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## Factors Affecting the Growth of Entrepreneurship in Small-Scale Business

\*Eijaz Ahmed Khan<sup>1</sup>, Md. Nur Alam<sup>2</sup>, Sarif Mohammad Khan<sup>3</sup>

### Abstract

*The present paper makes an attempt to investigate that various micro and macro factors are responsible for growth and development of entrepreneurship in small-scale business in Bangladesh. The background factors like strong education and training facilities, desire to achieve, accept responsibility, hard works, and risk orientation of the entrepreneur have a bearing on the success of entrepreneurs. In addition to this, the socio-economic factors such as uniform commercial law and limited regulations, corruption, encouragement and support from society and family, good banking with available credit, social integration, social status, meaningful democracy, and free trade with limited tariffs, enterprise zone, available technology, and strong telecommunication and distribution networks are also important for creating entrepreneurs.*

**Key Words:** Entrepreneurship, small-scale business, micro-macro factors

### Introduction

Entrepreneurship does not take place in a vacuum. It is a function of several factors. The growth of entrepreneurship results from certain environmental conditions and some economic factors input (Roni, 2003). So, at this point, it is needed to consider the influence of different important factors on entrepreneurship. Indeed, for the development of ESMB (Entrepreneurship in Small and Medium-scale Business), a number of micro and macro factors must be in place, such as financial and economic factors-limited liability and greater mobility of capital, good chance to make high profit, low taxes and tax incentives, free trade with limited tariffs, good banking with available credit, lower labor cost, political factors-stable and chaos free political system, meaningful democracy, political biasness, legal factors- uniform commercial law and limited regulations, strong legal support for private property, equal opportunity, infrastructural factors-strong educational and training facilities, enterprise zone, good transportation system, strong telecommunication and distribution networks, technology, state factors-support from large corporations, research and innovation, public-private partnership, government reward system, corruption, lengthy process, indecision and inefficiency, socio-cultural factors-encouragement and support from society and family, social status, social marginality, social integration, social security, personal factors-optimistic, excellence oriented, hard workers, accept responsibility, reward oriented, desire to achieve, risk oriented, opportunity seekers. In countries where most of these surroundings are not present, Entrepreneurship in Small and Medium-scale Business is virtually dead, or entrepreneurs have gone underground.

### Literature Review

On survey of entrepreneurs ranked the problems in the following order: need for credit; marketing; training; technology; information; extension and consultancy; and infra-structural

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support services (Karim, 1996). Based on some literature review numbers of external and internal factor of the development barriers can be identified for the SME sector. These are: information and knowledge, political, economic, legal System, government issues, technology, natural calamity etc, which can be categorized as external factors and people, machinery, structure or materials and process as internal factors (Salman, 2000). The entrepreneur in Schumpeterian model is an ‘innovator entrepreneurs’ who depends necessary social and economic overheads. These economic and social overheads are very poor in backward region, which cause the short supply of entrepreneurs (Schumpeter, 1954). Darzi defined an entrepreneur basically he is one who has initiative, skill for innovation and who looks for high achievement (Darzi, 2004). Butt (1998) mentioned an entrepreneur who is a front line actor in the process of industrial development with his dynamism, ability and ingenuity; he brings a change in the socio-economic order. Cooper, Woo and Dunkelberg stated, as from entrepreneurial point of view the most crucial stage is the start-up period (Cooper, Woo and Dunkelberg, 1989). McClelland’s hypothesis is that a society with a generally high level of achievement will produce more rapid economic development. The inner urge of the individual to something new, something unique in a particular field has been found to be an important factor. It includes entrepreneurial motivation, personal efficiency and capability. Achievement motivation and power motivation are equally important for entrepreneurship (McClelland and Winter, 1969). According to McClelland people could be entrepreneurs if they have high need for achievement (McClelland, 1961). Davies identified the need for achievement as the factor that instigates people to be entrepreneurial and venture into innovative and productive activities enhancing economic growth (Davies, 1991). Access to finance is the major problem for SMEs as commercially lending institutions typically ignores the financial requirements of the SMEs primarily due to their weakness in offering fixed asset as collateral (Hasan, Mazharul and Rahman, Tawfiq, 2001). Roni viewed the capital availability is not much in Bangladesh. Cause-financial environment and again for per capita income is as low as US \$220. From the point of supply of investment capital, bank sometimes complains about liquidity surplus. The interest is so high that people find it unattractive to borrow (thus cost of borrowing is high). The labor cost is the most important deterrent of entrepreneurial decision (Roni, 2003). In Bangladesh tax rates on income for all other companies including banks, financial institutions, insurance companies and local authorities is 40%. On the other hand in Malaysia corporate tax of 28% is applicable to both resident and non-resident companies. In Indonesia, it is stepped and top out at 30% of taxable income (Source:<http://www.asiatraderhub.com>). Misuse of political power is responsible for imperfect market. As a result, genuine entrepreneurs are underprivileged in terms of inaccessibility to certain business (Rahman and Das, 2005). Besides Roni (2003) stated the entrepreneurship in the political arena of Bangladesh is not adequately supported. According to the World Bank SME department, lack of legal framework for commercial transactions and dispute resolution is one of the major impediments for the development of SME sector ([http://www2.ifc.org/sme/html/sme\\_barriers.html](http://www2.ifc.org/sme/html/sme_barriers.html)). Expensive and time consuming regulatory system and licensing and permit requirements have been found out as a barrier for the SME development by the SME department country mapping research and survey. Dun and Bradstreet statistics attribute about 52 percent of all business failure to “management issues” and as much as 90 percent of small business failures to incompetent managers (Hasan, Mazharul and Rahman, Tawfiq 2001). A working session of National Review Forum held in Dhaka, Bangladesh organized by the Centre for policy Dialogue (CPD). According to CPD, infrastructure like high cost of electricity, water and transportation, high interest, extortion is very important for SME sector and it is making business difficult and non viable in competition (Source: [http://www.cpd-babgladesh.org/media/press\\_050603](http://www.cpd-babgladesh.org/media/press_050603)). Weak information infrastructure,

just like weak transport infrastructure, can reduce attractiveness of merchandise trade with particular areas (George Caspary and David O'Connor 2003). Government, NGOs and International development agencies need to take proper steps to facilitate entrepreneurship (Rahman and Das, 2005). Small firms which possess more information about themselves and their environment engage in formal strategic planning and they perform better financially than their counterparts (Orpen, 1993). Still there is lack of awareness about new age and e-commerce (Salman, 2000). Roni observed the socio-cultural environment has a far-reaching effect upon the entrepreneurs. Positive result in people who are willing to assume entrepreneurial activities and the negative environment will be in the opposite (Roni, 2003). Roni also claimed that entrepreneurs can emerge from socially marginal groups, like religious culture, ethnic or migrant minority. Many authors have emphasized on social integration factors. According to Morris and Somerset, increase in the scale or range or interaction is necessary and those barriers to interaction must be broken down if entrepreneurship is to occur (Morris and Somerset, 1971). However, it is obvious that strong group ties may draw actors in to non-entrepreneurial roles (Lipret 1967, Marris and Somerset 1977). According to Esater-Brook, security essentially involves protection from uncertainties, want and social disapproval and political interference (Esater-Brook 1949, 1963). Easter Brook described the government role as being three possible types: protective, promotional or corrective (Esater Brook 1949). Rahman argued the higher prestige is attached to industrial profession as compared to other profession which has motivated farmers to adopt this profession (Rahman, 1981). With the advent of an era of liberalization and globalization, the small-scale entrepreneurs are facing an acute competition (Mittal and Batra, 2004).

The aim of this paper is to identify the main factors which determine growth and development of entrepreneurship in Bangladesh and evaluate their impact on the performance of small scale business sector.

### **Research Methods**

The study adopt a descriptive approach and is primarily based on extensive review and analysis of cases, articles, books available in literature about growth of entrepreneurship in small business. The intention was to find several micro and macro mature factors from which convincing insights could be derived. Personal in-depth interview technique with structured seven point Likert scales ranging from 1 = strongly disagree to 7 = strongly agree questionnaire was adopted to collect the required data. This questionnaire was discussed among eminent small business entrepreneur for their opinion and suggestion, and the suggested were incorporated. The study has used a sophisticated method of statistics-Factor Analysis using varimax rotation. In order to obtain interpretable factors and simple structure solutions, researchers have subjected the initial factor matrices to varimax rotation procedures (Kaiser, 1958). Varimax rotated factor matrix provides orthogonal common factors. Further, the present study has interpreted the factors loaded by variables having significant loadings of the magnitudes of 0.05 and above (Pal and Bagai, 1987, Pal, 1997). The growth and performance of several types of small scale business has been taken for study i.e. food and allied industries, textile, wearing apparel and leather industries, wood and wood products, paper, paper products, printing and publishing, plastic products, glass and ceramics, fabricated metal products, information technology etc from Khulna City whose total initial investment was not more the Tk.500, 000 including all (land, capital and labor). The questionnaire was administrated to a sample of 50 such small business entrepreneurs who were selected by randomly. The data from the 50 filled in questionnaires was tabulated and analyzed by using SPSS10.0 version.

## Results and Discussions

The study results are given in Table 1. and Table 2. The approximate chi-square statistic is 203.042 with 136 degrees of freedom, which is significant at the 0.05 level. The value of the KMO statistic 0.519 is also large ( $>0.5$ ). Thus, factors analysis may be considered an appropriate technique for analyzing the correlation matrix.

The 17 items measuring the factors affecting the growth of entrepreneurship in small business were analyzed using principles component analysis. Exploratory factor analysis using varimax rotation was used to extract the underlying determinants.

Factor 1 has reasonably high significant loading. The variable corruption, encouragement and support from society and family, social status, risk oriented has significant load of the magnitude of -0.842, 0.786, 0.729, and -0.617 respectively. In the light of these variables, this factor may be identified as “Socio-personal Factor”. Factor 2 has significant loading varying from -0.627 to 0.824 on the three variables viz. strong educational and training facilities, enterprise zone, strong telecommunication and distribution networks, available technology. This factor can be classified as an “Infrastructural Factor”. Factor 3 has reasonably loading of the magnitude 0.785 and -0.722 on the variables pertaining to lagged social integration and desire to achieve. This factor can also be interpreted as a “Socio-personal factor”. Factor 4 consists of variables Free trade with limited tariffs and Meaningful democracy. The factor loading is ranging from .687 to .716. This factor can be termed as “Eco-political factor”. Factor 5 has reasonably significant loading varying from 0.484 to -0.705 on the variable pertaining lower labor cost, hard workers, and accepts responsibility. Thus this factor may be defined primarily as an “Eco-personal factor”. Factor 6 has the highest and reasonably factor loading of the magnitudes of -0.870 and 0.616 on the variables pertaining to lagged uniform commercial law and limited regulations and strong telecommunication and distribution networks. This factor can be called as an “Infra-legal factor”. Factor 7 has significant loading of 0.777 on good banking existed with available credit under economic factor.

## Concluding Remarks

The result of the study clearly shows that different micro and macro environmental variables under some factor affecting the development of entrepreneurship in small business. Among the variables strong educational and training facilities, corruption, and uniform commercial law and limited regulations are the fundamental items for development of small business and it should be given priority at the top. Besides reviewing the literature and analyzing the variables under factors this study came to an end that Bangladesh must start to roll out projects in the area of good banking existed with available credit, meaningful democracy along with ensure social integration, encouragement, and status, and build motivation and accountability among the business entrepreneur. Finally the government of Bangladesh should also be concentrated on enterprise zone, ease technology, free trade with limited tariffs, and strong telecommunication and distribution networks for continued growth of small business.

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## Appendices

### Results of Principles Components Analysis

Table-1 KMO and Bartlett's Test

Kaiser-Meyer-Olkin Measure of Sampling Adequacy.		.519
Bartlett's Test of Sphericity	Approx. Chi-Square	203.042
	df	136
	Sig.	.000

Table-2 Rotated Factor Matrix

Variables Included in the Factor	Factor 1	Factor 2	Factor 3	Factor 4	Factor 5	Factor 6	Factor 7
Free trade with limited tariffs	-.279	-.243	-4.190E-02	<b>.687</b>	-.112	.134	.163
Good banking existed with available credit	8.345E-02	.148	.127	-3.208E-02	9.241E-02	-6.018E-02	<b>.777</b>
Lower labor cost	3.952E-02	.162	-1.496E-02	-.255	<b>.484</b>	.306	-.290
Meaningful democracy	.358	7.108E-02	-6.937E-02	<b>.716</b>	-.132	5.215E-02	-.143
Uniform commercial law and limited regulations	3.257E-02	3.911E-02	4.640E-02	-.195	-3.326E-02	<b>-.870</b>	.156
Strong educational and training facilities	2.968E-02	<b>.824</b>	-.112	-.187	1.946E-03	-9.065E-02	3.614E-02
Enterprise zone	.477	<b>-.627</b>	.310	1.635E-02	.121	-3.156E-02	-.138
Strong telecommunication and distribution networks	-7.016E-04	6.977E-02	-6.650E-02	-.543	-.233	<b>.616</b>	.355
Available technology	.395	<b>.637</b>	.126	.151	.319	.216	8.132E-02
Corruption	<b>-.842</b>	-4.100E-02	.175	-9.816E-02	-2.232E-02	-9.758E-02	8.881E-02
Encouragement and support from society and family	<b>.786</b>	4.878E-02	.110	3.380E-02	-2.294E-02	-3.965E-02	9.621E-02
Social status	<b>.729</b>	5.036E-02	-.373	-9.039E-02	-6.889E-02	-7.527E-02	2.259E-02
Social integration	-9.203E-02	-1.329E-02	<b>.785</b>	-.194	-.114	-9.639E-02	-5.940E-02
Hard workers	-.333	.167	3.031E-02	4.226E-02	<b>.671</b>	6.686E-02	.238
Accept responsibility	-.135	.114	.154	9.304E-02	<b>-.705</b>	.171	-2.140E-02
Desire to achieve	.199	.202	<b>-.722</b>	-.137	2.845E-02	-2.328E-02	-.263
Risk oriented	<b>-.617</b>	.162	.319	7.336E-02	-1.780E-02	9.117E-02	-.432

Extraction Method: Principal Component Analysis. Rotation Method: Varimax with Kaiser Normalization.  
a. Rotation converged in 12 iterations.