

# Market Orientation, Managerial Capability and Small Firm Financial Growth in Bangladesh: Moderating Effect of Government and Private Organization Support

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## *Abstract*

*Although different concepts and theories of firm growth have been developed through the workings of diverse group of researchers, there is no single overarching model exists that can explain best about the growth matter of small firms. Therefore, the literature about small firm growth and performance are very fragmented and inconsistent. Based on the concept of the theory of 'Resource Based View (RBV)' current research formulated a research framework in order to examine how the resources like market orientation strategy and managerial capability of owner-manager affect financial growth of small firms operating in Bangladesh. Data was collected through self-administration from 407 owner-manager of small firms operating in three broad divisions of Bangladesh. Using partial least squares analysis, the paper found that both market orientation and managerial capability has strong positive relation with small firm financial growth. The paper also uncovered that government and private organization support do not moderate the relationships between market orientation, managerial capability and small firm financial growth. In fostering small firm growth in future, government and private organization should increase their financial and non-financial support with good number of initiatives.*

**Keywords:** Small firm, growth, Market orientation, Managerial capability, RBV.

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## 1. Introduction

Considering the potentialities of small firms towards the economic development, researchers of many developed and developing countries have motivated to work on small firms' growth and its determinants for many years. Different concepts and theories of firm growth have been developed through the workings of diverse group of researchers. However, there is no specific theory to explain small firm growth and the factors constraining or stimulating the growth (Olaore, 2014). Even there is no single overarching model exists that can explain best about the growth matter for small firms (Dobbs & Hamilton, 2007; Omar, Lim, & Basiruddin, 2014). Therefore, the literature about small business growth and performance are very fragmented and inconsistent.

Since firm can grow in different ways, the growth of a firm follows a multidimensional phenomenon and these various forms of growth may have different determinants and effects (Delmar, Davidsson, & Gartner, 2003). Throughout the world many researchers have tried to identify the causes of small business growth and their profound works on this issue outlined multidimensional factors which ultimately affect growth. As small businesses around the world do not have the same characteristics and their growth is multifaceted, it is quite difficult for researchers to conclude with a certain number of factors. Studies in many countries focused on some specific factors and no comprehensive research on this issue is available to draw the conclusion. Based on the concept of the theory of 'Resource Based View (RBV)' the paper intends to examine how the resources affect growth of small firms operating in Bangladesh. According to the concept of the resources, the two important resources, market orientation strategy and managerial capability of owner-manager, have been captured to formulate proposed research framework in order to see their impact on growth of small firms especially in the context of Bangladesh.

Market orientation is an important determinant for small firm growth as the success of any firm largely depends on how successfully firm can sell its products and services according to the needs and wants of customers. It is advantages for small firm to follow the market orientation strategy by which they can find out real needs of customers, can innovate new product as per the needs and desire of customers, can monitor their competitors and can implement the new strategies for gaining the competitive

advantages. However, SME owner-managers have less concerned about marketing and provide less priority. Even, they do not have the research and development department to conduct market research and many of them do not know how to make long-term market planning (Blankson & Stokes, 2002).

The very common challenge faced by SMEs in Bangladesh is the lack of promotional/market oriented activities (Abdin, 2015b, January 15; Moudud-Ul-Huq, Ahammad, & Khan, 2013). In their study, Miah (2006a) and Islam (2009) state that SMEs in Bangladesh lack proper information about market requirements and research & development facilities that hinders them to focus the customers. Zaman and Islam (2011) state that most of the SME entrepreneurs in Bangladesh lack necessary marketing skills to prepare a well-planned marketing strategy as well as sufficient resources including research and development for implementing that strategy. Although some researchers and policy makers are concerned about these issues but no evidence is found on the association of this strategy with growth of small firm in Bangladesh.

The Theory of the Growth of the Firm proposes that the growth of the firm is dependent on the entrepreneurial and managerial knowledge and capabilities configured as resources (Pitelis, 2007). Researchers of many developed and developing countries argue that, the owner-managers of small firm lack proper managerial knowledge and skills (Jayne, 2007; Matlay, Redmond, & Walker, 2008; Walker & Webster, 2006) and it is evident from the literature that small firm owner-managers are more reluctant to attend in formal training on management development than the managers of large firms (Storey, 1994). According to Islam (2009), lack of prior experience and managerial skills hinder proper management of SMEs in Bangladesh. Managerial training concept for SMEs in Bangladesh is almost new and many of the SME entrepreneurs lacking highly in managerial skills to operate their business, Zaman and Islam (2011). Therefore, poor managerial capabilities of the entrepreneurs create many other problems in the small firms Roy and Chakraborty (2014). Research on the impact of managerial capabilities on small firm growth is very limited internationally and almost absent in the context of Bangladesh.

Small enterprises all over the world generally face many problems including managerial skills, access to information, support services, business development support etc. In this regard, to address such problems government and different private organizations nowadays play a very significant role for developing small enterprises sector.

Government of every country has been undertaken different initiatives, policies and programs for supporting small enterprises as this sector has been recognized as the priority sector of the government in almost every nation especially for the developing countries. However, it is quite difficult for the government to provide every kind of supports in order to address their heterogeneous needs. Government and its related departments or agents in many cases are not well equipped with appropriate cost effective solutions for solving the problems of SEs. Therefore, beside the initiatives of government, it is also important for the private organizations to come forward with a good number of supportive services.

In Bangladesh, most of the small businesses either registered or unregistered face several non-financial problems along with high financial constraint. There are many studies (Abdin, 2015b, January 15; Chowdhury, 2007a; Islam, Yousuf, & Rahman, 2014; Islam, 2010; Mamun, Hossain, & Mizan, 2013; Minto, 2006; Roy & Chakraborty, 2014; Uddin & Bose, 2013; Zaman & Islam, 2011) in Bangladesh regarding the problems faced by small enterprises. They identify a large number of factors that hinder small business success and include lack of owner-manager proper education, business knowledge, prior experience, proper business record, marketing support, information, administrative support, adequate infrastructure, etc. In these circumstances, this research expects that government and private organizations can largely address such issues and can help small firm to develop. Therefore, the paper considers government and private organizations support as the moderating variables with the expectation that it will enhance the relationships between market orientation, managerial capability and financial growth of small firms in Bangladesh.

## **2. Objectives of the study**

The paper intends to explore the impact of resources on financial growth of small firms operating in Bangladesh. The specific objectives of the research are to:

- i. Examine the relationship between market orientation, managerial capability of the owner-manager and small firm financial growth.
- ii. Examine whether government and private organizations support enhance the relationships between market orientation, managerial capability of the owner-manager and small firm financial growth.

### 3. Literature Review

#### Small firm growth

The concept of firm growth is not new. From the last few decades many empirical researches have been done in this field. There are many evidences on Micro enterprise growth (Clark & Douglas, 2014; Fiala, 2013; Khandker, Samad, & Ali, 2013; Mel, McKenzie, & Woodruff, 2014; Nichter & Goldmark, 2005; Perren, 1999; UNDP, 2012) and SME growth and performances (Beck & Demircuc-Kunt, 2006; Bhaumik & Estrin, 2007; Farouk & Saleh, 2011; Ferrando, Köhler-Ulbrich, & Pál, 2007; Moreno & Casillas, 2007; Neufeld & Earle, 2014; Shah, Nazir, Zaman, & Shabir, 2013; Woldie, Leighton, & Adesua, 2008). However, works on small business growth are very stagnant. Small business all over the world are very heterogeneous in nature and do not grow in the same way. Since, small firms are very heterogeneous in nature and follow many growth patterns (Delmar et al., 2003), there are different types of approaches and conceptual frameworks exist in the literature which has attempted to highlight the growth of small firm. The approaches of the growth of small firms may be categorised into several groups and include stochastic; descriptive; evolutionary; resource-based; learning; and deterministic.

The fundamental characteristic of small firms is the heterogeneity in nature implying that all the firms in different categories and clusters do not grow in the same way and can vary significantly over time. Thus, the growth of small firms is not uni-dimensional rather it is a multidimensional phenomenon. For various groups of small firms, it is advantages to use multiple measures to uncover different empirical relationships. Hence, some prominent researchers' advised composite measures using different indicators (Davidsson, 1989; Delmar, 2006). Therefore, a different form of measure and method for firm growth is important for better understanding of firm growth process (Delmar et al., 2003).

#### Market orientation and small firm financial growth

Market orientation can be defined as the strategy of a firm by which it discovers and meets the needs and expectations of its customers with the product mix. The foundation of this concept has been developed by the earliest contributions of Drucker (1954) when he argues that the organizations mainly exist in order to fulfil the desire and needs of its customers (Ngansathil, 2001). Accepting his concept, many of the researchers and

policy makers develop this issue from different corner and consider it as one of the important business strategies for the success of any business (for example, Deng & Dart, 1994; Kohli & Jaworski, 1990; Narver & Slater, 1990). Although the concept, market orientation, has been defined and explained by many authors and researchers, the definitions provided by Narver and Slater (1990) and Kohli and Jaworski (1990), are very prominent and most of the researchers conducted various research according to their definitions and measurement scale. Kohli and Jaworski (1990) consider market orientation from the behavioural aspect and state that market orientation involves those activities that direct the firm towards the customer satisfaction. They also argue that the profitability of the firm is the outcome of market orientation. On the other hand, Narver and Slater (1990) explain market orientation from the cultural view point and argue that market orientation is the organisational culture which focuses mostly three broad important components like customer orientation, competitor orientation and inter-functional coordination.

Empirical evidence show that there is a positive association between market orientation and firm performance and firm can achieve better performance through applying the concept of market orientation as market oriented firm can satisfy its customers by fulfilling their needs and preferences (Jaworski & Kohli, 1993). There are many empirical studies on the link of market orientation and firm growth and performance (Chao & Spillan, 2010; Charles, Joel, & Samwel, 2012; Ihinmoyan & Akinyele, 2011; Kumar, Subramanian, & Strandholm, 2011; Kumar, Jones, Venkatesan, & Leone, 2011; Long, 2013; Ozmen & Deniz Eris, 2012; Shehu & Mahmood, 2014; Suliyanto & Rahab, 2012; Udegbe Scholastica & Udegbe Maurice, 2013). Each of the studies suggest that market orientation is one of the important determinants for business performance, mainly due to the fact that market oriented firm identify the needs, wants and preferences of customers, try to provide products and services according to their needs which subsequently enhance the satisfaction levels of the customers and therefore increase firm performance.

The findings of many researches indicate that market orientation has significant impact on customer orientation, firm commitment, the growth of the firm in terms of sales, financial and non-financial performance, return on assets, profitability (Jaworski & Kohli, 1993; Narver & Slater, 1990; Pelham & Wilson, 1995; Siguaw, 1994; Slater & Narver, 1994) as well as long-run financial performance (Ruekert, 1992). Although majority of the studies focus on the large firm, many studies find marketing concept as

one of the critical success factors for SMEs (Baker & Sinkula, 2009; Ghosh & Kwan, 1996; Mahmoud, 2010; Nur, 2014; Pelham, 2000; Shehu & Mahmood, 2014; Suliyanto & Rahab, 2012; Yusuf, 1995). Nur (2014) conduct a research in Indonesia from the sample of printing SMEs and reveal that market orientation and the performance of SMEs are positively correlated. Study in China in the SME sector confirms that market oriented firm achieve higher performance compared to their counterpart (Li, Zhao, Tan, & Liu, 2008). Research on small business enterprises in Nigeria reveals that small firms those are market oriented show substantial progress than others and find a very significant effect of market orientation on small firm performance (Dauda & Akingbade, 2010). Similar research done by Kaya and Patton (2011) in Turkey also finds positive association between market orientation and SMEs innovative performance. Gaur, Vasudevan, and Gaur (2011) conduct a research from the sample of Indian manufacturing SMEs in order to examine the relationship between market orientation and firm performance. Their finding suggests the significant positive relationship between market orientation and the performance of manufacturing SMEs.

Although a vast majority of the studies reveal and confirm the significant positive relationship between market orientation and firm performance in various kinds of firms, there are some empirical evidences that find some partial relationship or no significant relationship. Chao and Spillan (2010) conduct a comparative study for US and Taiwanese SMEs in order to examine the relationship between market orientation strategy and firm performance. They argue that the concept of market orientation has less applicability in the context of US and Taiwanese SMEs. Study of Demirbag, Lenny Koh, Tatoglu, and Zaim (2006) tests the impact of market orientation on the performance of SMEs operating in Turkish textile industry. Their findings reveal no association between market orientation and firm performance. A recent research of Shehu and Mahmood (2014) in the context of Nigeria also reveals that there is no relationship between market orientation and SME performance. Another recent paper of Mokhtar, Yusoff, and Ahmad (2014) in Malaysia reveals different results for the core elements of market orientation. They confirm that the key element of customer focus and market dissemination are positively related with firm performance however market intelligence and responsiveness are negatively related to the firm performance.

### **Managerial capability of owner-manager and small firm financial growth**

Every business organisation either big or small require to have efficient managers with appropriate capabilities in order to operate and manage businesses successfully in the

highly competitive and changing business environment. There are different types of managerial capabilities and over four hundred different competencies exist in the literature (Mitchelmore & Rowley, 2010). Boyatzis (1982) refers managerial competencies as the characteristics of a person who manages a business or a team of workers. He also states that managerial competency has two components; the task and the skills require to perform the task. According to Hellriegel et al. (2004), managerial competencies are "the sets of knowledge, skills, behaviors and attitudes that a person needs in order to be effective in a wide range of managerial jobs and various types of organizations". On the other hand, Adner and Helfat (2003) state that the foundations of managerial capabilities are the knowledge and skills of managers and these should be developed continuously.

The capabilities of the manager or his team will largely determine the future growth and survival of the firm (Pearce, 2009). The owner of the SME who has entrepreneurial spirit and possess a good set of management capabilities can effectively coordinate all kinds of resources to achieve efficient results. However, lack of managerial capabilities mostly hinders the operations of the business and its performance. Study of Capaldo, Iandoli, and Ponsiglione (2004) reveals that the success or failure of the most small and medium enterprises highly affected by the capabilities of the owner-managers. Moreover, poor financial management has been found as one of the deciding factors for the survival of SMEs (Abdullah & Sinha, 2009). Therefore, developing the managerial capabilities is highly necessary for the growth of the firm.

There are many empirical studies that find out the relationship between managerial capabilities and small and medium enterprises growth and performance. Yusof and Aspinwall (2000) confirms that the managerial ability of the owner-managers has the greatest impact on the performance of SMEs. Laguna (2012) demonstrates that the business success of SMEs and managerial competencies (both general and specific) is moderately but significantly correlated. Research done by Nur, Surachman, Salim, and Djumahir (2014) from the sample of printing SMEs in Indonesia find the positive association between management capability and SMEs Performance although the result show very insignificant relationship. On the other hand, Al-Madhoun and Analoui (2003) in Palestine finds that there is a significant relationship between owner-managers skills and small business success. Nurlina (2014) also reveals that the performance of SMEs is significantly and positively influenced by the management capabilities. In a recent research done by Ssekakubo (2014) identify the strong positive association

between managerial competency and financial performance in Uganda using the sample from Savings, Credit and Cooperative Societies.

### **Government support and small firm financial growth**

Small enterprises all over the world deserve more help from the government for their growth and success. Baum and Locke (2004) argue that the success of the entrepreneurship business primarily depends on the role that any government plays for developing the business. According to Lütkenhorst (2006), the success of SME sector is highly linked to how the government provide support to the business through developing policies and programmes and creating conducive environment for the survival of firms. Many studies find the positive relationship between government support and SME growth or performance although some other studies find insignificant relationship between two constructs. Jasra, Khan, Hunjra, Rehman, and Azam (2011) finds some factors including government support have significant association with the success of small and medium enterprises. Uddin and Bose (2013) from the sample of Bangladesh reveal that government support is significantly and positively correlated with the SMEs success. Kamunge (2014) also finds that government policy and the regulations are the serious obstacles that affect the performance of SMEs in Kenya.

Although a large body of literature find the positive relationship between government support and SME growth or performance, many studies reveal insignificant or even negative relationship. Vixathep (2014) and Egena (2014) show that government support in Nigeria has no substantial impact on the performance of SMEs. Similarly, a research of Chen and Parker (2007) on Taiwanese SMEs related to clothing and textiles industry also shows that government support is not useful for improving the performance of SMEs. Man (2014) reveals that SME sector in Malaysia does not depend on government support for their business operations and such support do not play significant role for enhancing the performance of SMEs. Egena (2014) conducts a study on SMEs involving three or more people to find out the impact of institutional support on the performance of SMEs. They concludes that SMEs who receive such financial and non-financial supports perform less compared to their counterpart in terms of employment and turnover.

### **Private organizations support and small firm financial growth**

In general, the growth or performance of micro and small enterprises largely depend on the support they receive from the government and the other private organizations (Islam,

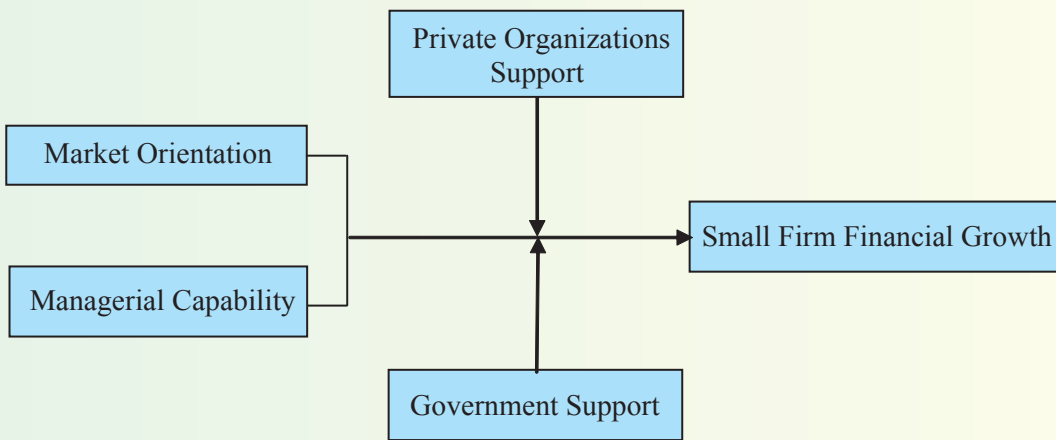
2013). There are many researches on Private organizations support and entrepreneurship business and many researchers advocate the private organizations support for entrepreneurship development (Webb, Kistruck, Ireland, & Ketchen Jr, 2010). Some studies (McWilliams, Siegel, & Wright, 2006; Ravn, 2010; Webb et al., 2010) claim that private organizations support provide benefits both the organizations and entrepreneurs. Entrepreneurs can achieve better success receiving the support services from the market experts with different skills and knowledge and organizations in return get the financial benefits as well as the market reputation. However, research on Private organizations support and small business growth or performance is very scant. Very few researchers of different countries have tried to show its relations from their corner.

Researchers (Massey, 2003; Matlay, Ramsden, & Bennett, 2005) recognize that the support of private sector can be used to improve small business performance. A study of Van (1998) suggests that if small businesses receive support services according to their business needs, they will flourish in future. Zindiye, Chiliya, and Masocha (2012) conduct a survey on the sample of manufacturing SMEs in Zimbabwe to investigate the impact of government and other private organizations support on the performance of SMEs. Their finding reveals that government and private organizations support positively influence the performance of SMEs. Saleh (1995) studied on women owned small enterprises and finds that entrepreneurs who have no formal education and previous experiences became successful in their business regarding sales, employment and profitability by receiving management trainings from the supporting organizations.

Business training enhances the ability of the entrepreneurs to operate the firm which subsequently increase the performance of firm (Du Plessis, Frederick, & Goodwin, 2010). Mashenene and Rumanyika (2014) finds that inadequate business training highly affects the growth of SMEs in Tanzania. Therefore, they recommend that more need based training is required to develop the knowledge, skills and attitude of owner-manager of SMEs for better performance. On the other hand, access to information is the essential tool for the entrepreneurs to make their business successful (Hernandez, Nunn, & Warnecke, 2012). Kamunge (2014) states that access to information and market are the serious obstacles that affect performance of SMEs in Kenya. Therefore, efficient private organizations can enhance the success of small firms through providing adequate and relevant information.

#### 4. Research Model and Hypotheses

The growth of firm largely depends on the internal and external resources used by the firm to operate its business activities. Researchers of different fields focus on the resources according to their interest. Although there are different studies in this field, this sector is suffering from the inconsistent literature. As per the concept of the theory of Resource Based View (Barney, 1991) two important resources, market orientation strategy and managerial capability of owner-manager, are used as the independent variables to find out their impact on financial growth of small firms. Figure 1 shows the propose model. This research focuses on the direct relationship between the constructs and also considers government and private organizations support as the moderating variables with the expectation that it will enhance the relationships between market orientation, managerial capability and small firm growth.



**Figure 1: Research Model**

The theory of Resource Based View (Barney, 1991) considers the firm as the bundle of resources and argues that the resources firms have directly and indirectly affects firm's performance and growth by generating competitive advantages. Based on the concept of this theory, the paper considers market orientation strategy and managerial capability of owner-manager as the independent variables to test their impact on financial growth of small firm operating in Bangladesh. Many of the previous researchers used such resources to show their impact on firm growth in different context as discussed in literature review chapter and find some diverse relationships.

Market orientation strategy is an important determinant for small firm growth as the success of any firm largely depends on how successfully firm can sale its products and services according to the needs and wants of customers. It is assuming that firm can achieve better performance through applying the concept of market orientation as market oriented firm can satisfy its customers by fulfilling their needs and preferences. In Bangladesh most of the small firms face severe challenges due to the lack of market oriented activities (Abdin, 2015b, January 15). Therefore, in the framework it is included as independent variable in order to see whether any association exists between market orientation strategy and growth of small firm in Bangladesh.

Several studies develop the proposition that market oriented firms can lead the higher performance (Agarwal, Krishna Erramilli, & Dev, 2003; Dwairi, Bhuiyan, & Jurkus, 2007; Green Jr, Inman, Brown, & Hillman Willis, 2005; Low, Chapman, & Sloan, 2007; Slater & Narver, 1994). Mahmoud (2010) argues that although the market orientation concept has applied in different sizes of firms, when it applied in the field of SMEs, it will positively affect the performance of SMEs. Although some study find no significant relation (Chao & Spillan, 2010; Ghani & Mahmood, 2011; Suliyanto & Rahab, 2012) even negative relationship (Mokhtar et al., 2014; Voss & Voss, 2000), a majority of the previous studies confirm the positive relationship between market orientation and SME performance (Chittithaworn, Islam, Keawchana, & Yusuf, 2011; Dauda & Akingbade, 2010; Gaur et al., 2011; Kaya & Patton, 2011; Nur, 2014; Zheng & Cui, 2007). Therefore, the paper expects that if small firms operating in Bangladesh can develop better market orientation strategy, it will enhance their financial growth and recommends the following hypothesis:

***H<sub>1</sub>: There is a significant positive relationship between market orientation and small firm financial growth in Bangladesh.***

Managerial capability is a special type of firm-specific and non-transferable resource, the primary aim of which is to enhance the productivity of other resources. Small firm generally operated by the owner-manager without involving any expert people from outside. Therefore, it is the responsibility of the owner-manager to apply their skills and knowledge in order to ensure the growth of firm and to survive. The growth of firm depends mostly on the efficient managers with appropriate capabilities who carry out all the functional activities. Most of the problems of SMEs that are related to the marketing, finance, operations, production, distribution, personnel management, quality control,

Bookkeeping, etc., are essentially the managerial problems. Therefore, it is expected that by developing the capabilities that are required to enhance managerial effectiveness, owner-managers may enhance the growth of their firms.

The managerial capability of the owner-managers has the greatest impact on the growth or performance of SMEs. Many of the previous researches (Andreou, 2013; Hormiga, Batista-Canino, & Sánchez-Medina, 2011; Nurlina, 2014; Pansiri & Temtime, 2008; Ssekakubo, 2014) show that managerial capability significantly and positively correlated with firm growth or performance. However, researchers argue that, small firm owner-managers in both developed and developing countries lack managerial knowledge and skills (Jayne, 2007; Matlay et al., 2008; Walker & Webster, 2006) that jeopardise their potentiality of growth. Thus, if the owner-manager can gain sufficient amount of skills and knowledge, it will help them to enhance their managerial capabilities which ultimately gear-up their businesses growth or performance. Therefore, the paper proposes the following hypothesis:

***H<sub>2</sub>: The managerial capability of the owner-manager is significantly positively related to the financial growth of small business.***

Due to their characteristics of smallness and larger number, small firms deserve more help from the government sector for developing themselves and subsequently to contribute to the economy. Therefore, in many of the countries either developed or developing, government play a pivotal role for developing the SME sector (Handoko, Smith, & Burvill, 2014). Many previous studies find the positive relationship between government support and SME growth or performance although some other studies find insignificant and negative relationship between two constructs. Studies of Jasra et al. (2011) in Pakistan; Uddin and Bose (2013) in Bangladesh; Lee, Sohn, and Ju (2011) in china; Hansen, Rand, and Tarp (2009) in Vietnam; Bah and Cooper (2012) in Kenya etc. find out the positive relationship between different aspects of government support and SMEs growth or performance. On the other hand, many studies (Chen & Parker, 2007; Man, 2014; Vixathep, 2014) confirm the insignificant relationship and also there is an evidence (Egena, 2014) of negative relationship.

In Bangladesh, government and other stakeholders have undertaken various financial and non-financial support initiatives for the development of small businesses. Although there are some initiatives available for them, unfortunately most of the small businesses especially operating in the semi-urban or rural areas are not aware about these supports

or even they know, many of them do not have the proper access. As a result, they lagged behind the other group who know and get the support from the government and its agencies. It is expected that if the government design good policy initiatives with a package of support, provide infrastructures facilities including access to road, electricity, water, sewerage, etc. and also ensure the regulatory, legal and conducive environment, this variable will enhance the relationship of aforementioned resources and the small firm financial growth. Therefore, the paper hypothesizes following:

***H<sub>3</sub>: The positive relationship between market orientation and small firm financial growth would be higher when government support is higher.***

***H<sub>4</sub>: The positive relationship between managerial capability and small firm financial growth would be higher when government support is higher.***

Some studies claim that private organizations support in the form of business training enhances the ability of the entrepreneurs to operate the firm which subsequently increase their performance (Chandy & Narasimhan, 2011; Du Plessis et al., 2010; Naqvi, 2011). Other studies argue that private organizations support in terms of access to information is one of the important factors for the growth or performance of small firms (Hernandez et al., 2012; Kamunge, 2014). Therefore, from the literature it is evident that for the growth and survival of small enterprises, private organizations play a very significant role. Therefore, it is assumed that if private organizations provide required supports to the small firms with affordable cost and make them aware to participate, these would enhance the relationships between market orientation, managerial capability and small firm financial growth. Thus, the paper expects the following hypotheses:

***H<sub>5</sub>: The positive relationship between market orientation and small firm financial growth would be higher when private organizations support is higher.***

***H<sub>6</sub>: The positive relationship between managerial capability and small firm financial growth would be higher when private organizations support is higher.***

## 5. Methodology

### *Sample and data collection*

As the research concerns financial growth of small firms, the sample consists of small firms operating in Bangladesh. To collect data, interview was conducted through structured questionnaire among owners or managers where owners are absent from their

businesses operation. To select small firm, the definition of Bangladesh Bank (the central bank of Bangladesh) has been accepted (provided by SME Credit Policies & Programmes Department with circular no-4 in July 2015). The target populations of the study were the small businesses operating in three major divisions (Dhaka, Rajshahi and Chittagong) of Bangladesh. In Bangladesh, there are seven divisions namely, Dhaka, Chittagong, Barisal, Khulna, Rajshahi, Rangpur and Sylhet. The SME Foundation has identified 177 SME Clusters within 7 divisions in 51 districts (out of 64 districts) of Bangladesh. Among 177 SME clusters, most of the small businesses (71 percent) are located in Dhaka (the capital city), Chittagong (the commercial hub) and Rajshahi divisions (Abdin, 2015a, March 5). Thus, current research emphasised on these three broad areas for data collection and both the rural and urban areas were considered to generalize the results.

The paper considered Krejcie and Morgan (1970) table to determine total sample size. According to Economic Census 2013 of Bangladesh Bureau of Statistics there are 859,318 small businesses are operating in Bangladesh (Bangladesh Bureau of Statistics, 2015). Out of the total number, 598,645 small businesses (70 percent) are located in three selected divisions. Hence, based on Krejcie and Morgan table 384 small businesses were selected as the sample size. However, to reduce the sampling error and to minimize the non response rate, the total sample size were multiplied by two (Hair, Wolfinbarger, Ortinau, & Bush, 2008). Therefore, the total 768 questionnaires were administered. As the list of small enterprises including their addresses except the total number was not available in Bangladesh, the probabilistic sampling technique cannot be applied. Hence, non-probabilistic sampling technique is considered to make the survey manageable but within reliable limits.

The whole survey process consisted of two or more visits to the premises of small firms in different locations within the study area. In the first visit, researcher or his team dropping off the survey questionnaires to the small firm owners or managers with a short description of research objective. In the second or next visit, the entire completed questionnaires were collected from the respondents. Hence, the survey instruments have been picked up within one month (September-October, 2015) of dropping off. Out of 768 questionnaires, the researcher received 426 questionnaire within the survey time. From 426 questionnaires researcher found 19 questionnaires unusable and finally used 407 questionnaires for the analysis. The response rate of this survey was 55.47%.

### *Measures*

The paper measures market orientation with 12 items as a uni-dimensional construct which is adapted from the study of Suliyanto and Rahab (2012) that originally rooted from the work of Narver and Slater (1990). Suliyanto and Rahab (2012) used 13 items to measure this variable. However, from the list of 13 items, two items have merged (as per the expert opinion) such as 'Companies always respond to competitor strategies undertaken' and 'the company responded quickly to the actions of competitors'. Current study slightly modifies second item by adding 'any action' in place of action. Thus, if the respondents ask 'The firm responds quickly to any actions of competitors', the statement can capture the strategies also. There are also many evidences (Shah & Dubey, 2013; Shehu & Mahmood, 2014; Wilson, Perepkin, Zhang, & Vachon, 2014) that market orientation has been measured using uni-dimensional approach.

Managerial capability is measured by two dimensions using 18 items that are adapted from the study of Bourne and Franco-Santos (2010). They used 19 items, 5 for managerial knowledge and experience and 14 for managerial skills. From the 19 items used by Bourne and Franco-Santos (2010), one item has been dropped (as per expert suggestion) which is 'I have knowledge to analyse events, perceive trends, anticipate changes and recognize opportunities' as there is another item 'I have knowledge to do my job'. The later item indicates that managers have such knowledge by which they can accomplish all of their duties and activities and the contents attach in the former statement is also the part of managerial activities.

Government generally provides the financial and non-financial support to small business. However, the non-financial supports of the government were considered to measure the government support. Focusing a uni-dimensional measurement, 8 items were used to measure government support that were adapted from the studies of Yusuf (1995); Hansen et al. (2009); Rashid (2012); Abdullah (1999); Hung, Effendi, Talib, and Rani (2011). To measure private organizations support, the paper considered two important dimensions namely the information support and the training support. The first dimension, information support, is measured by 4 items that are adapted from Indarti and Langenberg (2004). The second dimension, training support that constitutes 4 items are adapted from Geringer, Frayne, and Milliman (2002) and Chen (2003).

The dependent variable of this research is small business financial growth which is measured through four growth indicators such as sales, profits, total asset size and

additional capital and adopted from Wickham (2006). Appendix-A presented all the measurement items that have been used to measure the variables.

Respondents were asked to anchor all these variables on a 5-point Likert scale, which ranges from 1=strongly disagree to 5=strongly agree.

## **6. Results**

### ***Respondents profile***

The unit of analysis was small firm and the respondents were owners or the managers where owners are absent from their businesses operation. About 70 percent of the total respondents were the owners and the rest 30 percent were managers. Almost all the respondents (96.56 percent) were male except 3.44 percent of female. Around 41 percent of the respondents completed Higher Secondary Certificates (HSC) followed by 31.70 percent in bachelor degree. The level of education for secondary or less was around 20 percent. A small portion (around 6 percent) of respondents completed the postgraduate degree and the respondents having diploma was very negligible (1.72 percent).

The majority of business had low business experience in terms of their age. Around 60 percent of sample firms were less than 10 years old and 40 percent were more than 10 years. The survey results showed that more than half (58.72 percent) of the sample firms were trading concern, 22.36 percent were service oriented firms and only 18.92 percent were manufacturing firms. According to the survey results, the lion portion (around 87 percent) of the sample firms were in between BDT 0.5 million to 10 million in terms of asset without land and building and rest of them has over BDT 10 million. In terms of number of employees, the majority (around 67 percent) of the businesses had less than 10 employees. The majority of the respondents (around 60 percent) were form urban areas, 23.83 percent from the rural areas and only 16.46 percent of them from the semi-urban areas.

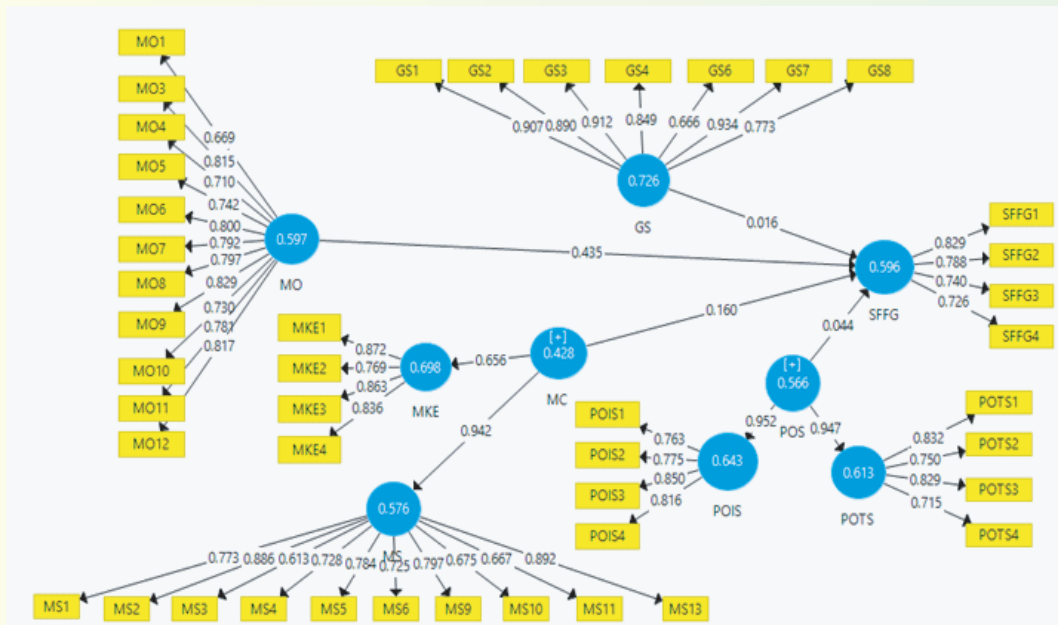
### **Common Method Variance**

A cross sectional survey method is used that indicates all kinds of data was collected from a single respondent within a firm which may create the problem of common method bias (Podsakoff, MacKenzie, Lee, & Podsakoff, 2003). The study performed Harman's single factor test to identify the potential problem. For this purpose, an un-rotated factor analysis was conducted for all measurement items that extracted 11 factors

with eigenvalues equal to one. The total 11 factors contribute 75.520 percent of the total variance. The first factor accounted for 15.455 percent of the variance. Therefore, it is concluded that the common method bias is not the major concern for this research.

**Measurement model evaluation**

According to Hair, Ringle, and Sarstedt (2011), reflective measurement model should be evaluated through interpreting their reliability and validity. Therefore, the measurement model is assessed through convergent and discriminant validity (Chin, 2010). Convergent validity is assessed by using factor loadings, average variance extracted (AVE) and composite reliability (CR) (Hair, Black, Babin, & Anderson, 2010). For items loading, the paper considered minimum loading value of 0.6 as recommended by (Chin, 1998). All the loadings were more than 0.6. The cut-off value for AVE should at least 0.5 and higher that indicates a satisfactory convergent validity (Hair, Hult, Ringle, & Sarstedt, 2014; Henseler, Ringle, & Sinkovics, 2009). The convergent validity in terms of AVE shows the satisfactory result as all the constructs have more that 0.5 of minimum threshold. The study found CR higher than the recommended value of 0.7 (Hair et al., 2014) for all the constructs. Finally, it can be said that the measurement model satisfied all the requirements of convergent validity that is shown in Table 1 and Figure 1.



**Figure 1: Measurement model**

Discriminant validity is estimated to examine the differences between two conceptually different concepts (Henseler et al., 2009). Fornell-Larcker criterion has been put forwarded in order to assess discriminant validity (Hair, Hult, Ringle, & Sarstedt, 2013). According to Fornell and Larcker (1981) criterion, the correlations between constructs should be compared with the square root of the AVE for that constructs and all the diagonal value of the constructs must be greater than the corresponding off-diagonal constructs (Chin, 2010). The results of the discriminant validity which is exhibited in Table 2 revealed that all the diagonal values of the constructs were greater than the corresponding off-diagonal constructs. Therefore, the results signify the adequate discriminant validity of the measurement model.

**Table 1: Convergent Validity**

First order construct	Higher order constructs	Item type	Items	Loadings	AVE	CR
Market orientation		Reflective	MO1	0.669	0.597	0.942
			MO3	0.815		
			MO4	0.710		
			MO5	0.742		
			MO6	0.800		
			MO7	0.792		
			MO8	0.797		
			MO9	0.829		
			MO10	0.730		
			MO11	0.781		
			MO12	0.817		
			Managerial knowledge and experience			
MKE2	0.769					
MKE3	0.863					
MKE4	0.836					
Managerial skills		Reflective	MS1	0.773	0.576	0.931
			MS2	0.886		
			MS3	0.613		
			MS4	0.728		
			MS5	0.784		
			MS6	0.725		
			MS9	0.797		
			MS10	0.675		
			MS11	0.667		
			MS13	0.892		

	Managerial capability			0.659	0.789	
Government support	Reflective	GS1	0.907	0.726	0.948	
		GS2	0.890			
		GS3	0.912			
		GS4	0.849			
		GS6	0.666			
		GS7	0.934			
		GS8	0.773			
		Private organization information support	Reflective	POIS1	0.763	0.643
POIS2	0.775					
POIS3	0.850					
POIS4	0.816					
Private organization training support	Reflective	POTS1	0.832	0.613	0.863	
		POTS2	0.750			
		POTS2	0.750			
		POTS3	0.829			
		POTS4	0.715			
	Private organization support			0.902	0.948	
Small firm financial growth	Reflective	SFFG1	0.829	0.596	0.855	
		SFFG2	0.788			
		SFFG3	0.740			
		SFFG4	0.726			

### Structural model evaluation

The coefficient of determination ( $R^2$ ), beta as well as the level of significance (t-values) of the path coefficients are the main evaluation criteria for assessing structural model (Hair et al., 2014). The paper used 1000 re-sampling for bootstrapping procedure to estimate the statistical significance of the path coefficient (Hayes, 2009). Beside the basic measures, the paper also reported the predictive relevance ( $Q^2$ ) and the effect size ( $f^2$ ) as suggested by Hair et al. (2014) and Soto-Acosta, Popa, and Palacios-Marqués (2015).

**Table 2: Discriminant Validity of measurement model**

	GS	MC	MO	POS	SFFG
GS	0.852				
MC	-0.018	0.654			
MO	-0.174	-0.033	0.773		
POS	-0.041	-0.007	-0.034	0.752	
SFFG	-0.064	0.145	0.425	0.027	0.772

The  $R^2$  of the financial growth was found 0.207 that is moderate as recommended by (Cohen, 1988). The value of the  $R^2$  indicates that 20.7 percent of the variance in financial growth is explained by the two independent variables (market orientation and managerial capability of owner-manager). The paper found that both market orientation ( $\beta = 0.431$ ,  $p < 0.01$ ) and managerial capability ( $\beta = 0.161$ ,  $p < 0.01$ ) have significant positive relationship with financial growth of small firm. Therefore, hypotheses  $H_1$  and  $H_2$  were supported that summarizes in Table 3.

**Table 3: Structural model**

Hypothesis	Relationship	Std Beta	Std Error	t-value	Decision	R2	f2	Q2
$H_1$	MO -> SFFG	0.431	0.043	10.028	Supported		0.234	
$H_2$	MC -> SFFG	0.161	0.041	3.961	Supported	0.207	0.033	0.112

\*\* $p < 0.01$

MO = Market orientation, MC = managerial capability, SFFG = Small firm financial growth.

This research also assessed effect size ( $f^2$ ) to show the substantive significance. The statistical significance like a P value can only shows whether an effect exists and does not reveal the size of the effect and thus in reporting and interpreting results, both the substantive significance (effect size) and statistical significance (P value) are essential (Sullivan & Feinn, 2012). Cohen (1988) provided the guideline for measuring the magnitude of the effect size and suggested that 0.02, 0.15 and 0.35 represent small, medium and large effects sizes respectively. According to this guideline, both the relationships showed (Table 3) substantive impact. However, managerial capability showed small effect and market orientation showed moderate effect.

Further, the paper also accessed the predictive relevance (Q2) that regarded as an additional assessment of model fit (Duarte & Raposo, 2010). This assessment is

performed by using the blindfolding procedure. According to Hair et al. (2014), blindfolding procedure should apply only for endogenous constructs that have a reflective measurement. For the Blindfolding setting, omission distance (OD) of 7 is used as suggested by Hair, Sarstedt, Ringle, and Mena (2012). The value of Q2 greater than zero (0) indicates that the model has predictive relevance for a specific endogenous construct whereas the value of Q2 lower than zero denotes lack of predictive relevance (Hair et al., 2014). Thus, the result (Table 3) of Q2 0.112 with financial growth indicates that the model has sufficient predictive relevance.

### *Moderating effect*

For the interaction effect of moderators, the paper used product indicator approach as both the endogenous (small firm financial growth) and moderator variables (Government support and private organization support) are continuous variable. To test the significance of the interaction effect, 1000 bootstrapping re-sampling is used. The overall results showed that the hypotheses for 4 interaction effects of government and private organization support with financial growth were not supported. Table 4 summaries the results of the moderating effects.

**Table 4: Moderating effects of government and private organization support**

Hypothesis	Interaction effect	Std Beta	Std Error	t-value	Decision
H3	MO*GS -> SFFG	-0.175	0.043	4.111	Not supported
H4	MC*GS -> SFFG	-0.100	0.120	0.834	Not supported
H5	MO*POS -> SFFG	-0.335	0.037	9.100	Not supported
H6	MC*POS-> SFFG	0.211	0.218	0.967	Not supported

MO = Market orientation, MC = managerial capability, GS = Government support, POS = Private organization support, SFFG = Small firm financial growth

The interaction effect of government support with managerial capability and financial growth ( $\beta = -0.100$ ,  $t = 0.834$ ) and private organization support with managerial capability and financial growth ( $\beta = 0.211$ ,  $t = 0.967$ ), were not significant as the t values were below the minimum cut-off value of 1.96. Therefore, the hypotheses of H<sub>4</sub> and H<sub>6</sub> were not supported. Although government support with market orientation and financial growth ( $\beta = -0.175$ ,  $t = 4.111$ ) and private organization support with market orientation and financial growth ( $\beta = -0.335$ ,  $t = 9.100$ ) showed the t values greater than

the minimum cut-off value and statistically significant, the hypotheses of H<sub>3</sub> and H<sub>5</sub> were not supported due to negative beta values. All of the hypotheses assumed that the relationships between independent and dependent variables would be higher when small firms receive government support. However, the results of market orientation with financial growth revealed that government and private organization support reduce their positive relationships which opposed the hypotheses direction.

## 7. Discussion and Conclusion

The aim of the paper was to explore the impact of market orientation and managerial capability of owner-manager on financial growth of small firm. Besides, based on the previous literature, it is also expected that government and private organizations support supposed to enhance the relationships between these resources and financial growth of small firm. In order to achieve such goals, a quantitative research is conducted to confirm and test the hypothesized relationships using sample from owner-managers of small firms operating in Bangladesh. The results revealed that both market orientation, managerial capability have significant positive relationships with financial growth of small firm.

The financial growth of small firm largely depends on the marketing activities. Similarly, the paper found strong positive relationship between market orientation and small firm financial growth in Bangladesh. The result of this research corresponded with some previous studies conducted by Gaur et al. (2011); Nur (2014); Jaiyeoba (2014); Mahmoud (2010); and Shehu & Mahmood (2014). The finding of the study indicates that small firm those who are market oriented can increase their financial growth. Since the central target of the market orientation is to satisfy the customers with their desired goods or service, a market oriented firm is able to increase their sales and profitability.

Small business in Bangladesh focuses niche market where there are few customers and sometime competes with large group of competitors for the same customers with similar products. As a result, they are gaining advantages by following market orientation strategy to find out the real needs of the customers, innovate new product as per their needs and desire, monitor their competitors to implement the new strategies for achieving sales and profitability. Due to huge population, small firm in Bangladesh are also benefited from different test and preferences. Identifying of those, they can produce new products or services or can modify some existing products or services. In addition

to that, by sharing market information and information related to their competitors among themselves and departments small firm also able to formulate new marketing strategy. With such activities, firm can sales products to existing customers or new customers in new market to generate more sales. When sales increase, firm has to support these expansion or growth through additional investment into some other resources like assets and technology. Therefore, it is clear that market orientation is one of the important driver to facilitate the financial growth of small firm.

In terms of managerial capability, the result of the research revealed that the managerial capability of owner-managers is positively related and statistically significant with financial growth of small firm in Bangladesh. This finding suggests that managerial capability has outstanding influence on the financial growth of small firms. In Bangladesh, most of the small firms are family oriented and operated by its owner or in few cases by manager. Thus, the growth of firm largely depends on owner-manager's insight, their managerial skills and knowledge, proper training, educational level, and also on their background. Although many of the owner-managers are not highly educated and may not familiar with the concept of managerial capability, but inherently or through the societal and business interaction they could able to manage their businesses to ensure its expansion or financial growth. The owner-managers possess a good set of management capabilities to coordinate all kinds of resources effectively to achieve financial growth. With good managerial capabilities, small firm owner or manager can make effective decision, communicate business information effectively, coordinate, motivate and organize his/her team, make connection with outside environment of the business and so fifth which help them to grow and expand their business.

Government and private organization support are used as the moderating variables. All of the interaction effects with market orientation, managerial capability and financial growth were found insignificant. This means that government and private organization support is not able to enhance the relationship between market orientation, managerial capability and small firm financial growth in Bangladesh. Not only for the smallness but also for many other reasons small enterprises all over the world face severe constraints for their growth and success. Again, for the business start-up, small firm requires various supports including capital, licensing and registration formalities, tax exemption and infrastructure facilities, etc. In these consequences, they need some supports from government and other supportive private organizations.

However, in Bangladesh government support is not adequate or inappropriate as per the requirements of small firm. The results found in this research contradict with the standpoint of earlier researchers and scholars. This paper revealed that there is no moderating role of the government support on the hypothesized relationships. Although there are some initiatives available from the government for small firm development in Bangladesh, unfortunately most of the small firms especially operating in the semi-urban or rural areas are not aware about these supports or even they know, many of them do not have proper access. In Bangladesh, there is a cumbersome process for the licensing or registering small firm. In many cases small firms do not get proper tax exemption facilities. In addition to that the infrastructure facilities are not adequate. For example, most of the firms do not get required amount of electricity to ensure smooth operation of their firms. Therefore, due to the lack of adequate government support the paper found no significant interaction effect among the hypothesized relationships.

Like government support, the paper also revealed that private organization support is not useful in Bangladesh to enhance the relationship between market orientation, managerial capability and small firm financial growth. The findings of the study indicate that small firms do not depend on the private organizations for enhancing financial growth rather they utilize their own marketing strategy and managerial capability for achieving financial success. The information and training received from private organizations failed to enhance the sales, profit or asset position of small firms. This is mainly due to the lack of relevant information and useful training programs that may lead the financial growth of firms. Small firms in Bangladesh are struggling to survive with their self-knowledge and skills related to market, trying to get market information by their own efforts and also trained by themselves rather than depending on the private organizations. Small firms require adequate training facilities from the private organizations that may improve their technical and interpersonal abilities. However, they are fully depending on their existing capabilities rather than the private organizations for enhancing financial growth. It is also true that the support services that offered by some private organizations are costlier for small firms to avail. If they want to avail such services, it may negatively affect their profitability.

### **Theoretical implications**

There is no direct theory related to the small firm's growth and the factors affecting their growth. In their research, Dobbs and Hamilton (2007) and Omar et al. (2014) reveal that

there is no unified theory presently available related to small firms' growth and also it is remain in the outside of the reach of scholars. Although there is no unified theory to be contributed, but the theory of 'Resource Based View (RBV) is more relevant in this context. Very few research conducted by employing RBV theory and considered only the manufacturing sector of SME mostly for developed countries. But current study added the literature to the RBV theory conducting the research on manufacturing, trading and service sector with a large sample in the context of developing countries like Bangladesh. The paper supplements the existing literature with the findings that market orientation strategy and managerial capability are the strong predictor of small firm growth in Bangladesh. The study also considered government and private organizations support as the moderators between the resources and small firm growth and end up with the argument that existing government and private organizations support do not play the role between these relationships. However, if government and private organization provide required and relevant support those are more accurate and useful, it may moderate the relationship between market orientation, managerial capability and small firm financial growth.

### **Practical implications**

There are many stakeholders who are actively involved with the sectors for different purposes and be benefited from the current research output. The Government and its related departments those are working for the betterment of the sector can take the lessons for their future course of action. Since there is no such research exists using these resources into a frame with the growth of small business segment, the stakeholders will have at least the idea, from the large sample, about the nature and degree of impact on small business growth as well as how these resources affect growth. The financial institutions or any other lenders who want to lend money in the small business segment can have the idea about the firms' growth and the influence of resources on growth that may help them in their credit appraisal decision. Besides, the practitioners including the researchers and policy makers can easily use the research output for further research as well as for designing policy initiatives. In addition to that from the current research output small business owner/manager will have the lessons those may be adopted for designing their future business plan or may be used as the early warning signal. Moreover, as per the managerial capability is concerned, the government bodies, private organizations providing business development support, policy makers and practitioners will have the idea about the most critical problems which must be addressed before

launching any knowledge and skill development programs to enhance their managerial capability.

### **Limitations and future research directions**

In this research, only two important resources, market orientation strategy and managerial capability are used which cannot generalize the impact of resources on small firm growth. Thus, more resources, both tangible and intangible, may include in a model to study in future. Like government and private organizations, many NGOs also work for small firm development, Therefore, further research can be done by using such variable as moderator. The paper considered only the financial growth of small business although the non-financial growth measure is also important. Hence, further research can be done to see the impact of market orientation and managerial capability on the non-financial growth of small firm.

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## **AppendixA: Items for measuring Variables**

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### **Market Orientation**

- The firm seeks to create value-added customer product.
- Firm try to understand the needs of customers
- The firm strives to provide customer satisfaction
- There have been attempts by firm to measure customer satisfaction.
- The firm provides after-sales service for customers.
- Sales person sharing of information about the firm's competitors.
- The firm responds quickly to any actions of competitors.
- The firm has a target to create the product competitiveness.
- There is coordination across the inside of the firm.
- Inter department in firm share information.
- There is cooperation between divisions in formulating marketing strategy.
- All parts in the firm participate in the creation of added value for customers.

### **Managerial Capability: Managerial knowledge and experience**

- Required experience to perform activities
- Knowledge to do job
- Ability to understand and learn quickly and easily
- Production of useful ideas for the business

### **Managerial skills**

- Make decisions backed by evidence
- Exhibit consideration and sensitivity in dealing with people
- Communication of business information effectively
- Creation of collaborative behaviours within a team
- Ability to persuade others
- Technical, cognitive and interpersonal skills to coordinate and organise the team
- Participation and business monitoring skill
- Connection with outside environment of the organisation
- Bring out the best in employees and workers
- Inspire people to be committed to the organisation
- Full team support
- Encourage the team to generate and implement their own ideas
- Encourage staff to take responsibility for the team's performance
- Longer term development and progress of the team members

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## **Appendix A: Items for measuring Variables (Continued)**

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### **Government support**

Adequate infrastructure (access to road, electricity, water, telephone, etc.) to run the business.  
License application and registration process.  
Tax incentives for small business.  
Favorable government policy  
Maintain law and order situation  
Skill training programs for small business owner-manager  
Relevant information/ knowledge that assist small firm  
Creation of local business environment that encourages business development

### **Private organizations support:**

#### **Information support**

Information for marketing the products  
Information on capital sources  
Information on technologies  
Information on government rules and regulations

#### **Training support**

Training support to improve technical abilities.  
Training support to improve interpersonal abilities.  
Training support to help understanding the business.  
Training support to enhance personal productivity.

#### **Small firm financial growth**

Sales volume  
Profit volume  
Total asset size  
Capital position