

## **Investigating the Major Constraints in Creation and Growth of Small Scale Industries of Pakistan.**

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**Abstract:** This research study investigates the major constraints in creation and growth of small of Small Scale Industries at Sukkur Sindh Province of Pakistan. We selected 113 cottage and small scale industries as per the definition of State Bank of Pakistan. The primary data was collected through the well developed questionnaire and secondary data was used to analyze the data. This research has found that 62.15 percent units were facing the problem of lack of good management, 16.95 percent units were uncomfortable by the reason of inadequate feasibility, and 11.30 percent units were feeling difficulties by the reason of marketing problems and poor credit facilities. Other major constraints were short fall of working capital, load shedding problem, tax problem and law and order problem. Magnitude of industrial sickness, especially in the Small Industrial Estate Sukkur, is staggering. What is worse, the number of sick units and the amounts of outstanding Rs.43.049 million bank advances have been steadily increasing in recent years. Industrial sickness has grave socio-economic consequences. It leads to unemployment, loss of production, under-utilization of productive assets, and blockage of the savings of the community.

**Key words:**

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### **INTRODUCTION**

At the inception of Pakistan in 1947, there were very few manufacturing establishments. It was totally an agriculture-based economy. In 1949-50 the share of industrial sector in GDP was around 8% with large contributing 2.2% and the small 5.8% comprising of cotton ginning, rice husking, wheat milling. The surprising feature is that over the years the contribution of the small sector has remained in the range of 5% to GDP. The situation of Small Enterprises (SEs) is one of a rather loose integration within the mainstream of the national economy. Many recent studies display the potential for expansion, numerous hurdles thwart them. In Pakistan as in other countries the recognition is growing those small-scale industries which are important for the development of the social and economic sectors. However in spite of the growth of this awareness not much attention was paid to this sector. Research has revealed that nothing contributes more to the flourishing of small enterprises than favorable policy context (Thomason & Thomas 1992). This is totally lacking in Pakistan and reflects apathy to one of the most potential sectors of the economy.

Pakistan's comparative advantage was the skill its people had in many fields of small and cottage industry. Its people were famous for hand crafted products whether in metal or woolen or cotton or wood. But this comparative advantage over time frittered away and was not exploited or developed. There was no tradition of institution building. No guilds and associations that would foster the skill and pass it on to the next generation. There were no laws requiring the skill or recognition of skill, hence national industrial development suffered.

The first five year plan did not meet with success. The real development that did take place was during the second five year plan. After bifurcation of subcontinent, India enjoyed a lion share in industrial sector. Where as, Pakistan left with few industries which not sufficient to cope with the demand. Besides, influx of refugees' country faced multiple problems. The private sector was shy and did not come forward at all. In 1952 formation of Pakistan Industrial Development Corporation (PIDC) by the Government played a vital role. Almost 1041 industrial units were established in the country including former East Pakistan (now Bangladesh). This included fertilizer, chemical, medicine, textile/woolen, jute, cement, sugar, paper, wood, ship building, heavy engineering, electrical engineering, steel mills, mineral development, gas and Small Industrial Estates

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in all the provinces. During this period the manufacturing sector registered a growth rate of 8%. In 1970 the experience of Nationalization failed because of many reasons and subsequently privatization also failed except like nationalization, privatization also took place without adequate home work. After privatization large number of industrial units is lying closed. The industrial development has been marred by low productivity and import substitution strategy. The trend had been towards capital intensive and low on employment generation industry. The lessons of nationalization compelled investors to avoid labor intensive projects and thus the rate of unemployment increased and the economic situation worsened.

Pakistan's economic development policies favored capital-intensive technology choices, ignoring the fact it would create unemployment. Even the subsidized credits for small enterprises stimulated more capital-intensive technologies. This situation is further compounded by the fact that Pakistan ranks relatively low among other Asian countries in such areas as per capital number of science and technology personnel and low on Research & Development. This therefore does not create the small enterprise development environment. Both for rural and urban production, appropriate technologies are needed which are labor intensive, which use local resources it is in the background of such environment that SE, can develop. Hence the need for small enterprise Development policy was imperative but totally missing from a Thomas (1992).

Considerable work was undertaken on SEs in the 1990s by UNDP, which allocated research projects on SEs and micro enterprises to UNIDO and ILO. Similarly the institute of Social studies Advisory Services undertook World Bank funded research for Bankers Equity. The donors coordination Group on promotion of the SEs set up on 1993 organized a series of activities for SEs promotion. A series of measures were undertaken under the eighth five year plan (1993-98) to stimulate the growth of the SE sector focusing on improving their productivity and enhancing product quality and standards through training in vocational and technical skills and up gradation of technology and modernization. The impetus to the SE sector came from this new focus, which culminated in the Government's decision to set up another small industries development organization (SIDO) in October 1998 called SMEDA- small and medium enterprises development Authority. Yet the bottom line is that there has been no policy initiative to support the growth of SEs. No regulatory intervention to remove the retardants of SE growth. No law defining small enterprises. And for 3 years the Government did not give official recognition to SMEDA nor has SBP issued a license to the SME bank (December 2003).

According to banking council report (June 1995-96) 3785 Small Scale Industries were closed in Pakistan, out of these 1296 Small Scale Industries were closed in Sindh. The owners of all these closed units became the defaulters of various banks and financial institutions total amounting Rs. 240.29 Billion.

According to another report of Development Statistics of Sindh 1998. During the year 1990 – 91, the total established units of Small Scale Industries were 1751, but in 1991- 92 56 units became sick in one year.

Pakistan National Human Development Report 2003, UNDP has highlighted constraints to the rapid growth of Small-Scale enterprises in Small towns of Pakistan. Following are major constraints,

- Lack of managerial knowledge and inability to achieve quality control.
- Lack of capital for investment and absence of credit facilities.
- A well-planned strategy to develop exports of SIs does not exist. The objectives are often not well defined and available policy instruments for industry and trade are mostly not aimed at developing the SI sector and its exports.
  
- Where support for SSIs is a stated objective, there is no implementation mechanism.
  
- The environment is often not conducive to the creation and growth of marketing channels for SSIs export development companies, joint-marketing arrangements, export consortia etc.
  
- There is an inadequate focus on issues of concern and relevance to SIs and a lack of appreciation of the special features and difficulties of SSIs in their reports.
  
- Many service institutions do not have well defined programs with clear objectives for associations are inapt and incapable of advice and counseling to Small Enterprises in export development.
  
- Training Facilities in Management, Marketing and Export Management are often not available to the entrepreneurs.

**MATERIALS AND METHODS**

After careful field study of Sukkur Estate area during the year 2004-05. We found 113 cottage and small-scale industries were in operation. The secondary data was collected from the Annual Economic Review of Pakistan, various publications of commercial banks in Pakistan and reports of UNDP Pakistan National Human Development. For analysis of data we have used regression model as the best suitable statistical techniques for analysis of data and interpretation of results. Moreover, some data are analyzed on the basis of responses of respondents.

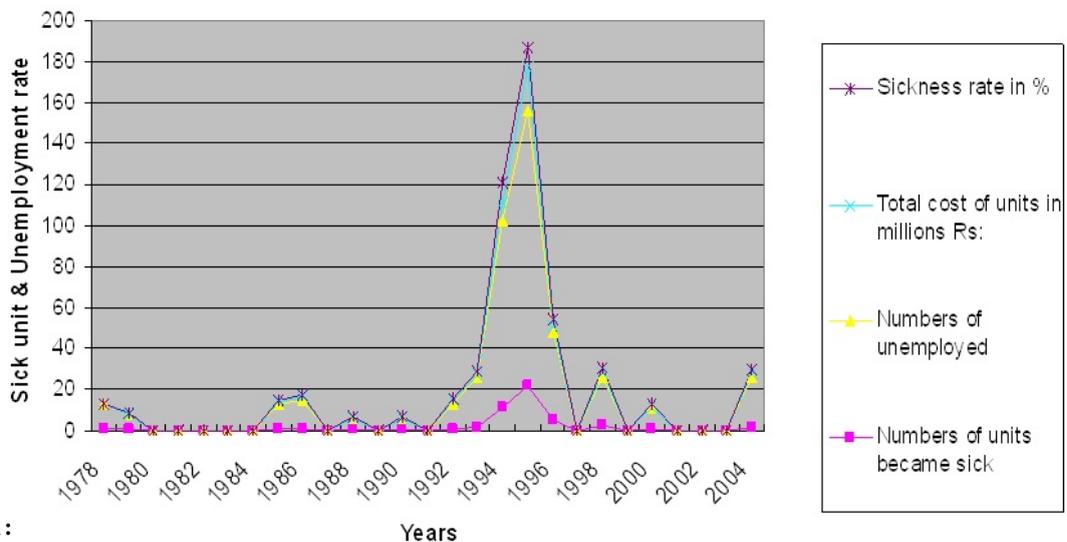
**RESULTS AND DISCUSSION**

**Table 1:** Major constraints in creation and growth of small industries.

Years	Numbers of units became sick	Numbers of unemployed	Total cost of units in millions Rs:	Sickness rate in %	Reasons of Sickness
1978	1	12	0.275	0.17	Lack of demand
1979	1	7	0.2	0.19	Lack of demand
1980	-	-	-	-	-
1981	-	-	-	-	-
1982	-	-	-	-	-
1983	-	-	-	-	-
1984	-	-	-	-	-
1985	1	12	1.327	0.66	Managerial inability
1986	1	14	1.378	0.79	Managerial inability
1987	-	-	-	-	-
1988	1	5	0.28	0.8	Managerial inability
1989	-	-	-	-	-
1990	1	5	0.12	0.81	Lack of demand
1991	-	-	-	-	-
1992	1	12	1.69	0.82	Managerial inability
1993	2	24	1.536	1.66	Inadequate feasibility
1994	11	92	8.705	9.13	Managerial inability
1995	22	134	20.837	10.28	Managerial inability
1996	5	43	2.531	4.19	Managerial inability
1997	-	-	-	-	-
1998	3	23	2.267	2.53	Managerial inability
1999	-	-	-	-	-
2000	1	10	0.07	1.86	Lack of demand
2001	-	-	-	-	-
2002	-	-	-	-	-
2003	-	-	-	-	-
2004	2	24	1.833	1.78	Managerial inability
Total	53	417	43.049	35.67	

Source: Survey Study

**Postion of sickness at sukkur estate area**

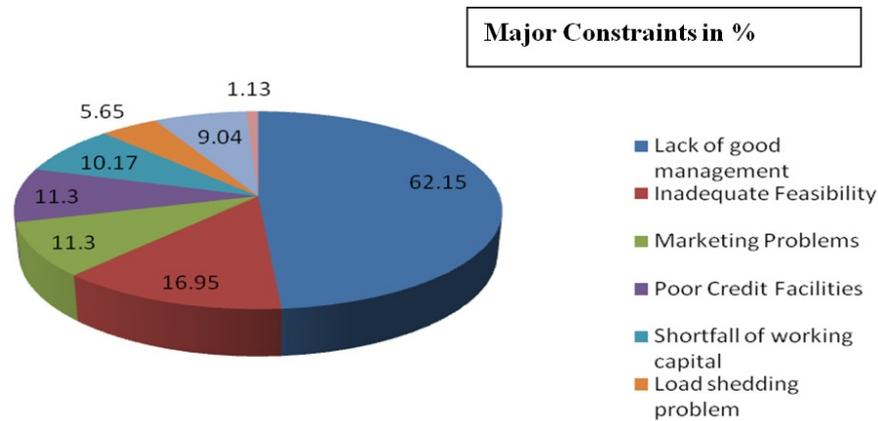


**Graph 1:**

In the year 1978 only one unit had closed and 12 peoples were unemployed, in the same year only one became a sick by the reason of lack of demand and the sickness rate was .17. In the year 1979 one unit had closed and 7 people were unemployed the rate of sickness was .19 in the year 1985 one unit had closed and total 12 people were unemployed and rate of sickness was .66. In the year 1986 one unit had closed and 14 people were unemployed and the rate of sickness was .79. In the year 1988 one unit had closed and 5 people were unemployed, the rate of sickness was .8. In the year of 1990 one unit had closed. In the year 1992 to 1995 the total number of 26 units closed and sickness rate was also increased like 21.87. During the year 1996 to 2004 11 units became sick and sickness rate was 10.36.

**Table 2:** Major constraints in small industries at Sukkur estate area

Serial No.	Major causes	Respondents of Firms	Results in %
1	Lack of good management	55	62.15
2	Inadequate Feasibility	15	16.95
3	Marketing Problems	10	11.30
4	Poor Credit Facilities	10	11.30
5	Shortfall of working capital	9	10.17
6	Load shedding problem	5	5.65
7	Tax problem	8	9.04
8	Law & Order problem	1	1.13
Total Respondents of the firms		113	



**Graph 2:**

Above graph shows that the first constraint was lack of good management in small scale industries at Sukkur which is a major hurdle in creation and growth of small scale industries i.e., 62.15%. Second major problem is inadequate feasibility reports. Third major cause of low growth is market problems and poor credit facilities. Fourth major constraint is tax problem and load shedding.

**Table 3:** Family occupation and last occupation of Entrepreneurs at Sukkur estate area

Last Occupation of the entrepreneur before entering in manufacturing.	Family Occupation of the Entrepreneur				Total
	Land lord	Profession	Business	Industry	
Total No. of entrepreneurs	113	8	20	65	20113

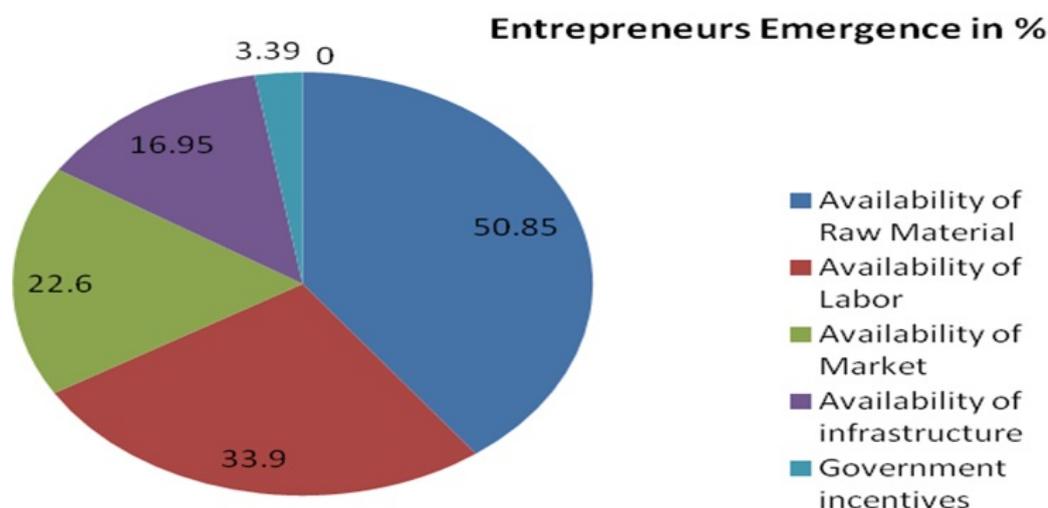
Source: Survey study

The above table reveals that the 65 entrepreneurs came from family businesses, 20 from profession, 20 from industry and 8 from landlord.

**Table 4:** Causes of emergence of entrepreneurs at Sukkur estate area.

Serial No.	Consideration	No. of Respondents of Firms	Entrepreneurs Emergence in %
1	Availability of Raw Material	45	50.85
2	Availability of Labor	30	33.9
3	Availability of Market	20	22.6
4	Availability of infrastructure	15	16.95
5	Government incentives	3	3.39
6	Social Conditions	00	00
Total Respondents of The Firms		113	

Source: Survey study



**Graph 3:**

Above graph demonstrates that the causes of emergence first by the reason of availability of the raw material, second availability of labor, third availability of market, fourth availability of infrastructure facilities and fifth government incentives.

**Regression Analysis of Uneducated Samples of Firms:**

The regression equation is

$$\text{Total sales of 14 years} = 6066504$$

$$+ 1.92 \text{ Total Net Profit of 14 years}$$

Predictor	Coef	StDev	T	P
Constant	6066504	120688	50.27	0.000
Total Ne	1.9201	0.1865	10.29	0.000

S = 62664      R-Sq = 89.1%      R-Sq(adj) = 88.2%

**6.11 Analysis of Variance:**

Source	DF	SS	MS	F	P
Regression	1	4.16132E+11	4.16132E+11	105.97	0.000
Error	13	51048680030	3926821541		
Total	14	4.67181E+11			

**6.12 Results of Uneducated Samples of Small Firm:**

Simple linear regression analysis of uneducated owners of Sukkur Estate Area shows that the impact factor of uneducated entrepreneurs is very high with regard to low sales of the Small-Scale Industries per year i.e., 0.9.

This model shows that P value is zero it means these owners either non-graduate or uneducated as they failed to increase the sales of respective small firms per year.

**Analysis:**

The regression equation is

$$\text{Sales} = 800934 + 10.1 \text{ Profit per year}$$

Predictor	Coef	StDev	T	P
Constant	800934	45411	17.64	0.000
Profit	10.1128	0.7291	13.87	0.000

S = 80894                  R-Sq = 93.7%                                  R-Sq(adj) = 93.2%

***Analysis of Variance:***

Source	DF	SS	MS	F	P
Regression	1	1.25877E+12	1.25877E+12	192.36	0.000
Error	13	85069207217	6543785171		
Total	14	1.34384E+12			

***Unusual Observations:***

Obs	Profit	Sales	Fit	StDev Fit	Residual	St Resid
5	82320	1446400	1633423	28712	-187023	-2.47R

R denotes an observation with a large standardized residual

Durbin-Watson statistic = 1.42

Lack of fit test

Possible curvature in variable Profit (P = 0.084)

Overall lack of fit test is significant at P = 0.084

Pure error test - F = 1.33 P = 0.5963 DF(pure error) = 1

13 rows with no replicates

***Results of Regression Analysis of Educated Samples of Small Firms:***

Above model has proved that “x” is significantly related to “y” it proves that slope is significant at the 0.5 this test shows strong evidence is proved to the null hypothesis

Over all fit test is proving that there is insignificant error i.e. 1.00.

This R<sup>2</sup> test is approximately 1.00.which precludes that the model is valid and highly reliable.

***Conclusion and Suggestion:***

The study concludes that the model applied is a significant and found the co-relationship between educations with responses on the 25 questions asked on the five point Likert scale at the level of significant 1. Regression model shows a very high impact of education over the respondents at the significant value 0.822. Co-efficient of the regression model supports the idea of high impact of educated entrepreneurs i.e., significant at 0.01 level.

The following measures, however, to some extent may reduce the incidence of industrial sickness:

1. The man behind the project plays a vital role in the success of the enterprise. In the case of first generation entrepreneurs, financial agencies should select the enterprise very carefully and evolve a thorough screening mechanism.
2. Project appraisals should be more realistic with the best standards of appraisal.
3. The SSIC, chamber of commerce and industries should shoulder the responsibility for preventing industrial sickness from the Sukkur Estate Area.
4. As for as possible some out side professional experts from the management, marketing and engineering side should be appointed for the purpose of counseling and necessary support to the entrepreneurs.

As small-scale units are vulnerable to sickness because of their weak production and financial base, inefficient management and narrow customer-oriented market, need-based credit facilities on the simple procedure and minimum rate of interest are required to be made available by banks to rehabilitate units falling sick.

A vicious circle is built into the economy. Industrial constraints adversely affect the morale of the entrepreneurs, banks, financial institutions, general public and governmental authorities. Because of all these adverse effects of sickness, it is in the interest of all parties, i.e., the Government banks, financial institutions and entrepreneurs, that the magnitude of sickness should be minimized as quickly as possible.

On the basis of the analysis made and the cases studied, we may conclude that whatever may be the

apparent cause or causes of sickness, the root cause is poor management and the resultant cause finance.

The first generation entrepreneurs, without proper motivation, financial base and insight into the problem, are often lured by different schemes and set up industries, after some time, they lose interest, divert their attention and cause industrial sickness.

To succeed, an entrepreneur must be able to manage men, material and money. The term men include not only the men employed in his industrial unit but also the men responsible for the issue of various licenses and the sanction of loans. An inability and inefficiency to deal with these important factors, coupled with lack of motivation and diversified, interest, result in under-utilization of capacity and dearth of working capital, cause disease and end in the closure of the enterprise.

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