Re-Examining Entrepreneurship Support Structures to Improve Outcomes for Under-Served Entrepreneurs

Why Current Models Fall Short & How We Can Fix Them
Executive Summary

Despite decades-long efforts from governments, non-profits, and their philanthropic funders to affect change through entrepreneurship support organizations (ESOs), job-creating entrepreneurship has steadily declined, millennials aren’t starting new businesses, and huge gaps still exist between business outcomes for companies owned by white men and those owned by women and/or minorities.

The model for charitable entrepreneurship support is broken and it will require a reexamining of the structure of ESOs, and their relationships with their partners, to increase their effectiveness in building stronger communities and a stronger U.S. economy through entrepreneurship.

This white paper will:
- review the trends in U.S. entrepreneurship;
- highlight disparities in entrepreneurial behavior and outcomes across race, gender, and age groups;
- recap the agreed-upon causes of some of these outcome gaps;
- and then discuss why current models aren’t moving the needle and what can be done to affect positive change.

Trends in U.S. Entrepreneurship

The Decline of Business Building
Job-creating entrepreneurship in the United States has been falling for decades. “After the most recent recession began in December 2007, establishment births experienced the steepest decline in the history of the series.” Thankfully, however, "the downward trend reversed in early 2010 and establishment births have since returned to pre-recession levels." Yet, according to the Kauffman Foundation, “despite the recent positive trend [in entrepreneurship as a whole], new businesses with employees – those creating jobs for people besides the entrepreneur – are still in a long-term decline compared to levels in the 1980s.” As the chart at the top of the next column shows, despite a rebound in business births overall following the recovery from the recession, birth rates for businesses with paid employees are still well below where they were twenty years ago.

Age Gaps in Entrepreneurship
Despite an exceedingly high rate of claimed desire to become entrepreneurs, millennials actually have the lowest entrepreneurship participation rates of any generation. “The share of people under 30 who own a business has fallen by 65 percent since the 1980s and is now at a quarter-century low, according to a Wall Street Journal analysis of Federal Reserve data.”

“Millenials are on track to be the least entrepreneurial generation in history.”

Race Gaps in Entrepreneurship
While entrepreneurship participation among minority groups, most notably black women, is growing at a higher rate than for white males, business success for companies owned by minorities, both male and female, continues to lag far behind that of companies owned by whites (inclusive of data for both sexes). White-owned businesses average seven and a half times the gross receipts of minority-owned businesses and minority-owned firms are more likely to be turned down for business loans (even when controlling for attractiveness factors of the application, like credit score) and receive only 1% of all venture capital funding.

“Trends in minority business outcomes do not indicate improvement relative to white business outcomes in the past two decades.”

Gender Gaps in Entrepreneurship
Similar to what we see when exploring differences by race, business performance and success for female
business owners also continues to lag behind what we see from male business owners (data inclusive of all races). “Women start their businesses with half as much capital on average as men [and, although women own 36% of the nation’s businesses, their businesses only account for 11.3% of national sales.”

Additionally, despite research that shows venture-funded companies led by women outperform those led by men, women receive just 7% of venture capital investments nationally.

Entrepreneurship’s Impact on the Economy & the Cost of Underperformance

These realities are troubling not only for those who work in the entrepreneurship support arena but also for the United States as a whole because the U.S. economy was built on and is sustained by the success of startup entrepreneurs and other small business owners. A decline in entrepreneurship means a decline in innovation, national income, job creation, and the economy as a whole. According to the Bureau of Labor Statistics, “the number of jobs created by establishments less than 1 year old has decreased from 4.1 million in 1994...to 3 million in 2015.”

As more and more baby boomers retire and millennials make up a larger and larger percentage of the working-age population, their lack of ability and/or willingness to start companies that can create jobs will increasingly prove costly to the U.S. economy and to the communities within it.

“New businesses are disproportionately responsible for the innovation that drives productivity and economic growth, and they account for virtually all new net job creation. I would say, as a policy person, this is nothing short of a national emergency.”

John Dearie

Research from Babson College indicates that equalizing capital access for female entrepreneurs would add 6 million jobs.

Estimates from the Minority Business Development Agency indicate that, if minority-owned firms performed at parity with white-owned firms, they would add 13.2 million jobs and $2.9 trillion dollars to the U.S. economy. To provide some perspective, $2.9 trillion is roughly the size of the United Kingdom’s entire GDP, the fifth largest economy in the world.

Entrepreneurship’s Impact on the Economy & the Cost of Underperformance

The Causes of Entrepreneurial Underperformance

Entrepreneurship Success Gaps Are Symptoms of Broader Problems

As with most measurable disparities that are sustained over time, gaps in business starts and success rates between generations, races, and men and women are merely symptoms of larger societal problems.

Millennials are the most educated generation in history but that education and its rising costs mean they often have less work experience than previous generations had at the same age and are often weighed down by a mountain of student loan debt. Combine that with millennials’ general uncertainty about the future, caused in part by having been at war their entire adult lives and in part by their entering the workforce during and immediately after the great recession, and you have a recipe for declining entrepreneurship rates and an uphill battle for those who do venture into entrepreneurship.

Minorities and women, especially African-Americans, have historically been subject to both de jure and de facto forms of discrimination that have led to inequities in everything from wealth, to educational attainment, to health outcomes, to access to social capital. Women have also historically borne far more of the burden of family care than have men, which further hinders their ability to invest in their own wellness and success. Without an
equal starting point, it is no wonder that female and minority entrepreneurs fail to keep up with their white male counterparts.

**Three Key Barriers to Entrepreneurial Success**

An understanding that the gaps in entrepreneurial participation and success are linked to larger societal issues helps to provide context for the three key barriers to entrepreneurial success for minority and female business owners: human, financial, and social capital or, more specifically, a lack of management knowledge, a lack of access to capital, and a lack of access to networks.

- Minorities not only have lower levels of educational attainment than do whites and, therefore, are less likely to have a business degree, but also they are less likely to have worked in a family business. This lack of both formal and informal business management education is a barrier to success when they start companies.  

- As previously discussed, both minorities and women start businesses with less capital and have more difficulty accessing external capital than do white men.

“Differences in startup capital are one of the biggest factors behind racial disparities in entrepreneurial success.”

Algernon Austin

- Minorities and women also lack access to the networks that would help to connect them with the contracts and sources of funding that they need for their businesses to succeed. Historical exclusion from the “good ol’ boys’” network for both minorities and women, as well as carrying the lion’s share of family care for women, may prevent members of these groups from participating in afterhours social and networking activities such as happy hours, golf outings, or late-night dinners. Because many important relationships are made and deals are discussed at these types of gatherings, minority and female entrepreneurs’ absence can significantly hold back their entrepreneurial success, just as it can hold back career growth in the traditional corporate environment.

**The Current Solutions & Why They Don’t Work**

**The Gap Between Problem Identification and Solution Implementation**

For those working in the entrepreneurship support space, as I suspect most of the readers of this paper are, none of the trends described above are new information, and that is precisely the issue.

We know what the barriers are that hold entrepreneurs back from success and most of us even have a grasp on the broader societal issues that contribute to erecting those barriers, and we have known for years, yet the support we continue to offer decade after decade has not been able to move the needle.

**Overview of Current Offerings**

Most entrepreneurship support is provided through four different types of organizations: non-profit ESOs, university-affiliated ESOs, community development financial institutions (CDFIs), and the for-profit sector including consulting firms, business support service providers like accountants and lawyers, investors like venture capitalists and traditional lenders, etc.

- **Non-Profit ESOs:**
  Non-profit ESOs typically are funded by a combination of government and non-government grant funding. Some may also receive individual donations and generate some earned revenue. Most offer some combination of one-on-one coaching or consulting, training programs, and networking events. Not all, but many Small Business Development Centers, Women’s Business Centers, U.S. Export Assistance Centers, etc. are housed within non-profit ESOs.

- **University ESOs:**
  University ESOs are very similar to non-profit ESOs but are housed within a college or university and typically take advantage of that relationship in order to utilize the time and talents of students and professors as additional resources, beyond the ESO staff, to help serve entrepreneurs. Many Small Business
Development Centers, Women’s Business Centers, U.S. Export Assistance Centers, etc. are housed within university ESOs.

- CDFIs:
  While they may take a number of forms, community development financing institutions are typically non-profit organizations that make small business loans to small businesses that are unable to qualify for traditional bank lending based on an owner’s poor credit score, lack of sufficient cash flow or collateral, or not enough business history. These loans may range in size from ~$100 to ~$1 million and typically carry higher interest rates than traditional bank loans because of the higher default risk associated with them. CDFIs are often referred to as micro-lenders because of the small loan sizes that are typical. Like non-profit and university ESOs, CDFIs typically are funded by a combination of government and non-government grant funding. Some may also receive individual donations and the majority generate some earned revenue from the interest charged on the loans they make.

- For-Profit Firms:
  For-profit organizations that support small businesses are generally small businesses themselves and take a number of forms. Any person or organization, like a CPA or attorney, that provides advisory services to a small business for a market rate in order to generate a profit is considered a for-profit entrepreneurship support firm for the purposes of this paper.

Most of the entrepreneurship support provided to wealthy, white males comes from for-profit firms. Most of the entrepreneurship support provided to women and minorities comes from non-profit and university ESOs and CDFIs.

The bulk of the rest of this paper will focus on only the first three types of organizations that support entrepreneurs in an attempt to begin an honest conversation about the shortcomings of these models as compared to for-profit entrepreneurship support. Addressing this gap in quality of service provided between for-profit and non-profit firms – that provided to wealthy, white men versus to minorities and women – is key to eliminating the success gaps discussed earlier.

**Generally Accepted Measures of Success Fall Short**

While the metrics used to track and evaluate success will vary some between organizations, most non-profit and university ESOs and CDFIs share a number of generally accepted measures of success, which they track, evaluate, and report to their funders and to the public.

Unfortunately, most of the metrics of success for ESOs and CDFIs are not metrics that truly measure the impact of that organization on the entrepreneurs whom it serves or the community within which it operates.

One of the principles of management is the concept that “you manage what you measure.” Thus, if the metrics of success that ESOs measure are not appropriate metrics, it is unlikely that they will be managed to most effectively serve the entrepreneurs they’re meant to help. A quick litmus test is to ask if a specific metric is one that a for-profit consulting firm would be asked to measure and deliver results on in order to get paid. If the metrics of success are not the same, the consulting services provided will not be the same, and outcomes will not be the same. Thus, disparities will continue to persist.

Some of the most commonly utilized metrics of success include job creation, equity financings, debt financings, contracts won, clients served, and new business starts. By way of illustration and in the interest of brevity, I will examine the issues with just a couple of these metrics in this subsection and will touch on more in the next subsection.

- Job Creation:
  As much of the funding attached to entrepreneurship support is economic development funding, job creation is a key measure of almost any ESO’s or CDFI’s success. Unfortunately, job creation in and of itself doesn’t tell us much about the success or sustainability of a business.
Firstly, the goal of a business is not to create jobs, it’s to generate a profit. From a business perspective, jobs should only be added when they are necessary to increase productivity and profit; they should always add more to the bottom line than the expense of filling the position takes away from it. A highly-paid business consultant would not be brought into a company to help it figure out how to create more jobs for the sake of creating jobs.

Additionally, even if approaching the discussion through the lens of economic development as opposed to business strategy, if sustainable economic development is the goal, the rapid addition of jobs is likely not the answer. Quickly created jobs are often unstable and just as quickly eliminated; think of a small construction firm that wins a contract, immediately staffs up twenty people for the job, and then eliminates those same jobs three months later when the job is complete but the next contract is not yet lined up.

- Financings & Contracts:
  Two other measures of success used by nearly every ESO are the number and dollar amount of various types of financing obtained by the businesses they serve (grants, equity investments, loans) and the number and dollar amount of contracts obtained by the businesses they serve. The problem with these measures is that they are top-line measures that do not account for the impact of the financing or the contract on the business and a loan or a contract can just as easily add next to nothing to the bottom line or even put a small company out of business as it can help it grow.

Imagine Melody, the owner of a small construction company that wins its largest contract to date with a property developer. The ESOs that Melody works with immediately count and publicize her success of winning the contract, logging the top line dollar amount in their records.

However, imagine Melody and her construction company six months later:
- Melody submitted a low bid because she really wanted to win this contract but, after performing the work, she realized that her costs were nearly as much as her revenue on the project.
- Additionally, the company performed all of the work for the contract but there was a delay in payment from the developer;
- Melody didn’t have enough cash reserves to cover the delay so she was unable to pay the company’s bills;
- the company couldn’t qualify for a bank loan so Melody turned to a micro-lender to cover payroll for the already completed project (this is recorded as another success for the ESOs and for the CDFI);
- there was another delay in payment so the micro-loan funds are gone and now Melody has that debt and her other liabilities to deal with;
- there is no cash to buy the materials for the next job so the start is delayed and the contract is dropped;
- even when the payment finally comes through, the margins are so slim on it that it’s not enough to save the sinking ship and the company is forced to close its doors while Melody is still responsible for the micro-loan, which likely has an interest rate of around 16%.

While that example sounds extreme, and it is, it’s also not terribly uncommon. Yet if you were to examine whether the ESOs were doing their jobs based on the success metrics set out, it would appear as though the ESOs had been tremendously effective helping this small business win a contract and secure financing. Given that the measurements used to evaluate ESO and CDFI performance could present
what happened to Melody as a success, there are clearly issues with those measurements.

**Problems with Performance Measurement**
Additionally, even if the metrics used to evaluate success were appropriate, there is huge variation in the way that these metrics are tracked, there is a level of “generosity” inherent in the way that they are measured, and there is potential for duplicative counting of the same accomplishments.

- **Tracking Variations:**
  Depending on the sophistication of an ESO’s internal evaluation team and the requirements of its funders, different ESOs set very different bars for what client metrics make it into the system. Some require a signed form stating how the ESO assisted the business, what the outcome was (a contract for example), and supportive documentation (like a signed copy of the contract) in order to log a metric. Others accept as little as a verbal statement from an entrepreneur about a contract won or a dozen workers hired to record the metric.

- **Generous Measurement:**
  Most ESOs also have fairly vague definitions of who counts as a client/client served. For example, it’s very typical for ESOs to host events, or even speak at events hosted by others, and count every person in the audience as a client served.

Firstly, this is a much looser definition of client than you would find in the for-profit sector. I, for example, don’t count all of the audience members at a speech I give, even if it’s a small business training, as clients. At best, they’re prospective clients but most of them are nothing more than attendees at an event.

Secondly, many ESOs are unable to get attendance records from events that can easily be cross-referenced with their other clients to eliminate duplicates, meaning that the same person is often counted as two or three clients if s/he attends multiple events and is a training client.

- **Duplicative Counts:**
  In addition to the potential for duplicative counting of clients within an individual ESO described above, many entrepreneurs also work with more than one ESO and/or CDFI receiving grant money from the same funding organization, which is also tracking its own aggregate performance metrics. Yet, there is not enough communication between the ESO’s and CDFI’s systems to recognize the potential duplicative count. So, in the example with Melody above, not only is it possible that her story was logged as a success, it’s possible that it was logged as a success by the two ESOs she works with and the CDFI.

Let’s say Melody’s contract was $500,000 and the loan was $100,000. If the two ESOs and the CDFI are all funded by the same foundation and all report Melody’s numbers in their metrics, that funding organization will show records stating that its donations helped win $1 million in contracts ($500,000 reported twice, once by each of the ESOs) and $300,000 in loans ($100,000 reported three times, once by each of the ESOs and once by the CDFI) for a total of $1.3 million versus the $600,000 that it actually was. Never mind that those numbers are drastically overstated and that Melody is now out of business; based on the way metrics are reported and ESOs are evaluated, this was a huge success!

**Variation in reporting requirements means that comparing performance across ESOs is not apples to apples. Additionally, given the reliance on reporting from clients, ESOs’ metrics are also almost always inaccurate because the reports from clients are either incomplete, inaccurate, or both.**

- **Coaching vs. Consulting vs. Mentoring: It’s Not Just Semantics**
  Another issue with many of the current ESO offerings is that there is not a clear understanding, on the part of the client or the ESO, of the difference between a coach, a consultant, and a mentor. It
should be obvious to most that, when neither the service provider nor the client is clear on what service is actually being provided, you have a recipe for poor outcomes.

A coach is someone who supports an entrepreneur through figuring out his/her leadership style, what blocks are preventing him/her from growing the business in the best way, and ensuring alignment between the entrepreneur’s personal and professional goals. A consultant is someone who is an expert in a specific area and provides analysis, advice, and strategic planning. A mentor is a volunteer who has been through what the entrepreneur has been through and is there as an unpaid provider of wisdom, guidance, and support.

This may seem like semantics to some, but there is a very real difference between someone without expertise who will ask you questions and help you through the general thought process of where to take your business (a coach) and an expert who will provide actual analysis and make specific recommendations based on that analysis and expertise (a consultant).

While both can be valuable, too often there is no clarity around whether ESO employees should serve as consultants or as coaches, and this creates confusion not only because the service offering is unclear but also because the qualifications for a coach and for a consultant may be very different.

Conflict can also arise when clients are under the impression that their coach or consultant is a mentor as the relationship between an unpaid mentor and his/her mentee is very different from that between a client and his/her paid coach or consultant. Mentorship is not a business transaction whereas coaching and consulting are.

The Pitfalls of Common Funding Models

Another reason that entrepreneurship support has struggled to make a dent over the past few decades is that the common funding models in place for the ESOs simply don’t allow for those ESOs to provide services at the quality and quantity that is expected of them.

The Client is Not the Customer:
As previously mentioned, most ESOs receive a very small portion (if any) of their operating funds through earned revenue from services provided to the entrepreneurs that they serve. This means that the client is not the customer and the ESO staff cannot remain 100% focused on serving entrepreneurs as their paychecks are dependent not on entrepreneur success and satisfaction, but on funder satisfaction.

While this model isn’t rare – Facebook’s users are not its customers, for example – it does make it easier for client needs to be inadvertently overlooked. For-profit business consultants must deliver results or they won’t be hired. ESOs need to have appropriate incentive systems in place to ensure that they too are required to deliver real results to the clients whom they serve.

Overhead Not Covered:
While the policy varies from funder to funder, many organizations that provide financial support to ESOs do not cover overhead. Regardless of whether an organization decides to fund ESO overhead or not, funding organizations should have realistic expectations about what that decision means. Funders that provide 100% of a project’s necessary funding, including overhead, should expect the staff allocated to that project to work on that project 100% of the time. Funders that do not provide for overhead costs should expect that staff allocated to that project are spending some of their time allotted to that project on fundraising to bring in dollars that can be spent on overhead. Therefore, all funders pay for overhead costs one way or the other, whether it’s with salaried employees’ time allocated to fundraising or it’s with the overhead directly.

Reporting Not Covered:
In a similar vein, most ESO funders do not have a deep enough understanding of ESO operations to design a funding model that properly accounts for the necessary breakdown of time spent on direct client work, program development, general management, reporting, and fundraising. Specifically, reporting requirements are directly tied to programs and grants and are not overhead, but they still pull
considerable time away from direct client work. Simply put, the more demanding the reporting requirements, the less client work is going to happen for the same dollar amount of funding.

While many ESO funders recognize the time required to generate reports – especially when each funder requires different metrics reported in different formats, on different timelines – many others have reporting requirements that are simply unrealistic based on the amount of funding. Measurement and evaluation is incredibly important, but if the grant amount is so small that it covers little more than the time spent on that measurement, the funding model needs reexamining.

Race to the Bottom:
On the ESO side, competition for grant funds has resulted in ESOs participating in a race to the bottom. Each ESO claims it can accomplish ever more work with ever less funding in an attempt to submit the most competitive application to funders. This downward pressure on pricing combined with the need to find other funding sources to cover overhead and time spent on reporting requirements means that many ESOs lose money on many of their grants.

It also means that salaries for the staff who provide services to the entrepreneurs are depressed and are not at all competitive with equivalent salaries in the for-profit sector. While non-profit salaries are generally lower than for-profit salaries, this gap is especially apparent in entrepreneurship support because many of the roles are exactly the same, minus the headaches of fundraising and reporting requirements, in for-profit organizations. For other common non-profit areas, homelessness or domestic violence support, for example, there is no equivalent role in the for-profit space. Yes, there are transferrable skills, but not the exact same role with twice the salary.

Many ESO staff members who are willing to tolerate lower pay for the opportunity to make a difference become disillusioned when they feel they’re not actually able to focus their time on generating sustainable impact so they leave for greener pastures in the for-profit entrepreneurship support world. For example, many of the best CDFI loan officers eventually move to traditional banks, as loan officers.

Focused on Short-Term Outcomes:
Finally, most ESO funding is structured around one to three year grant cycles with the expectation of measurable progress within that short time frame. This short-term timeline is, in part, what leads to the generally accepted performance metrics that fall well short of accurately measuring an ESO’s impact because of the reasons already discussed. Sustainable impact in addressing disparities tied to overarching social problems requires a long-term outlook and timeframe. As Donna Harris of 1776 notes when discussing the concept of race or gender segregated incubator programs: “...success is a gender- and race- and age-balanced community...I’m concerned we’re going down a path of short-term solutions and that might make the problem worse.”

Improving Support to Create Better Outcomes
So what can ESOs, CDFIs, and the organizations that fund them do to more effectively serve entrepreneurs and create lasting impact? They must work together to develop new models that address some of the
shortcomings of the current entrepreneurship support model.

The development of an improved model will require a focus on three key areas of improvement: a move to proper incentive alignment, effective funding models, and an honest discussion of human capital quality management.

**The Need for Proper Incentive Alignment**

Improving outcomes for entrepreneurs served by ESOs and CDFIs requires the elimination of any incentive structures that may ever put the best interests of ESO or CDFI staff at odds with an entrepreneur’s best interests, especially when those staff members don’t always have the training or expertise necessary to fully understand the consequences of certain business actions. For example, incentive structures reward ESOs for encouraging business owners to take on loans, contracts, and employees because these are all metrics of success for the ESO. As discussed above, however, these may not be in the best interest of the entrepreneur.

We all understand misaligned incentive structures to some extent; it’s why we’re generally distrustful of commissioned salespeople. As a business owner, I want advice about whether or not I should take on debt to come from an expert that has no personal stake in one outcome or the other so that I know the opinion I get is unbiased. Yet, we do not structure ESOs that way. Instead, we set up a situation where the person providing counsel on whether or not to take on debt has a clear personal interest in pushing the entrepreneur to do it: their own performance looks better the more loans their clients take on. Additionally, there is no balancing downside if taking the loan turns out to have been a bad business decision and actually harms the business.

Incentives are incredibly powerful so it’s important that the right incentives be in place to ensure that what’s in the best interest of the coach or consultant is also in the best interest of the client. One need only search the headlines for scandals to find example after example of how misaligned incentive structures can create toxic outcomes.

While a story like Melody’s will never make national news or cause an economic collapse, the organizations whose missions it is to serve the Melodys of the world have a responsibility to not create an environment where the advisors she trusts are incentivized to give poor advice.

I don’t mean to imply that most ESO staff members are knowingly and deceitfully pushing their clients into bad business decisions in order to pad their own performance metrics. I am suggesting, however, that when you have a staff made up mostly of people without deep expertise combined with incentive structures that present any loan or contract as a successful outcome and competitive pressure to deliver higher and higher metrics, you’re bound to wind up with some ESO clients receiving some bad advice.

Instead, ESOs and the funders that support them should ensure that incentive structures always match the best interest of the ESO staff member to the best interest of the entrepreneur whom s/he is serving. This is not currently possible because proper incentive structures cannot be put in place without first identifying relevant and appropriate performance metrics, and we’ve already established that current performance metrics are inadequate and potentially even harmful.

Funding organizations should also ensure that the incentives for the ESOs and CDFIs encourage cooperation and not competition.

So long as ESOs believe that other ESOs are competitors who stand between them and grant dollars as opposed to collaborators with whom they should work to secure additional funding and help build the overall network of support for entrepreneurs, the ecosystem will not be able to thrive.

**Understanding Effective Funding Models**

Improving outcomes for entrepreneurs served by ESOs and CDFIs also requires adjusting current funding models to more effectively support the work that the ESOs and CDFIs perform. This necessitates
honest and effective collaboration between the ESOs and CDFIs and their funding partners and requires that both funders and funding recipients hold each other accountable.

Firstly, the ESOs and CDFIs must be honest about what can actually be accomplished at what funding levels and in what timeframes. This means more transparency into service life cycles and resource allocation – both time and money. It’s important to not let “the tail wag the dog,” so to speak, by pitching or agreeing to grant contract terms that are not realistically sustainable or programs that are not going to be effective out of fear of pushing back on a funding partner.

Unsustainable grant contract terms might be those that don’t cover the full costs of programming, providing funding for 20 hours per week of work from a staff member and expecting that staff member to deliver 20 hours of client-facing services without accounting for administrative, reporting, fundraising, or managerial time. Another example might be refusing to admit to funding partners that current staff salary structures don’t allow for multiple, if any, truly qualified consultants. If an ESO’s model is to encourage excitement around entrepreneurship and to provide general training, this may be fine. If, however, an ESO claims to provide expert consulting to clients but the budget shows that it doesn’t pay any of its staff a rate commensurate with what an expert consultant would earn, the funding partner should not ignore the red flag.

Ineffective programs may be more difficult to identify in the initial proposal as much work may be about experimenting to find effective models. However, funders should be staffed with people who understand business and entrepreneurship well enough to identify obviously troublesome program proposals. While there are many funders who have highly knowledgeable and experienced teams working with their funding recipients, there are many others that don’t. In my experience, it is not uncommon to have to explain basic business concepts like the difference between revenue and income or the difference between a loan and an equity investment (and when each might be appropriate for a business) to foundation staff holding the purse strings and deciding which entrepreneurship programs should receive funding and how much. If the grant givers don’t have even a basic understanding of business, we cannot expect them to discern between high-potential program offerings and those that don’t pass the sniff test. It is the responsibility of the ESO not to propose unrealistic budgets and timelines and the responsibility of the funding partner to be knowledgeable enough about the space to be able to spot those unrealistic budgets and timelines and to push back when an ESO does propose them.

Secondly, ESO and CDFI funders must balance being open to conversations about realistic program and funding structures while also holding their grantees accountable for efficient operations management and effective performance on the grants that they receive.

Any grant giver that demands more in performance than it is willing to pay for is not helping entrepreneurs or the ecosystem. On the other hand, however, any funder that makes an unrestricted donation to an ESO, especially one housed within a larger organization, should understand that those funds will often not be spent on direct client work. Thus, these funders shouldn’t necessarily demand much in terms of specific outputs for an unrestricted donation but they should ask to see the breakdown of overhead costs for the department and for the larger organization. They can then ensure that they’re not making a donation meant for an ESO that is actually going to pay a bloated executive team’s salaries, outsized organizational debts, or other items related to inefficient management and not to effective client services.

Efficient management is something that should be demanded and monitored; unrealistic demands about keeping budgets well below what would allow for proper management and effective client services should be eliminated.

Thirdly, while it is not necessarily a foundation’s role to fund salaries that match those of market-rate business consultants, if salaries are not high enough to fund expertise, ESOs should not claim to offer it and funders should not expect it. Instead, they should explore models based on coaching and
training and partner with volunteers or for-profit organizations to provide the entrepreneurs with high quality consulting.

Lastly, ESOs must begin to embrace a model that is more equally mixed between earned revenue and grants.

If an ESO is providing quality services to entrepreneurs, those entrepreneurs should be willing to pay for those services. While some would say that requiring any type of payment reinforces reduced access, many ESOs have begun to implement sliding scale fee for service models so that none of the clients they serve are priced out but that those who can afford to pay help offset the costs of providing such services. It also means that the clients served have some skin in the game, which discourages "entrepreneurship tourism" and allows support organizations to focus their resources on business owners truly committed to investing in building their companies. This model only works, however, if the value of the services provided is evident to the client. Thus, it can serve as an incentive for and indicator of quality control in service.

This brings me to the next strategy for improving outcomes for entrepreneurs served by ESOs and CDFIs: human capital quality control at the ESOs.

Human Capital Quality Control
Finally, ESOs, CDFIs, and the organizations that fund them need to be honest about the quality of their employees and the services provided. If an ESO has a staff tasked with providing consulting services to entrepreneurs, those staff members’ qualifications should clearly demonstrate their expertise. A quick litmus test is to ask if those staff members would be able to attract paying clients for their consulting services outside of the umbrella of the organization. If no, they’re probably not actually qualified to provide consulting and the ESO has two options: 1) change its model to provide only services that its team is qualified to provide or 2) hire (and pay) a team that is qualified to provide the services that it currently offers.

Unfortunately, the vast majority of the staff members at most ESOs simply are not capable of providing quality business assistance. In fact, I once attended a training for a small business consulting tool that is used by all of the ESOs of a certain type in a certain state and one of the reasons that this tool was so popular is that it “allowed people who know nothing about business to train and consult for small business owners.” If the ESO model is built around putting people who “know nothing about business” in the role of expert consultant to serve those entrepreneurs who cannot afford to utilize for-profit business support services, it is no wonder that efforts over decades have not moved the needle at all.

Implementing Ecosystem Improvement Through Improved Support Services
In order to create effective change within the ecosystem of ESOs, CDFIs, their funders, and the clients whom they serve, organizations must restructure their existing offerings and relationships with one another and with the entrepreneurs whom they serve. This can be accomplished through a five-step process for improving the ESO model and outcomes for the entrepreneurs.

Define Appropriate Goals
The first step in the process is to define appropriate goals. If an organization and its staff are not clear on the goal(s) they’re trying to accomplish, it is nearly impossible to efficiently and effectively achieve that goal.

Some organizations simply want to encourage entrepreneurial thinking, others want to increase business starts among certain groups, and many want to improve business outcomes for small businesses in general or those owned by specific groups such as minorities or women. Whatever the goal is, an ESO must be clear about what it intends to accomplish, with itself, with its funding partners, and with its clients.

Set Relevant & Appropriate Metrics
Once clear goals have been determined, relevant metrics can be set to measure progress towards those goals. This is where the key to changing the model happens.
An organization and its funding partners must be sure to set relevant and appropriate metrics that 1) accurately measure whether progress towards the goal is being made and 2) align incentive structures so that there is never a conflict between what is best for an ESO or CDFI staff member and what is best for a client.

When setting relevant and appropriate metrics, keep the following in mind:

- The timeline of the metrics should match the timeline of the goals. For example, if the goal is improved business outcomes and long-term success rates, metrics should measure indicators of long-term business success, which are typically bottom line measures like changes in net income as opposed to top line measures like changes in revenue. If the goal is a short-term boost in business starts, then short-term indicators, like new business filings, can be used.

- Metrics should be set from the perspective of an entrepreneur, not from the perspective of an economic development professional, meaning that profitability and sustainability should guide metric determination, not job creation or other social impact measures. These will come if more businesses succeed, but should not be the focus.

- Metrics should be set with a realistic understanding of the reporting requirements that will accompany them. Bottom line measures are typically harder to access from entrepreneurs because they either don’t understand them or are unwilling to share them, so reporting may take additional time and resources.

- Metrics can be used to help guide assessment of ESO staff. If a metric is determined to be important and the ESO staff providing services to business owners don’t know what it is or how to calculate it, there is a disconnect. For example, an ESO may determine that it’s more important to know what a client’s change in income, a bottom line number, is than its change in revenue, a top line number. If you were to ask ESO staff to calculate the net income of a business and they were unable to do so, it would indicate that additional training or even a replacement of staff members was necessary.

- Again, you manage what you measure, so organizations should be sure not to skip any important indicators of performance when setting their performance metrics, nor should they include so many that they become unmanageable.

**Determine Realistic Cost Structures**

Once goals and metrics to measure progress towards those goals are set, the ESOs will be able to more accurately determine the programming necessary to effectively serve their entrepreneur clients. At that point they can, in partnership with their funders, develop realistic budgets for implementing those programs.

When determining realistic cost structures, the ESOs should work closely with their funding partners so that programs are provided the resources necessary to be successful. If funding is not available to operate a program effectively, an alternative program model should be developed so that entrepreneurs receive only high quality offerings. A half-funded program lacking in quality can often do more harm than good to the entrepreneurs it attempts to serve.

**Measure & Analyze Performance**

Once programs have been finalized and funded, the ESOs, CDFIs, and their funders should ensure that careful tracking and measurement of the agreed upon performance metrics happens on an ongoing basis and that every ESO is regularly evaluated based on its performance.

How often and how intensely this evaluation should happen depends on the amount of funding provided. Fully funded programs should be evaluated at least quarterly.

Reporting and evaluation structures should be in place internally at ESOs, so one way that funders can effectively evaluate programs while not placing an undue reporting burden on the ESOs is to request quarterly (or even monthly, depending on the grant) reports but to accept the reporting timelines, formats, and structures used internally. This allows
for frequent updates but does not create any additional work for the ESO beyond sending an email to the funder with a report that was already created for internal use. Additionally, it will provide an opportunity for the funder to explore the internal reporting and evaluation structures of the ESOs with which it is considering working, which can provide a lot of insight into what those ESOs value and how they view continual self-assessment and improvement.

**Adapt & Improve**

Reporting and evaluation are only valuable when they lead to improved program management and improved outcomes for clients served. Therefore, where performance is lagging, ESOs and their funders should discuss ways of adapting the programming, and potentially the metrics associated with it, to improve performance. Except in the case of egregious or continued underperformance, these conversations should not be seen as adversarial or as leading to a “punishment” (typically decreased funding) for an ESO but should be seen as part of the process of program development and continuous improvement.

Where performance is good, ESOs and their funders should work to find ways to replicate the model.

**Conclusion**

Our philanthropic entrepreneurship support model doesn’t work. The current funding models and measures of success are plagued with issues that, while fairly easily corrected, are not openly discussed because of the lack of trust between both ESOs that should collaborate for greater impact and between ESOs and the organizations that fund them. Since women and minorities continue to turn to ESOs for most of their business support while wealthy, white males turn to professional, for-profit consultants, there is a huge gap in the quality of service different groups receive. Thus, despite multiple decades of intervention, job-creating entrepreneurship has fallen overall and disparities in outcomes between demographic groups remain.

In order to develop entrepreneurship support models that will effectively serve business owners and cause positive growth in communities, ESOs and funders must work together to find new solutions that efficiently and realistically allocate resources and that ensure the alignment of incentives between entrepreneurs, the ESOs that serve them, and the organizations that fund the ESOs. This process starts with clearly defining the goals of such support programs followed by identifying appropriate metrics to measure real business success, just as a for-profit consultant would, not economic development metrics that may or may not indicate business sustainability and/or growth. From this foundation, ESOs and their funders can work together to develop effective and resource-efficient programming that serves entrepreneurs with the quality of support needed to have an impact: the same quality provided to those who can afford to pay for it.

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**About Venture Catalyst Consulting**

Venture Catalyst Consulting (VCC) believes in honest entrepreneurship support that works. We help business owners build successful, sustainable companies and help the organizations that support those business owners develop effective programming and funding models and build thriving entrepreneurial ecosystems. VCC achieves this through honest feedback, proper incentive alignment, and long-term development support.

For more information on Venture Catalyst Consulting, please visit [www.thevccgroup.com](http://www.thevccgroup.com) or contact Cate Costa, Founder, at cate@thevccgroup.com.

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**About the Author**

Cate Costa is an entrepreneurship development professional with nearly a decade of experience working both as an entrepreneur herself and with other entrepreneurs to help them build successful businesses. She is the Founder of Venture Catalyst Consulting and runs the award-winning New Venture Mentor and Startup Nomad blogs. In addition to her work as an economic development professional serving entrepreneurs in Washington, D.C. and Chicago, she has experience in venture capital, startup consulting, and capital raising in the U.S., Latin America, and Europe.

For a complete bio, please [click here](#).
Works Cited

Works Cited - Text


Works Cited – Quote Graphics


Special thanks to Heather Hiscox of Moves the Needle for her helpful feedback on the first draft of this white paper!