

# Performance Evaluation of SMEs-A Special Focus on Small Size of Businesses at Tangail District in Bangladesh

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## Abstract

Bangladesh is one of the developing countries in the world and which is struggling to overcome the impediments of economy. As a part of it is highly depends on the enhancement of Small and Medium Enterprises (SMEs). So, now-a-days it can be considered as a vital instrument for our economy to be dynamic. In this paper an attempt has been made to review the present state (in 2012) of Small and Medium Enterprises in Bangladesh. This paper has been prepared based on a sample of 200 Small Size of Businesses (SSBs) in different parts of Tangail district and the performance has been measured on ten broad indicators which incorporates several sub indicators. From the analysis it has been found that this sector is growing rapidly and playing significant roles in the economy of Bangladesh as to alleviate the rate of poverty by creating new hope for the unemployed. It has also been caught sighted that this sector having some of its deviations to reach the international level of standard. At the end of this paper, it provides worth mentionable suggestions against the deviations.

**Index terms**— small size of businesses, indicators, performance evaluation, average growth.

## 1 Introduction

he origins of SMEs were invented at the time of barter systems when money was not the media of trade. After then the term of Small Size of Businesses first derived by the British and the European Nations then it was found in the USA and now it operates its journey to the globe. As a part of it, after the liberation of Bangladesh the SMEs formally launched its businesses in small scale. Now it plays an enormous role to boost our economy.

The definition of SBSs is varying with their nature of business around the world. The European Union (2003) defined small businesses as which have fewer than 50 staff members and less than 10 million Euros turnover and micro-enterprises (less than 10 persons and 2 million Euros turnover). According to the World Bank (2006) small enterprises are defined as enterprises which have fewer than 50 staff members and up to 3 million US dollars turnover and micro-enterprises have up to 10 persons and \$100,000 turnover. According to the UK Companies Act 2006 define small ear ( )

## 2 A

In Bangladesh Small Size of Businesses define as an enterprise would be treated as small if, in current market prices, the replacement cost of plant, machinery and other parts/components, fixtures, support utility, and associated technical services by way of capitalized costs (of turn-key consultancy services, for example), etc., excluding land and building, were to up to Tk. 15 million and it has less than 25 workers, in full-time equivalents.

With the vision of reaching its millennium development goals (MDGs), the government of Bangladesh has given the maximum inclination toward the development of Small and Medium Enterprises (SMEs) at all levels in Bangladesh. Now a day it offers the biggest opportunity to create new ventures with new employees. However, it is worth mentionable that SMEs in Bangladesh provide near about its 80% industrial employment 1 . Without

any doubt SMEs are in fact the mainstay of the economy of Bangladesh to ensure working opportunities especially for young people and female workers who want to work. Though it suffers from various internal and external problems such as paucity of self-fund, poor knowledge of trade, lack of stability, unskilled personnel, high burden of interest, lack of transparency and accountability, lack of technology know how, intense competition, lack of facilities in the field of research and development etc.

In this paper it attempts to highlight the present state of Small Size of Businesses on the basis of some company is one that has a turnover of not more than £5.6 million, a balance sheet total of not more than £2.8 million and not more than 50 employees. It is worth noting that even within the UK this definition is not universally applied. In the USA, the definition of small business is set by a government department called the Small Business Administration (SBA) which is known as Size Standards Office. The SBA uses the term "size standards" to indicate the largest a concern can be in order to still be considered a small business, and therefore able to benefit from small business targeted funding. In India the Small Scale Service and Business (Industry related) Enterprises (SSSBs) are industry related service and business enterprises with investment in fixed assets, excluding land and building up to Ps. 1 million. (Ministry of trade and Industry, Government of India) .

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## 3 II.

## 4 Literature Review

Now a day it is well acknowledged among researchers and economic policy makers that Small Size of Businesses play vibrant role in contributing to overall economic development of countries.

Studies of the US economy in the 1990 revealed that the introduction of new firm births and the growth of Small Size of Businesses were the major sources of job creation that played a significant role in local economic change (Karlsson, et al. 1993) 2 .

The history of small business has been one of the most prime concerns for the different groups or stakeholders and it involves with controversial stories in economic development in the world. The role of small business in an economy has frequently been weakened and even misinterpreted. In the past, small businesses were believed to impede economic growth by attracting scarce resources from their larger counterparts (Audretsch, et al., 2000) 3 . However, the later part of this literature, it is clearly reveal the positive impact of SMEs as the SMEs are found in all sectors of the economy, they are dominant in trade followed by services (Hartog, J. 2005). ?? In a study about SME sector of Bangladesh Miah (2007) stated that SMEs are involved with the paucity of self-fund, sources of financing, modern technology; high rate of interest, irregular/inadequate supply of power, poor physical infrastructure and high transportation cost, poor information about market opportunities and requirements, inadequate availability of raw materials, lack of skilled technicians and workers, lack of research & development facilities, fierce competition, absence of effective and transparent legal system, difficulties in accessing technology, credit constraints, low access to business services, constraint of quality of human resources, low awareness, low lobbying capacity, rapid changes in policy environment. ?? Moreover, it is worth mentionable in the context of Bangladesh SME is characterized by low capitalization and limited assets, geographical diversity and high mortality, poor credit knowledge, very limited access to formal source of credit, cash intensity in transactions, very limited record keeping habit, poor financial disclosure on account of tax issues, high risk perception has led to high borrowing (Chowdhury 2007) . ?? Understanding the relationship between small businesses, economic growth and the incidence of poverty has been the interest of many researchers and there have been many attempts to establish statistical relationships between poverty rates and overall macroeconomic performance on the basis of aggregate some statistical techniques. But, still there has been limited works in Bangladesh at micro level to focus only the Small Size of Businesses and their contribution for the development of economy. So, in this paper it attempts to evaluate the performance of Small Size of Businesses (SSBs).

## III.

## 5 Objectives

The main objective of this paper is to evaluate the performance of Small Size of Businesses in Tangail district of Bangladesh. More specifically the objectives are:

? To assess the relationships among Average Growth of Profits, Savings and Investments of SSBs.

## 6 ? To assess empirically the relationships between

Average Growth of SSBs (Small Size of Businesses) and Employment Opportunity.

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## 7 ? To assess empirically the relationships between

Economic Development and Poverty Alleviation. ? To find out the major problems in SSBs and provide some recommendations against the problems at the end.

IV.

## 8 Methodology a) Sample Design

A total number of 200 structured questionnaires were delivered in 12 Thana's of Tangail district. Sample has been selected randomly. From all delivered questionnaire 100% respondents gave their feedback. The respondents completed the entire questionnaire; no missing values were found so all 200 responses has been selected for analysis. The Small Size of Businesses taken for the studies are Grocery Shop, Tea Stall, Retail and Wholesale Shop, Tangail Handloom Industries, Sweet Shop (Porabari Chomchom), Hardware Shop, Stationary, Jewelry, Furniture, Electronics, Book House etc.

## 9 b) Data Collection i. Primary Data Collection

A structured questionnaire was developed on the basis of some valuable indicators to which the respondents were asked to put the right mark against the dichotomous questions and asked to put the quantitative data in given spaces for five years from 2007 to 2011. At the end of each questionnaire it has blank space for mentioning the problems of doing small business and suggestions as well.

ii. Secondary Data Collection Secondary information has been collected from Ministry of Industries, SME foundation, Bangladesh Bureau of Statistics, Bangladesh Bank (BB), BSCIC, MIDAS, Financial Institutions and from other SME related organizations, Different Books, National and International Papers, Proceedings, Magazines etc.

indicators. The reason behind the evaluation of Small Size of Businesses (SSBs) as there is a few works has been done on performance evaluation of SMEs, especially on SSBs. Though it has a great significant to foster our economy and it plays a vital role to alleviate the rate of poverty by creating new opportunities for the unemployed to be employed. c) Data Processing & Analyzing Technique SPSS 14.0 and Excel have been used to process and analyze the data. Dependent and independent variables are analyzed by using correlation. It has been used to analyze the relationship among different variables. For the convenience of our study, it is considered 2007 as base year for calculating the average growth rate.

V.

## 10 Findings and Analysis

From the analysis it has been found about 34% entrepreneurs of Small Size of Businesses (SSBs) secured secondary school certificate and which is the maximum rate of educational qualification among the promoters. It has also been found that the graduates are not interested to promote this sector by involving themselves solely which reflects their poor participation in Small Size of Businesses (2.5%) due to the higher expectation of living standard. Earlier this contribution was near about 0%. Moreover, most of the entrepreneurs got their education from primary to higher secondary level of education. It is worth mentioning that very low degrees of illiterate promoters are doing their businesses at Tangail District.

The prospects of Small Size of Businesses in Tangail are flourishing though it suffers from many of its problems. Women are highly participated in various SMEs (especially in handloom industries). In this paper it is caught sighted that about 36% of entrepreneurs are women in Tangail. About 160 entrepreneurs out of 200 are habituated in savings from their profits and it shows an increasing trend of average savings from Tk.40955.00 (2007) to Tk.98572.25 (2011). From the analysis, the average profits of SSBs are growing from Tk. 130075.00 (2007) to Tk.195743 (2011). As a result of it, the growth rate of SSBs (in number) is increasing due to their fresh investment in new venture with the new hope of creating employment opportunities for the unemployed. And the average growth of investments is jumped in to 56% to 63.5% in the year of 2011. Huge flow of income, participation of talent, increasing local and foreign market demand, application of experience curve, financial assistance by Bangladesh Bank (BB) and other financial institutions, propensity to save money are the main reasons behind the positive trend of SSBs in Tangail since 2007. Table ?? shows the correlations among the average growth of profits, savings and investments of SSBs in Tangail District. The correlation matrix reveals that among the selected variables considered in this correlation matrix have significant relationships. So, the analysis indicates that all the considered variables have positive relationship among each other.

It's a decent sign for flourishing small size of businesses in Tangail district and new entrepreneurs will become more interested to start their journey along with their best effort to play a significant role in our local economy.

In three sector economy at macro level it known to us that the concern or group of concerns is always ready to invest their money from their savings through using the technique of portfolio management. As a result of it, the number of businesses is growing day to day. In this paper, it also supports this real theorem and from the Table ?? it reveals that there is a significant relationship between the average growth of small size of businesses and employment creation at the 0.01 level of significance under 2-tailed. It happens due to savings tendency, portfolio investment and seeking the maximum risk with optimum expectation of return by the entrepreneurs of SSBs.

With the passage of time the rate of poverty has been alleviated from Tangail district of Bangladesh due to the positive trend of economic development. As a part of the analysis it has been found in Table ?? there is a strongly positive relationship between economic development and poverty alleviation at the 0.01 level (2-tailed). Here, most of the entrepreneurs of this region believe that poverty or financial crisis may remove if there is the existence of individual economic development.

In addition, the prosperity of SSBs in this Tangail region has been generated the revenue of our government in terms of tax and it plays vital role for the economic development of our nation as a whole by contributing their social responsiveness.

## VI.

## 12 Problems

Although Small Scale Businesses are playing an important role in economic development, employment creation in Tangail district they are faced with several problems. The respondents were asked about their problems in operating SSBs revealed the following problems.

? Paucity of own fund is a major challenge in small scale businesses. They have to either borrow capital /fund personally or from different micro finance or financial institutions. This is a major problem for SSBs in Tangail. The survey reveals that among the respondents 87 percent strongly agreed that paucity of fund is a major barrier to SSBs in Tangail, 13 percent agreed while none of them were indifferent, disagreed or strongly disagreed in this regard. In Tangail the number of SSBs has increased. As a consequence, competition among them (SSBs) and SMEs has increased. Intense competitions among them have led to a problem that to survive they must compete and win. 55 percent of the respondents strongly agreed and 43 percent agreed that intense completion is one of the problems of Small Scale Businesses (SSBs) in Tangail district. 2 percent remained indifferent whereas none of them disagreed or strongly disagreed at this point. ? Since most of the owners are not graduates, they do not possess the knowledge about marketing product and retaining customers. 2 percent of the respondents strongly disagreed, 2 percent disagreed and 3 percent remained indifferent that poor marketing strategy in another problem to SSBs. Meanwhile, 49 percent of them agreed and 44 percent strongly agreed that poor marketing strategy is a major barrier to SSBs in Tangail district. ? Again, because majority of the graduates are not coming to SSBs, less qualified people are operating these business. They do not have sufficient knowledge and expertise about credit management.

In Tangail, credit management of SSBs is poor and not satisfactory. This also creates a barrier in the development of Small Scale Business because credit management is vital for businesses. 2 percent of the respondents strongly disagreed, 3 percent disagreed agreed and 5 percent remained indifferent in this connection while 44 percent agreed and 46 percent of them strongly agreed that poor credit management is a major problem for SSBs. ? Transportation facility is vital for every business enterprise. Products produced by the Small Scale Businesses (SSBs) must be transported to different part of the country and in the hands of consumers. This will increase revenue. For this purpose an efficient transportation network is essential. In Tangail, SSBs face the problem of transporting (delivering) their goods to the customers timely.

Poor transportation facility is the reason for this delay. Among the respondents 2 percent strongly disagreed and 7 percent disagreed that poor transpiration facility is barrier. While 41 percent agreed and 42 percent strongly agreed that poor transportation facility is a major barrier to SSBs in Tangail and 8 percent were indifferent.

## 13 Recommendations

To conquer the major problems and challenges faced by Small Scale Businesses (SSBs) some recommendations are put forward.

? Govt., NGOs and SMEF should come forward to provide financial support to SSBs so that they can meet their financing need. The government through its national banks can arrange for these types of loans especially for the SSBs. Besides, the government, NGOs and SMEF should strengthen their helping hand to these enterprises.

## 14 Conclusion

Small Scale Businesses (SSBs) are a vital player for the economic growth, poverty alleviation and a step towards industrialization of the developing countries like Bangladesh. SSBs are important for the country's economic growth, generation of employment and accelerated industrialization. It has positive correlation with growth; savings and industrialization. The SSBs is labor concentrated and can create more employment opportunities. For this it is recognized as a tool for poverty alleviation. It also fosters the growth of entrepreneurial skills and innovation. Along with poverty alleviation SSBs can increase cash flow in rural areas and it helps to reduce the urban migration. This will lead to enhance the standard of living in rural areas. SSBs performance in Bangladesh is found considerably below the level of international standard. The government of Bangladesh and NGOs has taken some steps to ensure the growth of SSBs but those are not enough. To shows more positive attitude towards this sector. Bangladesh government and NGOs should continue to provide more focuses on areas, such as arrangement of finance, provide training, developing infrastructure and transportation facilities, telecommunication facilities, legislation facilities, establish national quality policy etc. From the study and

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214 analysis it seems that for the economic development of Bangladesh SSBs can play an important role to gear up our economy toward development if it can recover most of the aforesaid problems. <sup>1</sup>

? Special loan facility should be introduced for SSBs in flexible terms at lower interest rate through public and private banks, Micro-finance and NGOs. Moreover, Lengthy process of availing fund should be shortened. Loan and advance procedures should be made simple and easy to understand by the owners of SSBs. ? Training facility should be arranged and given to increase their efficiency by both government institutions, NGOs and SMEF relating to Small business management, strategy, achieving eco-nomy of operation, reducing wastage, maintaining proper books of accounts and accounting systems. ? Special schemes can be offered to encourage more women entrepreneur of this area to come forward and set up new small scale businesses. ? Existing transportation facilities should be improved and developed for smooth supply of goods produced by the SSBs in different parts of the country and reach customers in due time. Govern-ment must take ample measures to ensure the uninterrupted supply of raw materials and goods produces by them. Infrastructural development is indispensable for the growth and expansion of this Small Scale Businesses (SSBs). ? Technological advancement, technological facilities should be made available to get these services at an affordable cost to SSBs. For this government institution and NGOs can arrange for installment system for purchasing this equipment. The Govern-ment can take programs to develop web pages exclusively for SSBs and an included SSBs database. It will decrease the hurdle to SSBs access to global market. ? Training should be given from time to time about business management, credit management, asse-ssing risk, marketing strategies by NGOs and Govt. Institution for increasing their skill and efficiency. ? VIII.

Figure 1:

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