

Challenges to Internationalize Bangladeshi SMEs

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Abstract

The Small and Medium Enterprises (SMEs) are considered as the engine of growth of Bangladesh economy. SMEs are generally labor intensive industries, generates employment with minimum capital investment. Therefore they are getting priority for employment generation and poverty alleviation in the least developed world. Governments are enacting SME friendly laws and policies to foster local SMEs. They are also establishing specialized institution for the promotion and development of SMEs in respective countries. Various international agencies as well as development partners are inspiring entrepreneurship development and small business promotion for employment generation, economic growth and poverty alleviation. SMEs used to grow faster local market but their entrance to international market is happening rarely. Analyzing causes of SME's poor performance in international market is the main focus of this paper. We would like to know the challenges for the internationalization of Bangladeshi SMEs and recommend few initiatives to undertake by different stakeholders including the government for facilitating internationalization of SMEs.

Keywords: Small and medium enterprise; Internationalization of SMEs; Exporting SME products; Methods for internationalization of SMEs

JEL Code

F23; M16; Q37; P42

Introduction

The small and medium enterprises (SMEs) are getting priority of government for many reasons. A satisfactory number of new small enterprises established in a year. But most of the small enterprises do not graduate into medium stage. Similarly there are few medium enterprises performing well in native business environment but fails to go international. Therefore we are here to analyze why SMEs are afraid of internationalization or go for export. SMEs are defined with different parameters and indicators by different countries/international organizations. For example; Bangladesh used to define SMEs as "In manufacturing, small industry will be deemed to comprise enterprises with either the value (replacement cost) of fixed assets excluding land and building between Tk. 7.5 million and Tk. 150 million, or with between 31 and 120 workers. For services, 'small industry' will correspond to enterprises with either the value (replacement cost) of fixed assets excluding land and building between Tk. 1 million and Tk. 20 million, or with between 16 and 50 workers". Similarly "In manufacturing, medium industry will be deemed to comprise enterprises with either the value (replacement cost) of fixed assets excluding land and building between Tk. 150 million and Tk. 500 million, or with between 300 and 1000 workers. For services, 'medium industry' will correspond to enterprises with either the value (replacement cost) of fixed assets excluding land and building more than Tk. 300 million or more than 120 workers" [1]. Please note that, if on one criterion, a firm fall into the 'lower' category, while it falls into

'higher' category based on the other criterion, the firm will be deemed as in the 'higher' category.

In India small enterprises are defined as "a small enterprise where the investment in plant and machinery is more than fifty lakhs rupees but does not exceed ten crores rupees". Similarly medium enterprises are defined as "a medium enterprise where the investment in plant and machinery is more than ten crore rupees but does not exceed thirty crores rupees" [2]. In Pakistan, SMEs are defined as "enterprises having employment size is up to 250 or paid-up capital is up to Rs. 25 million or annual sales are up to Rs. 250 million" [3].

Problem statement/core focused area

It is observed that, a better performing SME in local market is afraid of export or internationalization even though they have good prospect to perform well in international market. But, why is this? What are the challenges SMEs are facing to go for international market?

Objective of the Study

Main objective of this study is to analyze why SMEs are not going into international market? What are the challenges they are facing to go international? How government and other stakeholders could play respective role to increase participation of local SMEs in international market?

Methodology

At first this is a review article. It contains of two types of information namely; primary information from the entrepreneurs through National Consultation on SME Development and secondary sources of information from different publications on the same topic. It is containing researcher's findings from Needs Assessment of SME Clusters during his professional duties.

Scope of Work

Primary information used in this study is mainly experience of SME entrepreneurs of different parts of Bangladesh. These data are collected during the National Consultation on SME Development, Needs Assessment for SME Cluster Development etc. activities conducted by the researcher on different occasions at different SME clusters of Bangladesh. Besides these it is containing secondary information from different international publications as well.

According to a recent census conducted by the Bangladesh Bureau of Statistics [4] it is observed that, there are 7.81 million enterprises/economic entities in Bangladesh. Among these 6.84 million of the enterprises are Cottage Industries (having up to 9 workers including household members or up to half million BDT of replacement cost, as per National Industrial Policy 2010), 0.10 million are micro enterprises (having 10-24 workers or replacement cost of BDT half million to 5 million), and 0.86 million are SMEs in Bangladesh (BBS, 2013). One of the major barriers to internationalization of Bangladeshi SMEs is the government barrier to carry out money from the country. Besides this they have several other barriers like, lack information on overseas markets and foreign market access which worsens their internationalization process. On top of that, they were also lack of information on potential markets, thus making them risk adverse. SMEs moreover face a lack of knowledge on legal matters, because no agencies can advise them on the specific legal issues of going abroad such as international rules and regulations [5]. There is also a shortage of internal funds for setting up business channels abroad. In addition, venture funds for initial financing are still at an infant stage in Bangladesh.

SME exporters suffer from relatively higher costs and challenges than larger exporters due to less human resources and capital. These barriers include tariffs, quotas and stringent rules of origin. Non-tariff measures (NTMs) affect SMEs disproportionately due to fixed compliance costs that do not vary with the amount traded and the inability of SMEs to spread these costs over large export values. Examples of NTMs include compliance with certain foreign technical standards, difficult licensing procedures and certifications [6]. Differences in standard-related measures remain one of the main obstacles to deepening the participation of SMEs in international trade not only in Bangladesh but also around the world. In addition, the costs of meeting technical regulations and other requirements are often very high because in many cases they are required to perform extra tests, which are more time consuming for SMEs.

According to an OECD top barriers to SME internationalization are shortage of working capital to finance exports, limited information to

locate/analyze markets, inability to contact potential overseas customers, and lack of managerial time, skills and knowledge [7].

Barriers to SME internationalization include; lack of strategic resources, such as an experienced manager to oversee the international expansion process, operational deficiencies, such as the ability to use the marketing mix to meet foreign market, requirements, informational related barriers, which entail limited intelligence generating capabilities, and Process-based restrictions or problems in the communication process needed to create and deliver the product [8].

Study Findings

Challenges for the Internationalization of Bangladeshi SMEs are facing could be presented as follows:

Challenges related to market information

SMEs of Bangladesh are facing a series of challenges related to market information like lack of information about demanding foreign market, lack of information about duty structure of foreign market, lack of information about quality requirement of target market, lack of information about products pricing in target market, and inability to contact foreign buyers etc.

Challenges related to managerial know-how

Shortage of professional and sector specific trained manpower to dedicate for foreign market, absence of trained manpower to deal with foreign trade, absence of qualified manpower to negotiate with foreign buyers etc. are the major challenges facing by Bangladeshi SMEs [9]. At the same time high rate of employee turnover discouraging those to trained-up employees with own cost.

Challenges related to financial capacity

SMEs are usually low investment enterprises; they do not have available funds for operating foreign trade of their own cost. At the same time they have very limited access to institutional funds to utilize as working capital or invest in abroad.

Challenges related to product's quality and pricing

SMEs have limited ability to design new products with additional features. Absence of Testing Laboratories and technical know-how to manufacture international standard products [10]. They have very limited ability to cope with buyers' specifications as well (Table 1).

Core challenges	Issue specific challenges
Challenges related to Market Information	Lack of information about demanding foreign market.
	Lack of information about duty structure of foreign market.
	Lack of information about quality requirement of target market.
	Lack of information about products pricing in target market.
	Inability to contact foreign buyers.
Challenges related to Managerial Know-how	Lack of trained manpower to deal with foreign trade.
	Limited number of manpower to dedicate for foreign market.

	Discouraging employee turnover rate to trained up manpower.
Challenges related to financial capacity	Shortage of bank loan to finance working capital for international trade.
	Shortage of bank loan to finance international investment.
Challenges related to product's quality and pricing	Lack of product designing facility of SMEs.
	SMEs inability to achieve foreign quality certification.
	Limited ability to meet buyer's specification.
	Inability to grant credit facility to foreign buyers.
	Lack of competencies to offer a satisfactory price.
Challenges related to marketing, networking, and logistics	Limited capacity to advertise their products in foreign market.
	Limited capacity to develop channel of distribution abroad.
	Difficulty of getting reliable foreign agents.
	Absence of logistics firms to facilitate network development.
Challenges related export documentations	Inability to prepare export documents.
	Slow repayment system of foreign buyers.
	Difficulty in enforcing contract.
	Cumbersome and costly dispute settlement procedure.
Challenges related to government rules and regulations	Absence of government agencies to assist SMEs in international trade.
	Difficulties in movement of people.
	Difficulties in movement of goods.
	Absence of good governance.
	Uneven law and order situation.
	Unfair treatments to local competitors.
Challenges related to tariff and non-tariff business environment	High tariff imposed by foreign government.
	Existence of preferential treatments granted to competitor countries.
	Imposition of non-tariff measures to hinder foreign trade.

Table 1: Challenges for the internationalization of Bangladeshi SMEs.

SMEs do not have capacity to achieve foreign quality certification to enter into foreign market. Besides these Bangladeshi SMEs do not have capacity to allow credit facility to foreign buyers. Costs of SMEs products are still higher due to absence of economies of scale.

Challenges related to marketing, networking, and logistics

It is very difficult for a Bangladeshi SME to develop channel of distribution in abroad. At the same time getting a reliable foreign agent is very rare case. There are no firm exists in Bangladesh who are facilitating network development of SMEs with foreign buyers.

Challenges related export documentations

SMEs have very limited qualification to prepare export documentation. At the same time enforcing contract in abroad as well

as dispute settlement procedure is very cumbersome, costly and time consuming.

Challenges related to government rules and regulations

Complex visa regime is a major challenge for internationalization of SMEs and international trade [11]. Governments are providing unfair treatment to local entrepreneurs discouraging foreign trade. There are no organizational arrangements in Bangladesh to train up SMEs for export market dealing, documentation, market information or apprenticeship to be trained up in foreign trade.

Challenges related to tariff and non-tariff business environment

Sometime countries are imposing high tariff on few Bangladeshi products or applying non-tariff measures to hider our foreign trade

[12]. The same market is providing preferential treatment to our competitors under different agreements. As a result we are losing competitiveness in those markets. Bangladesh has very limited initiative to negotiate these issues with concern authority at the WTO or bilateral level.

Recommendations

To go international Bangladeshi SMEs have to be qualified first. At least five different stakeholders are responsible to facilitate this qualification process (Table 2).

Role of SME promoters/government agencies

Each country has a long list of government / non-government agencies dedicated for SME development. For example SME

Foundation, Bangladesh Small and Cottage Industries Corporation (BSCIC) etc. organizations are dedicating for SME Development in Bangladesh. Export facilitating agencies like Export Promotion Bureau (EPB) has a great role to play for promoting export of SME products. These roles could be trained up entrepreneurs, organizing fairs and match-making etc.

Role of central bank/governments

Government policy is required for financing working capital required by the SME exporters, organizing international fund for international investment, Export Guarantee Scheme for SME Exporters, Low cost insurance facility for SME exporters etc.

Responsible party	Issues to be improved / initiate / ensured
SME Promoters, Government Agencies Like SME Foundation, Export Promotion Bureau etc.	Training up the entrepreneurs or their representative about collection of market data through ITC Trade map, Market Access map, Standard map etc. Market analysis tools.
	Educating the entrepreneurs on export documentation, price negotiation and buyer dealing.
	Apprenticeship could be initiated to train up SMEs entrepreneurs or their representative practically at the existing exporting firms or large companies.
	Organizing SME product fair abroad.
	Organizing foreign buyers and local SME entrepreneur's matchmaking program at home and abroad.
	Facilitating emergence of logistics firms to promote easy handling of export formalities.
Government, Central Bank of the Country like Ministry of Finance, Bangladesh Bank	New loan package to finance working capital required by the SME exporters / Newcomers.
	Organizing international fund for international investment.
	Export Guarantee Scheme for SME Exporters.
	Low cost insurance facility for SME exporters.
Technical government agencies like Bangladesh Council of Scientific and Industrial Research, Bangladesh Industrial and Technical Assistance Center	Designing new products for commercially producing by the local SMEs.
	Designing efficient system for low cost but high quality production.
	Assisting SMEs to achieve international standards.
	Assisting SMEs to achieve foreign quality certification.
Government, Ministry of Industries, Ministry of Commerce	Establishing a department / agency for facilitating / assisting SME export.
	Signing new agreement with potential buyer countries to facilitate easy movement of people, goods and preferential tariff rate.
	Maintaining congenial law and order situation.
	Negotiating with buyer countries regarding high tariff imposition on a LDC products like Bangladesh.
SME Entrepreneurs	Dedicating justified number of officials in export orientation.
	Training up the officials on export procedures, market searching, export documentation preparation, negotiating with buyers, foreign standard compliances etc.

	Quality shall be first priority to make the products competitive in local or foreign market.
	Sourcing qualitative raw materials and using modern machinery.
	Cooperating with relevant government agencies and encouraging their upgrading initiatives.

Table 2: Recommendations for promoting export and internationalization of Bangladeshi SMEs.

Role of technical government agencies

Technical government agencies like Bangladesh Council of Scientific and Industrial Research, Bangladesh Industrial and Technical Assistance Center etc. has a great role in designing new products for commercially producing by the local SMEs, designing efficient system for low cost but high quality production, assisting SMEs to achieve international standards, and assisting SMEs to achieve foreign quality certification etc.

Role of line ministries

Line ministries like ministry of industries, ministry of commerce etc. has to create congenial business environment for SME export in home and abroad. Agreement has to be signed with buyer countries regarding easy visa regime, preferential tariff, maintaining congenial law and order situation etc.

SME entrepreneurs

SME entrepreneurs have to play the most important role to internationalize SMEs. Entrepreneurs has to train up employees, producing quality products, focusing on international market, coordinating every factor of production in time to roll the ball in time.

Limitations

This study is containing researcher’s findings on different occasions and secondary information and practical experience of the researcher. It could be further improved if an official survey could be conducted on the issue.

Conclusion

There are many reasons for going an SME into international market. Reasons could be to get access into broader market, increasing production for achieving economies of scale, to acquire better managerial know-how/technical know-how, increasing company portfolio, wealth maximization, increasing profitability etc. But more important reason for the country is achieving foreign currency,

facilitating technology transfer, more employment generation etc. Therefore Bangladesh government could think of establishing an export assistance center in EPB, SME Foundation or as an independent organization dedicated for export assistance only. After all final conclusion is that, in absence of good governance, congenial law and order situation all other initiatives are bound to be failed. Therefore it is the government who can inspire SMEs to internationalization or restrict the same through its policy regime.

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