

Status of Small and Medium Enterprises in Punjab, Pakistan

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Abstract

The Sole purpose of the study is to carve out the performance and structure of the small and medium scale manufacturing sector of Pakistan in terms of employment and productivity. The present study has incorporated the transcendental logarithmic cost function to apply on secondary, cross section data of the 3-digit forty nine SMEs of Pakistan. This functional form allows for and assists in exploring the true production structure of the firms. It has been revealed that structure of SMEs in Pakistan is based on Non-homothetic, Non-homogeneous, Variable returns to scale and Non-unitary elasticities. It has further been found that SMEs are overwhelmingly efficient as the pro-SMEs advocate them, in terms of employment generation and productivity, as capital and labour are found to be substitutes, which means employment generation is possible without the expansion in capital in a densely populated country like Pakistan. The conclusion suggests that although public policy should be targeted to provide parallel support to capital and labour yet distinguished favour should be given to labour to generate employment in SMEs of Pakistan.

Key Words: Training, Technology and Information Tools.

Introduction

Small and Medium Enterprises (SMEs) played a very vital role in the economic development of the underdeveloped as well as developed countries. The abbreviation SME is commonly used in the European Union countries and also in international organizations, such as the World Bank, the United Nations and the World Trade Organization (WTO). The term Small and Medium Business (SMB) is also prevailing in a few other countries of the world.

Small and Medium Enterprises (SMEs) are known as the solution of economic progress, modernization and the development of employment, employment potential, Creation of income and scientific progression in most advanced economies. A major challenge to economic policy in Pakistan at this time is to energise the private SME sector of the economy. This follows in part from the fact that other sectors are unlikely, under present circumstances, to provide the needed growth either of output or of reasonably remunerative employment; in fact, there will be a major employment challenge over the coming years as labour supply continues to expand rapidly and as neither the large-scale private sector nor the public sector are poised to create significant numbers of jobs, and though agriculture and the non-agricultural microenterprise sector can and probably will do so the levels of productivity and hence of remuneration are likely to be unattractively low. Dynamic and flexible SMEs are said to have served to create employment, help to earn foreign exchange, upgrade the quality of the work force, improve the business management skills, and diffuse technological know-how throughout Pakistan. These enterprises have also helped to mobilize domestic sources towards productive use which otherwise may have remained idle and unutilized. Like many developing countries, Pakistan has also realized the need and importance of SMEs to path out unemployment and to increase output and productivity. The new era challenges the competitive strengths of the SMEs sector. The crisis faced by the SMEs in Pakistan requires a broad based analysis of the factors that impact the competitiveness of the sector, both from the perspective of the industry and that of government policy. Different studies have explored different factors to measure the performance and structure of SMEs. Cheema (1978), Little, Mazumdar and Page(1987), Mahmood & Sahibzada (1988), Chishti & Mahmood (1988), Dunne, Mark, Lary (1989), Quresh i& Ghani (1989), Wizarat & Zaffer (1990), Aftab (1991), Kemal(1993), Khan.J.(1994), Snodgrass & Biggs (1996), Berry (1998),Roomi &Hussain (1998), Ali & Sipra (1998), Nishat (2000), Khan & Burki (2000),Majid (2000), Bari, Ali & Ehsan (2002),Holmes(2005), Khawaja (2006), Saleem (2008), Hussain & Si (2009), Halkos & Tzermes (2010).

Increasingly governments are focusing on ways of accelerating growth within the individual firms that make up their business sectors, as a way of growing the economy as a whole. A variety of strategies have been tried, including emphasising the value of “total quality management” (and other forms of business improvement), devising ways of “building firm capability” and developing “managerial capacity”. One of the more recent types of initiative has attempted to encourage firm owners and managers to engage in “best practice” initiatives. The assumption is that firms that demonstrate management practices that are in some way defined as “good” will achieve positive organisational outcomes, in terms of flexibility, quality and innovativeness. It is

also assumed that good practice and positive outcomes will actually lead to tangible results for the firm that are an improvement on its previous results in terms of market share and financial measures, such as profitability, cash flow, operating income and sales.

This idea is not new. However, most research on the topic of best practice is based on the related notions of competitive advantage, quality and benchmarking as they relate to larger organisations. For example, the works of quality gurus such as Juran and Gryna (1970), and Deming (1986) reflect their experiences at large multinationals, as do the well-known contributions of Prahalad and Hamel (1990), Peters and Waterman (1982), and Porter (1990). The attention to the business practices of larger organisations is understandable; however, it is widely acknowledged that there are significant structural differences between small and large organisations. In one of the most influential documents on small enterprises ever to be published, John Bolton, the Chairman of the Committee of Inquiry on Small Firms in the United Kingdom (Bolton, 1971), commented upon the personalised style of management in small firms, and their tendency to lack formal management structures with specialised staff.

The focus of this study is on small and medium enterprises (SMEs) and their strategic internationalization and export behaviour. Given the nature of today's marketplace, SMEs are increasingly facing similar international problems as those of larger firms. For many SMEs, especially those operating in high-technology and manufacturing sectors, it is no longer possible to act in the marketplace without taking into account the risks and opportunities presented by foreign and/or global competition.

In previous international business literature, mature multinational corporations played a dominant role, whereas SMEs (and especially their internationalization) have only recently attracted broader interest (Miesenbock, 1988). This reflects the fact that several countries, particularly those experiencing balance of payment deficits, have attempted to increase the international activities of their SMEs in order to boost economic growth, cut unemployment and create potential mini-MNEs in the future.

Frame Work

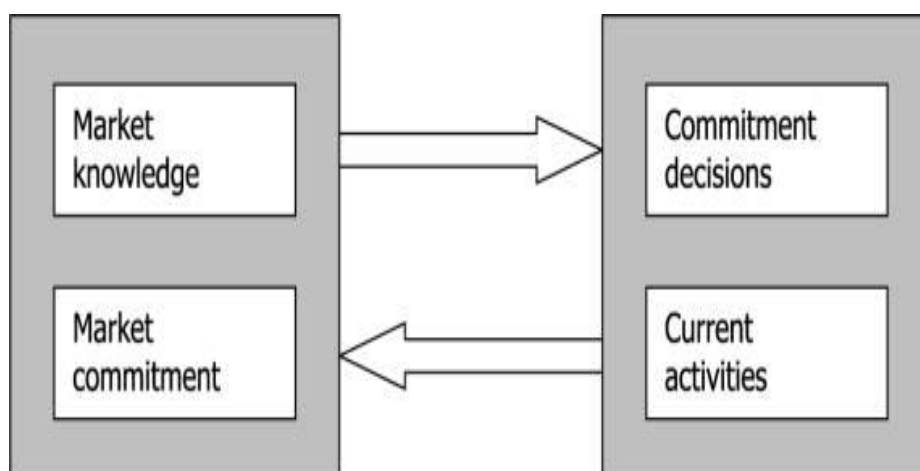
Search usually refers to a stage in which the firm's operations are managed on a city scale, not in a selected cities or whole country. It is characterized by the domestic integration of ever more competitive markets and companies facing domestic competition. Traditional exports are increasingly coming under pressure while the conditions for marketing and production are changing rapidly. As a result, today's companies, including SMEs, have to respond to markets at an increasingly faster pace (Pleitner, 2002). A further Globalization also includes the functional integration of geographically dispersed economic activities. It means something more in terms of the scope, content and intensity of mutual connections, capital and management involvement (Svetlicic, 1996) and is therefore a qualitative extension of internationalization (Gjellerup, 2000).

1) Technology and Performance

It is generally agreed that three forces are driving the SMEs of business (Acs et al., 2001; Gjellerup, 2000). The first is the explosive growth of low-cost technology connecting people and locations. Better information-processing and communication technology is creating a greater awareness of international economic opportunities. The second force behind the SMEs of business is the steady dismantling of trade barriers and financial deregulation. Free-trade agreements have generated a more level playing field for innovative firms. The third force motive the technology of business is the widespread economic restructuring and liberalization that followed the fall of socialism in Pakistan, as well as the geographical expansion of markets in Faisalabad, particularly other area of Punjab. These previously closed areas are now new markets and magnets for investment, opening further opportunities for growth and investment.

Innovation-related models (I-models)

The term "innovation-related" is derived from the work of Rogers (1962, cited in Gankema et al., 2000), in which each subsequent stage of nationalization is considered as an innovation for the firm (Gankema et al., 2000). Their focus is exclusively on the export development process, in particular of small and medium-sized firms. Leonidou and Katsikeas (1996) on the basis of a comprehensive review of the most important models (Bilkey and Tesar, 1977; Cavuşgil, 1980; Reid, 1981) noted that the models are a number of fixed, sequential stages, although the number of stages varies considerably between models, ranging from as few as three to as many as six. They also identified three generic stages: the pre-export stage; the initial export stage, and the advanced export stage. Andersen (1993) pointed out that generally the models are relatively similar and the differences tend to be in the number of stages and terminology used. Being behaviourally oriented to a significant extent, these models treat individual learning and top managers as important aspects in understanding a firm's international behaviour (Andersson, 2000).



Source: Johanson and Vahlne (1977)

2) Training

Training is a factor that increases the productivity SMEs mostly provide number of trainings to their employees. Some feel that the proposed stage models (innovation-related training) are quite vague in theoretical terms. The demarcation criteria for distinguishing between stages are problematic (Miesenbock, 1988; Andersen, 1993) and too little attention is paid to the training of the different stages as well as to the operationalization of the stages. Training determining the stage differences with reference to activities appears to be more a matter of subjective opinion rather than discovering real differences between the stages. Ahokangas (1998) noted that, from a process point of view, training for these models make less fall short in that they only describe the process of change but not its dimensions nor the different approaches used by firms in developing their activities.

3) Information Tools

Information tools that are necessary for a business that provide to Product management as an organizational concept has been around for over a century in various forms (Katsanis and Pitta, 1995). This boundary spanning capability has a long history of management practice stemming back to the late nineteenth century, with the organizational structure eventually formalized by Proctor and Gamble in the early 1930s (Katsanis and Pitta, 1995; Sands, 1979; Dominguez, 1971). This system, which treated the product as the focal point of the management structure, became the standard in most large consumer product organizations and many industrial companies in the 1960s (Sands, 1979; Buell, 1975).

The classic product management model involved the integration of all the functions required for the successful creation, production and marketing of a product line. The strength of this management system was its ability to continuously match internal resources with external requirements, in order to optimize the market performance of individual products or product lines. In the late 1960s, largely driven by the popularization of the study of management (Drucker, 1954), firms became more sophisticated in their approach to the enterprise, eventually relegating product management to a number of subordinate, specialized functions within the organization. These came to include such positions as brand manager, category manager (Katsanis and Pitta, 1999) and technical product manager.

Given the broad nature of the product management concept and its lack of fit within the conventional divisions of management research, few academics have devoted much attention to this field in the modern era of business research. Recent literature can be predominantly classified into three distinct areas; practitioner focused (Gorchels, 2005; Connolly, 2002; Berek, 1998), job function centered (Katsanis and Pitta, 1999; Dawes and Patterson, 1988; McDaniel and Gray, 1980; Venkatesh and Wilemon, 1976; Gorchels, 2003) or based on the agent-firm relationship (Cosse´ and Swan, 1983; Gemmill, 1972; Giese and Wiesenberger, 1982; Murphy and Gorchels, 1996; Cummings et al., 1989; Lysonski et al., 1995; Strieter et al., 1999). Although each area has benefited from various formal empirical studies (Dawes and Patterson, 1988; Cummings et al., 1989; Lysonski, 1985; Lysonski and Woodside, 1989; Tyagi and Sawhney, 2010; Katsanis, 2006), none have examined product management as a set of organizational capabilities or their relationship to firm performance.

Small bone (1995) on the other hand concentrated on strategies and management actions that affect growth. Related to the product management, they

Identified six variables that reflect the firm's product and market development. These include:

- (1) Identifying and responding to new market opportunities;
- (2) Increasing the breadth of customer base;
- (3) Broadening or developing a different range of products;
- (4) Product innovation;
- (5) Improving competitiveness (for example cost reduction, sales efforts, etc.); and
- (6) Competitive stance (for example cost-leadership versus differentiation).

These most consistently distinguished high growth firms from other firms in their study (Small bone et al., 1995).

Methodology

In this research we select the area of Faisalabad as a population and select sample all small and medium enterprises in Faisalabad. Made structural questionnaires filled from some small and medium enterprises. Mostly questionnaires are filled by production managers, HR managers, quality managers, general managers, and front line managers (supervisors). These questionnaire created on the behalf of only three dependent variables one is training 2nd is information tools and 3rd is technology every variable contain 5 further questions in form of independent variables. The questionnaire has 16th questions. Basic aimed of this survey to achieve the objectives of the SMEs developments. 50 surveys were sent (Through questioners) to all small and medium enterprises in district Faisalabad. And all the employees were aged between 25 to 35 years. Therefore all the questionnaires were returned having response rate of 100%. The questionnaire using 5-Scale Likert (1=Strongly Agree, 2=Agree, 3=Neutral, 4=Strongly Disagree, 5=Disagree) was design to test the impact of all the variables. The questionnaire covers all the variables about SMEs, nature of work, promotional, Opportunities and training & development. The data were analyzed through SPSS.

Results Different focus on SMEs across clusters.

The results from the K-means cluster (using the cluster centres generated using Ward's Method) are graphically depicted in Figure. Each of the three clusters has distinctive features. The first cluster has a information tools of small firms that emphasize free market selection, 2nd is training and 3rd is technology participation.

T-Test

One-Sample Test

	Test Value = 0					
	t	df	Sig. (2-tailed)	Mean Difference	95% Confidence Interval of the Difference	
					Lower	Upper
consider training	6.471	49	.000	.960	.66	1.26
training conduct	6.817	49	.000	1.360	.96	1.76
Skill to improve	7.595	49	.000	1.120	.82	1.42
technology	6.044	49	.000	.620	.41	.83
structure	5.480	49	.000	.380	.24	.52
Use of ERP	10.693	49	.000	.700	.57	.83
get information	3.280	49	.002	.180	.07	.29

This table show the relation of all variables of our questionnaire on the behalf of T-test in spss. This shows the relation of dependent and independent variables. T-test means the strength and direction of relationship. In the significant level of .05 Outputs .96 to .14 and show the result about all independent variables those we taken in this questionnaire. Our result is significant because interval confidence is significant lower is 0.66 to 0.07 and upper 1.26 to .29

Coefficients^a

Model	Unstandardized Coefficients		Standardized Coefficients	T	Sig.
	B	Std. Error	Beta		
(Constant)	.647	.742		.871	.390
Attend training	-.027	.195	-.024	-.136	.893
Training conduct	-.136	.189	-.183	-.719	.477
Skill to improve	-.051	.230	-.051	-.223	.825
Organization training	.076	.239	.082	.317	.753
Get information	.234	.509	.103	.459	.649
Exposure sme	.268	.241	.277	1.112	.274
Capacity developing	.028	.215	.025	.128	.899
1 Smes operation	.096	.195	.111	.490	.627
Technology structure	.180	.300	.124	.601	.552
Growth of smes	.124	.151	.155	.823	.416
Use of ERP	-.237	.337	-.111	-.704	.486
Economy in positive	-.072	.176	-.078	-.408	.686
Latest technology	.386	.460	.143	.838	.408
Performance and technology	-.255	.246	-.242	-1.036	.307
Reduced labour cost	-.109	.218	-.103	-.499	.621

a. Dependent Variable: consider training

This is the 1st table show the regression. Regression first column B shows the regression is .647 to -.109 and beta is -.242 to -.103 and adjusted standard error of estimate .742 to .218 and t is .871 to -.499 and significant result is .621

Descriptive statistics	Training	Information	Technology
Consider training	1.861	1.981	1.765
attend training	1.764	1.867	1.671
training conduct	1.846	2.876	1.666
Skill to improve	1.885	1.957	1.675
Organization training	.385	2.000	0.347
Get information	.500	0.147	0.321
It exposure sme	.269	0.485	1.956
Capacity developing	1.500	0.376	1.679
Smes operation	0.000	.567	0.348
Technology structure	1.234	1.115	0.345
Growth of smes	1.111	1.045	1.568
Use of ERP	0.345	0.347	1.453
Economy in positive	1.456	1.435	1.000
Latest technology	1.589	1.346	0.000
Performance and technology	1.569	0.174	1.471
Total	17.37	18.865	17.265

First of all we select the one variable from data as a dependent and all others select as an independent. Then we apply the test on this mean in spss that show all these variables independent and dependent have very strong relation between all variables. Results of data cluster 1st are training 17.37, cluster 2nd is information 18.865 and cluster 3rd is technology 17.265.

Conclusion

Small and Medium Enterprises (SMEs) played a very vital role in the economic development of the underdeveloped as well as developed countries. The short form SME is commonly used in the Pakistan, The term Small and Medium Business (SMB) also exists in a few other countries of the world.

Small and Medium Enterprises (SMEs) are known as the solution of economic progress, innovation and the development of employment, employment potential, Creation of income and scientific progression in most advanced economies. A major challenge to economic policy in Pakistan at this time is to energise the private SME sector of the economy. This paper develops a framework, which extends the concept of technological Informational tools and training (as defined by Orlikowski and Gash, 1994) to consider the interpretation and Incongruence of two additional frames, the collaborative the development, specifically for researching SMEs. Collaborator frames concern incongruence in relevant social groups' interpretation of the collaborative work, of each other's work practices (small and medium enterprises), and of each other's attitudes towards the project's contribution – leading to friction and dissent. Technological frames informational frame and training concern the work and expectations of its capabilities, use and future. However, incongruence in the collaborator frame may also lead to increasingly different frames as assumptions are made about the SMEs and become embedded within its small and medium industry form (e.g. on case of SMEs development). The SMEs sector frames concern interpretation of the external environment in terms of advancement and benchmarking.

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