

Do Programs Supporting High Growth Entrepreneurs work?

Evaluating the Endeavor-South Africa Project

Endeavor Global is a non-profit organization that assists carefully-selected emerging-market entrepreneurs, providing customized advisory services in an effort to transform them into successful role models that can catalyze the entrepreneurial climates of their home countries. Endeavor's model is based on research showing that high-growth, innovative enterprises with links to international markets promote economic development and job growth more effectively than ordinary small and medium size enterprises (SMEs). Following Endeavor's launch and encouraging results in Latin America, IFC provided grants enabling Endeavor to launch a program in South Africa in 2003. An independent quasi-experimental evaluation conducted by IFC found that the South African entrepreneurs selected by Endeavor benefited from the program, although outreach and program utilization have been limited. Comparable firms that advanced through the selection process but were not chosen to receive customized assistance did not perform as well, on average, as those ultimately selected. This note discusses the methodology and results of the Endeavor-South Africa program evaluation.

Program Overview

Endeavor, headquartered in New York City, currently has operations in Uruguay, Argentina, Brazil, Chile, Mexico, Columbia, India, South Africa and Turkey. The program launched its operations in Latin America since 1997. From 1998-2005 Endeavor has raised over \$11 million from private and public sector donors and IFC's contribution has been \$1.1 million for Africa.

Endeavor's model is based on two differentiating competencies: rigor in selecting entrepreneurs with potential to grow and become role models, and the network of country's and global business leaders who mentor and advise the selected individuals. The target is mostly small and medium enterprises (SMEs) across a broad range of sectors, though many participants are operating in areas (like information technology) that are particularly conducive to innovation.

Endeavor uses a multi-stage proprietary process to identify and select potentially high-impact entrepreneurs. The final selection stage is an international panel which takes place once a year and where, on average, 4-6 entrepreneurs in each country are selected as Endeavor Entrepreneurs (EEs). From Endeavor's inception, a total of 198 entrepreneurs have been selected across all countries (from 14,000

screened). Exceptional ideas and potential are more important selection criteria than specific business characteristics. While this selection process is regarded by most applicants as a valuable experience in and of itself, for EEs the selection process opens the door to free personalized services and exceptional networking opportunities.

Endeavor offers its entrepreneurs a range of support services, including business plan and strategy development, assistance from international MBAs from the world's leading business schools, training, introductions to potential sources of capital, and networking opportunities. Endeavor also develops case studies on assisted entrepreneurs and supports media campaigns aimed at promoting legal and regulatory reforms in support of growing businesses.

Endeavor South Africa was launched in 2003 and selected six EEs in 2004. This was followed by a cohort of five EEs selected in 2005 and another six selected in 2006. South Africa was chosen as Endeavor's launch country in Africa because its socioeconomic environment was clearly in need of entrepreneurship support. Over the last 5 years South Africa's unemployment rate has been near 30%, while total early-stage entrepreneurship activity has remained low. The *Global Entrepreneurship Monitor Report* ranked the South Africa 30 out of 42 in 2006.

Benchmarking Endeavor against comparable organizations

Business development services to support South African entrepreneurs have steadily increased since the advent of democracy in 1994. Through organisations such as the Industrial Development Corporation (IDC), National Empowerment Fund (NEF), Khula Enterprises and Umsobomvu Youth Fund, the South African government has tried to spur economic growth by encouraging entrepreneurship and providing financial support. Through Private-Public-Partnerships (PPP) government has also expanded its initiatives to the private sector, by forming partnerships with the big banks and some consulting firms in order to provide business development and financial services to small, medium and micro enterprises (SMMEs).

Five entities were selected to compare services and support models to those of Endeavor, namely, in South Africa: the Industrial Development Corporation, the Innovation Hub, Enablis and Business Partners. Table 1 compares the service models, the impacts and the metrics across the different entities, including Endeavor. Endeavor's two differentiating competencies are its rigor in selecting entrepreneurs with potential for growth and serving as role models, and the network of global business leaders who mentor and advise selected entrepreneurs.

This sampling of organizations representative of those offering similar services to Endeavor does not include the Small Enterprise Development Agency (SEDA) of the Department of Trade and Industry of South Africa and enterprise development programs sup-

ported by provincial governments and international donor agencies, such as the Southern Africa Enterprise Development Fund of the United States Agency for International Development.

The data in Table 1 clearly show that clear metrics for assessing impact are limited. Also, only the Innovation Hub, apart from Endeavor, could state what the default rate was for clients (18 per cent) or the average size of participating companies (R6 million).

Evaluation of Endeavor South Africa

An external evaluation of Endeavor South Africa by Exegesis Consulting (South Africa) was recently completed in March 2007. The review included an online survey, interviews with Endeavor entrepreneurs, and with other applicants who were rejected. The surveys and interviews provided valuable quantitative and qualitative information.

Design and Sampling

In all, the firm collected detailed pre- and post-program data from 52 entrepreneurs who applied in 2004, 2005, and 2006. The sample comprised 19 EEs and 33 non-selected applicants. This dataset allowed for a quasi-experimental differences-in-differences (DID) design, which compares changes over time for program participants (in this case, EEs) to changes over time for non-participants (non-EEs). In the Endeavor dataset there were two types of non-EEs: 13 runners-up who made it to the final stage along with the Endeavor Entrepreneurs, and 20 other non-winners. DID impact analysis was first conducted with the smaller comparison group of runners-up and then with all non-participants. Both analyses produced substantively similar results.

Table 1: Organizations Comparable to Endeavor
(N/A = not available)

Company/ Inception	Ownership /Industry Focus	Asset base	Target Groups	Services Offered	Success Measures	Previously Disadvantage d Individual Statistics	Finance disbursed
IDC 1940	State- Owned Focus-No	R48 billion (06)	<ul style="list-style-type: none"> Start-ups Established business of all sizes Potential exporters Black businesses seeking stake in pre-existing entities 	<ul style="list-style-type: none"> Financing options Support program for Industrial innovation Share warehousing Guarantees 	26,000 jobs created ('06)	32% financing for black businesses (06)	R1billion
Enablis 2004	NGO Focus –No	Data not available	<ul style="list-style-type: none"> SMEs Startups Established businesses 	<ul style="list-style-type: none"> Financing Coaching, mentoring and networking Technological and operational support 	<ul style="list-style-type: none"> 600 jobs created 151 new companies ('06) 	27% women 53% black	R17 million in equity and debt (06)
Business Partners 1981	Private company Focus – Yes	R17 million (05)	<ul style="list-style-type: none"> SMEs Start-Ups Expansions Outright purchases buy-outs and buy-ins Franchises 	<ul style="list-style-type: none"> Debt/equity financing Property management Consulting/mentoring 	633 investments (05-06)	31% women 41% black	R740 million
Innovation Hub 2000	Government supported Focus – Yes	R294 Million (06)	<ul style="list-style-type: none"> Hi-tech Startups Established hi-tech firms 	<ul style="list-style-type: none"> Infrastructure and value-added services Networking Marketing support Training programs 	<ul style="list-style-type: none"> 183 jobs created (06) 30 companies, 7 graduates 	6% women 20% black	49 of rent, services and mentorship costs are subsidized
Endeavor HQ Endeavor SA 1997/2004	NGO Focus – No	Data not available	<ul style="list-style-type: none"> High impact entrepreneurs 	<ul style="list-style-type: none"> Mentoring Networking Consulting Services Training programs Business Tours Works to changes business culture 	38,418 jobs created (05)	22%	~R1B (~R160M to high potential start ups)

ROE = \$1:R7 and £1:R1

Unlike other quasi-experimental methods (eg. matching), DID analysis does not require the assisted (treatment) and comparison groups to be identical in the absence of assistance (treatment). Instead, the key identifying assumption is that the groups' trends be the same in the absence of treatment. Even so, it is still considered good practice to check comparability of key baseline characteristics across treatment and comparison groups because similarity at baseline can lend credence to the assumption of similarity across trends.

The runners-up were believed to be a more similar comparison group than the larger group encompassing all non-EEs because (according to Endeavor) all the entrepreneurs that successfully reach the final selection stage have the same high potential as those that become EEs. The difference between EEs and runners-up is that the selected firms are the ones most likely to benefit from Endeavor's assistance; in the absence of its assistance, Endeavor would expect all these firms to be very successful.

When the EE group is compared to the runners-up at baseline, we see many similarities and a few differences. As shown in Table 2, the EEs are primarily from Business-to-Business and IT sectors, whereas the other group has more representation from Manufacturing/Food Processing and Retail sectors. The two groups also differ in terms of access-to-finance: 92% of treated firms rely mostly on their own funds, bank overdrafts, or money borrowed from family or friends for their financing. Among runners-up, many firms rely on self-funding but 25% report using long-term bank loans or equity financing from a fund, financial institution, or organization.

Table 2: Comparison of Baseline, Endeavor Entrepreneurs vs. Runners-Up

Variable	Average Value, Treatment Group	Average Value, Control Group	Difference
Female	0.33	0.25	0.08
Age (a categorical variable)	2.33	2.5	-0.17
Historically-disadvantaged person	0.67	0.29	0.38
Business: Startup	0.18	0.38	-0.2
Business: Young	0.45	0.38	0.07
Business: Established	0.36	0.25	0.11
Sector: Business to Business	0.33	0	0.33
Sector: IT	0.42	0.25	0.17
Sector: Manufacturing & Food	0.08	0.5	-0.42
Sector: Retail	0.08	0.25	-0.17
Business was not profitable	0.18	0.29	-0.11
Business breaking even	0	0.29	-0.29
Business was profitable	0.82	0.43	0.39
Insufficient management experience (importance, scale 1-5)	2.73	1.71	1.02
Difficulty raising financing (importance, scale 1-5)	2.82	1.88	0.94
Lack of technical & mgmt advice (importance, scale 1-5)	2.45	2.25	0.2

Program Outcomes and Impacts

Entrepreneurs interviewed reported that in general, Endeavor South Africa is addressing needs that would otherwise have gone unfulfilled. In particular, entrepreneurs said that they were constrained by lack of mentoring and support for strategic planning and networking. As shown in Table 3, 80% of Endeavor entrepreneurs utilized at least some of the services offered, but take-up varied significantly across categories. Even so, given the individualized nature of Endeavor's assistance, one would expect a near-total take-up of Endeavor services. Moreover, some EEs reported that their expectations were not entirely fulfilled, which suggests that Endeavor should improve communication throughout the application and selection processes and enhance the alignment of their needs.

Table 3: Percent of EEs Participating in Endeavor Services

Assistance Type	Percentage of EEs participating in services
Mentoring	80%
Training Course(s)	58%
Networking event(s)	50%
Conference(s)	17%
Study tour(s)	42%
Fund-raising event(s)	25%
Other, please specify	50%

The goal of the impact evaluation is to estimate the effect of being chosen as an EE on participating firms' total sales, export sales, number of employees, and income, so it is particularly important to check the comparability prior to the program across assisted and comparison groups. At baseline, EEs' total sales ranged from 0 to 44.6 million rand (versus 0 to 3.5 million rand among runners-up), with median sales that were 500,000 rand higher than the runners-up. The EEs were also relatively more profitable, with 82% reporting positive earnings versus 43% of runners-up. In the EE group, the number of full-time employees ranged from 0 to 128. In the runners-up group, the range was 0 to 98, and the median number of employees in the EE group was seven employees higher than in the runners-up group. The distributions of these variables are clearly different for EEs and runners-up, but there is

no statistically significant difference between the average values of the distributions across the two groups. This is encouraging, because the similarity, at baseline, of the central tendency of assisted vs. unassisted groups is more important (in terms of the potential for bias) than the shape of the distributions overall. Moreover, our differences-in-differences analysis utilizes the differences in medians (not means) to mitigate the threat of bias induced by outliers or long-tailed distributions.

Table 4 reports the before-vs.-after differences broken out by applicant-year, for the treatment group vs. runners up in 2004 and 2005 (Panel A), and also for the EEs vs. the entire group of non-EE applicants in these years (Panel B). The key result shown in this table is the positive effect of Endeavor's assistance on sales. This is true using the data for runners-up and also true using the broader non-selected comparison group. Panel A shows that on average, sales for EEs increased by approximately 2-3 million rand more than non-EEs. The estimated effect on the percentage of export sales is - 2 to 4%, but this figure is close to zero and the effect is not statistically significant.

Recommendations

While initial results suggest that the program has had positive effects on sales growth, achieving all program objectives will require addi-

Table 4

Panel A: Median Differences-in-Differences (DID) Estimates for Endeavor Entrepreneurs vs. Runners-Up						
	Total Sales (Million Rand), Baseline	Total Sales (Million Rand), 2006	Diff Total Sales	Fraction Export Sales (Baseline)	Fraction Export Sales (2006)	Diff Export Sales
Applicant-Year 2004: Data on 8 Treated Firms						
Treated	1.70	4.90	3.20	0.33	0.37	0.04
Comparison Group	3.00	5.10	2.10	0.30	0.45	0.15
<i>Year-to-Year Median Difference (adjusted for 3 year gap)</i>	-0.43	-0.07	0.37	0.01	-0.03	-0.04
Applicant-Year 2005: Data on 11 Treated Firms						
Treated	8.00	20.00	12.00	0.00	0.00	0.00
Comparison Group	1.60	2.50	0.90	0.20	0.27	0.07
<i>Year-to-Year Median Difference (adjusted for 2 year gap)</i>	3.20	8.75	5.55	-0.10	-0.14	-0.04
Median Overall DID Estimate (weighted by no. treated)			2.72			-0.04
Panel B: Median Differences-in-Differences (DID) Estimates for Endeavor Entrepreneurs vs. Non-EEs						
	Total Sales (Million Rand), Baseline	Total Sales (Million Rand), 2006	Diff Total Sales	Fraction Export Sales (Baseline)	Fraction Export Sales (2006)	Diff Export Sales
Applicant-Year 2004: Data on 10 Treated Firms						
Treated	1.70	4.90	1.50	0.33	0.37	0.04
Comparison Group	1.50	5.10	3.60	0.30	0.45	0.15
<i>Year-to-Year Median Difference (adjusted for 3 year gap)</i>	0.07	-0.07	-0.70	0.01	-0.03	-0.04
Applicant-Year 2005: Data on 14 Treated Firms						
Treated	8.00	20.00	12.00	0.00	0.00	0.00
Comparison Group	1.20	2.40	1.20	0.00	0.00	0.00
<i>Year-to-Year Median Difference (adjusted for 2 year gap)</i>	3.40	8.80	5.40	0.00	0.00	0.00
Median Overall DID Estimate (weighted by no. treated)			2.07			-0.02

tional effort. For example, one unexpected finding to come out of this evaluation was that the program's outreach in South Africa appears to be quite limited; surprisingly, only 50 firms per year actively respond to Endeavor's call for applications. This may be partly due to limited awareness of Endeavor services and brand, or the insufficient clarity of the selection criteria including sector focus. Entrepreneurs and board members feel Endeavor suffers from lack of brand recognition in a marketplace that rewards savvy and sophisticated marketing campaigns.

There is also a need for Endeavor to develop a policy with regard to supporting the growth of Black entrepreneurs, which is central to the agenda of the South African government. Endeavor Entrepreneurs are mainly Whites, concentrated in information technology, with other expanding sectors less represented. Deeper understanding about the nature of the high-impact entrepreneurial profile and pool in South Africa are fundamental to Endeavor's program strategy. To address the current gap, Endeavor could benefit from attracting experts in Black entrepreneurship to their South Africa board.

Endeavor also should further align the range and extent of their services with firm's demands. The current M&E system is weak in gathering feedback. Strengthening that link should be an ongoing mechanism for adaptation. Furthermore, Endeavor should upgrade its M&E system and be disciplined about tracking basic but specific data about the applicants and candidates, whether selected or not. Endeavor collects detailed information about applicants but does little to analyze and compare it to other benchmarks and research on high-impact entrepreneurs. This information would help inform the new strategy to expand the pool of

qualified applicants, including blacks, who are underrepresented as EEs. These data could also provide the basis for engagement with government about the entrepreneurial climate.

Summing Up

When considering the financing of entrepreneurship-promotion programs such as Endeavor, there are a number of issues that must be considered:

(1) In order to be relevant, effective and have influence in policy debates relevant to entrepreneurship, a program should strive to better understand the specific market failures, such as issues in access to capital, socioeconomic specifics and barriers for

innovation in each country.

(2) It can be difficult for country-based programs to achieve operational and financial sustainability; hence within each country-office's business plan, sources of funding and budgetary goals should be explicit. Also, the manner in which donor contributions are allocated across country-based operations should be transparent to donors and to program staff.

(3) Entrepreneurial-promotion programs need to have strong M&E systems and functional client feedback mechanisms. They should collect/analyze baseline data of applicants where possible, including the tracking of non-assisted candidates. Doing so allows for establishment of performance standards, which can facilitate learning, impact assessment, and comparative analysis across program components and across country offices. Programs such as these may be in a position to build databases of high-impact entrepreneurs that would be broadly useful. With improved metrics, such programs can potentially become entrepreneurial knowledge leaders.

(4) It is especially important and often very challenging to identify market failures. And yet, every program seeking donor support should be able to clearly explain what is keeping the market from operating efficiently, and how the program in question can help solve the problem. If the justification for an entrepreneurial assistance program is that the services are underprovided in the marketplace because they produce positive externalities beyond those accruing to direct beneficiaries, then one must weigh the cost of the program (the appropriate level of subsidy) vs. the anticipated broad-based benefits.