Impact Assessment Research 2020

Abstract

This research is a continuation of ISBI's Impact Assessment Research started in 2019 as part of our in-house measurement of the impact our program, Advanced Entrepreneurship Program (AEP), has on our entrepreneurs. We aim to see the economic and personal impact of our programs to our alumni. The study shows there is a positive correlation between training and the bottom-line performance of an SME. Due to the COVID 19 pandemic the research was conducted virtually through Zoom or over a phone call. We collected quantitative and qualitative data from 30 participants of the AEP. Data was collected from 12 months before the program all through to 36 months after the program on an annual basis. The findings of the study show an increase in average revenue, profitability, optimisation and creation of new jobs prior to the pandemic. The results presented offer insights into the relationships between SME training and business performance.

Introduction

The Impact assessment evaluates whether the program has achieved the desired objectives. This evaluation was a systematic empirical study, using actual data and statistical methods to measure outcomes and quantify the impact of the program.

Impact assessments are a key ingredient for program analysis and for understanding what works, that is, what are the most effective policies to achieve desired objectives, such as alleviating poverty, increasing access to finance and enhancing growth, development, sustainability and equality.

ISBI benefits from using impact assessments in various ways. These assessments can: clarify the effect that study has on firms' outcomes and whether that impact achieved the expected objectives; Help to improve existing programs by comparing alternative design choices; Improve program targeting by identifying which firms benefit the most, or what barriers prevent others from gaining and Help prioritize resources by identifying the most cost-effective program.

It is important to remember that MSMEs (Micro Small and Medium Enterprises) have a large contribution to the economy and society as a whole. This holds true in various parts of the world from areas such as across Europe where they represent 99% of all businesses and have created over 85% of jobs (EC, 2019) to Southeast Asia where they again represent over 90% of enterprises and generate majority of the employment (Pratama, 2019) to China, Japan and the USA (Robu, 2013). It's the same case in Kenya, with over 80% contribution to employment creation and contributing a third of the economy's GDP (KNBS, 2016).

Advanced Entrepreneurship Programme (AEP) is a hands-on, practical and participant centred programme designed to facilitate growth of SMEs to higher levels of scale. It reflects the current challenges and emerging opportunities in SME markets created by disruptive innovation, socioeconomic trends and market volatility. The programme is composed of 13 modules presented once a week over 13 weeks. This format, in interactive group sessions, enables rapidly growing SMEs to prepare for challenges ahead while maintaining business momentum. However, this year due to the COVID-19 pandemic the programme has been running virtually this enables entrepreneurs to save 63% of the value of the original program.

The program is split into three blocks: Block 1-Strategy and Marketing, Block 2-Investments, Banking and Finance, Block 3-Statutory and Employee Management and 2 common courses for each block which are Entrepreneurship and Negotiation. This has enabled SMEs to learn to work with technology to leverage on the current situation worldwide and exchange knowledge on business experience with other fellow entrepreneurs.

AEP is structured to spark self-reflection, innovation, and collaboration on multiple levels Through fast-paced discussions, real-world case studies and the value add-on of individual mentoring or consulting.

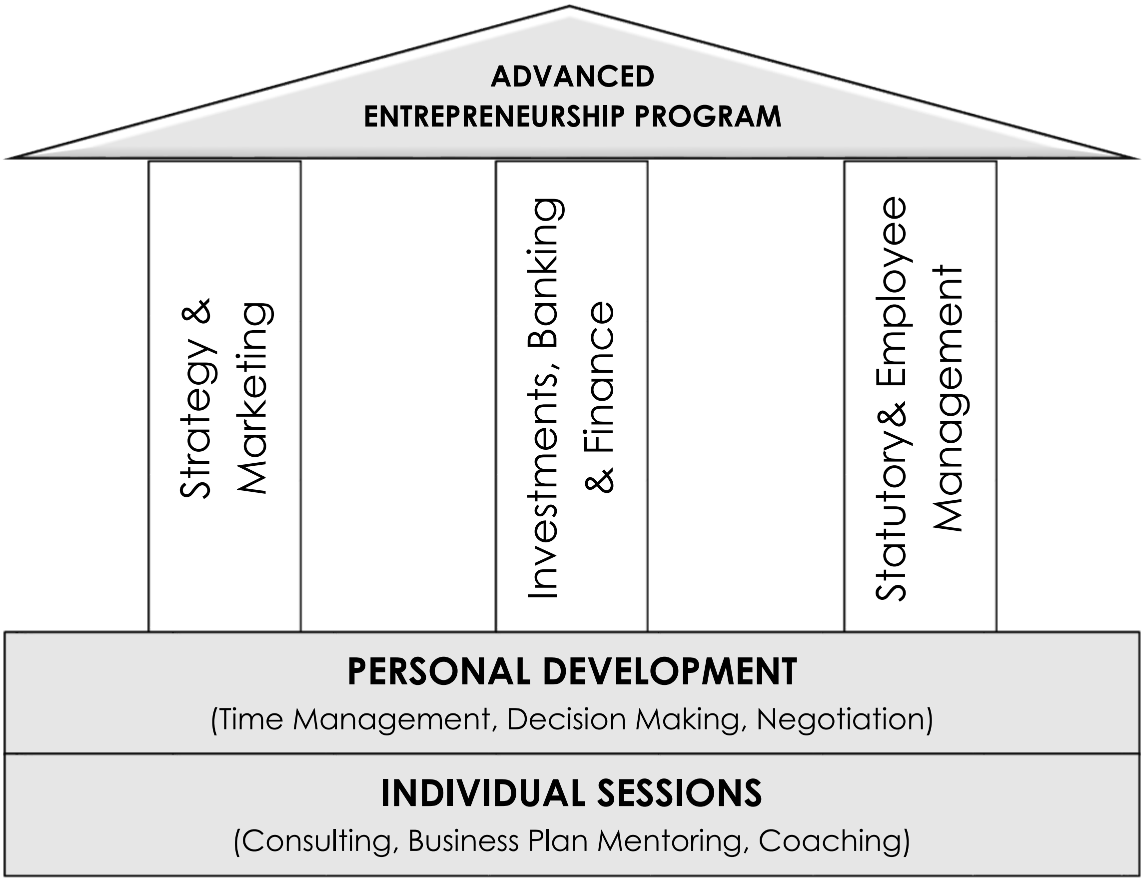

Figure 1: AEP Structure

A significant challenge in evaluating the impact of the program is to ensure that observed outcomes are a result of the program itself and would not have occurred without the program. Without credibly addressing this, the impact assessment may assign the outcome to the program, when in reality it could have occurred without it. Observing the same SME over time will in most cases give a reliable estimate of the impact the program had on it because many other things may have changed at the same time the program was introduced.

Literature Review

Entrepreneurship training as one of the key ingredients for SMEs performance has been recognized worldwide. Recent entrepreneurship scholars emphasize the critical role of entrepreneurship training in advocating entrepreneurship, enhancing capacities for sustainable growth, economic activity and stakeholders' involvement (O'Connor, 2012). The entrepreneurial programs were introduced by NGOs, private training and consultancy firms and academic institutions as it was provided in Sessional Paper no.1 of 1988.

Today training is the most important factor in the business world because it increases the efficiency and the effectiveness of both employees and the organization. The employee performance depends on various factors, but the most important factor is training because it enhances the capabilities of employees. The employees who have more on the job experience have better performance because there is an increase in both skills & competencies because of more on the job experience. The organizational performance depends on the employee performance because the human resource capital of the organization plays an important role in the growth and the organizational performance.

In Africa, in recognition of the importance of entrepreneurship training for SMEs development, many countries have also introduced entrepreneurship training. (Perks, 2006) notes that training entrepreneurs is key to Africa's economic future, which can create wealth, businesses and jobs for others.

In 2017 Kenya's overall GDP growth is projected at 6.4 percent with SMEs contributing 3 percent. In the year 2006 a blueprint was unveiled by the Government of Kenya where SMEs improvement as the major strategy to moving the nation to a middle income economy by 2030 thorough poverty eradication and equity have been identified as the economic pillar for the vision 2030 in Kenya. Even though there is a widespread recognition of the role that SMEs play in sustained economic growth, there is no systematic data to rely on or high quality research to confirm the role and contribution of the small enterprise sector to the economy as highlighted by (M Ayyagari, 2011), (Gonzales, 2013).

In their dealings that result in enhanced performance and competitiveness in local, regional and international markets, SMEs are undoubtedly creative and innovative. Acts of creativity and innovativeness can be manifested in new production processes, new product design, new way of doing business and new marketing strategy that has led to the achievement of competitive markets (Kirima, 2011). Entrepreneurial training and education contribute to the increase of knowledge, skills and experience required to make businesses more robust and competitive.

According to (Subhan, 2013), SMEs are the driving force for the promotion of an economy. Due to their significance, all the countries either, developed or developing, are concentrating on the development of SMEs. He also argued that Small enterprises are 2 considered as the main driver for innovation, poverty reduction, employment generation, and social integration. SMEs sector may amplify the production capacity which has a significant impact for the promotion of economic and social development. (R Avendano, 2013)Mentioned that, SMEs provide the vast majority of employment in developing countries and are keystones in the productive structures of emerging economies.

Methodology

Description of Data Collection

This section summarizes the steps that the impact assessment followed. The team took into account the program's main characteristics, such as eligibility criteria for the program, objectives of the program and key takeaways of the program. This information is crucial since these characteristics would be the main factors influencing the selection of the proper metrics in evaluating the impact of the program.
The first step in the data collection process involved informing the eligible participants of the ongoing research alongside an invitation to participate in the same. This was done through emails and phone calls and yielded the first sample of 104 alumni who agreed to participate in the impact assessment.

The next step involved sending the participants a dossier on the data we would collect and the platform we would use to do so. The participants also scheduled, at a date and time of their choosing, Zoom meetings or phone calls for the data collection by filling in a questionnaire attached in the dossier.

Population and Sampling

The entire population under study included 181 eligible entrepreneurs who undertook the Advanced Entrepreneurship Program (AEP) by commencement of this research study by May 2020. These were the total number of participants who were eligible to take part in IAR 2019 but didn't, those who joined the program after conclusion of IAR 2019 and those who gave partial data in IAR 2019.
Due to the COVID-19 pandemic we had to take precautionary measures during data collection which was carried out virtually either via the zoom platform or via phone call. Out of the 104 participants that had agreed to participate only 30 participated in the research.

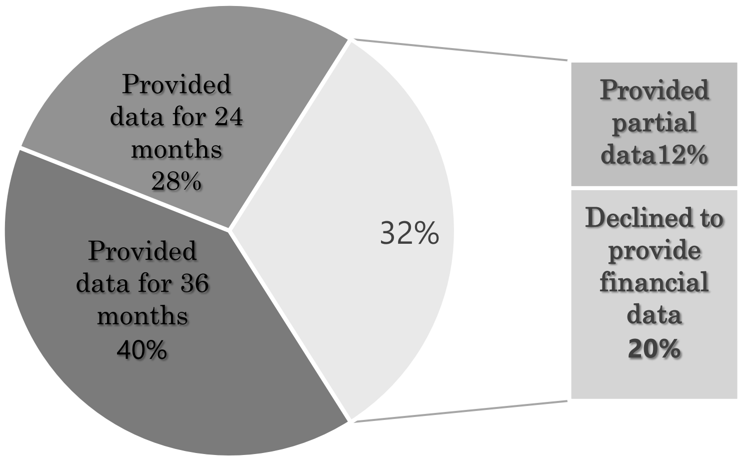

Figure 2: Population and Sampling

From the sample of 30 complete data sets: 47% of participants were female and 53% were male. In terms of education level 10% held an O-Level certificate, 27% held a diploma, 40% held an undergraduate degree while 23% held a master's degree. Regarding how long the participants have been in the same business, 13% had over 15 years' experience, 23% had 11-15 years' experience, 37% had 5-10 years' experience and 27% had less than 5 years' experience. 70% were in the service sector, 13% in production and 17% in retail. In terms of industry, 13% were in education and consulting, 16% in agriculture, 10% in clothing and fashion, 6% in hospitality & events, 10% in electronics and ICT, 3% in real estate, 6% construction and hardware, 13% in transport and 23% in other. In terms of size, 10% had revenues below USD 20k, 20% between 20k – 50K, 5% between 50 – 100K, 30% between 100 – 200K, 20% between 200 – 500K and 15% had revenues greater than 500K.

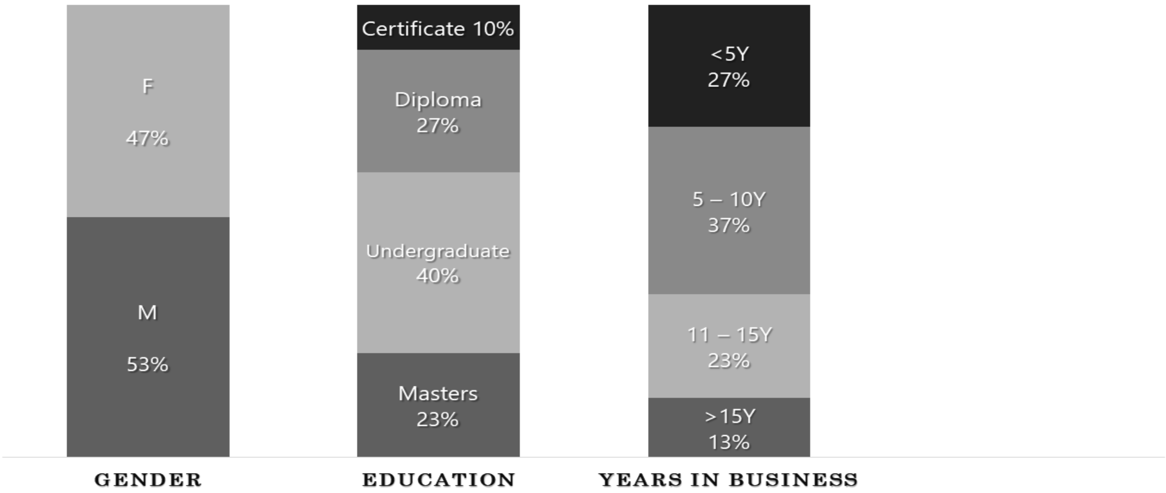

Figure 3: Participant Profile

Data Type and Sources

Data from the participants was obtained from the audited accounts/proper records for each company. The following data was collected annually, except when indicated otherwise, starting from 12 months before the program to 36 months after the program. For the instances where the entrepreneur finished the course less than a year ago, we collected data for the amount of time that has passed since then e.g. 6 months and extrapolate to a year.

Revenue

Reported Revenue represents total revenue from all business activities of an entrepreneur, irrespective of formal, semi-formal or even completely informal nature of a concrete business activity.

EBITDA (Earnings before Interest Tax, Depreciation & Amortisation)

[Revenue – COGS – SGA].

EBITDA is used as a measure of profitability change because infeasibility to collect precise data, especially on depreciation and total credit costs. The change in EBITDA is used as the most relevant benchmark for measuring increased market value of the SGBs

(Damodaran, 2012). The measurement of this aspect is very important as many SGBs strive for external equity capital, and the higher the initial value of the enterprise, the stronger the entrepreneur's negotiation position, i.e. they sacrifice a smaller percentage of ownership for the same amount of investment.

ECOD (Effective Cash at Owner's Disposal)

[EBITDA + Owners Salary + Owner's Drawings – Interest Expense – Credit Principal Repayment – Tax Paid].

The relevance of measuring the effective cash the owners have at their disposal is extremely important for MSMEs in emerging countries being an indicator of their sustainability (i.e. ability to generate cash from operation over and above credit and tax obligations) as well as of the potential to sustainably grow their business (i.e. without increasing leverage).

Data Presentation and Analysis

Turnover

Average revenue in USD increased, 1 year after participating in the program, by 19%. Two years after participating in the program there was a decrease of 9% from one year after the program but an increase of 15% from one year before the program to 2 years after the program. The decrease observed in the period from one year after the program to 2 years after the program is attributable to the effects of the COVID-19 pandemic with 83% of the participants reporting a slow-down in business due to the pandemic.

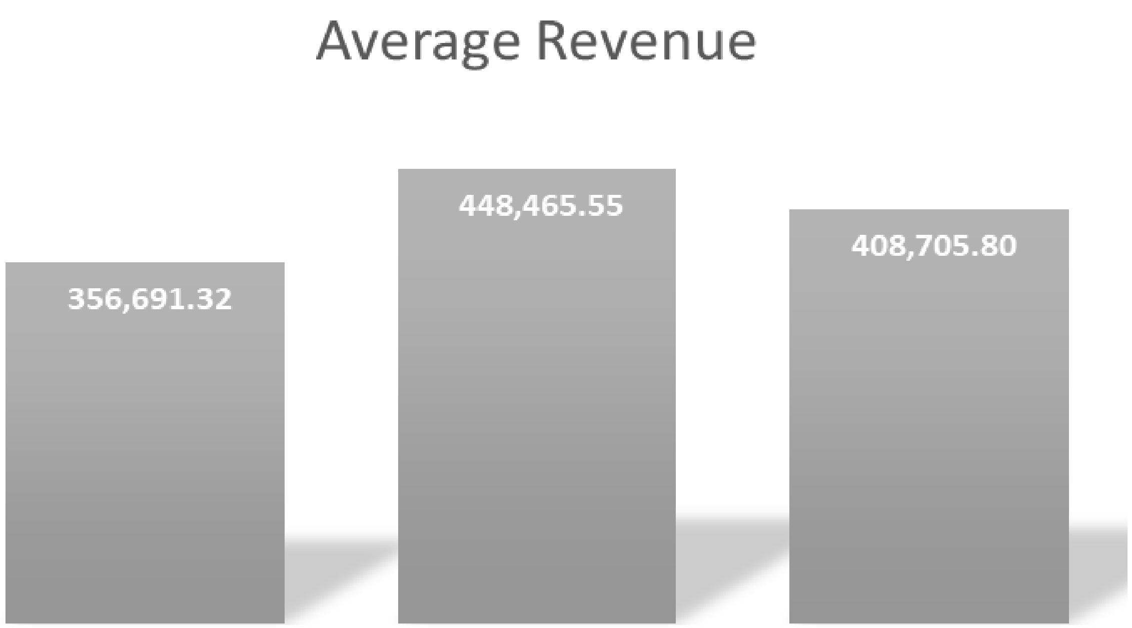

Figure 4: Average Revenues in USD

Job Creation

There was an average of 1.778 jobs created per SME amongst the business from 1 year before the program to 1 year after the program. 4 (13%) SMEs increased their workforce by more than 3 in the first year after the program. 11 (36%) SMEs were able to increase staff numbers during this period. 1 year after the program to 2 years after the program there was 0.429 net jobs created per SME. 2 years after the program to 3 years after the program there was -8.6 jobs lost per SME. 12 (40%) SMEs decreased their workforce by more than 3 in this period with 2 SMEs laying off 44 and 46 workers in the same period. This drastic decrease in jobs is mostly due to businesses being forced to reduce their operations or close down as a result of the COVID-19 pandemic. 2 (7%) SMEs were able to increase their workforce during this same period.

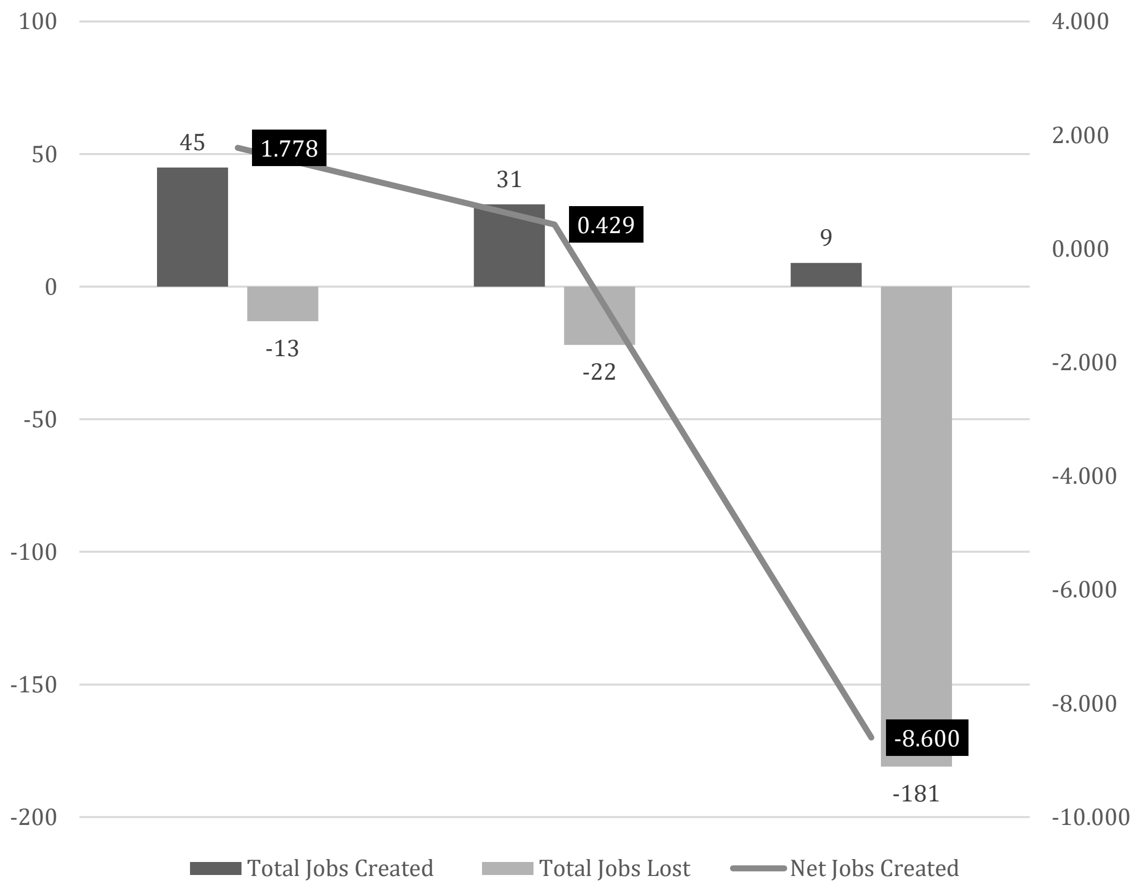

Figure 5: Comparison of Jobs Created, Jobs Lost and Net Jobs Created per SME

Profitability and Salaries

We observed that two years after participating in the program there was a decline in profitability shown by a decrease in average EBITDA by USD 2,5862 (17%) which is attributable to the COVID-19 pandemic. Despite the overall decrease in profitability, 3 SMEs were able to increase their EBITDA by an average of 13,912 USD in the same period. In the period from the year of the program to 1 year after, there was a decrease in average profitability by 1% among the SMEs in out sample. Despite this, 8 SMEs were able to increase their profitability by an average of 38,579 USD. We take note that 3 SMEs (10%) are able to increase their profitability despite reducing their turnover signifying optimisation, which is one of the main takeaways from AEP.

Average salaries before the year of the program was USD 300, in the year after the program it increased to USD 428 and further increased to USD 554 2 years after and reduced to USD 256 3 years after. This is because of a growing number of SMES trying to spread the financial pain by cutting pay to ease fixed costs and stave off greater job losses while keeping talent ready for the economy and the hiring market to recover sooner than later.

Investor Desirability

Analysis of Return on Assets shows that, from our sample, there was an increase in average ROA by 69% from the year before the program to the year after the program. ROA here is taken as a measure of efficiency of the management in running the business. In the second year after the program the ROA decreases by 22%. In the third year it decreased further by 50%.

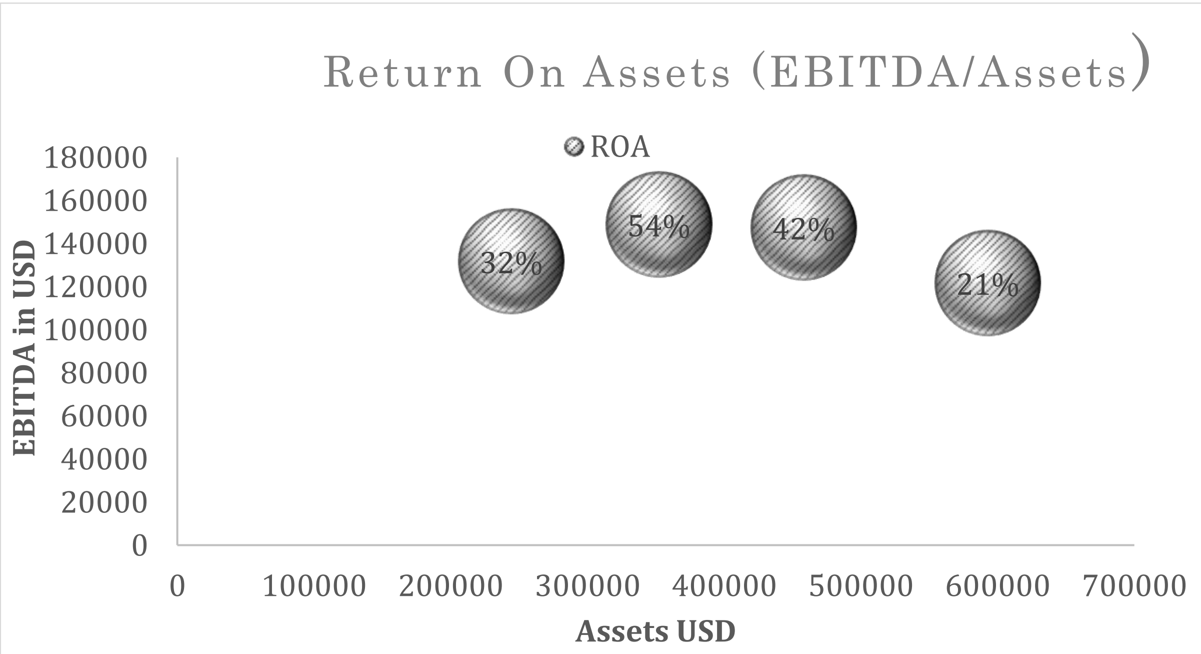

Figure 6: Return on Assets

In the year before the program, the cash return on equity was an average of -11% which increased to 29% in the year after the program and 20% 2 years after the program. This is a testament to the businesses strengthening their financial positions and their bottom lines after participating in the program. Despite the downturn caused by the pandemic, we observe 62% of the SMEs having positive cash return on equity despite having lower revenues in the financial year 2020, a testament to the optimisation the entrepreneurs are able to achieve in their businesses.

The performance of these ratios makes the businesses attractive to potential investors.

We observed the debt to equity ratio steadily decreasing from the year before the program to the period 3 years after the program. This coupled with a pre-pandemic high growth in revenues and assets shows increasing organic growth coupled with decreasing financial risk thus making the businesses more attractive to investors.

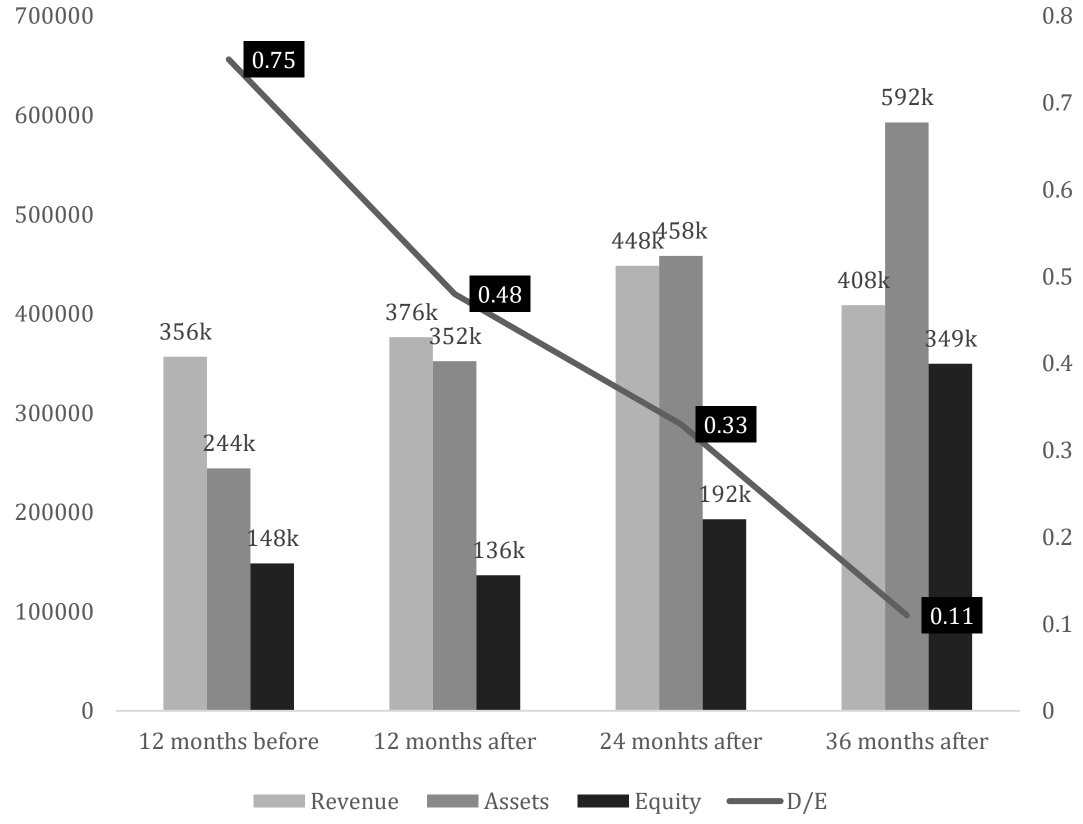

Figure 7: Comparison of Revenue, Asset & Equity Growth and D/E ratio

AEP Alumni Contribution to the Economy

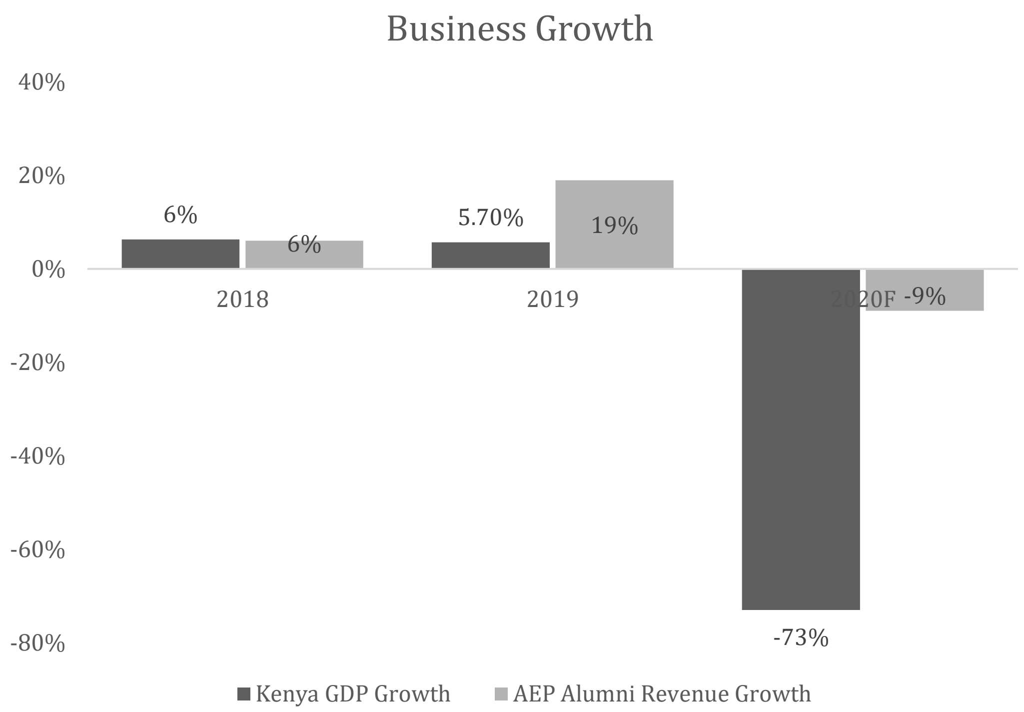

Figure 8: Kenya GDP Growth vs AEP Alumni Revenue Growth

We observe that the alumni did 1x better in 2018, 3.3x better in 2019 and an 8x less contraction in 2020F in terms of revenue growth compared to the Kenya GDP Growth. (World Bank, 2020)

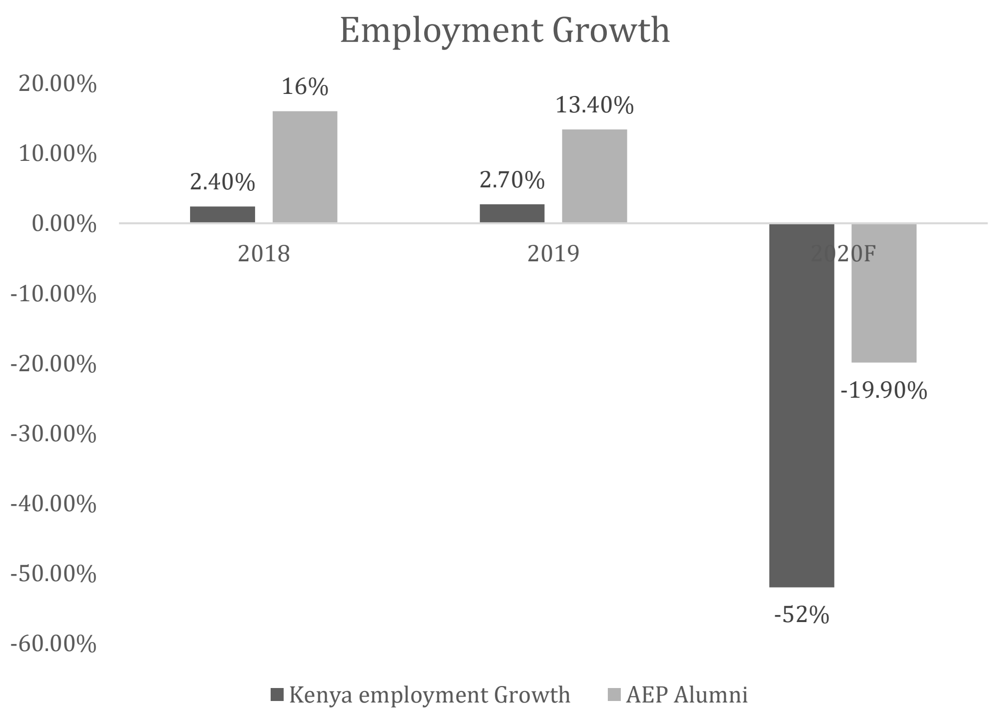

Figure 9: Kenya Employment Growth vs AEP Alumni Employment Growth

We observe that the alumni did 6x better in 2018, 4.9x better in 2019 and a 2.6x less overall employment loss in 2020F compared to the Kenya GDP Growth. (Kenya National Bureau of Statistics, 2019, 2020)

Personal Development of the Entrepreneurs

82% of the participants reported significant improvement in their leadership confidence as a result of attending AEP 76% reported significant improvement in their leadership capabilities as a result of attending AEP. 41% reported significant improvement in their understanding of finance while 17% reported major transformation.
31% reported major transformation in their record keeping and 24% reported major transformation in their ability to delegate duties.

The average time to recover the cost of the program was 4 months with the longest being 12 months.

Gender

We haven't identified any statistically relevant differences between men- and women-owned SGBs. This implies that both men and women benefit similarly from the training provided.

Education

The participants who hold diplomas decreased their EBITDA by 37%, those who hold undergraduate degrees decreased their EBITDA by 30% and those who hold Master's degrees decreased their EBITDA by 22% in the period 2 years after the program to 3 years after.

Conclusion

The overall purpose of the study was to critically assess and evaluate the impact and effectiveness of AEP to small businesses within the programme.
The study looked at both company performance and individual participant assessment of the impact the program had.

Prior to the COVID 19 pandemic, the businesses were on an upward trajectory of revenue and asset growth, increasing liquidity, increasing efficiency in management, declining financial risk, job growth and increasing salaries thus improving the quality of life of the employees.

When it comes to the impact of the programme, the entirety of participants responded that the training provided by AEP impacted their businesses in a positive way.

All the metrics point towards there being significant positive economic and social impact of entrepreneurship training on SMEs. It is important to note once again that the COVID-19 pandemic brought about unprecedented negative effects on businesses in the whole world and our alumni were adversely affected. We declare positive and measurable economic and social impact attributable to the program on the basis of the trends observed in the metrics prior to the pandemic. We believe that the program has significant positive impact on all the participants and serves to make the businesses more resilient to economic turbulence as shown by the economic comparison above.

Limitations

Due to the COVID-19 pandemic, the research took a different approach in data collection which was done virtually using the zoom platform or via phone call. We experienced last minute cancellations, a very high percentage of no-shows and several instances of rescheduling the interview multiple times. Of the 104 who had agreed to participate in the research initially, over 70% ended up not participating.

Five of the participants were not comfortable sharing their financial data and opted to take part in only the qualitative part of the research. This further reduced the sample size.

The entrepreneurs were requested to provide audited financial data however due to the restrictions the pandemic brought about; it was not possible to have our team verify that the data was indeed from audited accounts.

We experienced a general apathy towards online research as it would often take multiple phone calls to schedule an interview and the interview phone calls lasted an average of one hour and not many entrepreneurs were willing to spare this time.

Recommendations

Planning evaluation at the inception of the AEP program

Impact assessment should be planned as early as possible, preferably before the program has launched. Data collection can begin as the program in ongoing since the assessment requires data from before participation in the program. Having the participants share their data as the program is ongoing will serve to increase their confidence to share more data after they have completed the program. It is also estimated to increase the response rate to nearly 100%. The Impact Assessment is informed to the entrepreneur as they join the program as a continuous process requiring their participation.

Incentive to participate in the Impact Assessment Research for ISBI Alumni

As aforementioned, a significant number of participants were not willing to participate in sharing their data which reduces the significance of the statistics obtained in making inferences about the population. Incentives such as discounts for upcoming programs, an increase in the number of sessions for the value add-ons after the program and automatic enrolment into the ISBI Alumni Association should be considered so as to motivate the alumni to participate in the impact assessment.

Deepening the Research so as to obtain a control

As discussed above, one of the challenges is accurate attributing the performance of the businesses to participation in the program. Engaging in further research for other organisations and institutions will provide a good control in measuring business' performance without having participated in the program and making a comparison. This will enable us to give a precise attribution of performance to the program.

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