthermore, the model could aid microfinance policymakers as it provides a basis for formulating strategies based on co-production.

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Figure 1

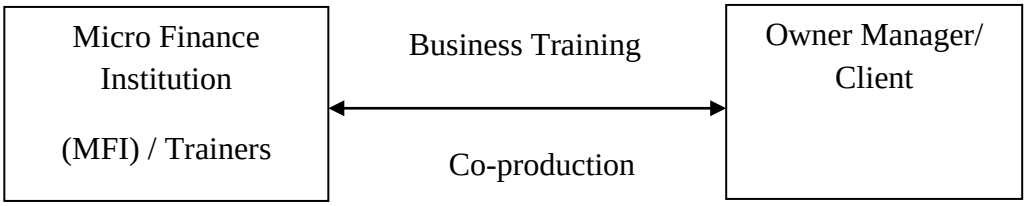
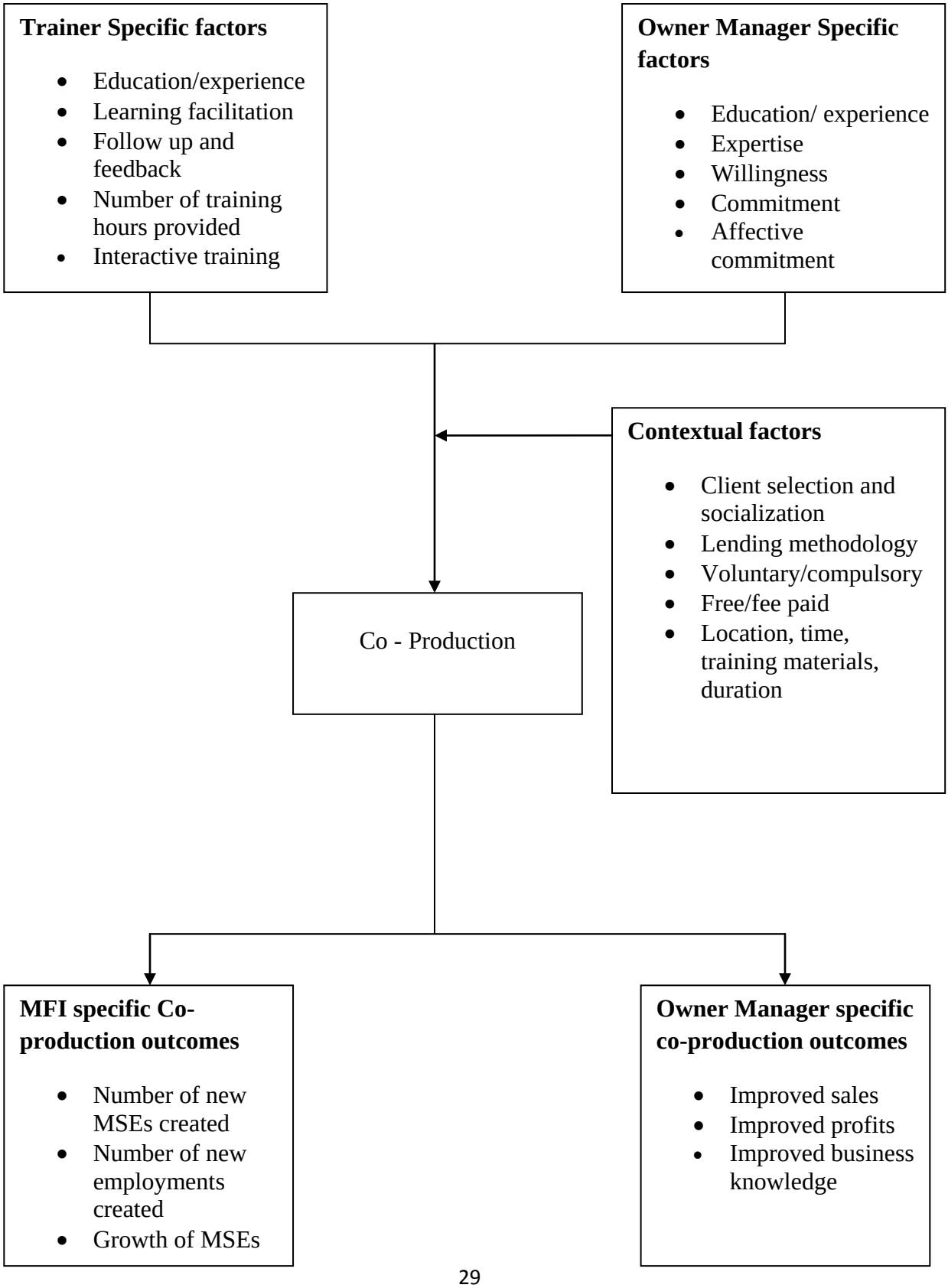

Micro Finance Institution
(MFI) / Trainers
Business Training
Co-production
Owner Manager/ Client

Figure 2


Trainer Specific factors
Education/experience
Learning facilitation
Follow up and feedback
Number of training hours provided
Interactive training
Owner Manager Specific factors
Education/ experience
Expertise
Willingness
Commitment
Affective commitment
Contextual factors
Client selection and socialization
Lending methodology
Voluntary/compulsory
Free/fee paid
Location, time, training materials, duration
Co - Production
MFI specific Co-production outcomes
Number of new MSEs created
Number of new employments created
Growth of MSEs
Owner Manager specific co-production outcomes
Improved sales
Improved profits
Improved business knowledge

Key Words: Co-production, Microfinance; Business Training; Micro and Small Enterprises; Entrepreneurship; Owner Managers; Clients; Trainers; Developing countries