

# Barriers and constraints to development and growth economics essay



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The presented article provides a comprehensive information about the barriers and constraints which hinders the growth and development of small businesses. The barriers can be classified into two parts internal and external. Internal barrier factor includes incorporating informational, functional and marketing and external includes comprising procedural, governmental, task and environmental. The impact of the export barriers seems to be situation specific. The main constraint of any small business development is finances from external sources, licensing from government does not seem that major as compared to financial resources. Certain barriers, such as those relating to information inefficiencies, price competitiveness, foreign customer habits, and politico economic hurdles, seem to have a systematically strong obstructing effect on export behaviour. The folklore is that generally small businesses get vanished in very few years of time and to study it, it is necessary to take into consideration both the causes for failure and discontinuation and even the factors responsible for growth and development.

## INTRODUCTION

It has been recognized that small scale industries and businesses plays vital role in economy (Stanworth, 1991; Hay and Kamshad, 1994). Small businesses also help in generating employment, engendering competition, creating economic wealth and promoting innovation. The main advantage to small business is that they are small so can respond quickly and easily to new opportunities (Confederation of British Industry, 1999). And even they have shorter length of communication so can clearly focus on main goal and it is also observed that it is more motivating and creative for team members.

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In this period of 21 st century the businesses are transforming dynamically but small businesses do not dare to cross the national boundries to sell their products and boundaries. But doing this they don't allow their business to have global market. Chetty and Hamilton (1996) have underlined, it has been suggested that industries that small and medium-sized firms can enter are the ones that offer prospects for future export growth, and the management processes and attitudes which give rise to differences in export performance should be more conspicuous within smaller businesses.

## GROWTH AND DEVELOPMENT OF SMALL BUSINESSES

The impact of owner-manager personality attributes on the success of small businesses ( Ibrahim and Goodwin 1986). Owner's growth willingness and actual firm growth has very significant relationship. ( Orser et al. 1998). The activities undertaken during the pre-start-up stage have an impact on the ' expansion intentions' for the initial year of operation. It has been proposed that these expansion or growth intentions directly influence what expansion activities will actually take place (Lau and Busenitz, 2001). The growth of the smallbusiness can actually be divided in two phases and the first one is pre-start up stage and second one is beyond pre-start up stage.

## PRE- START UP STAGE

This stage is the phase between when the founder thought of originating business and the business was actually registered. Systematic thinking at this stage can nurture a Well-reasoned approach to initial actions and resource commitments (Van Slyke and Stevenson, 1985). The kind of

activities performed during the pre- start up phase and decision taken can  
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create very strong and positive impact during the business performance.

There will be always a positive relationship developed between the breadth of pre start up activities and the founder's expansion intentions. The growth of pre start up efforts directly increases the growth momentum of the business.

#### BEYOND THE PRE START UP PHASE

The survey by Blatt's (1993) shows that the owners of the small business always intend to grow their business in the second operational year of the business. Expansion intentions for a given year will be positively associated with the range of expansion activities carried out in that same year. Owner-managers will periodically reflect upon the firm's performance in light of their personal vision for the business (Bird, 1992; Morgan, 1996) and adjust their growth intentions accordingly. This premise that the performance level achieved by the business will influence the expansion intentions for the following time period explains that Business performance in a given year is positively associated with expansion intentions for the following year.

#### BARRIERS TO THE GROWTH AND DEVELOPMENT OF SMALL BUSINESS.

##### INFORMAIONAL BARRIERS

The problems faced by small businesses in contacting, identifying and selecting international markets due to information inefficiency forms informational barriers for small businesses (Morgan and Katsikeas 1997; Katsikeas 1994; Katsikeas and Morgan 1994). Four barriers fall under this category.

### Limited information to locate/analyze foreign markets

Although having so many small firms they are not familiar with national or international sources of information. And when they become aware of it and have access they face problems like data retrieval. The company's attempt for progression in exporting becomes risky as company lacks information about identification and analysis of and entry into the foreign market.

### Problematic international market data.

Sometimes it is often seen that the company which are even in proper in export research may sometime face problems in international trading. Problems may occur due to un reliable sources and certain manipulations in data, data collection methods, different types of classification and measurements. (Czinkota and Ronkainen 2001). Such problems do not allow the owner to get real picture of foreign market and leads to false decision.

### Identifying foreign business opportunities

The proper identification of business opportunities abroad may create strong pressure on company to begin and expand export (Albaum, Strandkov, and Duerr 1998). Many a time small business companies are unable to identify and grab such opportunities due to lack of proper sources in foreign market. Such sources fail to conduct proper research and investigation in foreign market. Some time such opportunities are identified in reactive way by business companies due to guidance by external agents like government agencies, chambers of commerce and trade association. (Leonidou 1995c).

### Inability to contact overseas customers.

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In any type of business it is always necessary that customers always remain in contact with the traders. But when it comes to foreign market the condition cannot be satisfied every time. A complex situation seems to be created in such situation. Such complex situation is created due to geographic distance, some time less interest shown by firms and the limited exposure to sources listings potential customers.

### FUNCTIONAL BARRIERS

Functional barriers relate to inefficiencies of the various enterprise functions, such as human resources, production, and finance, with regard to exporting (Vozikis and Mescon 1985). 8

This category contains four barriers relating to limitations in managerial time, inadequacies in export personnel, unavailable production capacity, and shortages of working capital. These have been the focus of many studies, revealing a generally moderate impact on export behaviour. In most of the smaller firms the manager is the only person looking around everything so can't provide enough time resources in exploring national and international markets. It is always complains by small firms that they don't have enough personnel to handle the additional work expected by export operations. (Gomez-Mejia 1988). Although the existence of unutilized production capacity stimulates many firms to begin exporting, the reverse acts as a barrier to initiating or to expanding export business (Albaum, Strandkov, and Duerr 1998). Engagement in export operations often requires extensive expenditures

in researching overseas markets, in visiting foreign customers, in adapting the export marketing strategy, and so on. Obviously, this creates excessive financial burdens for the smaller firm, especially if the latter already is strained financially because of domestic business problems.

## MARKETING BARRIERS

Marketing is considered as a most problematic area for any exporting firm especially if its small company. There is much pressure exerted by external sources to adopt different marketing strategy. There can be different range of barrier impact created by marketing barriers from very high to very low. for example excessive transportation insurance costs to in avability in warehouse. The most studied and researched departments are meeting product expected quality, high cost of transportation insurance and getting reliable sources.

## PROCEDURAL BARRIERS

Procedural barriers focus on operating aspects of transactions with foreign customers and include three items: unfamiliarity with techniques/procedures, communication failures, and slow collection of payments (Kedia and Chhokar 1986; Moini 1997). Many small firms find some export procedures very complicated and difficult. The procedures of exports like customs, packaging, documentation and shipping seems rather inconvenient to small firms. The communication is the most important feature to make any business run smoothly and successfully. But in certain case there is a huge communication gap created between buyers and sellers due to huge geographically and psychological gap which can lead to many <https://assignbuster.com/barriers-and-constraints-to-development-and-growth-economics-essay/>

problems in business. Lack of communication also creates certain problems like misunderstanding, poor control over foreign activities, and delays in taking important decisions. The lack of immediate contact with overseas markets, combined with the tendency of many foreign buyers to ask for more credit facilities, increases the possibility of slower collection of payments.

### TASK BARRIERS

Demands and needs of different customers and firms varies in different geographical areas of world. Needs changes according to topographic and climatic situation around the area. Even the economic condition, educational level, household size and structure may vary and influences needs of the customer (Cateora and Graham 2001). Due to such variations in physical entities pricing of product, quality may vary and to meet certain criterias of the world which are very different from others is difficult and that acts as a barrier for many small businesses.

### ENVIRONMENTAL BARRIERS

This final category incorporates eight barriers referring primarily to the economic, political-legal and sociocultural environment of the foreign market(s) within which the company operates or is planning to operate (Kedia and Chhokar 1986; Moini 1997). Economic and regulatory barriers play the most important role in environmental barriers. The main problem of environmental barriers is that they change rapidly and always to predict such changes and then to deal with it becomes difficult for any firm.



## FINANCIAL, LEGAL AND CORRUPTION CONSTRAINS IN SMALL BUSINESSES

The main reasons and importance of financial obstacles are (1) collateral requirements of

banks and financial institutions; (2) bank paperwork and bureaucracy; (3) high interest rates; (4) need for special connections with banks and financial institutions; (5) banks lacking money to lend; (6) access to foreign banks; (7) access to nonbank equity; (8) access to export finance; (9) access to financing for leasing equipment; (10) inadequate credit and financial information on customers; and (11) access to long-term loans. Looking at the legal obstacles to growth, speed of courts, which has a value of 4.77, seems to be one of the important perceived obstacles. Other important obstacles include the consistency and affordability of the courts. Below we examine whether in fact growth is related to the firms' perceptions of these obstacles. La Porta et al. (1998), who argue that differences in legal and financial systems can explain much of the variation across countries in firms' financial policies and performance. Recent empirical evidence supports the view that the development of a country's financial system affects firm growth and financing. In addition to Demirgüç -

Kunt and Maksimovic's (1998) firm-level results, Rajan and Zingales (1998a)

show that industries that are dependent on external finance grow faster in countries with better developed financial systems. Wurgler (2000) shows that the rate at which resources are allocated to productive industries depends on the development of the financial system. Love (2003) shows that

the sensitivity of investment to cash flow depends negatively on financial development.

Maksimovic (1999) shows that the origin and efficiency of a legal system facilitates firms' access to external finance, particularly long-term finance. At the country level, King and Levine (1993), Levine and Zervos (1998), and Beck, Levine, and Loayza (2000) show that financial development promotes growth and that differences in legal origins explain differences in financial development. All obstacles can be significantly lower in richer, larger, and faster-growing countries, but are significantly higher in countries with higher inflation. Firms are also significantly larger in richer, larger, and faster-growing countries. Firm size itself is not correlated with firm growth. However, size is likely to have an indirect effect on firm growth because larger firms face significantly lower financing, legal, and corruption obstacles.

Legal and corruption obstacles, particularly the amount of bribes paid, the percentage of senior management's time spent with regulators, and corruption of bank officials, also represent significant constraints on firm growth. However, other obstacles, such as the speed with which the courts work, or the need to make additional payments, both of which are rated very highly by firms as important obstacles, do not affect firm growth significantly. Corruption of bank officials does indeed affect firm growth, particularly for small firms. This finding provides evidence for the existence of institutional failure, which must be taken into account when modeling the monitoring role of financial institutions in overcoming market failures due to informational asymmetries.

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## CONCLUSION

Small business and firms plays a very significant role in economy of any country. Any small business which is on verge of growth and expansion encounter numerous problems in initial phase of business and in very first year of business. Such kind of barriers whether internal or external or export creates life threatening situation for any business. Legal constrains may vary between different countries and even financial and corruption varies. This all obstacles might not have equal importance. Countries which are under developed may face more corruption. High level of development in financial and legal procedures and less corruption may help small firms to overcome the constrains.