Challenges to Venture Growth in Emerging Economies

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ABSTRACT

In this book chapter, we explore external and internal challenges to growth along the life cycle of a new and small venture in the context of emerging economies. We start by reviewing extant empirical literature that has examined new and small business growth in emerging economies. The overview is complemented with illustrative evidence from field work and a large-scale nationally representative study on the state of small business in Saudi Arabia (n = 1126). We show that the association between external challenges and growth is stronger earlier in the life of a small venture, while the association between internal challenges and growth is stronger later in the life of a small venture. The chapter concludes by offering suggestions for future research and implications for public policy and managerial practice.

INTRODUCTION

Emerging economies are countries "with a rapid pace of economic development and government policies favouring economic liberalization and the adoption of a free market system" (Arnold and Quelch, 1998). As of 2014, they accounted for over 80% of the world's population and for over 50% of the global GDP (IMF, 2014). The establishment and growth of the private sector has greatly accelerated emerging economies' transition from overwhelmingly state-centered economies to competitive markets and has propelled the pace of their economic development. New and small businesses constitute the majority of firms operating in emerging economies, generate over 60% of GDP in countries such as Turkey, Thailand, or Vietnam and are, collectively, the largest employers in many low-income countries (Ayyagari et al., 2007; Beck & Demirgüç-Kunt, 2006).

The sizeable economic contribution of the SME sector, however, may be due to the proliferated number of individually small and limited growth private enterprises rather than the linear translation of entrepreneurial firm growth. This is because new and small players face disproportionate challenges to growth, both external and internal. External challenges to growth include the relatively underdeveloped institutions, which significantly increase the risks and costs of doing business (Djankov et al., 2002), institutional barriers to industry entry which are disproportionately high for new players (Chang & Wu, 2014), and skeptical societal attitudes towards entrepreneurship (Spencer & Gomez, 2004; Ahlstrom et al., 2008). Internal challenges stem from the ineffective organizational routines (Shane & Foo, 1999) exacerbated by the inadequate resource endowments (Aulakh et al., 2000) and lack of managerial sophistication (Lyles et al., 2004). In sum, growth continues to be an elusive target for most new and small ventures in emerging economies (Peng & Heath, 1996; Wright et al., 2005; Aidis et al., 2008; Tracey & Phillips, 2011; Batjargal et al., 2013).

In our review of the literature, we explore both the external and the internal challenges to new and small business growth, bringing in empirical evidence across different economic and institutional contexts. Next, we compare the challenges to growth early in the lifecycle of an entrepreneurial venture to the growth challenges small firms face later in their lifecycle. We theorize that external challenges are particularly detrimental early in the life of a new venture, whereas internal deficiencies stump growth at later stages of development.

To illustrate our argument, we use findings from the statistical analysis of a large scale survey of the state of small business in Saudi Arabia, commissioned in 2011 by the Saudi Ministry of Labor (n = 1126). We augment the discussion with interview data from six Saudi entrepreneurial ventures. Saudi Arabia provides an interesting context for the study, because

SMEs constitute over 96% of all firms, but account for only one third of GDP (Al-Jaseer, 2010). Encouraging SME growth, therefore, is essential not only for job creation, but also for the continued diversification of the Saudi economy.

The chapter is organized as follows. We start by presenting our theoretical argument and literature review, followed by results from the statistical analysis of our survey data, and insights from our fieldwork. We conclude by formulating five directions for future research and outlining some managerial and public policy implications.

THEORETICAL PERSPECTIVES AND OVERVIEW OF THE LITERATURE

Entrepreneurial growth

Growth is a popular measure of firm performance, and is considered by many to manifest the essence of entrepreneurship (Drucker, 1985; Covin & Slevin, 1997). Although not all small firms choose to grow (Wiklund & Shepherd, 2003; Leitch et al., 2010), it is generally agreed that some growth over time (i.e., growth in sales, employees, new products, or market share) is desirable for continued survival (Delmar et al., 2003). The decision to grow is usually the choice of the entrepreneur whose growth expectancies ultimately affect the growth of the business over time (Cliff, 1998; Wiklund & Shepherd, 2003; Cassar, 2007).

Prior research has established that the vast majority of newly established ventures around the world, across economic and institutional contexts, do not achieve substantial levels of growth (Wong et al., 2005). Growth-oriented ventures follow different trajectories (McKelvie & Wiklund, 2010), influenced by demographics such as industry, size, age, and governance (Delmar et al., 2003); "management, marketing and money" (Brush et al., 2009); the gender of the founder/manager (Cliff, 1998); the CEO's specific competencies and motivations

(Davidsson, 1991; Baum et al., 2001); the firm's competitive strategies (Baum et al., 2001), resource base (Wiklund & Shepherd, 2003), or the availability of outside resources for growth (Dobbs & Hamilton, 2007).

Entrepreneurial growth in emerging economies

The majority of new and small businesses in emerging markets have a no-growth or low-growth orientation (Peng & Heath, 1996; Wright et al., 2005; Aidis et al., 2008; Manolova et al., 2008; Tracey & Phillips, 2011; Batjargal et al., 2013; Estrin et al., 2013). In the context of the transition economies of Central and Eastern Europe, for example, Scase (1997) differentiated between "entrepreneurship" and "proprietorship" and argued that the principal component of the small business sector is composed of those whose motivation is solely to carve out niches of personal autonomy. Below, we elaborate on the external and internal challenges to new and small venture growth in emerging economies.

External challenges to growth. External challenges include high transaction costs, and inefficient factor markets, inefficient capital flows, opaque regulation, and weak property rights (Foss & Foss, 2008), all of which act as barriers to creating value and sustaining growth. Access to financial capital is perhaps the most critical impediment to entrepreneurial growth. In a study based on survey data on the business environment across 80 countries, Ayyagari et al. (2007) established that finance, crime and political instability have a direct impact on firm growth and access to finance is the most robust one among those three predictors. Similarly, Hutchinson & Xavier (2006) established that the growth of small and medium-sized enterprises (SMEs) in Slovenia is more sensitive to internal financing constraints than in a developed market economy, while Krasniqi (2007) found that inadequate financing presented a major barrier to SMEs in

Kosovo. Beck & Demirgüç-Kunt (2006), presenting an earlier analysis of the World Business Environment Survey (Beck et al., 2005), report that small firms' financing obstacles have almost twice the effect on annual growth that large firms' financing obstacles do and this difference is even stronger in the case of growth constraints related to the legal system and to corruption, where small firms suffer more than three times as much in the form of slower growth as large firms. In sum, growth financing is lacking across the majority of emerging economies, and the deficiencies in the formal institutional infrastructure exacerbate the negative effects of these liquidity constraints.

In addition to the absence of growth financing, new ventures suffer from other deficiencies in emerging economies' formal and informal institutional infrastructure. The predominantly state-centered institutions confer higher status to large businesses and government agencies, while entrepreneurship is often associated with opportunism and profiteering. In many societies, entrepreneurship is viewed as having practical appeal, but less status or visibility (Spencer & Gómez, 2004). In the former centrally-planned economies of Central and Eastern Europe, socialist ideology associated private proprietorship with parasitism, exploitation, and profiteering, leaving a lasting stigma on individuals pursuing entrepreneurial opportunities (Aidis et al., 2008). In addition, the relatively underdeveloped institutions escalate the risks and the transaction and opportunity costs of starting a business, resulting in high failure rates (Djankov et al., 2002) and low-growth orientation (Batjargal et al., 2013). The high failure rates reinforce the already skeptical social attitudes towards entrepreneurial initiatives. In sum, the liability of newness is particularly acute for new ventures in emerging economies.

Many emerging economies have undertaken institutional reforms aimed at facilitating entrepreneurial entry and small business growth. In the World Bank's 2014 Doing Business

survey, Armenia, Georgia, and the Kyrgyz Republic (former members of the Soviet Union), as well as Macedonia, FYR, all rank in the top ten countries for the ease of starting a business among the 189 economies included in the study (The World Bank, 2014). However, Armenia ranks 131st and the Kyrgyz Republic ranks 168th in the ease of getting electricity, Georgia ranks 122nd in the ease of resolving insolvency, and Macedonia, FYR, ranks 89th in dealing with construction permits. Thus the progress has not been uniform and new and small business owners still face multiple challenges and hurdles.

It should be borne in mind, therefore, that although the institutional environment is deemed overall not particularly entrepreneur-friendly across emerging economies, there is substantial variability in the underlying institutional dimensions. In a comparative study of the institutional environment for entrepreneurship across the major emerging economies, Brazil, India, China, and Russia (the so-called BRIC countries), Eunni & Manolova (2012) documented no significant differences in the perceived favorability of the regulatory environment, but significant differences in the perceived favorability of the cognitive and normative environments. Thus, broad comparisons of the institutional regimes across countries need to be taken as a first approximation only, and a more nuanced exploration and problematization of entrepreneurial context and different institutional logics is well-warranted.

Internal challenges to growth. Internal challenges to growth are equally formidable. New and small ventures in emerging markets are less resource endowed relative to their counterparts from developed market economies (Aulakh et al., 2000), and have few internally generated sources of competitive advantage that can be exploited in a growth-oriented strategy. Human capital, derived from investments in formal education, occupational experiences, and training, in particular, is a critical resource endowment which allows the entrepreneur to spend

less time seeking, gathering, or analyzing information about availability of opportunities, obtain financial resources, or develop entrepreneurial skills, and thus improve the survival and growth chances for the new venture (Cooper et al., 1994). Human capital is particularly important for new and small business in environments characterized by rapid change (Honig, 1998), such as the environments in emerging economies.

Empirical evidence supports the critical role of managerial experience and sophistication. A large-scale study on the state of small business in Saudi Arabia (Al-Hajjar & Presley, 1992), documented that the low levels of managerial sophistication and efficiency are major constraints to the development of the small business sector. As one example, almost half of the small-turnover and single-and-family ownership firms do not use strategic planning tools and techniques (Al-Ghamdi, 2005), Another study reported that SMEs face lack of workforce skills, management capabilities, and effective legal and regulatory procedures (Merdah & Sadi,2011).

In the context of the formally centrally-planned economies of Central and Eastern Europe, entrepreneurs are often educationally well qualified and have some management experience, but have no prior entrepreneurial experience in a market context (Lyles et al., 2004; Wright et al., 2005; Smallbone & Welter, 2006). Some scholars have even directly questioned the relevance of education and experience gained under the socialist system in a market environment (Lyles & Baird, 1994). Focusing on entrepreneurial cognition in China, Lau & Busenitz (2001) demonstrated how perceived difficulties in sales and labor thwart growth intentions, while difficulties in procuring operational facilities and borrowing are positively related to growth intentions (a more detailed review of the challenges faced by entrepreneurs in transitional economies is presented by Manev & Manolova, 2010).

External and internal challenges along the venture lifecycle

Stage models (Greiner, 1972; Churchill & Lewis, 1983; Scott & Bruce, 1987) conceptualize small business growth as a series of stages, each with its own distinctive characteristics. For example, Churchill & Lewis (1983) modeled the stages of small business growth as existence, survival, success, take-off, and resource maturity. Stage models have been criticized for focusing too heavily on internal processes (Aldrich, 1999), for lack of agreement on key constructs and for lack of empirical confirmation (Levie & Lichtenstein, 2010). Still, there is consensus that new ventures go through a turbulent and chaotic period of initial organizing, during which they are particularly prone to failure (Stinchcombe, 1965; Aldrich, 1999; Eisenhardt & Schoonhoven, 1990; Zimmerman & Zeitz, 2002), a period that roughly maps out to what Churchill & Lewis (1983) identify as the "existence" and "survival" stages of small business growth. During the "existence" and "survival" stages, the primary concern of the entrepreneur is to secure the viability of the new entity. For those new ventures that survive the perilous early years of their existence and reach what Churchill and Lewis (1983) call the "success" stage, the key decision becomes whether to exploit the company's accomplishments for expansion, or keep the company stable and profitable.

Challenges to growth at the "existence" and "survival" stages. A key problem for organizations at the "existence" and "survival" stages is the liability of newness (Stinchcombe, 1965), which stems from the difficulties of initial organizing. These difficulties include the need to learn new roles as social actors, the dependence on the cooperation of strangers, the low levels of legitimacy, and the inability to compete effectively against established organizations (Stinchcombe, 1965; Freeman et al., 1983; Singh et al., 1986). Hannan and Freeman (1984) identified the predominantly internal control-oriented challenge as lack of "reliability," and the

predominantly external legitimacy-oriented challenge as lack of "accountability". For new ventures, survival and growth are inextricably intertwined (Carroll, 1984; Buederal et al., 1992; Gilbert at al., 2006). For example, a study by Phillips & Kirchoff (1989) found that young growing firms were twice as likely to survive compared to those who were not growing.

Early in the life of a new venture, external challenges are particularly threatening. If key social constituencies are reluctant to recognize the new organization's right to exist or are unwilling to accept its outputs, its viability and growth prospects will be seriously jeopardized (Ahlstrom et al., 2008). Attaining legitimacy, or a social license to operate, is a critical precursor for gaining resources needed for new venture growth (Zimmerman & Zeitz, 2002; Delmar & Shane, 2004).

Challenges to growth at the "success" stage. As new ventures mature, and move into the "success" stage of small business growth, they need to establish a cost-effective and efficient way of operating so they can compete successfully against established organizations. They also need to marshal resources for growth and to create administrative structures and processes that direct and monitor the organization's activities. In the process, growth-oriented ventures often engage in costly experimentation under conditions of significant resource constraints (Choi & Shepherd, 2005). Thus, internal challenges to growth become critical.

In the following section, we illustrate the temporal dynamics of the challenges to new and small business growth using empirical evidence from the SME sector in Saudi Arabia.

CHALLENGES TO NEW AND SMALL BUSINESS GROWTH: ILLUSTRATIVE EVIDENCE FROM SAUDI ARABIA

The country context

Saudi Arabia has a factor-driven economy with strong government controls over major economic activities. The petroleum sector contributes 80% of the budget revenues, 45% of GDP, and 90% of the export earnings (The World Factbook, 2014). While small and medium-sized enterprises with fewer than 60 employees constituted 96.2% of all enterprises in Saudi Arabia as of 2009, they contributed only about 33% to the country's GDP (Al-Jasser, 2010). This modest contribution can be attributed to the immensity of the oil and the public sectors. Indeed, SMEs in Saudi Arabia are predominantly concentrated in commerce (34.3%), construction (32.3%), with only about one-sixth (14.6%) operating in the manufacturing sector.

Sources of data

Data for the study came from a nationally representative large-scale survey on the state of small business in Saudi Arabia, commissioned in 2011 by the Saudi Ministry of Trade. The study covered six cities that collectively account for 84% of all registered firms in Saudi Arabia (81% response rate). The survey respondents were all Saudi nationals, firm owners, and all male. The firms were small, with fewer than 10 employees on average, and about two-thirds of them (63.44%) operated in the trade sector. Firms in manufacturing, services, and real estate accounted for around 12% in each sector, whereas firms in agriculture comprised only 4.23% of the sample. Missing data in some of the categories led to a usable sample size of n = 1126 (92%), for which we report the results from statistical testing.

To garner deeper insights into the phenomena of interest to the study and contextualize its findings, we supplemented the quantitative analysis with qualitative data from six interviews with Saudi entrepreneurs. The interviews were conducted in January-February of 2014 in Riyadh with small firm owners who were also full-time managers of their firms. The firms were between three and ten-years old and represented a diverse array of industries, such as manufacturing, construction, and services.

Survey data analysis

Our dependent variable, *growth*, was measured as the percentage increase in full-time employees between the start of the firm and the time of the survey (Gilbert at al., 2006). *Internal challenges* were measured using six five-item Likert-type scaled questions (completely disagree to completely agree with a defined neutral point), loading on a single factor (coefficient Alpha = 0.818). *External challenges* were also measured using six five-item Likert-type scaled questions, loading on a single factor (coefficient Alpha = 0.724). Table 1 reports the composition of the two multi-item scales and the results from the factor analysis. To account for the effects of *venture age*, we followed the definition of an entrepreneurial venture as a venture less than 8 years old (Zahra 1996; Wang & Bansal, 2012), and split our sample into two groups: ventures younger than 8 years (n=808, or 66% of the sample) and ventures 8 years of age or older (n=414, or 34% of the sample). Ventures younger than 8 years can be assumed to be going through the "existence" and "survival" stages of their life course, whereas ventures older than 8 years of age can be assumed to have survived the perilous years of initial existence and to be setting up for either rapid or measured growth. *Control variables* include industry sector (manufacturing, services, agriculture, and real estate against the baseline of trade, the most populous industry

sector; entrepreneur characteristics (self-reported age and level of education, on a 6-point ordinal scale), and the venture's size (sales revenues, on a 5-point ordinal scale), level of initial capitalization (on a 8-point ordinal scale), availability of outside financial support (binary), and diversity of the business network (a count of the venture's inter-firm partnerships with large companies). The results from the statistical testing are presented in Table 2.

Consistent with our predictions, we found that both internal and external challenges were negatively associated with employee growth. The coefficient for external challenges was significant in Model 2, whereas the coefficient for internal challenges was significant in the fully subscribed Model 3. In the fully subscribed model (Model 3), the relationship between internal challenges and business growth was stronger for more established ventures (those older than 8 years), while the relationship between external challenges and business growth was stronger for new ventures.

Among other variables, owner age and education, as well as the age of the venture, the level of its initial capitalization, and the diversity of the business network were all positively and significantly associated with the increase in the number of employees. Firms in the manufacturing sector had a significantly higher growth in employees compared to the baseline sector, trade. Surprisingly, the sales level was negatively associated with the increase in the number of employees.

As mentioned in our literature review, prior research has established a "no growth" or "low growth" orientation among new and small ventures in emerging economies. To address this issue, we further explored the size and growth patterns of the firms in our sample. We found that the average employee growth rate was 66%, with a range from -94% to 900%. At the same time, the average employee count at the time of founding was 4.91 employees, rising to 7.65

employees at the time of the survey. In other words, the firms in our sample had registered substantial growth, but from a very low base, and continued to operate as micro-enterprises.

Insights from fieldwork

The statistical results were further enriched by the insights from our fieldwork. Three of the companies we conducted interviews in were eight years or older and three of the companies were younger than 8 years of age. Our respondents identified numerous problems they encountered both at the time of founding and at the time of the interview. Recurring external problems included the "cumbersome", "slow", "constantly changing", and "difficult to follow" government procedures, particularly with respect to hiring <expatriate> employees, access to financing, access to appropriate business locations, as well as problems with licensing. Internal problems included difficulties in marketing, managing cash flow and product quality, as well as in "finding good employees". As the summary of interview data (Table 3) illustrates, and consistent with our expectations, external problems prevailed during the founding stage of the companies. While our respondents continued to struggle with hard-to-follow government regulations, some of the more established ventures (i.e. beyond the "existence" and "survival" stages of development) also reported problems with marketing and management. Thus, our interview data offered specific examples of the kinds of external and internal challenges new and small ventures in Saudi Arabia grapple with.

THEORETICAL IMPLICATIONS AND DIRECTIONS FOR FUTURE RESEARCH

The review of the extant literature on the growth of new and small ventures in the emerging economy context, complemented with empirical evidence from both a large scale survey and interview data, leads us to the formulation of several directions for future research. They are outlined below.

Growth opportunities versus challenges to growth

We note that research on entrepreneurial growth in the context of developed market economies has focused on the *drivers* of growth (for recent comprehensive reviews of the new venture and small business growth literature, see Gilbert et al., 2006 and Dobbs & Hamilton, 2007), whereas research on entrepreneurial growth in emerging economies (this study included) has focused on the *barriers* to growth (Ayyagari et al., 2007; Peng & Heath, 1996; Wright et al., 2005; Aidis et al., 2008; Tracey & Phillips, 2011; Batjargal et al., 2013). There is a sizeable corpus of work accumulated in both literature streams. The theoretical insights and cumulative empirical evidence present interesting opportunities for cross-fertilization of ideas and future cross-national studies of the phenomenon of entrepreneurial growth.

Universal versus context-specific challenges to growth

The granularity of the interview data allowed us to differentiate among (1) challenges to growth that may be common to all new and small ventures worldwide, (2) challenges that are germane to the institutional environment in emerging economies, and (3) challenges that are unique to new and small ventures in Saudi Arabia (and potentially other oil-dependent Gulf economies). An example of the first type of problem is the <lack of> access to appropriate locations, a classic

barrier to new entry (Djankov et al., 2002). Cumbersome and inconsistent government regulation coupled with slow government services and inefficient capital markets are germane to emerging markets' institutional environments and have a disproportionately harmful effect on new and small players (Djankov et al., 2002; Ayyagari et al., 2007). Examples of issues unique to the Saudi (and possibly other Gulf countries) include expatriate employee quotas, licensing, immigration status, and "passport procedures". It is worth noting that according to the World Bank's "Ease of Doing Business" 2014 report (World Bank, 2014) Saudi Arabia ranks 26th in the overall ease of doing business, but 84th in the ease of starting a business (out of the 189 economies included in the report). The comparison of the relative importance of "universal", "emerging market-specific", and "location-specific" challenges to entrepreneurial growth will be a fruitful extension of our work.

Size growth versus profitability growth

As reported in the *Survey data analysis* section, the sales level of the SMEs in our sample was negatively associated with the increase in the number of employees, suggesting that at least some of the new and small ventures might have pursued intensive growth driven by higher efficiencies and productivity, rather than extensive growth driven by an increase in employee count. Unfortunately, our survey did not contain data on growth indicators other than employee counts. Ideally, we would have liked to explore multiple dimensions of firm growth, but were hampered by data availability. We call on future research to further explore the temporal dynamics of the different aspects of entrepreneurial growth.

Formal sector versus informal sector growth

The informal sector accounts for a sizeable portion of economic activities in emerging economies (Webb et al., 2009; Godfrey, 2011). In certain areas, such as the Middle East and North Africa (MENA) region, many women-owned businesses are informal and home-based (Alturki & Braswell, 2010). Future research, therefore, should explore the growth paths in the emerging markets' informal sector and the differences in the growth strategies of men-led versus women-led businesses.

Growth through market interactions versus growth through social networking

Entrepreneurial social capital, or personal connections, are extremely important for competitive success in the context of emerging economies (Peng et al., 2008; Batjargal, 2013). Personal connections, known as "*wasta*" in Arabic, form to a large extent the cultural matrix for business and management in Arab societies (Weir & Hutchings, 2005). Peng (2004) demonstrated that kinship networks in China facilitate the growth of private ventures (but not collectively owned enterprises). Also in China, both Zhao & Aram (1995) and Tan (2006) reported that managers in high growth entrepreneurial ventures had greater range and intensity of business networking than their counterparts in low-growth firms. Recent theorizing and empirical evidence, however, has suggested that with the progress of pro-market reforms, network-based growth strategies may gradually wane in importance or morph in structure (Peng & Zhou, 2005; Danis, Chiaburu, & Lyles, 2010; Danis, De Clercq, & Petricevic, 2011). We call on future research to further explore the role of personal connections as precursors and facilitators of new venture growth in the context of emerging markets.

MANAGERIAL AND PUBLIC POLICY IMPLICATIONS

Our study has important managerial implications. For practicing business managers in emerging economies, our findings strongly suggest that lack of managerial sophistication, inadequate managerial skills, and inefficient management are likely to stump business development even if the new venture survives the turbulent years of its initial existence; whereas the education of the owner, on the other hand, has a direct positive effect on employee growth. Our study also suggests that simplifying regulations and alleviating some of the government procedures will facilitate the growth and enhance the economic contribution of the small business sector in emerging economies.

Taken together, our findings indicate that to better understand the effects of the liabilities of newness and smallness in emerging economies, we need to disentangle their sources. Thus, our study contributes to the academic conversations on the multi-faceted nature of the "liability of newness" and the temporal dynamics of entrepreneurial growth. To practicing managers and public policy makers, our study strongly suggests that better managerial training, coupled with business-friendly institutions and administrative practices, will enhance the growth potential of new and small ventures in emerging economies.

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TABLE 1
FACTOR ANALYSIS

Internal Challenges		**External Challenges**	
Item	Loading	Item	Loading
Inefficient management	0.68	Difficult procedures	0.69
Weak skills and abilities of the owner	0.74	No intellectual protection law	0.63
Owner does not work full-time in venture	0.72	High labor turnover	0.71
The owner has no experience	0.73	Negative attitude towards business	0.67
Weak managerial skills of the owner	0.76	Lack of market information	0.56
Absence of technical knowledge	0.71	Unclear roles for sponsors/suppliers	0.62
Number of factors extracted	1		1
Eigen-value	3.15		2.525
Cumulative variance explained	52.45%		42.09%
Reliability (Coefficient Alpha)	0.82		0.72

TABLE 2
OLS REGRESSION ESTIMATES ON PREDICTORS OF NEW VENTURE GROWTH (n = 1126)

Variable	Model 1		Model 2		Model 3	
	Coefficient	**S.E.**	**Coefficient**	**S.E.**	**Coefficient**	**S.E.**
Controls						
Manufacturing	**0.22†**	0.13	**0.23†**	0.13	**0.25†**	0.13
Services	-0.11	0.07	-0.09	0.07	-0.08	0.07
Agriculture	-0.15	0.14	-0.16	0.13	-0.16	0.13
Real estate	0.15	0.10	0.16	0.10	0.17	0.10
Owner age	**0.01†**	0.01	0.01	0.01	0.01	0.01
Owner education	**0.05***	0.02	**0.05***	0.02	**0.04***	0.02
New venture capital	**0.09*****	0.02	**0.09*****	0.02	**0.08*****	0.02
New venture sales	**-0.06***	0.03	**-0.06***	0.03	**-0.06***	0.03
New venture finance	0.09	0.07	0.09	0.07	0.09	0.07
New venture business network	**0.05***	0.02	**0.05***	0.02	**0.05***	0.02
New venture age	**0.12***	0.06	**0.12***	0.06	0.25	0.28
Independent Variables						
Internal challenges			-0.01	0.04	**-0.08†**	0.05
External challenges			**-0.09***	0.04	-0.02	0.05
Interactions						
Age * Internal challenges					**0.16***	0.08
Age * External challenges					**-0.19***	0.07
Regression Function						
F(d.f.)	**5.846(11)*****		**5.510(13)*****		**5.336(15)*****	
Adjusted R^2	0.05		0.05		0.06	

† significant at p<.1, * significant at p<.05, ** significant at p<.01, *** significant at p<.001

TABLE 3

INTERVIEW DATA: RESPONDENT PROFILES AND MAJOR THEMES

N	Line of business, Year established	Number of employees		Major problems at founding	Major problems currently
		At founding	Currently		
1	Animal fodder factory, 2005	4	9	Government procedures, quality	Marketing, access to quality raw materials
2	Construction, 2003	20	25	Government procedures, hiring employees	Failure of following legislations
3	Shipment and logistics, 2006	2	7	Finding a suitable company location, government procedures	Slow government services, slow passport procedures (for expatriate employees)
4	Coffee shop, 2009	2	3	Labor ministry regulations	Changing regulations every year
5	Project management and consulting, 2010	4	8	Capital financing, high office rents, high salaries for specialist consultants	Cash flow
6	DNA lab, 2008	1	3	Financing	Finding good employees, licenses