

Sickness in Small-Scale Industries in South Punjab: Hurdles & Remedies: A Study of Bahawalpur Estate Area, Pakistan

Muhammad Azhar Sheikh
PhD. Scholar, ICBS, Lahore
Lecturer, Department of Commerce, The Islamia University of Bahawalpur, Pakistan

Abid Hussain
PhD. Scholar, ICBS, Lahore

Syed Salman Hassan, PhD
Assistant Professor, Department of Management Sciences, Virtual University of Pakistan

Abstract

This study was based on in-depth exploratory investigation of Bahawalpur (Pakistan) industrial estate area to find out the internal and external root causes of sickness in small industries and their solutions. Ashraf et al. (2012) noticed reasons of meager performance of small firms as lack of managerial knowledge, high rate of interest on loans, heavy taxation, poor government policies, owner's education level and use of outdated technology, that's why the most of small units have poor success and growth. Shukla (1993) and Reddy et al. (1988) found the causes of sickness in Small Scale industry which were generally related to production, finance, environmental, management and marketing factors. Collection of data was executed through both primary and secondary sources. Both qualitative and quantitative research methods had been used for the study. Data was primarily collected through structured questionnaires as well as interviews of owners/managers of small industrial units at Bahawalpur industrial estate area. SPSS software was used to analyze the data. In this study we found that 76.9% units were facing energy crisis and almost all the units were also facing high Mark-up problem and Inflation problem. Other obstructions that units were facing comprising the high level of taxation, lack of education, difficulty in accessing credit, lack of market information, lack of management skills etc. which leads to low level of production and unemployment etc.

Keywords: Industrial obstructions, Remedies, low production

I. Introduction with Brief Review of Literature

In Pakistan, there was almost no large industrial units at the time of partition in 1947, now there is a objectively broad industrial base and this industrial sector contributes 20.30 percent in GDP; it is also a major source of tax revenues for the government and also contributes significantly in the provision of job opportunities to the labor force (Pakistan Economic Survey 2015).

Now a days the Government of Pakistan is attempting to expand the country's industrial base and to increase the emphasis on export industries. Small-scale industry comprises such facilities, which employ fewer than 50 workers, while cottage industries contains those industrial units in which the owner works and is aided by family members but employs no borrowed labor. The manufacturing is the most important sub-sector of the industrial sector comprising 65.4 percent share in the overall industrial sector (Pakistan Economic Survey 2015). Junejo *et al.* (2007) revealed in their study at Sindh, that 23.25 percent of the units fell sick because of poor management, 16.74 percent lack of working capital, 13.95 percent poor feasibility reports and 13.95 percent marketing problems. Syed *et al.* (2012) found a recognized feature of SME sector is its capacity to create jobs, SMEs maintain the poverty lessening activities through creating employment, SMEs support in nurturing a self-help and entrepreneurial culture, SMEs lift up an entrepreneurial strength which puts forward suppleness in the economy, SMEs are more proficient in resource allocation as compared to large scale industries, SMEs in general cogitate employees as their most imperative resources, SMEs are forerunners, in developing new products and services and finally SMEs are at large very quality minded in the products and services they offer. In the playhouse of development the part played by SMEs and micro firms is right important, not only because they are defined as the locomotive of economic growth, but principally because they are the largest percentage of firms in the economic activity. *"Industry and its impact on economic and social development and the environment has been at the center of the debate on sustainable development since the term 'sustainable development' was brought into common use by the Brundtland Commission in 1987. There is now a consensus among policy makers that in order to achieve sustainable development, Governments and non-state actors need to make greater efforts to integrate economic, social and environmental goals into industry policy and decision making"* (United Nations, 1998). Bell *et al.* (2004) concluded that 'knowledge-intensive' firms develop much more dynamically than their 'traditional' counterparts.

Ashraf et al. (2012) noticed reasons of meager performance of small firms as lack of managerial

knowledge, high rate of interest on loans, heavy taxation, poor government policies, owner's education level and use of outdated technology, that is why the most of small units have poor success and growth. Reddy *et al.* (1988) found that the variables which contribute to sickness are generally related to marketing, finance management, production and environmental factors. They were of the view that return on investment is measuring tool to analyze the efficiency of the managers/owners of the small industrial units in the perspective of sales and profit per year.

Junejo and Rohra (2009) found that lack of expertise/skill was the factor acts mainly at the initial stages of the project. Many projects were sick by birth because of poor feasibility reports regarding the demand of product in various markets, wrong choice of technology, inappropriate forecasting of financial requirements, deferred in supply of plant and machinery or in their installation or release of funds by financiers. No clear vision, goals and objectives. The root of all these problems may be traced to the lack of expertise in project planning and management on behalf of entrepreneurs and promoters. Gompers *et al.* (2008) were of the view that those who know when and where to invest could also be good at managing the ventures they start. Nadeem-ul-Haque (2007) found from the group discussion with the entrepreneurs of Sargodha, Sialkot, Lahore and Gujranwala regarding the state of entrepreneurship in Pakistan:

- Innovation which is the significant to entrepreneurship is practically absent because most of the businessmen were involved in inherited business.
- Few businesses appear to grow to be large and multinational. Small businesses rarely seem to develop across cities.
- He further noticed lack of knowledge, research skills and shortage of finance to start new business.

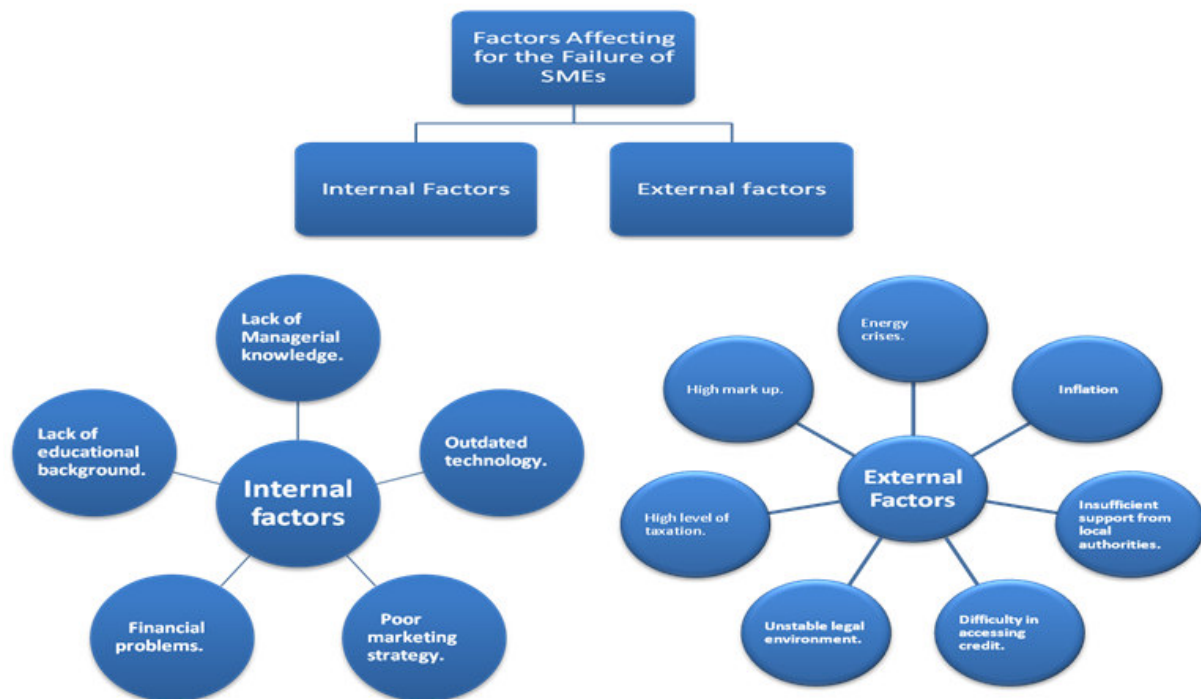
In Pakistan 40% of the business is in casual sector and still the small-scale enterprise and industry remains to face disparaging policies. Historical growth rate of small business also throws light to the neglect of the small scale industrial sector. Sheikh *et al.* (2016) found that the grounds of reduced interest of people towards launching own small industrial organizations were financial/capital problem, risk and insecurity in business, governmental issues, economic situation of the country, non-supportive behavior of the family members. The first section of this paper is comprised of introduction with brief literature and objectives, second section is about theoretical framework based on literature, third section is about methodology, fourth section consists of findings and discussion of factors (internal and external) responsible for poor performance of small scale industries, at the last fifth section is about conclusion and policy implications. Furthermore, the analysis of the factors in the form of frequency tables is given at the end as annexure 1.

The specific objectives of this study were:

- To find and understand the hurdles/factors which hinders the growth of small scale industries in southern Punjab specially in Bahawalpur region.
- To find the solutions of such problems
- Giving the recommendations and policy implications

II. Theoretical Framework

Upon rereading the literature we found some factors which were accountable for the success or failure of small scale industrial organizations. These factors may be characterized as internal and external factors and shown below as conceptual framework:



III. Methodology

We carefully chose Small Scale Industrial Area for this study. There were 42 small scale industrial units of which only 19 were running and we selected 13 units, conveniently accessible, in District Bahawalpur. We obtained data through administering well-structured questionnaires from the owners & managers and of the Small Scale Industrial units and also conducted face to face interviews with some of them. We applied different statistical tools such as frequency tables and bar charts for the analysis of data. SPSS software was used for the analysis of data.

IV. Findings and Discussion of Factors accountable for poor performance of Small Scale Industries

Through the field survey, we found that there were some internal and external factors/ grounds of sickness in small industrial units in the estate area of Bahawalpur.

A. Internal Factors:

i. Lack of Managerial knowledge:

Through research we found that many of the managers (62%) are ignorant about the knowledge of managerial field. They are not following appropriate management techniques such as planning, organizing, leading and controlling.

ii. Lack of Educational Background:

This study shows that most of the managers are very poor in educational background (54%) and they are not comfortable at their business units. Lack of the educational background is one of the main limitations in expansion of small business in Bahawalpur.

iii. Use of Outdated Technology:

It is found in the study that the technology which was being used was old and obsolete. The industrial units were not progressing and developing due to the use of outdated technology. Almost all the firms of Bahawalpur were using the outdated technology due to financial problems. Although they were now moving towards latest technology but the pace of change was slow.

iv. Financial Problems:

The performance of most of the industrial units were poor due to deficiency of working capital (54%), high interest payments and delay in release of funds by banks or financiers. So such severe financial problems were the constraints in progression of small scale business in Bahawalpur.

v. Poor Marketing Strategy:

During discussion with the manager of small scale industries it was found that they were uneducated and didn't know about new marketing techniques (69%), due to this reason they couldn't enhance their business properly.

B. External Factors

There were following external causes/factors of sickness of small scale business/industries in Bahawalpur found during study.

i. Energy Crisis:

Most of the units in Pakistan are facing shortage of energy problem (gas and electricity) as well as in Bahawalpur. Due to energy crisis in Bahawalpur the cost of production became high and was the big reason of inflation, as most of the business units and industries used generators as an alternative source of energy.

ii. High Mark up:

It was found in the research that the small industrial units were facing the problems like high mark up. Banks charge high markup against loans to SMEs, so this was the hurdle in growth of small business in Bahawalpur.

iii. High rate of Inflation:

Research showed that inflation was another barrier in the expansion of SMEs in Bahawalpur. Due to inflation the prices of raw material increase which increases the cost of production.

iv. High level of Taxation:

Government imposed high level of taxes on their operating incomes. Firms were bound to pay various kinds of taxes. So heavy taxes were the barrier in the success of small industrial business in the Bahawalpur.

v. Unstable Legal Environment

The research steered in Bahawalpur showed that most of the firms were affected with unstable legal environment and too many legal formalities. The survey showed that the legal environment instability was a barrier in growth of small industries in Bahawalpur to 76%.

V. Conclusion and Policy Implications

According to our research there is a lack of small scale industrial development programs at government level in Bahawalpur so local government authorities and provincial government of Punjab should take steps to encourage Small Scale Industries programs as the launching of such programs can reduce unemployment up to some extent as well as small scale industries may grow in this region. Unstable legal environment is the main cause of sickness in business in Bahawalpur as rapidly changes in government policies is the cause of destruction of infrastructure for Small Scale Industries. As Bahawalpur is an underdeveloped area there is Lack of educational background, mostly people are unaware about the critical procedure of starting a business and so they are not interested in starting Small Scale Industries. lack of management skill is due to not well educated people and this is the main factor in our research that is highlighted. People are unable to run a successful business that's why the financial institutions are unwilling to advance money to these peoples. Due to energy crises and rapidly increase the electricity charges from MEPCO/WAPDA is another factor which affects the success of Small Scale Industries in Bahawalpur. So it is recommended that the registration procedure of new industrial firms may be simplified and legal formalities should be minimized and publishing of more and more information for small industrial business at regional level by local authorities. Moreover facilitation may be offered for easy access to financing small industrial units.

References:

- Ashraf.** M. I., & Hussain, M. (2012). *Financing of SMEs (Small & Medium Enterprises); Alternatives, Policy Measures And Financial Solutions–The Case of Pakistan's Cotton Ginning Industry*. diva-portal.org. 103 p.
- Bell.** J., Crick, D., & Young, S. (2004). *Small firm internationalization and business strategy: an exploratory study of 'knowledge-intensive' and 'traditional' manufacturing firms in the UK*. International Small business journal, 22(1), 23-56.
- Gompers.** P., Kovner, A., Lerner, J., & Scharfstein, D. (2010). Performance persistence in entrepreneurship. *Journal of Financial Economics*, 96(1), 18-32.
- Haque.** N. U. (2007). *Entrepreneurship in Pakistan* (Vol. 29). Pakistan Institute of Development Economics.
- Junejo,** M. A., Rohra, C. L., & Maitlo, G. M. (2007). *Sickness in Small-Scale Industries of Sindh: Causes and Remedies. A Case Study of Larkana Estate Area*. Australian Journal of Basic and Applied Sciences, 1(4), 860-865.
- Junejo,** M. A., Rohra, C. L., & Kanasro, H. A. (2009). *Investigating the Major Constraints in Creation and Growth of Small Scale Industries of Pakistan*. Australian Journal of Basic and Applied Sciences, 3(4), 3116-3122.
- Reddy,** T. S. & Rao, P. B. (1988). Sickness in Small Industry in Andhra Pradesh. *Decision*, 15(3), 235
- Syed,** A. A. S. G., Ahmadani, M. M., & Sheikh, F. M. (2012). Role of Small & Medium Enterprises in Creating Employment Opportunities in Pakistan: A Case Study of Sindh. *Journal of Business Strategies*, 6(1), 74.
- Sheikh.** M.A., Basit.A.B., Hassan.S.S. (2016). *"The Educated Youth and Entrepreneurship in Bahawalpur, Pakistan."* Pakistan Journal of Social Sciences, BZU, Multan (in Publishing Process).
- Shukla,** V. (1993). *A Study of Development of Small Scale Industries in India*. Economic Affairs (Calcutta), 38(2), 104.
- United Nations** (1998), Industry and Sustainable Development. Economic and Social Council;

Commission on Sustainable Development; Sixth session; April-May 1998.
 www.finance.gov.pk, Pakistan Economic Survey, Ministry of Finance, 2014-15.

Annexure 1

Analysis of factors/barriers

The data collected through questionnaires had been analyzed using frequency tables in SPSS. Analysis of different factors have been given as under:

Table 4.1 **Legal Formalities- a barrier**

| | Frequency | Percent | Valid Percent |
|-------|-----------|---------|---------------|
| yes | 10 | 76.9 | 76.9 |
| No | 3 | 23.1 | 23.1 |
| Total | 13 | 100.0 | 100.0 |

After the research which is conducted in Bahawalpur shows that most of the firms are affected unstable legal environment. The Frequency & the bar chart result shows that the legal environment unstable a barrier in SMEs in Bahawalpur to 76%.

Table 4.2. **High level of taxation - a barrier**

| | Frequency | Percent | Valid Percent |
|-------|-----------|---------|---------------|
| yes | 9 | 69.2 | 69.2 |
| | | | |
| no | 4 | 30.8 | 30.8 |
| | | | |
| Total | 13 | 100.0 | 100.0 |

The imposition of high level of taxes in SMEs is a barrier in their success. The frequency & the bar chart result shows that the 69% Units have tax problem in their success in Bahawalpur.

Table 4.3. **Support from local authorities**

| | Frequency | Percent | Valid Percent |
|-------|-----------|---------|---------------|
| Yes | 8 | 61.5 | 61.5 |
| No | 5 | 38.5 | 38.5 |
| Total | 13 | 100.0 | 100.0 |

The analysis shows that there is lack of support from the local authorities to SMEs in Bahawalpur. Their contribution is very important for the success of SMEs. The frequency & bar chart result shows that there are 61.5% units which are supported by local authorities in Bahawalpur.

Table 4.4. **Purchasing power of people a problem**

| | Frequency | Percent | Valid Percent |
|-------|-----------|---------|---------------|
| yes | 3 | 23.1 | 23.1 |
| no | 10 | 76.9 | 76.9 |
| Total | 13 | 100.0 | 100.0 |

The survey shows that the purchasing power of consumer is not a big problem in the failure of SMEs but have a little effect on them. The frequency shows that that 23.1% managers that low purchasing power is a barrier for them.

Table 4.5. **Having insufficient educated people in management**

| | Frequency | Percent | Valid Percent |
|-------|-----------|---------|---------------|
| yes | 11 | | 84.6 |
| no | 2 | 15.4 | 15.4 |
| | | | |
| Total | 13 | 100.0 | 100.0 |

As we know that well educated management is a asset for any organization. Educated management can handle the business matters more efficiently then uneducated people, in Bahawalpur almost all SMEs have uneducated background. Their management is not well educated, so it is a barrier. The frequency shows that the 84.6% have units have low educational background.

Table 4.6. **Difficulty in accessing credit**

| | Frequency | Percent | Valid Percent |
|-------|-----------|---------|---------------|
| yes | 7 | 53.8 | 53.8 |
| no | 6 | 46.2 | 46.2 |
| | | | |
| Total | 13 | 100.0 | 100.0 |

After the analysis the frequency distribution shows that 53.8% units get the credit facility & face certain problems in accessing credit, but the remaining firms do not get the credit.

Table 4.7. **Lack of qualified human resources- a barrier**

| | Frequency | Percent | Valid Percent |
|-------|-----------|---------|---------------|
| yes | 7 | 53.8 | 53.8 |
| no | 6 | 46.2 | 46.2 |
| | | | |
| Total | 13 | 100.0 | 100.0 |

Every Industry or organization needs skilled persons for the better level of production & better results, so the frequency distribution shows that 53.8% of the units have low skilled persons in SMEs in Bahawalpur.

Table 4.8. **Lack of market information- a barrier**

| | Frequency | Percent | Valid Percent |
|-------|-----------|---------|---------------|
| | 1 | 7.7 | 7.7 |
| Yes | 9 | 69.2 | 69.2 |
| No | 3 | 23.1 | 23.1 |
| | | | |
| Total | 13 | 100.0 | 100.0 |

Table 4.9 **Lack of management skill is a hindrance**

| | Frequency | Percent | Valid Percent |
|-------|-----------|---------|---------------|
| Yes | 8 | 61.5 | 61.5 |
| No | 5 | 38.5 | 38.5 |
| | | | |
| Total | 13 | 100.0 | 100.0 |

Every organization or industry needs management skills for their success. The frequency distribution shows that 61.5% units have low level of management which becomes a barrier in SMEs in Bahawalpur.