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The Catch-22 of External Validity in the Context of Constraints to Firm Growth¹

By GREG FISCHER AND DEAN KARLAN²

There is a disconnect between academic economists' search for individual mechanisms that constrain firm growth and the more complex reality facing firms and policymakers aiming to alleviate those constraints. The comprehensive, some would say scattershot, approaches that are common in practice are considered challenging for evaluators because of the difficulty in identifying any particular causal mechanism. More targeted attempts to improve business performance typically generate mixed performance (McKenzie and Woodruff 2012) or do not seem to scale either in the market or with public support.

With that in mind, we partnered with the Asian Institute of Management (AIM), a leading Philippine business school, to launch a class-based program that had MBA students providing consulting services for local small and medium enterprises. We had three goals, spanning policy, research, and teaching: to pilot a potentially scalable approach to improving management practices for small businesses; to better understand the complex set of constraints facing individual small businesses; and, to test a hands-on, multi-skill teaching approach for MBA students.

We began with the administrative list of all tax-registered businesses in Makati City, Manila, where AIM is located. For our pilot, we restricted our attention to businesses in

operation for at least two years; reporting revenues in 2010 between 1 and 15 million Philippine Pesos (PHP)³ and in industries where general consulting was feasible (e.g., we excluded foreign exchange services). We attempted to visit all 4,212 eligible businesses. Nearly 40 percent were not reached because they had changed address, closed, or otherwise could not be located. We explained (but did not promise) the consulting program to the 2,533 businesses that were reached. Ultimately, only 177 interviews were completed, as many owners or managers were either too busy to complete the interview, not interested in participating, or simply out of the office. Of the 177 business owners interviewed, 142 upon completion of the survey expressed interest in receiving free consulting from AIM students. We completed detailed qualitative and quantitative surveys with 95 of these businesses. Given the structure of our sample, we cannot argue that it is representative of small and medium enterprises in urban and peri-urban Manila. However, we note one key observation that has implications for both research and practice: most firms have a complex set of constraints, many of which are interconnected.

The presence of multiple and varied constraints to firm growth is an emerging theme. For example, the World Management Survey (WMS) (Bloom et al. 2012) shows that poorly managed firms have a number of weaknesses rather than problems clustering in any particular area. The World Bank's Enterprise Survey (WBES) shows a similar pattern in the external business environment. The median firm lists three significant obstacles in the business environment.⁴ As with management practices, these

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³Approximately US\$ 23,000–356,000 at the mid-2011 exchange rate of 42.3 PHP/USD.

⁴See appendix 2 in table 2 on external major concerns. Other categories comprise none, minor, moderate, not applicable.

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