OVERCOMING BUSINESS CHALLENGES IN BANGLADESH:
Findings from a Survey of Firms in the Real Estate, IT and Furniture Industries

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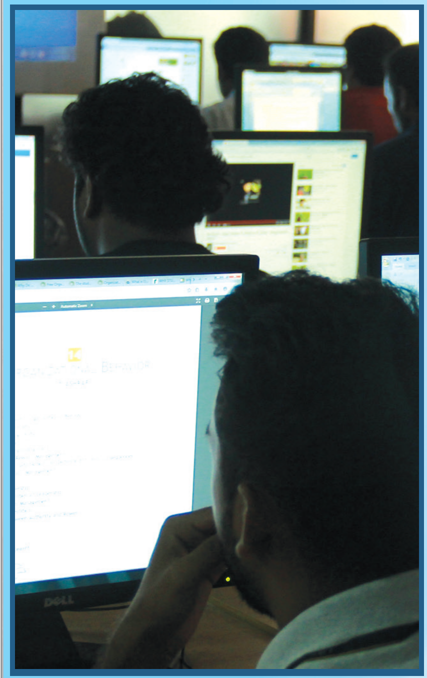

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This report and the underlying survey have been jointly commissioned by the University of Liberal Arts Bangladesh's Center for Enterprise and Society and MRB Bangladesh.

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The views presented in this report are those of the authors and do not necessarily reflect the views of the University of Liberal Arts Bangladesh or MRB Bangladesh

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Executive Summary

On the one hand, establishing and growing a business in Bangladesh confronts numerous challenges, and in fact, countless studies provide a virtual laundry list of potential obstacles to enterprise development. On the other hand, since Bangladesh transitioned to democracy in 1991, the country has averaged exceptionally high growth rates. Clearly, major challenges exist, but it also seems that many entrepreneurs are successfully overcoming these obstacles. While past business surveys, such as the World Bank's Enterprise Survey, have done a very good job at documenting the obstacles that entrepreneurs face, we wanted to go a step further: to understand the strategies that entrepreneurs were using to overcome these challenges and to explore which strategies correspond with better outcomes. The result was the Overcoming Business Challenges Survey (OBCS).

The OBCS is a survey of 536 CEOs and Managing Directors from small, medium, and large firms across three very desperate industries, real estate development, information technology (IT), and furniture manufacturing. The study, a joint project of the Center for Enterprise and Society at the University of Liberal Arts and Sirius Marketing and Social Research Ltd. was conducted in early 2013.Through the survey, we explore entrepreneurial responses to four types of challenges: (1) obtaining financing, (2) developing reliable forward and backward linkages, (3) obtaining government permissions and services, and (4) hiring and developing effective human resources. Provided these obstacles, we focus on three broad categories of strategies that entrepreneurs might take to overcome them. These include strengthening the business as an institution, using personal and professional networks, or simply working harder and relying more on one's entrepreneurial skills.

Financing challenges: The OBCS first sought to understand how entrepreneurs were overcoming the challenge of financing.

- Entrepreneurs reported that their operations are almost entirely self-funded and sustained through personal funds and retained earnings. In the first year of operations, personal funds were reportedly used by 93.8% of the entrepreneurs and made up an estimated 78.8% of the average firm's funding portfolio. Support from family members made up only 7.8% of the average estimated funding portfolio, although this percentage was higher among furniture manufacturers. Bank loans were very uncommon in the first year of operations.

- After the first year, entrepreneurs continued to remain internally dependent. 72.9% of the sample still reported continuing to invest personal funds in their businesses, and on average, they estimated that this amounted to 46.0% of their ongoing financing. The next largest portion, 36.0%, came from retained earnings reinvested in the company, as 61.4% of firms reported re-investing earnings in the company.

- 52.2% of the total sample had not attempted to apply for a loan from a financial institution, although applications were somewhat more common in the furniture industry and among large firms. Of those

[1]The views presented in this report are those of the authors and do not necessarily reflect the views of the University of Liberal Arts Bangladesh or Sirius Marketing and Social Research Ltd.

that have applied for loans, all but 19% were able to obtain them at least once, a higher than expected success rate. Real estate firms had a somewhat less favorable success rate of (72.9%) than their peers in the furniture (85.0%) and IT (82.9%) industries.

- The median reported loan in the real estate industry was Tk 2.5 crore as compared with Tk 30 lakh in the IT industry and an even smaller Tk 10 lakh in the furniture industry. The median loan to a small business was Tk 15 lakh. Median interest rates were fairly standard across the industries, hovering around 16-17%. The median small firm reported paying approximately one percent higher interest rates.

- There was considerable variation in the extent to which collateral was used in loans. For example, collateral was less likely to be required for firms in the furniture industry and among small firms. 31.5% of furniture manufacturers and 30% of small firms with loans reported not needing collateral.

While credit opportunities have likely expanded, entrepreneurs remain almost entirely dependent on their own resources. This is a worrying finding in a country like Bangladesh, where only a few entrepreneurs have access to sufficient resources to grow a business outside of the informal, micro-finance based economy.

Forward and backward linkages: The OBCS also asked how entrepreneurs ensure the trustworthiness of their suppliers and clients.

- When asked how effective the courts were at adjudicating disputes between firms on a scale of 1 to 7, 1 being very poor, respondents expressed a lack of confidence and on average rated the courts as a poor 2.65.

- Fortunately, only 14.3% of the respondents reported having a dispute with their primary supplier/client. Furthermore, firms on average rated the ease of finding trustworthy suppliers and clients as an average 4.58 and 4.52 respectively on a 1-7 scale where 7 was very easy and 1 very difficult. Despite the lack of institutional protections, it appears that most businesses (although certainly not all) have managed to find reliable firms with whom to work.

- The use of competitive bidding varied across industries. While only 11.5% of furniture manufacturers reported using competitive bidding to select their primary supplier, 42.5% of IT firms reported that they were selected by their primary client through a formal tendering process.

- Purchasing from well-known brands appears to be a common strategy to ensure reliability. The majority of survey respondents reported that their primary supplier was a well-known brand (73.2%); however, such brands were more common in the real estate industry, where firms typically bought steel and rod from large respected suppliers, than in the furniture manufacturing, where timber is still often cut and processed by small companies.

- Professional networks also appear to facilitate transactions, although family and friend networks matter less. About half of the surveyed entrepreneurs (49.9%) reported using professional contacts in obtaining information about or access to primary suppliers or clients. Only 15.3% of the sample reported using family or friend ties to obtain suppliers or clients.
  Even though the state has limited capacity to enforce contracts, business transactions continue. Brand name recognition and reputation appear to offer a particularly important solution, followed by reliance on professional networks and to a lesser extent competitive bidding.

Government: Business development and growth is highly dependent on the business climate created by government policies and actions. As several observers have noted, however, business development in Bangladesh has occurred despite poor governance rather than because of good governance. As such, the OBCS asked how entrepreneurs overcame red tape and governance related challenges.

- Respondents were typically dissatisfied with their interactions with government and rated their satisfaction as a low 2.78 on a 1-7 scale, where 1 was very dissatisfied. While there is some variation across groups, entrepreneurs' evaluations are consistently low regardless of location, industry, or size.

- The survey reveals an enormous concern over instability. On a 1-7 scale, where 1 was "very concerned" and 7 "not at all concerned," the average response was only 1.7. 70% of furniture manufacturers reported closing their operations during hartal days in early 2013; this is compared with only 21% of the respondents in real estate and 37% in the IT sector.

- While there is plenty of evidence documenting that corruption is exceptionally high in Bangladesh, the pervasiveness of corruption as identified by respondents in the OBCS is still shocking. Between 93.8% and 97.7% of respondents who reported seeking any one of 14 permissions or services reported having a bribe solicited. Furthermore, corruption appears to be widespread across diverse government agencies, localities, industries, and firm sizes.

- One potential strategy to overcoming red tape is using personal networks to facilitate approval processes. 20.3% of respondents reported hiring formal intermediaries and 38.4% of respondents used their professional contacts to provide information about government processes or to obtain access. Surprisingly, only 15.4% of the sample reported engaging family members and only 10.2% reported using friends.

  Entrepreneurs report substantial dissatisfaction with governmental processes and considerable anxiety over political instability. On the one hand, through diverse strategies - including corruption, unfortunately - businesses have learned to navigate the political landscape. On the other hand, however, one could only imagine how business in Bangladesh could further develop and grow in a better regulatory and political environment.

Human resources: Provided a recognized need to continue to develop Bangladesh's human resources, the OBCS sought to understand the strategies that businesses are using to attract qualified personnel.

- Employers expressed general satisfaction with their employees. On a scale from 1-7, where 7 was very satisfied, employers on average rated their management team at 5.81 and their rank and file employees at 5.52.

- The OBCS sought to measure the use of formal human resource management tools and asked entrepreneurs if they had a manager solely responsible for human resource management, an employee with a university degree in human resource management, a written employee handbook, or a formal written procedure for hiring new employees. For any one of these items, less than half of the firms reported in the affirmative. There was variation across industry and firm size, however. 77.0% of real estate firms had a formal written procedure for hiring new employees compared with only 9.8% of furniture manufacturing firms.

- We find that many Bangladeshi businesses, regardless of size or industry, use head-hunting firms to find their most valuable employees; 41.0% of the respondents relied on such firms. Furniture industry respondents were more likely to use personal contacts, both family and professional, in finding their most valuable employees. IT firms were understandably more likely to use online job sites than the other industries, albeit probably not to the degree that one would expect of such an industry.

- 53.8% of respondents expressed a strong preference for promoting individuals who have worked their way up the corporate ladder; 24.1% favored hiring professional managers brought on through a competitive process; and 22.2% preferred hiring individuals from their own personal connections.

  Employers express greater satisfaction with their employees than expected and rely less on family and friend networks than anticipated. Nonetheless, only a minority of firms has adopted more formal approaches to human resource management and there is considerable reliance on head-hunting firms.

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Acronyms

BASIS	Bangladesh Association of Software and Information Service
BFIOA	Bangladesh Furniture Industry Owners Association
BPO	Business Process Outsourcing
CEO	Chief Executive Officer
CES	Center for Enterprise and Society
CPD	Center for Policy Dialogue
DCC	Dhaka City Corporation
FI	Furniture Industry
GDP	Gross Domestic Product
HRM	Human Resource Management
IT	Information Technology
MD	Managing Director
MW	Mega Watt
NGO	Non Government Organization
OBCS	Overcoming Business Challenges Survey
RAJUK	Rajdhani Unnayan Kartripakkha
RE	Real Estate
REHAB	Real Estate and Housing Association of Bangladesh
RMG	Ready Made Garments
SME	Small and Medium Size Enterprise
TI	Transparency International
TIN	Tax Identification Number
ULAB	University of Liberal Arts Bangladesh
US	United States
VAT	Value Added Tax

Overcoming Business Challenges in Bangladesh

Daniel M. Sabet, Ahmed S. Ishtiaque, Mehdi Rajeb and Afsana Tazreen

May 2015

1. Introduction

Establishing and growing a business in Bangladesh confronts numerous challenges, and in fact, countless studies provide a virtual laundry list of potential obstacles to enterprise development (Ahmed, Rahman, and Haque 2011; World Bank 2007). To offer just one example, the World Bank's Doing Business report ranked Bangladesh's business climate as a low 122 out of 183 countries, and in some areas, such as obtaining gas and electricity connections or resolving disputes, the country ranked among the worst (World Bank, 2012). However, despite these challenges, the country has averaged GDP growth rates of 4.9% in the 1990s, 6.0% in the 2000s, and 6.3% for the first three years of the 2010s. (Hossain 2011; Bangladesh Bank 2013)[2]. It is now among the 60 largest economies of the world, and Goldman Sachs has included the country in their list of 'Next Eleven' while J.P. Morgan added Bangladesh to its "Frontier Five". Clearly major challenges exist, but it also seems that many entrepreneurs are successfully overcoming these obstacles. While past business surveys, such as the World Bank's Enterprise Survey, have documented the challenges that businesses face, we wanted to go a step further: to understand the strategies that entrepreneurs were using to overcome these challenges and to explore what strategies correspond with better outcomes.The result is the Overcoming Business Challenges Survey (OBCS), a survey of 536 CEOs and Managing Directors across three disparate industries, real estate development, furniture manufacturing, and information technology (IT) services. The OBCS is a joint project of the Center for Enterprise and Society (CES) at the University of Liberal Arts Bangladesh (ULAB) and Sirius Marketing and Social Research Ltd, currently known as MRB Bangladesh.

The survey explores entrepreneurial responses to four types of challenges: (1) obtaining financing, (2) developing reliable forward and backward linkages, (3) obtaining government permissions and services, and (4) hiring and developing effective human resources. Provided these obstacles, we focus on three broad categories of strategies that entrepreneurs might adopt to overcome them. These include (a) strengthening the business as an institution, (b) using personal and professional networks, or (c) simply working harder or relying more on one's entrepreneurial skills. To illustrate, consider a managing director (MD) of a medium sized firm who is unhappy with the quality of recent hires. How should he or she respond? This MD could look at the process through which new employees are hired and find ways to improve this process: for example, by developing hiring guidelines or bringing on a human resource manager. Alternatively, he or she could look to family, friends, and professional contacts to refer good people to the firm. A third strategy would be to take greater responsibility for hiring and personally vet all potential candidates. Which of these broad approaches do entrepreneurs in Bangladesh tend to take? Which produces better results? And how do these approaches and results tend to vary across different factors, such as the type of industry, the size of the business, or the location of the business? In the pages that follow, we first offer some background on the three industries of study and explain in detail the innovative methodology behind the Overcoming Business Challenges Survey. We then proceed through the four challenges and explore strategies that entrepreneurs are using to overcome them. There are many people to thank for

[2] 2012-2013 GDP figures are provisional.

their participation and assistance in this endeavor. The OBCS was funded by the University of Liberal Arts Bangladesh with in-kind support from Sirius Marketing and Social Research Ltd, currently known as MRB Bangladesh. Throughout the process, the research team at CES benefited from the leadership and support of Dr. Kazi Anis Ahmed, Vice President of the Board of Trustees of ULAB, and Professor Imran Rahman, Vice Chancellor of the university. The research would not have been possible without the commitment and hard work of our colleagues at Sirius, Amer Abdul Wahab, Sanjay Pal, Shohel Rana, Drabir Hasan Khan, and the rest of the research team. We appreciate the cooperation and collaboration we received from A.K.M Fahim Mashroor at the Bangladesh Association of Software and Information Services, Lt. Col. Md. Shamsul Islam and Leo Vahkor Dewri from the Real Estate and Housing Association of Bangladesh, and Salim H. Rahman from the Bangladesh Furniture Industry Owners Association. We are particularly grateful to all of the entrepreneurs who provided input into the development of this study and the 536 CEOs and MDs who participated in the survey.

2. Industries and Methodology

The OBCS is a survey of managing directors and chief executive officers from 536 firms in three industries: real estate development, information technology (IT), and furniture manufacturing. Recognizing that business challenges and subsequent strategies to overcome them vary substantially from industry to industry, we chose to limit the survey to just three industries, allowing us to control for inter-industry variation. Given that many studies have already focused on the ready-made garments industry, we opted to concentrate on some of the country's lesser studied albeit important industries. Furthermore, we sought to select industries that confront and are reflective of the country's diverse business challenges. As such, the sample is not intended to be representative of the Bangladeshi formal sector as a whole (not to mention the informal sector), but instead, it is designed to speak to diverse challenges confronted by Bangladeshi businesses.

The real estate sector has grown dramatically in recent decades in response to increased urbanization. Dhaka grew from a population of 1.5 million at independence to a mega-city with around 15 million residents by 2013. As the city developed, land values have skyrocketed. Based on Seraj's (2012) estimations, land values averaged across a sample of twenty-two sections of Dhaka increased 22.8% per year from 2000 to 2010, from Tk 1.42 million (US$27,904 in 2000) to Tk 11.17 million (US$143,608 in 2010) per katha (720 sqft.). To take advantage of this growth, numerous real estate development firms have emerged. In 1991, the Real Estate and Housing Association of Bangladesh (REHAB) had only 11 members, but by 2011, its membership rose to 1,081 (Seraj 2012). While this growth has led to a booming industry and numerous construction jobs, it has not been without challenges. Development requires high up-front costs; the elevated price of land has created incentives to fill in rivers and waterways; poor governance and corruption has led to numerous building code violations; and the market has failed to provide adequate low-income housing.

Businesses in the information technology (IT) industry cater to both domestic and international clients. In the international arena, Bangladesh has considerable potential to stake a claim in the international business process outsourcing (BPO) market through software development, information technology support, customer service support, and a range of other business processes. Rather than hire expensive IT professionals in their home countries, many European and American businesses prefer to outsource such processes to lower-income countries at a fraction of the cost. Nonetheless, BPO is yet to really take off in Bangladesh, despite comparatively low salaries. A 2010 report found that the median annual salary of a software engineer, senior software engineer, and IT manager was onlyTk 3.5 lakh, Tk 5.1 lakh, and Tk 6.7lakh respectively (US$5,070, $7,300, and $9,734) (Marriott 2010). While salaries have steadily risen since then, perhaps the bigger challenge has been finding sufficiently qualified IT professionals. In addition, the sector remains heavily concentrated in the cities, and recent governmental, donor, and NGO efforts have sought to expand access and use into the rural areas. Obtaining financing has also posed a challenge. IT firms are not attractive to banks, as they can offer little collateral, and venture capital remains relatively rare in Bangladesh. As such, the industry is relatively small, with annual revenues in 2012 of $250 million; nonetheless, the sector still employs around 30,000 IT professionals across some 800 firms (BASIS 2012).

Furniture manufacturing was selected for the OBCS as a manufacturing industry with a potential for growth. While the domestic market has matured in recent decades and includes many well-known large domestic brands, such as Otobi, Hatil, Navana, and Akhtar, it has yet to gain a strong foothold in the international market. In 2009, Katalyst estimated that there were 17 large firms that exported some of their merchandise, but the vast majority of the industry could be found in the approximately 40,000 micro, small, and medium furniture manufacturing businesses that employ around 180,000 people. Much of the industry remains un-mechanized despite increased availability of small business loans, and Technical Training Colleges have not provided the industry with the skilled labor force that it needs.

The survey was designed to be a stratified random sample drawn from membership rolls of relevant business associations. As such, a sampling frame of 1,231 firms was provided by the Bangladesh Furniture Industry Owners Association (BFIOA), of 1,110 from REHAB, and of 517 firms from the Bangladesh Association of Software and Information Services (BASIS). 175 firms were selected from each industry. Of these, the sample was to include approximately 110 small firms with 5 to 25 employees, 40 medium sized firms with 25 to 100 employees and, 25 large firms with over 100 employees.[3] In addition, while the majority of the sample was to be drawn from Bangladesh's industrial and commercial center in Dhaka (425), 100 firms were to be selected from Chittagong, the country's second largest city and port. This stratified sampling approach sought to approximate a representative sample of small, medium, and large businesses in Bangladesh's two major cities; however, we are unable to guarantee that the sample is truly representative as there is limited information about the population of businesses in Bangladesh and the population of firms in each of these three industries.

There were some divergences from this original sampling plan and the different categories (e.g. small, furniture manufacturers from Chittagong) might vary by one to three firms. Two major deviations are important to note. First, the final sample only includes 72 firms from Chittagong because there were only a handful of IT firms operating in the port city. Second, high rejection rates among firms unaccustomed to such studies and resistant to providing information to outsiders forced the implementing survey firm Sirius Marketing and Social Research Ltd. to use, in some cases, personal contacts and snowball sampling techniques to supplement the limitations of random sampling efforts.

One clear advantage of the stratified sampling approach adopted here is in the data presentation. Most of the tables presented below divide the sample by location (Dhaka and Chittagong), by industry (real estate development, furniture manufacturing, and IT) and by firm size (less than 25 employees, 25 to 100 employees, and greater than 100 employees). Because the sample is made up of the same proportions from each industry and from each size of the firm, the tables automatically control for these factors.

[3] There is no accepted standard international definition of small, medium, and large companies. Even in Bangladesh, the Industrial Policy and the Bangladesh Bureau of Statistics use different definitions (Alam&Ullah, 2006). Outside of Bangladesh, criteria vary widely with some estimates relying on revenues and others on the number of employees (Gibson & Van Der Vaart, 2008).

3. Financing Challenges

Numerous scholars and business leaders consider insufficient access to financing to be the fundamental obstacle to business startup and growth. For example, among those businesses that responded to the World Bank's Enterprise Survey in Bangladesh, access to finance is the primary concern among small firms and the second largest concern (behind access to electricity) among medium and large firms (World Bank 2007). In fact, financing challenges appear to hit SMEs particularly hard. Saadullah (2008), for example, contends that most financial institutions have not been able to operate profitably with SMEs as their major debt client. He argues that higher premiums have not outweighed higher transaction costs and higher risks and describes problems of politically motivated lending, risk adverse banks, and a rampant loan default culture. The Dhaka and Chittagong Stock Exchanges represent a potential source of investment capital for large businesses; however, equity markets confront a number of obstacles in Bangladesh, including enormous volatility (Rashid 2011). Furthermore, venture capital and angel investors appear to be few and far between. While some scholars have asked whether remittance dollars could be transformed into venture capital, such investments remain very small (Jesmin 2005), even though they have been successfully used in other countries (Dowlah 2011).

As a result, one of the objectives of the study is to learn how businesses are overcoming the financing challenge and obtaining the financial resources needed to start up and grow their businesses. For example, we explore firms' use of loans from financial institutions and the extent to which entrepreneurs rely on personal networks and family ties to help access resources. While there are important exceptions, generally speaking we find that entrepreneurs are largely on their own when it comes to financing. The vast majority of start-up funds come from the entrepreneurs themselves, and along with retained earnings, entrepreneurs' resources continue to fund growth after start-up. Even family networks are not as helpful as we would have predicted in accessing funds.

As shown in Table 3.1, in the first year of operations, entrepreneurs overwhelmingly relied on personal funds, which were used by 93.8% of the entrepreneurs and made up an estimated 78.8% of the average firm's funding portfolio. Interestingly, this reliance on personal resources was consistent across all three industries. The next largest source came from family members: 17.1% of respondents reported receiving support from family members; however, this only made up 7.8% of the average funding portfolio. Furniture manufacturers were somewhat more reliant on family funds, as 25.1% benefited from either family or friends; however, this only made up 12.4% of the average furniture manufacturer's average total initial investment in the first year of operations. Not surprisingly, bank loans were rather uncommon during the first year, as new firms lack a track record that risk adverse banks can use to assess credit worthiness. Medium and large firms were more likely to obtain a bank loan; however, only a little more than 10% of these firms obtained such loans. Also noticeably absent was substantial financing from non-family or friend investors, be they professional contacts or other domestic or foreign investors. Just over 5% of the sample received financial support from these sources. It seems likely that there might be some error in these figures as they are dependent on the entrepreneur's recall and/or records. Likewise there is a tendency for respondents to overstate their own contributions. Nonetheless, while we might not have total confidence in the exact statistics, we are confident that entrepreneurs have to be largely self-reliant.

Table 3.1: Percent of entrepreneurs who received funding from the following sources in the first year of operations and the percent of the overall funding portfolio made up by these sources.

	Real Estate	Furniture	IT	Small	Large	Medium	All firms	Average funding portfolio %
Bank loan (to the business)	9.8%	5.5%	2.3%	3.3%	10.1%	10.3%	5.8%	2.7%
Personal bank loan	5.8%	3.3%	5.7%	6.0%	1.7%	5.1%	4.9%	3.3%
Personal funds	**96.0%**	**92.9%**	**92.5%**	**94.0%**	**95.8%**	**89.7%**	**93.8%**	**78.8%**
Parent company	0.0%	0.0%	1.7%	0.3%	0.8%	1.3%	0.6%	0.3%
Business assoc. or chamber	0.6%	0.0%	0.6%	0.0%	0.0%	2.6%	0.4%	0.3%
Business assistance program	0.6%	0.0%	0.6%	0.0%	0.0%	2.6%	0.4%	0.3%
Other professional contact	7.5%	4.4%	5.7%	5.4%	5.9%	7.7%	5.8%	2.8%
Family member or relative	**16.1%**	**25.1%**	**9.8%**	**18.7%**	**15.1%**	**14.1%**	**17.1%**	**7.8%**
Friends	12.6%	4.4%	6.3%	7.8%	9.2%	3.8%	7.7%	3.2%
Other domestic investor	0.6%	0.5%	0.0%	0.3%	0.8%	0.0%	0.4%	0.3%
Other international investor	0.0%	0.0%	1.1%	0.3%	0.8%	0.0%	0.4%	0.5%
Total no. of firms	174	183	174	332	119	78	531	531

After the first year of operations, businesses continued to remain internally dependent for sources of funds. As shown in Table 3.2, 72.9% of the sample still reported investing personal funds in their businesses in the years after start up, and on average they estimate that this amounts to 46.0% of their financing. The next largest portion 36.0% came from retained earnings reinvested in the company, and 61.4% of firms reported re-investing earnings in the company. This finding is consistent across the industries although real estate entrepreneurs are somewhat more likely to continue to invest personal funds.[4] In the case of real estate firms, the tables do not adequately capture the fact that many real estate developers obtain resources from advances from future tenants and reduce their up-front costs by entering into joint ventures with property owners. The percent of firms reporting bank loans as a source of financing increased after the first year from 5.8% to 13.4%. Small firms and IT firms, both of which tend to lack collateral, continued to lag behind the other firms in the sample in access to bank loans. Reliance on family and friend networks continued for some firms, but declined overall after the first year. As such, entrepreneurs continue to remain dependent on their personal wealth and retained earnings to finance continued operations.

[4]This might be because real estate is viewed as a form of investment.

Table 3.2: Percent of entrepreneurs who received funding from the following sources after the first year of operations and the percent of the overall funding portfolio made up by these sources.

	Real Estate	Furniture	IT	Small	Large	Medium	All firms	Average funding portfolio %
Bank loan (to the business)	16.1%	15.8%	8.0%	10.2%	21.0%	15.4%	13.4%	5.1%
Personal bank loan	4.0%	3.8%	4.6%	4.8%	0.8%	6.4%	4.1%	2.0%
Personal funds	**79.3%**	**69.9%**	**69.5%**	**73.2%**	**74.8%**	**67.9%**	**72.9%**	**46.0%**
Parent company	0.6%	0.0%	2.3%	0.6%	0.8%	2.6%	0.9%	0.6%
Business assoc. or chamber	0.6%	0.5%	1.1%	0.3%	0.0%	3.8%	0.8%	0.4%
Business assistance program	1.1%	1.1%	1.1%	0.6%	0.0%	5.1%	1.1%	0.4%
Other professional contact	4.6%	1.6%	4.0%	2.4%	4.2%	6.4%	3.4%	1.5%
Family member or relative	**11.5%**	**15.3%**	**13.2%**	**16.3%**	**8.4%**	**9.0%**	**13.4%**	**4.2%**
Friends	16.7%	5.5%	6.3%	9.3%	12.6%	3.8%	9.4%	3.4%
Other domestic investor	0.0%	0.5%	1.1%	0.9%	0.0%	0.0%	0.6%	0.3%
Other international investor	0.0%	0.0%	1.7%	0.6%	0.8%	0.0%	0.6%	0.4%
Retained earnings	**58.6%**	**61.7%**	**63.8%**	**61.1%**	**63.9%**	**60.3%**	**61.4%**	**36.0%**
Total no. of firms	174	183	174	332	119	78	531	531

Given the small percentage of funds reportedly made up by bank loans and the frequent complaints by businesses regarding access to finance, the OBC survey sought to better understand how loans work in the three industries of study. We found no consensus among entrepreneurs on whether it is easy or difficult to obtain a loan from a financial institution, and, in fact, there is considerable variation simply based on location and on industry. As shown in Table 3.3, Chittagong entrepreneurs are somewhat more likely to perceive obtaining a loan to be difficult than their peers in Dhaka. When asked to rate the ease of obtaining a bank loan on a 1-7 scale, where 1 is very difficult and 7 is very easy, Chittagong firms on average rated the level of ease as 3.19, slightly below the midpoint of 3.5, while Dhaka firms rated the ease at 3.77, somewhat above the midpoint. This is consistent with the allegations of Chittagong business leaders that Bangladesh's banks remain too centralized in Dhaka (Daily Star 2012). In addition, entrepreneurs in the real estate (3.41) and IT industries (3.51) are more likely to perceive difficulties than their peers in the furniture industry (4.13), where loans tend to be smaller and are less likely to require collateral. Finally, as expected, heads of larger firms (4.27) view the process to be easier than those of smaller firms (3.48).

Table 3.3: Average perceived difficulty of obtaining a bank loan on a scale from 1-7 where 1 is very difficult and 7 is very easy.

	Average	Number of firms	Std. Deviation	Std. Error of Mean
Dhaka	3.77	454	2.091	0.098
Chittagong	3.19	72	1.607	0.189
Real Estate	3.41	174	2.074	0.157
Furniture	4.13	183	1.972	0.146
IT	3.51	169	2.009	0.155
Small	3.48	327	1.978	0.109
Medium	3.85	119	2.053	0.188
Large	4.27	78	2.154	0.244
Total	3.68	524	2.039	0.089

As shown in Table 3.4, many firms, 52.2% of the total sample, have not attempted to apply for a loan from a financial institution. Perhaps as a consequence of greater perceived or real difficulty, real estate and IT firms are less likely than furniture manufacturers to apply for loans. Nonetheless, it is interesting to note that Dhaka and Chittagong firms apply for loans in equal percentages despite the greater perceived difficulty in doing so from Chittagong. As expected, large firms are more likely to apply for a loan and to do so with greater frequency.

Table 3.4: Percent of firms that have applied for a loan from a financial institution.

	Total	Dhaka	Ctg.	Real Estate	Furniture	IT	Small	Medium	Large
No	**52.2%**	**52.4%**	**51.4%**	**59.8%**	**41.5%**	**56.1%**	**59.2%**	**42.0%**	**37.2%**
Yes, 1x	16.4%	15.7%	20.8%	12.6%	22.4%	13.9%	16.6%	15.1%	17.9%
Yes, 2x	21.5%	21.4%	22.2%	16.1%	27.9%	20.2%	19.6%	29.4%	17.9%
Yes, 3x+	9.8%	10.5%	5.6%	11.5%	8.2%	9.8%	4.5%	13.4%	26.9%
Total percentage	99.8%	100%	100%	100%	100%	100%	100%	100%	100%
Total	530	458	72	174	183	173	331	119	78

Of those that have applied for loans, all but 19% were able to obtain them at least once, a higher than expected success rate (See Table 3.5). Real estate firms had a somewhat less favorable success rate (72.9%) than their peers in the furniture (85.0%) and IT (82.9%) industries. Chittagong firms were almost as likely to obtain a loan (80.0%) as their Dhaka peers (81.2%), despite perceiving the process to be more difficult.

Table 3.5: Percent of firms that applied for loans that were able to obtain at least one loan.

	Total	Dhaka	Ctg.	Real Estate	Furniture	IT	Small	Medium	Large
No	19.0%	18.8%	20.0%	27.1%	15.0%	17.1%	23.0%	14.5%	19.0%
Yes,once	29.2%	27.1%	42.9%	22.9%	35.5%	26.3%	34.8%	26.1%	29.2%
Yes, 2-5	36.8%	37.6%	31.4%	28.6%	40.2%	39.5%	35.6%	35.6%	36.8%
Yes, >5	15.0%	16.5%	5.7%	21.4%	9.3%	17.1%	6.7%	14.5%	15.0%
Total percentage	100%	100%	100%	100%	100%	100%	100%	100%	100%
Total No. of Firms	253	218	35	70	107	76	135	69	49

While real estate companies have a harder time in obtaining loans, as shown in Table 3.6, when they do obtain loans, it is for much larger sums than in the other two industries. The median reported loan in the real estate industry was Tk 2.5 crore as compared with Tk 30 lakh in the IT industry and an even smaller Tk 10 lakh in the furniture industry. Table 3.7 divides the loans by the size of the firm, and estimates that the median loan to a small business was Tk 15 lakh (US$ 19,231 at a Tk 78 exchange rate).

Median interest rates were fairly standard across the industries, hovering around 16-17%. The median small firms reported paying approximately one percent higher interest rates. In some instances rates were considerably higher, with reported rates in the low 20s not uncommon. The lowest rates were around 9% and likely subsidized. The longest reported loan in the study was 7 years (84 months), while the median loan was for 3 years.

There is likely to be some error in the data provided, as it required respondents recalling figures. Of the data presented in Tables 3.6 and 3.7, 79% of respondents reported providing exact loan amounts, 59% exact interest rates, and 71% exact loan durations; the rest were approximations. For example, given that the maximum interest reported of 40% was an approximation, it is likely that it is an overestimation. For this reason and because of the distribution of the data, the median is a more reliable measure of the typical loan amounts, interest rates, and loan durations than the mean.

Table 3.6: Loan amounts, interest rates charged and loan duration divided by industry.

	Loan amount (in Millions Tk)			Interest rate %			Loan duration (months)		
	Real Estate	Furniture	IT	Real Estate	Furniture	IT	Real Estate	Furniture	IT
Mean	46.66	6.06	44.26	16.2%	16.3%	16.6%	31	32	33
Median	25.00	1.00	3.00	16.0%	16.0%	17.0%	27	36	36
Std. dev.	116.70	18.32	182.21	4.3%	3.9%	3.2%	13	15	20
Minimum	0.40	0.40	0.40	9.0%	1.6%	9.0%	12	4	3
Maximum	800.00	110.00	1000.00	40.0%	28.0%	24.0%	66	72	84
Total No. of Firms	47	89	60	48	87	61	46	85	58

Table 3.7: Loan amounts, interest rates charged and loan duration divided by firm size

	Loan amount (in Millions Tk)			Interest rate %			Loan duration (months)		
	Small	Medium	Large	Small	Medium	Large	Small	Medium	Large
Mean	4.42	12.79	110.62	16.7%	15.7%	16.5%	31	33	35
Median	1.50	3.85	20.00	17.0%	16.0%	16.0%	30	36	36
Std. dev.	7.73	19.10	251.20	3.5%	3.6%	4.6%	17	16	16
Minimum	0.40	1.00	3.50	1.6%	8.0%	8.0%	3	6	12
Maximum	40.00	100.00	100.00	25.0%	28.0%	40.0%	84	72	60
Total No. of Firms	100	58	38	99	58	39	100	57	32

There was considerable variation in the extent to which collateral was used in loans. For example, as shown in Table 3.8, collateral was less likely to be required for the furniture industry, for small firms, and in Dhaka. To illustrate, 31.5% of furniture manufacturers and 30% of small firms reported not providing collateral. As such, these data provide clear evidence of the shift among financial institutions in recent years away from always requiring collateral in SME loans. Large firms and real estate firms were the most likely to use assets of the firm as collateral and least likely to use personal assets as collateral.

Table 3.8: Use of collateral in loans from financial institutions

	Total	Location		Industry			Firm size		
		Dhaka	Ctg.	Real estate	Furn.	IT	Small	Med.	Large
No collateral was necessary	24.6%	26.6%	11.5%	6.3%	31.5%	29.0%	30%	17%	21%
Personal or familial assets as collateral	34.7%	35.8%	26.9%	8.3%	42.7%	43.5%	38%	36%	23%
Assets of the firm were used as collateral	35.7%	32.4%	57.7%	75.0%	23.6%	22.6%	30%	35%	51%
An equity stake in the firm was provided	4.0%	4.0%	3.8%	10.4%	1.1%	3.2%	1%	9%	5%
Organizational Blank Check	1.0%	1.2%	0.0%	0.0%	1.1%	1.6%	0%	3%	0%
Total percentage	100%	100%	100%	100%	100%	100%	100%	100%	100%
Total no. of firms	199	173	26	48	89	62	102	58	39

Often times, it is assumed that the lack of collateral is the biggest obstacle to greater bank borrowing; however, our data suggest greater concern over interest rates. Those businesses who obtained loans, were asked what they perceived to be the greater obstacle to borrowing, and 40.6% of these businesses selected high interest rates compared with 27.8% who felt the biggest obstacle was lack of collateral (See Table 3.9).[5] The responses were largely the same regardless of whether or not a company was large or small, although

[5]This question should have been asked to the whole sample; however, through a mistake it was only asked to those who received loans. As such the results should not be generalized to all firms.

furniture companies were more concerned about interest rates than firms in the real estate and IT sectors. Given the role of personal connections in high profile loan scandals, such as the Hallmark-Sonali Bank loan scandal, there is often a perception that entrepreneurs need to know someone to get a loan; however, this was only viewed as the primary obstacle for 10.6% of this reduced sample. 12.2% of the reduced sample felt the main obstacle was confusing bank procedures and bureaucracy.

Table 3.9: Greatest perceived obstacle in obtaining access to credit from financial institutions

	Total	Location		Industry			Firm size		
		Dhaka	Ctg.	Real estate	Furn.	IT	Small	Medium	Large
Lack of collateral	27.8%	30.3%	14.3%	28.9%	20.5%	38.5%	32%	20%	27%
High interest rates	40.6%	38.8%	50.0%	33.3%	47.0%	36.5%	41%	39%	42%
Insufficient loan payback periods	8.9%	9.2%	7.1%	20.0%	7.2%	1.9%	3%	14%	18%
Need to know someone	10.6%	10.5%	10.7%	4.4%	19.3%	1.9%	11%	14%	3%
Confusing procedures and bureaucracy	12.2%	11.2%	17.9%	13.3%	6.0%	21.2%	13%	12%	9%
Total percentage	100%	100%	100%	100%	100%	100%	100%	100%	100%
Total no. of firms	180	152	28	45	83	52	98	49	33

In summary, entrepreneurs report that their operations are almost entirely self-funded and self-sustained through personal funds and retained earnings. Entrepreneurs are not obtaining much financing from financial institutions, and personal loans and family support make up a smaller percentage of financing than expected. Interestingly, however, there is some evidence that bank loans might not be as difficult to obtain as typically perceived. While only half of the sample reported seeking a loan, of those that reported applying, all but 19% were able to obtain one. We also found considerable evidence of collateral free loans among SMEs. As such, high interest rates, typically found to be between 15-17% might be the largest remaining obstacle to increased financing from financial institutions.

4. Forward and Backward Linkages

While Bangladesh's economy has grown substantially in the last decade, many industries still suffer from a lack of what might be called "market infrastructure," or an available supply of firms, know-how, and human capital to provide businesses with needed supplies/suppliers and buyers. In fact, several case studies of new industries in Bangladesh suggest that entrepreneurial efforts must integrate vertically to overcome the absence of forward and backwards linkages (e.g. Smilie 2009). Other industries, such as the RMG sector, primarily import their inputs (i.e. textiles) rather than obtain them from domestic suppliers (Quddus and Rashid 2000). Unfortunately, market exchanges between firms are often challenged by a legal system that does a poor job of enforcing contracts. In the World Bank's cross-national Doing Business study, Bangladesh was ranked 180 out of 182 countries for contract enforcement. The study estimated that it would cost a firm 63.3% of the original claim and require four years to get its money back (World Bank 2011).[6] Given inadequate market infrastructure and the risk of defaults, businesses confront a difficult challenge in obtaining needed inputs and finding adequate buyers. See Box 4.1 for a cautionary tale of one fraud case identified through CES research.

As a result, the OBC survey explored forward and backward linkages across the three industries.The survey focuses on backward linkages in the real estate and furniture manufacturing industries and forward linkages in the IT industry.[7] In order to focus the survey, we asked businesses in the real estate and furniture sectors to think of their primary suppliers and for businesses

Box 4.1: Fraud in the ICT sector

In 2009 Rahman Call Center Ltd. was established with the hope of serving as a call center for US and European businesses looking to lower their costs by outsourcing business processes to lower wage Bangladesh. Without a name in the industry, however, the entrepreneur Mr. Rahman had trouble attracting clients. His first client promised a number of future contracts but obligated him to pay in advance for helping in training his staff. The investment seemed well worth it, but after paying for the trainings only one small contract was ever forthcoming. Desperate for work, Mr. Rahman turned to a good friend's uncle to help him obtain a subcontract to an Indian firm. Rahman Call Center began a number of jobs with this Indian firm with payment to be delivered on completion of the assignments at a certain level of quality. When it came time to be paid, however, the Indian firm found a loophole in the contract to avoid payment. Reassured by this middleman to whom he was closely – albeit indirectly connected, Mr. Rahman continued to work for the firm and even increased his investment in his company to handle larger workloads. Unfortunately, the money never materialized, and the Indian company turned out to be a fake. The middleman refused to take responsibility, even though he had provided a letter of credit in his own name.

Mr. Rahman sought the help of a lawyer, but he quickly realized that he would not be able to bear the costs of a lawsuit. Even though this seemed like a very clear cut case of fraud, he was told that he would not be guaranteed a victory in the courts. His firm had done the work using the client's software, and there was not a clear way to establish how much data he had generated for the client. In June 2011, Rahman Call Center closed its doors.

6 For an alternative view, the World Bank's Enterprise Survey of businesses suggests that cases might proceed much faster through the court system. Out of 37 businesses that used the court system, the median case resolution was 24 weeks (although one case required 7.4 years to resolve).

7 This is primarily because IT firms are part of the supply chain, whereas real estate development firms and furniture manufacturers often sell their products to the general public.

in the IT sector to think about their primary clients. We then asked a series of questions about this relationship. The advantage of this approach is that it allowed us to focus in on a particular relationship and avoid error and ambiguity associated with broad questions about many different suppliers. The potential disadvantage, however, is that by focusing on a firm's primary supplier or client, we might understate the challenges in forward and backward linkages that are more likely to exist with secondary or tertiary suppliers and clients. In fact, we find that firms generally trust their suppliers/clients and are satisfied with them, perhaps a surprising finding given the challenges listed above.

Consistent with the findings of the World Bank's Doing Business Report, respondents showed very little faith in the court system for adjudicating business disputes. As shown in Table 4.1, when asked how good a job the courts do at adjudicating disputes between firms on a scale from 1 to 7, where 1 was very poor and 7 was very good, respondents on average rated the courts as a poor 2.65.

Table 4.1: Average evaluation of the court system in resolving disputes on a 1-7 scale where 7 is very good

	Mean	Std. error	Freq.
Dhaka	2.57	0.083	443
Chittagong	3.04	0.191	71
Real Estate	2.58	0.121	173
Furniture	2.66	0.138	178
IT	2.66	0.139	163
Small	2.62	0.093	321
Medium	2.50	0.155	116
Large	2.95	0.245	75
Total	2.64	0.077	512

Fortunately, only 14.3% of respondents reported having a dispute with their primary supplier/client (See Table 4.2). Minor disputes were less common in Chittagong but more common with clients in the IT industry, possibly because of geographic and cultural differences and greater potential for communication errors in the international business process outsourcing industry. Furthermore, as IT clients operate in a competitive global economy, delays are probably less tolerated than in the domestic real estate and furniture industries. Interestingly, large firms were far more likely to have experienced disputes.

Table 4.2: Reported disputes with primary supplier (real estate or furniture) or client (IT)

	Dhaka	Ctg.	Real estate	Furn.	IT	Small	Med.	Large	Total
No	84.3%	94.4%	86.8%	91.3%	78.7%	89.8%	88.2%	65.4%	85.7%
Yes, minor	14.6%	5.6%	13.2%	7.7%	19.5%	9.6%	10.9%	32.1%	13.4%
Yes, major	1.1%	0.0%	0.0%	1.1%	1.7%	0.6%	0.8%	2.6%	0.9%
Total %	100%	100%	100%	100%	100%	100%	100%	100%	100%
Total	459	72	174	183	174	332	119	78	531

While a sizeable minority of firms reported that it is difficult to find trustworthy suppliers, firms on average rated the ease of finding such suppliers as an average 4.58 on a 1-7 scale where 7 is very easy and 1 very difficult (See Table 4.3). This finding is fairly consistent across the industries, with perhaps some greater reported ease in the IT industry, which is less dependent on suppliers. The results are very similar for the ease of finding trustworthy clients. Firms rated the ease of finding trustworthy clients as an average 4.52 on the same 1-7 scale. Despite the lack of institutional protections, it appears that most businesses have managed to find reliable firms with which to work. On average, the firms rated their satisfaction with their primary supplier/client as a relatively high 5.62 on a 1-7 scale, where 7 is very satisfied. In short, while there are some disputes and problems, the general trend leans towards trust and satisfaction.

Table 4.3: Trust and satisfaction on a 1-7 scale where 1 is very difficult/very dissatisfied and 7 is very easy/ very satisfied

	Ease of finding trustworthy suppliers in general (1-7)			Ease of finding trustworthy clients in general (1-7)			Overall satisfaction with primary supplier/ client(1-7)		
	Mean	Std. error	No.	Mean	Std. error	No.	Mean	Std. error	No.
Dhaka	4.69	0.089	458	4.55	0.085	459	5.72	0.049	458
Chittagong	3.99	0.202	72	4.39	0.172	72	5.03	0.096	71
Real Estate	4.49	0.140	174	4.47	0.125	174	5.58	0.075	173
Furniture	4.34	0.147	183	4.28	0.138	183	5.55	0.081	183
IT	4.95	0.134	173	4.84	0.133	174	5.75	0.082	173
Small	4.48	0.105	331	4.48	0.096	332	5.55	0.058	331
Medium	4.62	0.170	119	4.71	0.153	119	5.78	0.098	119
Large	4.94	0.199	78	4.41	0.233	78	5.69	0.114	78
Total	4.58	0.082	528	4.52	0.077	529	5.62	0.046	528

Given these positive findings and provided the absence of a reliable court system, what measures are firms taking to ensure reliable exchanges? This analysis explores the role of tendering, brand names, and networks in facilitating exchanges. Formal tendering processes varied across jurisdictions, industries, and firm size. While only 11.5% of furniture manufacturers reported using tendering to select their primary supplier, 42.5% of IT firms were reportedly selected by their primary client through a formal tendering process (See Table 4.4). Dhaka firms were somewhat more likely to use tendering, but the biggest gap was between small and large firms. 55.1% of large firms reportedly used a formal tendering process to select their primary supplier/client compared to 21.4% of small firms.

Table 4.4: Selected provider (RE/Furn) or selected as client (IT) through a formal tendering process

	Total	Dhaka	Ctg.	Real Estate	Furn.	IT	Small	Med.	Large
Tender	26.5%	28.5%	13.8%	25.9%	11.5%	42.5%	21.4%	21.8%	55.1%
No tender	73.5%	71.5%	86.2%	74.1%	88.5%	57.5%	78.6%	78.2%	44.9%
Total percentage	100%	100%	100%	100%	100%	100%	100%	100%	100%
Total no. of firms	529	459	72	174	183	174	332	119	529

Another potential solution to the lack of institutional assurances is the use of brand names to ensure reputable suppliers. The majority of survey respondents report that their primary supplier is a well-known brand (73.2%); however, there are differences based on location and industry (See Table 4.5). Well-known brands are common in the real estate industry, where firms typically buy steel and rod from large respected suppliers. IT firms were equally as likely to report providing services to well-known and reputable clients. Furniture manufacturers are the least likely to rely on brand names, as wood is often still cut and processed by small companies. Large firms are also somewhat more likely than medium and small firms to rely on reputable brands, perhaps suggesting that they can afford the higher costs that brand names might imply.

Table 4.5: Does this supplier/client offer a well-known and reputable brand

	Total	Dhaka	Ctg.	Real Estate	Furn.	IT	Small	Med.	Large
Yes	73.2%	72.4%	77.8%	84.5%	52.5%	83.3%	70.3%	73.9%	84.6%
Somewhat	20.6%	21.0%	18.1%	10.9%	33.7%	16.7%	23.00%	19.3%	12.8%
No	6.2%	6.6%	4.2%	4.6%	13.8%	n/a	6.70%	6.7%	2.6%
Total percentage	100%	100%	100%	100%	100%	100%	100%	100%	100%
Total no. of firms	529	457	72	174	181	174	330	119	78

Finally, we explored the role of entrepreneurs' network ties in obtaining information about or access to primary suppliers/clients. As shown in Table 4.6, about half of the surveyed entrepreneurs (49.9%) reported using professional contacts in obtaining information about or access to primary suppliers or clients (in the case of IT). This suggests that entrepreneurs rely heavily on their professional networks to obtain information about and which suppliers/clients can be relied upon. Other personal networks played only a minimal role. Only 15.3% of the sample reported using family or friend ties to obtain suppliers or clients. The only other common source of information and access was through marketing efforts by either the supplier or by the IT firm looking for clients. Marketing teams helped initiate primary relationships for 28.4% of firms. There was little inter-industry variation even between IT firms looking for clients and real estate and furniture companies looking for suppliers.

Table 4.6: The use of network ties to obtain information about or access to primary suppliers/clients

	Total	Dhaka	Ctg.	Real Estate	Furn.	IT	Small	Med.	Large
Parent company	0.6%	0.4%	1.4%	0.6%	0.5%	0.6%	0.6%	0.8%	0.0%
Business assoc.	2.8%	3.1%	1.4%	1.1%	3.8%	3.4%	3.6%	1.7%	1.3%
Broker or agency	4.3%	4.4%	4.2%	5.7%	4.9%	2.3%	5.1%	0.8%	6.4%
Assist. program	3.0%	3.3%	1.4%	1.1%	1.1%	6.9%	3.0%	0.0%	3.8%
Marketing team	28.4%	28.5%	27.8%	25.3%	32.8%	27.0%	24.7%	27.7%	44.9%
Other prof. contact	49.9%	51.4%	40.3%	52.3%	47.0%	50.6%	51.5%	47.9%	47.4%
Family member	6.8%	6.1%	11.1%	5.7%	7.7%	6.9%	6.9%	5.9%	7.7%
Friends	8.5%	7.2%	16.7%	8.6%	7.7%	9.2%	8.1%	7.6%	10.3%
Total no. of firms	531	292	65	173	183	174	332	119	78

In summary, despite the lack of a court system that can judiciously and effectively resolve disputes, firms in this study report that they are generally able to find trustworthy suppliers/clients and that they are satisfied with their primary supplier/client. Nonetheless, as the example of fraud in the IT industry suggests, while the general trend might be positive, this is little consolation to the firms that are defrauded in the absence of institutional protections. Still, it appears that businesses do have several strategies at their disposal to ensure reliable exchanges, including the use of tendering processes, working with reputable brands, and using professional contacts.

5. Government

Business development and growth is highly dependent on the business climate created by government policies and actions. For example, businesses depend on government to provide public goods and services such as roads, electricity, gas, water, and sewerage; to offer effective regulation that ensures a level playing field while protecting consumers, workers, and the environment; to enforce contracts; and to ensure a stable and secure macro-economic and political environment. Government intervention in the economy has, however, proven to be a double-edged sword. While government regulations should help markets work better, in practice, they often lead to red tape and corruption, undermining business growth and development.

Globally, a broad number of empirical studies have documented the negative impacts of poor quality public goods and services on business development (Straub, 2010; Dethier, Hirn, & Straub, 2010). Consider for example, the issue of electricity in Bangladesh. When a large sample of business leaders were asked what was the single greatest obstacle to business development in the 2007 World Bank Enterprise Survey, a plurality of over 40% of the firms identified electricity (World Bank, 2007). At the peak of the energy crisis in 2010, Bangladesh could only generate between 3,600-4,300 megawatts (MW) of power a day, while demand was estimated to be 5,300 MW (Institute of Governance Studies, 2010). Faced with growing demand and even substantial suppressed demand, the government placed a moratorium on new electricity connections that ran from April 2010 to March 2011. The situation earned Bangladesh a ranking of 182 out of 183 countries in the ease of obtaining an electricity connection in the World Bank's (2012) Doing Business report. Confronting frequent power outages (referred to as load-shedding), businesses have been required to invest in generators and subsequent fuel and maintenance costs in order to maintain operations. Many smaller businesses that are not able to afford such solutions have suffered work stoppages. While such numbers are often best guesses, a 2008 study estimated the cost of electricity shortages at 2% of GDP.[8] Admittedly, by 2014, the problem had been greatly reduced through the use of rental power plants; however, the plants only offer an expensive short term fix and severe service challenges remain (Centre for Policy Dialogue, 2013).

Poor service quality is only one of the governance related challenges that businesses confront. The problems of red tape and unresponsive government are well documented in Bangladesh. For example, the World Bank's (2012) Doing Business report estimated that (without paying bribes) registering property in Bangladesh's non-digitized and chaotic system of land records would require eight steps, 245 days, and fees and taxes worth 6.6% of the land value. Most of the delay was a product of a backlog at the municipal deed registry office. As a result, the Doing Business report ranked Bangladesh as 173 out of 183 countries for this category of the business climate (World Bank, 2012).[9] Bureaucratic delays and the cost of red tape have a clear negative impact on businesses. Furthermore, small and medium sized enterprises (SMEs), which lack the staff, know-how, and money to overcome such obstacles, are presumed to be disproportionately affected by such an environment (Feroz, Rahman, &Haque, 2011).

[8]As cited in Institute of Governance Studies (2009)
[9]As bad as this is, it is actually a substantial improvement. Prior to reforms in 2006 and 2008, the process used to take an estimated 425 days and 11.0% of the land value (World Bank, 2012).

In practice, the time required for obtaining permits and access to public services is often reduced through corruption. Transparency International's Corruption Perception Index famously ranked Bangladesh at the bottom of its Corruption Perception Index for several years in a row in the early 2000s. While the country has since moved up, it is still ranked at 144 out of 176 countries studied (Transparency International 2012). Although there are methodological reasons to take such rankings with a grain of salt, the reality of corruption is undeniable. The World Bank's Enterprise Survey suggests that the percent of firms who are expected to pay a bribe to "get things done" and who identify corruption as a major constraint are far higher in Bangladesh than in other comparable countries. As shown in Table 5.1, a very high 85.1% of Bangladeshi firms report that they are expected to "give gifts" to public officials to get things done, a percentage much higher than elsewhere in South Asia and well above the global country average of 25.7%. Furthermore, 54.9% of surveyed firms in Bangladesh identify corruption as a major constraint, above the global country average of 36.1%.

Table 5.1: Bangladesh corruption in comparative perspective

	Bangladesh	India	Pakistan	Nepal	Sri Lanka	Global average
Percent of firms expected to give gifts to public officials "to get things done"	85.1%	47.5%	48.0%	15.2%	13.7%	25.7%
Percentage of firms identifying corruption as a major constraint	54.9%	25.6%	59.3%	19.9%	15.6%	36.1%

Note: India : 4,234 firms surveyed from April 2006-July 2006; Nepal: 368 firms surveyed from March 2005-June 2009; Sri Lanka: 610 firms from June 2011 to Nov. 2011; Pakistan: 935 firms from Sept. 2006 to June 2007.
Source: World Bank Enterprise Survey: www.enterprisesurvey.org

Finally, political instability and frequent hartals and blockades have created an additional challenge for businesses. While hartals were once popularly enforced general strikes led by popular social movements, today they are typically enforced by opposition political parties, who have been locked out of power in Bangladesh's winner-take-all parliamentary system. The resulting forced closure of shops, interruption of traffic, destruction of property, and general sense of uncertainty has clearly taken a toll on the economy. In fact, the Center for Policy Dialogue's Debapriya Bhattacharya (2013) looked at the last year of a government's tenure during fiscal years 1996, 2002, and 2007 and found that political instability led to small but nonetheless important drops in GDP growth, manufacturing sector growth, and export growth in each of these years. It appears that the trend has held for 2013 as well.

The OBCS survey data collection occurred in the first quarter of 2013, and Table 5.1 presents a summary of the political instability during this time. According to reporting by the Daily Star, during these three months there were 15 days of hartals and another 22 days of political unrest; 90 civilians were killed along with another 8 police officers, and numerous vehicles were damaged or destroyed (See Table 5.2).

Table 5.2: Hartal related violence in the first quarter of 2013

Month	Total days of unrest	Nation-wide hartals	Civilians killed	Civilians injured	Policemen killed	Policemen injured	Vehicles damaged/ destroyed	Buses damaged/ destroyed	Police vans damaged/ destroyed
January	5	2	5	252	2	60	513	50	9
February	16	4	41	1,381	4	102	183	12	8
March	16	9	44	909	2	49	376	26	8
Total	37	15	90	2,542	8	211	1,072	88	25

Source: Reporting from The Daily Star.

Given these significant government related challenges, the OBCS focused on how businesses are responding to obstacles in obtaining government permits, accessing public goods and services, and reacting to political instability. Table 5.3 presents average satisfaction levels with outcomes and processes in dealing with government on a scale of 1-7 where 1 is very dissatisfied and 7 is satisfied. Respondents were typically dissatisfied with both outcomes and processes with average scores of 2.78 and 2.64 respectively. While Table 5.3 reveals some variation in satisfaction (particularly between large and medium-sized businesses), entrepreneurs' evaluations are low regardless of location, industry, or size.

Table 5.3: Satisfaction with outcomes and the process in dealing with government

	Satisfaction with outcomes (1-7)		**Satisfaction with process (1-7)**		**Total**
	Mean	Std. Error	Mean	Std. error	
Dhaka	2.79	0.080	2.62	0.074	458
Chittagong	2.69	0.154	2.79	1.470	72
Real estate	2.64	0.124	2.51	0.113	174
Furniture	2.93	0.126	2.86	0.120	182
IT	2.76	0.125	2.54	0.112	174
Small	2.83	0.090	2.71	0.086	331
Medium	2.36	0.144	2.3	0.127	119
Large	3.17	0.202	2.88	0.181	78
Total	2.78	0.072	2.64	0.067	528

Table 5.4 shows the number and percentage of firms that sought a variety of different governmental permits and access to public goods and services. Almost all the businesses reported undertaking basic registration steps like obtaining a trade license, a tax identification number, and value added tax (VAT) certificate. Real estate firms were far more dependent on government agencies, as they often had to register property, obtain construction and development clearances, and seek building permits. A smaller percentage of firms were directly involved in either importing or exporting merchandise; however, many firms reported seeking public goods and services, including telephone, electricity, water and sewer, and gas connections. The average respondent pursued seven of the fourteen listed government permissions and services.

Table 5.4: Firms seeking diverse permissions and access to services

	Frequency	%
Registering with the Register of Joint Stock Companies and Firms	286	53.9%
Obtaining a trade license	530	99.8%
Obtaining a Tax Identification Number	518	97.6%
Obtaining a VAT certificate	494	93.0%
Registering property with the Municipal Deed Registry Office	129	24.3%
Obtaining project clearance for construction from DCC	121	22.8%
Obtaining environmental/development clearance from RAJUK	111	20.9%
Obtaining a building permit from RAJUK	173	32.6%
Obtaining an Import Registration Certificate	138	26.0%
Obtaining and Export Registration Certificate	82	15.4%
Obtaining a telephone connection	423	79.7%
Obtaining an electricity connection	366	68.9%
Obtaining a water and sewer connection	258	48.5%
Obtaining a gas connection	186	35.0%
Total	531	

Perceptions of the difficulties in obtaining government approvals and services varied widely. On a scale of 1-7 where 1 is very difficult, the average process was rated as a 3.99, just above the middle point of a normal distribution that ranged the entire length of the one to seven continuum. Table 5.5 groups similar processes together and presents average perceived ease across each grouping. The table shows some systematic variation, as real estate related processes (e.g., obtaining a building permit) were generally perceived to be more difficult, and large firms tended to find the processes easier than SMEs. Much of the variation cannot be easily explained, however, and while many respondents found government regulations and requirements to be very difficult, others felt that they were very easy. This is, to some extent, surprising. If government regulations are as onerous as the *Doing Business* report and other sources conclude, then we would not expect to find a large number of firms evaluating these processes as easy, suggesting that either such studies are incorrect or -- more likely -- that many entrepreneurs have become accustomed to the challenges presented by red tape and found ways around it. The OBCS considers three such possibilities: corruption, the use of personal networks, and persistence.

Table 5.5: Perceived ease of the process of obtaining groupings of permits or services on a 1-7 scale where 1 is very easy

	Dhaka		Chittagong		Real Estate		Furniture		IT	
	Mean	n	Mean	n	Mean	n	Mean	n	Mean	n
All processes	4.08	459	3.47	72	3.58	174	4.11	183	4.31	174
Joint stock, trade license, TIN, VAT	4.23	459	3.80	72	4.01	174	4.17	183	4.33	174
Purchasing property, constructionenvironmental clearance, building permit	3.17	163	3.15	41	3.00	170	4.24	17	3.78	17
Import and export registration	4.10	135	3.82	14	3.94	25	4.25	28	4.05	96
Telephone and water/sewer connections	4.39	384	3.46	68	4.22	169	4.10	131	4.41	152
Electricity and gas connection	3.44	296	2.90	72	2.58	167	3.69	126	4.41	75

	Small		Med.		Large		Total	
	Mean	n	Mean	n	Mean	n	Mean	n
All processes	3.90	332	4.09	119	4.25	78	3.99	529
Joint stock, trade license, TIN, VAT	4.05	332	4.23	119	4.55	78	4.16	529
Purchasing property, construction environmental clearance, building permit	3.00	113	3.36	52	3.34	38	3.16	203
Import and export registration	3.95	75	4.03	30	4.30	44	4.07	149
Telephone and water/sewer connections	4.11	273	4.40	100	4.48	77	4.24	450
Electricity and gas connection	3.19	223	3.55	82	3.52	61	3.33	366

One of the reasons why some entrepreneurs might regard governmental processes as easy is because of the role that bribery plays in facilitating access. As discussed above, there is plenty of evidence documenting that corruption is exceptionally high in Bangladesh; nonetheless, the pervasiveness of corruption as identified by respondents in the Overcoming Business Challenges Survey is still shocking. As shown in Table 5.6, between 93.8% and 97.7% of respondents who reported to have sought a given permission or service reported having a bribe solicited. Perhaps more surprising than these exceptionally high percentages, was the little to no variation in reported bribe solicitations across the different services or bureaucracies. While there is probably considerable variation in the amount of the bribe solicited, the practice appears to be widespread across diverse government agencies, localities, industries, and firm size. As such, corruption and bribery clearly offers one strategy – albeit an undesirable one – to overcome red tape.

Table 5.6: Percent of those seeking approvals/services who reported that a bribe was solicited

	Frequency	Percentage
Registering with the Register of Joint Stock Companies and Firms	278	97.2%
Obtaining a trade license	507	95.7%
Obtaining a Tax Identification Number	492	95.0%
Obtaining a VAT certificate	464	93.9%
Registering property with the Municipal Deed Registry Office	124	96.1%
Obtaining project clearance for construction from DCC	116	95.9%
Obtaining environmental clearance from RAJUK	107	96.4%
Obtaining a building permit from RAJUK	169	97.7%
Obtaining an Import Registration Certificate	136	98.6%
Obtaining and Export Registration Certificate	79	96.3%
Obtaining a telephone connection	402	95.0%
Obtaining an electricity connection	354	96.7%
Obtaining a water and sewer connection	242	93.8%
Obtaining a gas connection	181	97.3%

The process of how corruption works, as described by study participants, appears to be fairly simple. Generally speaking, businesses' representatives show up at the appropriate office, and rather than interacting directly with a government official, an intermediary assists them in filling out and submitting the paperwork. The intermediary collects the official fees, a commission for himself, and bribe money for the government agent. Applicants who seek to interact directly with government officials are encouraged to go through the intermediaries. Although this represents an informal process with informal payments, the pervasiveness of the system suggests that it is fully institutionalized.

Given the salience of bribery, respondents were asked who they felt was to be blamed the most for corruption: businessmen and women, elected officials, high level bureaucrats, or medium/low level bureaucrats. Responses were well divided; however, a plurality of respondents 33.3% blamed elected officials (See Table 5.7). This sentiment was perhaps somewhat stronger among small businesses and furniture manufacturers. 27.4% of the sample blamed high level bureaucrats and only 19.5% of the sample and 13.8% placed the blame on low level bureaucrats and the business community respectively.

Table 5.7: Who is most to blame for corruption?

	Dhaka	Ctg.	Real Estate	Furniture	IT	Small	Med.	Large	Total
The businessmen/women who pay bribes	13.0%	18.1%	15.0%	11.5%	15.0%	13.0%	16.0%	14.1%	13.8%
Elected government officials	31.6%	44.4%	21.8%	48.6%	28.7%	38.9%	26.9%	19.2%	33.3%
High level officials within the bureaucracy	28.1%	22.2%	33.3%	22.4%	26.4%	29.2%	25.2%	23.1%	27.4%
Medium/low level officials within the bureaucracy	20.7%	12.5%	21.8%	13.1%	24.1%	16.0%	22.7%	29.5%	19.5%
Other	6.5%	2.8%	8.0%	4.4%	5.7%	3.0%	9.2%	14.1%	6.0%
Total	459	72	174	183	174	332	119	78	529
Total percentage	100%	100%	100%	100%	100%	100%	100%	100%	100%

Another potential strategy to overcoming red tape is using personal networks to facilitate approval processes. Only a small percentage of respondents reported using parent companies, business associations, government or NGO run business assistance programs to facilitate government approval processes. As shown in Table 5.8, however, hiring formal agents or brokers is far more common, reportedly done by 20.3% of respondents, as is using professional contacts, reported by 38.4% of respondents. Surprisingly, interviewees reported using family and friends contacts with far less frequency than would be predicted by conventional wisdom. Only 15.4% of the sample reported engaging family members and only 10.2% reported using friends for help with information or access. Furthermore, of the total respondents, only 69, or 13%, reported using personal contacts that were in the government or political parties. While some of these categories might be underreported, it seems likely that the lower than expected use of networks might be because of the existence of highly institutionalized forms of corruption. For example, when one entrepreneur was asked if it was possible to avoid paying bribes with good connections, the interviewee laughed and responded that the connections only ensured that you were bribing the right person.

Table 5.8: Percentage of respondents using personal networks to obtain information about permits and services or access to officials

	Dhaka	Ctg.	Real Estate	Furn.	IT	Small	Med.	Large	Total	
Agency or broker	22.9%	4.2%	26.4%	9.8%	25.3%	19.3%	16.8%	30.8%	20.3%	108
Professional contact	34.9%	61.1%	39.7%	45.4%	29.9%	38.0%	41.2%	34.6%	38.4%	204
Family member	10.9%	44.4%	14.4%	24.6%	6.9%	16.0%	14.3%	15.4%	15.4%	82
Friend	8.5%	20.8%	10.3%	12.0%	8.0%	10.8%	10.1%	7.7%	10.2%	54

A third possibility is that overcoming government red tape simply requires proper organization, documentation, knowledge of the process, and persistence. As shown in Table 5.9, 45.6% of the respondents felt that patience, organization, and persistence were more important than willingness to pay bribes or connections within the government. Responses to this question were fairly consistent across city, industry, and size of the firm. Of course, despite the commonness of bribery, there still remains a stigma against corruption, and entrepreneurs might be hesitant to admit in a survey that a willingness to pay bribes is the most important.

Table 5.9: Which of the following characteristics is most important to obtain needed government approvals or access to services

	Dhaka	Ctg.	Real Estate	Furn.	IT	Small	Med.	Large	Total
Be patient, well organized, and persistent	45.5%	47.2%	41.3%	49.2%	46.5%	45.2%	49.6%	41.6%	45.6%
Be willing to pay bribes	35.8%	16.7%	32.6%	34.4%	32.6%	33.4%	28.2%	40.3%	33.3%
Have connections within the government	18.7%	36.1%	26.2%	16.4%	20.9%	21.4%	22.2%	18.2%	21.1%
Total number	455	72	172	183	172	332	117	77	526
Total percent	100%	100%	100%	100%	100%	100%	100%	100%	100%

In summary, the OBC Survey finds clear evidence of the use of bribery to overcome the challenges of red tape, some use of networks – particularly professional networks – and at least a stated perception that red tape requires organization and persistence. In addition, the OBCS also explored entrepreneurs' reaction to political instability. The survey reveals an enormous concern over instability that was very consistent across all industries and types of businesses (See Table 5.10). On a 1-7 scale, where 1 was "very concerned" and 7 "not at all concerned," the average response was 1.7, very close to the extreme of "very concerned." When asked how much their businesses had been affected by hartals, the average response was 5.35 on a scale of 1-7 where 1 was "not at all affected" and 7 "very affected."

Table 5.10: Satisfaction with outcomes in dealing with government, satisfaction with the process of dealing with government, concern for political instability and degree to which affected by recent hartals

	Concern for political instability (1-7)		Affected by recent hartals (1-7)		Total number
	Mean	Std. error	Mean	Std. error	
Dhaka	1.75	0.061	5.26	0.103	458
Chittagong	1.89	0.136	5.83	0.176	72
Real estate	1.74	0.094	5.24	0.158	174
Furniture	1.69	0.088	5.52	0.165	182
IT	1.89	0.109	5.26	0.157	174
Small	1.79	0.069	5.46	0.112	331
Medium	1.66	0.120	4.97	0.215	119
Large	1.88	0.158	5.44	0.233	78
Total	1.78	0.056	5.35	0.092	528

Figure 5.1: Firm response to hartals across three different industries

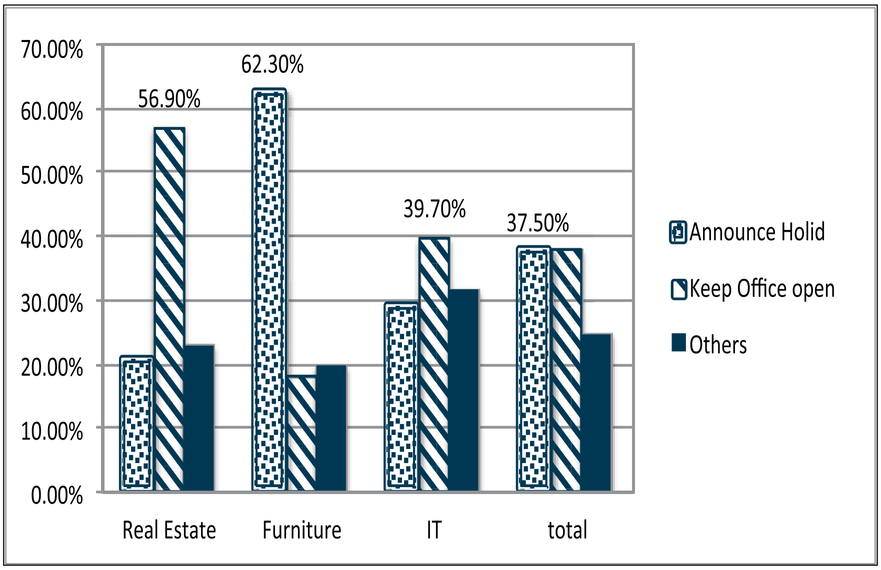


Figure 5.2: Percent of firms closed during hartals based on firm size[10]

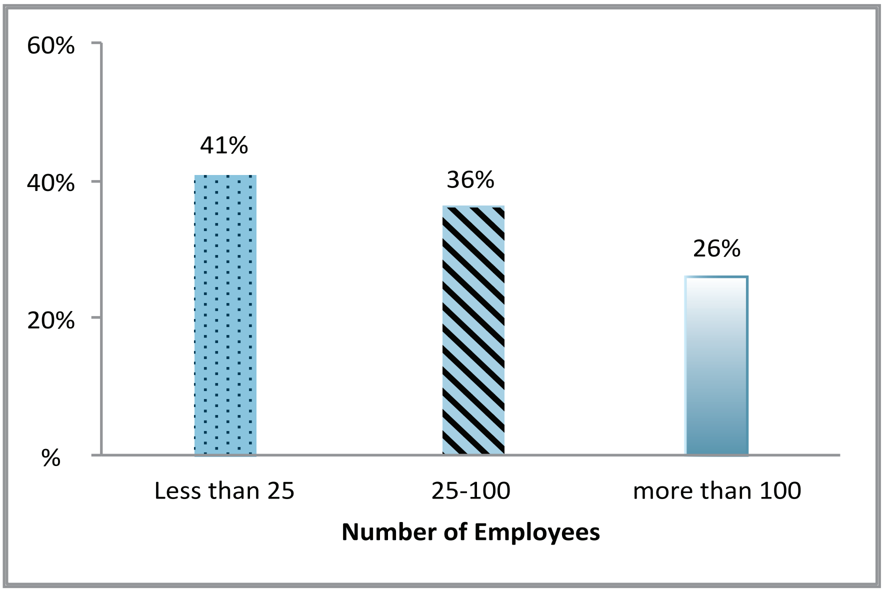
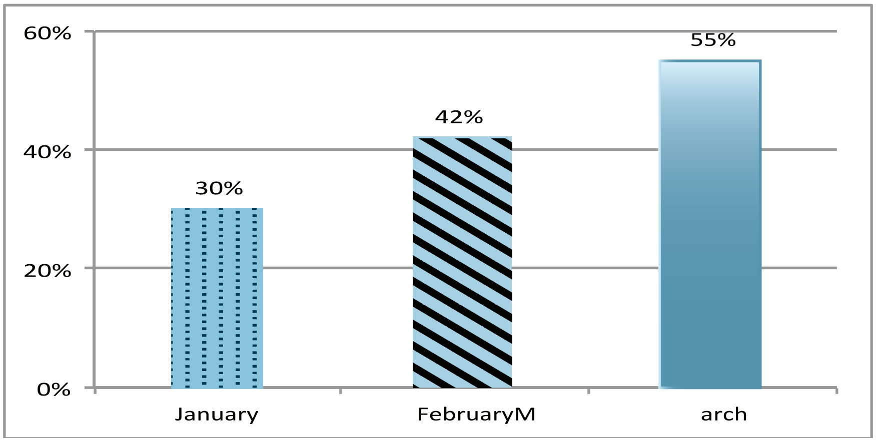


Figure 5.3: Percent of firms that remain open during hartals



When asked how they have responded to the hartals, 70% of furniture manufacturers reported closing their operations (See Figure 5.1). This is compared with only 21% of the respondents in real estate and 37% in the IT sector. Clearly industry matters. For example, several IT firms reported having their employees telecommute from home, an option clearly not available in the domestic manufacturing sector. The size of the firm also helps explain variation in the response. As shown in Figure 5.2, 41% of firms with less than 25 employees reported closing their offices, compared with 36% of medium sized firms, and 26% of large firms.

Perhaps most interestingly, as the number of hartals increased, a larger percentage of firms reported staying open during hartal days. The survey was conducted from January to March of 2013, and as shown in Figure 5.3, only 30% of firms surveyed in January reported remaining open, compared with 42% in February, and with 55% in March.[11] Just as firms have learned to adapt to shortages in electricity and gas and to a poor regulatory environment, many businesses appear to be adapting to political instability.

[10] All bivariate relationships presented in fig 5.1, fig 5.2 & fig 5.3 are further confirmed by multivariate logistic regression.

[11] Given the smaller sample size in March, we have less confidence in this final percentage, which could range from 40-70%.

In summary, businesses face considerable government-related challenges, including obstacles in obtaining access to public goods and services, red tape, and political instability. In the face of these challenges, entrepreneurs report substantial dissatisfaction with governmental processes and outcomes and considerable anxiety over political instability. On the one hand, through diverse strategies (including corruption) businesses have learned to navigate the political landscape. On the other hand, however, one could only imagine how businesses in Bangladesh could further develop and grow in a better regulatory and political environment.

6. Human Resources

In our in-depth interviews with entrepreneurs, we consistently heard complaints about the quality of workers. In fact, the national educational system appears to suffer from considerable shortcomings. While Bangladesh has managed to dramatically raise its literacy levels over the last two decades from 35.3% in 1990 to 56.8% in 2010,the country still lags far below most other emerging economies included in Goldman Sach's "Next 11" (See Table 6.1). For example, Asian competitors Vietnam, Indonesia, and the Philippines all have literacy rates over 90%.

Table 6.1: Adult literacy rates (15 years and older)

Year	Pakistan	Bangladesh	Nigeria	Egypt	Iran	Indonesia	Mexico	Vietnam	Philippines
1990	n/a	35.3%	55.4%	44.4%	65.5%	81.5%	87.6%	93.4%	96.9%
2000	42.7%	47.5%	54.8%	55.6%	77.0%	90.4%	91.0%	94.1%	95.7%
2010	54.9%	56.8%	61.3%	72.0%	85.0%	92.6%	93.1%	93.4%	95.4%

Source: UNESCO 2012.

But the numbers only tell part of the story. Perhaps of greater concern are shortcomings in the quality of education and training. At the university level, for example, in our own research we have identified serious issues such as insufficient critical thinking and problem solving skills, poor English language skills, widespread acceptance of cheating and plagiarism, and attitudinal concerns (Sabet and Tazreen 2013).

Provided this human resource environment, the OBCS sought to understand the strategies that businesses are using to overcoming human resource challenges. To focus on the analysis, we opted to concentrate on the challenges in hiring qualified personnel and managers. Of course, each industry faces very different challenges in attracting human resources. IT firms, for example, need highly skilled workers with specialized computer skills. While many universities in theory provide such training, entrepreneurs in the IT sector complain that graduates lack real-world and practical IT skills. By contrast and despite the presence of vocational carpentry programs, furniture manufacturers typically hire unskilled works at a young age and teach them the trade through a long apprenticeship. Regardless, of the specific industry challenges, however, the need to find capable and committed workers is universal.

When asked to evaluate their satisfaction with their workers, in contrast with evidence from our in-depth interviews, employers expressed general satisfaction. On a scale of 1-7, where 7 is very satisfied, employers on average rated their management team at 5.81 and their rank and file employees at 5.52, both suggesting a higher-than-expected degree of satisfaction (See Table 6.2). There were no dramatic differences between industries or firms of different sizes, although there is some evidence to suggest that furniture manufacturers might be less satisfied with their employees.

Respondents were also asked to evaluate how the educational system and institutions such as universities and technical training programs for preparing students to work in firms like theirs. These evaluations tended to be about one point lower on the same 1-7 scale and ranged from 4.47-4.79 (See Table 6.2).[12] The biggest gap between satisfaction with employees and with educational programs was in the IT sector.

[12] It is possible that our in-depth interview data is merely anecdotal or that the survey produced a bias measure of employee satisfaction.

Rather than learn IT skills in a formal educational institution, IT specialists are often somewhat self-taught or they learn on the job. Even in advanced industrial countries, educational programs have a hard time adapting to the constantly changing needs of the IT industry. Nonetheless, during the in-depth interviews, IT entrepreneurs stressed the need for better IT training. As a result, in 2012, the Bangladesh Association of Software and Information Systems (BASIS) went outside the traditional university system and inaugurated its own BASIS Institute of Technology and Management to train future IT professionals.

Table 6.2: Satisfaction with employees and educational programs on a scale from 1-7 where 7 is very satisfied/very good.

	Management team	Remaining employees	Educational system	Universities	Technical training programs	Total*
Dhaka	5.89	5.62	4.47	4.39	4.74	458
Chittagong	5.26	4.85	4.75	4.97	5.13	72
Real Estate	5.93	5.64	4.71	4.73	5.07	174
Furniture	5.64	5.25	4.46	4.28	4.74	183
IT	5.86	5.68	4.35	4.39	4.56	174
Small	5.80	5.48	4.60	4.51	4.83	329
Medium	5.75	5.56	4.18	4.24	4.83	119
Large	5.91	5.55	4.56	4.56	4.52	78
Total	5.81	5.52	4.51	4.47	4.79	530

Note: Totals may vary somewhat for individual means

One potential strategy to identify and hire capable and reliable employees is to develop formal human resource management (HRM) systems. For example, by hiring a professional in human resources and by developing formal procedures to ensure merit-based hiring and promotion, an entrepreneur might be able to ensure better hires. To measure the extent to which firms had developed and used such systems, we asked if businesses had a manager solely responsible for human resource management, an employee with a university degree in human resource management, a written employee handbook, and a formal written procedure for hiring new employees. For any one of these items, less than half of the firms reported having adopted the measure (See Table 6.3). Real estate firms and IT firms were far more likely to have taken such measures than their peers in the furniture industry. In the most extreme example, 77.0% of real estate firms had a formal written procedure for hiring new employees compared with only 9.8% of furniture manufacturing firms. Dhaka firms were more likely to have a HR manager and/or someone with a university degree in HR; however, they were no more likely to have a written handbook or hiring procedure. As one would expect, large firms were also considerably more likely to have formalized their HR procedures.

Table 6.3: Existence of formalized HR procedures

	Total	Dhaka	Ctg.	Real estate	Furn.	IT	Small	Med.	Large
Manager solely responsible for HRM	36.2%	38.2%	23.6%	51.4%	8.2%	50.6%	23.5%	51.3%	67.9%
Employee with a university degree in HRM	25.8%	27.6%	13.9%	33.5%	6.0%	39.0%	14.8%	33.6%	60.3%
Written employee handbook	46.0%	44.9%	52.8%	64.4%	23.5%	51.1%	35.8%	54.6%	76.9%
Formal written procedure for hiring new employees	48.0%	48.6%	44.4%	77.0%	9.8%	59.2%	39.5%	52.9%	76.9%
Total	531	459	72	174	183	174	332	119	78

Given the challenges in finding good people, the OBC survey asked entrepreneurs what methods they have used to find their "most valued employees." We find that Bangladeshi businesses, regardless of size or industry, tend to be heavily dependent on head-hunting firms to find their workers. As shown in Table 6.4, while firms use a variety of strategies, the largest percentage, 41.0%, relied on head-hunting agencies. Despite the trust and confidence that might come through family and friend networks, only 12.1% and 8.1% of firms, respectively, reporting hiring through these personal networks. There were, however, considerable differences in other strategies across locations, industries, and differently sized firms. Furniture industry respondents were more likely to use personal contacts, both family and professional, in finding their most valuable employees. IT firms were understandably more likely to use online job sites than the other industries, albeit probably not to the degree that one would expect of such an industry. Online job sites were not often used among surveyed Chittagong firms, which rely more on professional and possibly family contacts than their peers in Dhaka. Large firms were more likely to have used a variety of mediums, including online tools and daily classified sections but also family ties, in finding their most valuable employees.

Table 6.4: Strategies used to obtain firms' most valued personnel

	Dhaka	Ctg.	Real estate	Furn.	IT	Small	Med.	Large	Total
Head hunting firm	41.6%	36.1%	52.9%	31.7%	38.5%	41.3%	40.3%	41.0%	41.0%
Other prof. contacts	34.9%	58.3%	27.6%	51.9%	33.9%	38.9%	35.3%	38.5%	38.0%
Bdjobs.com/online tool	15.0%	4.2%	14.4%	0.5%	26.4%	9.6%	15.1%	28.2%	13.6%
Family members	11.3%	16.7%	6.9%	18.6%	10.3%	10.2%	12.6%	19.2%	12.1%
Prothom Alo or daily classified	12.0%	11.1%	17.8%	3.3%	14.9%	7.8%	8.4%	34.6%	11.9%
Friends	7.8%	9.7%	6.3%	10.9%	6.9%	8.4%	6.7%	9.0%	8.1%
Business assoc. chamber	2.4%	0.0%	0.6%	2.2%	3.4%	2.4%	1.7%	1.3%	2.1%
NGO run business assistance program	1.5%	1.4%	0.6%	2.2%	1.7%	0.9%	1.7%	3.8%	1.5%
Total	459	72	174	183	174	332	119	78	531

Note: Respondents could choose multiple answers. Percentages do not equal 100%

In theory, there is a difference between the approaches entrepreneurs use to find employees and the ones that actually bear fruit. As such, entrepreneurs were asked which sources had produced their most valuable employees. As shown in Table 6.5, 40.5% of firms reported that they found their most valued employees through head-hunting firms, similar to the 41.0% who reported using these firms. By contrast, while 13.6% and 11.9% reported using an online job site or a daily classifieds, only 6.8% and 5.9% of firms reported that their most valuable employees actually came from these sources. Large firms offer an interesting illustration. In looking for those that would come to be considered their most valuable employees, large firms used a variety of approaches. 28.2% used online tools, 20.2% used family contacts, and 34.6% used daily classifieds; however, only 7.7%, 6.4%, and 11.5% of these same firms reported hiring their most valuable employees from these sources. Family and friend networks, were only a source of valuable hires for a small percentage of firms, 5.9% and 4.3% respectively. Personal professional contacts, however, led to valuable hires for 31.2% of firms. As such, which family and friend networks might be a liability, professional contacts remain important for overcoming the challenge of attracting good employees.

Table 6.5: Actual source of most valuable employees

	Dhaka	Ctg.	Real estate	Furn.	IT	Small	Med.	Large	Total
Head hunting firm	41.2%	36.1%	52.9%	31.7%	37.4%	41.0%	40.3%	38.5%	40.5%
Professional contacts	28.1%	51.4%	19.5%	48.1%	25.3%	33.4%	30.3%	23.1%	31.2%
Bdjobs.com or online	7.8%	0.0%	6.3%	5.0%	13.8%	5.7%	9.2%	7.7%	6.8%
Family members	6.3%	2.8%	5.2%	7.1%	5.2%	5.7%	5.9%	6.4%	5.9%
Prothom Alo or classified	3.9%	8.3%	7.5%	1.1%	5.2%	3.0%	4.2%	11.5%	4.5%
Friends	4.8%	1.4%	3.4%	4.9%	4.6%	4.8%	4.2%	2.6%	4.3%
Total	459	72	174	183	174	332	119	78	531

Note: Respondents could choose multiple answers. Percentages do not equal 100%

A related human resource challenge is finding good managers. As shown in Table 6.6, 53.8% of respondents expressed a strong preference for promoting individuals who have worked their way up through the firm, 24.1% favored hiring professional managers brought on through a competitive process, and 22.2% preferred hiring personally connected individuals who are known and trusted. It is interesting to note that there are no real differences in preferences across small, medium, and large firms. There are, however, inter-industry differences. Very few furniture manufacturers reportedly used a competitive process to hire managers; instead, they relied on employees within the firm and personal connections.

Table 6.6: Which make better managers?

	Total	Dhaka	Ctg.	Real estate	Furn.	IT	Small	Med.	Large
Professional managers hired through acompetitive process	24.1%	22.5%	34.3%	38.7%	8.8%	25.3%	23.7%	22.7%	28.2%
Employees who worked their way up through the firm	53.8%	56.8%	34.3%	42.8%	61.9%	56.3%	52.6%	56.3%	53.8%
Personally connected individuals whom you know and trust	22.2%	20.7%	31.4%	18.5%	29.3%	18.4%	23.7%	21.0%	17.9%
Total percentage	100%	100%	100%	100%	100%	100%	100%	100%	100%
Total	528	458	70	173	181	174	329	119	78

7. Conclusion

The challenges facing businesses in Bangladesh are substantial. Perhaps the greatest concern identified in the survey is entrepreneurs' overwhelming reliance on their own resources to start-up and grow their businesses. The good news, however, is that many of the firms surveyed have and are overcoming these challenges. For example, businesses are largely able to find trustworthy suppliers despite a court system that appears unable to provide institutional protections, and they are largely able to find employees that they are satisfied with despite the limits of the education system and jobs training programs.

We explored three broad types of strategies that entrepreneurs might take to overcome business challenges. These include strengthening the business as an institution, using personal and professional networks, or simply working harder and relying more on one's entrepreneurial skills. There is evidence for all three of these strategies and their use varies somewhat across the different challenges. For example, entrepreneurs generally resolved the financing challenge by relying on their own resources.

Entrepreneurs often relied on their networks to resolve challenges, but these tended to be professional networks and even professional intermediaries rather than friend and family networks. While family networks are salient for many of Bangladesh's main business groups, they are clearly not as important for the firms surveyed in this study. This is an encouraging finding, as it means that entrepreneurs do not need to come from the right families in order to start and grow their enterprises. Perhaps the strategy least relied on was strengthening business institutions, as many of the firms in the survey remain sole proprietorships, rely on informal processes, and lack procedures for procurement or human resource management.

While the findings suggest that many firms are able to overcome business challenges, it is important to recognize that there is an inherent bias in a survey of this nature. The survey does not include those entrepreneurs who have failed or those potential entrepreneurs who have decided not to attempt to form their own businesses. It is impossible not to wonder how firms in these three industries would be different with better access to financing, stronger governing institutions, and improved educational and vocational training systems.

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