

Identifying and Spurring High-Growth Entrepreneurship: Experimental Evidence from a Business Plan Competition



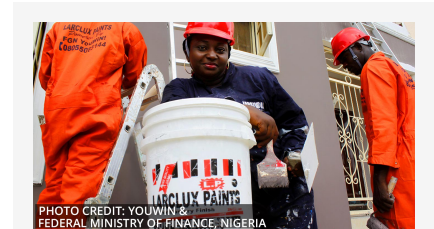
Policymakers in countries dominated by small and medium-sized firms face challenges in spurring them to grow and hire more workers. In particular, it has been difficult to distinguish entrepreneurs with potential for growth from their “subsistence entrepreneur” peers. Researchers used a national business plan competition in Nigeria to test if selecting winners and offering them \$50,000 cash could encourage their firms to grow. Results showed that the program was very successful, and that it spurred job creation more cost-effectively than large-scale government efforts in the United States. It also appears that the growth was primarily due to the capital injection, rather than being a winner of the competition or having participated in the business training component.

Policy Issue

Previous research has shown that small firms with less than ten employees vastly outnumber large enterprises in developing countries, prompting the question of whether some of these smaller businesses are constrained to grow into larger enterprises. The “transformational entrepreneurs,” who do grow, can hire new employees providing incomes and jobs for more people. But for decision-makers working in the developing world, identifying these transformational entrepreneurs remains a challenge. One increasingly popular method to identify them is through business plan competitions, but their effectiveness has not been rigorously measured at a large scale, and their impact on job creation is unknown. Another reason high-potential firms may not grow is that they lack the capital to invest, in which case capital injections could help meet that potential, and ultimately boost employment. An effective and economical way to tackle the identity and capital challenges of transformational entrepreneurship could go a long way in increasing employment and opportunities for millions.

Evaluation Context

Addressing the constraints to employment opportunities is particularly pressing in Sub-Saharan Africa, which has a growing working age population and the lowest share of the labor force in wage work of any region of the World. In Nigeria, most firms are small, with 99.6 percent employing fewer than ten



RESEARCHER

David McKenzie

COUNTRY

Nigeria

PARTNER

PROGRAM AREA

Small and Medium Enterprises

TOPIC

Access to Finance

TIMELINE

2011-2015

workers. Policymakers in the region are thus tasked with the challenge of crafting policies that effectively distinguish high-growth entrepreneurs from subsistence entrepreneurs.

In October 2011, President Goodluck Jonathan of Nigeria went on national television to launch the “Youth Entrepreneurship With Innovation in Nigeria” (YouWiN!) program, a business plan competition aimed at encouraging innovation and employment through the creation of new businesses or expansion of existing ones. To achieve this, 1,200 winners would be selected to receive prizes averaging US\$50,000 each. 23,844 applicants ultimately submitted their proposals to the first call for applications.

Details of the Intervention

This study was designed to test a) whether high-growth entrepreneurs can be identified with a business plan competition; and b) the role of capital injection in generating firm growth and increased hiring.

The de-identified applications were scored on the basis of quality, viability of business idea, amount of potential job creation, applicant’s abilities and understanding of the market, commitment and likelihood of success. Six thousand applications advanced to the next stage: a mandatory 4-day business plan training, which 4,873 applicants attended. 4,510 business plans were received following the training, from which 480 merit-based winners were selected to receive the funding.

To test the role of capital injection 720 applicants who did not win were randomly chosen from a pool of 1,841 semifinalists to also receive funding, and compared to 1,112 individuals with similar business plans who were not selected. To test the role of the 4-day business plan training, 823 individuals who were on either side of the cutoff for the training were compared to one another.

The cash awards were disbursed in four installments. The third and fourth payments were conditional on employment and sales turnover triggers set individually for each firm based on business plan projections. These were designed to be low enough to ensure disbursement. In all, and under varying disbursement timelines, 1168 winners received all four payments. Three annual follow-up surveys conducted between 2013 and 2015 measured business ownership, good business practices, innovation indices and employment.

Results and Policy Lessons

For new firms, receiving the capital resulted in a 37 percentage point increase in the likelihood that the individual was operating a firm three years later, a 23 percentage point increase in the likelihood the firm had 10 or more workers; higher ratings of innovation, and a 23 percent increase in profits.

For existing firms, relative to the comparison group, receiving the capital resulted in a 20 percentage point increase in survival over three years; a 21 percentage point increase in the likelihood the firm had 10 or more workers; more innovation; and a 25 percent increase in profits. The implied real return on capital was 1.5 percent per month.

By the end of year 3, the 1,200 winners were estimated to have generated more than 7,000 new jobs. At US\$3,606 per job-year (or \$64,000 scaling for US per-capita differences), the cost per-job-year generated compared favorably to fiscal stimulus programs in the U.S., where the cost ranged between US\$92,136-145,351. It also compared favorably to vocational training, business training, wage subsidy, and small grants to microenterprise programs in developing countries, where the costs ranged between US\$11,000-80,000.

Regression discontinuity, comparing those just above and below the threshold for being invited to training, showed the 4-day business plan training by itself had no effect on later likelihood to be operating a firm or on employing workers.

The results of this evaluation show that a business plan competition can be successful in identifying entrepreneurs with the potential to use the large amounts of capital offered as prizes, and that these individuals appeared to have been otherwise capital constrained from realizing this potential. The prize money generated employment and firm growth that would not have otherwise happened.

However, the results also highlight the difficulties of picking winners. The randomized component showed that semi-finalists with lower business plan scores did just as well with the grants as those with higher scores. Furthermore, business plan scores, characteristics of the applicant, and characteristics of existing businesses had very little ability to predict which firms would grow faster.

GLOBAL HEADQUARTERS

101 Whitney Avenue
New Haven, CT 06510 USA
+1 203.772.2216 | contact@poverty-action.org

poverty-action.org