

The Influences of Institutional Theory in the Development and Operationalization of Small and Medium Enterprises in Bangladesh

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ABSTRACT: The study aims to explore the influence of institutional theory in the development and operationalization of small and medium enterprises (SMEs) in Bangladesh. The study employed a qualitative case study method to attain the research objective. Data has been collected through semi-structured interviews from ten respondents. The study finds that various dimensions play a pivotal role in shaping the trajectory of these enterprises. Isomorphism, operating through coercive, memetic, and normative mechanisms, further underscores the complex interplay of institutional forces. Coercive isomorphism introduces challenges such as financial stringency, complex loan structures, non-banking support, and mandatory restrictions. Memetic isomorphism, rooted in community support, cultural development, and tradition, shapes the identity of SMEs, influencing their operational choices. Normative isomorphism drives struggle for industry recognition, financial independence from bank loans, and collaborative efforts within the SME ecosystem. Institutional norms, emanating from the broader institutional environment, intricately shape the behaviors and decisions of SMEs. This comprehensive analysis sheds light on the nuanced dynamics that SMEs encounter in their developmental journey in Bangladesh. Recognizing and adapting to these institutional nuances will empower SMEs to navigate challenges and leverage opportunities, fostering a more robust and sustainable entrepreneurial ecosystem in the country. The concept of legitimacy, spanning financial, loan, government support, operational, and certification aspects, emerges as a cornerstone for SMEs to establish credibility and acceptance. Understanding and navigating this multifaceted legitimacy landscape are critical for SMEs to secure the necessary resources for growth.

Keywords: *Institutional Theory, SMEs in Bangladesh, Development and Operationalization, Qualitative Research.*

1. Introduction

In the dynamic landscape of Bangladesh's small and medium enterprises (SMEs), the influence of institutional forces cannot be overstated. This research focuses on unraveling the role of Institutional Theory in shaping the development and progress of SMEs. As these enterprises navigate regulatory frameworks, governmental policies, and cultural norms, understanding the impact of institutional dynamics becomes essential. This study aims to provide concise insights into how Institutional Theory

shapes the strategies and operational paths of SMEs in Bangladesh, contributing to a deeper comprehension of the factors influencing their growth.

In probing the impact of Institutional Theory on SMEs in Bangladesh, a significant research gap lies in the lack of detailed exploration into how the local cultural and economic context uniquely shapes interactions with institutional forces. The existing literature often focuses on short-term effects, leaving a void in our understanding of the long-term sustainability of SMEs under these forces. Additionally, there's a need for more in-depth micro-level analysis, investigating how individual SMEs, particularly in specific industries or regions, navigate institutional pressures. The entrepreneurial agency in influencing the institutional environment for SME development is a less-explored facet. Lastly, there's a scarcity of comparative studies between SMEs in Bangladesh and those in other countries, impeding a comprehensive understanding of distinct institutional contributions to developmental paths. Addressing these gaps will enrich our comprehension of how institutional theory molds SMEs in the Bangladeshi context.

This study delves into three key dimensions—*isomorphism*, *legitimacy*, and *institutional norms*—to unravel the intricate interplay of forces that impact the trajectory of SMEs.

As we embark on this exploration, understanding these dimensions becomes imperative for policymakers, researchers, and entrepreneurs alike. Unraveling the nuances of Institutional Theory in the context of SMEs in Bangladesh promises to not only deepen our academic understanding but also offer practical insights that can catalyze the growth of these enterprises and contribute to the overall economic vitality of the nation. Legitimacy, spanning financial, loan, government support, operational, and certification domains, is crucial for SMEs to establish credibility and navigate the complex web of institutional expectations. Isomorphism, operating through coercive, memetic, and normative mechanisms, introduces challenges and opportunities that shape the identity and behavior of SMEs. Cultural image, deeply embedded in social values, Islamic mindset, and cultural norms, provides a lens through which SMEs are perceived in their broader societal context. Finally, institutional norms emanate from the broader institutional environment, guiding the decisions and strategies of SMEs.

The majority of governments have made significant efforts to create and grow a supportive institutional framework (Ketkar, Acs 2012). The institutional framework either facilitates or inhibits internationalization activities, which has a substantial influence on the behavior of SMEs. Therefore, scholars in a variety of disciplines, including sociology, economics, and political science, have focused a great deal of emphasis on isomorphism, legitimacy, institutional image, and cultural-cognitive aspects of institutions. The paper aims to address the following questions:

- 1) The Role of Institutional Theory in Shaping SME Development in Bangladesh.
- 2) Operationalization of SMEs in Bangladesh: Navigating Institutional Pressures.

2. Literature Review

In the intricate landscape of Small and Medium-sized Enterprises (SMEs) in Bangladesh, the dynamics of institutional logic and institutional theory wield considerable influence over the development, progress, and fundamental aspects such as fund management and operationalization (Scott, 2008). Institutional logic, encompassing socially constructed patterns of thought deeply embedded in the historical and cultural fabric,

plays a pivotal role in shaping the behavior of entrepreneurs, investors, and other stakeholders within the SME ecosystem (Thornton, Ocasio, & Lounsbury, 2012). The institutional environment in Bangladesh, comprising regulatory frameworks, government policies, and cultural norms, collectively molds the norms, values, and expectations guiding SME actions, contributing significantly to their strategic decisions and operational behaviors (Meyer & Rowan, 1977).

An extended exploration of institutional theory enhances our comprehension of SME dynamics by delving into key concepts such as legitimacy, isomorphism, cultural aspects, and institutional image (DiMaggio & Powell, 1983). Legitimacy, as a central tenet of institutional theory, highlights the significance of SMEs aligning their actions with prevailing societal norms and expectations to secure approval and support (Suchman, 1995). Isomorphism elucidates how SMEs tend to mimic established structures and practices, both mimetically and normatively, to gain legitimacy and acceptance (DiMaggio & Powell, 1983). The cultural aspect introduces a nuanced dimension, acknowledging the unique cultural context of Bangladesh that shapes the institutional framework within which SMEs operate (Scott, 2008). Additionally, institutional image, reflecting the perceived legitimacy and standing of SMEs in the eyes of stakeholders, emerges as a critical factor influencing fund management strategies and operationalization (Deephouse & Carter, 2005).

Building upon existing research that substantiates the impact of institutional forces on SMEs (Oliver, 1991), this literature review seeks to unravel the intricate interplay of these dynamics in the context of Bangladesh. Researchers have empirically demonstrated the intricate linkages between institutional logic, institutional theory, and SME behavior (Dacin, Oliver, & Roy, 2007), providing empirical evidence that validates the theoretical foundations. By elaborating on these dimensions, the review aims to offer a comprehensive understanding of how SMEs in Bangladesh navigate and adapt to institutional pressures, shedding light on the multifaceted aspects of fund management and operationalization within this complex institutional milieu.

3. Methodology

The study aims to investigate the influence of institutional theory in the development and operationalization of small and medium enterprises in Bangladesh. The study employed a qualitative case study method to attain the research objective. Data has been collected through semi-structured interviews from ten respondents (Alam et al., 2023; Thakur et al., 2022) as data is saturated due to no new findings (Alam, 2021). The participant selection involves purposive sampling to ensure diverse representation across industries and business sizes. Semi-structured interviews conducted to gather detailed responses concerning the influence of institutional theory in the development and operationalization of SMEs in Bangladesh. The data has been collected from SME owners and managers. The interview questions are designed to elicit rich, descriptive data, allowing for a nuanced understanding of participants' experiences. Thematic analysis employed to identify patterns, trends, and insights from the qualitative data, providing a comprehensive exploration of the application of digital technologies in the context of SMEs in Bangladesh. Ethical considerations prioritized, ensuring participant confidentiality and voluntary participation throughout the research process. The author employed Nvivo software to analyze the data.

4. Findings and Discussions

Based on the Nvivo analysis, the author found the following theme in the development and operationalization of SMEs in Bangladesh

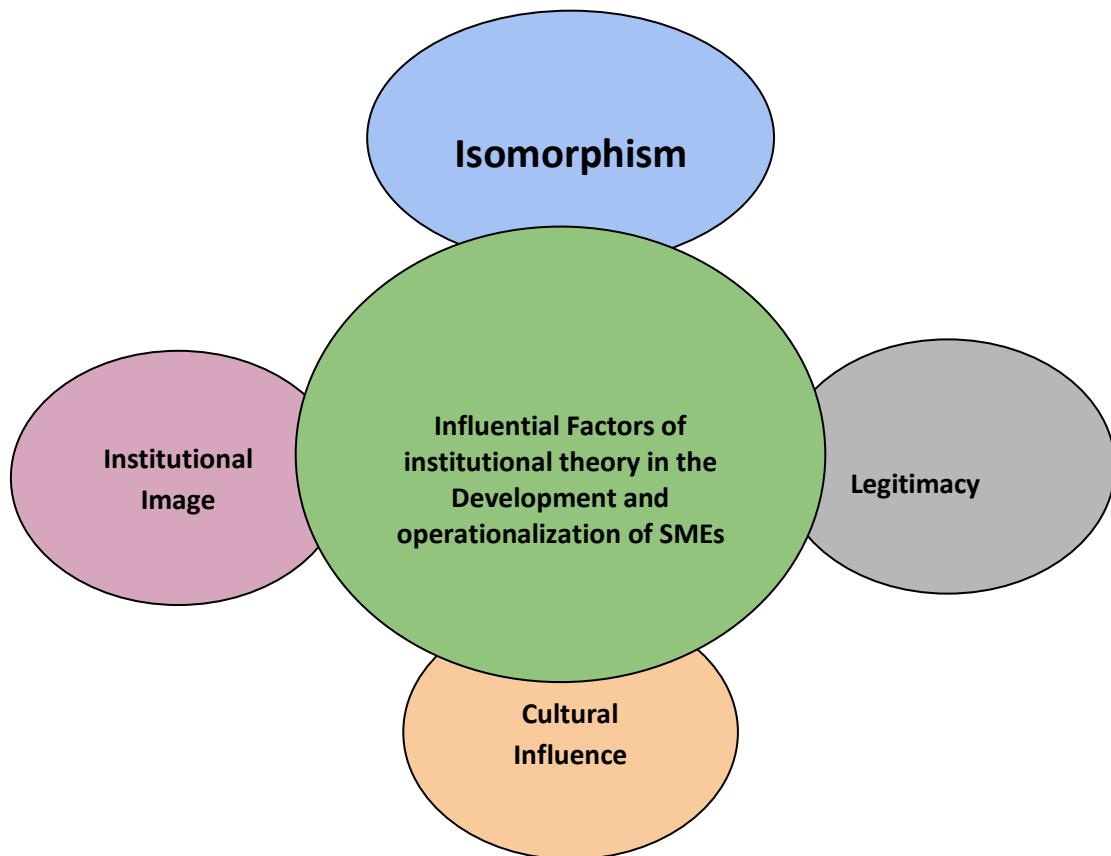


Figure: Influential Factors of institutional theory in the Development and operationalization of SMEs in Bangladesh. **Source:** Developed for this study

4.1 Isomorphism

There were 3 types of Isomorphism is outlined by the participants and those are; Coercive, Memetic, and Normative.

4.1.1 Coercive Isomorphism

Institutional logic and institutional theory play crucial roles in shaping the development, progress, and fund management of Small and Medium Enterprises (SMEs) in Bangladesh. The experiences shared by participants shed light on the isomorphic pressures faced by these businesses, specifically highlighting coercive, memetic, and normative forces. This essay aims to explore these three pressures with evidence from the participants' narratives, providing a comprehensive understanding of the challenges SMEs encounter in navigating institutional influences.

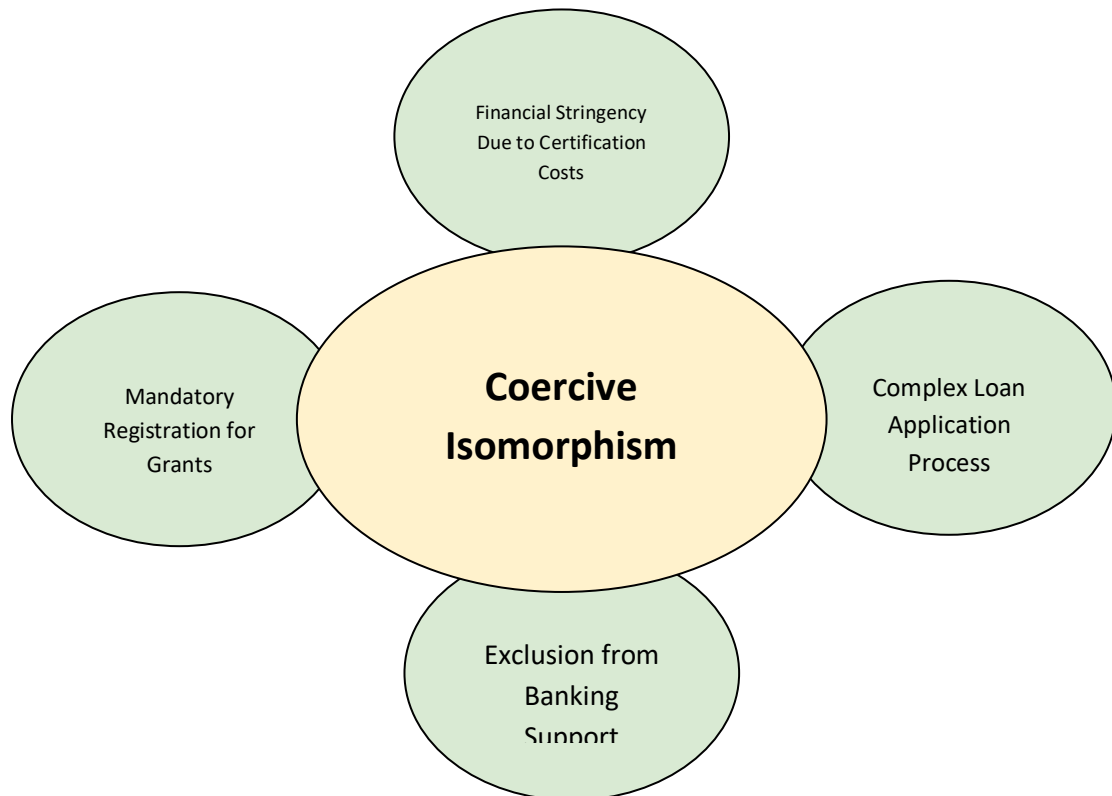


Figure: Coercive Isomorphism Influences. **Source:** Developed for this study

4.1.1.1 Financial Stringency Due to Certification Costs

Participant (P#2) outlines the coercive pressure arising from the costly certification requirements. The participant highlights that obtaining various certificates, such as ISO and quality management certificates, is financially burdensome for small organizations with low profits. He (p#2) has a suggestion for the government to reduce certificate costs implying that the financial burden acts as a coercive force, hindering SMEs from achieving certain standards and certifications.

In this case, many organization certificates such as various documents, ISO certificates, and quality management certificates are required. But for small organizations like ours, it becomes complicated to meet these requirements. Because these are costly certificates. We have not been able to achieve these qualities because our profits are so low that it is very difficult for us to go. In this case, if the government could reduce the rate of certificates for such SME organizations, it would be very beneficial. (Participant #2)

4.1.1.2 Complex Loan Application Process

Participant (participant #3) provides a narrative revealing the coercive nature of the loan application process. The participant's (participant #3) experience at the jute fair, being forced into a loan of TK. 25 lakh, reflects a coercive strategy employed by financial institutions. The participant's (participant #3) observation that even with all documentation in order, SMEs hesitate to take loans due to processing complexity indicates the inhibitory impact of coercive pressures on SMEs seeking loan applications.

A long time ago, I took a loan called Mukti at jute fair. I don't want to take a loan. If I can't repay a loan, they call and shout. I don't need to because there is always a good profit from the plantation business even though it is not happening now. They forced me to have a loan of TK. 25 lakh...Even though they have everything in order, they don't want to give a loan; what do they do with those who have nothing? None of the people I've talked to want to take the loan because of the processing complexity. (Participant #3)

4.1.1.3 Exclusion from Banking Support

Participants #1 and #10 express a common sentiment that bank loans are not accessible to them. This exclusionary approach creates coercive pressure, limiting the financial options available to SMEs. Their (P#1, 10) shared view suggests a systemic issue where certain SMEs, possibly those in traditional sectors like weaving, face barriers in obtaining financial support from banks, imposing coercive constraints on their growth.

Bank loans are not for us. (Participant # 10) It will be easier to get capital as you can quickly get a bank loan if you have your own house. We don't want to get in trouble. (Participant # 1)

4.1.1.4 Mandatory Registration for Grants

Participant #4 discloses the coercive pressure related to mandatory registration. While the participant (p#4) has a trade license, the government's requirement for SMEs to register to avail themselves of a grant of Tk. 20,000 creates coercive circumstances. The financial incentive attached to registration (grant) acts as a coercive measure, compelling SMEs to undergo the registration process despite potential reservations or challenges.

No, I have a trade license but it has become mandatory for us to register. We get a grant of TK. 20,000 but not every year. (p#4)

4.1.2 Memetic Isomorphism

Memetic pressures in the context of Isomorphism for these SMEs in Bangladesh are evident in the emphasis on tradition and craftsmanship, resistance to loans and interest, community support systems, and the cultural development of raw materials. These shared memetic elements shape the identity, values, and decision-making processes within the SME community, highlighting the importance of cultural and communal factors in influencing business practices.

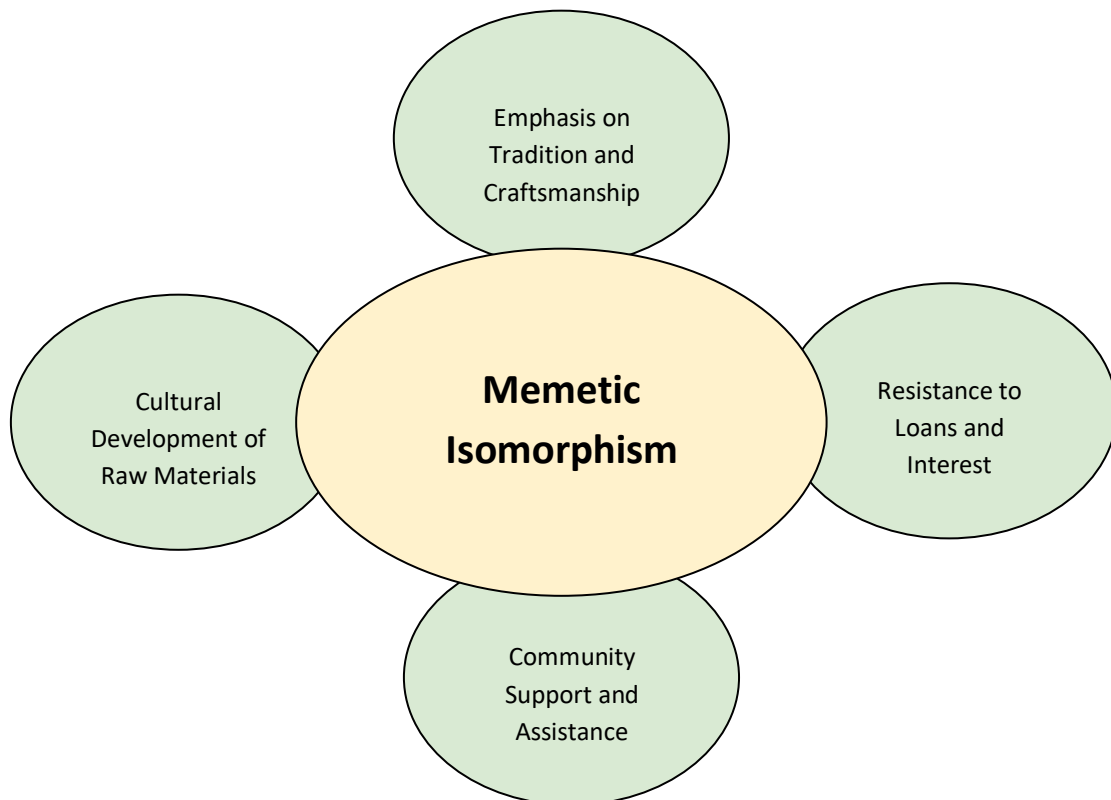


Figure: Memetic Isomorphism. **Source:** Developed for this study

4.1.2.1 Emphasis on Tradition and Craftsmanship

Participants #1 consistently emphasizes the traditional craftsmanship and uniqueness of Bangladeshi products, particularly the Jamdani Sari. This shared narrative reflects a memetic pressure where the cultural and traditional values associated with certain products become ingrained in the identity of SMEs.

Our country is a country of the sari. This is Jamdani Sari Desh... They have taken artisans from our country, they are doing Everything with land, but they have not been able to make jamdani like us... We have no shortage of skilled craftsmen. (Participant #1)

4.1.2.2 Resistance to Loans and Interest

Both participants #1 and #10 express a resistance to taking loans and paying interest. This shared perspective reflects a memetic pressure shaped by cultural and religious values, particularly those related to Islamic finance.

The aversion to loans and interest becomes a memetic element that influences decision-making among SMEs, indicating the transmission of shared beliefs and practices within the business community.

It will be easier to get capital as you can quickly get a bank loan if you have your own house. We don't want to get in trouble. And we just avoid the thing of interest because they have a lot of Islamic minds. (Participant #1) Bank loans are not for us. (Participant #10)

4.1.2.3 Community Support and Assistance

Participant #1 mentions the existence of the Bangladeshi Benarosi Committee, a community that provides support in times of need, such as accidents or marriages. This community-oriented support system is a memetic element that emphasizes collective assistance over individualistic financial approaches.

The shared value of community support creates a memetic pressure for SMEs to integrate such collaborative and supportive practices into their operational frameworks.

Those who are Bihari are not there or not. And Bengalis like to work at the level they are on. They are running a lot of big shops; they are running on loans. But for those who are Benares, they have a lot of shops. However, they do not want to take a loan. They try to manage on top of what they have for themselves. I have a community of ours. Bangladeshi Banarasi Committee. If any of us have an accident, many people from there help a lot. No, there is no loan system; there is a help system. One-time assistance is given in case of an accident if someone dies in case of marriage. Participant #1

4.1.2.4 Cultural Development of Raw Materials

Participant #7, involved in jute-related industries, expresses a commitment to developing raw materials for the next generation to be competitive in the international market. This perspective reflects a memetic pressure emphasizing the cultural responsibility of businesses to contribute to the development and sustainability of raw materials.

The focus on cultural development passed down through generations, becomes a memetic element influencing the long-term vision and practices of SMEs in certain sectors

I have a group of industries and a jute-related factory. No ISO credentials are required to do this. I personally didn't need anything. Because I have a volume, myself a volume, that's why I don't need these certificates. I have prepared myself that way. There are plans in the future to take it a long way with age. I am basically developing raw materials for the next generation. Because if the next generation wants to be competitive in the international market, then we/they must develop raw materials.

4.1.3 Normative Isomorphism

normative pressures in Isomorphism for these SMEs in Bangladesh are evident in the challenges related to obtaining certificates, reluctance toward traditional bank loans, the importance of registration, and the need for government assistance in export endeavors. These shared norms influence the behaviors and decision-making processes of SMEs, contributing to a sense of conformity within the broader institutional environment.

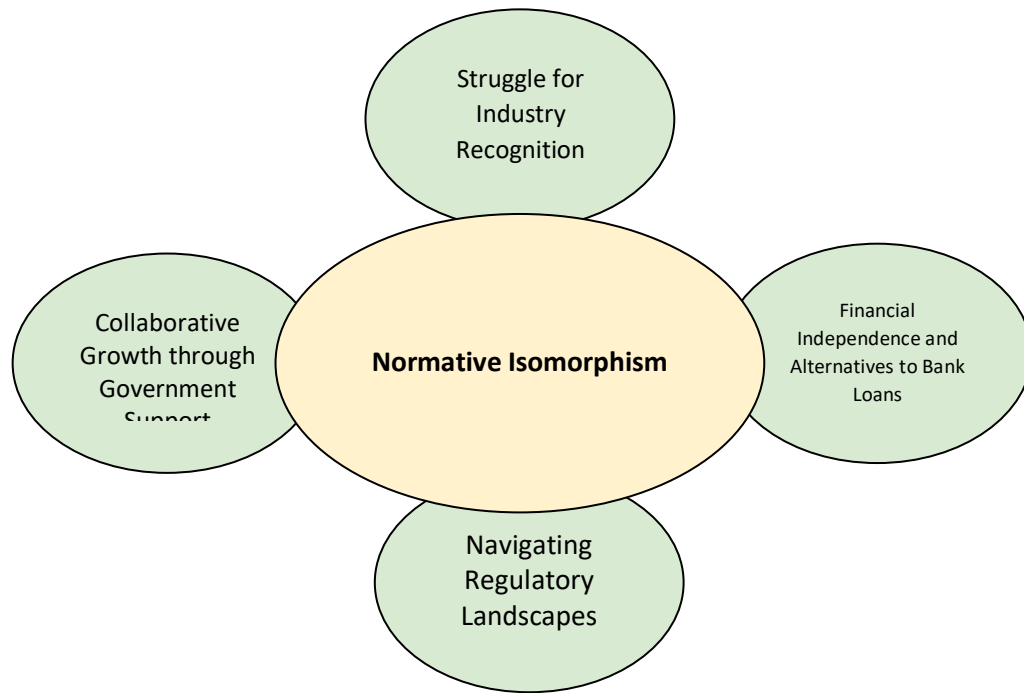


Figure: Normative Isomorphism. **Source:** Developed for this study

4.1.3.1 Struggle for Industry Recognition

Participant #2 highlights the challenges faced by small organizations in obtaining industry recognition through various certificates, such as ISO and quality management certificates. This shared experience reflects a normative pressure where adherence to certain standards and certifications is considered a norm within the industry. The difficulty in obtaining these certificates creates a normative expectation for SMEs to conform to established standards, contributing to a sense of legitimacy and credibility within the industry.

In this case, many organization certificates such as various documents, ISO certificate, quality management certificate are required. But for small organizations like ours, it becomes complicated to meet these requirements. Because these are costly certificates. We have not been able to achieve these qualities because our profits are so low that it is very difficult for us to go. (Participant #2)

4.1.3.2 Financial Independence and Alternatives to Bank Loans

The normative expectation is established that SMEs should seek alternative funding sources or advocate for changes in the existing banking practices to make them more accessible and conducive to small businesses. Both Participants (Participant #3 and #6) express reluctance towards taking bank loans due to high interest rates, complex procedures, and uncertainty. This shared perspective creates normative pressure within the SME community against relying on traditional banking systems for financial support.

If the government wants to give a 4% rate, it will have to. However, I am furious that some people are borrowing crores of TK from Bangladesh Bank, they are being given only a two percent rate, but small entrepreneurs cannot work for money. It doesn't seem to me to be a regular thing; for example, Square, and Beximco companies are sitting on loans of thousands of crores of rupees, with no name of interest. Medium or small companies do not have the bargaining power that the big company has? Even if they

contribute about 90 percent to the economy, they still don't care about SMEs. SMEs need to be financially supported (Participant # 3) We have Nothing more to ask for; that is all we want; we want to be given an interest-free loan. (Participants # 6)

4.1.3.3 Navigating Regulatory Landscapes

Participant #4 notes that although they have a trade license, there is now a normative expectation for SMEs to register. The benefits, such as a grant of Rs 20,000, create a norm that registration is not just a legal requirement but also a practical step to access financial support. That participant's (Participant #4) emphasis on registration establishes a normative pressure for SMEs to comply with regulatory requirements, enhancing their visibility and eligibility for government support.

No, I have a trade license but it has become mandatory for us to register. We get a grant of Rs 20,000 but not every year. (p#4)

4.2 Legitimacy

The participants discuss the challenges they face in obtaining loans and certifications, and how these challenges hinder their ability to grow their businesses. They also express frustration with the government's lack of support for SMEs. This suggests that the participants believe that they are not being treated fairly or legitimately by the institutions that are supposed to support them. Among those, major concerns are given below:

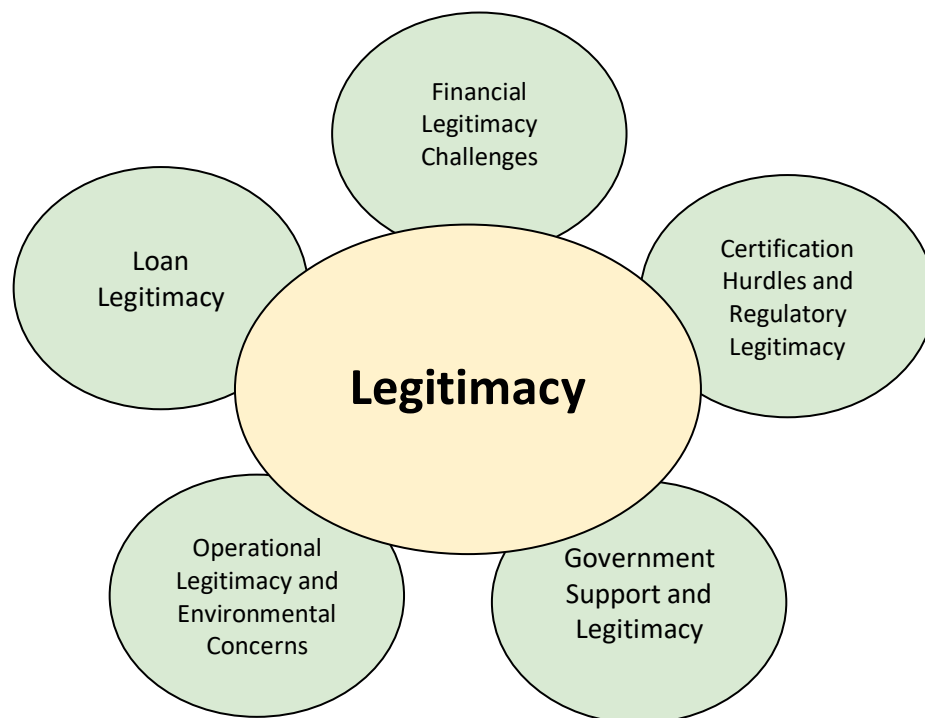


Figure: Legitimacy. Source: Developed for this study

4.2.1 Financial Legitimacy Challenges

Participants (Participant #2, #3) express concerns about the legitimacy of financial support. The high costs of certificates and complex loan procedures were cited by one of the participants (Participant #2). The skepticism regarding bank loans and the difficulty in meeting financial requirements highlights a common theme of financial legitimacy challenges for SMEs (participant #3).

In this case, many organization certificates such as various documents, ISO certificates, and quality management certificate are required. But for small organizations like ours, it becomes complicated to meet these requirements. Because these are costly certificates. We have not been able to achieve these qualities because our profits are so low that it is very difficult for us to go. In this case, if the government could reduce the rate of certificates for such SME organizations, it would be very beneficial. (Participant #2) Even though they have everything in order, they don't want to give a loan; what do they do with those who have nothing? None of the people I've talked to want to take the loan because of the processing complexity.

4.2.2 Certification Hurdles and Regulatory Legitimacy

Participants (Participants #2 and #7) touched upon the legitimacy issues related to certifications. The former discusses the high costs of certificates, and the latter emphasizes the lack of necessity for ISO credentials in their jute-related factory. Both instances point to regulatory hurdles and legitimacy challenges associated with obtaining certifications for small organizations.

I have a group of industries and a jute-related factory. No ISO credentials are required to do this. I personally didn't need anything. Because I have a volume, myself a volume, that's why I don't need these certificates. (Participant #7) Because these are costly certificates. We have not been able to achieve these qualities because our profits are so low that it is very difficult for us to go. In this case, if the government could reduce the rate of certificates for such SME organizations, it would be very beneficial. (Participant #2)

4.2.3 Government Support and Legitimacy

Participants (Participants #6, #7 and #10) express skepticism about government support. Participant (Participant #7) criticizes the government and SME Foundation, alleging discrepancies between promises and actions, challenging the legitimacy of official incentives. Meanwhile, another participant (Participant#10) outright rejects the idea of bank loans, indicating a lack of trust or legitimacy in government-backed financial assistance.

Yes, we can export products if the government helps us. We can sell it at five times the price outside. We had that party. (participant #6) Because if the next generation wants to be competitive in the international market, then we/they must develop raw materials. But our government is indifferent and discouraged in this matter (says the words with great regret). (participant #7) Bank loans are not for us from the government. (Participants #10)

4.2.4 Operational Legitimacy and Environmental Concerns

Participants #1 and #9 discuss operational challenges related to skilled craftsmen and environmental concerns. The decline in skilled craftsmen and the environmental impact on the Shital Pati craft industry highlight issues of operational legitimacy. This underscores the broader theme of SMEs facing challenges in maintaining legitimacy in their operations, whether through skilled workforce retention or environmentally sustainable practices.

The craftsman of Shital Pati is declining. The tree that is needed to make the Shital Pati is getting lost. People are paying less attention to that, cutting off trees and thinking of their own. There are many such difficulties. (Participant #9) But there is a skill in this weather. We have a shortage of skilled craftsmen. (Participant #1)

4.2.5 Loan Legitimacy

Participants (Participants #3 & #10) voice concerns over denied loans, citing a lack of references and unnecessary pressure, while questioning lenders' risk assessment practices. This participant (p#10) suggests that they have been unable to obtain loans from banks due to the lack of loan references or other qualifications. Another participant (p#3) describes being pressured to take out a loan that they did not need, and they attribute this to the bank's desire to secure additional business. He (p#3) said concern about the lender's request for a guarantor, suggesting that they believe the lender is not adequately assessing the borrower's risk.

Bank loans are not for us. (Participant #10) They forced me to have a loan of 25 lakh TK...They asked my son to sign it, but I said I would not sign my son as a guarantor because my son cannot sign a textile business for just Rs 25 lakh. (Participant #3)

4.3 Institutional Image

Despite having a trading license, Participant #4 observes that SMEs are now expected by norms to register. Benefits like a Rs 20,000 award establish a standard wherein registering is not only legally required but also a useful first step in obtaining financial assistance. By emphasizing registration, that participant (Participant #4) creates Institutional pressure on SMEs to adhere to legal standards, increasing their exposure and qualifying them for government assistance.

No, I have a trade license but it has become mandatory for us to register. We get a grant of Rs 20,000 but not every year. (p#4)

The opinions of participants (participant #1 and Participant #10) are similar in that they cannot obtain bank loans which means they are excluded from Banking Support. SMEs have fewer financing alternatives due to the coercive pressure created by this exclusive strategy. Their (p#1) common understanding points to a systemic problem where some SMEs, maybe those in traditional industries like weaving, encounter obstacles when trying to get bank financing, placing Institutional pressure on their expansion.

Bank loans are not for us. (Participant # 10) It will be easier to get capital as you can quickly get a bank loan if you have your own house. We don't want to get in trouble. (Participant # 1)

It is established that SMEs should look for alternative funding sources or push for modifications to the current banking procedures to make them more user-friendly and friendly to small enterprises. Participant #3 and Participant #6 both state that they are reluctant to take out bank loans because of the high-interest rates, difficult application processes, and unpredictability. Within the SME community is created by this common attitude to avoid depending on traditional banking institutions for financial help.

If the government wants to give a 4% rate, it will have to. However, I am furious that some people are borrowing crores of TK from Bangladesh Bank, they are being given only a two percent rate, but small entrepreneurs cannot work for money. It doesn't seem to me to be a regular thing; for example, Square, and Beximco companies are sitting on loans of thousands of crores of rupees, with no name of interest. Medium or small companies do not have the bargaining power that the big company has? Even if they contribute about 90 percent to the economy, they still don't care about SMEs. SMEs need to be financially supported (Participant # 3) We have Nothing more to ask for; that is all we want; we want to be given an interest-free loan. (Participants # 6)

5. Conclusion

In examining the intricate influences of institutional theory on the development and progress of Small and Medium Enterprises (SMEs) in Bangladesh, it is evident that various dimensions play a pivotal role in shaping the trajectory of these enterprises. The concept of legitimacy, spanning financial, loan, government support, operational, and certification aspects, emerges as a cornerstone for SMEs to establish credibility and acceptance. Understanding and navigating this multifaceted legitimacy landscape are critical for SMEs to secure the necessary resources for growth.

Isomorphism, operating through coercive, memetic, and normative mechanisms, further underscores the complex interplay of institutional forces. Coercive isomorphism introduces challenges such as financial stringency, complex loan structures, non-banking support, and mandatory restrictions. Memetic isomorphism, rooted in community support, cultural development, and tradition, shapes the identity of SMEs, influencing their operational choices. Normative isomorphism drives struggle for industry recognition, financial independence from bank loans, and collaborative efforts within the SME ecosystem.

Cultural image, deeply rooted in social values, Islamic mindset, and cultural norms, acts as a lens through which SMEs are perceived in the broader societal context. Navigating and aligning with these cultural dimensions are imperative for SMEs to establish resonance and trust within their communities.

Institutional norms, emanating from the broader institutional environment, intricately shape the behaviors and decisions of SMEs. This comprehensive analysis sheds light on the nuanced dynamics that SMEs encounter in their developmental journey in Bangladesh. Recognizing and adapting to these institutional nuances will empower SMEs to navigate challenges and leverage opportunities, fostering a more robust and sustainable entrepreneurial ecosystem in the country.

Declarations

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