ROLE OF SMALL MEDIUM ENTERPRISES IN GROWTH OF THE ECONOMY

Sadaf Mustafa*  
Farah Iqbal**  
Ahmed Osama***

Abstract

Importance of the Small Medium Enterprises sector cannot be overemphasized in the industrial development of a country. 90% of all the enterprises in Pakistan are consisting of Small Medium Enterprises; 80% labor force is employed in non-agriculture sector, Small Medium Enterprises are sharing annually 40% to GDP of the country (SMEDA). However providing huge part in the development of the country Small Medium Enterprises are still encountering with some perilous pitfalls and the survival of the Small Medium Enterprises is getting harder. Now the economy system of the country has been converted from the production based to knowledge-based economy. The review of the previous results pointed out that the twenty first century is the era of technological and intellectual capital and it has added the ultimate importance in the knowledge-based economy. Currently, the economy is based on knowledge-based economy and it is based on the intellectual capital. Therefore, it is difficult for Small Medium Enterprises in Pakistan to transfigure and acquire the concept and applications of intellectual capital in order to counter and mitigate the emerging economics problems.

Keywords: Small medium enterprises, knowledge based economy, employment, GDP, export

Introduction

The small and medium enterprises are enacting the cardinal role in the economic development of the economy Pakistan. In Pakistan, SMEs constitute around 90% of over 3.2 million enterprises and contribute over 40% to GDP. Considering that majority of Pakistan's enterprises are Small Medium Enterprises, there is a need to create a linkage between Small Medium Enterprises and Information Technology (IT), enabling businesses to flourish in the era of digitization. Information technology offers many opportunities for businesses to enhance their efficiency and effectiveness and get into competition. This may include buying and selling products and services online, creating digital marketing campaigns, etc.

Growth of Small Medium Enterprises through adoption of Information Technology can be a catalyst for economic Growth of Pakistan. Prescient of the potential, some developing countries have actively adapted a prudent approach, by developing the IT

* Sadaf Mustafa, Ph.D. Assistant Professor, Department of Commerce, University of Karachi, Karachi  
** Farah Iqbal, Ph.D. Professor, Chairperson, Department of Psychology, University of Karachi, Karachi  
*** Ahmed Osama, Research Scholar, Department of Commerce, University of Karachi, Karachi
sector and integrating it with the existing enterprises. It is acknowledged by the policy makers in Pakistan at all levels that Small and Medium Enterprises are vital actors in providing employment opportunities to the population.

In the age of information technology an SME offering a product with a certain value has the opportunity to sell in the whole country, while operating from a small city or village. Mobile Technology has added another dimension to the burgeoning IT industry. Mobiles have provided direct internet access to majority of Pakistan's population resulting in a huge boost to businesses which have adopted the digitization model.

The importance of Small and Medium Enterprises (SMEs) as catalysts for economic growth, employment and poverty reduction has been widely established. SME firms are generally more labor intensive than capital intensive, and present a higher return on investment than many large-scale enterprises. The dynamic nature of SMEs allow them to quickly adjust to changing business conditions which makes the SME sector as an ‘agent’ of positive socio-economic change. Governments, especially those of developing nations, have recognized this fact, and are quickly formulating policies to foster and boost their SME sectors.

Access to finance and funding is a major constraint for Small Medium Enterprises. However, adoption of IT does not require a lot of financial resources. Currently, Small Medium Enterprises are not aware of the benefits of the cost effective IT solutions, therefore there is a need to increase awareness. With a better understanding of IT and its potential benefits, and once its application and usage gets conspicuous, the positive externalities and use at IT will spill over into various avenues.

Businesses in developed economies are rapidly digitizing. The confluence of all the opportunities illustrates that there is a need for government support in Pakistan to ameliorate and aid Small Medium Enterprises In adopting IT in their businesses. The government can create an atmosphere which incentives the SME industry and Includes all stakeholders to develop an enabling environment for existing and new businesses.

**Literature Review**

**Knowledge Based Economy**

The title ‘knowledge-based economy’ is the knowledge and technology provoking term. Presently, the economies are growing on the basis of knowledge and innovation. It is likely to say that the growth of economies in the present century highly depends on the technology, innovation, information and knowledge.¹

In his book ‘The effective executive’ first described the difference between the knowledge worker and manual worker. According to him the manual workers use their physical capabilities to produce goods and provide services but the knowledge workers use their minds to generate the ideas that would be advantageous for the overall organization.² In the knowledge based economy, the elusive asset that is intellectual

capital represents the considerable value of the organizations. It addresses how the intellectual capital that is education and knowledge serve the individual, organization and economy. In knowledge based economy the prosperity of the Small Medium Enterprises are hinged with the technological innovation and intellectual capital.

The distinction between the traditional economy and knowledge based economy is that the conventional economies stands on the quantifiable input methods such as factors of production although the currently prevailing economies is constructed on the qualitative input factors such as technological innovation.\(^5\) In short the knowledge based economy is the approach of production and consumption which is based on intellectual capital. The intellectual capital is the worth of the company’s employee knowledge which can provide competitive edge to the company.

**Small and Medium Enterprises**

Small and medium enterprises (Small Medium Enterprises) are contributing the cardinal role in the improvement of the economy, political certainty and social environment of each country.\(^6\) According to Small and Medium Enterprises Authority (SMEDA), Pakistan, 90% of all the enterprises in Pakistan consist of Small Medium Enterprises. In Pakistan, Small Medium Enterprises contributing the significant part in the economic development but there is need to identify the factors which are not let the Small Medium Enterprises to grow however Pakistan is rich in resources.\(^7\)

Commonly, there is no definition of Small Medium Enterprises that are internationally accepted.\(^8\) However in Pakistan, there is also not a specific definition for Small and Medium Enterprises (Small Medium Enterprises). Number of personnel, capital and annual sales are the factors that describe the definition of Small Medium Enterprises. In Pakistan the definition of Small Medium Enterprises is established on the above features.\(^9\)

In Pakistani economy, one of the significant part of the economic growth of are Small Medium Enterprises. The manufacturing industry Small Medium Enterprises are contributing in the GDP through the generation of employment and self-employment which directly affects the economic growth in a positive way. Claimed that Small Medium Enterprises are the main source of economic development through employment


\(^6\) Khalique, Muhammad. "CHALLENGES FACED BY THE SMALL AND MEDIUM ENTERPRISES (Small Medium Enterprises) IN MALAYSIA." (International Journal of Current Research 2011).


creation and export revenue. Small Medium Enterprises has a major role in economic growth of the nation through new business development and use of innovated technology.\textsuperscript{10}

Small Medium Enterprises played a notable role in the country’s economic development by generating employment as well as in sustain economic affluence. The non-serious attitude of the policy makers regarding the development of the Small Medium Enterprises are the key reason of unemployment and poverty in the country. Small Medium Enterprises are the key factor for the reduction of unemployment, stimulating innovation, generating competition and fabricating economic wealth.\textsuperscript{11} Small enterprises have significance role in creation of job opportunities.\textsuperscript{12} Large enterprises are less capital intensive as compared to small enterprises in the relevant field.\textsuperscript{13} Small scale manufacturing firms can boost up economy of the country by providing employment: creating jobs.\textsuperscript{14, 15}

In Asian countries like Pakistan, Small Medium Enterprises can provide help in developing native technology, employment and can encourage for the savings and investment.\textsuperscript{16} Higher Effectiveness and competitiveness is required to sustain the business, for which core product design, market research, production and sales turnover is essential elements.\textsuperscript{17, 18}

The countries prevailing knowledge-based economy provide vast favorable possibilities to Small Medium Enterprises to create wholly innovative goods and services, enhance the value of existing goods and services, minimize costs, evolve new international markets, and also add value to existing actions. Marketing, Technological and organizational barriers are the main reasons that making tough to succeed for Small Medium Enterprises in knowledge-based economies. It is necessary for Small Medium Enterprises to have proper guidance in selecting the appropriate technology suited to their needs. Some Small Medium Enterprises do not have the resources through which they can switch to advance technology either because of absence of expertise or improper guidance, direction and assistance from leading organizations in the industry. The continuous development in

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\textsuperscript{15} Sahibzada, S.A. "The Economic Rate of Return in Small and household Manufacturing industries." (The Pakistan Development review, 1988).
\textsuperscript{17} Murri, H.B. "Removing Obstacles to Achieve Excellence in Small Medium Enterprises." (Mehran University Research Journal of Engineering and Technology., 2004).
\end{flushleft}
monetary and technological sectors in the global business environment cause the prudent usage of IT unavoidable, yet Small Medium Enterprises still struggling regarding the application of IT.\textsuperscript{19,20}

The expeditious advancement in the World Wide Web as a communicator and market medium provides Small Medium Enterprises remarkable scope of global market access, entry into new market with low-cost, and the capability of competence, efficiency and effectiveness in business practices. At the same time, Small Medium Enterprises need to reconstruct their business models as the knowledge-based economies are not identical to the previous customary businesses. As our economies are becoming more connected to the international market, Small Medium Enterprises must have the awareness regarding business processes and tools in order to gain competitive edge.\textsuperscript{21}

World Wide Web and the online domains are leaning a leading effect on the tradition of business operations. The online domain grants customers to comfortably explore and grab competitive intelligence and better fount of supply. Small Medium Enterprises have conventionally been able to get the benefits over leading opposition companies by originating evinced alliance with customers, customized their beneficences, and smartly capturing niche markets.\textsuperscript{22}

**Definitions**

In Pakistan, variable definitions have been given by Small and Medium Enterprises Development Authority (SMEDA), Small and Medium Enterprises (SME) Bank, State Bank of Pakistan (SBP), Securities and Exchange Commission of Pakistan (SECP) and Pakistan Bureau of Statistics (PBS). SMEDA’s definition of SME is based on amount of productive assets and number of employees; the SME bank considers only the amount of production assets, PBS considers only number of employees. The generally agreed definition is that of SMEDA, which considers a business as small when its number of employees range between 10 and 35 and its production assets are in the volume of 2 to 20 million PKR. Similarly, the definition for medium-sized business is that it has to have between 36 to 99 employees and a production assets volume 20 to 40 million PKR.

The above definitions, however, do not take into account size and volume of micro businesses, the employee base and assets volume of which might be lower than those stated by SMEDA, therefore proposed a new definition for small businesses, which takes in number of employee size between 5 and 10 and production assets size between 0.5 and 1 million PKR.

\textsuperscript{19} Knol, WHC. "The Diffusion and Adoption of Information Technology in Small- and Medium-sized Enterprises through IT Scenarios." (Technology Analysis and Strategic Management, 2001).

\textsuperscript{20} Stoeken, JKM. "The Diffusion and Adoption of Information Technology in Small- and Medium-sized Enterprises through IT Scenarios." (Technology analysis and strategic management, 2001).

\textsuperscript{21} Monk. "Why small business fails?" (CMA management, 2000).

\textsuperscript{22} Kleindl, B. "Competitive dynamics and new business models for Small Medium Enterprises in the virtual marketplace." (Journal of Developmental Entrepreneurship, 2000).
The United Nations Industrial Development Organization (UNIDO) classifies SMEs based on whether to belong to developing countries or the developing ones. In the table below, classification for SMEs belonging to developed and developing nations are presented as observed by UNIDO.

**Definition of Small Medium Enterprises in other countries:** Small and Medium Enterprises (Small Medium Enterprises) are those enterprises which do not have any subsidiary from any government of private enterprise and are autonomous enterprises which recruit lesser than particular number of personnel. In the previous literatures, there is no constant definition of SME is available or can say that it is different from country to country.

In U.S the organizations having less than 500 employees are consider to be SME. While European Union’s organizations consider to be SME having less than 250 employees. Other countries have been discussed below:

<table>
<thead>
<tr>
<th>COUNTRY</th>
<th>DEFINITION OF SME</th>
</tr>
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<tbody>
<tr>
<td>JAPAN</td>
<td>Firms having fewer than 300 employees and capital fewer than 10 million yen</td>
</tr>
<tr>
<td>KOREA</td>
<td>Firms having less than 200 employees</td>
</tr>
<tr>
<td>MALAYSIA</td>
<td>Firms having less than 75 full time workers and having fund less than 2.5 million Malaysian Ringgit.</td>
</tr>
<tr>
<td>THAILAND</td>
<td>Firms having less than 200 employees</td>
</tr>
<tr>
<td>PHILLIPPINES</td>
<td>Firms having less than 200 employees and revenue less than P 40 million</td>
</tr>
<tr>
<td>INDONESIA</td>
<td>Firms having less than 100 employees</td>
</tr>
<tr>
<td>VIETNAM</td>
<td>No fixed definition, generally less than 200 employees</td>
</tr>
<tr>
<td>INDIA</td>
<td>Paid up capital up to 10 million Indian rupees.</td>
</tr>
<tr>
<td>SRI LANKA</td>
<td>Firms having annual turnover of 250-700 million Srilankan rupees and number of employees up to 300.</td>
</tr>
<tr>
<td>BANGLADESH</td>
<td>Firms having 100 to 300 million Tk as paid-up capital and having 100 to 250 employees.</td>
</tr>
<tr>
<td>PAKISTAN</td>
<td>Firms having fewer than 250 personnel, maximum capital to Rs. 25 million and yearly revenue up to Rs. 250 million.</td>
</tr>
<tr>
<td>GERMANAY</td>
<td>Firms having fewer than 100 personnel</td>
</tr>
<tr>
<td>USA</td>
<td>Firms having fewer than 500 personnel</td>
</tr>
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**Definition of Small Medium Enterprises in Pakistan:** In Pakistan, there are also the different definitions of the Small Medium Enterprises. SMEDA, SME Bank, SECP (Security and Exchange Commission of Pakistan), PBS (Pakistan Bureau of Statistics)

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have defined the definitions of Small Medium Enterprises in diverse manner. The different definitions of Small Medium Enterprises from different institutions of Pakistan have been discussed in the table below:

<table>
<thead>
<tr>
<th>INSTITUTION OF PAKISTAN</th>
<th>DEFINITION OF Small Medium Enterprises</th>
</tr>
</thead>
<tbody>
<tr>
<td>SMEDA (Small and Medium Enterprises Authority)</td>
<td>Firms having less than 100 employees, capital up to Rs. 25 million and yearly revenue up to Rs. 250 millions</td>
</tr>
<tr>
<td>SME Bank</td>
<td>Firms having less than 250 employees. Total assets over Rs. 100 million.</td>
</tr>
<tr>
<td>SECP (Security and Exchange Commission of Pakistan)</td>
<td>Paid up capital not more than 25 million and turnover not more than 100 million.</td>
</tr>
<tr>
<td>PBS (Pakistan Bureau of Statistics)</td>
<td>Firms having less than 10 employees consider as small enterprise.</td>
</tr>
</tbody>
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Significance and Role of Small Medium Enterprises in Different Economies of the World Small Medium Enterprises Share of Total Employment of Different Countries:

Small Medium Enterprises Contribution to GDP of Different Countries:\textsuperscript{27}


Small Medium Enterprises Share of Total Exports of Different Countries:\textsuperscript{28}


\textsuperscript{28} Ibid.
In terms of resources, Pakistan is among the rich nations of the world and has the aptitude of development to revitalize the economy as well as the living standard of the people of the country. Nevertheless, the prime obstacle or challenges have slow down the process of Small Medium Enterprises development in Pakistan. The government of Pakistan has been neglecting the small and medium enterprises and has shifted focused on large enterprises. Government, financial institutes and banks considers mostly the large enterprises instead of Small Medium Enterprises. Released in his article that “according to the regulatory and policy environment of Pakistan is very unfavorable for the development of Small Medium Enterprises sector and inclusively all the government attempts is remained concern for the focus centralized towards the large industrial firms. The ultimate success of Small Medium Enterprises lies in the adaption of technology,
unique skills, good network, strong communication, current market situation and innovation.\textsuperscript{30}

Study regarding in Pakistan Small Medium Enterprises are at inceptive point. Small Medium Enterprises are at appalling stage in term on condition. Crucial and cardinal threats facing by the Small Medium Enterprises in Pakistan are: Uncertainty of political environment, inadequacy of intellectual capital and lack of infrastructure. On the other side, the use old style of recruitment instead of the human resource policy is one of the serious threats.\textsuperscript{31}  \textsuperscript{32}Due to the absence of competence, Small Medium Enterprises of Pakistan are failed to compete locally and internationally. Thus, Small Medium Enterprises are facing the terrifying challenges in order to alive in the highly perfect competitive business environment. Moreover, major challenges in the way of survival of Small Medium Enterprises are the absence of education facilities, innovative mind and intuition skills.

Some most crucial problems that have slow down the development of Small Medium Enterprises in Pakistan are the differences in political regimes, lack of skilled and knowledgeable workers, shortage of business opportunities, corruption, and government interference, reluctant in adaptation of technological innovation. Absence of technology and knowledge has brought the situation to the worst. Small Medium Enterprises should have the proper knowledge regarding the implementation of the intellectual capital. As intellectual capital and knowledgeable workers have become the important elements of getting competitive advantage in the market. Small Medium Enterprises in Pakistan have failed to progress as they did not collect any type of economic and government assistance. Small Medium Enterprises have not been taken as priority as these enterprises do not get sufficient funds and have the shortage of technological skills. Obsolete production facilities, less competitive products and scarcity of trained and skilled workers are the dreadful challenges and obstacles. All these hurdles and obstacles make it almost impossible for Small Medium Enterprises to contribute in the economic development as expected.

From the above data some major challenges that has been facing by Small Medium Enterprises in Pakistan are highlighted:

- Energy/power crises in the country
- Cost of input has the increasing trend
- Unfavorable government policies
- Lack of intellectual capital
- Poor human resource policy
- And technological deficiency
- Absence of market knowledge

\textsuperscript{30} Khawaja, S. "enhancement.Unleashing the growth potential of Small Medium Enterprises in Pakistan through productivity." (Pakistan Development Forum, 2006).
- Lack of easy access to finance

**Conclusion**

It is a corroborated fact that Small Medium Enterprises play cardinal role in originating wealth and also Small Medium Enterprises contribute to the GDP of the country. The Small Medium Enterprises are observed as the engine of success and prosperity for the immense majority of people, explicitly in case of the snagged segment in developed and developing countries alike. The Small Medium Enterprises boost up the economic activity, availability of jobs and formation of the capital for the common good rather than increasing surplus for the small amount of people. The foundation of this contemplation is that the formation of welfare state is hinged to the conviction of distributive justice with accelerated economic activities. Small Medium Enterprises has been facing obstacles in means of technological innovation, this study endeavors to stipulate the frame of reference and background of the knowledge-based economy in Pakistan. Small Medium Enterprises in Pakistan provide low-cost job creation and the depletion of poverty. SME sector is imperative for inclusive and equitable growth of the economy and we must grab benefits from the emerging opportunities.

**Recommendations**

In accordance with the promotion, encouragement, facilitation, motivation and the upgrading of the sector, it is recommended that inculcating the Small Medium Enterprises about improved and advanced technology in production, marketing, inventory control, marketing and accounting through SMEDA. For encouragement of Small Medium Enterprises in making the plans for stabilize and replacement of their units and contrive shift of technology through SME association and chamber of commerce. It is very important to lubricate the Small Medium Enterprises through leasing, insurance and banking as these are the foundation of growth and development. The Small Medium Enterprises in order to get advancement need more strict laws and the infrastructure also should be ameliorated. The SME sector is swayed by the logistics which embraces warehousing, transportation and collateral management. There is an instantaneous need of energy substitute due to the current shortfall of energy/power. There is also an instant necessity for industrial estate in all the provinces of the country.

**Bibliography**


