Effect of Entrepreneur and Firm Characteristics on the Business Success of Small and Medium Enterprises (SMEs) in Bangladesh

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Abstract
This study examines the effect of characteristics of entrepreneur and characteristics of the firm on the business success of Small and Medium Enterprises in Bangladesh. The study is based on survey methodology through a questionnaire administered on the owners and employees of small firms. Data are analyzed using statistical package for social sciences (SPSS). Two hypotheses are proposed and tested. The characteristic of entrepreneur is found to be a significant factor for business success of SMEs in Bangladesh. However, the firm characteristics are found not to be significant factor on the business success of SMEs in Bangladesh. The results of the analysis show that only one of the demographic factors which is duration of organization operated has significant effect toward business success of SMEs. SMEs that are operated longer period have been more successful in comparison to those who have been in operation for a shorter period. In addition to this, independent sample t-test shows that gender plays a significant role on business success of SMEs in Bangladesh. This study has implications for entrepreneurs and policy makers.

Keywords: Business Success, SMEs, Entrepreneur and firm characteristics, Bangladesh

1. Introduction
Research into small and medium sized enterprises (SMEs) has grown during the last decade. A huge majority of firms worldwide are SMEs, and they play a significant role in the economy. Consequently, the performance of the SME sector is closely associated with the performance of the nation. In Bangladesh, SMEs account for a large proportion of the total establishments in various sectors. The secret of firm success has long fascinated people, but most of the studies have focused on large companies. However, as we know, some firms succeed and others fail. In Bangladesh, despite the fact that some SMEs have been growing and are successful, some of others have been decline or stagnant. What factors affect business success among SMEs? This study aims to find out whether firms’ characteristic and entrepreneurs’ characteristic affect the business success of SMEs in Bangladesh.

Previous studies dealing with the conditions of successful business have focused on large companies rather than SMEs. However, changes in the environment cause more uncertainty in SMEs than in large companies. Their
resources for acquiring information about the market and changing the course of the enterprise are more limited. The response to environmental changes is different in SMEs than in large companies (e.g. Chen & Hambrick 1995). Large firms may even exit from one of its business areas, but this is not usually possible in a single-business firm. The options for responding are limited by the firms’ resources and strategic choices as well as by the opportunities offered by the industry and location. Those ways may also differ between the development stages of the firm. The role and contribution of SMEs differ from industries to industries and from countries to countries. Similar to other businesses, SMEs also face miscellaneous problems which in some instances may affect their profitability and growth. In order to cope with the constant rapid changes in business environment, having a well-versed good business manager is vital to the organization. Given the above scenario, the relevant and the interesting issue for researcher is to consider, at this stage, would be factors to ensure the success of the SMEs sector in Bangladesh.

SMEs stimulate private ownership and entrepreneurial skills, are flexible and can adapt quickly to changing market demand and supply situations, generate employment, help diversify economic activity, and make a significant contribution to exports and trade. Even in the developed market economies SMEs account for a large share in output and employment (UNECE, 2003). Bangladesh has thus far failed to maximize the benefits derived from the SME sector, which promises and needs to play a pivotal role in promoting and sustaining the industrial as well as overall economic growth (Ahmed M. U., 2003). The failure can be attributed to various reforms and trade liberalization measures that have squeezed the sphere of Government’s activity in business. Consequently, the private sector has to lead the economy in a dynamic growth path. Most of the previous studies dealing with the conditions of successful business have focused on large companies rather than SMEs (i.e., Ghosh and Kwan, 1996; Kauranen, 1996 and Pelham, 2000). However, changes in the environment cause more uncertainty in SMEs than in large companies. Their resources for acquiring information about the market and changing the course of the enterprise are more limited. The response to environmental changes is different in SMEs than in large companies. Large firms may even exit from one of its business areas, but this is not usually possible in a single-business firm. The options for responding are limited by the firms’ resources and strategic choices as well as by the opportunities offered by the industry and location. Those ways may also differ between the development stages of the firm. SMEs have long been believed to be important in supporting economics development within a country (Mazzarol, Volery, Doss, & Thein, 1999). One of the important roles of SMEs in this context includes poverty alleviation through job creation. Thai SMEs are increasingly seen as creator of new jobs (Swierczek & Ha, 2003) and Vietnamese SMEs employ 64% of industrial workforce. Therefore findings on SMEs in Bangladesh will help the policymakers of Bangladesh in particular and will also help other developing countries to countries. Similar to other businesses, SMEs also face miscellaneous problems which in some instances may affect their profitability and growth. In order to cope with the constant rapid changes in business environment, having a well-versed good business manager is vital to the organization. Given the above scenario, the relevant and the interesting issue for researcher is to consider, at this stage, would be factors to ensure the success of the SMEs sector in Bangladesh.

2. Literature review

The word enterprise has been used in a range of contexts and meanings (Bridge, O’Neill & Cromie 2003). Salminen (2000) describes an enterprise as a controlled system consisting of a detector, a selector and an effector. The detector is the function by which a system acquires information about its environment, which is then used as the basis of the selection of a behavioral response by the selector. Finally, the behavior is executed by the effector. The measurement system of an enterprise gathers information about the changes in both the environment and the performance of the enterprise. This information is then used together with the values and the preferences of the enterprise and its management to produce decisions about the required actions. As a result, the outputs of the enterprise – the products, the services, the operational performance and the financial performance - are changed.

Firm performance refers to the firm’s success in the market, which may have different outcomes. Firm performance is a focal phenomenon in business studies. However, it is also a complex and multidimensional phenomenon. Performance can be characterized as the firm’s ability to create acceptable outcomes and actions.

Success, in general, relates to the achievement of goals and objectives in whatever sector of human life. In business life, success is a key term in the field of management, although it is not always explicitly stated. Success and failure can be interpreted as measures of good or indifferent management. In business studies, the concept of success is often used to refer to a firm’s financial performance. However, there is no universally accepted definition of success, and business success has been interpreted in many ways (Foley & Green 1989). There are at least two important dimensions of success: 1) financial vs. other success; and 2) short- vs. long-term success. Hence, success can have different forms, e.g. survival, profit; return on investment, sales growth, number of employed, happiness, reputation, and so on. In other words, success can be seen to have different meanings by different people. In spite of these differences, people generally seem to have a similar idea of the phenomenon, i.e. of what kind of business is successful.
2.1 Contribution of SMEs in the National Economy of Bangladesh

Any precise quantitative estimate of the importance of SMEs in Bangladesh economy is precluded by non-availability of comprehensive statistical information about these industries at the national level. BSCIC estimates suggest that there are currently 55,916 small industries and 511,612 cottage industries excluding handlooms. Including handlooms, the number of cottage units shoots up to 600,000 units indicating numerical abundance of small and cottage industries (SCIs) in Bangladesh. The most recent private sector survey estimates the contribution of the micro, small, and medium enterprises (MSMEs) is 20-25% of GDP. Quoting informal Planning Commission estimates, the SEDF puts the number of medium enterprises (undefined) to be around 20,000 and that of SCIs to be between 100,000 to 150,000. This wide variation in the BSCIC and Planning Commission estimates of the number of SMEs might be due to at least two reasons: (a) different definitions of SMEs and (b) different coverage of SME families. There is an urgent need for adopting and using a uniform set of definitions for SMEs by all government agencies to help formulation of pro-active SME promotion policies. Regardless of the correct magnitude, SMEs undoubtedly play a very important role in the economy of Bangladesh in terms of output, employment, and private sector activities (Ahmed, 2003). They are quite predominant in the industrial structure of Bangladesh comprising over 90% of all industrial units. Together, the various categories of SMEs are reported to contribute between 80-85% of industrial employment and 23% of total civilian employment (SEDF, 2003). However, serious controversies surround their relative contribution to Bangladesh’s industrial output due to paucity of reliable information and different methods used to estimate the magnitude. The most commonly quoted figure by different sources (ADB, World Bank, Planning Commission and BIDS) relating to value added contributions of the SMEs is seen to vary between 45-50% of the total manufacturing value added.

A significant proportion of SME activities may be in the informal sector, for which there is no dependable information. Besides, the survey estimates SME contribution based on an approach that requires the use of data on profits earned by enterprises. However, it is very difficult to gather and measure profits of establishments. Therefore, the aforementioned contribution of SMEs may be underestimated. Further discussions on the role of SMEs in Bangladesh’s economy can be found in the writing of Ahmed, M.U., (2003). The robustness of SME contributions to employment generation is a common phenomenon in most developing countries in that the magnitude varies between 70% to 95% in Africa and 40% to 70% in the countries of the Asia-Pacific region (Ahmed, M.U., 1999). While SMEs are characteristically highly diverse and heterogeneous, their traditional dominance is in a few industrial sub-sectors such as food, textiles and light engineering and wood, cane and bamboo products. According to SEDF sources quoted from ADB (2003), food and textile units including garments account for over 60% of the registered SMEs. Various recent studies (Ahmed, M.U. 2001; ADB 2001, USAID 2001) show that SMEs have undergone significant structural changes in terms of product composition, degree of capitalization and market penetration in order to adjust to changes in technology, market demand and market access brought by globalization and market liberalization.

2.2 Characteristic of Entrepreneur

Characteristic of entrepreneur played an important role on ensuring the business success in SMEs. Characteristic of entrepreneur referred to demographic characteristic, individual characteristic, personal traits, entrepreneur orientation, and entrepreneur readiness. Several previous studies found that demographic characteristics, such as age and gender, and individual background, e.g. education and former work experience, had an impact on entrepreneurial intention and endeavor, personal qualities and traits, such as self-confidence and perseverance, entrepreneurial orientation, e.g. autonomy, innovativeness, risk taking, pro-activeness, competitive aggressiveness, and motivation, entrepreneurial readiness in this study refers to self-efficacy.

**Demographic Characteristics.** Reynolds et al. (2000) found that individuals ranging from 25 to 44 years were the most entrepreneurially active. Finding from another study in India by Sinha (1996) disclosed that successful entrepreneur were relatively younger in age. In their study on Internet café entrepreneurs in Indonesia, Kristiansen, Furuholt, & Wahid (2003) found a significant correlation between age of the entrepreneur and business success. The older (>25 years old) entrepreneurs were more successful than the younger ones. Mazzarol et al. (1999) found that female were generally less likely to be founders of new business than male. Similarly, Kolvereid (1996) found that males had significantly higher entrepreneurial intentions than females. Kolvereid (1996) found that individuals with prior entrepreneurial experience had significantly higher entrepreneurial intentions than those without such experience. Conversely, Mazzarol, et al. (1999) found that respondents with previous government employment experience were less likely to be successful founders of small-businesses.
**Individual Characteristics.** According to Cragg & King (1988); Rutherford & Oswald (2000) small business success has often been classified into three categories of antecedents: the individual characteristics of the owner-manager, firm characteristics and environmental characteristics. The individual characteristics include attributes like the age, education, managerial know-how, industry experience and social skills of the owner/manager. A research by Charney and Libecap (2000) found that entrepreneurship education produces self-sufficient enterprising individuals. Furthermore, they found that entrepreneurship education increases the formation of new ventures, the likelihood of self-employment, the likelihood of developing new products, and the likelihood of self-employed graduates owning a high-technology business. Also, the study revealed that entrepreneurship education of employee increases the sales growth rates of emerging firms and graduates’ assets.

Similarly, Sinha (1996) who analyzed the educational background of the entrepreneur revealed that 72% of the successful entrepreneurs who had a minimum level of technical qualification, whereas most (67%) of the unsuccessful entrepreneurs did not have any technical background. She summed up that entrepreneurs with business and technical educational background are in a better position to appreciate and analyze hard reality and deal with it intuitively, which seems to play a critical role in entrepreneurial effectiveness.

**Personal Traits.** The personal characteristics of the owner-manager have been under increasing interest. Some attempts have been made to explain business success or failure in terms of personality traits of the entrepreneur (Glancey, Greig & Pettigrew 1998; Stewart Jr., Watson, Carland & Carland 1998). Nooteboom (1994) highlighted that one of the most important characteristics of the small business is its diversity. The sources that produce diversity lie in the variance of the backgrounds, motives and goals of the entrepreneurs. According to Yusuf (1995) personal qualities and traits, such as self-confidence and perseverance, have been suggested to affect firm success. In their study of new small firms, Duchesneau and Gartner (1990) found that lead entrepreneurs in successful firms were more likely to have been raised by entrepreneurial parents, to have had a broader business experience and more prior startup experience, and to believe that they had less control of their success in business, than unsuccessful entrepreneurs. They also found that lead entrepreneurs in successful firms worked long hours, had a personal investment in the firm, and were good communicators. Moreover, successful firms were those initiated with ambitious goals, and lead entrepreneurs had a clear and broad business idea (Duchesneau & Gartner 1990). Firms with more than one shareholder when it was set up were significantly more likely to survive (Westhead et al. 1995). Education and prior experience in business have been seen as critical success factors for small firms (Yusuf 1995; Wijewardena & Cooray 1996).

**Entrepreneurial Orientation.** Some researchers have argued that success is driven by the entrepreneurial orientation (cf. Covin & Slevin 1991; Lumpkin & Dess 1996; Wiklund & Shepherd 2004). According to Lumpkin and Dess (2001), the concept of entrepreneurial orientation consists of five dimensions: autonomy, innovativeness, risk taking, proactiveness, and competitive aggressiveness. Autonomy is defined as an independent action by an individual or a team aimed at bringing forth a business concept or a vision, and carrying it through to completion. Innovativeness refers to the willingness to support creativity and experimentation. Risk taking means a tendency to take bold actions, such as venturing into unknown new markets. Proactiveness is an opportunity-seeking and forward-looking perspective. The fifth dimension, competitive aggressiveness, reflects the intensity of a firm’s efforts to outperform the industry rivals (Lumpkin & Dess 2001).

High performing, entrepreneurial-oriented firms are successful in exploiting business opportunities. Before opportunities can be exploited, they must be recognized. According to de Koning and Brown (2001), the entrepreneurial orientation is positively associated with opportunity alertness. Shane (2000) has discovered that people recognized the opportunities related to the information and knowledge, they already possess. He also has noticed that entrepreneurs can and will discover opportunities through recognition rather than through search. Glancey et al. (1998) have introduced a model of entrepreneurial dynamics, revised from that suggested by Cragg and King (1988). The personal attributes of the entrepreneur determine the motivation and objectives, which in turn determine the firm’s performance. The process is mediated through the markets in which the entrepreneur operates and the managerial practices which he or she employs. The dynamic element is incorporated by the possibility that the business success may reinforce or revise the entrepreneur’s motivation and objectives. The possibility of feedback on the performance and learning from experience as an important form of entrepreneurial human capital are encompassed in the model.

Some authors (Chell 1985; Hofer & Sandberg 1987) have criticized the small business research for trying to establish a direct relation between the personal characteristics of the entrepreneurs and the success or failure of their firms. E.g. Birley and Westhead (1994) could not find any empirical support for the strategies of picking the winners solely on the basis of the characteristics of the owner-manager and the business start-up reasons.
Nooteboom (1994) continues that those characteristics do not determine the outcomes directly. They are in interaction with contingency factors from the context in which the firm and the entrepreneur operate and with the strategies they take.

In addition to the various characteristics of an entrepreneur, it is necessary to recognize also the team with which she or he works. The values and goals affect the preferences. With the context/structure it is necessary to consider not only items of technology and market, but also institutions. Life cycle refers to the stage of the development of the product or the market in which the firm is involved and the developmental stage of the firm. Under conduct are included the strategy, the organizational structure with procedure and routines, the choice of product, the search referring to the acquisition of the knowledge and the use of the external networks to compensate for the internal lack of expertise. (Nooteboom, 1994).

**Entrepreneurial Readiness.** Entrepreneurial readiness in this study refers to self-efficacy. The term self-efficacy, derived from Bandura’s (1977) social learning theory, refers to a person’s belief in his or her capability to perform a given task. According to Ryan (1970), self-perception plays an important role in the development of intention. Intentions and their underlying attitudes are perception-based, which should mean that they are learned and can be continuously influenced, and not fixed by personality traits formed in early childhood. Accordingly, they will vary across historical and cultural contexts. Cromie (2000) stated that self-efficacy affects a person’s beliefs regarding whether or not certain goals may be attained. The attitude provides the foundation for human motivation (Pajares, 2002) and personal accomplishment: unless people believe that their actions can produce the outcomes they desire, they have little incentive to act or to persevere in the face of adversities (Pajares, 2002). Bandura (1977) pointed to the fact that ‘people’s level of motivation, affective status and actions are based more on what they believe than on what is objectively true’. An individual’s perception of self-efficacy has a strong influence on how he or she will act and how the available knowledge and skills will be utilized. Consequently, people behave according to beliefs about their capabilities rather than on real facts based on their competence and capabilities. In their study among Norwegian and Indonesian students, Kristiansen and Indarti (2004) found a significant correlation between self-efficacy and entrepreneurial intention. In their study of Internet café entrepreneurs in Indonesia, Kristiansen, Furuholt, and Wahid (2003) also found that entrepreneurial readiness was linked significantly to business success.

2.3 **Characteristic of SMEs**

SMEs characteristics refer to the original of enterprise, length time in operation, size of enterprise, and capital sources which play important role on the business success.

**Origin of enterprise.** According to Smallbone, Leig, and North (1995), origin of enterprise in small firms, where ownership and management were typically combined in one or more individuals and future goals for the business might be determined as much by personal lifestyle and family factors as by commercial considerations. Further, they concluded that one characteristic which did distinguish the best performing firms from other firms in the study was their commitment to growth. Also, they found another characteristic that did distinguish high growth firms from others was their propensity to acquire other businesses.

**Length time.** Length time in operation may be associated with learning curve. Old players most probably have learned much from their experiences than have done by new comers. Kristiansen, Furuholt, & Wahid (2003) found that length time in operation was significantly linked to business success. Moussavi (1988) in his unpublished PhD thesis stated that experience on the part of the owner/manager factor contributing to the survival of businesses. In their study of new small firms, Duchesneau and Gartner (1990) found that lead entrepreneurs in successful firms were more likely to have been raised by entrepreneurial parents, to have had a broader business experience and more prior startup experience, and to believe that they had less control of their success in business, than unsuccessful entrepreneurs. They also found that lead entrepreneurs in successful firms worked long hours, had a personal investment in the firm, and were good communicators. Moreover, successful firms were those initiated with ambitious goals, and lead entrepreneurs had a clear and broad business idea (Duchesneau & Gartner 1990). Firms with more than one shareholder when it was set up were significantly more likely to survive (Westhead et al. 1995). Education and prior experience in business have been seen as critical success factors for small firms (Yusuf 1995; Wijewardena & Cooray 1996).

**Size of enterprise.** Size of enterprise reflects how large an enterprise in employment terms. McMahon (2001) found that enterprise size significantly linked to better business performance. Larger enterprises were found to have a higher level of success.

**Capital source.** In a study in Australia, McMahon (2001) discovered that greater dependence upon external finance associated with better business growth. In a more recent study, in Indonesia, Kristiansen, Furuholt, &
Wahid (2003) found that financial flexibility was significantly correlated to business success. The SMEs that took advantage of family and third-party investment experienced higher level of success.

3. Research methodology

A sample of 300 employees from SMEs located in the Dhaka, Narayanganj, Khulna and Chittagong were chosen for the purpose of this study. This geographical area has been chosen as they represent a large number of SMEs in Bangladesh. The population frame was drawn from the list obtained from the Bangladesh Small and Cottage Industries Corporation (BSCIC). Respondents represent the four broad categories of SMEs namely; food and allied products, textiles and apparels, engineering, and fabricated metal products. Each SME represented with one respondent only. The questionnaires were distributed based on the sample ratio scale down statistics to ensure it is able to represent the sample population obtained from the BSCIC. Data collection was accomplished by mail and personal delivery. The sampled companies were contacted in advance by telephone. The population of the study consisted of front-line employees and middle management levels of SMEs in those areas mentioned earlier. A self-designed questionnaire was used to gather the research data. The questionnaire was divided into three parts. The first section comprised of demographic characteristic and profile information of the respondents. The respondents were asked to rank statements on contextual condition related to each success factor in the second section. This section consisted of 10 questions which were intended to measure entrepreneur and firm characteristics using 5-point Likert scale anchored by strongly agree to strongly disagree. In the third section, the respondents were asked to score the importance of perceived of business success. Five-point Likert scale anchored by strongly agree and strongly disagree were applied to measure the perceived success. A total 300 sets of questionnaires were distributed among managers of SMEs, only 95 participants were responded. A total of 95 were received and 89 were selected to ensure sampling match the ratio of percentage of working gender, age group, and level of management they are involved.

Based on the literature review and research objectives, the following hypotheses were derived:

H1 There is a positive relationship between firm characteristics and business success in SMEs.

H2 There is a positive relationship between entrepreneurs’ characteristics and business success in SMEs.

4. Survey results

A total of 300 sets of questionnaires were distributed to selected respondents, of which only 95 questionnaires were collected back; the response rate is 31.46% (i.e. 95/300). However only 89 questionnaires were used for analysis, three questionnaires was rejected due to the respondents were not from the management level.

Descriptive analysis shows that out of 89 respondents, there were more male than female respondents. The results show that 82% of the respondents are male and the remaining 18% are female. The majority of respondents, a total of 44 (49.4%) were aged between 31 to 40 years old, 23.6% each (21 each) were aged between 21 to 30 and 41 to 50 years old, 3.4% (3) were above 50 years old, while 0% of respondents were from age less than 20 years old. There are zero respondent from Primary School, 5 (5.6%) were from Secondary School, 20 (22.5%) were from Certificate/Diploma, 40 (44.9%) were from Bachelor’s Degree, 24 (27%) were from Master’s Degree, and no respondent from PhD/DBA. Two respondents having working experience less than 2 years (2.2%), 10 (11.2%) respondents between 2 to 5 years, 29 (32.6%) respondents were between 6 to 10 years, 33 (37.1%) respondents were between 10 to 20 years, and 15 (16.9%) respondents were more than 20 years. On the other hand for the Duration of Organization Operated, 18 (20.2%) were less than 5 years, 21 (23.6%) were between 5 to 10 years, 17 (19.1%) were between 10 to 15 years, 7 (7.9%) were between 15 to 20 years, and 26 (29.2%) were more than 20 years. Finally textiles and apparels have the highest number of respondents (32.6%), followed by engineering (26.9%).

Reliability analysis was used to measure both consistency and internal stability of data. Table 1 presents the results of reliability analysis.

The Cronbach’s Alpha measuring the inter-item consistency and reliability measure the coefficient that reflects how well items in a set are positively correlated to one another. Cronbach’s Alpha that are less than 0.6 are generally considered to be poor, those in the 0.7 range to be acceptable, and those over 0.8 to be good; the closer the reliability coefficient gets to 1.0, the better. Cronbach’s Alpha for six independent variables and the dependent variable were above .70. Therefore data that were collected for this research were considered to be internally stable and consistent.
4.1 Effect of Firm characteristic and entrepreneurs characteristics on the Business Success of SMEs

Multiple Regression Analysis was used to determine whether the two independent variables, which are SMEs characteristic and entrepreneurs’ characteristic have any significant effect toward Business Success of SMEs in Bangladesh. The results are shown in Table 2.

The findings of the study revealed that Entrepreneurs characteristics are significantly related to the Business Success of SMEs in Bangladesh while the Characteristics of SMEs were found to have no significant effect on the Business Success of SMEs in Bangladesh.

The overall results of the regression analysis shows that this model is well constructed and it is well represented as reflected in the variables selected. Table 2, the summary table on regression analysis indicated that the R-square is 21.3 percent. This means that the two variables which include SMEs characteristic, entrepreneurs’ characteristics can explain 21.3 percent variations in the business success of SMEs in Bangladesh.

The Durbin-Watson statistic shows that the serial correlation of residuals is 1.513, the value falls within the acceptance range (1.5 to 2.5). This means that there is no auto correlation problem in the data. The Condition Index, Variance Inflation Factors (VIF) and tolerance all fall within the acceptance range (Condition index = 27.233, VIF = 1 - 10, tolerance = 0.1 – 1.0). This means that there is no multi-collinearity problem in the regression model used for this study. The histogram indicates that data used in this study is normally distributed and F-value is found to be significant at 1% significance level (sig. F = .000). This concludes that the regression model used in this study is adequate or in other words, the model was fit.

4.2 Effect of Demographic Factors toward Business Success of SMEs

One-Way ANOVA was used to find out whether age, education level, working experience and duration of organization operated have any significant effect on business success in SMEs. This technique examined the variability of the observation within each group as well as the availability between the group means. Therefore, it was conducted to find out whether the various groups are different in respect of business success. The results of the analysis show that only one of the demographic factors which are duration of organization operated has significant effect toward business success of SMEs. Duncan statistics shows that SMEs that are operated longer period have been more successful in compare to those who have been in operation for a shorter period. In addition to this independent sample t-test was used to find out whether gender plays any significant role in business success and found out that gender does play significant role in Business Success of SMEs in Bangladesh.

5. Discussion

The purpose of this study was to find out whether firm characteristic and entrepreneurs’ characteristics affect the business success in small and medium-sized enterprises in Bangladesh. A major implication for the findings is that these findings will be able to give better understanding for entrepreneurs and business owners in addressing the factors which will significantly affect the business success in SME. To achieve business success, many factors should be optimal simultaneously, since SMEs success is a multidimensional phenomenon. Both firm-internal and firm-external factors affect the firm success. Entrepreneurs in successful SMEs and those who are failed SMEs thought that pretty much the same factors are the most important for business success, and held the same views on the factors to be avoided in business. The research has looked into two factors namely; characteristic of SMEs and entrepreneurs’ characteristic.

Early review indicates that SMEs play a vital role in the nation’s economy and wellbeing. The largest concentration of SMEs, in terms of numbers, can be found in the textile and apparel sector, followed by food and beverages, and metals and metal products. Despite these governmental programs SMEs still face many challenges, domestic and external, which could hinder their resilience and competitiveness. They include: i) Ongoing difficulties in obtaining funds from financial institutions and the government. Usually the interest charges by financial institutions on loans borrowed by SMEs are high, and this is compounded by a lack of financial transparency by SMEs, ii) A lack of human capital is the most significant challenge facing SMEs. It is often too expensive for SMEs to employ a professional and competent workforce, iii) A high level of bureaucracy in government agencies hinders efficient SME business development operations, iv) A low level of research and development expenditure and v) A substantial orientation towards the domestic rather than international market place.

Having identified some of the challenges facing SMEs in Bangladesh, some strategies are recommended that the government, and its agencies responsible for SMEs (such as BSCIC among many others), and SMEs themselves may adopt. The government should play a leading role in educating SME practitioners on the incentives
available to them and how to access them. These incentives should be delivered through an establishment that really cares for the success and sustainability of SMEs in the country.

Delivering government incentives through many channels, including profit making businesses such as commercial banks, creates confusion among SMEs and opens up the opportunity of a third party (for example a consultant or agent) to gain undue advantage by acting as a mediator between SMEs and the government. This makes access to such incentives cumbersome and expensive for small businesses. The government, therefore, should avoid delivering incentives through too many agencies (especially for-profit making ones), and also dismantle the bureaucratic procedures that cause inefficiency in government initiatives and projects. The government should increase the number of centers that offer consultancy and expert services to SMEs, and engage more experts in different areas (for example IT, financial planning, marketing planning etc). It should ensure that SMEs get these incentives at a lower cost and in a more effective way. The efficiency and effectiveness of the delivery system of incentives are vital to their utilization.

6. Conclusion

We attempted to find out whether entrepreneurs’ characteristics and firm characteristics affect the Business Success of SMEs in Bangladesh and found out that entrepreneurs’ characteristics have significant effect on Business Success of SMEs in Bangladesh. This implies that small-business owners must have a missionary zeal about their products or services, be willing to be personally involved in it, be willing to stick with the business, be able to define the market clearly and pay attention to details. Bangladeshi SMEs should ensure they have built a strong social network and good government relationship in order to ensure their business success. Business success is usually the outcome of the way of doing business and cooperation. Inter-firm cooperation, consultation, performance measurement, and flexibility may play an important role in business success. Inter-firm cooperation contributes positively to gaining organizational legitimacy and to developing a desirable marketplace reputation. Cooperation also may enable the small firm to improve its strategic position, focus on its core business, enter international markets, reduce transaction costs, learn new skills, and cope positively with rapid technological changes. Successful firms were likely to spend more time communicating with partners, customers, suppliers, employees. The proportion of SMEs led by an entrepreneurial team was high among successful SMEs and low among failed SMEs, so fostering the formation of entrepreneurial teams in starting up businesses is recommended. It is suggested that future researchers should increase the sample size and explore into agro-based SMEs.

References


Table 1. Results of Reliability Analysis

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<th>Variables</th>
<th>Number of Items</th>
<th>Items Dropped</th>
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<td>SMEs Characteristic</td>
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<td>-</td>
<td>0.864</td>
</tr>
<tr>
<td>Entrepreneurs’ Characteristics</td>
<td>5</td>
<td>-</td>
<td>0.721</td>
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<tr>
<td>Perceived of Business Success</td>
<td>8</td>
<td>-</td>
<td>0.911</td>
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Table 2. Results of Regression Analysis on the Business Success of SMEs

<table>
<thead>
<tr>
<th>Factors</th>
<th>Beta</th>
<th>T-Ratio</th>
<th>Sig. t</th>
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</thead>
<tbody>
<tr>
<td>SMEs Characteristic</td>
<td>0.046</td>
<td>0.312</td>
<td>0.756</td>
</tr>
<tr>
<td>Entrepreneurs characteristics</td>
<td>0.218</td>
<td>1.561</td>
<td>0.028</td>
</tr>
</tbody>
</table>

R square = 0.213
Durbin-Watson = 1.513
F = 11.234
Sig. F = 0.000
Condition Index = 27.233