

## **Obstacles to the SME's of Pakistan**

**Muhammad Ali**

**Department of Management Sciences, the Islamia University of Bahawalpur,  
Pakistan**

*\*Corresponding author email: [alimuhammad125@gmail.com](mailto:alimuhammad125@gmail.com)*

### **Abstract**

This study aims to investigate the obstacles which disturb the operations of small and medium enterprises (SME's). Data was selected from different research papers, journal articles, newspapers and conferences. I have come to conclusion that financial issues are highest among the 7 other obstacles faced by SME's. second largest threat to the SME's is managerial issues which causes mismanagement in the organization, third obstacle is training issues , due to lack of proper training employees cannot deliver up to the mark performance. Political issues also play an essential role in the disturbance of SME's. Last two obstacles which are observed at the large level but have the effect on the SME's are corruption and economic issues which also bring many hurdles to the SME's to operate in a market openly.

**Keywords:** SME, managerial issue, political issue

## Introduction

Small and medium sized enterprises are created to promote economic growth and development in the country. According to Organization for Economic co-operation and development (OECD 2000), globally, SME's constitute the largest proportion of business and play tremendous roles in employment generation, provision of goods and services, creating a better standard of living, as well as immensely contributing to the gross domestic product (GDP) of a country. (syed manzur quader, 2009)

SMEs are the backbone of the industrialization process of many developing countries and play a vital part in expanding a country's economy. According to the *Economic Survey of Pakistan (2008-09)* (Government of Pakistan - Ministry of Finance, 2009), SMEs have made the most significant contribution to the economic growth in 2008-09.

The fact that so many of these businesses fail should be seriously considered because of the unfavorable influence that they have on the economy. For example, unemployment caused by small and medium enterprises (SMEs) closing down could have adverse effects, leading to poverty and crime in the country. As many citizens are affected by the failure of these businesses. (hussain, 2010)The reasons why businesses fail are: lack of capital, lack of financial control and accounting information, lack of management skills and experience, and the inability to respond and adapt to changes.

It goes without saying that SMEs play a vital role in development of an underdeveloped economy because they eliminate the unemployment problems by using lower capital per employment, avoid additional costs for development of industrial infrastructure, minimize the investment risks, ensure an equitable distributions of income and products, check imbalances between different pocket of economy and maximize the use of locally available raw materials. There is a debate whether to adopt industrialization for efficiency or encourage SMEs (Little & Majumdar & Page, 1987). But this sector is facing severe problem in financing, regulatory aspects, access to non-financial inputs. Some recent trends show that Government policies have discriminated against small-scale

enterprises. There is nothing wrong with a situation in which inexperienced entrepreneurs are unable to get institutional credit (Little, 1987). Protection, regulatory constraint, investment incentives, credit control, and the promotion of industry in the public sector have all discriminated against the small. The common idea that the cost of capital is very high for small enterprises is overly simple (Little, 1987). From A research of World Bank suggests the existence of financial constraint because formal banks do not lend to the smallest firms in most countries. It has also severe impact on the smallest firms (Levy, 1993)

According to small and medium enterprises development authority (SMEDA) small enterprises should possess 10 to 35 employees with two to twenty million rupees. SME's plays vital roles in constructing an underdeveloped country's economy.

In Pakistan SME's are defined differently for various institutions, shown in the table below

Table no.1 SME's definition					
Institution	Employment size	Paid up capital	Annual sales	Fixed Assets	
SMEDA	Up to 250	Up to RS.25 million	Up to Rs.250 million	N/A	
SME bank	Not over 250	N/A	N/A	Rs.100 million	
Federal bureau of	Not less than 10	N/A	N/A	N/A	

statistics					
State bank of Pakistan	Not over 250	N/A	Up to 300 million	Rs.100 million	

In Pakistan SME's contribute 40% of the GDP of Pakistan, covering 90% employment in industrial sector and 70% in the industries. It also contributes 24% of national manufacturing exports and account for the employment of more than 21 million people.(dittu) According to economic survey of Pakistan that nearly 3.2 million SME's are operating in Pakistan. Pakistan has emerged as the second rapidly growing economy in Asia after China in 2004 – 2005, as claimed by government and well accepted by international raters and financial institutions (saeed). According to Economic Survey 2004-05 this increase in real GDP is the courtesy of healthy performance of large scale manufacturing and services sector. Even though the large scale manufacturing registered 15.4% growth but small and medium enterprises (SMEs) is the core issue in the country's progress and especially for the prosperity of masses that are surviving with low scale income due to which Pakistan ranks 135th out of 174 countries on Human Development Index.(saeed s. o.)

SME's are considered the engine of economic growth in both developed and developing countries, as they: Provide low cost employment since the unit cost of persons employed is lower for SME's than for large-size units.(rehman)

- Assist in regional and local development since SME's accelerate rural industrialization by linking it with the more organized urban sector.
- Help achieve fair and equitable distribution of wealth by regional dispersion of economic activities.

- Contribute significantly to export revenues because of the low-cost labor intensive nature of its products.
- Have a positive effect on the trade balance since SMEs generally use indigenous raw materials.
- Assist in fostering a self-help and entrepreneurial culture by bringing together skills and capital through various lending and skill enhancement schemes.
- Impart the resilience to withstand economic upheavals and maintain a reasonable growth rate since being indigenous is the key to sustainability and self-sufficiency. (SMEDA)

#### Distribution of SME in GDP by Sector

	<b>Sector</b>	<b>Share in GDP</b>
<b>1.</b>	Services	17%
<b>2.</b>	Manufacturing	30%
<b>3.</b>	Trade and Hotels	53%

#### **Source: SMEDA**

Pakistan's economy has amazing potential for development but sadly, we haven't been able to derive best benefits despite a series of efforts launched by various policy makers at different times. The motivation of all these actions was on the large scale industries and manufacturing concerns. High rate of failures, owing to economic declines, institutional misconducts, political motives and damaging activities of labor unions in that sector, left the formal lending institutions with huge infected portfolios, in addition to adverse effects on the entire economy e.g. insufficient and low quality production to meet the demands of local and international markets, deficit in balance of payments and ever rising unemployment, etc.

Pakistan's SME's are still unable to achieve their maximum potential and are in terrible need of 'hand-holding' and business support services. The research findings revealed

that the entrepreneurs operating in Karachi have expressed their dissatisfaction over the availability of the five important support systems (regulatory framework, financial availability, technical support, training facilities and research & development facilities).(Rehman) Adhering to a clear mandate and a logical path to achieve quantitatively verifiable targets, SMEDA carries out comprehensive analyses of international trends, national policies and other macroeconomic factors affecting SME's in Pakistan for a gradual progress towards the creation of a favorable business environment for its key clients – the SME's of Pakistan. At the same time, they also interact with the SME's working in industrial sectors such as Agriculture, Fisheries, Textiles, Handloom Weaving, Transport, Leather, Marble & Granite, Carpets and Light Engineering. This interaction takes place at the individual as well as collective level to provide proactive and responsive financial, technical, management and marketing services to SME's.

## **Literature review**

### **Financial issues**

According to the economic survey of 1998-99, SMEs with a mere 20 per cent investment and resource to less than 10 per cent of the total formal credit generated 80 per cent of the country's total employment. Various types of loans available are small loans for business and industry, small loans for industrialists, lending for small and medium industries. (ditu)Small and medium enterprises are the most deserving bodies to receive loans from the government and other financial institutions as they are the backbone of the economy in a country. They usually contribute more than 35% in any country's GDP while most countries employment rate is high just because of small and medium enterprise. Benzing, Chu, and McGee (2007) and Pratt (2001) consider limited access to financial capital as important problems faced by SMEs in developing and transitional economies.

In Pakistan large companies are only the major beneficiary of financial credit system. SME sector is totally neglected. According to small and medium development authority

(SMEDA), in Pakistan large business companies accounted 54% share of total financial credit system whereas SME sector get just only 19% share. However, now there has been a rapid growth in SME financing. At present financial credit has risen from Rs. 145 billion to Rs. 250 billion by June 2004 for Small and informal sector. (sherazi, 2013) In Pakistan financial institution are very reluctant to provide the financing to SME sector. Arguing that getting credit for SMEs businesses in Pakistan has too much difficult procedure and security requirement, because banks in Pakistan are risk averse and try to avoid the uncertainty associated with SME business. Applying finance for small business, the procedure for obtaining credit is beset by delays. According to survey of SAMEDA (2001) the approvals for getting a credit for banks take a 2 to 10 months delay. These Credit access difficulties also arise because of the state bank of Pakistan policy and regulation, which restricts the ability of banks to lend a credit for SMEs on an unsecured basis. Point out that, SMEs sector are hesitant to get credit from banks due to their inefficient repayment capacity of loan to banks.

Another finding says that most of the SME owners are reluctant to get loans from the financial institutions of Pakistan because of high interest rate and they prefer Islamic mode of financing which is hardly offered in Pakistan, keeping these factors in view most of the SME owners prefer to use personal savings or borrow from the relatives and friends as there they don't have to pay interest. But still lack of loan provision from the formal sector is a big hurdle for the nourishing of SME's of Pakistan. According to the report of SBP at the end of 2008 Total of Rs. 884.2 Billion has been appropriated in the Development Finance category. Out of the total Development Finance portfolio SMEs receive the major chunk with 43.3% followed by Infrastructure & Housing Finance with 38.4% by the end of December 2008. The following table shows the Development Finance Group portfolio composition of last two quarters

Outstanding	Break up of outstanding Advances (domestic) in Billions. Dec 2008	
	Amount	% Share
SMEs	383	43.3%
Agriculture	155.5	17.6%
Microfinance	6.4	0.7%
Housing	339.3	38.4%
Total	884.2	100%

Source SBP.

The quarterly review report shows that the SME sector's outstanding credit stood at Rs. 383 billion in absolute terms, constituting about 12% of total credit of the banking industry. Though SME financing had witnessed negative quarterly growth of 8% by the end of third Quarter of current year; however, a positive growth of 5.92% has been registered by end of Dec-2008.

During the current economic downturn in the country, financial indicators depict a declining trend in SME financing. On the basis of SME potential, institutional capability and historical trend, the State Bank of Pakistan signaled in 2007 that the banking credit for the sector needed to be increased up to Rs 1000 billion in 2012 to be consistent with the projected macro-economic targets of growth and employment. However, the negative growth rate in outstanding loan amount of the sector and its falling share in overall loan portfolio over the last two years have made the target difficult to be achieved. The outstanding loan amount has declined from Rs 361 billion in 2005 to Rs 348 billion in 2009 while the SME share in overall loan portfolio has dropped from 17.5 percent to 10.2 percent during the same period.

Some institutions have been established for the purpose of monitoring the success of the SME's of Pakistan but their efforts seem to be useless as they themselves are in the search of funds to work effectively. Recognizing the urgent need to develop Pakistan's SME sector as a means of driving economic growth, the U.S. Agency for International Development (USAID) recently announced the multi-year Pakistan Private Investment Initiative (PPII), a private equity investment program which will invest in Pakistan's SME sector. Additionally, PPII seeks co-investors to participate in the program and enlarge the base of available investment capital. Researchers argue that some crucial steps should be taken to eliminate financial obstacles to the SME's.

Following steps are required for increasing their access to formal financial sources:

- Establishment of support infrastructure to improve coverage of credit information to facilitate quick and reliable loan processing mechanism
- Lower the tax rates so that SME's can feel ease to flourish.
- Deepen supply and marketing channel financing to small clients of corporate entities through partial credit guarantee.

Support commercial banks to develop SME dedicated financing capabilities, equity investment products and to invest in capacity building of their staff to deal with the peculiarities of the SME sector.

### **Managerial issues**

As the informal sector is mostly run by the uneducated, they face many managerial issues as the social behavior; consumer relation management, supplier's relation management and supply chain management, so lack of managerial expertise affects the SME's performance to great extent. Studies have revealed that SME's of Pakistan are badly affected by the poor managerial skills. Even though starting a SME is a bit risky but practicing it with sufficient managerial skills guides the SME to success. Some other studies also considered management incompetence as a key failure factor for SMEs

(Delmar and Shane, 2006; Eisenhardt, 1989; Tanriverdi and Venkatraman, 2005; Wiklund and Shepherd, 2003). In a study conducted by Aftab and Rahim (1986), insufficient managerial skills have been described as a major cause of SME failure. Irrespective of the size of business—large, medium or small—several studies and statistics appear to have ranked poor management or management inability as the main cause of business failure in general (Argenti, 1976). Bari, Ali, and Ehsan (2002) have described the low productivity or non-competitiveness of SMEs as a cause of underdevelopment of the sector in Pakistan. In a study conducted by Aftab and Rahim (1986), insufficient managerial skills have been described as a major cause of SME failure. A report by ILO (2002) claimed that the lack of access to institutional financing is a major obstacle for the development of SMEs. The most important qualitative specifications of small and medium sized enterprises are that the entrepreneurship, management and ownership of these enterprises have been collected by the same person. That person is the business owner and these specifications of those businesses have collected together the most important problem of SMEs. It is not right to expect that the person having required financial possibilities must be good entrepreneur and manager (Müftüoğlu, 2007). In spite of the fact that the business ownership in the SMEs and management has been implemented by the same person and the business owner is the unique authorized person in the decision making process and due to the limited applications to organizational consultancy, the problem could be occurred. (Alpka, 2012).

According to SMEDA most of the SME's fail due to lack of managerial skills, having the aim for lowering the SME failure SMEDA carries out comprehensive analyses of international trends, national policies and other macroeconomic factors affecting SME's in Pakistan for a gradual progress towards the creation of a favorable business environment for its key clients – the SME's of Pakistan. According to a research most of the bankrupt managers are uneducated and inexperienced, due to lack of knowledge managers fail to meet the goal of a firm. Another research finds out that the main cause of SME's failure is the internal deficiency rather than the external obstacles.

The managerial expertise plays a vital role in the success and failure of SME's. There is no enough participation of government institutions for the purpose of developing managerial skills among the SME owners. Lack of pure guidance has become a great hurdle on the way of success for SME owners. we should be keeping in mind that the factors which prevents SME's from success are poor bookkeeping, lack of technological knowledge about business, poor planning for business and lack of proper market research techniques.

### **Training issues**

Training issue is another obstacle which separates the SME's from success from a great distance. In Pakistan mostly mangers train the employees informally, because formal training is much costly, due to informal and insufficient training employees lack many skills and cannot do their jobs effectively. In Pakistan SMEDA authority is responsible for providing SMEs related training. According to SMEDA a small and medium enterprise in Pakistan face financial and other resources obstacles. SMEs often lack capabilities and infrastructure to make the most of their human capabilities – and as a consequence tend to have lower levels of training and skills development. (Dalziel, 2010) A key element in recent New Zealand public policy aims to increase skill levels in the existing labor force, on the basis that 80 per cent of those currently employed will still be in the workforce in 2020 (New Zealand Government, 2008, p. 6).

SMEs often lack capabilities and infrastructure to make the most of their human capabilities – and as a consequence tend to have lower levels of training and skills development. (Dalziel, LEVERAGING TRAINING: SKILLS DEVELOPMENT IN SMES, NEW ZEALAND, 2010)

In a knowledge-based economy, the performance of business organizations depends on ensuring that all categories of employees possess current and up-to-date knowledge and skills (OECD, 2002). The new knowledge and information-based economic system implies a strategic role for the training function, and has significant implications for the identification of training needs and the delivery of training. (Raymond, 2008) As the

SME's in Pakistan are run by mostly uneducated and untrained investors, who have to run the business and guide the business employees about their roles in the business by themselves which usually brings failure. Guiding the employees improperly causes misconduct in the business and the consequences come in the shape of business failure.(sherazi s. k.) SMEDA is providing Human Resource Training services by conducting extensive training need analysis of different SME clusters. SMEDA has so far conducted more than 230 training courses and workshops focusing on developing sector specific skills. But still the training issue seems to be unsolved, more training and guiding seminars are to be conducted and proper guidelines are supposed to be delivered to the SME's so that they can flourish and contribute to the economy effectively. Despite the high performance of SMEDA to establish training centers for the SME employees there isn't much effective change in the SME's because of high rate of SME's operating in Pakistan, SMEDA has proved itself effective in the large cities of Pakistan whereas small and rural areas of Pakistan are still neglected especially the agriculture sector even SMEDA has taken crucial steps for developing training centers for agrarian SME's owners but it doesn't have the effect over the majority, as the Pakistani economy is also relying to the agriculture sector so it also needs special focus by the Pakistani government and other financial institutions to offer finance and training to the farmers. Building of water tanks and tube wells by the agriculture development of Pakistan is a crucial step to motivate the farmers to work without any anxiety but these steps are also limited to some areas, NGO's has also stepped forward to finance and support the SME's to some extent which has lent a hand to the small scale industries to flourish to some point.

### **Political issues**

Political instability is another hurdle for the SME's to operate in an economy effectively. Studies show that SME's are discouraged very badly in unsecured political surroundings. Beginning of suicide bombing and other militant activities are not only dangerous for the masses but also for the economy of a country, as SME's contribute

40% of the GDP of Pakistan, covering 90% employment in industrial sector and 70% in the industries and contributes 24% of national manufacturing exports and account for the employment of more than 21 million people doesn't having any security from the government of Pakistan, have suffered much from the these terrorist activities and have been discouraged immensely. Studies have found that people in the instable political surroundings are very reluctant to operate a SME. (sayed kamran sherazi).as the devastating law and order situations are rising day by day the SME owners are being discouraged to operate in a dangerous political environment where in any moment you can be looted or killed by an unknown person, these threats have proved to be much effective to the operations of the SME's. researches also show that most of consumers also hesitate to go for shopping in the metropolitan area where old SME's are operated and were considered profitable but due to bad law and order situation people usually don't intend to go to such areas where they see their life I danger, such hesitations have discouraged SME's to a great extent e.g. Bombast in the food street of Lahore has caused a great damage to the SME operators in Lahore another incident in the kissakwani bazar Peshawar which is renown in all over the Pakistan has become a no go area for the people, small tourist companies have been highly effected due to insurgent activities in Khyber pakhtonkhwa (KPK) province which has been a great source of attracting international tourists. In Pakistan's the main heart of industry is Punjab and most SMEs are very young and owned by individuals and concentrates in service sector activities. (Dasanayaka, 2009)Bad law and order situations in Pakistan has caused GDP to lower down, inflation rate is alarmingly increasing and these consequences are causing more social misconducts like theft and drug addiction due to joblessness to the youngsters. So for the purpose of creating a safe environment for the SME's to operate in the country, political issues are supposed to be solved accordingly.

### **Technological issues**

Another obstacle for the SME's come in the shape of technological issues, as provided with less investment SME's cannot afford high and modern technology to work

effectively and efficiently. Studies show that most of the firms cannot live the life of more than 25 years, the most dangerous threat after the financial threats is improving technologies which are costly and need proper education and training to use as the SME's don't have much capital to adopt new technologies but when it adopts it, it becomes the major issue of using that technology properly failing of which causes the SME's to face worst consequences. With the acceleration technological change, the adoption rate is soaring, altering the business landscape. The popularity of social media among spending classes is opening up new options for businesses to interact their target customer base. (raza, 2014). No matter improving technologies has brought much competitive environment in the large industries but it has its evil effects on the small scale enterprises especially agriculture sector, as big landlords use much improved technologies to enhance their productivity, while small farmers don't find any other way to make their crops to grow before the time, failing which causes their crops to be sold in very low prices because in market already those product are available by large scale farmers. Technological improvements has become a great hurdle for the SME, because they either can't adapt new technologies either because of high prices or because of less knowledge about the technologies, whereas large industries switch to other technologies when they find that in the market place as a tool of competing effectively. Not moving to the new technologies makes SME's sales relatively low because the same products offered by the large industries prove to be much effective to the consumers and low priced, such issues force the SME's to abandon their operations, which causes unemployment. A typical Pakistani small firm used indigenous machines of old-vintage and relies on traditional productions methods for survival. adapting such old fashioned technologies don't tend to be means of survival for the small firms but indeed these old fashioned technologies cost much raw materials and time for production firms efficiency and effectiveness is much effected by these factors, consequences come in the shape of abandoning the firm, business failure and un employment. According to a study conducted by Al-Shaikh (1998), the absence of new technology and of import of technology was also a crucial factor causing SMEs failure in

less developed countries. Also Hassan, Khan, and Saeed (1998) described the inability to adopt new technology as a key factor causing SME failure in Pakistan

### **Corruption issues**

The corruption has many definitions According to international transparency, World Bank and ADB, “corruption is abuse of public office for private gain”. Extensive corruption in Pakistan is well reveal in the large number of cases which are investigated by the National Accountability Bureau. The World Economic Forum's Global Competitiveness Report (2007-08) recognized beside government, bureaucracy and corruption are considered other major problems to companies for doing their businesses in Pakistan. For farther detailed visit to site: (<http://www.gcr.weforum.org>). The owner of businesses in Pakistan perceives that neighbor’s countries palaces are relatively better for doing business compare to Pakistan. Almost 40 % businesses owner fell that corruption is major concern for their business. According to World Bank *doing business survey*, Pakistan is getting high score among Asia pacific region and only Maldives is a country who score more in corruption compare to Pakistan ([www.doingbusiness.org](http://www.doingbusiness.org)). The second common and renowned form of corruption affecting SMEs firms is bribery. In this way, offering a public official to accept any undue advantage to a person who actually not entitle for that rights. In this respect, SMEs are often faced with requests for additional payments and charges for their undue advantage services they are not entitled to anyway. This way of doing business affected those businesses who are conducting their businesses affairs honestly and fairly and bribery creates a possible barrier to profitability and growth of firm which are competing in industry.

Corruption is increasingly becoming one of the most critical problems for public and private sectors all over the world. (Wolfensohn). According to the 2005 EBRD/World Bank Business Environment and Enterprise Performance Survey (BEEPS), a number of the surveyed firms indicating corruption as a problem for doing business in Armenia has increased compared to 2002. Corruption hurts all, but the pain is greatest among small and medium-sized enterprises (SMEs). They are usually the first to suffer in a

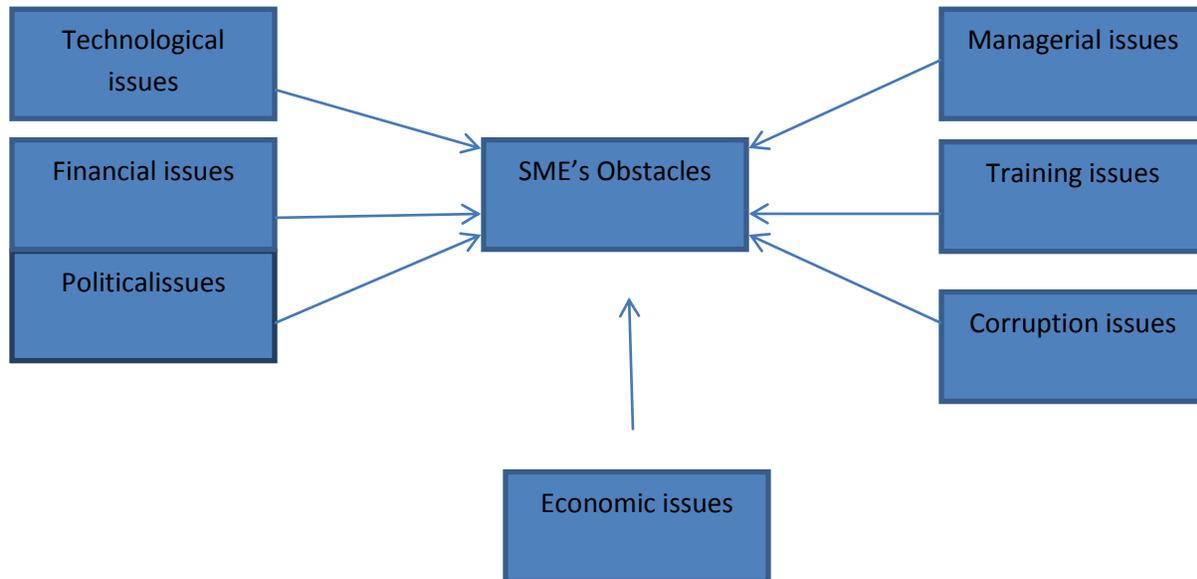
marketplace where corruption exists. (UNIDO, 2007) According to the World Bank Institute, more than \$1 trillion dollars (US\$ 1,000 billion) are paid in bribes every year, which means that each year the cost of corrupt activities is equal to a full 3 per cent of the world's gross domestic product. (world bank, 2004) According to the Business Environment and Enterprise Performance Survey (BEEPS), more than 70 per cent of SMEs in transition economies perceive corruption as an impediment to their business. Though corruption damages all type of industries but it hurts more to the SME's. Recent researches (by the World Bank and others) have demonstrated clearly that corruption slows down the economic development of countries, disables social services, retards the establishment of civil society and disables business competitiveness. SMEs take relatively bigger risks to enter new markets, have more to lose when competing for business, and almost always have fewer resources to cope with the complexities of anti-corruption laws. (ACCCA, 2013) In Pakistan majority of the SME owners think that SME's in neighbor country operate more effectively because of no corrupt activities. Almost 40% of the SME owners think that corruption is a major concern to their businesses. (iqbal, 2013) According to World Bank *doing business survey*, Pakistan is getting high score among Asia pacific region and only Maldives is a country who score more in corruption compare to Pakistan ([www.doingbusiness.org](http://www.doingbusiness.org)).

### **Economic issues**

Among the list of hindrances to the SME's of Pakistan, economic issue has also positioned itself in the list. These energy crises raise the cost of production and decrease factor of production. Mostly SMEs sector of Pakistan consist of informal sector. But there are Key Issues for the Expansion of this Informal Economy sector like Poor transportation system, absence of storage facilities, water and electricity supply crisis, Absence of working environment in Minor firm and poorly industrialized physical markets. The rapidly changing global economic and political environment has forced national and local governments to develop new context-appropriate strategies characterized by a greater degree of interaction with non-governmental key actors and

with the business world in particular (Yanez, Magnier, and Ramirez, 2008). Generally, cooperation with external actors—business in particular—is crucial for guaranteeing local governance, and is also a crucial governance task (Mossberger and Stoker, 2001). There are some studies stressing the governments' initiatives in helping firms. For example, the Canadian government focuses on developing stronger ties between universities and businesses through new policies and strategic programs (Godin and Gingras, 2000). Moreover, there are a number of policy measures which, directly or indirectly, aim at encouraging SMEs (Smallbone, North, and Roper, 2003).

Because of the inflation, the segment that practices economy shall demand for the real interest to protect the saving against inflation. However, these high interests could be reflected as high credit cost automatically. Off course, this case has dissuasive effect on the firms that plan to make new investments. Apart from the import input prices because of the inflation, if the prices of the domestic inputs have increased then the firms shall be forced to engrossing but at the same direction, the requirements of the firms regarding business capital have been increased and the liquidity has been negatively affected. Because, if the input prices are increased but the product prices are not increased one of the biggest problems of SMEs is that they could not become indebted to low interest. Researchers have found that inflation and high interest rates are major factors which de-motivate the SME's to operate in an economy openly. Even many schemes have been launched by state bank of Pakistan to motivate the SME's to operate openly but these special schemes have not proven any positive effect.



## Discussion and recommendations

Research findings argue that financial obstacles like incapability to access the finance from formal financial sector have key problems in managing small businesses in Pakistan. One of the major reasons named for lack of capital is the difficulty in borrowing money from the bank because of lack of repayment credit record, insufficient support from government side and lack of trust of financial institution on SMEs businesses. Most importantly the data analysis revealed that banks avoid to providing the loan to those SMEs who have poor documentation procedures. The second most ranked perceived obstacles for SMEs businesses in Pakistan is corruption. Results also show that corruption is negatively associated with small business failure. The second major obstacle which an SME faces is managerial obstacles, results show that many of the SEM's fail due to lack of managerial skills. Due to lack of capital and government training institutions most of the SME's have to face severe consequences because of less managerial skills and competitiveness. SME's which fail due to poor managerial skills are usually run by uneducated owners, who are not familiar with human resource

management and operations management, due to uneducated employers and uneducated employees smalls firms don't cross the age of five years. The reason of SME's failure is training issues, as management is run by an owner who doesn't have any relation with education and formal training techniques, employees are often trained informally for a small session and then are told to work in the practical field which causes the employees to face the lack of confidence sense, which guides them not to work properly In the field and make the owner to face loss, which can be in the shape of small loss or big loss. Even in Pakistan SMEDA is working to motivate and train the employees but it's not having much effect because of the large number of SME's operating in Pakistan as it is not possible to cover a huge sector which is over 2 million small firms. Fourth obstacle for the SME's of Pakistan is the political issues because of SME's are de-motivated to great extent. Findings show that SME's operating in bad political scenarios go bankrupt very soon and SME's are reluctant to operate in a country where political issues are high such as suicide bombing and other law and order issues have caused many SME's to abandon their operations in Pakistan, which further causes unemployment and unemployment leads to street crimes and street crime are the key factors to influence the law and order situations negatively. Fifth obstacle to the SME's is technological issues, according to researches and other experts argue that most of the SME's don't have the capability to upgrade their technologies to meet the market competitive environment, other findings suggest that small firms use old technologies for operations which are not effective and efficient. SME's face multiple factors in technological issues as they cannot produce much effectively so they cannot compete with the large industries which produce the same products which are more satisfactory and less expensive, these products offered by the large industries grab the attention of the consumers and small firm's sales reduce to a great extent, consequently the small firms are abandoned. Corruption is alarmingly high in Pakistan and especially very harmful for the small firms which are not registered or considered to informal businesses operating in the marketplace, they usually has to give bribes to the higher authorities to continue their operations in the market and those bribes are higher than

the taxes they have to pay to government if they were registered, as SME owners are mostly uneducated they don't know the importance of registrations and usually consider bribing a better alternative to carry on the operations but these bribes causes the owners to suffer loss, lack of capital and recovery system are the key factors which cause the demolition of the firms in case of bribery. Final obstacle to the SME's is economic issues such as inflation and high interest rates. Firms do have to borrow money to the financial institutions to upgrade and carry on their operations in many circumstances, higher prices of raw material causes the SME's to borrow loans, as SME's cannot bear to repay the loans which have been issued against high interest rates so they go bankrupt and their operations stop. Inflation cause high prices of raw material for the production which SME's cannot bear and their operations are stopped and firms are closed.

According to the researchers among major SMEs obstacles, financial issues are ranked highest. Small business owners always try to seek cheap source for borrowing a credit on low-interest from banks and pursue loans from micro-financing institutions. It is recommended that policy makers especially SME bank in Pakistan should try to establish the ways and packages which are easily approachable for SMEs sector. Other cheap source for SMEs sector is borrowing from friends and family on the basis of collateral investment in SMEs sector. Collateral investment increases the interest within the social network of SMEs owners and motivate to these family and friends to invest in SMEs business. So it is a dire need to SMEs owners to negotiate with their internal social network community for generating finance for their business. As according to report Pakistan has 89th position in world for procedure to getting a license for SMEs business. It is highest ranking among Asian countries due to poor bureaucratic culture. It is recommended that government must overcome corruption and adopt the technological and easy ways for immediate registration of SMEs businesses with transparent rules. These actions can be source of creating an encouragement for investor investing in SMEs sector.

## References

- ACCCA. (2013). *Combating bribery in the SME sector*.
- Aftab, K. and E. Rahim, 1986. The Emergence of a Small Scale Engineering Sector: The Case of Tube well Production in the Pakistan Punjab. *Journal of Development Studies*, 17(3): 109-122.
- Ali, S.M. and N. Sipra, 1998. The Financial Practices of Small and Medium Enterprises in Pakistan. Konrad Adenauer Foundation Working Paper Series. LUMS: Lahore
- Alpka, S. k. (2012). Problems and Solution proposals for the SME's of Turkey. *emergig markets journal*.
- alpka, S. k. (2012). Problems and Solution proposals for the SME's of Turkey. *emergig markets journal*.
- Arinaitwe, J.K., 2006. Factors Constraining the Growth and Survival of Small Scale Businesses. A Developing Countries Analysis. *Journal of American Academy of Business*, Cambridge, 8(2): 167-178.
- Dalziel, P. (2010). *LEVERAGING TRAINING: SKILLS DEVELOPMENT IN SMES, NEW ZEALAND*. OECD.
- Dasanayaka, D. S. (2009). Small and Medium Scale Enterprises in Informal Sector in Pakistan and Sri Lanka in Comparative Perspective with Research Agenda - Lesson for other Developing Countries. *International Conference on Measuring Informal Sector in Developing Countries, Kathmandu, Nepal, 23-26 Sept.2009* SAIM/IARIW . kathmandu: Dept. of Management of Technology, Faculty of Engineering University of Moratuwa, Moratuwa, Sri Lanka.
- Dasanayaka, D. S. (2009). Small and Medium Scale Enterprises in Informal Sector in Pakistan and Sri Lanka in Comparative Perspective with Research Agenda - Lesson for other Developing Countries. *International Conference on Measuring*

*Informal Sector in Developing Countries, Kathmandu, Nepal, 23-26 Sept.2009*  
SAIM/IARIW . kathmandu: Dept. of Management of Technology, Faculty of  
Engineering University of Moratuwa, Moratuwa, Sri Lanka. dittu, f. u. (n.d.).

Hussain, D., and Windsperger, J. (2010). Multi-unit ownership strategy in franchising:  
Development of an integrated model. *Journal of Marketing Channels*, 17(1). 3-31

hussain, I. (2010). comparative study on external and internal CFF's on SME's. *journal*  
*of small bussiness and enterpreneurship*, 637-648.

hussain, I. (2010). comparative study on external and internal CFF's on SME's. *journal*  
*of small bussiness and enterpreneurship*, 637-648.

iqbal, m. z. (2013). obstacles to the SME's of pakistan. *middle east journal of scientific*  
*reasearch*.

iqbal, m. z. (2013). obstacles to the SME's of pakistan. *middle east journal of scientific*  
*reasearch*.

Khan, B.A., 1997. Credit analysis for small and medium enterprise. Konradadenauer  
foundation working paper series, LUMS: Lahore.

Khawaja, S., 2006. SMEDA (CEO). Unleashing the Growth Potential of SMEs in  
Pakistan through Productivity Enhancement. SMEDA.

Lussier, R., and Pfeifer, S. (2001). A cross-national prediction model for business  
success. *Journal of Small Business Management*, 39(3), 228-237

Raymond, A. R. (2008). Meeting the Training Needs of SMEs: Is e-Learning a Solution?  
*Electronic Journal e-Learning*.

Raymond, A. R. (2008). Meeting the Training Needs of SMEs: Is e-Learning a Solution?  
*Electronic Journal e-Learning*.

Rehman, d. m. (n.d.). SMEs can be engine of economic growth. saeed, s. o. (n.d.). role  
of SME's in pakistan.

Sayed kamran sherazi, m. i.-u.-r. (n.d.). obstacle to the small and medium enterprises in pakistan.

Sayed kamran sherazi, m. i.-u.-r. (n.d.). obstacle to the small and medium enterprises in pakistan.

Sherazi, s. k. (2013). obstacles to the SME's of pakistan. *middle east journal of scientific research*.

Sherazi, s. k. (n.d.). obstacle to the SME;s of pakistan. *middle east journal of scientific research* .

SMEDA Pakistan, 2010. Retrieved from <http://www.smeda.org.pk/main> (Aug 20, 2010)  
SMEDA, Developing SME Policy in Pakistan (2010) SMEDA. (n.d.). SME's of pakistan.

Syed manzur quader, m. n. (2009). constraints to the SME's: A Rotated Factor Analysis Approach. *South Asian Studies*, 334-350.

Syed manzur quader, m. n. (2009). constraints to the SME's: A Rotated Factor Analysis Approach. *South Asian Studies*, 334-350.

UNIDO. (2007). Corruption prevention to foster small and medium-sized enterprise development.

UNIDO. (2007). Corruption prevention to foster small and medium-sized enterprise development.

Wolfensohn, J. (n.d.). Combating Corruption:SME Sector Perception and Solutions. *FOUNDATION FOR SMALL AND MEDIUM BUSINESSES*.

Wolfensohn, J. (n.d.). Combating Corruption:SME Sector Perception and Solutions. *FOUNDATION FOR SMALL AND MEDIUM BUSINESSES*.

World Bank, 2001. Pakistan: SME policy Note. World Bank, Islamabad.