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Research

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## SMALL AND MEDIUM-SIZE ENTERPRISES IN PAKISTAN: DEFINITION AND CRITICAL ISSUES

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### Abstract

SMEs play a vital role in the development of an economy. The contribution of Pakistani SMEs is less as compared to other countries, yet their significance cannot be denied. The SME sector is facing multifarious problems that made it difficult to contribute to the nation's GDP. This paper attempts to focus on the major constraints faced by the SMEs. The basic problem starts with no defined and standardized size for SMEs. The paper examines the definitions of SMEs given by different government organizations in Pakistan with some possible suggestion for one standard SME definition (in terms of size). This paper also highlights the critical issues of Pakistani SMEs such as financial, human, physical and technological. The paper concludes with some brief prospects by recommending a few implications for policy.

**Keywords:** Pakistan; Small and Medium-Size Enterprise, Policy Instrument, Critical Issues, Constraints

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### **Introduction**

Small and medium-size enterprises (SMEs) play a significant role in the economic, industrial and social development of a country. According to Rohra and Panhwar (2009), most of the developed countries concede the importance of SME sector in assisting their economies. SMEs play a distinctive role in the development, as it has been a source of employment creation and income generation. These contribute in the development of a nation in maintaining the standard of life by increasing the income of the people. SMEs have a major contribution in the development and competitiveness of the economy (Minniti, Bygrave & Autio, 2005; Hodgetts & Kuratko, 2004; Schlogl, 2004; Ahmad, Rani & Kassim, 2011).

SMEs in Pakistan play a critical role in the economic growth, progression of technological innovation, sourcing to large industries, cottage industries and promoting economic renewal and social development. SMEs are one of the main sources to reduce poverty, expand national economy. It can be the foundation of employment and social uplifting. Pakistan's economy, like that of many developing countries is a direct reflection of its SME sector (Khalique, Isa, & Nassir Shaari, 2011). According to Economic Census of Pakistan 2005 (this is the latest census in Pakistan), there are 3.2 million businesses in Pakistan. SMEs represent more than ninety percent of all private businesses and employ nearly 78 percent of the non-agriculture labor force in Pakistan (PBS, 2011). SMEs' contribution to Pakistan's Gross Domestic Product is more than 30%. Additionally, the sector represents 25% of exports of manufactured goods and 35% in manufacturing value added. Almost 53% of all SME activity is in retail trade, wholesale, restaurants and the hotel sector. As regarded 20% of SME activity is in industrial establishments and 22% in service provision (PBS, 2011). Recognizing the significant contribution of SMEs to economic diversification, employment creation, income generation, and poverty alleviation, the Government of Pakistan (GoP) has been putting much effort and resources towards the promotion of the development of entrepreneurship and SMEs in general. For example, the GoP established a Small and Medium Enterprise Development Authority (SMEDA) in October 1998 with the aim of developing this sector. The GoP has also established an SME and

micro finance banks to finance this sector. Moreover, as per the directions of GoP, most commercial banks in the country have specialized departments for the SME sector (Bhutta, Arif, & Usman, 2008). However, regardless of their economic importance, SMEs in Pakistan suffer from a variety of shortcomings, which have confined their ability to adjust to the economic liberalization measures introduced by the GoP and their capacity to take full advantage of the rapidly growing world markets. These shortcomings include, for example, focus on low value-added products, absence of an effective business information infrastructure, energy crisis, lack of strategic planning, low levels of financial literacy, unskilled human resources and non-aggressive lending strategies by banks (Bari, Cheema, & Ehsan-ul-Haque, 2005; Khawaja, 2006; Mustafa & Khan, 2005; Rohra & Panhwar, 2009; SBP, 2010).

***Background of the study:*** The fundamental theme of this paper is to emphasize that there exists no standard definition of SMEs and how it can be a drawback in the progression of economy. Pakistan economy is an economy of SMEs. They constitutes the bulk of Pakistan 's business landscape. Nothing portrays the reality of Pakistani business environment better than the nature of its SME sector. Therefore, it is significant to clearly identify different categories of SMEs and takes into account various types of enterprises (even small local enterprises or partnerships) under one definite definition. Previously there has been lengthy debates and arguments regarding the major thresholds in the definition of SMEs (Soomro & Aziz, 2015). Many countries across the world have struggled over to determine appropriate size of SMEs and also to overcome the challenges that impede the progress of SMEs (Kushnir, Mirmulstein & Ramalho, 2010). Economist, practitioners and academicians verified that SMEs are found to elevate growth (Khan & Ali Qureshi, 2007), create employment, reduce poverty (Ali, 2013) and alleviate foreign exchange earnings (Berry, Aftab & Qureshi, 1998; Soomro & Aziz, 2015).

Since the establishment of SMEs Pakistani Government is neglecting their importance and not facilitating them to handle crisis (Haque, 2007). However, there is tremendous potential in Pakistani SMEs that can be tapped. Therefore, this require a genuine support of government, private and public officials to facilitate the new definition of SMEs as its predicted to be immensely productive and act as a

catalyst for economic growth and development (Khan & Ali Qureshi, 2007). The practitioners and academics acknowledge it with its numerous advantages. Hence, it is significantly important to adjust number of employees, value of total assets, sales up turnover and paid up capital, (Soomro & Aziz, 2015), as with standard definition international markets will easily be penetrated and Pakistani SMEs could more be waved in this era of globalization (Phore, & Shaikh, 2010). This will promote innovation and foster research and development. It will also help to improve access to capital as it facilities equity financing for SMEs and concluded to be a national economic growth engine (Ejaz, 2012). If foremost challenges are undertaken SMEs stimulates the economic growth and development of Pakistan.

*Objective of the study:* The focus of this study is to examine the definitions of SMEs given by different Government organizations in Pakistan with some possible suggestion for one standard SME definition. This paper also highlights the critical issues of Pakistani SMEs such as financial, human, physical and technological.

### **Methodology**

The criterion used in the paper was based on literature that classifies the definition and critical issues of SMEs. The studies were chosen based on highly reputable journals to ensure quality and frequency of studies (see for example S. Pansiri, J., & Temtime, Z. T., 2004; Bari, F., Cheema, A., & Ehasan ul Haq, 2005; Dasanayaka, 2008; Mahmood, et al., 2011; Moghal, S. & Pfau W.D., 2014). Several conference papers and report writings were also the source of literature. Only those studies have been included that cover the details about SMEs as the focus was on assessing the definition of SMEs (in terms of size) and examining its critical issues. The literature select from 1995 onwards stipulate the definition of SMEs. The selection of literature for critical issues was restricted to studies from 2001 and onwards with the studies including major constraint, issues and problems.

Accessing appropriate data has been critical but a systematic approach was adopted to identify and assemble relevant sources of data. Researchers examined the main criteria used for defining SMEs

and proposed a judgmental definition in contrast to the existing definitions of SMEs. The analytical methodology encounters the evaluation of unstructured interviews that are conducted within the domains of SMEs. Based on the interviews of practitioners and academicians a balance scorecard approach is envisaged. This proposed technique is recommended to eradicate the major constraints that hinder the progress and growth of SMEs.

### **Definition of SMEs**

*Definitions of SMEs in Other Countries:* The SME definitions applied in various countries are based upon various criteria such as number of employees, value of assets, sales and volume of output (Cunningham & Rowley, 2008). These definitions vary from country to country and also within countries. For instance, France defines a SME as having less than 500 employees; whereas Germany uses less than 100 employees (see Table 1). Moreover, within countries, definitions may also vary by sector or type of business. For instance in Japan, manufacturing, mining, and transportation and construction industries defines a SME as having less than 300 employees or invested capitalization less than 100 million yen. While wholesale businesses define a SME as an organization employing less than 100 employees or capitalization less than 30 million yen. In retail it is defined as businesses employing less than 50 employees or capitalization less than 10 million yen (see Table 1).

*Defining SMEs within the Pakistani Context:* There is no uniform definition of SMEs in Pakistan (Dasanayaka, 2008; Mustafa & Khan, 2005; Rana, Khan & Asad, 2007). The SME Bank, SMEDA, Pakistan Bureau of Statistics (PBS) and State Bank of Pakistan (SBP) have defined SMEs in different ways. Under fifth schedule to Companies Ordinance 2015, Securities and Exchange Commission of Pakistan (SECP) also classified large, medium and small companies exclusively. For example, SMEDA defines a SME based upon the number of employees and total number of productive assets. The SME bank uses only total number of assets as the criterion. PBS takes into consideration only the number of employees. Whereas, SBP's definition of a SME is based on the nature of the business, number of

**Table 1:***Definitions of SMEs in International Countries<sup>1</sup>*

| Country        | Industry types  | Definition of SMEs   |
|----------------|---|--|
| Canada         | SME   | Independent firms having less than 200 employees   |
| France         | SME   | <500 employees   |
| Germany        | SME   | <100 employees   |
| Hong Kong      | Manufacturing   | < 50 employees   |
| Indonesia      | SME   | < 100 employees  |
| Ireland        | SME   | < 500 employees  |
| Italy          | Small enterprises                                     | < 200 employees  |
| Japan          | Manufacturing, mining and transportation construction | < 300 employees or invested capital less than 10 million yen   |
|                | Whole sale trade                                      | < 100 employees or capitalization less than 30 million yen   |
|                | Retail trade and services                             | < 50 employees or capitalization less than 10 million  |
| Korea          | Manufacturing   | < 300 employees  |
|                | Mining & transportation                               | < 300 employees construction   |
|                |   | < 200 employees commerce and other service business; < 20 employees  |
| Malaysia       | SMIs  | < 75 full time workers or with a shareholder fund of < RM 2.5 million (US \$ 1 million)                        |
|                | Sis   | Manufacturing establishments employing between 5 and 50 employees or with a shareholders fund up to RM 500,000 |
|                | Mis   | Manufacturing establishments   |
| Netherlands    | Small enterprises                                     | < 10 employees   |
|                | Medium enterprises                                    | 10-100 employees   |
| Philippines    | Small enterprises                                     | < 200 employees, revenue < P 40 million  |
| Singapore      | Manufacturing   | Fixed assets < S\$ 15 million  |
|                | Services  | < 200 employees and fixed assets < S\$ 15 million  |
| Spain          | Small enterprises                                     | < 200 employees  |
|                | Medium enterprises                                    | < 500 employees  |
| Sweden         | SME   | Autonomous firms with < 200 employees  |
| Switzerland    | SME   | No fixed definition  |
| Taiwan         | Manufacturing, mining and construction industries     | < NT\$60 million of sale volume and < 200 employees  |
|                | Service industries                                    | < NT\$80 million of sale volume  |
|                |   | < 50 employees   |
| Thailand       | Labour intensive sectors                              | < 200 employees  |
|                | Capital intensive sectors                             | < 100 employees  |
| United Kingdom | SME   | No fixed definition  |
| United States  | Very small enterprises                                | < 20 employees   |
|                | Small enterprises                                     | 20-99 employees  |
|                | Medium enterprises                                    | 100- 499 employees   |
| Vietnam        | SME   | No fixed definition, generally < 200 employees   |

1-Source: (Adopted from Cunningham & Rowley, 2008, pp. 355-356)

employees, amount of capital employed and net sales value per annum. The details of these definitions are presented in Table 2.

Table 2:

### Definition of SMEs in Pakistan<sup>2</sup>

| Institution in Pakistan                                   | Criterion  | Medium Scale  | Small Scale   |
|---|--|---|---|
| Small and medium enterprise development authority (SMEDA) | No. of employees (< 250 employees for productive Assets)   | Between 36-99<br>20-40 million PKR  | Between 10-35<br>2-20 million PKR   |
| SME Bank  | Total Assets   | Over 100 million PKR  | Less than 100 million   |
| Federal Bureau of Statistics                              | No. of Employees   | N/A   | Less than 10 employees  |
| State Bank of Pakistan                                    | Nature of Business (Manufacturing Trade/Services)<br>No. of employees<br>Capital employed<br>Net sale value                        | Less than 250 employees and less than 100 million PKR assets for manufacturing.<br>Less than 50 employees and less than 50 million PKR for trade/services.<br>Net sales less than 300 million PKR | Less than 250 employees and less than 100 million PKR assets for manufacturing.<br>Less than 50 employees and less than 50 million PKR for trade/services.<br>Net sales less than 300 million PKR |
| Securities and Exchange Commission of Pakistan            | Company which has annual gross revenue (grant not a : Subsidies, donation including Other income/revenue less than Rs.200 million. | A non listed company which is not a :<br>a) Public Company; or<br>b) Large sized Company or<br>c) Small Sized Company other than a non-listed public company                                      | Other than a non-listed public company:<br>a) Paid up capital not exceeding Rs. 25 million, and<br>b) Turnover not exceeding Rs.100 million.  |

The definition of SMEs in Pakistan lies on the number of employees up to 250 people, paid-up capital up to Rs.25 million and annual sales up to Rs.250 million (Kureshi et al., 2009). This definition was an outcome of a consultative process of spanning over two years followed by scrutiny and refining at various levels of government before its finalization and approval by the Federal Cabinet in 2007 (SMEDA, 2007). Generally one of the imperfections in the definition is the absence of segregating line between Small and Medium and among Manufacturing, Trade and Service sectors. Therefore, the definition of SMEs could not be finalized. Moreover, the implementation has also been remained a critical issue. This has been discussed in the next section of the article. Despite this definition, SMEs are defined differently by other institutes such as PBS and SBP. The institutes conform to their own definition and understanding of SMEs. One

<sup>2</sup>-Source: (Adopted from Dasanayaka, 2008, p. 71 ; SMEDA, 2011 )

definition lodged by SBP refers SME as the SME can be categorized into three classes, micro, small, and medium enterprises (State Bank of Pakistan, 2010). SBP characterize SME as, “any private economic establishment engaged in manufacturing, trading or service providing business with net annual turnover or sales up to Rs.300 million in the current fiscal year; or any manufacturing entity having total assets up to Rs.100 million excluding land and buildings with maximum 250 employees or any trading or service concerning total assets up to Rs.50 million excluding land, buildings and with maximum 50 employees.”In the context of Pakistan, no uniform and standard definition of SMEs has been available that effected the progress and success of the SMEs. The Government of Pakistan and political regimes have failed to establish a synchronized definition for SMEs. . A harmonized definition considering micro, small, medium and large enterprises will help to launch a sound mechanism for the development of SMEs. Therefore, keeping in view, as a practicing manager and academicians a proposed definition is comprehended below that is predicted to benefit Pakistan economy and also be recognized internationally.

| Proposed SME definition |                   |                     |                      |
|-------------------------|-------------------|---------------------|----------------------|
|                         | Criterion         | Medium Scale        | Small Scale          |
| Proposed definition     | No. of employees  | Between 25-99       | Between 5-24         |
|                         | Productive Assets | 10-40 million PKR   | 0.5-10 million PKR   |
|                         | Total Assets      | Over 50 million PKR | Less than 50 million |

***Recommendations to establish a harmonious definition:***

The established definition should be applicable and of appropriate size and attributes. It should be establish on standard criteria after analyzing market failures and practical constraints. In order to develop a single definition that could be applied across the economy is to target the needs and goals that an enterprise is going to fulfill. The definition should be based on the needs and goals of the policy established. When a single definition will prevail throughout the country this will help to distinct the enterprises and the associated problems will be minimized. The need is to target the policy goals and objectives effective. The definition should be developed in ways that accomplish not only the national objectives but also the international perspective. The definition in this manner will be accepted



internationally which will help to enhance the business boundaries. At present SMEs definitions are based on different criteria that may lead to market failure. SMEs definition should be coherent, visible and stable. The framework and structure within which the SME definition operates should be stable and well formulated. The development of a clear definition will give a way of avoiding inconsistencies and distortion between the enterprises. The definition should provide a stable framework that does not require any major changes and if the changes are to be made that will be minute adjustments relating to inflation, rules of investment or any other regulations governing the enterprises. In order to devise a formal and standard definition the organizations should collect appropriate data consistently and efficiently and keep on revising the definition as per the requirements and needs. The definition should be applicable according to the role and regulation. The policy measures should be supported by the definition. A pragmatic and relevant definition will help to balance the economic growth as well as market economy. The definition of SME acts as a policy instrument. It should be defined within the frame work of policies of other countries like European Union (EU) policy to match and also be up to the international standard. The definition should not be extended beyond 250 employees and should continue to be the main instrument of competitive policy. It will help to provide effective and efficient assistance to SMEs. Pakistan should establish a definition that benefit its economy and that should also be recognized internationally.

SMEs are called to be born global firms and the definition should provide a stable framework, which may need some modification in certain areas, including an eventual adjustment for inflation and productivity changes, and also some further clarification. It's essential primarily needs to be developed further in its applications, including a greater use of existing distinctions with the definition. SME definition has to be elaborated more and should be detailed for the proper application and implication. This ensures that an appropriate data is to be collected consistently and efficiently. It will help competing markets and enhance the performance. It will be easy to regulate and articulate with clear and proportionate procedures. Precise regulation and administrative measures will be developing by a stable and uniform definition. It is recommended that to assist the monitoring of the application of the SME definition, there should be a central register of

legislation and policy instruments making reference to the SME definition.

### **Critical Issues of SMEs in Pakistan**

Pakistan has amazing potential of development to boost up the economy and standard of living of its people. However, the key problems or challenges slow down the progress of SMEs. The SMEs have been neglected till late 90s and the main focus remained on corporate sectors particularly in large scale manufacturing units. Government, banks and financial institutes emphasized more on the large sector than on SMEs. Khawaja S. (2006) unleashed in his article that “according to the regulatory and policy environment of Pakistan is not very conducive for the growth of SMEs sector and overall government effort is remained concentrate for the development of large firms.” It has been since long that SMEs do not get adequate access of resources and the focus concentrated on large industrial scale. The strength and success of SMEs exist in innovation, unique skills, good network, quick communication, less bureaucracy, close external and internal contacts, market trends and flow. According to other group of scholars the success of SMEs is influenced by knowledge, experience and skills of the employees and owner. Lack of tangible resources such as physical and financial capitals are critical for a SMEs progress whereas intangible resources when utilize properly are significant for the growth. Getting access to finance is one of the biggest challenges for SMEs and a major portion of SMEs do not have the security needed for collateral, without which the sanction of a loan from banks and lending institutes appears very difficult. Most of the SMEs appear deficient in accounting and financial information that hinders them to avail information-based or financial statement-based lending and respective credit scoring. The majority relies on the personal finances, credit from suppliers, loans from friends and relatives. Banks role is limited as taxes, corruption, high interests and prices are the main grievances. As uncovered the main problem of SMEs is that it does not have access to formal sources of financing (including banks and lending institutions). According to SBP report there was an overall decline in SME financing that fall 20% to Rs.348 billion in 2009, from Rs.437 billion in 2007. Following SBP quarterly report, 2015 identified that SME financing has dwindled to 5.8 percent of the total financing as compared to 6.3 percent in the previous

quarters (Ahmed, 2015). The consequences of the decline were found to be loan defaults and slowing economy (State Bank of Pakistan, 2010). Gallup Pakistan 2006 also revealed top ten problems emerging out of which lack of finance is the first problem. It was also revealed that 89% of the loan disbursements by SMEs were for working capital requirement. That reflected Pakistani banks were reluctant for supplying long-run financing and project financing for initial SMEs set ups. Table 3 throws light on the major strength, weakness, opportunities and threats of Pakistani SMEs.

Table 3:

**SWOT Analysis of Pakistani SMEs<sup>1</sup>**

|                   | <b>Strengths</b>   | <b>Weakness</b>  |
|-------------------|--|--|
| <b>Resources</b>  | <ul style="list-style-type: none"> <li>• Strong family support</li> <li>• High rate of profitability</li> <li>• Local distribution channels (supply chain)</li> </ul>  | <ul style="list-style-type: none"> <li>• Financial constraints</li> <li>• Access to strong financial resources</li> <li>• High labor cost</li> <li>• Lack of skilled human resources</li> <li>• Lack of managerial education</li> <li>• Entrepreneurial mindset</li> </ul>   |
| <b>Management</b> | <ul style="list-style-type: none"> <li>• Many years of personal experience of running own business</li> <li>• High motivation in developing the business</li> <li>• Creating friendly environment in the firm</li> </ul>   |  |
| <b>Marketing</b>  | <ul style="list-style-type: none"> <li>• Access to effective advertising tools</li> </ul>  | <ul style="list-style-type: none"> <li>• Poor marketing information/management</li> </ul>  |
| <b>Technology</b> | <ul style="list-style-type: none"> <li>• Unique position, experience and technical skill (IT skills, sports and surgical equipments)</li> </ul>  | <ul style="list-style-type: none"> <li>• Lack of inability to adapt new technology</li> </ul>  |
| <b>Structure</b>  | <ul style="list-style-type: none"> <li>• Flexible and entrepreneurial organizational structure</li> </ul>  |  |
|                   | <b>Opportunities</b>   | <b>Threats</b>   |
|                   | <ul style="list-style-type: none"> <li>• Innovation and intellectual property rights (Pakistani SMEs are exporting surgical, sports and textile products, this can be protect their brand)</li> <li>• Opportunity of franchise and Joint venture with other organizations.</li> <li>• Government is building special industrial zones to help the businesses flourish</li> <li>• SMEs can build their reputation through getting quality certificates</li> </ul> | <ul style="list-style-type: none"> <li>• Customer demand shifts away from the firm products or services (because of price war)</li> <li>• Entry of multinational and more powerful competitor into the local market</li> <li>• Infrastructure constraints, lack of proper infrastructure is a major barrier for SMEs (Power supply, Roads, Poor communication System)</li> <li>• Lack of standardization, International Quality Certificates to certify the quality of services</li> </ul> |

<sup>1</sup>Source: Prefeasibility Report of SMEDA.

Focusing on SMEs Work Progress Report, it has been identified that it has had a mixed bag of achievements. Its excellent performance of five years in the beginning has slowed. The critical issues that slow down the progress of SMEs are the changes in politics regimes, legislation and the allocation of taxation procedures prevailing in the country. The other stated issues are highlighted as shortage of skilled workers, lack of business opportunities, corruption, lack of knowledge, government interference, procurement of quality raw material, registration and license for work, adaptation and knowledge

of new technology, orders and marketing of product (Gallup Pakistan 2004). Other identified constraints include the scarcity of capital goods, lack of resources and data. Resistance to change and unskilled workers/labors are one of the other causes of SMEs failures. Lack of knowledge and technology has made the working difficult. SMEs need to be more aware of the importance and applications of intellectual capital. Intellectual capital has become an important determinant of competitive advantages (Chen et al., 2006).

SMEs failed to develop as they didn't received any economic and government support. It has not taken as priority and not much attention. SMEs have faced insufficient funds, low technological capabilities, outdated production facilities, non-competitive products and shortage of trained manpower. SMEs are facing low growth, trapped with old products and are unable to climb up the technological ladder (Khawaja, 2006). Other obstacles include lack of business plans, viability reports that are useful in assessing the business (cash flow statements, balance sheets, return on investment etc). Lack of information on accounting, managerial, marketing and other technical skills are the issues that should be addressed properly. Focus on quality, adoption of standardized processes and procedures in conformity with standard operating procedures are always tough to attain. The obtaining of standardized certificates is also one of the basic constraints that should be overcome. Raw material, power, land transport and technical facilities are the constraints that make it difficult for SMEs to contribute to a nation's GDP as expected. The table in appendix illustrates the major critical issues. The authors have discussed these issues in detail in their article in corresponding year.

***Proposed approach to eradicate SMEs barriers:*** The researchers (Kaplan and Norton 1992, 1996; Hudson, Smart, & Bourne, 2001) explained that organizations need new capacities and capabilities for competitive and economic success, e.g. product innovation, customer relations, customized products, employee motivation and skills and usage of information technology. The Balance Scorecard has four perspectives, which are internal process, financial, customer and learning and growth/ development.

The paper implied Balance Scorecard that helps to eliminate the critical problems and barriers. Research proved that these constraints impede the progress and growth of SMEs (). Hence, the objective of Balanced Scorecard is to remove the constraints of SMEs growth in Pakistan and help them to grow. The four different perspective of Balance Scorecard are discussed and also represented diagrammatically (figure 1).

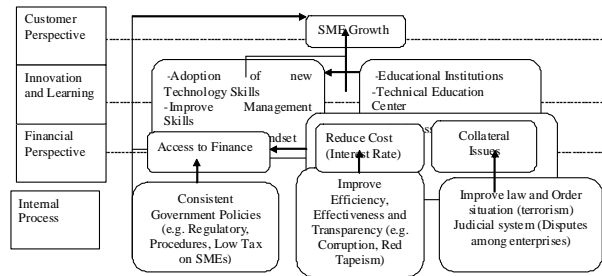
**Internal Process:** According to the interview analysis, most of the SMEs emphasized that government uncertain policies are the main and important barrier in SMEs growth. The study suggests that if Government of Pakistan has consistent and encouraging policies on SMEs, this could create a favorable environment for the growth of SMEs and their growth can help in employment creation and boost the Pakistani economy. In this perspective, the Government of Pakistan consistent and beneficial regulatory policies regarding SMEs could help the SMEs to make erudite decisions regarding their business. According to SMEDA (2010) report there is no such policy for SMEs in Pakistan, which can benefit them, expect approval of SME policy 2007.

Most SMEs strongly complained about the misbehavior and disruptions created by government officials due to unnecessary and excessive regulations and the problem of effective government employees and corruption issues, the grievances were largely from the behavior of income tax department and miserable attitude of government agencies created to support the SMEs in Pakistan. On the other side, the law and order situation of Pakistan is unpleasant due to the terrorism. This is one of the biggest challenges faced today which affected SMEs badly and is creating barrier for them to grow.

**Financial Perspective:** It is proposed that if the above mentioned issues in Internal Process are resolved, banks and financial institutions could easily sanction the loan to the SMEs because these issues are directly related to the collateral problem. Banks usually decide to sanction the loan, after doing risk assessment, that include SMEs collateral documents etc and if they are satisfied than they can

reduce the interest rates. After removal of these barriers, SMEs can get easy access to the finance, which ultimately help them to grow.

*Figure 1:*  
**Balance Scorecard for Growth of SMEs**



**Innovation and Learning:** It has been observed and most of government as well as SME owners accentuated the lack of technical and management human resource especially the SMEs of Pakistan. The study reviewed that educational institutes are not entrepreneurs, which is important for innovation in the developing country like Pakistan. Similarly, lack of research and development is also hampering the Pakistani SMEs.

On the technical education side, these institutes are not producing technical human resource according to the industry demand. It shows that there is a gap between educational institutions and SME sector of Pakistan. Balanced scorecard below indicates that if this gap is removed, SMEs can grow and produce best products and provide job opportunities.

**Customer Prospective:** After elimination all related barriers e.g. accessing to finance, regulatory constraints, enhancing the technical capabilities, SMEs could achieve the desired level of growth which in turn increase exports, reduction in unemployment, GDP growth, per-capita income level rise and alleviation of poverty.

Further, the SME sector in Pakistan suffers from a variety of shortcomings, which have confined its ability to adjust to the economic liberalization measures introduced by the GoP and its capacity to take

full advantage of the rapidly growing world markets. These shortcomings include, for example, a focus on low value added products, low level of productivity, absence of an effective business information infrastructure, lack of strategic planning, low levels of financial literacy, unskilled human resources and nonaggressive lending strategies by banks (Baig, 2007; Bari et al., 2005; Khawaja, 2006; Mustafa & Khan, 2005; Rohra & Panhwar, 2009). However, several *implications for policy* could be recommended.

- **Management Training:** Human resource development is a crucial element that affects the performance of SMEs (Pansiri & Temtime, 2008; Temtime & Pansiri, 2004). The SMEs are utilizing very low levels of management training. It could be that they are not aware of the potential benefits of such training. It is therefore strongly recommended that the Pakistani government arrange mass training program through SMEDA for SME owners/managers so that they would better manage their organizations and particularly manage their employees through improved application of Human resource management practices.
- **Upgrading of Technology** (Internet access): It has been highlighted in the literature that Pakistani SMEs are facing the issue of low productivity. It could be that Pakistani SMEs are not utilizing the updated technology in their firms (especially in the manufacturing sector). According to Raziq & Wiesner (2011) only sixty six percent of the sample firms have access to the internet and only forty four percent of SMEs are using human resource information systems. This presents an alarming issue for Pakistani firms in the 21<sup>st</sup> century. Once again the government through SMEDA can encourage SME owners/managers with regard to the upgrade of technology. This could enhance the capability of SMEs to better draw on international developments within the business world, particularly in the SME sector.
- **Exports/International Trade:** only 26 percent of SMEs are exporting their products to overseas (Raziq & Wiesner, 2011). This may be due to the fact the SMEs do have the capability but do not have sufficient knowledge or awareness needed to compete internationally and take part in exporting their products. With the emergence of WTO, Pakistani SMEs need to be more competitive in

promoting their products in the international world. It is therefore suggested that the government of Pakistan promote awareness amongst Pakistani SMEs about exporting their products and services through the 'Export Promotion Bureau of Pakistan'.

- Further to the issue of international trade, another implication for the Pakistani government is that the key to benefit from globalization is to promote competitiveness of local regional SMEs and also to promote entrepreneurial activities within smaller regions in Pakistan. However, this objective can only be achieved through the strengthening of social, institutional, and entrepreneurial capital.

- **Research and Development:** SMEs play a significant role in the economic development of Pakistan. SME's share represents 30% to GDP, 25 percent to manufacturing value added products and 80% to non agriculture employment. However, for the last number of years, these statistics remain constant and fail to illustrate the real picture of economic expansion or contraction in SME sector (Seth, 2010). This may be due to the fact that the performance measurement is difficult since the sector operates informally. Moreover, there is lack of formal publications or surveys that can provide comprehensive and current information regarding productivity, total cost, value addition, and employment generation. Moreover, there is a dearth of research on SMEs in Pakistan (Bhutta, Rana, & Asad, 2007). Very few studies have been published in good quality refereed journals (e.g. Bhutta et al., 2008; Bhutta et al., 2007).

- **Infrastructure:** Many SMEs are located either on the fringes of the main cities or in dense areas downtown, where access to such SMEs is difficult (Afaqi & Seth, 2009). Despite the presence of some industrial estates in the country, the conditions of roads and other facilities are very poor. Some of the manufacturing SMEs are operating in very old buildings which can be dangerous to employees and other stakeholders. It is therefore recommended that the government of Pakistan repair the roads of old industrial estates and also develop new estates to provide state of art infrastructure and facilities at one place.

- **Lack of SME Database:** There is no particular database for SMEs either in the manufacturing or services-based sector. Moreover, some onsite (factory) addresses were not available while others were



faded or invisible. Thus, it is very difficult for researchers to take appropriate random samples for their studies (the same problem faced by the researcher of this study). The development of a SME database is therefore of critical importance in achieving the objective of promoting research and development in this sector.

Government's priority should be to reduce the associated bureaucratic burden on SMEs. They must overcome corruption and tried to reduce poverty and unemployment. SMEs should step forward to create a stable structure, one uniform definition and strengthen the ability to withstand political policy changes. It is needed to transform the culture, focus on personality to performance, educate and develop skills, maximize the gains from the infrastructure privatization. SMEs should able to compete with large organization and attract donor funding to build capacities. An encouraging environment should be created for investor to invest in sector. Government should reduce the number of regulations that will lower the burden of compliances for SMEs and remove the incentive for firms to remain small. Rather than creating a delusive SME sector create a better working and responsible sector.

### **Conclusion**

Credible definition will operate as a functional key in the formulation and effective monitoring of SMEs. It activates the policy makers who can create a benchmark to gauge progressive improvements in SMEs standards and working. The paper projections hope to persuade the government officials and SMEs to come together in order to remove the degree of diversity and conflicts among SMEs definitions as the current definitions vary greatly in proportions to national economies. It concludes that the definition by employment, assets and turnover has multiple advantages.

The key constraints are identified that included regulatory and other government related issues, financial problems, infrastructure, raw material, human resources, technology barriers, law and order issues and marketing problems. These critical issues can be resolved

as Government has key responsibilities for formation of fundamental factors such as the basic infrastructure, e.g. roads, power plants, systems and procedures. Unfortunately, currently the Government of Pakistan is doing very little to create all related facilities (Soomro & Aziz, 2015). The Government of Pakistan should play a major role in educating SMEs on the incentives and other advantages offered to them in Urdu. This will help the ordinary SMEs to get benefit from these incentives. Likewise, the delivery of incentives should be confined to as few distribution channels as possible, such as SMEDA and other institutes. They can help well, since many channels (such as banks, institutions) could obscure the SME and make it possible for individuals to gain undue profit. Government of Pakistan can create mechanism such as specific apprenticeship programs, research and development efforts in universities connected with the industry, chamber of commerce etc. Such efforts will ultimately contribute in creation of the factors that will ultimately grow the SME sector in particular and economy as a whole. Government of Pakistan can also focus on research and development programs for the SMEs sector. As SMEs are unable to meet and bear the huge investment required for the R & D institutes focus solely on the growth of SMEs. In collaboration government and institutions can arrange programs that focus on the main issues for SME internationalization and reduce the risks and barriers associated with internationalization i.e. to reduce resources and easy access to information.

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