



# **Challenges in Developing New Small Businesses: Evidence from Ethiopia**

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**June, 2020**

**Addis Ababa, Ethiopia**



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**A dissertation**

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Fulfillment of Doctor of Philosophy in Management**

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**June, 2020**

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**In memory of my dear mother Workishe Tato who passed away  
before the Dissertation was completed.**

## ***Acknowledgments***

While writing these acknowledgments all the emotions I experienced during this have come back to me. The journey was full of excitement, joy, and sadness. There were repeated shifts in my feelings of being an achiever and a loser. When I achieved a milestone during the journey, I was excited but that feeling did not last long. The feeling of being no one popped up as the process crashed or work stacked up. I experienced a feeling of being lost in the ‘middle of the ocean’ too. It would not have been possible to overcome the challenges without the support of many people.

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**Demeke Chimdessa Gutu**

## *Abstract*

This dissertation discusses the challenges that effect the development of new businesses in a developing economy. The study focuses on challenges related to the different phases in a new business' development in a developing economy including product development, resourcing a new business, and market development. Through case studies of seven new businesses, I make sense of the process of developing a new business in Ethiopia. My findings stress that a new small business uses government support provided by the SMEs Development Agency to overcome the challenges. This support effects the process of developing a new business in different ways. It helps a new business overcome its lack of resources in its start-up phase. Most new businesses start operations with no or limited resources. They also face challenges in connecting with customers and other relevant stakeholders. The government's support helps the new businesses to overcome challenges related to the "liabilities of newness and smallness". A new business with low or no resources, aligns its choice of product ideas with the government's priorities. The founders search for a product from among the government's priority areas that matches their experience. The process of developing a product in a new business with government support starts with the founder (s)' limited initial knowledge. The government's support enhances this search by encouraging the founders of new businesses to take risks and try their products with customers. Additional knowledge is acquired through interactions with stakeholders as the new business' development unfolds. In addition, the government provides the business with training on how to develop its product. Suppliers and customers contribute to the founders' knowledge. As a new business aligns more with government policies, it gets more resources, earns more legitimacy, and establishes market connections faster. A new business formed under the SMEs development policy's directives has the possibility of achieving early market connections. The government facilitates connections between a new business and its potential customers. However, a reliance on government support has negative effects as well. When the support stops, the new business has to deal with the challenges of finding new customers. As a result, a new business faces major problems in generating enough revenue to cover its costs, facing the *liability of early market scaffolding*. The findings of my dissertation have implications for both the founder(s) of new businesses and the SMEs development policy. This dissertation contributes to broadening the understanding of the founders of new businesses when they take decisions and undertake activities as the new business' development process unfolds. The findings of this dissertation will also help policymakers to take informed decisions on the contents of the SMEs support package.

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# 1. Introduction

*The purpose of the dissertation is understanding the challenges that effect the development of new businesses in a developing economy. This introductory chapter sets the context of the study by presenting a case of a metalwork business and a literature review and its discussion. The introductory chapter also gives the purpose of the dissertation, the research questions it poses and finds answers to, and provides the structure of the study.*

## 1.1. Setting the stage

The following is a case of a new metalwork business operating in Ethiopia. This sets the stage for this dissertation by illustrating the research problem that it addresses.

*Metalwork was established by entrepreneur Mohammed with an initial capital of 700 Birr in 1996. He used this money for buying a small welding machine. Before starting his business, Mohammed had work experience in different jobs. When he was a teenager, Mohammed worked as an assistant to a taxi driver. When he turned 18, he joined a training center and got a driving license. After working as a taxi driver, he was employed as a salesperson in an importing company in Ethiopia. The company imported cereal milling machines from Turkish manufacturers. The importing company copied the specifications of the milling machines produced in Japan and Italy and ordered the same products from a Turkish company. The Turkish company delivered these machines at much lower prices.*

*This experience inspired Mohammed to start his own business. Though he did not have the financial resources, he wanted to imitate imported products and produce them locally at a low cost. He took his time thinking about his idea. Mohammed faced his first challenge even before starting his business as he had no money for starting the business. When he discussed the business idea with his parents, his father promised him some seed money. He provided Mohammed the initial capital of 700 Birr collected through a loan from friends. His father also allowed him to use a residential place for his business and Mohammed bought a welding machine.*

*Mohammed faced additional challenges till 2004. For instance, there wasn't a large enough market for locally made cereal milling machines. Consequently, he did not manage to sell many machines as sales were infrequent leading to irregular earnings. In addition, Mohammed was addicted to alcohol and he spent a lot of money on it. His addiction hindered the business' expansion. Moreover, residents around his workplace complained about the noise that the welding*

*activities made. Once Mohammed had collected some capital by selling his machines, he rented a workplace but he faced the same problems. The owners of this workplace repeatedly complained about noise from the welding activities. As a result, he had to change his workplace several times. He was also attacked by the proprietor of the place once with a knife complaining about the sound pollution that his business was generating.*

*Further, Mohammed had to overcome a pressing shortage of funds and deal with fluctuating market demand. He got a loan from his friends and an advance payment from his customers and purchased raw material on credit to overcome his financial problems. He recalled a time when a customer ordered a milling machine with special features. He produced the machine with money borrowed from six friends. Unfortunately, the customer refused to buy the product. It was a depressing moment. Mohammed recalled, "I cried like a kid then." Luckily, he managed to sell the product to another customer. He added that the religious education that he had received and his father's moral support helped him deal with the challenges that he faced.*

*In 2004, Mohammed registered his business as a micro-enterprise at the Addis Ababa city administration's SMEs' development bureau with a total capital of 5,000 Birr. The bureau gave him a place to work at a rent of 92 Birr per month. A similar workplace would have otherwise cost him about 6,000 Birr per month. "That was great support!" he said. His business continued producing milling machines that could act as substitutes for expensive imported machines. Mohammed imported engines from China and made the rest of the machines using locally available metals.*

*Within two years' time, his business made remarkable progress. In 2006, its capital was about 35,000 Birr, which enabled Mohammed to classify his business as a small-scale enterprise. In the same year, he bought a pickup car to serve two purposes. It transported goods for the business and Mohammed also used it for generating some money by giving it out to others. In 2011, the business registered a capital of 1.5 million Birr and became a middle-level enterprise. In the same year, Mohammed leased some land for constructing a factory.*

*In addition, as a part of its policy for small businesses, the Ethiopian government helped the business get a loan from the Development Bank of Ethiopia. Mohammed got a 3 million Birr loan*

*to procure machines on lease. Since the loan required collateral, his brother let Mohammed use his cars as collateral for the loan.*

*Currently, the overall capital of the business is about 2 million Birr, not including the value of the land. Further, Mohammed's business is also engaged in the construction of the factory. About a million Birr has been invested so far, which amounts to 30 percent of the cost of construction. However, the business is operating with old machines and thus has to out-source welding activities to others.*

Metalwork's journey was full of hurdles. Developing this new small business meant many challenges including scarcity of financial resources and hostility from the community around the workplace. In addition, there was turmoil in the product market. However, with support from the government, family members, friends, and acquaintances Mohammed could help his new business overcome these challenges.

In particular, this case vignette provides an illustration of the process of new business development in a developing economy such as Ethiopia, and calls for a better understanding of the relationship between government policies, entrepreneurial actions, and specific social relations; this is needed for overcoming the challenges that new small businesses face.

## 1.2. Prior research on new small businesses' development

This section is divided into two sub-sections. The first sub-section reviews scholarly works on the process of developing new small businesses in general. The second sub-section reviews extant literature on new small business development in developing economies. Newness and smallness are two main features of a business at beginning of its life, Thus, challenges related to newness and/or smallness of a business need to be studied (Bruderl & Schussler, 1990). Hanks, Watson, Jansen, and Chandler (1994) reviewed stage models and combined the stages of the selected stage models into five stages: start-up, expansion, maturity, diversification, and decline. They characterize firms in the first three stages in young businesses (Hanks et al., 1994).

### 1.2.1. The process of developing a new small business

Developing a business involves a progression (Van de Ven & Poole, 1995) with a series of internal changes (Penrose, 1959) and activities for advancing the product, technologies, and relationships

with stakeholders (Kind & zu Knyphausen-Aufseß, 2007). Gartner (1985, 1988) criticized existing entrepreneurial studies as they targeted entrepreneurs' personal qualities and advocated that the focus of entrepreneurship studies should be on the activities undertaken for creating a new business. Low and MacMillan (1988, p.141) extended this view, and defined entrepreneurship as the "creation of new enterprise". Similarly, some scholarly work classified a new business as a set of activities (Arenius, Engel & Klyver, 2017; Brush, Greene & Hart, 2001; Carter, Gartner & Reynolds, 1996; Davidsson & Gordon, 2012; Delmar & Shane, 2002, 2003; Reynolds, 2000; Reynolds & Miller, 1992; Wiklund & Shepherd, 2005; Shane, & Venkataraman, 2000). Some scholars also view the development of a new business as a learning process (for example, Davidsson, & Gordon, 2012; Miner, Bassoff & Moorman, 2001; Pentland & Feldman, 2005; Prashantham & Floyd, 2012) with little or no initial knowledge (Stinchcombe, 1965), under the bounded rationality (March, 1978) of the founders and uncertain situations (March & Olsen, 75), and little or no possibility of imitating available knowledge in the industry (Aldrich & Ruef, 2006).

In addition, developing a new business is also seen as complex and dynamic decision making (Alvarez & Barney, 2005; Baker, Miner & Eesley, 2003; Baker & Nelson, 2005; Delmar & Shane, 2003; McMullen & Shepherd, 2006; Sarasvathy, 2001).

The process of developing a new business starts with questions like who the entrepreneur is, what the entrepreneur knows, and who the entrepreneur knows (Sarasvathy, 2008). One line of inquiry which focuses on the initial conditions that influence the process of developing a new business maintains that this is influenced by initial conditions (for example, Arenius Engel, & Klyver, 2017). The founder(s)' initial motivations, aspirations, and purpose effect the new business' development (Venkataraman, Sarasvathy, Dew, & Forster, 2012). Specific conditions like founder's prior entrepreneurial and industry experience, social connections, trust, goodwill, and financial resources have differential effects as the new business development unfolds (Bruderl, Preisendorfer & Ziegler, 1992; Cooper, Gimeno-Gascon & Woo 1994; Davidsson & Honig, 2003; Delmar & Wiklund, 2008; Rotefoss & Kolvereid, 2005; Fichman & Levinthal, 1991). Some studies argue that these initial conditions help overcome the early stage 'liability of newness' (Stinchcombe, 1965). Stinchcombe conceptualized the liability of newness to show the problems of establishing connections with external stakeholders, building social relations among members of the business, and learning new roles for the business. These initial conditions support the new

business for some time which is called the 'honeymoon period', even when the business is not performing well (Fichman & Levinthal, 1991).

Another line of inquiry focuses on some distinct stages of development (Greiner, 1972; Lewis & Churchill, 1983; Kazanjian, 1988; Scott & Bruce, 1987; Steinmetz, 1969). Research emphasizes various stages including the critical stages in a small business' growth (Steinmetz, 1969). These include five stages of a small business' growth (Lewis & Churchill, 1983; Scott & Bruce, 1987), and five evolving managerial practices as a young and small organization grows (Greiner, 1972). These stages focus on dimensions constituting a stage of development (Hanks, Watson, Jansen & Chandler, 1993), and dominant problems in between stages and the activities undertaken to overcome them (Greiner, 1972; Kazanjian, 1988; Lewis & Churchill, 1983; Steinmetz, 1969). Several stage models use a biological analogy for explaining firms' growth by focusing on problems and solutions through internal transformation (Levie & Lichtenstein, 2010). For example, different management styles are used for overcoming crises related to leadership, control, and coordination (Greiner, 1972). However, this line of argument emphasizes less on the role of the external environment that influences stage transitions and instead emphasizes on a predetermined number and order of stages in the development of an organization (Aldrich & Ruef, 2006; Levie & Lichtenstein, 2010).

Another stream of research has emerged which disregards previous assumptions of progressive stages in a business' development and recognizes the importance and influence of the context in a firm's development process (Aldrich & Ruef, 2006; Katz & Gartner, 1988; Levie & Lichtenstein, 2010). For example, Levie and Lichtenstein (2010) question the validity of the stage models that focus only on internal problems and give an alternative explanation for a new business' development by incorporating the role that the external environment plays in this. They recognize how the management's decisions, actions, and activities match the internal situation in a new business with external stakeholders' demands.

Inspired by complexity science, Levie and Lichtenstein (2010, p. 333) conceptualize a dynamic state as "network of beliefs, relationships, systems, and structures" to create value matching demand of external stakeholders. A firm modifies part of the state, reconfigures its elements or develops a new dynamic state, depending on the pace of change in the external environment. Katz and Gartner (1988) and Aldrich and Ruef (2006) view a new business' development as the

construction of intentionality for achieving explicit purposes, assembling resources, creating boundaries, developing activity systems, and indulging in an exchange with the external environment.

Business development is related to all activities intended to "creating value and revenue potentials for the company, developing products and technologies so that they can be commercialized, building and maintaining and enhancing relationships with potential partners, customers and other stakeholders" (Kind & zu Knyphausen-Aufseß, 2007, p. 185). Business development is a good starting point for further studies (Aldrich & Ruef, 2006; Arenius, Engel & Klyver, 2017; Katz & Gartner, 1988). Thus, Aldrich and Ruef (2006); Katz and Gartner (1988); Kind and zu Knyphausen-Aufseß (2007) and Levie and Lichtenstein (2010) streamline the issues involved in a study of the challenges and remedial activities of a new business' development into developing products, building internal activity systems, assembling resources, and maintaining relationships with the external environment for resources and markets.

While existing research lists the important initial conditions, the process of developing a new business remains open to further investigations (Arenius, Engel & Klyver, 2017; Dimov, 2010; Venkataraman, Sarasvathy, Dew & Forster, 2012). According to Achtenhagen, Ekberg, and Melander (2017) and Davidsson, Achtenhagen, and Naldi (2010) there are very few studies on the actions, decisions, and activities undertaken for overcoming challenges as the development of a new business unfolds. Scholars also call for studies to focus on new business development in the context of developing economies (Austin, 2002; Carter, Gartner & Reynolds 1996; Zoogah, Peng & Woldu, 2015). This is important because firms' behavior and the outcome of their behavior differs depending on a number of factors including the context in which they operate (Welter, 2011).

Welter (2011) and Zahra (2007) also argue that theories are context sensitive, where a theory explaining a phenomenon in a particular context may not be able to explain the same phenomenon in a different context. Accordingly, developing countries are different from developed countries in formal and informal institutions, physical infrastructure, social networking, and business environment (Hashi & Krasniqi, 2011; Welter, 2011; Zahra, Wright, & Abdelgawad, 2014). Thus, existing studies focus on identifying the critical challenges that new businesses face in developing

economies which are connected to: 1) new product development, 2) accessing critical resources, and 3) market development and remedial activities.

### 1.2.2. New small business development in developing economies

Extant literature on the development of new businesses in a developing economy focus on antecedents influencing the variations in their growth rates (Bekele & Worku, 2008; Bigsten & Gebreeyesus, 2007; Naude, Gries, Wood & Meintjies, 2008; Nichter & Goldmark, 2009; Singh & Belwal, 2008). Institutional situations and availability of resources are major challenges that influence the effectiveness of firms in Africa like level of sales and profitability (Meyer & Peng, 2016; Zoogah, Peng & Woldu, 2015). Variations in the growth of small businesses according to their geographical context is also associated with firm related factors. Such factors include the level of formality and links to the value chain (Nichter & Goldmark, 2009) and the extent of access to formal bank finance (Naude, Gries, Wood, & Meintjies, 2008). In particular, the lack of formal registration of a business is negatively related to its growth (Nichter & Goldmark, 2009).

Informality makes a firm limit its size to avoid the risk of visibility thus attracting legal enforcements (Snodgrass & Biggs, 1996). However, this also restricts firms from accessing formal support which consequently limits their growth (Walther & Filipiak, 2007). Further, informal firms lack easy access to organized markets, financial institutions, and formal education and training institutions (Enquobahrie, 2003). Using a study of cross-national variations among 38 emerging economies, Williams (2014) highlights that the prevalence of informal business activities is associated with the level of GNP per capita, tax rates, level of social contributions, and poverty rates.

### 1.3. Business informality and government interventions in developing economies

Businesses which are not legally registered and/or do not pay taxes “represent one common form of firm activity that falls within the boundaries of the informal economy”; these firms “make up the informal economy and represent 40-60 percent of the GDP” in developing economies (De Castro, Khavul & Bruton, 2014, p. 75). The level of formality of a business is a critical factor that influences small business development in developing countries. Informal businesses (Godfrey, 2011; Hart, 2006; ILO, 2000) operate outside the administrative, legal, and economic structures in a country (Bissrat, 1993) but produce legal products for sale (Hart, 2006). This is conceptually different from illegal activities-forbidden by law, or carried out by unauthorized producers and

underground activities-legal when performed in compliance with regulations but are deliberately concealed from public authorities (Saha, Kar & Baskaran, 2004). However, the process of developing an informal business involves interactions with external stakeholders and/ or intra-firm relationships, which are governed by norms, values, customs, and personal ties (Godfrey, 2011). It is assumed that informal activities are embedded in local communities where social norms, values, and customs instrumentally determine how a business develops its products, how it hires labor, and accesses potential sources of capital (Banfield, 1958; Chen, & Lin, 2004; Godfrey, 2011; Putnam, 2000; Venkatesh, 2006). In many developing countries, a heavy burden of taxes, bribes, and bureaucratic problems force firms to work in the informal zone (Azuma & Grossman, 2002). Thus, whether a firm develops a business as a formal or an informal economic activity, the business is influenced by regulatory frameworks, economic cost-benefits analyses, and value driven criteria like beliefs, norms, and customs (Godfrey, 2011; Zoogah, Peng & Woldu, 2015).

Nevertheless, businesses in developing economies eventually become formal entities either through institutional enforcement or voluntarily as their development processes advance. This also implies that an important challenge for new businesses is considering institutional incentives, opportunity costs of not making the businesses formal entities, and the costs of making the entities formal businesses like application processing, taxes, and cost of compliance with laws (Nelson & De Bruijn, 2005). When the costs of formalization are not very clear, firms may formalize their operations but they use coping strategies like avoiding making necessary investments, withholding or falsifying information given to the authorities, and making informal arrangements with government officials to evade formal obligations (Nelson & De Bruijn, 2005, p. 589). Extant literature on firms' formality focuses on the determinants, costs, and benefits of formal and informal business activities (Acquaah, 2007; Bolton & Dewatripont, 2005; DeSoto, 2000; Godfrey & Dyer, 2011). However, how formal and informal business activities substitute and complement each other as a new firm's development unfolds is not clear (Godfrey, 2011). In addition, how the government supports and encourages formal business activities and the choice between firms having formal or informal status needs further study (Azuma & Grossman, 2002; Nelson & De Bruijn, 2005).

To sum up, a new business' development in a developing economy is essentially embedded in its contextual elements (Welter, 2011) and theoretical insights into new business development are context sensitive (Zahra, 2007).

#### 1.4. Purpose and research context

This dissertation aims at gaining a better understanding of the process of developing new small businesses in a developing economy. It focuses on understanding the different challenges that new businesses have to face and overcome in their growth process.

This research was done in the context of Ethiopia's economy where informality is central to the local economy and where the Ethiopian government supports formal small businesses with workplaces, skill training, extension support, market development, technology support, and access to finance (Amha, Woldehanna, Tamrat & Gebremedhin, 2015). Since the 1991 revolution, the Ethiopian economy has changed from a centrally planned one to a market economy (Brixiova & Asaminew, 2010). Thus, the government supports new businesses so that they can play a significant role in the economy. The nature of government support has evolved over time. From 1991 to 1997, the government promoted indigenous start-ups and influenced their choice of industry and location by providing incentives like exemption from income tax and duties on imported capital goods (Ayele, 2006). For this, it developed a small and micro enterprises development policy and strategy in 1997 which was revised in 2011. This was accompanied by dedicated agencies at the federal, regional, and local levels.

#### 1.5. The structure of the dissertation

Chapter 2 of this dissertation discusses the methodology that it uses. This chapter explains the ontological and epistemological positions underlying this study and discusses the research approach, mode of inquiry, research design, and data analysis. Chapter 3 explores the Ethiopian context for developing a new business. It presents Ethiopia as a developing economy. This chapter is based on empirical material collected from government officials and a review of documents on the SME development policy and strategy that the Ethiopian government implemented in 1997. The rest of this dissertation is structured according to the essential aspects of a new business' development. Accordingly, Chapter 4 discusses the challenges related to the phases in the

development of a new business in a developing economy, product development, resourcing a new business, and market development. It also focuses in detail on how new business development unfolds. The chapter ends with the identification of three critical challenges that new businesses in developing economies face which are connected to: 1) new product development, 2) accessing critical resources, and 3) market development. The three subsequent empirical chapters (Chapters 5-7) investigate each of these challenges and the remedial activities that the new businesses follow to address them. The last chapter, Chapter 8 discusses the overall findings of the dissertation. It discusses the findings in relation to the overall purpose of the dissertation and presents its theoretical and practical contributions. The chapter ends by giving the limitations of this study and providing some research directions for future studies.

## 1.6. Definitions of some concepts

I now present how some concepts are used in this dissertation.

### 1.6.1. Newness and smallness of a business

As the liability of newness and smallness co-exists, there is a need to conceptually differentiate between the two (Bruderl & Schussler, 1990). Stinchcombe (cited in Bruderl & Schussler, 1990, p. 530) characterized the 'newness' of a business as new roles and tasks to be learned and invented, social interactions in the organization among strangers lacking a common normative basis or informal information structure, and stable links not being established with clients, supporters, or customers when an organization begins operations. In addition, the term 'new' is used in connection with age related to the extent of accumulated experience (Aldrich & Ruef, 2006). The concept of 'experience' corresponds to the degree of a prior actual engagement with activities (Heidegger, 1962). As there is more engagement, there is more accumulation of experience. Thus, newness is the degree of a business' prior engagement with stakeholders and internal processes. Therefore, aging and lasting in absolute time are not synonymous (Aldrich & Ruef, 2006).

There are also problems differentiating between 'new' and 'established' businesses. In Global Entrepreneurship Monitor research, a research project on entrepreneurship, the number of years in operations is used for differentiating between new and established businesses. Here, businesses that have been operational for three and a half and less are categorized as new businesses while those that have lasted more than these years are considered established businesses. Scholars working on 'stages of business growth' like Greiner (1972), Kazanjian (1988), Lewis and Churchill

(1983), Scott and Bruce (1987), and Steinmetz (1969) differentiate between new and established businesses based on their stage of growth.

In this dissertation, a new business is assumed to start with an intention along with action, a decision or an activity for developing a product, accessing resources, or connecting with stakeholders, regardless of whether it is operating in the formal or informal space. This is in line with Katz and Gartner's (1988) study which explored the boundary between the pre-existence and existence of a firm. They showed that a new business started existing with the founder's intention to start the business, his actions for mobilizing resources, when he started developing a boundary for the firm like a formal registration, and undertaking an exchange with outsiders. Thus, *a new business in this dissertation means when the founder decides to leave his/her employment and begin one's own enterprise, when a team of founders agree to start a business in line with Ethiopian SME development requirements for resource acquisition, or when a founder starts discussing with his/her parents support in terms of resources, for example, using a part of the residence and compound for starting a business.*

Smallness is about size. There are different measures for the size of a firm. Measures of smallness of businesses are context specific (Shepherd & Wiklund, 2009). In Ethiopia, two government agencies use different indicators to categorize firms economically into different groups. On the one hand, the Federal Small and Micro Enterprises Development Agency categorizes firms into four groups -- micro, small, medium, and large -- as a base for its micro and small enterprises development strategy and support frameworks (FDRE, 2011; Ministry of Trade and Industry, 1997). The agency uses total assets and a headcount of the workers that a business employs as criteria for dividing firms into these categories. In addition, the type of sector, that is, industrial or service, that the firm is operating in is also considered. As a result, enterprises in the industrial sector with up to five workers or/and whose total assets are not more than 100,000 Ethiopian Birr are categorized as micro-enterprise. For the service sector, the criteria include five workers or/and total assets not more than 50,000 Ethiopian Birr. Similarly, the criteria for small enterprises in the industrial sector is those firms employing 6-30 people or/and total assets of 100,001 Birr up to 1.5 million Birr. A small service enterprise employs 6-30 people or/and has total assets between 50,001 and 500,000 Birr. Further, the agency indicates that if there are divergences between the workers' headcount and total assets, total assets will be the leading criterion. An enterprise above

the indicated size is categorized as either a medium sized or a large sized enterprise. Since the agency's mission is supporting micro and small enterprises, it does not define the exact demarcation between medium and large sized firms. Further, the definition of the agency excludes higher technology and consultancy service firms.

On the other hand, being responsible for generating data related to the socioeconomic conditions in the country, the Central Statistical Authority (CSA) of Ethiopia uses different criteria for measuring the size of economic entities. The agency uses type of technology and headcount of staff members as criteria for categorizing enterprises into different size levels. Accordingly, the lowest category includes handcraft and cottage industries run by family members manually without using motor powered machines. Small-scale manufacturing enterprises have less than 10 workers and use motor powered machines. Finally, large and medium scale manufacturing establishments engage 10 or more workers and use power-driven machinery. However, the agency emphasizes on the manufacturing industry and does not include other sectors in its classification.

The measure of smallness used in this dissertation is a combination of criteria used by the Ethiopian Federal Small and Micro Enterprises Development Agency and literature. As the agency provides different types of support based on the firms' size, I used the first criterion to identify small businesses that could be included in my study. In addition, I considered the classification of businesses into small and large in stage model literature. As a result, I followed the conceptualization of smallness as provided by Hanks, Watson, Jansen, and Chandler (1993) as it helped distinguish between growth processes of small and large businesses for the analysis.

#### 1.6.2. 'Developing' a business

'Develop' is defined in the Oxford Advanced Learner's Dictionary of Current English (p. 995) as "to start or cause something to start to exist and then become greater." Penrose (1959) conceptualizes the 'development' of a firm as an increase in its size or an improvement in its quality. Likewise, defining a process as progression or the order and sequence of events in an organizational entity's existence over time and change as the *difference* in form, quality, or state over time in an organizational entity, Van de Ven and Poole (1995, p.512) describe development as a change process – a progression of change events unfolding during the existence of a business.

Further, Kind and zu Knyphausen-Aufseß (2007, p. 185) define business development as all activities intended to "creating value and revenue potentials for the company, developing products and technologies so that they can be commercialized, building relationships with potential partners, customers and other stakeholders, and maintaining and enhancing those relations in the interest of the company." This definition connotes conscious human actions and decisions. Accordingly, the discussions in this dissertation deal with conscious activities, actions, and decisions in the process of developing new businesses.

Therefore, my definition of 'developing' incorporates both the activities and actions of the agents which is in line with Kind and zu Knyphausen-Aufseß's (2007) conceptualization and the progress of change in a firm as conceptualized by Penrose (1959) and Van de Ven and Poole (1995). Thus, the definition of developing used in this dissertation is *developing is increasing a firm's size and improving its quality over time as a result of initiating and improving an offer; building, maintaining and enhancing relationships with potential stakeholders; and acquiring the necessary resources.*

### 1.6.3. Informal enterprises or informal firms

The terms informal business and informal enterprise are used interchangeably. The concept informal business is used in this dissertation to designate firms operating outside government regulations (Nelson & De Bruijn, 2005) which do not register their trade, issue invoices, or pay income tax (Fransen & Van Dijk, 2008; Nelson & De Bruijn, 2005). Informal business activities are actions performed by both formal and informal enterprises when they do not act in compliance with government rules and regulations (International Labour Office, 2000). Informal business activities also connote intra-firm activities performed not in accordance with internal rules and regulations (Godfrey, 2011; Kok & Berrios, 2019).

### 1.6.4. A developing economy

Economies/countries in the world are classified into different groups by different international organizations like developed economies, economies in transition, and developing economies (United Nations, 2018). When an economy's degree of integration into the global financial system, fuel exports, and per capita gross national income (GNI) are considered Ethiopia, falls among the developing economies (United Nations, 2018).

This dissertation focuses on businesses operating in the Ethiopian economy. This means that the new businesses operate in the economy with a low degree of integration with the global financial system, have low fuel exports, and low per capita GNI.

## 2. Methodology

*"...Doing research is not like strolling along an easy, well-marked path to a familiar destination; it's more like zigzagging up and down a rocky hill through overgrown woods, sometimes in a fog, searching for something you won't recognize until you see it. But no matter how indirect your path, you can make progress if at each step of the way you plan for predictable detours (and maybe even avoid some of them) ...." (Booth, Colomb, Colomb, Williams & Williams, 2003, p. 50).*

*"...there is no method, strictly speaking, in social sciences. All there is are other works as sources of inspiration, an array of various techniques, and a systematic reflection on the work that is being done" (Czarniawska, 1997, p.vi).*

*"Research is a craft" (Daft, 1983, p.539).*

This research does a qualitative study of seven businesses which included 52 interviews. The research is anchored in critical realism.

### 2.1. The philosophical positioning of the research

This dissertation adopts a critical realist approach. Research should have a clear positioning in its philosophical stance which is also called the 'research paradigm' (Alvesson & Skoldberg, 2009; Bhaskar, 1975; Creswell, 2003; Morgan & Smircich, 1980). Moreover, there should also be consistencies in the assumptions of the researcher about the object of the study, nature of knowledge about it, and use of appropriate methods fitting the assumptions (Morgan & Smircich, 1980).

The following sections discuss my ontological and epistemological stances.

#### 2.1.1. Ontological stance

I believe that the process of developing a new business is composed of events, decisions, actions, and activities (Van de Ven, 1986). These elements are a result of the underlying structures and mechanisms of the phenomenon (Bhaskar, 1975; Easton, 2010; Sayer, 1992). Bhaskar (1975) shows that events are not passive, but a result of extrinsic or intrinsic 'agents'. Events can be caused by organizations, people, relationships, attitudes, and resources being "human, social or material, complex or simple, structured or unstructured" (Easton, 2010, p. 120). Moreover, these 'really

exist' as each of them manifests itself through its effects on the process of developing a business (Fleetwood, 2005).

The process of developing a new business comprises of structures signifying internally linked things or objects and the mechanisms of their interactions (Sayer, 1992). In this dissertation, 'mechanism' is used as described by Bhaskar (1975, p. 14) as, "nothing other than the ways of acting of things." Every object or entity acquires the ability to cause observable events because of its intrinsic constituents and/or its relations with another entity (Bhaskar, 1975). In addition, the contingent interactions of the entities underline observable empirical events in the development of a new business (Tsang & Kwan, 1999). The contingencies include extrinsic factors relevant for the process of developing a new business. I believe that the process of developing a new business has its elements regardless of me conceiving them (Fay, 1996). This is in line with the idea that the elements of the process of business development are not dependent on the specific activities that are researched (Fleetwood, 2005).

This dissertation investigates "what 'makes happen' the observable event, action, and decision or, what 'enables' or 'leads to' them " in the process of new business development (Sayer, 1992, p.104). Bhaskar (1975) describes reality as layers of the real, actual, and empirical respectively. The empirical layer represents the observed part, and the actual layer is derived from observations for seeking patterns of events to understand causal laws. The deepest layer -- real -- represents things and their structures and mechanisms that lead to an event which is derived through interpretations (Bhaskar, 1975). Thus, the ontology of my study is in line with Bhaskar (1975) and it focuses on the entities and their relationships in the transformation of a new business. As a result, I subscribe to critical realism (Bhaskar, 1975; Easton, 2010).

### 2.1.2. Epistemological stance

The ontological view sets the base for knowledge and its contents (Morgan & Smircich, 1980). From a critical realist's point of view, positioning is important since the purpose of my study is "understanding the things that produce and the mechanisms that generate the flux of the phenomena of the world" (Bhaskar, 1975, p.56). Understanding the mechanisms that generate the transformation of a new business follows a stepwise approach moving from experiences to the patterns of events or causal laws (Bhaskar, 1975). This goes beyond the exploration of 'relations between events' or explaining regularities or 'causal laws.' Instead, it focuses on understanding the

mechanisms of the occurrence of one event and how this event leads to subsequent events (Bhaskar, 1975).

Knowledge about the process of new business development is built on an understanding of the phenomena of interest (Fleetwood, 2005; Tsang & Kwang, 1999). Hence, understanding also comes by adopting a hermeneutic phenomenology perspective focusing on the 'lived experience' in developing a new business which is retrospectively accessed (Van Maanen, 2016). Thus, in this dissertation, knowledge is generated by going beyond the observable surface and understanding the lived experience.

My exposure to different theoretical lenses shaped my understanding and cognitive schema of the process of developing a business. During the data collection, I was informed by pre-existing theories that framed what empirical data I should look for. However, I was open to new ideas that emerged during interactions and interviews with entrepreneurs and government officials.

Further, the analysis was done reflexively going back and forth between the empirical data, theoretical lenses, and existing literature (Alvesson & Sköldbberg, 2009). The simultaneity of refining the theoretical lenses and analyzing and interpreting the data helped synchronize the empirical data with the theoretical lenses. Therefore, the knowledge developed in theory is laden based on pre-existing theoretical lenses and understanding (Alvesson & Sköldbberg, 2009).

The next section discusses the research approach that I adopted. This approach emanated from my ontological and epistemological stances (Morgan & Smircich, 1980).

## 2.2. Research approach

As I intended to understand the structures and mechanisms that produce events, which in turn generate the process of transforming a new business (Creswell, 2003; Morgan & Smircich, 1980), I chose a qualitative approach (Morgan & Smircich, 1980). Conducting qualitative research helped me understand the complexity of the process of developing a new business in the Ethiopian context (cf. Stake, 1995).

This means that an understanding of the challenges in the process of developing a business is co-produced with stakeholders, that is, the researcher, owner managers, suppliers, customers, employees, and government officials. While I sometimes became a narrator of the knowledge

produced by the respondents, at other times I also became the producer of knowledge. The respondents had their own explanations based on their practical knowledge and I convey their explanations in my dissertation. The respondents are not only the producers of empirical data in this dissertation but they are also stakeholders who play an active role in knowledge production. The respondents also came up with answers to the 'know how' and know why' questions (Alvesson & Sköldbberg, 2009).

I approached the fieldwork with some understanding and pre-exposure to theoretical lenses, with flexibility to accommodate emerging empirical data. However, I was reflexive during the discussions and in dealing with empirical material. I reconsidered my existing understanding and theoretical lenses (Alvesson & Sköldbberg, 2009) to prevent new knowledge from being biased by existing theories.

### 2.3. Research design

This dissertation did case studies of seven new businesses where I interviewed seven entrepreneurs, 10 employees, 13 customers, three suppliers, and five government officials. I also gathered relevant policy documents. All these sources helped me make sense of the process of developing a new business in Ethiopia.

The fieldwork began by securing support letters from the Department of Management, Addis Ababa University addressed to the Addis Ababa City Administration Micro and Small Enterprises Development Bureau, the Addis Ababa City Administration Trade and Industry Bureau, and the Federal SMEs Development Agency. The Addis Ababa City Administration SMEs Development and the Trade and Industry bureaus gave me letters for their respective sub-city offices -- Gullele sub-city, Arada sub-city, and Addis ketema sub-city. I interviewed five government officials for about 40 minutes each at the Gullele sub-city SMEs Development Agency and trade and industry offices. These offices support new firms and understand how new firms behave with regard to the support that they provide.

The interviews addressed the implementations of laws, regulations, and directives in relation to new business development. The empirical material also included a review of the first comprehensive SMEs development policy and strategy in 2006 and the revised one in 2011. The

information from these sources was used for a further understanding of the context of the Ethiopian economy (discussed in Chapter 3).

Table 2.1. Interviewed government officials

Officers	Interviews	Length in time (in minutes)	Place
SMEs market linkage officer	1	49:05	Workplace
SMEs-manufacturing sector support facilitating officer	1	29:00	Workplace
SMEs growth level and transition officer	1	55:00	Workplace
Trade and industry inspection and regulatory officer	1	42:00	Workplace
Enterprises' formation support case team officer	1	23:09	Workplace
<b>Total interviews</b>	5		

Officials at the woreda level (administrative unit lower than the sub-city) helped me to purposely identify new firms that were formally created and which had growth potential. The officers suggested 25 new businesses. Of these, I could access nine. The remaining were not accessible for different reasons. Five of them did not trust that the data was needed only for academic purposes. Instead they feared that the report could be used by the government such as for taxation purposes. Another eight firms denied access because they felt over-researched. They claimed that they had given many interviews to different researchers and that the outcomes of the previous studies had not benefited them. Therefore, they felt that yet another interview would be a waste of time. The last three firms denied appointments even after repeated requests. These three firms canceled at least three scheduled interviews. Therefore, I requested referrals from those owner managers I had interviewed earlier. With these references, I got access to five more new businesses.

For each new business, I first interviewed the owner manager, and the owner manager helped me identify those I could interview from the firm's suppliers, customers, and employees. In all the interviews, semi-structured interview questions were used to begin the discussion while more questions emerged while interacting with the interviewees. Further, I did not decide on the number of firms to be included as cases in this research at the beginning of the interview process. Instead, the selection was iterative and I planned to stop when I thought I had enough data for the purpose of the dissertation or when data saturation was achieved (Stake, 1995; Yin, 2005) Accordingly, I conducted face to face interviews with owner managers of 14 new businesses. The interviews typically lasted 1.5 hours with one outlier that lasted 4 hours. In addition, I also did face to face interviews with three selected employees, three suppliers, and three customers of some businesses. On average, these discussions lasted 30 minutes each. Table 2.2. shows the sources of information for each case.

My experiential learning on data collection helped me to figure out how I should proceed with data collection and who I should target. Originally my primary focus was owner managers but after going to the field and meeting a few owner managers, I realized that more stakeholders needed to be included in the interviews. Hence, I extended the sources to include suppliers, customers, and employees. I was convinced that these groups of individuals could provide data on forming, maintaining, and ending their relationship with the target business. The transcripts of the interviews with the stakeholders were used for developing case studies of the new businesses that they represented.

Among the 14 new businesses that I accessed; seven cases were selected which form a part of this dissertation. The selection was done after repeatedly listening to the audio recorded interviews and reading all the transcripts. The seven cases were richer in terms of access and the information that was gathered like they provided access to more stakeholders. The last column in Table 2.2 shows how the cases are used. The seven cases include D-Garage service, S-Publishing enterprise, E-Coffee processing plc, Y-Leather products partnership, A-Food processing plc, K-garment plc, and M-Aluminum and metalwork. The first six cases form a part of the empirical chapters and the seventh case is used as a case vignette in the introduction chapter.

Table 2.2. Interviews with new businesses

Cases	Interview with owner manager			Number of other interviewees			Other sources of data	Remark
	Length (H:	Date	Place	Employees	Customers	Suppliers		
D-Garage service- sole proprietorship	01:54	Nov.22,2016	On site	3	3	1	Site visits and observations	Case business
S-Publishing enterprise-sole proprietorship	04:00	Nov.30,2016	On site	3	2	2	Site visits and observations	
E-Coffee processing plc	01:00	Dec.22,2016	On site	2	3		Site visits and observations	
Y-Leather products partnership	01:11	Dec.20,2016	On site	2	2		Site visits and observations	
A- Food processing plc	01:00	Dec. 21,2016	On site		3		Site visits and observations	
K- Garment plc	01:33	Apr. 10,2017	On site				Site visits and observations	
M- Aluminum and metal work -sole proprietorship	01:41	Apr. 19, 17	On site				Site visits and observations	Case vignette
H-Garment plc	01:06	Apr. 16, 2017	On site				Site visits and observations	Background information
H-Reeling plc	01:22	Apr. 16, 2017	On site				Site visits and observations	
Z-Garment plc	01:42	Apr10, 2017	On site				Site visits and observations	

A-Construction plc	01:30	Apr.19, 2017	On site				Site visits and observations
G-Home and office furniture - sole proprietorship)	01:30	Apr.20-2017	On site				Site visits and observations
K-Home and office furniture	01:29	Apr.21, 2017	On site				Site visits and observations
G- Rubber and plastic production and selling plc	01:26	Apr. 28, 2017	On site				Site visits and observations
Total interviews	14			10	13	3	

The remaining seven cases are not included directly in this dissertation. However, interviews with representatives of each case helped me learn more about the context of developing new businesses in a developing economy. I was actively involved in the interviews, site visits, and observations. In addition, I took time to carefully listen to and transcribe the interviews. These enhanced my understanding of the implementation of the SMEs development policy and strategy and informal businesses' activities in Ethiopia. The information, including interviews with government officers, are used in Chapter three on the Ethiopian context as a developing economy.

Focusing on the selected seven businesses, I re-read the interview transcripts. These helped me select the most representative case studies with storylines related to different research questions. The cases showed the complexity of developing a new business and detailed interactions with its contexts – its “complexity and contextually” (Stake, 1995, p.16). As the cases were selected based on research questions and for a general understanding, they are instrumental in understanding a phenomenon (Stake, 1995). The cases help understand the challenges of developing new businesses in developing countries. I selected one case representing challenges related to product development; another case for illustrating resources; and two cases to illustrate the challenges related to the market development of new businesses. Two more cases are used for illustrating the critical stages in a new business' development. This enabled a case by case analysis of the selected cases. Finally, one case is used as an inspiring vignette at the beginning of the introductory chapter.

From the beginning, I was inspired to better understand why and how new businesses develop in developing economies. With this broad thinking, I went to the field to collect empirical data. For the fieldwork, my empirical context was new businesses in Ethiopia. But before collecting the data, I prepared semi-structured interview questions directed at the businesses' owner managers. The questions were in line with the general purpose of this dissertation. The interviews were intended to explore and gather experiential narrative material for developing a richer and deeper understanding of the process of developing new businesses in a developing economy (Van Maanen, 2016).

The questions were grouped into categories for addressing issues related to stakeholders in the new business ecosystem. The stakeholders included owner managers, suppliers, customers, employees in firms, and employees of the local office of the SMEs Development Agency (Teece, 2007). The use of multiple informants helped minimize potential biases because of hindsight and rationalization as the information was collected from retrospective reconstructions of past experiences (Alvesson & Sköldberg, 2009). The stakeholders were accessed as a source of data (Table 2.3). The questions were iteratively improved during the interview sessions.

Table 2.3. Interviewees contacted

	Owner managers	Employees of new businesses	Customers of new businesses	Suppliers of new businesses	Government officers	Total
Number of interviewees	14	13	15	5	5	52

*Unit and level of analysis.* The problem of specifying the beginning and ending of a process makes the choice of a unit of analysis in studying a process challenging (Selden & Fletcher, 2015). Arguing that social events infinitively regress to past and future contexts, Selden and Fletcher (2015) highlight the need for sub-dividing the process into sub-processes including activities which when joined form a larger process. The beginning and end of the process is marked by changes in the pattern of activities (Selden & Fletcher, 2015). Similarly, the process of new business development begins with the actual entrepreneurial activity of starting a business and ends when activities which characterize large and established businesses start. Thus, the end of the

process of developing a new business is marked by its transition to a large and established business (McMullen & Dimov, 2013).

This process needs to be punctuated with critical sub-processes explained through the actions and interactions of their components, prior events, actions, and sub-processes (Selden & Fletcher, 2015). I identified the critical phases as sub-processes of new business development. The identified process is explained by underlying things and mechanisms for arranging the sequence of discrete events (McMullen & Dimov, 2013). Defining the level of analysis is also challenging as there is continual interaction between the context, process, and content of a new business' development (Pettigrew, 2012).

The investigation in this dissertation considered different levels of analysis including individual, relational, team, and social networks. Hence, the analysis incorporates investigating activities and actions in the process of new business development at the indicated level of analysis (cf. Pettigrew, 2012).

#### 2.4. Analyzing the empirical material

The journey for understanding the process of new business development started with the verbatim transcription of the audio recorded interviews. I read the transcripts repeatedly and found different storylines integrating each process. Each process involved linking the parts in the business development process. As a result, each process exhibited different storylines. These storylines dealt with different aspects of the process of new business development and included product development, resourcing, market development, and phase transitions in a new business' development. Based on the storylines, I constructed case studies of the different businesses from the transcripts. This transformation of empirical material into a format suitable for analysis formed a major step in the research process (McMullen & Dimov, 2013, p.1485).

Further, re-reading the case studies helped me select the most representative cases with storylines related to various aspects of a new business. Accordingly, the case studies were clustered into product development, resourcing, market development, and phase transitions in new business development depending on the degree of dynamics manifested in each case study. Then I selected a case study that best represented the process of developing a product in a new business. Likewise,

case studies were selected and aligned with the process of resourcing, market development, and phase transition in the various aspects of a new business' development.

Next, I concentrated on each case study. I started with an analysis and interpretation of the case studies selected for understanding phase transitions of new businesses development; this was inspired by an analysis of the narrative. The alignment with the narrative analysis method was chosen in line with scholarly arguments like those by Gartner (2007, p.616) who specifies that "...narrative approaches provide some very powerful tools for exploring what entrepreneurs (or others) say about what they do." Each case study was constructed temporally with initial conditions, actions, and activities, and ended with the ending of the process (Larty & Hamilton, 2011). The analysis of a case study focused on the dynamics of actions, happenings, and activities that composed this process (Sandelowski, 1991). This was done through interplaying the selected case studies and extant literature on phase transition of developing a new business. The choice of this stream of literature was inspired by the challenges faced and remedial activities manifested in the case studies.

The first case represents a new business supported by the SMEs Development Agency. The second business represents a business developing with no government support. The analysis emphasizes the role of different agents in the three main activities of developing a new business. This analysis focuses on identifying the agents involved, their roles in the main activities of product-market fitting, resourcing the business, and building the organization. Further, the analysis shows how the agents interacted and the characteristics of each agent's influence while the business' development unfolded. In addition, the analysis shows how a business supported by the SMEs Development Agency developed, and how it reconfigured itself when the support stopped. Further, the analysis focuses on whether and how the main activities interacted. It shows how the main activities of product-market fitting, resourcing the business, and building the organization influenced each other as the business' development unfolded. This was done by comparing two cases to see if there were any differences or similarities in the interactions among the activities in developing a business with and without government support.

Secondly, the study emphasizes on an analysis and interpretation of the case study selected for product development. From this analysis, I understood that knowledge management is an important aspect of developing a product in a new business. With this understanding, I took time

to read literature on knowledge management in product development in the context of new businesses. This led me to choose the knowledge management perspective as the conceptual framework for Chapter five on product development. Accordingly, I reviewed extant literature on product development with a focus on knowledge management. This showed the roles of different agents in developing products in new businesses and their interactions among themselves. The literature review sensitized me to frame the analysis and interpretation of the case studies. I worked to fuse ideas from the analysis and an interpretation of the case study and literature review. I went back and forth between theoretical orientations and empirical data so that both reflexively reinforced each other (Ryan, Tähtinen, Vanharanta, & Mainela, 2012.; Tsang & Kwang, 1999). This means that I produced new knowledge by fusing my existing understanding and empirical data. Hence, knowledge was co-produced by the active engagement of all the stakeholders (Van de Ven, 2007) and this knowledge production was 'iterative cyclical,' and 'non-linear' (Gioia & Pitre, 1990) leading to reflexivity ruling the process of knowledge production (Alvesson & Sköldbberg, 2009).

The findings contributed to the lessons presented in Chapter five on product development. These are based on the interplay of the ideas from the analysis, an interpretation of the case studies, and the literature review. Thus, Chapter five on product development is structured into four sections: literature review, case study, analysis and interpretation, and lessons learned. The same procedure is used in all the empirical chapters.

The third empirical chapter, Chapter six, deals with resourcing new business development in a resource constrained environment. I started with an analysis and interpretation of the case study selected for resourcing a new business. The analysis showed the roles that different actors played in searching for resources as a new business' development unfolded in a developing economy. I also investigated how the agents interacted as the new business found more resources during its development. From the analysis of the case study, I understood that the need for resources and their different sources were not pre-determined. Instead, the need for resources and the different sources used for them emerged as a new business' development unfolded. I linked this issue with literature on entrepreneurial bricolage. With this understanding, I reviewed extant literature on entrepreneurial bricolage. The themes that emerged from the review made me re-frame the analysis and my interpretation of the case studies.

The same procedure was applied to the chapter seven on developing a market as a new business' development unfolded. I started with an analysis and interpretation of the case studies selected for developing a market for a new business. Being inspired by the social networking perspective, I developed themes for the analysis and interpretation of the case studies.

Finally, I did an analysis of the material on the Ethiopian context as a developing economy. This involved extracting information on the SMEs development policy and strategy and supporting it with interviews with government officers and owner managers of the seven new businesses. The contents of the policy document helped understand how the Government of Ethiopia conceptualizes different stages of development in a new business, challenges related to each stage, and how the government intervenes in the development process of new businesses in the economy. The interviews were used to complement the policy document and for learning about informal business activities in Ethiopia. This was done by transcribing the audio recorded interviews in a question-answer form focusing on the content. Then, re-reading the transcripts, I integrated them with issues that emerged from an analysis of government's policy.

### 3. The Ethiopian context for developing a new business

#### 3.1. Introduction

The Ethiopian government is implementing a national development plan, the Growth and Transformation Plan II covering the period 2016/16-2019/20 (National Planning Commission, 2016). The plan has a national vision of becoming a low middle-income country by 2025 (National Planning Commission, 2016). This was preceded by the Growth and Transformation Plan I covering the period 2010/11-2014/15 (MoFED, 2010). In these national plans, micro- and small-businesses are recognized as important contributors to the gross national product. Hence, the SMEs, small- and micro-enterprises Development Agency facilitates the preparation and implementation of national level policies and strategies supporting the development of small- and micro-businesses in the economy.

The Ethiopian economy provides a context for studying new business development as the government is intervening in new business development through industrial policies (Mkandawire, 2001) and there are significant economic activities in the informal sectors (Franken & Van Dijk, 2008). The Ethiopian government provides diverse support to SMEs like a workspace, skill training, consultations, market development, technology support, and access to finance (Amha et al., 2015). This support is provided during five consecutive years or less and it targets formal enterprises and not informal ones (Walther & Filipiak, 2007). However, many small businesses are informal (about 26 percent of the recorded economy) which evade tax payments of about 10 percent (Asaminew, 2010).

For a long time, the country had socialist leanings and the private sector was discouraged (Brixiova & Asaminew, 2010; Geda & Degefe, 2002; Tadesse, 1992). Tadesse (1992, p.172) examines the suppressive laws and regulations of the socialist government for privately-owned small-scale industries in the economy and says:

*Investment was restricted to certain areas of activities. Excluding building and land development costs, allowable private sector investment in small-scale industries was no more than Birr 500,000. And a one-man-one license principle was in force. A number of discriminatory mechanisms in project financing, foreign exchange allocation and raw material rationing were also applied.*

These restrictions pulled back the rate and scale of development of new businesses in Ethiopia (Tadesse, 1992). The 1991 revolution overthrew the socialist government and changed the economic landscape of the country. The new government introduced market reforms, reduced bureaucratic procedures, and encouraged the private sector (Geda & Degefe, 2002). At the outset, the government pledged to minimize its role in economic activities to allow the private sector to take on this role gradually. Since 1991, the Ethiopian economy has been struggling to overcome the burden of its socialist practices. There are also very few formal small-scale enterprises in the country (Brixiova & Asaminew, 2010; Wudneh, 2005).

From 1991 to 1997 the Ethiopian government supported small businesses under the investment incentive scheme (IIS), including exemption from income tax and duties on imported capital goods (Ayele, 2006). The main objectives of the scheme were to induce indigenous startups, and influence SMEs operated in specific industries and locations (Ayele, 2006; Brixiova, 2009). This has grown into a compressive SMEs development policy and strategy in 1997.

### 3.2. SMEs development policy and strategy in Ethiopia

The first compressive SMEs development policy and strategy in 1997 was revised in 2011. The policy documents make explicit the expected socioeconomic roles of new businesses in the economy. With the primary vision of becoming a competitive economy, businesses are expected to create job opportunities, increase the society's income and its fair distribution, and trigger sustainable economic development (FDRE, 2011; Ministry of Trade and Industry, 1997). Businesses are also expected to sustain rural development. To these ends, the support package considers new businesses in selected sectors of the economy (FDRE, 2011; Ministry of Trade and Industry, 1997) including manufacturing, construction, services, trade, and urban agriculture. The policy documents pay special attention to the manufacturing sector. In addition, new businesses with a larger number of owners, females in the ownership, disabled owners, and members with HIV/AIDS are prioritized for support (FDRE, 2011). Acceptance of a new business in the support system is related to some pre-conditions like willingness to engage in priority sectors, willingness to work in a team, and support letters from the local administration where the entrepreneur resides. However, new businesses engaged in activities such as beauty salons, stationary, health services, and education services do not qualify for the support package (FDRE, 2011; Ministry of Trade and Industry, 1997).

The implementation of the SMEs development policy is managed by a mainstream government structure in which the federal SMEs Development Agency is at the top. The structure includes the SMEs Development Agency's offices in regions and city administrations and continues to the lowest administration unit.

The SMEs Development Agency is mainly working at helping unemployed citizens (FDRE, 2011; Ministry of Trade and Industry, 1997). Unemployed citizens with academic qualifications (diploma and degree certificates) are supported for starting new businesses related to their professional training. For example, graduates from the department of civil engineering are supported in establishing new businesses in the construction sector. Likewise, graduates from computer engineering are supported in starting new businesses in computer maintenance and sales. Unemployed citizens with no formal education are required to take short-term training in a priority sector of their preference for starting a company. On completion of the training, they are required to pass an examination to obtain a certificate of competence (COC). With the certificate, they can apply for start-up support to the local SMEs Development Agency. Then, they can go through the required administrative procedures to start a new business. Entrepreneurs have to register the new businesses as sole proprietorships, partnerships, private limited companies, share companies, or cooperatives. They are also required to register for trade licenses and taxpayer codes. An officer in the SMEs Development Agency's office at a sub-city level said this about the process:

*... in general, there is a lot of support given by the micro and small development office. If we see from the beginning to the end, first the office is working at creating job opportunities in society. The main criterion for selecting individuals is joblessness! Graduates and unemployed (persons) are screened through the lowest administration level (at the kebele and woreda levels). The individuals need to prove that they are jobless. During registration, the classification is be done as per the sector choice of the individuals which can be construction, textiles, garments, weaving, tannery, or brick producing. Then the list is given to the TVET school and they get training as per their registration. Based on the certificates that they get from TVET, they go to the local micro and small enterprise development office and they go through the administrative process and start their enterprises.*

### 3.3. Support schemes

The Ethiopian government gives different kinds of support to selected new and existing businesses in Ethiopia including land, working premises, training, market linkages, purchase facilitation, equipment on lease, and financial loans (Amha et al., 2015). This support is meant to help the new businesses play a role in the economy and continues during the first five years of the businesses. After this period, the support stops as the new businesses are expected to be self-reliant by then (FDRE, 2011; Ministry of Trade and Industry, 1997).

The SMEs development policy and strategy classifies support schemes according to the scale and growth stages of a new business. Accordingly, the support packages are intended to enhance the economic viability of small- and micro-businesses and facilitate the transition of new businesses from the micro-enterprise level to the medium-scale level.

Hence, the agency categorizes businesses into four groups (micro, small, medium, and large) as a base for different support frameworks (FDRE, 2011; Ministry of Trade and Industry, 1997). As shown in the policy documents, the agency uses total assets and headcount of workers as criteria for dividing the firms into these categories. In addition, the type of sector, that is, either industrial or service, of the firm is also considered. As a result, enterprises in the industrial sector with up to five workers or/and whose total assets are not more than 100,000 Ethiopian Birr are categorized as micro-enterprises. For the service sector, the criteria for a micro-enterprise include five workers or/and total assets not more than 50,000 Ethiopia Birr. Similarly, the criteria for a small enterprise in the industrial sector is employing 6-30 people or/and total assets between 100,001 and 1.5 million Birr. A small service enterprise is one that employs 6-30 people or/and whose total assets are between 50,001 up to 500,000 Birr. A business in the industrial sector with a capital of 1.5 million Birr and employing more than 30 permanent employees is a medium sized business. Likewise, a service business with a capital of 500,000 Birr and employing more than 30 permanent employees is a medium sized business. Further, the agency stipulates that if there is a discrepancy between the staff headcount and total assets, total assets will be the determining criterion. Since the agency's mission is supporting micro- and small-enterprises, it does not define the exact differences between medium and large size. Further, the agency's definition does not include higher technology and consultancy service firms (FDRE, 2011; Ministry of Trade and Industry, 1997).

Moreover, the policy documents divide each scale of a new business into three growth stages: start-up stage, young stage, and established stage. A new business starts as a micro-scale start-up or small-scale start-up depending on the number of employees and the capital that it has registered. Then, the transition between growth levels is based on a rigorous evaluation done by the agency. A new business' evaluation starts after six months of its formation and requires a financial audit. The new business is evaluated through nine criteria before being promoted to the next growth level. A government official of the SMEs growth stage transition case team in a sub-city said:

*... The (evaluation) criteria include number of jobs created, capital level, profitability, market size, productivity, utilization of previous support, use of improved technology, organizational management and structuring, and discharging responsibilities (paying taxes and renewing the trade license). Based on the evaluation's results the businesses are rated out of 100 percent. Then, they get promoted to next higher-level by considering their number of employees and capital levels.*

### 3.3.1. Stages of growth in a new business, challenges, and related support

To understand how the SMEs development policy and strategy works in practice, the various stages of growth and the challenges faced by the new businesses are now discussed.

The government agency's officers include a trade regulatory and inspection officer while officers in the SMEs Development Agency include a market linkage service officer, a manufacturing case team officer, and a growth level transition case team officer. It is assumed that the support given to new businesses will reduce the challenges that they face and accelerate their development based on their growth stages -- start-up, young small, established small, and early medium growth. The policy recognizes three stages of small businesses before they progress to the medium stage.

Support starts during the **start-up stage**. At this stage, the new business needs to become a legal entity and begin producing and rendering services. The start-up phase faces many challenges like lack of initial capital, lack of knowledge of legal business forms, lack of knowhow in bookkeeping and business operations, and lack of entrepreneurial skills. As a result, the local SMEs Development Agency encourages entrepreneurs to have their own saving accounts as seed money and/or mobilizing their families for money. The SMEs Development Agency supports small businesses with seed money to get loans, benefit from state-owned projects and programs, supports the start-up to set-up stages of their legal business forms, acquiring taxpayers' codes, getting legal

trade certificates and registration, and providing training on basic business management, entrepreneurship skills, and basic bookkeeping (FDRE, 2011).

After the start-up stage is complete comes the **young/early growth stage**. At this stage, a new business strives to become competitive in terms of prices, quality, supply, and profits by making use of the support that it is given. The young business grows in manpower and total assets. It relies on bookkeeping systems. At this stage, a business faces challenges like lack of timely and adequately finance for the nature of its work. The entrepreneur also lacks the necessary skills and technology for improving productivity and the quality of its products. The young business does not know about the standards to be maintained and is unable to obtain proper premises and sales points. Hence, a business may indulge in illegal business practices (FDRE, 2011; Ministry of Trade and Industry, 1997). The policy document prescribes solutions like facilitating the supply of regular loans, supporting the development of business plans, strengthening skill and technology support, providing working and sales places at affordable rents, and helping the enterprises to operate within the legal framework (FDRE, 2011).

The last stage of a small business as recognized by the policy is the established stage. At this stage, the business is competitive and profitable thanks to using the support given; the business is also able to garner new investments. The challenges at this stage include incapability to produce sustainable and quality products for becoming competent in the market, lack of awareness about international standards regarding production and productivity, and limited capacity to get technology and means of production to ensure its competitiveness in the market (FDRE, 2011). The interventions required at this stage include creating a competitive enterprise (providing training that capacitates production and productivity and providing market expansion support help in using modern international standards in the relevant sectors), identifying the means of production and lease that helps a business to move to the early medium growth stage, and certifying the enterprises that move to this stage (FDRE, 2011; Ministry of Trade and Industry, 1997).

As a small business moves through these established stages, it gets promoted from the small to the medium stage of growth (FDRE, 2011). With this transition, using production and selling clusters/centers stops. The business also cannot get loans from micro finance institutions (MFIs), and government purchase benefits also stop. The manpower that is developed by using technical and vocational educational institutions also stops and a business is required to have complete

bookkeeping records and submitting financial statements approved by auditors. The business also has to pass through strict controls pertaining to taxes and VAT (FDRE, 2011; Ministry of Trade and Industry, 1997). These new challenges discourage some small businesses from progressing to the medium stage. The following quote taken from interview with an official of the SMEs growth stage transition case team in a sub-city to substantiates this:

*After five years of supporting small businesses, whether they are transformed to medium businesses or not, they are forced to leave the working premises given by the SMEs Development Agency. If they succeed in achieving a medium stage, their connections have to be with the investment office in the area. The SMEs Development Agency is connected to these businesses for sharing experiences, and they serve as medium sized businesses serve as learning site for small businesses under the support of the agency. No further support is given to businesses that are promoted to medium size or to those businesses which are forced to leave their working premises. The premises are used for other newly established small businesses.*

An officer of the SMEs Development Agency talked about the challenges that entrepreneurs face when their businesses are promoted to medium size:

*... there are directives prohibiting support from the SMEs Development Agency which have been promoted to medium size for creating market linkages. Businesses complain that they do not get access to market linkages. According to them being promoted is meaningless and they start thinking of dissolving their enterprises and establishing SMEs to get market opportunities and employment. Enterprises also complain that having a graduation certificate (certificate of promotion to the medium size) and thus getting an investment certificate is harmful for them.*

However, the government facilitates this transition by providing a readymade industrial zone, buildings for production and sales, and provisions for reasonably leased land; support through loans from commercial and development banks; and priority in getting foreign currencies (FDRE, 2011).

Thus, different support is given to new businesses at different stages of their growth considering the challenges that they face. As a base line, the policy documents recognize that a significant number of small- and micro-businesses operate as informal businesses and remain small because

of the different challenges that they face including lack of raw materials, capital, and working premises (FDRE, 2011; Ministry of Trade and Industry, 1997).

When it comes to SMEs' contributions for tackling the challenges of unemployment, economic growth, and equity in the country, the policy document shows a systematic approach in alleviating SMEs' problems and promoting them to medium and large firms (FDRE, 2011). The policy document specifies the main challenges faced by small businesses at different stages in their development and the actors responsible for supporting the businesses. The responsible actors include the SMEs Development Agency, MFIs, the local government administration, non-governmental organizations (NGO), capital asset leasing organizations, the Development Bank of Ethiopian, and vocational and training institutions (FDRE, 2011; Ministry of Trade and Industry, 1997). All these organizations play different roles individually and in collaboration with others, at different stages of growth of small businesses.

### 3.4. Informal economic activities in the Ethiopian economy

In general, informal economic activities make a significant contribution to many economies. For example, Kok and Berrios (2019) indicates that informal economic activities constituted up to 60 percent of the total employment across the 99 countries sampled, ranging from less than 5 percent in several high-income countries to more than 90 percent in several low-income countries. Moreover, scholars like Franssen and Van Dijk (2008) show the prevalence of informal business activities in the Ethiopia economy. Most economic activities like bicycle repairs at the corner of the street, many small traders along the roads, and all kinds of small-scale transportation are informal in Ethiopia (Franssen & Van Dijk, 2008).

The Central Statistical Agency of Ethiopia characterizes informal business activities as those having no books of accounts and having no licenses, but making products / services for the market (CSA, 2013). In this context, formality signifies the practices of starting and operating businesses according to trade laws and regulations; the other businesses are considered informal businesses. Formalization of a business involves trade registration and making required payments like paying the income tax. A review of the SMEs development policy and strategy document and interviews with government officers show that the Ethiopian economy has a significant number of informal new businesses, along with the formal ones. From the interviews, I learned that many entrepreneurs prefer to operate informally, avoiding the costs and controls related to becoming formal entities

but they get money from the production of legal goods and services. These make the businesses competitive as compared to the formal ones. However, some businesses operate as informal businesses as they cannot afford the costs of running formal businesses. This condition is recognized by the Ethiopian government and it provides support to these businesses. An officer of the Trade and Industry Bureau in a sub-city said:

*...In the sub-city in general there are different types of very small business activities. There are many people with ambition and skills for undertaking trade, but they lack the capacity to penetrate the market. Taking this into consideration, the city administration made Saturdays and Sundays free for informal traders to supply their goods on the streets. The city administration understands that these traders cannot rent shops because they do not have enough capital. So, on weekends the main roads are open to them for selling their products freely.*

*A special feature of the sub-city is that there are large sales of cultural clothes which come with weaving patterns. The weavers do not have enough capital to sell their products in bulk. To solve this problem the sub-city constructed a shade in the open market area and every Saturday and Sunday these people can sell their products in the shade. They are informal traders but are facilitated with land and shade to earn their livelihood. This helps them as they have a fixed place for selling their products rather than wandering here and there on the roads in the city. This also helps them accumulate resources which they use later to form formal businesses. After working for some time as informal businesses in the area provided, the businesses get another shade where they operate formally after securing trade licenses and getting competency certificates. The work done by the trade and industry bureau before the businesses become formal is called preparatory work. After some time, most entrepreneurs grow and register as formal businesses. Then, they get trade licenses, register their capital and addresses, and rent working premises.*

*However, since there is large number of traders, this preparatory work is not available to all. That is why many people are still working on the streets and fighting with police officers because they are not allowed to work there. We believe that these are good citizens who have skills and a good attitude towards their work. So, the government needs to consider this aspect as well.*

*The trade and industry bureau is working to bring traders into formal and legal activities by prohibiting illegal trade practices and having fair trade practices in the area. The office is undertaking surveillance to identify those businesses that are working without trade licenses, renewal of trade licenses, and doing other illegal trade. This is for identifying those businesses which avoid paying taxes.*

As informal activities form a significant part of national economies, countries take steps to encourage informal activities to enter the formal economy through raising tax thresholds, eliminating the need for business licenses for most small businesses, drafting new laws to make it easy to register a business online and for accessing tax incentives, and giving tax reductions to small firms (Bosma, Hill, Ionescu-Somers, Kelley, Levie, & Tarnawa, 2020).

### 3.5. Reflections on the context

The purpose of this chapter was trying to understand the context of developing a new business in Ethiopia. The discussion focused on two features of the economy -- the SMEs development policy and strategy, and informal business activities. These are significant aspects that influence the development of new businesses in the Ethiopian economy.

The policy primarily gives government support to new businesses to help them evolve from informal and small businesses into formal medium and large businesses. It is assumed that this support reduces the challenges that they face while they develop. Instead, being supported by the government has varying effects as a new business' development unfolds. Perhaps a new business' actions and activities matter more than this support.

Thus, there is a need to understand the behavior of a new business over time in the context of the government's policy. This involves understanding how new businesses behave while they are getting the support package, immediately after the support package stops, and the differences and similarities in the behavior of new businesses with and without the support.

Even though the government supports formal businesses differentially, a significant number of informal businesses exist in the Ethiopian economy. This contradiction shows the paradoxical effects of formality. The government's basic assumption is that the benefits of formality outweigh its costs. Instead, the benefits of formality may vary as new business development unfolds. Perhaps businesses' situations and events affect the outcome.

This is why this dissertation discusses contextual elements because they are important in understanding new business development in developing economies. Developing a new business is naturally embedded in its context (Austin, 2002; Hashi & Krasniqi, 2011; Ramírez-Pasillas et al., 2017; Welter, 2011; Zahra et al., 2014).

## 4. New business development in Ethiopia: Dominant problems and solutions

### 4.1. Introduction

New business development is receiving increasing scholarly attention. A new business is seen as a system of distinct but inter-related and interdependent attributes (Beverland & Lockshin, 2001; Greiner, 1972; Kazanjian, 1988; Levie & Lichtenstein, 2010; Lewis & Churchill, 1983; Phelps, Adams, & Bessant, 2007; Siggelkow, 2002). These attributes include both quantitative indicators of firm size such as amount of sales, employment, size of assets owned, and market shares (Gilbert et al., 2006), and qualitative features including activities, activity systems, product and process characteristics, and organizational culture (Levie & Lichtenstein, 2010). Change in firm size is influenced by interacting changes in its qualitative elements (Penrose, 1959). In qualitative dimensions, the change consists of variations in the extent of each element and emergence or disappearance of some elements (Siggelkow, 2002).

Studies highlight how new businesses develop into complex systems of interdependent elements leading to a configuration of the elements and a transition between these configurations (Levie & Lichtenstein, 2010; Siggelkow, 2002). A firm's contemporaneous elements are highly interdependent and have a high influence on future elements of the firm (Siggelkow, 2002).

The support that the government is providing to new businesses may influence their development processes. As discussed in Chapter 3, the context of developing a new business in the Ethiopian economy is characterized by government support. The government supports some businesses by providing them resources and market connections. However, the government prefers certain industries and markets over others. In addition, the support extends only for a limited period, after which the new businesses need to become self-reliant in resources and marketing their products. It is not clear how the government support influences the process of developing a new business, whether ending the support triggers stage transition, and how the business reconfigures itself to cope with the transition.

Therefore, the purpose of this chapter is understanding how government support influences the evolving challenges that new businesses encounter and the remedial activities that they undertake in their development processes in the Ethiopian economy. The discussion is framed by the phase transition perspective. It includes a review of literature and an interpretation of two case studies,

of which one is a beneficiary of government support. This rest of this chapter is organized as follows. Section 2 presents the literature review and Section 3 discusses the two case studies. Section 4 does an analysis and interpretation of the cases. Section 5 discusses the lessons from the chapter.

#### 4.2. Literature review

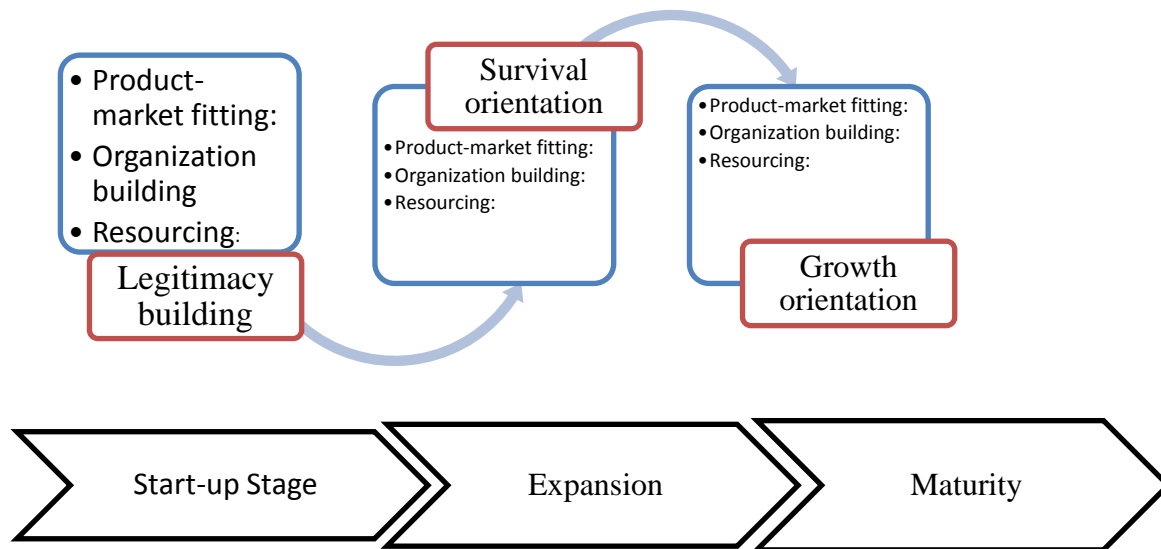
Scholars have characterized a new firm's development process as a set of dominant challenges and the firm's response to these through remedial activities (Garnsey, 1998; Hanks et al., 1993; Kazanjian, 1988; Lewis & Churchill, 1983; Miller & Friesen, 1984b; Phelps et al., 2007). As a new firm's development unfolds, challenges related to its internal and external environment emerge that demand activities which can address them (Garnsey, 1998; Hanks et al., 1993; Kazanjian, 1988; Phelps et al., 2007). Studies give different explanations of how and why these challenges occur. Some scholars assume that developing a new firm follows a life cycle like the life cycle of organisms (Kazanjian, 1988). New firm development is also modeled as a pre-determined number of stages occurring sequentially (Greiner, 1972; Lewis & Churchill, 1983; Kazanjian, 1988). Other studies provide a holistic view of how strongly interdependent and mutually supportive dimensions interact in developing a configuration of a firm, called 'gestalts' (Miller, 1981, p. 3). These studies focus on creating 'gestalts' through the interaction of factors related to the environment, structure, and strategy (Gartner, 1985; Gartner, 1988; Ketchen & Shook, 1996; Miller, 1981, 1987; Miller & Friesen, 1980).

Studies on life cycle models consider the whole life span of a small firm, ranging from its birth to decline stages, dividing the life cycle into a specific number of stages. Literature indicates that there is no empirical confirmation of the specific number of stages and their sequential relationships (Levie & Lichtenstein, 2010; Phelps et al., 2007). However, the idea that a growing firm displays distinguishable stages or configurations at different times in its history is related to attributes and factors (both internal and external). The attributes and factors trigger phase transitions (Levie & Lichtenstein, 2010). Thus, as my purpose is understanding how small businesses overcome the challenges in their early stages, this review focuses on the phase transitions that small firms go through before they reach maturity (cf. Hanks et al., 1993). A phase transition is a result of a major change in the state of a new business (Greiner, 1972). The change from one state of gestalt or configuration to another is characterized by a transition period

(Miller,1981). This is a result of major changes that take place in environmental, structural, and strategic features (Levie & Lichtenstein, 2010; Miller, 1981, 1987; Miller & Friesen, 1980). Thus, how a given configuration of a new firm is viable in certain conditions and how the progression through the states related to the knowable environmental condition progresses are relevant issues in studying new businesses' development (Levie & Lichtenstein, 2010; Miller, 1981, 1987).

A thorough reading of the life cycle models shows how small and young businesses tend to encounter three general categories of phase transitions: legitimacy building, survival orientation, and growth orientation. During the transition phase, a small and young firm encounters diverse challenges (Hanks et al., 1994). Being informed with scholarly works on the dimensions of developing a new business (Aldrich, 1979; Aldrich et al., 2006; Katz & Gartner, 1988) the actions required for developing a new business include locating new business opportunities, accumulating resources, marketing products and services, producing the products, building the organization, and responding to the society and government's needs (Gartner, 1985, pp. 699-700). I capture the challenges and remedial activities discussed in the life cycle models along three main dimensions: product-market fitting, building the organization, and resourcing. Each of the three phase transitions involves different dimensions with different challenges. Figure 4.1. introduces the transition phases in relation to the traditional stages which—according to the stage model and life cycle literature—include the three stages of start-up, expansion, and maturity characterizing young small businesses (Hanks et al., 1993). The upper part of the figure shows the transition phases and the lower part shows the traditional stages.

Figure 4.1. Transition phases and traditional stages (according to the stage model and life-cycle literature)



### The transition phase -- legitimacy building

The transition phase involves a transition from non-existence to existence. In this phase a young small business has no track record of its performance as it has not yet established trust among its external stakeholders (Stinchcombe, 1965). The market is also not aware of its products, and its suppliers and resource providers do not know the business. As a result, it faces life or death moments (Steinmetz, 1969) which require creativity (Greiner, 1972), and the work's inception (Scott & Bruce, 1987) for addressing them effectively (Churchill & Lewis, 1983). Scott and Bruce (1987) argue that the difficulties in establishing acceptance for a product depends on the life cycle of the specific industry.

#### *Characteristics of the level*

*Product-market fitting.* Here, the business needs to get off the ground by creating a product and a market for it (Greiner, 1972). The main problems at this level are finding customers and expanding the customer base and making the product and the business viable (Churchill & Lewis, 1983). The founders' physical and mental energy is focused on creating and selling products (Greiner, 1972). Scott and Bruce (1987) highlight that a single market characterizes this with limited channels of distribution, and the business' market coverage is selective till its consumers start accepting its

products. They underline that the main efforts of a business in this phase are developing commercially acceptable products, securing a market for the products, and establishing legitimacy for the firm.

*Building the organization.* In this phase, the business is a one-person or a small group of founders' operations (Steinmetz, 1969). Its organization is simple; the owner is the business—the owner does everything important and directly supervises his subordinates and systems; formal planning is minimal to non-existent (Churchill & Lewis, 1983). Scott and Bruce (1987) add that there are low levels of forward planning at this stage. Greiner (1972) emphasizes that this phase is characterized by the founders' disregarding the management as their physical and mental energy is absorbed in making and selling their products and communication among employees is frequent and informal. In addition, long hours of work are rewarded with only modest salaries and the promise of future ownership; decisions and motivation are sensitive to the market and the management acts as the market reacts (Greiner, 1972).

*Resourcing.* Steinmetz (1969) highlights that in this phase, an entrepreneur is often without capital, without apparent social skills, and without even a good idea. Yet, the owner is the major supplier of human and financial resources, but with support from relatives and friends (Churchill & Lewis, 1983). Churchill and Lewis (1983) also stress that securing cash for financing the expenses of a new business is a critical issue at this level. The business typically operates with a capital that is less than its costs (Scott & Bruce, 1987).

Thus, after considerable effort a growing new business needs to secure its existence. There is a point where the business demonstrates that it is a workable entity and enough customers are sufficiently satisfied with its offerings (Churchill & Lewis, 1983). However, the business can remain in this phase for a limited period of time only (Scott & Bruce, 1987). The business reaches a critical point, a 'tip-off' point, which demands new activities to moved ahead in the growth process (Steinmetz, 1969).

Consequently, the business needs to perform new activities to overcome the challenges that emerge at this stage. These activities are grouped under the next transition phase of development.

### **The transition phase -Survival orientation**

As a new business establishes credibility among its customers and other stakeholders, there is a related increase in the volume of its activities (Churchill & Lewis, 1983). This brings additional

paperwork and more employees (Steinmetz, 1969) and a need for managing efficiencies of a larger-scale manufacturing process, formalizing communication, and motivating employees (Greiner, 1972). In addition, there is also a need for additional capital and new accounting procedures for financial control (Churchill & Lewis, 1983). As a result, the founders become overburdened with unwanted management responsibilities. Then there is also the problem of negative cash flows. Unless a business takes up quick activities, it cannot exist with these pressing problems (Scott & Bruce, 1987). It is a question of a new small firm's survival.

### *Characteristics of the phase*

*Product-market fitting.* Scott and Bruce (1987) highlight that in the survival phase a new business operates with a limited product line and its growth is through market expansion. Growth in this phase involves expanding the channels of distribution and the new small business needs to reach an expanded market (Scott & Bruce, 1987).

*Building the organization.* In this phase, leadership problems might arise, demanding infusion of new managerial knowledge as a critical component for overcoming this challenge (Greiner, 1972). This can be done, for example, by replacing the founding manager with a capable manager who has adequate skills and knowledge or through training the founder and upgrading his or her capabilities in managing a more complex business. In addition, Greiner (1972) also discusses structural mechanisms to keep the business growing. He says that a functional structure emerges at this stage, including manufacturing and marketing sections with specialized job assignments. But lower levels and supervisors are typically treated as functional specialists rather than as autonomous decision makers. This is accompanied by the introduction of accounting systems for purchasing and inventory. Systems like incentives, standards, and budgets need to be formalized. Communication among the employees becomes formal as hierarchies grow (Greiner, 1972). Churchill and Lewis (1983) also highlight that in the survival stage, a new business is characterized by a simple organization; it has a limited number of employees supervised by a sales manager or a general foreman; the employees do not take major decisions independently, but instead carry out the orders of the owner; and formal planning is, at best, cash forecasting. They emphasize the need for delegating responsibilities as the volume of activities and the number of employees increase during this phase.

*Resourcing.* According to Greiner (1972) managerial expertise is critical in the survival phase. Scott and Bruce (1987) add that financial resources are required for financing the working capital. There is also a need for more inventories and receivables (Scott & Bruce, 1987). Depending on the credibility earned in the previous stage (Stinchcombe, 1965), these can be financed through creditor financing, bank overdrafts, and short-term loans (Scott & Bruce, 1987).

Scott and Bruce (1987) argue that a business may remain in the survival stage earning marginal returns. Churchill and Lewis (1983) highlight that a business can generate enough cash to stay in business, and given industry growth and its niche market, it can get the required cash for growth. A business might stay in the survival phase for a longer period depending on the resources at hand (Bruderl & Schussler, 1990; Fichman & Levinthal, 1991), and credibility generated among customers, suppliers, and resource providers which is based on the legitimacy earned earlier (Aldrich, 1999; Granovetter, 1973).

Nevertheless, challenges are a part of the continuity of a new business' developmental process. Centralized management practices eventually become inappropriate for controlling the business as it becomes a more diverse and complex organization (Greiner, 1972). Market competition forces the business to continue growing (Scott & Bruce, 1987). Further, the owner manager might decide to continue the growth process (Churchill & Lewis, 1983). This requires performing new activities for overcoming the challenges that come with this expansion. The activities are grouped together though differently labeled as delegation (Greiner, 1972); making it to stage III (Steinmetz, 1969); growth (Scott & Bruce, 1987); and success (Churchill & Lewis, 1983). I label this as the stage of growth.

### **The transition phase -- Growth orientation**

This phase is characterized by an increase in sales volume and profits. This requires increasing the number of activities which necessitates more differentiation and integration of the activity systems (Churchill & Lewis, 1983; Scott & Bruce, 1987; Steinmetz, 1969).

#### *Characteristics of the phase*

*Product-market fitting.* According to Scott and Bruce (1987) the characteristics of this phase are expansion of the market base which requires expanding to different locations, selling to a new market, and expanding distribution channels. This forces the business to compete when it comes to pricing and taking up cost control measures.

*Building the organization.* In this phase, increased activities require formalized control systems (Scott & Bruce, 1987) and there is the need for functional managers, for example, for marketing, finance, and production (Churchill & Lewis, 1983). These authors also stress that there is a need for professional staff members and functional systems being in place for the first time in a new small business. There is a need for delegation of authority to the functional managers (Greiner, 1972).

*Resourcing.* Scott and Bruce (1987) characterize the growth phase as being profitable but the cash is re-invested for financing the increased working capital that is needed. Churchill and Lewis (1983) highlight that in this stage a business tends to have 'plentiful' internal cash.

These three phases are the main transitions that a small and young business faces (Hanks et al., 1993). However, scholars have criticized this life cycle approach of modeling a firm's development (Kazanjian, 1988; Levie & Lichtenstein, 2010; Phelps et al., 2007) as this approach assumes that organizations develop as though they are organisms through a 'specific number of stages' in a linear and sequential way and that the stages represent an 'inherent program of development' (Levie & Lichtenstein, 2010, p.320). Even though these assumptions are intuitively appealing, they are not empirically valid (Levie & Lichtenstein, 2010; Phelps et al., 2007). Despite these problems, the stage approach does provide some insights that are empirically confirmed. Firms operate in some definable state for some period of time within a specific range of conditions (Levie & Lichtenstein, 2010). This insight has helped scholars to treat it as point of departure for building a more flexible approach to modeling young and small businesses' development (Levie & Lichtenstein, 2010)..

Another model of new business development emphasizes on factors leading to the emergence of a given configuration or dynamic state and its subsequent reconfigurations (Levie & Lichtenstein, 2010; Miller, 1987). Miller (1987) highlights the genesis of the configurations and specifies factors behind their emergence. The factors reside in the external environment including technology, or internally such as in the organizational structure, leadership, and strategy (Miller, 1987). The factors are assumed to be resistant to change, but their change results in a transformation of the configuration (Miller, 1987). Similarly, Gartner (1985) describes a new business' development as the creation of 'gestalts' of factors in four dimensions: the person(s) involved, the organization's structure and systems, the situation surrounding and influencing the firm, and the actions taken by

the individual(s). Fundamentally, developing a business involves assembling on-going interdependent actions into sequences (Weick, 1979) in the interactions among the factors (Gartner, 1985).

Gartner (1985, pp. 699-700) identifies the actions involved in developing a new business including locating new business opportunities, accumulating resources, marketing products and services, producing the products, building the organization, and responding to the society and government's needs. As the process unfolds, a given configuration develops with an internal logic, integrity, and evolutionary momentum that gives it stability (Miller, 1987). However, the state of the firm changes, either incrementally or dramatically through a reconfiguration of its dimensions in response to changes in the external and/or internal conditions (Gartner, 1985; Gartner et al., 1989; Ketchen & Shook, 1996; Levie & Lichtenstein, 2010; Miller, 1981, 1987; Miller & Friesen, 1980).

Studies address viable configurations following which a new business evolves, and indicate that a demanding phase transition is one of the challenges which triggers a reconfiguration of the business. However, it is not clear how a new business started with government support forms a new configuration and whether stopping this support triggers stage transition, and how the business reconfigures itself to cope with such a situation. Thus, the following sections focus on further understanding the process of developing a new business using two cases studies. The first case is a business that received government support for some time whereas the second case is a business that has never received government support.

### 4.3. Case studies

These two case studies cover a new garment manufacturing business and a new garage service in Ethiopia. The discussion is structured as follows. First, I present the case studies from the point of view of their owner managers and then I present my analysis and interpretation of the cases. The analysis and interpretation help enhance our understanding of growth in the early stages of new businesses.

#### *Case one:* K- Garment plc

Garment was established in 2009 and started operations in February 2011. It produces gowns, uniforms for students and office workers, and t-shirts. It was founded by a team of four family members who got support in the form of a workplace and a loan from the Ethiopian government.

This support was in line with the policy of the SMEs Development Agency. One of the owners was previously self-employed doing the same job though on a different scale. He had been tailoring clothes for a long time. But the remaining family members had no prior business experience nor any related experience. The entrepreneur with prior related experience is in his late 40s. Even though he did not attend a formal school, he is familiar with sewing as he has worked with other tailors as an apprentice. After learning how to sew clothes, he started his own business which he ran for a long time before starting this business.

Garment started with four working owners, two old sewing machines, and 2,000 Birr as working capital. Currently, it has 52 workers and 25 modern machines. Its capital today is 2,000,000 Birr in cash with a total capital of 16,000,000 Birr.

#### *Initial conditions*

“Before establishing Garment, I was doing the same work on different size. The connections that I had helped me get jobs for the new business. Meanwhile, I got information about a government policy that supported individuals who could work as a team. I formed a team with my family members.

The team consisted of me, my wife, and my sister’s two sons. We established a garment enterprise in line with the SMEs Development Agency’s requirements and requested support from it. The Ethiopian government gave us the workshop at a low rent. In addition, I took a loan from the Addis Credit and Saving Association to use as initial capital using my personal house as collateral.

Initially, we started Garment as a cooperative. However, the government directed us to change it to a private limited company. Currently, Garment is owned by two persons (me and my wife) while the other two co-owners have left and started their own enterprises with support from the SMEs Development Agency.”

#### *Market*

“I used different means for selling our products. I opened a distribution shop which sells our products to retailers. Initially, most of my customers bought my products by chance. Once they bought my products, they became loyal clients. Existing customers come again and refer me to others.

I also participate in bids, including bids by government agencies, private organizations, and non-governmental organizations (NGOs). Sometimes the government allows us to participate in bids. Our other customers include NGOs and those supporting orphans. They buy school uniforms for the orphaned students and give us repeat orders. Besides, health institutions are also our customers. Even though I always follow up on bids to identify new customers, I focus on specific categories of customers.

The venture sells different types of products in different seasons. During the dry season, it sells uniforms to organizations for guards, gowns for workers, and other clothes for other workers and during summertime we prepare uniforms for students. In the shop, I sell readymade clothes daily, but for bidding I only prepare samples and produce the final products after winning a bid. This is infrequent selling. So, daily sales and selling bids complement each other, and have also helped us diversify our channels of distribution to overcome the challenges of finding markets.

For promoting the products, I prepare business cards and distribute them in bazaars. I have established connections with other ventures which are selling the same products. They connect customers to me whenever they cannot supply the type and amount of goods demanded.”

### *Expansion*

“Initially we had four workers, including me. All of us were owners of the venture. Two did the sewing, one fixed the buttons, and I worked on supply of materials and searching for markets.

After some time two co-owners left and started their own businesses. My wife and me were the only workers for some time. We decided to share the work according to our existing knowledge and experience. I sewed and my wife sold the products. We increased the number of workers over time. Now we have 52 workers, 26 of whom are permanent. Among the workers, some work on sewing, others on ironing, and the remaining on fixing buttons. I look for markets and my wife works as a salesperson in the shop.

The new business started with two old sewing machines, but the employed workers were reluctant to work with old machines. We bought 25 modern machines over time, partly financed through credit, with the remaining money coming from what I collected by participating in 'ikub' (ikub is a local practice where a group of persons comes together and each member agrees to contribute a given sum of money in an agreed period of time. Each member receives the total amount of money

contributed in each period by rotation. It either ends in one rotation or continues for many rotations). I have already paid for a land lease, which will hopefully help me expand my business. The business has already expanded sequentially. This increase in the volume of work has led to increasing the number of both contract and permanent workers. I hire contract workers whenever there are more jobs. These workers are paid on a per piece basis while the permanent workers are paid periodically. Before 2015, the maximum number of workers that we had was 40 (15 permanent), but in 2016 we had more than 50 workers (26 permanent).

We added machines based on the availability of money and jobs. For example, in 2015 I bought six additional machines. These were bought whenever there were more jobs that required more workers. So, for each additional worker, I bought new machines needed for engaging the new workers.

In 2016, the venture graduated from the small to the middle level and was certified by the SMEs Development Agency as a medium sized enterprise as it fulfilled the criteria. It had a registered capital of 1.5 million Birr. Earlier the Ethiopian government provided us support letters which helped the business in bidding as they worked as performance bonds securing delivery on winning a contract. But after we graduated to the middle level, the government stopped giving us these letters.

This forced us to buy cash performance orders (CPOs) from banks depositing large amounts of cash. That was not possible for a small firm like ours. I did not have cash in hand as it had been used for buying machines and other things needed for the business. If I sold existing property to get cash, then I would have had to reduce my workers making them unemployed.

The government allowed me to take machines on lease. But my problem was working capital. However, the government was pushing me to take machines on lease but I did not avail of this working capital. I have enough machines, but I needed more working capital which would help expand operations. I needed money to buy raw materials. Once I tried to use my house as collateral and borrow money from a bank. But the collateral had to be owned by the enterprise and could not be a private property. This is the case when the amount of loan is in millions of Birr. My venture did not have a property registered in its name. So, I had a problem of getting additional working capital.

In addition, the other big challenge was getting skilled workers. We hire graduates from technical and vocational education and training (TVET) institutions, but they do not have enough skills.

When they are given a chance to train on the job, they lack patience. Currently, I am filling vacant positions by hiring individuals with experience on a contract basis.

Lastly, there are challenges related to the administration of the internal operations of the venture. I have the responsibility of searching for markets and managing internal operations. I am working on planning and controlling the preparation of garments, financial flows, and following up on the day to day activities of the workers. In addition, I am also searching for customers and dealing with them. These voluminous activities are beyond what I can do daily and I have become inefficient.”

#### *Summary of information from other sources about the garment manufacturing business*

During my visits to Garment’s workplace, I observed how the owner manager dealt with his customers. He collected information on bid announcements by potential customers by reviewing local newspapers. Moreover, he distributed documents describing his offer to potential customers. The selection of potential customers was based on reading bid announcements, and through soliciting would-be buyers. He distributed business cards to the latter category of potential buyers. I observed various telephone conversations that the owner manager had with potential customers. He discussed the variety of products the business offered. In addition, I had a chance of observing a customer visiting the production site. The customer was checking the number of sewing machines and employees. I learned that he wanted to find out the business’ capacity and if it would be able to deliver the products on time. In my discussion with the customer I understood that the visit was for comparing different suppliers based on their capacity to deliver the products on time.

#### **Case two:** D-Garage service- sole proprietorship

The new garage business was established in 2009 in a rented place. Its initial capital was 7,000 Birr and a few hand tools. It was a sole owned business. The entrepreneur was born in a village and grew up in a farming family. He moved to Addis Ababa to live with his married brother when he was 6 years old. He was advised to work in a garage. He joined a garage as an apprentice. Before starting the current business, the entrepreneur was engaged in several activities. He was employed as a taxi driver and he also worked in a garage as a mechanic. He started and operated a kindergarten on his own and co-owned a garage. With all this experience the entrepreneur started his new garage service in 2009.

### *The entrepreneur's prior experience*

“I started work in 1992 with a daily payment of 6 Birr. The payment was very low as compared to the living costs at that time. It was not enough to even cover my daily food expenses. However, the payment increased slowly and reached 25 Birr a day in 1999.

I worked in the garage for seven years, got a driving license in 1999, and became a taxi driver.

In 2002, I bought a plot of land on the periphery of Addis Ababa for 2,600 Birr. Using this land, I constructed a house in which I opened a kindergarten school. But I had no knowledge about running the school and nor did I have the necessary educational background for running it. I hired teachers from among those who had completed high school. After working for some time, I sold the house for 220,000 Birr.

Meanwhile, I was employed in a garage as a mechanic. This helped me to improve my skills in garage work.

I opened a garage in 2006 in partnership with three mechanics who had been working with me earlier. One of us was assigned to collect cash and register financial flows. We did not hire an accountant or office worker. After working for three years, there was a disagreement among us because the one who was assigned to record financial transactions was cheating and misreporting our earnings. We closed the garage and I took only 7,000 Birr and a few hand tools as my share. My customers advised me to start my own garage. And that is what I did.”

### *The new Garage Service Business*

“I started a sole owned garage business in 2009 at a rented place. I paid 7,000 Birr as rent. As soon as I started the new garage, many people including customers of my previous colleagues came to me because they trusted my honesty. I bought a minibus with 30,000 Birr.”

*Operation.* “Unfortunately, the place I had rented was not legally allowed for a garage. The government penalized the owner of the compound who forced me to leave the premises. I shifted the business to the current compound in 2011.

Another challenge I faced was getting a professional certificate. The certificate requires a diploma in a technical discipline, but I have only studied till Grade 8. Not having this certificate hinders me in competing for bids floated by large companies.

However, some companies offer me jobs through personal connections. For example, I established connections with a company through its driver. I knew him and he recommended me to the company. The company gave me a job. Unfortunately, the finance department of the company denied me my payment. The person there argued that the contract was not legal as I did not have a professional certificate.

There was also pressure from the trade and industry office, a government unit, to have a competency certificate (COC) in garage work. Every year, they warned me that they would not renew my trade license unless I got this certificate. But getting the certificate needed an education certificate. The competency certificate required me to be a graduate from a TVET institution, and I did not qualify for this as I had only completed Grade 8. Recently, the office renewed my trade license with the last warning.

The other problem was potential customers' perceptions. They thought that a mechanical worker had to be physically big and muscular. Some persons prejudged me saying that I could not serve them because I was not physically big. Some went away just looking at me without giving me a chance to work on their vehicles. Those who let me try were surprised with what I could do.”

*Market.* “Most of the time I get new customers through referrals from my existing customers. For example, a friend of mine convinced a customer to come to me. The customer owns many cars. He came with a damaged car. Even though he had tried a number of garages, he had not been able to get the car repaired. He came to my garage to try for the last time. I made all necessary repairs and charged him only 200 Birr. He was surprised. He gave me an additional 100 Birr because he was happy with my service. After some time, he became my client for all his cars and he also referred me to many others, and I got many customers through his referrals.

I also managed to retain customers because of my skills and knowledge, and the way in which I interacted with the customers. I understood that firms expanded if the customers trusted the quality of their work, and existing customers referred the firm to other customer based on their trust in the quality that it offered.”

*Summary of information from other sources about a new garage service business*

I visited the site many times and also interviewed its customers. During the visits, I learned that the business was facing a challenge of working premises. Its premises were a small rented compound surrounded by houses. There was a very small office room with one office table and two chairs. The office also had a cash register machine and was crowded with different spare parts and tools.

The small compound served as a workshop for the garage. It was occupied by disassembled cars. Those customers waiting for services parked their cars outside the compound. They parked their cars on the road near the garage. There were friendly conversations between the customers and the owner manager of the garage. In my interviews with the customers, I learned that they were satisfied with the services. Since the business did not have enough parking space, customers waited at home. They were ready to wait for as long as it took to get the service. They had been with the business for a long time. Service quality and trustworthiness of the owner manager were the main factors cited for their loyalty. The employees had embraced the tolerance level of the owner. They joined the business with only general knowledge about car maintenance. Some joined the business after graduating from technical vocational schools, with little practical knowledge. They learned on the job after joining the business. The owner manager helped the employees learn. Some employees joined the business after working in other garages. But they learned most of what they know after joining this business. Suppliers were selected based on the quality of materials that they provided. After repeated purchases, suppliers started selling to the business on credit.

#### 4.4. Analysis and interpretation

This section does an analysis and interprets the two case studies. The analysis focuses on identifying the agents involved, their role in the main activities of product-market fitting, resourcing the business, and building the organization. The analysis shows how the agents interact and the characteristics of each agent which influence the business' development. In addition, the analysis shows how a business which is supported by the SMEs Development Agency develops, and how it reconfigures itself when the support stops. The discussion focuses on two transition phases that a new business proceeds through as its development unfolds: **engaging with the SMEs Development Agency, and disengaging from this agency.**

The second sub-section of the analysis focuses on how the main activities of product-market fitting, resourcing the business, and building the organization influence each other as the business' development unfolds. This is done through a comparison of the two cases to see if there are any differences and similarities in the interactions among the activities in developing a business with and without government support.

##### 4.4.1. Roles of different agents in the main activities while developing a new business

###### 4.4.1.1. *Transition phase: engaging with the SMEs Development Agency*

The SMEs Development Agency shortens the time required for product- market fitting activities. The agency mediates between a new business and the government and its stakeholders. The empirical case manifests that a new business established in line with the SMEs Development Agency is given priority when participating in bids floated by government agencies. The agency also gives support letters to new businesses which help them participate in the bidding processes. The support letters guarantee the performance of the new business among prospective buyers, thereby helping a new business to win their confidence. In addition, the support letters also help a new business participate in bids without being required to buy cash performance orders (CPOs) from banks that require depositing large amounts of cash with the bank.

However, the founder's experience and social connections improve the influence of the support given by the agency. The empirical cases make it clear that selling to a limited number of initial customers cannot sustain a new business. New small businesses need to increase the number and category of their customers. A new business which has government support survives by using complementary selling mechanisms. It sells its product to markets connected through the government. It also sells through other outlets that the founders have experience in. For example,

the manufacturing business opened a distribution shop. Through the shop, it distributes its products to other retailers. The retailers sell these products to final users in different areas. The new business also participates in bidding processes. But this is infrequent selling. This includes bids announced by government agencies and private organizations. Sometimes the government supported the business in participating in bids. Further, the garment manufacturing business changes its products seasonally. So, the mechanisms complemented each other and helped the business overcome the challenges faced in finding a market.

Less dependence of a new business on government support enhances sustainability of its resource bases. A higher level of the founder's social interactions provides a buffer to the new business against shocks resulting from the government withdrawing support. Government support is given for a limited period. It stops immediately after the business progresses through the various stages of survival. In addition, the support is limited. Termination of government support while the business is expanding leads to new challenges. As a business' activities expand, there are challenges of finding skilled persons and financial resources. Financing growth is also a significant challenge. It includes the problems of covering working capital and investing in fixed assets. First, the internally generated cash is not enough to cover the expansion. Second, the formal banking system does not accommodate ventures that are growing. Formal banks require a new business to have fixed assets as collateral to get a loan. But new businesses do not have these. This leads to the paradox of whether the chicken came first or the egg.

However, a business uses social mechanisms as a remedy for dealing with such paradoxes. The business in the first case used the traditional money collection method, 'Ikub', and got loans from friends as alternative sources of finance for meeting its needs.

As the extent of government support increases, it negatively influences human capital development in a new business. The empirical case shows that the new business did not have the attitude of long-term human capital development as it needed short term returns from the new workers. It opted for hiring experienced workers from other organizations on a contract basis for addressing its immediate needs.

The extent of government support in connecting to markets influences the type of main activities and the internal structure of a new business. As the extent of support for market connections is high, the founders need to do less market search activities thus focusing on production. As a result,

the founders get more time to focus on the administration of internal operations. In addition, they need a lesser number of additional workers. This keeps the internal activities structure simpler.

#### *4.4.1.2. Transition phase: engaging with the SMEs Development Agency*

However, stopping government support leads to other challenges. A new business needs to search for additional market connections for its expansion activities. In addition, the challenge of dividing jobs also emerges. The first empirical case shows that when the government support stopped, the owner manager was overstretched because of the diverse activities that he had to handle. The activities included administration of internal operations and searching for more customers. Hence, the owner manager became inefficient in both the activities. It required the division of job responsibilities and assigning separate persons for the administration of internal operations and searching for markets.

#### *4.4.2. Interactions of the main activities as the new business development unfolds*

This sub-section compares the interactions in the main activities of a business which has government support and a business without this support. The two businesses discussed in this chapter have similarities and differences. They started as small businesses. Their owners had prior experience in their respective industries, and they used their existing market connections for finding initial markets for their products and services. Moreover, the owners of both the businesses had prior experience of starting new businesses. But the two businesses are also different. One is in manufacturing, whereas the second is a service business. In addition, the first started with support from the Ethiopian government for a workplace and a financial loan. But the second had no such support. The first business was started by a team of owners, whereas the second is owned by a single person. The two cases help compare and contrast the challenges faced, and the solutions when a new business starts with support from the Ethiopian government and one which has no such support.

Whether a business is supported by the government or not does not bring about any changes in their behavior of indulging in cost minimizing activities. The new businesses started with government support and without government support focus on activities that help them minimize costs. In both the empirical cases, the businesses employed workers on a non-permanent employment basis as a mechanism of coping with the unstable demand that they faced. This helped the businesses to easily lay-off non-permanent workers as demand for their products declined.

In addition, the founders' prior work experience and social connections influenced the development of the businesses whether they were supported by the government or not. Prior work experience and social connections of the founders helped both the categories of new businesses. The empirical cases show the role that prior experience played in helping the new businesses in establishing connections with their initial customers. In the garment manufacturing business, the founding manager had been doing the same work earlier. This helped the business choose its distribution channels and it opened a distribution shop in the place where the founder earlier sold his products. The new garment manufacturing business also sold its products to retailers that the founder knew through his previous business. Similarly, the garage case shows how prior personal connections helped the founder connect with new customers. As he founded the new garage, his previous customers became customers of his new business. The cases also show how referrals by initial customers helped in earning the trust of new customers. In the garment manufacturing case, the owner manager indicated that once the customers bought his products, they become loyal clients. Existing customers also referred him to other clients. Therefore, the business benefited from its chain of customers. Similarly, the garage business also used referrals from existing customers to get new customers. The owner manager of the garage business stressed that new customers trusted him because his existing customers trusted him.

Whether a business is supported by the government or not does make a difference to the speed at which the business learns about the political and legal environment. A new business supported by the SMEs Development Agency develops more knowledge of the political and legal requirements than its counterparts. It gets more orientation and training. In the second case it is clear that lack of prior knowledge about government rules and regulations in the specific area of the business led to legal action against it. Hence, lack of prior knowledge about the legal requirements is a threat to new businesses. In addition, a new business with no government support faces more challenges in establishing legitimacy in the Ethiopian economy. For instance, the owner of the garage business was struggling to get a professional license and renewing his trade license.

#### 4.5. Lessons from the chapter

The purpose of this chapter was understanding the influence of government support in addressing the evolving challenges and undertaking remedial activities as a new business developed in the Ethiopian economy. The discussion included a review of literature and an interpretation of two case studies. The chapter identified the main agents who played roles that influenced the

development of new businesses in developing economies and gave an insight into their roles as the process unfolded. Involving the SMEs Development Agency helped in the main activities of product-market fitting, building the organization, and resourcing of a new business which influenced the configuration of the activities as the new business developed. The degree of influence varied as per the nature, extent, and timing of this involvement. The development process was positively influenced when the agency involved itself more in resourcing than in product market fitting and building the organization. New businesses in developing economies start with limited financial resources and have no owned working premises. In addition, the formal financial system in the country does not provide financial services to small businesses. However, as the amount and length of support through resources increases, it delays the development of a new business as it delays the founders getting engaged with other sources for resources. This negatively affects the development and the configuration of the business' main activities. To overcome this challenge, the founders intensify their search for other sources for resources in parallel with support from the SMEs Development Agency. This search unfolds as the business develops. This helps sustain the configuration of activities with less influence of the withdrawal of government support as the process unfolds.

The involvement of the SMEs Development Agency in product-marketing fitting activities results in challenges that extend the problems for the businesses. Firstly, the founders' social ties complement government support in enhancing the extent of the challenges of building the organization. I call this the *liability of early market base scaffolding*. The concept conveys the cost that accrues as a new business depends on the government for market support. However, this depends on the extent to which a business relies on government purchases while it is getting support from the government. If a new business diversifies its customer base, including individual customers, it acquires knowledge about marketing practices in the industry. It also gets a bigger customer base in case the government withdraws its support. Consequently, it reduces its liability of early market base scaffolding. The Government of Ethiopia supports new businesses by connecting them to government purchases. As part of the support package, the government helps businesses to directly sell their products to projects run by the government. In addition, the government mediates between a business and its other buyers. To fulfill the demand from the government, a new business needs to acquire material and human resources. This in turn increases the need for internal differentiation and integration of the role structure. These make the business

accumulate resources and other infrastructure. But the support is only given for a limited period. As the support stops, the new business needs to deal with the challenges of finding new customers. This is new learning for the business.

The extent to which a business finds additional markets determines the level of utilization of its accumulated resources. Holding unutilized resources involves additional costs. Employees need wages and salaries. In addition, the business needs to incur costs to maintain its other infrastructure. But the business may lack skills and connections in business practices with individual buyers. As a result, a new business faces problem in generating enough revenue to cover its costs.

## 5. Developing a product in a new business

### 5.1. Introduction

Developing a product is an integral part of a new business's development (Schoonhoven et al., 1990; Ulrich & Eppinger, 2004). Researchers argue that developing a product involves managing knowledge related to the product (Safdar et al., 2017) through the creation of new knowledge, a synthesis of existing knowledge, and the use of prior experience (Schoonhoven et al., 1990). This process comprises learning by doing (Marion et al., 2012; Söderquist, 2006) and collaborations with external entities (Clauss & Kesting, 2017; Freel, 2003; Luzzini et al., 2015). These activities help new businesses in overcoming different challenges (Marion et al., 2012; Zimmerer & Scarborough, 2008) including those emanating from economic, political, and regulatory uncertainties in developing economies (Lingelbach et al., 2005) effecting the process of developing a product. As shown in Chapter 3, the Ethiopian context is characterized by limited access to finance, unpredictable markets, the existence of discriminatory regulatory practices, and lack of business skills and managerial expertise (Ageba & Amha, 2006; Amha & Ageba, 2006 ; Gebreeyesus, 2011; Kelley, Singer, & Herrington, 2012; Kebede & Simesh, 2015). However, the Ethiopian government supports select new businesses in overcoming such challenges including the facilitation of external finance and providing training on product development and commercialization. This overall support is a part of the Ethiopian government's SMEs development policy and strategy. But the support is provided to only selected new businesses for a limited period of time.

Thus, the purpose of this chapter is developing an understanding of the challenges encountered during a new business' product development and identifying how a new business can overcome these challenges in the Ethiopian economy. It examines the activities of managing knowledge for overcoming the challenges. The chapter includes a literature review, a case of a new coffee processing business, and an analysis of the case.

This rest of this chapter is structured as follows. Section 2 presents the literature review, and Section 3 discusses the case. Section 4 provides an analysis and interpretation of the case while Section 5 discusses the lessons learned.

## 5.2. Literature review

Scholars stress that developing a product requires diverse knowledge (Kim & Kim, 2011). The need for having appropriate knowledge is fulfilled by creating new knowledge, which includes combining existing knowledge and using prior experience (Schoonhoven et al., 1990).

The following section discusses different aspects of the use of prior knowledge, and creation of new knowledge when developing a product in a new business. After that, it reviews the literature on developing a product in the context of a developing economy.

### *Prior knowledge when developing a product*

Developing a product involves reusing the knowledge generated through experience by codifying and storing it for future use (Kim & Kim, 2011; Shahin et al., 1999). Schoonhoven et al. (1990) argue that experiencing and observing product development projects and prior start-up experience shorten the product development time. Previous experience with a start-up provides skills on how to benchmark the product vis-à-vis other competing products (Ucbarasan et al., 2009). Founder (s) with prior start-up experience can draw on high levels of task-specific knowledge to mobilize, coordinate, and combine engineering and R&D resources in developing new product innovations (Gruber et al., 2008). The knowledge gained from prior start-up experience is a resource that cannot be developed easily through other types of learning (Delmar & Shane, 2006).

Most knowledge is grounded in experience, procedures, emotions, and skills (Nonaka et al., 2000) and remains tacit (Johannessen et al., 2001; Lubit, 2001; Polayni, 1944). Kim and Kim (2011) found that around 40 percent of all design information requirements in developing a product were met by personal information and knowledge. Tacit knowledge is utilized by engaging the knowledge holders in the process of actual product development activities (Johannessen et al., 2001; Lubit, 2001). Literature highlights that a founding team with diverse expertise considers aspects such as the product's quality, cost, manufacturability, user requirements, and delivery time (Liker et al., 1996; Patanakul et al., 2012). I explain this as follows.

*Knowledge and experience of the founding teams.* Scholars emphasize the benefits of teamwork in developing a product in a new business (Akhavan et al., 2016; Dong & Yan, 2006; Kim & Kim, 2009). The fruitfulness of the team's work depends on the complementarity of their skills and knowledge (Akhavan et al., 2016). The selection of team members considers the members'

contribution to the information sharing (Akhavan et al., 2016). A balanced functional mix of the members achieves higher manufacturability of the product (Akgün, Lynn, & Yılmaz, 2006). The team's structure depends on the extent of information sharing (Bai et al., 2017; Sivasubramaniam et al., 2012). For instance, more marketing expertise is desirable when the level of innovativeness of the product is incremental (Dong & Yan, 2006; Kim & Kim, 2009).

Knowledge sharing among team members is influenced by factors like the extent of common information bias (Zhang et al., 2014) and psychological safety levels (Safdar et al., 2017). Team members tend to use common information shared by all team members while neglecting critical information unique to a person (Zhang et al., 2014). Besides, individuals with high psychological safety levels are more inclined to consult fellow team members, while individuals with low psychological safety levels are more likely to choose external sources (Safdar et al., 2017). People are more likely to offer ideas, admit mistakes, ask for help, or provide feedback if they are part of a team and if they believe it is safe to do so (Safdar et al., 2017).

Also, the team process influences goal clarity, external and internal communications, group cohesiveness, and has a strong relationship with new product development outcomes (Sivasubramaniam et al., 2012). Moreover, new businesses need to acquire additional knowledge as their product development unfolds (Marion et al., 2012; Sarasvathy, 2001; Schoonhoven et al., 1990). This is critical for new businesses in Ethiopia as they lack prior skills and managerial expertise (Ageba & Amha, 2006; Gebreeyesus, 2011; Herrington & Kelley, 2012; Kebede & Simesh, 2015).

#### *New knowledge acquisition when developing a new product*

*'In house' knowledge creation.* Developing a product involves learning by doing, consisting of a series of activities of developing solution for a problem (Söderquist, 2006). This process is influenced by who the new venture's founders are - their traits, tastes, and abilities; what they know- the knowledge corridors they are in; and whom they know - their social networks (Sarasvathy, 2001, 2008). The process consists of various activities at every juncture including problem-solving, alternative-generating, and adapting-alternatives (Nomaguchi & Fujita, 2013; Schoonhoven et al., 1990). The new venture's founding members, who have no experience, jump to the task, learn, and get the job done (Marion et al., 2012, p. 647). Such a process involves

activating knowledge embedded in existing product solutions, extracting as much tacit knowledge held by others as is possible, and capturing and assimilating new knowledge as much as possible as the process unfolds (Söderquist, 2006). However, the greater the extent of knowledge that is created or synthesized in a unique way by a venture, the longer it takes the venture to market its first product (Schoonhoven et al., 1990). Besides, developing a product by a venture operating in a competitive and dynamic environment needs to consider external stakeholders including costumers, material suppliers, academic institutions, and competitors (Chesbrough, 2003; Cammarano, Caputo, Lamberti, & Michelino, 2017). Product innovation unfolds with a continual acquisition of knowledge through interactions between the founders and the stakeholders (Berends et al., 2014; Sarasvathy, 2001).

*Acquisition of knowledge from external stakeholders.* Considering that a firm operating in an industry characterized by and change in market preferences and material suppliers available in the market it requires stakeholders (Behnam et al., 2018; Chesbrough, 2003; Wang & Libaers, 2016). Thus, collaborations with external stakeholders increase the venture's existing knowledge base, which in turn advances its innovation capabilities (Clauss & Kesting, 2017; Freel, 2003; Luzzini et al., 2015; Zhou & Li, 2012). It gives access to information about markets and how to serve them better (Elfring & Hulsink, 2003). Researchers also argue that ventures seek ideas and knowledge from external stakeholders as it takes time, money, and effort to develop them internally (Cammarano et al., 2017; Greco et al., 2016). Further, the inclusion of ideas, expertise, and knowledge from external stakeholders helps align the product with market needs and technological changes in the industry (Han et al., 2012; Naqshbandi, 2016). Such an inclusion helps align the product with suppliers' technologies and makes it compatible with complementary products (Chesbrough, 2003). Further, information gathering from customers, competitors, markets, and technologies plays a critical role in the incorporation of market and technical knowledge in organizations (Akgün et al., 2006). Searching for information widely and deeply can provide higher knowledge in developing a product (Laursen & Salter, 2006). Chesbrough (2003) emphasizes that the market and material suppliers are the two most relevant external sources of knowledge when developing a product.

*The market as a source of knowledge.* The market signifies a person, an organization, or a community expected to individually or in a group, use or take decisions about buying a product

(Von Hippel, 1986). However, the time taken for incorporating market needs into the development process varies. Moreover, some contingencies determine the extent of the role of the market in developing a product.

There are a variety of models representing the steps in new product development. Booz et al., (1982) developed a model with seven steps (new product strategy, idea generation, screening and evaluation, business analysis, product design and development, testing, and commercialization). Cooper (1988) regrouped these seven steps into three major phases. The first phase is pre-development activities or up-front activities including idea generation, screening, project definition, and business analysis. The second phase is product development, and the last phase is commercialization activities (backstage activities) including product testing, testing the market, production for a trial, and market launch. Cooper (1988, pp. 246-247) also argues that up-front activities play a central role in developing a product. The outcomes of the activities, results in "knowing the customer, the product needed, and competitive products. In addition, it helps to have a clear definition of what benefits the new product must deliver and knowing how it must be differentiated from competitors' products in order to gain an advantage in the market."

The process of developing a product pre-supposes that firms can specify future market needs for their products and customers know their future needs. This assumption works when the product is familiar to both the firm and the market (Verworn & Herstatt, 1999). Further, scholars also highlight that the very essence of the process model is separating the planning and execution parts of the product development process. This is rooted in traditional marketing research (Lilien et al., 2002). It also involves getting information about market needs from a sample of the potential market. The process model assumes a sequential undertaking of planning and execution. However, this model has a limitation in dealing with 'new' product development (Veryzer, 1998).

Von Hippel (1986) popularized the lead user method as an alternative for developing a market driven new product. This method involves procedures and is grounded in the problem-solving model. The process starts by identifying important dimensions of product innovations. This incorporates the interests of the top management, expert recommendations, or a market survey (Lilien, et al., 2002; Von Hippel, 1986). The second activity is identifying lead users. These are individuals with an intense need, and the product can provide a solution for this need (Von Hippel,

1986). But the composition of lead users depends on the type of product. For industrial products, it is composed of individuals working as experts in user organizations who use the product in their day to day activities. These individuals have direct use experience of the product and can suggest appropriate improvements to the product. Lead users also help in developing consumer goods. The lead users for consumer goods include individuals who have been using the product and are perceived to have enough experience to propose solutions for addressing their needs that the existing product does not fulfill. It also involves analyzing lead users' needs. This includes considering the interests of the top management and the availability of resources. Finally, the process requires projecting lead users' needs on to the general market of interest. This is an evaluation of whether lead users' needs are representative of the future needs of the target market (Von Hippel, 1986). This also helps decide the feasibility of producing the product (Eisenberg, 2011; Herstatt & Von Hippel, 1992; Hienert et al., 2014; Schweisfurth, 2017; Schweisfurth & Raasch, 2015).

Researches argue that the lead user method has certain advantages over traditional market research. It helps in developing a radical innovative product at a low cost in a shorter period. It also helps cope with changes in industries characterized by fast changes in technologies (Franke et al., 2006; Lilien et al., 2002; Schweisfurth, 2017). Von Hippel (1986) notes that relationships between lead users and innovative firms vary. On the one hand, a firm accesses the lead users who are external to the focal firm, it obtains information about their needs, and finds recommended solutions through market research. On the other hand, innovating firms hire experts who have been using the product (Schweisfurth & Raasch, 2015). These individuals can either be employees of other organizations who buy the innovating firm's product. The individuals employed are those who have been working as experts in customer organizations.

The innovating firm can hire consumers who have real-world experience of the product and can thus give specific solutions in relation to the product. In both these cases, hiring lead users enhances the quality of information collected as also the innovations made to the product. Franke et al. (2006) highlight that the information collected from external lead users is limited to possible solutions that can be codified. In addition, there is a distortion of the messages while processing the information. As a result, the product that is designed does not reflect the exact needs of the lead users and the solutions that they propose. Scholars argue that in contrast, hiring lead users

provides an opportunity to understand the tacit aspects of their needs and proposed solutions in innovating a product (Schweisfurth, 2017; Schweisfurth & Raasch, 2015). However, Marion et al. (2012, p. 649) found that a "new venture did not actively utilize retailer, sales, or customer input during developing product. Instead, it utilized experience and instinct of core team members acting as led users."

*Material suppliers as a source of knowledge.* Material suppliers are individuals or organizations who supply material inputs during the production of a product. Scholars argue that the role of external suppliers depends on the strategy of the firm regarding sources of material inputs (Chesbrough, 2003). Petersen et al., (2005) emphasize that if a firm outsources the supply of materials to external suppliers, its product development needs the involvement of external suppliers. This helps a firm acquire appropriate technology and aligning the product that is developed to the suppliers' technological improvements (Petersen et al., 2005). Song and Di Benedetto (2008) stress that when suppliers are a part of the process, they provide a firm with engineering capabilities and help in setting the properties for the product. Suppliers also help identify potential problems that may emerge in the process of developing the product. Researchers also argue that the early involvement of suppliers improves the quality and speed of developing a product (Petersen et al., 2005; Ragatz et al., 1997; Song & Di Benedetto, 2008).

*Product development in the context of developing economies.*

Most studies on developing products in SMEs come are based in developed economies (Hadjimanolis, 1999). However, unlike developed economies developing economies are characterized by economic, political, and regulatory uncertainties (Lingelbach et al., 2005). Similarly, the context of developing a new business in Ethiopia is volatile as it is characterized by limited access to finance, unpredictable markets, and the existence of a discriminatory regulatory body (Ageba & Amha, 2006; Gebreeyesus, 2011; Herrington & Kelley, 2012; Kebede & Simesh, 2015). Such challenges influence the process of developing a product in a new business (Marion et al., 2012; Sarasvathy, 2001). Therefore, these findings of new product development in developed economies might not apply to developing economies and some scholars have started studying new product development in the specific context of developing economies.

Based on a postal survey of 448 SMEs in Croatia done in 2004, Radas and Božić (2009) explored the factors that drove innovation activities in SMEs in an emerging transition economy compared their findings with the findings from developed economies. They found that the most important factors in developed economies were also important in developing economies but the market scope was a very important factor in product development in developing economies. Mu et al. (2007) examined the key success factors of new product development in Chinese SMEs. They found that Chinese SMEs did not consider financial returns, but focused on the uniqueness and newness of their products as the primary criterion in the idea-generation stage. Further, they also found that technological, marketing, commercial, and managerial factors were important across all stages of product development.

Most research on product development by SMEs in developing economies has focused on institutional conditions. Minh and Hjortsø (2015) analyzed SMEs innovation and networking practices while taking considering the institutional framework in Vietnam. They found that social norms influenced SMEs in forming trust-based friendship networks, potentially limiting knowledge acquisition and weakening business rationality. Further, institutional pressures reinforced negative influences on SMEs' incentives for developing innovative ambidexterity. They argue that new institutional economic sociology helps understand how institutional frameworks influence SMEs' innovation practices in emerging economies. In addition, Siu et al. (2006) used an institutional perspective for examining the interplay between government interventions, manufacturing systems, and business approaches and its impact on product development practices in 43 Chinese, 26 Hong Kong, and 28 Taiwanese SMEs. They found four stages in the new product development process in Chinese SMEs including coordinating and searching for ideas from buyers and competitors' products for generating ideas, using various government and expert opinions for developing prototypes, understanding the importance of market testing before commercialization, and seeking endorsements from government officials. Still, open innovations have also been the focus in literature, for example, Krause et al. (2012) explored the use of open innovations within South African SMEs. They found that SMEs used operation innovations, but without a following a systematic approach.

In terms of a theoretical perspective, scholars use institutional and social network (Minh & Hjortsø, 2015; Siu et al., 2006) and open innovations (Krause et al., 2012) for understanding new small businesses' product development in developing economies.

Hence, this review shows that extant literature on product development highlights the role of the founder (s)'s initial knowledge of the process. It also discusses the roles played by the founding teams, customers, and suppliers in developing a product in a new business. The different agents undertake diverse activities as product development unfolds. Further, their interactions determine how knowledge is managed in developing a product in a new business. However, it is unclear how these activities and interactions are influenced when a new business starts with support from the SMEs Development Agency in Ethiopia.

The following sections focus on further understanding the process of developing a product in a new business. First, I present a case from the point of view of the founder manager, and my account of the narration from a third person point of view. Second, I present the analysis and interpretation of the case. The analysis and interpretation involve the integration of information from the interviews with customers and suppliers, site visits, and observations. The data from these sources complements the case study, enhancing my understanding of product development in a new business. The interviews with customers helped me understand the extent of interactions between customers and the business. From the interviews, I learned that suppliers trained workers of the focal business in the characteristics of raw materials and how to process them. In addition, on my visits to the business' premises, I learned how the owners interacted, oriented, and followed up their employees.

### 5.3. Case description

The case Coffee processing is constructed from interviews with one of the founder and owners of the venture. The entrepreneur works as both the general manager and salesperson. The case narrative describes the product's development from her point of view; she sometimes uses 'we' to refer to all the owners but she also uses 'I' to signify herself.

Narration by the owner manager

**Introduction.** The business was established as a partnership between five owners for processing and selling coffee in 2014. The business undertakes coffee processing activities including sorting

the coffee, roasting it to different standards, and grinding it at different standards. The owners include four men and one woman. Before starting the business, the partners were engaged in different activities. The interviewed entrepreneur was preparing and selling Injera to hotels, restaurants, and cafeterias. Injera is a type of local Ethiopian bread prepared from the locally available cereal teff. Another partner was selling mobile accessories, while one was working as an electrician installing electric wires in condominiums. The remaining two were working in different trades activities.

***Start-up activities.*** “We, the partners knew each other before we started this venture. We lived in the same area and were born and grew up in Addis Ababa. After we agreed to start a business, we went to the local SMEs Development Agency's office to request for support. The agency told us that we would need to fulfill its requirements. The requirements included obtaining a trade registration, securing a taxpayer identification number, and formalizing the partnership agreement. After fulfilling the formal requirements, we got permission to start our coffee processing business. Even though we had been doing business before, none of us had worked in a coffee processing business.

However, we developed an interest in coffee processing when we heard about it in public discussions. People told us that the coffee processing and selling business was good and profitable. Moreover, we were aware that the Ethiopian government facilitated financial loans and working premises for start-ups. As a result, we started the coffee processing business with a capital of 79,000 Ethiopian Birr. With this money, we bought one roasting and one grinding machine, which cost us 70,000 Birr. The remaining 9,000 Birr was used for purchasing raw coffee (raw material). The sources of this initial capital were our personal savings and a loan from a microfinance institution. The SMEs Development Agency facilitated the loan. The agency also provided us with the working premises that we are using now. We have been paying a small amount as monthly rent since the establishment of our business and are allowed to use it for five years.

For the start of the firm, we first established a clear division of jobs among the owners. We are fully engaged in this firm, and this division has enabled us to work in harmony. Moreover, each member is paid a fixed monthly salary and profits are used for the venture's expansion. Our decisions on the division of labor and fixed salaries were based on our prior observations of other firms. We knew that many other enterprises closed down because of conflicts among the owners. We also learned that other ventures had two problems. For instance, the owners from other

ventures lacked division of labor and were engaged in different activities outside their joint enterprise. They saw the enterprise's work as being secondary.”

***Operations and Marketing.*** “Our firm's operations are divided into coffee processing activities. These include sorting the coffee, roasting it at different standards, and grinding it at different standards. We supply roasted coffee as per our customers' needs. Their needs range from black to brown roasted, while some need medium roasting. The deep black roasted coffee is mostly used for macchiato. We grind coffee at different standards, but the grinding also depends on customers' needs. Some need finely ground coffee; some want the middle standard; and still others need coarsely ground coffee. Our customers' interests are mainly led by the type of boiling machines that they have. Final consumer tastes (customers of our customers) also influence the type of roasting and grinding that we must supply. Since our customers are cafeterias, restaurants, and hotels, their consumers also influence our operations.

Also, coffee's inherent characteristics dictate what we do. First, roasted coffee should be kept overnight before being ground. And the ground coffee should be distributed to customers without keeping it with us for long as the flavor of the coffee deteriorates when it is kept for long after grinding.

The coffee's production and distribution activities are interlinked. We always search for new customers while we also sell to our existing customers. When we look for new customers, we distribute business cards and a sample of our roasted and ground coffees. Customers test our products for different uses, including macchiato, espresso, or pure coffee. They order over the phone. If our coffee fits their needs, they order sample products. Otherwise, customers order coffee and tell us what to change. When we receive the orders from new customers, we ask them about the roasting and grinding standards, and we supply the products as per their orders. But for existing customers, we ask only the type and quantity of our product that they need. We mainly produce after receiving orders. We also search for new customers once we have produced coffee. We started doing this once we knew what the market needed in terms of the standard of roasting and grinding. We roast, grind, and distribute coffee daily. For distribution, we use our own car to reach our customers at their doorsteps. We do not store our products on shelves as our customers frequently place orders and we produce and supply as per their orders. They order different quantities ranging from 10 kg to 50 kg per package.

While searching for new customers, as a salesperson I face different reactions from potential customers. They have different views on the similarities between the sample and the subsequent delivery of the order. Initially, we started giving a small free sample of the prepared coffee. But later the customers felt that we supplied a better-quality sample (sample is very small) but the subsequent delivery did not have the same quality. Because of such fears, customers resisted taking a sample and preferred buying a kg and trying it. They felt this was safer because it was part of a large production. If they found it good, they placed an order. Others reject my request at the very beginning since they have other suppliers.

Coffee processing and selling is a difficult business. While searching for customers we have to deal with many stakeholders. We must convince managers of businesses, owners, baristas, and waitresses about the quality of our products. There are many decision makers from the point of view of the customers. Even those who do not know much about coffee comment; they still need to be critical of the quality of the product. However, there are some people who encourage us. They give us positive comments stating that our coffee is good.

Customer searching is not a simple task. It needs hard work and being tolerant of criticism. This process requires continuous improvements to our product in terms of quality and testing. In addition to searching for new customers, I work hard to maintain our existing customers because getting new customers is difficult.

I get new customers in two ways. First, I search for new customers by going from door to door. When I meet them for the first time, I get access to either the owners or professional managers. I try to convince them by telling them about the quality of our product and giving samples. They test these with their customers (customers of our customers) in either macchiato, espresso, or pure coffee forms. Their customers' reactions determine whether they will become our customers. As a salesperson, I tell our customers about the quality of our products in terms of the standard of roasting and grinding. So, from the very beginning, this process involves convincing customers even before they take our products. I also need to convince them to accept our samples. Even when I try to persuade them, some potential customers are not willing to accept the samples.

We also participate in bazaars organized by the SMEs Development Agency. This helps us promote our products, selling on the spot, and distributing our business cards. We have obtained

potential customers in the bazaars - cafeteria owners and some others who ordered after visiting us in the bazaar.”

**Competition.** “Since there are many competitors in the coffee supply business, customers reject us quickly. They do not hesitate to change suppliers, even if I have been supplying them for a long time. Customers try new suppliers to get better quality at a lower price. Even though we supply good quality coffee, some of them prefer our competitors as they sell at a lower price. So as much as possible, we provide coffee at competitive prices while delivering better quality. Further, customers also want to test varieties. Hence, we are struggling.

It is challenging to satisfy all customers' needs. However, we accept our customers' comments and change accordingly. We believe our customers are reasonable. They directly tell us if they are not satisfied with the color (determined by the standard of roasting) or the grinding standards. We also believe that our product is the work of human beings, so mistakes can happen in roasting or in grinding. Some customers intentionally mix coffee from different suppliers for different reasons. Some of them use coffee from a single supplier; a majority are single supplier users.

Our customers prefer our products because they like our coffee in terms of taste and color (we supply brown colored coffee). We carefully sort, neatly prepare, and roast it in a way that it has a brown color. We know that deep black roasted coffee will not have a pleasing taste. Even though many of our customers need deeply black roasted coffee for coloring macchiato, we rarely supply that because it harms the taste of the coffee. Instead, we advise our customers to use brown color coffee so that it has a good taste. Through discussions, we try to convince our customers about our standard of roasting, and many of them also accept our idea (of using brown colored coffee). We learned this after working on coffee processing for some time. We learned from experience and from customers' responses. Our experiential knowledge is supplemented by training. One of our members (among the owners) got training from ECX and got a certificate for it. The training was on how to select raw coffee, how to roast it, and how to check the taste of the coffee after it was roasted. The knowledge he obtained from this training helped us a lot. The SMEs Development Agency facilitated the training. The person who attended the training is now working on roasting. There is a difference in the quality of our products before and after he got the training. He could differentiate between the quality of raw coffee after the training.”

***Current status of the venture.*** “Currently, the venture is bigger than what it was when it started. Initially, we bought raw coffee from retailers, which resulted in low quality at a high cost as this process involved many intermediaries leading to high costs. Small traders mix different types of coffee, which leads to poor quality of raw coffee. When our capital increased, we were able to buy raw coffee from ECX (the Ethiopian commodity exchange market), the largest wholesaler. ECX sells a minimum of one lot of 3,000 kg, which meant that we needed to have enough capital to afford buying so much coffee at one time. This also gave us a chance to purchase high quality raw coffee. Further, the number of our employees increased from two to four. Two of them are sorting coffee, while the other two are roasting, grinding, and packing. We also bought one more roasting machine. With two roasting machines, it became possible to roast up to 200 kg of coffee per day, and the grinding machine can also process 200 kg of coffee per day.

These improvements are a result of hard work, we worked hard on getting more customers, which helped us get money. As a result, we bought more stocks and machines and hired more employees. The firm is performing better than it was when it started!”

***Summary of information from other sources for the coffee processing business***

During my site visits and observations, I observed the extent to which the owners interacted among themselves and with their employees. I found that they used the lunchtime for discussions. They had lunch at the production site, and shared their experiences while eating. The salesperson shared feedback collected from both potential and existing customers. She talked about the comments by existing customers about the roasting standard, and the grinding of their products. She told the members that some customers needed deeply roasted coffee (black), but the other customers wanted it lightly roasted (brown). Then, the team members discussed the different standards of roasting. The discussion also included comments by existing customers on the grinding standards. In addition, the salesperson presented different responses of potential customers. The salesperson shared that potential customers accepted the product sample with the promise of calling up for additional product after trying the sample. But others rejected the sample saying that they had already formed connections with other suppliers. Meanwhile, the owners told the employees about what they should do to improve the quality of their products. This was a common practice at the workplace during my visits.

In addition, my interactions with three customers of the business helped me learn more about how the business developed its product. First, I made sure that the customers could identify the business product. Then, I discussed with them how they identified the product, and their role in improving it. I learned that customers compared the product with products supplied by other suppliers and told the focal business where it could improve its products. One of my interviewees cited a repeated comment made about product about changing the standard of roasting and grinding and the size of packing. But the business took time to respond to these comments. In the early days, during the distribution of samples, customers proposed changes and the venture implemented their suggestions. When the venture received orders based on the free samples that it had distributed, it asked the customers the standard of roasting and grinding that they needed and supplied the product as per their orders. But this did not continue indefinitely. Instead, the venture reached a point where more suggestions from customers could not lead to more product modifications. So, the venture fixed an 'appropriate' substance and form for the product.

Moreover, during my interview with the supplier, I learned that the supplier trained its customers on how to preserve and process coffee beans. It was not tailor-made to suit the needs of a specific business. Instead, it was a general-purpose training package meant to address all its customers.

## 5.4. Analysis and interpretation

This section focuses on the analysis and interpretation of the empirical material. The analysis and interpretation follow the new business' product development process. The analysis aims at understanding the challenges in developing a product in a new business and the activities that the new business performed to cope with these challenges. It also emphasizes the role of the SMEs Development Agency in supporting the founding team. In parallel, the team also interacted with its customers and material suppliers.

A business starting with support from the SMEs Development Agency chooses a product idea. Such an idea is influenced by the government's priorities, the founders resource endowments, and the prior experience of the founding team. A new business with low or no resources, aligns its product choice with the government's priority. This decision helps the business in obtaining government support. Then, the founders search for a product among the government's priority areas that matches their prior experience. The extent of influence that the government's priority has depends on the extent of the resources that the founding team has. If the founding team does not have the necessary resources, the business starts with a product from among the government's priority areas even if the team has poor knowledge about it. The team starts with limited knowledge of how to produce and/or market the product. In addition, the product gets launched without a thorough market study.

Once an idea for a product is selected, the commitment for financial resources further limits the types of product that the business can consider. Given this limitation, the business tries a product prototype with consumers. The prototype is designed based on the founders' existing understanding. This understanding gets tested on potential customers through distributing samples and collecting feedback about the samples for improving the product by incorporating the comments from the market for some time. Prior start-up experience, initial social connections, and initial commercial experience of the founders supplement their deficiencies. Prior commercial experience helps a new business to search for and deal with customers. It helps establish the first target market based on previous social connections and becoming courageous in dealing with the market. In addition, the marketing experience of the coffee processing business' founder also helped her choose of initial market.

This leads to offering an early version of the product to customers. Then, the interaction between the business and its customers continues with differing power relations. In the early stages, when the company is distributing samples, more power is in the hands of the customers. At this stage, customers propose modifications and the business implements the changes in the substance and form of the final product. But this power structure does not continue indefinitely. Instead, the venture reaches a point where more learning cannot lead to more product modifications. Rather, the business determines the 'appropriate' substance and form of the product. At this point the business starts educating its customers about the benefits of its product instead of changing the product. This depends on the perceptions of the founders about the satisfaction level of additional knowledge and the extent of flexibility of the business' accumulated resources. After a given level of accumulation of physical and human resources, the business starts resisting additional variations its product.

The process of developing a product in a new business with government support starts with limited initial knowledge of the founder(s), their social relations, and their ambitions. These limitations form the foundation of the new business. Given the initial vision of the founder(s) an initial prototype of the product is developed, and the new business starts interacting with the market and other stakeholders. The stakeholders give comments and suggestions on the initial prototype of the product. These become part of the input for improving the product. Every interaction generates additional knowledge for improving the product and additional requirements for the new product. These requirements are imposed by different stakeholders like potential customers, suppliers, and resource providers. This cycle continues as long as the founders and other committed stakeholders are willing to improve the existing version of the product. But the cycle stops when the stakeholders are unwilling to continue modifying the product. This results in a new product. This cycle is illustrated in Figure 5.1.

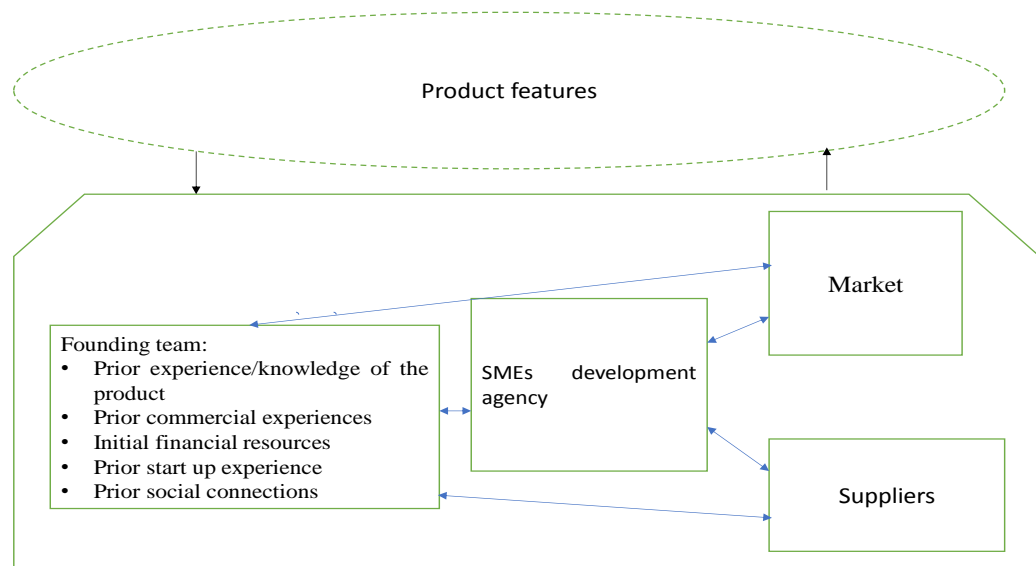


Figure 5.1. Framework of developing a product in a new business with government intervention

### 5.5. Lessons from the chapter

The purpose of this chapter was understanding how a new business develops its product in an economy where the government intervenes in new business development through business development policies. My findings show that a new business in the specified context starts with little prior knowledge about the product. This contributes to the concept that the process of developing a product by a new small business is characterized by iterations of trial and error (Cooper et al., 1994) and involves a series of activities in developing a problem and a solution simultaneously (Söderquist, 2006). This helps a new small business overcome the challenge of lack of initial knowledge about the product. The government's support enhances this process. This support is in the form of financial loans and working premises which encourages the founders of new businesses to take the risk of trying their products with customers. Additional knowledge is acquired from interactions with stakeholders as the new business development unfolds. In addition, the government provides the business with training on how to develop the product. Suppliers and customers contribute to the founders' knowledge. This study specifies the moderating role of the government support while suppliers and the market contribute to the process of developing a product by a new small business. Continuous improvements of the new product are a result of

interactions among stakeholders. Thus, my findings specifying how the SMEs Development Agency influences product development in a new small business contributes to the logic of effectuation (Sarasvathy, 2001, 2008).

## 6. Finding resources as a new business' development unfolds

### 6.1. Introduction

Developing a new business involves bringing together resources like human and financial capital, property, and credit (Amit & Schoemaker, 1993; Barney, 1991; Carter et al., 1996; Katz & Gartner, 1988; Miller & Shamsie, 1996; Mowery & Rosenberg, 1979). Resources become available through initial endowments (Bruderl et al., 1992; Davidsson & Honig, 2003; Rotefoss & Kolvereid, 2005; Schoonhoven et al., 1990), and/ or subsequent access to different sources for the resources as the new business' development unfolds (Baker et al., 2003; Davidsson et al., 2017; Lichtenstein & Brush, 2001).

The initial endowments help a new business overcome the early stage 'liability of newness' (Stinchcombe, 1965), supporting the it through its 'honeymoon period', even when the initial outcomes of the process become unfavorable (Fichman & Levinthal, 1991). But new businesses usually start with a limited initial resource base (Aldrich, 1999; Bhide, 2000; Davidsson, 2006; Ebben & Johnson, 2006; Hanlon & Saunders, 2007; Marion et al., 2012; Zimmerer & Scarborough, 2008). Even a new business starting with a higher initial endowment, faces the 'liability of adolescence' (Fichman & Levinthal, 1991), and its initial resources deplete demanding a search for new resources.

Access to resources as a new business' development unfolds involves managing dependencies on the external environment (Pfeffer & Salancik, 1978; Thompson, 1967), building itself internally (Dierickx & Cool, 1989; Peteraf & Barney, 2003), and generating diverse values from available resources (Baker & Nelson, 2005).

Scholars like Baker and Nelson (2005), Baker et al. (2003), and Davidsson et al. (2017) challenge the assumptions that resources are accessible from the external environment and that they can be built internally. Instead, they advance the assumption that new businesses begin with limited access to resources from the external environment, and have no luxury of time to internally build the needed resources. So, they refocus on the processes by which new businesses generate diverse values from seemingly identical resources. As a result, Baker and Nelson (2005) conceptualized the phenomenon as entrepreneurial bricolage.

Moreover, developing economies provide limited access to financial and other resources (Bruton et al., 2009, 2013; Hoskisson et al., 2000). A new business in operates within the context of severe

resource limitations (Le & Nguyen, 2009). Consequently, it is crucial for new businesses in such contexts to identify different means of accessing resources as their development unfolds (Lichtenstein & Brush, 2001). The Government of Ethiopia supports some selected new businesses. It provides working premises, facilitates loans, and gives training to support the new businesses in their early stages of development. But this support is limited in amount and is for a limited period. Recipients of the support need to generate additional resources during the period when they are getting government support and all necessary resources after the government stops the support. In the same economy, some new businesses do not receive government support. And there are informal new businesses in the economy which are neither eligible for government support and neither do they get financial capital from formal financial institutions.

Thus, the purpose of this chapter is understanding the typical challenges encountered a new business' resource access and how can these be overcome in the Ethiopian economy. The discussion is underpinned by the concept of entrepreneurial bricolage and the resource dependence approach as foundational theoretical frameworks. It includes a review of literature and an interpretation of a case study.

This rest of the chapter is structured as follows. Section 2 presents the literature review and Section 3 gives the case study. Section 4 does an analysis of the case study and provides some interpretations. The last section discusses the lessons learned from the chapter.

## 6.2. Literature review

Scholars recognize the challenges that small businesses face in accessing resources in developing economies. Wang (2016) used the Enterprise Survey from the World Bank covering 119 developing countries and found that SMEs perceive access to finance as the most significant obstacle which hinders their growth. In addition, Fowowe (2017) used data for 10,888 firms across 30 African countries and showed that access to finance constrained and exerted a significant negative effect on firms' growth. In addition, Quartey et al. (2017) found that the problem of accessing formal finance by SMEs within the West African sub-region was connected to SMEs' lack of collateral, difficulties in providing creditworthiness, small cashflows, inadequate credit history, high risk premiums, underdeveloped bank-borrower relationships, and high transaction costs.

Fatoki and Chindoga's (2011) investigation of the obstacles that the young entrepreneurs in South Africa face shows that lack of capital and skills are among the main obstacles in actualizing their entrepreneurial intentions. Generally, scholars underscore that developing economies provide limited access to financial and other resources (Bruton et al., 2009, 2013; Hoskisson et al., 2000). A new business in the economy operates within the context of severe resource limitations (Le & Nguyen, 2009).

Tengeh et al. (2011) did an empirical study of African immigrant-owned businesses to investigate how their owners acquired the necessary capital for start-up and growth phases. They found that personal savings, business credit, family credit, and loans from informal financial institutions were useful during the start-up stage in overcoming the challenges of accessing formal financial institutions. They also found that a need for further funding was fulfilled through friends, co-ethnics, and self-help financial associations.

Baker and Nelson (2005) theorize entrepreneurial behavior in a resource constrained environment. They conceptualize it as entrepreneurial bricolage. Bricolage represents the behavior of making something with whatever is at hand (Lévi-Strauss, 1967), whereas entrepreneurial bricolage is "making do by applying combinations of the resources at hand to new problems and opportunities" (Baker & Nelson, 2005, p. 333). This view challenges conventional assumptions about the role of the environment in determining the success or failure of an enterprise where entrepreneurs construct their own resource environments (Phillips & Tracey, 2007).

The three elements of bricolage behavior are making do, finding new value for resources at hand, and a recombination of existing resources for new purposes (Baker & Nelson, 2005, pp. 334–336). Making do means bricoleurs are willing to experiment and work to find ways of accomplishing their ends without worrying about having the "right" resources (Baker & Nelson, 2005). As the other two elements are related to ways of accessing resources, they are central themes in my review of literature on resourcing a new business' development in a resource-constrained environment. The following discussion focuses on the two themes.

### ***Finding new use for the resources at hand***

Entrepreneurial bricolage involves finding the value of inputs that other firms view as worthless (Baker & Nelson, 2005). This is underpinned by Penrose's (1959) argument which implies an idiosyncratic relationship that each firm has with its resource environment. Entrepreneurial

bricolage includes finding new use values in forgotten and discarded materials; using pre-existing network ties with family members, friends, and any others to access labor for free or at low payments; and permitting and encouraging the use of amateur and self-taught skills that would otherwise go unused (Bacq et al., 2015; Baker et al., 2003; Davidsson et al., 2017). Baker and Nelson (2005, p. 345) support the idea of self-taught skills with an exploration of bricolage practices of "doing carpentry, plumbing, sheetrock, roofing, heating or cooling installation, electrical work, or occasional backhoe or auto repair projects." They found that none of the skills were obtained through formal training. Instead, they were learned through watching and on job while working.

Therefore, social networks play a pivotal role in resourcing new businesses' development in resource constrained environments. Aldrich (1999) highlights that the founders' personal networks influence their access to social, emotional, and material support. Baker et al. (2003) found that founders used their pre-existing social networks as a means of accessing critical resources.

Aldrich (1999) notes two dimensions of social relations: diversity and their affective or emotional strength. Diversity in turn is characterized by a range of sectors through which a nascent entrepreneur moves (Granovetter, 1973) and the number of structural holes in a nascent entrepreneur's social network (Burt, 1992). Burt used the term "structural hole" to represent a relationship of the non-redundant contacts. Affective strength is categorized into strong ties, weak ties, and dealing with strangers (Aldrich, 1999). Ruef (2002a) underlines that a combination of strong and weak ties also determines the extent of diversity in social relations.

Aldrich (1999) argues that multiple and diverse social connections are important for accessing information and other resources, regardless of their strength. Burt (1992) shows that 'redundant' ties are less important in information flows. However, people tend to favor similar ties because of 'homophily' (Marsden, 1987; McPherson & Smith-Lovin, 1987; McPherson et al., 2001) and need for an emotional and personal 'balance' across social relations (Cartwright & Harary, 1956; Davis, 1963).

Scholars also show that the importance of different types of ties varies based on the context. Aldrich (1999, p.69) highlights that "strong and weak ties may be more important than contacts with strangers for the mobilization of resources in the early stages of business development." Granovetter (1993) shows that strong ties involve a strong degree of trust and emotional closeness.

A new business having a limited resource base (Aldrich, 1999; Bhide, 2000) still adopts various tactics for acquiring critical resources from the external environment (Casciaro & Piskorski, 2005; Pfeffer & Salancik, 1978). Pfeffer and Salancik (1978) lay the foundation for theorizing the tactics of procuring critical resources from the external environment.

Khayesi et al. (2014) empirically examine the relationship between social connections, resource access, and a firm's performance in Africa. They highlight that shared identity in a social network like family ties results in a high quantity of resources, but with higher costs because of family obligations, opportunism, and agency problem.

The following discussion focuses on creating interdependence and legitimacy as a means of procuring critical resources from the external environment.

*Interdependence.* As a new business creates mutual dependence with other entities, this dependence has a differential effect on its access to resources (Casciaro & Piskorski, 2005). Pfeffer and Salancik (1978) state that organizations depend on other organizations for critical resources and this dependence is often reciprocal. The interdependencies thus created give an entrepreneur the power to access critical resources (Ulrich & Barney, 1984). According to Casciaro and Piskorski, (2005) higher mutual-dependence creates substantial incentives for actors to exchange resources with each other, and opens up significant scope for negotiations. They indicate that the level of mutual dependence varies according to the extent of alternative sources of resources and the level to which one seeks critical resources from others. Casciaro and Piskorski (2005) argue that actors who are mutually dependent engage in inter-organizational arrangements like alliances and joint ventures which enable the focal business to develop new products with a low resource base (Ahuja, 2000; Gulati, 1998; Mizruchi, 1996). But power imbalances have an effect on the process of resource exchange (Casciaro & Piskorski, 2005).

*Legitimacy is instrumental in resource procurement.* The extent of legitimacy has an impact on the acquisition of resources by a new business. Suchman (1995, p.574) defines legitimacy as "a generalized perception or assumption that the actions of an entity are desirable, proper, or appropriate with in some socially constructed systems of norms, values, beliefs, and definitions." Organizations that appear desirable, proper, or appropriate are likely to get resources from their audiences (Parsons, 1960). Garnsey (2002) argues that a nascent firm's ability to access vital resources from external resource providers is impacted by how it is perceived by the providers.

According to Zimmerman and Zeitz (2002) legitimacy helps a new small venture in acquiring resources. Moreover, legitimacy helps overcome the liability of newness (Stinchcombe, 1965). Hence, scholars emphasize that reputation and the founders' prior experience, preparing a business plan, legal incorporation of the business, and inter-organizational approvals are sources of legitimacy for a new business (Delmar & Shane, 2004; Shane & Cable, 2002; Stuart et al., 1999). Researchers also highlight that founders of new businesses build legitimacy using organizational structures, procedures, and entrepreneurial teams (DiMaggio & Powell, 1983; Oliver, 1995).

#### ***A combination of resources for new purposes***

According to Baker and Nelson (2005) combinations of resources for new purposes are a creative re-combination of resources for purposes for which they were not originally intended. Stinchfield et al. (2013, pp. 904-905) compare entrepreneurial behavior and highlight that "for bricoleurs, integration of resources is never for aesthetic, traditional, or even efficiency purposes but rather for strictly finding a workable solution. It is tied to 'making it work'." Senyard et al. (2014) show that by engaging in bricolage a new small firm can make do by applying a combination of the resources at hand to opportunities for innovativeness. For example, information system designers "paste together a few components into 'something,' see how it looks like, play with it, check if it works, evaluate, modify or reject" (Lanzara, 1999, p. 337).

#### ***Bricolage's role in developing a new small business***

Bricolage helps entrepreneurs pursue opportunities without potentially delaying attempts at finding high standard resources needed for facing the challenges (Stinchfield et al., 2013). It also creates opportunities for experiential learning (Baker & Nelson, 2005). Baker and Nelson (2005) argue that bricolage creates a context for developing creativity, improvisation, combinative capabilities, and learning tolerance for ambiguity, messiness, social skills, and networks. Senyard et al. (2014) found a strong and consistent positive relationship between bricolage and a new firm's innovativeness. Baker and Nelson (2005) highlight that entrepreneurial bricolage helps overcome the challenge of competing with existing firms in providing products or services that would otherwise be unavailable to customers by challenging commonly established rules and practices. Witell et al. (2017) argue that a formalized new service development process could be counter-productive and a bricolage perspective might better explain service innovations in a resource constrained environment. De Klerk (2015) underlines that bricolage enables people in an industry environment to share their long-term visions.

Success in developing a new business varies according to the extent of bricolage used. Baker and Nelson (2005) identify the domains for undertaking bricolage as input domains (materials, skills, labor), regulatory and institutional domains, and customers. As the number of domains increases, it creates a community of practices with connections with suppliers, customers, and employees so that it gets interlocked. Further, scholars also argue that relationships with less innovative suppliers and less demanding customers are both likely to inhibit innovativeness for firms that engage in high levels of bricolage (Senyard et al., 2014). Scholars have found that selective bricolage helps generate relatively efficient business routines that permit businesses to develop patterns of behavior in specific areas of work (Baker & Nelson, 2005; Fisher, 2012). Linna (2013) provides empirical evidence on how bricolage is used in innovation processes in the context of developing countries. He recognizes a social mindset combined with resourcefulness; making do with resources at hand; and improvisation as three different types of bricolage in innovations by Kenyan entrepreneurs designing low-cost renewable energy solutions for rural people. Mair and Marti (2007) use the concept of entrepreneurial bricolage to investigate how local poor entrepreneurs in developing economies bring together resources at hand to build a platform which enables them to participate in a market overcoming the weak institutional arrangements that impede them.

Even though entrepreneurial bricolage is crucial when businesses face resource constraints (Baker & Nelson, 2005), little attention is paid to empirically investigating entrepreneurial bricolage in the context of developing economies (Linna, 2013).

Therefore, the following sections focus on further understanding how a new business gets resources as its development unfolds in the Ethiopian economy through the government's industry development policies.

First, I present the case description. It includes the case study from the point of view of the owner manager, and my account of the empirical evidence from other sources. Second, I present an analysis and interpretation of the case. The last section deals with the lessons learned from the chapter.

### 6.3. Case description

This section provides a description of the case. I first present a narrative of the entrepreneur's prior experience and his experiences in the printing and advertising business. The narrative is constructed from interviews done with the owner of the business. He works both as the general manager and salesperson. The narrative is constructed from his point of view and he uses 'I' to

mean himself. Then, I give a summary of information from other sources including interviews with employees, customers, suppliers, and site visits and observations

***Narration by the owner manager***

The printing and advertising enterprise was established in 2003 and is owned by an entrepreneur. The entrepreneur had different prior experience. He was engaged in a number of informal business activities. Finally, he started the printing and advertising enterprise with help from the Ethiopian government and its SMEs Development Agency.

***Prior experiences.*** “Being born in an economically poor family, I started working when I was 8 years old in construction firms.

Fortunately, a tenant living in our compound suggested that I should cut and sell grass available in the compound. He told me to sell the grass to people coming to the church. Initially, I was afraid of social norms but he convinced me that it was a business! I earned a lot of money cutting and selling the grass; this was more than what I earned in a week as a daily laborer. This opened my eyes and I started trading in the Symbol of the Cross and religious books around churches. I also attended school for half a day and traded during the rest of the day.

There was another turning point in my life. Customers who bought the Symbol of the Cross from me, advised me to produce candy on a small scale. I started candy production. I was in the business for six months. However, I started candy production in the wrong season. The appropriate time was during 'TIMKET' (Ethiopian Epiphany), when there is more demand for candy. I became bankrupt. Since I had invested all my resources in candy production, I lost all my money and I could not even feed my parents. I was forced to start from scratch and I went back to daily labor.

After working for a month as daily laborer, I looked for another job that I could do without interrupting my school attendance. I decided to sell religious books as I had done earlier. I attended school for half the day and sold books during the rest of the time. I sold the books informally on the streets.

Meanwhile, the government had tightened its control over informal trade. Police officers repeatedly took me to prison and then issued a final warning. I then switched to selling damaged soap by first working on it. I got the soap from wholesalers in the Markato marketplace. In a month,

I earned a lot. My colleagues who were working like me could not earn as much and were surprised.

After a while, there was chaos in Markato because of a conflict between the public and security officers. The situation became tense and it was not possible for me to work there as an informal trader.

In the meantime, there was a change in the government's education policy, and I observed that there was a shortage of books in schools. But I did not have enough money to supply them. A friend who is cashier in the local Idir (an association of the local community which helps in case a member faces a problem) lent me 200 Birr. I bought books and started selling them around schools. Unfortunately, I faced opposition from the other people selling books at the same places. However, I was better in selecting the books that were needed and so I was able to overcome this challenge. After some time, I got books on credit from my suppliers. In addition, I ordered books from different suppliers.

I also started buying damaged books by the kilo at a low cost and sold them at a higher cost by repairing them. In addition, I also sold books at a fixed price per unit. This was not done by other traders. I earned 7,000 Birr in three months. My friends were shocked by my performance and as a result they started fighting with me. This led to repeated visits to the police station. The police officers urged me to leave the place. Since I was working informally, I could not resist this enforcement. In addition, since the place where I worked was in front of a church, the church also forced me to leave the place. After I left, I could not get buyers for religious books.

Then a teacher suggested some books that I could sell around schools. This worked. I earned good money. In addition, I also started attending school. In the same year, I sat for the high school leaving examination. Unfortunately, I did not score the required grades to join a university. My business too was not doing well. I was disappointed. However, I did get a diploma in accounting from the vocational school that I was attending.

Even though I could get employment, I decided to search for business opportunities. Fortunately, an old friend of mine informed me that there were trade opportunities in Tappei. I went with him taking some products from Addis Ababa. As the items that I was selling did not match the market,

I lost money. In addition, I could not cope with the weather which was very cold. I came back to Addis Ababa.

After that I decided to go to Harar, a place that I knew. Even though I took some items to sell, I started working as a daily laborer till I understood the market situation. Fortunately, I found an old friend in Harar. He oriented me to the market practices in the locality and I started selling my items. Over time I came to know the local people and I settled down. I took goods from Addis Ababa to Harar. After trading there for some time, I came back to Addis Ababa and started selling books when the schools opened. I took books on credit from suppliers. But the business had tough competition, and conflicts were inevitable.

When the schools closed, there was no market. So, during summer time, when the schools were closed, I went back to Tappei. With the capital accumulated from my trade in Harar and selling books in Addis Ababa, I bought different items from Addis Ababa and took them to Tappei; I sold salvaged clothes and other items. After working for some time, I developed good relationships with the farmers in the area. However, the local traders accused me of spoiling their culture. They pretended that I had come from another place (Addis Ababa) for implicit reasons and that I was working in connection with local people to get more customers. They become jealous. This challenge became bigger and I withdrew from the area and came back to Addis Ababa with some capital.”

### *The printing and advertising enterprise*

“Fortunately, in 2003 the Ethiopian government designed a program for unemployed persons and started formalizing informal businesses. The government gave working places to entrepreneurs. Using this opportunity, I requested for a working shed to sell books. After a number of delays, the government gave me a working place near Addis Ababa University. Fortunately, it was the place I had requested. I also requested the government to allow me to work using my talent of selling books. I believe that working with my talent made me successful.

Though I got permission to use the land, the local people were not happy. I appealed to the local administration which forced the local people to allow me to construct my workplace. I am still using that place. I also formed a network with the local people by employing them to construct rooms on the land. The employed people helped me network with other local people. I started

selling books in 2003. I sold the same books that I had sold earlier on the street, and I also started a photocopying service.

I started the photocopying business by buying a machine. To get money for buying the machine, I joined my friends to run an Ikub. In an Ikub the members agree to contribute a given sum of money in an agreed period of time. Each member receives the total amount of money contributed in each period by rotation. It either ends in one rotation or continues for many rotations. The Ikub members gave me priority with a 10 percent service charge. I bought one photocopying machine.

Initially, it was difficult to get customers for the photocopying service. It was difficult to earn enough money to look after my family (wife, my son, and my mother). I also could not repay the loan I had taken to construct the workshop. Suddenly I recognized that there was a shortage of calculus book in the market. A calculus book costs more than 1,200 Birr. Students could not find the book so I bought one original book and made photocopies. I priced the photocopies at 200 Birr per book and started selling them. But the students still could not afford them.

I took time to think about how to solve this problem. Then I decided to sell the photocopied books chapter by chapter. A student bought the chapter he needed and then bought the other chapters as needed. I went a step further and started taking orders on the phone and I designated a student representative in each campus. The students were happy and I was able to penetrate the market. When the photocopying machine became old, I could not replace it as I was using what I was earning to look after my family.

Even though I liked the work I could not replace the machine so I decided to join a machine maintenance training school. Besides, I kept using the old machine as much as possible.”

### *Resourcing dynamics*

“Meanwhile, my previous customer ZG who was working in DE College, came up with the job of duplicating books for the college. I outsourced a portion of the job to other photocopying stations. The job was done overnight. During the night, I helped the photocopying stations by maintaining their machines free of cost in case they faced failed. The machine maintenance training I had just attended enabled me to support them. The job was completed and was ready the next morning.

The customer was very happy. I made a profit of 1,000 Birr and with that profit I bought necessary spare parts and repaired my old photocopying machine.

Then Arbaminch University announced a job and I won the bid for photocopying services. I again outsourced a portion of the job to other photocopying stations. I completed the job before the deadline and I earned a profit of 10,000 Birr. The university wrote me a letter of appreciation. The letter helped me a lot in winning more bids.

Soon after I completed the job, I became aware that Hosana Health Science College had announced a bid for photocopying services. I competed and won the bid. The letter of appreciation I received from Arbaminch University helped me to win the bid. This was the first time that I had won a 35,000-Birr contract. I completed this one too in time.

With the money earned from this job, I bought an additional machine. I also joined a training center run by a Chinese. Then I started providing maintenance services to other business centers for a fee.

Meanwhile, a friend came from Beirut; I had helped her earlier. She saw the challenges I was facing and asked me to buy a car for moving the goods. She promised to lend me money. She gave me 25,000 Birr. Another person lent me 13,000 Birr and another friend lent me 10,000 Birr. By combining this money, I bought a LADA car. I used the car to move my products, and also used it as a taxi during other times. I worked the taxi service in the night till midnight. After midnight, I went home and worked on binding the books that had been photocopied during the day.

In the meantime, Hosana Health Science College announced a bid for students' graduation holding folders. I took part and won the bid. I equipped my workshop with the profit I earned.

Besides I also had a photocopying machine maintenance service. By this time my sources of income had expanded and included a maintenance service, a secretarial service, a photocopying service, and a taxi service. I attended a technical school in 2009 to learn how to publish.

In the same year, Aksum University offered me a job for 250,000 Birr. The university needed the work completed in a short period of time. In the committee that decided on the final bidder was a previous customer of mine and he influenced the committee to offer me the job. I had to complete it in a month, and I agreed. Later, I told them I did not have capital to do the job. They decided to give me 100,000 Birr as advance payment. I completed the order in 30 days and I made a 40,000-

Birr profit. In addition, I collected 50,000 Birr from the Ikub I was contributing to. I decided to engage in the public transport business and I bought a transport car that carries about 45 persons with the money I earned. The car was intended to help my longtime friend, who had a driving license but could not get a job. It was a used car that cost 50,000 Birr and I spent another 30,000 Birr upgrading it. I invested all the cash I had.

With the help of a broker I found a job with a construction company at 21,000 Birr a month. After receiving a month's payment, I renovated the car and it operated for five months more and earned 105,000 Birr.

When the contract with the construction company was due to end, the company hesitated in paying me my money. I was forced to take it to court.

The legal procedure took a long time. However, I won the case and the customer paid me 70,000 Birr as initial payment. From this amount, I paid 30,000 Birr for the motor of the car. Unfortunately, the workers in the garage had stolen parts of the car. I quarreled with them and they repaired the car. But after some time, the car failed again. So, I felt I could not keep it and sold it for 70,000 Birr on credit. But the buyer paid me the money after a long time. It was unfortunate that my transport business was not successful. It consumed a lot of my capital resulting in a financial loss.

I faced personal health problems in 2011. My doctor informed me that my health problems were because of work stress and he asked me to rest for some time.

During that time, I was also running a publishing Plc. I was a major shareholder and the main actor in its management. It failed during my illness, as did my printing and advertising business because I could not lead the businesses and the other partners were not capable of running them. The whole business failed.

After my recovery from the health problems, my previous customers helped me revive my businesses. First, Addis Ababa University offered me a job. I told them I did not have machines. They gave me advance payment and a payment above the market price, because of our previous relationship. The university bought me a machine, and made me work with the advance payment. I completed the job within a short time and the machine remained with me. Later, a private college

gave me a job. In addition, my previous customer, AT College, offered me a job and D E College, another previous customer, offered me another job, which enabled me to buy one additional machine.

The turning point came at the end of 2011. Based on the positive lessons that I had learned from the Plc that I co-owned, I decided that the existing firm should follow a financial record keeping system. Further, I decided that the period from June 2011 to June 2012 would be a testing time for record keeping of business transactions. With the income from working with one machine that I got from Addis Ababa University, I bought five additional machines in 2012 at a total value of 150,000 Birr. In August 2012, I became a VAT registered business. The firm registered with a total capital of 150,000 Birr, of which 4,300 Birr was in cash and the remaining was in capital assets. I registered my business as a sole proprietorship, and my file was transferred from the woreda (lower administrative unit) to the sub- city. I also facilitated training on the VAT system for the workers. In addition, I hired an accountant.

My registration in the VAT system helped me compete in bids with a legal backing. As of September 19, 2013, I had competed in a bid floated by Wolkite University and won it. I signed the contract, on September 21, 2013, at a value of 1,090,000 Birr. Taking the contract, I went to suppliers whom I had known in my previous business and I told them that I had won a contract and showed them the formal signed contract. A supplier gave me eight machines at 25,000 Birr each (200,000 Birr in total) on credit with all necessary supply materials. In 15 days, I had finished a portion of the job at a value of 500,000 Birr. From the 500,000 Birr, 100,000 Birr was used to repay a portion of the debt for the purchase of the machines. The remaining amount was used for buying supplies to finish the remaining job for Wolkite University.

I also competed in a bid by Adama University and won the 1.8-million-Birr contract. The university awarded me the contract on the basis of my performance. I told the university that I did not have money at hand and needed advance payment. They required me to secure this with a third-party collateral.

My relative whom I had supported during his bad times owned a house. I had custody of the house. The house had an estimated value of 800,000 Birr and I used this for collateral. The university gave me an advance payment of 565,000 Birr. I used this money to complete the remaining contract

for Wolkitie University. Then I bought eight more machines on credit from the same supplier for completing the remaining job for Adama University. The supplier joked saying ‘you are going beyond.’ Surprisingly, the supplier did not have a credit invoice and he gave me the money only on trust.

My business expansion brought multifaceted challenges, one of which was finding a working place. My friends helped me as one friend allowed me to use his two-room house as additional space for photocopying. The other challenge was managing the early expansion. I outsourced the management of the production by hiring a manager on a contract basis. The manager was mandated to organize and manage human resources. He had management capabilities. I also outsourced the work of external relations. I hired another individual on a contract basis. He helped me in managing cases in his employer’s university. As a result, my jobs were completed on time. Initially, the librarian from the university hesitated in offering me jobs but I won her trust with the quality of my work and the speed of delivery.

In 2013 the business performed well. It earned a revenue of 3.6 million Birr. At the beginning of the year I had 30 workers of whom 14 were permanent workers while the others were on a contract basis. The business hired 10 more laborers thus creating 40 job opportunities. Moreover, it collected VAT with a total value of 400,000 Birr. Besides, it generated a 37,000-Birr profit before tax in the same year.

This was a convincing enough performance for the finance officer who had hesitated during my VAT registration. Later, I said to him ‘capital does not generate capital, it is the mind that creates capital.’ This convinced him. Now he is my friend.

In 2014, Adama University was divided into two universities: Adama University and Assela University. They needed 2,400 copies of different books and they decided to get the work done using limited bids. My firm competed and won the bid for the 1.5-million-Birr contract. My business won mainly because of its previous performance. Performance certificates from previous customers, including Adama University helped in winning the bid. The university gave priority to my firm. It considered the technical capability and previous work performance of my business. The whole job was completed in 20 days, even though it was supposed to take 60 days. This was possible as I made the workers work overtime giving them a place to stay, serving them meals,

and promising them a recreation tour at the end of the job. The employees worked day and night, and completed the job 40 days before the deadline. I also used my parents' residence for accommodating the workers. In addition, I installed a big power generator and installed a big water tanker to overcome the problems of power and water supply respectively.

In 2014, the total sales of my firm were 1.8 million Birr. In the same year, the business bought eight more machines. The machines were imported by an investor, who could not proceed with his businesses. As a result, I was registered as an investor. Since I could not get a workshop for the additional machines, I rented rooms from the same person by partitioning his workshop. His project was not operational and he had gone back to Germany.

The investor who sold me the machines asked me if he could send a car from Germany as part of the investment. It was intended for transporting papers for production and delivering the final products to customers. I processed his application with the investment office and got permission to import the car. Unfortunately, I could not receive the car from the customs authority. I was told that it was impossible to own the car unless my annual capital budget reached 10 million Birr. I decided to pay import tax on the car but I did not have enough cash in hand. I had to take loans from different individuals to pay the tax, which I did.

However, I did not have enough money to repay the loans so I decided to sell the car. But selling the car required that I had to audit my firm and get clearance from the Inland Revenue Authority. The audit process brought another crisis. The money I had collected from my friends as loans was deposited in my business account and the officers said that it should be taxed. That happened because the money I had received from my friends was not formally documented as loans. So, the auditors considered it as income and I could not prove otherwise. This mistake cost me about 600,000 Birr. I discussed the issue with lawyers and tax authorities and I tried to explain to them that the money was received as loans. But they cited government regulations that saw the money as unknown income, even as 'money laundering' and they could not help me. I agreed with the tax authority to pay 25 percent (91,000 Birr) plus 26,000 Birr every month. This drained my capital and the business became weak because of shortage of money. In addition, the business was not doing well in 2014.

The next year too was not good for the firm. There was capital shortage, water supply problems, and electric power supply problems. To address the power problem, I decided to install a power generator, which needs a 9m<sup>2</sup> area of land. But I could not get the land. The local administration could not supply me the land. There were regular power failures that resulted in a delay in the delivery of orders. After some time, I was forced to outsource the orders. I applied to the woreda and to the sub-city but no one had a solution. The woreda sent me to the sub-city which sent me back to the woreda. With all these problems, Haromaya University announced a bid which I won. But delivering the order was a big challenge.

However, I completed 50 percent of the job and claimed partial payment. They released half the money which I used for completing the remaining portion of the order.

In 2015, the firm registered a loss of about 365,000 Birr because of poor supply of infrastructure. My firm was forced to reduce its permanent workers from 14 to seven. In 2016, I reduced my workers to five. Sadly, I lost trained workers mainly because of the chaos in Oromia and other regions (countrywide public unrest that resulted in the government changing in April 2018). The chaos resulted in pulling down the national economy. It also resulted in a shortage of raw materials in the market. As a result, there was a decline in the printing industry. The period between 2016 and 2018 was a time of public uprisings in Ethiopia. There was political resistance in the country. Consequently, there was a change in the Ethiopian government, and a new government was formed in April 2018. During this period, the business faced a decline in both demand for its product and supply of raw materials. As a result, the business performed badly. After the new government came to power, the performance of the business has improved again.”

### ***Summary of information from other sources***

This sub-section presents information from other sources including interviews with employees, customers, suppliers, and site visits and observations. The data from these sources complemented the case study enriching the information which helped in understanding how the new business created access to resources. The interviews with customers helped me understand how the focal new business used its buyers to overcome resource constraints. The learning focuses on mechanisms of financing the purchase of material inputs. Similarly, from the interviews with the suppliers I understood that they were part of the solution for handling resource constraints. In addition, interviews with employees helped me to know more about how the focal business

accessed and maintained its human resources. In addition, from my visits to the workplace, I made sense of the how owner interacted, oriented, and followed up his employees. The visits also helped me to realize how the new business configured different sources to overcome resource constraints. From my site visits and observations, I recognized that the entrepreneur used his parent's residence compound for business purposes. He used a very small room as a working place where customers came and met him. In this small room, customers' orders were received, and printing services provided. But larger work was done in the residence's compound. All binding and printing for larger jobs was in the compound. The entrepreneur moved goods between the two locations using his personal automobile. Workers were also moved between these two places, whenever needed. In some cases, they were moved during working hours. In addition, the workers worked in the residence compound during their off time. Whenever, there was an overload of work the employees were made to work during night time in the residence compound. I observed bedrooms and kitchens with utilities ready for use in such situations. I confirmed this during my interviews with employees. Employees worked during night time whenever there was tight job schedule. They were served meals and paid overtime.

There was friendly relationship between the employees, and between the employees and the entrepreneur. The first employee of the business had been a classmate of the entrepreneur's sister. She joined the business through her classmate. The second employee is a sister of the first employee. The other employees were friends of the two employees. In addition, none of the employees had job specific skills. They were given training after joining the business.

From my interviews with the customers I learnt that they had been waiting for a delay in delivery. From interviews with suppliers of machines and stationery, I learned that the business earned the trust of its suppliers. The business initially received small quantities of input on credit. However, as its turnover increased, it started getting larger quantities of input on credit. From my interviews with the representative of the suppliers, the repayment history of the business helped strengthen its relationships.

#### 6.4. Analysis and interpretation

This section presents an analysis and interpretation of accessing resources as a new business' development unfolds in Ethiopia. This involves identifying business activities related to accessing resources. Accessing resources corresponds to formal-informal business activities, and how they build on each other. It focuses on overcoming challenges of accessing resources as a new business'

development unfolds. The analysis emphasizes on the role of the SMEs Development Agency and founding entrepreneurs and their interactions. The identification and classification of activities was inspired by the concept of entrepreneurial bricolage (Baker and Nelson, 2005) and the scholarly discussions about how a new small businesses accesses resources in developing economies (Quartey et al. 2017; Tengeh et al., 2011).

#### *Configuration of business activities for accessing resources*

A new business in Ethiopia increases its access to resources by configuring different business activities. This configuration involves shifting between business activities over time and undertaking different business activities concurrently. The shift between business activities starts from activities that require no or low financial and human capital investments. These business activities generate a moderate amount of revenue and help an entrepreneur acquire business experiences and social connections. The process continues as prior business activities help later ones through a provision of resources. For example, the entrepreneur in my case, switched careers from cutting and selling grass, to trading the Symbol of the Cross and religious books. Then, he started producing and selling candy. The entrepreneur continued shifting between business activities engaging in selling academic books and repairing and selling damaged soaps and books. These changes helped the new venture accumulate financial resources and business experience. This helped the venture learn from experience as the founder did not have enough capital to undertake business research in identifying viable business ideas. In addition, the diverse business activities helped the venture to meet different people which benefitted it in accessing new business ideas and more social capital.

Moreover, a new venture in the Ethiopian economy undertook different activities in the same area and/or the same activities at different places to increase access to resources. The venture sold different types of products or services so income from one activity helped finance other business activities. For example, the empirical case shows that the venture engaged in printing and publishing as additional activities to increase access to resources. The entrepreneur used a car intended to transport books as a taxi during off-work hours. In addition, he provided maintenance services expanding his sources of income to include maintenance services, secretarial services, photocopying services, and a taxi service. He bought a public transport car which became another business.

However, the benefits of flexibility in the bricolage of business activities depends on the match between a business opportunity and the resources committed to exploiting that opportunity. When the opportunity is uncertain, making large investments locks resources, restricting flexibility and adaptability. This in turn results in a loss of resources. From the empirical case, the investments in candy production and the bus for public transport resulted in losses as there was no prior market experience.

#### *Identifying new uses for resources*

Another means of enhancing the resource base is by finding new or better uses for forgotten or discarded materials. In the case study, the entrepreneur first cut and sold grass that was freely available in the entrepreneur's parents' compound. The grass was used for generating an income though this was not the intended purpose of the grass as it grew seasonally and then dried. This happened when a tenant living in the compound suggested that the entrepreneur could cut and sell the grass available in the compound.

Buying damaged soap and books at a low cost, making necessary changes and selling them at a profit is another incident in the case. The business also bought damaged books and sold them after repairing them.

Finally, the entrepreneur used his parents' residence for accommodating workers and his friend's residence as additional space for photocopying. This shows that a new business in a financially constrained environment can develop by avoiding the need for financial resources. Thus, this shows new ways of enhancing the resource base of a new business.

#### *The SMEs Development Agency and a new venture accessing resources*

New ventures formalize for resource acquisition rather than fulfilling legal obligations. The SMEs Development Agency controls various resources available to new ventures in Ethiopia. It administers working premises that have been prepared for accommodating different types of businesses. It has the legal power to connect new businesses to micro-financial institutions for financial loans. In addition, the agency also facilitates new ventures through training from academic and training institutions. These services are available with no or low payments. However, the support from the agency addresses a limited number of new ventures during a given

time period. As a result, getting this support is a competitive exercise among new businesses. Moreover, the ventures need to formalize themselves for accessing the resources from the agency. A formal new business has more chances of accessing resources than its informal counterparts. This requires starting a new business in line with government policy to access land and having a VAT registration for enhancing its access to government projects and competing in bids. Incidents in the case study show that registering for a value added tax (VAT) helped the business get the right to compete for bids. In addition, the formal registration of the new business also helped the entrepreneur in using a government program designed to encourage new business formation. As a result, the entrepreneur secured land as a working place free of charge or at a low cost and also loan facilities. If the costs of formalizing outweigh the resources generated as a result of formalizations, ventures decide to remain informal.

#### *Configurations of contracts and accessing resources*

A new venture configures different contracts as a means of accessing resources. A business pools together different types of contracts with different stakeholders to access resources without committing resources of its own.

The founders' personal ties facilitate locking in suppliers and the market so that they provide resources to the new venture. I found a complicated relationship among the supplier, the new business, and the market. The business won and signed a contract without having resources to complete the job. Then taking the contract, he went to a supplier whom he knew and told him that he had won a contract and showed him the formally signed contract. The supplier gave him enough machines on credit with all the necessary supply materials. The business completed a portion of the job and collected a portion of the money from the first customer.

However, he used some of the money received to repay a portion of the debt that he had when he bought machines on credit. He used the remaining amount to buy supplies to finish a portion of a job for a second customer. Meanwhile, the business competed in another bid from a third customer and won the contract. He told the third customer that he did not have money in hand and needed an advance payment. The customer gave him an advance payment for a portion of the contract. He used this money to complete the remaining portion of the job for the second customer. He also bought more machines from the same supplier on credit to complete the remaining job for the first

customer. The supplier did not ask for a collateral. Instead, he gave credit based on the trust that they had established earlier.

Finally, the configuration of contracts extended to include getting financial resources through Ikub.

## 6.5. Lessons from the chapter

The purpose of this chapter was understanding how a new business gets resources as its development unfolds in an economy where the government intervenes in the new business sector through its industry development policies. The chapter integrated ideas from both the reviewed literature and an interpretation of the empirical material.

The empirical case was from developing economy where there is less accessibility to financial resources. The credit system is not well developed and collateral requirements of financial institutions are not attainable by new businesses.

Literature on the concept of entrepreneurial bricolage focuses on how a new business gets access to resources in such contexts (Bacq et al., 2015; Baker et al., 2003; Baker & Nelson, 2005; Davidsson et al., 2017). My findings contribute to literature as they discuss the role that the informality of business activities plays and also ties with government officials as a means of accessing resources. I found that entrepreneurs with low initial resource endowments opted for informal business activities for accumulating resources. In addition, I also found that social ties with government officials helped in resource acquisition.

In the Ethiopian economy the government controls resources like land, and is a significant buyer of goods and services. In addition, the government manages economic development through development policies like the SMEs development policy. As a new business aligns itself with government policies, it gets more access to resources like land, finance, and credit facilities. In addition, I found that the act of formalization also helps a new business earn legitimacy that helps it in accessing resources.

In addition, prior research on the concept of entrepreneurial bricolage emphasizes the need for combining resources for new uses (Bacq et al., 2015; Baker et al., 2003; Baker & Nelson, 2005; Davidsson et al., 2017). My findings extend this conceptualization by adding configuration of new business activities as being instrumental to the resource base. A new business engages in various activities that contribute to the learning of the business. In addition, income from one activity helps as an additional source of resources for another business activity.

## 7. Developing a market for a new business

### 7.1. Introduction

Developing an initial market is of tremendous importance for a new business. The initial market serves as a signal of its birth (Reynolds, 2017), ensures its existence (Lewis & Churchill, 1983), helps bring up unnoticed product flaws for the first time (Tomas Gomez-Arias & Montermoso, 2007), and serves as a reference for potential customers (Ruokolainen & Igel, 2004). Connecting to initial markets is enhanced with initial endowments like resources and legitimacy (Stinchcombe, 1965). As outlined in the previous chapter six, new businesses lack resources and legitimacy (Stinchcombe, 1965; Zald, 1969). New businesses also lack important things like prior business experience, human and financial capital, and networking at their starting points (Bailey & Helfat, 2003; Boeker, 1997; Cooper et al., 1994; Harris & Helfat, 1997; Mosakowski, 1993). As a result, new businesses engage in a process of experimentation (Cooper et al., 1994) for developing market connections.

Studies on market development are grouped under ‘discovery of market’ versus ‘creation of market’ (Sarasvathy, 2001, 2008; Sarasvathy & Dew, 2005). Literature on market discovery assumes the prior existence of market opportunities as a ‘given’, and the primary focus is systematic market research for discovering the market (Sarasvathy & Dew, 2005). This is based on the assumption that a new business develops with a visionary recognition and exploitation of existing opportunities (Sarasvathy, 2008). On the other hand, literature on market creation deals with how activities transform extant reality into a new market through a chain of stakeholder commitments over time (Sarasvathy, 2001, 2008; Sarasvathy & Dew, 2005). This creation begins with a given set of causes and continues with the formation of new commitments by stakeholders as a new business’ development unfolds (Sarasvathy, 2008). Literature on market creation assumes that the market situation is uncertain (Sarasvathy & Dew, 2005).

Much of the research on small firm marketing has been conducted in the context of developed economies (Siu, 2001), with less emphasis on specific social, cultural, and political contexts in developing economies (Siu, 2005). But there are uncertainties in the economic, political, and regulatory situations in developing economies (Lingelbach et al., 2005) and unpredictable markets and existence of discriminatory regulatory practices in the Ethiopian economy (Amha & Ageba, 2006; Gebreeyesus, 2011; Herrington & Kelley, 2012; Kebede & Simesh, 2015). Developing

markets in the Ethiopian economy means facing interventions by the government in the form of support. However, the government prefers certain businesses over others. In addition, the support extends for a limited period of time, after which the new businesses have to become self-reliant. Moreover, the Ethiopian economy is characterized by the prevalence of a significant number of informal new businesses. Thus, the purpose of this chapter is understanding how new businesses develop markets for their products in the Ethiopian economy.

The rest of this chapter is structured as follows. Section 2 presents the literature review while Section 3 gives the two case studies. Section 4 does an analysis of the cases and gives some interpretations. Section 5 gives the lessons learned from the chapter.

## 7.2. Literature review

### ***Role of initial customers as a new business develops***

Scholarly works emphasize that selection of initial customers is critical for the subsequent development of a new business. They serve as a source of earning early revenue (Tomas Gomez-Arias & Montermoso, 2007; Schoonhoven et al., 1990). Initial sales are a signal of the birth of a business (Reynolds, 2017). In addition, Ruokolainen (2005) emphasizes that finding the first customers for its first product is a critical aspect in developing a new business. Initial customers also give accurate feedback on product improvements (Urban & von Hippel, 1988; von Hippel, 1986) and the expected level of customer services (Ruokolainen, 2005). Moreover, initial customers help in market penetration by serving as a reference for other potential customers (Ruokolainen & Igel, 2004). Further, strategic preventive measures and cost leveraging benefits accrue to a new business from its initial customers (Tomas Gomez-Arias & Montermoso, 2007).

Acquiring customers and delivering a product or service contracted for are a matter of existence for a new business (Lewis & Churchill, 1983). Emphasizing the speed at which the first product is brought to the market, Schoonhoven et al. (1990, p.177) maintain that fast selling of the first product is important for a new business in "gaining early cash flow for greater financial independence, gaining external visibility and legitimacy as soon as possible, gaining early market share, and increasing the likelihood of survival."

Early connections with the market are influenced by a new business' initial conditions.

### ***Founding conditions of a new business in initial market connections***

Developing a market requires being aware of technology and market conditions in a specific industry (Roberts & Berry, 1985). In addition, scholars highlight that developing a market for a new business also requires information about the competitive conditions, regulations specific to the industry, and establishing goodwill and trust with industry actors like buyers (Bailey & Helfat, 2003; Boeker, 1997; Cooper et al., 1994; Harris & Helfat, 1997; Mosakowski, 1993). Studies underscore that these understandings come through prior experiential learning (Boeker, 1997; Gimeno et al., 1997). Knowledge about how to connect with the market is mostly tacit and is commonly acquired by substantial investments of time in observing, studying, and participating in the same activities (Cooper et al., 1994). This requires the involvement of persons who have this tacit knowledge.

Likewise, the founding structure of a new business that incorporates the direct and interactive effects of manufacturing and marketing functional expertise enhances the possibility of early market connections (Cooper et al., 1994; Schoonhoven et al., 1990). Further, social networks help entrepreneurs identify market opportunities and establishing credibility in the market (Oviatt & McDougall, 2005). In addition, prior market knowledge speeds up market connections for a new business (Oviatt & McDougall, 2005). Mosey and Wright (2007) emphasize that entrepreneurs with prior business ownership experience have broader social networks and are more effective in developing their networks further. Stinchcombe (1965) points out that the founders' prior legitimacy is critical for establishing initial market connections. Similarly, Cooper et al. (1994) highlight that a business' initial human capital and financial resources improve its capabilities of establishing networks with the initial market.

Thus, scholars emphasize that initial endowments, including human and financial capital, help new businesses in shielding themselves against shocks arising from the trial and error methods that they have to follow so that they can subsequently earn credibility among customers and suppliers (Cooper et al., 1994; Stinchcombe, 1965). Cooper, Gimeno-Gascon, & Woo (1994) also argue that initial financial capital allows a new business to pursue more capital-intensive strategies.

But new businesses tend to be deficient in resources and legitimacy when it comes to developing business relationships with customers (Stinchcombe, 1965; Zald, 1969). Therefore, new businesses hold little power and influence over the market and competitive conditions (Romanelli, 1989). Moreover, lack of prior business relationships with customers and suppliers forces a new business to create legitimacy for starting exchange relationships (Hannan & Freeman, 1984).

Stinchcombe (1965) also highlights the challenges associated with newness, including the need to learn about the environment and establishing legitimacy in the eyes of the initial customers. Aldrich and Auster (1986) underline experiential barriers to market entry as well as various external challenges that a new business faces such as established organizations' brand recognition and market acceptance, illegitimate acts by competitors, and licensing and regulatory barriers. Cooper et al. (1994) argue that new businesses are engaged in a process of experimentation in which concepts are tested. This process is characterized by iterations of trial and error.

Therefore, the following discussions focuses on how a new business that is deficient in resources and legitimacy (Stinchcombe, 1965; Zald, 1969) develops its initial market connections.

### ***Approaches followed for establishing initial market connections***

Regardless of the initial deficiency in resources and legitimacy, a new business uses different approaches for developing its initial market. This is possible through involving knowledgeable individuals and capitalizing on the founders and their social networks.

A new business involves other individuals with necessary knowledge and skills to help it establish connections with the market. This is possible either through using external advisors or making knowledge and skill holders members of the entrepreneurial team. A new business may partly compensate its resource and legitimacy deficiencies through outside advisors. The presence of industry-experienced outside advisors enhances trust relationships with stakeholders, portrays a more credible image for the business, and provides access to critical information and resource networks in the industry (Kor & Misangyi, 2008). Outside advisors also supplement the founding entrepreneur by providing advice, legitimacy, and social capital for a new business (Kor & Misangyi, 2008). In addition, they bring in management know-how by providing profession advice (Cooper et al., 1994; Hay & Ross, 1989).

In addition, increasing diversity and composition of an entrepreneurial team enhances initial market connections. Team members may differ in gender, ethnicity, educational levels and type of education, prior management know-how, and prior industry experience (Cooper et al., 1994). This diverse experience lends to a greater breadth and depth to the expertise, which in turn enhances initial market connections. For example, Cooper et al. (1994) highlight that an individual with industry specific know-how brings in a tacit understanding of the key success factors in the industry, specialized knowledge of the product or technologies, and accumulated goodwill among

customers and/or suppliers. Scholars also stress that diversity among team members enhances the credibility of a new business in the potential market and its other constituents (Stinchcombe, 1965). The other means used by new business is through social capital. Social capital is an instrument for establishing initial market connections (Ruokolainen, 2008). Social capital is conceptualized in different ways. Putnam (1995) views social capital at the social group level and conceptualizes it as features of a group consisting of networks, norms, and social trust that facilitate coordination and cooperation for mutual benefit. Bourdieu and Wacquant (1992) maintain that social capital is resources accruing to an individual member or the social network as a result of mutual acquaintances and recognition. Nahapiet and Ghoshal (1998) indicate that social capital signifies resources accrued from contacts with various actors.

Founders' social ties enhance a new business' initial market connections. Firstly, scholars underscore that initial customers help a new business enter the market (Ruokolainen, 2008) and they also share risks (Clarkson, 1994) with the new business. Aldrich (1999) shows that founders' personal networks influence the extent of support that a business gets from its initial customers and Granovetter (1973) underlines that the reciprocal interaction between a new business and its initial customers is underpinned by the strength of ties that are characterized by a strong degree of trust and emotional closeness between the two. Ruokolainen (2005) argues that social contact is more important than the price and novelty of the product being offered in finding the first customers for a new high technology start-up. Thus, personal trust and emotional closeness between the founders and potential customers, and reciprocal interactions between them enhance initial market connections for a new business. The founding team's members pool together diverse social ties (Aldrich, 1999) which improve important information flows (Burt, 1992) for the business.

The following discussion focuses on marketing of small businesses in developing economies.

#### *The context of developing economies*

Small businesses in Africa includes the use of traditional marketing tools (Cant & Wiid, 2016), strategic marketing planning by small business (van Scheers & Makhitha, 2016), marketing communication efforts by small businesses (Kallier, 2017), and determinants of the market orientation that is adopted by small businesses (van Scheers, & Makhitha, 2016). These scholars disregard the roles of contextual factors in marketing by small businesses. However, a few scholars have shown how contextual factors influence small businesses' marketing practices in the Chinese

economy. Chinese SMEs use personal networks to extend their distribution channels while developing new businesses (Siu, 2001). Small firms in China establish close and good relationships with buyers and government officials as they are influenced by the Chinese culture' relational orientation (Siu, 2001, 2005). In addition, Siu (2005) examines the impact that the interplay among government interventions, manufacturing systems, and business approaches has on the marketing activities of SMEs in China, Hong Kong, and Taiwan. The author found that SMEs in China operate under strong government influence and use a relation-oriented marketing approach as compared to SMEs in Hong Kong which use transaction-oriented marketing activities. The author thus emphasizes establishing various relations with customers, buyers, middlemen, and government agencies for marketing a new business' products (Siu, 2005).

Existing literature on developing new businesses in the Ethiopian economy shows lack of or fluctuations in product markets as one of the reasons for the failure of new businesses (Ageba & Amha, 2006; Herrington & Kelley, 2012; Kebede & Simesh, 2015).

### 7.3. Case studies

Now I do an in-depth analysis and interpretation of two cases studies. The cases are new businesses in food processing and in leather product processing. The food processing business was established in 2014 and the leather product processing business was established in 2012. The discussion is structured as follows. I first present the two case studies from the point of view of their owner managers after which I present an analysis and interpretation of the cases. The analysis proceeds with one case at a time identifying the key factors that explain how the business developed its initial market connections. I also analyze the challenges and other key factors that helped the business to overcome these challenges. The other sources included in the interpretation include interviews with customers, site visits, and observations. The data from these sources complemented the case studies enriching the information for understanding how the new businesses established connections with their customers. Interviews with customers helped me to understand how the new businesses created and maintained connections with their customers. The learning focuses on ways of connecting and maintaining these connections. Similarly, from my visits to the workplaces, I learned how the businesses interacted with the customers coming to them while I was visiting.

This is followed by a discussion of the themes that emerged from these two analyses and the conclusions that are drawn.

#### *Case one: Food processing business*

The food processing business was established in 2014 by six family members as owners with an initial capital of 1,000 Birr in cash and a machine valued at 20,000 Birr that was donated by the founders' parents. The owners include a wife and her husband and the husband's brothers and sisters. All the founders had previous experience of working in a bakery. They had all completed Grade 10 and one of them had a diploma in health. In addition, one of the founders was working as a salesperson in a bakery and distributing its products from door to door.

What follows is a narrative of this food processing venture. The narrative is constructed from the interviews done with one of the six owners of the venture – the husband of one of the owners and the other members' elder brother. He works as both the general manager and salesperson. I have chosen him as he is knowledgeable about the business. The narrative is constructed from his point of view, and sometimes he uses 'we' to refer to all the owners and he uses 'I' to signify himself.

#### *Founding situation*

The venture is engaged in food processing and selling. Its products include cookies, dabokolo, keshekeshe, and bube (this are different types of cookies in the local language).

“Before starting the venture, I was employed in my relative's bakery where I worked as a salesperson selling products from door to door. The specific idea of starting a business in food processing was inspired by the existing family bakery. We are selling similar products in our new venture.

Our parents suggested that we should start a new business. I also knew that what I was earning as an employee in the bakery was not enough. I also had a feeling that working as an employee limited my role to a specific job. I was mindful that there were differences between doing one's own business and being employed. I also understood that starting one's own business gave freedom and enabled one to experience different things. Thus, I was convinced by my parents' suggestion and I decided to start a new business with a team.

The bakery I was employed with gave me a letter of work experience. This helped us get a license from the government agency for starting this venture.

We divided the work amongst ourselves and all of us were assigned jobs according to our work experience. As a result, I was made the manager. I am working as both the manager and salesperson. I had performed similar roles in my earlier job where I worked as a salesperson and driver for the bakery. The other co-owners were also assigned tasks based on their personal experience and skills. One of the owners has a diploma in nursing and was assigned the role of a quality control officer. The others are made production workers.

After working for some time, we employed six more workers on a contract basis because the workers did not want to be employed on a permanent basis. They needed freedom to shift jobs whenever they got more money. In addition, they wanted to be paid based on a per piece basis rather than getting a fixed salary every month.”

#### *Market and competition*

“Currently, we are selling our products with no specific labelling. Our products are consumed by all categories of people during holidays and birthday celebrations; they also use them as gifts while visiting relatives and sick people in hospitals.

To sell our products we search for retailers to shelf our products. We sell to retailers either on credit or in cash. When we sell the products on credit, we claim payment only after the retailers have sold our products. We use different mechanisms for convincing retailers. We make them taste the products, give them samples, and verbally try and convince them that our products are better than others. In addition, we also use our relatives' retail shops to display our products and for promoting them.

The SMEs Development Agency helped us in linking with the market. The agency organizes bazaars where we promoted our products and distributed our business cards. This helped us in linking with a few customers. After participating in the bazaars, some customers have been coming and buying our products from our production site. This is the only promotion that we have done for our products. The main reason for this is that our working place is not convenient for contacting customers as it is also serving as our production site and we do not have selling shops.

Our business is selling its products in a competitive market. There is uniformity of products among suppliers. Besides, there are many informal producers supplying the same products to the same market. But the informal producers supply these at low prices as their costs are low because they

do not pay taxes and have no administrative costs. They make the products in their residences and distribute them using the same retailers that we use for our business.

On top of that, informal producers are also competing for skilled employees. They employ workers by paying them higher wages as compared to formal producers. Even though they pay more wages, they compete with lower prices in the market. Our former workers have also started producing the same products informally after they learnt how to do this while working with us. As a result, no worker has stayed with us for more than six months. Once they get skills, they leave for better options. This is one of our challenges in penetrating the market.

Moreover, it is also difficult to compete with established firms. They buy inputs directly from farmers while we buy them from traders at higher prices. So, we cannot compete with them in terms of prices. Since large firms buy more inputs at lower costs, we cannot compete with them. In addition, large firms sell branded products because of which they enjoy a reputation among their customers. Then larger firms can also access a large number of customers in a wider area. They are trusted more by customers as compared to the smaller ventures. In addition, the market is faced with by political instability and seasonal demand. The current instability in Ethiopia influences the market situation. Further, demand for our products fluctuates as per religious practices. Users do not consume our products during the fasting period as they feel that our products are not appropriate for these periods.”

### *Government Regulations*

“Our business was established with support from the government’s SMEs Development Agency. The agency provided us with a production site of 60 m<sup>2</sup>. We paid 75 Birr per month as rent for this in the first year and are now we are paying 150 Birr per month in our second year. We will pay 225 Birr per month in the third year, and 300 Birr per month in the fourth and fifth years. The first year’s rent payment is 25 percent of the total rent cost, which goes up to 50 percent of the rent cost in the second year, then to 75 percent for the third year, and 100 percent for the last two years. Actually, the cost is low compared to the market rates in the city. It is a subsidized price. The agreement covers five years. We were promised provision of better working premises after five years. The size will be determined by the expansion levels that we achieve in the first five years.

The SMEs Development Agency also helped us in creating market linkages. The agency organized bazaars and exhibitions that helped us meet potential customers. However, we faced challenges in

dealing with government agencies when we went to the Oromia region, around Laga Tafo, to sell our products. Police officers in that area prohibited us from selling our products stating that the business was allowed to sell its products only in Addis Ababa, where the firm was established. As a result, they penalized us. However, we did not know of the existing government policy that prohibited us from selling outside Addis Ababa.

The government has also helped us in getting workers. There is a government system of registering unemployed individuals, training them in different professional areas, and connecting them to small and micro enterprises. The government also helps them start their own businesses. Our business benefited from this.

We faced several challenges in our first year, including market problems and employee turnover. Employees left without completing the work that they had started. As a result, many products were destroyed. In addition, we did not have a market which resulted in our products getting spoiled.

We also had a problem in the supply of inputs. Currently, the government is rationing the sale of sugar, edible oil, and wheat flour. We get limited supplies of these inputs from the government. The government justifies this situation by saying that we are producing luxurious products and priority is given to those firms which produce products like breads (this is part of the government's priority policy for subsidizing items of necessity). According to the government's policy, bread is a necessity and hence producers licensed to produce bread get priority in buying subsidized inputs. Further, there are also implementation problems with the rationing policy. For example, our business is allowed to buy 2,000 kg of sugar and 7 units of 20 liters each (140 liters) of edible oil. But at the woreda level (lowest government administrative unit), they sell us only 200 kg and 2 units of 20 liters (40 liters) of edible oil. We have to buy all the needed wheat flour from private suppliers at a higher cost.

Other rules and regulations related to SMEs' development are not properly implemented. If the regulations are implemented properly, small firms will benefit. But the regulations are complicated at the lowest administrative level. As a result, most of the benefits that the trade and industry office should provide to SMEs are not implemented.”

#### *Expansion*

“We bought one oven in a short period of time at a total cost of 20,000 Birr.”

### *Summary of information from other sources about the food processing business*

The new business operated in a shared working place provided by SMEs Development Agency. The rooms are partitioned parts of a larger hall. The hall is divided into rooms where different businesses operate in different rooms. It is not convenient to use the place for selling products. Instead, the salesperson sells the products to the retailers through door to door distribution. During my site visits, I learned that the salesperson was struggling to sell the products. Some retailers rejected his offer. Others were not willing to pay on the spot. Instead, they postponed the payment until the last product had been sold. As there are multiple suppliers of similar products, retailers were reluctant to buy products making immediate payments. As a result, the new business was selling on credit. In addition, I learned that the owner manager repeatedly visited the SMEs Development Agency's office. He did that to keep in touch with the officers but to get up to date information about the government's plans of organizing bazaars and the government's purchase plans.

### *Case two: A leather product processing business*

The leather product processing business was established in 2012 as a partnership between a woman and her husband. They had different work experience. The wife had been a co-owner in another venture producing and selling leather products. She worked there for three years. The husband was new to the industry. He had a minibus and was working for a taxi service in the city. After getting married, she left her former venture and they started the new business. What follows is a narrative of a leather product processing business. The narrative is constructed from the interviews done with one of the two owners of the business. He works as both the general manager and a production worker. The narrative is constructed from his point of view, and sometimes he uses 'we' to refer to both the owners and he uses 'I' to signify himself.

### *Founding situation*

“The business produces and sells different types of leather products, including leather wallets, leather document holders, belts, ladies leather bags, students' leather bags, travel leather bags, and leather key holders. The products are partially made by hand and are machine supported. We have diverse users of our products, including different organizations, students, and individual adults.

The manufacturing business requires risk taking, I am not good at risk taking and she is more of a risk taker. She quit her previous work with three years experience. She told me that manufacturing was better than taxi driving, but I could not see the opportunities. I resisted her for some time. However, I helped her in working on the new venture during my breaks. She told me that I was good at producing leather products. I also saw what she was earning by selling the leather products.

Once she produced a few items and sold them in a bazaar and she earned a lot. I was surprised. I compared her income with what I was earning from the taxi service. At that time, on average I was earning 200 Birr per day, but she earned the same amount by selling only one item. I started taking out time to learn how to produce the leather products.

Initially, I did not have any knowledge about a leather sewing machine. I learned the work over time and decided to sell my taxi and invest all the money in the business. However, the investment absorbed all the money I got from selling the taxi. I was frustrated. I did not have experience in the business. My experience was getting cash at the end of every day. But we invested the money with expectations of future returns. The early stages were frustrating for me.

The business started production in January 2012. Before that, we went through all necessary formal procedures. First, we applied to the SMEs Development Agency's office in our woreda. The office directed us to formalize our partnership agreement. After the partnership agreement was approved, we went to the Inland Revenue Office to get registered and get a taxpayer identity number. We had the alternative of registering as a turnover tax (TOT) payer, or a value added tax (VAT) payer. Even though I knew that a leather products business was required to formally register in the VAT payer category, I chose the TOT payer category to get advantage of paying less tax. Since the business was registered with the SMEs Development Office, it gave us power to request the Inland Revenue Office to categorize us as a TOT payer, and the office allowed us this.

Then we went to the trade and industry office to get registered and secure a trade license. Finally, we commenced production in January 2012 in our residence. Hence, we are not paying any rent for the place of production.”

#### *Market and competition*

“The business accesses customers in three ways: participating in bazaars organized by the government, participating in bids, and some buyers come to the production site or place orders over the phone.

The government organizes the bazaars at least once every two months. The bazaars are intended to connect new businesses organized through support from the SMEs Development Agency with prospective customers. Our business participated in these bazaars. The bazaars helped us in two ways. First, we sold our existing products directly in the bazaars. Secondly, we distributed our business cards to the people participating in the bazaars. Some people who accessed information in the bazaar either came to our production site or ordered over the phone directly. In addition to organizing bazaars, the SMEs Development Agency wrote a support letter for our new business. This worked as a substitute for a cash payment order (CPO) guarantee that is required during bidding.

The business also participated in bids. Once it participated in a bid floated by Education Strategy, a government office. It was a bid for 250 bags. We prepared the bags and printed the logo of the institution on all of them. We earned a good amount from this. Our participation in bids is limited because of our taxpayer category. According to existing regulations, a business in the TOT taxpayer category can only participate in bids with maximum total sales of 50,000 Birr at a time.

As a result, the business could not compete in many bids with larger values. This was a result of the mistake we made in choosing the TOT category for our business. However, after three years of operations (2012 to 2014), we appealed to the Inland Revenue Authority to change our taxpaying category to a VAT payer category. Even though we got this registration it resulted in unexpected expenses. The authority complained that a business should be registered as a VAT payer when it is formed. The authority registered our firm in the VAT payer category retrospectively from 2012. This forced the business to pay the deferred VAT that was to be collected starting from 2012. This was 15 percent of all sales during three years of operations. But the business had been collecting only 2 percent as turnover tax (TOT). This resulted in an additional payment of 13 percent on all previous sales during the three years. We had not collected this from our customers. We appealed to the federal Inland Revenue Department. Our case is still pending.

We also faced problems selling our products to retailers. On the one hand, they bought our products on credit and held the stock for long, and on the other hand there was high competition from informal producers. They supply the same products but at low prices. The informal businesses can afford low prices as they incur less costs than formal businesses. Our business pays taxes, which are added to the price making the price at which we sell our products uncompetitive.

Finally, the business could not export its products because exports require bulk production. We started dealing with firms who have export licenses. In addition, the Ethiopian government has also started linking small businesses to large exporters. The idea is that small enterprises supply their products to the exporters and those who have the capacity to export collect the products from small enterprises and export in bulk.

In general, the business is operating under several challenges. The first challenge is maintaining trained workers. We have been hiring unskilled workers and training them. Two skilled workers, who learnt from us have left the firm and started their own business. As a result, the business is forced to employ skilled workers on a contract basis paying them a per piece rate.

The other problem is related to input supplies. Leather factories target traders who can buy in bulk for material costing 100,000 Birr or 200,000 Birr. But our business can only buy small quantities. We usually buy leather at a maximum value of 4,000 Birr a ton at a time. Hence, we are forced to buy leather from retailers at higher prices. We buy leather any time we have enough money and stock it for later use. Sometimes we cannot get leather when we need it so we keep a stock of raw material to use whenever orders come. Keeping these inputs helps us meet these orders. But it also means that our capital is tied.

The cost of finance is another challenge. During the start-up phase, we got a loan from a microfinance institution. But it was expensive. The institution charged a flat interest payment for three years even though the loan balance decreased with time. This is not the case with commercial banks. As a result, we could not pay back all the loan we had taken for a long time. The interest drained much of the profits of the business.”

### *Expansion*

“Initially we did all the activities but later we employed one permanent worker. The business also uses additional contract workers whenever there are more jobs. This generally happens when we win some bids. For hiring contract workers, we have a short list of skilled candidates with their phone numbers. In case the person we contact is busy, he/she refers us to friends. In the industry, there are individuals with specific skills. For example, someone who can sew ladies’ bags cannot sew document bags. So, we have lists of skilled individuals according to their specializations. We call them whenever there is a job that is suited to their skills.

Regarding sewing machines, initially we only had a textile sewing machine, which my wife was using in her previous business. It sewed both textile and leather. Then we bought two sewing machines. But we sold them and bought the existing two sewing machines. We also bought one additional machine with the profits that we made. We use this machine for designing work. Currently we have three machines. We also have tools for measuring and cutting. We buy additional machines with what we earn from sales. Whenever we participate in a bazaar, we earn more, and we use this money to buy more machines and leather inputs. Our initial capital was 3,000 Birr and our current total capital is around 15,000 Birr.

We also took part in training given by the government on exporting. This training helped us learn how to export, how to choose countries, and other issues related to exports.”

### ***Summary of information from other sources about the leather product processing business***

The new business operates from rooms in the owners’ residence. The rooms are used for producing the leather products. In addition, there are places to store inputs, and display final outputs. Customers come to the production site to make purchases. Some of them were informed about the business during promotions in the bazaars and they contacted the business. In addition, some customers got information about the business through person to person information sharing. Previous customers and the owners’ relatives are among those promoting the new business. Some buyers bought the products for personal use, while others were retailers. I learned that the new business was giving a price discount to those customers who bought their products from the production site. I was among the buyers. During my visit, I bought a belt for myself and a bag for my wife.

#### 7.4. Analysis and interpretation

The two cases helped me understand how a new business develops its initial market connections in an economy with government interventions and a significant number of informal new businesses.

##### *Case one*

*Role of prior experiences.* In the first case, the founders were familiar with the nature of their products. They started a new business with products that they had been producing and selling. In addition, the salesperson of the new business was working in the same job with the same products earlier. This made him aware of the marketing practices to be followed for selling their products and information about the possible locations of customers. The previous work experience gave the salesperson a chance to capitalize on his personal ties already established with the customers of business where he worked earlier. As a result, he took over the role of market search in the new business. This role allocation was underpinned by the assumption that the person knew the marketing practices in the food industry and also knew prospective customers for the new business.

*Social connections.* If founders of a new business have more ties with businesses in the supply chain of their products, the speed of initial market connections increases. The first case manifests that the owners' social connections helped the new business in displaying its products in places where they could be noticed and it also helped them to promote their products in person. The founders' relatives helped them in displaying and promoting their products in their retail shops. Otherwise, initial market connections require an intensive search for retailers to shelf the products. On the other hand, transacting with retailers from an arm's length forced the new business to sell on credit and claim credit payments only after the retailers had sold the products to final users.

*Role of government policies in market connections.* Doing a business in line with government policies increases the visibility of a new business' products. In the first case, the SMEs Development Agency helped the new business by linking it with its market through organizing bazaars where it promoted its products and distributed business cards. After the events, customers came and bought its products from the production site.

*Financial resources, formality, and market connections.* A formal new business with higher financial resources connects faster with its market than a new business with less financial resources

in a developing economy. On the one hand, a new business with non-innovative products faces problems in competing with established firms. The latter buy inputs in large volumes at low costs per unit, while a new business buys them from retailers at higher prices. So, the new business faces problems in competing with these established firms in terms of prices. In addition, large firms sell branded products because of which they enjoy a reputation among their customers. Larger firms can also access a large number of customers in a wider area. They are more trusted by customers than new small businesses.

Further, a formal new business cannot compete with informal businesses in a developing economy. Informal producers supply the same products to the same market. But the informal producers supply these at low prices as their costs of production are low because they do not pay taxes and have no administrative costs. They make the products in their residences and distribute them using the same retailers that the formal businesses use. On top of that, informal producers are also competing for skilled employees. They employ workers by paying them higher wages as compared to formal producers.

#### *Case two*

*Prior experience of founders.* In the second case, the founding owners did not have any prior marketing experience for the same product. But one of the founders had prior experience of producing the same product. In addition, both founding owners had prior experience of owning and running a business. This helped the business indirectly on how to manage the business' market relationships.

*Role of government policies in market connections.* Being eligible for the government's support package increases the chances of forming initial market connections. It includes facilitating training on how to export, and how to choose countries of export. Further, the government supports new businesses connected to foreign markets by connecting them with big exporters. This new business was given an option to supply its products to exporters so that the big exporters could sell them to foreign markets in bulk. Otherwise the new business could not have exported its products because of the cost factor. The package enhances this connection in two ways. First, it increases a new business' visibility through participation in bazaars organized by the government. As a result, some buyers come to the production site or place orders over the phone. Second, the SMEs Development Agency gives a support letter to a new business that works as an alternative for a

cash payment order (CPO) guarantee which is required for bidding for orders. This increases a business' chances of winning bids. However, prior knowledge of the content of the policy package moderates the extent of the benefits derived. A business with knowledge of the policy content act on the possible benefits of the policy. The option of registering as a TOT payer or a VAT payer provides an illustration. The founders of this case did not know the requirements and benefits of both the options. As a result, they lost opportunities of connecting to a larger market. Please provide a connection with previous lines.

*Financial resources, formality, and market connections.* The interaction between a small financial capital with a new business and the existence informally operating competitors decreases its chances of making initial market connections. The new business in the second case faced problems selling its products to retailers. On the one hand, retailer bought its products on credit and held the stock for long, and on the other hand there was high competition from informal producers. They supplied the same products but at low prices. The informal businesses can afford low prices as they incur less costs as compared to formal businesses. Taxes are added to the price making the prices of products produced by formal businesses uncompetitive.

*Learning from the two cases: Government policy, formality, and financial resources*

I found that initial financial resources determined the extent of initial market connections for a new business. New businesses with small initial financial resources were unable to compete with large established firms and informal businesses. In the first case, competing with established large firms was difficult as they bought the inputs directly from farmers. These established firms were large and thus had lower unit costs. In contrast, the new small business bought inputs from retailers at high prices. This made their products non-competitive in terms of pricing.

There are also many informal producers supplying the same product to the same market. But the informal producers supply at low prices because of their low costs as they do not pay taxes and incur no administrative costs. Informal producers produce the products in their residences and distribute their products using the same retailers as the venture in the case study.

The two cases also make it clear that formal businesses are also competing with informal small businesses for skilled employees as these informal businesses employ skilled workers paying them high wages as compared to their formal counterparts. They can afford to pay more wages because

they do not pay taxes or incur other administrative costs. As a result, skilled workers leave the new formal businesses to work with informal ones.

However, formality has some benefits as it enhances initial market connections. It is clear from both the cases that new businesses formed under the SMEs development policy's directives have the possibility of early market connections. On the one hand, the government helps new businesses in preparing a platform for connections with potential customers. The government organizes bazaars, at least once every two months. The bazaars are intended to connect new small businesses organized through support from the SMEs Development Agency with prospective customers. The bazaars helped the businesses in the two cases in two ways. Firstly, they directly sold existing products in the bazaars. Secondly, the new businesses distributed their business cards to people participating in the bazaars. Some people who accessed information in the bazaar either came directly to the production sites or ordered over the phone. In addition, the SMEs Development Agency also gave support letters to the new businesses. These worked as legitimizing mechanisms for the businesses and as a substitute for a cash payment order (CPO) guarantee required for bidding.

The case studies also help understand that new businesses can register either as turnover tax (TOT) payers, or value added tax (VAT) payers. However, compared with VAT payers, a business in the TOT taxpayer category can participate in bids with less total sales value. Prior information about the requirements and benefits of each category determine the possibility of using the market opportunities provided under each category.

### 7.5. Lessons from this chapter

The purpose of this chapter was understanding how a new business develops initial market connections. For a new business, success in the initial market is contingent on various conditions. I found that prior knowledge about marketing practices among the founders in the food processing industry enhanced their ability to search for customers and helped them in linking with retailers in the same industry. One of the owners of the new business was working in a bakery so he was tasked with selling and distribution of products in the new food processing business. Thus, his prior knowledge equipped him with expertise in identifying possible buyers for the new business' products. I also found that prior market knowledge enhanced the founder's persuasive abilities. From the food processing business case study it becomes clear that prior marketing experience helped the new business navigate alternative mechanisms of connecting to the market. The founder

connected with initial customers by going around and searching for retailers to shelf its products. The business started selling its products to retailers either on credit or in cash. Money for the products sold on credit was claimed only after the retailers had sold the products to final consumers. The business used different mechanisms for convincing retailers. It persuaded them by making them taste the products, giving them samples, and personally communicating the good quality of its products.

I also found that prior knowledge of government policies and regulations determined the extent of a new business' market connections. From the two empirical cases, I learnt that a new business formed in line with the SMEs development policy's directives have the possibility of making early market connections. The government helps new businesses in preparing a platform by organizing bazaars at least once every two months for new businesses to establish connections with potential customers. In addition, registration as either a TOT payer or a VAT payer differentiates between the possibility of the first sale and its amount. A business in the TOT taxpayer category can only participate in a lower value bid than VAT payers. However, prior knowledge of the requirements and benefits of each category determine the possibility of using the market opportunities available under each category.

These findings extend prior scholarly arguments on how initial conditions effect a new business' initial market connections (Bailey & Helfat, 2003; Boeker, 1997; Cooper et al., 1994; Gimeno et al., 1997; Harris & Helfat, 1997; Mosakowski, 1993; Roberts & Berry, 1985; Schoonhoven et al. 1990).

I also found that the amount of initial financial capital determined the success of the initial exchange. In both the empirical cases the businesses were challenged by their competitors' low costs and low prices. Therefore, it is identified that the size of the initial financial resources determines the extent of initial market connections for a new business. New businesses with small initial financial resources were unable to compete with large established firms and informal businesses. In the first case, established large firms bought inputs directly from farmers for food processing in larger quantities at lower unit costs. In contrast, the new small business bought inputs from retailers at high prices per unit. This made the new business' products more expensive. In addition, there were many informal producers supplying the same product to the same market. But the informal producers supplied these at low prices because they had low costs as they did not pay taxes and had no administrative costs. Informal producers also produced the products in their

residences and had no rent costs. They distributed their products using the same supply chains as the formal small business. These findings contribute to extant literature that relates a new business' initial financial resources to its success in its initial market connections (Cooper et al., 1994; Gimeno- Gascon & Woo, 1994; Schoonhoven et al.,1990).

I also found that strong social ties facilitated the visibility for a new business' products. In the food processing empirical case, I found that the business used retail shops owned by the founders' relatives to display its products for promoting them to other buyers. This finding contributes to existing literature on the role of the founders' prior ties with industry actors such as buyers (Bailey & Helfat, 2003; Boeker, 1997; Cooper et al., 1994; Granovetter, 1973; Harris & Helfat, 1997; Mosakowski, 1993; Ruokolainen, 2005).

I found that founding entrepreneurs' knowing government officials helped new businesses access information on government schemes that support new businesses through market linkages. This extends the scholarly idea that using brokers also helps in accessing new markets (Hughes et al., 2007; Kor & Misangyi, 2008; Mosey et al., 2006).

## 8. Findings, conclusions and implications, limitations, and directions for future research

*This chapter discusses the findings of the empirical chapters and elaborates on an integrative framework of development for a new business in a developing economy. The chapter also gives the conclusions and implications for future research. It concludes with a discussion of its limitations and identifies directions for future research.*

### 8.1. Findings and conclusions

This dissertation had the overall *purpose of understanding the challenges that effect the development of new businesses in a developing economy*. It started with four research questions and answered these in four empirical chapters. The four empirical chapters are independent but include aspects of the process of developing a new business. The sequence of the empirical chapters reflects a possible order of themes that help understand the process of a new business' development. The focus of the first empirical chapter is understanding the challenges related to phases of a new business' development in a developing economy. While the second empirical chapter deals with how a new business develops its product, it also focuses on how a new business accesses and uses knowledge in developing its product. The third empirical chapter deals with how a new business accesses resources as its development process unfolded. The fourth and final empirical chapter investigates how a new business gets connected to its market.

The following sub-section discusses the overall findings of the four chapters and integrates them to understand how a new business develops in Ethiopia (Figure 8.1).

### 8.2. Tension between the formality-informality of a new business and its development

To understand how a new business develops in Ethiopia, it is important to understand how the new business goes from informal activities to formal ones. While studies indicate that a significant percentage of new businesses in a developing economy are informal (Fransen & Van Dijk, 2008), my discussion focuses on how a new business operates as either the formal or informal economy. Empirical evidence shows that the process of developing a new business starts either as a formal business or as an informal one. This decision is affected by a new business' initial resources, the

perceived costs, and the perceived benefits of being a formal business. A new business with low prior resources becomes an informal business, while one with high initial resource endowments becomes a formal one. Formality requires higher investments for fulfilling the standard defined by the SMEs Development Agency. To operate formally, a new business needs to meet different legal requirements including office facilities, operating technologies, product standards, and human resource employment standards. The SMEs Development Agency ensures compliance during the initial registration and subsequent follows up. A new business with enough initial resource endowments, fulfils the requirements of operating as 1a formal business. Otherwise, the new business operates informally. Moreover, the decision to operate either as a formal or informal business is affected by the perceived extent of costs and benefits of formality. A new business attaches both costs and benefits to its formalization. The costs included taxes and payments to fulfill the minimum requirements in a specific industry. A new business considers all the benefits of formality. The SMEs Development Agency provides support to a formal business including land, financial loans, lease purchase of capital assets on a long-term payment, and training. The beneficiaries of the support vary based on the type of business. A new business engaged in activities in the government's policy priorities gets more benefits. As a result, the new formalized business receives different types and amounts of benefits. Thus, a new business that sees the benefits of formality as being more than the costs of operating formally, starts and runs as a formal business.

Even though an informal business is not able to use government support, it is developed with support from the founder's friends, family, and acquaintances (Butler & Robson, 2001; Johannisson, 2004). These relationships help the business access resources. Also, a new business establishes and maintains relationships with its buyers and suppliers. However, an informal business is unable to sustain its development beyond a certain level. It needs to hide from surveillance and control of the regulatory bodies. This situation reinforces an informal new business' decision of remaining informal small. The capital generated during its operations as an informal business serve as initial capital for operating as a new formal business.

### 8.2.1. The role of the government's support package and new business development in Ethiopia

A new formal business is legally required to undertake some activities by the SMEs Development Agency in Ethiopia. The business has to get a taxpayer identification number, a secure trade

license, a formalized agreement among its founders, and registration as a legal entity. Then, the business has two options in Ethiopia: it can either become a user of the SMEs support package or not. This decision depends on access to information about government policies, the extent of prior endowments, and the extent of political affiliations.

When information about government policies is easily accessible, there is a higher possibility that a new business will apply for government support. Ease of information access is enhanced by a degree of information searching capacity of the new business and the extent of information distribution by government agencies. In addition, a new business with less prior resource endowments looks for more government support. A new business looks for support from the SMEs Development Agency in the form of resources like land, operating premises, financial loan, lease purchase of capital assets, and training. These resources help the new business overcome the challenges it faces during the transition phase -- legitimacy building and survival orientation. So, a new business with government support overcomes the problems connected with stakeholders and the challenges to its survival better than the others.

Moreover, the extent of Ethiopian political affiliations affect the decision to use the government support package. The SMEs development policy was perceived as a main political tool of the governing party. It helped the party to implement its political ideology. As a result, those founders of new businesses who are affiliated with the political ideology are more willing to use the support package than those who are not. However, becoming a user of the package is not a guarantee of getting resources and support for market access for small businesses. Factors like lobbying with government officers, creating ties with officers, and understanding the specific contents of the package has different effects on new small businesses. A new business that creates more relationships, lobbies more with government officers, and understands the government's policy receives more support as compared to the other businesses.

### 8.2.2. Consequences of a new business becoming a user of the government's support package

The support given by the SMEs Development Agency affects the process of developing a new business in different ways. This support helps a new business overcome its lack of resources in its start-up stage. Most new businesses start operations with no or limited resources. They also face challenges in connecting with customers and other relevant stakeholders. In line with literature

(Fichman & Levinthal, 1991; Stinchcombe, 1965), government support helps the new businesses overcome the challenges related to the “liabilities of newness and smallness”.

A new business with low or no resources, aligns its product ideas choice with the government’s priorities. The founders search for a product from among the government’s priority areas that matches their prior experience. The process of developing a product in a new business with government support starts with limited initial knowledge of the founder(s). The government’s support enhances this search by encouraging the founders of new businesses to take a risk and try products with customers. Additional knowledge is acquired through interactions with stakeholders as a new business’ development unfolds. In addition, the government provides the business with training on how to develop the product. Suppliers and customers contribute to the founders’ knowledge. This dissertation specifies the government’s moderating role in the form of support while suppliers and the market contribute to the process of developing a product by a new small business.

As a new business aligns more to government policies, it gets more resources, earns more legitimacy, and establishes market connections faster. A new business formed under the SMEs development policy’s directives has the possibility of early market connections. The government facilitates connections between the new business and its potential customers. The government organizes bazaars at least once every two months. The bazaars are intended to connect new businesses to prospective customers. The bazaars help new businesses in two ways. Firstly, they directly sold existing products in the bazaars. Secondly, the new businesses distribute their business cards to people participating in the bazaars. In my cases, some people who accessed information in the bazaar either came directly to the production sites or ordered over the phone. The SMEs Development Agency also wrote support letters on behalf of the new business. These letters worked as legitimizing mechanisms for the new businesses and as a substitute for a cash payment order (CPO) guarantee required during bidding.

However, an excessive reliance on government support has negative effects on the phase transition-growth orientation. The legitimacy problem of a new business being supported by the SMEs development policy re-emerges when the support stops. The Government of Ethiopia supports a new business through government purchases. As part of the support package, the government helps a new business to sell its products to projects run by the government directly.

To fulfill this, a new business needs to acquire material and human resources. This, in turn, increases the need for internal differentiation and integration of its role structure. This results in a large number of sections and management hierarchies. Once the sections are equipped with material and human resources, the firm becomes larger. However, the government support is provided only for five years. When the support stops, the new business has to deal with the challenges of finding new customers. As a result, a new business faces major problems in generating enough revenue to cover its costs. I call this the *liability of early market scaffolding*. This is a challenge during the phase transition to growth orientation. It is a result of the government's supports to new small business during this phase transition to survival orientation. The liability of early market scaffolding depends on the extent to which a business relies on government purchases. If a new business has diversified its customer base, including individual and private customers, it acquires knowledge about marketing in the industry during the phase transition. Consequently, it minimizes the liability of early market base scaffolding during the phase transition to growth orientation.

Informal, small, and no government support	Phase transition- legitimacy building	Phase transition- Survival orientation (Formal, small, and government support)	Phase transition- Growth orientation
<p><b>Activities:</b> Establish informal business; Collect resources from friends, family, acquaintances; Establish and maintain network with suppliers and buyers</p> <p><b>Condition:</b></p> <p><i>Endowments:</i> Human, financial, and social capitals; physical resources</p> <p><i>Intention:</i> Market Opportunity driven or necessity driven or resource driven</p>	<p><b>Activities:</b> secure a taxpayer identity number from Inland revenue; Secure trade license from trade and industry office; Formalize agreements among founders; Admission to SMEs development support package</p> <p><b>Conditions:</b> Perceived extent of costs and benefits of formality; Extent of prior endowments; Extent of accessibility of information about government policy; Extent of prior endowment; Extent of political affiliation</p>	<p><b>Activities:</b></p> <ul style="list-style-type: none"> <li>• Lobbying government officers</li> <li>• Create ties with government officers</li> <li>• Review government policies</li> </ul>	<p>Managing liability of early market base scaffolding</p>

Figure 8.1. The process of developing a new business in a developing economy

### 8.3. Contributions of the dissertation

This dissertation focused on the process of developing a new business in Ethiopia. By elaborating on the process, the dissertation developed insights that increases our understanding of the process of developing a new business. It also elaborated on its theoretical contributions and offers implications for managers and policymakers.

#### 8.3.1. Theoretical contributions

The aim of this dissertation was creating a better understanding of how a new business develops. Understanding how a business develops requires theorizing the process (Van de Ven & Poole, 1995). Whetten (1989, p. 492-493) shows that building a theory requires identifying concepts/ constructs/ variables, their relationships, the logic of specifying the concepts and their relationships, and the temporal and contextual conditions under which the relationships work. Accordingly, this dissertation focused on how a new business accesses resources, develops its product, connects with the markets, and overcomes different challenges as its development process unfolds in Ethiopia. This is represented in Figure 8.1. The following discussion focuses on the what is highlighted in this figure.

Figure 8.1 shows that new businesses start with different levels of initial resource endowments and intentions. The intentions are driven by perceived market opportunities, the availability of resources, or the necessity to earn a living. A new business starts either as a formal or informal activity. The decision to start either formally or informally is influenced by the perceived costs of formality, and the extent of initial resource endowments. The perceived cost of formality discourages starting a formal new business, but the extent of initial resource endowments encourage starting a formal new business.

Once an informal new business is formed, it uses social ties to access resources and customers. It needs to collect resources from the founder's friends, family, and acquaintances. In addition, it needs to create networks with buyers and suppliers. The informal businesses are unable to grow beyond a certain limit and they need to prevent the surveillance by regulatory bodies. At this point, they have two options: either remain small and informal or fulfill the requirements of formality to operate as formal businesses. The new businesses become formal with the resources accumulated while operating as informal businesses.

This dissertation contributes to two theoretical fields. Firstly, it contributes to the concept of entrepreneurial bricolage (Bacq et al., 2015; Baker et al., 2003; Baker & Nelson, 2005; Davidsson et al., 2017). Studies on entrepreneurial bricolage focus on ties with the market, suppliers, friends, and family as a means of getting access to resources (Baker & Nelson, 2005; Davidsson et al., 2017). My findings contribute to this discussion by showing that ties with government officials are an important means of accessing resources. Social ties with government officials are an instrument of resource acquisition.

In addition, prior research on the concept of entrepreneurial bricolage emphasizes the need for combining resources for new purposes (Bacq et al., 2015; Baker et al., 2003; Baker & Nelson, 2005; Davidsson et al., 2017). My finding extends this concept by adding the configuration of business activities as an instrument in the resource base. A new business accesses resources by configuring different business activities. This configuration involves shifting between business activities over time and undertaking different business activities concurrently. The shift between business activities starts with activities that require no or low financial and human capital investments. These business activities generate a moderate amount of revenue and help an entrepreneur acquire business experience and social connections. The process continues as prior business activities help later ones through a provision of resources. Moreover, a new venture undertakes different activities in the same area and/or the same activities at different places to increase access to resources. The venture sells different types of products or services so income from one activity helps finance its other activities. When a new business engages in various activities it increases its learning of product, market or social capital. In addition, income from one activity helps as an additional source of resources for the other activities.

Moreover, the dissertation contributes to effectuation (Sarasvathy, 2001; Sarasvathy & Dew, 2005). In this dissertation, I show the moderating role of government support while different stakeholders perform activities in the process of developing a product by a new small business. The business starts with little prior knowledge about the product. Additional knowledge is acquired from interactions with stakeholders as the new business' development unfolds. The government provides the new business with training on how to develop its product. Suppliers and customers

contribute to the knowledge as well. For instance, suppliers offer training to entrepreneurs. The continuous improvement of a new product is a result of interactions with stakeholders.

### 8.3.2. Practical contributions

The findings of this dissertation have important practical implications for entrepreneurs and policymakers.

#### *Managerial implications.*

The findings have implications both for the founder(s) of a new business and government officials of the SMEs development policy. With regard to the founders of new businesses, this dissertation contributes to broadening their understanding of the decisions and activities that they need to take as the new business development process unfolds. The findings show that a new business can start either as a formal or informal activity with different types of challenges. A formal new business may or may not apply for the SMEs Development Agency's support package. Both decision paths present different types of challenges for the founders. The progression in a new business' development varies depending on the decisions and activities undertaken to overcome the challenges. For instance a new business with low or no initial capital apply for support from SMEs Development support to overcome their challenges related to resources.

The findings will also help government officials implementing the SMEs development policy and strategy as they will inform them about the behavior of a new business. The findings suggest that clearly communicating the contents of the policy will enhance its effectiveness. Lack of proper communication distorts the process of supporting new businesses.

#### Implications for policy

The findings of this dissertation will help policymakers to take informed decisions on the contents of the SMEs support package. The findings show that supporting a new business with suitable inputs can help it overcome challenges during its phase transition to survival orientation. However, the findings suggest that interventions such as creating market opportunities for a new business negatively affect its development process. A new business has to invest so that it can supply its products to its target market. A large amount of investments is required to fulfill market needs. The new business has to buy capital assets and hire employees. Hence, the SMEs Development

Agency could consider putting in place different periods for the support that it provides. This research shows that support lasts for a short period. As the support stops, the new business faces challenges of managing the liability of early market scaffolding during the phase transition- growth orientation. It is related to investments made during prior phase, survival orientation, and finding markets for its products.

#### 8.4. Limitations and directions for future research

This dissertation was built on seven case studies. One of them was used as a case vignette in the introductory chapter. The other six cases were used in the four empirical chapters. The cases were selected based on their richness to help understand aspects of the process of developing a new business. An interpretation of the six cases helped understand a contextualized view of the development process of a new business in Ethiopia better. The cases served as base to extend existing conceptualizations though they are limited to making empirical generalizations (Eisenhardt & Graebner, 2007). Future research can improve knowledge through a broader use of a multiple case study approach (Yin, 1994) and develop cross-sectional research (Creswell, 2003).

The empirical material was mainly collected from interviews with stakeholders in the new businesses and supported by site observations. The quality of the empirical material depended on the capacity of the interviewees to remember what had happened during the course of developing their businesses. There was a possible loss of data because of limited memory of the interviewees. Thus, future research can benefit by collecting of real time data as the process of a new business' development unfolds (Langley, 1999).

As the knowledge generated in this dissertation is generated through interpretations of empirical material, its findings are limited to my ability to interpret the empirical material. Each empirical chapter is framed with a single theoretical perspective. This limits the interpretation of the empirical material (Alvesson & Sköldbberg, 2009; Creswell, 2003). Future research can contribute through a triangulation of theoretical perspectives (Alvesson & Sköldbberg, 2009; Gioia & Pitre, 1990).

Finally, the theoretical model of the process of developing a new business was developed based on the four empirical chapters. Not all constructs and their relationship were directly derived from

empirical evidence. Instead, they were gathered from the interpretations of the four empirical chapters. So, the relationships need empirical validation.

Future studies addressing the specified gaps will enhance our understanding of the emphasis of the title of this study “Challenges in Developing New Small Businesses”.

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## Appendix- Sample of interview guide for interviews with different stakeholders of a new business.

Addis Ababa University  
College of Business and Economics  
Department of Management  
PhD Program  
Interview Questions

This is to undertake a research on a new business development in a developing economy with an overall purpose of understanding how a new business develops in an economy where the government intervenes in the new business sector with industry development policies, and the sector is composed of significant number of informal new businesses. The following are interview questions used to collect empirical materials.

Part I: Questions addressed to selected new business

### 1. History

- a. What is your personal background? What did you do prior to starting the venture? (capturing education, training and prior work experience)
- b. What is formal academic education you attended before you started the firm?
- c. What are any trainings you had before you started the firm?
- d. Did any of your family members have entrepreneurial experience? How did that influence your intention to become an entrepreneur?
- e. How did your intention to have your own company emerge? (i.e. understanding whether first idea to be self-employed, then searching for idea; or opportunity seen first, then decided to start company) When?
- f. What was your business idea from the start?
- g. How did this idea change since? What it is today?

- h. How did your surrounding (family, friends) react to your decision to become self-employed?
- i. Did you discuss the idea with anybody before starting? With whom, and what kind of feedback did you get? Who originally participated in developing this idea?
- j. Who supported you during starting of the firm (government, parents, family, friends, relatives, community, local administration)?
- k. Which were the most important activities in starting the venture and how were these supported or hindered by different people and agencies (e.g. tax officers, regulations, finding location...)
- l. When was the firm officially created?
- m. How was it created?
- n. Which sources of financing did you obtain? For what? How did you obtain them?
- o. Why did you start the firm?
- p. Is the family involved in the business (i.e. as owners, co-workers)? How do you work together?
- q. Are other family members or relatives involved in another business? Which? Do you have commercial ties? How do you collaborate?

## 2. Expansion

- a.** What have been the most important achievements since founding of your firm? (one by one)
- b.** What have been the most important challenges that the firm has faced since founding? (one by one) How have you overcome them? (one by one).
- c.** What development/ growth phases the firm have been through since founding?
- d.** What are main activities done, resources required, and sources of resources during each phase ?
- e.** What are roles of government, regulations, laws, customers, suppliers, family, friends, employees, residents around your business site in each expansion phase?
- f.** How do you compare current size of you firm with its size during establishment?
- g.** What improvements do you see with your firm periodically?
- h.** Do you plan expansions of your firm? Did your firm make any unplanned expansion? What internal work required because of the expansions?

- i.** How do you associate expansion of your firm to change in government policy, regulations, government administration structure, and social norms and values?
- j.** Would tell me major actions you took to expand your firm (acquisitions, employing, product development, market development, getting loan, getting support)?
- k.** What are major changes happened in your firm in past years?
- l.** How you see possibilities of business expansion in locality?
- m.** How do you see relocating your firm so that you can have wider premises?
- n.** How do see opening of new subsidiaries of your firm in different areas?

### 3. Market and suppliers

- a.** Who is your target customer? What characterizes this group?
- b.** ' How did you identify which customers to target when starting the business?
- c.** How did you identify which customers to target when developing/growing the business?
- d.** Where are your customers mainly located?
  
- e.** How do you maintain loyalty of your existing customers?
- f.** How do you increase consumption level of existing customers?
- g.** How do you increase number of your customers?
- h.** How do you reach your customers? How has that developed over time? (e.g. advertising/marketing, word of mouth...)
  
- i.** How do you describe your customers' perception of you product and services as compared with others?
- j.** How do you include your customers comments and suggestions in your decisions/product, price, services, promotion, distributions /?
- k.** Who are your three most important customers? Why are they relevant (i.e. how big percentage of your sales each represent? How do you interact with them? How often?
- l.** How did you establish the initial supplier's relationship?
- m.** How do you describe your suppliers' perception of your product and services as compared with others?
- n.** Where are your three most important suppliers located? Why are they relevant (i.e. how big percentage of your supplies each represent? How do you interact with them? How often?

- o.** How do you include your suppliers' comments and suggestions in your decisions?

**4.** Government, laws, rules, regulations and their enforcements/ regulatory pillar/

- a.** What kind of regulations affected you in starting your firm (favored/restrained)?
- b.** What kind of regulations affect the developments of your firm?
- c.** What actions you took to overcome the challenges of regulations/laws?
- d.** What changes do see in regulations since establishment of your firm?
- e.** What regulations, policies, or standards could affect your firm in the future?
- f.** How do you see the implementation of government policies and regulations that affect your firm?
- g.** How should government support businesses like your firm? How it is working currently for other firms? How it is working for you?
- h.** How do you describe the impact of dealing with regulations (Tax, winning government contract, bribing, getting a license) affecting expansion of your firm? What specific experiences you have in relation to this affecting your firm or other firms affected?
- i.** What experiences do you have of existing court system since the founding of your firm? How it affected expansion of your firm?

**5.** Social values, norms, membership to association, and training taken /normative pillar.

- a.** How your friend and family view firm expansion? What they expect from you as entrepreneur?
- b.** What about other business people and society residing in your locality? What they expect from you as entrepreneur?
- c.** How your friends and family support your firm expansion?
- d.** Have any organizations (firms, or private or public institutions) supported the development of your firm? Where are these organization located?
- e.** How have they supported your firm?
- f.** Do you have any collaborations with organizations located here?
- g.** What is the level of formality/ formal contract/ of the collaborations ?
- h.** How and why did you initiate these collaborations?
- i.** Who organize these collaborations?
- j.** How have your firm organized/participated in the collaborations?
- k.** What have your firm achieved via these collaborations?

- l. How often do you meet with other groups/institutions/firms?
- m. How do you communicate with them?
- n. How are these collaborations differ from other collaborations that you have experienced?
- o. Do you belong to any trade/professional association and how you involve in the affairs of the association?
- p. How that involvement impacted (positive or negative) expansions of your firm?
- q. Have you ever attended training and how it helped you to expand your firm?

#### Part II: Interview Questions to customers

1. Do you personally know the owner before you become customer to the firm?
2. When you become customer?
3. How you become customer?
4. How do you see the service / product of this firm as compared with other firms?
5. How do you deal to find remedy with the firm in case of product /service failure?
6. How do you see the firm include customers comments and suggestions in its decisions/product, price, services, promotion, distributions?
7. Do you think that you shift to another firm? Why?
8. Do you see the firm is expanding? what do you think the reasons?

#### Part III: Interview Questions Employees

1. Do you personally know the owner before you become employee in the firm?
2. When did you join the firm?
3. How did you join the firm?
4. Did you work in another firm before you joined this firm?
5. How do you see your benefit being employed here as compared with your previous experience in another firm? What about in comparison with your peers working in other firms?
6. Do you see the firm is expanding? In what aspects? what do you think the reasons?
7. What is your future plan?

#### Part IV: Interview Questions to Suppliers

1. Do you personally know the owner before you become supplier to the firm?

2. How and when your relationship with the firm is created in the first place?
3. How you describe your relationship with firm?
4. How you commonly conclude transitions with the firm?
5. What are the common financing methods of transactions with the firm?
6. How you commonly resolve any dispute with the firm?
7. How do see your chance of commenting on product/service of the firm?

## Appendix- Sample of site visits and observations guide.

The following are issues of my focus while I observed the new businesses.

1. The physical location of the business, and arrangement of machines resources.
2. How the businesses locate and store the inputs and final outputs.
3. Interactions of workers of the new business with owner(s) of the business.
4. How the business interacts with customers.
5. How the owner(s) behaves on work area.