

# Evaluating Grant Support and SME Programs in Ireland

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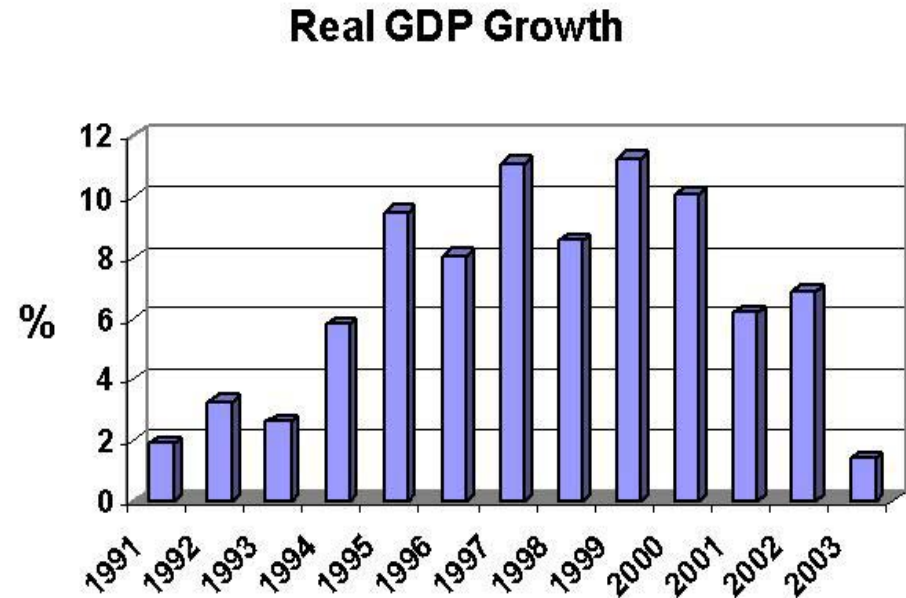
Mexico City, 23 Sept 2004



**Ireland –  
Where is it?**

# Ireland - Characteristics

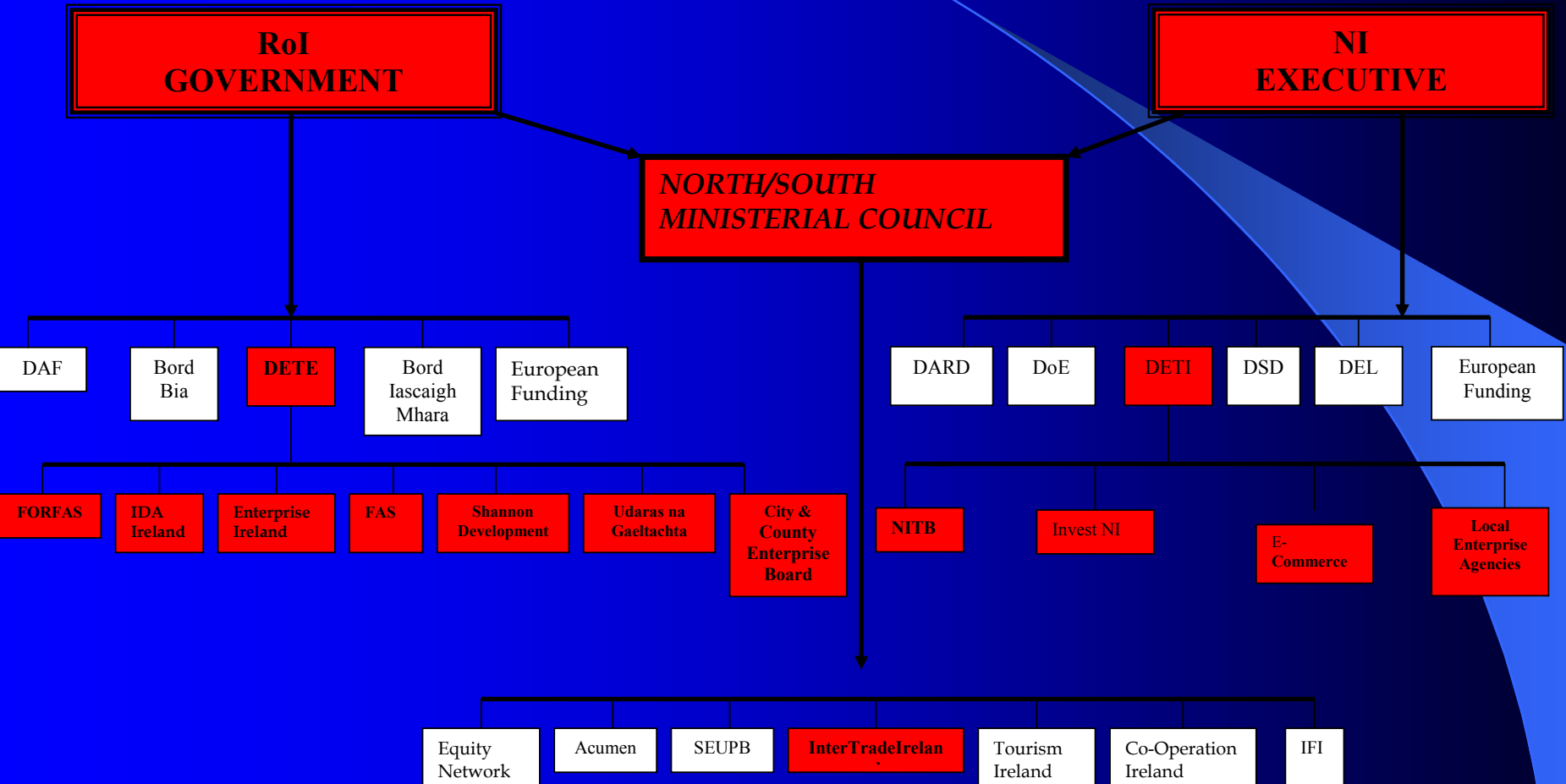
- **Population** – 8,7,6 !
- **Industry** - 46% of GDP, 80% of exports, 28% of the labor force
- **GDP per capita** in 2002 is c. US\$ 32,600



# SME's in Ireland – A Nation of Small Businesses

- 98% of firms are defined as 'Small' ( $\leq 50$ )
- 1 in 14 adults on Island of Ireland is an 'entrepreneur'
- SME's employ  $>50\%$  of workforce

# Complex Web of Support Agencies



# A Changing Policy Focus

## Capacity Building to Capability Building

1991/92

direct job creation → indirect job creation  
through enhanced  
competitiveness

e.g. Investment in R&D, innovation, technology transfer, adoption of high performance work systems, quality assurance, strategic marketing etc.

# Increasing Interest in Evaluation

## SUPPLY SIDE

## DEMAND SIDE

The Role of the EU –  
Structural Funds (1994-99)

Understanding impact of  
policy

Limited resources

Accountability

Competition between  
departments

Cost efficiency and cost  
effectiveness

# 2 Examples....

## Monitoring

- Step 1 Take up of Schemes
- Step 2 Recipients Opinions
- Step 3 Recipient's view of assistance impact

## Evaluation

- Step 4 Comparison of assisted with typical firms
- Step 5 Comparison with Match firms
- Step 6 Taking account of Selection bias

# EXAMPLE 1 – Growth Business Support Program

- Government funded and administered program
- 1989/90 to 1996/97 Budget of \$435m (7% budget)

## **Selectivity → Picking Winners**

Turnover > \$400,000; Export potential >20%; Above average sectoral profitability

- Growth Preparing / Growth Implementing
- 550 firms in 1991

# Purpose of GBSP Support

GBSP aimed to help firms:

- consolidate before growth
- evaluate, plan and implement stages of growth
- Examine viability where difficulties faced

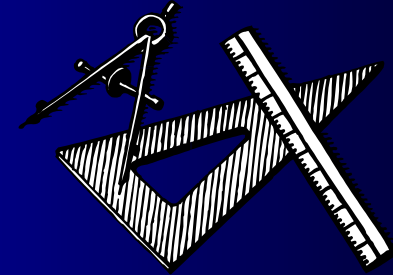
WERE OBJECTIVES TOO VAGUE?

# GBSP – Nature of Support

	No. of Grants 94-98	Average Value (\$000s)
Capital	401	40.9
Employment Company Development	35	56.2
<i>Marketing</i>	462	25.2
<i>Management/HR</i>	376	21.8
<i>Technical</i>	335	11.1
<i>Home/Export</i>	10	1.3
<i>Other</i>	1290	2.0
Social	5	41.7
Total	2914	15.4 (\$44,855)

From  
Capacity  
to  
Capability

# Evaluation of GBSP



1. Examine rationale for support – was this ever clear?
2. Establish dead-weight and displacement
3. Assess the progress of schemes – process and outcome
4. Assess the impact of support on performance
5. To provide an assessment of value for money in terms of effectiveness, efficiency and economy

# Steps 1 – 3

## Case Study Analysis - Structured questionnaire (1998)

### 1991-95

30 fastest growing  
companies

### 1995-98

10 Employment Contracted  
10 Employment Static  
10 Employment Expanded

# Customer Satisfaction – Program

**Positive** → Marketing and Management Salary grants regarded as crucial to growth.

**Negative** → Graduate into business – graduate inexperienced and often leave in a short period of time...

# Performance of Case Firms

- Avg. Employment      257% increase  
8 (1991) to 22 (1997)
- Average turnover    256% increase  
\$978k (1991) to \$2.4m (1997)
- Export Sales          109% increase  
61% (1991) to 69% (1997)



# Deadweight

**‘Extent to which projects would have gone ahead without support’**

the absence of funding the project would:	Selective Financial Assistance	Marketing	Management	Training
not happened	24	5	17	14
smaller	24	52	28	57
delayed	33	48	61	43
went ahead	24	14	17	0
smaller	31	31	39	33
delayed	20	21	13	15

**NOTE: Deadweight – more important for larger firms**

# Displacement, 1995 - 97

If assistance to Firm A puts it at an advantage to firm B then this results in displacing the sale/output/employment of its competitor and displacement occurs

<b>Sales increase</b>	<b>27.8%</b>	
–	Proportion to external markets	61.1%
–	Local market displacement	38.9%.

- 15% 1/3<sup>rd</sup> or more of market share gained in competition with local companies
- Displacement = 5.8% (15% of 38.9%)

# Step 4 – Performance Compared Using Survey Data

1991 - 1997

	Turnover % p.a.	Employment % p.a.	Productivity % p.a.	No. of Firms
All Firms	4.4	6.2	1.7	457
<i>Growth</i> Companies	<b>4.9</b>	<b>6.5</b>	<b>1.6</b>	327
<i>Established</i> Companies	2.0	3.9	1.9	130

# Compared to UK & Irish Firms

<b>Employment Growth 1994-97</b>	<b>1994 (000's)</b>	<b>1997 (000's)</b>	<b>% Growth</b>
East Anglia	22.3	26.1	17.1
East Midlands	54.5	62.4	14.5
North	19.3	22.7	17.6
North West	67.8	77.0	13.5
Scotland	30.3	34.4	13.4
South East	172.4	197.1	14.4
South West	38.3	44.6	16.4
Wales	19.7	23.0	17.5
West Midlands	79.1	89.6	13.3
Yorks & Humberside	52.6	58.8	11.6
<b>UK Average</b>	<b>568.4</b>	<b>650.0</b>	<b>14.4</b>
Republic of Ireland	43.1	49.7	15.3
Northern Ireland	12.2	14.4	18.1
LEDU <i>Growth</i> companies	6.0	7.1	18.4

# Impact of Assistance – Survey Data

## Cost per job estimates 1994-97

● No. of Growth firms	398
● Total Payments	\$26.5m
● Employment	8,541
● Average Grant per emp	\$3,102
● Emp Change 1994-97	+1607 = \$16,490

## \*\*\*\*\* DEADWEIGHT & DISPLACEMENT \*\*\*\*\*

● Emp Change 1994-97	+1,240
● Cost per job Created	\$16,490 → \$21,370



# Key Findings from GBSP Evaluation

## Case Study:

- Support was inadequate for firms in difficulties – key aim of GBSP
- Growth support is most effective in addressing long term needs – Marketing and management development
- Growth support is weakest in assisting firms with company linkages and sectoral strategy issues

## Survey Data:

- Assisted firms grew slightly faster than other LEDU firms and non-LEDU firms

## Case Study & Survey Data:

- Allowing for deadweight and displacement net additional employment is c. 4/5th of gross employment growth. Cost-per-job rises to \$21,136 (varies from \$9,603 for the smallest to \$37,416 for the largest).
- Cost per job in a firm with 50+ employees is four times greater than the smallest firms (<10 employees)

# General Conclusions

Assistance is cost effective (cost per job estimates)

Assistance to growth businesses was effective in producing faster rates of growth

Another less generous conclusion would be to infer that assisted firms were more likely to experience faster growth, irrespective of the assistance that they received!

***Limitation of approach***

# Going 1 (or 2) steps further - Evaluation at Step 6

## Selection versus Assistance

### Panel Data

Benchmarking Initiative, ROI & NI  
1995 to date

### Criteria

10-100 employees; trading 4 years;  
manufacturing; growth potential  
1853 firms in sample – 38% response  
703 firms – face-to-face interview

# Proportion of firms receiving grant support

	Northern Ireland % of firms	Republic of Ireland
<b>Buildings and Equipment</b>		
Plant, Machinery & Equipment	30.1	19.6**
Buildings	24.7	14.4**
<b>Training Grants</b>		
Managerial Training	21.2	23.0
Supervisory Training	14.2	21.0**
Workforce Training	15.2	26.8**
Apprentice Training	10.6	16.2**
<b>Market and Product Development</b>		
Export Development	12.1	24.7**
Marketing	32.8	22.7**
Product & Process Development	17.0	16.6
Product Testing	6.7	6.2
<b>Other Grants</b>		
Quality Assurance	15.5	12.4
Strategic Planning	8.8	10.3
Consultancy Services	19.4	16.5
Interest Rate Subsidies	11.1	7.9
Loans or Equity	5.4	9.7**
Start-up Employment	9.1	4.8**
Expansion Employment	12.9	12.8

# Clusters of Assistance

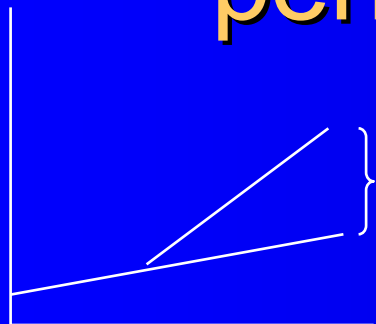
Cluster Labels	Number of Firms	
	n	%
<b>Northern Ireland</b>		
<b>Non-Assisted</b>	199	51.9
<b>Marketing</b>	49	12.8
<b>Training</b>	49	12.8
<b>Capital</b>	86	22.4
<b>Republic of Ireland</b>		
<b>Non-Assisted</b>	204	70.5
<b>Training</b>	51	17.6
<b>Marketing</b>	34	11.7

# Cluster Performance

Cluster Labels	Number of Firms		Performance Indicators		
	n	%	Sales Growth % pa	Empl. Growth % pa	Profit to Assets %
<b>Northern Ireland</b>					
Non-Assisted	199	51.9	10.1	4.5	21.5
Marketing	49	12.8	14.1	7.9	14.8
Training	49	12.8	17.3	9.4	30.5
Capital	86	22.4	7.7	7.3	30.7
<b>Republic of Ireland</b>					
Non-Assisted	204	70.5	8.4	4.4	13.5
Training	51	17.6	10.6	7.7	12.7
Marketing	34	11.7	9.0	6.6	18.5

**Assisted Perform better than non-assisted**

# Assumption – Difference in performance due to assistance



$$\pi = \beta'x + \delta'z + \varepsilon$$

- Where:  $\pi$  is an indicator of business performance;
- $x$  is a vector of firm, market and owner-manager characteristics;
- $z$  is 1 if firm receiving assistance and 0 if no assistance

$$z^* = \alpha'v + w$$

Estimation procedure: Heckman 2-step

Probit model to estimate  $\alpha$  and incorporation of selection parameter in the treatment models for business performance

# What type of firms are being assisted?

	Ireland	Northern Ireland
<b>Firm Characteristics</b>		
Firm age (log)		(- 0.102) **
Employment (log)	(+ 0.129) **	
Export sales	(+ 0.140) *	(+ 0.156) *
Production manager		(+ 0.200) **
Marketing manager		(+ 0.167) **
Sales concentration	(- 0.005) **	
No of customers (log)	(- 0.085) **	
<b>Sector Dummies</b>		
Engineering	(- 0.208) **	
Food, drink	(- 0.207) **	(+ 0.187) **
Wood, Paper etc	(- 0.243) **	
<b>Owner-Manager</b>		
Years in Industry	(- 0.005) *	
Other business		(+ 0.133) *
Share Equity		(- 0.224) **
O-M age 30-40 years		(+ 0.343) **

Ireland –

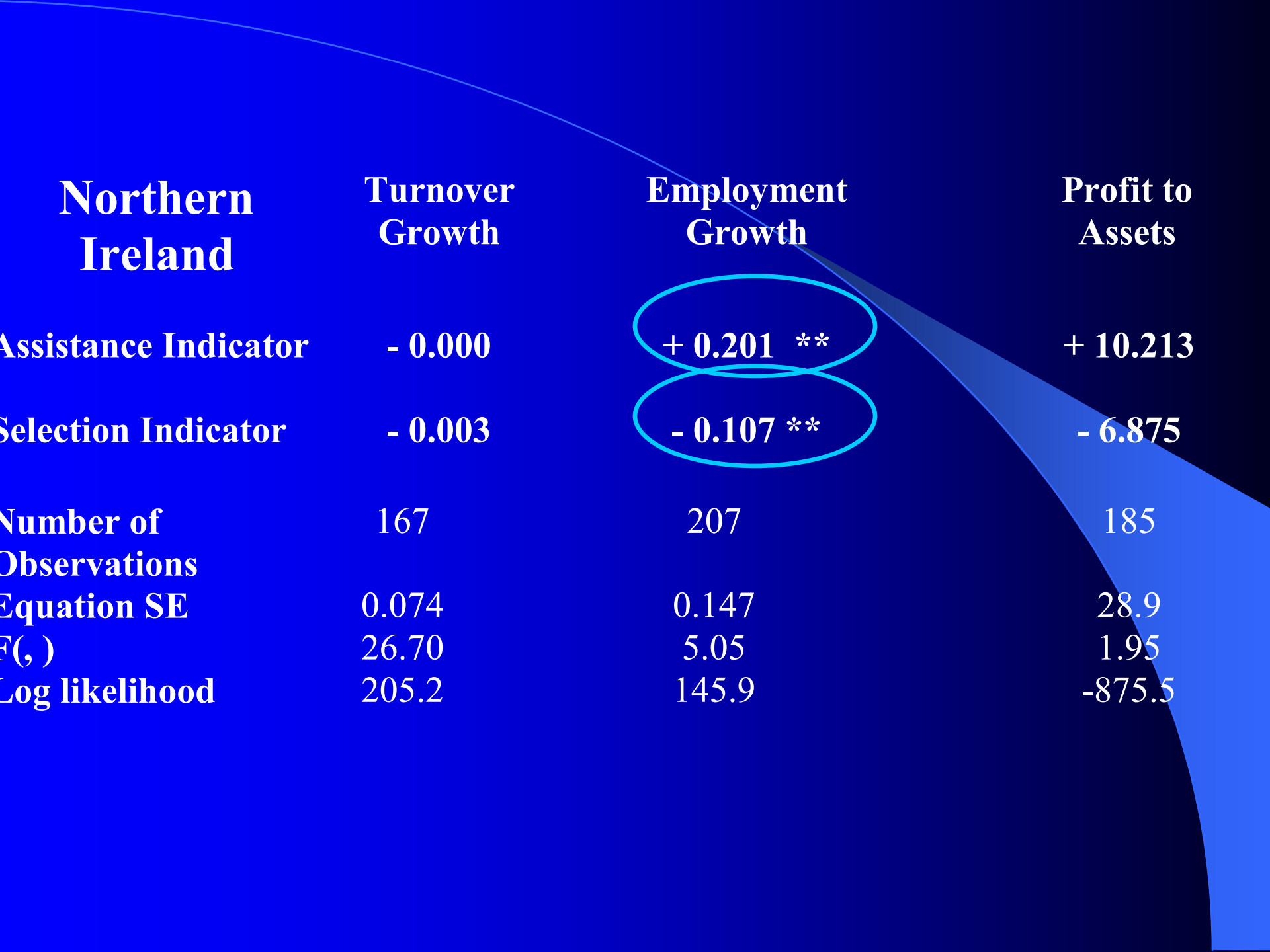
Market Position

N. Ireland –

Internal Factors

# The Holy Grail – Does Selection Affect Performance?

<b>IRELAND</b>	<b>Turnover Growth</b>	<b>Employment Growth</b>	<b>Profit to Assets</b>
Assistance Indicator	- 0.015	+ 0.106 *	- 3.571
Selection Parameter	+ 0.025	- 0.054	+ 2.787
<b>Number of Observations</b>	109	131	99
<b>Equation SE</b>	0.088	0.087	20.21
<b>(,)</b>	15.87	1.96	1.53
<b>log likelihood</b>	119.4	156.7	-428.3



<b>Northern Ireland</b>	<b>Turnover Growth</b>	<b>Employment Growth</b>	<b>Profit to Assets</b>
<b>Assistance Indicator</b>	<b>- 0.000</b>	<b>+ 0.201 **</b>	<b>+ 10.213</b>
<b>Selection Indicator</b>	<b>- 0.003</b>	<b>- 0.107 **</b>	<b>- 6.875</b>
<b>Number of Observations</b>	167	207	185
<b>Equation SE</b>	0.074	0.147	28.9
<b>F(,)</b>	26.70	5.05	1.95
<b>Log likelihood</b>	205.2	145.9	-875.5

# Effect on Productivity

**Productivity Growth (% pa)**

**Coefficient**

**Assistance Indicator**

- 0.147 \*\*

**Selection parameter**

+ 0.072 \*\*

**Number of Observations**

204

**Equation SE**

0.137

**F(,)**

2.41

**Log Likelihood**

140.44

# Key points from Panel analysis...

- Inaccurate Selection of higher performing firms
- The success of policy in promoting competitiveness is limited
- Policy of employment creation still dominant
- Assistance can negatively impact on performance
- Clusters of assistance exist – are there differences in how they effect performance?

# Strengths of Data Methods – Case Studies

- Provides excellent monitoring data – program delivery & client satisfaction
- Micro-level insight to how support integrated into the business
- Allows assessment of deadweight, displacement and additionality

# Strengths of Data Methods – Survey

- Allows counterfactual to be established - comparison of assisted with non-assisted
- If combined with Case Studies, can allow deadweight, displacement to be determined at regional/national level
- Efficiency of program through Impact assessment – e.g. cost per job estimates

# Strengths of Data Methods – Panel Data

- Overcomes issues regarding representativeness of ‘control’ group
- Identifies if selection criteria are present
- Separates performance due to firm itself from that due to support
- Range of impact measures can be adopted to measure support success

# Some Guiding principles

- **‘Top-Down’ approach to evaluation**
- **Support organisations MUST have clearly defined purpose - ‘corporate objectives’**
- **Program aims and objectives MUST be clearly defined and consistent with corporate objectives (case of GBSP)**
- **SMART Targets Must be set (evaluation is interwoven into organisation & programs)**  
*Specific, Measurable, Achievable, Relevant and Timed*

# ... More Guiding Principles

- **Evaluation practice should not be standardised BUT IT MUST allow targets to be assessed – ideally quantitative & qualitative**
- **Comprehensive data collection – enhance ability to identify firms with high growth potential**
- **Evaluations should be ethical - independent of the organization where possible**
- **Evaluation data MUST be ‘Fed-back’ into corporate objectives, program design and delivery**

**Thank you for Listening**