

Perception of SME Growth Constraints in Bangladesh: An Empirical Examination from Institutional Perspective

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Abstract

This article wrestles with the perception of concern institutions⁸/organisations for developing small and medium enterprise (SMEs) development of Bangladesh. The findings include the need for perceptual as well as conceptual development in the present practice of enterprise/entrepreneurship development of Bangladesh. The summary and conclusion emphasised the importance of comprehensive training for the concerned organisation for successful SME sector. Recommendations that could help sustain emerging as well as existing small enterprises and other concerned organisations.

Keywords: Small Enterprise, Perception, Growth Determinants, and Frame of Reference

1. Introduction

This study investigates the perception on factors that influence the birth, growth, performance and development of small and medium-sized enterprises (SMEs) in Bangladesh and what implications these factors have for policy. The study is justified for a number of reasons. Most importantly, since its independence, the Bangladesh government and NGOs has been spending a sizable amount of money obtained from external funding institutions for entrepreneurial and small business development programs, which have generally yielded poor results (Ahmed 1989; Rahman 1996; Khan 2004). Given the large domestic market and plethora of agriculture and petrochemical raw materials and huge domestic market in Bangladesh, there is little progress in terms of manufacturing value-added products, either for import substitution or export orientation, employment creation and regional development. It therefore becomes pertinent to identify the factors that impede small business development in general and that of institutional perception about the impediments in particular in the country.

For this study, a total of 36 organisations and institutions were interviewed across the country on the very elementary development issues. In addition, other related sources were interviewed to check the validity and reliability of the entrepreneurs' and institutions' responses.

2. Research Methodology

The approach of methodology in studying small industry development is complicated because development model or function of SE development involves number of variables/issues that cover a wide range of disciplines. Each of them may invite

⁸ Institution refers in this study as "it is mechanism that sets humanly devised rules in a society that shape human interaction. In consequence they structure incentives and reward in human exchange, whether political, social or economic. Institutional change shapes the way societies evolve through time and hence is the key to understanding historical change" (see more in North 1990:p.3).

different methods of investigation.

2.1 Research on SE Development and Analytical Methodological Approach

The analytical approach to a study in order to guide decision makers requires formulating the problem as a decision problem. In this approach, it is not necessary to relate the decision model to particular individuals or organizations. The conclusion and recommendation can be directed to anyone who has the interest, authority, and scope to work for the recommendation by the study. The essential thing in this approach is to formulate a decision model. Prior experience reveals that the development of small industry is a function of multiple issues of the socio-economic and political in nature.

So, in our case, a combined development-element approach consists of entrepreneurship (E), financial support (F), appropriate policies and institutional arrangements (P), linkages (L), appropriate technology (T), and market relation/demand for the products (M), and f is the format of the model, D is the objective or development of the sector.

$$D = f(E, F, P^9, L, T, M, \dots)$$

The model's assumption about the quality of reality is that reality has an additive character – i.e. the whole is the sum of its parts. In other words, if we have to develop small enterprise sector of Bangladesh, we must address these development issues one by one keeping the whole situation in mind. This would be based on the principle that the sum (combination) of the issues is the same as the whole, and the best individual parts will make up the best total (Arbnor & Bjerke 1997).

However, a mixed-method strategy is one in which more than one method of approach is used in data collection and analysis while conducting research (Romano 1989). This approach is similar to what Mikkelsen (1995) and Denzin (1978) described as triangulation. The multiple method strategy was adopted for this study to reduce the possibility of personal bias by not depending on only one method of approach or response coming from only one firm or sector. Adopting this method of approach supports the authenticity of the study. Both qualitative and quantitative data were used in a variety of ways, including a detailed overview of study results in terms of a general profile and a model of Bangladeshi small firms. Structured and semi-structured interviews based on open-ended, flexible questionnaires and some structured interviews were conducted with several groups¹⁰ of people interested or involved with the small business sector in Bangladesh. The idea behind this was to obtain cross-referencing data and some independent confirmation of data, as well as a range of opinions.

3. Data Collection

⁹ P is prime denominator stands for hardware and software of institution (s) that is/are responsible for SE sector development.

¹⁰ Input from the following groups were solicited:

- (a) Government officials who formulate and implement policies on SME promotion and industrial development in Bangladesh (Ministry of Industry, BSCIC, SMDF);
- (b) Both sides of the raw material suppliers to small companies (Trading Corporation of Bangladesh, TCB and different support providers: entrepreneurship development);
- (c) Officials of development banks who may be requested to give loans to small-scale businesses;
- (d) Industrial experts and consultants who conduct research and are well-informed about the present state of the industrial sector in Bangladesh (Bangladesh Institute of Development Studies, BIDS); and
- (e) Selected customers who buy and distribute products as retailers to the public or to other small businesses or larger firms.

Several approaches have been used in data collection:

- Personal interviews comprising of approximately 100 interview-hours in 1996 with different entrepreneurs/owners/managers and institutional executives.
- Telephone and personal interviews covering some 10 interview hours in 2001 with institutions, Ministry of Industry, bank officials, and other supportive organizations.
- Secondary sources including data from catalogues on BSCIC's library and other NGO's head office.

A total of 36 cases (6 of them are concerning banks, government facilitating organisations and NGOs along with 28 selected entrepreneurs and 2 of its cooperatives) were interviewed. Each case begins with a presentation of the main purpose of the research, participants' views on the development constraints, etc. Following this discussion, the circumstances underlying the company formation/starting decisions, present status, and future prospect or developments of their enterprise were also discussed in depth.

Institutions: Input from the following institutions were solicited

- BSCIC (Bangladesh Small and Cottage Industry Corporation)
- Janata Bank (Government schedule bank responsible for SME financing)
- BSCIC affiliated banks: BSB and BSRS (Industrial Financing Bank)
- MIDAS (NGO providing all support for SMEs)
- BRAC (NGO)
- SMEF (Government facilitating organisation Small and Medium Enterprise Foundation)

4. Frame of Reference (FOR)

The FOR (frame of reference) defines small industry as the segment of industry that is carried on in relatively small establishments having the following three characteristics defined by Staley & Morse (1965:3).

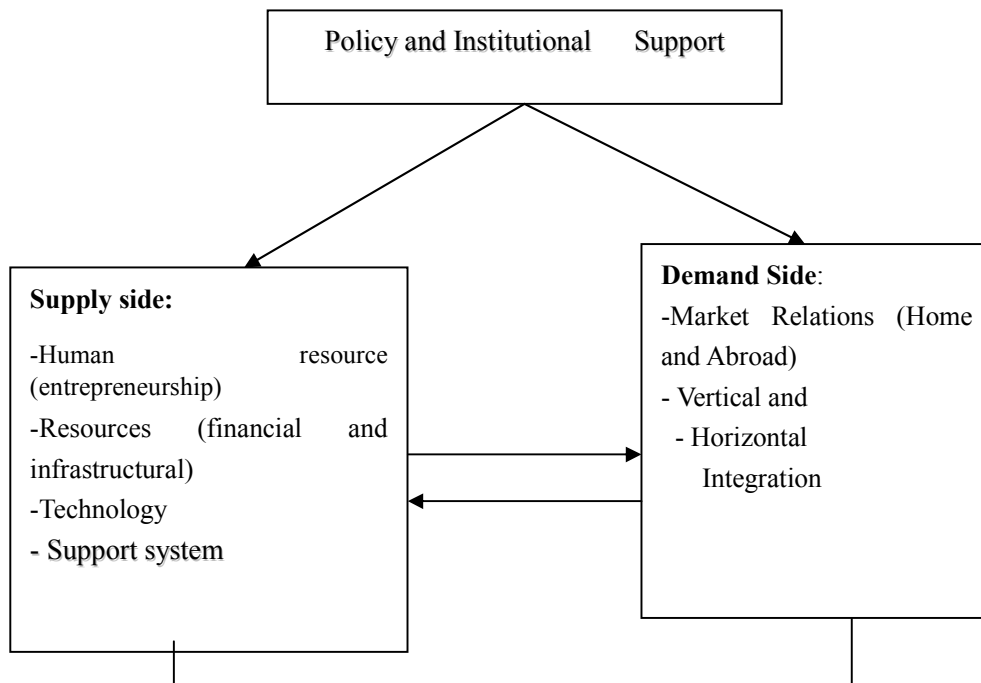
It is indeed a difficult task to design a FOR that aims to the development of SME for a country like Bangladesh. But a working FOR for the development could be essential. Industrial development is a complex and long term process. When we use the term 'small enterprise development', what is it that comes to our minds? We at once think as follows:

- Very little or no specialization; essentially managed by one man, perhaps with a few assistants;
- Close personal contact of the manager (often owner-manager) with all those involved;
- Lack of access to capital market through the organized security market; no dominant position in a major product market (Staley & Morse (1965:3).

If one looks at the 3 above characteristics described above, one can easily see the "need-mix" or necessary conditions for development the SE sector. As for example, very little specialization originates from the lack of education and training opportunity and these issues must be resolved by the policy of the government through its institutions (because the private interest are reluctant to invest in theses sartorial issues). Let us take the issues of marketing and finance, which can't be left out entirely for private initiative because the profit motive of private initiative will deter the proper development of the issues. So, once again,

final words come to the government policy and institutions as the major actor to solve these problems. Hence, any approach to solve development problems in Bangladesh must include the institutional factors in the creation and development of SE sector (Myrdal 1968; North 1990; Binks & Coyne 1983, Khan 2009).

Fig.1 Issues Conditioning Development and Growth Process – A Matrix of Development



Note: Although the variables are on two sides in the matrix but they are inter-related and reinforcing each other. As for example, industrial linkage (domestic and international) greatly depends on the technological standard of products, quality of entrepreneurs as well as financial capability.

Hence, any approach to solve development problems in Bangladesh must include the institutional factors in the creation and development of SE sector (Myrdal 1968; North 1990; Binks & Coyne 1983). Keeping these issues as “necessary elements,”¹¹ a frame of reference (FOR) is drawn where policy and institutions placed in a focal point.

The one of the important part of the research process was to define the parameters of the research problems. The conceptual framework of issues/constraints affecting the formation and growth of the SE sector has been given in the Figure 1. In the figure,

¹¹ A mix of development elements or constraints is a necessary condition for development of SE sector. For more, look up Arbnor & Bjerke (1997:87).

development issues/constraints/barriers are considered as a “combination of necessary elements” where policy and institutional support factors are placed as a focal point or as a guiding force.

5. The Perceptions on Constraints of SMEs of Business in Bangladesh

5.1 Perception

This paper wrestles with the perception on the SME growth constraints/barriers by the concerned institutions and organisations. The authors assume that until and unless the perception of the concerned people on the SME constraints is conceived there will be no development. The word “Perception” comes from the Latin perception-perceptio, meaning “receiving, collecting and action of taking possession, apprehension with the mind or sense. On the other hand, Perception -in -Action- the ecological or environmental understanding of perception advance from Gibson’s early work is Perception-in-Action, the notion that perception is a requisite property of animate action, without perception, action would not be guided and without action, perception would be pointless. Animated actions require perceiving and moving together. In a sense, perception and movement are two sides of the same coin where the coin is action ((Gibson 1998).

5.2 The Perceptions of Constraints on Small Business in Bangladesh: Entrepreneurs’ and Institutions’ View

What the 36 organizations studied in Bangladesh considered to be being the main constraints on their firms’ growth and overall performance is presented in Table 1, in addition, some entrepreneurs as well as the government officials indicated that government policies and attitudes of public officials adversely affect their businesses especially the harsh economic policy of the structural adjustment programs implemented by the government in the beginning of 70s and 80s. The policy caused the value of the national currency to decline and exodus of a huge number of trained and skilled entrepreneurs to Pakistan and India¹². Most small businesses could not afford to train their workers, and manufacturers found it difficult to obtain foreign exchange to order or purchase machinery and spare parts. There is also the problem of frequently harassment by government officials who extort money from the businesses. Poor infrastructure, including bad roads inadequate water shortage, erratic gas and electric supply, and a poor telecommunications system is additional obstacles. Lack of these facilities cost most firms higher overheads because they have to be responsible for obtaining such facilities at their own expense.

Table 1 Comparison of the views on the different Growth Constraints by the Entrepreneurs and Concerned Institutions: (n = 2 facilitating + 4 financial institutions; 2 cooperatives + 28 Owner/managers = 36)

Government and NGOs	1 Entrepreneur	2 Finance	3 Policy	4 Technology/ IT	5 Integration (forward and backward)	6 Market Relation	7 Institutional Support System
Ministry of Industry	B	A	B	B	A	B	B
BSCIC	B	A	B	B	B	B	B
BSB	B-C	A	B	B	NI	B	B-C
JB	C	A	B	B	C	B	C

¹² Bangladesh has lost a good number of successful entrepreneurs in 1947 and 1971 because of Independence War in 1947 and Liberation War 1971.

BRAC	C	A	B	C	C	B	B
SMEF	NI		A	A	NI	NI	NI
Small Industry Cooperative	C	A	B	C	A	B	NI

Source: Field Study (1992-93; 2001 and partly in 2009)

Scale of Importance: A= High; B=Medium; C=Low; NI = No so Important

(Notes: BSCIC; Bangladesh Small and Cottage Industries Corporation, BSB: Bangladesh Shilpa Bank: JB: Janata Bank: BRAC: Bangladesh Rural Advancement Committee: SMEF: Small and Medium Enterprise Foundation)

As Table 1 shows, the small businesses also complained about the dearth of financing. The financing said to have been earmarked for business and entrepreneurial development is never received. According to some of the small business respondents it is simply a ruse-funds are given not on merit but rather on nepotism and favouritism. These respondents also complained about raw material suppliers that favour big buyers at the expense of small buyers. With regard to the role of large-scale businesses and firms, most of the small business respondents said that large firms simply want to see the small firms go out of business. The big firms dominate every opportunity for obtaining loans and raw materials as their bargaining power is high due to the market share. They attract employees by offering better wages and benefits, and secure most of government procurement and contracts. Also mentioned by the small business respondents was the lack of any cordial relationship with research institutes for any useful information, whether on markets and business opportunities, sources of spare parts and equipment or new product development methods.

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6. The Analysis of Perceptions on SME Development Issues by the Institutions/Organisations

The following issues are indicated in the Figure 1 of Frame of Reference (FOR), as the growth determinants under the supply and demand side of development equation. The introduction stated the purpose of this study is the institutional/organisational perception on the constraints to the birth and growth of SE in Bangladesh. A synthesis of the findings based on the interview results in the Table 1, are given as follows:

- a) Entrepreneurship
 - b) Financial Support
 - c) Market Relations
 - d) State of Technology
 - e) State of Industrial Subcontracting
 - f) Policy and Institutional Status in the Country
- a) Entrepreneurship

The entrepreneurial supply situation in the SE sector of Bangladesh is not seemed very satisfactory. Even though lack of

employment opportunities in other sectors, especially in agriculture that has forced people to venture these activities, are not demonstrated enough entrepreneurial traits. In particular, the performance of the entrepreneurs on innovativeness is not encouraging. The major impediments to entrepreneurial supply include lack of training facilities, inadequate finance, illiteracy and technical knowledge/skills in general. Considerable inter-generational and individual occupational mobility were observed in the case of the small entrepreneurs. A large majority of the entrepreneurs seem to have their origin either in agriculture or trade. No evidence of strong social or religious barriers to skill formation in the sector was observed. On the incentive side, the rate of return in most SE activities has been found as rather low.

Generally speaking, there are two approaches to the supply of entrepreneurs or birth of new firms in an economy; i) Industrial Economists Approach; ii) Labour Market Economists Approach. There is a crude distinction between the two approaches. View of the Industrial Economists can be considered to be the more “traditional” of the two. It is based on analysis within the Structure-Conduct-Performance (SCP) paradigm, which assumes that the structure of the industry influences the conduct of the firms, which in turn influences their performance – i.e., profit or economic incentives (Clarke 1985). The Labour Market Economists, on the other hand, examine new firm formation as a decision exercised by the individual in the context of the labour market. In making such a decision, the individual is influenced by a number of factors such as work experience and skills, motivation, personality, religious or societal “norms”, status, family environment etc., Casson (1982) refers to this as the indicative approach.

However, our focus was main indicative factors: - entrepreneurial skill, motivation and business skills. We have interviewed three entrepreneurship institutes of Bangladesh Small and Cottage Industries, (BSCIC) and MIDAS, an NGO devoted to provide entrepreneurship training. These types of training institutes are established only in Dhaka, the capital city of the country. Our study reveals that very few of the institutional trainers are qualified theoretically and majority of the training providers either have very little or no entrepreneurial training among the services they provide to entrepreneurs although they have a good training curriculum (given in Table 2).

The managers of the six (6) institutes that were interviewed pointed out that all the above areas of training are provided for. But, our interview with the subjects and review of the training materials found that the emphasis seem to be more on business skills training than on other two (motivation and entrepreneurial skills (see Table 2) categories of skills. As revealed by our interview, individual institute highlighted a few fundamental elements of entrepreneurship training or training provider. Two institutes offer these services to large extent. The four other institutions seem to put less emphasis on some of these elements. In short, all six training institutes offered conventional management training to a large extent.

Table 2 Content of Entrepreneurial Performance Training

Motivation		Entrepreneurial Skills
Business Skills		
Need for achievement	Creativity	
Management/leadership		
Ability to Inspire	Innovation	Business Plan
Expectation of the high achiever	Ability to take risk	Financial skills
Obstacle or blocks	Ability to identify opportunity	Marketing skills
Help	Ability to have a vision for growth	Operational skills
Reaction to success and failure	Interpret successful entrepreneurial	Human Resources skills
	Role model	

Source: Field Study (2009). Extracted from the institutes' training materials.

However, if we look back to our Table 1; one can clearly observe that both parties (receiver and suppliers) do not yet perceive entrepreneurial development issues or the gravity of these issues in the process of SE birth and growth.

b) Finance A crucial literature ; Ahmed 1993 and 1989; RISP 1981 and 1999; Storey 1997; Khan 2004 and 2009; Bruno and Tyebjee 1984) reveals, however, that the controversies surrounding small industry financing are, to a larger extent, attributable to the partial nature of analysis carried out by most of these studies. Such studies mostly based on the views of the lending agencies (which are usually allergic to handling small loans because of their characteristic deficiencies) or those on the borrowers only (who perceive finance to be their major bottleneck), suffer from lack of comprehensiveness in their findings are not reflective of the complete views of the parties of the both sides of credit market. An ideal study, therefore, needs to adapt a two-pronged approach based on information gathered from the recipients as well as the supply of credit in order to be able to identify correctly the forces underlying any disequilibrium between demand and the supply of credit. A study so designed, and based on the views of the parties on either side of the credit market, is expected to be able to make an accurate diagnosis the problems and suggest appropriate solution.

A group of 6 senior officials from leading concerned financial institutions along with 26 owner/manager were interviewed. Procedures for obtaining loans were seen by the small business respondents as cumbersome and over-bureaucratic, and collateral demands were seen as excessive. The senior banking managers who were interviewed tended to agree with these statements, although they did for slightly different reasons, tending to put some of the responsibility onto the small business managers and owners. First, these officials stated that most SMEs applying for loans do not present convincing feasibility studies or attractive business plans. They are therefore regarded as high-risk ventures. Second, even those SMEs with business plans were not backed by adequate collateral. As development banks cannot afford to take any chances of non-repayment of loans, they insist on these collateral requirements being met. In addition, many SMEs do not hold deposit accounts in the formal banking sector, which the banks require from loan applicants. Another reason SMEs were not given any concessions in terms of loan conditions was that in Bangladesh appropriate law exists to protect bankers against default. Yet another reason banks resist loans to SMEs is the unwillingness of own/managers to acquire formal training. Such training is useful in providing added expertise and competence in a chosen field of business and in improving chances of obtaining loans.

Some interviewees expressed the view that some development bank may well prefer to pay the penalty (in the form of fines) for violating government regulation repairing blanks to issue a certain percentage of their loans to SMEs rather than make risky loans (for more about this, see Yahaya 1989; Phillips 1988; Teriba and Kayode 1977;).

The apparent paradox pointed out by Schatz (1963) and (Khan 1996 and 2004). Harris and Rowe (1966), and Harris (1968) can now be better understood. Schatz described what he termed the "illusion" of capital shortage in few developing economies' context. That is, give the numerous sources of capital including the development and commercial banks in Bangladesh; small businesses should not be experiencing a shortage of capital. Nevertheless, the capital shortage can be shown to exist for many Bangladeshi SMEs. In a situation where bankers would prefer to break the rules rather than be obliged to lend to firms perceived to be poorly managed, capital loans earmarked for SMEs are nonetheless not available to them. This suggests that some reforms of the credit provision channels for SMEs may be needed in order to implement existing policy.

c) Marketing Relation

Due to limited knowledge, ability and resources the entrepreneurs and the concerned of Bangladesh have failed to recognise the importance of marketing, rather their interest is to procurement of raw materials, machinery and spares, which are no doubt essential also for production. But if the entrepreneurs can't buy their raw materials and efficiently market their products and

expand their existing markets, the future of these ventures will remain bleak. The study revealed that the SE sector encounters a number of marketing problems ranging from buying raw material to selling products. The causes have been identified as shortage of capital, knowledge, physical infrastructure, quality, scattered demand and market information. However, to capture the perspective of raw materials, a number of officials of large raw material supply companies (Trading Corporation of Bangladesh, TCB, Petrochemical Industry, ACI etc.) were interviewed. As the Table 1 shows, SMEs regard the paucity of raw material supplies as a major constraint on their firms, despite the abundance in Bangladesh of such materials. The officials agreed that SMEs in general suffered from the disadvantage of small size and thus being unable to take advantage of economies of scale in purchasing materials. The SMEs buy their raw materials individually and therefore purchase only small amounts. The cost per unit is higher than for bulk purchase and result in a minimal return to the supplier, who relies on a reasonably high turnover. Wholesalers have the advantage of buying in bulk, therefore reducing handling cost for the suppliers. Foreign and large buyers are also preferred over SMEs as they provide much needed foreign exchange (Brautigam 1994). Many raw materials supplies in Bangladesh are government establishments, but they are also commercialised and therefore cannot afford to operate at a loss in order to fulfil the needs of the SMEs. For these reasons, SMEs are often overlooked in favour of ‘‘big buyers’’ and are often referred to the wholesalers. The wholesalers often hoard raw materials and thus create artificial shortages resulting in a ‘‘liquidity trap’’ for the buyers. The wholesalers also prefer to sell their products to those able to pay in foreign exchange, which is in short supply and much more attractive in value than the equivalent in Naira, the Nigerian unit of currency. As profit margins of most SMEs remain low, this may explain why they find it both cheaper and more convenient to recycle waste products in order to obtain raw materials for further production, rather than purchasing fresh raw materials. However, one official proposed that the scarcity of raw materials could be resolved for Nigeria’s SMEs if they formed co-operative unions. SMEs might pool their resources buy raw materials from suppliers in bulk, and split them amongst themselves at lower cost. No such union exists at present for purchasing inputs or other necessities. Another possibility would be for the government to buy in bulk by eliminating middlemen and store the raw materials in order to sell them piecemeal to SMEs at subsidized costs.

Distributors of final products for marketing were also included in this research as well, since this group was expected to have a closer perspective on the crucial constraints confronting Bangladeshi SMEs. One interesting finding among the distributors was that many of them regarded themselves as potential owners of their own businesses. Some individuals expressed the view that they could have been owners and managers had they not been hindered in various ways. The decision to buy and sell products and domestic wares from SME manufacturers rather than to produce the products themselves was sometimes also a decision based on a comparison of the risks involved in the two types of business operations. From this group of respondents, it emerged that there are two principal obstacles preventing them from becoming small business owners. The first was the lack of funds. The second was the lack of information and expertise concerning the business. Many of the distributors saw their time in distribution business as an opportunity to gain business knowledge and experience and to create a network on which to build a future business of their own.

d) Technology

A main problem in Bangladesh lies in the vast number of traditional business ventures. According to Huq & Love (2001) and the Field Study (2009 and 2009), these ventures are generally very conservative to accommodate something new and to change. The entrepreneurs generally come from the rural areas and lack formal and non formal education, and very often lack industrial or business experience and skills. In short, they lack the dynamism to embark on changes. On the other hand, the institutional and policy regimes of the country also fail to create a conducive environment to use appropriate/progressive technology.

It is apparent that the policy makers of the country and in particular the planners have shown their awareness of the need for

promoting technological capability by institution building, by motivating entrepreneurs to introduce new products and new process, by collaboration between entrepreneurs and institutions with R&D facilities. The planners have often clearly and meaningfully specified some of the key elements of technology adoption. Unfortunately, the objectives of all the plans have remained unfulfilled in many ways. Although the need for centralised research institutions was emphasised as early as 1973, the country still does not have any such facility in the industrial sector, the agriculture sector perhaps being the only exception with a centralised research activity. However, an area where Bangladesh has failed miserably is at the level of implementation and judged from this aspect, it is apparent that a serious national commitment to technology promotion has been missing. The development of technology issue in the country could be understood from the Table 3. According to the technology column 4 of the table 1, most of the respondent put less or medium important, i.e., they still do not perceived or realise the gravity of technology.

Table 3 Level of National Commitment to Technology Promotion in Bangladesh During 1990s and 2000s.

Level (increasing order of strength)	Necessary Action	Situation in Bangladesh: Commitment to Technology Promotion
1st	General announcement	Frequently made statement, indicating awareness of the importance of S&T in national development
2nd	Public statement	Commonly found, e.g. in planning documents and budget speeches
3rd	Published documents	Official statement on National Science and Technology Policy made in 1986.
4th	Enactment of laws to ensure long-term validity, sectoral compliance and departmental cooperation	No explicit technology promotion laws yet enacted.
5th	Inclusion of envisaged S&T development pattern in the constitution to ensure that frequent policy changes are not there	Not implemented as yet

Source: Adapted from Industrial Policy (2001)

e) Subcontracting (backward, forward or parallel (linkage)

As it is, the introduction or promotion of inter-firm/industry linkages (backward and forward) would make a positive contribution to the process of industrialization in the country. Although most of the policy documents in the past emphatically spoke (see Linkage column of Table 1) of the potential and benefits of subcontracting and linkages, no progress has been made in this respect. Before discussing how these objectives could be achieved, a brief assessment of the present status of linkages in the country would be in order.

Excepting one study by BIDS (1999) the basic information about existing linkage practices in the country is very hard to find. The BIDS study shows that the proportion of both parent firms and subcontracting firms is relatively high in textile, chemical, tobacco, pharmaceutical, non-electric machinery and engineering industries. Linkages are prominent in these industries because the manufacturing processes involve separate stages. It has also been possible because of the technological flexibility of these industries.

The present practice of the parent company and the subcontractors are very formal – i.e. usually determined by floating tenders in the market. The requirements of the tender include size, quality and design of the products, delivery time and provision of replacement in case of rejects. The subcontractors are selected on the basis of lowest bid and quality. The BIDS report reveals that about 70 per cent of both the parent companies and subcontractors maintain written documents specifying between the two parties (Field Study 2009). This implies lack of trust and spirit of cooperation between the parties. Therefore, it differs from the Japanese practice and is close to the Western practises. Although there are specific terms and conditions for the subcontract in these countries, it is rarely done through the floating of tender in the market. Most of the Swedish and Japanese subcontractors are closely allied with the parent companies, whereas in Bangladesh they are very independent and are dominated by the parent firms (khan 2004).

Bangladesh suffers from a serious shortage of investment opportunities; there is hardly any opportunity for a ‘big push’ argued by Rosenstein and Rodan (1943) and APEC (2004-5). The best that can be hoped for is to target investment so as to maximise the linkage benefits. For such an approach it is of the utmost importance to find a mechanism and sector(s) capable of producing high linkages between industries. The analysis of subcontracting issue by Khan (2004) revealed that the industrial subcontracting status in the country is very poor and there is no chance of development, at least at the present, for the following reasons:

- a) Shortage of skills at all levels (facilitating institutions and entrepreneurs)
- b) Lack of industrial organization
- c) Limited size of the market and its low growth rate
- d) Lack of sound policy and constructive program, poor state of Technology.

f) Policy and Institutions

Leading facilitating authorities on Bangladeshi’s industrial sector were consulted for the final set of interviews. Interviewees included industrial consultants as well as other industry-related professionals and academic experts. There was a certain consensus among members of this group regarding the main constraints facing SMEs in Bangladesh (Field study 2009).

The low level of SME development in Bangladesh was generally attributed to the poor formulation implementation of government policies aimed at SME support facilities and incentives, including loans, training facilities, industrial estates, infrastructure, and the provision of raw materials at subsidized rates for SMEs. The group of experts also pointed to the shortage of capital and especially of foreign exchange as a serious hindrance for SMEs. The lack of locally produced machinery and spare parts aggravated this constraint (see also Schatz 1963, 1996; Huq 2001). Furthermore, the economic environment under structural adjustment program had almost certainly increased poverty levels and resulted in reduction in overall consumer spending, as well as a decline in savings and capital investment (see also Huq and Love 2000). This turn had undermined plans for further accumulation and capital formation, especially for capital intensive SMEs. The problem of an unstable political environment (especially during periods of local government, national elections) was another factor mentioned by several of the experts. The politically risky climate made many entrepreneurs, especially foreign ones, increasingly uncertain of the business environment

and of their prospects.

The lack of qualified entrepreneurs and employees in the absence of well-established training centres are also impediments to the development of SMEs in Bangladesh, especially technically complex ones. Untrained small businesses manager handling complex ventures are not likely to be sufficiently competent in management, organization, and quality production to adhere to internationally competitive standards and such SMEs therefore cannot survive without government protection from imports. There is also a lack of adequate information concerning areas of business in the sector generally. Most people with funds tend to use them in well-established sectors rather than seeking new production and new market niches/segments in domestic and international markets.

Finally, the group of experts also agreed that not all of the responsibility for the difficulties of SMEs in general could be placed on the Bangladeshi government or on the small businesses. Bangladesh's relatively short history of experience in industrial, mechanized, and relatively high-tech production is typical of most developing economies and could account for much of the lack of expertise in policy-making and in management and manufacturing operations (Falola 1996; Juma 1991; Schatz 1994; 1996). The present technological and scientific dependency on the West should be seen as a legacy of the colonial past, and it will certainly take some time to develop competitive domestic production of machinery and capital goods (Falola 1996; Juma 1991; Schatz 1994, 1996). Some long-term strategic goals are important in this context, as well as the patience and determination to see such policies through to the end, and this would require a high level of consistency in policy-making.

The analysis of the policy and institutional factors has unambiguously revealed that Bangladesh has not provided policy and institutional support to its SE sector which could be said as congenial or appropriate. We are, however, constrained by a deficiency in empirical data to make any observation on the effects of the microeconomic policies and institutional effects on the progress of SEs. Not even the studies by the World Bank and Asian Development Bank have carefully analysed the effects of policies that do not exactly promote small enterprises, or whether they might have hindered the progress of this sector relative to the medium and large-scale sector.

The policies have failed to place adequate emphasis on the main determinants: training and supply of entrepreneurs, market relation, and technology specifically to the sector. A clear and progressive long-term view of the role of SEs has not been reflected in the policies. In terms of institutions, Bangladesh has inherited legacies from the colonial British and post-colonial Pakistan. It lacked any well coordinated institutional and policy framework for fostering SEs. Independence has not brought about any tangible improvements in this regard. Despite the appreciation of the fact that an effective institutional network is a 'necessary condition' for the purpose of formulating and implementing appropriate policies, adequate steps have still not been taken.

So far, the focus in planning for the development of SEs has been on the supply side may be because of personal benefit. The question of demand has not been addressed. There are many small industries producing food items, consumer items and tools and implements, which will, at least, at the initial stages, produce goods for the surrounding market. Seeking of market beyond the immediate proximity may be necessary for them at later stages. Clearly, when small industries produce goods mostly for consumption in the rural areas, rural income is a crucial determinant for the growth of these industries. Therefore, the level and distribution of rural income are important. However, there may be other cases where production can be undertaken, even at the initial stages, for catering to markets outside the immediate vicinity and perhaps to urban and foreign markets. And there may also be some cases where small industries may develop on the basis of sub-contracting relationship with large industries (as in case of other countries like, Japan and Sweden). But in such cases, design and quality of the products will assume greater importance.

Conclusion

It is obvious from the research that a number of reforms are necessary to aid Bangladeshi SME development. Apposite

institutions involved in the process would have to operate in a cohesive and cooperative manner. All must participate equally. Among the reforms recommended is that government assistance should include the cooperation of other related institutions. For example, the government is required to provide the necessary infrastructure and to have qualified personnel to implement and monitor policies effectively. In addition, the government can encourage small businesses by becoming a customer of their products through procurements, contracts, and orders. Law as a way to encouraging borrowers and lenders to conform to loan agreements must penalize small businesses that default on loans acquired from lending institutions. Furthermore, it should be realized that only partial held would be available when incentives, subsidies, and tax breaks are given without other auxiliary materials provided. Small businesses should unite by supporting each other in times of need. This could be accomplished by forming associations. Examples of successful networks that should be learned from are the Japanese keiretsu and the chaebols of South Korea, even though these involve mainly larger companies (Cullen 1999; Griffin and Putsay 1998). These Asian networks protect their member by helping them meet crucial needs in areas if financial, personnel, and market information, equipment, and war material supplies. It would be mutually beneficial if larger businesses and small firms complemented each other in the development proves (Storey 1985). This is how the Just-in-Time (JIT) operations works in Japan, Larger companies in Japan regularly sub-contract production to small manufacturers as needed (Schermerhorn 1999). Another reform that is needed for SME development in Bangladesh is the alliance of government, research institutions, and finance establishments to create appropriate training for prospective small businesses. Relevant training should involve both theoretical and practical aspects in management and operations. Only managers who demonstrate exceptional abilities and promising qualities should receive loans after acquiring such entrepreneurial training. The handiwork small firms sector in Germany functions successfully by using this approach (Shell 1980). Loans based on nepotism and favouritism, a common practice in Bangladesh, must be eliminated. Requiring feasibility studies and attractive business plans in loan applications, as a standard practice must be enforced. In addition to educating and updating small businesses on current business issues, research institutions and establishments that provide published information on markets, products, equipments, and economic and business trends should be linked with SMEs. Organizing seminars, conferences, and trade shows will help relay helpful information. If these recommendations are applied appropriately, there should be some positive results for the development of SMEs in Bangladesh.

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Questionnaire:

POLICY SURVEY QUESTIONNAIRE ON BANGLADESH SEs POLICIES AND INSTITUTIONS

I have prepared this questionnaire with the aim of evaluating the institutional perspective on the constraints and the policies (adapted or ongoing to be adapted) for small enterprises (SEs) development in Bangladesh. Institutions in this paper include the government, non-government organizations (NGOs) and formal private organizations/institutions for SEs'. Our assignment is to select from them those successful and unsuccessful programs will be discussed. Policies, which have contributed in the success of some programs, will be analysed in order to help the unsuccessful programs to achieve the desired goals. The questionnaire consists of three different parts and each of the questions will be followed by a number of sub-questions. Please answer each question below.

Question 1: What is the principal concept underlying the SEs policies in Bangladesh? (For what purpose do you provide SEs support programs?)

- a) What and how SEs' sector is potential for economic development in general and industrial development in particular?
- b) What are the main constraints for the birth, growth and death for this sector?

- c) How are you going to solve the constraints? Would you please tell us in detail how you are going to solve these constraints.

Question 2: On the basis of previous experience SEs development and the result of our research on your SEs policies, we have great interest in the following programs:

Names of the selected program(s). (Total programs may be four = two successful + two successful and on the variables included in Frame of reference, FOR.

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We would like to include the above-mentioned program(s) as example of successful case of SEs assistance policies. From this information we hope that other similar institutions can draw valuable lessons. Please describe your programs in detail as indicated below so that the other departmental personnel in charge of SEs programs in other (governmental and NGOs. or private organizations) can obtain a clear understanding from your activities.

- (1) Name of the program
- (2) Objective of the program
- (3) Details of the program
- Who is in charge? (Name of the institution/agency/organization)
- To whom does the program apply? Who are the beneficiaries of this program?
- What does the program provide? (Detail description of program)
- (4) Duration of the program (year or months)
- (5) Budget (annual and accumulated)
- (6) Actual number of cases handled on annual basis:
 - (a) Number of applicants till to date
 - (b) Number of applicants accepted
- (7) Actual number of cases handled on an accumulated basis:
 - (a) Total number of applicants till to date
 - (b) Total number of applicants accepted thus far
- (8) Actual number of cases handled on an accumulated basis:
 - (a) Total number of applicants thus far
 - (b) Total number of applicants accepted
- (9) Sources of information on the program
- (10) Other remarks

Question 3: In addition to the program (s) that you have described above, please recommend at least two (or more, if possible) successful programs that could be of interest for this research. The following is a list of categories for SEs support service. Please select the categories of your programs before answering the questions below:

The category of the program (Please indicate with the letters designated in the above box (A, B, C, D)

Short Description of Categories for SEs Support Services

- A. Human Resource Development (Entrepreneurship Development)
 - B. Support for Management (general, financial and marketing)
 - C. R&D and Incubation (Nursing period)
 - D. Technology Transfer and Development of Supporting Industry
 - E. Technology Development
 - F. Intellectual Property Rights Protection
 - G. Loan and Liabilities Guarantees
 - H. Informal Equity (Equity comes from Informal Sources)
 - I. Linkage: Vertical (forward, backward, and parallel), international marketing
 - J. Access to Information (policies, market, investors, etc.)
 - K. International marketing and Foreign Investment)
 - L. Others (reform measures to meet environmental regulations, product liability and requirements, etc.)
 - M. Financial support (formal and informal)
1. The category of the program (please indicate with the letters designated in the above box)
 2. Name of the program
 3. Objective of the program
 4. Details of the program:
 - (a) Who is in charge? (Name of the institution/agency/organization)
 - (b) To whom does the program apply?
 - © What does the program provide? (Detailed description of program)
 5. Duration of the program (year/ months)
 6. Budget (annual and accumulated)
 7. Actual number of cases handled on the annual basis:
 - (a) Total number of applicants thus far
 - (b) Total number of applicants accepted
 8. Actual number of cases handled on an accumulated basis:
 - (a) Total number of applicants thus far
 - (b) Total number of applicants accepted thus far
 9. Contact source for information on the program
 10. Other remarks

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