


Constraints And Contingencies Of The Small Business: A Comparative Perspective

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ABSTRACT

Small businesses relative to the medium and large businesses tend to demonstrate culture (country) specific business practices. However, in spite of the recognized diversity of business practices, strong homogeneous tendencies and norms have been developing specially among the small businesses that operate in the global market place. These tendencies and norms offer unique opportunity for a comparative perspective. This paper is an attempt in this regard toward identifying the issues of constraints and challenges of the small business from a comparative perspective. A part of multi-country study, authors collected data in 2006 from 133 small businesses of India, and 112 small enterprises in Bangladesh. The findings provide a varying degree of supports for two illustrative hypotheses concerning issues, constraints and contingencies of small businesses in these two countries. The authors believe that the paper is likely to enhance empirical understanding of the small business from a comparative perspective.

INTRODUCTION

 This paper discusses small business issues from a comparative perspective. Empirical evidence from India and Bangladesh were used to demonstrate the similarity and differences of constraints and contingencies of the small business across national boundaries.

Small and medium size enterprises (SME) are regarded as the engine of economic growth in all economies of the world. Not only in the developing or the least developed countries (Wooldie and Adersua, 2004; Gerrad et. al, 2003; Hamilton and Dana, 2003) of the world, SMEs play a major role in developed economies. It accounts for 85% new job creation in the United States. However, the small business sector also has the highest birth as well as mortality rates across cultures. From a review of recent comparative literature on the small business, certain common issues of concerns may be identified: Morris et al, (2006) discuss the growth dilemma especially of female entrepreneurs. In another study, Morris et. al (2000) report about the lack of understanding of the business concepts by the historically disadvantaged South African owners/Managers. Madill et al. (2006) highlights the issue of access to debt financing; Tagoe, et al, (2005) examine the challenge of affordable credits to urban SMEs in Ghana; Mambula (2002) examines how the issue of collateral for lending to small business becomes an impediment for the growth of small business in Nigeria. Morris et. al (2002) discuss ethical dilemmas of the entrepreneurs. Hutchison (1999) explains how the issues of ownership and control affect the small business performance. Beck et. al, (2005) demonstrates financial and legal constraints to growth for the small, medium and large sizes based on the experiences of 54 countries. Heilbrunn (2004) examines the impact of gender on difficulties faced by the entrepreneurs. In addition, Amin and Banerjee (2006) highlight the gender and ethical issues confronting the small businesses in India. Spence (1999) and Enderle (2004) point out the constraints due to small size; Menzies et al.,(2004) discuss the availability of family encouragement, support, and assistance for small businesses in general and the female entrepreneurs in particular.

While differences in the economic development, the maturity of competitive market economy, and the political and cultural values may contribute to the differences in the constraints and contingencies of the small business in general and the behavioral outcomes of the entrepreneurs in particular, certain issues may be generalized irrespective of diverse economic, political and cultural values. For instance, conflict of interest, ethical norms, and the

norms of social responsibility such as “affirmative action” or “ADA compliance” are issues specific to the U.S. and these issues may not have any salience in the least developed countries with a fragile political infra-structure. As such, these important social issues may not be pertinent elsewhere even in a stable democracy such as India.

However, there is hardly any disagreement today with regard to the following profiles of the small business entrepreneurs across cultures: (a) entrepreneurs across cultures are generally ambitious individuals; (b) they are risk takers; (c) they are quick learners; and (d) are capable of multi-tasking. Consensus is also expected with regard to: (a) high birth and death rates (viz. a high infant mortality rate); (b) enterprises are likely to demonstrate similarity of birth and growth pains; (c) financing difficulty and the issue of access to credits/loans across cultures; (d) challenge of maintaining positive cash-flow; (e) the issue of globalization and the ever growing international and domestic competition (leading to price wars); (h) considerable homogenization of business practices (such as the use of credit cards; secure server; internet auctions etc.) especially of the electronic commerce across cultures; and finally, (f) the propensity of ethical compromises for survival at least at the initial growth stages of the small businesses.

Based on the above conceptual framework of entrepreneurial profile, practices and tendencies toward homogenization of the small business across cultures, this paper is an exploratory study regarding commonality of constraints and contingencies. Authors believe that the findings in this paper are likely to enhance the empirical understanding of the small business from a comparative perspective. The illustrative hypotheses to be tested in this regard are the following:

H₁: Irrespective of the cultural diversity, certain issues of constraints and contingencies of the small business tend to be similar.

Entrepreneurs of single proprietorship tend to behave differently than those under partnership and limited corporations. Research in small group dynamics suggests that individuals acting alone can take riskier decisions than a group. In fact, bigger the size of the group (making decision), more risk averse the decisions tend to be. The form of ownership in H₂ reflects the same idea. In addition, each sector (such as manufacturing or repair service) may face unique challenges. Therefore:

H₂: Certain constraints and contingencies of the small business across cultures tend to be associated with the type of ownership and the industry sector.

DATA AND METHOD:

Part of a multi-country/cultural study involving Bangladesh, India, and the USA, this paper reports findings from data collected in Bangladesh and India in 2006. A total of 133 entrepreneurs from West Bengal, India and 112 small businesses from Bangladesh were surveyed based on the willingness of the entrepreneurs to take part in the study. A structured interview with a standardized questionnaire instrument with 150 variables was administered. While the demographic variables such as the form of Ownership used categories, the variables representing constraints and contingencies used Likert type (1-5) “Strongly disagree” to “Strongly agree” scales.

Constraints and contingencies in this study are the pre-selected issues and the common aspects of practice that seem to have bearing on the small business performance. Entrepreneurs’ perceptions and ratings on these issues and aspects were sought in the prearranged interviews. A typical item of small business issue was: “high tax rate for the small business is a major issue” and the respondent (i.e. the selected entrepreneur) rated the statement on a 1-5 (strongly disagree to strongly agree scale). Similarly, a typical practice item was the following statement: “manipulation of weights and measures is a common practice in the small business. Respondents similarly rated these statements on a 1-5 (strongly disagree to strongly agree scale). Confidentiality of the responses was assured and the respondents were asked rate his/her sector based on their knowledge.

Demographic variables used in this paper include, Sector, representing: manufacturing, IT, export processing, service, retail, repair, medical/clinical, and others. The second demographic variable used in this paper is the form of

ownership (used for hypothesis H₂). This variable ranged from a single proprietorship to partnership, to S-corporation, and to all other types.

From SPSS-13 sub routines, descriptive statistics, cross tabulation, and comparison of means were used to ascertain similarities and differences of issues between the countries.

FINDINGS

Findings are reported in the tables below. Table-1 reports the rating of the aspects of relevant business sectors. The first two items of issues refer to intense domestic and international competition. All other items on the table similarly are to be regarded as issues as well. Mean scores for both India followed by mean scores of Bangladesh are presented. Standard deviations for the respective Means for both India and Bangladesh are also presented in the next column. The last column shows t-values indicating the differences in Means (a negative value indicates lower mean score of the Indian sample) and their associated levels of significance (denoted by *). It appears that the standard deviation scores for respective variables are by and large similar and they seem to show a pattern of normal or near normal distribution. However, since some of the reported standard deviations show identifiable differences in deviation scores between the Indian and Bangladeshi samples respectively, an uneven variance per pair of Means was assumed in the calculation through the relevant SPSS sub routine.

Table-1

Issues	Mean (India/Bangladesh)	SD (I/B)	t-value
Domestic Competition	3.10/3.97	1.49/1.951	-5.381***
International Competition	2.51/2.86	1.48/1.23	-1.972*
Loan/Credit Availability	3.73/3.85	0.97/0.96	-0.958
Cash Flow	3.91/4.11	0.98/0.85	-1.609
Inadequate Gov. Assistance	3.64/3.85	0.92/1.01	-1.599
Market Access	3.49/3.82	1.14/1.11	-2.219*
Demand Fluctuations	3.67/3.68	1.09/1.14	-0.010
Inadequate Professional Assistance	3.53/3.45	1.06/1.01	0.580
Finding Qualified Employees	3.59/3.78	1.01/1.12	-1.323
High Tax Rate	3.53/3.60	1.14/1.27	-0.446
High Rate of Business Failure	3.73/3.85	1.21/1.12	-0.827
Price War	3.70/3.99	1.31/1.04	-1.848
Imports from overseas	2.24/3.73	1.50/1.27	-7.833***

(1=Strongly Disagree; 5= Strongly Agree); *** significant at .000 level; * significant at .05 level

Generally, a mean score of 2 or less should indicate a perceived disagreement with the statement; a mean score of 3.0 could indicate indifference; and a score of above 3 or more should mean perceived agreement tendencies; and finally a score of 4 and above may be interpreted as leaning toward a strong agreement. The most significant finding on the table is the mean difference between Indian and Bangladeshi samples respectively with regard to the issue of imports from overseas (i.e. the last item on the table). The issue of imported goods from overseas shows a mean score of 2.24 for India. Such a low score may imply that the import from the overseas is not yet an issue for the small businesses in India. However, a mean score of 3.73 on the same variable may imply that it has already become an important issue (at least in certain sectors of the small business) in Bangladesh. The issue of international competition (i.e. the second item from the top on the table) may just mirror the findings on imports with a significant negative t-value. More liberal trade policy in Bangladesh and her general trade deficit vis-a-vis a trade surplus in India may explain the situation. Access to market is an issue in both countries with high mean scores, but the negative t-value indicates a higher perceived market barrier for Bangladeshi entrepreneurs. With a smaller market but a more open economy, domestic competition seems to be more intense in Bangladesh relative to the market in India. The t-value of -5.381 for the variable is substantial and significant (at .000 level). Availability of credit/loan, the issue of maintaining positive cash flow, the level of government assistance, high business failure rate, demand fluctuations,

price wars, finding qualified employees and all other items on the table also seem to be important issues (as indicated by their respective means) in both countries and therefore the mean scores on the variables do not show significant differences.

Table-2 below reports behavioral issues of the entrepreneurs in India and Bangladesh. All the items on the list are important (as indicated by their respective mean scores of over 3.0) issues in both countries. These variables also show a tendency of near normal distribution (as indicated by the respective standard deviations of near 1.0). Similar to the table 1, an uneven variance were assumed while comparing the respective mean scores. There are striking similarities with regard to bribery variables and incidental costs (a phenomenon most common in the least developed countries where outlawed groups or political factions illegally impose dues or collect “chada” of unspecified amount from the businesses). Table-2 also shows significant differences between India and Bangladesh in the practices of sales and income tax evasions; manipulations of weights and measures; high interest lending; and political affiliation contributing business success. On all these variables, India has higher mean scores reflecting higher propensities of the issues in India relative to Bangladesh.

Table-2
Differences in Means on the Issues of Business Practices

Issues	Mean (India/Bangladesh)	SD (I/B)	t-value
Price Gouging and cheating customers is common	3.41/3.23	.92/.98	1.169
Sales Tax evasion is common	3.52/3.09	.87/1.0	3.127**
Income Tax evasion is common	3.50/3.04	.91/1.0	3.268**
Counterfeiting is a major issue	3.22/2.27	.98/97	-0.35
Not honoring warranty is a major issue	3.53/3.70	.85/.72	-1.377
Manipulation of weights and measures	3.20/2.87	.99/.98	2.232*
Bribery is a common to win government bids	3.36/3.26	.94/.97	0.708
Bribery is a common expediter in Gov agencies	3.49/3.29	.86/.96	1.465
Bribery is a common inducer for business loans	3.22/3.32	.98/.95	-0.645
Abnormally high interest loan from money lenders	3.30/3.00	.98/1.0	1.969*
Incidental costs (chadabazi) is a threat	3.60/3.63	.81/.78	-0.302
Political affiliation contributes to business success	3.77/3.32	.64/.96	3.614**
Influence in government contributes to success	3.70/3.59	.72/.82	0.989

**significant at .005 level; * significant at .05 level

Thus the findings on tables 1-2 provide support to H₁: H₁: Irrespective of the cultural diversity, certain issues of constraints and contingencies of the small business tend to be similar. Tables 3-4 report findings related to H₂: Certain constraints and contingencies of the small business tend to be associated with the type of ownership and the industry sector across cultures. As reported on table-3, Income tax evasion seems to be associated with the industry sector. A significant X² value (of 51.352) implies that the issue is more prominent in some sectors than others. The respondents from the retail and service sectors respectively indicated the issue at a higher frequency than others. Manipulation of weights and measures also shows significant association with the Industry sector (X²=51.274). The respondents in the retail sector reported the issue at a greater frequency than others.

Availability of professional assistance also shows significant association (X²=30.91) with the Industry sector. The respondents from IT and Service sectors reported the issue at a greater frequency than the other sectors.

Also based on Table-3, price gouging and three bribery related variables are found to be associated with the type of Ownership. Single proprietorship followed by partnership selected the issue at a higher frequency. Briberies also seem to be associated with the business Sectors. The type of ownership (single proprietorship generally) is also found to be significantly associated with insufficient credit (loan) availability (X²=50.253); insufficient government assistance (X²=21.78); market access (X²=21.41); political affiliation (X²=23.93); and the high interest lenders ((X²=31.214). It may be noted here that only the variables with significant X² values are reported on this table. Table-4 uses the similar statistical analysis and reports significant findings from the sample of small businesses in Bangladesh.

**Table-3
(India)**

Measures of Association (X^2) Between Selected Practices and the Demographic Variables

Practice Issue	Demographic Variable	X²
Income Tax Evasion	Industry Sector	51.352*
Manipulation of Weights and Measures	Industry Sector	51.274**
Professional Assistance	Industry Sector	30.91*
Price Gouging	Type of Ownership	27.30**
Bribery as common to win Gov bids	Type of Ownership	22.25*
	Industry Sector	42.486*
Bribery as common expediter in Gov	Type of Ownership	28.146**
	Industry Sector	43.408*
Bribery as common means to get loans	Type of Ownership	24.76*
	Industry Sector	39.956*
Insufficient Credit availability	Type of Ownership	50.253***
Insufficient Government assistance	Type of Ownership	21.780*
Market Access	Type of Ownership	21.414*
Political affiliation contributes to success	Type of Ownership	23.93*
Abnormal and high interest loan from money lenders	Type of Ownership	31.214**

*significant at .05 level; ** significant at .00 level; *** significant at .000 level

Access to professional assistance shows association with the industry Sector ($X^2=25.99$). Similar to the Indian sample, the services and the IT sectors show greater frequencies of this issue. It is noticeable that many of the issues that show significant associations in the Indian sample likewise do not show significant associations in the Bangladeshi sample. Again some of the issues that demonstrated significant associations in Bangladeshi sample did not show similarly significant associations in the Indian sample. Beside the access to professional assistance, the issue of political affiliation to success ($X^2=28.1$) was the other issue common to both samples. Bribery to win government bids although not a significant issue (at .05 level), the issue however seems to be salient as indicated by its near significant X^2 value (18.98) with ownership.

**Table-4
(Bangladesh)**

Measures of Association (X^2) Between Selected Practices and the Demographic Variables

Issues	Demographic Variables	X²
Access to Professional Assistance	Sector	25.99*
Price War	Sector	31.85*
Honoring Warranty	Ownership	25.04*
Bribery as common to win Gov bids	Ownership	18.98
Political affiliation contributes to success	Ownership	28.1**
Influence in Government Bureaucracy	Ownership	21.51*
Demand Fluctuations	Ownership	21.56*

Price war seems to be a significant ($X^2=25.99$) factor for the retail and service sectors of Bangladesh. The booming modeling and ad industry along with the emergence of numerous private satellite television channels and a larger body of print media may have contributed to this issue more in Bangladesh than in West Bengal, India. While the influence in government bureaucracy, and demand fluctuations were important issues in Bangladesh but they did not show associations neither with ownership nor with the industry Sectors in India.

Based on the above findings, it may be asserted that the hypothesis H₂: Certain constraints and contingencies of the small business tend to be associated with the type of ownership and the industry sector across cultures received considerable empirical support.

CONCLUSION

Comparative studies of the small business by and large are limited to ethnographic or country specific studies. This paper aims at empirical understanding of the small business from a truly comparative perspective. Two illustrative hypotheses of an exploratory nature were offered based on the conceptual understanding of the issues and constraints of the small business. Data collected from India (West Bengal) and Bangladesh facilitated comparative analyses. Comparison between India and Bangladesh with regard to a number of conceptualized issues and constraints proved useful. Both of the hypotheses were supported by the findings. In addition, empirical support for 13 generic issues and 13 behavioral issues from samples of India and Bangladesh provide a solid framework for further country specific studies toward further comparisons. It may be stated here that these issues when emerge statistically significant, work as constraints to small businesses. On the contrary, when an issue is not statistically significant in a country, it may serve as contingency factor for the small business in that country. For instance, while the small business's access to loan (credit or financing) is a significant issue for all least developed/developing countries including India, it did not emerge as a significant issue for the entrepreneurs in Bangladesh.

This paper recognizes Ownership form and the industry Sector as two variables leading to the variation of significant issues. While common issues were identified with regard to Ownership and industry Sectors, the findings also list country specific differences. In other words, these two categorical variables seem to be associated with more issues in India than in Bangladesh.

As a part of the multi-country study, this paper provides insights and encouragement that a truly comparative perspective leading to generalized constraints and contingencies may be undertaken. Authors' future research agenda includes (a) further analysis of the listed issues with other additional demographic variables; (b) testing the findings with data collected from a sample of small businesses in the United States. This later study should provide the necessary distinctions between developing and developed countries toward empirical theory building on homogenization of business practices so far as the small business is concerned.

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