GROWING PAINS: EXTERNAL AND INTERNAL CHALLENGES AND NEW VENTURE GROWTH IN EMERGING ECONOMIES (SUMMARY)

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Principal Topic

We take a “liability of newness” perspective (Stinchcombe, 1965) to explore the effects of external threats and internal deficiencies on entrepreneurial ventures’ growth in emerging economies. Our baseline expectations are that both (H1a) External challenges and (H1b) Internal challenges will be negatively associated with new venture growth. However, we argue that their relative importance will change along entrepreneurial ventures’ early histories, such that: (H2a) The association between external challenges and new venture growth will be stronger earlier in the life of the new venture, while (H2b) The association between internal challenges and new venture growth will be stronger later in the life of the new venture.

Method

To test our hypotheses, we use data from a nationally representative large scale survey of the state of small business in Saudi Arabia, commissioned in 2011 by the Saudi Ministry of Labor (n = 1222). Growth is measured as the percentage increase in full-time employees between the start of the firm and the time of the survey. Internal challenges are 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 are also measured using six five-item Likert-type scaled questions, loading on a single factor (coefficient Alpha = 0.724). The hypotheses are tested using hierarchical OLS regression specifications, controlling for industry, new venture, and entrepreneur effects.

Results and Implications

We find that both internal and external challenges are negatively associated with growth. The relationship between internal challenges and business growth is stronger for more established entrepreneurial ventures, while the relationship between external challenges and business growth is stronger for new ventures. Taken together, our findings indicate that to better understand the effects of the liability of newness in emerging economies, we need to disentangle its sources, and track its temporal dynamics. Our study contributes to the conversation on the multi-faceted nature of the “liability of newness” concept (Choi and Shepherd, 2005; Lohrke et al., 2009), using fresh empirical evidence from a relatively less well-researched context.

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