Industry Case Studies

Harvard's Entrepreneurial Finance Lab

Challenge: While Small and Medium Enterprises (SMEs) are significant drivers of growth in developed economies, there remains a 'missing middle' of formal, growing businesses in developing countries. Barriers to SME financing are one clear cause of this gap. Microfinance institutions have tried to move up-market while banks and venture capitalists have tried to move down-market to fill this gap and unlock financial access to SMEs, but these efforts have had limited success.

While there are legal, regulatory, and cultural challenges to overcome, the key barrier in financial access for SMEs in emerging markets is the absence of reliable information about them and the very high costs to screen and evaluate their applications. Financing SMEs in developing economies will require entirely new tools for measuring the potential of entrepreneurs and their ideas.

Solution: The Entrepreneurial Finance Lab (EFL) at Harvard University's Center for International development has spent the last 4 years researching this problem, and they are convinced of the transformative potential of low-cost, automated psychometric screening tools to identify high-potential entrepreneurs and evaluate risk. The EFL has assembled a suite of screening tools that evaluate a wide range of important characteristics including intelligence, business skills, ethics, cognition, and personality. Given Hogan Assessments' position as a leader in personality assessment, the EFL partnered with Hogan in 2008 and is using the Hogan Personality Inventory.

Result: In close cooperation with Hogan Assessment researchers, the EFL has fielded the HPI as a key component of its battery of assessment tools within its network of 10 financial institutions across 7 countries in Africa and Latin America. This project will reveal the key personality dimensions that influence SME business success and risk of default. Results from the first completed pilot (a microfinance organization in Peru's Andean region) suggest that the HPI, in conjunction with assessments on the other determinants of repayment, are very strong predictors of loan default and outperform traditional credit scoring models. This study will be completed in mid 2010. More details can be found at www.cid.harvard.edu/efl