
PROBLEMS OF SMALL ENTREPRENEURIAL FIRMS OPERATING IN PAKISTAN.

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ABSTRACT

The purpose of this paper is to analyze the impact of different factors such as tough competition, lack of credit availability, lack of fiscal incentives, technological change, rising costs and customer's satisfaction on small entrepreneurial firms. Another objective is to investigate how small entrepreneurial firms are operating in competitive environment without support and financial incentive from the government. This study is quantitative, in which we used primary data collected from 200 owners of small entrepreneurial firms operating in Multan city of Pakistan through a structured questionnaire. Five points Likert Scale was used to measure the attitude of respondents. The questionnaires were filled during face-to-face interview with the respondents. The sampling population was small entrepreneurial firms operating in Multan City, which is one of the biggest city of Pakistan, having population of about 1.8 million. The findings of our study show that Banks are reluctant to lend loans to small entrepreneurial firms having weak financial position. Another factor noted during the study was the location that plays important role because good location provides opportunity for accessibility and parking. It becomes easy for owner to access customers, suppliers and employees. Lack of required capital is another factor that prevent small entrepreneurial firms from using latest technology and improve the quality of products. The level of productivity of small entrepreneurial firms is also low because of the shortage of energy and unscheduled load shedding. It is, therefore, recommended that the government should provide tax incentives, infrastructure, loans to small entrepreneurial firms at low interest rate so that they can use latest technology, and improve quality of their products. This study has practical implications because the sampling entrepreneurial firms have been facing the same problems as the small entrepreneurial firms are facing in other developing countries. The results of this study can easily be generalized and the researchers and policy makers of other countries can take benefit from them. It is the first study conducted on small entrepreneurial firms operating in Multan city of Pakistan.

Key words: Small entrepreneurial firm, managerial skill, low productivity, etc.

1. INTRODUCTION

Small entrepreneurial firms have gained an important place in past decades in Pakistan. Starting up small business is not an easy task in Pakistan, where starting a new business takes more than 100 days. Many factors influence this process. Some factors can be manipulated and some cannot be controlled. Major factors are Government regulations, Competition among small firms, Technology, Employees attitude, Culture, Customers' behavior, Inflation and Infrastructure. Innovation and risk taking is least important factors because at low level the risk is minimum. However, the role of entrepreneurial firms in developing innovative products and services is undeniable [1]. Small entrepreneurial firms operating poor countries are main source of women employment and eradication of poverty among female section of society. Cottage and household industries hold an important position in Southern part of Punjab particularly in Multan. There is great demand for hand-woven carpets, embroidered work, glasswork, rugs, and food items. These are also considered important export items for the international markets. These industries are also a big source of employment and foreign exchange earnings as their hand-made items have great demand in foreign markets. The small entrepreneurial firm does not only meet local demand of the product but also export their products as well [2]. Cottage industry provides 80% employment to labor force. These industries are found at homes so women can also obtain employment. Small businesses also source of reuse of wastage material. Different items such as hand-made fans, decoration pieces, and handicrafts are made by straws waste of bottles and wood. These items have great demand in foreign markets. In this way, small entrepreneurial firms are engaged in value creation [3].

2. LITERATURE REVIEW

Main characteristics of small firms are given below-

Management and ownership is not separated. Only one or two persons have control over business's operations and decisions. The shares of the firms do not trade at Stock Exchange. Owners have unlimited liability and they have to pay debts through personal resources. Organizational culture is much more intricate and complex and therefore must include patterns of beliefs, symbols, rituals, myths and practices that have evolved over the year [4]. Organizational culture is the sum of all the shared, taken for granted assumptions that a group has learned throughout its history which shapes the structure and control system to generate behavioral

standards. There is substantial amount of research that seeks to establish the impact of organizational culture on different dimensions of any organization. [5]. If unemployment is at high level that more individual are ready to involve themselves in self-employment because they are not able to find another job opportunity. The opportunity cost to switch toward self-employment is low; people have necessary resources to start their own business. Therefore, they find it more convenient to start their small business. Therefore, we can say that process of constituting a new firm is the result of unemployment. [6]. People are aware of available consumer goods creating new wants and needs. New wants and needs leads producers to take quick response. In this case, small firms can easily adjust to consumers' wants and needs [7].

2.1 Role of Government in promotion of small firms.

Government has important regulations regarding licensing and registration of firms, business contracts, and taxes [8]. Government also has important role in protection of owner and employee rights, provides consultation, and facilitates market research. Increased growth of small firms in the economy leads to increased share of labour in national income. It also results in decreased inequality among wage earners. This helps the government for homogenous growth of the economy [9]. Small firms find it difficult to imitate the products manufactured by large industries because they lack the resources and capabilities can lead to competitive advantage. Lack of resources is main cause of slow growth of small firms. Resource based theory suggest that a firm should has unique, valuable and rare resources to gain competitive advantage. [10]. Small firms are unable to develop human capital. Lack of development of human capital may make it difficult to respond to dynamic changes in environment. A small firm, which has fewer resources but it, know how to better use its resources can achieve high level of productivity and profitability. [11]. There are the following five main environmental factors that affect small entrepreneurial firm:

- .Social
- .Economic
- Political
- .Infrastructure development
- .Market emergence factors [12].

Small firms are big source of employment generation and raise living standard of the people. Entrepreneurship is a dynamic process of vision, change, and creation. It requires an application

of energy and passion towards the creation and implementation of new ideas and creative solutions. Essential ingredients include the willingness to take calculated risks—in terms of time, equity, or career; the ability to formulate an effective venture team; the creative skill to marshal needed resources; and fundamental skill of building solid business plan; and finally, the vision to recognize opportunity where others see chaos, contradiction, and confusion.” [13].

Small entrepreneurial firms play a vital role in eradication of poverty, generation of self-employment and meeting local demand. These firms produce those products, which meet the needs of local people, and in this way, they win the loyalty of local consumers. As their market size is fixed and their customers are limited and as such they focus on getting specialization in the production of relevant products and services. [14].

3. RESEARCH METHODOLOGY

3.1 Data and Type

The author used interview and questionnaire technique to collect the primary data from the targeted respondents. Questionnaire contains 20 different questions about different factors, which can affect performance of small business. We used the questionnaire because it is easy to collect data and responses of sampling population. Such data can easily be coded. We also used Interview technique in this study to collect information from the respondents. Questions are asked from the owners of small firms about what kind of problem they are facing, what are benefits they experiencing being an entrepreneur, how they deal with employees and customers, how they manage finance, where they see their business in future etc. The author developed all data collection tools and organized all the needed facilities. Then we analyzed and interpret data.

3.2 Sample

The author selected 200 respondents randomly and these respondents are the owners of small business firms operating in Multan city. The category of the respondents is shown in Table 1.

Table 1 Category of Respondents

Type of business	Sample
Furniture	7
Book Binding Business	9
Milk Sellers	15
Boutique	17
Khadi Work	13
Glass Work	6
Tailor	14
Bakery	8
Rent a Car	14
Plastic work	12
Photographers	18
Bottle Makers	9
Rent a house	12
Small Shops	12
Cosmetics	10
Cotton thread	11
Grocers	8
Pottery	5
Total	200

5. DATA ANALYSIS

5.1. Demographic Characteristics of Respondents

We have shown demographic statistics of the respondents in the table 2 and 3.

Table 2 **Gender**

MALE	176
FEMALE	24
TOTAL	200

Table 3 **Age of Respondents**

AGE 25-30	16
AGE 31-35	45
AGE 36-45	68
AGE 46-50	71
TOTAL	200

Table 4 **Education**

ILLITERATE	97
PRIMARY EDUCATION	68
SECONDARY EDUCATION	21
GRADUATES	14
Total	200

Table 5 Analysis of the response of participants at 5-Point Likert Scale

Questions	Strongly agree	Agree	Not sure	Disagree	Strongly disagree
Difficulty to take loan from banks	112	81	1	6	0
Importance of location	133	58	3	4	2
Exposure to latest technology	5	8	0	86	101
Low quality of products	106	86	2	4	2

Help from government agencies for development	28	16	6	56	94
Inadequate transport system	61	126	0	9	4
Unscheduled power cut	63	110	2	11	14
Heavy cost of daily operation	98	77	0	9	16
Importance of culture	72	68	0	34	26

6. FINDINGS AND RESULTS

The data shows that small entrepreneurial firms face financial crunch because they are unable to avail financing from commercial banks due to lack of collateral and credit-worthiness. They mostly run their day-to-day business on daily cash recovery or loans obtained from friends, suppliers, and customers. These firms mostly finance their business activities through personal finance and sometimes they earn high profit when the prices of their products are increased and they will not have to bear financial cost. However, daily operation of the business involve heavy cost. Small entrepreneur firms operating in Multan city are not using latest technology because their competition is on price rather than on quality. As their customers are medium income people, these firms focus on the production of those products, which are affordable and meet their immediate needs. Adoption of technology involve heavy investment that increase the price of products, as such these firms gradually shift from old to new technology, and they do not operate on the frontiers of technology. During this research study, it was noted that location is important factor that give competitive advantage to small firms in marketing their products due to weak infrastructure in the local areas. Therefore, small entrepreneurial firms give much importance to their location. It was also noted that small entrepreneurial firms produce inferior quality products due to using old technology. However, these inferior products have tremendous demand in local market. The entrepreneurial firms have lack influence in government circle and due to this reason they do not attract government attention in providing necessary incentives or fiscal benefits them so that these firms can expand their business and improve quality of their products. Lack of availability of infrastructure, financial incentives, and electricity are three major problems being faced by small entrepreneurial firms operating in Multan City of Pakistan. More than 10 hours

daily load shedding of electricity are hampering their output, raising their cost. Trained and educated work force is another problem in this area, and due to this reason; the entrepreneurial firms produce the products keeping in view the skill and capability of the workers.

7. CONCLUSION

This study focuses on factors, which influence positively or negatively the performance of small firms in the Multan city. First objective of study was to find out the role of small firms in the economy. Our study has proved that small firms have important role in economic development because they generate employment for skilled or unskilled workers. Owners of small firms have freedom to take their own decisions. They take rewards of their efforts in the form of high profit. Small firms find it easier to adjust themselves to the economic conditions of country. They have close relationship with customers and community. Owners of small firms are more close to their employees as compared to large firms.

Results of our study show that small business is a good way of earning than doing job in government and private sector. Banks are reluctant to give loans to people having weak financial background. Location is an important factor for success of small businesses because it provides opportunity for easy access to customers, suppliers, and employees. Small firms do not use new technology because owners do not have required capital to purchase and install new technology. It is very difficult to get proper information about market due to heavy investment of time and money. Small firms produce inferior quality of products due to use of technology. Government agencies do not help small sector to sale product in market due to lack of proper trade policy for small firms. Transport and communication system is inadequate and inappropriate in Multan city, which cause problem for sale of products in the market. Electricity and gas load shedding is unscheduled and of long duration which cause huge loss of production and revenue and due to which the performance of small firms face multi-dimensional problems in business operation.

8. RECOMMENDATIONS

Small-scale owners should be encouraged to take loans from banks. Terms and conditions of banks should be easy and convenient for them. Government should promote new technology at small-scale level to increase their productivity. Small firms should be tax exempted. Government should provide interest free loans to small-scale entrepreneurs. Higher institutions of education should organize seminars to teach them how to run and manage their business. There must be proper

training programs for small-scale entrepreneurs. Due to low finance, small-scale owners should run partnership business. There must be proper supervision and record keeping in small firms. Transport and communication system should be improved. There must be proper schedule for electricity and gas load shedding. The government should initiate short course for industrial workers to improve their working skill and to meet the shortage of skilled workers. Presently Government has launched skill development program for big industries. Similar programs should be started for the training of the workers of small entrepreneurial firms.

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