

# DISSECTION OF SMALL BUSINESSES IN PAKISTAN: ISSUES AND DIRECTIONS

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## ABSTRACT

*The aim of this paper is to offer discussion regarding the pitfalls and shortcoming of the Small and Medium Enterprises (SMEs) in Pakistan and discuss about the potential directions of the enterprises. The objective is to dissect the SMEs sector and highlighted the challenges and obstacles faced by them, and offer remedies based on the outside practices and suggestion by the Small and Medium Enterprises Development Authority (SMEDA) of Pakistan. The paper is produced based on the preliminary study, mostly from the recent relevant literature on SMEs and small scale manufacturing firm's performance of last three decades in Pakistan. The approach to dissect the small firms is by looking through issues, challenges and initiative taken by government of Pakistan. This paper discusses the current scenario regarding the small businesses in Pakistan, which is rather alarming, looking from the perspective of small firm manufacturing sector. The conclusion shall be of values to the government, policy makers and also understanding the in depth issues of the small businesses in Pakistan pertaining to the SMEs and also the direction of these firms.*

**Keywords:** Small Business, SMEDA, Pakistan Economy.

## INTRODUCTION

Worldwide Small and Medium Enterprises (SMEs) are acknowledged by the government, especially, in developing countries whereby they contribute in the economic growth and stability in shape of employment, new job creation, social cohesion and development (Hashim et al., 2018; Ratten, 2014). In most developing and developed states, small and medium firms recognized as central part of any industrial structure (Umar et al., 2018; Ahmad & Pirzada, 2014). The SME sector has importance in order to survive the economic recession. Globally, small and medium enterprises account for 90 to 95 % of the businesses and generate between 60% and 70% of job opportunities in most of the countries (Law & Minai, 2016) and mainly in developing countries SMEs have great importance (Rao, 2014; Ul Haq et al., 2014). The vital role of small and medium enterprises was not being considered previously. Only the large organizations were supposed to be the part of economic growth of the country as well as an integral part for gaining huge foreign reserves. Economist believes on the potential of SMEs particularly in different Asian countries including Taiwan, Korea, and Japan whose economy grows on the basis of their SMEs (Khattak et al., 2011). Similarly, SMEs activities are involved

in economic growth of different countries like Korea, Japan, Taiwan and many others (Katua, 2014; Shah et al., 2011). Although, small and medium firms are important to the economic growth of every state, but nobody can deny the significance of SMEs mainly in developing economies. In current competitive and dynamic global environment SMEs play a vital role for economic progress of developing states (Minai et al., 2018; Hussain et al., 2012). Furthermore, it is stated that SMEs are known strategically important in Asian region countries. For example, in Japan, SMEs significant contribution is about 99.7% of businesses, create 71% of employment and 55.3% contribution to GDP. In China, the SMEs contribution to total business establishments is 99%, generate for 75% of employment and 56% contribution to GDP; In Indonesia, SMEs representation to business establishment is about 99.7%, generate 99.6% of the employment and 57% contribution to GDP. In Malaysia, SMEs significant representation is about 90% of enterprises, generate 56% of employment and 32% contribution to GDP (Hafeez et al., 2013). Similarly, in Malaysia, statistical evidence shows that SMEs contribute to 19 percent to export of Malaysia. A survey conducted in 2010 to evaluate the performance of SMEs in Malaysia. It is concluded that SMEs contribute more than three quarters (76%) among all sector of economy (Katua, 2014).

In the South Asia region, the SMEs enormously contribute towards economic development and prosperity. For example, in Nepal, the SMEs contribution is almost 98% of businesses and account for 63% of the value-added segment. In Bangladesh the SMEs representation to industrial GDP is 50% and account for 82% of industrial sector employees. Furthermore, in India the SMEs contribution to GDP is 30% (Hafeez et al., 2013). In addition, in the economy of India SMEs play important role in the industry. SMEs sector in India recorded the higher growth rate in comparative to overall industrial sector. In the year 2003 approximately 31 million persons were employed by the 12.8 million enterprises in India. Further, labour intensity in the SME comparative to large firms was estimated to be four times greater. However, after that, SMEs employ an estimated 59.7 million persons which are spread over 26.1 million enterprises (Katua, 2014).

The main focus of this paper is SMEs sector of Pakistan. Pakistan is located in South Asia region and has population exceeding 200 million. Pakistan is among developing nations whose economy followed by different business sectors, both in terms of its share in GDP and labor force employment. Due to the importance of trade and commerce, government of Pakistan has established a body to promote SMEs which is known as “*Small and Medium Enterprises Development Authority*” (SMEDA). The main responsibility of SMEDA is the formulation of policies to promote and facilitate SMEs. Further, it helps in provision of training and education to entrepreneurs (Hyder & Lussier, 2016). As per Pakistan economic statistics, per capita income during 2017-18 is (\$1641) based on provisional figures of population census 2017 held in March 2017 (Ministry of Finance Pakistan, 2018). In continuation, it is stated that agriculture, industrial and services are three major contributing sectors of Pakistan economy.

The agriculture sector is considered the prime sector of economy. According to Pakistan Economic survey (2017-18) this sector is the core foundation of the rural economy and being a fundamental part of country's financial system, contributes 18.9 percent to country's GDP and 42.3 percent to employment (Pakistan Ministry of Finance, 2018). Therefore, providing food security, helping in poverty reduction for the purpose of enhancing overall economic development. For making agriculture sector more productive and efficient the government of Pakistan has also taken several actions (Jabeen, 2014). According to Pakistan Economic survey (2017-18) the overall manufacturing sector contributes 13.6 percent in GDP of the country.

There are four sub-sectors of industrial sector in Pakistan such as gas distribution and construction, manufacturing, electricity generation and mining & quarrying. Each sub-sector of the industrial sector has its own role and importance in the economy. For the revival of industrial sector on fast track the Government has initiated comprehensive policy measures (Pakistan Ministry of Finance, 2018). Many researchers such as Fuchs (1980); Kuznets (1957) and Clark (1941) observed that economic trends in the world are shifting from agriculture sector to manufacturing and from manufacturing sector to service. According to Jabeen (2014) in case of Pakistan, the share of services sector is increasing as compare to other sectors of economy over the time. In the current era of economic development, services sector is considered as the major and fastest emerging sector in the global economy, contributing biggest share in GDP and employment generation in most of the countries.

According to Pakistan Economic Survey (2017-18) services sector witnessed a growth of 6.43 percent in last two years (Pakistan Ministry of Finance, 2018). Services sector is growing faster as compare to the agriculture and manufacturing sector. Service sector provides vital and necessary input to agriculture sector and manufacturing sector as it has a strong linkage with these sectors of economy. In the same manner, service sector contributes a significant role in the economic growth, trade and employment generation. Consistently, service sector plays a vital role and act as a backbone by providing consistent support and significant contribution to Pakistan's economic growth (Ahmed & Ahsan, 2011). All these statistics reflect the importance of SMEs for economic development in Pakistan. According to Raza et al. (2018) there is still little research on small business and recommended that further entrepreneurial research is indispensable in Pakistani context. Finally, this study contributes in the existing literature of small businesses.

## LITERATURE REVIEW

### Small Firms in Pakistan: An Overview

SMEs generally stand for small and medium-sized enterprises but there is no agreement on a single definition of SMEs and due to this complication, it is very difficult to define SMEs. Depending on their contribution in the economic development as well as their existing social conditions, differences exist regarding definition of SMEs between countries and even within the same country between different sectors and governmental agencies (Dar et al., 2017). There is no uniform definition of SMEs in the literature however, European Commission defined SMEs as those firms which employ lesser than 250 employees. However, the core measurement gauges of SMEs in various states are considered as labour force, invested capital and annual turnover (Hafeez, 2014).

In Pakistan, SMEs have been defined differently by various sources namely "*Small and Medium Enterprises Development Authority (SMEDA)*" Sindh Industries Department, Federal Bureau of Statistics, Punjab Small Industries Corporation, State Bank of Pakistan, SME Bank and Punjab Industries Department (SMEDA, 2018). However, the definition of SMEs provided by SMEDA that defines "*SMEs as firms having up to 250 employees and paid up capital up to Rs. 25 Million and annual sales up to Rs. 250 Million*" (SMEDA, 2018). Moreover, SMEs are mainly categorized as small or medium on the basis of number of employees in the firm; as it is quite difficult to get financial information from SMEs in Pakistan (Hafeez, 2014). Small firms are also defined on the basis of different criteria. But it is argued that fulfilling the criteria of the number of employees is obligatory, while filling another financial criteria the choice of the

enterprise (Berisha & Pula, 2015). In Pakistan, the small firms are defined as “those having an employee size up to 35 people while medium size firms are those with 36-250 employees” (SMEDA, 2018). In Pakistan those firms which have more than 250 employees are viewed as large firms (Raza & Majid, 2016). SMEs definition of SMEDA of Pakistan presented in Table 1.

| <b>Institution</b> | <b>No. of Employees</b> | <b>Paid up Capital</b> | <b>Annual Sales</b>   |
|--------------------|-------------------------|------------------------|-----------------------|
| SMEDA              | Up to 250               | Up to Rs. 25 Million   | Up to Rs. 250 Million |

Source: SMEDA (2018).

However, this study employs the definition of SMEs provided by SMEDA that defines the SMEs are defined as those firms having employee size up to 250 people (Hassan et al., 2018). According to “*Small and Medium Enterprise Development Authority of Pakistan (SMEDA)*” various institutions in Pakistan have defined SMEs in a different way as represented in Table 2.

| <b>Institution</b>                   | <b>Small</b>   | <b>Medium</b>                   |
|--------------------------------------|--|---------------------------------|
| SME Bank                             | Total Assets of Rs.20 Million.   | Total Assets of Rs. 100 Million |
| Punjab Small Industries Corporations | Fixed investment up to Rs. 20 Million excluding land and building.   | N/A                             |
| Federal Bureau of Statistics         | Less than 10 employees.  | N/A                             |
| State Bank of Pakistan               | An entity , ideally which is not being a public limited company, and having employees not more than 250 (manufacturing) and 50 employees (trade/services) and also fulfills one of the following criteria: |                                 |
|                                      | (i) Total assets at cost excluding land and buildings in trade/service up to Rs. 50 Million.   |                                 |
|                                      | (ii) Total assets at cost excluding land and building up to Rs. 100 Million in manufacturing.  |                                 |
|                                      | (iii) Net sales not exceeding Rs. 300 Million as per latest financial statements in any case (manufacturing, service, trade), (same as for both).  |                                 |
| Punjab Industries Department         | Fixed assets with Rs. 10 Million excluding cost of land (same as for both).  |                                 |
| Sindh Industries Department          | Entity engaged in handicrafts or manufacturing of consumer or producer goods with fixed capital investment up to Rs. 10 Million including land & building (same as for both).                              |                                 |

Source: Small and Medium Enterprise Development Authority of Pakistan (SMEDA).

### **The Contribution of Small Businesses**

In Pakistan, similar to other countries SMEs are regarded as the spine of the state economy. They contribute approximately 40 percent in the GDP of the country, 30 percent in the export and provide 80 percent of total employment. Further, SMEs play pivotal role for innovation, revamping social status and elevating life style (Khalique et al., 2015).

It is fact that the economy of Pakistan is largely SMEs driven economy. According to (Raza et al., 2017; Ullah et al., 2011) SMEs are providing significant contributions in Pakistan's economy. As far as Pakistan's economy is concerned SMEs representation to total business establishments is more than 90%. There are 3.2 million business units in Pakistan. They are mostly dealing in manufacturing/industrial establishments (20%); social and personnel services (22%); wholesale, retailing, restaurant and hotel (53%). In continuation, these SMEs are contributing 35% in manufacturing value addition (Raziq & Khair, 2015). In supporting to arguments, “*Agro-based Industry*”, “*Sports Goods*”, “*Surgical Instruments*”, “*Cutlery & Stainless Utensils*”, “*Furniture*”, “*Dairy and Livestock*”, “*Fisheries*” and “*Fan Manufacturing*” present most prevalent SMEs clusters/sectors which enormously contribute to the economic growth of Pakistan (SMEDA, 2018).

Dynamic and flexible SMEs are playing their part in reducing unemployment levels, earning foreign exchange, upgrading the knowledge profile of the work force, improving the business management skills, and diffusing technological learning all over Pakistan. In addition, SMEs are constructively and productively mobilizing the domestic resources and generate employment opportunities otherwise has unemployment. Hence, the new era challenges are the competitive strengths of the SMEs sector (Hafeez, 2014).

Majid et al. (2017) argued that SMEs contribute enormously towards competitiveness of any economy. The importance of the SMEs in economy cannot be undervalued because of the SMEs are viewed as major sources of poverty eradication, social uplift, growth in the economy and the pillars of employment. Hence, SMEs perform vital role in the economic stability of the Pakistan during the time of economic unrest they are considered as shock-absorbers.

Despite of all these importance and vital contribution in economy of the country, SMEs sector in Pakistan have face many obstacles. Entrepreneurs undergo many hurdles which restrict them for their long term sustainability and development (Khalique et al., 2015; Sherazi et al., 2013). In the next section of this paper it is discussed in detail.

### **Issues and Challenges of Small Businesses in Pakistan**

SMEs significance has been well documented in literature. Despite the importance of small business, SMEs suffer from weak performance and high failure rates (Hashim et al., 2018; Machirori & Fatoki, 2013). It is stated that the failure rate of SMEs is greater in developing states than in developed states (Sherazi et al., 2013). It is identified by previous studies that within initial five years of their business operations majority of new SMEs failed (Hafeez, 2014; Zimmerer et al., 2008; Hodges & Kuratko, 2004).

In Pakistan, situation is not very different. To elaborate this statement further the following discussion takes in to account the findings of previous studies conducted in SMEs in Pakistan. Therefore, the current position of SMEs in Pakistan is much more serious and alarming. It is observed that large number of Pakistani SMEs collapse at very early stages (Ullah et al., 2011). It indicates that there is great threat for sustainable development of Pakistani SMEs.

Previous studies have identified a variety of factors influencing performance of SMEs. According to Hassan et al. (1998) discussed the lack of orientation and inability of SMEs to embrace new technology causing low productivity and poor performance. Ali and Sipra (1998) and Nishat (2000) discovered that the lack of finance and inability to get financial assistance are causes of lower performance. In addition to financing problems, SMEs in Pakistan experience unfavourable government policies, scarcity of skilled human resources and entrepreneurial

capabilities (Roomi & Hussain, 1998). A few studies held social and physical infrastructure of Pakistan responsible for lower performance of SMEs (Kemal, 2000; Khan, 1997).

According to the then CEO of SMEDA Shahab Khawaja (2006), SMEs are in a low growth condition, and are unable to upgrade technologically. It has been observed that Pakistani SMEs face severe issues in entering as well as performing in international markets because of lack of competitiveness (Hafeez, 2014). Moreover, there are many challenges that SMEs exporters have to face and which influence performance; these barriers are related to distinctive foreign consumer preferences, product characteristics and unusual business practices and procedures (Khattak et al., 2011). In addition, according to (Ullah et al., 2011) the main challenges faced by SMEs in Pakistan are the scarcity of entrepreneurial competencies, lack of entrepreneurial business network and insufficient dynamic capabilities such factors are the main reason behind the lower performance of SMEs sector of Pakistan.

According to Pakistan Ministry of Finance (2011) Table 3 shows that in recent decade the small scale manufacturing firm's performance was low as compare to last decades.

| <b>Years</b> | <b>Growth Performance of SMEs<br/>Manufacturing in Pakistan</b> |
|--------------|---|
| 1981-1990    | 8.40%   |
| 1991-2000    | 7.80%   |
| 2001-2010    | 4.60%   |

Source: Ministry of Finance, 2011.

Consistent with above arguments, entrepreneurs in Pakistan face many obstacles such as financial issues, dearth of entrepreneurial education, training related issues, poor infrastructure, corruption, relying on low and out of date technology all these restrict SMEs for their long term sustainability and development. Pakistan is a country where small business industry is totally under uncertainty (Sherazi et al., 2013).

Moreover, in Pakistan cost of doing business is high because of land acquisitions and other restrictions by the local government. This high cost of land results in shift of interest towards other businesses like real estate in which funds are allocated to expensive land which is used for business growth. Further, policies of government support the big business while they neglect small entrepreneurial ventures (Hyder & Lussier, 2016).

Where informal and traditional management practices are exercised it is difficult to accomplish the growth target in the economy (Hussain et al., 2015). In Pakistan initial model of 1960s is still followed which is based on the assumptions of market fail. Market failure fear led the government to introduce such policies which support the innovation and innovation is the main pillar of entrepreneurship (Hyder & Lussier, 2016). On the other hand, Khalique et al. (2011) highlighted the importance of knowledge based competencies for higher performance of Pakistani SMEs. They argued that the pattern of the economies is shifting from production based to knowledge based particularly in the modern business environment. Therefore, there is a need to exploit available knowledge based resources. They also stressed on the importance of skilful workers to boost SMEs performance.

The report of World Bank on entrepreneurship activities provides quantitative data regarding the new firms' entry and this data compares Pakistan with other South Asian countries and OECD. The position of Pakistan as compared to its South Asian counterpart is lowest. As compared to Bangladesh and India new firm entry in Pakistan is almost half and position of Pakistan is more or less stagnant from the past few years. Other countries are performing much better than Pakistan (World Bank, 2014).

According to the "*Global Innovation Index (GII)*" 2015 covers 141 economies around the world and uses 79 indicators (i.e., Individual skills, creative goods & services, innovation linkages) across a range of themes. Thus, GII (2015) presents us with a rich dataset to identify and analyze global innovation trends. Pakistan ranked 131 among 141 countries list as world's most innovative countries.

Similarly, the "*Global Competitiveness Report 2015-2016*" assesses the competitiveness landscape of 140 economies, Pakistan was placed 126 among 140 states with regard to technology readiness, innovation and infrastructure and focus on business sophistication (World Economic Forum, 2016).

The current research indicates that problem is still alive; presently the SME sector of Pakistan is performing less than their potential and has a low-growth performance. Pakistani SMEs continue to face various threats and challenges such as poor infrastructure, lack of entrepreneurial skills, insufficient financial resources, outdated production facilities, low level of capabilities, incompetent workers, a complex taxation system, and difficulties to get loans from financial institutions, and most importantly mismanagement of intangible resources (Dar et al., 2017). Still, SMEs in Pakistan are struggling; there are various reasons for the dismal conditions of the SMEs but most importantly lack of entrepreneurial activities (Hyder & Lussier, 2016). The next discussion highlights the position of Pakistani SMEs in global market.

### **Status of Pakistani SMEs in Internationalization**

Internationalization term has been used not only for exporting goods but also includes multilateral trade, joint ventures, alliances/subsidiaries, cross-border clustering, branches and cross-border collaboration that encompass outside the environment of homebased country. As a result of globalization forces, it is argued that small businesses are considered as "*vehicle for social and economic development*" across the globe (Aspelund et al., 2017; Singh et al., 2010). Accordingly, internationalization has carried a "paradigm shift" in the business environment and the directions of business, customers have more choices of products and services and fierce business competition in international market (Shah et al., 2013).

Within the context of SMEs sector of Pakistan, it contributes both domestically and at the international level. Consequently, it brings both GDP and export earnings and contributor to the country's tax pool. The contribution of SMEs to the country's export is approximately 30 percent of total exports (Khalique et al., 2015). According to SMEDA, with respect to scope of business, SMEs are involved in exporting surgical instruments, sports goods, fan products and other goods to different countries. Although SMEs have gigantic support to economic development but It has been observed that Pakistani SMEs face severe problems in entering as well as performing in international markets because of lack of competencies (Akhtar et al., 2011). There are various hurdles that SMEs exporters have to deal and which effect performance, these obstacles are linked to different foreign consumer choices, product characteristics and unusual business practices and procedures (Khattak et al., 2011). That is why; SMEs do not able to compete at

international level. Consequently, “*Economic Survey 2014-15*” of Pakistan stated that due to in-competitiveness of native exporters slowdown in international trade, energy crisis and dropping international prices of products as a result Pakistani exports declined (Business Recorder, 2015). Therefore, Table 4 depicts the major strength, weakness, opportunities and threats of Pakistani SMEs in international market place.

| <b>Table 4</b>  |  |
|---|--|
| <b>SWOT ANALYSIS OF PAKISTANI SMES</b>  |  |
| <b>Strengths</b>  | <b>Weaknesses</b>  |
| Flexible and informal entrepreneurial firm structure.   | Inability to adapt new technology and mismanagement of valuable resources.   |
| Strong family support (majority of small businesses in Pakistan are inherited).   | Shortage of skilled human resources.   |
| Access to effective advertising tools.  | Scarcity of entrepreneurial education.   |
| High motivation in developing the business.   | Financial constraints.   |
| <b>Opportunities</b>  | <b>Threats</b>   |
| Exchange of technology through international alliances and networks; (Pakistani SMEs are exporting surgical, sports and textile products, this can be supportive for upgradation of existing technology). | Change in customer preferences (because of price war, paradigm shift in expectations, aspirations and the social habits of consumers). |
| Opportunity of franchise and joint venture with other firms.  | Entry of multinational and more powerful competitor into the local market.   |
| Government is building special industrial zones to help the businesses flourish.  | Inefficient infrastructure as compare to international standardization.  |
| SMEs can build their reputation through getting international quality certificates.   | Fear of losing control on overseas operations.   |
| Source: Prefeasibility Report of SMEDA.   |  |

The PEST (Political, Economic, Social, and Technological) analysis is one of the analyses used for understanding how external forces impact business. This technique is used to analyse or scan the business firm which is influenced by macro environmental factors. In addition, fundamentally PEST analysis is considering as a strategic tool to know about the political stability of the state, economic position, social and technological prospects (Iglinski et al., 2016). Hence, Table 5 represents the PEST analysis of Pakistani SMEs.

| <b>Table 5</b>  |   |
|---|---|
| <b>PEST Analysis of Pakistani SMEs</b>                            |   |
| <b>Political</b>  | <b>Economic</b>   |
| Political instability.  | Economic uncertainty.                                       |
| Internal political disputes and low levels of foreign investment. | Inefficient Government’s monetary and fiscal policies.      |
| Vulnerable law and order situation.                               | Tariffs and quota issues.                                   |
| Bad governance in SMEs tax system hurting revenue collection.     | Trade restrictions.   |
| <b>Social</b>   | <b>Technological</b>  |
| Famine of effective entrepreneurial business networks.            | Technological constraints and lack of innovation.           |
| Low level and standards of literacy and education.                | Dearth of specialist technologies of mass production areas. |
| Ethical standard issues and state of society.                     | Outdated technological infrastructure.                      |

|   |   |
|---|---|
| Conflicts and scarcity of cohesiveness. | Need for technological acquisition and dissemination. |
| Source: Author Developed.               |   |

Based on the abovementioned notions and previous researches' findings, it could be concluded that environmental barriers are simply the PEST factors; "*political, economic, social and technological*" obstacles that reduce the export potential of a country. Nobody can deny the fact that; in today world internationalization of economies has gained a substantial consideration (Pinho et al., 2018). Hence, it is indispensable for SMEs in Pakistan to develop and adopt the international standards in order to dilute the emerging economics challenges and achieve the competitive edge in global market. Pakistan can create a window of opportunity by establishing joint ventures with international enterprises. Hence, the next discussion is about the directions of small businesses in Pakistan in order to curb the issues and challenges of SMEs.

### Government Directions in Addressing the Issues

In recent years, SMEs are recognized as the main contributor to the economic development in developing states (Akhtar et al., 2015). That is why, countries across the globe to emphasis on SMEs. Even in Pakistan this shift has been more vigorous. In October 1998, Small and Medium Enterprise Development Authority was established by the Government of Pakistan with the goal of developing SMEs sector. For financing this sector SME Bank has established by the Government of Pakistan. Majority of the commercial banks developed specialized department to finance SMEs in the country after the setbacks in the large industrial sector in the mid of 1990s. Further, almost all major international donor agencies like ADB, World Bank, UNDP, ILO start initiative in the SME sector within last five years (Bhutta et al., 2008).

Accordingly, keeping in view the importance of trade and commerce, initiative taken by the Pakistan's government by considering the importance of trade and commerce initiate to establish "*Small and Medium Enterprises Development Authority (SMEDA)*" to promote the SMEs. SMEDA was made to address the challenges faced by the SMEs in Pakistan. Having a professional management and enthusiastic approach the focus of SMEDA is to provide business development services to SMEs. SMEDA other than policy advisory body for the government of Pakistan and also facilitates other stake holders to address agenda of SME development (SMEDA, 2018; Majid et al., 2017).

It is significantly evident from the Pakistan Vision (2025) and the Government of Pakistan Planning Commission Vision (2030), country's development is underperformance due to a variety of factors including lacking in R&D, innovation and value addition; and lack of an enabling environment. This is reflected in Pakistan being ranked 110th out of 170 countries in terms of ease of doing business. A key goal of the Vision (2025) is to see Pakistan ranked in the top 50 countries for ease of doing business by the year 2025. In this regard, Vision 2025 major objectives regarding small and medium enterprise are:

1. To provide SMEs a level playing field, and a fair competitive environment.
2. Micro-businesses will be encouraged, thus promoting entrepreneurship and innovation.
3. In order to gain the best potential then there is need of a massive focus on entrepreneurial competencies development.

In continuation, the Vision 2030 document concludes that Pakistan will overcome the poor performance of the past. The fundamental and core point of Vision 2030 is the

establishment of a society which is productive as well as innovative, this is the main way to be competitive in the 21<sup>st</sup> Century. It is stated that demand based skills is a major thrust of the Vision 2030. The aims of the “*Government of Pakistan Planning Commission Vision (2030)*” regarding manufacturing and SMEs sector to combat the poor performance are following:

1. Pakistan has to form vital strategic choices to ensure superior growth in the manufacturing sector in a rapidly changing and international competitive environment. It is acknowledged that variety of competencies and capabilities are important to counter the rapid changes in the business environment.
2. Due to increase in competitiveness of the international arena, Pakistan will need to make the accumulation of knowledge and focus on entrepreneurial education that is the major driver of its economic growth.
3. The key ingredients such as better managerial practices, competencies, innovation and technological levels are needed to make SMEs competitive.
4. SMEs Business networking and trust will be enhanced through better relationship among entrepreneurs. Potential benefits are derived from business network and will further help to grow the SME sector.
5. For the excellence of business, the skilled and innovative technical personnel consider as driving force for the betterment of the economy.

To conclude this section, it is quite significant that; The Vision 2030 document also include and acknowledge the importance of entrepreneurial education, networks and competencies as the key objectives of the Government of Pakistan Planning Commission Vision (2030) to enhance economic growth. Furthermore, the government of Pakistan has taken many initiatives to uplift SMEs sector. One of the most important mechanisms to achieve these objectives is to support SMEs projects and programs. In the same manner, the Pakistan Government started a program Prime Minister’s Youth Business Loan program (2013) to encourage young entrepreneurs to start their own businesses. The SMEs projects are viewed as an important mechanism to develop the economy and the nation.

## CONCLUSION

In developed economies small businesses have been extensively studied however, in the developing countries litter attention has been paid. It also contributes to the existing body of knowledge regarding SMEs of developing states. This paper focused on SME sector of Pakistan particularly. With regard to Pakistan, there is scarcity of knowledge on this sector and this study attempts to fill this void. This study revealed the importance and hurdles faced by SMEs sector of Pakistan and also highlighted the directions taken by government of Pakistan to boost SMEs sector.

Moreover, it is need of time that entrepreneurs should realize the perils of failure and obtain the valuable resources to improve their probability of success. Thus, this study is important in a way as it provide literature that helps potential and existing entrepreneurs, policy makers, regulators and investor to better understand the SMEs situation in Pakistan. It is suggested that in future study, while measuring success or failure of small businesses and compare one developing country SMEs sector situation with other developing countries taking into account the economic situation.

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