

# Focus on Economics

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## Good advice helps – and it needn't be expensive

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When entrepreneurs decide to start up their own business, they have to take a whole host of crucial decisions. Very few are able to make all of these decisions entirely on their own, as they lack the basis to do so. It is almost impossible to be experienced or qualified in all the relevant areas, particularly as most people starting their own business have never done so before. It may help to get advice or further training, as this can provide a better basis for decision-making. Taking this step often makes sense. Start-up projects are statistically shown to be more stable in cases where the entrepreneur has made use of an advisory or training programme. In doing so, many entrepreneurs appear to acquire knowledge – not to mention self-confidence – that helps them to survive in the marketplace.

Becoming self-employed brings opportunities but also entails risks. A realistic assessment of these opportunities and risks is part of the initial decision-making process. But this is where entrepreneurs can get help, with one in three taking part in an advisory or further training programme as part of the start-up process. The KfW Start-up Monitor shows that in 2012, 31% of the 775,000 entrepreneurs surveyed took advice or further training before or when they became self-employed, thus acquiring relevant knowledge or skills (figure 1). A greater percentage used advisory services (41%) than took further training (28%).

### Some entrepreneurs are more open to further training and advice than others

Three groups of founders are particularly

open to receiving outside assistance:

- Women (38 vs. 27% for men),
- Entrepreneurs who were previously unemployed (53 vs. 28% for those who were employed) and
- Entrepreneurs from the eastern German states (47 vs. 28% for those from the western German states).

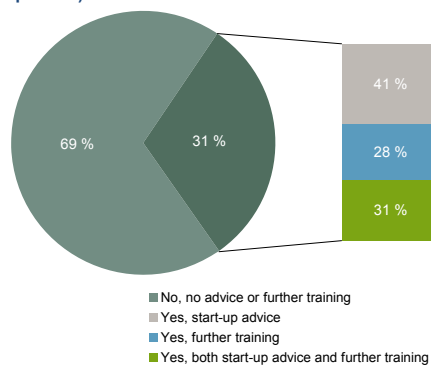
By contrast, entrepreneurs without a professional qualification make far less frequent use of advisory or training programmes (17 vs. 34% for those with professional qualifications).

Possible reasons for the differences in attitude are:

(i) Women are less open to taking risks than men.<sup>1</sup> This may mean that women take longer to prepare for self-employment,<sup>2</sup> and therefore take part in advisory or further training programmes

**Figure 1: Assistance often takes the form of advice**

(Use of advisory and/or further training programmes, in percent)



Note: The percentages shown in the bar chart refer to all entrepreneurs taking advice and/or further training. They add up to 100%. Therefore roughly one in every ten entrepreneur (31% x 31%) took both advice and training.

Source: KfW Start-up Monitor

more often.

(ii) The reason why entrepreneurs starting up from a position of unemployment and those in the eastern German states take part in advisory or training programmes more frequently may be that they are given greater incentives to do so. For instance, more attractive grants are available to them if they take part in the KfW's "Start-up coaching in Germany" programme, which offers advice for start-ups and young enterprises.<sup>3</sup>

(iii) The fact that entrepreneurs without professional qualifications take advice and further training less frequently may be that they have less contact with the providers of such programmes. For instance, those with apprenticeships or university degrees come into contact more often with institutions such as chambers (IHK, HWK), organisations providing support to businesses and technology transfer centres. Simply having a knowledge of institutions offering advisory or further training programmes probably increases the likelihood of using such programmes.

The survey looked not only at which individuals follow advisory and training programmes, but also at the type of project the programmes are used for:

- Advisory or further training services are used much more often by entrepreneurs setting up a full-time business (42 vs. 23% for sideline entrepreneurs)

- Outside help is enlisted more often in the case of new business start-ups (33 vs. 23% where an existing business is being taken over)

In both cases, the explanation may lie in the different levels of uncertainty involved in the projects:

(i) Those starting up a full-time business are taking a greater risk, as they rely more on their own business and their projects typically involve a greater commitment of funds than a sideline start-up.<sup>4</sup> This greater degree of uncertainty

probably leads those starting a full-time business to make use of advisory or further training programmes more often.

(ii) For those taking over an existing business, the start-up project is likely to carry much less uncertainty than a project to start up a new business from scratch. Entrepreneurs taking over an existing business often have ties with the company before they begin to run it themselves. One case in point would be a family business being taken over by another, previously involved, family member after the senior figure has left. Another example would be a company taken over by an existing member of management or employee. In these cases, the person taking over the business is likely to have the relevant knowledge and skills already, so that it seems less necessary to take further advice or training.

Concerns on the part of the entrepreneur or difficulties in the start-up process are often reasons for seeking expert help. This is why entrepreneurs running into funding difficulties or bureaucratic hurdles, or those lacking commercial know-how, tend to make use of advisory or further training programmes more often.

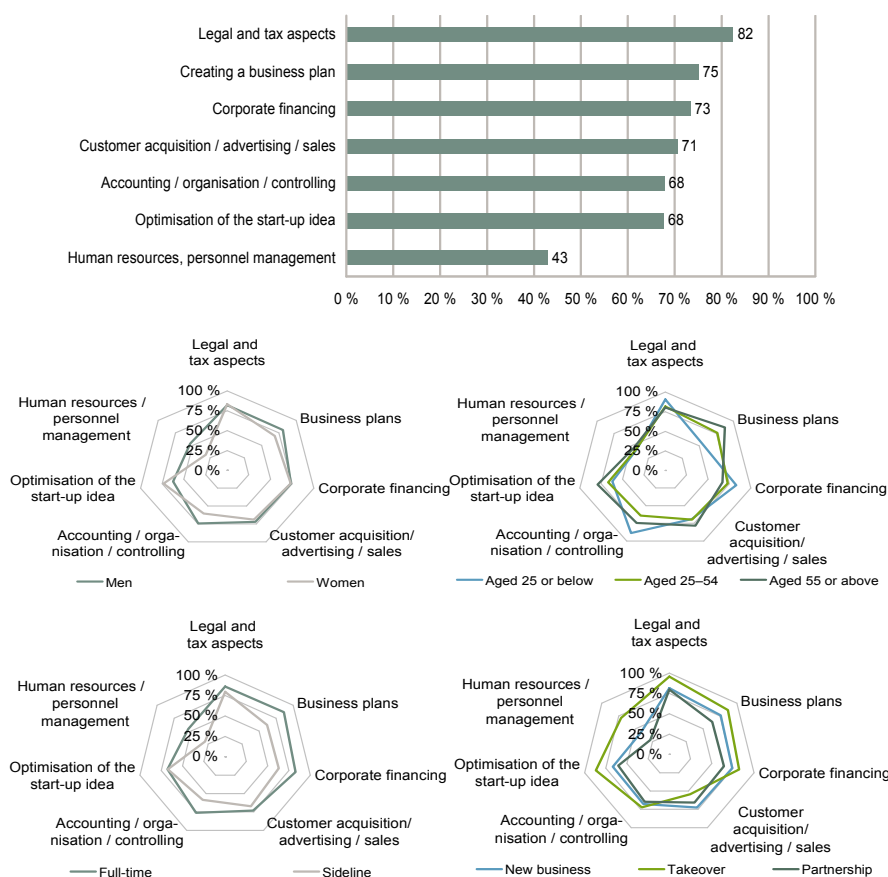
**Spending on advice or further training is limited**

Most entrepreneurs who took advice or further training made use of free services (53 %). Meanwhile, 22 % paid some of the costs themselves, while 26 % paid the full costs from their own pocket. Advisory services were offered free of charge more often than further training services (68 vs. 42 % among entrepreneurs taking either advice only or further training only).

Entrepreneurs limit the time they spend taking advice or further training. The average duration of the advisory or further training programmes followed was 23 hours (median). The average amount of time spent using advisory services was 12 hours, i. e. less than half as much time as the average of 32 hours spent on further training. By the same token, the length of programmes offered free of charge was 15 hours shorter on average than the length of programmes that cost money. Advisory or further

**Figure 2: Frequent need for advice and training on administrative regulations**

(How often different themes are covered by advisory or training programmes, in percent)



Note: 82 % of entrepreneurs who used an advisory or further training services received advice on or training in tax and legal aspects as part of the programme. This was a particularly predominant theme for those taking over an existing business (96 %). Younger entrepreneurs, i.e. those below the age of 25, had greater interest in the areas of accounting, organisation and controlling (89 %).

Source: KfW Start-up Monitor

training programmes paid for in full by the entrepreneur took a total of 24 hours on average, shorter than the average duration of programmes where the business owner paid only part of the fees (40 hours).

**Dealing with red tape the predominant theme**

“Tax and legal aspects” tops the list of subjects covered by advisory or training programmes: 82 % of entrepreneurs mentioned this area first (figure 2). In addition, 68 to 75 % of participating entrepreneurs were interested in the areas of:

- Business plans
- Corporate financing
- Customer acquisition / advertising / sales
- Accounting, organisation and controlling

- Business idea optimisation

By contrast, participating entrepreneurs were far less frequently interested in the topic of “Human resources / personnel management”, with only 43 % mentioning it. This is understandable, as only one in four entrepreneurs employed any staff in 2012. In total, 68 % of those employing staff and taking advice or further training said that they were interested in the topic of HR.

**Problem-oriented selection of subjects**

The example of human resources shows that entrepreneurs choose the subject matter of their advisory or training programmes according to their needs. Those having difficulty winning orders or reaching customers more often took advice or training in the areas of customer acquisition and advertising, while those who could not find suitable staff

took greater interest in the topic of HR. Meanwhile, entrepreneurs complaining of red tape were more often interested in topics to do with organisation.

Women more often used advisory or training services as a way of optimising their business idea (74 vs. 62 % for men). By contrast, men were interested in topics such as business plans (81 vs. 69 %) and organisation / controlling (74 vs. 60 %).

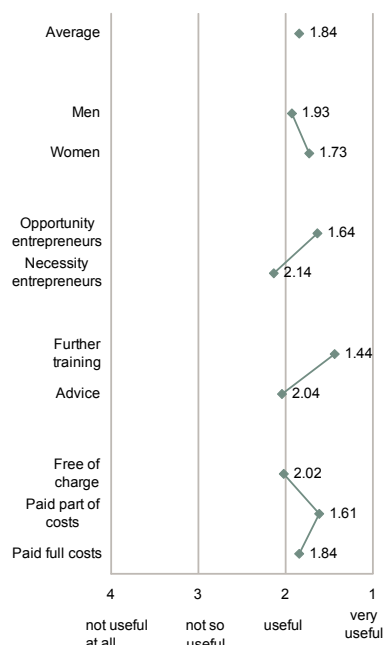
Meanwhile, business plans (68 vs. 77 %) and advertising (52 vs. 74 %) featured less frequently as subjects in advisory and further training programmes used by foreign entrepreneurs, while the subjects of business idea optimisation (76 vs. 66 %) and organisation / controlling (80 vs. 65 %) were covered more often.

The subject of funding was particularly prominent on the agenda of programmes followed by younger entrepreneurs. A total of 83 % of entrepreneurs below the age of 25 took an advisory or training programme covering corporate financing, while only 67 % of those aged 55 or above needed advice or training in that area. Tax and legal aspects are another area that interests young entrepreneurs more than others (91 vs. 82 %). The same applies to the topic of organisation and controlling, which 89 % of young entrepreneurs focus on. Interest in the subject falls sharply in the next age groups up, before gradually rising again to reach 74 % among entrepreneurs aged 55 or over. The reason for this pattern may be that middle-aged entrepreneurs have already learned about organisation and controlling in their earlier years, so have fewer knowledge gaps to fill. However, as they get older, entrepreneurs increasingly need to refresh their knowledge of this area.

Those starting their own business after being unemployed more often needed advice or training in the areas of business plans (91 vs. 71 %) and financing (83 vs. 71 %). For those starting up a business from a position of unemployment, financial support is available in the form of a grant from the Federal Employment Agency. Those applying for the grant need a feasibility report from an expert, which must be based on some

**Figure 3: Entrepreneurs' view on usefulness of advisory and training measures**

(Benefit of consulting and training by entrepreneurs)



Note: The values reflect the average ratings given by entrepreneurs within the categories described. For instance, entrepreneurs who paid a contribution towards the costs of their programme gave an average usefulness rating of 1.61, which was better than the rating given by those who either did not contribute to the costs or who paid the costs in full.

Source: KfW Start-up Monitor.

kind of business plan. This probably explains the particular interest in this topic. The fact that advice and training deal relatively frequently with financing matters may also be to do with the start-up grant. Leaving that to one side, it can be assumed that entrepreneurs starting out from unemployment typically have lower funding resources than others, and therefore specifically need advice or training in the area of financing.

Full-time entrepreneurs took advisory or training programmes covering business plans (87 vs. 62 %), corporate financing (83 vs. 63 %) and organisation / controlling (76 vs. 58 %) more often than sideline entrepreneurs, i. e. those starting a business on a part-time basis. This reflects the fact that full-time entrepreneurs tend to work more independently and have more developed business structures.

**Entrepreneurs taking over an existing business have comparatively wide range of interests**

The type of self-employment also has an impact on the content of the advisory and training programmes used. With the exception of advertising, all subject areas are addressed less frequently by entrepreneurs who are self-employed by virtue of having taken a stake in an existing business than by those starting their own business from scratch or those taking over an existing company. This indicates that those participating in an existing business are more selective when it comes to choosing topics, while those starting a new business or those taking over an existing company are interested in a broader range of thematic areas.

**Very good marks for usefulness and quality of the advisory and training programmes**

As a measure of the effectiveness of an advisory or training programme, not taking into account the time for which the self-employment lasted, the feedback from entrepreneurs who had taken part in these programmes was excellent: 35 % described them as very useful and 51 % as useful, while only 11 % said they were not so useful and just 4 % claimed that the advice or training had been of no use at all. On average, entrepreneurs awarded the programme they had followed a mark of 1.8 (see figure 3) on a scale of 1 (very useful) to 4 (not at all useful). Looking at a breakdown by type of entrepreneur and project, there are only two aspects that reveal significant differences in feedback on usefulness. First, women are more generous in their assessments: 46 % described the programme they had followed as very useful, whereas the corresponding figure for men was 25 %. Second, opportunity entrepreneurs gave higher usefulness ratings from others; those starting up out of necessity were more sceptical and awarded "very useful" ratings only sparingly (22 vs. 44 % for opportunity entrepreneurs). The type of programme followed is another factor. Founders who had followed advisory programmes gave a "very useful" rating far less frequently than those who had taken a training course (21 vs. 49 %).

### Even free services can be helpful

Another factor affecting the way that entrepreneurs assess advisory or training programmes is how much they have paid for them. Both entrepreneurs who paid for a programme entirely out of their own pocket (1.8 average usefulness) and those who followed programmes that were free of charge (2.0) were more critical than those who have paid only part of the fees themselves (1.6). Although feedback on free programmes was a little worse overall than on other programmes, free programmes were still rated as useful by entrepreneurs. The differences in feedback may also be partly down to entrepreneurs' expectations of the different programmes. For instance, underlying scepticism about the usefulness of free programmes may have a negative impact on the way they are assessed. Where an entrepreneur has paid for a course entirely themselves, they may have higher expectations, leading to worse assessments.

The quality of the advisory and further training programmes was also rated excellent overall: 37 % said that the quality was very good, and 55 % said it was good, while only 5 % gave a "not so good" rating, and a mere 3 % rated the quality as poor (average quality rating: 1.7).

### Quality measures increase stability

How effective are advisory and further training programmes? Do they make entrepreneurs better equipped to survive in the marketplace? One indication is provided by the "abandonment rate", i. e. the proportion of entrepreneurs abandoning a start-up project. Of the entrepreneurs who followed an advisory or further training programme in 2012, 9 % had already given up their start-up project by the time of the survey. This is a slightly lower rate than among those who did not follow any advisory or further training programme (11 %). The difference becomes more noticeable when the observation period is extended to include all entrepreneurs over the last three years. Of these, 14 % of those who had followed a programme had already abandoned their start-up project, whereas 18 % who had not followed a programme had abandoned theirs. The different abandonment rates indicate that advisory or further training measures have a positive effect on the stability of start-up projects.<sup>5</sup>

A matching analysis confirms that using advisory or further training measures before or at the beginning of a start-up project reduces the failure rate by a statistically significant 30 %.<sup>6</sup>

### Start-up advice achieves its objective

Feedback from entrepreneurs on both the usefulness and quality of advisory and further training programmes is excellent. However, it is apparent that for certain types of entrepreneur (for instance those starting up a business out of necessity), there is room for improvement as regards usefulness. It is generally recommended that all entrepreneurs state at the outset what they expect from an advisory or further training programme, so that they can help shape its content – and therefore its relevance to them – at an early stage.

Our results shown that entrepreneurs following advisory or further training programmes are better able to compete when starting up a business and can survive longer in the market place. Ultimately, the aim of advisory support is to improve the prospects for start-up projects. Applications for the "Start-up coaching Germany" (Gründercoaching Deutschland, GCD) grant, which is among the support measures available, can be made via the KfW's regional partners<sup>7</sup>. You can find further information on KfW support programmes for entrepreneurs at <https://www.kfw.de/inlandsfoerderung/Unternehmen/Gründen-Erweitern>. ■

<sup>1</sup> Charness, G. and U. Gneezy (2012), Strong Evidence for Gender Differences in Risk Taking, *Journal of Economic Behavior & Organization*, 83 (1), 50–58 or Dohmen, T., Falk, A., Huffman, D., Sunde, U., Schupp, J. and G. G. Wagner (2011), Individual Risk Attitudes: Measurement, Determinants, and Behavioral Consequences *Journal of the European Economic Association*, 9 (3), 522–550.

<sup>2</sup> Metzger, G. and K. Ullrich (2013), Start-up activity hits rock bottom – no revival in sight, KfW Start-up Monitor 2013, Frankfurt am Main.

<sup>3</sup> With the KfW's „Start-up coaching Germany" programme, entrepreneurs who have become self-employed in the last five years may receive a grant to help pay for advisory services. Grants are awarded to cover the fees of an approved management consultant hired through the KfW's Consultant Exchange. Successful applicants from western Germany and Berlin, excluding Lüneburg, are eligible for a grant of up to 50 % of the consultancy fees, which may not exceed EUR 6,000 (i. e. the maximum grant is EUR 3,000). Successful applicants from eastern Germany (excluding Berlin) and Lüneburg are eligible for a substantially higher grant of up to 75 % of such fees (i. e. to a maximum of EUR 4,500) Applicants starting a new business from a situation of unemployment are offered special terms and conditions. They are eligible for a grant of 90 % of the consultancy fees, provided that these do not exceed EUR 4,000 EUR (i. e. the maximum grant is EUR 3,600). Entrepreneurs in a position of unemployment were actively invited to participate in the „Start-up coaching Germany "scheme as part of the advice provided by the Federal Employment Agency (see Book II of the Social Code (SGB II) – Assistance in reintegrating unemployed persons into working life, November 2009).

<sup>4</sup> Metzger, G. and K. Ullrich (2013), Tables and Methodology, KfW Start-up Monitor 2013, Frankfurt am Main.

<sup>5</sup> The abandonment rates given here for entrepreneurs over the last 12 and 36 months do not correspond to the probability of entrepreneurs quitting after one or three years respectively as the data available to us are right-skewed. This means that none (or almost none) of the start-up projects of entrepreneurs still in self-employment is likely to have been 12 or 36 months old respectively at the time of observation.

<sup>6</sup> The principle underlying this approach is to match the entrepreneur and project characteristics (used in our survey) of non-users and users of advisory and further training programmes in such a way that there is structurally no longer any statistically significant difference between the two groups. If differences in performance then emerge, entrepreneur and project characteristics can be excluded as a cause of the differences, leaving the use of advisory or training programmes as a causal explanation. The specifications of the matching analysis are as follows: the parent population consists of entrepreneurs from the past 36 months whose start-up project was still going at the time that the KfW Start-up Monitor 2013 was conducted or had already abandoned their project. The structural matching of users and non-users of advisory and further training programmes is based on the entrepreneur and project characteristics of gender, age at the time of the start-up, nationality, professional qualifications,



employment status prior to the start-up, start-up motive, scope and type of the start-up, location, sector, degree of innovation, team partner and employee numbers and funding requirements. Various indicators of problems that have arisen and the time elapsed since the start-up project began are also included. Overall, 1,574 observations are available, breaking down into 547 users of advisory or further training programmes (treated) and 1,027 non-users of such programmes (untreated). Six users are excluded from the effect analysis, as the estimated probability of participation in a programme for them is higher than the highest participation probability for non-users. After the matching, there is no longer any statistically significant difference between the users and non-users for any of the characteristics observed. From a statistical perspective, the two groups are identical following the matching (Pseudo  $R^2$  falls from 0.137 (unmatched) to 0.005 (matched), LR  $\chi^2$  falls from 277.55 (unmatched) to 8.13 (matched)). The abandonment rates before the matching were 13.3% (users) and 15.6% (non-users), with no statistically significant difference between the two (t-statistic: -1.19). The ATT (average treatment effect on the treated) based on the matching is -0.056 (t-statistic: -2.54), i. e. the abandonment rate for users is 5.6 percentage points lower as a result of their participation in advisory or further training measures. The average expected effect of participating in advisory or training measures (ATE, average treatment effect) is -0.041.

<sup>7</sup> For instance chambers of commerce, trade and industry and agencies providing support to businesses.