

# Analysis of Barriers To Entrepreneurship in Small and Medium-Sized Enterprises (Smes)

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## Abstract

Today entrepreneurship is considered as the economic driving engine for developed and developing countries and most countries have invested considerably on entrepreneurship development. The entrepreneurship development in a community could provide sustainable employment and economic development. It should be noted that entrepreneurship development has always been encountered different challenges and barriers. The present article is aimed to detect and classify the barriers of entrepreneurship development in Iranian SMEs and determine the importance of each barrier. Analyzing 28 detected barriers in the present study show that lack of sufficient knowledge in management skills, business management, lack of adequate investment to start and retain a business, difficulty in finding information about markets, products and prices, troublesome rules obtaining bank loans, and the difficulty in recruiting good and reliable staff are the most important barriers and challenges of corporate entrepreneurship development in Iranian SMEs.

**Keywords:** Entrepreneurship, Barriers, Small And Medium-Sized Enterprises (Smes)

## Introduction

Today, entrepreneurship in most developed and developing countries is considered as the main source of development, so that it is called the driving engine of economic and social development. The studies show that entrepreneurs play key roles especially in establishing SMEs which leads to high employment (Jahangiri et al. 2008). Entrepreneurship is the process of innovation and establishing new businesses conditions in hazardous conditions through discovering opportunities and utilization of resources. In other words, entrepreneurship means turning a new idea into a product or service which consequently provides increasing productivity, creating wealth, prosperity and employment. An entrepreneur is someone who presents a new product or service to the market with a new idea establishing a business mobilizing sources associating with financial, social and honor risks (Ahmadpoor and Erfanian 2007). Today, all agree that there is a positive relationship between entrepreneurship and economic growth (Benzing et al. 2009; Valliere and Peterson 2009). Studies also show that

entrepreneurship plays a significant role in economic development especially in creating job opportunities. Many governments, with their maximum utilization of facilities and research achievements, try to encourage and direct entrepreneurs as much as they can toward entrepreneurship activities, due to the special role of entrepreneurs in economic development. Entrepreneurs with their skill in spotting opportunities and chances and develop these situations, are considered as real pioneers of changes in economy and social developments (Ghavami and Lotfalipoor 2008).

The entrepreneurs are playing significant role in forming SMEs of which have allocated considerable volume of economic deals and workforce. In recent conditions which creating job opportunities for mass unemployed especially graduate unemployed is one the major concerns of our country's policy makers and decision makers, entrepreneurship development in SMEs could be the solution to many problems. Entrepreneurship development is difficult and requires numerous studies and examinations. One of the most important steps in the development of entrepreneurship is to identify the barriers the entrepreneurs encountered. Identification and assessment of these barriers can be used as a guide to be used in making strategic and entrepreneurial background to provide further flourish. Accordingly the study aimed to achieve three main objectives as follows.

- 1- Identification of barriers to entrepreneurship in small and medium enterprises
- 2- Evaluation and ranking of barriers to entrepreneurship in small and medium-sized enterprises (SMEs)
- 3- Provide guidelines for the development of entrepreneurship in SMEs

The rest of the paper is organized as follows. In Part 2 some of the researches on entrepreneurship will be examined. In Part 3 SMEs and their status will be reviewed. The research is described in section 4. Section 5 presents the findings and at the end conclusions are discussed.

### **The Literature Review**

Entrepreneurship, as one of the most important aspects of socio-economic development in recent decades, has attracted many of researchers and authorities in Iran and other countries. Barriers facing entrepreneurial development in developing countries are often similar. Most entrepreneurs in developing countries face an unstable business environment and the bureaucratic rules of private firms, especially business registration and taxation systems, are complicated (Benzing et al. 2009). According to a study by Lamei (2002), rules and regulations set by the government in the economy, not only do not provide grounds for entrepreneurial and production activities, but also they act as a barrier to the growth of entrepreneurship in small industries. The study shows that the legal barriers to entrepreneurship development in five areas of starting a business, business law, bank credit, import and export regulations, taxes and duties associated with the weakness of the state in ensuring the ownership right, stabilization of macroeconomic has pulled down the growth of entrepreneurship in small industries. A study by Benzing et al. (2009) showed complex tax structure, inability to find and hire a trustworthy and reliable staff, lack of familiarity with accounting concepts and a weak economy are the most important barriers for the entrepreneurs in Turkey. Zhuplev and Shtykhno (2009) studied the barriers of entrepreneurs of Russian small businesses. Their results showed that insufficient capital to start a business, lack of sufficient capital to continue a business, inability to find and hire a reliable and trusted staff, and governmental laws and regulations are considered the most important barriers to entrepreneurship. Studies show that the barriers facing entrepreneurs in developing economies are: weak economy, limited

access to financial capital, inability to find and hire a reliable and trusted staff, and tight competition (Benzing et al. 2005; Chu et al. 2007). Cook (2001) also stated that the owners of SMEs in developing economies often complain of insufficient funds. Ozsoy et al. (2001) also reported that obtaining loans from public and private organizations is another problem for entrepreneurs in Turkey. Business owners often must rely on the financial needs of personal and family resources. Kozan et al. (2006) also reported that insufficient funds to significantly inhibit the growth of businesses in Turkey. Another problem facing entrepreneurs in developing countries is the excessive regulations which often lead to long delays and costly processes (Macculloch 2001). Hossein (1998) has reported entrepreneurship development limitations in Bangladesh small industries as governmental costs, trade policies, legal and administrative problems and financial constraints. In a study at Metropolis, the most important barriers affecting entrepreneurial behavior among individuals are financial and economic barriers, lack of consultation and other intellectual helps, high risk, lack of confidence in their abilities, lack of entrepreneurial skills, having a good entrepreneurial ideas and lack of sufficient knowledge of the local market and lack of motivation (Robertson et al. 2003). In studies by Yusuf (1995) on the Pacific islanders, good management skills, access to financing individual characteristics and satisfactory support of government are the most important factors for successful entrepreneurs. Similarly, a study by Pratt (2001) on Kenyan entrepreneurs showed that access to capital, having business skills, previous experiences and family support are the most important factors of entrepreneurial success. Kozan et al. (2006) also reported that business and financial management training significantly associated with the development plans of owners of small and medium enterprises. In particular, the Turkish entrepreneurs' growth needed market information, technical assistance, financing, marketing and financial education.

### **Small and Medium Size Enterprise**

Small and Medium-sized Enterprises (SMEs) are very important for any country's economic performance and development and are a major source of flexibility and innovation. There are many definitions for SMEs. Australian Bureau of Statistics has defined SME as: any business that employs less than 200 employees; while in Europe Parliament SME firms are defined as having more than 250 employees. Small companies have also defined as companies with less than 50 persons (Scupola 2009). Today, the importance of SMEs in community economy has been well known and it is estimated that these institutions shape about %80 of global economic growth (Jutla et al. 2002). Between %96-%99 of companies are SMEs in most member countries of the Organization for Economic Cooperation and Development (OECD) (Scupola 2009). In Europe, %99.8 of businesses is done by SMEs and they hire about 0.666 of total workforce. In Japan also there are 6 million SMEs (%99.7 of businesses) and they hire %70 of total workforce, while in South Korea, SMEs provide 80% of people's jobs (Benzing et al. 2009).

### **Materials and Methods**

In this study, in order to fully understand the concepts and identify the dimensions and components of the research literature in the field of entrepreneurship and entrepreneurial development challenges and barriers were identified. Also, many professors and entrepreneurs and managers of small and medium enterprises were interviewed freely and directly on entrepreneurial and managerial issues. It is resulted 28 barriers. These barriers categorized in four groups based on literature review and expert opinion as: financial,

scientific-educational, policymaking and cultural barriers. Table 1 shows a complete list of these barriers.

*Table 1 –  
Barriers to Entrepreneurship Development*

No	Main Barriers	Secondary Barriers
1	Financial barriers	Insufficient capital to start and sustain a business
2		High cost of advertisement services
3		Difficulty in finding adequate office and operational space
4		Difficulty in recruiting good and reliable staff
5		Lack of hardware and software
6		Difficulty in providing security guarantees to launch an entrepreneurial activity
7	Scientific educational barriers	Lack of skills and knowledge required to launch and sustain a business
8		Lack of sufficient knowledge in management skills and how to manage business
9		Lack of marketing training
10		Lack of accounting training and inexperience in financial planning
11		Lack of adequate knowledge of the laws and regulations
12		Difficulty in finding information about markets, products and prices
13		Little knowledge of the business environment and the ruling environmental factors
14		The lack of knowledge about how to enter market and expand market presence
15		Lack of knowledge of foreign markets
16		Lack of education and extension programs on how to export products
17		Lack of entrepreneurial skills training
18	Policymaking barriers	The high rates
19		Troublesome rules obtaining bank loans
20		Restrictions on labor laws
21		Lack of support from banks and financial institutions
22		Insecurity for investments
23		High price volatility
24		Weak insurance system
25	Cultural barriers	Relation-based distribution of inputs and credits
26		Rule of brokers and intermediaries
27		Lack of moral and material support from family
28		Negative attitudes towards risk

Later a questionnaire was designed and, in order to measure the importance of each parameter and classify them, the subjects (professors, some entrepreneurs, managers of

SMEs and some staff of companies with managerial study and experiences) were asked to rate each parameter within a 5-point range (1,2,3,4,5), so that (1- Little impact; 2- Somewhat effective; 3- Effective; 4- Very effective; 5- very much effective). The questionnaire distributed in 75 copies and 66 copies returned after almost 1.5 months of putting a lot of efforts. Three questionnaires were rejected due to deficiencies in data entry and at the end 63 questionnaires were compiled which is totally 0.84 of all distributed questionnaires. The Important Index was used to analyze the data. The index is calculated based on the following equation:

$$II = \frac{5n_5 + 4n_4 + 3n_3 + 2n_2 + n_1}{5(n_1 + n_2 + n_3 + n_4 + n_5)} \times 100$$

In which  $n_1$  is the number of subjects picked "little impact" option,  $n_2$  is the number of subjects picked "somewhat effective" option,  $n_3$  is the number of subjects picked "effective" option,  $n_4$  is the number of subjects chosen "very effective" and  $n_5$  is the number of subjects picked "very much effective" option. Once the Importance Index calculated for all parameters, the Important Index for each group is obtained calculating the average of group.

### Analysis of the results

In the present study, 28 barriers of entrepreneurship development were classified in Iranian SMEs based on their importance. These barriers categorized in four groups. After collecting the expert opinions, the Importance Index was calculated for all barriers. Later the Importance Index of each group was obtained through calculating the average barrier of each group. Amongst the known barriers, the financial barriers were the first group. As Table 2 shows, the group included six barriers. As it is seen, insufficient capital to start and sustain a business is the most important entrepreneurship barrier and obtained the highest Importance Index. Table 2 shows the Importance Index of other parameters.

Table 2

The Importance Index And Rank of Each Financial Barrier

Group	Importance Index	Barriers in group	Importance Index	Rank in group	Overall rank
Financial Barriers	65	Insufficient capital to start and sustain a business	78.75	1	2
		High cost of advertisement services	51.32	6	26
		Difficulty in finding adequate office and operational space	52.43	5	23
		Difficulty in recruiting good and reliable staff	75.23	2	5
		Lack of hardware and software	73.32	3	6
		Difficulty in providing security guarantees to launch an entrepreneurial activity	58.97	4	17

Table 3 shows the Importance Index for 11 scientific – educational barriers. The Importance Index in the group was obtained 64.79 which ranked as third amongst the four groups. Also “lack of sufficient knowledge in management skills and how to manage business” barrier got the highest score with the Important Index of 79.63 and introduced as the main scientific – education barrier. The second highest score in this group was “difficulty in finding information about markets, products and prices” which is very important.

Table 3

*The Importance Index And Rank of Each Scientific – Educational Barrier*

Group	Importance Index	Barriers in group	Importance Index	Rank in group	Overall rank
Scientific – educational Barriers	64.79	Lack of skills and knowledge required to launch and sustain a business	73.22	3	7
		Lack of sufficient knowledge in management skills and how to manage business	79.63	1	1
		Lack of marketing training	51.98	11	25
		Lack of accounting training and inexperience in financial planning	56.34	9	21
		Lack of adequate knowledge of the laws and regulations	54.21	10	22
		Difficulty in finding information about markets, products and prices	76.87	2	3
		Little knowledge of the business environment and the ruling environmental factors	69.45	4	10
		The lack of knowledge about how to enter market and expand market presence	67.82	5	12
		Lack of knowledge of foreign markets	58.32	8	18
		Lack of education and extension programs on how to export products	61.59	7	16
		Lack of entrepreneurial skills training	63.28	6	15

The third and most important group in entrepreneurship is policymaking. The results indicate that the barriers are important in this group, so that the Important Index of this group was 68.29 (Table 4). The results also show that “troublesome rules obtaining bank loans” and “the

high rates” are two major barriers in entrepreneurship development. These barriers in policymaking group ranked as first and second spots, respectively.

*Table 4*

*The Importance Index And Rank of Each of Each Policymaking Barrier*

Group	Importance Index	Barriers in group	Importance Index	Rank in group	Overall rank
Policymaking Barriers	68.29	The high rates	72.54	2	8
		Troublesome rules obtaining bank loans	76.32	1	4
		Restrictions on labor laws	66.55	5	13
		Lack of support from banks and financial institutions	64.22	6	14
		Insecurity for investments	71.87	3	9
		High price volatility	69.11	4	11
		Weak insurance system	57.42	7	20

The last group includes the cultural barriers. There are four barriers in the group. The group is ranked fourth amongst the four groups. Amongst the barriers, the barrier “negative attitudes towards risk” considered as the major barrier in the group. Table 5 illustrates the Important Index and rank of each cultural barrier.

*Table 5*

*Important Index And Rank of Each Cultural Barrier*

Group	Importance Index	Barriers in group	Importance Index	Rank in group	Overall rank
Cultural Barriers	51.21	Relation-based distribution of inputs and credits	48.32	3	27
		Rule of brokers and intermediaries	46.95	4	28
		Lack of moral and material support from family	52.12	2	24
		Negative attitudes towards risk	57.47	1	19

### Discussion and Conclusions

The present study prioritized the barriers of entrepreneurship development in Iranian SMEs using the Important Index. The results show that the policymaking and financial barriers are very important amongst the four groups of barriers. Also “lack of sufficient knowledge in management skills and how to manage business”, “insufficient capital to start and sustain a business”, “difficulty in finding information about markets, products and prices”, “troublesome rules obtaining bank loans” and “difficulty in recruiting good and reliable staff”, “lack of hardware and software”, “lack of skills and knowledge required to launch and sustain a business”, “the high rates”, “insecurity for investments”, “little knowledge of the business environment and the ruling environmental factors” ranked as first to tenth respectively.

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