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The Factors Affecting Success of Small Agro-Enterprises in Bhutan

Tashi Dendup[1*], Tandin Gyeltshen[1], Lobzang Penjor[1] and Phub Dorji[1]

[1]College of Natural Resources, Royal University of Bhutan, P.O.Box No: 1264, Punakha, Bhutan.

Authors' contributions

Author TD managed literature search, performed the statistical analysis, and wrote the first draft of the manuscript. All authors designed the study, wrote the protocol, collected data, and checked the draft manuscript. All authors read and approved the final manuscript.

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ABSTRACT

This study attempted to assess the factors affecting the success of Small Agro-Enterprises (SAEs) in Bhutan. Although SAEs contribute to economic development of the country, their success factors are not fully understood. The scarcity of empirical studies motivated authors to study the subject matter. This study interviewed 320 owners of the SAEs using the structured questionnaire in four Districts of Bhutan. We conducted factor analysis, Pearson's correlation, and multiple linear regression. The result showed that Leadership and Management (1), Government Policies and Infrastructures (2), Market and Customer Orientation (3), and Technology Adoption (4) significantly contributed to the success of SAEs. Overall, these factors contributed 32.4% to SAEs success. Besides maintaining the conducive business environment, we suggest the need for ensuring identified factors to realize the goal of SAEs development in the country.

Keywords: Small agro-enterprises; success factors; Bhutan.

**Corresponding author: E-mail: tdup56@cnr.edu.bt;*

1. INTRODUCTION

In the recent decades, Bhutan achieved a remarkable economic development. According to Royal Monetary Authority of Bhutan, growth rate has increased from 2.1% in 2013 to 6.5% in 2015 [1]. As a developing country, Bhutan still suffer from food insecurity, poverty, rural to urban migration, and unemployment [2-4]. Since agriculture is one of the five jewels of the country, the agriculture sector has been receiving priority from the Royal Government of Bhutan (RGoB). Agriculture sector contributed 16.18% to the total GDP in 2013 and employed over 58% of the population in 2015 [5]. There is potential to address some of these national issues through promoting SAEs in the country as majority of the country's population comes from the agrarian society.

As such, the RGoB supported numbers of SAEs development in the country. However, not all SAEs are successful equally - some are growing, others are lagging, while some collapsed already. The SAEs development is not merely injecting fund and counting startups, instead, their success matters. Therefore, knowing the factors affecting the success of SAEs is of paramount importance to make the informed decisions.

There are many studies conducted in other countries on factors affecting the success of enterprises [6-10]. However, Bhutan as a nation is unique concerning socio-culture, politics, geography, and economy. It is said that the performance of enterprise depends on the type of industry and country it operates [11]. The scarcity of empirical studies in Bhutan motivated us to study on this subject matter. Therefore, we assessed the factors affecting the success of SAEs in Bhutan. Besides adding scientific knowledge to the existing literature in the Bhutanese context, the findings of this study are valuable for RGoB, other stakeholders, and SAEs owners to make informed decisions towards promoting SAEs development in the country.

2. THEORETICAL FRAMEWORK

This study aims to assess the situations where SAEs will, and will not, be successful. Therefore, the study framework is based on Resource Based View (RBV) and Contingency Theory (CT). RBV submits that a firm possesses a collection of resources and capabilities characterized by value, rareness, imitability, and substitutability responsible for sustained competitive advantage [12-14]. While, CT suggests that there is no "one best way" to organize or manage a firm [15] rather, it all depends upon a specific situation. As such, the firm strategies, structures, and behavioral processes depend upon the environmental factors [16]. These two theories together suggest that organizational performance depends upon both internal resources and environmental factors. Therefore, strategic planning considering these factors was reported as the success factors of business in various studies [17,18].

There are numerous studies revealing the significant role of internal and external factors on enterprise success [11,19,20]. Scholars reported internal resources and capabilities including but not limited to management skills, marketing skills, and technological capabilities [9,21,22]. Other studies also found various managerial [23,24] and technological [10,25,26] factors were responsible for enterprise success. Also, factors such as capital accessibility, product quality, customer orientation, and entrepreneur's authority were considered necessary for the enterprise success [6,27]. Further, location, firm, and ownership were also reported contributing to the enterprise success [28]. Studies have shown the essential role of external factors in the enterprise success [6,29,30]. Political stability and rule of laws, infrastructure; education and training, and financial assistance were determinants of enterprise success [7,27,31]. Other studies have also shown the significant role of government supports through policies, financial, market access, technical, and infrastructure in enterprise success [8,32-34]. On the other hand, lack of conducive business environment restricts the development and growth of enterprises [35].

Scholars have defined scales of enterprises differently [9,36]. The lack of a standard definition challenge to establish a definition for small-scale enterprises. Often, the country's legislation and its level of economy determined the scales of enterprises [21,25]. Different indicators were used to classify businesses into small, medium, and large enterprises. For instance, indicators such as annual sales, number of employees, and the value of assets were used to define types of industry [37]. Due to many definitions, we partially adopted the working definition from the RGoB [38]. Therefore, SAEs in this study refers to enterprises having 1-19 people and

investment of Ngultrum ≤ 10 million. Moreover, we included livestock, crops, and forestry as agro-enterprise.

There were many models used by previous scholars to measure the business success [8,37, 39-43]. However, we adopted the model developed by Abrar-ul-haq and the team [8] considering recentness, simplicity, and practicality in Bhutan. The model consisted of four statements upon which owners or managers rated using 5 Likert type scales, where 1 (*Disagree Strongly*) to 5 (*Agree Strongly*). The four success variables were: I am satisfied with the growth of net income (1), I am satisfied with the time needed to reach the breakeven point (2), I consider my business is successful (3), and I believe my business is growing (4). Although the result could be slightly flawed due to subjective nature of the model, studies have proven that there is a significant and direct relationship between the subjective and objective measurement of the success [44]. The model was reliable as the Cronbach's alpha was 0.8 higher than the minimum requirement of 0.6 [45].

The RBV, CT, definition of SAEs, model to measure SAEs success, and factors affecting the enterprise success were respected while designing the theoretical framework (Fig. 1). Based on the result of factor analysis we developed four hypotheses:

- **H_1**: There is a significant relationship between SAEs success and government policies and infrastructures (GOVPI).
- **H_2**: There is a significant relationship between SAEs success and technological adoption (TECHA).
- **H_3**: There is a significant relationship between SAEs success and leadership and management (LEMGT).
- **H_4**: There is a significant relationship between SAEs success and market and customer orientation (MACOR).

3. METHODOLOGY

3.1 Study Area

We conducted this study in Bhutan, a landlocked country in the Eastern Himalayas between 26°45'N and 28°10'N, and 88° 45'E and 92°10'E. Bhutan has the total geographical area of 38,394 square kilometers ranging from about 160-7,000 meters above sea level [46]. The population in 2016 was projected to be 768,577 [5]. Overview of study area and sampling procedure is presented in Table 1. We divided Bhutan into four regions: North East, North West, South East, and South West. Twenty Districts were divided into four regions (five Districts each). To ensure coverage of country, we randomly selected one District in each region (D_1, D_9, D_{14}, and D_{19}). It so happened that we got two enterprising Districts (D_{14} and D_{19}) and two Districts having fewer enterprises (D_1 and D_9) increasing the diversity of the sample Districts. Moreover, almost all the remaining Districts practice similar agribusiness. Thus, we are confident that results from chosen Districts can infer to other Districts.

3.2 Sample Size and Sampling

The sample constituted 320 owners of SAEs selected using multistage quota random sampling. Researchers randomly picked four out of 20 Districts (Stage 1). We then chose two Geogs in each sample District. We consulted District Agriculture Officers (DAO) and District Livestock Officers (DLO) in selected Districts (Stage 2). Their close contact with extension workers and dealing with rural communities helped us in choosing Geogs. Together, we identified one enterprising Geog and one Geog with fewer agro-enterprises. The resolutions of the one-day workshop conducted in sample Districts guided the sampling decisions of remaining stages. The key stakeholders (DAO, DLO, representatives from Department of Forest, extension staff, local leaders, and farmers representatives) attended the workshop conducted one day before the actual field interview. The house decided the selection of four Chiwogs, two enterprising and two non-enterprising (Stage 3) and identified 10 SAEs in selected Chiwogs (Stage 4).

3.3 Data Collection and Analysis

This study collected data using structured questionnaire. Researchers developed the survey questionnaire in November 2016 based on literature review and considering practicality in the Bhutanese context. The professors and other faculties at the College of Natural Resources under the Royal University of Bhutan reviewed the questionnaire. The questionnaire was also pretested with 10 farmers of Punakha District and made necessary corrections. Furthermore, the overall Cronbach's alpha of the instrument was 0.897, greater than minimum acceptable level of 0.6 [45]. We used the structured questionnaire as it avoids biasedness generated

through interviewer's opinion [47]. Therefore, literate owners filled the questionnaire themselves while the trained enumerators guided illiterate ones. Enumerators were kept available even when questionnaires were self-administered by owners to clarify their doubts and to ensure completion. Data were collected from December 2016 to April 2017 upon receiving approval from the respective Districts Administrations. Both descriptive and inferential statistics were analyzed using IBM SPSS version 23. Factor analysis with varimax orthogonal rotation was conducted to reduce set of variables into few essential factors. The results of factor analysis were used for further analysis. Pearson's coefficient determined the relationship between identified factors and success of SAEs. Further, these factors were fit into multiple linear regression models to predict the influence of identified factors on the success of SAEs.

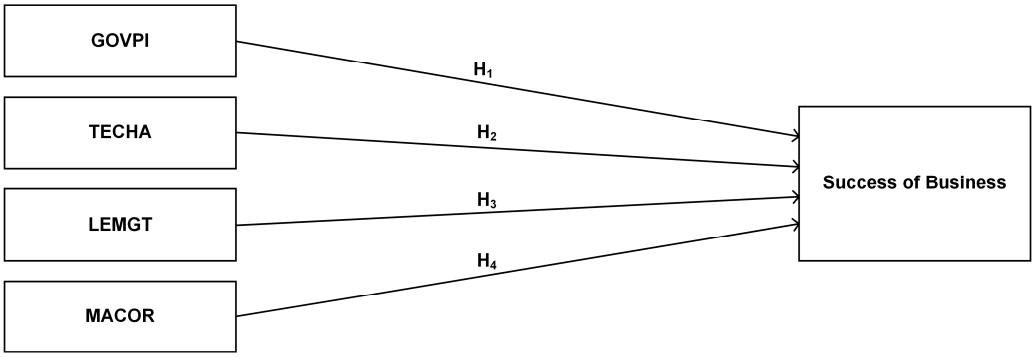

Fig. 1. Theoretical framework

Table 1. Overview of study areas and sampling

Regions	Districts	Selected Geogs[1]	Number of Chiwogs X Number of respondents per Chiwog[2] = Total respondents per Geog
North West	**D_1.** Gasa***	**G_1.** Khamaed	4 X 10 = 40
	D_2. Paro	**G_2.** Khatoed	4 X 10 = 40
	D_3. Punakha		
	D_4. Thimphu		
	D_5. Wangdue		
North East	**D_6.** Bumthang	**G_3.** Jamkhar	4 X 10 = 40
	D_7. Lhuentse	**G_4.** Yangtse	4 X 10 = 40
	D_8. Mongar		
	D_9. Tashiyangtse***		
	D_{10}. Trongsa		
South West	D_{11}. Chukha	**G_5.** Ugyentse	4 X 10 = 40
	D_{12}. Dagana	**G_6.** Yoeseltse	4 X 10 = 40
	D_{13}. Haa		
	D_{14}. Samtse***		
	D_{15}. Tsirang		
South East	**D_{16}.** Pemagatshel	**G_7.** Samkhar	4 X 10 = 40
	D_{17}. Samdrup Jonkhar	**G_8.** Shongphu	4 X 10 = 40
	D_{18}. Sarppang		
	D_{19}. Tashigang***		
	D_{20}. Zhemgang		
			Total = 320

****Selected Districts*
[1]*Sub-blocks of Districts*
[2]*Sub-blocks of Geogs*

4. RESULTS

4.1 Sample Characteristics

Table 2 shows the demographic characteristics of the sample. The sample comprised of more women (52%) than men (47.2%) showing the existence of more woman owners of SAEs. In Bhutan, it is observed that more women were engaged in the agriculture sector as men were engaged in non-farm activities. Age of many respondents (32.8%) were between 36-49 years indicating the existence of owners from the active population. However, the finding showed most of the owners (79.1%) do not have any formal education. As stated in earlier study, it could be due to the reluctance of educated youths to take up agricultural farming [48].

4.2 Factor Analysis

The sample size of about 300 is said to provide a stable factor solution [49, 50]. The value of Kaiser-Meyer-Oklin (KMO) [51] determined the sampling adequacy. The KMO values of 0.5 to 0.7 are mediocre, 0.7 to 0.8 are good, 0.8 to 0.9 are great, and above 0.9 are superb [52]. The sample in this study was adequate as the KMO value was 0.9. The Bartlett Test of Sphericity was also significant (χ^2 (300) = 3837.541, P = 0.00), confirming the suitability of data for factor analysis. Business owners rated 25 variables based on their level of agreement using 5 Likert type scales, where 1 (*Disagree Strongly*) to 5 (*Agree Strongly*).

We chose varimax orthogonal rotation because it maximizes the dispersion of loadings within factors and tries to load a smaller number of variables in each factor giving more interpretable clusters [53]. Reduction clusters all the variables that are highly correlated. There was a substantial correlation between factor loadings in each column (shown as bolded numbers) and the corresponding columns headings. In this study, all factor loadings were > 0.3 which for the sample size of 300 is considered significant [53,54].

The preliminary result reduced 25 variables to six factors with Eigenvalues >1. However, the cut-off point for selecting factors should be at the 'point of inflection' on the Scree plot [55]. As there was the point of inflection after the fourth factor, we opted four-factor solutions explaining 55.42% of the total variance in the final analysis (Table 3). The test of internal consistency and reliability of each factor was assessed using Cronbach's alpha value. The Cronbach's alpha values for four factors were between 0.7 and 0.9 higher than the minimum requirement of 0.6 [45]. We renamed these four factors based on the set of variables clustered under each factor as Leadership and Management (LEMGT), Technology Adoption (TECHA), Market and Customer Orientation (MACOR), and Government Policies and Infrastructures (GOVPI).

4.3 Relationship between SAEs Success and Identified Factors

The Pearson's coefficient (Table 4) determined the association between four identified factors and success of SAEs in Bhutan. The result showed a positive relationship between enterprise success and GOVPI (r = .294, P < 0.01), TECHA (r = .474, P < 0.01), LEMGT (r = .474, P < 0.01), and MACOR (r = .331, P < 0.01) at 1% significant level. Thus, study accepted all proposed hypotheses (H_1 to H_4).

Table 1. Demographic characteristics

Variables	Categories	Frequency	Percentage
Gender	Men	151	47.2
	Women	169	52.8
Age	19-35	93	29.1
	36-52	105	32.8
	53-69	96	30.0
	70-86	26	08.1
Education	NFE[3]	89	27.8
	Primary	45	14.1
	Middle	28	08.8
	Higher	10	03.1
	Degree	06	01.9
	Master	01	00.3
	None	141	44.1

[3]*Non-Formal Education*

Table 2. Rotated component matrix[a] (Varimax orthogonal rotation)

Variables	LEMGT	TECHA	MACOR	GOVPI
V_1. The leader has planning and coordination skills	**.796**			
V_2. The leader provides guidance and direction	**.746**			
V_3. There are systematic planning and monitoring	**.738**			
V_4. Enterprise has proper organization structures	**.732**			
V_5. The leader adapts to the changing environment	**.722**			
V_6. Leader commits to meet cost, time and quality	**.710**			
V_7. Leader and employees have good relationship	**.703**			
V_8. Enterprise has an efficient communication	**.686**			
V_9. Enterprise has vision, missions, and objectives	**.609**			
V_{10}. Enterprise acquires high-caliber workforce	**.440**			
V_{11}. Adoption of technologies reduced the costs		**.879**		
V_{12}. New technology has increased the outputs		**.852**		
V_{13}. Technology and automation lead to success		**.841**		
V_{14}. Technology supported innovation and creativity		**.766**		
V_{15}. Enterprise commits to customer satisfaction	.341		**.751**	
V_{16}. Enterprise maintains relations with customers	.348		**.748**	
$V_{.17}$. Enterprise ensures quality products or services			**.695**	
V_{18}. Enterprise offers competitive commodities price			**.622**	
V_{19}. Enterprise service(delivery) system is efficient	.331		**.524**	
V_{20}. Government policies support enterprise growth				**.823**
V_{21}. Enterprise received government support				**.769**
V_{22}. Political stability in the country is a plus point				**.666**
V_{23}. The business bureaucratic procedures are easy				**.524**
V_{24}. Access to hydro-electricity is an added value				**.367**
V_{25}. Motorable roads can access the enterprise				**.350**

Extraction Method: Principal Component Analysis
Rotation Method: Varimax with Kaiser Normalization
a. Rotation converged in 5 iterations

Table 3. Descriptive and Pearson's correlation

	Mean ± SD	α (Items)	0	1	2	3	4
0. SUCCESS	04.10 ± 0.70	.8 (4)	-				
1. GOVSI	04.05 ± 0.53	.7 (6)	.298**	-			
2. TECHA	03.77 ± 0.83	.9 (4)	.331**	.271**	-		
3. LEMGT	03.97 ± 0.57	.9 (10)	.474**	.133*	.360**	-	
4. MACOR	04.15 ± 0.55	.8 (5)	.452**	.196**	.292**	.526**	-

***. Correlation is significant at the 0.01 level (2-tailed)*
**. Correlation is significant at the 0.05 level (2-tailed)*
α = Cronbach's alpha

4.4 Multiple Linear Regression

The multiple linear regression analysis (Table 5) further confirmed that these four factors positively influenced the success of the SAEs. All the factors were found significant at 1% and 5% level. The F-test was also significant at 1% level. Overall, these four factors contributed 32.4% to the success of SAEs in Bhutan. In the meantime, note that there are other factors (unexplored in the current study) explaining the remaining percent. Therefore, this study paved the road for the future researchers to explore other factors such as corruption, corporate social responsibilities, access to finance, climate and the like.

The regression prediction equation:

$$Y = \beta_0 + \beta_1(X_1) + \beta_2(X_2) + \beta_3(X_3) + \beta_3(X_4) + \varepsilon_0$$
$$Y = 1.614 + 0.907(X_1) + 0.345(X_2) + 1.333(X_3) + 1.112(X_4) + \varepsilon_0$$

Where:

Y = Success of small agro-enterprises
β_0 = Constant

ε_0 = Error
β_{1-4} = Coefficients
X_1 = Government Policies and Infrastructures (GOVPI)
X_2 = Technology Adoption (TECHA)
X_3 = Leadership and Management (LEMGT)
X_4 = Market and Customer Orientation (MACOR)

Table 4. Multiple linear regression analysis result (coefficients[a])

Constructs	Coefficients	t- values
(Constant)	1.614*	1.283
GOVPI	0.907**	3.819
TECHA	0.345*	2.143
LEMGT	1.333**	5.156
MACOR	1.112**	4.211
Adjusted R^2	.324	
F-Test	39.24**	

a. Dependent Variable: Success
** P ≤ .05, ** P ≤ .01*

5. DISCUSSION

5.1 SAEs Success and GOVPI

The value for GOVPI was the average of V_{15} to V_{19}. We found a significant relationship between GOVPI and SAEs success (r = .294, $P \leq 0.01$). Thus, study accepted the proposed hypothesis H_1 'There is a significant relationship between SAEs success and GOVPI'. Bhutan is a developing country, so are the SAEs. Therefore, the RGoB needs to create a conducive business environment through sound policies, infrastructures development, and other assistance schemes. The ease of doing business in Bhutan was ranked only 73 out of 190 countries; however, Bhutan is the easiest country to do business in South Asia [56]. The several other studies asserted the positive effect of GOVPI on the enterprise success [8,30-33,37]. Similarly, studies have also shown that the lack of conducive business environment as a constraint for enterprise development and growth [29,34-36]. The finding suggests that the GOVPI as an inevitable factor for enterprise success. Thus, we encourage the RGoB and other stakeholders in creating a business climate for SAEs in the country.

5.2 SAEs Success and TECHA

The value for TECHA was the average of V_{20} to V_{25}. The result showed a significant relationship between TECHA and SAEs success (r = .331, $P \leq 0.01$). Thus, we accepted hypothesis H_2 'There is a significant relationship between SAEs success and TECHA'. Agreeing to the current finding, studies in Asia showed the significant relationship between TECHA and the enterprise success [7,10,21]. The studies in other regions also revealed the vital role of TECHA on the enterprise success [9,25,57]. We observed that TECHA by SAEs in Bhutan was primarily to lower the labor costs. Substitutions of the labor force by technology is essential in Bhutan because labor shortage is a daunting issue in many rural parts of the country [46,58]. However, we also noted that some farmers lack the appropriate skills to operate and to maintain those equipment provided by RGoB or other stakeholders. So, we suggest the need to provide training on proper handling of different types of equipment. To this end, we conclude that those SAEs using technologies are more likely to succeed.

5.3 SAEs Success and LEMGT

The value for LEMGT was the average of V_1 to V_{10}. The study found a significant positive relationship between LEMGT and the success of the SAEs (r = .474, $P \leq 0.01$). Therefore, the study accepted hypothesis H_3 'There is a significant relationship between SAEs success and LEMGT'. Leadership and management is an important success factor even for the SAEs, as smaller enterprises also need to make decisions and manage people. Similar studies reported a vital role of LEMGT on enterprise success [8,9,22,27,59,60]. The LEMGT factors were also reported to influence the performance of cooperative businesses [61,62]. A study reported that the firms having an appropriate organizational structure increases the growth potential by 9% [63]. Therefore, we concur that those enterprises with better LEMGT are more likely to succeed. Thus, stakeholders should invest in LEMGT to promote successful SAEs in the country.

5.4 SAEs Success and MACOR

The value for MACOR was the average score of V_{11} to V_{14}. The finding revealed a significant and positive relationship between MACOR and SAEs success (r = .452, $P \leq 0.01$). As such, we also accepted hypothesis H_4 'There is a significant relationship between SAEs success and MACOR'. In the business world, customers are the king. Therefore, enterprise were encouraged to delight the customers [64] while some

recommended the need to satisfy them [65]. The customer orientation often succumbed within the framework of the market orientation [43,66,67]. Studies showed a positive influence of market orientation on enterprise success [6,22,66]. Similarly, studies found a positive relationship between customer orientation and the enterprise success [27,42,59,68,69]. Therefore, this finding suggests that the SAEs with MACOR philosophies are more likely to succeed. It means the need of Bhutan's SAEs to focus on a niche market and satisfying specific target customer to gain the advantage in an increasingly competitive economy.

6. CONCLUSION

We attempted to assess the factors affecting the success of SAEs in Bhutan. We found Leadership and Management, Government Supports and Infrastructures, Market and Customer Orientation, and Technology Adoption have significantly contributed to the success of SAEs in Bhutan. Overall, these four factors were responsible for 32.4% of SAEs success. We recommend RGoB and other stakeholders to ensure identified factors to achieve the goal of small agro-enterprise development in the country. As the findings do not generalize to larger agro-enterprises and non-agriculture sectors, the future researchers can explore these areas and replicate the same topic considering other factors unexplored in this study.

CONSENT

We collected data upon agreement of the respondents. There was no incidence where respondent was unwilling to participate.

ETHICAL APPROVAL

District Administrations were informed through formal letters about the project. A day long workshop was also conducted in each District involving key stakeholders where we discussed about the projects, agro-enterprise situation in District level, and sampling procedures.

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COMPETING INTERESTS

Authors have declared that no competing interests exist.

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