Strategic planning model for Startups: A case study of Iranian packaging industry

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\textbf{ABSTRACT}

In today’s turbulent and competitive world, strategic planning plays an important role for the success of firms. Despite the fact that there are literally numerous models proposed for different companies in various states and structures, the possibility of using strategic planning for startups has never been seriously considered. In this paper, we present a survey by asking experts to find out whether strategic planning is suitable for startups. We also propose a model for strategic planning in startups based on the strategic planning models for small businesses and entrepreneurship concepts. The model is similar to other models and what differentiates this models from other approaches is the methodology used for internal and external analysis and the parameters taken into consideration. The proposed model is examined on an Iranian food packaging industry for validation. The preliminary results indicate that the success of startups depends on two sets of parameters: “entrepreneurial opportunities” and “competitive advantages and entrepreneurial characteristics”.

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1. Introduction

Almost all start-ups suffer from various issues such as financial limitations, management issues, risks, lack of experience and fierce competition forced by large competitors and eventually many of them fail after a short while (Thompson, 1997). An empirical survey indicates that out of 145511 registered units in Iran in a six-year period, over 20110 ones were closed just in few years. There are various reasons for the failure of a startup such as huge costs of learning new activities, instability of the shareholders’ relationship, unfamiliarity with the market and competitors (Stinchcombe, 1965). According to Aldrich and Auster (1986), unfamiliarity with the new product specifications, chains of
conflicts about the organizational roles within the company, lack of planning and unclear short, mid
and long term goals are some of the most important factors blamed for the failure of startups.
Although Norton and Kaplan emphasize on the importance of strategy execution more than the
strategy itself (Kaplan & Norton 2001), but it does not decreases the role of strategic planning for the
success of companies. Nowadays, strategic planning has become one of the most popular tools to
adjust the goals and mission for the success of a business plan especially in established businesses.
However, for startups the case is different: despite the large numbers of research performed on
strategic planning, only a small portion of them focuses on tailoring strategic planning for startups.
This might be because there is not a clear method to conduct the internal analyses in a startup.
Although there are some differences in analyzing the external environment in the startup context, it is,
however, similar to the general practice. On the contrary, there is a serious question on how to follow
for internal analysis when there is no previous experience and organizational structure. There are
other concerns as to whether it is necessary to conduct an internal analysis or not and in case we must
perform such analysis, should we use other factors such as entrepreneurship, creativity, innovation
and challenge acceptance, instead?
This paper is organized as follows. We first briefly review the related literature in section 2. Section 3
presents the proposed model of the paper and the implementation of the model is examined for a case
study of Iranian food industry. Finally, concluding remarks are given in section 4 to summarize the
contribution of the paper.

2. Theoretical foundations

2.1 Strategic planning and the organization size

During the past few decades, there have been various strategic planning models proposed for different
purposes (Forouzandeh Dehlordi, 1999). There are some differences among all strategic planning
methods but all models seem to have three common parts: the mission statement, internal analysis for
recognizing the strength and weaknesses, and external analysis for using opportunities and avoiding
threats. Despite the rich literature in strategic planning, there are few studies associated with startup
and small business. These studies mainly consider the small businesses and only address the startups
in terms of entrepreneurship aspects. Mazur (1998) proposed a model for strategic planning in small
businesses that consists of four main parts: vision, mission, strategy and tactics. He believes that the
vision is affected by the owner-manager’s entrepreneurial characteristic. Mission is the list of
activities that can get the company to the vision and after setting that, the company can prioritize and
use appropriate strategies and tactics to reach its objectives. Fray and stoneers (1995) proposed a
model with two distinct levels of analysis and implementation. During the analysis part, the owner-
manager concentrates on the internal and external forces and by studying the trends and changes in
them gathers a good knowledge of strength and weaknesses along with the opportunities and threats.
In the next step, first, the mission statement is developed and documented and then the goals are set
for different functions and the company as a whole. The final deliverable is communicated to
functions to be run and implemented accordingly (Fry, 1995). The basic strategic planning model is
yet another model used by very small and active organizations with no experience in strategic
planning. The top management team is normally responsible for organizing the plan and it consists of
five steps: 1) Setting goals and the mission statement, 2) Setting intermediary goals, 3) Setting tactics
and strategies for achieving the goals, 4) Setting operational plans for implementing the strategies,
5) Revision and updating the plans (Carter, Mc Namara, 2001). Since startups share almost all the
properties of small businesses, one can expect these differences to apply to startups as well.
Nevertheless, it should be noted that startups have some exclusive properties that differentiate them
from small businesses. One of the goals of this research is to investigate these differences.

2.2 Entrepreneurship

The entrepreneurship researcher is usually looking for answers for questions like these; 1) Why, when
and how are the opportunities created 2) why, when and how only some, not all, people can identify
and benefit from the opportunities 3) why, when and how similar situations are utilized in different ways to take advantage of entrepreneurial opportunities (Shane & Venkataraman, 2000). The study of these questions shows how the entrepreneur identifies and utilizes those opportunities that are undetectable for or unusable to other people. The researchers refer these abilities to the entrepreneurial characteristics. Heron and Robinson (1993) believe the effort of researchers in this area can be divided in two generic types: "those that attempt to associate various characteristics with the state, or being, or entrepreneurship and those that attempt to use characteristics to predict performance among entrepreneurs or the businesses they run". However, the main entrepreneurial characteristics in the literature include, risk taking, creativity, locus of control, need for achievement, diligence, visionary, ambiguity tolerance, and challenge ability (Fry, 1993; Simonin, 2006). Therefore, entrepreneurship as a social process, categorizes and expands the resources to create a new organization (Eisenhardt & Schoonhoven, 1996). Entrepreneurship is essential for a startup (Hitt et al., 2001) in a way that most startups are born based on one or more entrepreneurial characteristics. Therefore, the entrepreneurial concepts can be central in strategic planning for startups. Several parameters like the recourse based view, human capital, social capital, organizational learning and creative cognition are correlated in the framework of entrepreneurship theory and entrepreneurial strategies. The close relationship between these two concepts is important since it helps in combining and using the two concepts of “opportunity seeking” and “benefit seeking” (Ireland, 2002). Many organizations are capable of identifying opportunities but they cannot utilize them. It is only with the right mix of “opportunity exploration spirit” and “effective benefit exploration spirit” that wealth and value can be created (Ireland et al., 2003).

3. Research method and the proposed model

The proposed model of this paper develops a conceptual framework for strategic planning in startups and it consists of two major parts. In the first part, we use experts’ opinion to build the conceptual design and then finalize the model using the Delphi method. Since it is not possible to implement the proposed model in the scope of this study, we use a questionnaire to validate the result for the second phase of the study.

3.1 Statistical population

The statistical population of the second part includes all companies engaged in food packaging industry in Iran. The sample is selected using simple random sampling.

3.2 Model Presentation

As we explained earlier, the proposed model of this paper performs a questionnaire survey including 15 questions. The questions are categorized in four groups as follows,

1) Possibility of presenting a model for strategic planning in startups and possible differences of the model with the models currently used by established businesses
2) Experts’ opinion regarding entrepreneurial characteristics and opportunities; more specifically, it is desired to know if it is reasonable to use the entrepreneurial characteristics of the founders instead of the strengths in the internal analysis
3) Applicability of the usual methods like internal and external factors analysis matrix, SWOT matrix, space matrix, etc
4) Possible strategic tools to increase the success chance of startups
5) Once we gathered the replies, we group them into two parts of for and opposed. We set aside the questions with negative feedback and invited a smaller community of decision makers to discuss about them. Fig. 1 shows the details of the proposed model.

The model is designed to setup the strategic plan with minimum prior knowledge of the field and then the directions are given in the following section for its implementation.
3.3 Founders’ vision
Shareholders’ vision is the primary basis for developing the vision, mission and strategic plan of a startup. Therefore, if there are too many differences among the shareholders’ visions it is unlikely to reach an integrated strategy. In such a case, each founder will look for his/her specific purpose and seeks a solution to get to that aim through a particular action. This is the reason that in all stages of strategic planning for startups a very important and central role is given to the vision of stakeholder as present in the conceptual model. In this context, the vision is defined as the viewpoint and the beliefs of the founders towards the company’s internal issues and governance, the company’s competitive situation and its interaction with the environment. Based on this definition, the founders' vision affects the internal analysis and developing a strategic plan composing the mission statement (McGrath, 2000).

3.4 Setting the mission
Mission is the infrastructure for all strategic plans of a company. Since founders normally prepares the company’s statute, it will be an easy and reasonable task to extract the mission from the statute, especially if there is enough scrutiny in documenting the statute and the definition of the activities. Appropriate responses for the following questions could help construct the framework of the mission.

1- What is the company’s main activity?
2- Who are the customers?
3- What are the products?
4- What are the company’s promises to the stakeholders?
5- What are the geographic borders of the company’s activity?

If the mission is documented, the founders will tolerate less confusion in their journey. In other words, the mission statement will clarify the general guideline for the company’s future and will keep the founders from possible deviations. In general, this method for setting the mission statement is not much different from the other methods except in the fact that the mission is solely based on the founders’ views and founder normally sets by them.
3.5 Internal analysis
In strategic planning for large and even small enterprises, in order to extract the internal strength and weaknesses, the company’s status in terms of financial, cultural, management, marketing, production, R&D and IT is evaluated. Since there is no previous activity in a startup, many of the topics mentioned above become irrelevant. In this case, we could use the entrepreneurial characteristics as the strengths. Also based on entrepreneurship concepts, having competitive advantages is a necessity for using the opportunities (Barney, 1991). Therefore, to know more about the strength and weaknesses of a startup the company we need to analyze the following four main aspects:

a. Entrepreneurial characteristics: As mentioned earlier, entrepreneurial characteristics are considered important as strength points. Therefore, we analyze the items such as creativity, innovation, risk tolerance, self-control, and intrinsic control, challenge acceptance, perseverance and communication skills in the founders.

b. Internal resources and abilities: Human and financial resources are considered as the main internal resources and they are the main measures of the company’s internal strength (David, 2000). These strengths are also used to identify the competitive advantages. In addition, the usual internal strength indicators such as technical knowledge, expertise and related experience can also be considered if applicable.

c. Competitive advantages: Competitive advantages are specific properties that companies can rely on to penetrate the competitive market (Ireland, 2007). Innovation in new production methods, innovation in sales and marketing, innovation in organization are the main competitive advantages that a startup can expect to have while for an existing enterprise the competitive advantages are not limited to these.

d. Weaknesses: Based on the definition, it is very common for startups to have some weaknesses. Some of these weaknesses are similar to those seen in larger enterprises while others such as the lack of information systems, the unshaped organizational structure, the lack of a marketing department and production system problems are more specific to and inevitable in startups.

3.6 External analysis
Depending on their size, small and large enterprises do some analysis on technology, social, economical and political variables in order to identify environmental opportunities and threats. Generally, the external environment can be divided into macro and micro. The macro environment includes economic, social, political, technological and even international forces. The micro environment includes customers, suppliers, partners, competitors and financiers. We believe that environmental threats are different for startups, small and large businesses and experienced enterprises. These differences can be specially seen in the macro environment. The entrepreneurial opportunities are more strongly present in the microenvironment and so more attention is paid to the microenvironment in this conceptual model. Therefore, the following major four aspects are considered for the environment analysis:

a. Entrepreneurial opportunities: The potential or actual opportunities in the environment that the company can utilize to reach its goals are called entrepreneurial opportunities. These are mainly made of competitors’ weaknesses, customer needs and the market’s state. The entrepreneurial opportunities can be categorized as follows:
- Opportunity of offering a new product or service
- Opportunity of offering the same product or service as offered by competitors with a higher quality
- Opportunity of offering the product or service with a lower price
- Opportunity of offering the product or service to the segments of market not interesting for competitors
The mentioned opportunities are also available for small and large companies but the difference is that the existing companies can also benefit from other opportunities while startups are limited to the above.

b. Competitors and Market’s state: Competitors and the market are two of the most important parts of the environment that must be studied. The environment study includes identifying main competitors and their strategies, evaluating their performance and market share and analyzing the market. The result will depict our position in the market and helps us find entrepreneurial opportunities. There is no difference in competitor analysis between startups and existing large and small companies.

c. External resources: External resources are those resources that are not controlled by the company but can be used depending on the environmental conditions. Among the most important of them are social capital, financial resources available to the banks and people which can be acquired by providing suitable guarantees, other companies’ excess capacity and human resources outside the company whose expertise can be utilized. Identifying external resources and analyzing them will open new opportunities. Opportunities like low interest loans or utilizing the experienced human resource available in the market. Therefore performing the external analysis is important for every organization and especially startups.

d. Threats: Based on the model, the environmental threats of startups and established businesses are different; startups are usually threatened by microenvironment elements like competitors and customers while established businesses face threats from macro environment as well.

3.7 $S_EWO_E T$ matrix

After analyzing the company and detecting the entrepreneurial characteristics, competitive advantages and weaknesses, the findings will be sorted based on the priorities identified by the founders and prepared for utilization in the $S_EWO_E T$ matrix. The entrepreneurial strengths are identified with $S_E$, the weaknesses are shown by $W$ and entrepreneurial opportunities and environmental threats are identified with $O_E$ and $T$, respectively.

Based on experts’ opinion and the introduced model, the $S_EWO_E T$ matrix is formed. The difference between this matrix and the SWOT matrix is twofold: instead of environmental opportunities the entrepreneurial opportunities and in place of internal strengths the entrepreneurial characteristics and competitive advantages are used. Table 1 shows how the matrix must be filled the same way as the SWOT matrix.

<table>
<thead>
<tr>
<th>Table 1</th>
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<tr>
<td>Startup SEWOET Matrix</td>
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<tr>
<td>Environment analysis</td>
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<td></td>
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<tr>
<td></td>
</tr>
<tr>
<td>Threats</td>
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</tbody>
</table>

What is critical for startups is the combination of entrepreneurial characteristics and competitive advantages with entrepreneurial opportunities. The set of strategies extracted from this combination can comprise the key success factors (KSF) of a startup. $S_E O_E$ strategies can push the company forward. If a startup does not have such strategies because of lacking either entrepreneurial characteristics or entrepreneurial opportunities, it is likely to end up with failure. $S_E T$ strategies are the second most important ones next to $S_E O_E$ strategies. These strategies mean that the startup can face the environmental challenges using the competitive advantages and entrepreneurial characteristics. These strategies could possibly help neutralize some of the threats. The priority then falls from $S_E T$ to the $W O_E$ strategies, which helps us cover some of the internal weaknesses by entrepreneurial and environmental opportunities. The final set of strategies extracted from the matrix
is associated with the WT intersection. The strategies in WT intersection are defensive ones designed to reduce the harm from certain threats against which the organization is in a weak position and cannot react, effectively. The best choice in such situations for a startup is not to enter the market.

3.8 Finalizing strategies and operational plans
Based on porter’s generic strategies, companies can choose among the following three strategies: Control and cost leadership, focus and differentiation. In our model, however, cost leadership is not an option since, most of the time, only large and established companies can benefit from low production cost necessities such as economy of scale. The startups can choose between differentiation and focus or a combination of them depending on the company situation and the founders’ vision.

3.9 Models properties and objectives
The startup strategic planning model consists of the least possible steps and it can greatly reduce the required management knowledge needed for strategic planning. Therefore, the members of the planning committee, composed of founders and managers, can do the planning in a decently short amount of time. This enables the startups to benefit from strategic planning while avoiding the associated problems such as complexity, time-consuming process and the need for skilled experts. Overall, the main objectives of the proposed model can be listed as follows:

a. Possibility of strategic planning for startups: Since the startups ought to enter the market as soon as possible, the firm has a very limited time for strategic planning. Using our suggested model, we can gather all the required data for planning in the shortest amount of time span and start the planning process, immediately.

b. Encouraging the startups to use strategic planning: Founders of the startups are not necessarily familiar with scientific foundations of strategic planning but they do some unsystematic analysis before entering the market. This model, due to its simplicity, integrity and its attention to special characteristics of the entrepreneurship, competitive advantages and entrepreneurial opportunities, compels the managers and founders of the startup to the strategic planning practice.

c. Increasing the possibility of success with implementing planned strategies: The startup strategic planning conceptual model classifies different strategies and sets the goals based on the founders’ vision. It guides the founders in identifying their competitive advantages and entrepreneurial characteristics. It can also utilize them to achieve entrepreneurial opportunities and thus it can increase the possibility of success.

d. Attention to the macro and micro environments from the beginning: The conceptual model differentiates between macro and micro environments and attracts the founders' attention to microenvironment where they can make changes and play an active role.

e. Creating an infrastructure for future strategic planning: Once we create the first strategic planning, the founders and members of the planning committee will become familiar with scientific basis of strategic planning. It also prepares the ground for strategic planning in coming years with involvement of strategic experts. Furthermore, by collecting data from the very first days a valuable database is created which can be used in later planning.

3.10 Validation of the conceptual model
If the conceptual model is valid, we could expect the existing successful companies to use the model’s framework either intentionally or unintentionally. By successful companies, we mean those who are at least 5 years old and do not have a history of critical situations. To measure this, we have distributed a questionnaire among 30 successful companies, which were active in the packaging industry. This industry was chosen because of its importance in the Iranian economy and foreign
trade. Today almost all experts agree that bad packaging especially in the food industry has created severe problems for Iranian exporters. The questionnaire tries to find the founders’ opinion about the proposed conceptual model and its link to the strategic planning they have made in the early years of their work. The results and analysis are presented in this section.

3.11 Findings
More than 90 percent of the successful enterprises in the packaging industry are familiar with the concept of the strategic planning. It is interesting to mention that over 77 percent did not know anything about strategic planning during the startup process. The other interesting issue is the fact that 87 percent of the startup founders state that even though they were not familiar with strategic planning they had used many of its concepts from the beginning. Fifty seven percent of the successful enterprise founders had previous experience in the field, 80 percent had the necessary knowledge and over 93 percent struggled with financial problems when starting the company. In addition, 93 percent had some sort of competitive advantage when started their activities and only a nearly seven percent did not have any noticeable competitive advantage in the beginning. As for environment monitoring in the setup phase, the research shows that more than 90 percent scanned the environment for threats and 93 percent looked for entrepreneurial opportunities.

Seventy seven percent of the studied population was familiar with economic concepts and 67 percent had already taken the possibility of failure into account. On the entrepreneurial characteristics, the research shows that more than seventy percent were creative, persistent and challenging while 47 percent benefited from "special relationships" known as an entrepreneurial characteristic. This shows how important entrepreneurial characteristics are for startups. For 67 of the startups the competitors, for 60 percent the lack of credit, for 20 percent the fast changing financial laws and finally for 3 percent the technology change were named as the main challenges they had experienced upon launch. The product quality was important only for 43 percent of times. In order to resolve financial issues, 60 percent had loans from the banks and about 30 percent chose to limit their activities.

4. Conclusion
In this paper, we have presented a new strategic planning model for startups and a survey has been implemented to validate the proposed strategic planning model. The results of our survey indicate that strategic planning is not only possible for startups but also it is necessary for the success of a firm. The following summarizes the main results achieved,

1- Strategic planning in startups is possible.
2- The strategic planning of startups consists of five major steps of setting the mission and vision, internal analysis, external analysis, forming the SEWOET matrix and finalizing the strategy and operational plans. The only difference from traditional models is the method of analyzing the internal and external elements.
3- In strategic planning for startups, the founders’ vision is of central importance.
4- In strategic planning for startups, it is important to consider microenvironment parameters.
5- For startups to succeed, they ought to have a competitive advantage over the competitors and a clear vision of some opportunities.
6- Entrepreneurial characteristics like creativity, innovation and challenge acceptance have a great effect on the success of startups.

Appendix 1: Sample questions from the questionnaire
Some definitions and presumptions of the following questionnaire are listed below; please keep these in mind when answering the questions.

By startups, we mean those companies who:
- Have just launched and entered the market
- They have a small capital and are financially limited and presently have no customer
- Are backed by their founders’ entrepreneurial spirit and have no formed structure yet
<table>
<thead>
<tr>
<th>No.</th>
<th>Question</th>
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</thead>
<tbody>
<tr>
<td>1</td>
<td>To what extent do you think it is feasible to do strategic planning for startups?</td>
</tr>
<tr>
<td>2</td>
<td>Do you think there is a significant difference between strategic planning for startups and established companies?</td>
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<tr>
<td>3</td>
<td>Do you think entrepreneurial characteristic can be considered as an organizational strength?</td>
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<tr>
<td>4</td>
<td>Do you think “need for success” can be considered as an organizational strength?</td>
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<tr>
<td>5</td>
<td>Do you think of “failure and ambiguity tolerance” as an organizational strength?</td>
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<tr>
<td>6</td>
<td>We know that entrepreneurs have “self-control”, do you think of this as an organizational strengths?</td>
</tr>
<tr>
<td>7</td>
<td>Do you think of “innovation and creativity” as an organizational strength?</td>
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<tr>
<td>8</td>
<td>Do you think of “challenge acceptance and risk taking” as an organizational strength?</td>
</tr>
<tr>
<td>9</td>
<td>Do you think the SWOT matrix is suitable for startup strategic planning?</td>
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<tr>
<td>10</td>
<td>To what extent do you think entrepreneurial opportunities like presence of a “niche market” or the market’s need for a new product impact the future of startups?</td>
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<tr>
<td>11</td>
<td>To what extent do you think the threats are different for a startup from established companies?</td>
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<tr>
<td>12</td>
<td>Do you think the space matrix is suitable for assessing the startups situation?</td>
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<td>13</td>
<td>To what extent do you think it is possible for a startup to use aggressive strategies?</td>
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<td>14</td>
<td>To what extent do you think it is possible for a startup to use competitive strategies?</td>
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<td>15</td>
<td>Do you think porter’s generic strategies are suitable to be used for startups’ strategic?</td>
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<td>16</td>
<td>Among porter’s strategies to what extent, do you think the focus strategy is suitable for startups?</td>
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<td>17</td>
<td>Among porter’s strategies to what extent, do you think the differentiation strategy is suitable for startups?</td>
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<tr>
<td>18</td>
<td>Among porter’s strategies to what extent, do you think the cost leadership strategy is suitable for startups?</td>
</tr>
</tbody>
</table>

SA: Strongly agree, A: agree, N: Neutral, SD: Somewhat disagree, SDS: Strongly disagree

Attachment 2

<table>
<thead>
<tr>
<th>No.</th>
<th>Questions</th>
<th>Yes</th>
<th>No</th>
</tr>
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<tbody>
<tr>
<td>1</td>
<td>Are you familiar with strategic planning concepts?</td>
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<tr>
<td>2</td>
<td>Were you familiar with strategic planning concepts at the time you were setting up your company?</td>
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<tr>
<td>3</td>
<td>Do you think you have used strategic planning concepts when you were setting up your company, intentionally or unintentionally?</td>
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<td>4</td>
<td>Were you familiar with the packaging industry when setting up your company?</td>
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<td>5</td>
<td>Were you equipped with packaging knowledge and know-how in the beginning?</td>
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<td>6</td>
<td>Had you identified any Niche Market in packaging industry upon starting your company?</td>
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<tr>
<td>7</td>
<td>Were you familiar with economic issues such as know-how of acquiring a loan or import/export rules?</td>
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<td>8</td>
<td>Had you identified your main competitors in the beginning?</td>
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<tr>
<td>9</td>
<td>Were you aware of the risks in the beginning?</td>
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<tr>
<td>10</td>
<td>Did financial problems affect your business in the beginning?</td>
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<tr>
<td>11</td>
<td>Did you have any specific competitive advantage when you started your business?</td>
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</tr>
<tr>
<td>12</td>
<td>Had you taken into account the possibility of failure?</td>
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</table>

13. Which of the following characteristics did your company have in the startup phase?
- Expertise
- Relationships
- Challenge acceptance
- Perseverance
- Creativity
- Product quality
- Founders challenge acceptance

14. Which of the following can be listed as your main challenges when starting your company?
- Changes in Tax regulations and laws
- Technology change
- Tough and strong competitors
- Low Credit in the market
- Sales problems
- Marketing problems
- Production problems
15. Which of the following methods did you use for solving financial problems when starting your business?

- Bank loans
- Borrowing from friends
- Loan from other sources
- Investors
- Reducing activities

Acknowledgment
The author would like to thank the anonymous referees for their constructive comments on earlier version of this work.

References