

SME Baseline Survey 2009

2009

SMALL AND MEDIUM ENTERPRISES DEVELOPMENT AUTHORITY (SMEDA)

SME Baseline Survey

Lahore: SMEDA, 2009

ISBN: 978-969-8558-09-3

English

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SME Baseline Survey 2009

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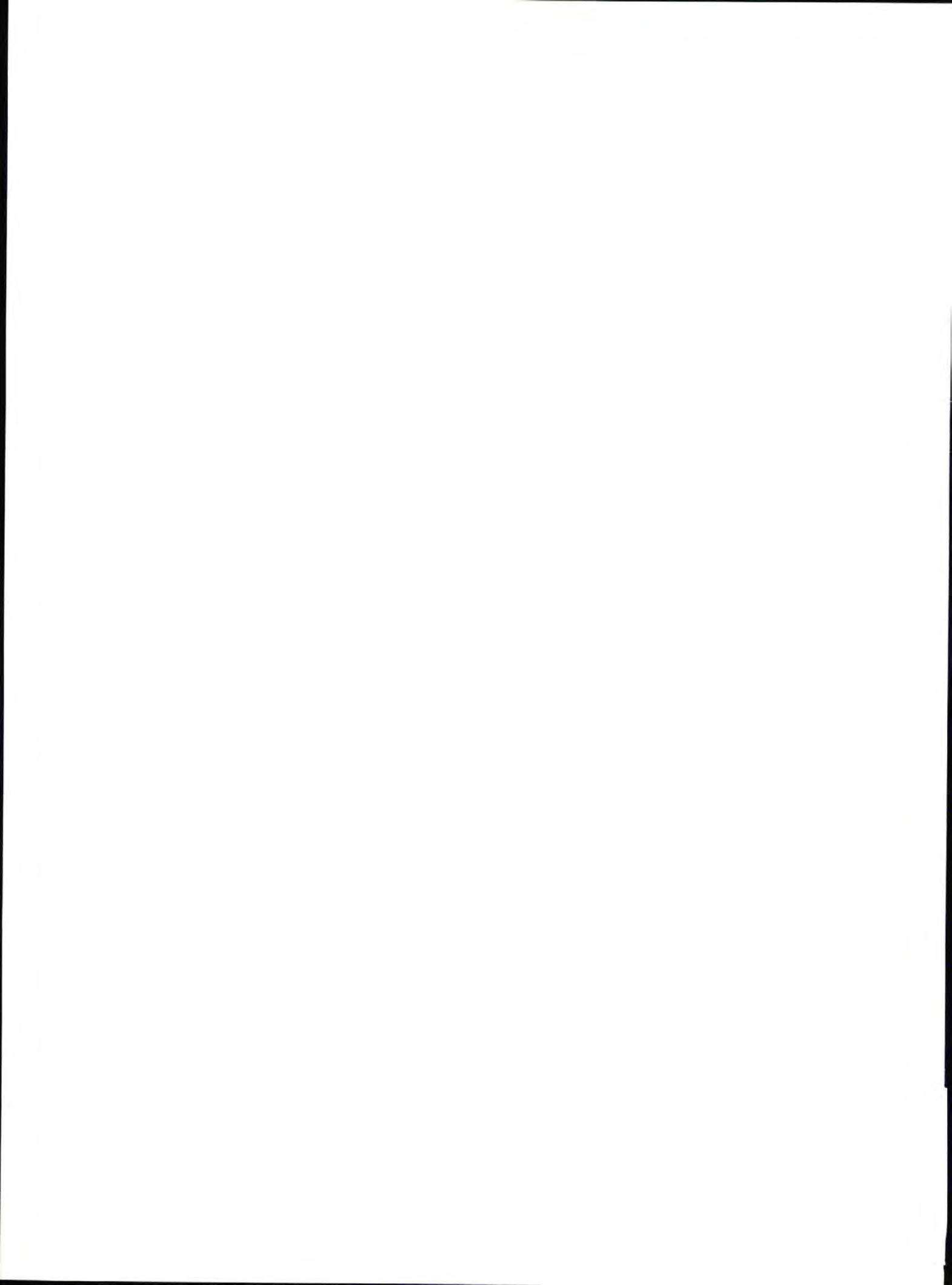
Preface

National SME Policy 2007 envisaged a system for monitoring progress in the SME sector, based on periodical surveys. SME Baseline Survey 2009 is a maiden step in this direction. Aligned with four key indicators emphasized in SME Policy viz. a conducive regulatory environment, access to finance, access to resources and promotion of entrepreneurial culture, the survey findings aim at developing the baseline picture of our SME sector vis-à-vis these indicators.

Field work for the Baseline Survey was completed by Gallup Pakistan in 2008. The analysis and report writing work has been completed by SMEDA in-house. As elaborated in the later pages, the Survey in hand has a different character, in so far as it, tries to explore SME ecology and mindset, in a greater depth than previous studies on the subject and makes a distinction between perception and facts 'out there'. While describing the Survey results, we have taken utmost care for objectivity and have not gone into drawing any inferences, so as to avoid any slant, colour, or bias seeping into this analysis. The objective, of course, is to generate information on multiple dimensions of SME phenomenon, to serve as a sound policy premise for government, donors, academia, media and other stakeholders at large.

I would like to appreciate the dedicated effort of SMEDA's Policy and Planning team, in completing this major work with the limited resources at hand. I am also grateful to the Asian Development Bank for providing finances for this significant assignment.

(Shahid Rashid)
Chief Executive Officer - SMEDA



Approach and Methodology

Introduction

The term SME originated in the world of economists, denoting firms categorized on the basis of a set of criteria including employment size, sales and investment etc. Economists see society as a network of exchange transactions between individuals caused by the gradient provided by demand. Production of goods and services actuates to fulfill this demand. 'Firms' serve as processes set up to produce goods and services. Being economic units, they are looked upon and analyzed more as 'entities' with physical outlines, rather than phenomena and networks of relationships. Most of the analysis on SMEs, so far has also been on the same lines. They have been perceived as production outfits suffering from disadvantages of size. Mitigating the effects of the disadvantage of size, therefore, has been the centre piece of the policy thinking on SMEs.

Analysts and policy makers like to see things in concrete forms so as to peg their understanding on firm lines and develop a view. For them clarifying a situation often means bringing it into the frame. How much of the real phenomenon is captured in the process, depends upon the size and flexibility of the frame. The hitherto diagnosis of the SME problems may be seen as a typical case of an 'analysis in frame'; with the parameters of the frame crystallized in a mould, the analysis and diagnosis has become too typical and predictable. While surveying the existing literature on SMEs one discerns a preoccupation with quantitative analyses, linked with traditional econometrics. There seems a conscious effort on part of various analysts to construct a quantitative model and subject their observations/survey findings to statistical tests, yielding definitive results. There is nothing wrong with this approach per se; however, its exclusive monopoly of the mindset of researchers, policy makers, lenders, academics and SME support organizations in recent times, has hindered the process of further thinking about a sector which has more to it, than just an identity anchored in size.

Approach

SME Baseline Survey 2008 is an attempt to expand the scope of inquiry into the SME world and issues pertaining to it, ridding it of self limiting perspectives and creating room for informed speculation. This additional space for thinking on SMEs, integrates aspects of entrepreneurial psyche and industrial anthropology into the loop, hitherto dominated by pure economic rationale. In the analysis developed in this Report, SMEs are not just economic dispensations based on input-process-output model or mere stations on the economic value chain continuum. They are 'businesses'. An important consideration while designing this Survey was to study the SME mindset and character. The focus, therefore, was not merely upon factories, shops, offices etc. but also on what crosses the entrepreneur's mind while sitting at the shop counter and office.

The content and context of an SMEs' existence is living. Life is both a melting pot of tendencies, thoughts and impulses and a stream of actions. Events happen through interplay of this living content in a live setting. The mental processes of an SME owner/ manager cannot be divorced from what is happening around him/her: the fretfulness he feels while driving from home to work place due to poor road quality, mayhem of traffic and behaviour of the traffic cop, the worry about health and what would happen to the young children in the absence of safety networks, it all mixes up in that mental chamber of his, from where decisions to buy or sell, initiate new product lines or stick to the knitting, maintain quality or compromise on it, go for innovative pursuits or stick to the knitting, observe or violate an intellectual property compliance requirement etc. emanate.

Perception rather than an objective evaluation of a situation plays the major part in causing and shaping up behavioural transactions in a society where the tradition of ascertaining facts on ground is not so strong and people are generally more prone to myth making, gullibility and hearsay etc.

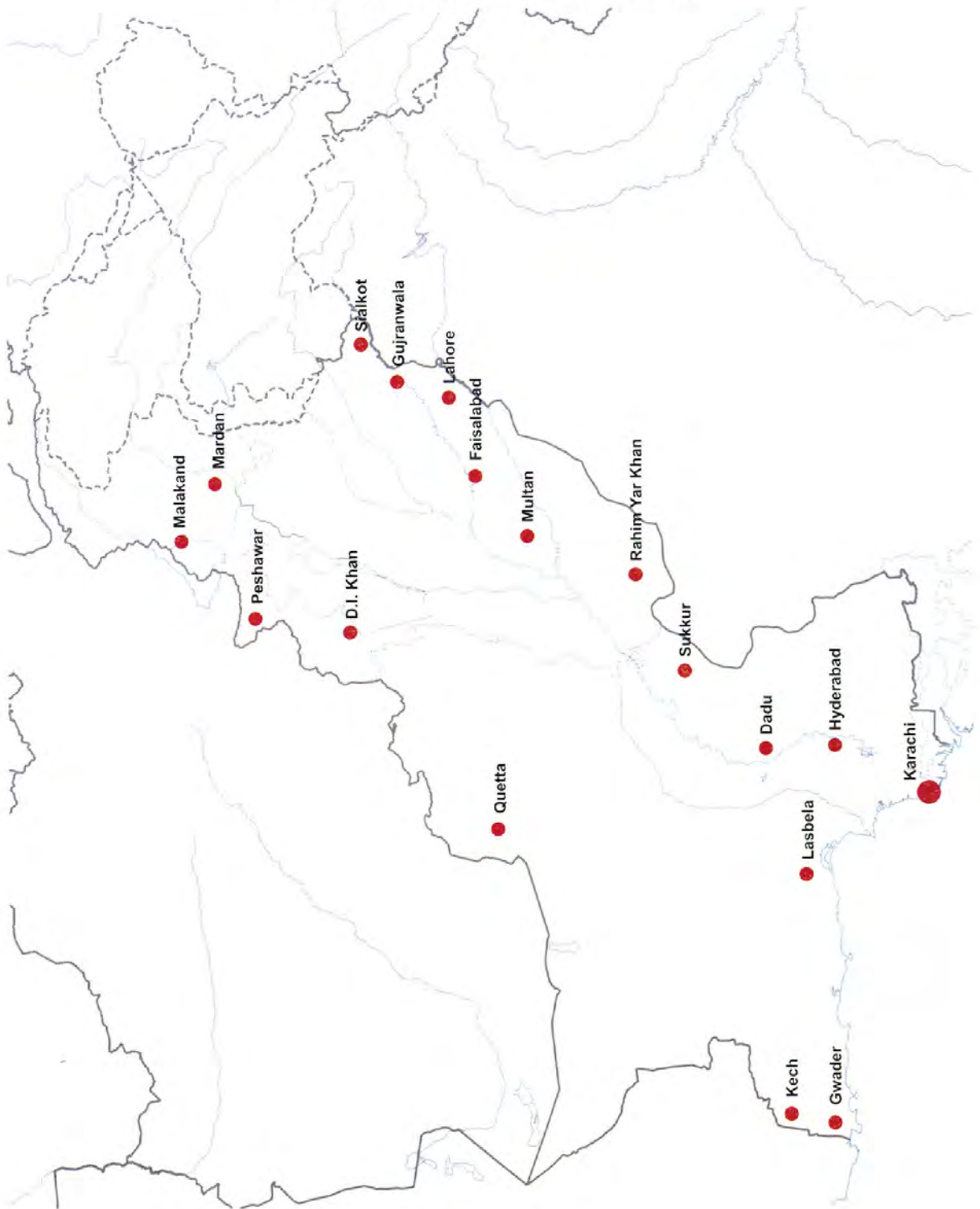
The present survey thus aims at assessing the 'baseline perception' of SMEs on various issues and institutions. The primary driver here is to probe where our SMEs are mentally and behaviorally stuck and why is it that despite claims of break through initiatives in SME development, there is no trickle down. Our fundamental concern thus is not so much about the 'number of days it takes to obtain finance', but why is it that people are not moved enough/bothered enough to even apply for a loan? Is it purely due to accepted reasons of lack of collateral and high cost of credit or due to some underlying psychological barrier which has perpetuated over the years for want of a desire to break through the inertia of merely existing rather than excelling?

Methodology

With the above approach in mind, a comprehensive survey instrument consisting of 215 questions was designed around the key postulates of SME Policy i.e. providing a conducive regulatory environment for SMEs, improving their access to finance, and other resources and promoting an entrepreneurial culture in the country. Aligned with the above areas the questionnaire consisted of eight sections aimed at gathering responses on SMEs' interaction with government, their business processes including procurement, production, management, marketing and infrastructural support, followed by a section on entrepreneurship. Every section contains a mix of questions probing mindset of SMEs on issues of relevance, starting usually with a broad 'yes' or 'no' type query, segmenting the respondent group among two categories and sensitizing them towards more probing questions. The line of inquiry is further developed through a set of 'if' and 'then' questions. These basic questions are supplemented with multiple choice queries, open ended questions and specific statements inviting comments. The objective of course is to develop a picture with multiple views. The design of the survey instrument also facilitates analysis along entrepreneurial personality traits such as age, education, family system and corporate traits of business like sector, age of business, employment size etc. The data on all these parameters can also be stratified and tagged with districts.

The questionnaire was translated into Urdu and administered in 18 districts of the four provinces over a sample of 1604 SMEs with representation from manufacturing, trade, services and women entrepreneurs sectors. The sampling frame was drawn by Federal Bureau of Statistics out of the Census of Economic Establishments 2005. The sample parameters initially catered for businesses with employment size of six to 250. However, when the questionnaire was actually administered on ground, some of the businesses turned out to have an employment size of less than six. The results have been accordingly reflected in the survey report. An elaborate sampling note has been included at annex (i) giving further details of the sample. Gallup Pakistan completed field work between 2007 and 2008. All in all, the survey has been conducted in 18 districts, however, for the sake of brevity analysis of ten representative districts has been presented.

Geographical Distribution of Firms



Survey Highlights

- 71.58 percent respondent SME entrepreneurs fall in an age bracket of 25 – 45 years.
- Only 18.52 percent SME entrepreneurs have education up to graduation level.
- 74 percent SME entrepreneurs live in joint families and the average family size is 9.23.
- On the average an SME entrepreneur has 3.13 children.
- 50 percent SME entrepreneurs consider themselves the sole decision makers in business, 30 percent take their family members into confidence and only 10 percent consult their employees.
- 84 percent SMEs have not applied for a bank loan over the past two years.
- While considering expansion in business only 6.5 percent will like to go for a bank loan.
- Just one percent SMEs started their business with the help of bank loan.
- Just 13 percent SMEs feel they are adequately consulted on changes in Government. laws, rules and regulations.
- 83 percent SMEs think there has been no improvement in the relationship between Government and SMEs over the past five years.
- More than 80 percent consider corruption a menace for their business.
- More than 55 percent SMEs do not feel any need to invest in R&D.
- More than 80 percent SMEs think there are no technical services available to them in the areas of testing, quality control, R&D and technology.
- Majority of SMEs make procurements unsystematically. 55.7 percent have no procurement planning system. 57.4 percent have no Management Information System (MIS) in place either.
- 45 percent SMEs are ignorant of importance of marketing and 69 percent are unaware of what is a marketing plan. 72 percent consider internet of little or no use as a marketing tool.
- 74 percent SMEs have a long term vision for their business however only 26 percent have a formal mission statement
- 60 percent SMEs are not enrolled with a Chamber or Association
- While looking for new ideas, just 11 percent SME entrepreneurs resort to internet, media, magazines and books.
- Hardly 15 percent SMEs are concerned about the theft of their business ideas and the consequent need for patenting them.
- More than 70 percent feel traffic congestion at business place takes a toll on their health, morale and temperament.

Overview

Regulatory Environment

SMEs interface with regulatory environment takes shape at two levels; human and procedural. The survey yields interesting insights on both these aspects:

Procedural Interface

- Majority of SMEs (83 percent) feel confident about their knowledge of applicable laws and regulations. Confidence level on legal awareness increases with increase in educational level and age of the entrepreneur. Firms with a comparatively larger employment size are more confident about their legal insight. SMEs in Peshawar, Lahore and Faisalabad profess a greater degree of legal awareness compared to Sialkot, Gujranwala and D.I. Khan. Karachi surprisingly shows least sense of confidence in terms of legal awareness.
- Majority of respondent SMEs (77 percent) perceive a stake in Government policies and regulations and feel they should be consulted on policy changes before hand. Just about 13 percent respondents are prepared to give the Government a clean bill on giving adequate consideration to their concerns on policy changes, followed by as many as 33 percent giving a conditional nod, 29 percent in total negation and another 25 percent simply not knowing. The approval rates for adequacy of Government's consultative efforts go up with rise in employment size of the firm.
- In case there is an abrupt change in Governmental policies affecting the business adversely, majority of respondents (38 percent) will like to raise the issue through their respective association platform followed by 17 percent who will fall upon technical alternatives, 16 percent will prefer to just sit back, only 10 percent will approach the court and just 9 percent will like to raise the matter on the departmental website.
- Inclination to approach association platform seems to increase with the increase in education. The trend to approach departmental website also rises with the rise in education, though the overall size and proportion of respondents is low.
- More than 60 percent respondents think that taxes are excessive and affect their business significantly. More than 80 percent firms consider corruption an adverse factor of various degrees for their business.
- Cities like Karachi, Hyderabad, Faisalabad, D.I. Khan, Lahore and Peshawar are unanimous in declaring corruption still a menace.

Human Interface

- Majority of the sample respondents shun interaction with Government functionaries, though, they consider it an important factor in terms of impact on their business. Sensitivity to the behaviour of Government servants increases with increase in educational level. Greater the education, more the consciousness about the quality of treatment from Government bureaucracy. Karachi is the only city having a different angle on this issue, with a relatively more hospitable, or at least an agreeable demeanor towards Government on this issue.
- As many as 80 percent SMEs think there has been little or no improvement in the relationship between SMEs and the government over the past five years. At district level, apart from Faisalabad (53 percent) and Lahore (34 percent) no other district vouches in the favour of a decreased interaction. In Karachi 57 percent participants simply do not know if the interaction has increased or decreased.
- Despite alienation with behavior of Government servants and cumbersomeness of rules & regulations, more than 90 percent SMEs will still not withhold a new investment only due to these reasons.

Access to Finance

- Majority of the respondents are interested in expanding their business and perceive lack of financial resources as the main handicap. Different options available in this regard include, bank financing, informal sources and retained earnings of business.
- 84 percent of the total respondents had not applied for a bank loan during the last 2 years.
- 65.8 percent would prefer personal financing options and another 20.8 percent ploughing back

- Only 6.5 percent would be willing to obtain financing through banks.
- High interest rate came out to be a major reason for not applying for a bank loan.
- Informal financing options are preferred due to ease and flexibility of access, low interest rates and timely service.
- Most of the machinery owned by the respondents was not leased or financed through banks. Among those who had applied for a loan, 45.1 percent respondents highlighted that they had to make 4–5 visits to the bank. It took 1–3 weeks (38.4 percent responses) for the bank to arrive at a decision regarding application filed by the respondents. 47.1 percent respondents described the attitude of banks as professional/business like.

Access to Resources

Infrastructure

SMEs are located at the fringes of urban settlements, within the city streets and in some cases, in organized industrial estates. The state of infrastructure, transport facilities and access to public utility networks, supplying electricity, water and gas has a significant bearing on business prospects and morale of SMEs.

- All in all 79 percent respondents feel their business is suitably located to reap maximum commercial benefit. Among districts of Peshawar, Lahore, Faisalabad, Hyderabad, and Karachi 75-92 percent SMEs feel satisfied on their location. In Gujranwala and Sialkot, however, the satisfaction level on location falls to 65.77 and 57.38 percent respectively.
- Highlighting various problems affecting businesses, respondent SMEs have assigned even weightage to frequent break downs of law and order, dense population, traffic congestion and environmental pollution.
- Coming to the conditions of roads and means of transportation 47.88 percent SMEs find the conditions of road as 'alright'. Road condition in Hyderabad and D.I. Khan are termed 'bad' by more than half of the respondent SMEs.
- Do factors like traffic congestion take their toll on health, morale, temperament and way of doing business of SMEs? The answer is a significant yes with the following proportion:
 - o 88 percent SMEs feel the pinch on their health
 - o 77 percent think it affects their morale as well
 - o 71 percent perceive a bearing on their business temperament
 - o 66 percent think their way of doing business gets the brunt
- Overall 82 percent respondents rely upon WAPDA / KESC as the sole source of electricity supply. As firm size increases, the trend not to rely upon WAPDA, as the exclusive source of electricity supply and going for alternative sources like generators etc. increases.
- 64 percent respondents claimed that it took them one month to get an electricity connection.
- All in all 55 percent firms indicated they had a gas connection.
- Among the districts, over 60 percent businesses have a gas connection. However D.I.Khan is an exception where as many as 90 percent businesses do not possess a gas connection.

Production

- On the average, SMEs operate 6 days a week and their average working hours are 12 hours a day.
- Majority of SMEs undertake complete production process within their own facility. Only a small percentage of establishments outsource/subcontract work to others.
- Technology/machinery used in production is old and mostly manufactured locally.
- Overall 54.7 percent SMEs would like to upgrade/replace their existing machinery. There is, however, a varying trend across districts. Interestingly, the response pattern from Gujranwala & Karachi indicates a lack of desire to replace/upgrade existing equipment/machinery.
- Entrepreneurs with education level up to Intermediate show a healthy desire to upgrade/replace machinery/equipment.

- More than 55 percent of the respondents do not feel any need to spend on research & development (R&D). In the district of Quetta, 80 percent respondents do not spend any amount on R&D followed by Faisalabad, Hyderabad, Gujranwala and Lahore with 50 percent respondents committing zero percent investment in R&D.
- Most ambitious in terms of spending on R&D is the category of firms with employment size 6-35.
- An overwhelming majority of SMEs (80-90 percent) holds the view that there are no technical services available to them in the area of testing, quality control, R&D and technology. However, those who have availed such services, offered by the Government, are satisfied with the quality of service.

Procurement

- Majority of SMEs make procurements unsystematically. 55.7 percent have no procurement planning system. 57.4 percent have no Management Information System (MIS) in place either.
- A small percentage of SMEs who actually use computers for procurement purposes, feel it enhances their cost accounting and procurement planning potential by more than 50 percent.
- In case of dispute on procurement, arbitration is termed as the most effective mechanism for dispute resolution, however, as firm size increases, inclination for recourse to courts increases. Same trend is visible vis-à-vis increase in education.
- Majority of SMEs (more than 65 percent) feel that cost of raw materials is on the higher side. However, the trend differs from district to district and in the districts of Quetta and Hyderabad, majority of respondents do not subscribe to the view that cost of raw materials are on the higher side.
- SMEs are generally aware of raw material availability, quality, grading and prices, which assists in making informed decisions. The level of awareness increases with increase in education.
- On the average, firms procure 28.05 percent of their inputs on credit. The payment cycle for goods procured on credit by SMEs is approximately one month.
- The average collection time for sales on credit is 33.26 days.
- Though almost two third of the respondents feel the pinch of some kind of restriction on availability of raw material, firms in NWFP and Balochistan find themselves unhindered in this regard. Generally SMEs do not store raw material, however, 69.88 percent respondents in Hyderabad and 52.46 percent respondents in Gujranwala indicate that they store raw material seasonally.

Marketing

- As many as 60 percent SMEs are not enrolled with a chamber or association. Comparing the situation in different districts, Gujranwala and Sialkot are the two districts where the proportion of respondents registered with a chamber or association is higher, compared to the unregistered ones. On the other hand, the proportion of unregistered SMEs is in the highest bracket in cities like Karachi, Hyderabad, Quetta, D.I. Khan and Peshawar. Lahore and Multan show a mixed trend.
- Around 45 percent of SMEs are either ignorant of marketing, or do not consider it important enough. However with increase in firm size and the education of entrepreneur, the awareness about importance of marketing increases.
- 69.01 percent respondents state ignorance regarding a marketing plan. As level of education increases, awareness about a marketing plan also increases.
- Over 60 percent respondents indicate that they have a system in place to assess market trends. Those who do not have such a system, feel that there is no such need of it.
- As many as 72 percent SMEs consider internet as of little or no importance as a marketing tool. Over 68 percent SMEs consider trade associations and chambers of little or no importance for marketing. Existing contacts in the market, bill boards, trade journals, electronic media and newspapers are considered most potent tools of marketing by majority of SMEs.
- Among obstacles in international marketing, lack of information, potential for adherence to compliance requirements and wastage of time in case of cancellation of a contract are major factors.

Over 70 percent respondents had not availed any of the Business Development Services regarding marketing, including training, market information, trade leads or advocacy. Those firms that indicated having used such services were generally satisfied with the quality of service.

Management

- As many as 74 percent respondents claim they have a long term vision for their business. Multan with 87 percent respondents having a long term vision and Quetta with just 13.04 percent with a long term horizon are the two extremes.
- Whereas 74 percent respondents do have a vision for their business, only 26 percent have a formal mission statement. The comparative percentage of SMEs having a mission statement increases with increase in size. Same trend is visible in case of increasing education.
- As many as 46.09 percent SMEs think Management is an 'Art of getting work out of others', followed by 35.97 percent considering 'Motivating up to a level where people work with zeal' as the best choice; further followed by 17.94 percent ticking 'Better environment where people work with zeal' as the appropriate choice.
- While taking strategic decisions for their business, as much as 50 percent respondents consider themselves the sole decision makers. Among the remaining 50 percent, around 30 percent take into confidence their family members whereas, only 10 percent deem it fit to discuss with the employees as well. 12 percent of the respondents employ all the mentioned means of consultation.
- Around 40 percent respondents devote less than one third of their business time to management decision making. Some 23 percent devote, between 30-50 percent to their business, while as many as 25 percent find it difficult to describe.
- When asked to comment in 'Yes' or 'No' on the proposition of providing management training to their employees besides technical training, 80 percent termed it useful to an extent or very useful for their business.
- How streamlined various functional areas of management are in an SME business; can be judged by the fact that around 50 percent SMEs have a separate department or representative for procurement, 30 percent for production, 32 percent for marketing, 29 percent for finance, 31 percent for management, and 33 percent for human resources.

Entrepreneurial Culture

Personality traits

- The demography of SMEs is skewed towards young and middle aged people. 71.58 percent respondent SMEs fall in an age bracket of 25 – 45 years.
- Majority of them have been educated to the level of Matric (51.24 percent respondents), 18.52 percent up to Graduation.
- They prefer Urdu as a means of communication for business, be it business communication, correspondence or information material.
- Majority of respondents are married and have on the average 3 children.
- Predominantly (70.4 percent respondents) live in joint families, with an average family size of 9.23 family members.
- They assign high priority to education of their children and would like them to attain post graduate level of education from within Pakistan.
- SMEs would like their sons to join their business, whereas a majority would not like their daughters to follow suit.
Their expectations from their children who joined the family business were positive as they would capitalize on their education and add value and expand the running business.

Business Profile

- 40.21 percent respondents initiated their business between 1991 – 2000.
- For 93 percent respondents, the current line of business was their first venture in the world of entrepreneurship.
- 46 percent of SMEs initiated/started their own business from scratch, while the same percentage of respondents joined the existing family business.
- Financial resources required for starting business were acquired through the help of family and personal savings. Only one percent of respondents sought financial resources from banks to initiate business.
- 69.5 percent SMEs manage their own business.

- Given a choice, SMEs would still prefer staying in the same line of business (51.56 percent respondents).
- 34 percent respondents plough back/re-invest 10 to 30% of their profit annually in business, while 27.2 percent re-invest 30 to 50% of profit annually.

Innovative Potential

- More than half of the respondent SMEs, started their business on some kind of an innovative note, ranging from a totally new product or service to something packaged differently.
- In Karachi more than 70 percent start ups would prefer to deal in existing range of products and services while in Quetta and Sialkot around 50 percent would like to venture into some thing new. Other cities where SMEs prefer to operate in the routine products and services are Gujranwala and Faisalabad.
- While looking for new ideas, just 11 percent respondents resort to internet, media, magazines and books. Customer feedback (33 percent), discussions with friends and colleagues (31 percent) and quiet reflection and thinking alone 25 percent are more potent and popular sources of gleaning new business ideas
- Among the constraints in implementation of innovative ideas, 57 percent respondents ranked lack of finance on the top.
- Hardly 15 percent SMEs are concerned about the theft of their business ideas and the consequent need for patenting / obtaining legal protection through IPRs. Among the districts, Multan with 58 percent respondent SMEs showing concern for duplication of business ideas is an exception. Otherwise, in districts like Gujranwala, Lahore, Sialkot, Faisalabad and Karachi the percentage of SMEs being concerned about theft of ideas is between 14-20 percent. However, the relative incidence of concern is greater in the Graduate and Masters segment, showing a trend for seeking patents positively correlated with the increase in education.
- In terms of inclination for risk taking through innovation, Peshawar stands out with the highest ratio of innovation seekers, followed by Multan, Faisalabad and Quetta. There is an even split between those favouring innovation and others preferring safe mode of existing business practices, in cities like Gujranwala, Lahore and Hyderabad while businesses in D. I. Khan and Sialkot seem to have a more placid temperament with majority favoring safe play.

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General & Personal Information

Approach

Defining and understanding Small & Medium Enterprises (SMEs) has, for long remained a debatable issue among policy makers. In Pakistan, the last decade saw the rise of this oft quoted acronym. While some fancy the argument of using numbers, size estimates to define the subject, or attributing levels of binding constraints like finance, technology, business environment etc., in different order of preference, to define SMEs, others take on a more surgical look at the issue to understand the complex interplay of various factors other than economic to define SMEs. The approach adopted in this section assigns high priority to anthropological, psychological, social, cultural milieu and behaviour as determinants of small & medium enterprise character.

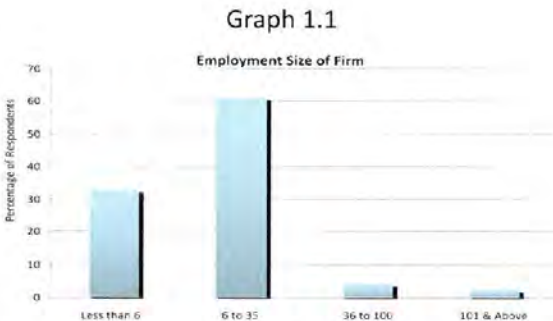
This section of the Report sheds light on some basic questions regarding, size of business, employment size of firm, education level of entrepreneurs, age of entrepreneur, status of enterprise and SMEs' standing in the social and cultural context. It includes a set of 38 questions that explore responses of SMEs including their perception & views regarding their family and aspirations for their children.

Key Findings

- 32 percent respondents in the survey state to have less than six employees and 60 percent between 6 to 35 employees.
- Over 70 percent respondents state that 75 to 100% of their workforce is employed full time with the business.
- Over half (52 percent) of establishments are personal property of the entrepreneurs. A little under half of business premises (44 percent) are on rent depending on what they can afford and place of business.
- Over 40 percent sample firms were established between 1991 – 2000.
- 79 percent sample firms are sole proprietorships while 13 percent firms are registered partnerships.
- Over 40 percent SME owners/managers fall in the age bracket of 25 – 35 years.
- 51 percent respondents have been educated to the level of Matric, while only 7 percent respondents fall in the education category of Masters.
- 90 percent entrepreneurs indicate their current line of business as their first venture. Resources for establishing business were predominantly made available through help of family, followed by retained savings.
- 70 percent respondents indicate living in joint families which has a positive impact on business.
- 80 percent respondents would like their sons to join in their family business, while only 20 percent would like their daughters to join in the business.

Distribution of Firms vis-à-vis Employment Size

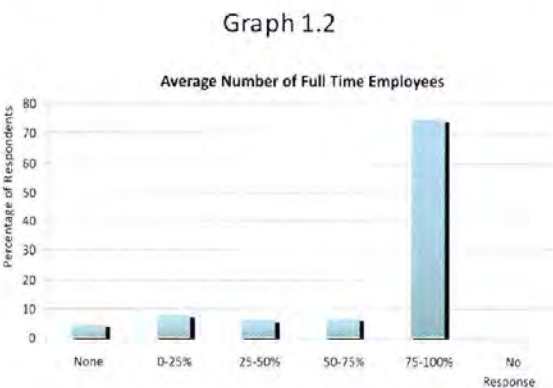
The distribution of sample firms according to employment size is presented in graph 1.1.



32.48 percent SMEs have less than 6 employees, 60.97 percent respondents have 6 to 35 employees, 4.30 percent respondents have 36 to 100 and 2.24 percent respondents have over 101 employees.

Average Annual Number of Full Time Employees

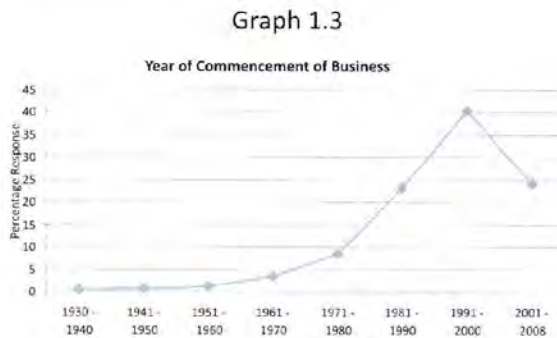
74.69 percent respondents stated that 75-100% of their employees were associated full time with the business and not contractual employees. 6.73 percent respondents state that 50-75% employees and 7.92 percent respondents state up to 25% employees are full time employees. Only 4.36 percent respondents indicate that none of their employees is associated with the business as a full time employee.



Year of Commencement of Business

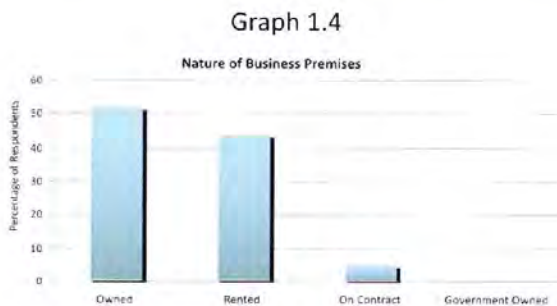
According to Survey results, 40.21 percent respondents initiated their business between 1991–2000. As evident from the graph below, the percentage response of firms regarding year of establishment increases steadily over time.

However, beyond year 2000, there is a decline in trend of response.



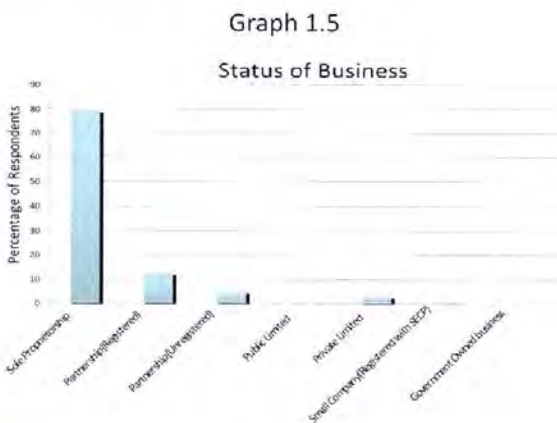
Nature of Business Premises

51.68 percent respondents in the sample share that they operate at business premises that is owned by them, while 43.64 percent respondents operate at rented business premises.



Status of Enterprise

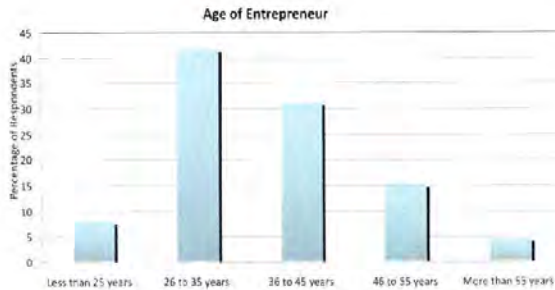
79.24 percent respondents stated that their firm was a sole proprietary concern, whereas 12.59 percent firms were partnerships (registered) and 4.86 percent were unregistered partnerships. Only 2.68 percent respondent firms are private limited companies and 0.37 percent (6 respondent firms) are registered as Small Company with the Securities & Exchange Commission of Pakistan (SECP).



Age of Entrepreneur

41.58 percent respondents fall in an age bracket of 25 – 35 years. This is a fairly young group of individuals who are SME owners/managers.

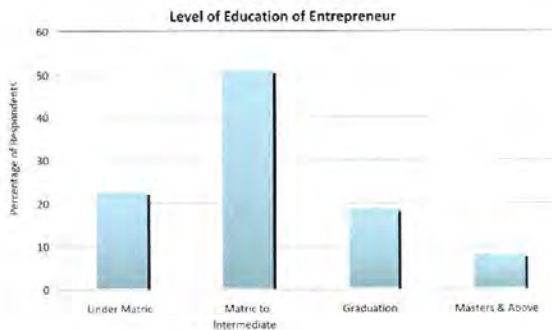
Graph 1.6



Level of Education of Entrepreneur

A majority of SMEs indicated to have been educated to the level of Matric (51.24 percent respondents). 18.52 percent respondents are Graduates while 7.98 percent respondents are Master degree holders.

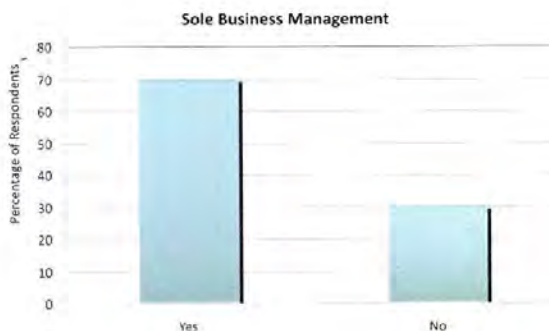
Graph 1.7



Business Management

Do you manage your business alone? According to the Survey results, 69.5 percent SMEs manage their own business.

Graph 1.8



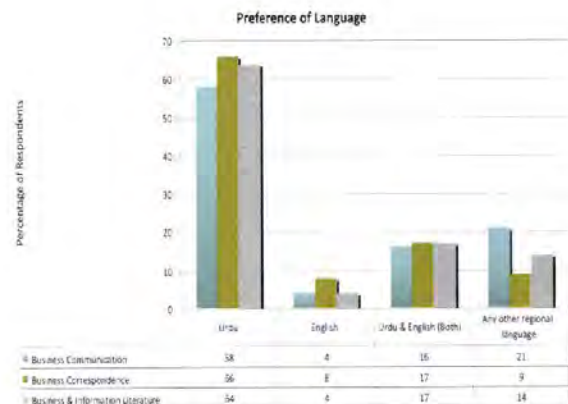
Other family members who assist in managing the business include brother, father and son. The extent of assistance provided is depicted in the table below.

Table 1.1

Level of Cooperation	SME			
	Father (n = 121)	Brother (n = 276)	Friend (n = 54)	Son (n = 112)
To a large extent	52%	70%	65%	84%
To a lesser extent	31%	39%	22%	26%
Helps occasionally	18%	6%	15%	6%

SMEs prefer Urdu as a means of communication for business, be it business communication, correspondence or information material.

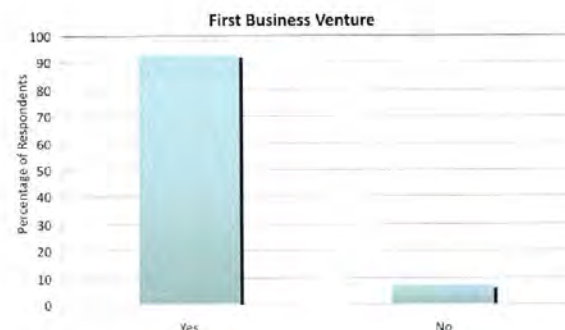
Graph 1.9



First Business Venture

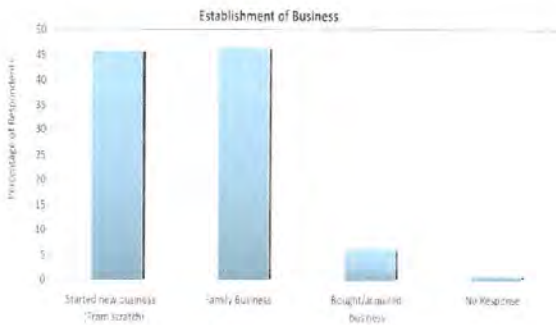
93 percent respondents shared that their current line of business was their first venture in the world of entrepreneurship. Majority of remaining 7 percent had earlier tried their hands at one or two other businesses that had to be shut down, primarily due to low profit margins and financial difficulties.

Graph 1.10



As per results of the survey, 46 percent SMEs initiated/started their own business from scratch, while the same percentage of respondents joined the existing family business.

Graph 1.11



Reasons cited for starting that particular line of business are attributed to availability of information and personal interest in that particular field. Those who joined family business did so because it was easier to join in an existing running business and due to family pressure.

Financial resources required for starting business were acquired through the help of family and personal savings. Only one percent respondents sought financial resources from banks to initiate business. Analysis of data, however, shows that over 45 percent respondents chose not to respond to the question.

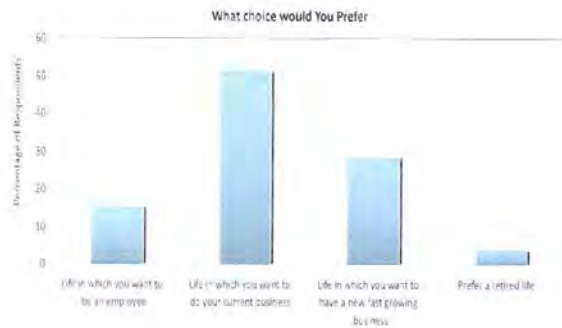
Graph 1.12



Preference for Business

Given a choice, SME owners feel that they would still prefer staying in the same line of business (51.56 percent respondents) rather than being employed in a steady job (15.46 respondents). 28.74 percent respondents would like to have a new fast growing business.

Graph 1.13



Strengths & Weaknesses of Business

Strengths and weaknesses of SMEs identified are depicted in the table 1.2.

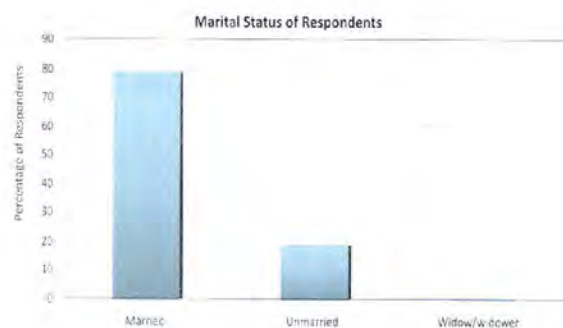
Table 1.2

Strengths	Percentage of Respondents	Weaknesses	Percentage of Respondents
Easy and quick access to related markets	54%	Lack of relevant knowledge	40%
Low cost to run the business	46%	High cost of production	41%
Family experience, wisdom and unity in the business	45%	Outdated machinery	40%
Better quality of man-power	40%	Low production capacity	38%
Technical expertise	40%	Unskilled workers	34%
Better production techniques	36%	Domestic Competition	37%
Assigning the responsibilities to the best suited persons	17%	International competition	23%
		No response	1%

Marital Status of Entrepreneurs

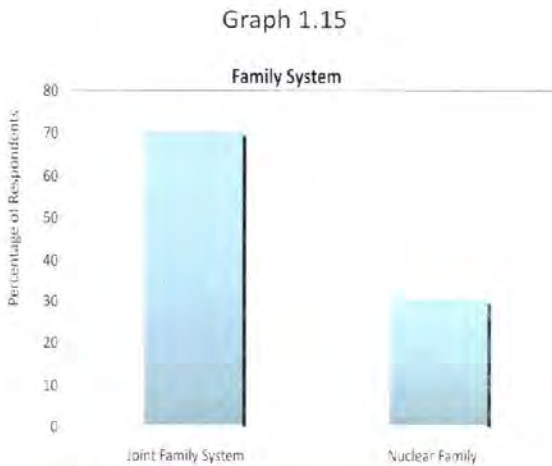
A majority of respondents were married and have on the average 3 children. On the average SME owners have 9 family members as they predominantly live in joint family systems.

Graph 1.14



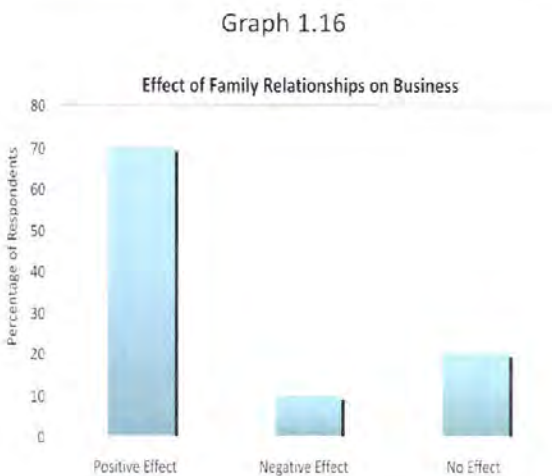
Family System

Predominantly (70.4 percent respondents) live in joint families.



Effect of Joint Family System on Business

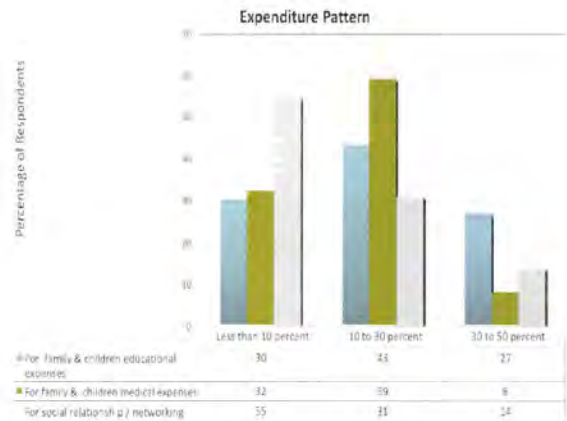
Joint family system may have its advantages; however, does it also effect business? As per results of the survey, not only is business effected by personal relationships, but in fact these relationships have a positive impact on business.



Expenditure Pattern of SMEs

With family comes responsibility. Income earned through business keeps the family afloat. The expenditure pattern of SMEs was explored through the questionnaire. According to results, 43.1 percent respondents indicated that 10 to 30 percent of their income goes towards educational expenses of children, 59.3 percent spent 10 to 30 percent on family health matters and 54.9 percent respondents spent less than 10 percent on social interaction.

Graph 1.17



Reasons for Saving

SMEs mainly save for better education of children, to invest in business and for unseen emergencies.

Table 1.3

Reasons for saving	SME Percentage of Purposes	Most important Purpose
Better education for children in future	86%	35%
To invest in business	79%	27%
For home renovation	65%	8%
For children's wedding	56%	10%
For emergency	58%	11%
For car	45%	4%
To buy a house	39%	5%
For vacations	21%	1%
Don't know	1%	0%

Preferred Level of Education for Offspring

The survey findings show that SMEs assign high priority to education of their children and would like them to attain post graduate level of education from within Pakistan. It is interesting to note, however, that 49.6 percent respondents indicate that the quality of education in their locality is low.

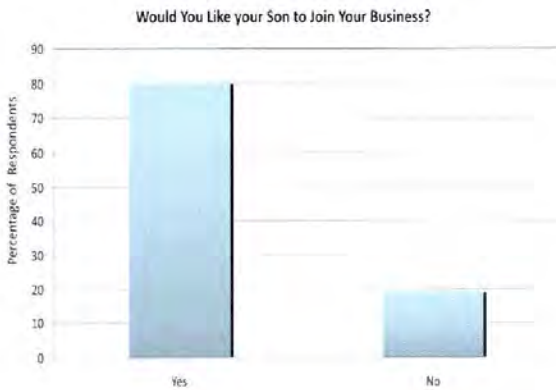
Table 1.4

Level of Education	Boy (n=787)		Girl (n=815)	
	Current Education	Future Education	Current Education	Future Education
Under Matric	13%	4%	97%	11%
Matric	38%	5%	28%	15%
Intermediate	25%	8%	18%	10%
Graduation	15%	42%	11%	39%
Masters	6%	80%	6%	52%
Technical professional	2%	28%	1%	13%

Preference of Vocation for Offspring

Survey findings show that SMEs would like their sons to join their business, whereas a majority of respondents would not like their daughters to join the family business. Relative percentage of response is presented in graphs 1.18 and graph 1.19. In fact 30 percent respondents did not respond to the question regarding their daughters joining the family business. Reasons cited for this are personal, social pressure and cultural norms. Over all 60 percent of respondents feel that their children should join the family business. Only 1 percent respondents indicated that the choice of vocation should be left to the individual.

Graph 1.18



Graph 1.19

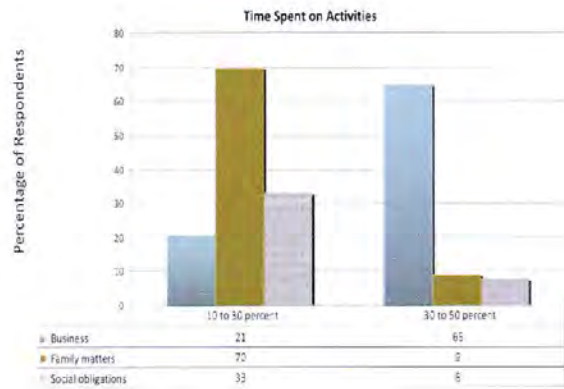


68 percent respondents shared that their expectations from their children who joined the family business were positive, as they would capitalize on their education and add value and expand the running business.

Division of Time

In terms of division of time, SMEs spend on the average 30 to 50% of their time on business, 10 to 30% time on dealing with family affairs and less than 10% time to meet social obligations.

Graph 1.20



Chapter II

- Approach
- Key Findings
- Awareness of Applicable Laws and Regulations
- Effect of Changes in Government Policies, Rules and Regulations on Business
- Government Consideration of SMEs View Point on Changing Policies
- Government Functionaries Effect on Business
- Interaction with Government Functionaries
- Level of Interaction with Government Functionaries
- Percentage of Time Spent in Resolving Issues with Government Functionaries
- First Course of Action in Case of a Change in Laws and Regulations
- Extent of Effect on Business in the Absence of a Platform for Protection
- Level of Satisfaction with Complaint Redressal Mechanism Currently Available
- Effect of Theft and Crime on Cost of Doing Business
- Effect of Difficulties in Procedures to Start a New Business
- Effect of Difficulties in Procedures of International Trade on Business
- Effect of Difficulties in Labour Laws on Business
- Effect of Tax Laws on Business
- Effect of Excessive Tax Rates on Business
- Effect of Unavailability of Proper Infrastructure on Business
- Effect of Environmental Laws and Safety of Labour on Business
- Effect of Corruption on Business
- Perception of Improvement in Relations between Government and Private Firms in the Past 5 years
- Major Investment Decisions and Complying with Government Regulations

Relationship with Government

Approach

Perception plays a large part in causing and shaping up behavioral transactions particularly in a society where the tradition of ascertaining facts on ground is not so strong and people are generally more prone to myth making, gullibility and hearsay etc. This section tries to approximate the baseline perception of an ordinary SME towards Government. According to the design, there is a set of key questions to assess the broad mental position of an SME on an issue, or to put it differently, how an SME 'imagines' itself vis-à-vis a particular question? This initial perception is then verified through a set of probing questions and finally through analysis the grain is sifted from the bran.

Key Findings

- Majority of SMEs (83 percent) feel confident about their knowledge of applicable laws and regulations.
- Confidence level on legal awareness increases with increase in education level and age of the entrepreneur.
- Firms with a comparatively larger employment size are more confident about their legal insight.
- Majority of SMEs do not feel adequately consulted on changes in Government laws, policies and regulations.
- Majority of the sample respondents shun interaction with Government functionaries, though they consider it an important factor in terms of impact on their business.
- Around two third of the sample respondents consider the behaviour of Government functionaries as an important factor in terms of impact on their business. Those attributing it great significance consistently outnumber the other two categories, with a moderate or neutral stance on this issue.
- In terms of cities, Gujranwala leads the high sensitive segment followed by Lahore, Faisalabad, Multan and Peshawar. Sialkot is surprisingly in a lower trajectory alongwith D. I. Khan and Hyderabad. SMEs in Quetta show the least part of sensitivity to the behaviour of Government functionaries.
- The extent of sensitivity to the subject increases with increase in level of education of entrepreneur. Greater the education more the consciousness about the quality of treatment from Government bureaucracy.
- Sensitivity to the behaviour of Government servants increases with increase in educational level. Greater the education, more the consciousness about the quality of treatment from Government bureaucracy.
- As many as 80 percent SMEs think either there has been no or little improvement in the relationship between SMEs and the government.
- Despite alienation with behaviour of Government servants and rules & regulations more than 90 percent SMEs will be still keen to invest.
- SMEs in Peshawar, Lahore and Faisalabad profess a greater degree of legal awareness compared to Sialkot, Gujranwala and D.I. Khan. Karachi surprisingly shows least sense of confidence in terms of legal awareness.
- With respect to age, again there is more or less a positive correlation between rising age bracket and sensitivity towards the issue.

Awareness of Applicable Laws and Regulations

The question elicits response along three choices 'No Idea' 'Partial Idea' and 'Complete Idea' of Laws and Regulations. It is a broad based question where the delineation of domain of 'applicable laws' has been left to the individual respondents' judgment. The objective of course is to test the perception or what goes on in the brain of an SME entrepreneur on reference to "Applicable Laws and Regulations".

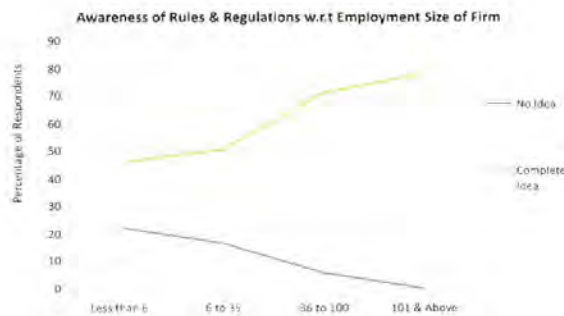
Graph 2.1 gives the overall response pattern which seems significantly skewed towards a high degree of awareness. As many as 83 percent respondents consider themselves aware of the laws and rules applicable to their business, either fully (51 percent) or partially (32 percent), with just 17 percent betraying a sense of no idea at all.

Graph 2.1



Graph 2.2 is a depiction of correlation with the size of business. The degree of legal awareness shows a positive trend with the expansion in size of business, with the steepest rise witnessed between the 36-100 segments.

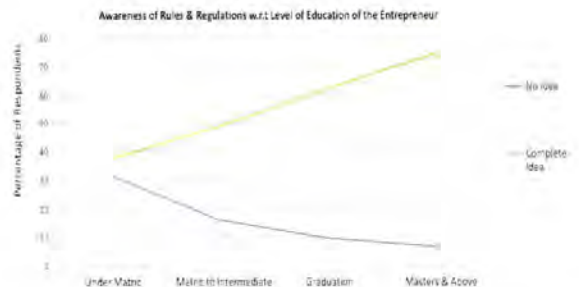
Graph 2.2



Graph 2.3 gives the District wise trend of 'No Idea' and 'Complete Idea' responses demonstrating a

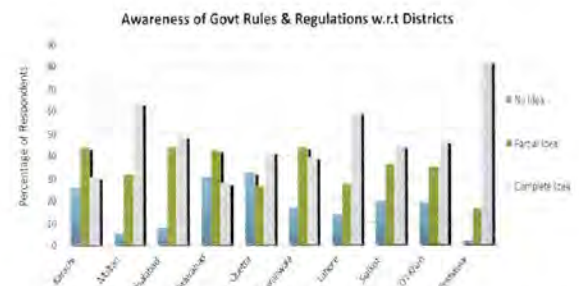
distinct correlation between education and degree of legal awareness. The number of 'No Idea' adherents, tapers off while those of 'Complete Idea' steadily rises with the rise in education level.

Graph 2.3



Graph 2.4 gives the district wise split. In Peshawar as many as 82 percent respondents seem to have complete idea of laws and regulations applicable to them followed by Lahore 60 percent and Faisalabad 50 percent. Sialkot, Gujranwala and D. I. Khan are in a slightly less optimistic league with the 'Complete Idea' replies hovering on or about 40 percent. Karachi the commercial capital of the country surprisingly shows the least number of respondents (30 percent) having complete idea of the laws and regulations.

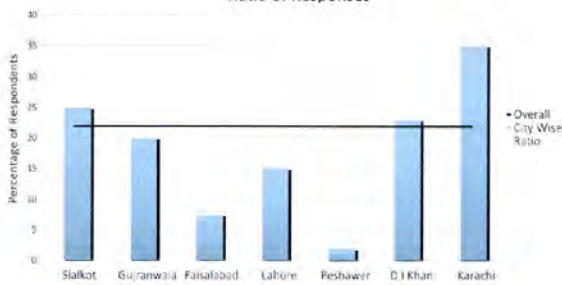
Graph 2.4



Graph 2.5 compares the ratios of 'No Idea' to 'Complete Idea' responses from individual districts with the same ratio calculated for the overall sample. The ratio in Sialkot, Gujranwala, and D. I. Khan is more or less in line with overall trend, while Lahore, Peshawar and Faisalabad show a lower ratio implying thereby that the number of respondents having partial or complete idea outnumber the unaware by a greater margin than the overall trend. Karachi, on the other hand, has the highest ratio of the 'No Idea' responses compared to 'Partial or Complete Idea', betraying a lower level of law literacy.

Graph 2.5

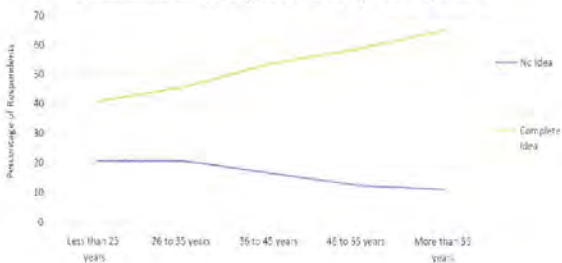
Ratio of Responses



Graph 2.6 shows the correlation with age. Again the trend is clear, suggesting a growing sense of confidence about the awareness of rules and regulations with increase in age of SME entrepreneur.

Graph 2.6

Awareness of Rules & Regulations w.r.t Age of Entrepreneur



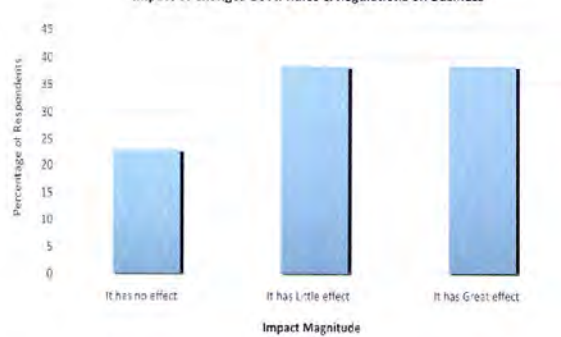
The percentage of SMEs with 'No Idea' of rules and regulations declines with increase in age while that of 'Complete Idea' rises almost at the same rate.

Effect of Changes in Government Policies, Rules and Regulations on Business

The question tests responses against three choices i.e. 'Great Extent', 'Some Extent' and 'Not at all'. According to the survey results, an overwhelming percentage i.e. 77 percent feels that the changes in Government policies can adversely effect their business to an extent. Just 22 percent considered themselves insulated to the shifts in policies. This can be viewed as an indicator of strong sensitivity or perception of sensitivity to Governmental policies, on behalf of SMEs.

Graph 2.7

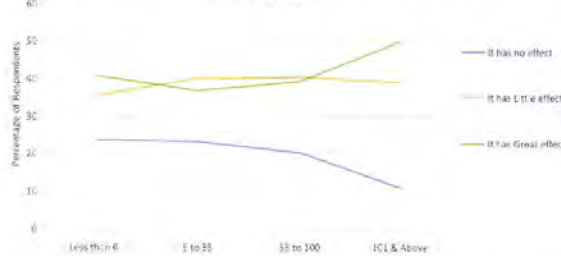
Impact of Changes Govt. Rules & Regulations on Business



In case of employment size the perception of high relevance or great effect peaks for the 36-50 and 101-250 segments.

Graph 2.8

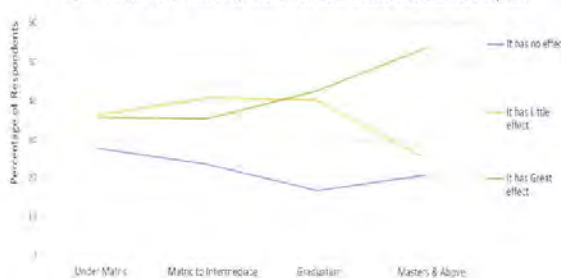
Impact of Changes Govt. Rules & Regulations on Business w.r.t Employment Size of Firm



Graph 2.9, shows correlation with the education level of entrepreneur. With the rise in education level, perception of great effect on business rises and simultaneously the perception of no effect declines, particularly between the Matriculate to the Graduate segment.

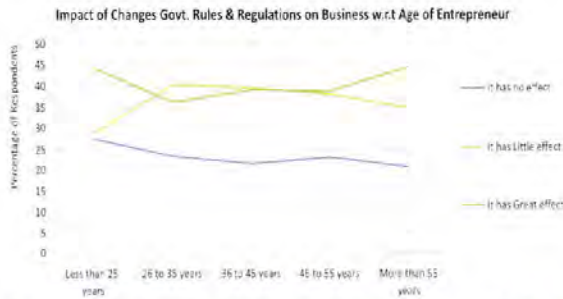
Graph 2.9

Impact of Changes in Govt. Rules & Regulations on Business w.r.t Level of Education of Entrepreneur



As far as the age of entrepreneurs is concerned the perception of great effect is at its peak in the less than 25 segment, later declining among the 26-35 year ceding some ground to those ambivalent between the great and little effect; assuming an ascending trend again among the 36-45 segment and onwards. The perception of no effect declines between less than 25 and 26- 35 segments and holds relatively steady afterwards.

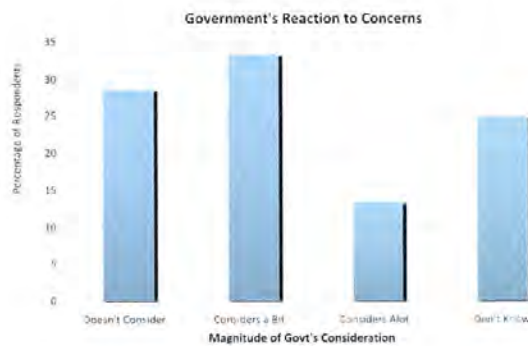
Graph 2.10



Government Consideration of SMEs Viewpoint on Changing Policies

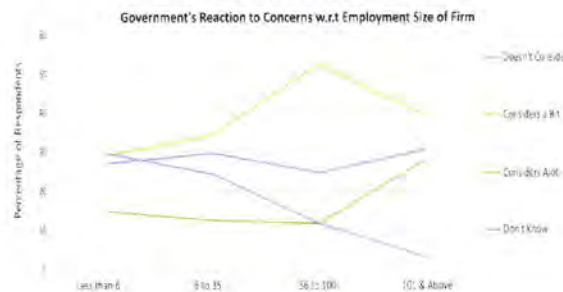
The trend of answers here is mixed and in fact, there is a tilt towards dissatisfaction. Just about 13 percent respondents are prepared to give the Government a clean bill on giving adequate consideration to their concerns, followed by as many as 33 percent giving a conditional nod. 29 percent are in total negation and another 25 percent simply do not know.

Graph 2.11



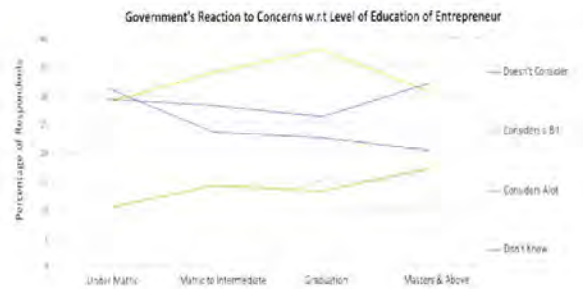
In case of employment size there is a clear upward trend in the 'considers a lot' segment from 36 onwards matched by a parallel decline in the 'Considers a bit', 'Doesn't consider at all' segments. The rate of 'Don't knowers' is at its peak for less than 6 segment, declining sharply between 6-35 employee segment and then proceeding towards further decline in 51-250 segment.

Graph 2.12



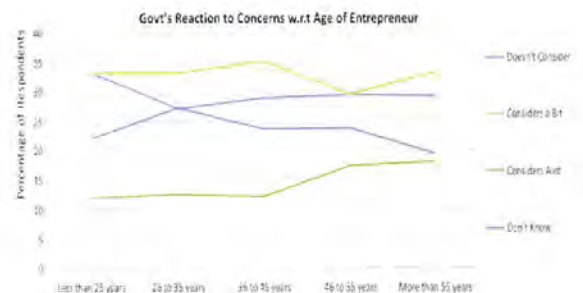
Graph 2.13, shows correlation with the educational level. In the first place the 'considers a lot' category is at the lowest level. Second it shows only a marginal improvement for segments like Masters and above. The perception of 'doesn't consider at all' slightly decreases between Intermediate and Graduation and holds rather steady up to Masters.

Graph 2.13



Viewing trend against the age of entrepreneurs, the perception that Government considers their views a lot increases from 36 years onward and attains the maximum in case of more than 55 year segment. Similarly, the extent of 'Don't knowers' also declines in the same range.

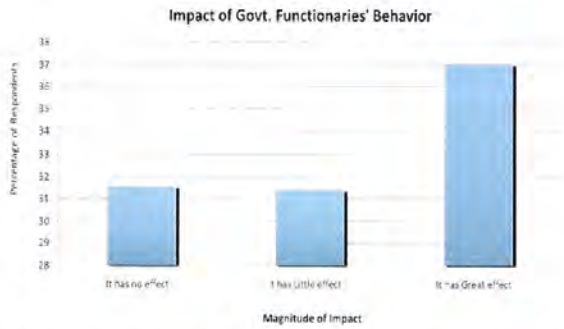
Graph 2.14



Government Functionaries Effect on Business

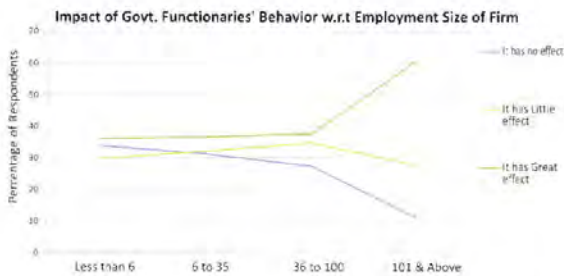
The question aims at gauging SMEs' sensitivity towards the conduct and behaviour of Government bureaucracy. Do they consider it of great significance or is it simply irrelevant for them. As graph 2.15 indicates as many as 39 percent respondents consider it of great effect followed by another 33 percent attaching moderate importance to it, with the remaining 28 percent considering it of no consequence.

Graph 2.15



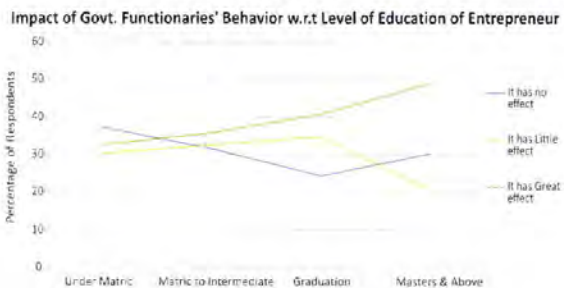
Below is the trend of responses in terms of employment size of business. The trend is almost flat for firms with the employment size of less than 6 to 35. However, there is a steep increase from the employment base of 36 to 100 and above indicating a distinct divide between relatively small and medium segments of SMEs, in terms of disposition towards behaviour of Government functionaries.

Graph 2.16



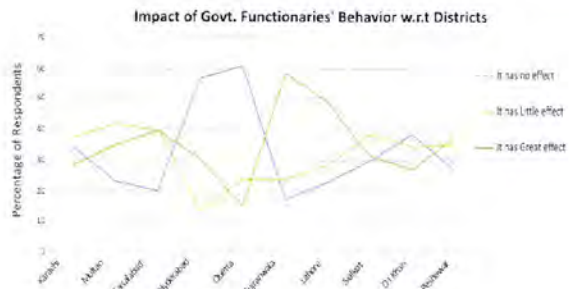
Graph 2.17 measures responses on the basis of education level of entrepreneur. There is a clean upward trend about the perceived intensity of effect with the increase in education level. More educated an SME entrepreneur is, greater is the sensitivity towards the behaviour of Government functionaries. The trend lines for little or no effect are also consistent with the pattern, except in the post graduate region, where the line segment for 'Little Effect' suddenly dips and there is a corresponding ascent in the 'No Effect' category.

Graph 2.17



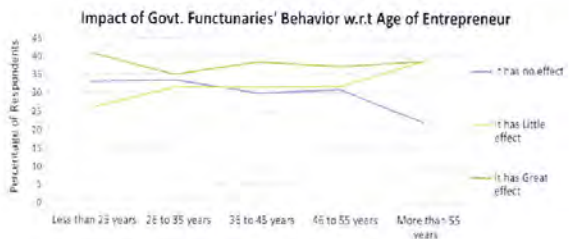
It would be interesting to view the data split city wise. Graph 2.18 gives the trend for different cities. The perception of great impact is at its peak in Gujranwala (59 percent) gradually coming down for Lahore (49 percent), Faisalabad (40 percent) and Sialkot (31 percent) and then again picking up a little for Multan (35 percent) and Peshawar 37 percent). Karachi (28 percent) and D. I. Khan (27 percent)) are in a lower orbit, while Quetta (15 percent) lags significantly behind.

Graph 2.18



With respect to age of entrepreneur graph 2.19 indicates that the proportion of SMEs considering it of great effect is consistently higher than the others and except for a slight dip in the 26-35 year age range, has a consistent trend. Those who consider it of moderate importance gain height from 26 years onward and touch the peak for more than 55 years' age. The trend for 'No Effect' responses declines in the 26-35 year region and remains rather flat till 55, taking a sudden dip in the more than 55 year region.

Graph 2.19



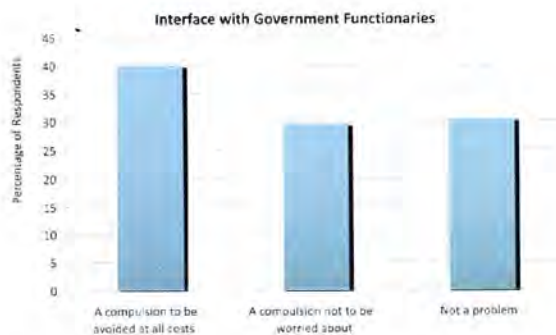
Interaction with Government Functionaries

A more specific question, provoking respondents to speak up their mind regarding desirability of meeting Government functionaries or keeping a distance from them was included in the survey. The response choice had to be expressed by affirming one of the following three statements:

- i) It is a compulsion to be avoided at all costs
- ii) A compulsion not to be worried about
- iii) Not a problem

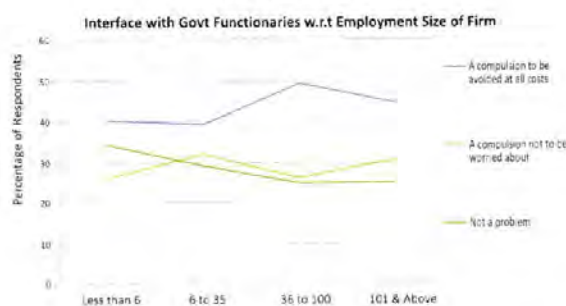
The overall response is symptomatic of the unease SMEs generally feel vis-à-vis interaction with government, with 40 percent respondents clearly stating their preference for aloofness followed by another 32 percent who would enter into it only reluctantly and just 28 percent people considering it a viable proposition.

Graph 2.20



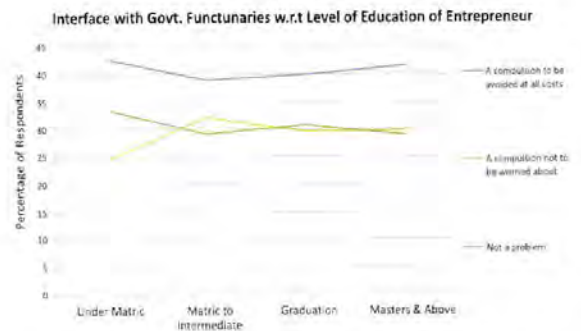
Viewing responses along employment size, as given in the graph 2.21, the preference for avoiding interaction rises with the increase in employment base, particularly for 6-35 and 36-100 employee segments. It slightly tapers off among the respondents with more than 101 employees. The percentage of respondents considering it no problem decreases from 34 percent in case of firms with an employment size of less than 6 to 25 percent for firms with the size of 100 employees and above.

Graph 2.21



There is a discernable trend against the rising level of education as well. In the first place percentage of respondents trying to avoid interaction is consistently higher in all three categories compared to those who consider it a less unpalatable option. There is a relative decrease from less than Matric to Matric and Intermediate category, however, from there onwards the trend again rises at a slight but steady rate. Those considering it no problem follow suit.

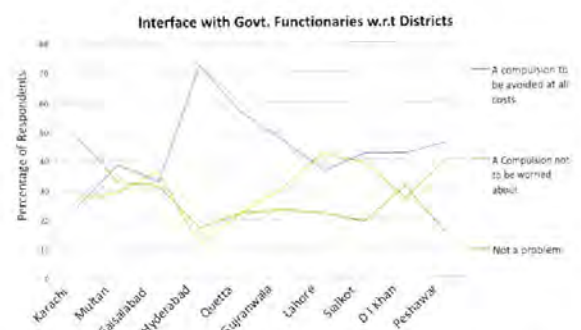
Graph 2.22



At district level, Karachi stands out for its agreeable disposition on the issue. As many as half of the respondents from Karachi take interaction with Government functionaries in the spirit of life as usual followed by another quarter of them considering it something not to be worried about too much, with only one fourth of the total shunning it altogether. Multan, Faisalabad and D. I. Khan with 33 percent, 31 percent and 31 percent respondents declaring interaction with Government functionaries as 'Not a Problem' are also in a relatively less bashful group.

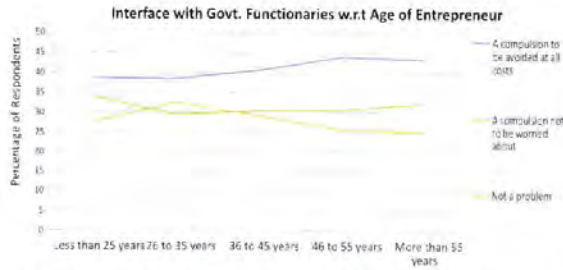
However, among cities like Peshawar (14percent) Sialkot (19 percent), Hyderabad (17 percent) Quetta (21percent), Lahore (22 percent) and Gujranwala (23 percent), the appetite for intermingling with the bureaucracy is on the lower side.

Graph 2.23



And now on the age profile, again the interaction avoiders outnumber the approvers in all categories of age and their relative percentage also rises steadily from 26-55 year segment, with a stable trend afterwards.

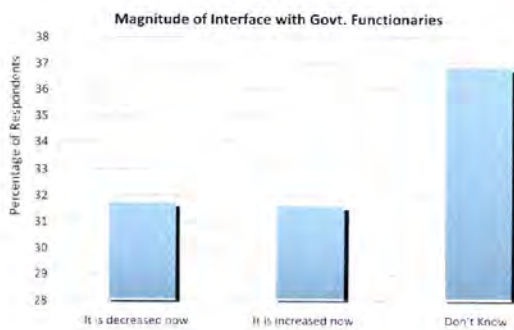
Graph 2.24



Level of Interaction with Government Functionaries

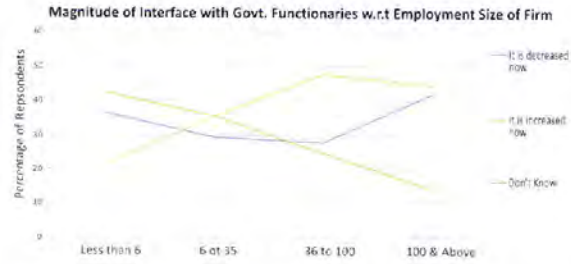
This is a more direct question trying to gauge SMEs' verdict on Government's claims of having provided a conducive environment for businesses by reducing unwarranted interface between businesses and Government through reduction in inspections and simplification of procedures for taxation etc. While the reforms undertaken by the Government are a reality, how far have they gone down with SMEs to reduce their estrangement and skepticism towards the Government? The three response choices provided are 'Decrease', 'Increase' and 'Don't know'. There is a split opinion with 31 percent respondents considering the interaction has decreased and the same number opining that it has increased. However the majority (37 percent) have simply expressed ignorance, which is both significant and alarming.

Graph 2.25



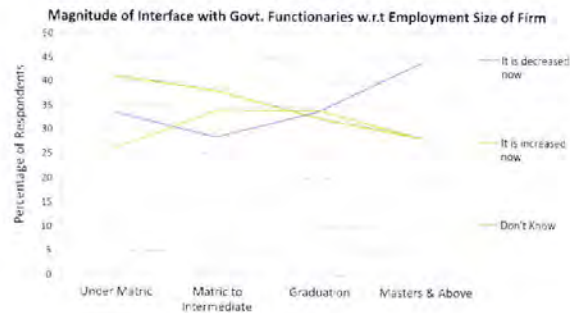
The situation is interesting in terms of employment size. The proportion of 'don't knowers' consistently declines with increase in employment size. As for the respondents perceiving an increase there is a steady rise from less than 6 to 100 segment, after which there is a slight decline. On the other hand, respondents considering a decrease remain almost steady in the 6- 100 brackets but there is a steep rise in the above hundred employment size category, which clearly shows the divide between the small and medium sized categories on this issue.

Graph 2.26



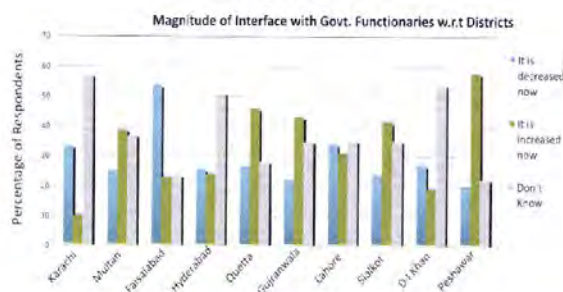
Education wise again the trend is consistently declining with increase in education, as far as the 'Don't know' category is concerned. However, the percentage of participants perceiving a decrease rises as education increases from Intermediate onwards and concomitantly the trend line for those perceiving a decrease dips in the Graduation and Masters region.

Graph 2.27



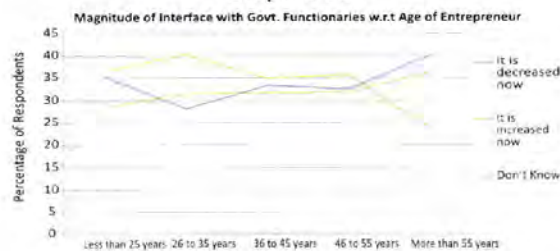
At district level, apart from Faisalabad (53 percent) and Lahore (34 percent) no other district vouches in the favour of a decreased interaction. In all other districts including Multan, Hyderabad, Gujranwala, Sialkot, D. I. Khan and Peshawar, the percentage of respondents perceiving an increase in interaction with Government functionaries outstrips those considering that it has decreased. Also there is a sizeable percentage of people simply saying 'don't know'. In Karachi the proportion of such participants peaks at 57 percent who state simple unawareness as to whether the interaction has increased or decreased.

Graph 2.28



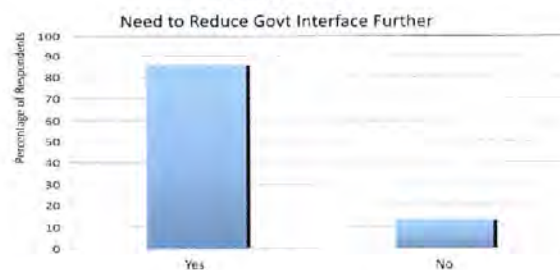
In terms of age of entrepreneur, things are rather undulating. The 'Don't know' category starts declining from 26-35 years segment then assumes a steady trend till 46-55 years segment and finally declines steeply in the more than 55 years old region. On the other hand the proportion of respondents considering a decrease is at its bottom at 26-35 years segment and later rises becoming a bit steady and finally rising further.

Graph 2.29



A supplementary question was asked from the participants who thought that the interaction had decreased, as to whether they would like it to be reduced further. The response was an overwhelming 'yes' (85 percent). Just 14 percent people said 'no' and there are literally no 'don't know' responses.

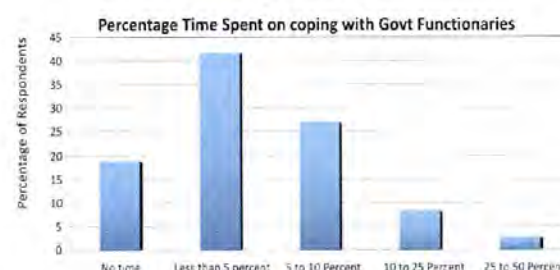
Graph 2.30



Percentage of Time Spent in Resolving Issues with Government Functionaries

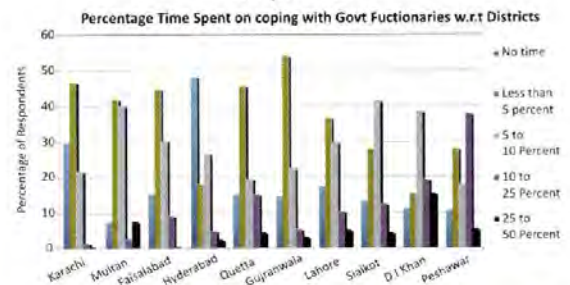
As many as 19 percent respondents simply consider that they spend no time in interaction with Government functionaries. 40 percent deem less than five percent of their time is spent on the subject, while 28 percent think they spend relatively greater amount of time (10-25 percent).

Graph 2.31



The percentage of respondents saying they do not spend any time on interaction is the highest in Hyderabad (49 percent) followed by Karachi (30 percent). On the other side of the spectrum there are districts like Peshawar, D. I. Khan and Quetta where as many as 38 percent, 19 percent and 15 percent respondents think they spend as much as 10-25 percent of their time on interaction with Government functionaries.

Graph 2.32



First Course of Action in Case of a Change in Laws and Regulations

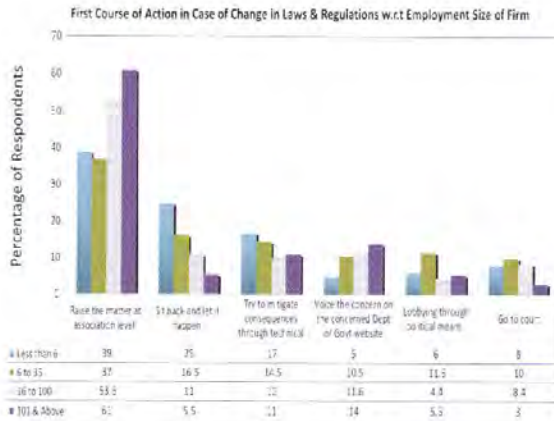
Majority of respondents (38 percent) will like to raise the issue through their respective Association platform, followed by 17 percent who will fall upon technical alternatives, 16 percent will prefer to just sit back, only 10 percent will approach the court and just 9 percent will like to raise the matter on the departmental website.

Graph 2.33



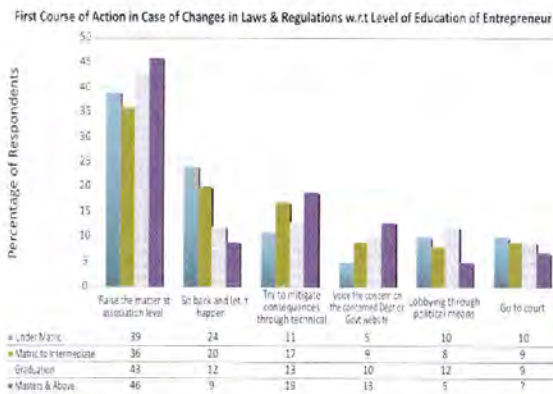
Viewing responses along employment size spectrum one can detect some correlation. For instance the number of respondents who would like to raise the matter at the Association platform increases with increase in size, notwithstanding a slight unevenness for 6-35 size bracket. Similarly, the proportion of respondents intending to approach the website though marginal in nature has a clear upward trend with increase in employment size. The pattern of responses among those willing to sit back and accept the adverse circumstances as a fate accomplice also shows a negative correlation with size, indicating thereby, that greater the employment size, more is the resolve to react to an adverse or unfair decision.

Graph 2.34



Almost a similar trend is visible in case of education. Again the tendency to approach association platform increases with the increase in education, except a little unevenness at the Matric level. The trend to approach departmental website also rises with the rise in education, though the overall size and proportion of respondents is low. The pattern of response among SMEs likely to sit back and accept a decision, has a negative correlation with the increase in education.

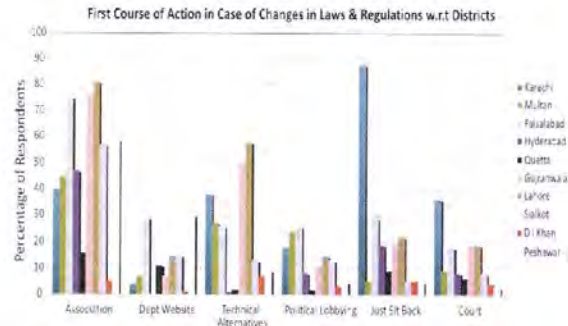
Graph 2.35



District wise split of responses on this question contains a wealth of information on the relative tilt of SMEs in these respective cities. Hyderabad (57 percent) Sialkot (51 percent) and Peshawar (53 percent) respondents will like to raise the matter through the association platform. This is followed by a slightly less sanguine category of districts including Gujranwala (42 percent), Multan (38 percent), Lahore (39 percent), Faisalabad (36 percent) and Quetta (35 percent) respondents opting to raise the issue through the association platform. Karachi with just 18 percent

respondents resorting to association platform and in D. I. Khan only 19 percent, seem like two exceptions, where the association phenomenon has not taken much roots.

Graph 2.36



Among the respondents likely to raise the matter at departmental websites, interestingly, Peshawar (27 percent) and Quetta (24 percent) are the most prominent. The percentage of respondents in metropolitan areas with better internet connectivity, like Lahore (3 percent), Gujranwala (7 percent), Faisalabad (13 percent) and Karachi (1.76 percent), the proportion is strangely dismal.

Karachi (39 percent) towers among the rest of the lot in the percentage of participants who would just sit back on such an occasion, followed by Hyderabad (23 percent), Quetta (20 percent) and D. I. Khan (20 percent).

Multan tops the list in terms of inclination of respondents to resort to political lobbying in order to get redressal against a decision which is perceived unfair and adverse to business interests.

As for adopting legal means of redressal the overall percentage as stated above is very low, however, among the lot Karachi (16 percent), D. I. Khan (15 percent) and Quetta (13 percent) are the most prominent.

Extent of Effect on Business in the Absence of a Platform for Protection

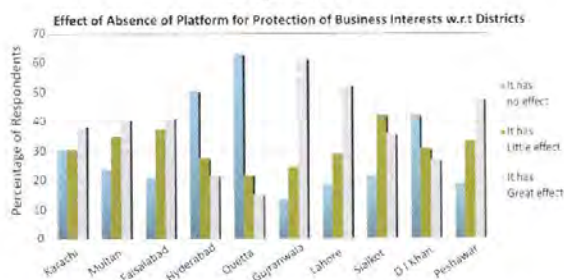
All in all 25 percent respondents consider it of no importance, 32 percent assign it medium importance and 43 percent consider it of great importance.

Graph 2.37



Among the districts, apart from Hyderabad, Quetta and D. I. Khan, majority of participants among rest of the districts consider it of great importance. Gujranwala (62 percent), Lahore (53 percent), Faisalabad and Multan (41 percent each) and Peshawar (47 percent) are among the forefront of the districts emphasizing the significance of such a platform.

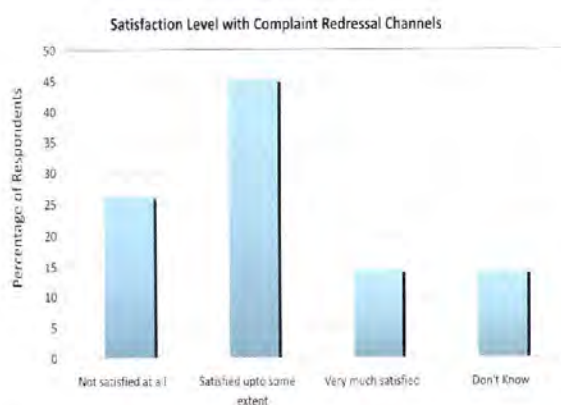
Graph 2.38



Level of Satisfaction with Complaint Redressal Mechanism Currently Available

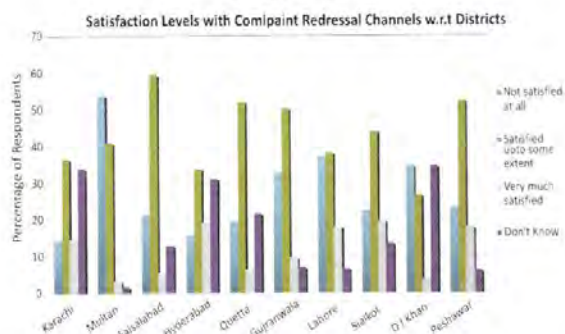
As many as 45 percent respondents expressed satisfaction to an extent while around 13 percent are very much satisfied with the complaint redressal mechanism currently available.

Graph 2.39



District wise analysis is presented in graph 2.40

Graph 2.40

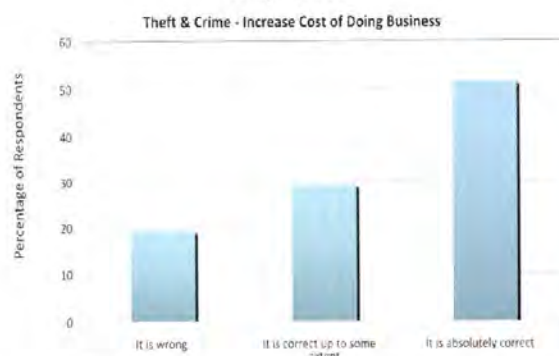


Faisalabad tops the table with 60 percent respondents expressing satisfaction to an extent, followed by Gujranwala (50 percent), Quetta (52 percent), Peshawar (52 percent), Sialkot (44 percent) and Multan (41 percent). D. I. Khan (27 percent), Hyderabad (34 percent), Karachi (37 percent) and Lahore (38 percent) are in a lower league on the satisfaction scale. An important indicator, however, is the percentage of respondents who simply 'don't know'. In that category Karachi (34 percent) and D. I. Khan (34 percent) are close rivals followed by Hyderabad (31 percent).

Effect of Theft and Crime on Cost of Doing Business

More than 50 percent respondents have endorsed the statement that theft & crime has an effect on the cost of doing business, while another 30 percent tend to agree to it to an extent. Only 19 percent respondents feel that it has no effect.

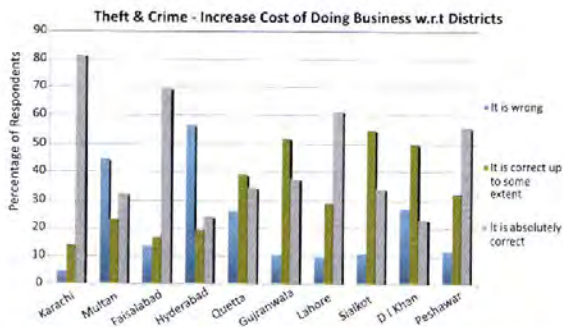
Graph 2.41



Among the districts, Karachi shows highest receptivity to the statement with 80 percent respondents terming it absolutely correct and another 13 percent expressing agreement to an extent. Other cities endorsing the correctness of statement in absolute terms include Faisalabad (70 percent), Lahore (60 percent) and Peshawar (56 percent).

Multan, Quetta, Sialkot and Gujranwala have a moderate perspective on the statement with the absolute endorsement ratio hovering around 30-40 percent. Hyderabad is an intriguing exception where more than 50 percent respondents simply do not see any connection between increasing theft and crime and the cost of doing business.

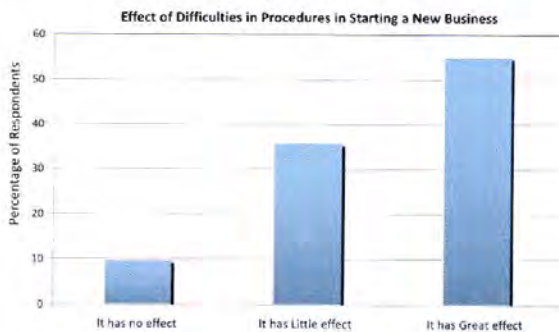
Graph 2.42



Effect of Difficulties in Procedures to Start a New Business

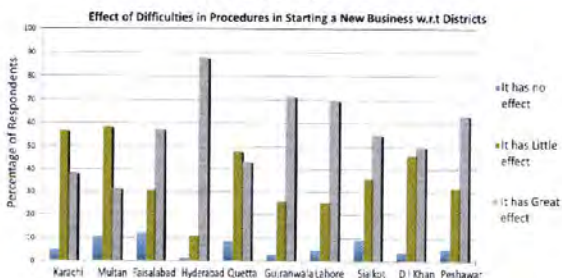
All in all 57 percent respondents consider it to be of great consequence, with another 36 percent assigning relevance to an extent, to the effect of difficulties in procedures to start a new business.

Graph 2.43



Respondents in places like Hyderabad (87 percent), Gujranwala (72 percent), Lahore (70 percent), Peshawar (63 percent), Faisalabad (57 percent) and Sialkot (55 percent) consider it of great effect. In Hyderabad there is an even more overwhelming endorsement for the statement.

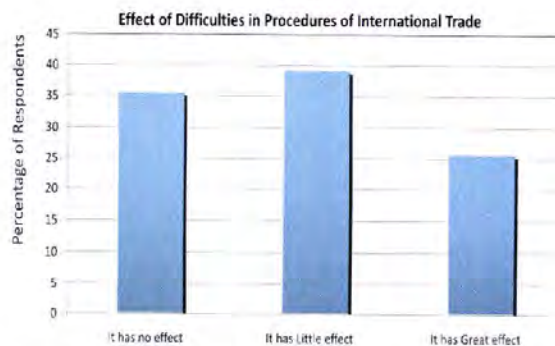
Graph 2.44



Effect of Difficulties in Procedures of International Trade on Business

The responses paint a mixed picture with more than 72 percent respondents not considering it critical.

Graph 2.45



District wise trend is a little more divergent. In the districts of Gujranwala and Sialkot as many as 50 percent respondents consider it of no consequence at all, with another 38-40 percent assigning it moderate significance.

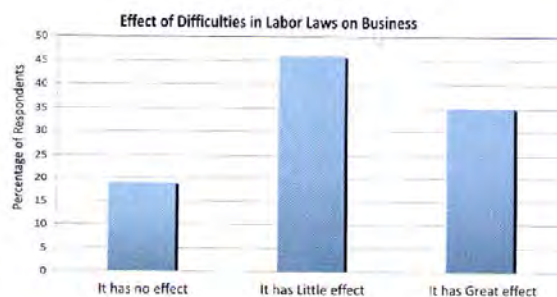
Graph 2.46



Effect of Difficulties in Labour Laws on Business

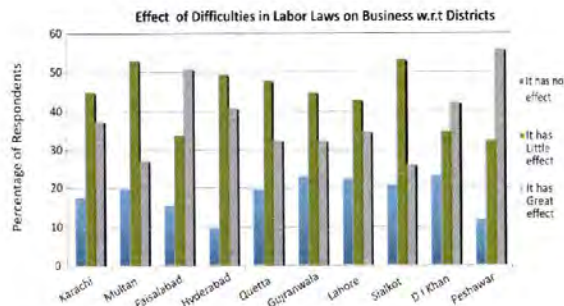
A little less than 40 percent respondents consider it of great effect. While around 43 percent would consider it of moderate significance. Those perceiving it totally insignificant are hardly 20 percent.

Graph 2.47



District wise the trend is mixed. In D. I. Khan, Peshawar and Faisalabad, respondents perceiving it of 'great effect' outweigh those considering it of moderate or no impact.

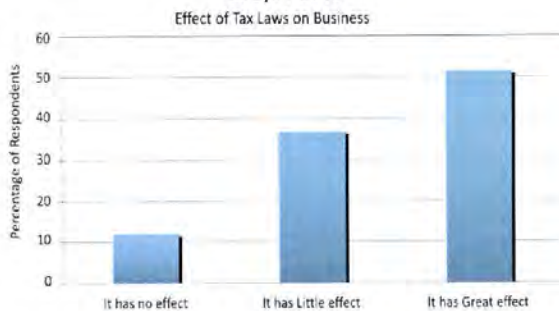
Graph 2.48



Effect of Tax Laws on Business

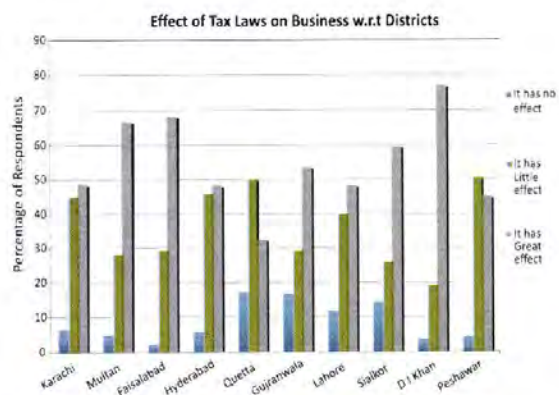
Around 50 percent respondents consider it of great effect. Another 38 percent or so would term it of moderate significance.

Graph 2.49



Apart from Quetta and Peshawar, in all other cities, verdict in the favour of 'great effect' is stronger than little or no effect.

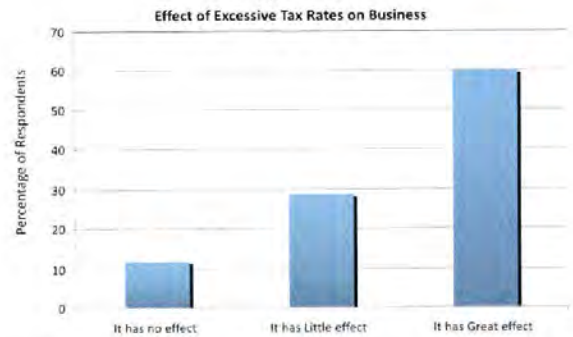
Graph 2.50



Effect of Excessive Tax Rates on Business

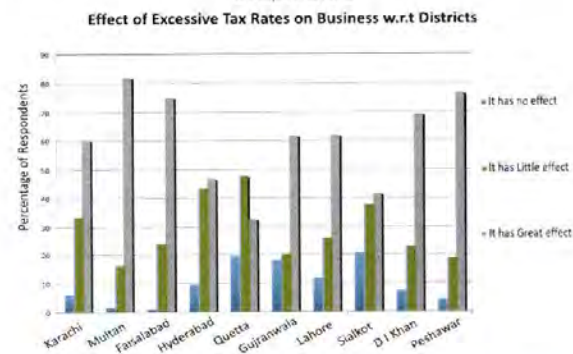
More than 60 percent respondents think that taxes are excessive and they affect their business significantly.

Graph 2.51



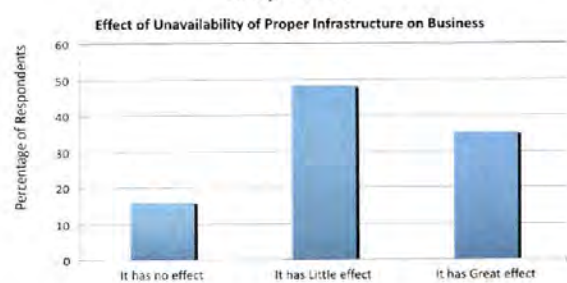
All districts, except Quetta rate the matter of great effect.

Graph 2.52



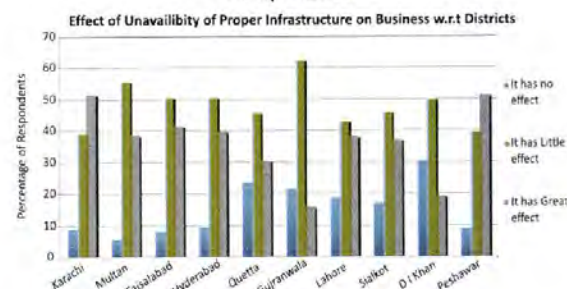
Effect of Unavailability of Proper Infrastructure on Business

Graph 2.53



The trend is mixed, as almost 50 percent respondents indicate unavailability of infrastructure to have a little effect on business, while 35 percent state that it has great effect.

Graph 2.54



Among cities, Karachi and Peshawar consider it of fundamental importance. Among the rest, majority of participants would term it as a matter of moderate or no importance.

Effect of Environmental Laws & Safety of Labour on Business

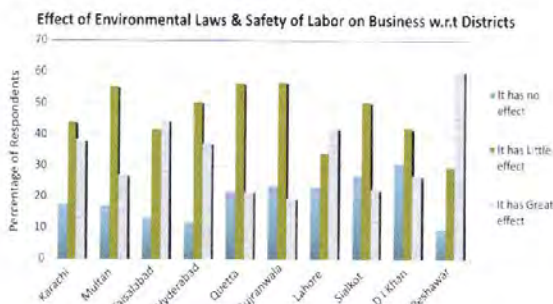
A similar trend exists in case of effect of environmental laws and safety of labour.

Graph 2.55



In Lahore, Hyderabad, Faisalabad and Karachi, a percentage in a certain band over or fewer than 40 percent consider it of great significance, which is encouraging. Peshawar, however, has the highest score with as many as 60 percent respondents considering it of high significance.

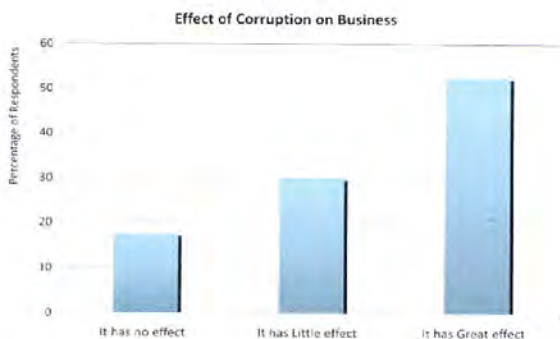
Graph 2.56



Effect of Corruption on Business

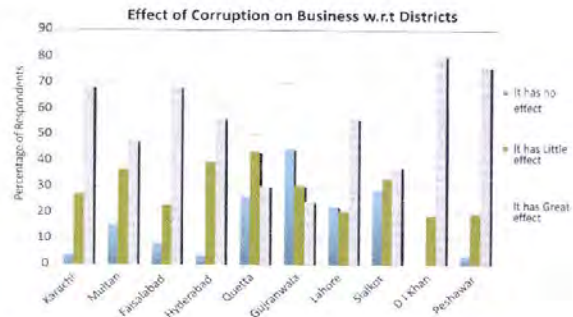
More than 80 percent firms consider corruption an adverse factor of various degrees for their business.

Graph 2.57



Cities like Karachi, Hyderabad, Faisalabad, D. I. Khan, Lahore and Peshawar are unanimous in declaring corruption still a menace that has great effect on business.

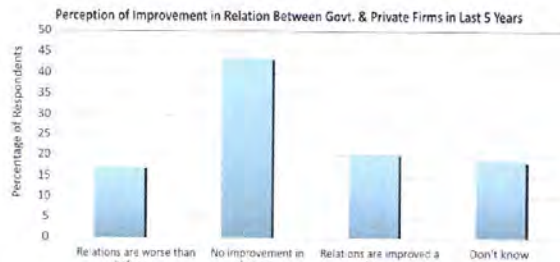
Graph 2.58



Perception of Improvement in Relations between Government and Private Firms in the Past Five Years

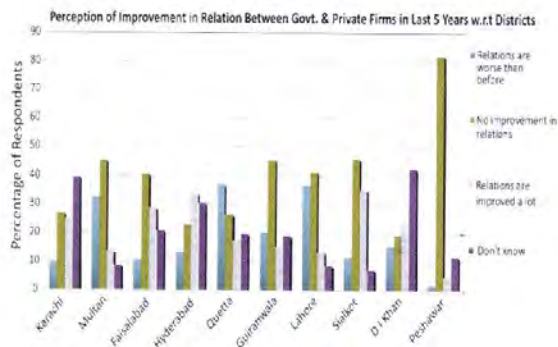
A little over 40 percent think there has been no improvement at all, while some 20 percent are indifferent and another 20 percent think there has been a reverse trend. Thus only 20 percent perceive an improvement in relations.

Graph 2.59



The 'No Improvement' perception protrudes out significantly, indicating a majority of perception in cities like Peshawar, Sialkot, Lahore, Gujranwala, Multan and Faisalabad. Karachi and D. I. Khan are conspicuous for the majority of respondents declaring total ignorance and indifference on the matter.

Graph 2.60



Major Investment Decisions and Complying with Government Regulations

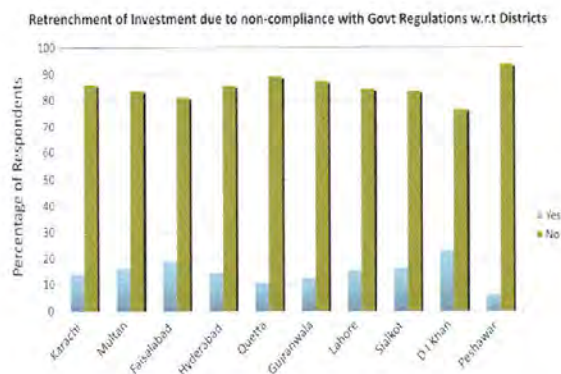
Perception about the cumbersomeness of Government rules and regulations is universal and SMEs by nature, are prone to take a more skeptical view of it because of the disadvantage of size. However, is this cumbersomeness so frustrating to simply militate against the very idea of a new investment? The survey gives an answer in the negative.

Graph 2.61



Almost 90 percent SMEs say 'no' to the question. And the verdict remains consistent across the districts.

Graph 2.62



Chapter III

- Approach
- Key Findings
- Location of Business
- Problems at Business Location
- Condition of Roads
- Transportation Facilities
- Availability of Communication Facilities
- Distance from Various Public Services
- Access to Basic Utilities

INFRASTRUCTURE

Approach

Infrastructure is vital for businesses in two main ways: i) as part of inputs like electricity, gas and water and ii) due to its role in providing access and connectivity with the outside world, including customers and suppliers' markets. Infrastructure is, thus, as important for business as food and oxygen and hence a basic right. Imagine a container truck stuck on a 'katcha road', going to a factory, on a rainy day, and the kind of havoc it causes to one's morale and the goodwill towards the Government. After all Government is primarily responsible for providing basic infrastructural facilities to its citizens.

In this section we have not only analyzed the influence of infrastructure and the lack thereof on businesses in quantitative terms, but also in terms of the physical and psychological toll it takes on the entrepreneur's motivation and morale. All in all there are 19 questions designed to solicit response on the problems related to infrastructure such as distance from work place, quality of approach roads and transport available, adverse impact if any of the traffic jams and rush and availability of utility infrastructure.

Key Findings

- Significant majority of respondents claimed that their business was suitably located to exploit optimum commercial advantage.
- Main problems faced at workplace are frequent breakdown of law and order, dense population, heavy traffic and environmental pollution. Almost half of the respondents stated that traffic congestion affected their health.
- The survey also revealed that majority of people are satisfied with current situation of roads and transportation facilities.
- Regarding electricity, a very large portion relied on the public utility company, WAPDA / KESC (in case of Karachi) only.
- Large number stated that they did not need a gas connection.

Location of Business

Location of a business is of paramount importance for any business to thrive. According to the survey results, 72.90 percent respondents feel that their business is suitably located to exploit its optimum potential.

Graph 3.1



According to employment size of firm, 29.68 percent respondents with employment between 6 to 35, 23.99 percent firms with employment size less than 6, 21.74 percent with employment size 36 to 100 and 8.33 percent firms with employment size 101 and above state that their businesses are not located at a place where optimum benefits can be reaped. All in all, the survey reveals that over 60 percent of respondent businesses irrespective of size of firm, are suitably located.

Graph 3.2



District wise location of business in terms of exploiting optimum potential of business is presented in graph 3.3.

Graph 3.3

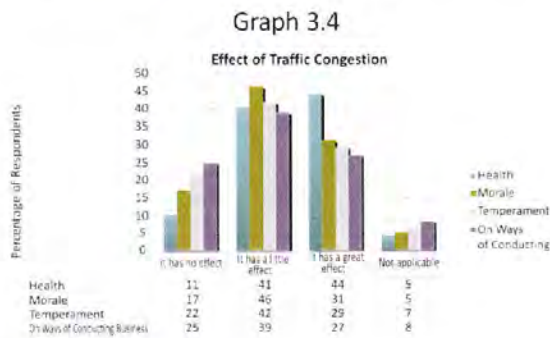


98.20 percent respondents in Peshawar, 85.54 percent in Hyderabad, 79.52 percent in Lahore, 78.95 percent respondents in Karachi and 75 percent in Faisalabad indicate that their businesses are situated in areas where maximum commercial benefit is derived. Sialkot & Gujranwala are two main SME clusters, however, they indicate a lower percentage, (only 57.38 percent respondents in Gujranwala and 65.77 percent respondents in Sialkot) as compared to the other districts where over 75 percent respondents have indicated location of business in an area where optimum commercial benefit is derived.

Problems at Business Location

When posed the question to identify problems at the location of their business, frequent breakdown of law & order and other security issues (21.5 percent), dense population & traffic congestion (20.9 percent) and environmental pollution (20 percent) figured high on the respondents' list of issues at their specific location. This is further exacerbated by travel time involved in reaching the business premises during rush hours. 39.4 percent respondents indicated, that it took them about 2 hours to reach their destination while 24.8 percent indicated a travel time of 4 hours. Interestingly, the trend is quite similar during nonrush hour in terms of travel time to business location. In fact, 48.6 percent respondents stated that it took them 2 hours, while 26.6 percent said it took them 1 hour to reach their business. This fact corroborates well with the issue raised by businesses at their locality. While on the surface level, traffic jams may be an issue of any common citizen, however, for business persons it has a psychological effect as well.

The questionnaire, therefore, tackled the issue by recording responses of SMEs to the effect of traffic congestion and subsequent tension caused as a result, on various parameters. 27.18 percent respondents agreed that environmental surroundings like traffic congestion did affect their way of doing business.



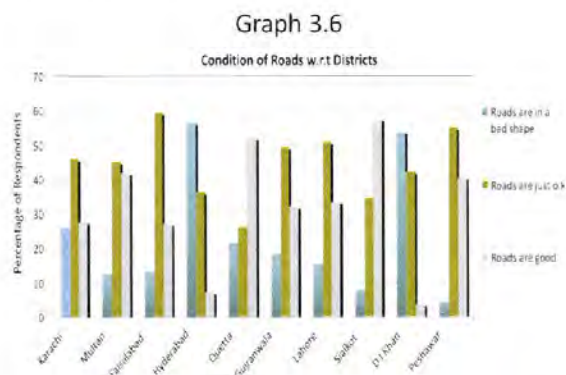
Condition of Roads

In your opinion what is the condition of roads?



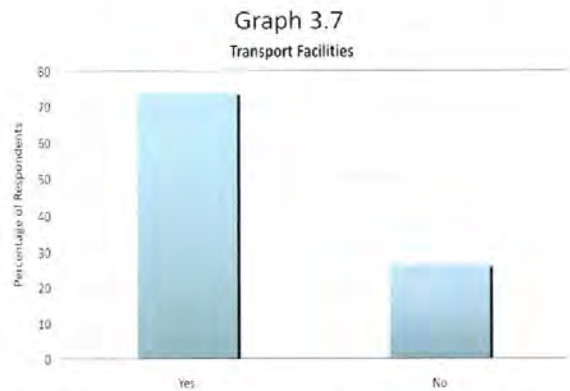
47.88 percent respondents state that the condition of roads are 'reasonably alright' while 34.29 percent stated that the condition of roads was good.

Responses when analyzed with respect to districts reveals that 57.66 percent respondents in Sialkot and 52.17 percent respondents in Quetta state that condition of roads leading to their business premises is good. In the other districts, with the exception of Hyderabad and D. I. Khan majority of respondents share that the road condition in their business locale is satisfactory.



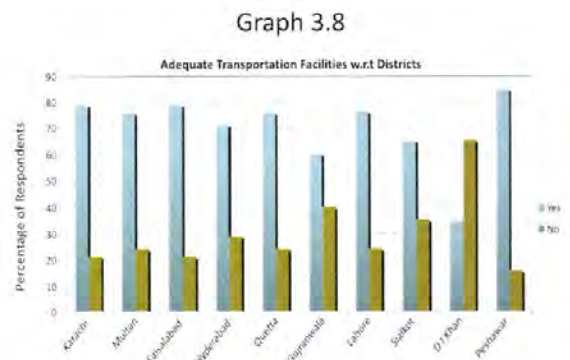
Transportation Facilities

Sample firms were asked to state whether the transportation facilities to their work place/business were adequate or not.



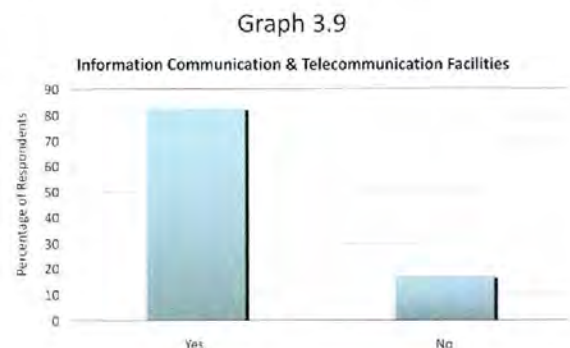
73.69 percent respondents state that adequate/satisfactory transport facilities were available to commute to their work place.

With the exception of D. I. Khan, while percentage response to the question varies due to number of respondents within each district, however, predominantly, respondents in all districts term transportation facilities as adequate & satisfactory.



Availability of Communication Facilities

Do you think communication facilities are adequately available at your business premises. 82.79 percent respondents indicated having access to telecommunication facilities.



Distance from Various Public Services

Respondents were also asked to indicate their travel time to various places like railway station, airport, dry port, hospital, fire brigade department, post office etc. The results are indicated in the table below.

Table 3.1

	Closest Railway Station	Closest Airport	Closest Dry port	Closest Hospital	Closest Fire Brigade	Closest Dispensary	Closest Post office	Closest Police Station
Mean Time Taken (Minutes)	45.49	69.99	84.53	27.95	37.66	22.05	25.03	23.45

Access to Basic Utilities

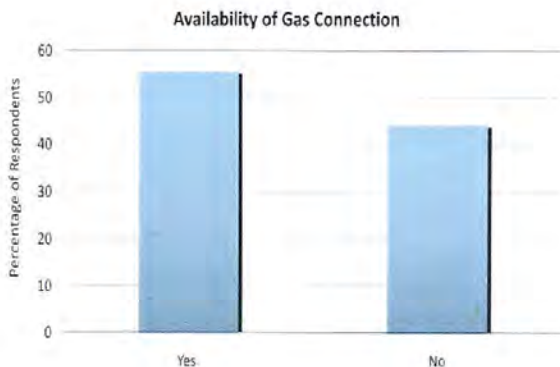
In this section questions pertaining to availability of basic public utilities etc. were posed to sample firms, in order to ascertain the availability of such infrastructure in the country.

Gas Connection

Do you have a gas connection?

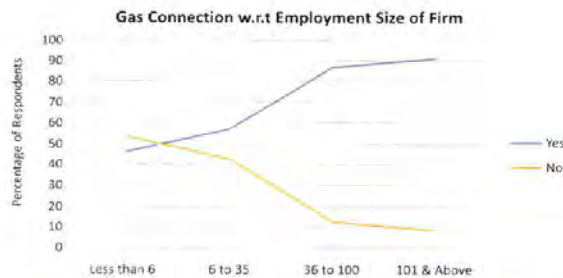
55.86 percent firms indicated that they had a gas connection.

Graph 3.10



In the category of firm size with respect to employment, 46.64 percent firms with employment size less than 6, 57.26 percent firms in employment category 6 to 35, 86.96 percent firms in employment category 36 to 100 and 91.67 percent firms with employment size 101 & above, have a gas connection. A clear trend is visible regarding availability of a gas connection as firm size increases. Only in the category of firms with employment size less than 6 have 53.36 percent respondents indicated not having a gas connection.

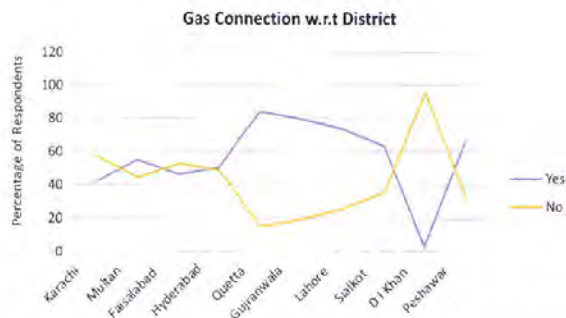
Graph 3.11



District wise distribution of responses with respect to availability of gas connection is presented in the graph below. Survey results reveal that 57.71 percent respondents in Karachi and 52.88 percent respondents in Faisalabad do not have a gas connection. D. I. Khan is also an outlier as 96.50 percent firms within the sample from the region indicate not having a gas connection (however total numbers of firms from the district is negligible).

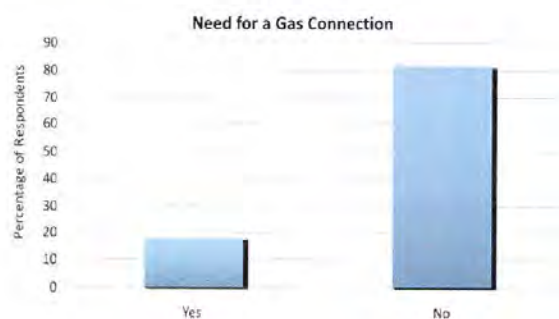
Across the other districts, over 60 percent respondents have indicated the availability of gas at their business premises.

Graph 3.12



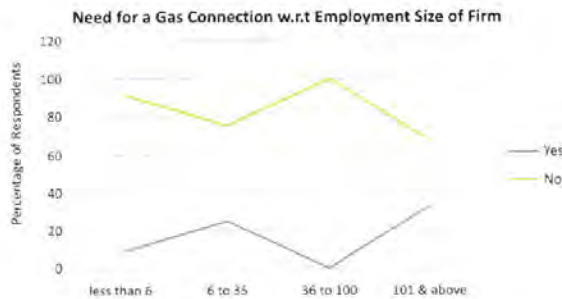
Firms that had indicated not having a gas connection, were asked if they needed a connection. As per survey results, 81.64 percent respondents shared that they did not need a gas connection.

Graph 3.13



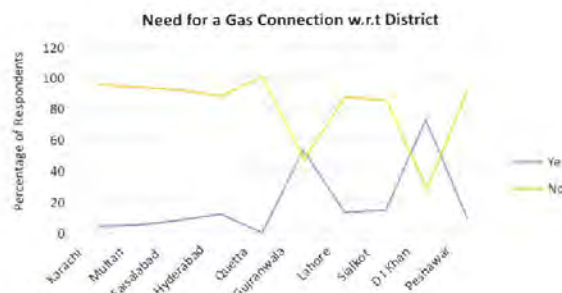
While a majority of firms that do not have a gas connection, do not need one, those who indicated the need for a gas connection, according to size of firms fall in the category of 6 to 35 employees. It is however pertinent to mention here that the total number of firms in the sample indicating the need of gas connection is 130 firms.

Graph 3.14



According to the survey results, 52.78 percent respondents in Gujranwala and 72 percent respondents in D. I. Khan indicated a need for gas connection. Elsewhere, sample firms do not indicate need of a gas connection.

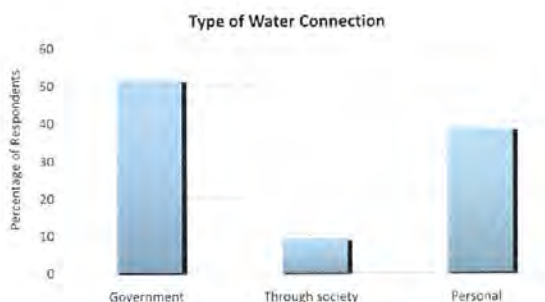
Graph 3.15



Water Connection

What type of water connection do you have? 51.72 percent firms indicated having a water connection from the public sector while 38.85 percent firms indicated having a personal water connection.

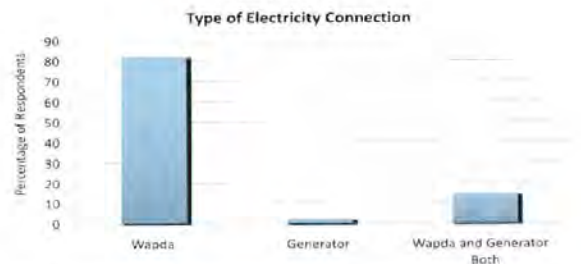
Graph 3.16



Electricity Connection

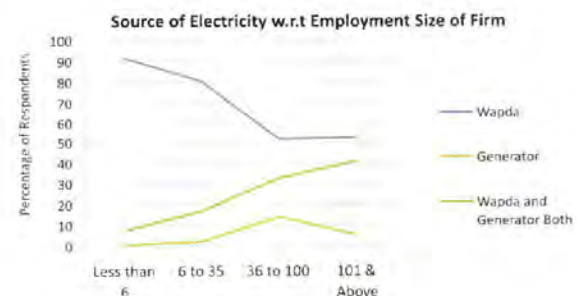
What type of electricity connection do you have? 82.42 percent respondents indicated that they used electricity through the public sector supply mechanism (WAPDA), KESC (only in the case of Karachi) while 15.08 percent used both electricity from WAPDA / KESC and personal generators.

Graph 3.17



While firms predominantly obtain electricity from the public utility company WAPDA & KESC (only in the case of Karachi) distinct trend of use of both WAPDA and generators for power supply is evident as firm size increases. 33.33 percent firms with employment size 36 to 100 use both WAPDA and generators for power supply. In fact in the same employment size category, 14.49 percent firms indicated the use of generators alone for electricity supply. Over 41 percent respondents in employment size category of 101 & above use both generators & WAPDA while 5.56 percent indicated use of generators alone for power supply. The usage of generators alone in terms of percentage response is highest in the category of employment size 36 to 100.

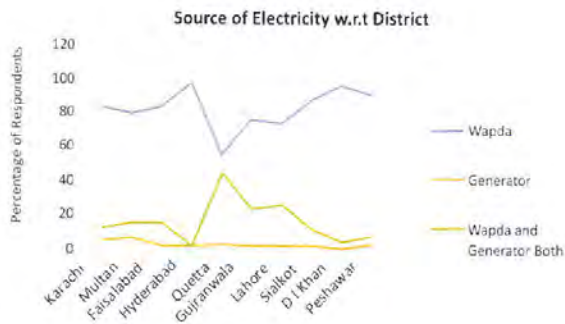
Graph 3.18



District wise analysis regarding source of electricity shows that over 75 percent of respondents use WAPDA for electricity supply. There is, however, a distinct dip in the curve representing responses in Quetta, where 54.35 percent respondents indicated WAPDA as a source of electricity supply. 24.76 percent respondents in Lahore, 22.95 percent respondents in Gujranwala, 14.90 percent

respondents in Faisalabad and 14.53 percent respondents in Hyderabad indicate use of both WAPDA and generators for electricity. (In case of Karachi the public utility company is KESC).

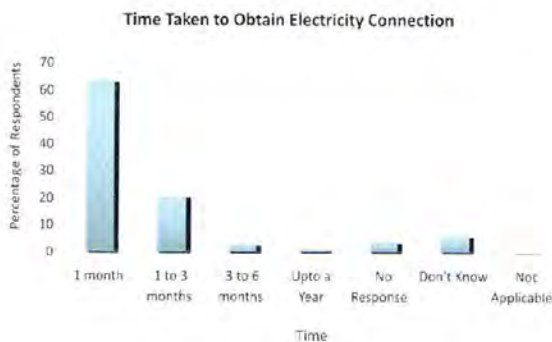
Graph 3.19



Time Taken to Obtain an Electricity Connection

63.34 percent respondents indicated that it took one month to obtain a commercial/industrial electricity connection and 20.89 percent firms indicated that it took 1 – 3 months to obtain a commercial/industrial electricity connection.

Graph 3.20



Chapter IV

- Approach
- Key Findings
- Application for Loan
- Reasons for Not Applying for Loan
- Purpose of Loan
- Amount of Loan
- Status of Loan Application
- Reasons for Rejection of Loan Application
- Impact of Rejection of Loan Application
- Total Number of Visits to Bank
- Loan Application Processing Time
- Attitude of Bank
- Business Expansion
- Obstacles in Business Expansion
- Reasons for Non-Expansion of Business
- Preference for Sources of Finance
- Percentage of Equipment/Machinery Leased/
Financed by Banks
- Amount of Loan Required

Issue of Finance-Myth or Reality

Approach

This section gives insight into the all important area of finance; its significance for enterprise growth and its availability and appropriateness of financial products vis-à-vis SME needs. Traditionally, access to finance has been identified as a binding constraint to SME growth & development and there exists a significant body of literature endorsing this viewpoint. Our approach while designing questions in this particular area has been twofold: sizing up the extent of access to finance currently available and exploring the hitherto veiled dimensions of the issue as to why this singular most area still recurs as a constraint, despite all sorts of right noises raised in various quarters.

This section includes 23 questions, some direct, others indirect. We have tried to peep into that area of the entrepreneur's mind where there is a possibility to detect a clue beyond the normal complaint of inaccessibility. Is it a question of inaccessibility alone or there is a part played by perception as well? Does it have something to do with the age, experience and education of the entrepreneur or is it a demand-supply gap in the market or even perhaps ignorance of the market itself? Is rate of interest the primary reason for SMEs disillusionment with banks or they really do not have enough appetite for bank finance? How does the response pattern vary across districts, age group of entrepreneurs, size of firm and levels of education? Analysis along these lines, is the hallmark of this survey.

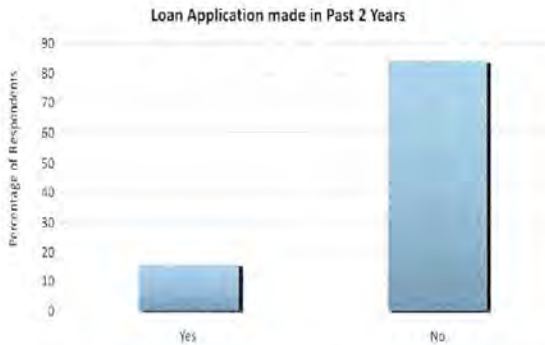
Key Findings

- 84 percent of the total respondents had not applied for a bank loan during the last 2 years.
- Those firms that had applied for a loan did so, in order to expand their current business.
- According to 37 percent respondents, high interest rates are a major reason for not applying for a bank loan. This, however, is closely followed by a similar percentage respondents indicating that they did not need a loan.
- Majority of the respondents were interested in expanding their business. However, the main obstacle was lack of financial resources.
- Most of the machinery owned by the respondents was not leased or financed through banks.
- 45.1 percent respondents highlighted that they had to make 4 – 5 visits to the banks for a loan application.
- It took 1 – 3 weeks (38.4 percent responses) for the bank to arrive at a decision regarding loan applications.
- 47.1 percent respondents described the attitude of banks as professional/business like.
- Majority of the respondents would prefer personal financing options (65.8 percent) and ploughing back internal business profits (20.8 percent). Only 6.5 percent showed an inclination to obtain financing through banks.
- Informal financing options are preferred due to ease and flexibility of access, low interest rates and timely service.
- 79.3 percent respondents would like to use loan for business expansion.
- 52.55 percent respondents state that their loan applications were not accepted by banks. There is a positive correlation with respect of size of firm and acceptance of loan application.
- Lack of collateral, followed by lack of standard financial statements were cited as reason for rejection of loan applications.
- 60 percent respondents indicated that they would not like to obtain a loan, when posed the question of indicating the amount of loan they would like to obtain if interested.

Application for Loan

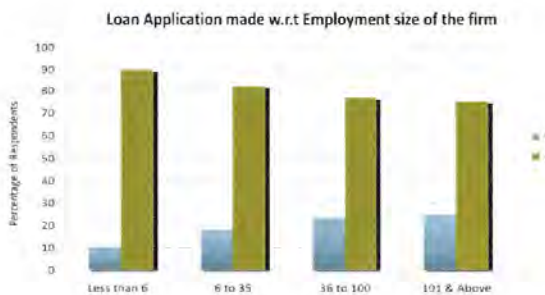
As an initial question, SMEs were asked to state if they had applied for a loan in the past two years. Graph 4.1 shows that 84.10 percent SMEs had not applied for a loan in the past two years while only 15.90 percent had applied to a bank to obtain a loan.

Graph 4.1



Graph 4.2 shows responses in terms of employment size of firms who applied for a loan in the past two years.

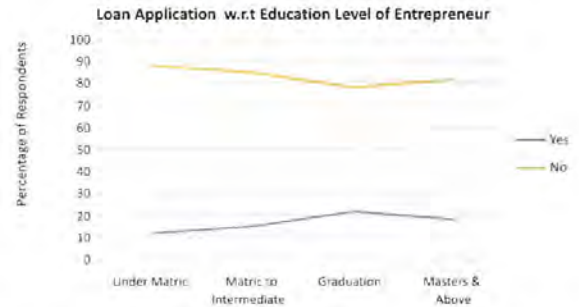
Graph 4.2



As per results of the survey, 89.44 percent firms with employment size less than 6, 82.11 percent firms with employment size 6 – 35 and 76.81 percent firms with employment size 36-100 did not apply for a loan in the past two years. Relative percentage of firms who had applied for loan in each respective category of employment was 10.56, 17.89, 23.19 and 25 percent. Thus a clear trend is visible vis-à-vis employment size of firm and application for loans. As firm size increases, the percentage response of loan applicants also increases.

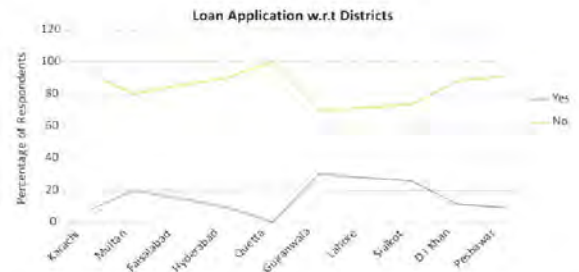
With respect to level of education of entrepreneurs, no distinct trend of response is visible. Notwithstanding a very slight increase among the entrepreneurs with rising education level, over 80 percent respondents across various education levels did not apply for a loan.

Graph 4.3



Analyzing the results district wise, around 80 percent of the respondents located in different districts did not apply for a loan in the past two years. Only 30.05 percent respondents in Gujranwala, 28.10 percent respondents in Lahore, 26.13 percent respondents in Sialkot and 19.66 percent respondents in Multan had applied for a loan in the past two years.

Graph 4.4



The above graph shows that the districts located in Punjab had a comparatively higher percentage of applicants for bank loans as compared to other provinces. Over 85 percent of the respondents in Karachi, Hyderabad, Quetta, D. I. Khan and Peshawar had not applied for a loan in the past two years.

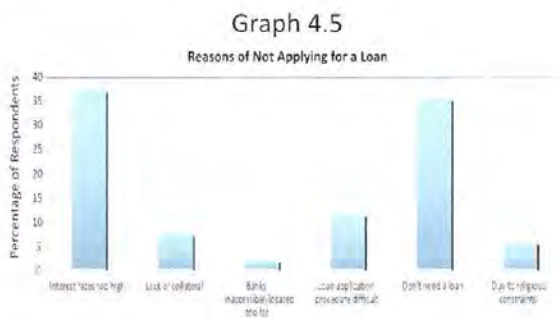
Reasons for Not Applying for Loan

SMEs were asked to state the reasons for not applying for a loan, from amongst the following possible options:

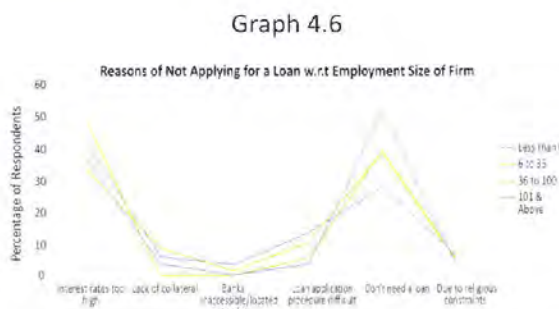
- High rates of interest
- Lack of collateral
- Bank inaccessible/located too far
- Loan application procedure difficult
- Do not need a loan
- Religious reasons

According to the survey results, 37.50 percent respondents stated that they did not apply for a loan due to high interest rates while 35.58 percent indicated that they did not need a loan.

11.54 percent respondents cited difficult loan procedures, and 5.77 percent gave religious reasons for not applying for a loan. Lack of collateral was identified by 7.47 percent respondents as a reason for not applying for a loan. Graph 4.5 shows the situation.

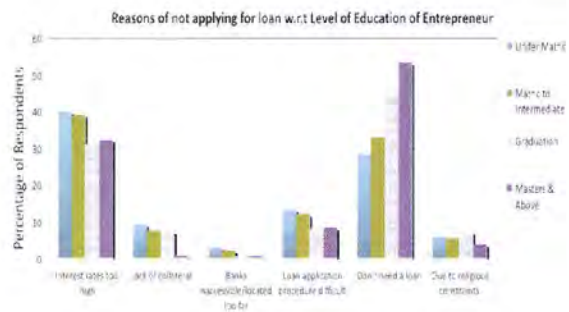


Graph 4.6 depicts an interesting picture of responses with regard to firm size. Two major discouraging factors coming to fore, across the board are, high rates of interest and disinterest in obtaining a loan. With reference to firm size, 49.06 percent establishments with employment size 36 – 100, 41.97 percent with employment size less than 6, 37.04 percent with employment size 101 & above and 34.16 percent with employment size 6-35 indicated high rates of interest as reasons for not applying for a loan. 51.85 percent respondent firms with employment size 101 & above stated that they did not need a loan and therefore never applied for it.



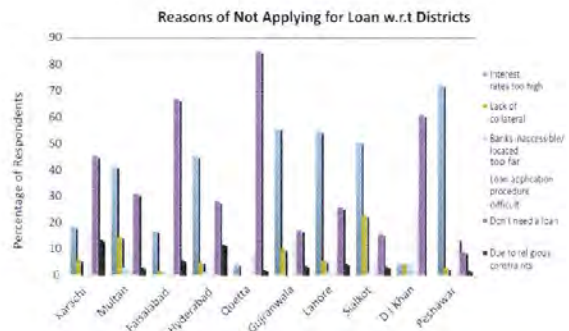
Graph 4.7 depicts the analysis with respect to education level of entrepreneurs. 40 percent respondents in the categories of Under Matric and Intermediate level reported high interest rate as the major reason. Interestingly, there is a negative correlation between rise in education level and desire to obtain a loan. As visible from the graph, the percentage of disinterested SMEs is 28, 32, 45 and 55 percent in the respective educational categories between Under Matric and Masters.

Graph 4.7



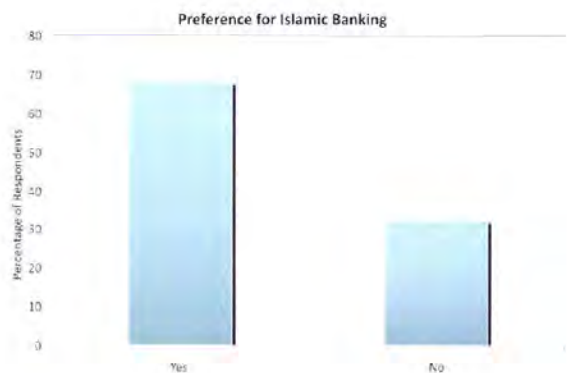
Around 50 percent respondents in Lahore, Karachi, Faisalabad, Sialkot and Hyderabad indicated high interest rate as the major constraint. In Quetta 85.5 percent respondent stated that they did not need one. 72 percent respondents in Peshawar indicated that high interest rate was a major obstacle. Very few of the respondents indicated religion as a major constraint.

Graph 4.8



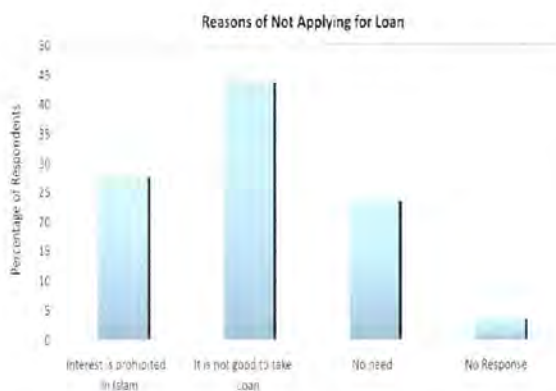
Firms that had indicated religious reasons for not applying for a loan were further asked to state if they would be interested in obtaining finance through Islamic banking tools/system. 67.95 percent firms said “yes” to the question of availing Islamic financing options.

Graph 4.9



Respondents who gave a negative response to the question were further asked for reasons for their response. 44 percent felt that it was not good to take a loan, while 28 percent stated that despite Islamic financing, they felt, that in some way, “interest” was still involved and “interest” is prohibited in religion.

Graph 4.10



In a nut shell, a vast majority of SMEs 84.10 percent had not applied for a loan in the past two years, for reasons ranging from high interest rates, lack of need and difficulty in loan application procedure. High rates of interest and lack of need stood out as major discouraging factors across the employment size categories of firms. In fact, lack of need intensified with rising educational level. As far as the district wise picture is concerned, mostly the same three reasons, to various degrees, seem to be responsible for the luke warm attitude towards bank loans. Regarding firms abstaining from bank loans on religious grounds, notwithstanding their very small percentage, 67.95 percent would be interested in Islamic mode of financing.

Purpose of Loan

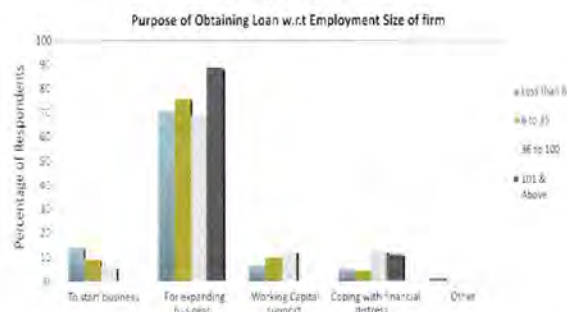
The 15.90 percent respondents who had applied for a bank loan during the past two years were asked to state reasons for applying for a loan. 74.90 percent respondents had applied for a loan for expanding their business, 9.80 percent to start their business and 9.41 percent for working capital support. Graph 4.11 shows the percentage response.

Graph 4.11



Percentage of responses to the question with respect to size of firm is depicted in graph 4.12. In firm size category less than 6, 14.55 percent respondents applied for a loan to start business, 70.91 percent for expansion of business, 7.27 percent for working capital support and 5.45 percent to cope with financial distress. The percentage response of firms with employment size 6 – 35 shows 9.14 percent applied for a loan in order to start business, 76 percent for expansion, 10.29 percent for working capital and 4.57 percent to cope with financial distress. In the category of firms having employment size 36 – 100, 6.25 percent, 68.75 percent, 12.50 percent and 12.50 percent respondents applied for a bank loan for the purpose of starting business, expansion, working capital and to cope with financial distress respectively.

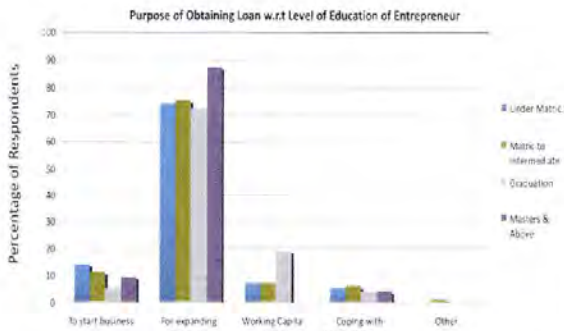
Graph 4.12



Business expansion remained the major objective for obtaining loan from banks while analyzing survey with respect to respondents’ education level. 87 percent respondents in the post graduate degree level of education indicated business expansion as the major objective to obtain loan. 70 percent respondents in education level category Graduate stated business expansion as the major reason, followed by working capital (19 percent). 75 percent

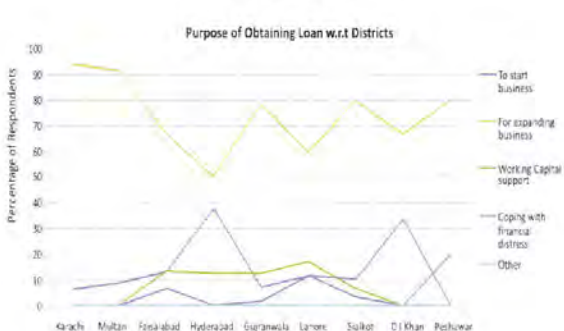
entrepreneurs having Matric and Intermediate level education obtained loan to expand their business.

Graph 4.13



Similar to the respondents of both categories, around 80 to 90 percent of firms located in different district, applied for a loan for expanding their businesses. Relative percentage of firms obtaining loans for business expansion stand at 94 percent for Karachi, 90 percent for Multan, 70 percent for Faisalabad, 50 percent for Hyderabad, 80 percent for Gujranwala, 60 percent for Lahore, 80 percent for Sialkot, 68 percent for DI Khan and 80 percent for Peshawar. Interestingly, Hyderabad has the highest percentage of loan applicants for (39 percent) starting business.

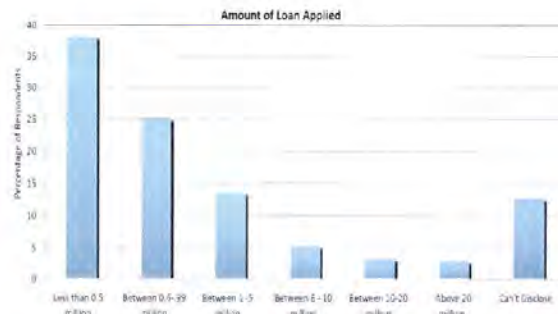
Graph 4.14



Amount of Loan

Sample firms were asked to state the amount of loan that they had applied for. 38.04 percent respondents had applied for a loan amounting to less than 0.5 million, 25.10 percent for between 0.60 – 0.99 million, 13.33 percent between 1 - 5 million and 5.10 percent between 6 – 10 million. There is a negative correlation between the amount of loan and the number of applicants. Graph 4.15 shows the responses.

Graph 4.15



Graph 4.16 shows responses of firms regarding amount of loan applied for and size of establishment.

Graph 4.16

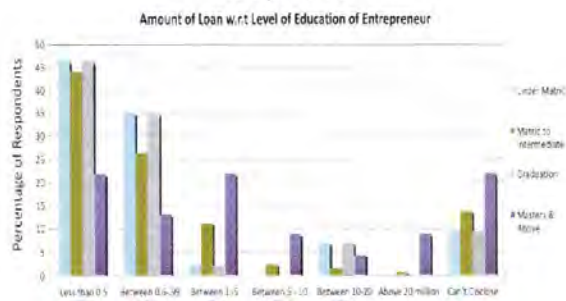


58.18 percent firms in the employment category of less than 6 applied for an amount of loan less than 0.5 million, 23.64 percent firms applied for an amount of loan between 0.6 – 0.99 million and 3.64 percent firms applied for loan amount between 1 – 5 million. 36.57 percent firms with employment size 6 - 35 indicated amount of loan applied for as less than 0.5 million, 26.86 percent between 0.6 – 0.99 million and 14.86 percent between 1 – 5 million. On the other hand 31.25 percent firms with employment size 36 – 100 applied for loan between 1 – 5 million and 31.28 percent firms with employment size over 100 & above applied for loan amounting to over 20 million. A clear relationship is visible vis-à-vis size of firm and the amount of loan applied for i.e. as firm size grows amount of loan required increases.

Graph 4.17 shows that the relative percentage of applicants for loan amount of less than 0.5 million declines with the increase in education level of entrepreneur. 46.51 percent entrepreneurs in the category of Under Matric applied for a loan amount less than 0.5 million, 34.88 percent entrepreneurs applied for an amount between 0.6 to 0.99 million and only 6.98 percent applied for

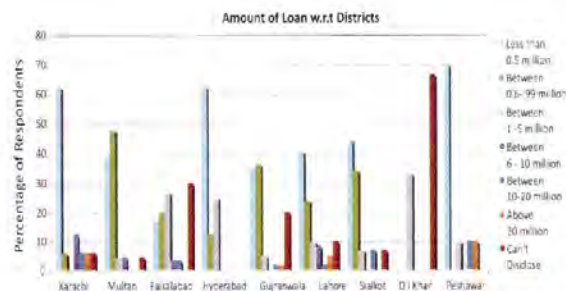
a loan between 10-20 million. 44 percent entrepreneurs in Matric to Intermediate category applied for a loan amount less than 0.5 million and 26 percent applied for a loan between 0.6 to 0.99 million. 26.56 percent graduate entrepreneurs applied for a loan less than 0.5 million, 21 percent applied for 1-5 million, 12 percent applied for an amount 6-12 million and 6 percent applied for above 20 million. 21.74 percent entrepreneurs in the education category of Masters applied for an amount less than 1-5 million, 8 percent applied for a loan above 20 million and 21 percent stated that they did not want to disclose loan amount.

Graph 4.17



The district wise depiction of size of loan applied for is presented in graph 4.18

Graph 4.18



It is interesting to note that 66.67 percent respondents from D. I. Khan stated that they could not disclose the amount of loan applied for, whereas, in the same district 33.33 percent indicated to have applied for a loan amount between 1 – 5 million. Similarly 26.67 percent respondents in Faisalabad, 25 percent in Hyderabad and 10 percent in Peshawar applied for loans between 1 – 5 million. A majority of respondents from Karachi (66.50 percent firms) applied for loans, of an amount less than 0.5 million. The trend across various other districts is such that 47.83 percent respondents from

Multan, 36.36 percent from Gujranwala, 34.48 percent from Sialkot and 23.73 percent from Lahore applied for loan between 0.6 – 0.99 million. 10 percent firms in Peshawar, 6.25 percent firms in Karachi and 5.08 percent firms in Lahore applied for loans over 20 million.

Status of Loan Application

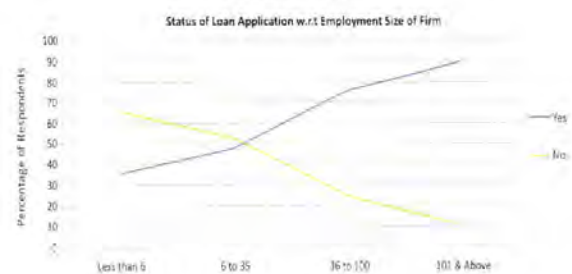
SMEs that had applied for a loan were asked to state whether their loan application was accepted or not. According to the survey analysis, 52.55 percent respondent firms indicated that their loan application was not accepted, while 47.45 percent respondents' applications were accepted.

Graph 4.19



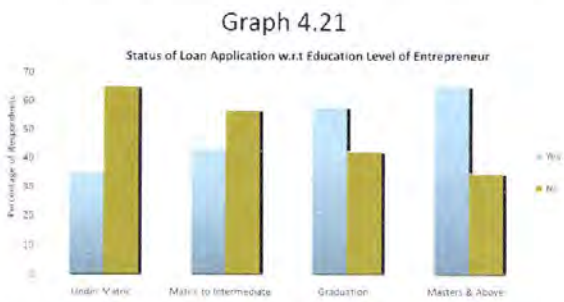
Analysis at the firm size level reveals that as size of firm increases acceptance of loan application also increases, as depicted in graph 4.20. Thus, there exists a positive correlation with respect to size of firm and acceptance of loan applications.

Graph 4.20

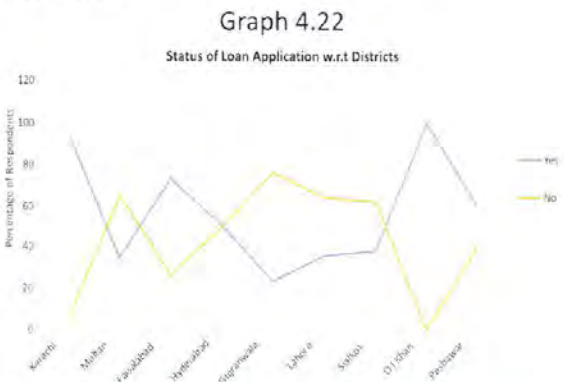


Further analysis shows a positive correlation between respondents' education and the acceptance of loan application. As the respondents' education increases the percentage of acceptance of loan application also increases. 65 percent Under Matric respondents stated that

their loan application was not accepted, while this percentage is only 40 percent at Graduate and 34 percent at Post Graduate level. This situation is reflected in graph 4.21.



Across districts, response to application of loans is depicted in graph 4.22. With the exception of Multan, Gujranwala, Lahore & Sialkot, majority of respondents in Karachi, Faisalabad, DI Khan and Peshawar stated that their loan applications were accepted.



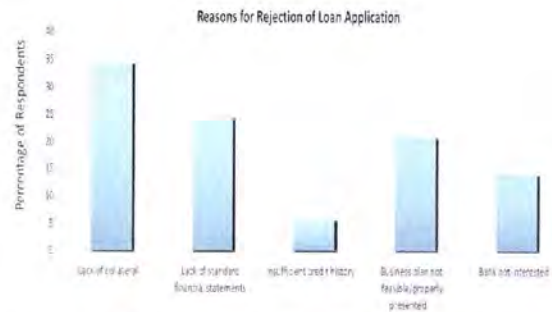
Reasons for Rejection of Loan Application

Those SMEs whose applications had been rejected were asked to state reasons cited for rejection by the financial institution. Responses were solicited on the following parameters:

- Lack of collateral
- Lack of standard financial statements
- Insufficient credit history
- Business plan not feasible/properly presented
- Bank not interested

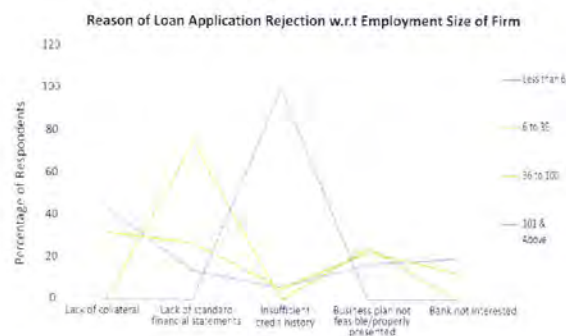
Analysis of the survey shows that 34.33 percent respondents' loan applications were rejected due to lack of collateral, 24.63 percent due to lack of standard financial statements, 20.90 due to unfeasible business plan and its presentation, 14.18 percent due to bank's own lack of interest and 5.97 due to insufficient credit history. Responses are depicted in graph 4.23.

Graph 4.23



Analysis at the firm size, along the same question, shows that 44.44 percent firms with employment size less than 6 and 32.26 percent firms with employment size 6 – 36 were unable to obtain finance due to lack of collateral. 13.89 percent respondents with less than 6 employees, 26.88 percent respondents with 6-35 employees and 75 percent respondents in the employment size category of 36 -100 stated that their loan applications were rejected due to lack of standard financial statements. It is surprising to note that firms with employment size 101 and above were unable to obtain finance due to insufficient credit history. Also, 19.44 percent respondents with less than 6 employees stated that banks were not interested in providing them loans for their business.

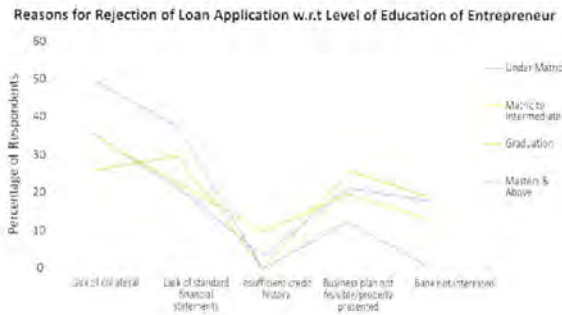
Graph 4.24



Analysis at education level of entrepreneur suggests that lack of collateral and lack of financial statements are major reasons for loan rejection across various education levels. 35 percent respondents of Under Matric and Matric to Intermediate categories state lack of collateral as a major reason of loan application rejection followed by lack of financial statements (22 percent). 50 percent entrepreneurs in the category of Post Graduate state lack of collateral

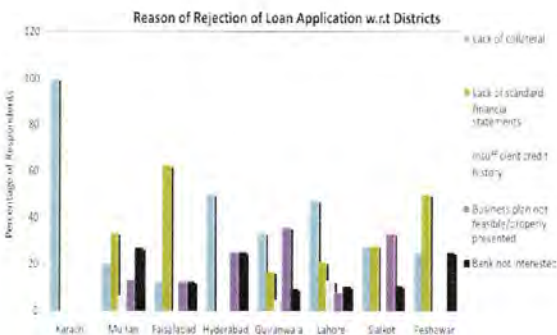
as the major constraint.

Graph 4.25



Analysis of responses at the district level is presented in graph 4.26. In Karachi, all respondents (100 percent), Hyderabad 50 percent and Lahore 47.37 percent stated that their loan applications were rejected due to lack of collateral. 62.50 percent respondents in Faisalabad and 50 percent in Peshawar attribute loan application rejection to lack of standard financial statements while 35.71 percent in Gujranwala and 33 percent in Sialkot informed that the financial institution stated to have rejected loan application due to business plan not being feasible and properly presented. 26.67 percent respondents in Multan, 25 percent in Hyderabad and 25 percent in Peshawar stated that the bank was not interested in providing loan.

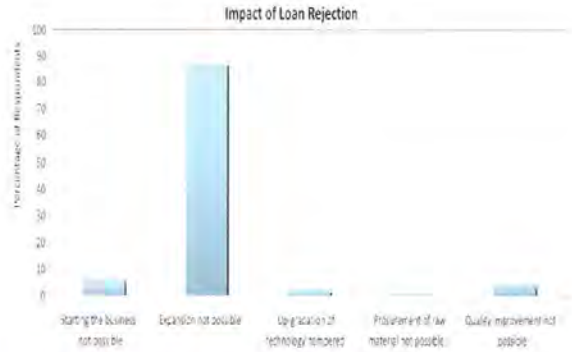
Graph 4.26



Impact of Rejection of Loan Application

A second question regarding the impact of loan rejection was posed to SMEs. Predominantly, 86.57 percent respondents stated that they were unable to expand their business due to their loan application being turned down by the financial institution. Graph 4.27 presents the responses.

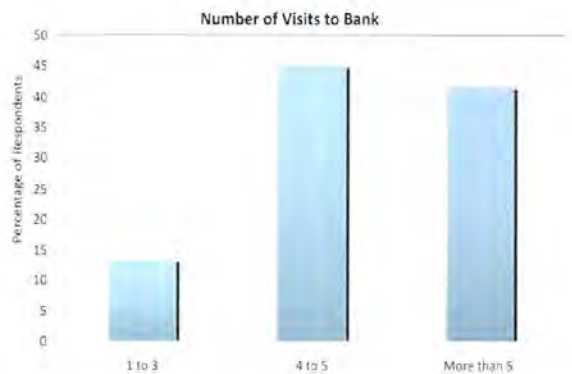
Graph 4.27



Total Number of Visits to Bank

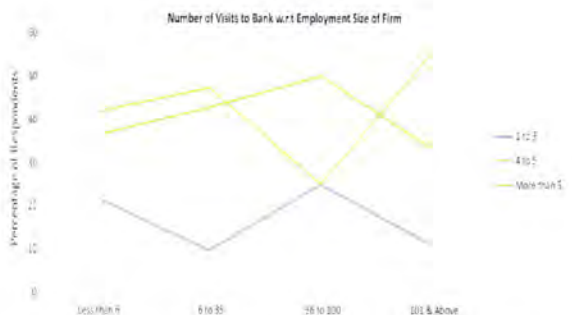
According to the survey results, 45.10 percent and 41.57 percent respondents undertook 4-5 and more than 5 visits to the banks for obtaining loan respectively.

Graph 4.28



Analysis at the firm size level shows that 50 percent respondents with employment size 36 – 100 made more than 5 visits to the bank in order to obtain a loan. 47.43 percent respondents with employment size 6 – 35 and 41.82 percent respondents with employment size less than 6 made 4 -5 visits to the bank.

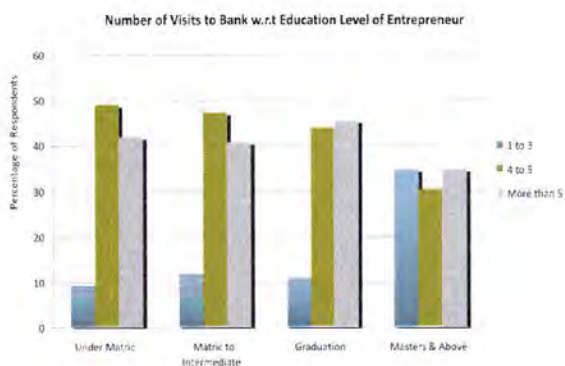
Graph 4.29



Analysis of Number of visits undertaken to the bank for obtaining loan with respect to education level of

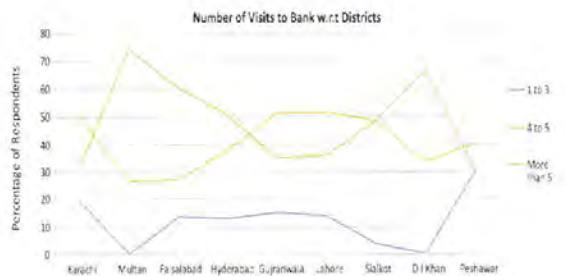
entrepreneur is depicted in graph 4.30. It is evident that entrepreneurs educated at the levels of Matric and Intermediate have to make more visits to banks as compared to entrepreneurs in the categories of Graduate & Masters. Around 50 percent Under Matric and Matric to Intermediate level entrepreneurs stated that they had to make 4-5 visits to banks. Only 30 percent post graduate degree holder Entrepreneurs indicated 4-5 visits. On average around 40% of entrepreneurs across various education levels stated that they had to make more than 5 visits to the bank.

Graph 4.30



District wise, with the exception of over 50 percent respondents in Gujranwala, Lahore & Sialkot, who indicated having made 4-5 visits to the bank, responses from the other districts show that predominantly more than 5 visits were made to the bank to obtain finance.

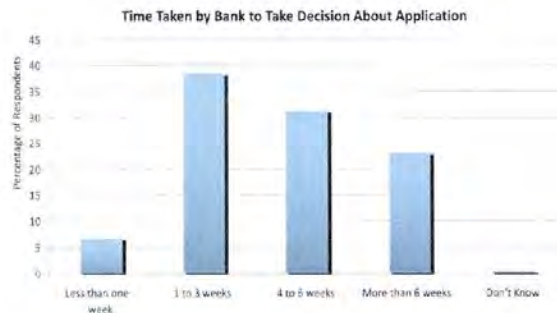
Graph 4.31



Loan Application Processing Time

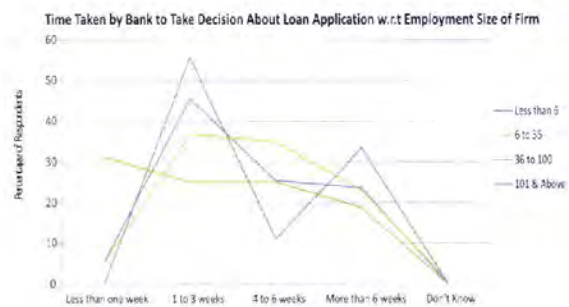
Survey shows that around 38.43 percent respondents indicated that it took 1-3 weeks, 31.37 percent respondents 4-6 weeks and 23.14 percent respondents indicated that it took more than 6 weeks for the bank to reach a decision regarding their loan application.

Graph 4.32



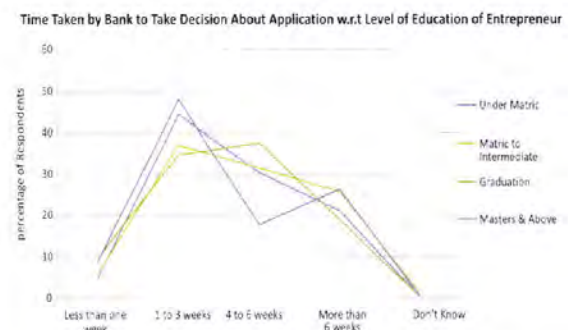
Analysis according to firm size shows that irrespective of employment size of firm, the banks mostly took 1-3 weeks to make a decision regarding loan application.

Graph 4.33



Across various education levels, 40 percent respondents stated that banks took 3-4 weeks to process their loan application followed by 4-6 weeks (30 percent respondents).

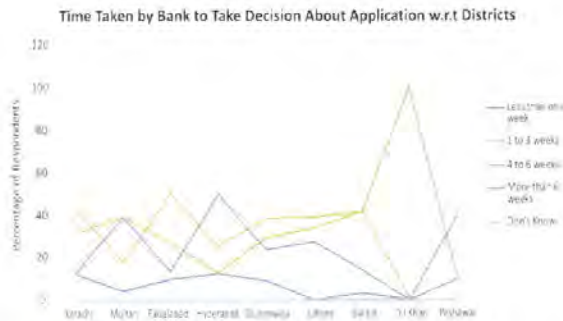
Graph 4.34



Time taken by banks to reach a decision regarding loan application across various districts is presented in the graph 4.35. 43.75 percent respondents in Karachi, 50 percent in Faisalabad, 38.18 percent in Gujranwala, 38.98 percent in Lahore and 41.38 percent in Sialkot state that it

took the bank 1 – 3 weeks to reach a decision on their loan application. Interestingly, D. I. Khan stands out as the lone district where 100 percent respondents stated that it took 4 – 6 weeks for the bank to make a decision. 50 percent respondents in Hyderabad and 40 percent respondents in Peshawar stated that the bank took more than 6 weeks to arrive at a decision regarding their loan application.

Graph 4.35



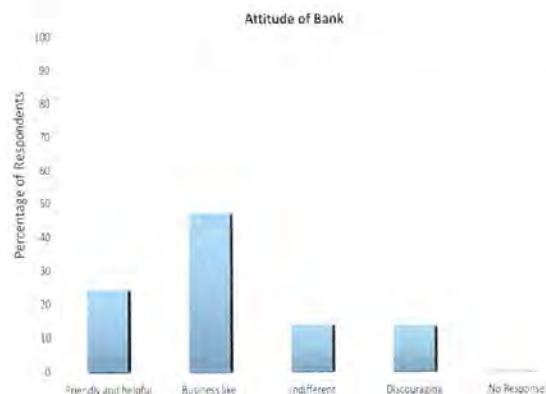
Attitude of Bank

Sample firms were asked to state the attitude of the bank during their loan application process. Responses were solicited on the following parameters:

- Friendly & helpful
- Business like
- Indifferent
- Discouraging
- Others

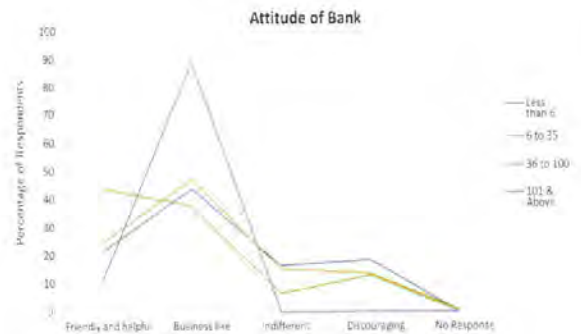
According to the results, 47.06 percent SMEs stated that the attitude of banks was business like while 24.71 percent indicated that they were very friendly, 14.12 percent reported that bank's attitude was indifferent while 13.73 percent stated it as discouraging.

Graph 4.36



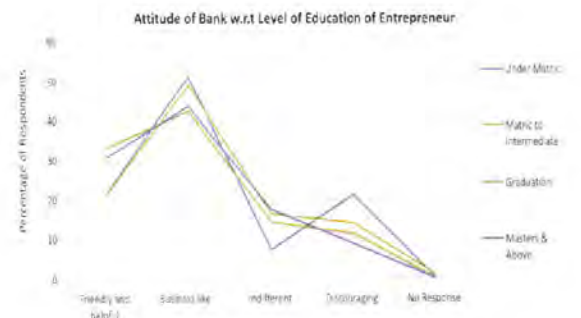
Across various employment size categories, sample firms indicated that the attitude of banks was business like. 43.75 percent firms with employment size 36 -100 and 24.57 percent firms with employment size 6 – 35 stated that the banks attitude was friendly and helpful.

Graph 4.37



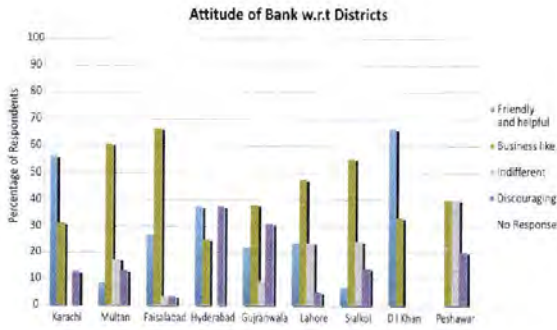
Majority of entrepreneurs in all educational categories found the banks attitude business like. However, among the respondents terming the attitude of banks as discouraging, the Under Matric segment is on top with 20 percent entrepreneurs voicing this concern.

Graph 4.38



District level analysis indicated that 66.67 percent respondents in D. I. Khan and 56.25 percent firms in Karachi termed the attitude of banks as friendly and helpful. In the districts of Multan, Faisalabad and Sialkot, over 50 percent respondents shared that banks attitude was business like. Around 80 percent respondents of Peshawar reported that the banks attitude was indifferent and discouraging which partially explains the unsuccessful loan applications in Peshawar, as stated in an earlier section.

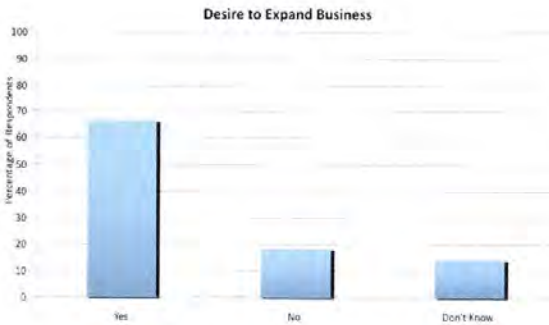
Graph 4.39



Business Expansion

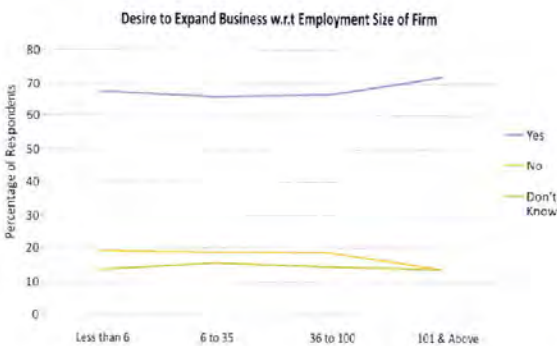
Do you plan to expand your business? According to the survey results, 66.71 percent firms said “yes”. Interestingly, 14.71 percent firms indicated that they did not know.

Graph 4.40



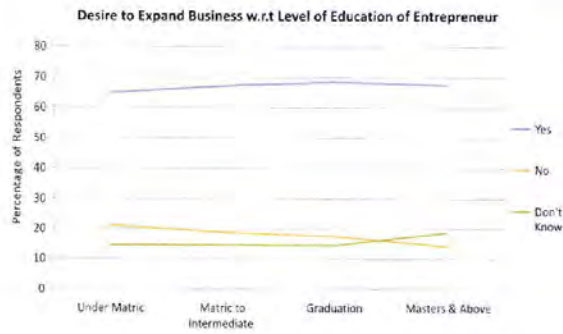
A clear trend is visible in the graph below, whereby, around 70 percent of respondents irrespective, of size of employment, plan to expand their business.

Graph 4.41



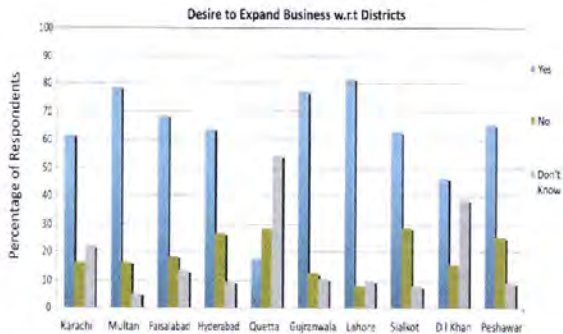
Similar trend is visible when analysis is conducted according to education level of entrepreneurs. 66 percent entrepreneurs across the various education levels stated that they plan to expand their business.

Graph 4.42



Around 70 to 80 percent respondents of all districts, except Quetta, showed their desire to expand their business. In Quetta majority of respondents stated that they did not know whether to expand their business or not.

Graph 4.43



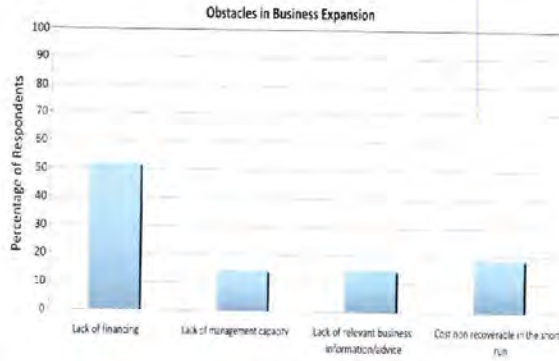
Obstacles in Business Expansion

A second question, “What are the obstacles in expansion of your business?” was posed to SMEs and multiple responses were solicited on the following parameters:

- Unavailability of finance
- Lack of management capacity
- Lack of relevant business information
- Associated costs non-recoverable in short run

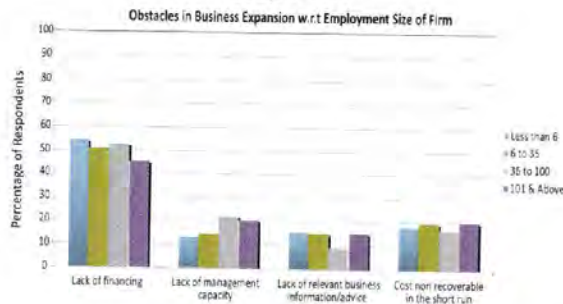
Frequency of responses to the question along the mentioned parameters shows unavailability of finance is the major obstacle in expansion of business. 52 percent respondents highlighted lack of financing as a major obstacle in business expansion followed by non-recoverable cost (19 percent). 29 percent respondents identified lack of management and lack of relevant business information/advice as business constraints.

Graph 4.44



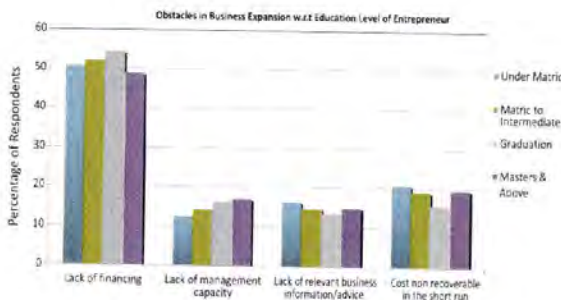
In terms of employment size, again, lack of finance has been highlighted as a major constraint by majority of firms across the board. Graph 4.45 shows the trends.

Graph 4.45



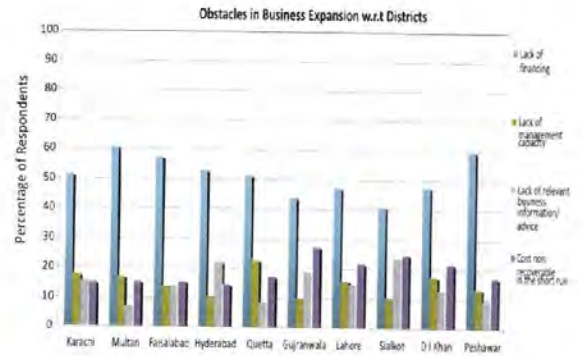
Same trend is visible in the education level analysis as well.

Graph 4.46



On average, 55 percent firms located at different districts reported lack of finance as the main constraint to business expansion. Graph 4.47 shows the picture in detail.

Graph 4.47

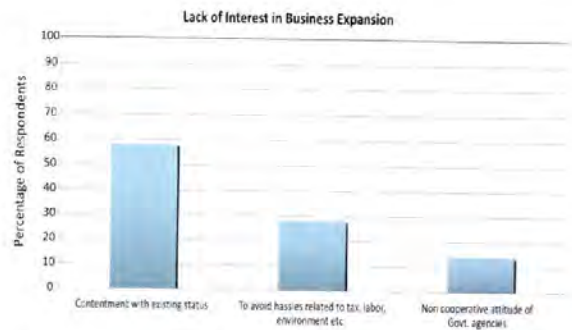


Reasons for Non-Expansion of Business

Respondent firms that stated “no” to plans of expansion of business were also asked to state reasons for not expanding business and responses recorded on the following parameters:

- Contentment with existing status of business
- To avoid hassles related to taxation, labour, environment etc.
- Non-cooperative attitude of government agencies

Graph 4.48



Contentment with existing business was identified as the foremost reason for lack of any desire to expand operations among all respondents.

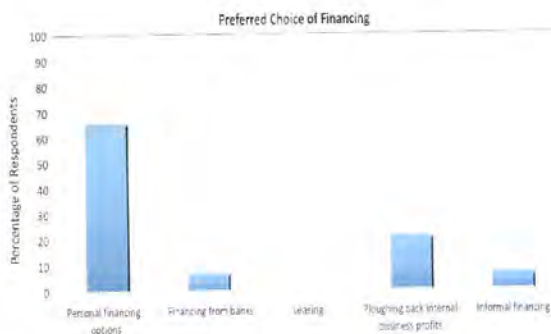
Preference for Sources of Finance

If the following sources of finance were equally available to you, which would you prefer the most?

- Personal financing options
- Financing from bank
- Leasing
- Ploughing back internal profits
- Informal financing

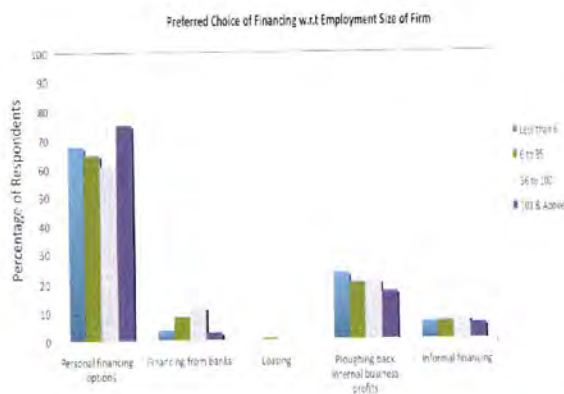
As per survey results, 65.77 percent SMEs stated that they would prefer personal financing options, even if all other sources of financing were equally available. 20.82 percent respondents would prefer ploughing back profits, while 6.11 percent would avail informal sources of financing. Only 6.80 percent respondents stated that they would prefer financing through banks.

Graph 4.49



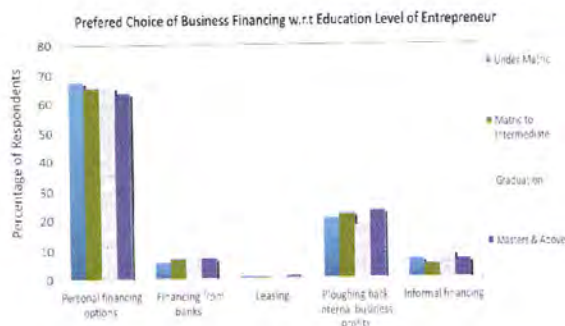
Survey analysis with reference to employment size indicated that 70 percent respondents, irrespective of size of firm preferred personal financing mode to finance their business. 20 percent respondents of different sized firms preferred ploughing back internal profit.

Graph 4.50



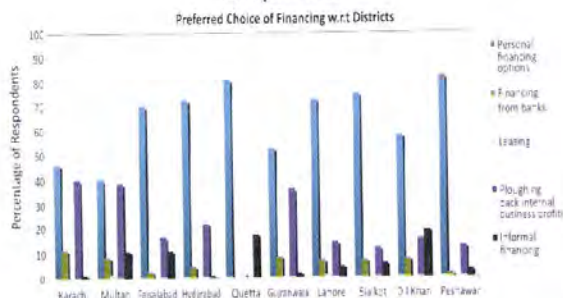
Similarly, irrespective of the education level of entrepreneur, on average 66 percent respondents preferred personal financing options and 20 percent preferred ploughing back internal business profits. Graph 4.51 depicts the trend.

Graph 4.51



A similar trend is also visible at the district level. 80 percent respondents from Faisalabad, Lahore, Sialkot, Peshawar, Hyderabad and Quetta indicated that they preferred personal financing option in order to finance their business, followed by 50 percent respondents from Karachi, Multan, Gujranwala and D. I. Khan being more in favour of personal financing options.

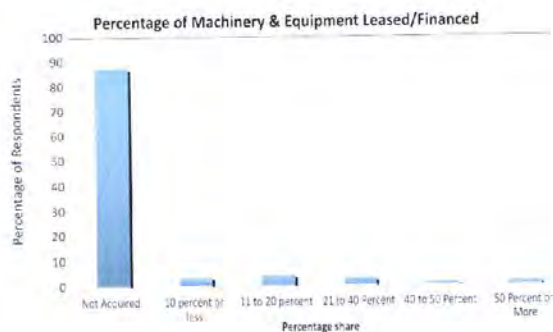
Graph 4.52



Percentage of Equipment/Machinery Leased/Financed by Banks

The respondents were asked about the percentage of machinery and equipment leased/financed from banks. 87 percent respondents had not acquired any machinery/equipment on lease. Only 4 percent respondents stated that they obtained 10 to 20 percent machinery/equipment on lease or through financing from banks.

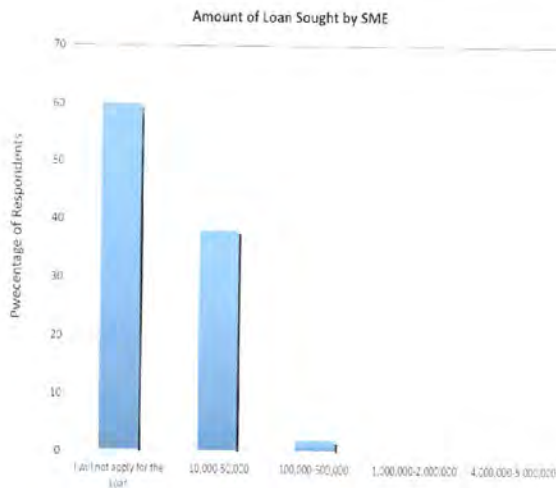
Graph 4.53



Amount of Loan Required

Respondents were asked to state the amount of loan they would like to obtain, if interested. 59.97 percent respondents indicated that they would not like to apply for a loan while 39.97 percent respondents indicated that they would apply for loan between 0.010–0.050 million.

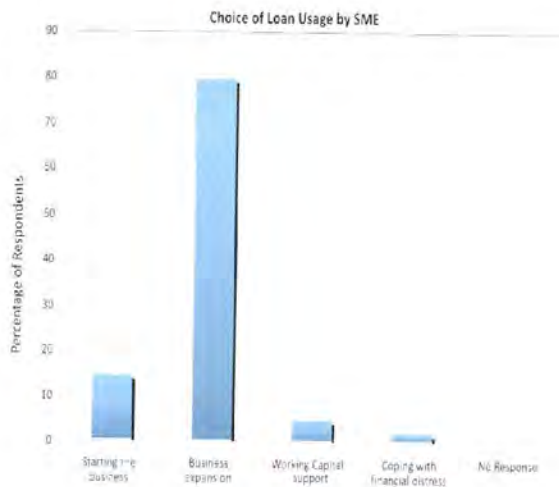
Graph 4.54



According to the survey results, loans obtained would be spent for the following:

- Expansion of business (79.32 percent)
- Starting business (14.15 percent)
- Working capital support (4.67 percent)
- Coping with financial distress (1.71 percent)

Graph 4.55



Chapter V

- Approach
- Key Findings
- Method of Procurement
- Dispute Resolution Mechanism
- Cost of Raw Material
- Constraints in Procuring Raw Material
- Relative Cost of Raw Material
- Storage of Raw Material
- Importance of Availability of Raw Material Year Round
- Awareness of Procurement Related Information
- Payment Cycle
- Price Perception
- Use of Information Technology
- Significance of Use of Computers in Planning & Cost Accounting
- Subcontracting

PROCUREMENT

Approach

Procurement is the starting point of a business. SMEs have limited financial depth and storage capacity and their ability to maintain raw material inventory at Economic Order Quantity (EOQ) level, in a rapidly fluctuating market is also limited. Compared to large corporations who have dedicated departments & Procurement Planning and Replenishment (PPR) systems in place, SMEs usually act on gut feeling and rough estimates to determine the reorder level, which at times results in trapping additional funds in inventory.

This section comprises a set of 24 questions, assessing the baseline position of our SMEs in terms of the quality of PPR systems in place, availability of timely information, credit cycle, relationship with suppliers and the overall level of awareness on part of the entrepreneur about the significance of procurement process in determining the economics of a business. The section contains both the overall and segmental analysis.

Key Findings

- SMEs rarely have systems in place for procurement.
- Arbitration is termed as the most effective mechanism for dispute resolution between contracting parties.
- As firm size increases, recourse in cases of dispute is sought through courts.
- As level of education of respondents increases, courts are ranked as the most effective measure in cases of contractual disputes.
- SMEs often complain that there is rapid price fluctuation of raw material, which makes it difficult for SMEs to procure raw material as they operate on thin margins. On the other hand, SMEs are handicapped and due to small size of operation do not possess the means to hoard or buy in bulk.
- Majority of firms procure raw material locally and use basic/primary raw material for production.
- There is no difficulty in import of raw material and the tariffs/taxes due are neither an issue. However, one must also note that the percentage of firms procuring raw material from outside the country is only 8 percent.
- 62 percent firms feel that the cost of raw material is high and attribute it to taxes, inflation, shortage of raw material and incompetence of government.
- Only 29.4 percent SMEs store raw material seasonally.
- Availability of raw material year round would improve business a lot i.e. by 11 – 20 percent.
- SMEs are generally aware of raw material availability, quality, grading and prices, which assists in making informed decisions.
- 18.1 percent establishments purchase 50 percent of their inputs on credit i.e. full payment is not due on delivery as opposed to 38.9 percent of firms having to pay up front for purchase of input. The mean value of 28.05 percent depicts the over all percentage of firms procuring input on credit.
- The payment cycle for goods procured on credit by SMEs is approximately one month (35 percent respondents).
- On the average, 29.97 percent of products/services are sold on credit. However, 36.9 percent SMEs do not sell on credit and full payment is due on delivery. The average collection time for sales on credit is 33.26 days.
- 54.7 percent SMEs use traditional 'khata system'/file system for inventory management. 26.7 percent have no system at all for inventory management.
- 51.2 percent SMEs use manual file system for cost accounting purposes and 29.9 percent have no system in place at all.
- 55.7 percent have no procurement planning system. 57.4 percent have no Management Information System (MIS) in place either.
- While only a small percentage of SMEs actually use computers in their businesses, they do feel that its use would enhance their cost accounting and procurement planning by more than 50 percent.
- 69.7 percent respondents stated that they do not work on subcontracting basis.

Method of Procurement

44.1 percent respondents stated that there was no system for procurement in existence in their business, while 13 percent stated their total ignorance in this regard. Graph 5.1 depicts the responses of firms.

Graph 5.1

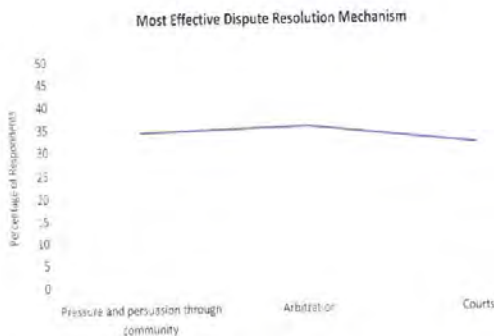


Those respondents who replied in the affirmative (38.20 percent) also disclosed their satisfaction (92 percent) with the system. SMEs who had stated their ignorance and lack of having a system for procurement were asked to state if they would be interested in registering for such a service. The response was overwhelmingly 74.90 percent in the negative.

Dispute Resolution Mechanism

Procurement of goods and services either as input or as final customers entails a responsibility upon the seller to make good his agreement. SMEs were asked to rank dispute resolution mechanism in terms of efficacy, if a dispute occurred between contracting parties. Graph 5.2 below ranks the dispute resolution mechanisms indicated by respondents.

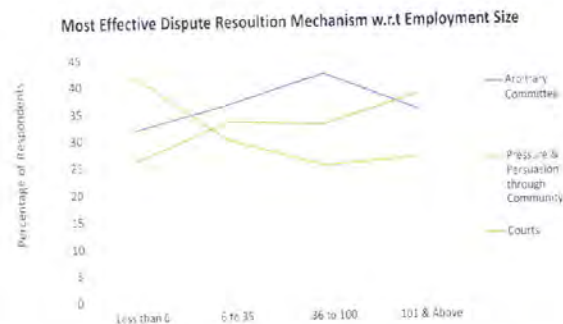
Graph 5.2



As evident from the graph, 35.40 percent ranked arbitration committee on the top as a dispute

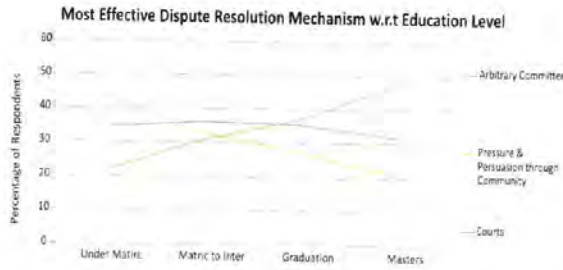
resolution mechanism, while 34 percent stated their preference for peer pressure through elders of the community and 31 percent expressed the inclination to approach courts. Analyzing the above responses with respect to size of firm (graph 5.3.) 41.99 percent firms with size of employment less than 6 indicate peer pressure & persuasion through community and 32.5 percent SMEs indicate arbitration as the most effective measure for dispute resolution. As firm size increases, percentage of responses in the category of "peer pressure & persuasion through community" decreases. Meanwhile the effective method for dispute resolution of firms with employment size 101 & above is through courts (38.24 percent), followed by arbitration (35.29 percent). Interestingly, 42.19 percent firms with employment size 36 – 100 indicate arbitration as effective means to resolve disputes. The percentage preference to approach courts as a dispute resolution mechanism also increases with increase in firm size albeit in a stratified manner.

Graph 5.3



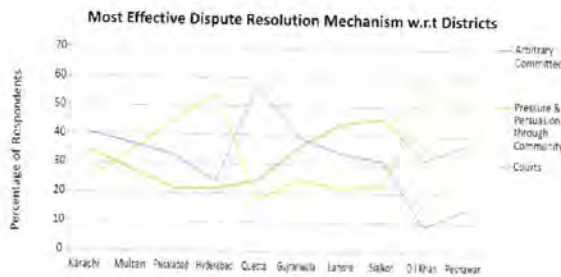
Can a relationship be traced between dispute resolution mechanisms and level of education of entrepreneur? When sample data is analyzed, a clear trend emerges, as presented in graph 5.4. As level of education increases, courts are ranked as the most effective measure in cases of contractual disputes. 48.25 percent respondents in the category of education up to masters level, rank courts as the most effective dispute resolution mechanism. On the other hand, a distinct declining trend is visible in percentage responses in the category of peer pressure & persuasion through community, as education level increases.

Graph 5.4



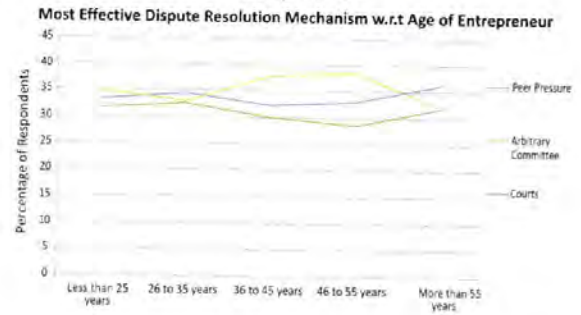
Graph 5.5 looks into the dispute resolution mechanisms preferred across various districts. 59.09 percent respondents in D. I. Khan, 45.10 percent in Faisalabad, 54.22 percent in Hyderabad and 47.62 percent in Peshawar term “peer pressure & persuasion through community” as most effective mechanism to resolve disputes. On the other hand, in the districts of Sialkot and Lahore, 45.95 percent and 43.88 percent respondents respectively rank recourse through courts as most effective. In the districts of Karachi, Multan & Quetta, 40.72 percent, 37.17 percent and 57.78 percent respondents respectively rank arbitration as the first choice for contractual dispute resolution.

Graph 5.5



Graph 5.6 shows the distribution of responses to the question of most effective mechanism for dispute resolution when measured with age of respondents. Survey results show that recourse through “courts” is the least effective manner to resolve disputes, irrespective of age of entrepreneurs. On the other hand, 34.92 percent entrepreneurs in the age bracket of less than 25 term “arbitration” and 33.33 percent term “peer pressure & persuasion through community” as effective dispute resolution mechanisms. In fact, apart from the group of entrepreneurs in the age bracket of 26 to 35 years, percentage response towards arbitration increases till the age bracket of 46 to 55 years, after which there is a decrease in percentage response along the same category.

Graph 5.6

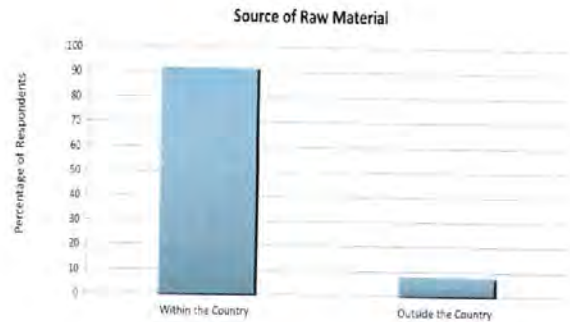


There is an evident leaning to approach courts as a preferred means for dispute resolution with respect to increase in entrepreneurs’ educational level. However as far as the age is concerned, arbitration emerges as the most popular modality in the age groups of 36 to 45 years and 46 to 55 years. Among the districts, places like Lahore & Sialkot have shown preference (over 40 percent) for approaching the courts.

Cost of Raw Material

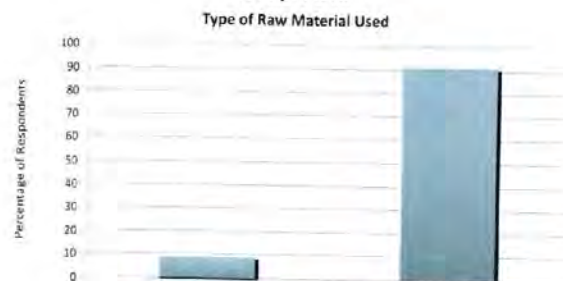
SMEs were asked to state the relative percentage of raw material procured locally and imported. 92 percent respondents procure raw material from within the country while only 8 percent import their raw material.

Graph 5.7



SMEs were also asked to state what constituted “raw material” in their business.

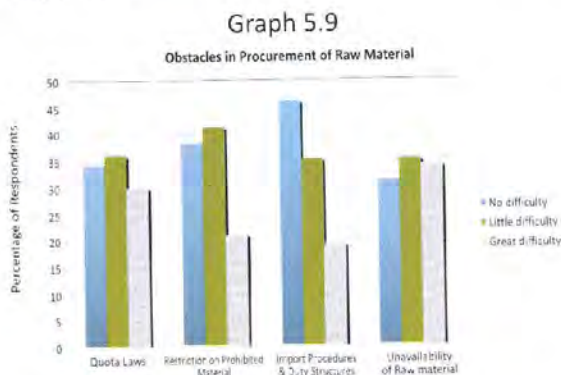
Graph 5.8



The results in graph 5.8 above show that 90 percent of the SMEs process basic/primary raw material for production, while just 10 percent are assemblers.

Constraints in Procuring Raw Material

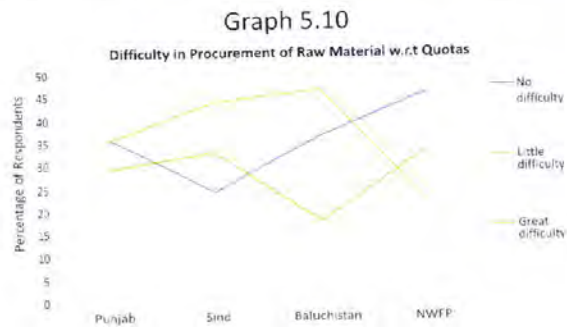
While making procurements, SMEs face a number of constraints that hampers their efficiency. During the Survey, SMEs were asked to state degree of obstacles that they have to overcome during the process of procurement. Responses were elicited in 4 categories i.e. i) laws/rules of quota, ii) restriction on prohibited material, iii) import procedures & duty structure and iv) unavailability of raw material. Degree of difficulty was assessed individually in each of the categories as “great difficulty”, “little difficulty” and “no difficulty”. Graph 5.9 below depicts their responses.



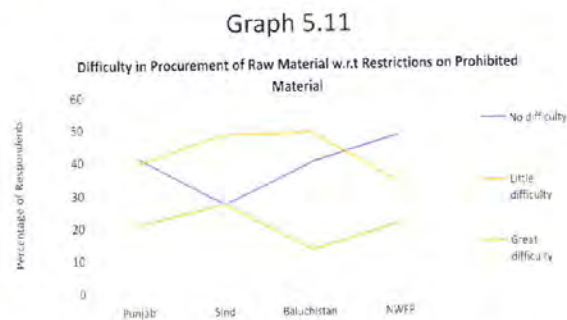
Opinion seems rather evenly divided about the degree of difficulty posed by Quota laws. Coming to restriction on prohibited material, just 21 percent respondents consider it as great difficulty. A healthy sign, as apparent in the graph, is that 46 percent SMEs feel that there is no difficulty in import of raw material and the tariffs/taxes due are neither an issue. However, one must also note that the percentage of firms procuring raw material from outside the country is only 8 percent. As far as unavailability of raw material is concerned, again there is an even split in the degree of its seriousness.

Analysis of responses to assess the situation amongst various provinces reveals (graph 5.10) the pattern of difficulty in procurement of raw material vis-à-vis quota. 23.76 percent respondents in Sindh indicate that there are no difficulties in raw material procurement, whereas 43.65 percent respondents indicate little difficulty and 32.60 percent respondents indicate there is great difficulty in procurement due to quotas. In the province of NWFP, 45.45 percent

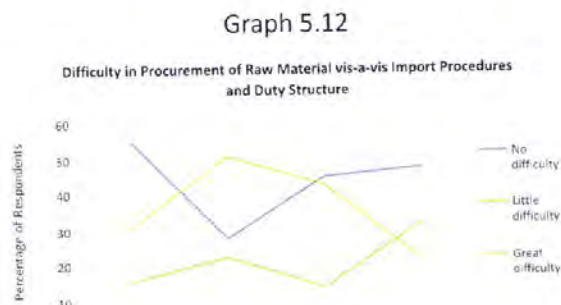
respondents state no difficulty in procurement due to quotas. 35.38 percent respondents in the province of Punjab indicate no difficulty due to quotas in procurement.



Graph 5.11 shows percentage responses at the provincial level when asked to state level of difficulty in purchase of raw material due to restrictions on prohibited materials. In the province of Punjab, 40.60 percent firms state “no difficulty”, 39.21 percent state “little difficulty” and 20.19 percent state “great difficulty”. In the provinces of Sindh, Balochistan and NWFP, 25.97 percent, 39.18 percent and 46.89 percent of firms, respectively, state “no difficulty” in procurement due to restrictions on prohibited material.

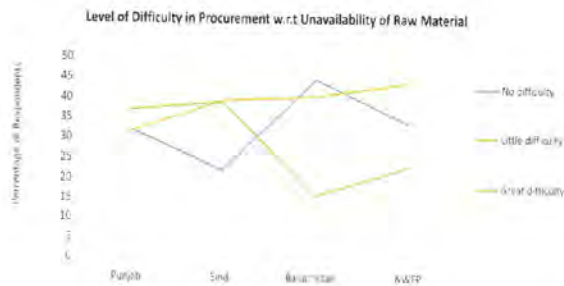


In the province of Punjab, 54.52 percent, Sindh 27.35 percent, Balochistan and NWFP over 40 percent firms state “no difficulty” in procurement due to import procedures & duty structure.



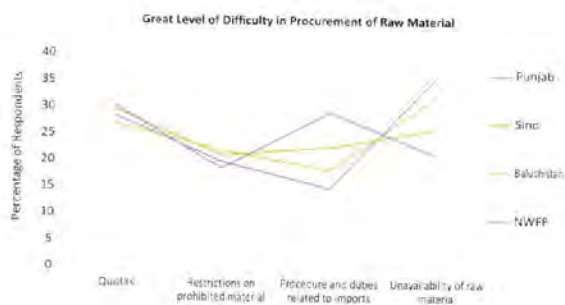
Graph 5.13 represents the provincial percentage response of firms regarding difficulty in procurement of raw material due to its unavailability. In Punjab 32.13 percent, Sindh 21.82 percent, Balochistan 44.33 percent and NWFP 33.49 percent firms state that they face no difficulty in procurement due to unavailability of raw material.

Graph 5.13



Further analysis at the Provincial level reveals that the greatest difficulty in procurement of raw material in Sindh (38.90 percent respondents) and Punjab (36.65 percent respondents) is unavailability of raw material. 17.52 percent respondents in Balochistan and 33.01 percent respondents in NWFP assign "quota" as the greatest difficulty in procurement. Graph 5.14 depicts the percentage responses of firms assigning the level of difficulty in procurement as "great difficulty" at the provincial level.

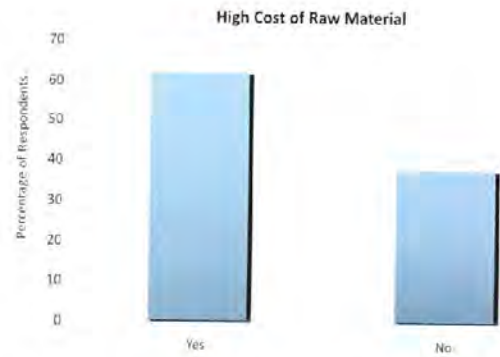
Graph 5.14



Relative Cost of Raw Material

Cost of raw material has a direct effect upon business. During the survey, SMEs were posed a loaded question, "do you think cost of raw material is high?" Responses were recorded as 'yes' or 'no'. Graph 5.15 shows the response across the sample firms. 65 percent firms feel that the cost of raw material is high.

Graph 5.15



A second question eliciting response on the reasons for high cost of raw material was posed to respondents who had stated cost of production as high. 65 percent respondents ascribe reasons for high prices to taxes, 50 percent to inflation, 51 percent to shortage of raw material and 15 percent to incompetence of government. The percentage response is depicted in graph 5.16.

Graph 5.16



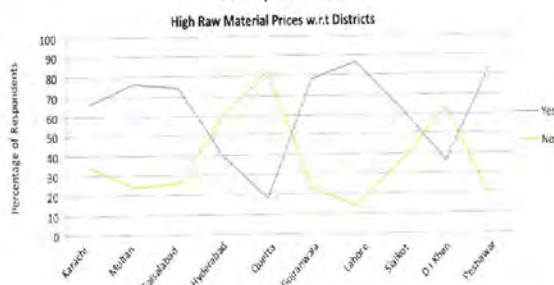
Graph 5.17 represents analysis with respect to firm size. Percentage responses of firms that indicate that prices of raw material are high are in the range of 60 to 70 percent. On the other hand, respondents stating that prices are not high are in the range of 30 to 40 percent. This trend is evident across all firm classifications.

Graph 5.17



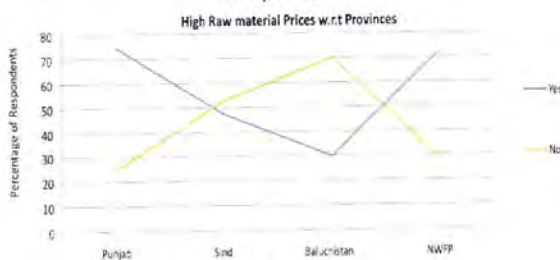
District wise split of responses regarding high price of raw material is presented in graph 5.18. In Lahore 86.22 percent, in Karachi 65.98, Peshawar 82.86 percent and Multan 76.11 percent respondents feel that prices of raw material are high. On the other hand, in Quetta 82.22 percent, in D. I. Khan 63.34 percent, and Hyderabad 60.64 percent respondents state that prices of raw material are not high.

Graph 5.18



At the Provincial level, 74.71 percent firms in Punjab and 71.77 percent in NWFP feel that prices of raw material are high. Interestingly, in Balochistan, a majority of firms (70.10 percent) disagree and feel that prices are not high. In Sindh, however, the difference between percentage response “yes” and “no” is not as high as in the case of other provinces.

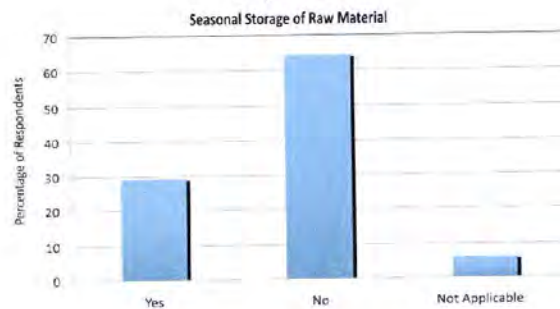
Graph 5.19



Storage of Raw Material

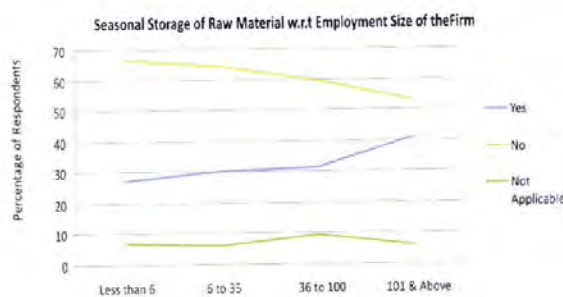
Only 29.4 percent SMEs store raw material seasonally, whereas 64.4 percent SMEs do not store material according to seasonal demand of their product.

Graph 5.20



Graph 5.21 shows percentage responses of SMEs with respect to employment size of business.

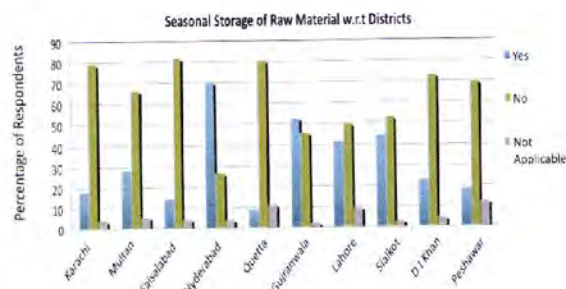
Graph 5.21



The pattern of responses shows that as size of firm increases, more and more firms store raw material seasonally and the gap between firms response “yes” and “no” decreases. Significant change in response pattern of firms that do store raw material seasonally takes place where firm size is between 36 to 100.

District wise analysis of firms regarding storage of raw material is presented in graph 5.22. It is interesting to note that 69.88 percent respondents in Hyderabad and 52.46 percent respondents in Gujranwala indicate that they store raw material seasonally. In other districts the response pattern shows that firms do not generally store raw material.

Graph 5.22



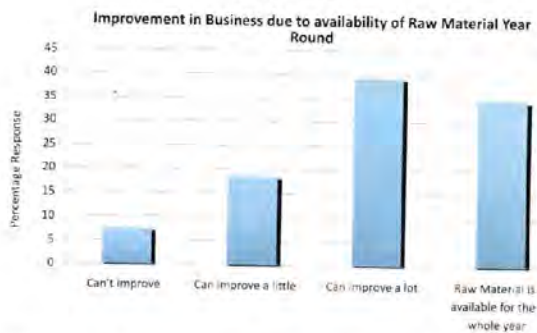
Importance of Availability of Raw Material Year Round

Availability of raw material all along the year is a crucial factor in enabling SMEs to keep their production and sales cycles synchronized. Responses regarding this aspect were elicited on the following four parameters. The choice of response was recorded as:

1. Can improve a lot (11 - 20 percent)
2. Can improve a little (1 - 10 percent)
3. Can't improve
4. Raw material is available year round

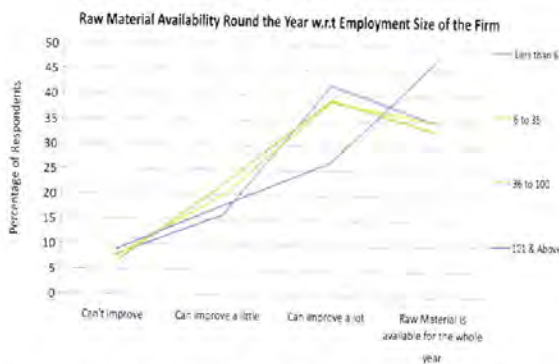
39.3 percent respondents stated that the comfort of year round availability of raw material would improve the business a lot (11–20 percent), while 34.8 percent SMEs were of the view that raw material was already available year round.

Graph 5.23



The same question was analyzed with respect to employment size of firm. 47.06 percent respondents with firm size of 101 & above indicated that raw material was available year round followed by 34.69 percent and 34.50 percent respondent firms with employment size less than 6 and between 6–35 respectively.

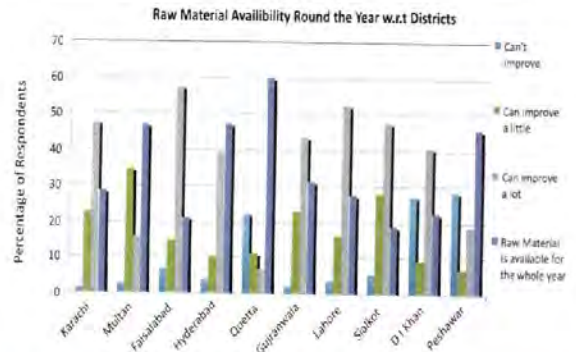
Graph 5.24



In terms of location of firms, out of the total respondents in Faisalabad, 57.56 percent, in Lahore 52.55, in Sialkot 47.75, in Karachi 47.42

and in Gujranwala 43.72 percent respondents indicated that availability of raw material year round can improve their business a lot (11–20 percent).

Graph 5.25



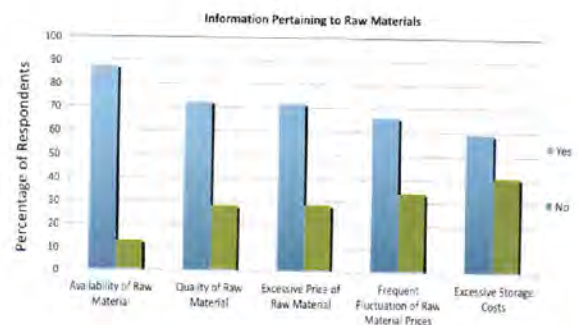
Awareness of Procurement Related Information

SMEs were asked to state their views on different aspects of procurement of raw material. The percentage responses in terms of “yes” or “no” on the following parameters were solicited:

1. Availability of raw material
2. Grading & quality of raw material
3. High cost of raw material
4. Frequent price fluctuation of raw material
5. Extra cost of storage of raw material
6. Others

Graph 5.26 gives a depiction of the results.

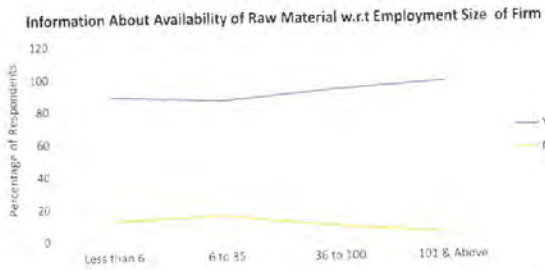
Graph 5.26



It is interesting to note that SMEs are generally aware of raw material availability, quality, grading and prices, which assists in making informed decisions.

The level of awareness across firms classified by size & location was also analyzed. Graph 5.27 presents the response pattern of firms with respect to size of business against availability of raw material.

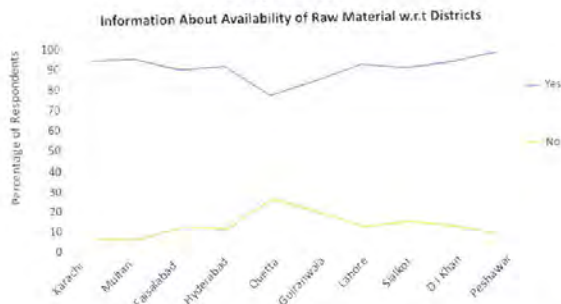
Graph 5.27



The percentage of SMEs expressing satisfaction on the availability of information regarding raw material is in the range of 84 percent (less than 6) to 97.06 percent (101 and above). With increasing firm size, the level of awareness regarding availability of raw material increases, as evident in the graph above and the difference in percentage level of response as “yes” and “no” increases.

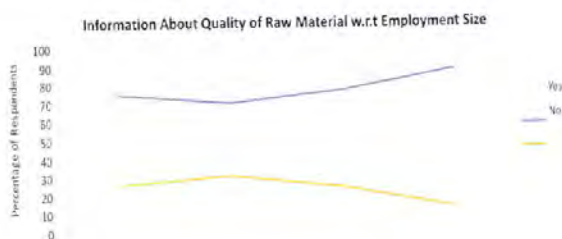
In terms of location of firms and level of awareness regarding availability of raw material, with the exception of Quetta, over 90 percent respondents have indicated their awareness across various districts. The same is presented in graph 5.28.

Graph 5.28



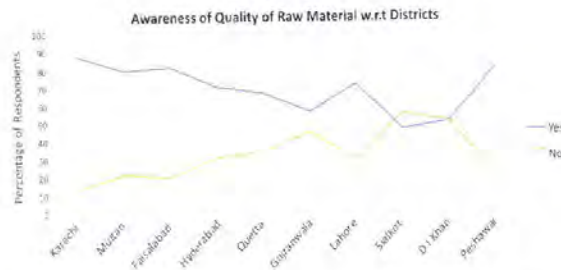
Level of awareness with respect to grading & quality of raw material when analyzed with firm size classification shows the gulf between the “yes” and “no” responses increasing. Thus, as firm size increases, level of awareness of grading & quality of raw material increases.

Graph 5.29



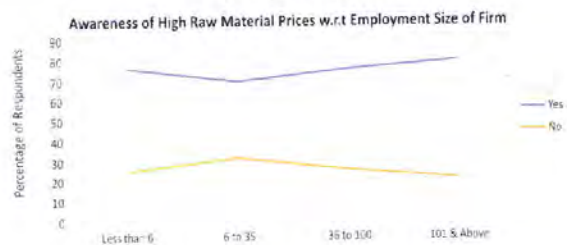
Graph 5.30 depicts the pattern of responses with respect to location of firms. 54.05 percent respondents in Sialkot indicate lack of awareness regarding information pertaining to quality of raw material. Whereas, in other districts the “yes” response to the question of awareness of material is higher, such as Karachi 87.63 percent, Faisalabad 81.46 and Peshawar 80 percent respondents.

Graph 5.30

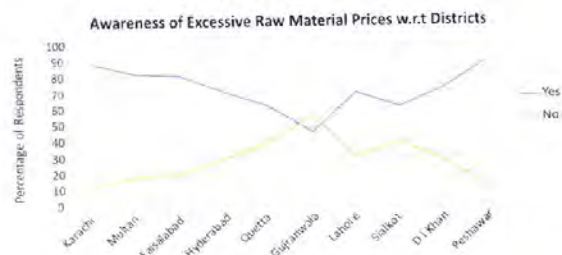


Analysis of data regarding procurement of raw material and high price of raw material with respect to size of firm is depicted in the graph below. The trend along various employment size categories of firms shows that by and large respondents are aware of the high price of raw material.

Graph 5.31



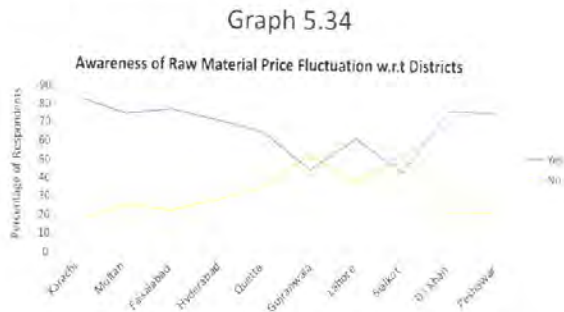
Graph 5.32



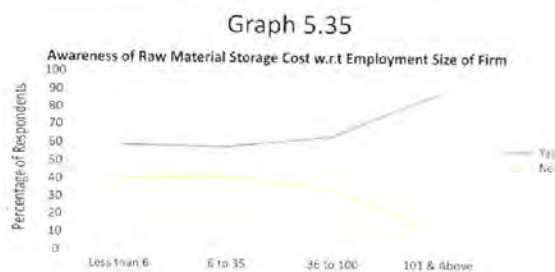
The graph below shows the percentage response of firms regarding awareness of price fluctuation with respect to employment size of firm. The gulf between percentage response of firms stating “yes” and “no” regarding awareness of fluctuation of price of raw material increases as firm size increases.



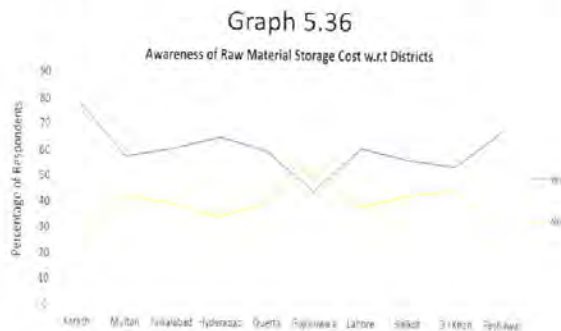
Graph 5.34 depicts the response pattern across districts regarding awareness of price fluctuation of raw material.



Awareness of cost of storage of raw material when analyzed with the employment size of firm, shows that the “yes” percentage response of firms increases with the employment size of firm. This change in percentage response is evident for firms with employment size 36 - 100 and beyond.



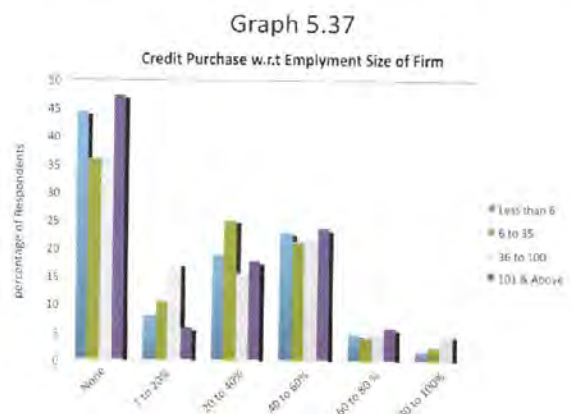
Awareness regarding cost of storage of raw material vis-à-vis districts is depicted in the graph below. Apart from the exception of Gujranwala, the trend of “yes” response is higher than that of “no” response across the various districts.



Payment Cycle

The payment cycle of SMEs presents interesting insight into the method & mode of payment involved while conducting business. According to the results of the survey, 18.1 percent establishments purchase 50 percent of their inputs on credit as opposed to 38.9 percent firms having to pay up front for purchase of input. The payment cycle for goods procured on credit by SMEs is approximately one month (35 percent respondents) followed by 15 days for 17.5 percent firms.

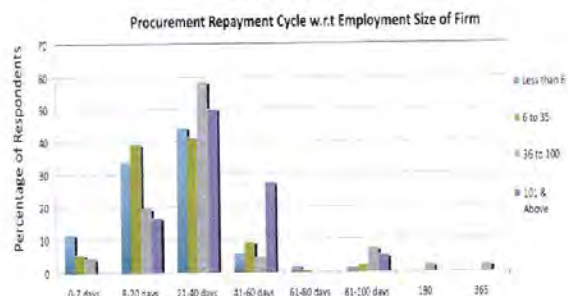
According to firm size classification, 44.22 percent respondent firms with employment size less than 6, shared that “zero percent” of procurement is made on credit i.e. payment is made right away for goods/services procured, whereas 22.72 percent respondents in the same firm size classification procure 40 – 60 percent of input on credit. It is interesting to note that irrespective of firm size, majority of procurement is made upon delivery of input. In fact, 47.06 percent firms with employment size 101 and above also procure inputs through payments on delivery. In the firm size category of 6-35 employees, 36 percent respondents procure “zero” percent on credit while 24.92 percent respondents in the same category procure 20-40 percent on credit i.e. full payment is not due upon delivery of input.



The procurement repayment cycle is illustrated in graph 5.38. 44.16 percent firms with employment size less than 6 make payments for procurements in 21 – 40 days and 33.94 percent in 8 – 20 days. According to survey results, 41.40 percent firms with employment size 6 – 35 have a credit cycle of 21-40 days while 39.23 percent firms have a credit cycle of 8 – 20 days. Meanwhile, 58.54 percent respondent firms with employment size 36 -100

make payments for procurement in 20 – 40 days. Larger sized firms with employment size 101 & above have a greater credit cycle and payments are made in over a month.

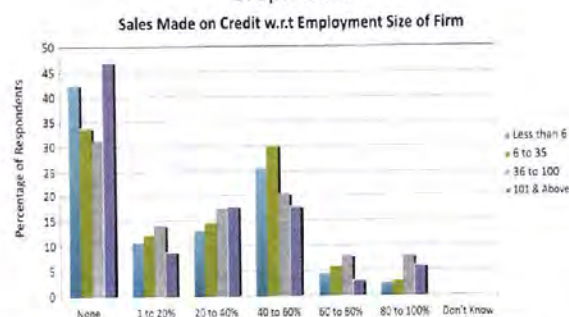
Graph 5.38



To better understand the procurement processes, flip side of the question was also posed to SMEs i.e. 'What percentage of turnover is sold on credit'. On the average, 29.97 percent is sold on credit. However, 36.9 percent SMEs do not sell on credit and full payment is due on delivery. The average collection time for sales on credit is 33.26 days.

Analysis according to firm size classification shows that 42.60 percent respondents in the category of less than 6 employees do not sell on credit, while 25.96 percent respondents sell 40 -60 percent of their turnover on credit. Interestingly, 47.06 percent firms with employment size above 101 also do not sell on credit. 37.50 percent firms with employment size 36 – 100 sell between 20-60 percent on credit.

Graph 5.39



The collection of payment of sales made on credit varies with respect to employment size of business. Survey results show that over 45-50 percent of payments are received between 21–40 days. Firms with greater employment size however have a longer duration of receipt of payment for sales, where, 27.78 percent respondents with employment size 101 and above share that collection is made in 40–60 days.

Graph 5.40



Price Perception

SMEs were asked to state their perception about frequency of price fluctuations of raw material. 33.1 percent SMEs stated that prices remained stable for one month, 23.3 percent for 2 weeks and 21.7 percent for three months. What is interesting to note here is that 18.8 percent SMEs were of the view that prices remained stable for only one week, which subsequently poses a problem for SMEs in procurement as only 29.4 percent SMEs store raw material/buy in advance for use.

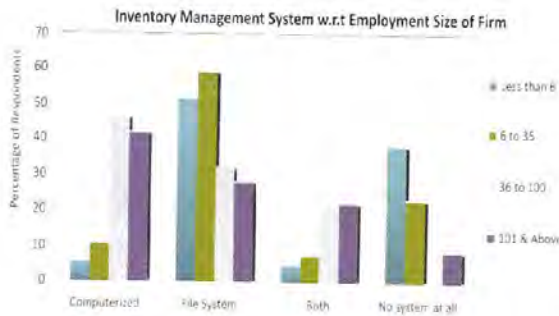
Use of Information Technology

In the earlier part of this chapter various systems and methods of procurement were discussed. With a boom in information technology, there has been a greater reliance on systems and techniques adopted by businesses. Eliciting responses on the extent of use of information technology in a business, the percentage feedback was as follows:

- 54.7 percent SMEs use traditional 'khata system'/file system for inventory management. 26.7 percent have no system at all for inventory management.
- 51.2 percent SMEs use manual file system for cost accounting purposes and 29.9 percent have no system in place at all.
- What is interesting to note is that 55.7 percent respondents have no procurement planning system.
- 57.4 percent respondents have no Management Information System (MIS) in place either.

The same question was analyzed with respect to classification of firms according to size. Graph 5.41 shows responses recorded regarding manual, computerized or both systems in place in the process of "inventory management", "cost accounting", "procurement planning" and "management information system".

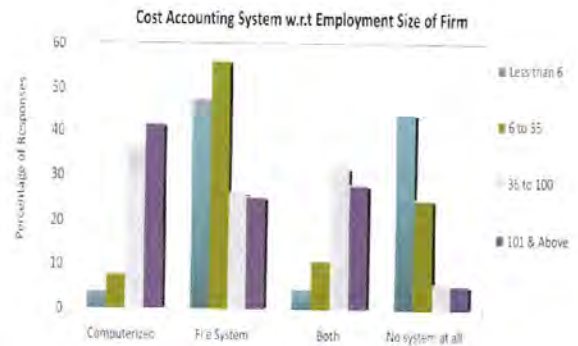
Graph 5.41



59 percent firms with employment size 6 – 35, 51.63 percent firms with employment size less than 6, 31.88 percent firms with employment size 36 – 100 and 27.78 percent firms with employment size 101 & above have manual/file system for inventory management. On the other hand, 46.38 percent respondents with employment size 36-100 and 41.67 percent respondents with employment size 100 & above indicate use of computerized inventory management systems. The point worth noting here is that 38.39 percent respondents in the category of employment size less than 6 and 23.01 percent respondents in the category of employment size 6 – 35 state to have no inventory management system in place at all. Hence it may be inferred that as firm size increases use of computerized inventory management systems become more prevalent.

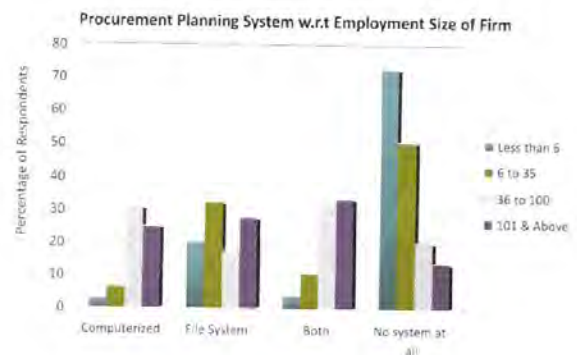
In the area of cost accounting a similar trend is visible, i.e. as firm size increases, the percentage response of use of computerized cost accounting systems increases. However, there is still a clear majority of respondents indicating use of manual cost accounting system/processes in smaller sized firms. Graph 5.42 shows the nature of cost accounting system employed by SMEs according to size of establishment. 43.95 percent firms with employment size less than 6 and 24.95 percent firms with employment size 6 – 35 do not have any system in place for cost accounting. 55.93 percent respondents in firms size category 6 – 35 and 47.41 percent in firm size category less than 6 have manual/file systems in place for cost accounting. Whereas 36.23 percent firms with employment size 36-100 and 41.67 percent firms with employment size over 101 have computerized cost accounting systems in place.

Graph 5.42



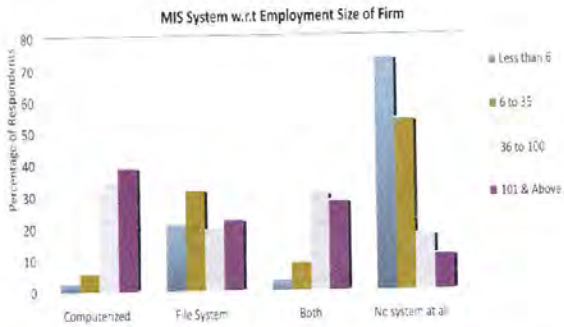
Majority of SMEs do not have systems for procurement planning, as evident from graph 5.43. Only 6.24 percent respondents in firm size category of 6 – 35 have computerized procurement planning systems in place, whereas 32.41 percent respondents in same firm size category have manual/file procurement systems in place and 10.63 percent respondents use both. 30.43 percent respondents with employment size 36 -100 use computerized, 17.39 percent use manual, 33.88 percent use both while 20.29 percent respondents do not have a procurement planning system in place.

Graph 5.43



The survey results show that 72.94 percent respondents with less than 6 employees and 53.68 percent respondents with employment size 6 – 35 do not have MIS system in place. On the other hand, 33.33 percent firms with employment size 36 – 100 and 38.89 percent respondents with employment size over 100 have computerized MIS systems. It is interesting to note that 31.29 percent firms with employment size 6-35 have a manual/file MIS system.

Graph 5.44

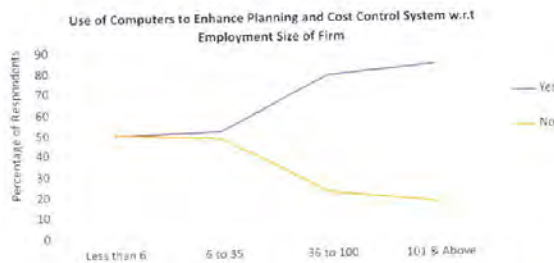


Significance of Use of Computers in Planning & Cost Accounting

While only a small percentage of SMEs actually use computers in their business, they do feel that its use would enhance their cost accounting and procurement planning by more than 50 percent.

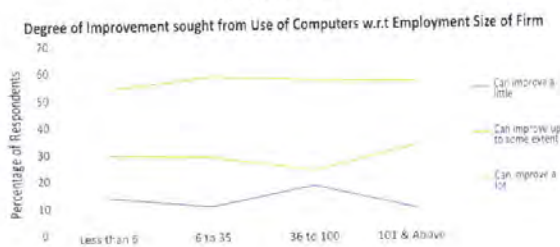
A distinct trend is visible vis-à-vis improvement in planning & cost accounting systems through use of computers as firm size increases. 78.26 percent firms with employment size 36 – 100 and 83.33 percent firms with employment size 101 and above feel that their planning & cost accounting systems would significantly improve with the use of computers.

Graph 5.45



Percentage improvement envisaged due to use of computers for planning & accounting according to firm size is depicted in graph 5.46.

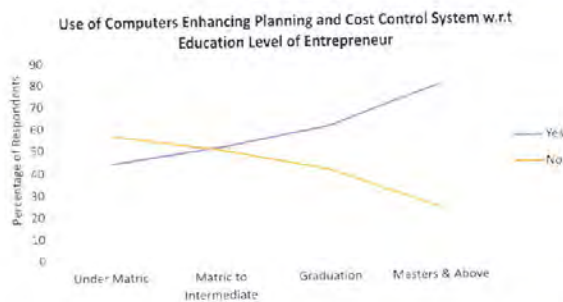
Graph 5.46



Respondents across all categories of firm size state that their business operation in terms of planning & cost accounting can improve a lot (over 50 percent improvement) by use of computers.

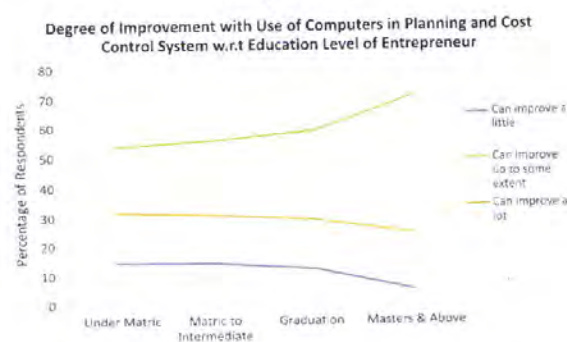
Responses on the same two questions of whether use of computers would enhance planning and cost accounting and the level of improvement were analyzed across the sample with respect to level of education of respondents.

Graph 5.47



With increase in education level, percentage responses show an upward trend i.e. as level of education increases more and more firms feel that use of computers could enhance business planning & cost accounting. More than 50 percent respondents feel that use of computers for planning and cost accounting can improve their business a lot i.e. more than 50 percent improvement (graph 5.48).

Graph 5.48

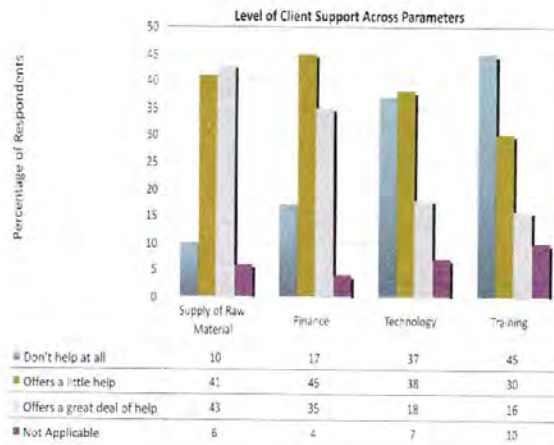


Subcontracting

SMEs serve as a vendor base to the industry. In order to develop a better understanding of the subcontracting relationship, respondents were asked to state the level of support provided by the contracting firm. By and large, the response of SMEs do not support the claim that large industry subcontracts services to a large extent. 69.7 percent respondents stated that they do not work on contract basis/work is not subcontracted to them. There could be a number of reasons for lack of subcontracting to SMEs, such as, quality, delivery time, standardization etc.

Firms that work as subcontractors, however, accepted that there was some level of support provided to them by the contracting party. Support is provided for raw material procurement, technology, training etc. The graph below depicts the level of client support in various areas.

Graph 5.49



Chapter VI

- Approach
- Key Findings
- Upgradation and Replacement of Machinery
- Research and Development
- Reasons for Investing in R&D
- Standardization and Quality Control Infrastructure
- Regional and International Competitiveness
- Quantity of Production
- Obstacles in Increasing Production
- Outsourcing
- Type of Production and Machinery/Equipment Used in the Process
- Working Hours

PRODUCTION TECHNIQUES, TECHNOLOGY & ISSUES

Approach

How do Pakistan's small & medium sized firms fare in terms of production processes, technologies, systems and skills? What percentage of firms' profit is reinvested in the business for research & development? What is the level of sophistication in techniques and technology and how are elements of the production system connected with each other? The present section presents an analysis of responses on these questions.

The section includes 12 key questions and a set of 6 allied questions. From initial 'what' questions we gradually ask perception based questions to gauge ability for self evaluation and urge for improvement. Analysis has been carried out both on collective level, as well as on individual parameters of size of business, education level of entrepreneur, location of business and age of entrepreneur. The idea, of course, is to develop a view as to how different combinations of resources in a business react to a given business opportunity.

Key Findings

- Majority of SMEs undertake complete production process within their own facility.
- Only a small percentage of establishments outsource/subcontract work to others.
- Technology/machinery used in production is old and mostly manufactured locally.
- 54 percent SMEs indicate their willingness to upgrade/replace equipment/machinery. There is, however, a varying trend across districts. Interestingly, the response pattern from Gujranwala (57 percent respondents) and Karachi (50 percent respondents) indicates a lack of desire to replace/upgrade existing equipment/machinery.
- 50 percent respondents in the education level category of up to Intermediate show a healthy desire to upgrade/replace machinery/equipment.
- Over all, as age increases, the percentage of respondents saying “yes” to upgradation beyond the age of 36 years steadily decreases.
- 45 percent sample firms do not spend on research & development (R&D). Most ambitious in terms of investing in R&D is the category of firms with employment size 6-35.
- Over 60 percent SMEs hold the view that there are no technical services available to them in the area of testing, quality control, research & development and technology. However, those who have availed such services offered by the Government are generally satisfied with the quality of service.
- 80 percent SMEs would not venture into uncharted territory and are risk averse when it comes to investing in research & development.
- There exists a healthy sign of confidence & awareness in SMEs regarding cost of production in comparison with their local competitors, as well as international competitors, where a majority of firms (77 percent respondents) feel that their cost of production is equivalent to their local competitors and (65 percent respondents) feel that their cost of production is equivalent to international competitors.
- Firms primarily like to produce according to confirmed orders (45 percent respondents), followed by as much as can be produced (33 percent respondents).
- Most ambitious, in terms of increasing production are young entrepreneurs; 44.09 percent respondents within the age bracket of up to 25 years. In terms of quantity of production, younger aged entrepreneurs are more ambitious than older, seasoned businessmen, while more educated they are, the lesser the desire to venture into situations where there is uncertainty and the general tendency is to stick to traditional, confirmed order production.
- On the average SMEs operate 6 days a week and average working hours are 12 hours a day.

Upgradation and Replacement of Machinery

A set of questions was posed to SMEs regarding upgradation & replacement of machinery/equipment. 54.7 percent SMEs indicated their willingness to upgrade, while 45.3 percent responded in the negative.

Graph 6.1



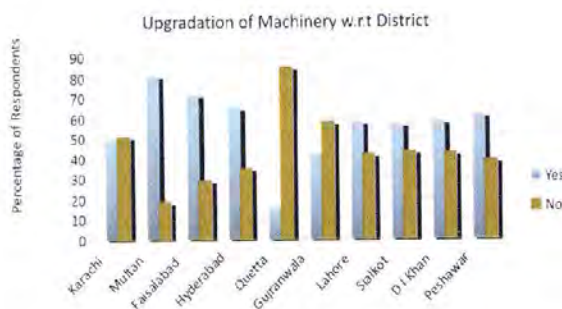
The same question was analyzed and responses recorded with respect to employment size of firm. As depicted in Graph 6.2, the percentage response of firms as “yes” and “no” initially increases/peaks at employment size 6-35 and then decreases at the same rate. In fact, there is an overlap in terms of percentage response of firms regarding upgradation of machinery/equipment.

Graph 6.2



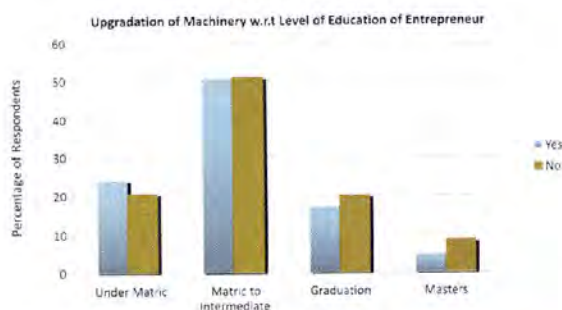
Graph 6.3 represents districts and corresponding responses regarding upgradation & replacement of machinery. With respect to location, entrepreneurs operating in Faisalabad, Lahore, Peshawar and Hyderabad would like to upgrade their equipment/machinery. Interestingly, in Karachi the ratio of respondents who would not like to upgrade their machinery/equipment (50.66 percent) is greater than those who would like to upgrade (49.3 percent respondents). The same trend exists for Gujranwala, where 57.92 percent SMEs do not wish to upgrade their machinery/equipment.

Graph 6.3



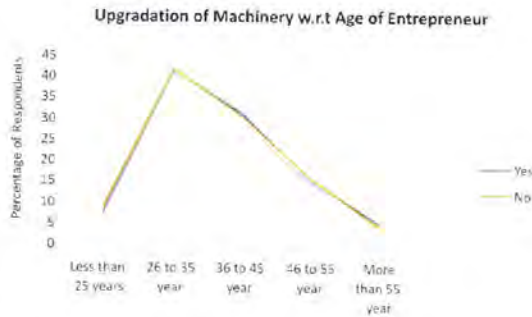
Graph 6.4 depicts willingness of SMEs to upgrade/replace their machinery/equipment with respect to educational qualification of entrepreneurs. Results show that 50.86 percent respondents with education level up to Intermediate would like to upgrade their production processes, beyond which there is a steady decrease in the desire to upgrade. Out of the total respondents in the category of Graduation, 20.08 percent respondents would not like to upgrade while 17.22 percent have expressed their desire to upgrade machinery/equipment employed in their production process. In the same vein, 8.39 percent entrepreneurs in the category of Masters would not like to upgrade equipment/machinery.

Graph 6.4



Graph 6.5 shows responses of SMEs with respect to age of entrepreneur. 41.51 percent respondents in the age bracket of 26-35 years would like to upgrade equipment/machinery, while 41.68 percent SMEs in the same age bracket would not like to upgrade. The ratio of “yes” to “no” of respondents with respect to age is 1:1. The same response pattern is visible across the sample, even in different age brackets. Overall, however, as age increases, the percentage of respondents saying “yes” to upgradation beyond the age of 36 years decreases.

Graph 6.5



All in all, majority of respondents have expressed willingness to upgrade their machinery/equipment. In terms of employment size, the percentage response of firms expressing willingness to upgrade/replace equipment/machinery is the same as those not willing to upgrade/replace equipment/machinery and no distinct trend is visible. As far as district wise split is concerned, more than 60 percent respondents in Multan, Faisalabad, Hyderabad, Peshawar and Quetta are willing to upgrade. Interestingly, in case of Karachi & Gujranwala, the relative percentage of respondents not willing to upgrade is greater than those willing to upgrade. There is no conspicuous trend along category of education and age bracket

Research and Development (R&D)

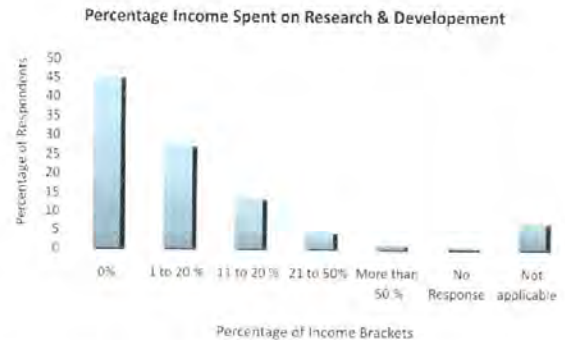
Research & development are important components of enhancing production and becoming competitive locally & internationally. The pace of globalization has made it all the more imperative to specialize and it is becoming difficult to carve a niche for one's products in the globally competitive scenario. In any case, investments made in research & development do not result in accrual of profit to business immediately. Generally SMEs are satisfied in producing what they have been producing traditionally and do not like to take unnecessary risks.

SMEs were asked to state percentage of income spent on research & development among the following choices:

- Zero percent
- 1–10 percent
- 11–20 percent
- 21–50 percent
- Above 50 percent

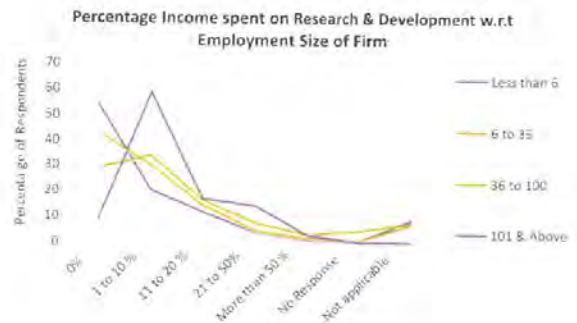
Results, as depicted in graph 6.6 show that 45.2 percent of the sample firms do not spend on research & development. However, one must not ignore the 41.1 percent firms who claim to spend 1–20 percent of their income on R&D.

Graph 6.6



Graph 6.7 shows research & development as a percentage of income spent by firms according to employment size. 54.32 percent firms with employment size less than 6 do not spend on R&D. 20.35 percent SMEs spend 1-10 percent while 11.71 percent spend 11-20 percent in R&D. A similar pattern is visible as we move along larger enterprises. 58.33 percent firms with employment size 101 and above spend 1-10 percent of their total income on research & development.

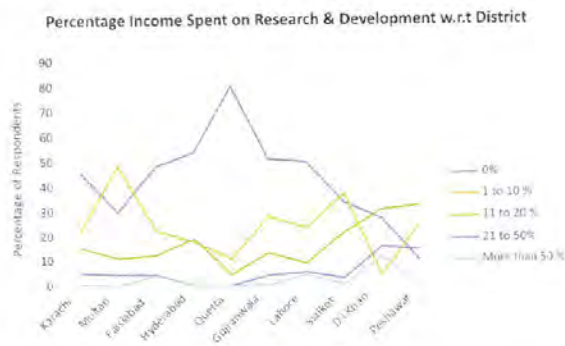
Graph 6.7



Graph 6.8 shows the distribution of responses according to location and expenditure undertaken in R&D. In Multan 48.74 percent, in Sialkot 36.94 percent and in Gujranwala 28.42 percent respondents spend 1-10 percent of their income on research & development. In Peshawar, 32.43 percent respondents indicate that they spend 11–20 percent on R&D, followed by D. I. Khan 30.77 percent and Sialkot 21.62

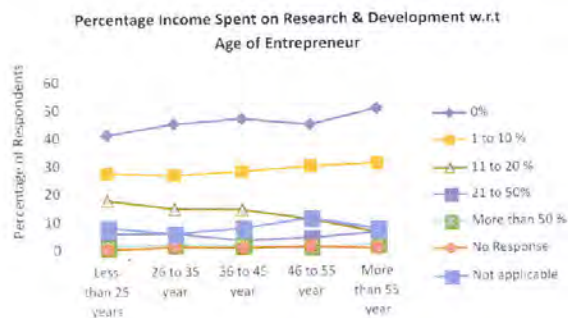
percent. In Quetta 80 percent respondents do not spend on R & D, while in Faisalabad, Hyderabad, Gujranwala & Lahore almost half the respondents were among those not spending any amount of income on R&D.

Graph 6.8



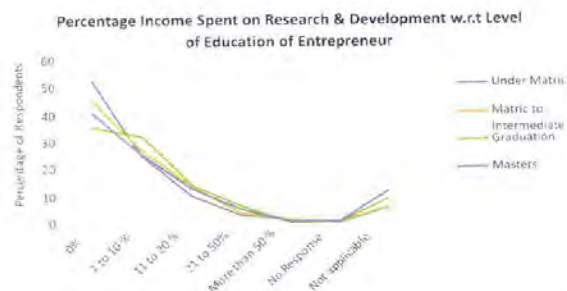
Graph 6.9 shows the trend of income spent on R&D when analyzed with age of entrepreneurs, depicting that younger entrepreneurs are more ambitious when it comes to making investments in R&D as compared to more seasoned entrepreneurs. Viewing the trend line for zero percent investment, there is a consistent rise with increase in age, with the exception of age bracket 46 – 55 years. On the other hand, in case of 1-10 percent investment category there is a gradual upward trend with increase in age. 30.56 percent respondents in the age group of more than 55 years spend in the bracket of 1-10 percent. On the other hand, 17.32 percent respondents in the age group of less than 25 years spend 11-20 percent of their total income on R&D. The overall response pattern of percentage expenditure undertaken in R&D with respect to age of entrepreneurs shows that entrepreneurs prefer not ploughing back income, irrespective of age, i.e. 40-50 percent respondents state “zero percent” expenditure. The range of response of firms ploughing back ‘1 – 10 percent’ profits for R&D hovers around 30 percent, whereas a distinct declining trend of responses is visible in the range of 11-20 percent spent on R&D as age increases.

Graph 6.9



As depicted in graph 6.10, survey results show that 52.76 percent respondents with education level, less than Matric, do not plough back income into research & development activities. A similar trend is visible for other educational categories.

Graph 6.10



Over 45 percent SMEs do not consider it necessary to spend any money on R&D. The district of Quetta tops the list with 80 percent respondents investing zero percent amount in R&D followed by Faisalabad, Hyderabad, Gujranwala & Lahore, with the percentage of zero income spent category close to 50 percent. In terms of age, the tendency to invest in SMEs in the lower bracket of 1-10 percent shows a gradual upward trend with increase in age of entrepreneur. However, the trend line assumes a negative slope in the more ambitious zone of 11-20 percent indicating a lesser desire to invest higher amounts in R&D with increase in age. There is no discernable correlation between income spent on R&D & level of education of entrepreneur.

Reasons for Investing in R & D

On further probing, in order to better understand SMEs mindset for not investing in R&D; 55 percent respondents stated that there was no need for R&D in their business. Firms that spent 1 – 10 percent on R&D did so to facilitate business and to

improve quality, while firms investing larger amounts of money in R&D did so for expansion of business & earning greater profits.

Standardization & Quality Control Infrastructure

An important aspect of production process is ensuring standardization and quality control. By & large, SME institutional support infrastructure is provided by the Government that includes testing facilities, certification institutes, quality control etc. How far is the Government able to provide such services? Respondents were asked to state the services provided by the Government in the area of testing, quality control, research & development and upgradation of technology against the parameters, "A lot of assistance/help is available", "a little help is available" and "no help is available". Respondents who replied in the affirmative of having availed such services were then asked to record their satisfaction levels as "good" or "bad".

Table 6.1

Base: (ns 1604)	No help is available	Little help is available	A lot of help is available	Not applicable
Testing (n=1200)	64%	17%	17%	3%
Quality Control	60%	24%	14%	3%
Research & Development	67%	21%	8%	5%
Improvement in Technology	68%	15%	10%	3%

According to the survey results, SMEs predominantly hold the view that there are no technical services available to them in the area of testing, quality control, R&D and technology. However, those who have availed such services offered by the Government are satisfied with the quality of service, as depicted in table 6.1 and graph 6.11.

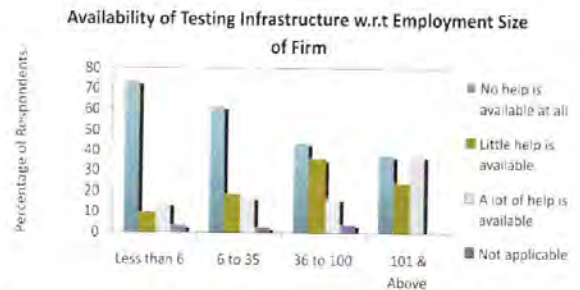
Graph 6.11



Testing Services

Segmental analysis shows that firms utilizing testing services/facilities offered by the Government are large sized establishments, however there too, the response is not buoyant. 35.85 percent respondents with employment size 36-100 while responding on the availability of testing services provided by the Government chose "little help is available".

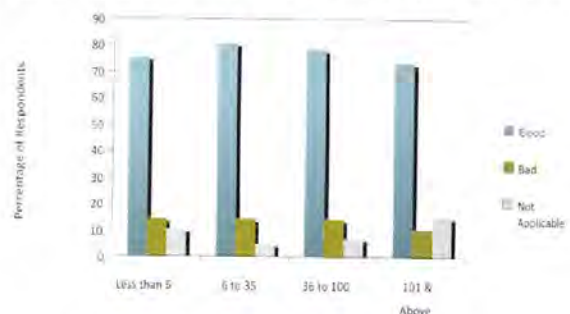
Graph 6.12



As graph 6.13 shows, irrespective of employment size of firm, respondents have indicated their satisfaction with the quality of testing services. To be specific, 75.24 percent, 80.55 percent, 78.57 percent and 73.68 percent respondents in the respective employment categories of less than 6, 6-35, 36-100 and 101 and above, term quality of testing services as "good".

Graph 6.13

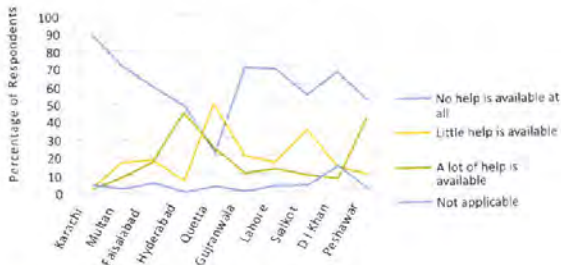
Quality/Standard of Testing Services w.r.t. Employment Size of Firm



Graph 6.14 shows the pattern of responses regarding testing services across districts. 45 percent respondents in Hyderabad and 41.03 percent in Peshawar indicate that "a lot of help is available" in the area of testing services, 50 percent respondents in Quetta and 34.07 percent in Sialkot indicate "a little help is available". Opposed to this, districts with prominent SME clusters like Karachi (90.00 percent), Gujranwala (69.59 percent) Lahore (68.63 percent), Multan (71.59 percent), Faisalabad (59.34 percent) report "no help is available".

Graph 6.14

Support from the Government for Quality & Testing w.r.t District



Quality Control Services

60 percent respondents state that “no help is available” in the area of quality control.

Graph 6.15

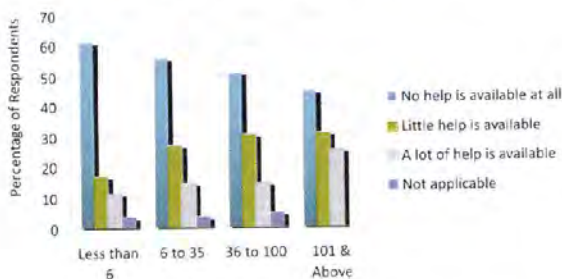
Quality Control Services



With respect to employment size, there is a distinct declining trend in percentage of responses between the two extremes of “a lot of help is available” and “no help is available” as firm size increases.

Graph 6.16

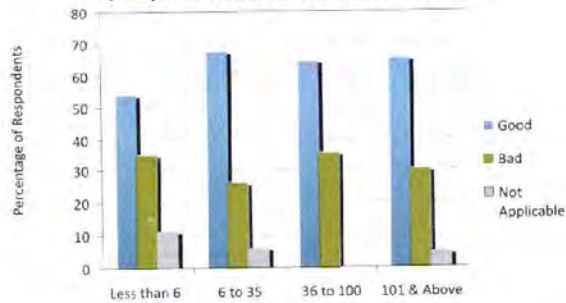
Quality Control w.r.t Employment Size of Firm



In terms of quality of service, 53.85 percent, 67.67 percent, 64.52 percent and 65 percent respondents term it as good among the respective employment size categories of less than 6, 6–35, 36–100 and 101 & above.

Graph 6.17

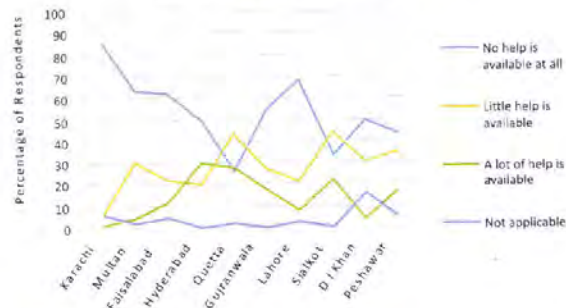
Quality Services w.r.t Employment Size of Firm



Among the districts, Hyderabad (30.12 percent), Quetta (28.26 percent) and Sialkot (22.52 percent) stand out in stating “a lot of help is available” in terms of quality control. While, respondents from Karachi (85.90 percent), Lahore (68.10 percent), Multan (63.25 percent) and Faisalabad (62.02 percent) indicate that “no help is available” in the area of quality control. Furthermore, Sialkot (44.14 percent) and Quetta (43.48 percent) are the only two districts where percentage of responses “help/assistance is available” out weighs the response category of “no help/no assistance is available”.

Graph 6.18

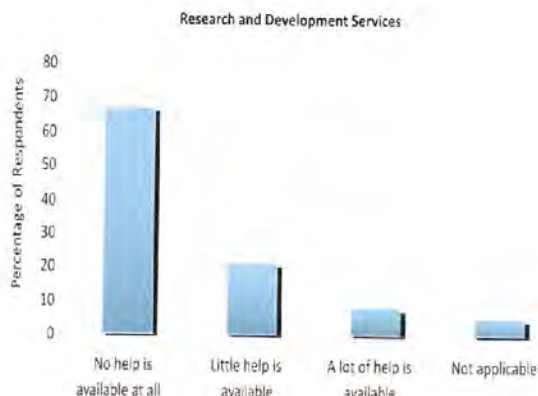
Quality Control Services w.r.t District



Research & Development Services

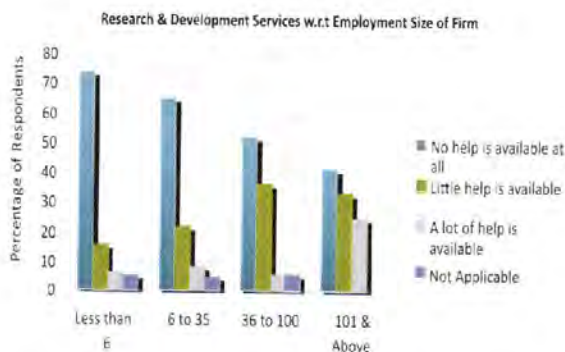
Graph 6.19 shows responses with respect to availability of research & development services. 67 percent firms indicate non-availability of R&D facilities.

Graph 6.19



Graph 6.20 depicts the response pattern with respect to size of firm.

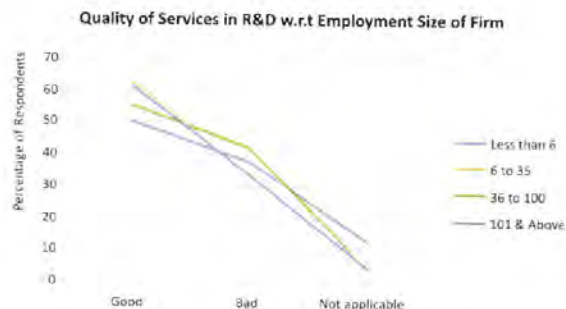
Graph 6.20



In the category of "no help is available", the following responses were recorded corresponding to firm size i.e. 73.51 percent, 64.93 percent, 52.17 percent and 41.67 percent respondents with firm size "less than 6", "6 – 35", "36 – 100" and "101 and above" respectively. As evident from the graph above, within the category of "no help is available", as firm size increases, the percentage response within the same category decreases. The response pattern in the category of "little help is available" is quite interesting. Firms with employment size 36-100 signify the highest percentage (36.23 percent) of responses where "little help is available" followed by firms with employment size 101 and above (33.33 percent). Firms with employment size 101 and above indicate the highest percentage (25 percent) of responses where "a lot of help is available".

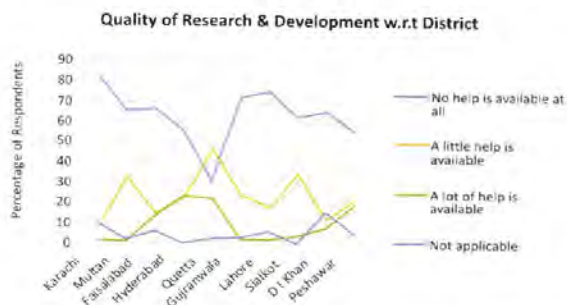
In terms of quality of services available in the area of research & development, 62.50 percent firms in employment category of 6-35 term these as "good". On the other hand, a majority of respondent firms with employment size 36-100 (41.38 percent) term such services as "bad".

Graph 6.21



Location wise the pattern of response of firms with respect to research & development activities is presented in graph 6.22.

Graph 6.22

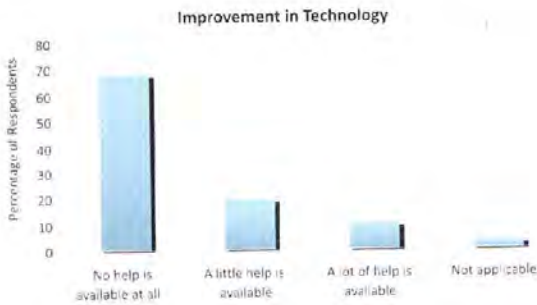


82.38 percent respondents in Karachi indicate that no help is available in research & development. Respondent firms in Lahore (75.24 percent), Gujranwala (72.13 percent), Faisalabad (66.35 percent), DI Khan (65.38 percent), Multan (64.96 percent) and Sialkot (62.16 percent) also indicate that "no help is available" in the same area. On the other hand respondents in Quetta (67.39 percent), Hyderabad (44.58 percent), and Peshawar (40.54 percent) indicate that help (some help) is available in the area of research & development.

Improvement in Technology

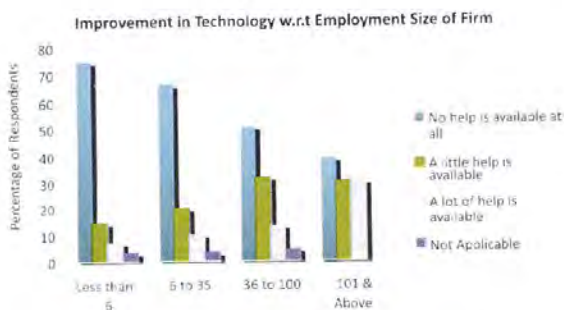
Graph 6.23 indicates the responses of firms in the area of services provided by the Government for improvement in technology.

Graph 6.23



68 percent respondents highlight that no help is available in this area, while 29 percent firms indicate that some kind of help is available. The response pattern according to size of firm is depicted in graph 6.24. In the category of “no help is available” there is a decreasing trend of percentage response, as firm size increases. 75 percent, 66.46 percent, 50.72 percent, 38.89 percent responses in firm size category of “less than 6 employees”, “6 – 35”, “36 – 100” and “101 and above” respectively show this declining trend, in percentage terms, with respect to availability of improvement of technology services provided by the Government. 31.88 percent firms with employment size 36-100 indicate that a little help is available in this area. On the other hand, 61.12 percent responses of firms in the category of employment size of 101 and above indicate the greatest level of support is available to them in the area of improvement in technology.

Graph 6.24



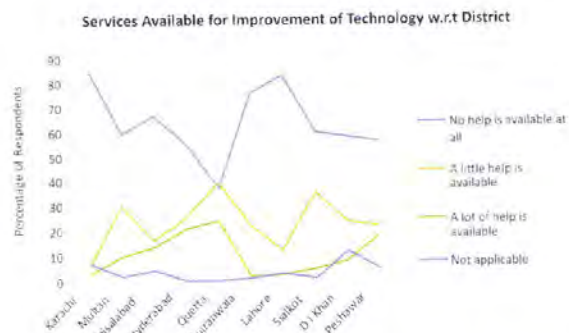
Firms that had indicated having availed technology improvement services were asked to comment on its quality. As depicted in graph 6.25, most firms assessed quality of service as “good”. Only 45.16 percent firms in the employment category of 36-100 indicate the quality as “bad”. It is, though, interesting to see that firms with employment size less than 6 (63.39 percent) have indicated greater level of satisfaction than firms with employment size 36-100 (51.61 percent).

Graph 6.25



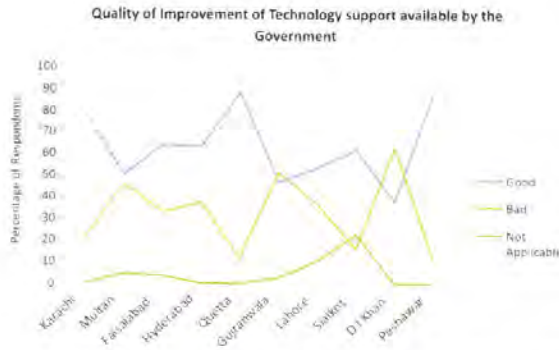
District wise response pattern of firms along the question of services available for improvement of technology is presented in graph 6.26. Respondents in Karachi (84.58 percent), Lahore (82.78 percent) and Gujranwala (75.41 percent) state that there is no help available for improvement of technology. Firms in Quetta (39.13 percent), Sialkot (35.14 percent) & Multan (29.91 percent) indicate that “a little help is available”, while Hyderabad (20.48 percent), Peshawar (18.02 percent) & Faisalabad (13.46 percent) respondents claim that “a lot of help is available” for improvement in technology.

Graph 6.26



With the exception of Gujranwala (51.16 percent) and D. I. Khan (62.50 percent), firms in other districts are predominantly satisfied with the quality of support available for improvement in technology. Graph 6.27 represents the district wise responses of firms on quality of improvement of technology support made available by the Government.

Graph 6.27



Summing it up, majority of respondents (Over 60 percent) have a perception that the help available in the areas of testing, quality control, R&D and technology improvement is negligible. However, those who subscribe to the presence of facilities in these areas are by & large satisfied with the quality of service. Positive perception regarding service improves with the increase in employment size of firms. Coming to district wise trend, perception about negligible help prevails across the board.

Regional & International Competitiveness

Being competitive in terms of production cost is integral to survive and flourish in the emerging economic environment. Responses were elicited on three parameters i.e. "cost of production is worse than competitors", "cost of production is equivalent to competitors" and "cost of production is better than competitors" in the local/regional market.

The survey results show (Graph 6.28) a healthy sign of confidence & awareness in SMEs when asked about cost of production in comparison with their local competitors. 77.2 percent SMEs feel that their cost of production is at par with their local competitors. Only 4.2 percent of the survey firms felt that their cost of production was higher than local firms, which they felt could be improved through reduction in taxation, availability of uninterrupted electricity and availability of cheap raw material in the local market, as indicated through responses to the subsequent questions. On further probing, SMEs highlighted adverse Government policies (23 percent), lack of funds (21 percent) and lack of skilled workers (8 percent) as obstacles in implementing the suggestions made to enhance competitiveness.

Graph 6.28



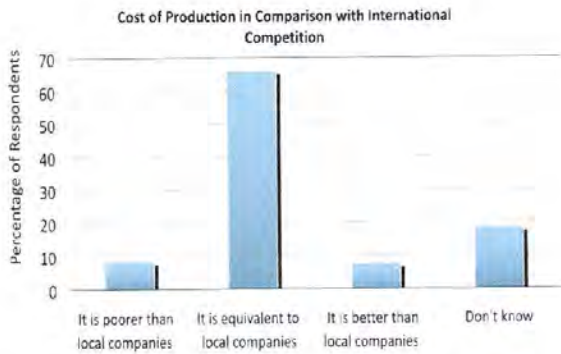
Analysis at the provincial level (Graph 6.29) shows healthy signs of confidence among firms regarding their cost of production in the local market, along each of the cited parameters. In fact, in comparison to the other three provinces, Balochistan shows the highest number of responses indicating cost of production being equal to or better than their competitors.

Graph 6.29



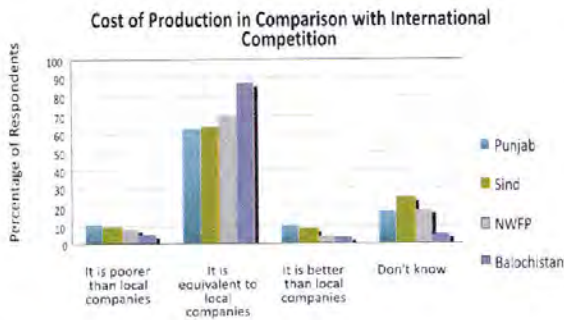
In terms of international competition, SMEs were asked to assess their cost of production. 65.9 percent SMEs feel that their cost of production is competitive with international players. Complete picture of responses is visible in graph 6.30. There is, however, a significant proportion of 18 percent firms that do not know of their standing in terms of cost of production in comparison with international competitors. 8.2 percent of the sample firms indicated higher cost of production than global competitors and proposed that the disparity could be removed through provision of latest machinery (24 percent), reduction in taxes (16 percent) quality improvement (15 percent). Obstacles in implementing these recommendations were identified as lack of funds (31 percent) & lack of government interest (27 percent).

Graph 6.30



At the provincial level (Graph 6.31), the emerging picture reflects respondents in Punjab indicating higher cost of production in comparison to other provinces as far as international competition is concerned.

Graph 6.31



Quantity of Production

How much do you want to produce? Responses were solicited on the following parameter:

- According to tradition/as per orders
- As much as can be produced
- As much as can be sold
- According to seasonal demand
- Others

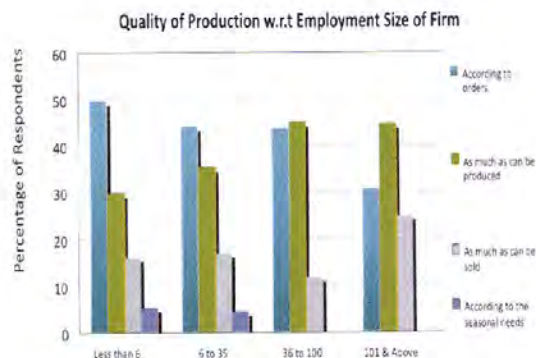
SMEs like to produce according to confirmed orders (45.32 percent), followed by as much as can be produced (33.91 percent) and as much as can be sold (16.45 percent). Only 4.30 percent respondents indicated that they would like to produce according to seasonal demand.

Graph 6.32



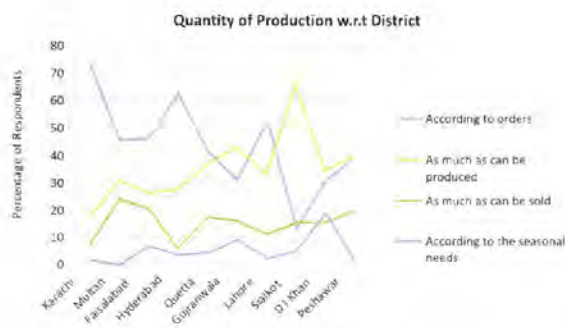
Graph 6.33 shows the response pattern when measured against size of firm. There is a declining trend in percentage response as firm size increases, in the category of production according to traditional style/confirmed orders. Within each group of firms, classified according to size, percentage response of firms with employment size 36-100 (44.93 percent) and 101 and above (44.44 percent) show that they would like to produce as much as can be produced, whereas firms with employment size less than 6 and 6-35 would like to predominantly produce as per confirmed orders.

Graph 6.33



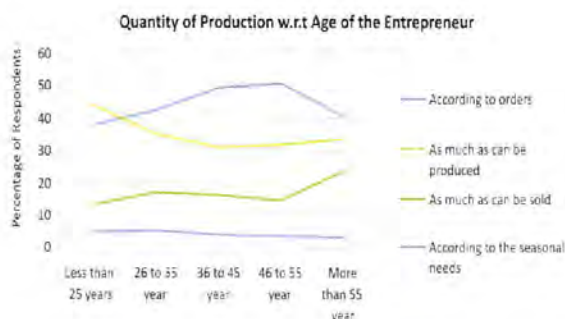
District wise analysis (Graph 6.34) shows that in Karachi (73.57 percent), predominantly a majority of firms would like to continue production on traditional scale/confirmed orders. On the other hand, entrepreneurs in Sialkot (65.77 percent), Gujranwala (43.17 percent) and Peshawar (39.64 percent) would like to increase the production to optimum level i.e. as much as can be produced.

Graph 6.34



In order to better understand the mindset of entrepreneurs, regarding quantity of production, analysis along the age of entrepreneurs was also undertaken. Graph 6.35 represents responses of entrepreneurs according to age group with respect to the quantity they would like to produce.

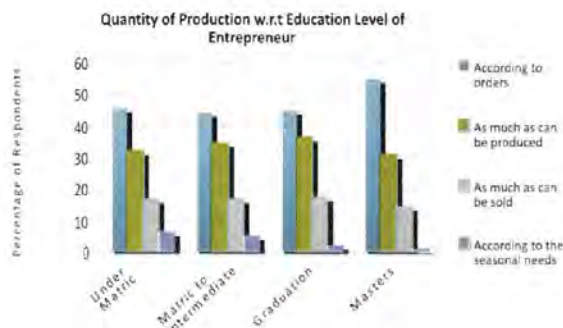
Graph 6.35



As evident from the graph, predominantly, entrepreneurs would like to produce on traditional scale/confirmed orders, with the exception of the group of entrepreneurs in the age bracket of less than 25 years (44.09 percent), who would like to produce as much as possible. Percentage of responses in the category of “as much as can be produced” decreases till the age bracket of 26 – 45 years, after which it steadily starts increasing with age of entrepreneur. On the other hand, in the category of “as much as can be sold” there is a mixed trend, where after the age bracket of 46 – 55 years, we see a sharp increase as age increases. In fact, as depicted in the graph, the difference between “as much as can be produced” and “as much as can be sold” is decreasing.

Graph 6.36 shows the response pattern of quantity of production with respect to education level of entrepreneurs.

Graph 6.36

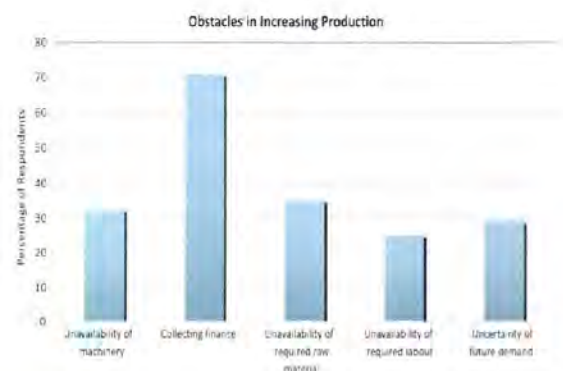


Entrepreneurs in the education level /category of Masters are most cautious and would like to produce on traditional scale/confirmed orders. On the other hand entrepreneurs who have attained graduate degrees show the highest percentage of response (36.03 percent) claiming that they would like to produce as much as can be produced.

Obstacles in Increasing Production

Sample firms were asked to indicate obstacles in increasing production, with the possibility of selecting more than once choice. Aggregated responses highlighted, access to finance (70 percent), unavailability of required raw material (35 percent), unavailability of machinery/technology (32 percent) and uncertainty about future demand as primary constraints in increasing production. Graph 6.37 represents this trend.

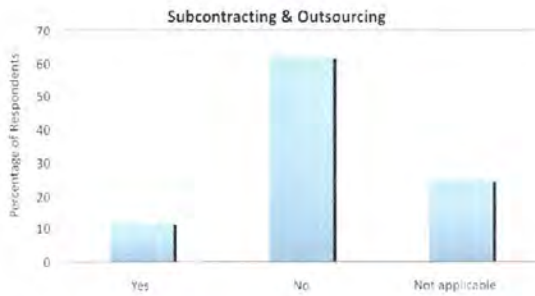
Graph 6.37



Outsourcing

The survey results show that a small percentage of firms (12.1 percent) outsource their work to others. The problems indicated in outsourcing are lack of financial resources (46 percent), meeting quality standards (31 percent) and lack of skilled workers (9 percent). Graph 6.38 depicts responses of entrepreneurs.

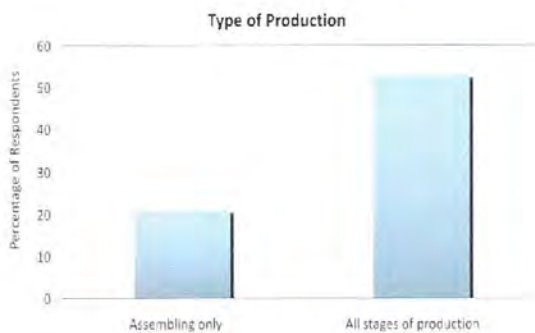
Graph 6.38



Type of Production and Machinery/Equipment Used in the Process

According to the results of the survey, in the manufacturing sector, 53.30 percent SMEs undertake all stages of production while 24.11 percent do assembling only.

Graph 6.39

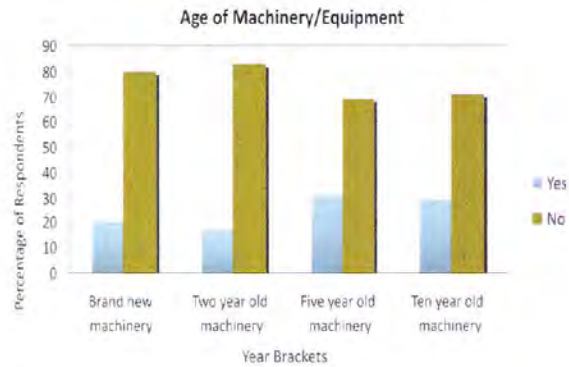


The kind of equipment/technology employed in the facility determines the cost of production and also the quality of produce. SMEs were therefore asked about the machinery used in production, age of machines and their origin. The question posed to SMEs was to indicate age of machinery in the following categories:

- Brand new machinery
- Two years old machinery
- Five years old machinery
- 10 years old machinery

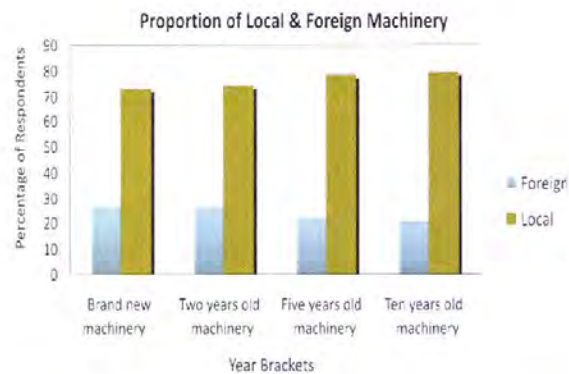
Graph 6.40 below presents the age of machinery used in production process.

Graph 6.40



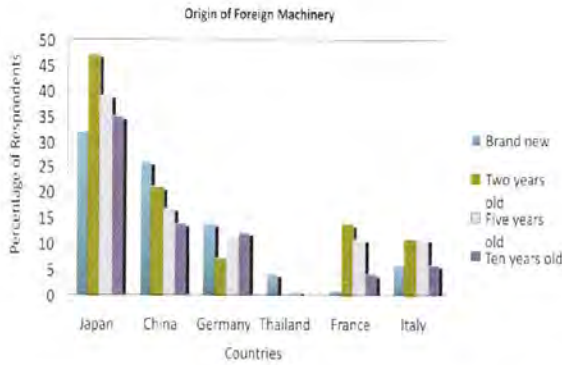
Primarily, locally manufactured, indigenous machines are used by SMEs, irrespective of the age of machinery, as depicted in graph 6.41. In all four categories of machinery, i.e. i) brand new machinery, ii) two years old machinery, iii) five years old machinery and iv) ten years old machinery, the response percentage for local machinery is over 70 percent. On the other hand, a mild declining trend is visible in percentage response with respect to use of foreign machinery when measured with the age of machines.

Graph 6.41



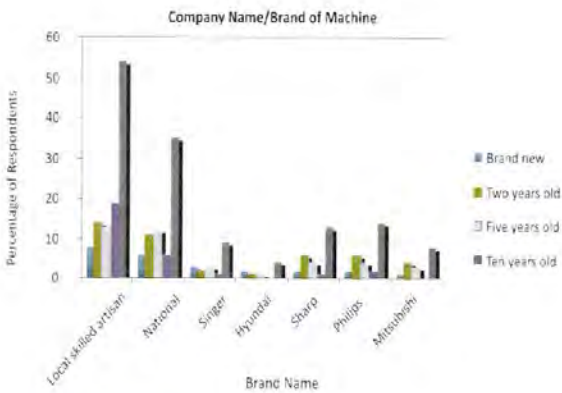
According to the survey, imported machinery used in production is Japanese, Chinese and German. Graph 6.42 shows the percentage response of firms, with respect to origin of foreign machinery used in production process. 32 percent respondents indicate use of brand new machinery from Japan, followed by 26 percent from China and 14 percent from Germany. In fact, as visible in graph 6.42, in all categories of machinery, percentage responses on use of foreign machinery from Japan are the highest.

Graph 6.42



When asked to state the name of companies (brand names) of machines used in production process, irrespective of age of machinery used, 54 percent respondents indicated using machines manufactured by local artisans.

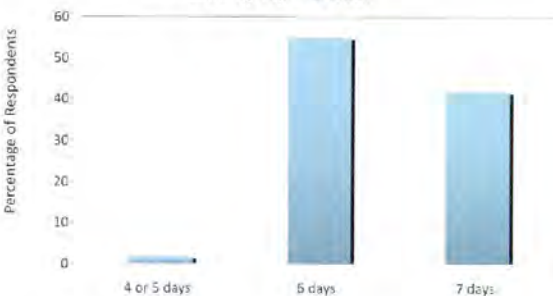
Graph 6.43



Working Hours

Graph 6.44 shows the number of working days an enterprise operates in a week. 55 percent firms work 6 days a week, while 43 percent operate 7 days a week.

Graph 6.44
Working Days in a Week



During a day, 46 percent SMEs work 11 – 15 hours a day, 37 percent 5 – 10 hours and 10 percent operate 24 hours a day.

Graph 6.45



35.69 percent respondents with employment size 6 – 36 work 12 hours a day. Interestingly, 9.61 percent respondents in the same category of size indicated working for 24 hours. On the other hand, 47.22 percent firms with employment size 101 and above operate 24 hours a day. In the category of firms with employment size less than 6, 23.03 percent respondents operate 10 hours a day, while firms with employment size 36-100, 28.99 percent respondents indicated working 24 hours a day while 26.09 percent operate 10 hours a day. Graph 6.46 depicts the working hours in firms classified according to size.

Graph 6.46



Chapter VII

- Approach
- Key Findings
- Market for Products and Services
- Importance of Marketing
- Tools and Methods of Marketing
- Marketing Plan
- Assessing Market Trends and Future Sales
- Obstacles for Start-ups in Local and International Markets
- Membership of a Chamber or Trade Association
- Business Development Services
- Extent of Business Development Services Availed and Level of Satisfaction

MARKETING

Approach

Marketing is an area of business where most SMEs find themselves at a disadvantageous position due to lack of understanding of the marketing phenomena. This in turn results in low growth businesses, low profit margins due to profits shared by middle men, inability to expand business geographically and inability to augment products and services as per customer needs. An attempt has been made to understand SMEs' behaviour in terms of marketing. Responses thus solicited, gauge SMEs' marketing orientation both in understanding marketing systems prevalent in each industry and SMEs' capacity of improving their business through use of effective marketing. In terms of the marketing system, SMEs' have been mapped in terms of type of customers and nature of business, whereas SMEs' marketing orientation has been estimated through gauging respondents' perception on a number of marketing issues. In addition to SMEs' perception, their usage of business development services, especially marketing services have also been assessed.

Key Findings

- SMEs predominantly sell their products & services in the local market.
- Over 50 percent respondents state that marketing is an important aspect of business. With increasing firm size, percentage response towards marketing as an important tool increases.
- There is a positive correlation between level of education of entrepreneurs and their opinion regarding importance of marketing for their business.
- Tools for marketing vary from trade journals and magazines to word of mouth.
- 69.01 percent respondents state ignorance regarding marketing plan. As level of education increases, awareness increases. Those who indicate awareness of marketing plan state that they also have one for their business.
- Over 60 percent respondents indicate that they have a system in place to assess market trends. Those who do not have such a system feel that there is no such need of it.
- Future sales are planned on the basis of confirmed orders, going market trends and existing relationship with customers.
- Obstacles to starting a new business in local and international markets are costs and lack of information.

Market for Products and Services

In which markets do you sell your products? Responses were recorded on the following parameters:

- Local market
- Direct export
- Indirect export

94.70 percent respondents sell their products & services in the local market.

Graph 7.1



Importance of Marketing

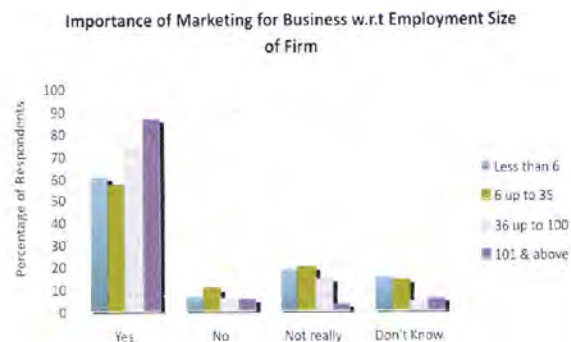
Is marketing important for business? Responses were solicited as i) yes ii) no, iii) not really and iv) don't know. 55.60 percent respondents feel that marketing is important for their business, while 21.33 percent feel that it is "not really important". Interestingly, 14.45 percent respondents stated their ignorance to whether marketing was important for their business or not.

Graph 7.2



Analysis with respect to firm size shows that as employment size of firm increases, respondents' opinion regarding importance of marketing for their business increases. 86.11 percent firms with employment size 101 & above, 75.36 percent firms with employment size 36 to 100 and 56.65 percent firms with employment size 6 to 35 share that marketing is important for their business. 60.27 percent respondents with less than 6 employees also hold the same view. What is interesting to note is that percentage response of firms with employment size between 6 to 35 is slightly less than firms with employment size less than 6, in terms of importance assigned to marketing and 10.33 percent and 19.33 percent respondents respectively, in this group of firms have the highest rate of response as "no" and "not really" to the question. It is also important to note that 14.59 percent firms with employment size less than 6 indicated their ignorance regarding the question.

Graph 7.3



There exists a direct correlation between level of education of entrepreneurs & their opinion regarding importance of marketing for their business. In the category of education level of Masters and above 78.13 percent responses, 66.33 percent responses at Graduation level and 57.16 percent responses from entrepreneurs in the category between Matric & Intermediate responded in the affirmative to the question.

Graph 7.4



Graph 7.5



Tools and Methods of Marketing

Various tools and methods are adopted for marketing any business. During the survey, SMEs were asked to rate various tools/modes used for marketing business. According to responses SMEs feel that existing relationship in the market is of primary importance. Newspapers, billboard advertisements and electronic media are also considered very important. On the other hand, 43.7 percent SMEs accord a little importance to information dissemination through Chambers of Commerce & Trade Associations. Results are presented in the table below:

Table 7.1

	Not important at all	A little important	Very important	Total
Trade Journals And Magazines	21.3	39.6	39.2	100.0
Business Directory	28.9	45.4	25.7	100.0
Internet	35.7	37.8	26.5	100.0
Newspapers	10.4	30.9	54.7	100.0
Electronic Media	18.0	33.6	48.4	100.0
Billboards	16.7	32.4	50.9	100.0
Direct Mail	35.1	42.1	22.8	100.0
Information Dissemination Through Trade Associations	25.2	43.7	31.1	100.0
Existing Relationship in Market	14.5	29.8	55.7	100.0
Word of Mouth	35.8	38.1	25.1	100.0

Analysis with respect to size of firm as presented in graph 7.5 below shows a more or less similar pattern of preference across different employment categories with respect to various marketing tools.

72.22 percent firms with employment size 101 & above, 59.69 percent firms with employment size less than 6 and 53.37 percent firms with employment size 6 to 35 regard “long standing relationships” as a “very important” mode of marketing. In fact, in comparison with percentage responses across other marketing modes, long standing relationship has the highest percentage response rate across various firm size categories, except the category of firms with employment size 36 to 100. For this category of firms, electronic media & print media are “very important” marketing tools.

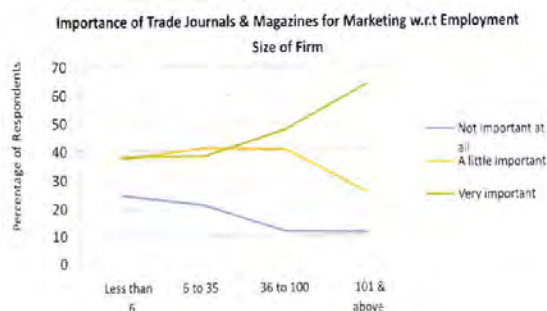
Analysis of response with respect to size of firms against each of the following parameters is depicted in the set of graphs presented in the section that follows:

- Trade Journals and Magazines
- Business Directory
- Internet
- Newspapers
- Electronic Media
- Billboards
- Direct Mail
- Information Dissemination Through Trade Associations
- Existing Relationship in Market
- Word of Mouth

Trade Journals & Magazines

As evident from the graph below, there is a sharp increase in percentage response of firms from the point of employment size category 36 to 100, stating “trade journals & magazines” as a very important mode of marketing. In the category of firms with employment size 6 to 35, percentage response as “a little important” is greater than “very important”. The trend visible, however, is that most firms assign great importance to trade journals & magazines and as firm size increases, so does its response percentage.

Graph 7.6



Survey results show that with increasing level of education of entrepreneurs, percentage response regarding importance of trade journals & magazines for marketing increases.

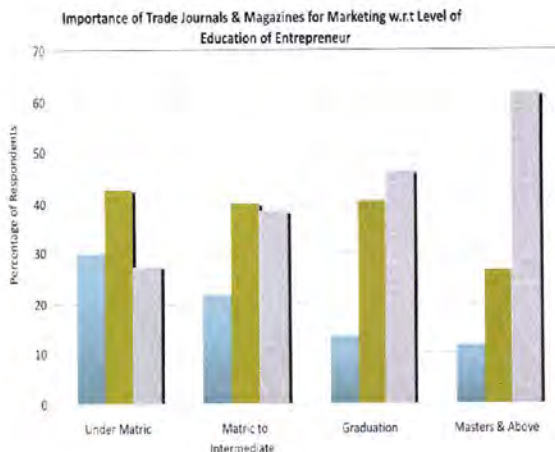
Graph 7.7



Business Directories

Over 40 to 50 percent respondents across various size categories of firms assign little importance to business directories for marketing, with the exception of 44.44 percent respondents with employment size 101 & above who assign great importance to business directories. At this point, the steadily increasing trend of responses as “very important” intersects response trend of “a little important”.

Graph 7.8



With respect to education, we see a similar trend, whereby, percentage response of importance of business directories for marketing increases as level of education of entrepreneurs increases.

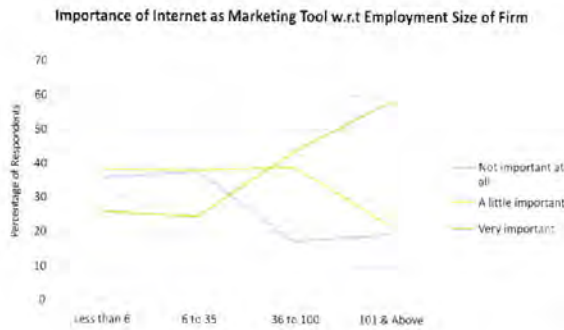
Graph 7.9



Internet

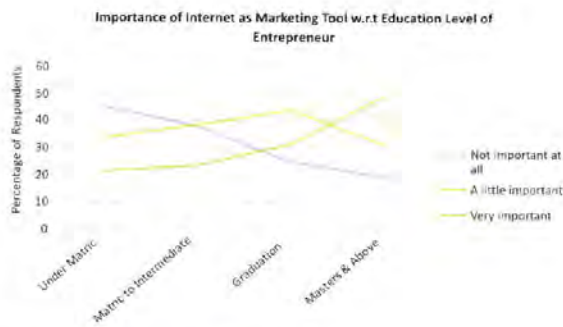
25.91 percent responses of firms in employment category less than 6 and 24.44 percent responses of firms in employment category 6 to 35 shows, internet, as not an important tool for marketing. In fact, slight importance is accorded to internet by firms with employment size up to 36 to 100, beyond which, percentage response along the same category decreases and great importance is assigned to internet by firms with employment size 101 & above. Moreover, a steady increase in percentage response according great importance to internet as a marketing tool is visible for firms with employment size above 35.

Graph 7.10



When analyzed with respect to education of entrepreneurs, over 40 percent respondents in the category of Under Matric do not assign great importance to internet for marketing. 38.43 percent respondents in the category of Matric to Intermediate state that internet is slightly important for marketing. Only for the group of respondents within the education level category of Masters & above does internet as a marketing tool, figure up as very important.

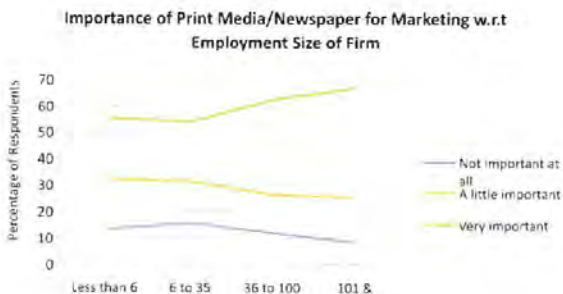
Graph 7.11



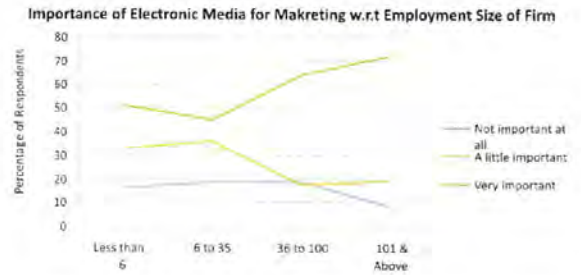
Print & Electronic Media

The graphs 7.12 shows that irrespective of size of establishment, print media/ newspapers and electronic media are very important marketing tools.

Graph 7.12

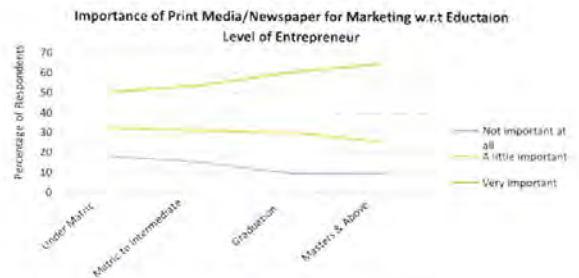


Graph 7.13



According to results of the survey, print media/ newspapers as well as electronic media are accorded a high degree of importance for marketing as percentage response increases with respect to level of education, as evident in the graph below.

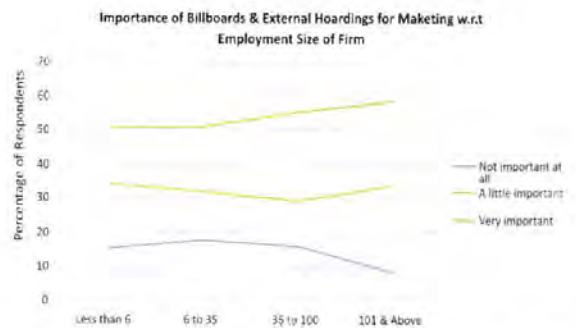
Graph 7.14



External hoardings/Billboards

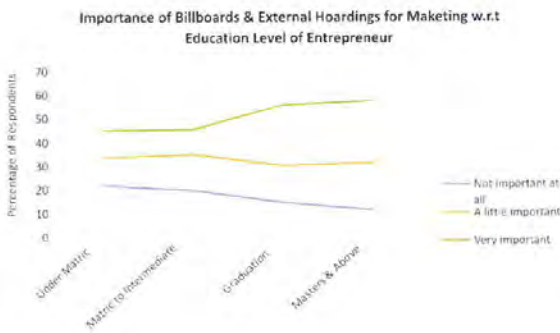
External hoardings/billboards are assigned great importance as marketing tools. The trend of response for firms up to employment size 35 is steady and hovers around 50 percent, however, beyond it, there is an increase visible in percentage response.

Graph 7.15



With respect to level of education of entrepreneurs, the results show that beyond entrepreneurs education level category of Matric to Intermediate, there is a steep increase in percentage response of firms regarding importance assigned to billboards and external hoardings as tools for marketing.

Graph 7.16



Direct Mail

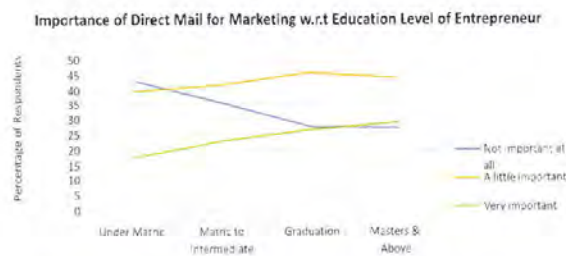
Direct mail is identified as slightly important for marketing. Here too, as firm size increase percentage response assigning great importance to direct mail as a tool for effective marketing increases beyond firms with employment size 35.

Graph 7.17



43.09 percent responses in education level category of Under Matric indicate that direct mail/contact is not at all important for marketing. However, along increasing level of education, percentage response trend shows that it is slightly important.

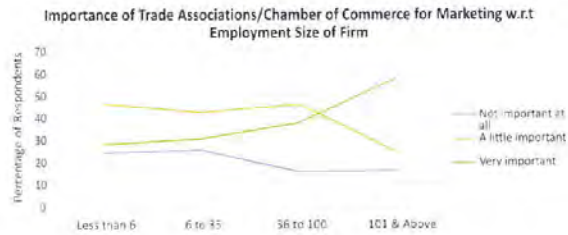
Graph 7.18



Trade Associations/Chambers of Commerce

Most respondents feel that trade associations/chambers of commerce are slightly important for marketing, as visible in graph 7.19. Firms with employment size 101 & above, however, assign great importance to chambers of commerce & industry as important avenues for marketing.

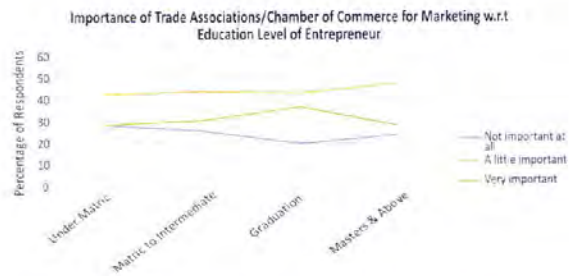
Graph 7.19



With respect to level of education of entrepreneurs, percentage response of firms assigning great importance to chambers of commerce & industry at education level of graduation increases significantly, whereas beyond it, percentage response decreases.

Over all however, chambers of commerce & industry are assigned "a little importance" for marketing.

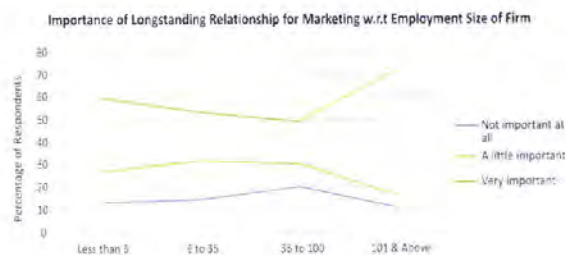
Graph 7.20



Long Standing Relationship with Customers

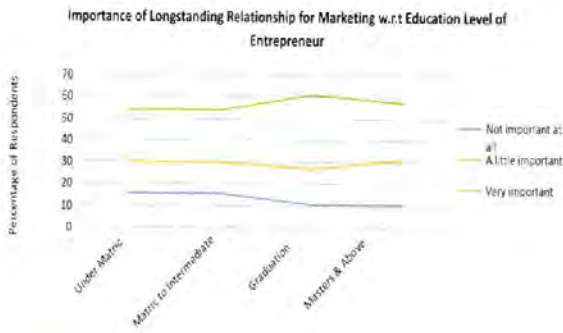
There is a slight kink visible in responses with employment size 36 to 100 along great importance assigned to long standing relationship for marketing.

Graph 7.21



61.52 percent respondents within the level of education of Graduation, 57.42 percent at Masters & above, 54.01 percent in Matric & Intermediate and 54.02 percent Under Matric levels assign great importance to long standing relations for marketing.

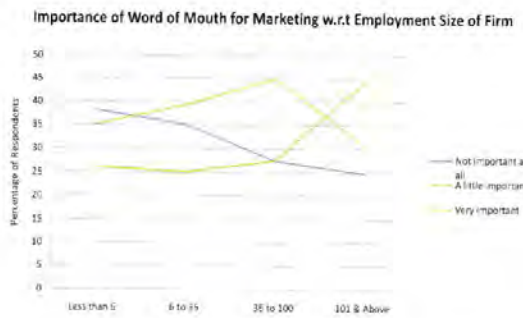
Graph 7.22



Word of Mouth

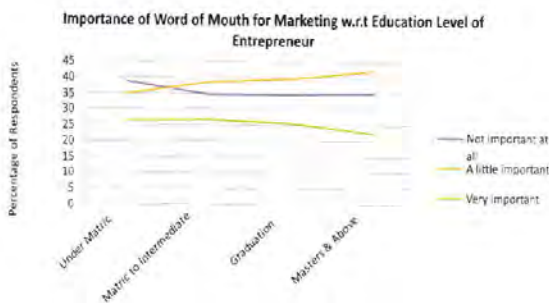
It is interesting to note that 38.39 percent firms with employment size less than 6, do not accord importance to “word of mouth” as a marketing tool. Percentage response across various other employment size categories shows slight importance of “word of mouth” as a marketing tool. Only 25 percent respondents across firms with employment size up to 100 assign great importance to word of mouth as a marketing tool.

Graph 7.23



38.67 percent responses within the category of Under Matric indicate word of mouth as not important at all for marketing. Percentage response along other categories of level of education indicate word of mouth as slightly important.

Graph 7.24



Marketing Plan

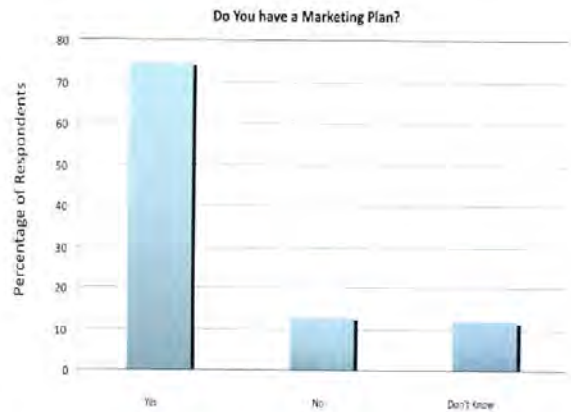
Sample firms were asked if they were aware of what a marketing plan was. 69.01 percent respondents indicated their ignorance regarding marketing plan.

Graph 7.25



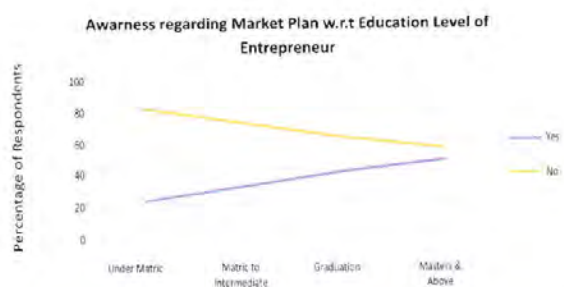
Firms that indicated that they were aware of marketing plan were asked to state if they had a marketing plan for their particular business. The responses show that 74.65 percent did have a marketing plan for their business.

Graph 7.26



The level of ignorance regarding marketing plan decreases, as evident from graph 7.27, as level of education of entrepreneurs increases. 80 percent firms within the category of Under Matric are unaware of marketing plan.

Graph 7.27



Assessing Market Trends and Future Sales

Sample firms were asked to state if they had a system to gauge/assess market trends. According to the responses, 73.50 percent firms shared that they had such a system in place, through which they could assess market trends. Those who indicated that they did not have such a system predominantly believed that there was no such need of a system to assess market trends.

Graph 7.28



How do SMEs plan their future sales? Options given in the questionnaire were as follows:

- Through going market trends
- On the basis of confirmed orders
- Based on existing/old business relationship with customers
- Seasonal demand

According to the results, (frequency of responses recorded on the parameters above), 40.91 percent firms plan future sales on the basis of confirmed orders, followed by going market trends (30.86 percent) and by way of existing & old relationship with customers (19.28 percent).

Graph 7.29



Obstacles for Start-ups in Local & International Markets

There are numerous obstacles new start-ups face in the initial years of business. In case of starting a new business, SMEs were asked to state the degree of significance of obstacles faced in the local & international markets. Given below are the responses.

Table 7.2

Degree of Obstacles in Local Market (Percentage Response)

Obstacles	Insignificant	Somewhat Significant	Very Significant
Lack of Information	5.74	33.54	60.72
Lack of information pertaining to business environment	5.52	48.70	44.79
Lack of Trust	12.99	43.99	43.12
Wastage of time and resources in case of breach of contractual obligations	8.33	50.81	40.86
Cost of establishing business	8.26	26.87	64.86

Table 7.3

Degree of Obstacles in International Market (Percentage Response)

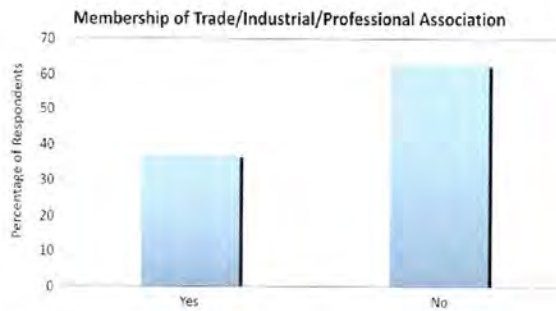
Obstacles	Insignificant	Somewhat Significant	Very Significant
Lack of information	6.28	29.63	64.01
Lack of communication to run business effectively	10.75	39.32	49.92
Lack of confidence	10.15	42.35	47.50
Wastage of time and resources in case of breach of contractual obligations	9.78	35.98	54.24
Cost of establishing business	7.32	31.46	61.22
Conforming to international standards	12.45	33.26	54.18

According to results of the survey, cost of establishing business followed by lack of information are the greatest obstacles, new start-ups face in local market and international markets.

Membership of a Chamber or Trade Association

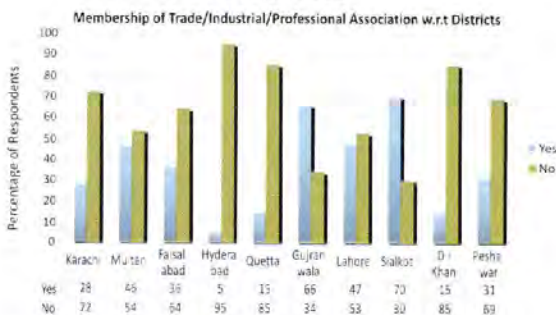
A vast majority of SMEs (60 percent) are still not enrolled with/member of a chamber or association.

Graph 7.30



Comparing the situation in different districts, Gujranwala and Sialkot are the two districts where the proportion of respondents registered with a chamber or association is higher compared to the unregistered ones. On the other hand the proportion of unregistered SMEs is in the highest bracket in cities like Karachi, Hyderabad, Quetta, D. I. Khan and Peshawar. Lahore and Multan show a mixed trend while Faisalabad is a great surprise.

Graph 7.31



Business Development Services

Business development services such as training, marketing, legal etc. are important for any business to flourish. The questionnaire contained a set of questions to solicit responses of firms regarding various BDS services availed, their quality and percentage of such service availed through chambers of commerce / trade association.

According to the survey results, over 70 percent respondents had not availed any service such as training, market information, trade leads or advocacy. Those firms that indicated having used such services were generally satisfied with the quality of service. Furthermore, against each of the services availed, 22.49 percent respondents indicated having obtained 20 – 40 percent of training services through chambers / associations, 25.58 percent obtained between 20 – 40 percent of market information and 22.72 percent obtained the same percent of trade leads through chambers of commerce / associations.

33.56 percent respondents indicated to have used chambers of commerce/associations for up to 20 percent for the purpose of advocacy.

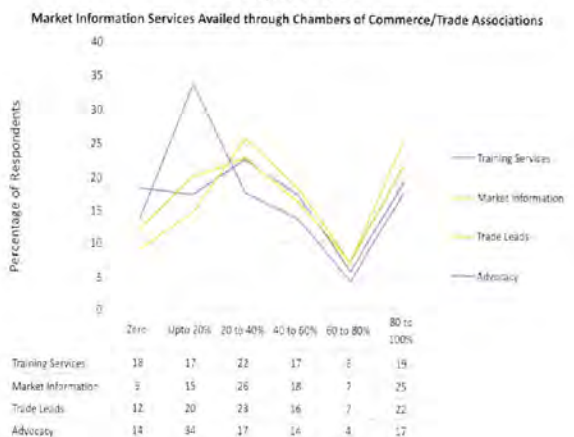
Graph 7.32



Graph 7.33



Graph 7.34

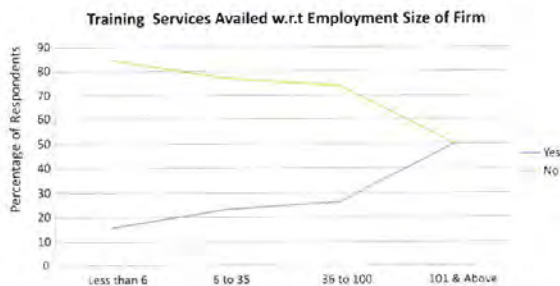


Training Services

84.45 percent firms with employment size less than 6 have never used any training service. On the other hand, just 15.55 percent firms with less than 6 employees have used some kind of training service for themselves or their employees. In terms of firm size, the difference between firms indicating having used training services and not

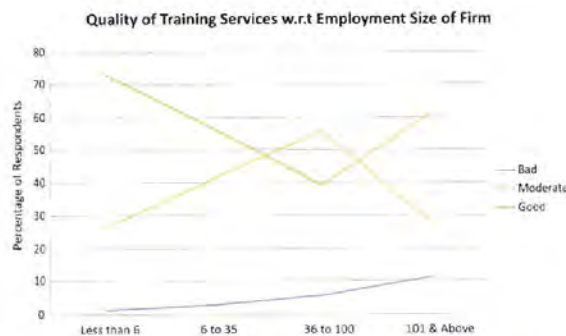
having used training services converges at a point where employment size of firm is 101 & above. Further analysis within firms with less than 6 employees reveals that only 18.40 percent of such firms have ever used any training service.

Graph 7.35



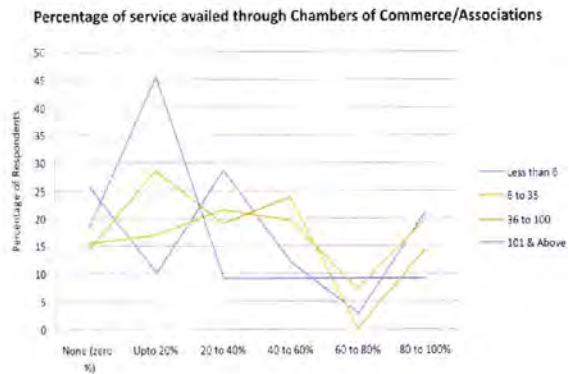
Over 55 percent firms with employment size 36 - 100 ascribe quality of service as "moderate". However, over all, firms utilizing training services indicated their general satisfaction and felt that the quality of service was good.

Graph 7.36



Firms indicating having availed training services were asked to state the percentage of service availed through chambers of commerce /associations. 25.69 percent firms in employment category less than 6 indicated not having availed any such service through chambers of commerce/industry. In fact, 15.41 percent firms in employment category 6 - 35, 14.29 percent firms in employment category 36 - 100 and 18.18 percent firms in employment category 101 & above stated not having availed training through chamber/association.

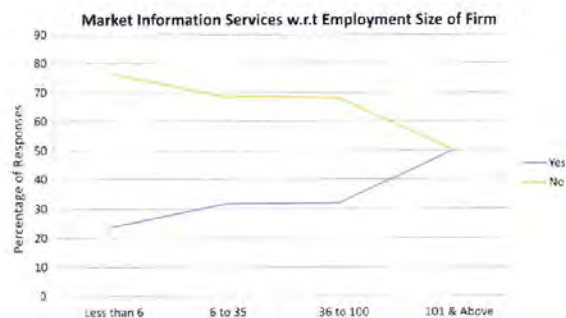
Graph 7.37



Market Information Services

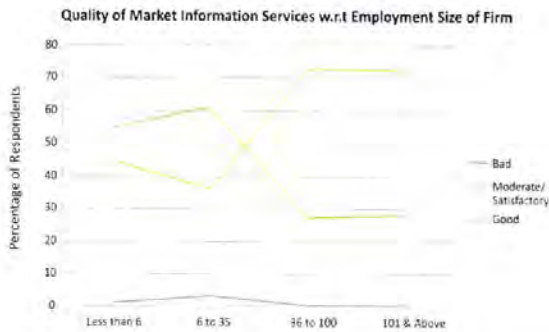
The Survey results show that 23.61 percent respondent firms with employment size less than 6, 31.49 percent respondents in employment category of 6 to 35, 31.88 percent respondents in employment category 36 to 100 and 50 percent respondents in category 101 & above availed market information services. The trend of response "yes" indicates that as firm size increases, use of market information services increases.

Graph 7.38



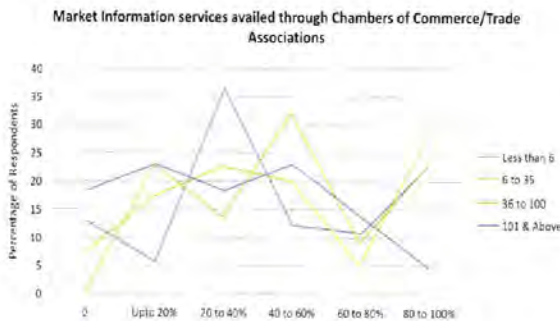
54.47 percent firms in the category of employment size less than 6 having availed market information services and 61.04 percent respondents with employment size category of 6 to 35 stated that the quality of service was good. The trend of response takes a dip from here onwards, along the curve "good" and percentage response of firms with employment size 36 to 100 and 101 & above hovers around 20 percent. Firms in these categories accord quality of market information services availed as "moderate/satisfactory".

Graph 7.39



The survey results reveal that over all, only 30 to 36 percent of market information is availed through chambers of commerce / trade associations. According to firm size analysis, 36.17 percent respondents within employment category less than 6, obtain 20 to 40 percent market information through chambers/trade associations. 22.36 percent respondents in employment category 6 to 35 state having obtained 20 – 40 percent market information services from chambers of commerce/trade associations. 31.82 percent respondents in firm size category 36 to 100 stated to have obtained 40 – 60 percent market information through chambers of commerce/trade associations while 22.73 percent respondents obtained 40 – 60 percent market information through chambers of commerce/trade associations.

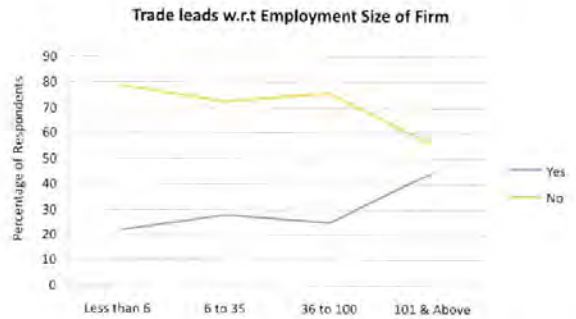
Graph 7.40



Trade Leads

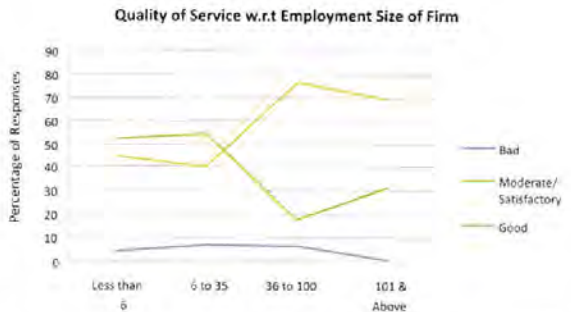
Over 75 percent of sample firms indicate to have not obtained trade leads through various service providers. There is, however, a trend visible where the percentage response of firms who have obtained trade leads increases as firm size increases.

Graph 7.41



Quality of service according to 51.79 percent firms with employment size less than 6 and 54.07 percent between 6 to 35 is assessed as “good”. Firms with employment size greater than 35 assess the service as “moderate/satisfactory”.

Graph 7.42



According to the survey results, 21.80 percent respondents in firm size category less than 6 obtained trade leads through chambers of commerce/trade associations. 24.50 percent respondents in employment size 6 to 35 obtained 20 – 40 percent trade leads, 31.58 percent respondents in employment size category 36 to 100 obtained up to 20 percent and 33.33 percent respondents in employment size category 101 & above stated to have obtained 20 – 30 percent trade leads from chambers of commerce/trade associations.

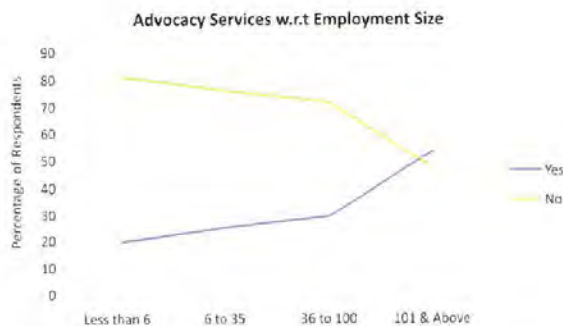
Graph 7.43



Advocacy Services

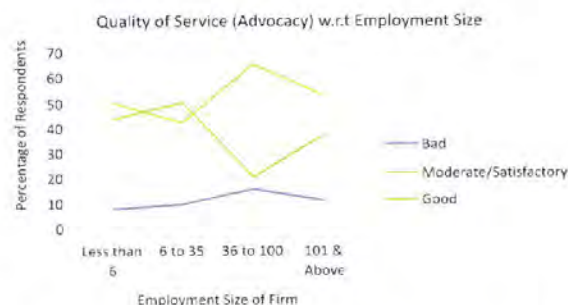
The survey results show an upward rising trend of responses as “yes” to the use of various fora for advocacy, as firm size increases. Over 80 percent respondents in firm size category less than 6, 75.66 percent respondents in employment size category of 6 to 35 and 71.01 percent respondents in employment size category 36 to 100 have not availed advocacy services. Only at the firm size level 101 & above do 52.78 percent respondents indicate having used advocacy services.

Graph 7.44



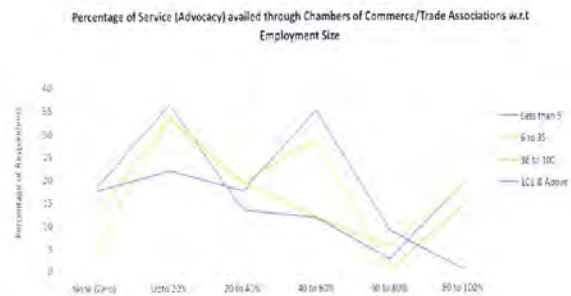
With the exception of 49.85 percent respondents in employment size category of 6 to 35 who state the quality of advocacy as “good”, all other respondents indicate quality as “moderate/satisfactory” irrespective of size of firm. However, 15 percent respondents in employment size category 36 to 100 term the quality of service as “bad”, at which point percentage respondents assessing quality as “moderate / satisfactory” is at its highest and “good” at its lowest level.

Graph 7.45



The pattern of responses regarding percentage of service (advocacy) availed through chambers of commerce / trade associations presents an interesting picture, as depicted in the graph 7.46.

Graph 7.46



18.03 percent respondents in firm size category less than 6 indicate not having obtained any service facility such as advocacy through chambers of commerce / trade associations, however, a similar percentage of respondents in the same category state to have had 80 to 100 percent of their advocacy needs, met through the platform of chambers of commerce / trade association.

33.46 percent respondents within the employment size category of 6 to 35 and 33.33 percent respondents in employment size category of 36 to 100 state that up to 20 percent of their advocacy needs are met through chambers of commerce / trade associations.

Extent of Business Development Services Availed and Level of Satisfaction

Table 7.4 depicts the business development services (provided by the private sector), availed by SMEs in terms of percentage responses and their levels of satisfaction. It also highlights the demand for such services.

Table 7.4

Type of Service	Service Availled		If Yes, were you satisfied		If No, would you like to avail such a service	
	Yes	No	Yes	No	Yes	No
Business contract facilitation	33.2	66.8	31.00	2.2	18.8	48.5
Company registration	38.1	61.9	33.7	4.4	13.4	48.5
Business Plan development	18.8	81.2	16.00	2.9	19.3	61.9
Leasing company	13.5	86.5	9.7	2.7	18.1	68.4
Marketing research	18.6	81.4	15.3	3.2	17.1	64.3
Seminar/exhibition & event management	17.8	82.2	14.5	3.3	16.6	65.6
Legal Advisory Services	29.7	70.3	24.8	4.9	18.1	52.2
Tax consultation/related service	34.5	65.5	27.6	6.9	16.3	49.1
Selection & Recruitment of HR	21.5	78.5	18.1	3.4	17.1	61.3
Training	20.1	79.7	15.8	4.3	19.4	60.5
Accounting Consultant/ Chartered Accountancy firm/consulting firm	11.2	88.8	8.8	2.4	15.6	73.2
Banking services (other than financing)	28.6	71.4	24.3	4.4	16.2	55.2
Product development & process improvement	22.4	77.6	19.0	3.4	19.0	58.7
Software development	11.1	88.9	8.7	2.4	15.1	73.8
Certification	13.00	87.00	10.3	2.7	16.3	70.8
Marketing services	22.6	77.4	19.4	3.2	18.4	59.0
Technology services	16.0	84.0	13.3	2.7	21.0	53.0

Chapter VIII

- Approach
- Key Findings
- Long Term Vision for Business
- Mission Statement
- Management as Described by SMEs
- Long Term Decision Making
- Percentage of Time Spent on Management Related Issues
- Utility of Management Training
- Willingness to Pay for Management Training
- Benefits for Employees
- Delegation of Responsibilities to Employees
- Specific Departments for Various Business Functions
- Availability of Skilled Workers

MANAGEMENT

Approach

If business is a system, management is its software. Management and ownership is inseparable in SME businesses. This introduces an interesting dichotomy. On one hand it paves way for more efficient decision making as there is no principal-agent divide and the decision making is concentrated at one tier, on the other however, absence of a specialist manager may hamper the business's growth or hinder the development of organizational discipline and routines. SME entrepreneurs are usually believed to take decisions on the basis of home spun wisdom instead of employing any formal management techniques or models. From the viewpoint of a baseline study it was important to assess the current management profile of SMEs and the degree of sophistication, if any, across the size, education and district spectrum.

This section contains nineteen questions, starting from inquiry into the existence of vision and mission statements in a business and going on to explore the extent of delegation, role of consultation, horizon towards HR management and the extent of specialization in the business organization. As usual there is an overall analysis and a segregated analysis with respect to education, employment size, district and age of entrepreneur.

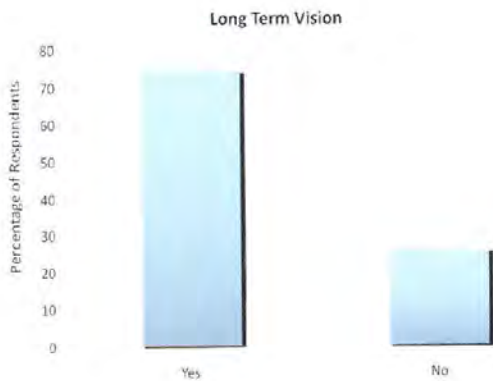
Key Findings

- A majority of respondents have a long term vision for their business which is, mainly to expand their business.
- Almost half of the respondents defined themselves as key decision makers, whereas, 10 percent also involved employees while taking decisions.
- Around 40 percent respondents devote less than one third of their business time on making management decisions. Most spend less than half of their time on management related issues.
- The level of education of employees, a vast majority of whom are male, in more than half of the cases is Under Matric, while more than half of them fall into the age bracket of 25 to 35 years.
- Most respondents think that management training is useful to some extent.
- 45 percent respondents said that they would be willing to pay for management training of their employees even if it does not result in any short term profitability.
- A majority of respondents think that skilled workers are easily available in their industry.

Long Term Vision for Business

SMEs are usually labeled as short sighted and hostage to a day to day existence in their management approach. Struggle for survival is presumably the governing instinct for an SME and indulgence in the luxury of thinking long term or dreaming in abstract terms is perhaps not their cup of tea. The survey results deny this impression. As many as 74 percent respondents claim they have a long term vision for their business.

Graph 8.1



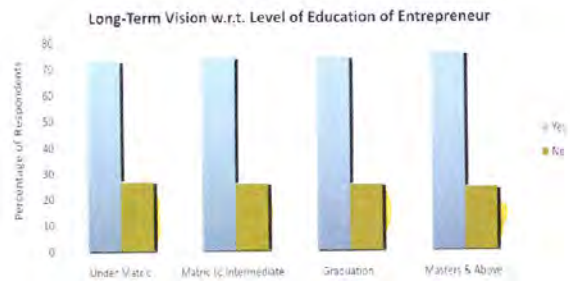
Tracing correlations with size, education and district would be an interesting exercise. Graph 8.2 portrays responses according to employment size of establishment. 72.17 percent respondents in less than 6 category, 74.54 percent in 6-35 category, 85.51 percent in 36-100 employees' category and 69.44 percent in 101 and above category have responded to the question in affirmative. The proportion of 'Yes' response mildly increases with increase in the size the 36-100 employee category.

Graph 8.2



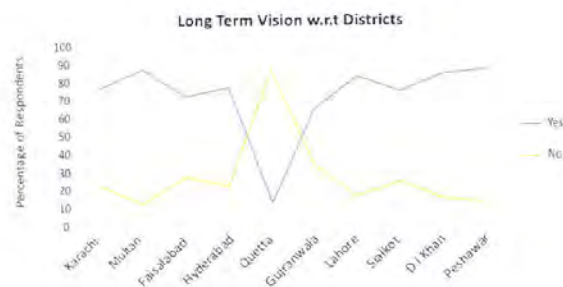
In terms of education of entrepreneur, there is an across the board and overwhelming percentage of respondents saying 'Yes'. Graph 8.3 gives the picture.

Graph 8.3



Examining comparative frequency of responses among the districts, Quetta seems to be at the nadir with just 13.04 percent respondents having a long term vision for their business. Gujranwala (65.03 percent), Sialkot (74.77 percent) and Faisalabad (72.12 percent) expected to be high on the ladder are outweighed by places like Multan (87.18 percent), Peshawar (86.49 percent) and D. I. Khan (84.62 percent). Among the two metropolises, Lahore with 82.86 percent 'yes' response has a better showing than Karachi with 76.65 percent respondents saying 'yes' to the long term vision for the business.

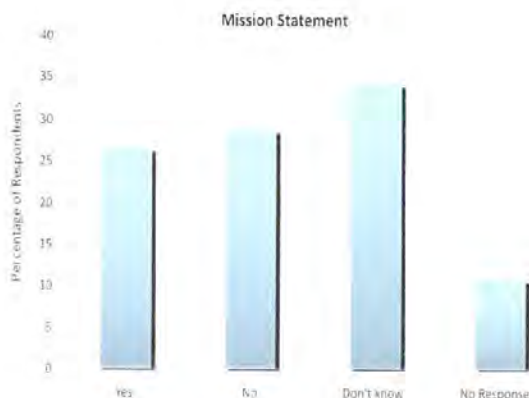
Graph 8.4



Mission Statement

Is the long term vision for business being translated into a formal mission statement? The answers are mixed. Whereas 74 percent respondents do have a vision for their business only 26 percent have a formal mission statement, 29 percent answers are in the 'No' category and another 44 percent are neither here nor there. Graph 8.5 reflects the picture:

Graph 8.5



Graph 8.6 describes responses according to categories of employment size.

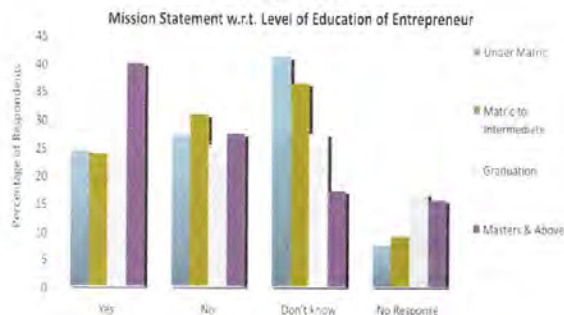
Graph 8.6



As we can see in the graph, the comparative percentage of SMEs having a mission statement increases with increase in size. Whereas 22.26 percent respondents have a mission statement among the less than 6 category, the percentage increases to 26.58 for 6-35 segment, 43.48 percent for 36-100 and 47.22 percent in the case of 101 and above. Correspondingly, the 'No' and 'Don't Know' responses decline as the employment size increases.

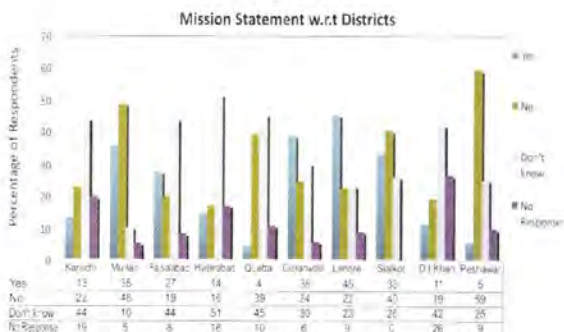
Graph 8.7 shows the split of responses along the education categories of entrepreneurs. The percentage of 'yes' response increases with increase in education except for a very slight negative change for Matric to Intermediate category. Among the Under Matric segment the percentage saying 'yes' is 24.31 in Matric to Intermediate 23.62 among Graduation segment 30.64 and in the Masters and above category, the percentage is 39.84. Correspondingly, the percentage of 'Don't know' responses decreases with improvement in education category.

Graph 8.7



Coming to the district level picture, the greatest percentage of 'yes' is in Lahore (45 percent) followed by Gujranwala (39 percent). The lowest scores on the other hand are Quetta (4 percent), Peshawar (5 percent), D. I. Khan (12 percent) and Karachi (13 percent). Respondents expressing ignorance are the highest in Hyderabad (50 percent), Quetta (45 percent), D. I. Khan (42 percent) and Karachi (44 percent).

Graph 8.8



Management as Described by SMEs

SMEs were asked to comment on anyone of the following statements, corresponding well to their view of management:

- Art of getting work from others
- Motivating up to a level where people work with zeal
- Better environment that makes people work with zeal
- Other

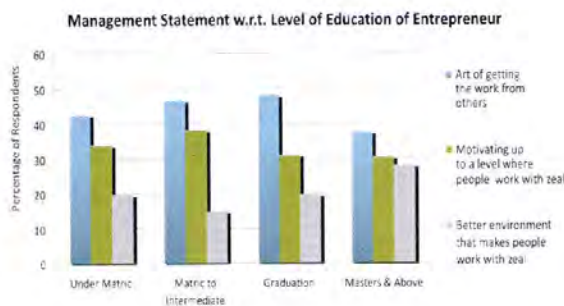
As many as 46.09 percent SMEs think management is an 'Art of getting work out of others', followed by 35.97 percent considering 'motivating up to a level where people work with zeal' as the best choice; further followed by 17.94 percent stating 'Better environment where people work with zeal' as the appropriate choice. Responses along other choices are negligible.

Graph 8.9



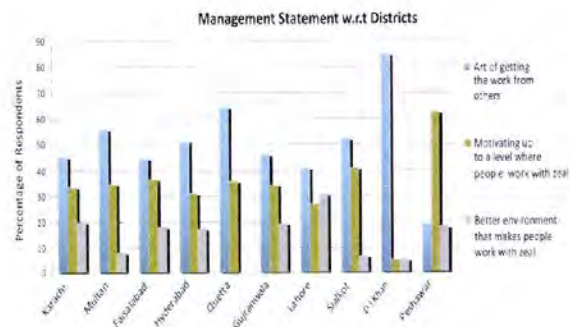
Graph 8.10 pictures the responses in accordance with education level of entrepreneurs. As exhibited by the first cluster of bars, 42.65 percent SMEs from Under Matric segment, 46.64 percent from Matric to Intermediate segment, 47.98 percent from Graduation category and 37.80 percent from Masters and above feel aligned to the 'art of getting work from others' response. There is no clear trend discernable in case of any of the three choices though.

Graph 8.10



While 'art of getting work out of others' is the predominant interpretation all over, within the districts the greatest adherents to this concept of management are in D. I. Khan, Quetta and Multan. Adherents to the concept of providing better environment wherein people work with more zeal are comparatively more in places like Lahore (31 percent), Gujranwala and Karachi (20 percent).

Graph 8.11



Long Term Decision Making

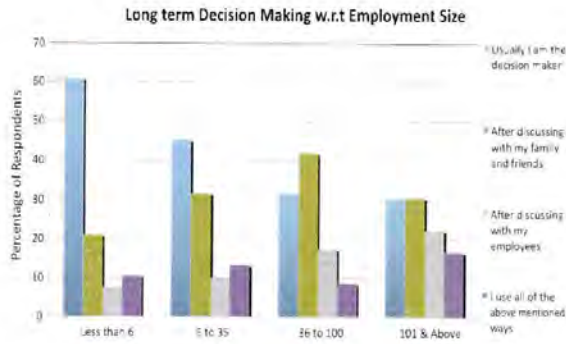
SMEs are mostly a one man show. Management and ownership is united in one person. How broad based is the decision making process in SMEs? As much as 50 percent respondents consider themselves the sole decision makers. Among the remaining 50 percent whereas around 30 percent take into confidence their family members only 10 percent deem it fit to discuss with the employees as well. 12 percent of the respondents employ all the mentioned means of consultation.

Graph 8.12



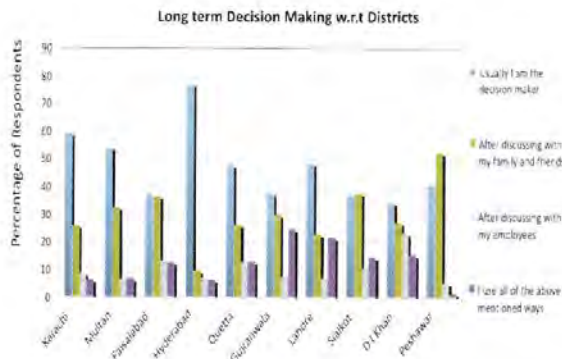
The tendency to confine decision making prerogative to oneself seems to decline with increase in size. While in less than 6 employees' category 60.84 percent respondents are the sole decision makers, in 6-35 category the proportion tapers off to 45.19 percent, in 36-100 employee category it is 31.88 percent and in the 101 and above category the percentage falls to 30.56. There is a slight upward trend in percentage of responses, stating, willingness to discuss management decisions with family and employees, though the overall percentage is very low.

Graph 8.13



As the graph 8.14 indicates, the tendency to take decisions on their own without consulting anyone is highest among respondents in Hyderabad (77.11) followed by Karachi (59.47). While in places like Faisalabad (37.50), Gujranwala (37.70) and Sialkot (36.94) the percentage of SME entrepreneurs taking solo decisions is comparatively lower. The percentage of respondents taking family and friends' advice in decision making is 36.54 in Faisalabad, 30.05 in Gujranwala and 37.84 in Sialkot, suggesting that decision making in these districts is comparatively more participative.

Graph 8.14



Percentage of Time Spent on Management Related Issues

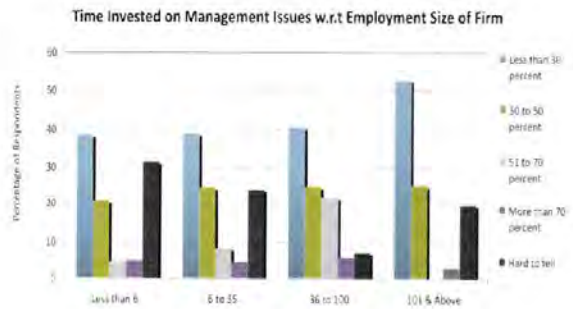
The quantum of time spent on management decisions can be an indicator as to how diligent SMEs' style of management is. Around 40 percent of the respondents devote less than one third of their business time to management decision making. Some 23 percent devote between 30-50 percent of their business time while as many as 25 percent find it difficult to describe (Graph 8.15).

Graph 8.15

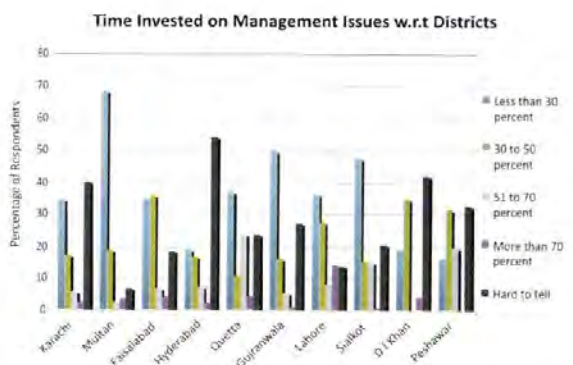


Graph 8.16 portrays responses according to given employment sizes. There is no clear trend noticeable in this regard, except that the percentage of 'hard to tell' segment declines with increase in size till 36-100 size bracket. In case of the size category of 101 and above, surprisingly the proportion touches 20 percent.

Graph 8.16



Graph 8.17



68.38 percent respondents in Multan 49.73 percent in Gujranwala, 47.75 percent in Sialkot, 36.19 percent in Lahore and 34.62 percent in Faisalabad spend less than 30 percent of their time on management decisions. While 35.58 percent SMEs in Faisalabad, 34.62 percent in D. I. Khan, 31.53 percent in Peshawar and 27.62 percent in Lahore spend 30-50 percent of their

time on management decision making. There aren't any significant percentages of responses in the 51-70 percent and more than 70 percent time segments. The extent of respondents who cannot estimate the chunk of time devoted to business or the 'hard to tell' segment, is highest in Hyderabad 54 percent followed by D. I. Khan 42 percent and Karachi 40 percent.

Utility of Management Training

Usually the perception about SMEs is that they are not so keen to invest in their human resource, by way of training, apart from very specific on job training in skills. In order to test the credibility of this general opinion, SMEs were asked to comment in 'Yes' or 'No' on the proposition of providing management training to their employees, besides the so called, technical training. As the survey results indicate, the answer is overwhelmingly yes with 40 percent terming it useful to some extent and another 40 percent as very useful.

Graph 8.18



The combined percentage of responses assigning moderate to high utility to management training slightly increases with increase in employment, indicating a moderate correlation with size of firm.

Graph 8.19



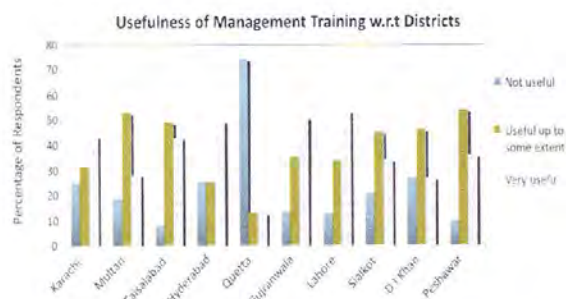
With respect to educational qualification of SME entrepreneurs there is no clear trend detectable in the Under Matric and Matric to Intermediate segment, however, in the Graduate and Masters and above category the comparative percentages of 'useful to some extent' and 'very useful' exceed the percentage of 'not useful' response in the given order. Thus in the Graduate category just 18.18 percent term such training of no use while among the remaining segment, 38.72 percent consider it useful to some extent and 43.10 percent term it very useful. Similarly in the Masters and above category, 17.19 percent find it not useful, 28.13 percent term it useful to an extent and 54.69 percent adjudge it as very useful.

Graph 8.20



Over 90 percent of respondents from Peshawar and Faisalabad, 88 percent in Lahore, 87 percent in Gujranwala, 82 percent in Multan and 80 percent in Sialkot, consider management training useful for their employees. Quetta, however, stands out as an exception where 74 percent respondents state that training of such a nature would not be useful at all.

Graph 8.21



Willingness to Pay for Management Training

A more pointed query testing SMEs' conviction for investing in human resource was posed by asking a direct question, as to whether they would be

willing to spend on such management training of their employees, even if there was no short term benefit in sight. There is a 45-55 percent split between 'yes' and 'no'.

Graph 8.22



The tendency, not to pay for employee management training decreases as firm size expands. Larger firms, in terms of employment size, are therefore, more at-ease in dealing with training expenses compared to smaller ones. Thus, whereas in the less than 6 employees segment, 40.12 percent firms say 'yes' to the proposition of spending on management training, even if it is not of any short term benefit, the percentage increases to 46.01 in case of 6-35 segment, 63.77 percent in 36-100 employee segment and 72.22 among the 101 and above segment.

Graph 8.23



Graph 8.24 describes the situation with respect to educational category of SME employees. As one can see, the comparative percentage of respondents saying 'yes' to the proposition increases, with increase in education. Thus, whereas among the Under Matric segment the percentage of 'yes' responses is 40.33, it increases to 44.19 in the Matric to Intermediate category, 53.20 percent among Graduates declining to 50 percent among Masters and above.

Graph 8.24



Graph 8.25 states the position with regard to districts. Majority of respondents across Lahore (54 percent), Hyderabad (68 percent), Gujranwala (70 percent) and Sialkot (79 percent) expressed their readiness to bear expenses of such training. Whereas, majority of respondents across D. I. Khan (54 percent), Quetta (64 percent), Faisalabad (65 percent), Multan (71 percent) and Karachi (74 percent) stated otherwise.

Graph 8.25



Benefits for Employees

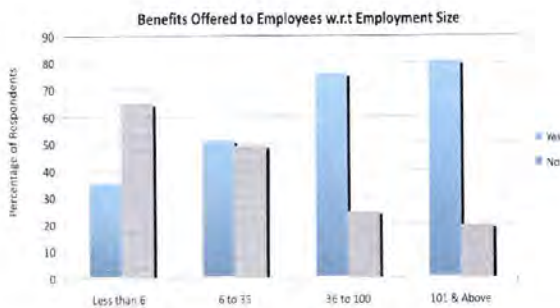
Financial incentives particularly those linked to performance including sharing of profits with employees at a certain rate in the form of bonuses etc. is a potent means to buy their stake into business. As the results below indicate there is almost an even split of 'Yes' (52 percent) and 'No' (48 percent) responses.

Graph 8.26



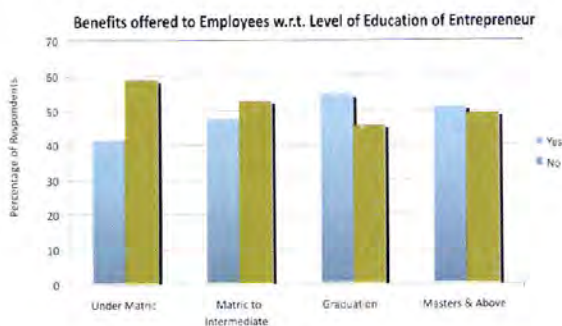
A clear trend can be established, that as employment size increases, so does the willingness to offer benefits to employees in the form of a salary raise, incentives and/or bonuses. In the less than 6 employment bracket 35.12 percent employees are willing to give bonuses to their employees, in 6-35 category 50.82 percent, in 36-100 category 75.36 percent and in 101 and above category 80.56 percent respondents give bonuses to their employees.

Graph 8.27



As far as the alignment of 'yes' and 'No' response with the education of entrepreneurs is concerned, 41.16 percent respondents in the Under Matric segment, 47.12 percent in Matric to Intermediate category 54.55 percent among the Graduates and 50.78 percent in the Masters and above category say "yes" to the question, stating correlation between improving educational qualification and willingness to give monetary incentives to employees in terms of bonuses and salary increases.

Graph 8.28



On the district spectrum as reflected by graph 8.29 the highest number of respondents who stated 'yes' are spread across Sialkot (80 percent), Gujranwala (79 percent), Lahore (60 percent) and Multan (55 percent). However, majority of entrepreneurs in Peshawar (66 percent), Karachi

(69 percent), Hyderabad (81 percent) and Quetta (94 percent) offer no benefits whatsoever to their employees.

Graph 8.29



Delegation of Responsibilities to Employees

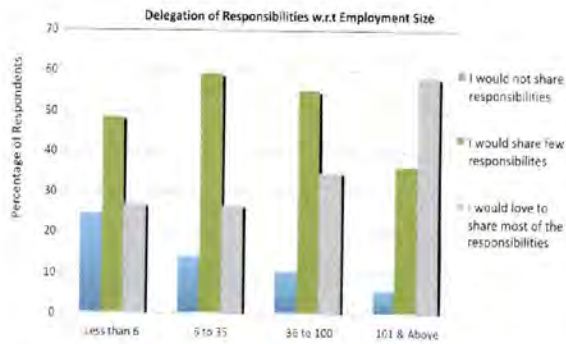
Extent of delegation of responsibilities to employees indicates level of trust on part of SME owners, among employees and also an inclination to rely on professional advice for decision making. According to the results, over 72 percent respondents feel inclined to delegate some (50.05 percent) or most of their responsibilities (27.87 percent) to the employees.

Graph 8.30



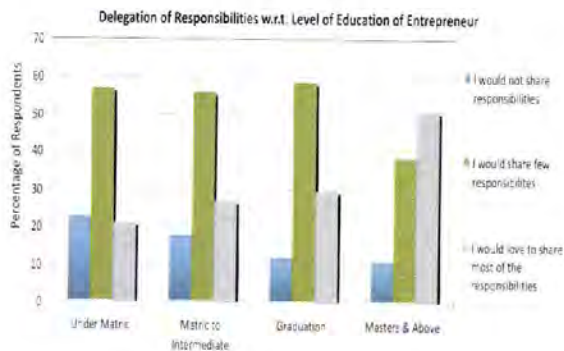
The inclination towards shared responsibilities increases with the increase in employment size of the firm. Results confirm that among firms falling in the 101 & above segment, 95 percent of respondents would share a few or most of their responsibilities. As the employment size moves to lower-size brackets, so does the willingness to delegate tasks with percentages of 90, 86 and 76 respectively.

Graph 8.31



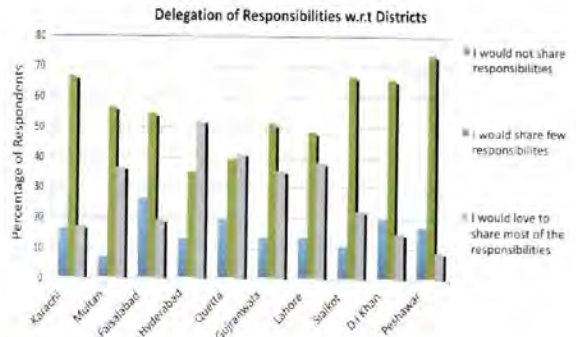
Viewing things with regard to educational qualification of SME entrepreneurs, the unwillingness to share responsibilities tapers off with improved educational qualification i.e. 22.38 percent for Under Matric 17.63 percent for Matric to Intermediate, 11.78 percent in case of graduation and 10.94 percent in case of Masters and above. The percentage of respondents willing to share most of their responsibilities also builds up with enhanced educational qualification.

Graph 8.32



Analyzing the situation of response district wise, the tendency to delegate tasks and share responsibilities is at its utmost in Multan (94 percent) followed by Sialkot (90 percent), Gujranwala, Lahore and Hyderabad (87 percent). In Faisalabad, 26 percent of respondents negated the idea of sharing responsibility, which is the highest percentage of negative response among all the districts.

Graph 8.33

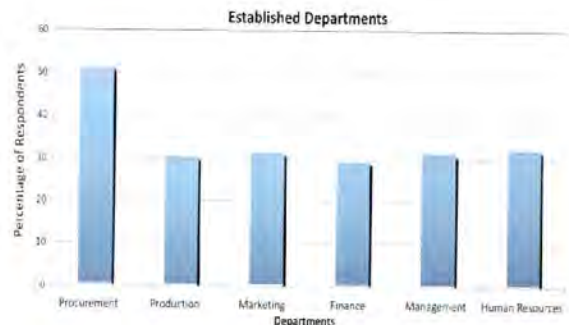


Specific Departments for Various Business Functions

(Procurement, Production, Marketing, Finance, Management and Human Resource)

The objective of this set of questions is to gauge the extent of formal organization and structure in an SME. Existence of separate units for important functional areas indicates a more structured way of running business instead of a one man show. As the results below indicate, recognition for the importance of procurement function by establishing a separate department/representative has been demonstrated by as many as 51 percent SMEs followed by 30 percent for production, 29 percent for finance, 32 percent for marketing and 34 percent for management.

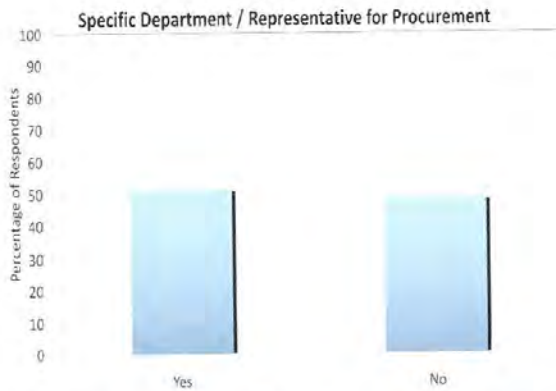
Graph 8.34



Specific Department/Representative for Procurement

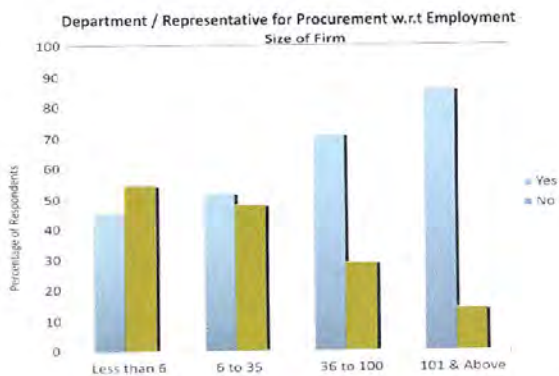
Timely and economic procurement of raw material and other supplies for business are vital for sustained and smooth running of the production process. Existence of a separate procurement department/representative indicates priority for streamlining of procurement process for carrying out quality procurements efficiently and at minimum cost. A little over 51 percent respondent businesses say 'yes' to the question regarding existence of a separate department for procurement.

Graph 8.35



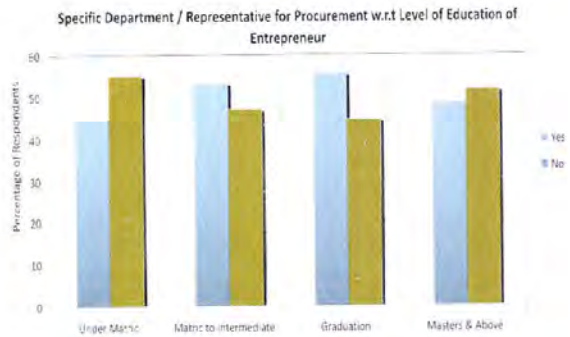
Analyzing the overall response along various categories of employment size, we can see an increasing prevalence of separate department/representative for procurement with the increase in firm size. As the graph below shows, apart from less than 6 category, where 45.30 percent SMEs have said 'Yes' compared to 54.70 percent saying 'No', among the remaining categories i.e. 6-35, 36-100 and 101&above there are 51.84, 71.01 and 86.11 percent SMEs saying 'Yes' compared to 48.16, 28.99 and 13.89 percent respectively saying 'No'.

Graph 8.36



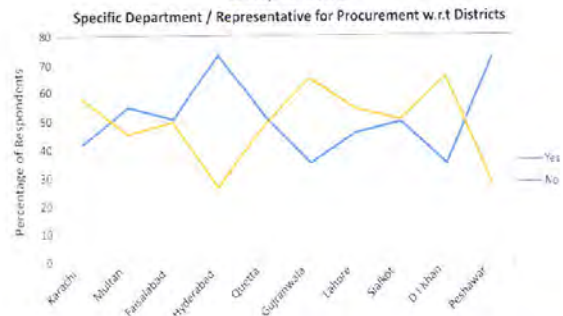
Graph 8.37 presents the picture with reference to education of entrepreneurs. While 44.75 percent entrepreneurs in the Under Matric category say 'Yes' to the existence of a dedicated procurement department or representative in their business, the percentage grows to 53.12 percent for Matric and Intermediate and 55.56 percent for Graduation category. There is a slight tapering off in the 'Yes' response among the Masters and above category. Hence, apparently there is a predominantly positive relationship between increase in education and tendency to have a dedicated set up for procurement.

Graph 8.37



Among the districts 73.49 percent SMEs in Hyderabad, 72.07 percent in Peshawar, 54.7 percent in Multan, 52.17 percent in Quetta and 50.48 percent in Faisalabad say 'Yes' to presence of a separate procurement department/representative. Gujranwala with 34.97 and D. I. Khan with 34.62 percent SMEs saying 'Yes' are at a lower stratum. Other districts where the 'Yes' response outweighed 'No' are Lahore 45.71 percent, Sialkot 49.55 percent and Karachi 41.85 percent.

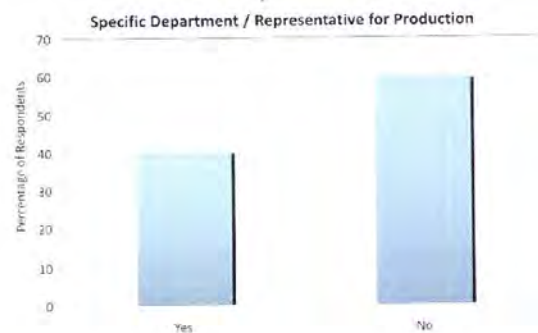
Graph 8.38



Specific Department/Representative for Production

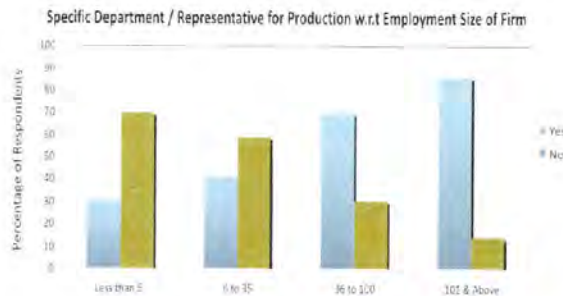
30 percent respondent firms say 'Yes' to the question regarding existence of a dedicated department/representative for production while 45 percent say 'No'.

Graph 8.39



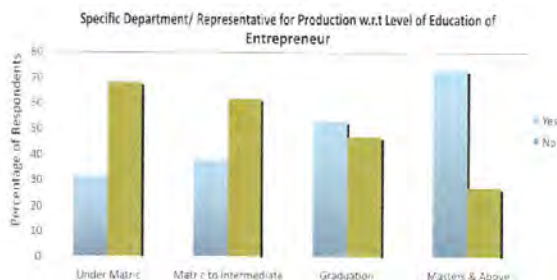
The graph below presents the picture with regard to employment size of firm. As noticeable, the relative proportion of respondents saying 'Yes' increases with the increase in size of firm. Whereas, in the less than 6 category of employees, the 'Yes' percentage is 30 percent, it grows to 40 percent among the 6-35 category 69.81 percent in 36-100 category and 86.21 percent in 101 and above category of employees.

Graph 8.40



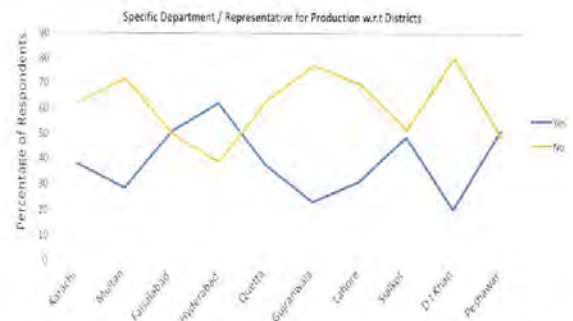
Is there a relationship between the education level of SME entrepreneur and the inclination to have a dedicated production department or representative? Graph 8.41 provides the answer which is in the affirmative. Among the Under Matric category 31.49 percent SME entrepreneurs have a separate production department in their business, the percentage rises to 37.92 in the case of Matric to Intermediate, 52.97 percent in case of Graduation and 73.08 percent among the Masters and above category.

Graph 8.41



Coming to district wise analysis as graph 8.42 shows, in Hyderabad 61.67 percent SMEs have a separate production department followed by 51.28 percent in Peshawar, 50.55 percent in Faisalabad, 48.35 percent in Sialkot, 38 percent in Karachi and Lahore, 28.41 percent in Multan 22.97 percent in Gujranwala and 20 percent in D. I. Khan have a separate department or representative for production.

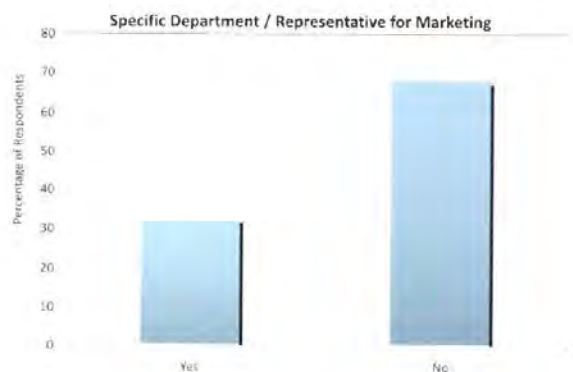
Graph 8.42



Specific Department/Representative for Marketing

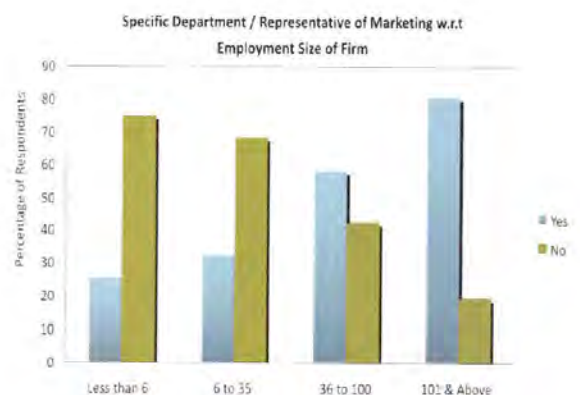
67.83 percent respondent firms say 'No' while 32.17 percent firms say, they do have a specific department/representative for marketing.

Graph 8.43



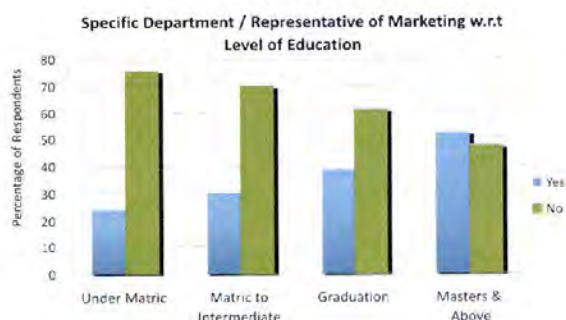
In terms of employment size, as graph 8.44 indicates, amongst the firms with employment size of less than 6, the percentage of 'No' respondents is 74.66 percent, followed by 67.79 percent for 6-35 employment category, 42.03 percent for 36-100 category and 19.44 percent for 101 and above. Hence, greater the employment size more is the likelihood of a dedicated department/representative for marketing.

Graph 8.44



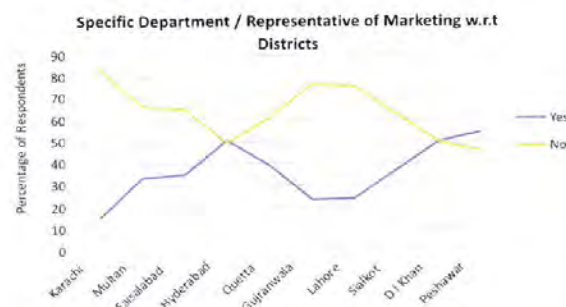
Graph 8.45 gives the picture with regard to education level of entrepreneur. Though, all in all, the percentage of respondents replying in the negative outnumbers the positive responses, except in the case of Masters and Above category, the relative percentage of 'Yes' responses grows with the rise in educational qualification. Thus, while in the Under Matric category the percentage of 'Yes' responses is 24.31 it grows to 30.11 percent for Matric to Intermediate, 38.72 percent to Graduation and 52.34 percent in the case of Masters and Above.

Graph 8.45



A mixed trend comes to fore in the district wise analysis. Peshawar, Hyderabad and D.I. Khan are three districts with 54, 50.60 and 50 percent respondent firms saying they had a dedicated marketing department or representative. In the second league, there are districts of Quetta (39.13 percent) Sialkot (36.94 percent) and Faisalabad (35.10 percent). Lahore with 23.81, Gujranwala 23.70 and Karachi 14.98 percent firms saying 'yes' to the existence of such a department, are at the lowest rung.

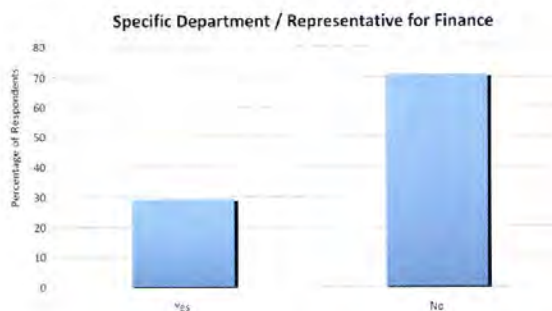
Graph 8.46



Specific Department/Representative for Finance

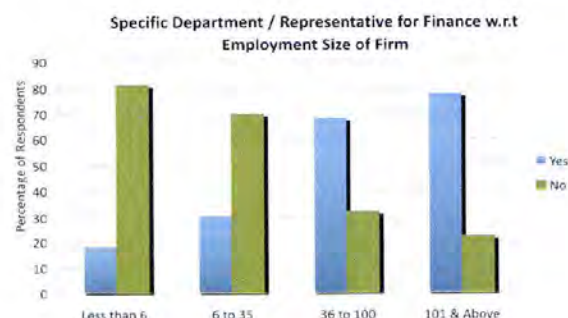
70.89 percent respondents say 'No' while only 29.11 percent give a 'Yes' response to the question.

Graph 8.47



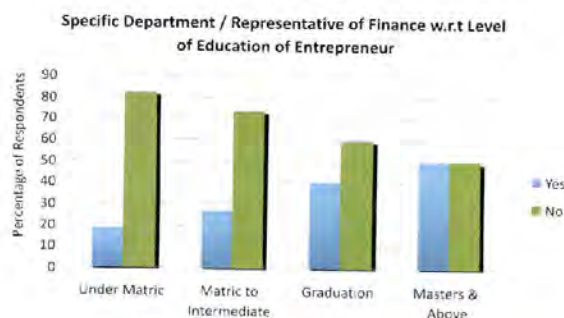
Graph 8.48 portrays the situation according to size of employment. In the less than 6 category 18.62 percent respondents say 'yes' to a dedicated department for finance, in 5-35 employee category 30.16 percent, in 36-100 employee category 68.12 percent and in 101 and above category 77.78 percent respondent SMEs have a separate department or representative for finance, thus depicting a clear correlation between the increase in employment size of firm and existence of a dedicated department for finance.

Graph 8.48



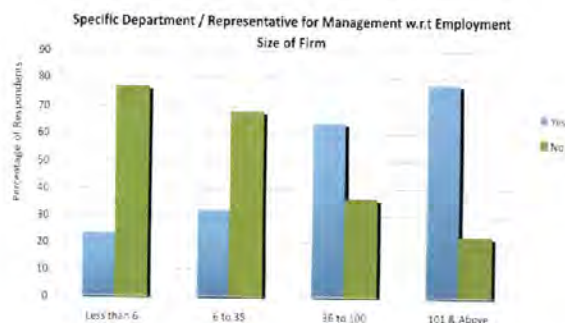
Analysing data a positive trend is noticeable with increasing educational qualification of entrepreneur. In the Under Matric category of education 18.23 percent, Matric to Intermediate 26.56 percent, Graduation 40.40 percent and Masters and above 50 percent respondent SMEs have a dedicated department or representative for finance.

Graph 8.49

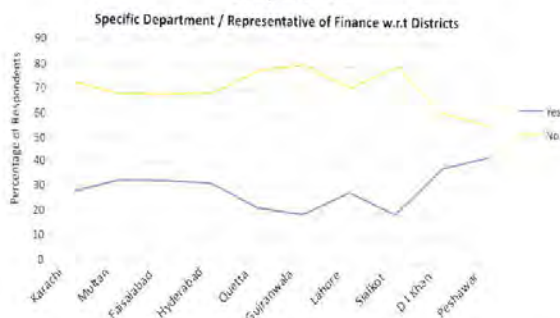


31.90 percent respondents among 6-35 category, 63.77 percent in 36-100 employee bracket and 77.78 percent among 101 and above category have replied in the affirmative, indicating a progressive trend of response vis-à-vis increase in employment size (Graph 8.52).

Graph 8.52



Graph 8.50



Graph 8.50 gives district wise responses. Among the 10 given districts, as many as seven have around one third respondents claiming a separate department or representative for finance. Karachi (27.31 percent) Multan (32.48 percent), Faisalabad (32.21 percent), Hyderabad (31.33 percent), Lahore (28.57 percent) and D. I. Khan (38.46 percent) are at a higher pedestal. While Gujranwala with 19.13 percent and Sialkot 19.82 percent are among the lowest, in terms of having a separate department or representative for finance.

On the educational side there is a notable positive correlation between enhancing educational qualification and prevalence of a specific set up for management. Whereas, in the Under Matric category the percentage of 'yes' response is 22.10, it grows to 27.91 percent for Matric and Intermediate category, 44.11 for Graduation and 52.34 percent for Masters and above category.

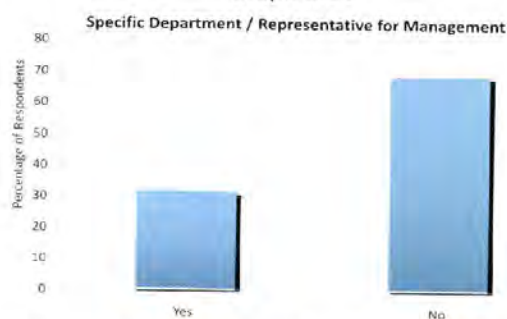
Specific Department/Representative for Management

The split is 31.54 percent 'Yes' vs. '68.45' percent 'No' in the case of management.

Graph 8.53



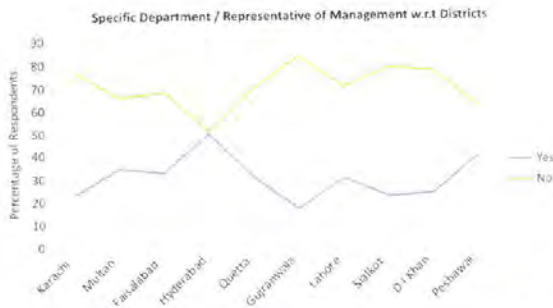
Graph 8.51



District wise, there is a mixed trend. While in Hyderabad (49.40 percent) and Peshawar (38.74 percent) respondents confirm having a specific department or representative for management, in Multan the percentage is 34.19, Faisalabad 32.21, Quetta 30.43, Lahore 30, D. I. Khan 23.08, Sialkot 21.62 and Gujranwala 16.39 percent.

In terms of employment size of firm, 23.42 percent respondents in the less than 6 category

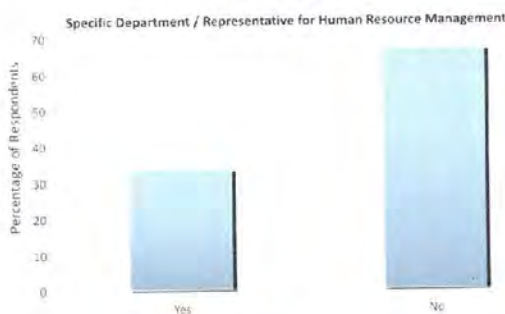
Graph 8.54



Specific Department/Representative for Human Resource Management

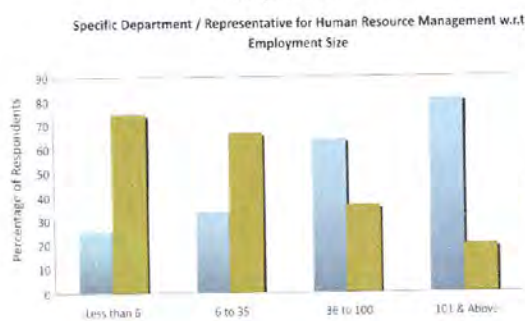
The 'yes' to 'no' ratio in terms of percentages is 31.54 and 68.45 for human resource management.

Graph 8.55



As in case of queries regarding existence of other dedicated functional set ups, the prevalence of a dedicated department or representative for human resource increases with increasing firm size. Thus, whereas, in case of firms with less than 6 employees the percentage of 'yes' response is 25.53, for 6-35 it is 33.64, 36-100 it is 63.77 and 101 and above it is 80.56 percent.

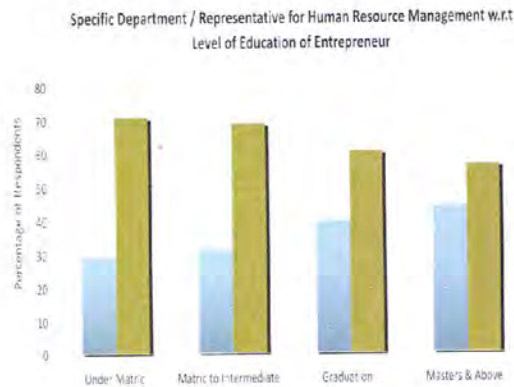
Graph 8.56



Graph 8.57 portrays the responses linked with educational qualification of entrepreneurs. Though the 'no' response is in majority among all the categories of education, the percentage of 'no' response tapers off gradually with increase in

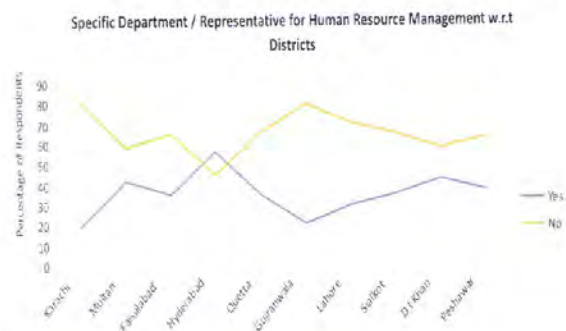
education. As we can see the percentage of 'no' in the Under Matric category is 70.72 percent, matric to intermediate 68.79 percent, graduation 60.27 and masters and above 56.25 percent.

Graph 8.57



Graph 8.58 gives the district wise picture. In Hyderabad, D. I. Khan and Multan the percentage of respondents saying 'yes' is 55.42, 42.31 and 41.88 respectively. Peshawar 36.91, Faisalabad 35.10, Quetta 34.78, Sialkot 35.14 and Lahore 29.52 percent 'yes' responses are in a lower orbit. Among the lowest are Gujranwala 20.22 percent, and Karachi 18.94 percent respectively.

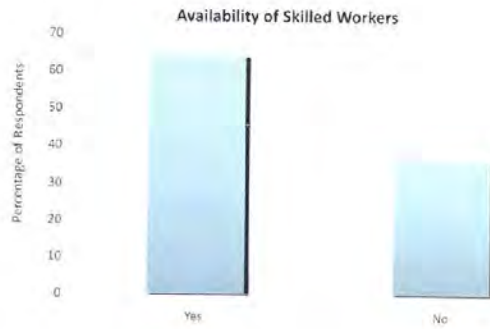
Graph 8.58



Availability of Skilled Workers

As many as 64.08 percent SMEs confirm availability of skilled labour compared to 35.91 saying no.

Graph 8.59



Viewing the situation district wise, Karachi with 81.94 percent 'yes' responses tops the list regarding availability of skilled labour, followed by Multan 77.78 percent, Gujranwala 74.86 percent, D. I. Khan 73.08 percent, Peshawar 69.37 percent, Lahore 67.62 percent, Sialkot 66.67 percent, Hyderabad 59.04 percent, Faisalabad 57.21 percent and Quetta 47.83 percent.

Graph 8.60



Chapter IX

- Approach
- Key Findings
- Nature of Product/Service at Time of Business Inception
- Pace of Change in Product Development
- Innovation in Product Design Over Past 3 Years
- Nature of Innovation in Product Design Over Past 3 Years
- Change in Methods of Doing Business
- Nature of Innovation in Business Method
- Definition of Innovation in Business
- Business Prospects in Terms of Innovation
- Percentage of Profit Attributed to Innovation
- Sources of New Business Ideas
- Constraints in Implementation of New Business Ideas
- Intellectual Property Rights
- Subscribing to Research and Development Facilities
- Importance of Luck in Business

ENTREPRENEURSHIP

Approach

SME businesses are configured around their owner. How much entrepreneurial content and quality an SME has, is therefore a crucial question. Entrepreneurship is the enzyme that catalyses the industrial metabolism. Assessing the level of entrepreneurship among SMEs in general and studying its distribution along various sectors, employment size, education, age etc. is important to determine the current scope and potential for innovation and creativity in our industry, business and avenues for future.

This is a major section, containing 28 questions designed in different forms, including multiple response, open ended and direct questions. First few questions are benchmarking questions, determining the business's position on the innovation scale at the time of origin and any innovative steps taken by it since then. The next set of questions tests SME's vision in the medium term future. Afterwards, there is a set of questions about entrepreneurial education and what should be the best possible mode for it.

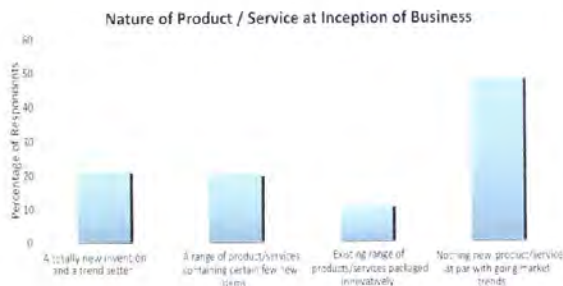
Key Findings

- Technology, skill and fortune came out to be the most important factors for the success of a business.
- Majority of the respondents state that entrepreneurship cannot be taught. However, of those who stated that it could be taught, said that the best way to teach it is by joining a business or doing an internship.
- To be more innovative, 'high profit margin' came out to be the biggest motivation for people,. Among these, 36 percent respondents stated 5-25 percent of their profit was due to innovation.
- 52 percent entrepreneurs started on some kind of an innovative note ranging from a totally new product or service to something packaged differently.
- 55 percent respondents have experimented with some change in their business over the past two years.
- 40 percent entrepreneurs had introduced invention and innovation in their product line in last three years. Out of these, more than 75 percent innovation is in the nature of improvement of existing products.
- Only 33.85 percent respondents introduced change in their method of doing business in last three years.
- Most of the entrepreneurs were more in favour of improving existing products rather than introducing new and personal innovation.
- Majority of entrepreneurs stated lack of finance as the major constraint in implementation of new business strategies.
- Around 85 percent respondents reported that their ideas were never copied by others. At the same time, highly qualified entrepreneurs have more tendencies to get their ideas registered.
- As many as 60 percent of entrepreneurs availed R&D facility provided by the Government. As many as 82 percent of the entrepreneurs who do not want to avail these facilities stated that they are not convinced about the utility of such facilities and consider them a wastage of time and money.

Nature of Product/Service at Time of Business Inception

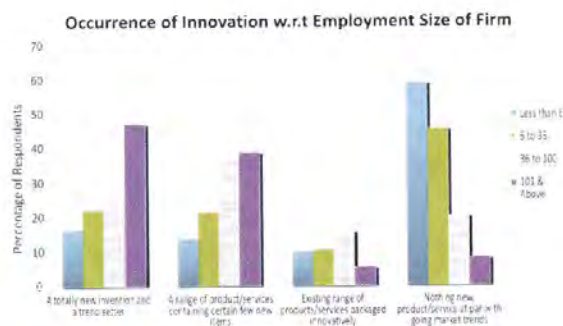
This is a benchmarking question to place the entrepreneur in a certain category. Was he/she a pioneer in his/her field, an innovator or somebody who just joined the crowd? Interestingly around 52 percent entrepreneurs started on some kind of an innovative note, ranging from a totally new product or service to something packaged differently. This marks a healthy trend of innovation among business start ups.

Graph 9.1



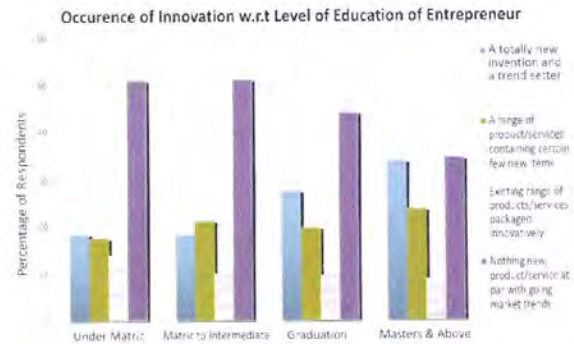
In percentage terms the occurrence of innovation increases with increase in firm size. For the category of entrepreneurs introducing totally new products/services the comparative percentage of SMEs in the 101 and above segment is significantly higher than the average among other employment size brackets. Similarly, in the next and relatively milder category of innovation involving integration of new features into the existing products, respondents in the 36-100 and 101 and above employment size, tower over the other categories in percentage terms. Vice versa respondents in the employment category of less than 6 and from 6-35 are concentrated in the routine commodity type production and services as shown at the other end of the spectrum.

Graph 9.2



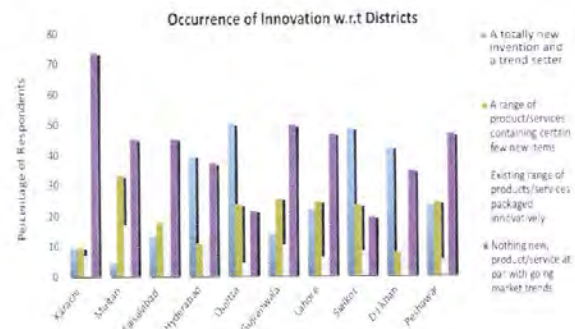
No clear trend comes to fore in terms of educational qualification of entrepreneur. The urge for innovation doesn't seem to increase significantly, with education, though there is a minor correlation noticeable both, in almost all the four bands of innovation.

Graph 9.3



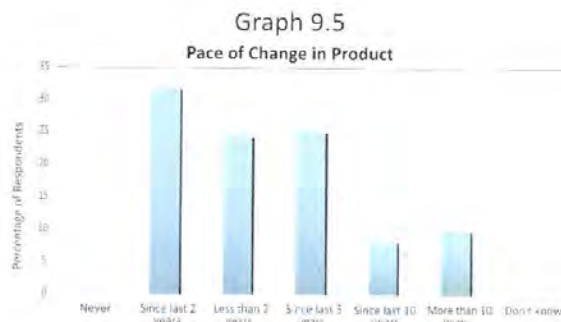
Among the entrepreneurs stating "nothing new product/service at par with going market trends", Karachi tops the list with more than 70 percent respondents score belonging to this category. On the other hand, Quetta, Hyderabad, Sialkot and D. I. Khan are high in terms of launching trend setting products. In cities like Gujranwala and Faisalabad, majority of economic activity is in the routine band of goods and services, which is rather surprising.

Graph 9.4



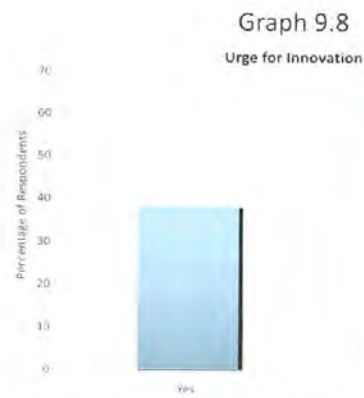
Pace of Change in Product Development

The objective here, is to gauge the pace of change in product development among respondent SMEs. Around 55 percent respondents have experimented with some change in their business over the past two years and the share rises to 85 percent over the past five years.

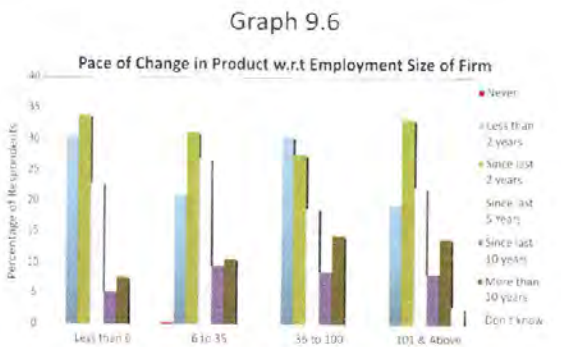


No distinct trend is visible in terms of employment size. All employment size categories are spread rather evenly in a narrow band, with reference to different time ranges for change.

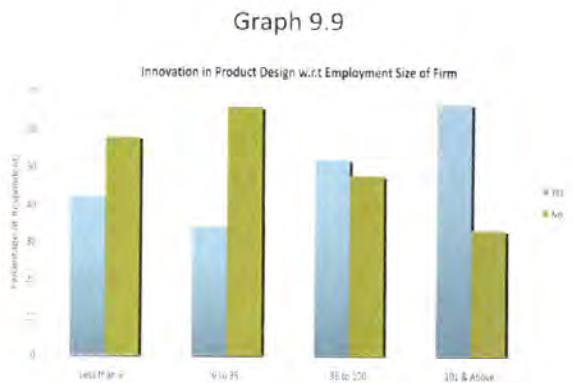
Around 31 percent entrepreneurs across the various employment categories stated that they had not changed their product line since last two years.



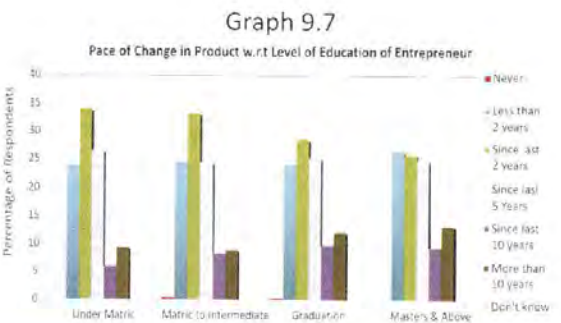
Along the employment size parameter, percentage of SMEs saying 'yes' overtakes the 'No' segment in the size bracket 36-100 onwards and there is a clear victory for affirmative vote in the 101 and above segment, with the percentage of respondents saying 'yes' more than double the percentage saying 'no'.



Considering the education level of entrepreneurs, again there is no significant trend or correlation of pace of change with education level.

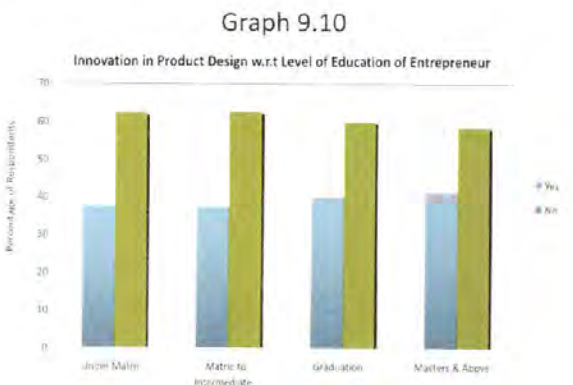


In terms of education, though the 61.78 percentage of respondents saying 'no' among all the education brackets, there is a slight improvement in comparative terms in the Graduation and Masters segment.



Innovation in Product Design Over Past 3 Years

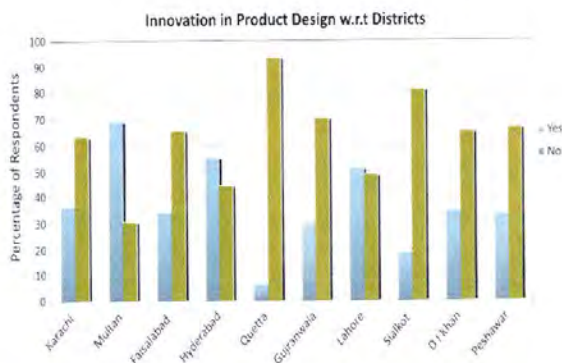
Though majority of respondents replied in the negative, a sizeable percentage (40 percent) stated 'yes' when posed the question, as to, whether they had introduced any innovation in their product design in the past three years. This indicates a healthy urge for innovation in the existing products.



Among the districts, surprisingly, Multan and Hyderabad stand out in terms of percentage of respondents having claims to innovation along

with Lahore at third place, while cities like Sialkot, Gujranwala and Faisalabad have the lowest percentage of SMEs in terms of innovation in existing product designs.

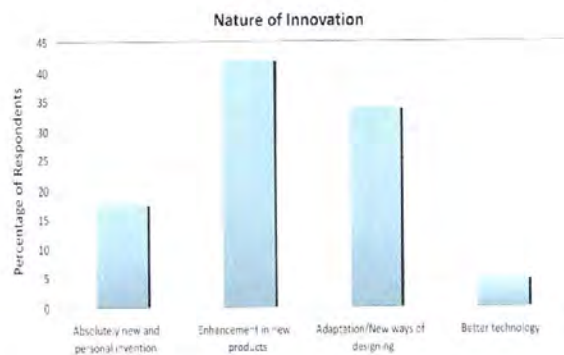
Graph 9.11



Nature of Innovation in Product Design Over Past 3 Years

This is a further analysis of the 'Yes' segment in accordance with the nature of innovation introduced. As the graph below shows, innovation is in the nature of improvement of existing products (42 percent) and adaptations (34 percent) with hardly 18 percent innovations based on introduction of totally new products.

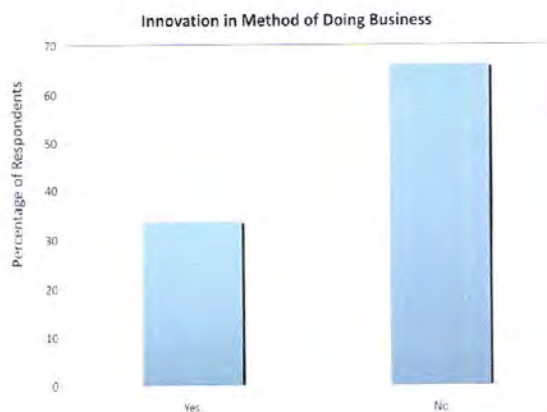
Graph 9.12



Change in Methods of Doing Business

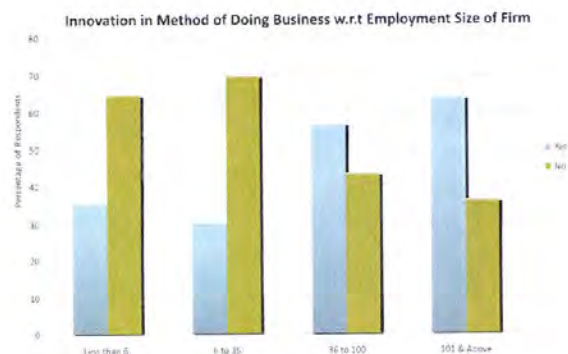
Percentage of respondents saying 'yes' to change in methods of doing business is 33.85 while the remaining 66.15 percent are in the negative.

Graph 9.13

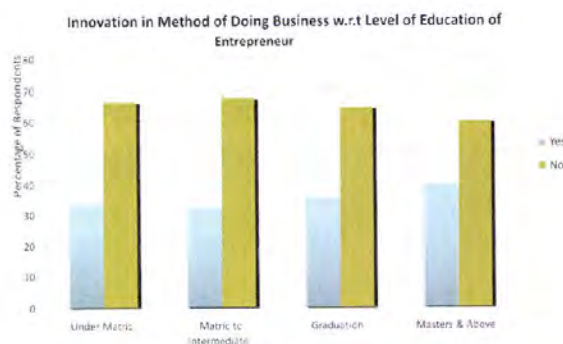


Pattern of split along size, education and city parameters is broadly the same as in the case of responses to the previous question. This situation is depicted in graphs 9.14, 9.15 and 9.16. The significant thing to notice is the recurrence of majority of 'yes' component, which is 56.52 percent and 64 percent among the employment size 36-100 and 101 and above respectively.

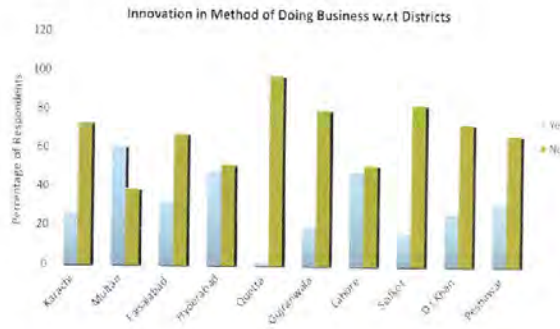
Graph 9.14



Graph 9.15



Graph 9.16



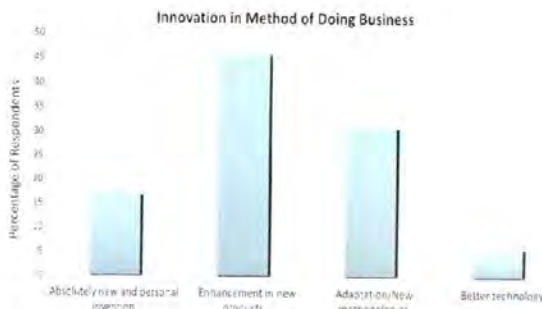
Nature of Innovation in Business Method

Respondents were further asked to state the nature of innovation in business method from amongst the following options:

- Absolutely new and personal innovation
- Improvement in existing products
- Adaptation
- Better technology

Around 46 percent respondents stated that the nature of innovation was more like the improvement in existing products followed by adaptation (31 percent) and personal invention (17 percent).

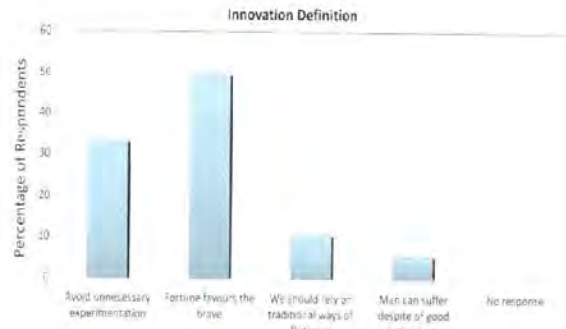
Graph 9.17



Definition of Innovation in Business

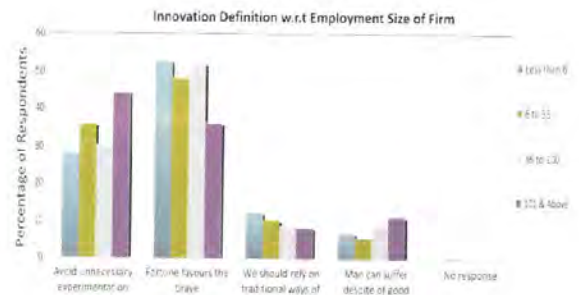
Only 10 percent respondents endorse reliance on traditional ways of doing business as a definition of innovation. Around 50 percent favor risk taking as the key to success. However, the percentage of risk avoiders (33 percent) can also not be ignored.

Graph 9.18



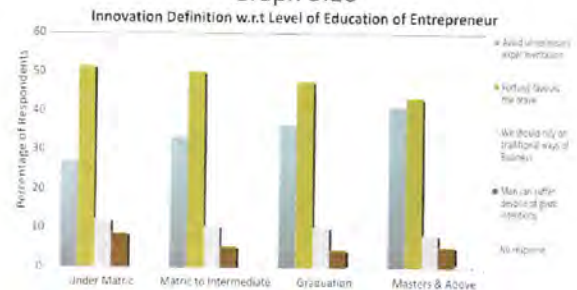
In the size segment, the 101 and above segment clearly favours risk avoidance, otherwise there is a nearly even split.

Graph 9.19



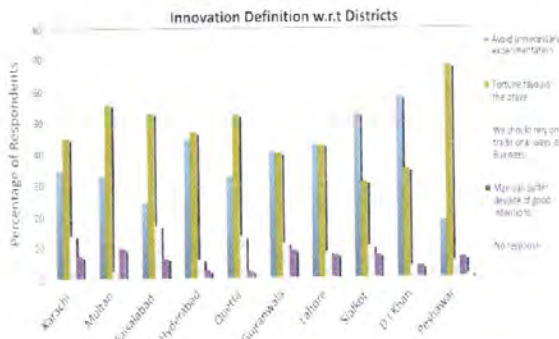
There is a gradual decline among the comparative percentage of respondents favouring bravery from Under Matric segment onwards. Concomitantly, there is a slight but gradual rise among the percentage of safe players in the same order.

Graph 9.20



Usually the temperament and dominant traits of a city also reflect in the style and approach to business. From this angle, Peshawar stands out in terms of percentage of risk takers to risk avoiders followed by Multan, Faisalabad and Quetta. There is an even split in case of Gujranwala, Lahore and Hyderabad, while businesses in D. I. Khan and Sialkot seem to have a more placid temperament with majority favoring safe play.

Graph 9.21

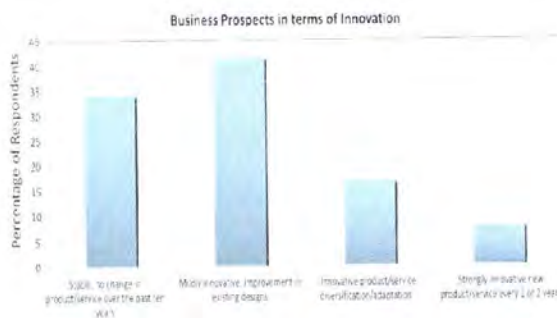


Business Prospects in Terms of Innovation

Where do you place yourself in terms of innovation in business?

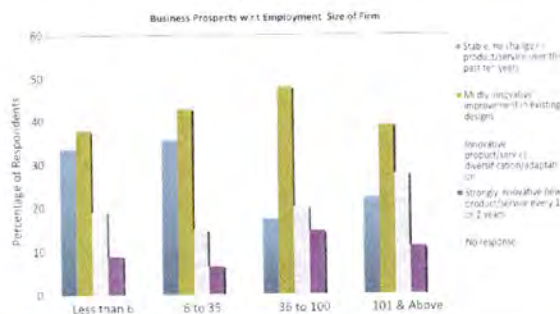
A little over 41 percent SMEs think they have brought some mild changes and improvements in existing designs of products, while around 34 percent are in the stable and 'no change' category. 17 percent respondents have introduced innovations and just 8 percent claim to be strongly innovative.

Graph 9.22



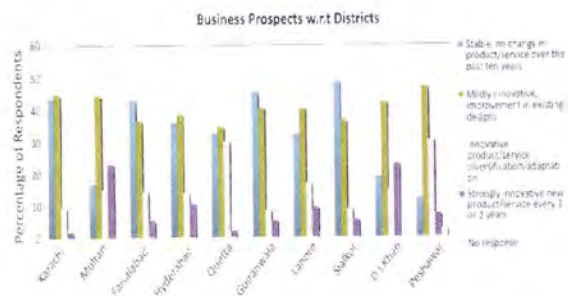
In comparative terms employment size 36-100 and 101 and above register less inclination for stable and 'no change' business approach when surveying their past ten year's performance. Accordingly their percentage among the respondents considering themselves mildly innovative is higher.

Graph 9.23



Sialkot, Gujranwala, Faisalabad are more for stable business approach with little or no change over the past decade or so. D. I. Khan and Multan have the greatest percentage of respondents claiming strongest innovation.

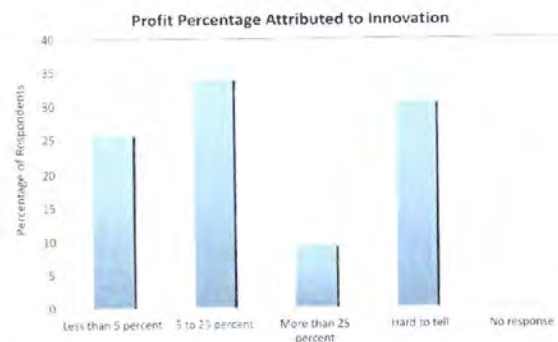
Graph 9.24



Percentage of Profit Attributed to Innovation

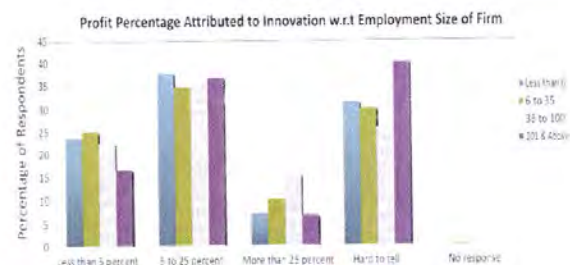
While majority (35 percent) of those who have responded in quantifiable terms (70 percent) estimates the segment of profits accruing from innovation at 5-25 percent, there is a substantive segment (30 percent) who considers it hard to tell.

Graph 9.25



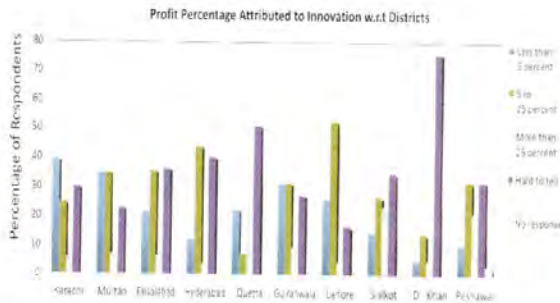
The percentage of respondents finding it 'hard to tell' is highest (40 percent) among the 101 and above segment. As for the respondents estimating 5-25 percent of their profits coming from innovation, the split is almost even among various employment size categories.

Graph 9.26



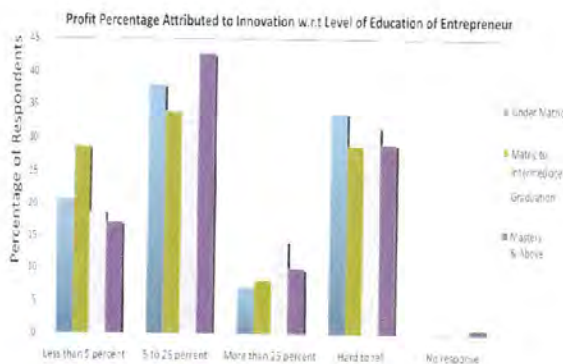
Those who find it hard to tell are the greatest (75 percent) in D. I. Khan, followed by Quetta (50 percent), Hyderabad (40 percent), Faisalabad and Sialkot (35 percent) and Karachi (30 percent).

Graph 9.27



There is no clear trend in terms of education level of entrepreneurs.

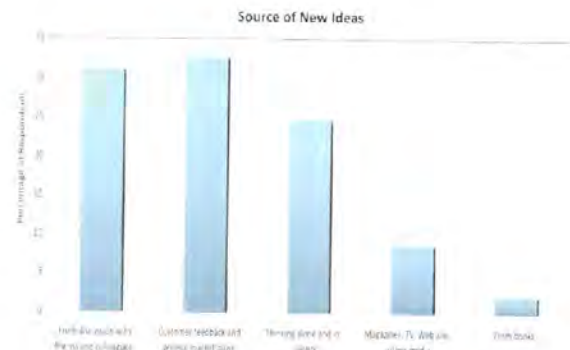
Graph 9.28



Sources of New Business Ideas

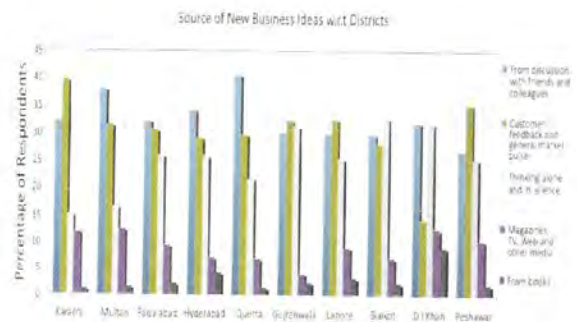
This being a question where more than one answers could be opted for, the percentage has been calculated in terms of total number of responses received, which are not necessarily in exclusion of each other. According to the analysis, major sources of new ideas are customer feedback (33 percent), discussions with friends and colleagues (31 percent) and quiet reflection and thinking alone 25 percent of responses. The collective response for magazines, media, internet and books is just 11 percent.

Graph 9.29



Some interesting disclosures come to fore. In Lahore 23 percent people pick new ideas from books while in Karachi 20 percent people get ideas from web etc.

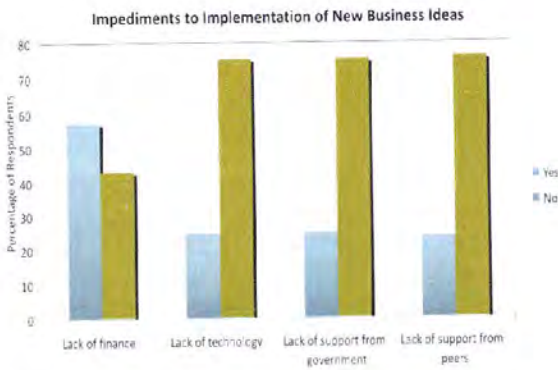
Graph 9.30



Constraints in Implementation of New Business Ideas

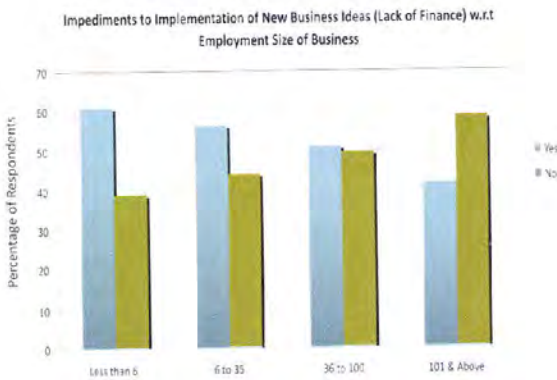
57 percent respondents stated lack of finance as the major constraint. Apart from lack of finance, all other constraints seem to be secondary and majority of respondents do not feel hindered by them.

Graph 9.31



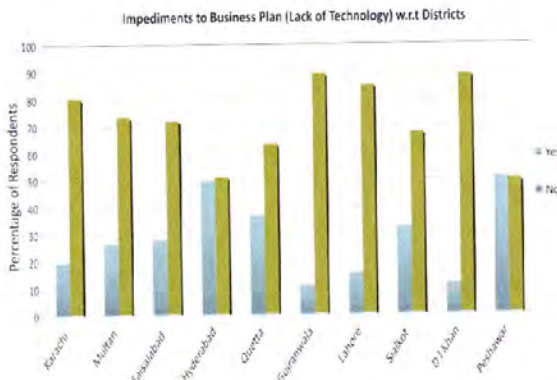
Lack of finance is a greater constraint for the employment size of less than 6 and 6-35.

Graph 9.32



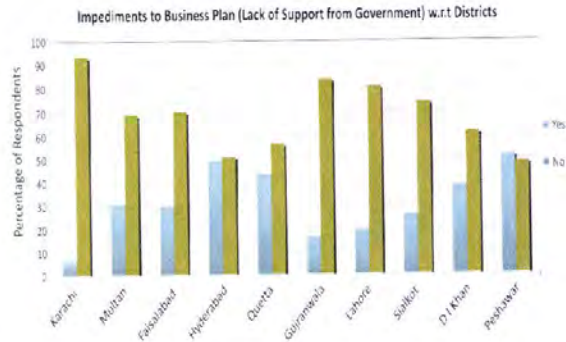
Technology seems to be a bigger constraint in cities like Gujranwala, Lahore and D. I. Khan.

Graph 9.33



On the other hand lack of support from Government is more pronounced among cities of Hyderabad, Peshawar, Quetta and Faisalabad.

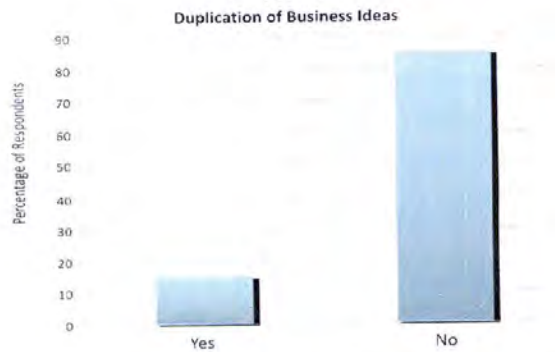
Graph 9.34



Intellectual Property Rights

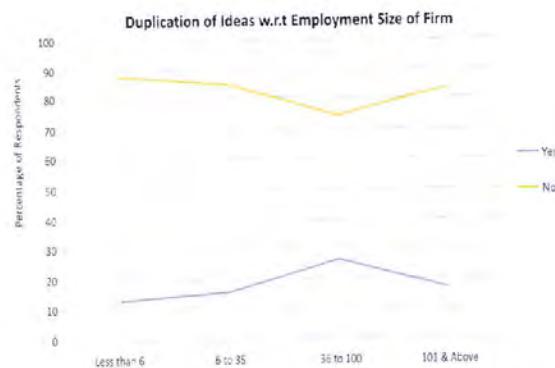
Have your business ideas ever been copied by others? A very thin percentage (15 percent) seems to be concerned on this issue, which is surprising, considering the general impression that SMEs are extremely suspicious about their fellow operators on the issues of sanctity of intellectual property rights.

Graph 9.35



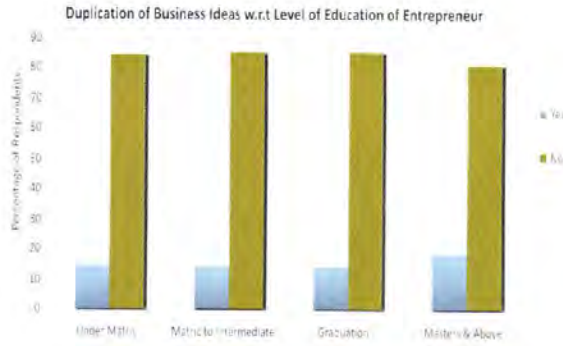
Around 85 percent respondents from various employment categories stated that their ideas are not copied by the other.

Graph 9.36



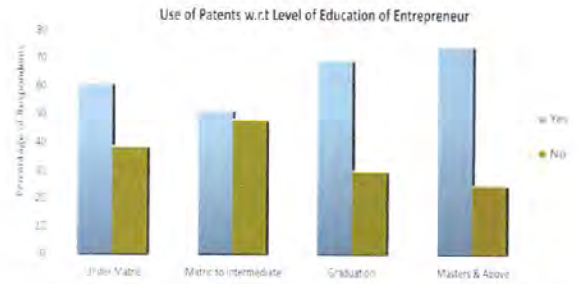
There seems to be a vehement 'no' from all educational categories of entrepreneurs with a slight decline in the intensity among the masters segment.

Graph 9.37



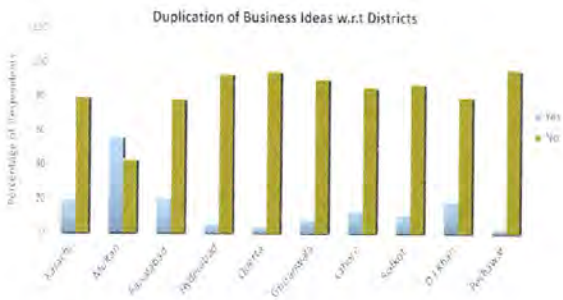
Apart from Multan, no other city seems to be bothered by this issue so much. Respondents from Gujranwala, Lahore, Sialkot, Faisalabad and Karachi saying 'yes' range between 14-20 percent

Graph 9.40



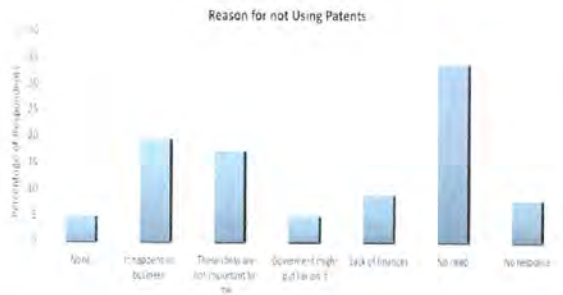
An analysis of 'No' segment reveals a general lack of awareness and indifference towards the need for patenting ideas. Rather than quoting any tangible reason such as lack of financing or fear of taxation, more than 85 percent respondents cite casual factors indicating behavioural tendencies rather than any concrete reasons.

Graph 9.38



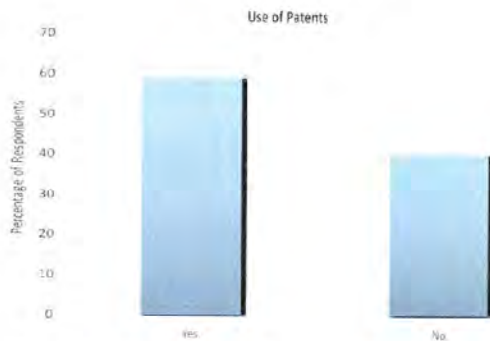
If yes, have you ever tried to get them patented or protected through Intellectual Property Laws? This question has been administered only on the 239 respondents who had said 'yes' in the previous question. They were asked about their intention towards getting the ideas patented and the answer was in affirmative

Graph 9.41



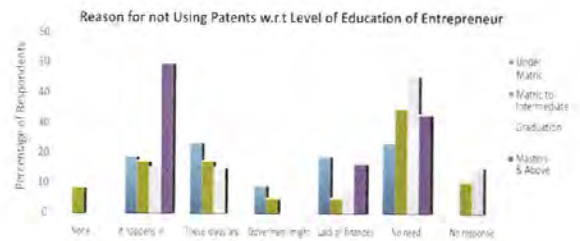
It would be interesting to further analyze these responses against various education categories of entrepreneurs. The responses are haphazard indicating a mixed trend among all educational categories, rather than giving any solid evidence of a considered opinion on part of various educational categories.

Graph 9.39



The relative proportion of 'yes' is greater in the Graduate and Masters segment showing a trend for going for patents positively correlated with the increase in education.

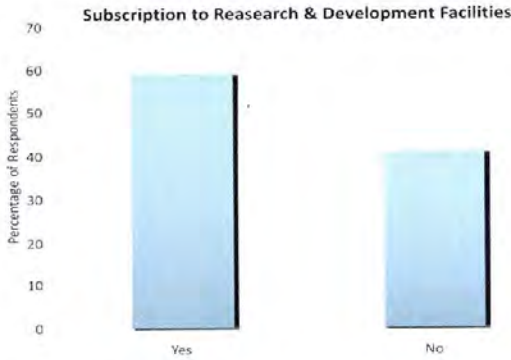
Graph 9.42



Subscribing to Research and Development Facilities

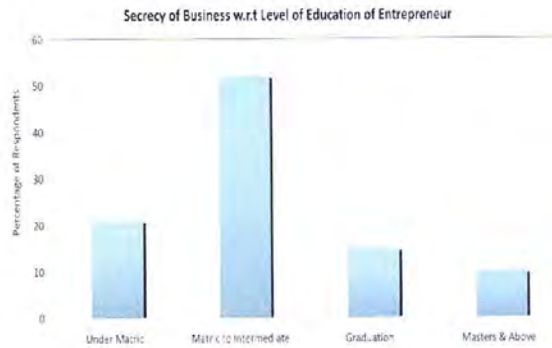
The response is strongly (60 percent) inclined towards 'yes', a kind of endorsement for governmental investment in common facility centers, integrated business complexes as well as towards building consortia among SMEs for shared facilities.

Graph 9.43



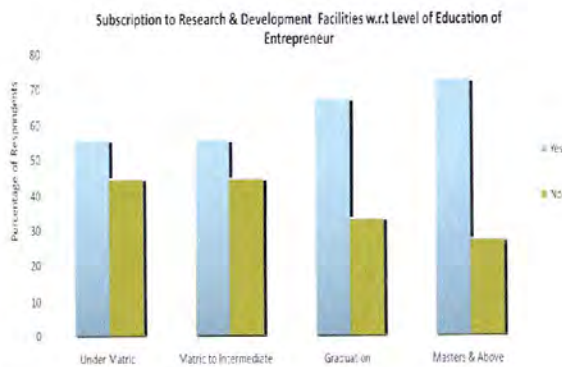
The ratio of 'yes' increase with the increase in education

Graph 9.46



On the other hand, taking a view with respect to employment size, 80 percent of those considering such facilities useless are concentrated in the less than 6 and 6-35 employment size segment.

Graph 9.44



Further analysis of 'No' segment shows, that as many as, 75 percent respondents are not convinced about the utility of such facilities and consider them a wastage of time and money. The remaining 25 percent feel shy of such facilities because of fear of disclosure of their business secrets.

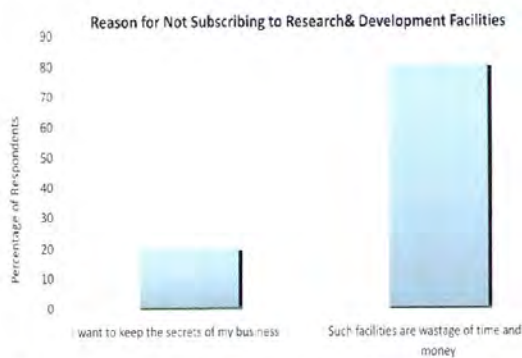
Graph 9.47



Importance of Luck in Business

Around 60 percent respondents believed luck plays a significant role in the success of their businesses. Only 12 percent thought luck was not at all related to the degree of success their business could achieve.

Graph 9.45



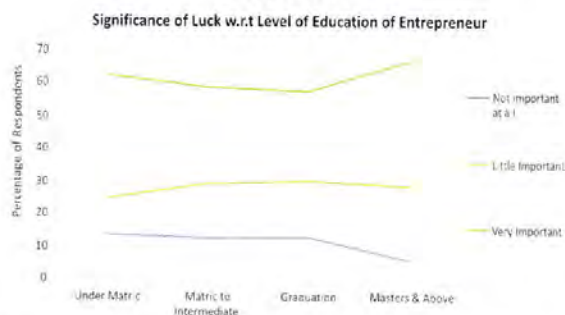
Extending our probe a little further into the respondents who consider business secrets an issue, the ratio is highest among the Matric to Intermediate segment while the more educated brackets like Graduation and Masters are not as concerned about it so much.

Graph 9.48



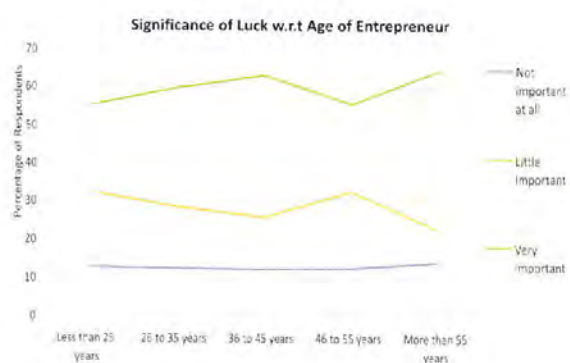
More than 65 percent respondents with education level of Masters & above believe that luck plays an important role followed by 62 percent and 57 percent respondents in the segment of 'Under Matric' and 'Graduation', respectively, who share the same belief.

Graph 9.49



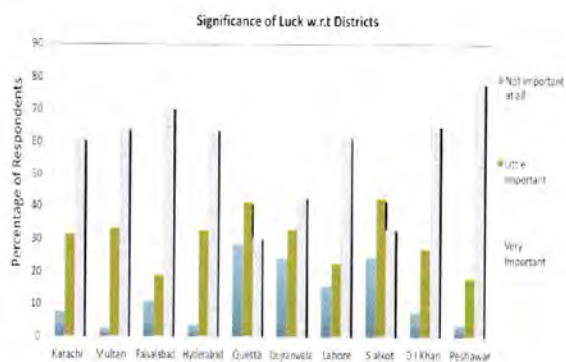
More than 50 percent respondents across all age-brackets believe that luck plays an important role in the success of their business.

Graph 9.50



All districts apart from Quetta, Gujranwala and Sialkot have high (above 60) percentage of respondents believing that luck has a significant role.

Graph 9.51



Annexures

Detailed Methodology

Overall Approach

This section of the report describes the research methodology used for the SME Baseline Survey. SMEDA clearly identified the overall research approach for conducting this survey with pertinent respondents in its request for proposals. The survey was conducted face to face, using a detailed questionnaire.

Questionnaire Design

A draft questionnaire was prepared by SMEDA. In consultation with the SMEDA's project team, Gallup reviewed the questionnaire, taking into account question wording and ordering. Appropriate transitions and section introductions were also added. Prior to being finalized, the questionnaire was pre-tested on a small number of respondents.

A pilot of 50 interviews was conducted prior to fieldwork to check for any problems with question wording/area, any ambiguity, respondent concern and any errors in the design of the questionnaire.

Sample Design and Selection

Sample Frame

The target population was defined as small and medium enterprises with minimum six permanent and seasonal employees in the 18 regions (Karachi, Lasbella, Kech, Gwadar, Hyderabad, Sukkur, Dadu, Quetta, Multan, Rahim Yar Khan, Lahore, Gujranwala, Sialkot, Faisalabad, Peshawar, Mardan, Malakund and D. I. Khan). The sampling frame was constructed using Federal Bureau of Statistics, Islamabad lists as well as a list provided by SMEDA that identified women entrepreneurs. The FBS information is a list of all commercial entities and is used for many business surveys. Operations that had sales and profit generated by manufacturing, servicing or trade were included on the frame. Establishments with less than six employees or government owned were excluded from the frame. A total of 1604 interviews were included on the final sample frame.

The target sample required 1500 establishments' interviews. An additional 104 interviews were completed for a total completed sample of 1604. The work methodology was designed in a way that ensured a reasonable level of accuracy and checks were non-obtrusive and non-threatening.

Stratification of the Frame

The frame was stratified by region, type of business and by sector to ensure that the sample had sufficient units to provide estimates that were representative of the target population. The table below gives the frame population counts of each stratification variable.

Frame Population by Region

	Manufacturing	Service / Trade	Women Enterprise	Total Count
	Sample	Sample	Sample	Sample
1. Karachi	164	46	24	234
2. Lasbella	20	9	1	30
3. Kech	22	8	0	30
4. Gwadar	10	6	0	16
5. Hyderabad	58	22	5	85
6. Sukkur	30	10	3	43
7. Dadu	30	8	3	41
8. Quetta	30	14	3	47
9. Multan	90	16	5	111
10. Rahim Yar Khan	31	16	3	50
11. Lahore	150	40	22	212
12. Gujranwala	150	17	7	174
13. Sialkot	85	13	4	102
14. Faisalabad	167	18	12	197
15. Peshawar	80	19	4	103
16. Murdan	30	11	0	41
17. Malakund	10	7	1	18
18. D. I. Khan	30	8	3	41

Frame Population by Sector

	Business Sector	Sample Count
A	Manufacturing	1200
B	Trade & Services	300
C	Women Entrepreneurs	100

Allocation of the Sample and Sample Selection

The desired sample size was approximately 1600 establishments' setup before 2007. The sample was allocated proportional to the size of the stratum. In total, 1575 units were selected to be in the sample. Up to five visits were made used to reach selected respondents who may not have been available at the time of the interviewer's visit/call.

Survey Administration and Data Collection

- The survey was conducted in Urdu, by face-to-face, using paper and pen technique (questionnaire). It was carried out from Gallup's field management facilities at Lahore.
- The surveys averaged 67 minutes.
- Gallup completed a total of 1604 face to face interviews amongst a nationally representative sample of small and medium enterprises across Pakistan. Interviews were completed between March/April 2007 and June/July 2008.
- Survey fieldwork status update was made on a weekly basis while project progress was monitored on daily basis.

Interviewers Profile

A total of 86 interviewers were employed to undertake the survey. Almost half of these interviewers had a degree from university and each interviewer completed no more than 30 interviews on this assignment. All interviewing was conducted by fully trained and supervised interviewers, and a minimum of 25 percent of completed interviews were independently monitored and validated in real time. All interviewers had an experience of five previous surveys prior to the baseline survey.

Respondent Selection

The owner of the establishment willing to take part in the survey was our target respondent, however, in case of non-availability of the owner, a senior official responsible for overall management of business and who knew the business from every perspective was the intended respondent. There were no other restrictions e.g. of age, gender, ethnicity, and education for the selection of the respondent.

Rationale for Alternate Sampling Method

Tracing Exercise

In April 2007, SMEDA provided an Excel file made up of establishment names, addresses, city, and type of industry. Apparently, the contact addresses were complete and correct. However, when Gallup field team started fieldwork on these lists, the field workers faced severe problems in finding the establishments. Because the establishment lists were clearly without complete contact address information. Moreover, the establishment lists were not updated hence revealed during the field visits that several traced

establishments were either closed or merged with some other dissimilar businesses. SMEDA and Gallup agreed to perform a tracing exercise in all sample regions before initiating actual interviewing.

The tracing exercise revealed that the given addresses were actually the landmarks only and not the exact addresses of the establishment with no street or block number.

The tracing exercise encompassed all possible options for locating establishments. Gallup field team contacted post offices, courier companies, business chambers, trade associations, and local businessmen to locate the establishments but despite number of field visits this effort proved futile to a great extent. The situation was variable from city to city. In some cities majority of the addresses were untraceable by the available lists, while in few cities some of the addresses were confirmed by tracing. Gallup communicated this issue to SMEDA project team and acquired reserve list-1 and list-2 for further tracing. This was the prime reason for delay in the fieldwork. The tracing exercise consumed around three months of fieldwork time. Despite having acquired reserve lists the tracing situation remained bleak in some cities especially in Karachi, Peshawar and Rahim Yar Khan. Admittedly, SMEDA extended full support for tracing of the establishments by contacting various post offices and census departments. Approximately 80 percent establishments of the lists were traced and interviewed by Gallup field team. The remaining 20 percent sample interviews were completed by alternate sampling method.

Alternate Sampling Method

In order to achieve the remaining sample Gallup suggested alternate sampling technique which is commonly used in these types of surveys. SMEDA agreed with the methodology. There were two alternatives possible for administering the remaining 20 percent of the survey. Gallup systematically applied both the methods.

- Right Hand Rule
- Snowballing Technique

The following are the major reasons that led us to perform alternate sampling technique.

- a. In case of identification that an interview could not be completed from the actual or substitute lists, the interviewer was instructed to contact any other business of the same type (industry) with same number of employees within that cluster. Right Hand Rule is applied for identification and selection of the respondents. The interviewer first has to ask screening questions to confirm the required size and type of the business before interviewing.
- b. In case the respondent refused to give interview or for any reason, the interviewing was not possible from the establishment, then the next available establishments of the same profile are contacted in the same geographic area. The fieldworker is asked to continue his efforts unless he successfully completes an interview.
- c. If no additional enterprise of required profile was available at the existing cluster, then the interviewer moved to the next nearby location and interviewed the enterprise of the required profile.

Alternate method suggested the following steps to follow for identification and selection of desired respondent.

Step-1 Identify the Universe/Cluster

Cluster is defined as a specific location or an area where a particular kind of business exists. For example in Lahore, Shah Alam Market (whole sale business), Hafeez Center (Computer business) and Urdu Bazaar (Stationary business) can be defined as cluster.

Step-2 Right Hand Rule

Right Hand Rule assures the systematic random selection of the respondents. By Right Hand Rule the interviewer identifies the centre of the cluster area and starts contacting the businesses located on his right side. After every successful interview, the interviewer leaves the next two business addresses in the row and makes a contact at the third address. By Right Hand Rule, the interviewer makes a maximum of five contacts in one cluster. In case, the desired numbers of interviews are not completed, the snowballing technique is used to complete the target.

Step-3 Snowballing Technique

If even after the exercise of Right Hand Rule, the total target of interviews is not completed, the interviewer then uses the alternate technique called snowballing. By this technique, every business of the required type in the cluster is contacted and interviewed if fulfilled the screening criteria. Gallup performed snowballing technique since this is appropriate to B2B (Business to Business) surveys. Snowball is a special non-probability method used when the desired sample characteristics are rare and where initial respondents are selected at random and subsequent respondents are then selected by referrals or information from the earlier respondents. As the sample builds up, the interviewer gains enough data to use for identification of sample respondents. This sampling technique is often used in hidden populations which are difficult for researchers to access.

To select a relevant respondent the interviewer asked screening questions to every contacted business, matched it with the sample list profile and recorded in the contact sheet. Gallup devised a contact sheet wherein the fieldworker recorded the results of the Actual and Substitute lists and the Alternate method. The contact sheet actually reflected the efforts and attempts of the fieldworker in completion of the fieldwork. If the interview is made by alternate method, the fieldworker had mentioned the details of the enterprise in the contact sheet. The reason for unsuccessful interview using the actual & substitute lists is mentioned in the contact sheet.

The following were the various reasons for unsuccessful interviews in the field:

1. The company/enterprise had shifted to some other place.
2. The enterprise was permanently closed.
3. The enterprise was not in operation.
4. Premises was locked.
5. Nature of the enterprise had changed. For example, the business transformed from manufacturing to some service concern and vice versa or an entrepreneur who was previously running a school, now shifted to manufacturing of plastic bottles etc.
6. The entrepreneur was running two or more enterprises simultaneously and the enterprise of our sample list was least important for the respondent and he could not answer all the questions about the enterprise of the sample list.
7. The enterprise was temporarily closed because it was off season is off. Ice factories, Wedding halls, Beverages, Soda water, etc. are these kinds of enterprises.
8. Enterprise was currently closed and operated only when order was placed. These enterprises were textile concerns, specialized services and some others.
9. The respondent was not available (out of city/country for long time, sick etc.).
10. The respondent was not willing to share his opinions.
11. The respondent refused without any good reason.
12. The respondent could not spare time due to strict work schedule.
13. The enterprise not found at the given address.

14. Address of the enterprise was incorrect.
15. Address of the enterprise was not mentioned in the list.
16. Name was the same but the industry was different.
17. Duplicate business address.

Data Processing Procedure

After interviewing there were manual edits that checked that the responses were within the range of responses. Methodology completed additional edits for consistency. There was little partial non-response in this survey. Cells that asked for amount, paid that respondents did not answer were imputed with the mean value within the same category, range of number of employees, and commodity (where possible). Revenue ranges were asked in the questionnaire for the purpose of analysis. Non-response of the revenue categories were imputed using secondary information from the concerned offices. 5 percent of questionnaires required imputation for such type of questions.

Code Book & System File Preparation

With the intimation of survey two basic activities of DCE i.e. preparation of Codebook and System file started. Code Book is a set of instructions regarding the allocation of codes to research data. It helps researchers to identify and locate the questions / variables to be used in data analysis. Computerization of a questionnaire is actually called System file. System file is a Soft Copy of Code Book/Questionnaire. It is created to enter responses in the form of numbers.

Test Entry

When the system file was prepared with all checks and skipping rules, it was tested to know whether the computerized form of the questionnaire was actually accepting responses that were required. This process is called test entry.

Sorting

It is a process by which collections of items are placed into order. For this survey, a form called Sorting Chart was devised. The form tracks the questionnaires and ensures that the D/C/E department has received questionnaire in correct number from each city and for each interviewer. Then the sorter assigned a unique identification number to each questionnaire.

Coding

Editing and coding process run simultaneously. Before editing & coding, project coordinator and supervisor held a detailed briefing session of coders and editors of the survey. The briefing included question-by-question instructions on how to edit, what codes should be assigned to structured and logical questions and how to deal with unusual responses. Coding helped to reduce several thousand replies to a few categories containing the critical information needed for analysis.

Editing

Editing involved examining each completed questionnaire to ensure that the proper sequence of questions had been asked, the answers were clear and consistent and they had been correctly marked for inconsistencies, skipped questions etc and verified.

Data Entry

It is the act of inputting data into a database. First, codebook was prepared according to the questionnaire. Based on the codebook system file and entry form were created. Then we defined checks and skipping rules. For entry, we used SPSS software.

Coding, Editing and Data Entry Verification

To assure the quality of all the coding, editing and data entry Gallup verified at least 10 percent of every activity for every survey. If the discrepancy is more than acceptable standards i.e. + 5 error margin, Gallup enhances its verification percentage and that percentage may reach up to 25 percent or

even more and in some cases verification of 100 percent work is undertaken. The method used for entry verification is called Double Punching. Data Processing (DP) of this survey was performed at two levels.

Stage-1: Initial Cleaning

Stage-2: Detailed Cleaning

Initial Cleaning

This involved initial examination of data from various perspectives. These are the initial steps before the detailed cleaning of the data.

Joining & Duplication: System files from all computers are joined. After joining, data is checked to avoid any possible duplication of ID or record. One ID consists of many records.

Mismatching: Checking of mismatching of entered records.

Number of records: Confirmation that the correct number of records are present in each file and data.

Missing variables: Examining data for any missing variable.

Detailed Cleaning

At this stage, comprehensive cleaning is performed. Cleaning routines are devised and checked for following details.

Consistency: Question-by-question consistency of the responses entered.

Dependency: In questionnaire responses of many questions depend on some other question.

Correlation: Many question correlate with each other. In cleaning process, it is confirmed that the correct correlation is made among various questions.

Valid responses: Assures that all the questions have valid responses.

Logical responses: Invalid and out of range codes are identified during cleaning process and rectification is made in the data.

Quota matching: The data processing person examines the quota. The quota for this survey had three sector types. i.e. Manufacturing, Trade/ Services, Women Entrepreneurs and region wise quota.

Quality Control Features

Gallup observed best practice at each step of the survey. The following quality controls illustrate.

1. The questionnaire was cognitively pre-tested on the main target group.
2. Each interviewer was personally briefed and instructed, face to face, by the Gallup Supervisors.
3. Sophisticated alternate sampling technique was used to provide the best achievable sample frame.
4. Callbacks were made on 25 percent of each interviewer's work to ensure quality administration of the questionnaire.
5. Range and logic checks were run on the data as it is entered.
6. Data is captured in electronic form and each data record contains coded answers to "anonymised" the survey.
7. The original questionnaire forms are held securely for a stipulated period to allow audit.

Response Rate

The following table shows the final disposition of all the available respondents' lists.

a	Total Respondents Contacted	28,000 (approx)
	Respondent refusal	800
	Not available	600
	Terminated before completion	200
b	Total Addresses	3,800 (approx)
	Wrong addresses/Not found	1080
	Duplicate addresses	250
	Blank addresses	300
	Incomplete addresses	700
	Closed	150
	Shifted	120
c	Total interviews from the FBS Lists	1,200 (approx)
d	Total interviews by Alternate Sampling Method	350 (approx)
e	Total Completed Interviews	1602

Based on previous experience of conducting business surveys, a 70% to 80% response rate for each establishment was estimated. In addition, it was assumed that 15% of all entrepreneurs would refuse to participate in this survey. To allow for this, replacement lists to cover the actual sample target were used.

Sample Composition

The achieved sample has been stratified according to the following segments;

1. **Geographical Location:** Province/City
2. **Size of Enterprise:** Small and Medium
3. **Sector:** Trade and Services, Manufacturing, and Women Enterprises

Given below are the actual distributions according to each of the above classifications.

Achieved Sample by Province

1602 Number of Medium and Small enterprises

Punjab	879
Sindh	395
NWFP	209
Balochistan	119

TOTAL 1602

Achieved Sample by Size of Establishments

Medium (Work force 51-250)	71
Small (Work force 6-50)	1531
TOTAL	1602

Achieved sample by Business Sectors

- Manufacturing 1199
- Trade and Services 301
- Women Enterprises 102

TOTAL 1602

PROVINCE WISE BREAKDOWN

(Actual Achieved) REGION WISE SAMPLING DETAILS OF REPLACED FIRMS

REGIONS	MANUFACTURING		TRADE & SERVICE		WOMEN ENTREPRENEUR		Overall		Total Achieved Sample
	By Actual Sample List	By Alternate Method	By Actual Sample List	By Alternate Method	By Actual Sample List	By Alternate Method	By Actual Sample List	By Alternate Method	
1. Karachi	21	143	14	37	19	0	54	180	234
2. Lasbella	20	0	9	0	0	0	29	0	29
3. Kech	22	0	8	0	0	0	30	0	30
4. Gwadar	9	1	6	0	0	0	15	1	16
5. Hyderabad	57	3	22	1	0	0	79	4	83
6. Sukkur	30	0	7	0	3	0	40	0	40
7. Dadu	30	0	8	0	0	0	38	0	38
8. Quetta	29	1	14	0	0	0	43	1	44
9. Multan	77	12	14	4	12	0	103	16	119
10. Rahim Yar Khan	34	0	17	0	1	0	52	0	52
11. Lahore	113	42	23	17	22	0	158	59	217
12. Gujranwala	141	9	13	5	17	0	171	14	185

REGIONS	MANUFACTURING		TRADE & SERVICE		WOMEN ENTREPRENEUR		Overall		Total Achieved Sample
	By Actual Sample List	By Alternate Method	By Actual Sample List	By Alternate Method	By Actual Sample List	By Alternate Method	By Actual Sample List	By Alternate Method	
13. Sialkot	79	8	10	6	8	0	97	14	111
14. Faisalabad	147	22	12	7	7	0	166	29	195
15. Peshawar	53	26	13	6	11	0	77	32	109
16. Murdan	30	0	11	0	0	0	41	0	41
17. Malakund	10	0	8	0	0	0	18	0	18
18. D. I. Khan	30	0	9	0	2	0	41	0	41
TOTAL	932	267	218	83	102	0	1252	350	1602

MANUFACTURING SECTOR

SINDH

n = 280

	Manufacturing Sector														Total																			
	Light engineering		Textile weaving and apparel		Surgical		Sports		Leather products		Manufacturing of Food, Beverages and Tobacco		Manufacturing of wood products and furniture			Manufacturing of paper & paper products, printing & publishing		Manufacturing of chemical, petroleum, rubber etc		Basic metal industries		Other manufacturing		Building Construction		Restaurants & Hotels		Transport & Storage		Real Estate & Business Services		Personal and Household Services		Wholesale retail and trade
	S	M	S	M	S	M	S	M	S	M	S	M	S	M	S	M	S	M	S	M	S	M	S	M	S	M	S	M	S	M	S	M	S	M
1 Karachi	37	0	38	1	0	0	1	7	0	28	0	1	0	7	0	12	1	0	0	0	0	0	0	0	0	0	0	0	0	0	2	0	158	
2 Dadu	1	0	12	0	0	0	0	17	0	1	0	1	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	32	
3 Sukkur	1	0	11	0	0	0	0	11	0	1	0	1	0	0	0	5	0	1	0	0	0	0	0	0	0	0	0	0	0	0	0	30		
4 Hyderabad	0	0	12	0	0	0	0	9	0	7	0	0	0	3	0	10	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	60		
Total	39	0	73	1	0	0	1	44	0	37	0	1	1	10	0	27	1	32	0	0	0	0	0	0	0	2	0	0	1	2	280			

BALUCHISTAN

n = 89

	Manufacturing Sector																								Total										
	Light engineering		Textile weaving and apparel		Surgical		Sports		Leather products		Manufacturing of Food, Beverages and Tobacco		Manufacturing of wood products and furniture		Manufacturing of paper & paper products, printing & publishing		Manufacturing of chemical, petroleum, rubber etc		Basic metal industries		Other manufacturing		Building Construction			Restaurants & Hotels		Transport & Storage		Real Estate & Business Services		Personal and Household services		Wholesale retail and trade	
	S	M	S	M	S	M	S	M	S	M	S	M	S	M	S	M	S	M	S	M	S	M	S	M		S	M	S	M	S	M	S	M	S	M
1 Gwader	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	10	
2 Quetta	3	0	7	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	32	
3 Lasbella	0	0	6	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	25	
4 Kech	0	0	14	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	22	
Total	3	0	27	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	89		

N W F P

n = 132

	Manufacturing Sector																		Total															
	Light engineering		Textile weaving and apparel		Surgical		Sports		Leather products		Manufacturing of Food, Beverages and Tobacco		Manufacturing of wood products and furniture		Manufacturing of paper & paper products, printing & publishing		Manufacturing of chemical, petroleum, rubber etc			Basic metal industries		Other manufacturing		Building Construction		Restaurants & Hotels		Transport & Storage		Real Estate & Business Services		Personal and Household services		Wholesale retail and trade
	S	M	S	M	S	M	S	M	S	M	S	M	S	M	S	M	S	M	S	M	S	M	S	M	S	M	S	M	S	M	S	M	S	M
1	1	0	3	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	15
2	1	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	10
3	0	0	4	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	29
4	0	0	14	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	78
Total	2	0	21	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	132

PUNJAB

n = 697

	Light engineering		Textile weaving and apparel		Surgical		Sports		Leather products		Manufacturing of Food, Beverages and Tobacco		Manufacturing of wood products and furniture		Manufacturing of paper & paper products, printing & publishing		Manufacturing of chemical, petroleum, rubber etc		Basic metal industries		Other manufacturing		Building Construction		Restaurants & Hotels		Transport & Storage		Real Estate & Business Services		Personal and Household services		Wholesale retail and trade		Total
	S	M	S	M	S	M	S	M	S	M	S	M	S	M	S	M	S	M	S	M	S	M	S	M	S	M	S	M	S	M	S	M			
1 Multan	3	0	41	5	0	0	0	0	0	2	1	7	1	4	0	5	0	7	0	6	0	5	0	0	0	0	0	1	0	0	0	0	0	0	88
2 Rahim Yar Khan	1	0	8	0	0	0	0	0	0	0	8	1	7	0	1	0	0	1	2	0	6	0	0	0	0	0	0	0	0	0	0	0	0	35	
3 Faisalabad	8	0	116	4	1	0	0	0	2	0	10	2	3	0	8	0	2	0	15	0	9	0	0	0	0	0	0	0	0	0	1	0	182		
4 Gujranwala	6	0	33	0	4	0	0	0	2	0	7	0	7	0	4	0	8	1	50	0	25	1	0	0	0	0	0	0	0	0	0	0	148		
5 Lahore	4	0	18	5	1	0	1	0	7	0	5	1	18	0	8	1	15	3	27	3	23	2	1	0	1	0	1	0	0	5	0	153			
6 Sialkot	0	0	8	1	7	0	1	0	11	1	7	0	3	0	4	0	3	0	5	0	37	0	0	0	0	0	0	1	0	0	2	0	91		
Total	22	0	224	15	13	0	2	0	24	2	44	5	42	0	30	1	35	5	105	3	105	3	3	1	0	1	1	1	1	0	6	0	697		

SERVICE & TRADE SECTOR

BALUCHISTAN

n = 40

		Service & Trade																								Total							
		Light engineering		Textile weaving and apparel		Manufacturing of Food, Beverages and Tobacco		Manufacturing of wood products and furniture		Manufacturing of paper & paper products, printing & publishing		Manufacturing of chemical, petroleum, rubber etc		Basic metal industries		Other manufacturing		Building Construction		Restaurants & Hotels		Transport & Storage		Real Estate & Business Services		Personal and Household services		Wholesale retail and trade		Total			
		S	M	S	M	S	M	S	M	S	M	S	M	S	M	S	M	S	M	S	M	S	M	S	M	S	M	S	M				
1	Gwader	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	4	0	2	0	1	0	0	0	0	0	0	0	7
2	Quetta	0	0	0	0	1	0	0	0	0	0	0	0	0	0	0	0	0	0	0	2	0	1	1	6	1	0	0	0	0	2	0	14
3	Lasbella	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	4	0	1	0	2	1	0	0	0	2	0	10	
4	Kech	0	0	1	0	3	0	0	0	0	0	0	0	0	0	0	0	0	0	0	3	0	1	0	1	0	0	0	0	0	0	9	
	Total	0	0	1	0	4	0	0	0	0	0	0	0	0	0	0	0	0	0	13	0	5	1	10	2	0	0	4	0	40			

SINDH

n = 95

	Service & Trade																								Total					
	Light engineering		Textile weaving and apparel		Manufacturing of Food, Beverages and Tobacco		Manufacturing of wood products and furniture		Manufacturing of paper & paper products, printing & publishing		Manufacturing of chemical, petroleum, rubber etc		Basic metal industries		Other manufacturing		Building Construction		Restaurants & Hotels		Transport & Storage		Real Estate & Business Services			Personal and Household services		Wholesale retail and trade		
	S	M	S	M	S	M	S	M	S	M	S	M	S	M	S	M	S	M	S	M	S	M	S	M	S	M	S	M		
1	0	0	0	0	1	0	0	0	0	0	0	0	0	0	0	0	0	0	0	4	0	0	0	2	0	0	0	7	0	14
2	0	0	1	0	0	0	1	0	0	0	0	0	0	0	0	0	1	0	3	0	1	0	0	0	0	0	0	0	7	
3	0	1	1	0	1	0	1	0	1	0	0	0	0	0	0	7	0	1	12	0	2	0	3	0	4	0	18	0	51	
4	0	0	0	0	5	0	0	0	0	0	0	0	0	0	0	0	0	6	0	4	0	4	0	4	0	4	0	0	23	
Total	0	1	2	0	7	0	2	0	0	0	0	0	0	0	7	0	2	25	0	7	0	9	0	8	0	25	0	95		

N W F P

n = 50

	Service & Trade																								Total						
	Light engineering		Textile weaving and apparel		Manufacturing of Food, Beverages and Tobacco		Manufacturing of wood products and furniture		Manufacturing of paper & paper products, printing & publishing		Manufacturing of chemical, petroleum, rubber etc		Basic metal industries		Other manufacturing		Building Construction		Restaurants & Hotels		Transport & Storage		Real Estate & Business Services			Personal and Household services		Wholesale retail and trade			
	S	M	S	M	S	M	S	M	S	M	S	M	S	M	S	M	S	M	S	M	S	M	S	M	S	M	S	M			
1	0	0	1	0	1	0	0	0	1	0	0	0	0	0	0	1	0	0	0	1	0	0	1	0	0	0	0	2	0	0	9
2	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	5	0	0	0	0	0	0	0	2	0	0	8
3	0	0	1	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	3	0	0	2	0	1	0	1	0	4	0	0	12
4	0	0	2	0	0	0	0	0	1	0	0	0	0	0	0	0	0	0	6	0	3	0	0	0	1	0	0	6	2	0	21
Total	0	0	4	0	1	0	0	0	2	0	0	0	0	0	0	1	0	0	15	0	5	1	3	1	1	0	14	2	0	50	

PUNJAB

n = 118

	Service & Trade																		Total											
	Light engineering		Textile weaving and apparel		Manufacturing of Food, Beverages and Tobacco		Manufacturing of wood products and furniture		Manufacturing of paper & paper products, printing & publishing		Manufacturing of chemical, petroleum, rubber etc		Basic metal industries		Other manufacturing		Building Construction			Restaurants & Hotels		Transport & Storage		Real Estate & Business Services		Personal and Household services		Wholesale retail and trade		
	S	M	S	M	S	M	S	M	S	M	S	M	S	M	S	M	S	M	S	M	S	M	S	M	S	M	S	M		
1	Multan	0	0	1	0	0	0	1	0	1	0	0	0	0	0	0	0	0	0	4	0	1	0	2	0	0	0	5	1	17
2	Rahim Yar Khan	0	0	4	0	2	0	0	0	0	0	0	0	0	0	0	1	0	2	2	0	1	0	2	0	1	0	5	0	18
3	Faisalabad	0	0	1	0	2	0	0	0	0	0	1	0	1	0	0	0	0	4	4	0	1	0	1	0	1	0	7	0	19
4	Gujranwala	0	0	0	0	0	0	2	0	0	0	0	1	0	4	0	0	2	2	0	3	0	0	0	0	0	6	0	18	
5	Lahore	1	0	2	0	0	0	0	0	0	1	0	0	0	3	0	8	2	2	0	3	1	0	3	1	2	0	9	0	34
6	Sialkot	0	0	1	0	2	0	0	0	0	0	0	0	0	0	0	5	0	1	0	0	1	0	0	0	0	3	0	12	
	Total	1	0	9	0	6	0	3	0	1	0	2	0	2	0	2	0	8	0	25	2	9	0	8	1	4	0	35	1	118

WOMEN ENTREPRENEURS

SINDH

n = 22

CITY	Small	Medium
Karachi	18	1
Sukkur	3	0
Total	21	1

NWFP

n = 13

CITY	Small	Medium
D I Khan	2	0
Peshawar	11	0
Total	13	0

PUNJAB

n = 67

CITY	Small	Medium
Multan	11	0
Rahim Yar Khan	1	0
Faisalabad	7	0
Gujranwala	17	0
Lahore	21	1
Sialkot	8	1
Total	65	2

Annexure II

Questionnaire

SME Baseline Survey Questionnaire

I. General Information regarding Enterprise & Owner

Firm Information - General

1. Location of business, Specify _____
2. Name of business, Specify _____
3. Type of Business:

PSIC Code	#	INDUSTRY
	[1]	Light Engineering
	[2]	Textile, wearing and apparel
	[3]	Sports
	[4]	Surgical
	[5]	Leather & Leather products
	[6]	Manufacturing of Food, Beverage & Tobacco
	[7]	Manufacturing of wood & wood products /furniture
	[8]	Manufacturing of paper & paper products, printing & publishing
	[9]	Manufacture of Chemicals, Petroleum, Coal, rubber and Plastic products and Manufacture on non-metallic Mineral products except petroleum
	[10]	Basic Metal Industries - Manufacturing of Fabricated Metal Product, Machinery and Equipment
	[11]	Other manufacturing
		SERVICES
	[12]	Building Construction
	[13]	Restaurants & Hotels
	[14]	Transport & Storage
	[15]	Real Estate & Business Services
	[16]	Personal & Household Services
	[17]	Wholesale Retail & Trade

1. Where do you fit in the value chain? /what is the nature of your business?
 - Supplier of raw material
 - Vendor (produce semi finished product)
 - Vendor + OEM
 - OEM (Final producer)
 - Service provider
 - Wholesaler
 - Retailer
 - Trader
 - Exporter & Importer
 - Other, Specify _____

2. Size of business in terms of employment
 - i. Less than 6
 - ii. 6-10 employees
 - iii. 11 – 20 employees
 - iv. 21-35 employees
 - v. 36 -50 employees
 - vi. 51 – 100 employees
 - vii. 101 – 250 employees
 - viii. 250 & above
3. What is the average annual number of employees?
 - i. Full time employees _____
4. Year of commencement of activity, Specify _____
5. What is the nature of business premises?
 - Owned
 - Rented
 - Gift
 - Profit sharing basis (contracted)
 - Other, specify _____
6. Status of enterprise
 - i. Sole Proprietorship
 - ii. Partnership
 - iii. Public Limited
 - iv. Private Limited
 - v. Small Company
 - vi. Other

Government

7A. Do you know the kind of regulations that are applicable on your business?

- Yes
- No
- Absolutely not
- Know Partially

7B. How does ignorance of legal rights and obligations affect your business?

- It has significant effects
- It has little effect
- It has no effect

8. How many regulations directly affect your business and which?

Kindly specify: _____

9. How many SROs affecting your business have been issued over the past 6 months? Kindly specify: _____

10. How does change in Government laws and regulations affect your business?

- a. It has significant effects
- b. It has little effect
- c. It has no effect

10A. What recourse you seek in case of a change in policy/measure affecting your business adversely, in the first place?

- d. Raise the same at the association level
- e. Voice your concern on the concerned Department's or any other Govt. website
- f. Try to seek ways to mitigate the consequences through technical alternatives
- g. Lobbying through political means
- h. Just sit back and let it happen

11. What is your average expected time horizon for a change in tax and regulatory policy?

- a. Once in 6 months
- b. Once in a year
- c. Once in three years
- d. Once in 5 years

12. In case of important changes in laws or policies affecting your business operation the government takes into account concerns voiced either by you or your association:

This is true:

- always
- sometimes
- occasionally
- never

13. How does the attitude of Government institutes affect your business?

- a. It has significant effects
- b. It has little effect
- c. It has no effect

14. Do you think interface with Govt. functionaries is:

- A compulsion to be avoided if no extra costs have to be incurred
- A compulsion to be avoided at all costs
- A necessity not to be worried about
- No worry at all

15. How many trips do you have to make to a Govt. office in a month on the average

Specify: _____

16. Do you think the current level of interface with Govt. functionaries is:

- a. Much less than before
- b. Less than before but still excessive, needing further trimming
- c. Quite tolerable

17. What percentage of your time is spent in dealing with Govt.?

- less than 5%
- 5% - 15%
- 15% - 25%
- 25% - 50%
- 50% - 75%
- more than 75%

18. What is the proportionate purpose of such visits (give percentage)?

- a. Seeking information
- b. Pursuing a past claim
- c. Appearing on summons for self defense and clarification
- d. Networking and socializing
- e. Others (plz specify)

19. What percentage of your time annually is spent to cope with these inspections?

- a. Less than 5%
- b. 5 - 10%
- c. 10 - 20%
- d. More than 20%

20. How many times were you inspected in the last one year by the following:

- a. Sales tax
- b. Income tax
- c. Labour
- d. Customs
- e. Environment
- f. Any Other

21. How does the lack of platform for advocacy of your interests and concerns affect your business?

- Great effect
- Little effect
- No Effect

22. Are you satisfied with the complaint redressal channels currently available against discretionary decisions of Govt. officials?

- a. Yes
- b. No

23. Theft and crime are serious problems that can substantially increase the costs of doing business

- Agree
- Somewhat agree
- Disagree

24. Please judge on a five point scale how problematic these different areas are for doing business: (1 being lowest and 5 highest)

Areas	1	2	3	4	5
Regulations for starting business/new operations					
Regulations on foreign trade (exports, imports)					
Labour regulations					
Tax regulations and/or high taxes					
Inadequate infrastructure					
Safety or environmental regulations					
Inflation					
Corruption					
Lawlessness					
Tax laws					

25. Please rate your overall perception of the improvement in relation between government and private firms?

- Marked improvement
- Marginal
- No improvement
- Deterioration

26. Have you ever decided not to make a major investment because of problems relating to complying with government regulations?

- Yes
- No (Go to 28)

27. If your answer was "yes", could you please specify which of the following two options better describes the nature of these problems:

- Costs of compliance are too high, but clearly known
- Costs of compliance are too uncertain for investment planning
- Unacceptable conditions
- Other (Please specify)

28. What percentage of annual revenues goes toward speed money to Government Officials?

29. Recognizing the difficulties many enterprises face in fully complying with taxes and regulations, what percentage of total sales would you estimate the typical establishment in your sector reports for tax purposes? _____ % reported

30. Recognizing the difficulties many enterprises face in fully complying with labour regulations, what do you think is the percentage of total workforce that is reported for purposes of payroll taxes and labour regulation in a typical establishment in your sector? _____ % reported

31. Do you know the effects of WTO on your business?

- Yes
- No
- Know Partially

31A. How do you view WTO's effect on your business?

- Threat
- Opportunity
- Indifferent

31B. What are the opportunities?

- Growing local market
- Growing regional market
- Growing international market
- WTO
- Access to new technologies
- Increased production
- Others

31C. How do you view the following as threats to your business or industry? Please rank importance wise:

- | | | | |
|------------------------------------|-------|-------|------|
| <input type="radio"/> China factor | Major | Minor | None |
| <input type="radio"/> India | Major | Minor | None |
| <input type="radio"/> Smuggling | Major | Minor | None |
| <input type="radio"/> WTO | Major | Minor | None |
| <input type="radio"/> Technology | Major | Minor | None |
| <input type="radio"/> Others | | | |

32. Do you know of any agency (government, donor, chamber etc) that supports SMEs in Pakistan.

- Yes
- No

33. If yes, please specify the name,

34. In your opinion, what are the barriers to the development of small business in Pakistan? (Several Answers possible)

a. Unstable legal environment:

Major Minor None

b. High level of taxation

Major Minor None

c. Insufficient support from local authorities

Major Minor None

d. Procedural difficulties in starting a company

Major Minor None

e. Difficulty in access to bank credit

Major Minor None

f. Lack of qualified human resources

Major Minor None

g. Lack of market information

Major Minor None

h. Lack of management skills

Major Minor None

i. Too high cost of money

Major Minor None

35. Rank following recommendations in terms of significance for the government for sustainable development of SMEs in Pakistan: **Judge on a scale (Very Imp Imp not Imp)**

- a. Help to create a "One Stop Shop" for SMEs based on existing agencies for SME support
- b. Facilitate access to financing (creation of SME funds, etc)
- c. Decrease the amount of taxes
- d. Decrease the number of taxes and simplify the tax system
- e. Publish & disseminate more information for small business
- f. Help to create "business incubators" or "technology parks" for new companies
- g. Create special funds for SME support
- h. Support innovative technological companies

36. What are your concerns regarding Govt. policies on imports?

- a.
- b.
- c.
- d. Don't know
- e. NA

36A. Do you face problems in clearing imports of raw material?

- Lot of difficulty
- To some Extent
- No difficulty

36B. What are those problems which you face:

-
-
-

36C. What is the average time taken in the clearance of an import consignment?

Specify:

36D. Do you face problems in clearing export of raw material?

- Lot of difficulty
- To some Extent
- No difficulty

36E. If yes, please list down the problems.

-
-
-

36E. What is the average time taken in clearance of an export consignment?

Specify:

Infrastructure

37. Is your business suitably located to exploit its optimum commercial potential?
- Yes
 - No
38. If not, rank the following disadvantages in the order of gravity (Rank)
- Dense population and traffic congestion
 - Environment pollution (smoke, noise, affluent contamination)
 - Frequent break down of law and order and other security issues
 - Unattractive for customers and inaccessible for suppliers
 - None
39. On a round trip, how long does it take from your residence to your business during
- Peak hours: _____
- Off peak hours: _____
40. What distance is the nearest in terms of time during normal traffic hours:
- Railway station: _____
- Airport: _____
- Dry port: _____
- Hospital: _____
- Fire brigade: _____
- Dispensary: _____
- Post office: _____
- Police Station: _____
41. What is the frequency of traffic jams on the approaches leading to your business location:
- Only during peak hours
 - All day long
 - Occasional
42. What is the condition Roads
- | | | |
|------|-----|--------------|
| Good | Bad | Satisfactory |
|------|-----|--------------|
43. What is the condition of Transport
- | | | |
|------|-----|--------------|
| Good | Bad | Satisfactory |
|------|-----|--------------|
44. What is the condition of communication(phone, fax etc)
- | | | |
|------|-----|--------------|
| Good | Bad | Satisfactory |
|------|-----|--------------|
45. Tick which of the following statements you would like to agree
- a. Stress and tension caused by the traffic congestion has a direct impact on my health
 - b. Stress and tension caused by the traffic congestion has a direct impact on my health as well as morale
 - c. Stress and tension caused by the traffic congestion has a direct impact on my health, morale and temperament
 - d. Stress and tension caused by the traffic congestion has a direct impact on my health, morale, temperament and the way I do business

46. What sources of electricity do you use?
- Wapda (go to 48)
 - Generator
 - Both Wapda & Generator
 - Other _____
47. What is the average expense of generator last year
- _____
48. How many days does it take to get an industrial/commercial electricity connection in routine?
49. In one month, how frequent are power outages? Specify _____
50. In one month, what is the average duration of load shedding?
- _____
51. What has been the average loss due to power outages in one year? Specify _____
52. What has been the average loss due to power tripping?
- A huge issue
 - Small issue
 - No issue
53. What has been the average loss due to power fluctuations? Specify _____
54. What type of water supply connection do you have?
- Public
 - Private
 - Personal Specify usage in % _____
55. Do you have a gas connection?
- Yes (go to 56)
 - No (go to 55A)
 - Need a connection
- 55A. If not, do you need a gas connection
- Yes
 - No

Procurement

56. Is there a contract enforcement mechanism/practice within the industry for procurement?
 Yes
 No (go to 58)
 Don't Know
57. If yes, is it effective?

58. If no, would you be willing to register and pay for such a service yourself?
 Yes
 No
59. In case of a contract violation rank the following available recourses in terms of effectiveness? Rank as i) very effective ii) effective iii) not effective
 Pressure and persuasion through community
 Arbitration
 Courts
60. What percentage of your raw material is
 Imported
 Local
61. What is the form of raw material used by you?
 Components/Assemblies, Specify percentage ____%
 Basic raw material, Specify percentage ____%
62. In order of severity, please rate the difficulties in procuring materials from (Very Difficult to No difficulty)?
 a. Quotas
 Very Difficult Difficult Not Difficult
 b. Restriction on prohibited materials
 Very Difficult Difficult Not Difficult
 c. Import procedures and duties
 Very Difficult Difficult Not Difficult
 d. Difficult availability of raw material
 Very Difficult Difficult Not Difficult
63. Do you think raw material cost is high
 a. Yes
 b. No (go to Q64)
- 63A. Reason for high price of raw material
 Tax and duties
 Transport cost
 Currency fluctuations
 Commission agents
 Unavailability of good raw material
 Low demand of product
 Others
64. Do you store raw material seasonally?
 Yes
 No
65. How far do you consider availability of raw material year round can improve business?
 Significantly Mildly Available round the year None
66. Your main concern about raw material is: (Ranking 1-5)
 High cost
 Frequent price fluctuation
 Availability
 Quality
 Other

67. What percent of your establishment's inputs are bought on credit? (i.e. full payment is not due at the time of delivery)?
 Specify, ____%
- 67A. After how much time do you repay your credit
 ____ days
- 67B. What percentage of your sales is made on credit.
 ____%
- 67C. What is the collection period of sales made on credit
 ____ days
68. Generally prices for raw materials are stable up to:
 One week
 Two weeks
 One month
 Three months
 More
69. Tick the relevant column in the following table regarding the existing nature and type of systems of management in your organization.

System	Nature		
	Computerized	Manual	Mixed
Inventory Mgt.	Computerized	Manual	Mixed
Cost Accounting	Computerized	Manual	Mixed
Procurement Planning	Computerized	Manual	Mixed
MIS	Computerized	Manual	Mixed

70. Do you feel use of computers would enhance your planning and cost control systems?
 Yes
 No
71. If yes what is the expected extent of improvement?
 Up to 20%
 21% to 50%
 More than 50%
72. Do you use clearing agent services
 Yes (go to 72A)
 No (go to 73)
- 72A. Are you satisfied with the clearing agent service
 Satisfied
 Not satisfies
 Mix reaction
73. If the job is subcontracted, does the buyer provide help
 Always helps
 Sometimes
 Job is not subcontracted (go to Q74)
- 73A. If a job is sub contracted in what areas do the buyers provide help?
 Provision of raw material
 Finances
 Technology
 Training
 Other

Production

74. What is the nature of your business

- Only assembly
- Complete production

75. Tick the relevant columns about the nature and make of your machinery/equipment:

Age	Make		
	Foreign %	Country of origin	Local % (Give brand name as well)
Brand new			
2 years			
5 years			
10 years			

76. Would you like to replace/upgrade your machinery/equipment

- a. Yes
- b. No

76A. What percentage of your income is spent on R&D and state the reasons

0%	
1 to 10%	
11 to 20%	
More than 50%	

77. Which of the _____ support from the Govt services do you think are helpful.

77A. Tick the relevant entries regarding availability, use and quality of technical services for production support from the Govt.

Availability	Utilization of Service	Nature of Service	Satisfaction Level		
			Beyond expectation	Meets expectation	Below expectation
Yes	Yes	Testing			
No	No	Quality Control			
Don't Know		Research & Development			

78. Tick the relevant entries comparing your cost of production with local competitors.

Better		Competitive		Worse	
Yes	No	Yes	No	Yes	No

78A. In case of a "No" entry, spell out the action you want to take and the possible constraint in the two lower cells.

Better		Competitive		Worse	
Yes	No	Yes	No	Yes	No

78B. What are the constraints on following these actions

- _____
- _____
- _____

79. Tick the relevant entries comparing your cost of production with International competitors.

Better		Competitive		Worse	
Yes	No	Yes	No	Yes	No

79A. In case of a "No" entry, spell out the action you want to take and the possible constraint in the two lower cells.

Better		Competitive		Worse	
Yes	No	Yes	No	Yes	No

80. Do you enter into subcontracted/outsourced production?

- Yes
- No (go to Q82)
- Don't Know

81. If yes, then please rank the problems faced in subcontracting jobs?

- Stringent/impractical compliance
- Finances
- Time commitments
- Quality issues
- Absence of sound relationship with large manufacturers
- Uncertainty regarding continued business relationships
- Others: _____

82. Please rank the constraints in increasing production capacity:

- Finance
- Seasonal demand
- Unavailability of machinery / technology
- Unavailability of required raw materials
- Unavailability of required HR
- Uncertainty of future demand
- Others

83. How many days does the enterprise work per week?

- _____ out of 7 days

84. How many hours does the enterprise work on average per working day

- _____ out of 24 hours

85. How much do you want to produce?

- As per traditional trends/depending on orders
- As much as can be manufactured
- As much as can be sold
- As per seasonal requirements
- Other reasons

Marketing

86. Who do you sell your products & services to? Please specify %
- a. Government _____%
 - b. Private Sector (Business to business directly) _____%
 - c. Wholesaler/retailer _____%
 - d. Distributor's network _____%
 - e. Consumer _____%

87. Which markets do you produce for?
- a. Local _____%
 - b. Direct export _____%
 - c. Indirect export _____%

88. Do you think marketing is important for your business?

	Very Important	Somewhat Important	Not Important	Don't know
Marketing:				

89. What marketing tools have you employed & please state their significance.

	Marketing Tools		
	Very Important	Somewhat Important	Not Important
Trade Journals/magazines			
Business Directory			
Internet			
Newspapers			
Electronic media			
Bills and advertisement			
Direct mail (brochures)			
Information dissemination through Chambers & Trade Associations			
Word of mouth			

90. Do you know about marketing plan?

- No (go to 91)
- Yes

90A. Do you have an annual marketing strategy and plan?

- Yes
- No
- Not sure

91. Do you use any research report?

- Yes (go to Q92)
- No

91A. If no, what are the reasons for not using marketing research report

- _____
- _____
- _____

92. Do you use any forecasting system to know about trends in market

- Yes (go to Q93)
- No

92A. State the reasons for not using these services _____

93. If yes, please select the method you follow for keeping informed about the market:

- Word of mouth
- Market/industry information
- Print & Electronic media
- Internet
- Others, specify _____

94. How do you plan your future sales?

- Through trends
- Secured orders
- Long lasting relationships with customers
- Seasonal requirements
- Others

95. Please rank constraints you see in entering new markets locally:

Constraints	Severe	Mild	Not severe
Lack of information			
Lack of knowledge about the business environment/partner			
Trust			
Costs and delays involved in contract enforcement in case of dispute			
Cost			
Others (Please specify):			

96. Please rank constraints you see in entering new markets internationally:

Constraints	Severe	Mild	Not severe
Lack of information			
Lack of knowledge about the business environment/partner			
Communication gap (required for smooth business)			
Trust			
Costs and delays involved in contract enforcement in case of dispute			
Cost			
International standards			
Others (Please specify)			

97. Please complete the table below on your usage of services from the private sector:

Services	Used? (y/n)	Satisfaction (y/b)	If No, Would you like to use this Service
a. Business matchmaking services (Investors/running businesses for sale/joint ventures)			
b. Registration of Company			
c. Business Plan Development			
d. Leasing			
e. Marketing research			
f. Seminars, exhibitions & event management			
g. Legal advisory services			
h. Tax consultation & related services			
i. Selection & recruitment of Human resource			
j. Training			
k. Accounting consultants/chartered accountancy firm/consulting firm			
l. Banking Services (other than finance)			
m. Product development & process improvement			
n. Software development			
o. Certification			
p. Marketing Services			
q. Technology Services			

98A. Have you used the following services:

98 B. If you have used these services, were they very good, bad or just ok?

98 C.

Services	Q. 98A		Q. 98B			Q. 98C
	Yes	No	Very Good	Just Ok	Bad	Percentage Use of Service
a. Training						
b. Marketing Information						
c. Expansion Opportunities						
d. Resolution of Various Issues						
e. Other						

Management

99. Do you have a long term vision for you business
- a. Yes
 - b. No (go to Q 99B)
- 99A. If yes kindly describe it in a few words:
- _____
- 99B. If no why not?
- c. Text book jargon
 - d. Do not think formally about business
 - e. Do not know what do we mean by vision
 - f. Haven't found time to formally spell it out
100. Do you have a Mission Statement of your business
- a. Yes
 - b. No (go to 100B)
 - c. Don't know
- 100A. If yes kindly describe it in a few words:
- 100B. If no why not?
- d. Text book jargon
 - e. Do not think formally about business
 - f. Do not know what do we mean by vision
 - g. Haven't found time to formally spell it out
101. In your opinion what primarily describes management the best?
- a. Getting work out of others
 - b. Motivating people to work voluntarily
 - c. Creating a conducive environment where people work on their own
 - d. Other
102. How do you take important management decisions?
- o In routine on my own
 - o After thinking through the problem alone
 - o In consultation with my family
 - o In consultation with my work force
 - o All the above
103. How much time do you give to management issues?
- o Less than 30%
 - o 30% to 50%
 - o 51% to 70%
 - o More than 70%
104. What is the level of education of your employees? Specify Number
- o Technical diplomas _____
 - o Vocationally trained _____
 - o Under matriculation _____
 - o Matriculation _____
 - o Graduation _____
 - o Masters _____
 - o Master craftsman _____
 - o Other _____
105. Age group of majority workers & gender:
- o Below 25
 - o Between 26-35
 - o Between 36-45
 - o Between 46-55
 - o Above 55

106. What Percentage of Male Employees do you have
- o _____
107. Do you think apart from technical training, management training can also be useful?
- o Yes
 - o No
108. Will you be willing to pay for management training for your employees even if it results in long term benefits?
- o Yes
 - o No
109. Do you provide any incentives to your employees
- o Yes (go to 109A)
 - o No (go to 110)
- 109A. If yes, what are these incentives
- o _____
 - o _____
 - o _____
110. Would you like workers in your factory to take/share responsibilities with you?
- o Most of the responsibilities
 - o Some of the responsibilities
 - o I don't like to share
111. Do you have specific departments / persons for each of the following:
- o Procurement
 - o Production
 - o Marketing
 - o Finance
 - o Management
 - o Human Resources
112. Is skilled workforce easily available
- o Yes
 - o No
113. Within the last one year, how many weeks did it take to fill your most recent vacancy through external recruitment for a:
- o skilled technician? ___(weeks)
 - o service worker? ___(weeks)
 - o manager? ___(weeks)

Entrepreneurship

114. If the answer is (b) what was the nature of product or service introduced by you at the time of inception of business?
- A totally new invention and a trend setter
 - A range of product/services containing certain few new items
 - Existing range of products/services packaged innovatively
 - Nothing new, product/service at par with going market trends and standards
115. The product or service being produced by you currently has remained unchanged since:
- Last two years
 - Last five years
 - Last ten years
 - More than ten years
116. How many new products/services have you introduced over the past three years? (A new product will be one which is not just an improvement in the standard design). Specify _____
117. Have you introduced any innovations in Product design?
- Yes
 - No (go to 119)
118. If yes, what was the nature of innovations?
- original creation
 - improvement in the existing product
 - adaptation
 - innovation in technology
 - Others
119. Did you introduce any change in Systems & Processes during past years?
- Yes
 - No (go to 120)
- 119A. If yes, what was the nature of innovations?
- original creation
 - improvement in the existing product
 - adaptation
 - innovation in technology
 - Others
120. Did you introduce any change in Packaging & Branding during past years?
- Yes
 - No (go to 121)
- 120A. If yes, what was the nature of innovations?
- original creation
 - improvement in the existing product
 - adaptation
 - innovation in technology
 - Others
121. What would motivate you to be more innovative?
- Search for more profits
 - Saturation in the market
 - Far sighted vision
 - To become market leader
 - Others
122. Among the following statements/phrases which one best describes your business philosophy regarding innovation?
- Stick to your knitting
 - Fortune favors the brave
 - Be different
 - Don't stick your neck out
 - Road to hell is paved with good intentions
123. Where do you rate your business in terms of innovative content?
- Stable, no change in product/service lines over the past ten years
 - Mildly innovative, improvement in existing designs
 - Innovative product/service diversification/adaptation, to remain current with the trends
 - Strongly innovative, having designed/produced a new product/service every couple of years or started a new venture
124. What percentage of your profits was attributable to innovative practices?
- 5%
 - 10%
 - 20%
 - 50%
 - Difficult to measure
125. Your source of new business ideas?
- From discussion with friends and colleagues
 - Customer feedback and general market pulse
 - Thinking alone and in silence
 - Magazines, TV, Web and other media
 - Text books and professors

126. Have your business ideas ever been thwarted due to the following

- a. Unavailability of finances
- b. Unavailability of required technological support
- c. Lack of support from Govt.
- d. Lack of encouragement from family elders

127. Have your business ideas ever been copied by others?

- Yes
- No

127A. If yes did you think of getting them patented?

- Yes
- No

127B. If No, what stopped you from doing that:.....

128. Would you like to subscribe to a shared R&D facility?

- a. Yes
- b. No

128A. Others (Please specify) _____ If the answer is No, what is the reason?

- c. I can't share my business secrets with others
- d. Such facilities are just a wastage of time and energy
- e. Developing countries simply can't afford innovations
- f. SMEs can't afford innovation
- g. There is no need to innovate, there are so many designs in the market, just copy any of them

129. Which of the following combinations sums up your choice of Critical Success Factors in a business?

Critical Success Factors	Important	Some what important	Less important
Technology			
Skill			
Management			
Entrepreneurship			
Quality of Product/Service			
Branding/Packaging			

130. How much would you like to spend on:

- a) Marketing _____
- b) Production _____

131. Do you think entrepreneurship can be taught

- c. Yes
- d. No

131A. If yes what would be the best age to teach it to the student

- e. School age
- f. College age
- g. University age

131B. What would be the most effective way to teach entrepreneurship

- a. Text books, case studies and other class room activity
- b. Programs through media
- c. Internship with business

131C. Do you think there should be part time educational programs/degree courses for working entrepreneurs

- d. Yes
- e. No, these are of little benefit
- f. In terms of your competitors where do you stand now?

132.

	Local Competitors			International Competitors		
	Insignificant	Significant	Market leader	Insignificant	Significant	Market leader
Market share						
Innovation						
Quality						
Other						

133 Where do you see your business in the next 5 years?

	Local Competitors			International Competitors		
	Insignificant	Significant	Market leader	Insignificant	Significant	Market leader
Market share						
Innovation						
Quality						
Other						

Finance

134. Have you ever applied for loan?

- a. Yes
- b. No

134A. If yes, what was the purpose of loan?

- a. Starting a business
- b. Business expansion
- c. Working capital support
- d. Coping with financial distress
- e. other

134B. What was the amount of loan you applied for?

- f. Less than .5 million
- g. Between .6-.99 million
- h. Between 1-5 million
- i. Between 6-10 million
- j. Between 10-15 million
- k. Between 15-120 million
- l. Above 20 million

135. Was your loan application accepted?

- Yes
- No

135A. If the loan was rejected what was the reason cited?

- Lack of collateral
- Lack of standard financial statements
- Insufficient credit history
- Business plan not feasible/properly presented
- Bank not interested

136. How did the rejection of loan application affect your business?

- Starting the business not possible
- Expansion not possible
- Up-gradation of technology hampered
- Procurement of raw material not possible
- Quality improvement not possible
- Other

137. How many visits you had to make to the bank?

- 1-3
- 4-5
- More than 5

138. How many weeks Bank took to finalize your case?

- Less than one week
- 1-3 weeks
- 4-6 weeks
- More than 6 weeks

139. What was the Bank's attitude?

- Friendly and helpful
- Business like (somewhat friendly)
- Indifferent
- Discouraging

140. If a loan was never applied for, was there a reason?

- Interest rates too high
- Lack of collateral
- Banks inaccessible/located too far
- Loan application procedure difficult
- Don't need a loan
- Religious reasons

141. If you do not prefer finances from banks due to religious reasons, would you opt for Islamic Banking

- Yes (go to 142)
- No
- If No, why? Specify _____

141A. If No, specify the reasons?

- _____
- _____
- _____

142. Do you plan to expand your business operations in the coming days?

- a. Yes
- b. No
- c. Don't know

142A. If yes, what are the constraints? If No, what are the reasons?

- a. Lack of financing
- b. Lack of management capacity
- c. Lack of relevant business information/advice
- d. Cost non recoverable in the short run
- e. Others

142B. If No, what are the reasons?

- a. Contentment with existing status
- b. To avoid hassles / formalities related to tax, labor, environment etc
- c. Non cooperative attitude of Govt. agencies
- d. Others

143. If financing is available, what do you prefer?

- Personal financing options
- Financing from banks
- Leasing
- Ploughing back internal business profits
- Informal financing
- Others

144. If you prefer informal financing, rank reasons below:

- Easy and flexible access
- Timely service
- Cheap
- Others

145. What percentage of machinery & equipment is leased/financed from banks?

- Less than 10%
- 11 – 20%
- 21-30%
- 31-40%
- 41-50%
- 50% & above

146. If you were to apply for a loan, what amount would it be? PKR Million

- _____
- I will not apply for a loan (Go to 148)

147. What would you use the loan for?

- Expansion in capital assets
- Working capital support
- Exports/Imports
- Personal use
- New venture
- Employee training
- others

148. Would you like to formalize informal financing?

- yes
- No (Go to 151)

148A. What would be the most practical way to formalize informal finance?
(Rank with 1 most practical and 4 least practical)

- Issuance of licenses to informal money suppliers
- Creation of a regulatory authority
- Involvement of NGOs
- Institutions like SMEDA should have a role

149. If informal mechanism of financing can be formalized how would it benefit your business?

- Interest differential between formal and informal would be reduced
- Will improve the transparency of business transactions
- Will save from cruel methods of recovery by private financiers
- Others (Plz Specify)

Personal Information

Q166. What is your age?

- Less than 25
- 26 to 35
- 36 to 45
- 46 to 55
- More than 56

Q167. What is your education Level?

- Under Matric
- Matric
- Intermediate
- Graduation
- Masters
- MBA (local)
- MBA (foreign)

Q168. Note down your Gender

- Male
- Female

Q169. Do you manage your business alone?

- Yes (goto Q 171)
- No

Q 170. How many family members help you in your business

Relation with owner	A lot of Help	Little Help	Sometimes

Q171. Preference on language

	Urdu	English	Both	Regional
Business information	1	2	3	4
Bookkeeping	1	2	3	4
Business Ethics	1	2	3	4

Q172. Is this your 1st business venture

-
- Yes (go to Q176)
- No

Q173. How many business ventures have you undertaken to date?

- _____

Q174. Have you quit any past business

- Yes
- No (go to Q 176)

Q 175. What are the reasons for quitting

A	Financial Difficulties	1	Reason
B	Human Resource	2	
C	Product Demand	3	Reason
D	China	4	
E	Smuggling	5	
F	Obsolete Products	6	
G	Profit Margin	7	
H	Another		

Q 176. How did you start this business

A	New Business	1	Reason
B	Family Business	2	Reason (go to Q178)
C	Acquired business	3	
D	Other	4	

Q 177. From where did you get financial resources to start business

- Personal savings
- Family's help
- Friends help
- Informal resources
- Bank
- Others

Q178 How would you like to spend your life again, if given a chance

A	Job	1
B	Business	2
C	Switching to high grow business	3
D	Retirement	4

Q 179. What the strengths of your business

A	Economy of cost	1
B	Family wisdom & unity	2
C	Proximity of markets	3
D	Technical know how	4
E	Quality of HR	5
F	Efficiency of production processes	6
G	Delegation of responsibility to managers	7
H	Others	8

Q180. What are the main weaknesses of your business

A	Lack of information	1
B	Out dated machinery	2
C	Low productivity	3
D	High production cost	4
E	Low skilled worker	5
F	Foreign competition	6
G	Local competition	7
I	Others	8

Q181. What are the critical factors for a successful business

A	Project Planning	1
B	Resources	2
C	Strategy	3
D	Since how many generations are you in this business	4
E	Family business being pursued by second or third generation	5
F	First generation pursuit	6

Q182. would you like to participate in any other research service

Yes

No

Q183. Would like to share you information with Small and Medium Enterprise Development Authority?

Yes

No

