

Small Business and Socio-Economic Development

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Abstract : *The paper tries to highlight the small business sector as the most potential source for socio economic development of a country through analysis of its capability of: generating employment opportunities both for men and women particularly for women, promoting entrepreneurship by unleashing the creative energy of entrepreneurs and providing means of livelihood for much of the non agricultural population. Nurturing of small business ensures social justice through alleviating mass poverty and income inequality by providing scope for upward mobility among otherwise uprooted population. The paper also delves into how small business is defined differently in various countries along with some theoretical definition for small business. In favour of the argument for small business to be a better vehicle for accelerating socio economic development, the researcher has endeavored to highlight how small business sector contributes to economic growth by promoting the growth of other sectors through offering flexibility and also through backward and forward linkage. The paper also endeavors to justify small business as an agent for fostering innovation, reducing dependency on other nations. In support of all the arguments findings of various studies conducted by researchers both in developed and developing countries have been presented.*

1. Introduction

Small business is a field that is often mentioned in development discourse. Since it covers a wide range of activities, its concept and definition varies enormously from one place to another, from one country to another and from one author to another. One study on small business sector has identified more than 50 different definitions in 75 countries.¹ However publications in the field of small business do not usually make any distinction between different types of small businesses, be they manufacturing, service or retail, perhaps because the differences between them is almost non-existent as far as the characteristics of the enterprises and entrepreneurs as well as their pattern of functioning are concerned.

Development through industrialization can be achieved in one of two distinct ways, which have little direct connection with each other i.e. (a) promotion of large scale industries often through investment of state capital and foreign affiliation; or (b) development of both small and medium scale enterprises mostly in private sector. But due to scarcity of capital and availability of abundant supply of labor, developing countries generally tend to put greater emphasis on the promotion of labor-intensive small and medium enterprises as against capital-intensive large

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¹ ILO, Small Enterprise Development: Policies and Programmes, Management Development Series No.14, Geneva, 1977, p.8

industries, in their efforts to accelerate economic growth. Promotions of small enterprises are relatively less capital and skill intensive and their management is not complex. These are likely to create more employment opportunity and production outlet which in turn would generate a process of accelerated socio-economic development in diversified sectors.

Small and micro enterprises constitute a vital economic force because of their ability to effectively respond to domestic demand arising from improved household income, while providing employment opportunities, especially to small farm households, landless labors and women. The development of this sector generally facilitates decentralization and the dispersal of economic activities, which is a desired outcome for a developing country with large population, scarce resource and widespread income poverty and disparity. They will serve a developing economy not only by their output of goods but also by functioning as a nursery of entrepreneurial and managerial talent.²

2. Definition of Small Business in Various Countries

Although small business sector employs well over half the industrial labor force in most developing countries yet remarkably little is known about its composition and characteristics.³ Most definitions of small business (SB) appear to be governed by the purpose for which it is defined and the stage of socio economic development, and the interest of the perceiver. Different criteria like the upper limit of fixed assets, net works/value added; number of persons employed, sales volume, total number of customers, maximum energy consumed, type of energy used, have been combined to set the point at which an enterprise ceases to be small. In a developing country an enterprise employing 50 people may be "large" but the same may be "small" in a developed country. Such differences are due to differences in factor endowment and stage of technological development.

Except Japan and U.S.A no country defines and regulates small firms as a whole through laws and ordinances. Japan is the only country that has a clear-cut definition for each sector of small business in terms of number of regular employees and amount of capital employed⁴.

² Ranjit Kumar Chowdhury, Financing of Small Scale Industries in Bangladesh, unpublished Ph.D. Thesis, Punjab University, Chandigarh, 1984, p.4.

³ David Morawetz, "Employment Implications of Industrialization in Developing Countries: A Survey", Economic Journal, September 1974 cited in Seiji Naya, Small-Scale Industries in Asian Economic Development: Problem and Prospects, Economic Office Report, series No.24, ADB February 1984, p.1

⁴ Ahmed, Momtaz Uddin The Financing of Small Scale Industries: A Study of Bangladesh and Japan, University of Dhaka, Dhaka, September 1987, p.5

In Japan, small business is the one that satisfies the following criteria :⁵

Industries	Capital Size (million yen)	Number of employees
Manufacturing and Others	300 or less	300 or less
Wholesale	100 or less	100 or less
Retail	50 or less	50 or less
Services		100 or less

"Small Business" in U.S.A denotes the size of firms comparable to that of "Small and Medium Enterprises" in Japan⁶.

In Canada small business is defined differently by different agencies: According to Canadian Industry Profiles, a small business is defined as one with revenue between \$30,000 and \$5 million. Statistics Canada defines small businesses as firms with less than 500 employees and less than \$50 million in annual revenues. Where as Canadian Council of Ministers of the Environment defines small business as one with less than 50 employees⁷. The Canadian Federation of Independent Business defined a small business as "a firm which is independently owned and operated and not dominant in its field of endeavor".⁸ This is the general definition of small business, which is accompanied with some qualifications such as "independently owned, corporative and not dominant in its field of operation".

In India small scale industries have been defined as "undertakings having an investment in fixed assets in plant and machinery whether held on ownership term or by lease or by hire-purchase not exceeding Rs.35 lakhs".⁹ Further under the small-scale industries in India, micro industries, small-scale service establishments and ancillary units have been defined separately¹⁰.

In Nepal an industrial unit having fixed capital investment including land and building of Rs. 200,000 to Rs. 700,000 qualifies as a cottage industry

⁵ Montaz Uddin Ahmed, The Financing of Small Scale Industries: A Study of Bangladesh and Japan, University of Dhaka, Dhaka, September 1987, p.5 and also http://www.chusho.meti.go.jp/sme_english/outline/02/01.html

⁶ Masami Takeuchi, "Role of Small and Medium Industry in Economic Development of Developing Countries - An International Comparison", in Evolution of Policy for Changing Conditions of Small and Medium Enterprises in Japan, Report on the Project for Fiscal Year 1978, The Center for Small Business Development in Asia, March 1979, p.16.

⁷ http://www.enterprisetoronto.com/index.cfm?linkid=99&linktype=mainlink&content_id=222&fromurl=content&faq_id=162&action=viewItem&faqTopicId=49

⁸ Raymond W.Y. Kao, Small-Business Management: A Strategic Emphasis, Toronto: Halt, Rinehart and Winston, Canada, 1981, pp.6-7.

⁹ P.Gulati, Social Studies and Entrepreneurship with Latest Revised Question Bank, Third Edition, Tata McGraw-Hill Publishing Co. Ltd., New Delhi, 1992, p.71.

¹⁰ Ibid., p. 71.

while all industrial enterprises with fixed assets including land and building of less than Rs. 200,000 fall in the informal or household category of industries.¹¹

The Government of Bangladesh, like many authorities, defined small business (SB) sector more or less arbitrarily in terms of the volume of labor or amount of investment in fixed assets depending on its purpose i.e. statistical purpose or for establishing eligibility for government assistance. In Bangladesh the definition of small business underwent many changes over time depending on the need for the investment in fixed assets. In the fifties the Bangladesh Small and Cottage Industries Corporation (BSCIC) defined small business as those establishments whose investment in fixed assets did not exceed Tk.0.25 million. In the early sixties, the ceiling was raised to Tk.0.5 million and subsequently the ceiling was again raised to Tk.1.0 million excluding the value of land. This definition continued till the liberation. After independence the definition of small-scale industry underwent a further change in terms of the ceiling for fixed assets. In the private sector financing, the ceiling of fixed investment for the BSCIC processed small enterprises was raised from Tk.1.0 million to Tk.2.5 million.¹²

With the introduction of the Industrial Policy 1986, the ceiling for fixed investment in case of small enterprises was further revised and accordingly small scale enterprise was redefined as a business enterprise engaged either in manufacturing process or service activity, with a maximum investment of Tk.15 million, including investment in machinery and equipment not exceeding Tk.10 million (excluding taxes and duties).

In 1991 small business was redefined as an industrial undertaking engaged in manufacturing processes or service activities whose total fixed investment is limited to a maximum of Tk.30 million. Whereas cottage industry was defined as an industrial unit run by family members, either full or part-time, which has a total investment of up to Tk.500,000.¹³ But for survey purpose small and cottage industry was defined in a different way by the Government of Bangladesh. In 1982, BSCIC in its survey report on small industries in Bangladesh defined small industry as a privately owned manufacturing unit which uses hydro or thermal power, diesel oil or gas for any production process or for industrial services rendered, employing 10 or more but less than 20 workers; or employs 20 or more workers but does not use any electricity and whose investment in fixed assets does not exceed Tk. 2.5 million.¹⁴

¹¹ Q.K. Ahmad and Chandni Joshi, *Role of Women in Rural Industries*, Vol. III; Nepal, Final Report, Center on Integrated Rural Development for Asia and the Pacific CIRDAP, June 1988, p.64

¹² Bangladesh Small and Cottage Industries Corporation (BSCIC), *Survey Report on Small Industries of Bangladesh*, Dhaka, 1982, p.2

¹³ BBS, GOB, *Statistics 1991*

¹⁴ BSCIC, 1982, *Op. cit.*, pp.1-2

Cottage industry which is a part of small industry was defined by BSCIC in its survey report of 1983 as an industry which is carried on wholly or mainly by the members of a family either as a whole time or as a part time occupation employing a maximum of 10 persons (if electricity is used) and a maximum of 20 persons if electricity is not used.¹⁵

In the Industrial Policy 1999, small business was defined as an enterprise, which employs fewer than fifty workers with a fixed capital of less than Tk. 100 million. Cottage industry was defined as household base units operated mainly with family labor.¹⁶ Industrial Policy 2005 defines small business as an enterprise in which the value/replacement cost of durable resources other than land and factory buildings is under Tk.15 million. Cottage industry is defined as an industry in which members of the family are engaged on part-time or full-time basis in production and service-oriented activities of the enterprises¹⁷. Central bank of Bangladesh defines small business as an enterprise that employs less than 50 persons and has an investment of less than Tk 250 million¹⁸.

For national accounting and other management purpose the AEIS in its survey report of 2002-2003 defines small business both in terms of sectors in which the enterprises belong and number of people employed therein. In case of manufacturing enterprises small business have been defined as those which do not engage more than nine persons whereas in case of trading and service sector small business have been defined as those which employ one to nineteen persons. All household sectors are treated as small irrespective of number of persons employed.¹⁹

2.1 Theoretical Definition of Small Business

Carland et.al defined small business in line with the "Canadian Federation of Independent Business" but denied small business's ability to engage in new marketing and innovation. According to Carland et. al "small business enterprise does not engage in any new marketing and innovation practice".²⁰

Barnett and Mackness defined small firms as those, which are characterized by: lack of specialist services to advice management; the necessity for senior people to get involved in all aspects of running the business; usually only one or two people are involved in significant

¹⁵ Bangladesh Small and Cottage Industries Corporation (BSCIC), Cottage Industries of Bangladesh - A Survey, Dhaka, October, 1983, p.2

¹⁶ Ministry of industries, Industrial Policy 1999, GOB, p.6

¹⁷ Ministry of industries, Industrial Policy 2005, GOB

¹⁸ http://www.thefinancialexpress-bd.com/search_index.php?page=detail_news&news_id=4988

¹⁹ The Annual Establishment and Institutional Survey (AEIS), 2002-2003, BBS, Ministry of Planning, Govt. of the People's Republic of Bangladesh.

²⁰ Seiji Naya, February 1984, Op. cit. . p.1

decision making; and lack of time for the senior men to think about the development of the firm.²¹

Some argues that the least objectionable way to define "small business" would be to sort out firms according to the number of employees or persons engaged.²² Keeping this in mind Jacob Levitsky defined small business as those enterprises, which employ no more than 5-10 workers, including the owner and family. They engage in non-corporate income generation and use less than US\$10,000 equivalent of total capital; starting capital is often less than US\$100 and rarely exceeds US dollar one thousand.²³ Others defined small enterprises as establishments with ten to forty nine persons whereas cottage and household industries as establishments with one to nine persons, thus excluding cottage or household units from small business enterprises. But in most developing countries no statistics on the size distribution of firms is available, numerical criterion for defining small business has many limitations, because small business enterprises cannot be adequately defined in terms of employment, assets, turnover or output.

Keeping these in mind small business enterprises may be defined in terms of some characteristics, making them significantly different from large and medium scale enterprises. Enterprises which are managed by its owners in a personalized way, have a relatively small share of its market, operate independent of any other enterprises and the owner managers are free from outside control in taking their principal decisions may be categorized as small business. Thus family business engaging three or four family members, cottage industry, partnerships, sole proprietorship, micro enterprises and self employed workers in the informal sector engaged in manufacturing, service and petty trading type of business should come within the purview of small business.

3. Contribution of Small Business in the Socio-Economic Development

Small business, which involves relatively simple technology and small investment and is capable of generating larger employment opportunities, has a vital role to play in the socio-economic development of a country. Studies on small business reveals that in addition to the wide spread consensus on the great potential of small enterprises in generation of employment opportunities and in providing the means of livelihood for much of the non-agricultural population; it also leads to innovation, formulation of capital, and equitable growth of national income and the development of entrepreneurs. It also creates employment and wealth for

²¹ T.R. Barnett and J.R. Mackness, "An Action Research Study of Small Firm Management", *Journal of Applied System Analysis*, 1983, p.63

²² Masami Takeuchi, March, 1979, *Op. cit.*, p.17

²³ Jacob Levitsky, Summary Report, World Conference on Micro-enterprises, Washington D.C., 6-9th June, 1988, p.12. (Mimeo)

people of modest means. As such it constitutes a precious national asset. Another very positive feature of small firms is that they owe little to government and make few demands out of it.²⁴

A number of factors such as: (b) the capacity to provide a minimum standard of living, (c) the scope for upward mobility, (d) the optimum use of indigenous material that would otherwise be wasted and (e) capacity to unleashing the creative energy of the entrepreneurs makes small business a potential source for socio economic development of a country.

3.1 Generation of Employment

Small enterprises with new innovative products demonstrate a higher rate of growth, job creation and make other contributions to the economy in terms of overall growth.²⁵ Perhaps the major argument for small business enterprises rests on their potential to generate employment opportunities at a relatively low investment cost. Small firms create greater employment because unlike large firms, they use more labor-intensive techniques. This view has become increasingly popular in recent years, and is propagated by many international agencies such as the World Bank.²⁶

In the development economics it has been found that the small-scale enterprises have provided most, if not all, of the net new jobs created over the last decade.²⁷ Even in highly developed economies such as the US or Japan, most new employment is created by smaller firms, not by large companies or by the government.²⁸ This argument is supported by a study conducted by the Massachusetts Institute of Technology revealing that during 1977-1982 small business (employing twenty or fewer people) created two-thirds of all the new jobs in USA.²⁹

In USA during the period 1980-82, 1.7 million jobs were lost in firms with over 100 employees whereas 2.6 million new jobs were created in

²⁴ Reazul Islam et. al (ed.), *Small Firms Informally Financed: Studies from Bangladesh*, University Press Ltd., Dhaka 1995, p.36

²⁵ *Small Business and Innovation*, Washington D.C., U.S. Senate Select Committee on Small Business, 1978 cited in Wayne S. Brown, "Commentary on Entrepreneurship Education" in Calvin A. Kent et. al (ed), *Encyclopedia of Entrepreneurship*, Englewood Cliffs, New Jersey, Prentice-Hall Inc, 1982, p.347.

²⁶ Isa Baud, "Industrial Subcontracting: The Effect of the Putting out System on Poor Working Women in India", in Andre'a Menefee Singh and Anita Kelles Viitanen (ed), *Invisible Hands: Women in Home-based Production*, (Women and the Household in Asia), Vol.1 Sage Publication, New Delhi, 1987, p.69.

²⁷ Keneth Loucks, *Training Entrepreneurs for Small Business Creation: Lessons from Experience*, MD Series No.26, ILO, Geneva, 1988/ Reproduced by Mohan Primlani for Oxford and IBH Publishing Co. New Delhi, 1991 p.1

²⁸ Mr. C. Willonghby, Resident Representative, World Bank, Inaugural Speech, Aug. 4-5, 1992, Workshop on Informal Financing held in Dhaka, Bangladesh, quoted in Reazul Islam et. al (ed.) 1995, Op. cit., p.211.

²⁹ Frederick C. Klein, "Some Firms Fight Ills of Bigness by Keeping Employee Units Small", *The Wall Street Journal*, February 5, 1982, p.1.

firms with fewer than 100 employees, accounting for 43 percent of the net increase in jobs.³⁰ Virtually all of the new jobs created in the United States in the past decade are in businesses with fewer than 100 employees. And most of that growth (67%) occurred in the new high growth small ventures, which represent only 7 percent of all businesses in USA.³¹ According to small business administration, in 1982, small enterprises with 100 or fewer employees in USA accounted for 34 percent of employment and provided more than half the jobs in construction and in the wholesale and retail trade".³² According to the Ministry of Public Management, Home Affairs, Posts and telecommunications, Establishment and Enterprise Census of Japan (2001) establishments with fewer than 100 employees accounted for 70.2 percent of the total employment in the non-primary sectors in 2001. In the United Kingdom 20.5 percent of manufacturing jobs in 1983 were in firms with 20 to 99 employees and there were over 2.1 million self-employed persons in 1981.³³ In France 2.12 million people are employed in enterprises employing 100 persons, which accounts for 43 percent of overall sales. In Italy 40 percent of the total work force (some 22 million in 1978) is employed in firms with less than 100 employees and small enterprises account for over one-third of the country's exports.³⁴

Statistics on India, Columbia, Ghana, Indonesia and Nigeria show that small and micro enterprises are the largest employers accounting for 70-88 percent of employment in manufacturing sector.³⁵

In India small scale industries sector accounts for about 45 percent of the total industrial production, 30 percent of the country's exports and two-thirds of the total employment in the manufacturing sector of the country³⁶ and the exponential growth rate is significantly high at 16.16 percent.³⁷

In Nepal cottage industries account for 60 percent of the total employment in the organized industrial sector—59 percent of the total male and 64 percent of the total female employment.³⁸

³⁰ International Labour Organization (ILO), *The Promotion of Small and Medium Sized Enterprises*, International Labour Conference, 72nd Session, Report VI, Geneva, 1986, p.13

³¹ David L. Birch, *The Rise and Fall of Everybody, Inc.* December 1987, p.19, cited in David J. Rachman et.al (ed), *Business Today*, Sixth edition, McGraw-Hill Publishing Company, New York, 1990, p.61

³² ILO, Report VI, 1986, Op. cit. , p. 5.

³³ ILO, Report VI, 1986, Op. cit. , p .5.

³⁴ Ibid. , p.6.

³⁵ Ibid. , p.7

³⁶ Umesh C. Patnaik, "Status of Small Business in Developing Countries", in M. Gangadhara Rao (eds), *Entrepreneurship and Entrepreneurial Development*, Kaniska Publishing House, Delhi, 1992, p.127.

³⁷ Ibid p.130.

³⁸ Q.K. Ahmad and Chandni Joshi, June 1988,op.cit p.64

In UK small firms play a key role in creating jobs and driving economic reforms - the 3.7 million SME's employ 12 million people and contribute 1 trillion per year to the economy. In Europe, a massive 65 million people depend on this thriving sector for employment.³⁹

This is also borne out by similar findings of the Canadian Federation of Independent Business, indicating that between 1975 and 1982 the net total job creation in Canada occurred only in the category of enterprises employing less than 50 employees.⁴⁰ All these revealed that expansion and development of large industries is not a solution to the unemployment, underemployment and income inequality problem in developing countries. This led some policy makers and the multilateral as well as bilateral donor agencies to understand this lacunae in policy implementation, so that in 1980's they "advocated that vigorous promotion of small business, capable of utilizing local resources, technology and manpower can play a much needed catalytic role in the transformation of developing economy".⁴¹

In a small business, employment is created with limited investment of resources. For example, in India to create one work place in a small-scale unit, one requires Rs.7,000. It is almost eight times less the amount required in the large sector.⁴² No such information based on overall small business sector is readily available in Bangladesh. However, AEIS report (2002-2003) reveals that in case of small manufacturing concern average employment cost per unit is Tk. 39,740 whereas in case of cottage industries it is Tk. 23,232.⁴³ Employment cost per person per annum in case of small manufacturing sector is Tk. 13,295 and in case of cottage industry it is only Tk. 7,855. In case of Bangladesh small business sector employs 5447191 persons in total. In manufacturing sector representation of female employee is only 6.54% whereas in household sector 20.48% are female. From 1995-96 to 2002-03 total employment in SB has increased by 18.92%. The report further suggests that one main element of policy on the expansion of employment should be the conscious promotion of small-scale industries.⁴⁴

The widespread consensus on the great potential of small enterprises in development of job creation warrants special attention in both developed and developing countries. The great potential of small business in employment generation; the failure of large and public enterprises to

³⁹ Speech of Nigel Griffiths MP, Small Firms and Europe, Fédération of Small Business Annual Conference, Friday, March 22, 2002

⁴⁰ ILO, Report VI, 1986, Op. cit., p.14.

⁴¹ Nazma Ara Hussain, "Some Thoughts on Promotion of Entrepreneurship in Small Business in Bangladesh" The Journal of Asiatic Society, Vol.39, No.1, June 1994, p.136.

⁴² P. Gulati, Social Studies and Entrepreneurship with Latest Revised Question Bank, Third Edition, Tata McGraw-Hill Publishing Company Limited, New Delhi, 1992, p.69.

⁴³ The Annual Establishment & Institutional Survey (AEIS), 2002-2003, op.cit.

⁴⁴ Ibid

create new job opportunities and slow down of the rate of growth of employment opportunities in the government agencies and other organizations demand the growth and development of small business sector.

3.1.1 Generates Employment Opportunities for Women

Small Business enables the general population, women in particular to acquire a greater economic independence through employment and self-employment.⁴⁵

The jobs created by small business in developing countries differ significantly from those created by big enterprises in several key respects. For example: (a) significant share of the jobs in small business roughly 25 percent is part time, (b) these tend to be filled by employees, who are either younger or older than the average big company employees, (c) on an average, employees in small business need to have less formal education than their counterparts in large companies.⁴⁶

Since many women of developing countries have less formal education than their male counterparts and need to look after their households, small business can become an important element in their empowerment due to its flexibility and need for less or no formal education.

By hiring women workers who do not quite fit the corporate model, small business serves as an important safety net for the women of developing countries. This argument is also supported by the following statistics revealing that small business is an important source of livelihood for women;

(a) A survey in four regions of Honduras shows that women own about 61 percent of all the small enterprises and employ nearly 50 percent of all the workers.

(b) A survey of small enterprises in rural Guatemala indicates that women contribute 50 percent of the work force in textiles, 17 percent in leather works, 47 percent in food processing and baking and 65 percent in commercial services.⁴⁷

The role of women as entrepreneurs in the very small enterprise sector of developing countries is another factor that argues in favor of promoting the sector. One of the significant findings of the Sierra Leone Survey is that over 80 percent of the owners of tie dye establishments are women.⁴⁸

⁴⁵ World Bank, *Employment and Development of Small Enterprise*, Sector Policy Paper, Washington DC, February 1978.

⁴⁶ Ibid

⁴⁷ ILO, Report -VI, 1986, Op. cit., p. 10.

⁴⁸ E. clenta, *The Economics of Gars (tie-dye) Industry in Sierra Leone*, African Rural Economy Working Paper No.26, East Lansing, Michigan State University, 1978, also cited in the ILO, Report-VI, 1986, Op. cit., p.10.

In Britain women represent 25 percent of all the self employed persons. In France, they now represent 21 percent and in Jamaica, the number of men and women entrepreneurs is about equal.⁴⁹

The experience of the Grameen Bank also shows that small business activities are important as a source of livelihood for the poor women in Bangladesh. The proportion of women entrepreneurs among the Grameen Bank's creditors in different activities is about 94 percent.

All these suggest that promotion of small business and development of women entrepreneurship will increase female participation in economic activity and will thereby improve their status in society through increasing their income.

3.2 Provides More Job Satisfaction

The small enterprises allow the individual artisan to retain a pride in his/her work by not reducing him/her to an operator on the assembly line; at the same time it also assures him/her the benefits of modern technology through improved tools and processes that are suitable to him/her and which he/she can use with confidence. It is in this sense that small industry development can provide more job satisfaction and can play a crucial role in modernizing the stagnant rural economy of the developing countries.⁵⁰

3.3 Fosters Innovation and Reduces Dependency

Small business contributes to economic growth in an important way by fostering innovation, imagination and entrepreneurship. "Often creative and resourceful entrepreneurs in small business tend to be mavericks as they push back the frontiers of knowledge. Ideas are their stock in trade".⁵¹ It is the small business entrepreneurs who developed the Polaroid camera and the citizens band radio and also some of the PCs. The results of investigation by many researchers suggest "much of the innovation and invention leading to the creation of industries for future growth has emerged from and was initiated by small business sector".⁵² "A study of 121 industries in USA found that small firms or individual investors produced 40 percent of the new products, given the fact that small companies spend less than 5 percent of the nation's research and development money".⁵³

⁴⁹ Editorial, "Women Entrepreneurs and Gender Bias", The Bangladesh Observer, 22nd January 1996

⁵⁰ Dr. Ram K. Vepa, "Small Industry Development - Challenges of the Eighties", SEDME, Vol. VII, No.3, September 1980, Hyderabad, India, p. 197.

⁵¹ Ricky W. Griffin and Ronald J. Ebert, Business, Second Edition, Prentice-Hall, Englewood Cliffs, New Jersey, 1991, p. 141.

⁵² Kenneth Loucks, 1988, Reprinted in 1991, Op. cit., p. 1

⁵³ Steven Solomon, Small Business USA, Crown, New York, 1986, pp. 74-75

Small business relies on domestic resources that may otherwise not have been drawn in the development process. It also evolves intermediate technology by copying, adapting and imitating obsolete technologies. Because development of small business leads to utilization of local resources, technology and manpower, it helps to gradually reduce dependence on other countries and helps to develop local infrastructures - one of the main conditions for national development.

3.4 Offers Flexibility and Contributes to Industrialization

Small enterprises may be started much more quickly and easily than large enterprises and can be started as part time activities. "Another element facilitating the establishment of small firms is that the technologies or processes used are often relatively simple".⁵⁴

In terms of product development, small business enterprises often have an edge over large business enterprises because they can react more quickly to customers' satisfaction, are extremely flexible and ready to change not only operations but also strategy. In addition to producing new products and creating jobs, small business may play an important role in the operation of large enterprises, acting as distributors, servicing agents, suppliers and sub-contractors. Sub-contracting not only ensures the marketing of small industry products but also helps the large enterprise to concentrate on the main task of large scale manufacturing operation leaving the other tasks to the sub-contractors, get the benefit of technological change in production process, reduce the cost of production and minimize business risk⁵⁵.

Small enterprises in all developed countries play an indispensable role in the development of modern industries, particularly in engineering and electronics, where they act as complementary to the large-scale sector. A substantial portion of industrial production originates in small and medium sector in India.⁵⁶ Thus small business can contribute to the industrialization of Third World countries by spreading industrial production and employment over a wide area than can be done by large firms only with concentrated forms of production.⁵⁷ Subcontracting between the large companies and small business also generate much needed new employment and is expected to provide a greater scope for improving conditions in the informal sector.

⁵⁴ Reazul Islam et. al (ed.), *Small Firms Informally Financed: Studies from Bangladesh*, University Press Ltd., Dhaka 1995, p.36

⁵⁵ Isa Baud, "Industrial Subcontracting: The Effect of the Putting out System on Poor Working Women in India", in Andre'a Menefee Singh and Anita Kelles Viitanen (ed), *Invisible Hands: Women in Home-based Production, (Women and the Household in Asia)*, Vol.1 Sage Publication, New Delhi, 1987, p.69.

⁵⁶ S.K. Srivastava, "Leadership Style in Large and Small Scale Industries", *Journal of Business Administration*, Vol.21, No.1 & 2, January and April 1995, p. 92.

⁵⁷ Isa Baud, in Andrea Menefee Singh and Anita Kelles-Viitanen (ed), 1987, Op. cit., p.69.

Some of the large companies in developed countries have based their business strategy on the use of small suppliers. Liz Claiborne, one of the leading firms in the fashion industry in USA has no factory. All of its garments are made on contract by outside suppliers. This gives Liz Claiborne the flexibility to change its designs quickly - an important competitive edge in the fickle world of fashion.⁵⁸

Subcontracting by small firms can be especially useful to larger developing countries such as India and Brazil, falling within the category of "newly industrializing countries" as they are less limited by the narrowness of the local market, lack of skills, technology and know-how of indigenous firms than smaller countries.⁵⁹ Subcontracting by small firms can also be useful to Bangladesh, a densely populated country.

3.4.1 Helps Growth of Other Sectors

Small enterprises are apt to promote the growth of other sectors particularly agriculture through production linkages. For example, there may be backward linkages from the small business sector in the form of demand from this sector for output of agricultural sector and there may be forward linkages where output of this sector may serve as inputs to agricultural sector. Small manufacturing enterprises in rural areas provide backward linkages by processing agricultural products through such activities as dairy products, oil making, grain processing, tobacco processing, wood processing, leather processing. Small business sector in rural Bangladesh has a very high backward linkage effect in that its intermediate consumption accounts for about 74 percent of the gross value of production. Small business enterprises, such as jute baling (90%), dhenki products (83%), leather processing (83%), grain milling (82%), saw milling (80%), tobacco crushing (74%), etc., provide, as the bracketed figures indicate, very high backward linkages to agriculture.⁶⁰ Handlooms, on the other hand, provide important backward linkages to large scale spinning mills. The cost of cotton yarn as percent of the value of production varies from 53 percent in case of sarees and lungis to 70 percent in the case of shaloo and markin, and about 63 percent in gamcha and napkin.⁶¹

Small business sector provides forward linkages to agriculture and other sectors through supplying intermediate and capital goods in the form of equipment, seeds, plants, fertilizers and pesticides for agriculture. For example, smithy supplies metal agricultural and non-agricultural implement; wood works manufacturing supply rural transport equipment

⁵⁸ Stuart Gannes, "America's Fastest Growing Companies", *Fortune*, 23 May 1988, p.30.

⁵⁹ Isa Baud, 1987 Op. cit., P.69.

⁶⁰ BIDS, Rural Industries Study Project, Final Report, Feb 1981, p.133

⁶¹ Abdul Hye Mondal, Rural Industrialization as a Tool for Rural - Urban Integration in Bangladesh, Research Report No.84, BIDS, Dhaka, Bangladesh, December 1988, p.16.

like carts and boats, baskets for petty trade and earth work; and tobacco crushing supplies processed tobacco for the cigarette and bidi factories. Intermediate and capital goods produced by small business sector of rural Bangladesh account for more than 13 percent and 2 percent of the total gross value of production of other rural industries respectively. Thus the high production linkage between small business sector and other sectors implies that the growth of small business sector is likely to ensure the growth of other sectors.⁶²

3.5 Value Addition

It contributes highly towards value added.⁶³ A case study conducted by U. Staley and R. Morse of Stanford Research Institute on 109 USA industries reveals that the share of small and medium factories with less than 100 employees is high in the amount of value added.

In Japan small and medium sector jointly account for 99.7% of enterprises and contributes 51.1% of total value of shipment of manufactured goods.⁶⁴ The Bangladesh Observer reports, "Small business sector contributes 43% of the manufacturing value added".⁶⁵ Average value added at factor cost per unit by small manufacturing sector is TK. 141.03 thousand. In case of household sector it is Tk. 81.87 thousand.⁶⁶ According to the Fifth Five Year plan contribution of small Business sector to GDP is 5 percent.⁶⁷

3.6 Social Benefits

The social argument in favor of development of small business sector falls broadly under two heads i.e. equality and efficiency benefit of poor consumers.

3.6.1 Equality

A crucial element in the achievement of economic progress in a low-income economy is the enhancement in the standard of living of the poor.⁶⁸ Small business activities appear to provide a positive scope for earning among an otherwise uprooted population and for their upward mobility along the income and social scale. Small business enterprises are likely to reduce the spread between the highest and the lowest income brackets through generating income for the landless and help to avoid an undesirable concentration of economic power in the hands of a few. Self

⁶² BIDS, Rural Industries Study Project - Final Report, February 1981, p.135.

⁶³ [Masami Takeuchi, March 1979, Op. cit., p.22.]

⁶⁴ http://www.chusho.meti.go.jp/sme_english/outline/07/01.html

⁶⁵ Editorial, "Small-Scale Industry", The Bangladesh Observer, 12th September 1995.

⁶⁶ AEIS(2002-2003), Op.cit.

⁶⁷ Planning Commission, The Fifth Five Year Plan 1997-2002, March 1998, Op. cit., p.325

⁶⁸ ARTEP, Bangladesh: Selected Issues in Employment and Development, A Report Prepared for the Bangladesh Planning Commission, ILO, Asian Employment Program, Bangkok, November, 1985,

employed persons in small business are likely to act as an effective vehicle for increased understanding of the development potential of a country and provide a base for equitable relations between the rural and urban people.

Cottage industries and handicrafts are particularly important for rural households with a little or no land. Empirical evidence from some countries shows that as farms become smaller, the share of non-farm income in total household income becomes larger.⁶⁹ In Sierra Leone, for example, rural households cultivating more than 15 acres of land earned less than 20 percent of their income from non-farm activities, while those cultivating less than 1 acre earned more than 64 percent of their income from the same activities. A nationwide survey of rural household budgets and consumption conducted in 1982/83 in Rwanda showed handicraft production accounting for 20 percent of household cash income, compared with 27 percent from commerce, 11 percent from services and other sales and a mere 19 percent from agriculture.⁷⁰

In some Asian countries where land is very much a limiting factor in generating household income, small business projects in favor of the landless and near landless could contribute to increasing total household income, thus alleviating mass poverty⁷¹ and income inequality.

3.6.2 Offers Elasticity of Expenditure

One of the objections most often raised against development of small business enterprises is the narrowness of the market. But existing surveys show that locally manufactured products have the highest elasticity of expenditures. In Sierra Leone and Nigeria, a 10 percent increase in income leads to a 13-14 percent rise in expenditure on local goods and services (other than food), as compared with only 11 percent for imports.⁷²

Small-scale enterprises produce low-cost products creating efficiency benefits for consumers, especially for the poor consumers. The low-cost goods produced by the small business sector satisfy the basic needs of the rural poor, and middle and low-income groups of the urban sector. But this feature of small-scale enterprises are not usually appreciated because the disadvantages of small scale production are usually compared with the advantages of large scale production and are wrongly argued that an increase in output in domestic sectors, particularly in industry is highly

⁶⁹ E. Chuta and Carl. Liedholm, Rural Non-Farm Employment: A Review of the State of the Art, MSU Rural Development Paper No.4, East Lansing, Michigan State University, 1979, also cited in ILO, Report VI, 1986, Op. cit. , p.10.

⁷⁰ Ibid.

⁷¹ ILO, Report VI, 1986, Op. cit. , p. 10.

⁷² Maria Nowak, "The Role of Micro enterprises in Rural Industrialization in Africa", in Jacob Levitsky (ed), Micro Enterprises in Developing Countries, Intermediate Technology Publications, London, 1989, p.64.

constrained by the lack of adequate purchasing power in the rural areas.⁷³ But in reality small business sector is remarkably resourceful and highly responsive to market conditions.

4. Conclusions and Recommendations

Industrialization is a pre-requisite for sustained economic development of developing countries, particularly for the eventual solution to their problems of mass poverty, acute unemployment, low Gross National Product (GNP) growth and heavy dependence on foreign aid.⁷⁴ Therefore, the development strategy of developing countries have been geared toward a structural shift from agriculture to non-agricultural enterprises to create new job opportunities for the increasing labor force and to alleviate poverty. Initially they tried to achieve development through placing emphasis on large scale industries. But due to limited infrastructure development, limited funds, isolated small sized markets and non-availability of skilled human resources, most of the large scale industries in most developing countries failed to operate in a manner that helps to generate surplus from the production process, generate a corresponding increase in employment opportunities, alleviate poverty and achieve development. Only in late eighties they realized that expansion and development of large industries is not a solution to the unemployment, underemployment and income inequality problem and started emphasizing on vigorous promotion of small business, capable of utilizing local resources, technology and manpower can play a much needed catalytic role in the transformation of their economy. Small business activities are not, as often alleged, economically inconsequential. Rather this sector carries a great potential in the process of economic development of a country, both in terms of growth and equity.

Small business in general is considered to be a vehicle for progress. Because it : (a) contributes highly towards value added, (b) contributes significantly to the economy in terms of output of goods and services and creates direct and indirect jobs at relatively low capital cost (c) provides a vehicle for reducing income disparities (d) provides the opportunities for developing and adapting appropriate technology (e) improves forward and backward linkages between diverse sectors of the economy (f) enables youth and women to acquire a greater economic independence through employment and self-employment thus helps to raise the level of women's participation in the economy (g) offers an excellent breeding ground for entrepreneurial and managerial talent (h) demonstrates flexibility in adapting to market change.

⁷³ Planning Commission, The Fourth Five Year Plan, (1990-95), Ministry of Planning, Government of the People's Republic of Bangladesh, Dhaka, June 1990, pp.1-2.

⁷⁴ Mahmood Ahmed, Growth of Industrial Entrepreneurship in Bangladesh: A Study of Bank Financed Engineering Industries, Ph.D. dissertation submitted to the University of Rajshahi, July 1993, p.18.

Self-employment in small business through greater mobilization of domestic resource would alleviate poverty through the expansion of productive employment, a major development issue and would reduce the persistent reliance on external economic assistance, which has become an increasing source of concern to planners and academics. As such it is high time that more attention was paid by the developing nations to the development of interactive small and micro enterprises, which feed each other through interlink, provide a productive outlet for entrepreneurial spirit of individuals and assist in the dispersion of economic activities.