

## Introduction

Small and medium-sized enterprises (SMEs) play an important role in the world economy and contribute substantially to income, output and employment within a region and its boundary. Small and Medium Enterprises (SMEs) play a major role particularly in underdeveloped and developing countries, they help to transform the region into a high-income group. SMEs have been cited as a major driver and the foundation of Myanmar economy.

Over the past two decades, the local or regional SMEs have become a model for economic development for developed as well as developing economies. “The high-tech industry of Bangalore, India, the Chilean wine clusters and the Sialkot, Pakistan, surgical instruments are examples of many successful cases” UNDIO (2011). The Myanmar government is making efforts to transform the economic condition of the country and promote sustainable development. One of the major area is promoting small and medium-sized enterprises (SMEs), as they play a big role in the economic development of both developing and developed countries.

SMEs performance is directly linked to the benefit of the economy as a large number of populations are employed by the SMEs when compared to MNCs. It has been found that many Entrepreneurs of SMEs face hurdles and problems which can be attributed to various reasons which are most common in developing nations. An increasing number of international SMEs failing to thrive, is regardless of the size of the economy. The failure rates are extremely high for emerging countries as mentioned by Khaliq et al.(2011) “Developing country entrepreneurs have to be more creative than their counterparts in wealthier nations, if they are to overcome the obstacles of dysfunctional legal and financial systems, distorted markets and unequal access to resources,” Nichter (2004).

SME Entrepreneurs face many problems which are more severe in underdeveloped and developing economies where the financial and legal framework are weak along with other factors like supply of raw material and equal distribution of available resources. Lack of quality human capital, a good human capital can be asset for the SMEs hinders their potential which becomes crucial in a country like Myanmar where the development of human capital is one of the lowest and quality educations does not reach to the whole population. One of the problems faced by SME Entrepreneurs in an underdeveloped economy like Myanmar is globalization. As it acts like a double-edged sword, it offers both opportunities and challenges for small businesses. Rapid changes in technology and globalization has brought opportunity as well challenges. (SMEs) to remain competitive. In developing countries and countries with economies in transition competitiveness of SMEs has become crucial survival and growth.

### 1.1 Rationale for small enterprise

Why pay attention to small enterprises? The proposition that small firms offer unique development advantages is as old as the concept of economic development itself. Proponents of policies and programs to support small firms have long claimed that they are more labor intensive, efficient, equitable in distributing the income that they generate, widely dispersed geographically, and nurturing of entrepreneurs.

Though small firms are widely recognized as contributing to growth in many developed economies (such as the United States, Italy, Japan, and the “East Asian tigers”), the presence of large numbers of SMEs in developing economies often carries a stigma, especially when the firms are informal and concentrated in markets with low barriers to entry.

In addition to the perceived economic benefits, SME development has long been viewed by policymakers as a means to increase incomes of the poor. SME owners and workers do tend to

be disproportionately poor, with the incidence of poverty within SMEs higher than in medium and large firms.

## 1.2 Overview of SME Growth

In most developing countries, SMEs constitute the vast majority of firms, generating a substantial share of both overall employment and output. Given their significant economic role, one might expect SME growth to drive overall increases in output and income levels. At an aggregate level, SME demonstrate impressive growth, especially when compared with larger firms. However, many individual SME grow slowly or not at all—in some cases, due to a conscious decision on the part of the SME Entrepreneur. Overall growth rates are often fueled by the rapid expansion of a narrow group of highly performing SMEs. In developing as well as in developed countries, there appears to be a small group of “gazelles”—firms that outperform their peers and drive aggregate employment and productivity growth for the small business sector.

## 1.3 SME Entrepreneurs and their role in Economic Development

The entrepreneurs with their ability to scan, analyze and identify opportunities in the environment transform them into business proposition through creation of economic entities. They by channelizing the resources from less productive to move productive use create wealth. Through efficient and effective utilization of national resources, they act as catalysts for economic development and agents of social transformation and change. According to Joseph Schumpeter, the rate of economic progress of a nation depends upon its rate of innovation which is turn depends on rate of increase in the entrepreneurial talent in the population. According to Meir and Baldwin, development does not occur spontaneously as a natural consequence when economic conditions in some sense are right. A catalyst is needed which results in entrepreneurial activity to a considerable extent. The diversity of activities that

characterizes rich countries can be attributed to the supply of entrepreneurs. They play a vital role for the economic development of a country.

#### 1.4 Statement of Problem

For a long period of five decades Myanmar was in isolation, faced military rule and the economy was controlled by the military government, Myanmar has finally leading on the path to achieve rapid economic growth, development and sustainability. Realizing these goals will depend, to a large degree, on its SMEs which forms the backbone of Myanmar economy. According to the Myanmar Government, more than 90% of the Myanmar economy is composed of private companies, particularly small and medium enterprises (SMEs).

According to the recent data from government sources there were around 1000 SMEs in Mandalay Region and out of which 500 SMEs are operating and most of them have closed down due to various reasons. In a favorable economic conditions' entrepreneur play a major role in tapping and making use of the available resources into product and services which in turns becomes value for the population who form the part of the process or avail the products and services. We have seen from the earlier literature that SMEs not only provides job to the population but also alleviate a large population from poverty as the benefits from SMEs reaches a large section of society. Hence, SME Entrepreneurs play a major role in the advancement of the economy by taking risk, which is more important in an economy like Myanmar where the wealth distribution is unequal and uneven between economy sectors, regions and population as a whole.

The researcher is curious in understanding the problems faced by Entrepreneurs of SME in Myanmar in Mandalay which resulted in closing of 500 SMEs which provided jobs to the local population. The researcher would like to understand the existence of trust and cooperation between SMEs and entrepreneurs. Cooperation is also important for having a common objective, strategy to achieve competitiveness in the ever-changing market scenario.

*Research questions of this study are as follows:*

1. What attitude to cooperation exists between the SME Entrepreneurs in Mandalay Region?
2. What are the problems faced by the SME entrepreneurs in Mandalay, Myanmar?
3. What are the factors which hinders the competitiveness of SME in Mandalay in relation to the Entrepreneur?
4. What solutions are supposed to counter or solve the problems faced by SME Entrepreneur in Mandalay?

### 1.5 Objectives of the study

The number of small and medium enterprises (SMEs) in Mandalay industry zone has halved, according to U Nay Win, vice chair of Mandalay industry zone management committee. "According to our data, there were over 1,000 SME businesses in 2010 but now in 2017 there remains only over 500." he said. There has been a decline in the number of SMEs are finding it hard to compete as the market is opening more and more. Local SMEs can no longer compete with the products from China and other ASEAN countries. "Myanmar SMEs cannot compete with international industrial goods, food products and consumer goods," he said.

This can be attributed to various factors such as scarcity of skilled workers, inadequate capital, insufficient electricity supply, weak government support to the SME sector and weakness in coordination and collaboration practice among businessmen. The data gained from this research paper can be proposed to frame policy so as to be able to solve the problem of closing down of various SMEs in Myanmar which can be attributed to many reasons.

Some of the objectives of the study are below:

1. To understand the SME business culture and problems faced by Entrepreneurs in Mandalay.

2. To exploit current problems and find the possible way to solve the problem.
3. The data gained from this research paper can be proposed to frame policy to solve the problems of SMEs in other regions of Myanmar.

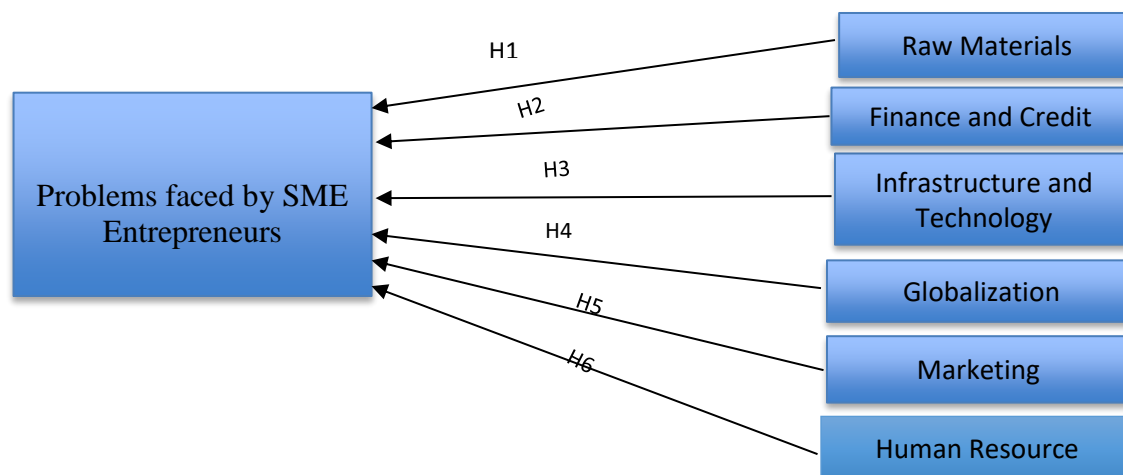
Research hypothesis is based on independent and dependent variables derived from the variable derived from literature reviews. Hypothesis illustrates that all the independent variables has effect on the dependent variables to certain degree which can differ depending upon the type of industry.

### 1.6 Scope of the study

It has been analyzed that SME's play an important role in the economy of a country and they are good source of job for the economy. SMEs are important to economic growth and significantly essential to generate employment (Harvie 2010), (World Bank 2003). To strengthen SMEs, they need to have good economic environment along with Entrepreneurship qualities so as they can compete against internal and external factors along with related advantages. SME entrepreneurs can play a major role in the poverty reduction of the population in Myanmar which is the goal of many government bodies and NGOs around the world. This research has limited its scope to only study the SME Entrepreneurs in Mandalay city. Most of the research on SMEs is focused in and around Yangon. Hence, there are very few papers and research on Mandalay region. Mandalay being the second largest city and economic hub of Northern Myanmar it plays an important role in the economy of Myanmar being the gateway to northern Myanmar.

### 1.7 Conceptual framework and Hypotheses

Research variables are based on the various literature review and articles from OECD and other relevant secondary sources. Based on the extant literature review this paper proposes the following research model.



**Fig 1: Conceptual Framework**

Hypothesis illustrates that all the independent variables has effect on the dependent variables to certain degree which can differ depending upon the type of industry.

Hypothesis 1: SME Entrepreneurs faces the problem of supply of raw material.

Hypothesis 2: Finance and credit acts as a problem for the SME Entrepreneurs.

Hypothesis 3: Infrastructure and technological issues act as a problem for SME Entrepreneurs.

Hypothesis 4: SME Entrepreneurs find globalization as a problem in a underdeveloped economy.

Hypothesis 5: Human Resource is a major problem for the SME entrepreneurs in Mandalay.

Hypothesis 6: Marketing problems hinders and effects the SME Entrepreneurs hindering their firm's growth.

### 1.8 Definitions:

**SME:** According to the Law on the Development of Small and Medium Businesses (Pyidaungsu Hluttaw Law No. 23/2015), small and medium enterprises (SMEs) are defined based on their

number of employees, type of activity, capital invested, or level of turnover. The classification is illustrated in Table 1.1. Compared to the 1990 version of the law, the maximum number of employees has been increased for labor-intensive activities, as have the limit values for capital and turnover. Unlike the Myanmar SME Development Law, international definitions of SMEs also specify the characteristics of micro-sized enterprises. For instance, the World Bank's SME Department defines micro enterprises as those with 1–9 employees, small-scale enterprises as those with 10–49 employees, medium sized enterprises as those with 50–299 employees, and large enterprises as those with more than 300 employees.<sup>2</sup> A common feature of various SME definitions is a recognition that number of employees is the simplest indicator of whether a business is an SME. In line with this recognition, we abstain from including the level of capital and turnover in the definition of enterprise size categories, and base them solely on the number of full-time and part-time workers, following the cut-off points proposed by the World Bank.

**Business environment:** The development of an enabling business environment is crucial to the promotion of growth, productivity, employment and well-being. Although the country has instituted various reforms since the early 1990s the regulatory and policy framework remains fragmented. Permission from parallel line ministries is often required and coordination is reportedly lacking. This has led to the growth of a large informal sector, which makes conditions very difficult for small and medium-sized enterprises (SMEs).

**Market conditions:** As the country opens its borders and prepares for regional integration, it must be ready to face opportunities as well as challenges. Enhanced trade could bring huge benefits to the economy but firms will also face stiff competition.



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**Innovation:** is widely regarded as a key element in quickening the pace of development and growth in any country. For example, the use of transformative technologies such as the Internet has been shown to have dramatic effects on gross domestic product (GDP) growth in many developing countries.

As firms in Myanmar become exposed to global competition, it will be increasingly important for them to develop innovative products or services as well as utilize technology more effectively. However, investment in research and development (R&D) remains low in Myanmar and the country has performed poorly in international rankings of innovation capabilities.

Firms reported in the survey that they considered innovation to be important, yet few in fact spend much money on it. Firms do not appear to be using intellectual property (IP) protection as much as they should with many reportedly relying on trust between staff members to safeguard their innovations. These issues could be addressed by subsidizing expenditure on R&D, streamlining

patent applications, disseminating information on the benefits of IP protection and improving enforcement of IP.

**Human resources:** A modern economy requires a workforce that is well-skilled. Myanmar currently spends less than its peers on education and has fewer tertiary graduates. The quality of education is also of concern. The survey helps in identifying areas where skills are lacking. Technical and professional skills are needed in the manufacturing and services sectors. Computer and ICT skills are required by micro- and small-sized firms. Larger firms require more communication and interpersonal skills.

Although Myanmar provides relatively favourable business environment to women, their participation in the business sector can be further enhanced with well-designed public interventions. Such actions may particularly focus on the skill development of women entrepreneurs and managers.

Addressing these challenges requires increased funding to the tertiary sector together with greater accountability and quality assessments. Vocational training institutes, public administration and management schools and e-education programmes could be developed in association with the private sector.

**Access to finance:** The financial sector has long been tightly controlled and overly regulated. The types of financing instruments available to private enterprises are limited with unreasonably high costs. Many turn to informal money lenders instead. The Government has attempted reforms but the pace has been slow as it is a difficult task.

More than half of the survey respondents reported that financing options were inadequate. Stringent collateral requirements, complicated application procedures, small loan sizes and high

interest rates are reportedly the biggest financing obstacles. Informal lenders provide loans at very high interest rates and require greater trust while accepting a wider range of collateral.

**Productivity:** After decades of being sheltered from global competition, productivity remains low in Myanmar. The economy is still dominated by agriculture, which is still a low-productivity sector. Productivity in other sectors is also low by international standards. Improving productivity is crucial to achieving rapid growth.

Many of the policies discussed above will also have an impact on productivity. Access to skilled labour, finance, innovation and technology will lead to dramatic improvements in productivity. Further interventions at SOEs (and former SOEs) that encourage the adoption of modern managerial and production techniques and practices will also be useful in improving productivity

**Corruption:** Corruption remains one of the most significant challenges facing Myanmar. The Government has attempted reforms through a new Anti-Corruption Law and Anti-Corruption Commission; however, the country is still ranked 156 out of 175 in Transparency International's Corruption Perception Index 2014.

Corruption was most frequently cited as a very severe obstacle by the firms surveyed. Bribery is reportedly more common among larger firms as well as firms in the extractive industries sector. Firms that pay bribes, particularly younger firms, do so because they find red tape to be a more severe obstacle compared to firms that do not, suggesting that red tape may be used as a way of extracting bribes.

Although regulatory and legal approaches are important, the root causes of corruption must be addressed. Excessive regulation across the board must be reduced; administrative processes streamlined; accountability of public officials enhanced; and transparency improved.