Engineering Subcontracting and Enterprise Development in Pakistan
(An examination of the significance of Growth, Subcontracting, and Marketing Concepts in the Indigenous Agricultural Machinery Industry in the Punjab)

Thesis submitted to the
Bahauddin Zakariya University, Multan, Pakistan,
in fulfillment of the requirements
for the degree of Doctor of Philosophy
in Business Administration

by

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2000
Declaration

I hereby declare that the work described in the thesis "Engineering Subcontracting and Enterprise Development in Pakistan (an examination of the significance of Growth, Subcontracting, and Marketing Concepts in the Indigenous Agricultural Machinery Industry in the Punjab)" has been carried out by me under the Supervision of Professor Dr. Hayat Muhammad Awan (Supervisor) and Professor Dr. Muhammad Zafarullah (Co-Supervisor). I also hereby declare that this thesis has not been submitted for any degree elsewhere.

Four copies of this thesis are submitted for further processing, please.

Muhammad Saleem Bhutta
Candidate
Statement

It is certified that the work contained in the thesis entitled “Engineering Subcontracting and Enterprise Development in Pakistan (an examination of the significance of Growth, Subcontracting, and Marketing Concepts in the Indigenous Agricultural Machinery Industry in the Punjab)” has been carried out under our Supervision by Mr. Muhammad Saleem Bhutta and is approved for submission in fulfillment of the requirement for the degree of Doctor of Philosophy in Business Administration.

Professor Dr. Hayat Muhammad Awan
(Supervisor)

Professor Dr. Muhammad Zafarullah
(Co-Supervisor)
# TABLE OF CONTENTS

<table>
<thead>
<tr>
<th>Chapter 1</th>
<th>Introduction</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.1</td>
<td>Need for Industrialization in the Developing Countries</td>
<td>1</td>
</tr>
<tr>
<td>1.2</td>
<td>Importance of SMEs in Development</td>
<td>3</td>
</tr>
<tr>
<td>1.3</td>
<td>Small and Medium Enterprises - Typology</td>
<td>4</td>
</tr>
<tr>
<td>1.4</td>
<td>Role of Small and Medium Enterprise in the Industrialization of Pakistan</td>
<td>6</td>
</tr>
<tr>
<td>1.5</td>
<td>Role of Small Scale Industry in Pakistan's Economy and Government Incentives</td>
<td>7</td>
</tr>
<tr>
<td>1.5.1</td>
<td>Historical Background</td>
<td>7</td>
</tr>
<tr>
<td>1.5.2</td>
<td>Exports</td>
<td>12</td>
</tr>
<tr>
<td>1.5.3</td>
<td>Other Aspects</td>
<td>12</td>
</tr>
<tr>
<td>1.5.4</td>
<td>Government Incentives and Facilities</td>
<td>13</td>
</tr>
<tr>
<td>1.5.5</td>
<td>Exemption of Cottage Industry from Sales Taxes</td>
<td>14</td>
</tr>
<tr>
<td>1.5.6</td>
<td>Credit Facilities to Small Industries</td>
<td>16</td>
</tr>
<tr>
<td>1.5.7</td>
<td>Technical Training Facilities</td>
<td>17</td>
</tr>
<tr>
<td>1.5.8</td>
<td>Small Industrial Estates</td>
<td>18</td>
</tr>
<tr>
<td>1.6</td>
<td>Present Status of Small Scale Industries in the Industrialization of Pakistan</td>
<td>18</td>
</tr>
<tr>
<td>1.7</td>
<td>Role of Developmental Institutions for SME Development</td>
<td>20</td>
</tr>
<tr>
<td>1.7.1</td>
<td>Punjab Small Industries Corporation</td>
<td>20</td>
</tr>
<tr>
<td>1.7.2</td>
<td>Sindh Small Industries Corporation</td>
<td>21</td>
</tr>
<tr>
<td>1.7.3</td>
<td>NWFP Small Industries Development Board</td>
<td>22</td>
</tr>
<tr>
<td>1.7.4</td>
<td>Directorate of Small Industries, Baluchistan</td>
<td>23</td>
</tr>
<tr>
<td>1.8</td>
<td>Major Influencing Factors Effecting SMEs Development</td>
<td>24</td>
</tr>
<tr>
<td>1.9</td>
<td>Rational for the Research Work</td>
<td>25</td>
</tr>
<tr>
<td>1.10</td>
<td>Objectives</td>
<td>26</td>
</tr>
<tr>
<td>1.11</td>
<td>Research Hypothesis</td>
<td>27</td>
</tr>
<tr>
<td>1.12</td>
<td>Research Study Approach</td>
<td>28</td>
</tr>
<tr>
<td>1.13</td>
<td>Study Limitation and Sample Collection</td>
<td>29</td>
</tr>
<tr>
<td>1.14</td>
<td>Organization of the thesis</td>
<td>31</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Chapter 2</th>
<th>Growth of Small Firms: Literature Survey</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>2.1</td>
<td>Introduction</td>
<td>35</td>
</tr>
<tr>
<td>2.2</td>
<td>The Entrepreneurship</td>
<td>36</td>
</tr>
<tr>
<td>2.3</td>
<td>Towards an understanding of Entrepreneurship</td>
<td>37</td>
</tr>
<tr>
<td>2.4</td>
<td>Entrepreneurship in Historical Perspective</td>
<td>42</td>
</tr>
</tbody>
</table>
Chapter 3

Subcontracting and Buyer-Supplier Relationship: Literature Survey

3.1 Introduction 85

3.2 Engineering Subcontracting
   - Policy Focused Review, 86

3.3 Buyer-Supplier Relation 88
   at Different Geographic Situation

3.3.1 Buyer-Supplier Relations
   a) Japan vs. Britain Model
      Japanese' Supplier Relations in Britain 91
   b) Japan vs. U.S. Model 93

3.4 Japanese Style Partnership 95
   3.4.1 What is a Japanese Style Partnership? 95
   3.4.2 Why are Japanese Style Partnership more Efficient?: 98

3.4.2.1 Fewer Direct Suppliers 98
   3.4.2.2 Reducing Production Costs. 99
   3.4.2.3 Customized Investments 101
   3.4.2.4 Forced Competition 104

3.4.3 Why are Japanese Companies more Cooperative? 109
   3.4.3.1 Stable, Long-Term Employment 109
   3.4.3.2 Career Paths Between Firms 110
   3.4.3.3 Face-to Face Contract 111
   3.4.3.4 Minority Ownership 112
   3.4.3.5 Specialized Investments 112

3.5 What are the Implications for U.S. Business? 114
   3.6 Summary 117

Chapter 4

Marketing and the Small Firms: Literature Survey

4.1 Introduction 118

4.2 Marketing Defined 119
Chapter 5

Research Methodology

5.1 Introduction
5.2 Observations from the Literature Review
5.3 Research Design Implications
5.4 The Two Main Philosophies:
   i) Phenomenology ii) Positivism
5.5 Aims and Objectives of the Research Study:
5.5.1 Overall Design:
5.6 Specific Design of the Research Study
5.6.1 Phase One: Collection of Information
5.6.2 Phase Two: In-Depth Interviews and Case Studies
5.6.2.1 In-Depth Interview
5.6.2.2 The Case Study
5.6.2.2.1 The Nature of the Case Study Research
5.6.2.2.2 Criticisms of the Case Method
5.6.2.2.3 Making Effective use of the Case Study Method
5.6.2.2.4 Justification for the selection of the Case Method
5.6.2.2.5 Utilisation of the Case Study Method in the study
5.7 Summary

Chapter 6

Profile of the Firms Surveyed

6.1 Introduction
6.2 Existing Relevant Entrepreneurs
6.2.1 Major Production Centres of Agricultural Machinery in Punjab
6.2.2 Local Entrepreneurs - Cluster Under Study
6.2.2.1 Machinery Available in Production Units at Mian Channu
6.2.2.2 Production of Agricultural Machinery
6.2.3 General Characteristics of Relevant Industry:
   6.2.3.1 Pattern of Establishment
   6.2.3.2 Ownership status of the production units.
   6.2.3.3 Registration status of the production units.
6.2.3.4 Labor Employed by Entrepreneurs
6.2.3.5 Personal profile of Entrepreneurs
   6.2.3.5.1 Age Profile of Entrepreneurs
   6.2.3.5.2 Educational Status of Entrepreneurs
   6.2.3.5.3 Technical Education Obtained by Entrepreneurs
<table>
<thead>
<tr>
<th>Section</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>6.2.3.5.4 Work Experience of the Entrepreneurs</td>
<td>184</td>
</tr>
<tr>
<td>6.2.4 Existing Marketing Practices</td>
<td>185</td>
</tr>
<tr>
<td>6.2.4.1 Price Determination</td>
<td>185</td>
</tr>
<tr>
<td>6.2.4.2 Channels of Distribution</td>
<td>188</td>
</tr>
<tr>
<td>6.2.5 General Business Constraints</td>
<td>188</td>
</tr>
<tr>
<td>6.2.5.1 Marketing and Market</td>
<td>189</td>
</tr>
<tr>
<td>6.2.5.2 Raw Material</td>
<td>190</td>
</tr>
<tr>
<td>6.2.5.3 Finance</td>
<td>191</td>
</tr>
<tr>
<td>6.2.5.4 Availability of Skilled and Un-skilled Labour</td>
<td>192</td>
</tr>
<tr>
<td>6.2.6 Problems and Opinion of Entrepreneurs</td>
<td>192</td>
</tr>
<tr>
<td>6.3 Comparative Study of Entrepreneurs and their Vendors</td>
<td>192</td>
</tr>
<tr>
<td>6.3.1 Entrepreneur Profile</td>
<td>193</td>
</tr>
<tr>
<td>6.3.1.1 Socio-Economic Characteristics</td>
<td>193</td>
</tr>
<tr>
<td>6.3.1.2 Business Expansion</td>
<td>194</td>
</tr>
<tr>
<td>6.3.1.3 Resources Required for Business Expansion</td>
<td>194</td>
</tr>
<tr>
<td>6.3.1.4 Subcontracting</td>
<td>196</td>
</tr>
<tr>
<td>6.3.1.5 General Constraints in Business</td>
<td>197</td>
</tr>
<tr>
<td>6.3.2 Marketing Profile</td>
<td>198</td>
</tr>
<tr>
<td>6.3.2.1 Products Offered for Sale</td>
<td>198</td>
</tr>
<tr>
<td>6.3.2.2 Popular Products for Aggressive Sale</td>
<td>199</td>
</tr>
<tr>
<td>6.3.2.3 Pricing Methods</td>
<td>200</td>
</tr>
<tr>
<td>6.3.2.4 Characteristics of Buyers</td>
<td>201</td>
</tr>
<tr>
<td>6.3.2.5 Purchase Decision Criteria</td>
<td>201</td>
</tr>
<tr>
<td>6.3.2.6 Product Distribution System</td>
<td>202</td>
</tr>
<tr>
<td>6.3.2.7 Promotional Media and Strategies</td>
<td>204</td>
</tr>
<tr>
<td>6.3.2.8 Warranty, Credit, and After Sale Service</td>
<td>205</td>
</tr>
<tr>
<td>6.4 Role of Development Institutions in SMEs Development</td>
<td>207</td>
</tr>
<tr>
<td>6.4.1 Functions of Punjab Small Industries Corporation</td>
<td>209</td>
</tr>
<tr>
<td>6.4.2 Technical Training-cum-Common Facilities and</td>
<td>209</td>
</tr>
<tr>
<td>Transferred of technology to the Entrepreneurs</td>
<td></td>
</tr>
<tr>
<td>6.4.3 PSIC Centre for Agricultural Machinery</td>
<td></td>
</tr>
<tr>
<td>Industries at Mian Channu</td>
<td>210</td>
</tr>
<tr>
<td>6.4.3.1 Objective of the Centre</td>
<td>212</td>
</tr>
<tr>
<td>6.4.3.2 Entrepreneur's Relationship with the Centre</td>
<td>213</td>
</tr>
<tr>
<td>6.5 Summary</td>
<td>214</td>
</tr>
<tr>
<td>Chapter 7</td>
<td></td>
</tr>
<tr>
<td>Case Studies and Analysis</td>
<td></td>
</tr>
<tr>
<td>7.1 Introduction</td>
<td>219</td>
</tr>
<tr>
<td>7.2 Jamal Industries - A Case Study on Medium Enterprise</td>
<td>221</td>
</tr>
<tr>
<td>7.3 Al-Haider Industries - A Case Study on Small Enterprise</td>
<td>240</td>
</tr>
<tr>
<td>7.4 Malik Engineering Works - A Case Study on Micro Enterprise</td>
<td>250</td>
</tr>
<tr>
<td>Section</td>
<td>Title</td>
</tr>
<tr>
<td>-------------</td>
<td>----------------------------------------</td>
</tr>
<tr>
<td>7.5</td>
<td>Summary</td>
</tr>
<tr>
<td>Chapter 8</td>
<td>Research Findings and Concluding Remarks</td>
</tr>
<tr>
<td>8.1</td>
<td>Research Findings</td>
</tr>
<tr>
<td>8.2</td>
<td>Concluding Remarks</td>
</tr>
<tr>
<td>8.3</td>
<td>Prospects for Further Research</td>
</tr>
</tbody>
</table>
# LIST OF TABLES

<table>
<thead>
<tr>
<th>Table</th>
<th>Description</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.1</td>
<td>Typology of Small Enterprises by Country Group</td>
<td>5</td>
</tr>
<tr>
<td>2.1</td>
<td>Achievement Orientation</td>
<td>52</td>
</tr>
<tr>
<td>2.2</td>
<td>Characteristics of Entrepreneurs</td>
<td>54</td>
</tr>
<tr>
<td>2.3</td>
<td>Internal/External Factors</td>
<td>73</td>
</tr>
<tr>
<td>3.1</td>
<td>Characteristics of Vendor Relations in Japan and the U.S.</td>
<td>97</td>
</tr>
<tr>
<td>4.1</td>
<td>Explanations of Marketing Strategy</td>
<td>125</td>
</tr>
<tr>
<td>4.2</td>
<td>Categories of Planning</td>
<td>132</td>
</tr>
<tr>
<td>6.1</td>
<td>Machines Available in Production Units</td>
<td>177</td>
</tr>
<tr>
<td>6.2</td>
<td>Pattern of Establishment of Production Units</td>
<td>178</td>
</tr>
<tr>
<td>6.3</td>
<td>Ownership Status of Production Units</td>
<td>179</td>
</tr>
<tr>
<td>6.4</td>
<td>Registration Status of Sample Units</td>
<td>180</td>
</tr>
<tr>
<td>6.5</td>
<td>Labor Employed by the Entrepreneurs</td>
<td>181</td>
</tr>
<tr>
<td>6.6</td>
<td>Age Profile of Entrepreneurs</td>
<td>183</td>
</tr>
<tr>
<td>6.7</td>
<td>Educational status of Entrepreneurs</td>
<td>183</td>
</tr>
<tr>
<td>6.8</td>
<td>Work Experience of Entrepreneurs</td>
<td>184</td>
</tr>
<tr>
<td>6.9</td>
<td>Prices of Agricultural Implements</td>
<td>186</td>
</tr>
<tr>
<td>6.10</td>
<td>Category-wise Average Price of Farm Implements</td>
<td>187</td>
</tr>
<tr>
<td>6.11</td>
<td>Vendors Classified by Education</td>
<td>193</td>
</tr>
<tr>
<td>6.12</td>
<td>Vendor's Opinion on Business Expansion</td>
<td>194</td>
</tr>
<tr>
<td>6.13</td>
<td>Additional Resources Required by Manufacturers</td>
<td>195</td>
</tr>
<tr>
<td>6.14</td>
<td>Additional Resources Required by Vendors</td>
<td>195</td>
</tr>
<tr>
<td>6.15</td>
<td>Opinion of Entrepreneurs on Subcontracting</td>
<td>196</td>
</tr>
<tr>
<td>6.16</td>
<td>Manufacturer's Reasons for Non-Subcontracting</td>
<td>197</td>
</tr>
<tr>
<td>6.17</td>
<td>Entrepreneur's Major Constraints in Business</td>
<td>197</td>
</tr>
<tr>
<td>6.18</td>
<td>Prices of Various Parts Manufactured by Vendors</td>
<td>199</td>
</tr>
<tr>
<td>6.19</td>
<td>Most Demanded Parts Supplied by Vendors</td>
<td>200</td>
</tr>
<tr>
<td>6.20</td>
<td>Product Pricing Methods Adopted by Vendors</td>
<td>200</td>
</tr>
<tr>
<td>6.21</td>
<td>Customer's Purchasing Decisions as Perceived by Vendors</td>
<td>203</td>
</tr>
<tr>
<td>6.22</td>
<td>Vendor's Product Distribution System</td>
<td>204</td>
</tr>
<tr>
<td>6.23</td>
<td>Product Promotion Efforts by Vendors</td>
<td>205</td>
</tr>
<tr>
<td>6.24</td>
<td>Frequency of Services Provided by Vendors</td>
<td>206</td>
</tr>
<tr>
<td>6.25</td>
<td>Modes of Providing After-Sale Service by Entrepreneurs</td>
<td>208</td>
</tr>
<tr>
<td>6.26</td>
<td>Manufacturers Opinion on Existing activities of CAMI</td>
<td>214</td>
</tr>
<tr>
<td>7.1</td>
<td>Jamal Industries - Annual Sale</td>
<td>223</td>
</tr>
<tr>
<td>7.2</td>
<td>Al-Haider Industries - Annual Sale</td>
<td>242</td>
</tr>
<tr>
<td>7.3</td>
<td>Malik Engineering Work - Annual Sale</td>
<td>252</td>
</tr>
<tr>
<td>Figure</td>
<td>Description</td>
<td>Page</td>
</tr>
<tr>
<td>--------</td>
<td>------------------------------------------------------------------</td>
<td>------</td>
</tr>
<tr>
<td>1.1</td>
<td>Investment and Employment in SMEs and Big Enterprise</td>
<td>20</td>
</tr>
<tr>
<td>1.2</td>
<td>Three stages of Research Approach</td>
<td>28</td>
</tr>
<tr>
<td>5.1</td>
<td>Methods and Sample Selection</td>
<td>155</td>
</tr>
<tr>
<td>5.2</td>
<td>Farm Machinery Production Units</td>
<td>161</td>
</tr>
<tr>
<td>7.1</td>
<td>Annual Turnover - Jamal Industries</td>
<td></td>
</tr>
<tr>
<td>7.2</td>
<td>Acting and Thinking Opportunistically - a Model of Jamal Industries</td>
<td></td>
</tr>
<tr>
<td>7.3</td>
<td>Annual Growth - Jamal Industries</td>
<td>228</td>
</tr>
<tr>
<td>7.4</td>
<td>Annual Turnover of Al-Haider Industries</td>
<td>239</td>
</tr>
<tr>
<td>7.5</td>
<td>Annual Growth - Al-Haider Industries</td>
<td>241</td>
</tr>
<tr>
<td>7.6</td>
<td>Annual Turnover of Malik Engineering Works</td>
<td>248</td>
</tr>
<tr>
<td>7.7</td>
<td>Annual Growth - Malik Engineering Works</td>
<td>251</td>
</tr>
</tbody>
</table>
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ABSTRACT

Small Enterprises with reference to the small-scale manufacturing industries in Pakistan have grown at a rate of more than eight percent during the Seventies and the Eighties. The rapid growth in the presence of the heavily subsidized large-scale manufacturing sector suggests relatively higher levels of efficiency in the small-scale industries but surprisingly enough very few small enterprises have graduated to medium and large-scale enterprises. The inability of the small firms to graduate raises serious questions about the level and the sources of efficiency in the small-scale industries. While some of the small-scale industries may be efficient because the divisibility of technology and the processes leads to specialization in sub-processes at the small scale, yet the efficiency in a number of industries may be more apparent than real; the inefficient enterprises may have survived just by avoiding taxes or exploiting labor. Obviously, such firms would find it difficult to expand to the size where tax and labor regulations would apply. On the other hand, the failures of even the efficient firms to graduate to medium or large firms indicate that the growth of small industries may have been constrained by some extraneous factors as well.

A number of studies have examined different aspects of small enterprises in Pakistan. The main focus of these studies has been on labor absorption, training facilities for technical workers, and availability of technology. The sources of efficiency, management practices, and relationship marketing in small enterprises have rarely been examined in these studies.

This study makes an attempt to analyze the different aspects of small-scale firms in Pakistan. Considering the scarcity of resources and growing unemployment problem, various five-years plans have accorded the highest priority of the expansion of the small scale industries
and the self-reliance objectives repeatedly put forward in the annual development plans and other policy documents but it appears hollow as the local capability has been ignored. A special feature of this study is an in-depth analysis of government policies, present status of small indigenous firms, general outlook of the enterprises, their relationship with vendors (both subcontractors and suppliers) and developmental institutions. This study highlights various problems of small-scale industries and examines the level and sources of efficiency and constraints on the growth of small firms in Pakistan. The viability of some marketing activities and inter-firm relationship have also been examined by taking into consideration the fact that small enterprises were exempted from the payment of sales/service taxes and excise duties in the past and that the labor laws are still not applicable to small producers which tend to reduce the wage costs and allow the entrepreneurs to exploit the workers in terms of work for longer hours.

A pluralistic approach is adopted to design the research work and with a view to analyzing the factors involved in the enterprise development. This covers the two phases; consisting of in-depth survey of thirty units located in a cluster (Mian Channu), and three detailed case studies, one each micro, small, and medium categories. These three cases were further analyzed by adopting SWOT analysis. This study identified the possible factors for success that are: Good Management, Consistent government policies and satisfactory support, Marketing factors, Entrepreneur's level of education, training, and prior experience in business, Access to finances and level of initial investment, Entrepreneur's Personal qualities and traits such as self-confidence, charisma, perseverance, local reputation, and trustworthiness.

In this study, statistical tables along with detailed case studies and analysis with figures and graphs provided for quick appreciation of the problems have clearly explained the existing
situation hard to deal with these industries that identified the following critical variables and influencing factors:

- The most serious problems are those related to finance, product marketing, and commercial bank reluctance to offer loans to small enterprises that cannot provide security.
- Systematic government policies and commitments to exploit the potential of the small scale industries, state political stability and cultural effects play very important role in small firms not only for their upward growth but also for their survival.
- It may be true that chronic shortages of working capital reflect poor production planning and/or other serious management deficiencies. But the fact is that if no help is forthcoming, nothing can be done to save an operation from closing down. Research findings show that many such firms must depend on sales in order to get sufficient funds to pay their workers and to acquire raw materials.
- The findings of the study reveal that educated and uneducated as well as trained and untrained entrepreneurs had no significant difference in terms of availing facilities and incentives. However, entrepreneurs with some education and training were better in terms of entrepreneurial vision and future plans.
- The demand for export commodities is highly competitive both in price and in quality of the product. Small-scale industries in Pakistan on their own simply cannot compete successfully with more established competitors. There is a case for adopting a positive export policy in this regard. Subcontracting is one particular area, seldom present in the Pakistani setting, which demands close attention to reduce manufacturing cost with the
availability of skilled labor at low wage rates for serial production and maintaining standards of other developing countries competing for engineering exports. This would definitely be a major cost advantage to exporters of similar products in Pakistan.

- Finally, seasonal demand, customer credit, delivery deadlines, and keen competition all add up to hinder the small operator in marketing efforts. But the roots of marketing problems are mainly due to poor designs, which are both inefficient and inartistic, poor quality of finished products due to use of cheap quality raw material, and a lack of quality control. This is further aggravated by a lack of after-sale service and a lack of precision due to inadequate equipment and shortage of skilled and trained personnel.

Above all, the entrepreneur’s competence in management, and skill in marketing are the major constraints to understand these related issues of their growth, which unless the state gives a helping hand and participates, with fullest commitment, cannot succeed in isolation.
Chapter One

Introduction
CHAPTER : 1

INTRODUCTION

1.1 NEED FOR INDUSTRIALIZATION IN THE DEVELOPING COUNTRIES

The poverty-stricken societies of the underdeveloped regions have become far more aware of their poverty and desire for change and improvement than ever before. This is due to the fact that the economic inequalities between the rich and the poor are increasing. A revolution of rising expectations has already been started and the poor countries are making efforts to improve the causes of underdevelopment.

Over the years, the Governments of developing countries have adopted positive measures to defeat the forces of stagnation. To perform this gigantic task, a well-considered and most suited policy of economic development has been framed. The growth process of these countries also aims at accelerating the economic development. In fact, the economic change is a part of wider social change, and the economic development is a long-term process of intrinsic growth. Therefore, the task of policy-making has a vital role to play in selecting the desired objectives and suitable alternatives for stimulating economic growth. It also requires careful examination of the existing environment, institutional framework, social values, economic requirements and their implications.

In present times, most of the developing countries are following the thesis that industrialization is a process of growth and as such is organically linked to both the social and economic past and to parallel processes of social economic development.\(^1\) The thesis reaffirms the importance of industrialization as an effective means for solving the problems of economic
and social process in developing countries of the world.

Since the end of the Second World War, most of the developing counties are giving top priority to industrialization. Actually, the planners of most of the developing countries have regarded industrialization as the panacea for underdevelopment and poverty. The most primitive economies are keenly interested in rapidly enlarging manufacturing industry. It is industrialization in which they place a major hope of finding a solution to their problems of poverty, insecurity and over population and ending their newly realized backwardness in the modern world.\(^2\)

The poor countries believe that industrialization brings some basic changes in the production-functions and techniques, occupational structure and the level of activities in other sectors of the economy. These changes will remove the obstacles, which were retarding the growth and will raise the standard of living. Gunnar Myrdal (1956) has rightly described the relationship of industrialization to economic development, which he observes, "the manufacturing industry represents, in a sense, a higher stage of production in advanced countries. The development of manufacturing has been concomitant with these countries' spectacular economic progress and rise in the levels of living. Not least in the underdeveloped countries, the productivity in industry tends to be considerably greater than in the traditional agricultural pursuits.\(^3\)

In the light of the aforesaid facts, it cannot be denied that industrialization, in general, can be the best means of achieving the higher growth rate and raising the living standards of the people. In the context of the developing economies, a few specific objects and policies of industrialization have been generally agreed to by the planners. "They are to provide work for growing populations, to raise the standards of living by increasing the per capita net national
income and often to improve balance of payments situations." Thus the development of small-scale industries alone can provide large-scale employment to the growing population in developing countries.

1.2 IMPORTANCE OF SMALL AND MEDIUM ENTERPRISES IN DEVELOPMENT

The Small and Medium Enterprise Sector, particularly small-scale industries plays an important role in the process of the country's industrial economic development. It is generally believed that small-scale industries can make significant contribution, towards the achievement of social and economic objectives such as labor absorption, income distribution, rural development, poverty eradication, and balanced economic growth.\(^5\)

The impact of small and medium enterprises (SMEs) in most economies around the world is profound and substantial. The SMEs are the most important source of employment in the market economies, and the most important source of output and GDP growth. They are generally seen as labor intensive, capital saving and capable of helping create most of the one billion new jobs the world will need in the new century.\(^6\) Their adaptability and flexibility are considered desirable attributes in adjusting to a fast changing technological landscape. By providing goods and services in small batches with rapid deliveries, SMEs compliments the activities of the large-scale industry and work symbiotically with it.

The entire macro-economic process of globalization is provoking the reorganization of industrial productions towards flexible specialization and supply chains of outsourcing through small enterprises.

The small and medium enterprises with growth-oriented management can adapt faster to change, create new products faster and bring them to market more swiftly, while feeding the
larger companies with low-cost, high value services. The automobile vendor industry that provides components to large manufacturers/assemblers is an excellent example of this.

There is a permanent place for efficient and progressive small-scale industries in modern industrial economies as is evident by the existence of large small and medium units along side giant enterprises in advanced countries such as Japan, UK, USA, and Germany. In developed countries SMEs have generally constituted the over-whelming percentage of total firms by number, constituting a significant portion of GNP and total employment. SMEs account for between 55 per cent and 80 per cent of total employment in Western Europe, USA and Japan. In terms of contribution to economic output they account for 45 percent, 48 per cent and 65 per cent of the economies of the US, Germany, and Japan, respectively.\(^7\)

1.3 SMALL AND MEDIUM ENTERPRISES - TYPOLOGY

Small Enterprises in both advanced and developing countries covert a heterogeneous group of production units of diverse size, organization, managerial capacity, and technological level and sophistication. While in advanced countries, they tend to be homogenous (varying mainly in terms of firm size and technology), in the developing world they are characterized by the coexistence of both very small craft-type (micro) enterprises in the informal economy and small and medium business in the organized sector. Their sophistication in terms of level of organization and management and technological capabilities is largely affected by the stage of development and level of industrialization of a country. It is generally believed that at early stage of development; small enterprises are predominantly crafts-bases, located mainly in rural areas to respond to local demand.
<table>
<thead>
<tr>
<th>Country Group</th>
<th>Economic Characteristic</th>
<th>Role of Small Enterprises</th>
</tr>
</thead>
<tbody>
<tr>
<td>Least developed</td>
<td>Subsistence agriculture, absence of large/medium industry, craft-type production in rural areas, micro enterprises in urban areas.</td>
<td>Negligible</td>
</tr>
<tr>
<td>Countries</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Developing Countries</td>
<td>Subsistence/modern agriculture, small-scale and large-scale manufacturing, urban micro enterprises and small businesses, rural small enterprises.</td>
<td>Significant</td>
</tr>
<tr>
<td>Advanced Countries</td>
<td>Modern agriculture, large / medium industry, information technology and infrastructure.</td>
<td>Moderate</td>
</tr>
</tbody>
</table>

Source: Bhalla, A.S. (1992), p2

At higher stage of development, these enterprises grow into, or are replaced by modern small business with larger market potential and better quality of products, which at the most advanced level of development (the case of the advanced countries) the small enterprises are
generally replaced by medium and large ones to reap the benefits of the economics of scale.\textsuperscript{8} This typology of the evolution of small enterprises is illustrated in table 1.1

There are, of course, exceptions to the above conventional wisdom. First, in the case of the developing countries, dualistic production structures, imperfect markets, and market segmentation enable the coexistence of both crafts-type and modern small enterprises. In the case of the advanced countries, craft production has virtually disappeared (with the exception of artistic crafts).

A positive correlation between size of the enterprises and stage of industrialization in not universal. The experiences of Italy and Japan show that small and medium enterprises continue to play an important role in their industrial development. These two economies have been traditionally characterized by family-based, small-scale industrial structures.\textsuperscript{9}

In the other developed countries covered in this volume -- Canada, France, the Netherlands, and the United States -- smaller-scale industrial production is relatively much larger by the standards of either Italy and Japan or of developing countries.

1.4 ROLE OF SMALL AND MEDIUM ENTERPRISE IN THE INDUSTRIALIZATION OF PAKISTAN

Pakistan is often described as an underdeveloped country. The term 'underdeveloped' implies that the resources -- human and material -- of the country have not been properly harnessed with the result that people have to live in vicious circle of poverty. They are under-fed and physically weak and their working capacity is low. 'Underdevelopment' implies that the level of real income and capital per head of population is low as judged by the standards in the developed countries of North America and Western Europe. In underdeveloped countries there is no large-scale application of the fruits of scientific and technological advances to agriculture and
industry. Subsistence production is generally important for the people, the markets are comparatively narrow and manufacturing industry is usually unimportant.\textsuperscript{10}

In many developing countries, manpower is relatively abundant. It is, therefore, imperative that their full and effective utilization should become a focal point of socio-economic policies. Emphasis has to be laid on small-scale industries to absorb the surplus manpower in these countries.

A small enterprise may be defined frequently for different purposes, but whatever criterion is used to distinguish a small from a large manufacturing enterprise; an element of literariness is involved in it. In Pakistan, the provincial Small Industries Corporations/Board/Directorate defines a small enterprise in terms of an upper limit on the value of fixed assets, excluding land. This definition has been employed by them and other organizations to collect data on small industries. As this study is based on some published data, the same definition of ‘Small Manufacturing Enterprise/ Small Scale Industry’ in terms of the value of fixed assets is used. The upper limit on the value of fixed assets has been changing over time but at present it is 20 million rupees.\textsuperscript{12}

1.4 ROLE OF SMALL SCALE INDUSTRY IN PAKISTAN’S ECONOMY AND GOVERNMENT INCENTIVES

Historical Background

Despite the recognition of the importance of small-scale industry, the Government of Pakistan’s industrial policy has been biased in the past for the large-scale manufacturing sector. The First Five Year Plan (1955 – 60) document states the significance of small-scale industry in the following words.
Small industry has specific contributions to make to economic development. In the first place, it can contribute to the output of needed goods without requiring the organization of large new enterprises or the use of much foreign exchange to finance the import of new equipment. Secondly, it can provide opportunities for employment beyond the narrow boundaries of urban centers. Finally, as history shows, it can perform an important function in promoting growth, providing training ground for management and labor, and spreading industrial knowledge over wide areas.\(^\text{13}\)

The importance of the small-scale industry was highlighted again in the subsequent five-year-plans. The large-scale manufacturing sector has its own advantages and has played undoubtedly, an important role in the economic development of the country.

Promotion of small-scale industry can help in achieving many objectives and, in particular, it can help in reducing the problem of widespread unemployment in the country. This problem is expected to aggravate with the inflow of returning migrant workers from the Middle East. Small industry uses relatively more labor – intensive techniques and can generate employment for the expanding labor force. It can also be an important source of foreign-exchange earnings, as it intensively uses the relatively abundant factor of production, viz. labor. By relying on domestic inputs, it also economizes on foreign exchange. Other arguments given in favour of small industry are that it is an efficient user of the scarce factor-capital-and has better linkages with other sectors of the domestic economy.

The role of the manufacturing sector in the economy can be judged from its contribution to the Gross Domestic Product (GDP). Its share in GDP at constant prices has increased over time in Pakistan. In 1959-60 prices, the share went up from 15.5 percent in 1972-73 to 18.3
percent in 1985-86. The share of the small-scale manufacturing sector in GDP has also increased from 3.6 percent to 5.0 percent during the same period. Similarly, the share of small scale in total manufacturing has increased from 23.3 percent in 1972-73 to 27.5 percent in 1985-86. It may be pointed out here that these results are based on constant growth rates of the small-scale industry for different periods, as assumed in the National Income Accounts. The growth rate was taken to be 7.3 percent between 1972-73 and 1976-77, and 9.4 percent thereafter. These rates are, however, not incontrovertible. In an Asian Employment Programme Study [1983], it has been shown that the rate of growth of the small-scale industry in Pakistan is higher than the one assumed in the National Income Accounts. Based on data from different surveys, the study reports the annual rate of growth of 7.2 percent for the period from 1966-67 to 1969-70, and of 13.5 percent for the period from 1969-70 to 1976-77.

According to the available statistics, although the contribution of small-scale sector to GDP does not appear to be very high, it is, nonetheless, an important sector in many other respects, especially in terms of employment generation, exports, and better linkages with other sectors of the domestic economy. A brief discussion on these aspects is given below.

The performance of Pakistan's small-scale industry has been very impressive in terms of employment generation. It is estimated that about 80 percent of the total industrial labor force is currently employed in this sector. However, to date very few surveys at the national level have been conducted to obtain data on the small-scale industry. A census of small and household manufacturing units was done in 1967 for the urban areas of (West) Pakistan by the West Pakistan Small Industries Corporation. Two years later, in 1969-70, a sample survey of Small and Household Manufacturing Industries (SHMI) was carried out by the Statistics Division in 81 towns of Pakistan, but the results of the survey were never published, as described in Asian
Development Bank study report (1985). The Statistics Division carried out another sample survey of SHMI in 1976-77, covering only the urban areas of Pakistan. The Punjab Small Industries Corporation conducted a census of SHMI in 1975-76 and subsequently also carried out a number of surveys of particular industries and districts in the Punjab. The latest survey of SHMI was carried out in 1982-83 by the Federal Bureau of Statistics, covering both rural and urban areas of Pakistan. The results of this survey have not yet been published. Data from the available surveys are not of much relevance at present as they are quite obsolete. Pakistan's Economic Survey 1985-86 gives some information about employment and other aspects of small-scale industry for the period from 1963-64 to 1969-70 and from 1969-70 to 1980-81.

During the 1963-64 – 1969-70 period, additional employment generated in the manufacturing sector was 550,000 jobs, out of which 152,000 were in the large-scale sector and 398,000 in the small-scale sector. The employment generated in the small-scale sector was 2.6 times than the one generated in the large-scale sector. Between 1969-70 and 1980-81, the employment generated in the former sector accounted for 660,000 jobs as compared with the 60,000 jobs in the latter sector. During this period, the employment generated in the small-scale sector was 11 times than the one generated in the large-scale sector.

The small-scale industry expanded more rapidly in the period from 1969-70 to 1980-81 than in the 1963-64 – 1969-70 period. There were many factors responsible for this rapid growth of the small-scale industry during the latter period. The Pakistani rupee was drastically devalued in 1972, which improved the competitiveness of the small-scale industry with the large-scale industry. Prior to the devaluation, the large-scale industry could import machinery and raw material cheaply on overvalued official exchange rate, whereas the small-scale industry had no such access to foreign exchange. Devaluation also provided a boost to many export-oriented
small industries. Nationalization of industries and labor legislation by the Peoples Party government also forced investors to move to small-scale industry. A dramatic increase in Pakistani workers remittances from abroad also provided an impetus to the small-scale industry by creating demand for their products.

The employment capacity of small-scale industry is relatively more due to its use of labor-intensive technology. During the period from 1963-64 to 1969-70, the incremental capital requirement in the small-scale sector was Rs. 1920 per laborer as compared with Rs.36230 in the large-scale sector. In the small-scale sector it went up slightly to Rs.2320 during the period from 1969-70 to 1980-81, while in the large-scale sector it increased substantially to Rs.185233. The employment elasticity, which measures responsiveness of employment to changes in output, also shows that the small-scale sector has relatively greater potential for employment generation. The employment elasticity in the small-scale sector was higher than that in the large-scale sector in both the periods, though it deceased in the period from 1969-70 to 1980-81 as compared with the 1963-64 – 1969-70 period.

It is argued that the small-scale sector is an efficient user of the scarce factor, capital. Normally the capital-value added ratio is employed to check the efficiency of capital. For the 1963-64 – 1969-70 period, the incremental capital-output ratio in the small-scale sector (4.22) was greater than that in the large-scale sector (3.04). However, for the period from 1969-70 to 1980-81, the ratio for the former sector (1.07) was much lower than that for the latter (4.30). If we use the incremental capital-output ratio to measure the efficiency of capital, it is only in the latter period that the small-scale is a more efficient user of capital than the large-scale sector. For the small-scale sector, data on capital-value added ratio are available from SHMI for 1976-77.
and for the large-scale sector from the Census of Manufacturing Industries 1975-76, and these clearly show an efficient use of capital by the former.

**Exports**

Small-scale industries in Pakistan have great potential for earning foreign exchange. It is stated in the Sixth Five-Year Plan that 'the engine of export growth will be agro-based and small scale industries'.\(^{16}\) The plan envisages a 15 percent per annum increase in the exports of output of small-scale and cottage industries. The share of manufactured goods in total exports has increased considerably over time. It is difficult to determine the contribution of small-scale industry to total manufactured exports. However, few items were identified, which are mainly produced by the small-scale industry. These items include ready-made garments and hosiery, carpets and rugs, footwear, surgical instruments, and sports goods. The share of these items, taken together in total exports, increased from 7.53 percent in 1972-73 to 16.80 percent in 1984-85. In manufactured exports, it increased from 24.76 percent to 31.25 percent during the period.

It has been argued that large-scale industry is mainly concentrated in the import substitution sector, which is heavily protected.\(^{14}\) Small-scale industry is not only an important source of foreign exchange earnings but it also economizes on foreign exchange by relying mainly on domestic machinery and other inputs.

**Other Aspects**

It has already been discussed that small-scale industry has better linkages with the domestic economy in terms of employment generation and use of other inputs. The growth of this sector creates demand for domestic capital goods industry. Small-scale industry also acts as a training center both for workers and entrepreneurs. As it uses less sophisticated machinery,
workers get training easily and in a shorter period. Entrepreneurs, with their acquired skill in small businesses, can move to bigger business.

**Government Incentives and Facilities**

A number of fiscal, financial and other incentives have been provided by the government to the small-scale industry. The Sixth Five-Year Plan lists the following special incentives provided to the small-scale industry:

- A combination of fiscal incentives to ease initial cash-flow problems
- Preferential access to credit through stronger specialized intuitions;
- Institutionalized dissemination of information about acceptable export design and suitable technologies
- Assistance in training for the required skills
- Organization of advisory marketing boards
- Encouragement for integration with the large-scale sector through sub-contracting
- Provision of adequate infrastructure and measures to make it accessible to the small-scale investors.

The provincial small Industries Corporations set up by the government, are working for the promotion of the small-scale industry. As discussed in the Sixth Five-Year Plan, the special incentives are being provided to the small-scale industry mainly through these corporations. A few of these incentives are exemption of cottage industry from central excise and sales taxes, credit and training facilities, and small industries estates, are discussed below.

**Exemption of Cottage Industry from Central Excise and Sales Taxes**

A number of domestically produced commodities are subject to central excise duty and/or sales tax. However, such commodities are totally exempted from these taxes if they are produced
by the cottage industry. As described by Malik and Cheema (1986), the definition of the term cottage industry for a tax purpose is different from that used in the ordinary language. The important conditions for a manufacturing enterprise to fall under the category of cottage industry are that the capital employed should not exceed Rs.100,000 and the number of workers on a single-shift basis should not exceed fifteen. Moreover, the owner of the cottage industry either should not own other enterprises, or if he does, the capital employed in all enterprises taken together should not exceed Rs. 100,000.

While the purpose of this tax exemption was to provide relief to very small manufacturers, it is alleged that the exemption is being grossly misused and has raised issues relating to equity and efficiency. The alleged gross misuse of cottage industry exemption essentially takes place in the form of under-valuation of capital stock and underreporting of workers. It is also alleged that in some cases, because of its tax advantage, the cottage industry hits hard the organized sector by giving it undue competition.

These allegations with their implications are briefly examined as under:

It is true that misuse of cottage industry tax-exemption of an unknown magnitude exists in the country. An extreme measure to solve this problem may be to completely withdraw the exemption. We may, therefore, like to have an idea of the additional tax revenue that would be generated if such exemption were withdrawn. Based on the data obtained from the Collectorates of Customs and Central Excise at Karachi, Lahore, Rawalpindi and Peshawar, it was estimated that the additional revenue for the entire country comes to about Rs.21.37 million, which is only 0.41 percent of the total federal tax revenue for 1984-85. This is certainly not a large amount, and while computing it we have totally ignored the additional collection costs. In case of total
withdrawal of tax-exemption, since quite a large number of very small-units will be involved, the collection costs may be substantial and may even out-weigh the additional revenue.

The other allegation, which is often made, is that in some cases the organized sector is hit hard by the cottage industry. The degree of competition between the two sectors can be determined by commodity-wise comparisons of their annual output levels. But in the absence of the required data this analysis is confined to a comparison of the numbers of manufacturing units, and the actual and estimated revenues from units in cottage and non-cottage industries. Since tax revenue is directly related with the level of output, it can be used as a proxy for the latter.

While a comparison of the numbers of manufacturing units in cottage and non-cottage industry indicates the existence of some competition in certain areas, its magnitude, however, cannot be ascertained without looking at the size of the industry in the two categories. The output of 100 cottage industry tax-exempt units, for example, may only be a small fraction of the output of one large tax-paying unit.

In short, the earlier impression that in quite a few cases the organized sector was getting competition from the cottage industry, as the number of units in the latter category far exceed those in the former, is negated by the evidence that we get from the comparisons of the estimated and actual revenue collection from cottage and non-cottage industries, respectively. Most of the units in cottage industries were so small that they do not appear to create any serious problem for the organized sector.

Malik and Cheema (1986), on the basis of their study, suggested that the above-mentioned fiscal incentive to very small manufacturers should continue. Withdrawal of this exemption will not only create administrative problems but also retard the growth of small manufacturing units.
Credit Facilities to Small Industries

Investment in small-scale industry is mostly financed by the personal savings of the owner, supplemented by borrowings from the informal sector. However, there are a number of financial institutions, which provide credit to small industries in Pakistan, and these include:

(i) the commercial banks
(ii) the Small Industries Corporation
(iii) the Industrial Development Bank of Pakistan
(iv) the Small Business Finance Corporation

Owing to lack of the relevant data, it is difficult to evaluate individually, and even collectively, the role of these institutions in meeting the financial needs of small industries. Whatever evidence has been gathered indicates that the loans provided by these institutions are not very significant. According to a UNIDO study "not even 2 percent of the Pakistan’s SSI (Small-scale Industry) units are provided with bank financing", as described by Gopa Consultants in their study (1981). Similarly, a report published by the Punjab Small Industries Corporation shows that out of the total credit of Rs.17034.8 million made available to the industrial sector in the country in 1980, the share of small industries was only Rs.553.9 million, which was just 3 percent of the total. The Small Business Finance Corporation (SBFC) is a specialized institution, which provides credit to small manufacturing as well as non-manufacturing enterprises. During 1984, the SBFC disbursed loans to small businesses amounting to 37.43 million and the share of cottage/small industries was 8.78 million, or 23 percent. The available data on category-wise outstanding financial assistance by SBFC, as on 31st December 1984, show that the share of the small manufacturing sector was very low.
Two factors are mainly responsible for the poor credit-situation for small-scale industry: (i) limited availability, and (ii) the demand by commercial banks for sufficient collaterals against their loans, which in most cases are not available.

Technical Training Facilities

Small Industries require not only financial resources for their development but also the availability of trained workers. At present, there are 293 secondary vocational institutions in the country with a total enrolment of 59,000, where technical training in various fields is provided to the students. Graduates from these institutions not only go to the industrial sector but also serve in all others sectors of the economy. In addition, technical training facilities are also provided by the provincial small industries corporation through their technical assistance and training programmes. The training facilities given in the Punjab are quite significant. More or less similar facilities are also available in other parts of the country as well.

Workers in the Punjab receive training at various service centers/institutes, dehi mazdoor (rural labor) training centers, and carpet and handicraft centers, all of which are financed and managed by the Punjab Small Industries Corporation. Dehi mazdoor training programme started in the Punjab in 1973 to train rural unemployed workers in skills like repair and maintenance of farm machinery, welding, machining, carpentry and electronics. At present there are 25 training centers in the Punjab where 5093 workers were trained till 1984.

Training is also provided at the various service centers/institutes set up by Punjab Small Industries Corporation at Gujranwala, Gujrat, Sialkot, Nizamabad, Shahdara, Multan, and Mian Channu. These centers train workers in the fields of light engineering, leather, ceramics, metal, cutlery and small tools, sports goods, pottery, woodwork, and agricultural machinery manufacturing. The quantitative aspect of the performance of these centers has not been very
encouraging. During the twelve-year period between 1972-73 and 1983-84, only 770 persons successfully completed their training at these centers.

The Small Industries Corporation in the Punjab has also set up a number of handicraft development centers and carpet centers in different cities where workers are trained in dari (thick bedspread) making, blue pottery, camel skin products, wooden furniture, basketry, wood carving, mats and ban (rope) making, Gabba (mattress; quilt) making, and carpet weaving and designing. About 900 trainees had graduated from these centers by 1984.

**Small Industries Estates**

For planned development of small industries, a number of industrial estates have been set up by the Small Industries Corporations at different places in the country. There are 13 such industrial estates in the Punjab, 12 in the Sind, 10 in the NWFP and 1 in the Baluchistan province.\(^{20}\) Moreover, plans for the future envisage the setting up of other small industries. Fully developed factory plots in these estates are allotted to interested entrepreneurs. Common facilities provided in these estates include roads, sewerage system, drinking water, telephone connections, post office, telegraph office, banks, centers to provide technical assistance, and other facilities as required in particular areas.

### 1.6 PRESENT STATUS OF SMALL SCALE INDUSTRIES IN THE INDUSTRIALIZATION OF PAKISTAN

In Pakistan, manufacturing is the second largest sector of the economy accounting for 17 percent of the Gross Domestic Product (GDP), as published in Economic Survey 1999-2000. SME sector currently accounts for about 30 percent of the value added in the manufacturing sector, and around 5 percent of the GDP.\(^{11}\) The entire small-scale industry is in the private sector, located in both small and big towns, throughout the country. It is basically labor intensive and
absorbs more than 80 percent of the industrial labor force and generates one fourth of the export earnings.\textsuperscript{21}

The small and medium size business and industries, which contribute to the GDP as much as the large scale industries, and provide overall employment to 80 percent in the manufacturing sector, receive only 20 per cent share in credit.\textsuperscript{21} They have to depend largely on non-institutional credit at high rates, which appears to be unfair.

Despite neglecting in the past, SMEs are playing an important role in Pakistan economy. They are helping to overcome the major problem of unemployment, which the country is facing these days. This performance of SMEs is highly impressive given the fact that they get just a minor share of investment (see figure 1.1).

![Figure 1.1](image)

**Source:** Economic Survey of Pakistan 1997-98

In addition to employment, SMEs are also contributing to the export receipt of the manufacturing sector to the tune of 30 percent.\textsuperscript{11}

Kibria (1990) described that in a country like Pakistan, unemployment has been problem for quite sometimes. Small Scale Industry is one of the most important ways of combating this
problem at a very affordable cost. At present the Government is putting emphasis on self-
employment and rural-industrialization. Although, for the same Government agencies are
launching a campaign towards this end but the social scientist are giving word of caution with a
view that the small-scale industry is not a magic to bring miracles just by helping the people to
start them. It needs a meticulous preparation and planning before establishing industry followed
by lot of hard work to run it successfully with reasonable growth.

1.7 ROLE OF DEVELOPMENTAL INSTITUTIONS
FOR SMALL AND MEDIUM ENTERPRISE DEVELOPMENT

The growth of small-scale industry is mainly hampered by the non-availability of credit
facility. Realizing this constraint, the present government has announced in the budget 2000-
2001, to open a micro-credit bank, which is expected to be operational from July/August 2000.
Small and Medium Enterprises Development Authority (SMEDA) has been reinvigorated and
reorganized to provide technical assistance to potential small investors. In the Provinces
following organizations are involved in the promotion of small and medium industries:21

i) Punjab Small Industries Corporation

ii) Sindh Small Industries Corporation

iii) NWFP Small Industrial Development Board

iv) The Directorate of Small Industries, Baluchistan

Their on-going activities are:

Punjab Small Industries Corporation (PSIC)

Punjab Small Industries Corporation is assigned the task of promotional agent for the
development of Small Scale Industries in the province of the Punjab. The PSIC under its two-
credit schemes --- rural industrialization programme and self-employment scheme --- for the
promotion of cottage has disbursed an amount of Rs.1754.2 millions to 6310 small entrepreneurs in the province of the Punjab. The PSIC has given assistance to modernize the existing units and also helped in setting up new units. The corporation has launched a campaign of recovering stuck-up loans. The corporation is also running new technical specific centers, crafts development centers, handicrafts development centers, carpet centers, vocational training centers/dehi mazdoor training centers, readymade garments training centers, hosiery knitting training centers and embroidery training centers. The PSIC has also established 14 technology specific service centers in the field of light engineering, metal products, leather garments, ceramics and pottery, sports goods, wood working, cutlery, surgical instruments and development of agricultural implements. At these centers training of modern and sophisticated technology is offered. So far, 36397 persons have been trained in these centers. These promotional schemes are serving as a tool of providing jobs and employers with trained manpower.

The PSIC has established 14 industrial states in the province, where over 4148 factory plots of different sizes with complete infrastructural facilities and basic amenities, have been developed. This organization has planned to develop another 13 small industrial states through a phased program to encourage promotion of small industries on district and tehsil level.  

Sindh Small Industries Corporation (SSIC)

The Sindh Small Industries Corporation is entrusted with the responsibility of taking care of promotional activities of small scale industries in the province of the Sindh. The main function of the corporation is planning, preparation and implementation of development schemes pertaining to small industries. The corporation has established 15 small estates at almost all district headquarters of the Sindh, with 1910 developed industrial plots having all the required infrastructural facilities. At present 249 small industrial units are operative on 514 plots and
others are in the pipeline. Keeping in view the difficulties being faced by small entrepreneurs in obtaining loans from different financial institutions, the SSIC has extended loaning facilities to strategic investors under 'self employment scheme. The corporation has disbursed loans to many small industrial units under this scheme. The SSIC has established 97 training centers to impart training to various segments of the society. The rural woman is given training under the Women Development Program. The corporation has established centers for imparting training in carpet weaving, and in nontraditional fields, technical centers are imparting facility for radio/TV repair, electric wiring, wood working, gas welding and readymade garments etc. The Handicrafts Design Centre and the Institute of Handicrafts are carrying out research in traditional trades, as well as in the latest modern designs to improve the quality and value of the handicrafts. The SSIC has setup Artisans colonies at Bhitshah, Tando Muhammad Khan, Nasarpur, Kashmore, Luqiman, Matiari and Hyderabad where built-up workshops are providing good working environment. The SSIC has extended marketing facility through 5 handicraft shops and the Directorate of Exports for development and promotion of this cottage industry. The corporation is also helping in finding out export markets for their products by establishing departmental stalls in exhibitions and fairs.¹¹

N.W.F.P. Small Industries Development Board (SIDB)

The N.W.F.P. Small Industries Development Board was assigned a promotional role to support and assist cottage and small industry in the province at the time of its inception in 1972. Main objectives of the Board are promotion and preservation of traditional crafts, skill upgradation and training programme, provision of industrial infrastructure in industrial estates and financial help to small entrepreneurs. The Board is providing infrastructural facilities, marketing and financial assistance to the prospective small investors. The Board has established 9 small
industrial estates in the province with 1620 factory plots, out of which 1222 already been allotted. Investment of 699 million has been made in these plots and employment to 4405 persons has been provided. Under Board’s subsidized credit scheme and self-employment, it has disbursed an amount of Rs.105 million to provide financial help at nominal mark-up rate to strategic unemployed entrepreneurs for the establishment of Small-scale industries. The board has established four regional offices at D.I Khan, Peshawar, Abbottabad and Mingora (Swat) to facilitate small investors. The 12 wood working centers have produced and sold furniture worth Rs.9.5 million during the current year. The Board has closed down 10 carpet-training centres after seeking desired results while 5 new carpet-training centres are established. The Board also established 7 handicrafts/ textile training centers, while four such centres have been closed down after achieving the necessary goals, and six embroidery and knitting training centres are being established for imparting training to women with a view to making sure that women are also involved in definite income generating schemes. The Board has closed down two Arts and Crafts Galleries at Swat and D.I. Khan, due of course to high costs and low profits. Yet Arts and Crafts Galleries at Peshawar and Islamabad are generating enough revenue and promoting traditional handicrafts and are also developing technical know-how among artisans and craftsmen.\textsuperscript{11}

The Directorate of Small Industries, Baluchistan

The Directorate of Small Industries, Baluchistan is working under provincial government and serving the cause of promotion of small industries in the province. Besides head office in Quetta, four zonal offices in Kalat, Sibi and Loralai are providing advisory services to the intending small entrepreneurs of the province with lower industrial base. The Directorate is also running a number of handicrafts/training centres for providing external exposure to local handicraft in several trades such as carpets, handicrafts development, dari making etc. In these
centres large number of persons are obtaining technical know-how in various trades. The Directorate lagged behind its counterparts in other provinces in many fields. It has only established one industrial estate in Quetta with all the necessary industrial infrastructures. The poor performance is due to financial and institutional constraints. Currently no development scheme is under implementation stage for the year 1997-98.\textsuperscript{11}

1.8 \textbf{MAJOR INFLUENCING FACTORS}

\textbf{EFFECTING SMEs DEVELOPMENT}

To produce quality goods and to market the same for better return in the competitive environment, it is essential to know how to do it. Kibria (1990) described that to be competitive, small-scale industry particularly engineering industry must have inputs of material science, manufacturing technology, management, and marketing at minimal cost if not always free. This is what distinguishes it from a large-scale industry where all these have to be paid for.

Although investment is very important, but it is a small step towards establishing and running a small-scale industry successfully. To produce finished goods a definite knowledge of material science is required. This involves having information of raw material, its characteristics, its quality, and the various ways to improve it. Technology as skill and know how to manufacture is essentially required. Management of all production factors to bring them together is essential for efficient out-put. And once the product has been produced, identification of target group and how to bring it to them, which is a marketing phenomenon, is applied for investment return. In short, the growth of industry is based on Science, Technology, Management, and marketing, which are not always simple.\textsuperscript{28}
1.9 RATIONALE FOR THE RESEARCH WORK:

A number of studies have examined different aspects of small enterprises in Pakistan. These include among others Aftab (1990); Burki (1989); Chaudhry (1990); Ferks, Thomas and Tomesen (1989); Nadvi (1990); Kibria (1990) and Tomesen and Thomas (1992); Thomas et al. (1991). The main focus of these studies has been on labour absorption, training facilities, and availability of technology. The level, sources of efficiency, management practices, and relationship marketing in small enterprises has rarely been examined in these studies.

Several individuals and organizations have studied various issues on helping the people in establishing small scale engineering industry where-as little attention is paid in knowing the growth constraints of this size of industry which resulted in several small units becoming sick at the very beginning of their commencement of business. While there has been a plethora of articles and textbooks advising firms as to how they might best address this issue; comparatively little of any merit has been directed at the small firm sector, given the complexity and heterogeneity to be found there. Much of what has been written has adopted a prescriptive, normative approach, i.e. a sequential, rational structure for planning that can be adopted by the small firms.

In this research study attempts has been made to assess the present status of small-scale engineering enterprises manufacturing agricultural machinery, an in-depth analysis of their current problems and their relationship with the vendors and customers. An existing cluster of agricultural machinery-manufacturing sector in Pakistan with thirty production units located at Mian Channu was chosen as the focus for the study. This was done because of the strategic significance, which has been placed on this industry by successive governments since 1960's. It
was therefore realized that this sector would present a good opportunity to research how such start-up enterprises have developed, and in particular, how they have utilized subcontracting and marketing practices within their business activities for their growth.

1.10 **OBJECTIVES:**

In this study, the intention is not to minimize in any way the importance of the large-scale sector but merely to examine some of the important factors including the government policies, marketing planning practices in the SMEs and the new concepts of relationship marketing with focus on subcontracting between the existing Small and Medium Enterprises network.

The agricultural machinery sector was selected because of the major emphasis placed on it by successive governments in the development of agricultural and industrial policies since 1960’s. By 1994, over 30 such firms were available in a small town of Mian Channu that formed a unique cluster of manufacturing and trading in a developing economy. It is these small firms that formed the base for this study.

The specific objectives were:

1. To gain an initial insight and to assess the general characteristics of this industry, entrepreneurship, marketing system and arrangements, and competition in agricultural machinery manufacturing units.

2. To identify their main vendors supplying components of the farm implements and study their relationship.

3. To analyze the above input, isolate specific cases, and examine the internal mechanisms and influences affecting their growth.
A number of cascading objectives were set in the research design for this study. In other words, stage one was developed with the objectives of gaining an insight into general manufacturing and marketing practices. This allowed for a more specific second stage, which allowed this researcher to identify the broad parameters of marketing and subcontracting practices in the indigenous agricultural machinery-manufacturing sector. This produced quantitative information which helped to identify suitable firms for more detailed qualitative investigation in an attempt to get as close as possible to the small companies and study the reality of what actually happens. As can be seen from Figure 1.2, a number of research methods were used throughout the stages as the information collected moved from the general to the specific. The hybrid approach is adopted in this study, which provides complementary strengths and helps to ensure that the intrusion of bias is kept under control.

1.11 RESEARCH HYPOTHESIS

The study is exploratory in nature, focusing on just one industry sector and utilizing a small sample. Nevertheless, it is possible to postulate some tentative hypotheses, which can subsequently be tested. They can be summarized as follows;

- Marketing Planning activities will be intuitive and informal in nature rather than formal and systematic-style.

- As the company grows, a shift towards a systematic approach will occur.

- The personality/background of the owner-manager will directly influence the approach adopted.

- Variation will occur in the owner-managers understanding of the marketing concepts and functions.
1.12 RESEARCH STUDY APPROACH

It is clear that the design of any proposed research into how the smaller firm engages in different operational activities is not a simple one-dimensional exercise. Romano (1990) argues that the development of small business research strategies should adopt "an open-ended approach because each individual small business varies in organizational structure and management control". Considering this position and placing it in the context of the softer, informal, intuitive issues identified in the previous section of this chapter, this researcher argues that it is unduly simplistic to rely on a single methodological approach, while generating some statistical analysis, will not get close to the reality in terms of what actually happens in a particular firm.

As a consequence, a eclectic methodology, incorporating both quantitative and qualitative techniques was used for this study. A detailed structure is presented in Figure 1.2

![Diagram](image)

**FIGURE 1.2 THREE STAGES FOR RESEARCH APPROACH**
As can be seen, the case study method was utilized in stage three of the study. There is a strong evidence to suggest that this is appropriate for a study of small firm. Stanworth and Curran (1976) argue that in order to gain an insight into the social dynamics and operations of the entrepreneur/owner manager, the case study method allows the researcher to get closer to small firms. Bonoma (1985) is other strong supporter of this method. This thesis presents findings from three case studies generated from stage three of the study.

1.13 STUDY LIMITATION AND SAMPLE COLLECTION

The selection of firms, which were invited to participate in phase three of the study – the case studies section was determined by the analysis of 30 small units, located in the cluster. Both, quantitative and qualitative information was collected in stage two. This revealed a number of variations in behavioral patterns with regard to marketing practices and subcontracting/relationship marketing. The following factors determined the approach adopted by the individual firm:-

- the length of time the company was trading
- the nature of the product offering
- the annual sales turnover
- the management style of the managing director/ owner manager
- the position of the firm on the small firm growth cycle

From stage two of the study, a number of firms were identified as potentially suitable candidates for a further, more in-depth case study analysis. The next question related to the issue of how many cases should be developed during this phase? Romano (1985) in his review of the literature of the case study method notes that the ultimate decision should be left to the
researcher. There is a danger here that the conventional view may be adopted — that the researcher falls into the fallacy of believing that the greater the number of cases studies included, the greater the likelihood that it will increase the generalisability and validity of the findings. This can be misleading. On a practical note, pursuing such an approach may lead to an “overload” or “burn-out” factor on the part of the researcher, with a possibility that the study will suffer from a lack of comprehensiveness of analysis. Gummesson (1991) quotes the views of Norann who notes that “if you have a good descriptive or analytic language by means of which you can really grasp the interaction between various parts of the system and the important characteristics of the system, the possibilities to generalize also from very few cases, or even one single case, may be reasonably good”.

Given these observations and the fact that clear variations in patterns of behavior were identified from phase two, it was decided to undertake three.

The data collection methods employed for this phase involved single/multiple depth interviews with the relevant person(s), and access to any documentation, which existed and was related directly or indirectly to management, marketing, and subcontracting activities. This was the formal part of the data collection process. Informal time was spent with the respondents over lunch and dinner. This allowed for another opportunity to gain access to the views, attitudes and perception of the individual, which took place in a more relaxed environment, away from the factory and the possible intrusive influences that may have taken place during the formal interview. A colleague from Strathclyde University and twice the research supervisor of this study also accompanied the researcher on these detailed interview trips, thus providing an extra perspective and assessment of the information gleaned from the interviews.
A diversity of these methods – the formal interview, the informal interview, the role of observation and the presence of a third party certainly helped to add to the reliability of data and sharpened the quality of the subsequent analysis.

1.15 ORGANIZATION OF THE THESIS:

The study is organized as follows:

Chapter one is introductory; it highlights the role of industrialization with a particular focus on small and medium enterprises in developing countries. It also analyses the role of developmental institutions in enterprise development in Pakistan. It pursues partly an historical perspective, tracing the various policies measure and initiatives initiated by successive governments and the role played by some developmental institutions. Rationale for the research work, objectives, and the research approach adopted in the present study is also explained.

Chapter two reviews the literature on entrepreneurship, growth of small firms. The role of the entrepreneur needs to be assessed in light of the way in which firms utilize planning in their growth and development. The various schools of thought with regard to entrepreneurship are assessed and attention is also given to the alternative perspectives on how growth within the small firm is achieved.

Chapter three presents a policy-focused review on engineering subcontracting, different conception of subcontracting and buyer-supplier relations with a new concept of relationship marketing. Comparisons of Japanese and Western specifically Britain and U.S. firms approach in establishing this relationship is thoroughly examined in this chapter. The advantage of Japanese Style of Partnership (JSP) is explained and the implications of U.S./Western Style business are examined.
Chapter four assesses the role of strategy, marketing, and the firm. Attention is given to the relationship between marketing planning and overall business strategy of the firm. Empirical studies have been reviewed and assessed in respect of their relevance to the case of small firms.

Chapter five reviews the different approaches to research design, both deductive and inductive. It argues strongly for direct personal interview approach to reset design. The methodology employed in this study is laid out in this chapter together with detailed discussion on sample design, the development of hypotheses for the second phase of the study and subsequent administration of the interviews for the development of case studies.

Chapter six presents the results of the second phase of the study, consisting of interviews with all firms producing agricultural machinery, operating on the overall objective of identifying general characteristics of this sector, their marketing practices, and relationship with developmental institutions.

Chapter seven describes in detail case studies of three kinds of firms - micro, small, and medium. Each case has been presented separately after analyzing the relevant data from each individual firm.

Chapter eight synthesizes the main findings and recommendations from phase two and three of the research study. This chapter also examines some of the possible limitations of the research and highlights potentially fruitful areas for further research in this field.
NOTES


5. Ibid., Gunnar Myrdal (1956), p.226


Chapter Two

Growth of Small Firms
CHAPTER : 2

GROWTH OF SMALL FIRMS: LITERATURE SURVEY

2.1 INTRODUCTION

Given that the main focus of this study involves an investigation into how small firms plan for their business growth and development, and the way they utilize marketing in such activities, it is important first of all to consider the relationship between entrepreneurship, growth and the smaller firm.

This chapter outlines a general framework within which to analyze the growth of the firm. It then examines different dimensions of the marketing activities of the firms. In this chapter an effort is also made to establish a relationship in between entrepreneurship and growth of small firms.

Different theoretical and conceptual aspects related to entrepreneurship are presented from section 2.2 to 2.5. The section 2.6 and 2.7 discusses the nature and the growth of the firms in detail. These sections provides an essential pre - understanding of the concepts, models and approaches that have been posited by researchers in this field. It is also submitted that this is a critical exercise, because such an examination will more clearly identify the influencing factors surrounding evolution and growth. Still more importantly, it will allow for a framework, which can be subsequently utilized in the design of the research methodology for the study of small indigenous firm in the agricultural machinery-manufacturing sector in Pakistan.

This chapter concludes by placing the alternative theories of small firm evolution and their development in context. It highlights potential shortcomings of the studies undertaken in the area and identifies issues, which need to be addressed for further research in this area.
2.2 **THE ENTREPRENEURSHIP**

The use of terminology such as "enterprise culture" can be somewhat disingenuous. It conveys an impression of clarity in so much that it identifies a behavioral phenomenon, but on closer inspection, can lead to numerous interpretations of what it actually means. In this respect, Richie (1985) goes some way towards venturing an explanation. He suggests that rather than using an all-encompassing term such as "enterprise culture", it might be more accurate to explore a wider range of ideas, which can help to provide a deeper understanding. He puts forward the view that there may be a number of such enterprise cultures in existence, which identify different standpoints and assumptions in relation to the term "enterprise culture". Four such examples are provided by Richie (1985):

1. **Believer - Revivalism.** An interpretation of enterprise culture which suggests that the enterprise is the key to making a new country whose economy will be dynamic, expansionist, innovative, risk-taking and successful.

2. **Sceptics Versions.** This puts forward a negative view of enterprise culture, which portrays a naive romanticism of the past or a visible demonstration of the greed economy of the 1980's.

3. **Analysts Versions.** Advocates of this approach attempt to identify the essential elements of the enterprise culture and express them objectively. Thus, values, attitudes and beliefs are isolated and measured if at all possible against behavior and performance and/or interpreted as an aspect of wider social, economic and political processes.

4. **Subject - Driven Versions.** This reflects the views of those who operate and run the enterprise. Richie (1985) is a strong advocate of the view that the
overwhelming evidence on small business owners suggests that they have what he calls a culture of "steady state survivalism" or what might be referred to in a more colloquial fashion, as "street wisdom writ large".

Richie's (1985) views are realistic in that they explicitly recognize the possibility that there may be numerous interpretations of the term "enterprise culture". While the categories developed by him can only be described as being "rough" and approximate attempts to reflect what these differences are, they do provide an underlying starting-point for any researcher attempt to probe further into the area of entrepreneurship and the small business sector.

2.3 TOWARDS AN UNDERSTANDING OF ENTREPRENEURSHIP

It has to be accepted that at the outset of any attempt to gain an understanding of entrepreneurship there is no harmonious agreement on a universally accepted definition.

Chell and Haworth (1987) and Ginsberg and Buchholtz (1989) have undertaken extensive reviews of the literature on entrepreneurs and entrepreneurship and a representative selection of definitions is presented here. It is argued that the range and diversity of interpretation is very evident:

Hull et al (1980) utilize the definition given in the 1972 Webster's New World Dictionary, which states that an entrepreneur is a person who organizes and manages a business undertaking, assuming the risk for the sake of profit.

They extend this to include individuals who purchase or inherit an existing business with the intention of (and effort toward) expanding it.

This integrated definition, while short and simple in fact encapsulates much of the conventional wisdom that many commentators attribute to the term's "entrepreneur" and
"entrepreneurship". This is demonstrated in the emphasis on business expansion, the implied notion that risk is involved and the profit motive.

Harwood (1982) elaborates further by proposing that an entrepreneur is one who takes initiative, assumes considerable autonomy in the organization and management of resources, shares in the asset risk, shares in an uncertain monetary profit, and innovates in more than a marginal way.

While this interpretation reiterates much of what is contained in the Hull et al definition. It introduces the notion that an entrepreneur needs to demonstrate a level of independence, self-motivation and innovation which is not to be found within the majority of people in society.

In similar vein, Meredith et al (1982) argue that entrepreneurs are people who have the ability to see and evaluate business opportunities; gather the necessary resources to take advantage of them; and to initiate appropriate action to ensure success.

Chell et al (1991) note that this definition is representative of many people's perceptions in that it implies that the entrepreneur is somehow assured of success and that the possibility of failure is ignored. This poses a number of problems of both a practical and indeed cultural nature. Some authors such as Timmons (1985) argue that many entrepreneurs only succeed after firstly going through a learning curve which can involve one, some or many failures. This highlights a cultural influence in that the term "failure" can take on different connotations depending on which country or geographic region the entrepreneur is operating within. Chell et al (1991) observe that in the United States, business failure is regarded as a learning experience. This allows for the entrepreneur to develop the necessary skills to subsequently establish a venture. It could also be argued that the support institutions such as the banks and lending bodies also reflect this positive, constructive environment. By contrast, they argue that in the developing
countries, failure has a stigma attached to it, with many negative connotations surrounding the collapse of a business enterprise. It is also submitted that this line of argument can be extended to the Indian sub-continent: partially due to the part of the developing world, and due to a tendency on the part of many people living in our country to adopt a "begrudger's mentality" which reflects itself in the maxim that an underdog is always supported strongly, but when success is achieved he or she becomes a target for criticism and abuse.

Of perhaps more critical importance is the need to examine the distinction (if any) between the terms "entrepreneur" and the "entrepreneurial venture", the "small business owner" and the "small business venture". In this regard, the work of Carland et al (1984) is noteworthy in its attempt to provide some illumination. They suggest that an entrepreneur is an individual who establishes and manages a business for the principal purposes of profit and growth. The entrepreneur is characterized principally by innovative behavior and will employ strategic management practices in the business. And an entrepreneurial venture is one that engages in at least one of Schumpeter's categories of behavior: that is, the principal goals of an entrepreneurial organization are profitability and growth and the business is characterized by innovative strategic practices.

In contrast to these two observations:

Drucker (1985) is more precise and pragmatic in his attempts to define entrepreneurship and reinforces the arguments expressed by Carland et al (1984). He notes that in the United States in particular, an entrepreneur is often defined as one who starts his own new or small business. However he argues that this simple act alone, does not demonstrate evidence of entrepreneurial behavior or entrepreneurship. He cites the example of a couple that invests their savings in a Mexican restaurant in a typical American suburb. While clearly taking a risk in
opening such a venture, Drucker (1985) argues that they are replicating a concept, which has already been tried many times before by other individuals.

By contrast, he argues that McDonalds - the hamburger chain, was entrepreneurship in action. While not necessarily inventing anything unique to the world, the McDonalds phenomenon applied management concepts and management techniques such as basing itself around the principle of asking the question "What is of value to the customer?", standardizing the product, designing process and tools and by basing the training of management and operatives on an analysis of the work to be done and setting the standards demanded from the results of such an analysis. Thus by upgrading the yield from its resources, it succeeded in creating a new market and a new breed of customer.

Drawing on this example, among others, Drucker (1985) makes a persuasive argument supporting the view that entrepreneurs are in many respects, a minority among new business ventures. They create something, which is new and different to that which has been on offer before. They also change or transmute values; thus acting as catalysts for change in society. The use of the word change in this context should not be underscored. The typical entrepreneur, in Drucker's (1985) view that he always searches for change, responds to it, and exploits it as an opportunity.

This definition reflects the perception that the entrepreneur by implication, needs to adopt a proactive approach to the establishment and subsequent development of the business venture.

In this respect, Chell et al (1991) suggest that the following characteristics of entrepreneurs can be used to distinguish them from owner - managers; opportunistic, innovative, creative, imaginative, ideas - people, proactive and agents of change.
The foregoing examination of the various definitions and interpretations of what constitutes entrepreneurship has revealed a wide discrepancy in understanding. Chell et al (1991) summarize the situation by noting that the key problem of defining the entrepreneur exists at two levels: the first arising from the tendency to apply the term loosely in everyday usage to all business owners. On the other hand, it may be used quite narrowly to define a specific subset of business owners (as evidenced in the approaches of Carland et al and Drucker), thus raising the spectre of how to identify the distinguishing features, which ultimately separate the entrepreneur from the small business owner.

The views of Curran and Stanworth (1989) on entrepreneurship take account of the problems of definition identified by Chell et al (1991) and capture the correct balance between applying a broad versus narrow approach. Curran and Stanworth (1989) argue that entrepreneurship, "if rigorously defined", refers to the creation of a new economic entity centred on a novel product or service or, at the very least, one which differs significantly from products offered elsewhere in the market.

This definition, it is argued, reinforces the need for differentiation rather than sameness, but also recognizes that the creativity and innovation identified as being important in other definitions, does not necessarily have to emanate from the product or service content or process. Instead, it can derive from imaginative approaches within other areas of the marketing mix, aside from the product area, or from a novel approach to the organization structure of the firm.

This section has examined the various interpretations of entrepreneurship and has identified a lack of uniformity as to an accepted, agreed definition. To summarize, it may be argued that a distinction can be made between an entrepreneur and the small business owner.
This is crystallized in the view that many people can start an enterprise but very few bring something unique and different to the market - place.

2.4. ENTREPRENEURSHIP IN HISTORICAL PERSPECTIVE

While the preceding discussion highlighted the variation and potential for confusion and misinterpretation that can occur, it does not place entrepreneurship in any form of historical evolution or development. It is submitted that such an exercise will help to identify some of the reasons as to why such obfuscation exists and more importantly help the reader to gain an understanding of the role which entrepreneurs play in present day economies.

Any investigation into the historical evolvement of the entrepreneur must begin by recognising the role, which various economists have played in placing an interpretation on their contribution to society. Chell et al (1991) identify the French economist Richard Cantillon as the first individual to recognise the role of the entrepreneur. He distinguished between three categories in the early market economy, which prevailed at that time - the Mid - Eighteenth Century: the landowner, the entrepreneur and the hireling. He suggested that the primary function of the entrepreneur was to engage in exchanges for profit in the face of an unknowable uncertainty. A number of subsequent French economists attempted to differentiate between a capitalist and an entrepreneur. For instance, Turgot viewed a capitalist as someone who has a choice as to how he invests his money; in either land or in a business enterprise. If he opts for the former, he is classified as a capitalist and landowner. If his money is invested in a business, he is deemed to be a capitalist and an entrepreneur if he subsequently manages and operates the business himself. The entrepreneurship, under this early interpretation is deemed to be synonymous with labour.
Hebert and Link (1988) quote the views of Jean-Baptise Say, a French economist of the early 19th century who argued that entrepreneurship can be equated to the broad management function. This is amplified in the following quotation:

"The entrepreneur is called upon to estimate, with tolerable accuracy, the importance of the specific product, the probable amount of the demand, and the means of its production: at one time he must employ a great number of hands; at another, buy or order the raw material, collect laborers, find consumers, and give at all times a rigid attention to order and economy; in a word, he must possess the art of superintendence and administration".

Hebert and Link (1988) posit the view that Say was the first person to accord a role for the entrepreneur in society. They note however that Say did not go far enough by neglecting to recognize the key role of the entrepreneur as a force of change in the economy.

In contrast to the French economists, Chell et al (1991) argue that the British school of eighteenth century economists, most notably led by Adam Smith (1723 - 1790) did not credit the entrepreneur with much of a role. In his acclaimed work *The Wealth of Nations*, Smith observed that a manufacturer might expect not only to make a profit from his undertaking, but also the profit might be expected to bear some relation to the extent of the investment. This view is captured in the following quotation:

"He could have no interest to employ them, unless he expected from the sale of their work something more than that what was sufficient to replace his stock to him; and he could have no interest to employ a great stock rather than a smaller one, unless his profits were to bear some proportion to the extent of his stock". (Chell et al (1991))

Thus it can be seen that Smith saw that the profits accruing to the entrepreneur (or projector) are as a direct result of the investment made - therefore equating the function of the
entrepreneur with that of the capitalist. Other British economists such as Ricardo and Mill also to a large extent reiterated the views of Smith. Chell et al (1991) credit Alfred Marshall (1842 - 1924) as being one of the later economists who recognized the need for the entrepreneur to be innovative and imaginative in his approach to business creation and development. He identified two types of business owner: those who will seek out new, improved methods for engaging in business and in so doing, cannot avoid taking some form of risk, and those who stick to the tried and trusted methods for doing business.

Chell et al (1991) in their review of the German School of thought in this area, point to the fact that economists such as Thunen (1785–1850) addressed the fundamental question of how the entrepreneur should be compensated for his activity? Their arguments rested on the premise that if entrepreneurial talent is a scarce commodity in society then profit should be regarded as a special kind of payment. Thunen distinguished between the return to the entrepreneur from that of the capitalist by emphasizing a residual, which is the return to entrepreneurial risk - that risk which is uninsurable.

Mangoldt (1824 - 1858) drew a distinction between businesses that make products to order, thus reducing the level of risk entailed, and those, which produced for the market, which inevitably is a more speculative exercise, given the level of uncertainty and unknown prices. Mangoldt's attempt to differentiate between the two categories of business venture is useful because it highlights different types of entrepreneurial behavior: the innovative, creative category and the opportunistic business operator.

Chell et al (1991) also draw attention to the Austrian School, most notably led by Carl Menger (1840 - 1921) who introduced the need for the entrepreneur to obtain information about
the general economic situation. This would help address the issue of reducing the level of uncertainty associated with business operations.

American economists such as Amasa Walker (1799 - 1875) made a clear distinction between the entrepreneur and the capitalist by positing the view that the former must be regarded as a creator of wealth. His son, Francis A. Walker (1840 - 1897) reinforced this view and categorized four types of entrepreneur: the rare, gifted individual, those with high-order talent, those that do reasonably well in business and the ne'er-do-well. While such a distinction appears to be superficial and simplistic, it is not that far removed from some of the contemporary approaches. It can also be argued that it represents one of the earliest attempts to introduce personality variables into the discussion on entrepreneurship.

Much of the review so far, of the contributions of various economists from different countries, whilst revealing geographical differences which can be explained by the prevailing economic conditions experienced in that country, nevertheless indicates a commonality in that they represent the entrepreneur as an individual who responds or reacts to outside forces which impact on the market. This perspective of the entrepreneur does not appear to countenance the concept of that individual as a proactive, dynamic, change agent within society. Nor does it portray the entrepreneur as someone who revels in change and the resulting economic disequilibria that may follow as a consequence.

In this respect, the work of Joseph Schumpeter (1934, 1961) (in particular his book - The Theory of Economic Development, 1911) radically altered people's thinking about the role and function of the entrepreneur. He argued that the disequilibrium brought about by the proactive innovative entrepreneur is the norm of a healthy economy, in contrast to the notion of equilibrium and optimization of existing resources as propounded by the classical economists.
The term "innovation" is central to Schumpeter's thesis. He contends that the entrepreneur drives change though the ability to innovate. This can be achieved in a number of different ways:

- the creation of a new product or alteration in its supply
- the development of a new method of production
- the opening of a new market
- the capture of a new source of supply
- a new organization of industry.

He further contends that everyone is an entrepreneur only when he actually carries out new combinations, and loses that character as soon as he has built up his business, when he settles down to running it as any other people run their businesses.

Drucker (1985) adopting the views of Schumpeter, argues that entrepreneurship is not confined to the economic sphere. The entrepreneur exists in other fields, such as education and health care. He suggests that the entrepreneur "always searches for change, responds to it, and exploits it as an opportunity".

In terms of placing the work of Schumpeter in context, it can be stated that as well as perceiving the role of the entrepreneur to be proactive instead of passive, he forced contemporary researchers to entertain the notion that in order to more fully understand the entrepreneur, it was necessary to study the psychological influences which lie within the recesses of entrepreneurs and which motivate them to create and develop business ventures. The work of Herbert and Link (1988) reinforces and builds on this perspective where they generate taxonomy of entrepreneurial theories based on their assessment of the historical perspectives of the entrepreneur. They make a sharp distinction between those authors who portray the entrepreneur as static, passive individual and those, which identify him as a dynamic, proactive agent of change.
Chan and Lau (1993) in their assessment of the review of definitions provided by Chell et al (1991) put forward a framework which they label COSI - change oriented, opportunistic, strategic and innovative. This serves as a useful pedagogical tool as well as an aide memoir. However they unfortunately adopt an uncritical tendency to "list" a number of attributes under each heading; leaving the reader with the impression that if an individual was proficient in all of these categories and in all of the attributes identified, then he or she could assume a "God-like" status in the community. In effect, there is too much of a disposition on the part of many researchers to provide long lists of attributes without the necessary attempt to provide rigorous analysis and evaluation of each factor listed. It is submitted that it is sufficient at this stage of the investigation to accept that a sharp distinction can be drawn between the entrepreneur and the small business owner. It is further contended that the early work of Schumpeter and the subsequent philosophy as propounded by Peter Drucker (1985) serve as a useful guideline for identifying the defining characteristics of the entrepreneur.

2.5 THE ENTREPRENEURIAL PERSONALITY

The preceding discussion has defined the term "entrepreneurship and also considered how it has developed historically. Much of this analysis has identified the tendency of researchers to "pigeon-hole" or differentiates entrepreneurial behavior from that of non-entrepreneurial activity according to whether or not a set of traits, attributes, skills and competencies exist. In this respect, it is necessary therefore to evaluate the literature and empirical research, which has been carried out in this area. As is the case with the evaluation of the various approaches to defining the term entrepreneur, the evidence suggests that much conflict exist with regard to the influence of personality attributes in shaping entrepreneurship.
McClelland (1965) carried out some research in the 1950's, which had a far-reaching and profound influence on subsequent work in the field of entrepreneurship. The basic tenet of his findings was that the key to entrepreneurial behavior lies in the area of achievement motivation. In other words, this is reflected in a drive to succeed and excel and that this trait is reflected in the amount of time and effort the individual spends examining how they can perform a particular task more effectively. McClelland (1965) suggested that individuals who exhibited such characteristics were high achievers.

Chell et al (1991) clarify this categorization in the following manner that the high achievers are said to like situations where they can take personal responsibility for finding solutions to problems. They like rapid feedback on their performance so that they can judge whether they are improving or not. They avoid what they perceive to be very easy or very difficult tasks and they dislike succeeding by chance.

While McClelland's (1965) work undoubtedly proved to be seminal in its influence on subsequent researchers, it also has incurred much criticism. In essence this opprobrium centres on a number of areas. Sexton and Bowman (1984) express disquiet on the basis that McClelland relied too much on the Thematic Apperception Test as the research tool. Brockhaus (1982) suggests that the predictive power of McClelland's theory can be challenged. In particular he questions whether the need for achievement can positively be linked with the desire to establish and subsequently manage a business venture. Hull et al (1980) actually provide empirical evidence to suggest that it is in fact a weak predictor; noting that there are a variety of reasons which motivate an individual to start a business, ranging from those who seek a challenge (which would broadly fit in with McClelland's thesis) to a simple desire to move to an alternative
lifestyle (in this respect, the individual may be pushed into the decision by the wife / husband or other members of the family).

He has also been criticized on the grounds that his research attempted to link economic development to the prevalence of achievement. Ray (1993) suggests that underdeveloped countries were represented in the economic development literature of the 1950's (the period when McClelland carried out his research), as reflecting extreme poverty and a scarcity in factors of production and were shaped by a prevailing sense of fatalism. Ray observes that since fatalism was perceived as a major cause of underdevelopment, developed societies were obviously achievement oriented and the antidote to fatalism was the recognition of a need to succeed. In further development of cultural differences Shina (1968) demonstrated that in a country such as India, which experiences, with regard to resources, a high need for establishing co-operation with Government agencies and politicians, it will produce more entrepreneurs than those who exhibit a high need to achieve.

It can be argued quite forcefully that much of the inconclusiveness which has emanated from empirical research in this area has occurred from the simple fact that there has been no uniform agreement as to a definition of the entrepreneur - this, it will be recalled, is a constantly recurring theme running through the discussion to date. Ray (1993) is also critical of the tendency of researchers to focus on one particular trait while giving insufficient attention to a set of attributes. He also notes that by relying on a list of attributes it assumes that the attributes, which lead to the formation of a new venture, are synonymous with those that subsequently cause new ventures to be successful. Ray notes that the opposite may be the case, citing the example of an individual who has a high internal locus of control, i.e. someone who believes that they are in control of their own destiny. This person is most likely to feel uncomfortable working
in the role of an employee, where they are subject to the authority of others. This can lead to a situation where a new business venture will be formed. Paradoxically, the desire to retain control of the situation may very well lead to a situation where there is a marked reluctance to delegate responsibility to other people within the venture, leading as a consequence to bad decisions and ultimate failure. Ray notes that virtually every personality trait can be both positive or negative in relation to some aspect of entrepreneurship and new venture development.

He can be supported insofar that what he says has solid appeal on the grounds of logic and intuition. The road to becoming an entrepreneur is infinitely more complex than the manner in which it is represented by many of the researchers. This is compounded by the use of faulty, inadequate research techniques, which do no justice to the level of complexity i.e. the Thematic Apperception Test, or the testing of questionnaires within a non-representative sample. Ray (1993) cites the example of the most widely quoted study in the area of risk-taking, using the choice dilemmas questionnaire technique, which was based on a sample of forty applicants for business licenses in St Louis, Missouri, in the autumn of 1978. The main criticism is reserved for the fact that the author generalizes from what is clearly (at best) a marginal, non-entrepreneurial sample in universal terms and purports to depict the findings as if it were speaking about a universally entrepreneurial phenomenon. In addition therefore to the confusion which arises when interpreting empirical research in the area; due to the myriad of perceptions as to what constitutes entrepreneurship, the concentration on one or a small number of traits (to the exclusion of other perhaps equally important ones) and questionable research techniques which do not allow for generalization, also point to severe criticisms which can be leveled at much of the work in this area. The above comments create the impression that much of the research in the area of entrepreneurship and traits is at best, questionable, and at worse, severely flawed.
However an amount of revisionist thinking has taken place about the trait approach, which has led to research during the last decade that is worthy of consideration.

A major study was carried out by McClelland (1965) in 1965, which sought to address the question whether or not there are key competencies that are needed for entrepreneurial success. The researchers distinguished between a group of twelve "successful" entrepreneurs and twelve "average" entrepreneurs in each of three types of business, in each of three developing countries (India, Malawi and Ecuador). The technique known as the Behavioral Event Interview (BEI) was utilized. This is similar to the Critical Incident Technique developed by Flanagan (1954) in 1954 and requires the respondent to outline critical events that have influenced and shaped the direction of the business since its inception. These are recorded on tape and a panel of "judges" then identifies the competencies that have been revealed during the interview. The following areas were identified as being more characteristic of successful than of average entrepreneurs, and are outlined in table 2.1.

<table>
<thead>
<tr>
<th>PROACTIVITY</th>
<th>ACHIEVEMENT ORIENTATION</th>
<th>COMMITMENT TO OTHERS</th>
</tr>
</thead>
<tbody>
<tr>
<td>Initiative</td>
<td>The ability to see and act on opportunities</td>
<td>A commitment to the work contract</td>
</tr>
<tr>
<td>Assertiveness</td>
<td>Efficiency orientation</td>
<td>recognition of the importance of business relationships</td>
</tr>
<tr>
<td></td>
<td>Concern for high quality work</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Systematic planning</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Monitoring</td>
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</tbody>
</table>

Source: Chell et al. (1991), p45
While the study is more complete and detailed than his earlier pioneering work in the 1950's, it defined the entrepreneur as encompassing all types of small business owners, thus remaining at odds with many researchers who draw a sharp distinction between both categories. This is reflected in a set of six attributes, which McClelland felt were not more characteristic of successful than of average entrepreneurs. These were: self-confidence, persistence, persuasion, use of influence strategies, expertise and information-seeking. Unfortunately no attempt was made to make a comparison with non-business owners and as Chell et al (1991) note, these six characteristics may typify owner-managers in general.

This laxity with regard to research design and selection of methodology is also evidenced in work undertaken by Meredith et al (1982) who put forward the view that there are nineteen traits which provide a working profile of the entrepreneur. Of these nineteen, five can be identified as core traits: self-confidence, risk-taking ability, flexibility, a strong need to achieve and a strong desire to be independent. Much of these traits, in fact would appear to simply replicate or reinforce earlier work. However this list of traits was developed at a workshop on entrepreneurship, and although it has been widely cited by contemporary researchers, Chell et al (1991) note that it is not clear from the article, how this list was compiled or more alarmingly, whether or not it was tested in any way.

Timmons et al (1985) have been one of the few teams of researchers who have provided a comprehensive attempt to grasp an understanding of entrepreneurship. Their concept of what goes into the "make-up" of the entrepreneur centres around the belief that entrepreneurial skills and behaviors can be nurtured and developed over time. They also argue that the younger the individual, the higher the levels of energy and drive. These latter characteristics can provide a counterbalance to the fact that the younger individual will be lacking in areas such as
management experience, wisdom and judgment. Many of these behaviors such as persistence in problem solving, seeking and using feedback, calculated risk - taking and decisiveness, they argue, can be learned. They do however identify four types of behaviors, which may not fall into this category:

- high levels of energy, health and emotional stability
- creativity and innovativeness
- high intelligence (defined as being "street - wise" and having a "nose" for business) and conceptual ability
- vision and capacity to inspire.

They argue that the motivation of the entrepreneur is achievement oriented, which supports the earlier arguments put forward by McClelland (1965). They do point out however that an achievement orientation is situation specific, in the sense that there must be a perceived opportunity in the first place, with perceived goals, which can be achieved. This is an important line of argument, because much of the earlier trait theorists assumed that people not only behave in the same way in the same (or similar) situations, but that they should behave similarly across a broad range of situations. Clearly this can only be described as an unduly idealistic position that is unlikely to occur with much frequency in reality.

They are also one of the few researchers to identify characteristics, which can be attributed to the "non - entrepreneurial" mind. These are depicted in table 2.2.

It can be argued that the theory of entrepreneurship put forward by Timmons has appeal on the grounds that it makes sense from a practical viewpoint - particularly in the implicit line of argument which suggest that the entrepreneurial process is comprised of that which the individual brings to a particular situation and the specific demands which that situation places on
the individual, if he or she can take up the challenge and obstacles presented, and achieve success.

**TABLE 2.2. CHARACTERISTICS OF ENTREPRENEURS**

<table>
<thead>
<tr>
<th>Characteristic</th>
<th>Description</th>
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<tr>
<td>1. Invulnerability</td>
<td>Likely to result in unnecessary risk-taking.</td>
</tr>
<tr>
<td>2. Machismo</td>
<td>Goes beyond over-confidence and outlines people who try to prove that they are better than others.</td>
</tr>
<tr>
<td>3. Anti-Authority</td>
<td>The rejection of outside help, advice &amp; feedback.</td>
</tr>
<tr>
<td>4. Impulsiveness</td>
<td>The marked absence of reasoned decision-making and a failure to &quot;tease out&quot; the implications of the resulting actions.</td>
</tr>
<tr>
<td>5. Outer-Control</td>
<td>As opposed to an internal locus of control.</td>
</tr>
<tr>
<td>6. Perfectionism</td>
<td>A persistent state of unhappiness with what has been achieved.</td>
</tr>
<tr>
<td>7. Know-It-All</td>
<td>A failure to recognize what they do not know.</td>
</tr>
<tr>
<td>8. Counter-Dependency</td>
<td>An extreme case where the individual tries to achieve everything on his own.</td>
</tr>
</tbody>
</table>


It recognizes that the probability of any one individual initiating a business venture and subsequently achieving a level of success is not dependent on a fixed set of attributes or variables. Situation-specific factors, be they cultural or otherwise will always influence any given variable and create a negative or positive effect. It is argued therefore that a more realistic understanding of the entrepreneur will allow for such contingencies.

This view is substantiated by Gibb (1993) who argues that the strength of enterprising skills (e.g. problem solving, creativity, persuasiveness, planning, negotiating and decision -
making), attributes (e.g. self-confidence, autonomy, achievement orientation, versatility and resourcefulness) and behaviors (e.g. acting independently of others, coping with and enjoying uncertainty, opportunity seeking and commitment to making things happen) as well as the mix, will vary between individuals. Likewise, Gibb (1993) argues for an acceptable balance between the degree to which an individual is influenced by genetic, innate influences as opposed to environmental considerations. Of greater significance is his view that if enterprise can be acquired by experience and exposure, then it can be enhanced by means of education and training.

The preceding discussion has arrived at a general conclusion, which suggests that entrepreneurial behavior can be identified by a display of certain traits and attributes. However rather than adhering to a philosophy which suggests that a fixed, rigid set of traits can be applied to the identification of entrepreneurial behavior, it is more realistic to argue for a contingency-based approach which must relate to the specific situation and the background and experience of the individual concerned.

2.6. **THE SMALL FIRM - REVISITED**

A review of the literature on entrepreneurship only partially addresses small firm growth and is overly simplistic, focusing on the initial stage of company formation.

The previous discussion focused specifically on the various categorizations that are utilized by State agencies in various countries. It is not the prerogative of this section to re-investigate the issues raised earlier. Suffice to say that there is a general lack of agreement and indeed confusion when attempting to define a small firm according to the number of employees, which exist in a particular firm. It is however maintained that by taking a uni-dimensional definition of the small firm, such as size, many essential characteristics and relevant features of
the small firm are ignored. This stance endorses the views of Mendham and Bannock (1982) who note that "the most significant difference between big and small firms is not their size". Instead Carson (1985) argues that the main differences can be revealed when objectives, management style and marketing considerations are investigated.

Schollhammer and Kurilof (1979) put forward five qualitative attributes that help to identify small businesses:

- **Scope of Operations**: Small firms serve predominantly a local or regional market rather than a national or international market.

- **Scale of Operations**: Small firms tend to have a very limited share of a given market; they are relatively small in a given industry.

- **Ownership**: The equity of small firms is generally owned by one person or, at most, a very few people. Small firms tend to be managed directly by their owner or owners.

- **Independence**: Small firms are independent in the sense that they are not part of a complex enterprise system such as a small business division of a large enterprise. Independence also means that the firm's owner/managers have ultimate authority and effective control over the business, even though their freedom may be constrained by obligations to financial institutions.

- **Management Style**: Small firms are generally managed in a personalized fashion. Managers of small firms tend to know all the employees personally; they generally participate in all aspects of managing the business, and there is no general sharing of the decision-making process.

Clearly it is easy to find fault with such a classification. For instance it is fundamentally wrong to make the generalization that the scope of a small firm's operations is to be
predominantly found in local / regional markets. While this may be so for some enterprises in the services sector, it is a common characteristic of many electronics firms that they achieve a high degree of penetration within international markets at the very earliest stages of their development. Scott and Bruce (1987) for example, recognize that while the area of operations may be local, the markets served need not be so. It is acknowledged however that this will only apply in the case of innovative enterprises, which are typically entrepreneurial in their behavior.

Similarly, it is not always the case that small firms are confined to a very limited share of a given market. It is possibly more accurate to suggest that in many cases, they may have a very large share of a specialized or niche market.

In relation to the question of ownership it is accepted that certainly in the early phases of a firm's existence, it will, in all likelihood, be owner - managed. However as the firm expands its operations; by widening its product range, acquiring new customers, moving to new markets and increasing the number of employees, it is surely unrealistic, at best, and an example of bad management at worst, to expect the owner to continue to make all of the key decisions, without delegating responsibility to professional managers.

Carson (1991) adopts the definition put forward by the Committee for Economic Development, which is more realistic in its attempt to categorize the small firm. It suggests that such a firm is one, which possesses at least two of the following four characteristics:

1. Management of the firm is independent. Usually the managers also the owners.
2. Capital is supplied and the ownership is held by an individual or small group.
3. The area of the operation is mainly local, with the workers and owners living in one home community. However, the market need not be local.
4. The relative size of the firm within its industry must be small when compared with the biggest units in the field. This measure can be in terms of sales volume, number of employees or other significant comparisons.

While this approach reiterates the earlier definition proposed by Schollhammer and Kuriloff (1979), it adopts a more pragmatic stance, recognizing that it is unrealistic to expect every small firm to fulfill all of these criteria.

2.7. GROWTH AND THE SMALL FIRM

The preceding sections of this chapter have examined the concept of entrepreneurship and small firm definition. In many ways, this assessment has taken a static approach; in other words, they have not been related to the critical issue of how enterprises evolve and grow over time.

In a recent review of the literature, which examines small and medium enterprise growth, Gibb and Davies (1991) identify four very different approaches to understanding the growth process. They are as follows:-

- Personality Dominated Approaches
- Organisation Development Approaches
- Business Management Approaches to Growth
- Sectoral and Broader Market Led Approaches

2.7.1. THE PERSONALITY DOMINATED APPROACH

The initial category - personality dominated approaches, refers to researchers which have focused on exploring the impact of the entrepreneurial personality and capability on growth, including the owner manager's personal goals and strategic vision. Gibb and Davies (1991) are sceptical of those researchers who pursue the belief that it is possible to produce a typology of
the entrepreneur which will facilitate the prediction of growth potential within a particular firm or which will identify competencies which might be enhanced to encourage growth within the firm. They reinforce the view that a contingency based approach is the only realistic route, focusing not upon the characteristics of the entrepreneur, social, psychological or economic, but on his / her behaviors. As has been demonstrated earlier, the more logical view suggests that different types of entrepreneurial behavior and different traits will be required to achieve growth, in different markets, depending on the levels of uncertainty and complexity experienced in each situation.

2.7.2 THE ORGANISATION DEVELOPMENT APPROACH

The vast majority of the work in the area of growth and the small firm is to be found in what Gibb and Davies (1991) term the "organization development approach". This in turn can be broken down into three sub-categories:

a). The relationship between personal objectives and business goals including also the influence of family,

b). Literature which relates to the stages of growth model of the firm with a related focus on changing managerial considerations and the changing role of the entrepreneur as the firm passes through its phases of development, and

c). The influence of networks and the impact of these on entrepreneurial behavior.

2.7.2.1 Personal Objectives and Business Goals.

Haahi (1989) provides a thorough examination of the relationship between the entrepreneur's personal goals and the goals of the organization. Simon (1964) presents a strong argument which suggests that when the firm is small, the entrepreneur and the firm's goals are virtually synonymous, and that as organizational development occurs, so too does management
development. Gibb and Davies pick up on this point to expose the single profit objective hypothesis put forward by traditional economists as a basis for the theory of the firm, as being wholly unreal. They quote the work of Stanworth and Curran (1989), which clearly demonstrates entrepreneurs have a wide range of different personal objectives that can change over time.

Of a related nature, but out with the scope of this study, is the influence of the family and the resulting conflicts which may ensue. This may cause a situation where opportunities for further growth potential may be passed over, in favor of certain family members.

2.7.2.2. Stages of Growth.

The vast majority of the work in the area has tended to focus on the notion that as a firm grows and expands its operations, it will pass through a series of stages. Stanworth and Curran (1989) identify this as being a dominant theme running through the literature. Because of the prevalence (if not necessarily importance) of such models, it is argued that some time should be spent examining and evaluating the most significant of them.

Greiner (1972) can be credited with the earliest and perhaps most influential attempt to conceptualize the development of an organization. Prior to the appearance of his framework, McGuire (1963), Steinmetz (1969) and Christensen and Scott (1964) put forward basic models, which were largely intuitive, and sought to delineate the various stages of growth experienced by firms.

For example, Steinmetz (1969) proposed a four-stage approach, characterized in the following fashion:

1. *Direct supervision*: the simplest stage, at the end of which the owner must become a manager by learning to delegate to others.
2. *Supervised supervision:* where in order to move on, the manager must devote attention to growth and expansion, manage increased overhead and complex finances and learn to become an administrator.

3. *Indirect control:* in order to grow and survive, the company must learn to delegate tasks to key managers and to deal with diminishing absolute rate of return and overstaffing at the middle level.

4. *Divisional organization:* at this stage, the company has "arrived" and has the resources and organizational structure that will enable it to remain viable.

Steinmetz (1969) explicitly stated that each stage ended with a critical series of decisions that had to be addressed before the company could enter the next stage. It could be argued however that his model exclusively focused on managerial considerations and in particular how issues of control and delegation alter over time. This ignores other non-managerial factors such as the nature of the product(s) offered and market(s) served. Christenson and Scott (1964) considered this latter issue in their model. However while their framework makes a faint appeal to logic, it can be challenged on the grounds that it does not reflect the true nature and characteristics of the small firm, equating, for the most part, to what one be referred to a a large company, by many non-American researchers.

Greiner (1972) while essentially providing a re-working of the thoughts espoused by Steinmetz, did succeed in developing the ideas to a greater level of detail and clarity of explanation. He contended that growing organizations move through five distinguishable phases of development, each of which contains a relatively calm period of growth that ends with a management crisis. Based on cases, which he collected at the Harvard Business School, he
identifies five key dimensions which are essential for building a model of organization development:

1. *Size of the organization:* resting on the belief that a company's problems and solutions tend to change markedly as the number of employees and sales volume increases.

2. *Age of the organization:* identifying the time span of an organization as being an essential dimension for any model of development.

3. *Stages of evolution:* most growing companies do not expand for two years, then retreat for one year; rather, those that survive a crisis, usually enjoy four to eight years of continuous growth without a major economic setback or severe internal disruption. These quiet periods are labeled evolutionary periods or stages.

4. *Stages of revolution:* recognizes that it cannot be assumed that organizational growth is linear. A study of numerous case histories reveals periods of substantial turbulence spaced between periods of evolution. They are typically characterized by a serious upheaval of management practices and as a consequence, demand a change of approach.

5. *Growth rate of the industry:* the speed at which growing firms encounter such phases of evolution and revolution is closely related to the market environment of its industry.

Greiner (1972), in his summary of the model, acknowledges the need for more rigorous testing of his stages. He recognizes that they are only approximations, but points out that one should not sit back and wait for conclusive evidence to emerge: rather managers should be educated to "think and act from a development point of view".
In assessing this contribution to knowledge, it should be acknowledged at the outset that Greiner created an awareness among researchers and practitioners of the need to consider the critical dimension of time and its impact on decision-making. Many management theorists still treat discourse on planning and strategy as though it exists in a vacuum, separated from the influence of time and history.

His model can be criticized on the grounds of the absence of even a superficial attempt to empirically test it. Thus it is normative in nature and reflects the distilled wisdom of one (albeit experienced and learned) individual. It could also be argued that even basic research with small companies is not sufficient to test out the framework. Rather there is a need to carry out a longitudinal study so that the various changes experienced by companies, and their responses, can be tracked over a period of time.

It can also be argued that Greiner's concept of a small firm reflects an "Americanized" perception which almost certainly does not relate to the typical European view - a common criticism of many of the "stages of growth" models. This in most noticeable when he refers to "profit centres" and "plant managers". Even if definitions of small firms of employees such as "less than 100 employees are accepted, it is difficult to envisage strategic business units emerging in such an organizational structure.

However the model does have some positive points; mainly in the shape of a strong intuitive appeal to common sense, in its favor. The "acid test" of course, is determined by its influence on the approach adopted by contemporary researchers.

In this respect, the frameworks for growth developed by Churchill and Lewis (1983), Flamholtz (1990), Scott and Bruce (1987), Tyebjee et al (1983) and Clifford et al (1989) are worthy of evaluation.
Churchill and Lewis (1983) present a summation of the work of Greiner and earlier researchers, and criticize their frameworks on a number of grounds. The main ones revolving around the view that they fail to adequately document the important early stages in a company's origin and growth. They are also critical of the tendency for such models to use company size as defined in terms of annual sales turnover or number of employees, thereby ignoring other potentially relevant factors such as value-added, the number of locations, complexity of product lines and the rate of change in products or production technology. Based on a combination of experience, a search of the literature and the results of research drawn from the responses of one hundred and ten owners and managers of successful small companies (in the $1 million to $35 million sales range) to a mailed questionnaire, they have developed a five stage model, each stage being characterized by an index of size, diversity and complexity and described by five management factors: managerial style, organizational structure, extent of formal systems, major strategic goals and the extent of the owner's involvement in the business.

Through their research, they identified eight factors, which change in importance as the business grows and develops and which play a prominent part in determining ultimate success or failure. Four of these factors relate to the enterprise and four to the owner. They are as follows:

**Company - Related.**

1. Financial resources, including cash and borrowing power
2. Personnel resources, relating to numbers, depth, and quality of people, particularly at the management and staff levels.
3. Systems resources, in terms of the degree of sophistication of both information and planning and control systems.
4. Business resources, including customer relations, market share, supplier relations, manufacturing and distribution processes, technology and reputation, all of which give the company a position in its industry and market.

**Owner - Related.**

1. Owner's goals for himself or herself and for the business.

2. Owner's operational abilities in doing important jobs such as marketing, inventing, producing and managing distribution.

3. Owner's managerial ability to delegate responsibility and to manage the activities of others.

4. Owner's strategic abilities for looking beyond the present and matching the weaknesses of the company with his or her goals.

They suggest that as the business moves from one stage to another, the relative importance of the factors changes and that these factors can be viewed as alternating among three levels of importance: first, key variables that are absolutely essential for success and must receive high priority; second, factors that are clearly necessary for the enterprise's success and must receive some attention; and third, factors of little immediate concern to top management.

How useful then is the framework proposed by Churchill and Lewis? In terms of placing it in perspective, it should be recognized at the outset that it is mainly a "re-working" of earlier concepts put forward by Steinmetz and Greiner. Thus it does not present a significantly different approach. That said, it does serve, as a useful pedagogical tool, which can be used to illustrate to would be owner - managers, academics and Government industrial support agencies, the critical success factors necessary for the development of an enterprise.
Flamholtz (1990) has developed a similar framework, which identifies seven stages of growth in a company's life cycle: new venture, expansion, professionalization, consolidation, diversification, integration and decline and revitalization. It is worthy of review however because he explicitly pinpoints the need for such a company to make the transition from an essentially entrepreneurial mode in the initial stage, through to a professionally managed mode, leading eventually to possible diversification into unrelated products and markets.

Flamholtz (1990) advocates that there are four steps by which senior managers of a rapidly growing entrepreneurial company can assist the company to make a smoother transition from one stage of growth to the next. He suggests that there is a need firstly to perform an organizational evaluation or audit of the company's effectiveness at its current stage of development; secondly formulate an organizational development plan; thirdly implement the plan through action plans and programmes; and finally to monitor those programmes for effectiveness.

The value of Flamholtz's (1990) model lies its appeal to common sense. It is easy for the reader to relate to the concepts contained in the model, particularly the teething problems which he identifies as being symptomatic of the early stages of business development. It is also easy to see how this model could be used as a clear guideline to follow for would be owner-managers at workshops or seminars.

However, in common with many of the writers in this area, Flamholtz (1990) does not appear to back up his thoughts with any empirical evidence to lend credence to them. While this in itself, does not mean that his model should be rejected out of hand, it means that such deliberations are of a speculative nature, and this cannot be glossed over. Yet again, many of the examples utilized in his book do not equate to the typical "small firm" to be found in the Irish
context. As a result, the specific, as opposed to the general, features of the model need to be questioned. In particular while Flamholtz's suggestions for managing the transition between the various growth stages make sound sense, experience would suggest that many small Irish companies are not in a position in the first place to be able to carry out such activities as organizational audits or organizational development plans. The issue here is not one of querying their usefulness or validity; rather it has to be considered in a situational context. This latter point would appear to be the main criticism to be made of Flamholtz's work: its specific contents do not "sit easily" with the Irish experience, and its general prescriptions, whilst making sound sense from a logical point of view, are not specific enough to have direct relevance, apart from their pedagogic value.

Scott and Bruce (1987) have drawn heavily on the work of Churchill and Lewis (1983) and Greiner (1972) and essentially re-work the stages proposed by these earlier authors into a five stage process:-inception, survival, growth, expansion and maturity. A detailed examination of these stages is deemed to be repetitive in nature and as a consequence it warrants a brief mention only. Likewise the criticisms, which have been leveled to earlier models, apply equally to this approach. Scott and Bruce (1987) are quite specific and realistic about the usefulness of this model, stating that the model is not intended as a panacea for strategy formulation. It is rather a diagnostic tool to assist in analyzing a firm's present situation. It is also meant to be an indicator of what strategies appear suitable at various stages in an organization's growth. It is however a tool, and cannot make the decisions for management. They must rely on their judgment for that.

Tyebjee et al (1983) conducted interviews with senior managers of several rapidly growing companies and conclude that the key to building up an effective enterprise is through
the development of a formal marketing organization. It is one of the few "stage of growth" models, which explicitly recognizes the need to acknowledge the role that the marketing function plays in the evolution of a firm.

Clifford et al (1989) provide an excellent appraisal of the influence of management succession within the stages of small business development. In particular they broaden the discussion away from the preoccupation of many of the authors of the stages of growth models on the product life cycle concept to account for the size of the enterprise at different points in time. They acknowledge (quite rightly) that this emphasis is important as it recognizes the role which exogenous factors such as market demand and industry structure play in determining the potential scope for small business growth.

They also examine the influence of structure of the enterprise as it evolves over time. This refers specifically to the notion that the various crises and stresses which emerge from time to time, force the founder to reconsider his or her role: in particular, the need for some sort of formal management structure through which the owner gradually delegates a number of management functions to others. This is a theme, which is explicitly recognized in the models put forward by Greiner (1972) Churchill and Lewis (1983) and Steinmetz (1969).

In addition to these two common strands of size and structure which pervade many of the theories of small firm growth and development, Clifford et al recognize a third strand; self: an issue which was originally developed by Stanworth and Curran, in 1976. This term refers to a number of "latent social identities, which exist and influence small firm growth. It adopts a social action view of the small firm; concentrating heavily on attempting to understand the internal social logic of the small firm as a social grouping. In particular Stanworth and Curran (1989) argue that the key to growth lies in the meanings attached to participation in the firm by
the actors involved. The small firm, in this view, is an ongoing social entity constructed out of the meanings and actions of those who participate in the firm or who are "outsiders" in relation to the firm as social groupings but nevertheless interact with the participants.

Their message steadfastly revolves around the acceptance that the very strong influence of the owner-manager on the small firm's organizational style calls for an in-depth examination of this role. Of particular importance are the specific reasons for the owner-manager's decision to "go it alone". This, they argue, helps to provide an understanding of subsequent attitudes to growth at later stages in the firm's life.

They observe (based on their own research and the research of others) three latent social identities, which appear with some frequency in relation to the role of small firm entrepreneur:

1. The "artisan" identity. Here the entrepreneurial role centres around intrinsic satisfactions of which the most important are personal autonomy at work, being able to pick up the persons you work with, status within the workplace and satisfaction at producing a product quality product with personal service.

2. The "classical entrepreneur" identity. This identity most closely resembles the classical economists view of entrepreneurship (which has been examined extensively in an earlier section of this chapter). Earnings and profit become a core component in the entrepreneur's definition of his role and hence in the way he acts out his role.

3. The "manager" identity. Here the entrepreneurial latent social identity centres on meanings and goals concerned with the recognition, by significant others, of managerial excellence. The entrepreneur structures his role performance to
achieve this recognition from fellow members of the firm but, more, especially, from outsiders such as other businessmen.

Thus, following Stanworth and Curran's (1989) line of argument, the artisan identity is not overly concerned with growth, being more preoccupied with survival. It clearly relates to the initial stages of a business's development. As the firm survives this formative period, the goals associated with the artisan identity will largely have been fulfilled and the entering of a period of sustained profitability is more conducive to the "classical entrepreneur" identity. Likewise as the firm continues to grow, forces (both internal and external) tend to push it towards a more formalistic, bureaucratic structure. Thus social relationships between the actors involved in the firm become less personal and skills will be required which are, in the vast majority of cases, largely outside the repertoire of the entrepreneur.

Stanworth and Curran (1989) are forthright in their view that the emergence of these "growth factors" depends on a variety of factors, and may not occur until the firm has grown to be of some size. But what is more important is whether the entrepreneur comes to perceive the likely outcomes of these changes and the decisions he makes concerning their desirability as well as his ability to cope with them in the kind of person he has now become. So, again, we return to the internal logic of the firm, seen from the point of view of its main actor, and the possible outcomes which can develop".

This rather lengthy quotation in fact crystallizes the philosophy put forward by Stanworth and Curran (1989). They argue for the need to study growth patterns not from the point of view of an exclusive focus on the external factors such as industry structure and market forces, but a balanced approach which takes into account the internal logic of the firm; largely shaped and influenced by the key actor, i.e. the business founder. Thus it is most likely that the role of the
The entrepreneur/owner-manager will be reconfigured and redefined during the course of the firm's development.

This alternative view of business growth makes a number of significant improvements on the earlier theories. Firstly, it provides a reasonable explanation as to why the seeking of growth may not necessarily be the main motivating force for many owners-managers. This is in contrast to many of the earlier theories, which have been reviewed in this chapter, which implies an uncritical, automatic acceptance that growth is an inevitable "driver" to guide the development of the company from its inception.

It clearly recognizes that if an entrepreneur defines his role in relation to his self-identity, then a lot can be said about the way in which the firm is likely to perform in a wide variety of situations. This supports the contingency based notion, which has been examined earlier and also recognizes the idiosyncrasies of the small firm which make it difficult to assess if the standard stages of growth are applied. This latter point is critical in attempting to understand their line of argument. Stanworth and Curran (1989) have been highly critical, and quite rightly so, of many of the stages of growth models because they portray the small firm moving sublimely through a sequence of growth without investigating whether this is a necessary progression for many firms or whether certain stages can be missed out or variations in sequence can occur.

Their main criticisms of earlier work centre around the view that the overall theoretical perspective of these authors is a highly positivist one which is reflected in the fact that the underlying paradigm for theoretical development is a highly idealized version of that used in the natural sciences. The small firm is seen as a "behaving entity whose elements are related in quantifiable, systematic and highly predictable ways and the object of theory construction is the
generation of law-like propositions concerning the growth process. Given this perspective, they argue that due to poorly constructed samples, in terms of numbers included and skewness in the distribution of levels of size, the resulting models do not in any way allow for law-like propositions to be arrived at.

Instead of this highly positivistic approach to research design, they argue for an inductive approach which will provide for better understanding of the internal logic of the firm and in particular, the owner-manager. The net results of their deliberations are to be found in the earlier review of the three latent social identities - the "artisan", "classical entrepreneur" and the "manager".

Clifford et al (1989) observe that the contribution of Stanworth and Curran (1989) is particularly noteworthy because their insight "brings in self-actualization as a driving force behind observable developments in small firms: it is not the whole story but no story could be complete without it".

Stanworth and Curran (1989) succeed in heightening people's awareness of the need to consider the internal factors that help to shape the growth patterns experienced by many small firms. This is in contrast to the focus on external factors, which has been the main preoccupation of many of the earlier stages of growth models.

Gibb and Scott (1986) provide a comprehensive summary of those external and internal factors, which are thought to influence the process of change in the small firm. The main issues are identified in table 2.3. They put forward the view that the processes by which decisions are made in small firms are far more informal and based on less sophisticated techniques that would be common in larger firms. It is argued that the original focus of much of the prior research in the area was to be located within the external factors and that Stanworth and Curran (1989) have
succeeded in redressing the imbalance, by encouraging researchers to consider the internal, latent social identities of the entrepreneur/owner-manager.

### Table 2.3. Internal / External Factors

<table>
<thead>
<tr>
<th>External Factors</th>
<th>Internal Factors</th>
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<tbody>
<tr>
<td>1. Existing product range and position in the market.</td>
<td>1. The owner-manager: personal and leadership characteristics</td>
</tr>
<tr>
<td>2. Pressures for change from competition and stage of product life cycle</td>
<td>2. The presence or absence of qualified staff</td>
</tr>
<tr>
<td>3. Age and development profile of the firm's</td>
<td>3. Extent of functional specialization major products</td>
</tr>
<tr>
<td>4. The control system: degree of formality</td>
<td>4. Dependency on a few customers</td>
</tr>
<tr>
<td>5. Market uncertainty and complexity</td>
<td>5. The managerial capability of the workforce</td>
</tr>
<tr>
<td>6. Rates of change in the economy</td>
<td>6. The financial situation of the company - liquidity</td>
</tr>
<tr>
<td>7. Existence of particular institutional &quot;block&quot; to progress</td>
<td>7. Age and quality of the physical assets</td>
</tr>
<tr>
<td>8. Wider environmental factors - social, legal, and political</td>
<td>8. The extent to which managerial time is available</td>
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<td></td>
<td>9. Levels of managerial motivation and commitment</td>
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This analysis of the literature by Gibb and Scott (1986) also reveals the potential dangers associated with designing a research methodology which will allow for an effective study of how small firms plan their business growth and development, which is drawn from the positivistic
approach to research. The list of internal factors generated in figure five and their influence on
the shaping of growth highlights the broad range of possible idiosyncrasies associated with the
small firm. This does not allow for an orderly, systematic, quantitative appraisal. The influence
of the characteristics of the entrepreneur on the decision-making process allied to the nature of
small business development also calls into question of how relevant and realistic the traditional,
classical concepts of management (revolving around planning, organizing, controlling and
staffing) are, when considered and applied to the smaller business. It is introduced at the end of
this section on the stages of growth models, because it reinforces the perception that the
impression of small firms developing in an orderly, sequential and logical fashion, as represented
by discrete, neatly defined stages, is simplistic at best, and grossly inaccurate, at worst.

2.7.2.3. The Network Approach

A burgeoning literature has emerged throughout the last decade on the role, which
networks play in establishing, cementing and developing business relationships. Much of this has
emanated from the interaction approach to business-to-business marketing. This philosophy
has shifted the focus from a view of suppliers and customers as independent, autonomous actors,
free to act as they wish within the market-place, to one of two entities which "over time develop
interdependencies and a veritable relationship via exchange processes of various kinds. This
basic, but far-reaching view of business relationships has been developed and refined by
authors such as Hakansson (1987), Easton and Araujo (1989), and most recently by Axelsson
and Easton (1992). The definition of an industrial network is borrowed from social exchange
theory and Hakansson (1987) describes it as a set of two or more connected exchange relations.
Exchange is defined in turn as consisting of a voluntary transaction involving the transfer of
resources between two or more actors for mutual benefit. The term resource is further defined by
Cook (1977) as "any value (sic) activity, service or commodity". Thus, industrial networks presuppose the establishment of exchange relationships and any changes in the established relationship occur through investments in tangible assets capable of appearing on the balance sheet, or through the acquisition of skills or knowledge in areas such as research and development, marketing, etc. It is not deemed to be relevant for the purposes of this study to undertake an extensive review of the general literature: this would be beyond the scope of the subsequent study and would deflect from the crucial issues under investigation. However a review of network theory as it applies to the small firm is presented, because it represents an alternative view of how such firms develop and cultivate growth.

At the heart of any assessment of the role of networks in the formulation of business relationships is the underlying assumption that "companies are interwoven with heterogeneous actors through a vast amount of inter-organizational relationships" and that the establishment of such relationships will prove to be a major asset over a period of time. This statement, while identifying the concept of a series of relationships as central to the concept of networking, is not strong enough in its attempt to pinpoint the variety of relationships, which exist in any business activity framework. Curtan et al (58) make the valid observation that networks and the act of networking have both compulsory and voluntary aspects, which can be seen on a continuum. At one extreme are the compulsory range of business activities which have to be engaged in and without which the business cannot be sustained. For example, every company has to liaise with a bank, in order to ensure that bills are paid and customer payments are lodged. Further along the continuum, participation becomes increasingly voluntary, for example, it is optional (although not necessarily evidence of best practice) for companies to carry out marketing research. At the end of this continuum are such optional activities as joining the local golf club, or becoming a
member of the chamber of commerce. Very few theorists highlights such areas as being crucial to the success of a business, although many companies would perceive such contact points as being appropriate for making contact with potential customers or facilitators. While this view applies to all firms, irrespective of size, it can be argued, quite forcefully, that it has a fundamental importance for the smaller company.

Perhaps of greater significance to the smaller firm is the potential which networking allows for them to become more innovative, through their relationships with other firms. Much of the empirical research in this area has been conducted with firms, which operate in the high-technology sectors (Oakey (1984)). In a later article Oakey (1985) also points out that in many cases, the precise nature of the relationships between small and large firms in such sectors is often of the subservient kind; in which sub-contractors or niche producers (the small firm) sell to a large population of industrial producers. In such cases, while in the short-term, there is mutual benefit for both parties, the longer term benefits to the small firm may dissipate in the "maze" of over-dependency which may inevitably result from a situation where it may have a very narrow customer base. A study by Oakey (1993) of small biotechnology firms maintained (reluctantly, in most cases) a single customer base. It should be noted that this tends to occur in industries, which are embryonic, or at the early stages of growth. By contrast, in mature high-technology sectors, such as certain sub-sectors of the electronics industry, small firms can cultivate a larger customer base, although not without some difficulty.

The level of empirical research in the area of personal networking and the entrepreneur is limited. Johannisson (1991) one of the main authors in this field, acknowledges this, but does offer some preliminary statements, which are in need of empirical testing. They can be summarized as follows:-
1. *The self-image argument:* Where the entrepreneur has a need to reinforce his/her self-image in order to be able to impose it on others.

2. *The existential argument:* In contrast to role relationships, personal ties relate the person as a whole i.e. include shared values as well as effective and instrumental strands.

3. *The learning argument:* Entrepreneurs are experiential learners, not necessarily because of lack of management competencies but mainly due to the very notion of the entrepreneurial event: structural change in the market place cannot be recalled from history.

4. *The appropriateness argument:* Since personal networks are tailored to fit both the provider and the recipient, the opportunity costs associated with time and other investments in the exchange are negligible.

5. *The flexibility argument:* Although individual network ties are even more difficult to replace than resources controlled by ownership, the personal network as a whole provides flexibility.

6. *The stretchability argument:* Network resources can be expanded in two ways with only marginal investment: with respect to the direct linkages and with respect to the network as a whole. In a personal network, services in return can be postponed by way of delayed reciprocity and barter replaces money as an equalizer through general reciprocity.

7. *The holistic argument:* Since the personal network of the entrepreneur is egocentric, it helps the entrepreneur to focus his/her efforts. In order to identify new business opportunities, the network must operate as a scanner and when a venture is subsequently launched, the network provides needed resources.
8. **The political argument**: The personal network has apolitical potential in the sense that control through business is difficult for outsiders. The total (perceived) network is only known to the entrepreneurs themselves.

Johannisson's (1991) views are a distillation of many concepts, which have yet to be tested empirically. As such, their contribution to knowledge has to be judged with caution. However it has to be acknowledged that the inclusion of network theory does reinforce the view that it is insufficient to examine the issue of growth and entrepreneurship from the sole perspective of internal expansion. Network theory broadens out the discussion to include the economic and social contexts. Given the initial limitations and constraints facing owner-managers, particularly in the early stages of the company's development, it can be argued that it is imperative that a personal network be built up by them, to facilitate growth. That said, there is an opposing view which suggests that the underlying premise of the need for continued growth may not be strictly accurate. Hackett (1974) as early as 1974 for example, noted that three major disadvantages can accrue from pursuing a policy of growth: an inability to achieve adequate financial control and planning, the difficulty of maintaining a responsive and timely decision-making process and a possible decline in the ability to realize the creative and innovative potential of individuals in larger organizations.

Another issue which does not appear to have been adequately addressed in the mainstream literature on networking is the potential for predatory behavior; resulting from the unalterable fact there are two or more parties who are not equivalent in terms of power, size and monetary value. Thus while a large firm may be prepared to provide help in the form of contracts, help with research and development or functional expertise, they may do so with a view to acquisition. Some work by Smith (1989) and Balfour (1989) provides evidence of this practice.
occurring in high technology industries. Oakey (1993) also argues strongly that altruism does not exist in the forging of a network link, noting that irrespective of whether one firm wishes to take over another at some time in the future, both parties enter into such a relationship because they seek an advantage in establishing such a bond.

Yet another distinguishing characteristic of the small business sector is the desire on the part of many owner - managers / entrepreneurs for independence as to how they run their lives generally and in particular the extent to which they can control their working environment. Thus if this view is accepted, it casts some doubt on the logic for such companies to establish a large number of relationships, with the possible effect of diluting the amount of independence associated with running their own businesses. A very recent study by Curran et al (1989) would appear to support the view that such owner - managers tend to have small and non - extensive networks with little resort to external contacts such as accountants and bank managers, except for basic, routine transactions. This situation has been influenced by such pragmatic issues as the heavy demands placed on the owner - manager's time and the costs associated with using professional services such as accountants, marketing research agencies etc. This helps to ensure relatively small networks.

The work of Curran et al is recent and has to be deemed as significant in its contribution to further knowledge in the area of networking. The overall results point away from the original notion that the small business owner embraced the concept of networking in a proactive manner. It highlights the need for further studies in the area, before an adequate theoretical base can be developed.

Any concluding evaluative comments on network theory can best be summed up in the words of Gibb and Scott (1986) who note that while there is evidence to suggest that the nature
of the networks of the entrepreneur change as the business develops and there is little hard evidence as to how these changes occur as the business grows and how the changes impact upon the potential for growth.

Networking theory undoubtedly has been one of the main areas which researchers have focused on over the past number of years in the context of industrial marketing. Clearly more work needs to be done on networking as relating to the smaller firm, before any firm conclusions can be drawn. This is because the particular characteristics of the small firm may mean that it is more difficult for them to establish strong networks with larger firms. This might occur in situations where small firms struggle to convince other companies of their capability, trustworthiness and perhaps, long-term viability. While these issues may act as constraints, it is equally plausible to argue that the flexibility and close personal attention which the small firm can provide to other partners, may facilitate the establishment of such networks.

These latter issues are conjectural at present, in the absence of any substantive base of empirical research and much of what has been written has been based on largely anecdotal evidence.

2.7.3. BUSINESS MANAGEMENT APPROACHES TO GROWTH

Gibb and Davies (1991) identify a school of thought which relates the growth of a firm to its performance in the marketplace and in particular its financial performance and its ability to operate at maximum efficiency levels. Under this train of thought, it is assumed, not unreasonably, that all growth must emanate from the marketplace, and as a consequence, has at its epicentre the Ansoff matrix (1965) which identifies four possible routes to growth under the product/market scope: market penetration, product development, market development and diversification. This schema is placed in the context of the firm's desire to improve its
competitive position. Gibb and Davies (1991) suggest that this approach is frequently adopted in management teaching programmes as a "pseudo - scientific model of planning approaches to product / market development and business goal setting, including the business plan as the main means of assimilating the path to successful growth".

Clearly the popularity of Ansoff's approach, as evidenced by the frequency with which it appears in textbooks and articles, is a testament to its effectiveness as a "teaching tool", which in turn provides an understanding of how firms can achieve growth. Unfortunately, while it is clear and unambiguous in its intent, it does not attempt to examine the underlying factors, which can positively or negatively influence a firm's growth potential. It provides a useful guideline as to how growth can be achieved, without "peeling off the layers" to reveal the underlying patterns and interconnecting issues.

Gibb and Davies (1991) also refer to business management approaches, which focus on upon financial performance. This is demonstrated by the attempt to predict the future performance of the firm, based on financial ratios and their changes over time. Thus past performance is used to predict future capability. In this respect, the approach resembles the philosophy adopted by the banker or accountant, as they apply general, expected or predictable standards to assess future performance. Allied to this is the notion that the banker or accountant expect "well managed" businesses to be in a position to generate financial and other related information on a regular basis. The capability of the firm to do this is deemed to be evidence of a capability to control the business.

The logic of this approach can be seriously questioned. The use of indicators to predict future performance is fallacious because they are essentially outputs deriving from the performance of the firm, rather than actual inputs, which can directly influence performance.
While this criticism may be justified, it has also to be acknowledged that this concept resides very firmly in the minds of those members of the financial community. Given their emphasis on cost and efficiency as general principles for dictating the growth potential of firms, it can be said that this influences their judgement when deciding whether or not to provide financial assistance. Thus the peculiarities of the small firm and the difficulties which it can experience in areas of cash flow management, the failure of customers to pay on time and so on, can receive an unsympathetic response from the financial community. As is the case with so much of the concepts reviewed in this chapter, the evidence is tentative and anecdotal in nature.

2.7.4 SECTORAL AND BROADER MARKET LED APPROACHES

This last series of approaches towards an understanding of growth refer to a wide-ranging and disparate range of studies, which have focused on the external constraints and problems associated with small firm growth. Clearly such studies are too numerous to examine in detail. Gibb and Davies (1991) cite a wide range of issues that have been addressed by such studies in the United Kingdom. They can be summarized as follows:

- The impact of various regional counseling, training and assistance schemes provided by various support agencies.
- The potential effects of (perceived) bureaucratic constraints (e.g. taxation levels, interest rates on loans) availability of suitable labor.
- Sectoral studies e.g. the high technology area, focusing on building marketing into design and quality from an early stage, and keeping abreast of the latest developments in the area of technology.
• The development of a professional management competence and the correlation between the educational attainment of managers and the growth performance of firms.

It can be argued that many of these studies have contributed to a furthering of knowledge—particularly in relation to specific problems and constraints which small firms experience as they develop. Clearly the wide variety of such studies precludes them from becoming predictive models of small firm growth.

2.8 SUMMARY

This chapter has examined the various interpretations of entrepreneurship and has identified a lack of uniformity as to an accepted and agreed definition. Relationship between entrepreneurship, growth, and small firm is also examined in this chapter. The basic logic for this approach is grounded in the belief that these three areas are inexorably linked. The main purpose of this review is specifically to examine the various approaches emanating from the literature, which have put forward theories as to how the small firm grows. As a consequence, the early part of this chapter reviewed the relevant literature on entrepreneurship. The conclusion from this analysis is that much of the empirical research has suffered from some weakness, mainly arising from a tendency to ignore the view that any attempt to identify personality traits and characteristics must be contingency-based. This allows for the various idiosyncrasies attached with the small firm and the fact that any findings tend to be situational in nature.

The analysis of various growth models has also identified a number of weaknesses. To summarize, a distinction between an entrepreneur and the small business owner is argued which is further crystallized in the view that many people can start an enterprise but very few bring
something unique and different to the market-place. These conceptions will be examined with
the real situation described in chapter seven on case studies and analysis.
Chapter Three

Subcontracting and Supplier-Buyer Relations
CHAPTER 3

SUBCONTRACTING AND BUYER-SUPPLIER RELATIONSHIP: LITERATURE SURVEY

3.1 INTRODUCTION

The initial part of this chapter examines, what is meant by the terms subcontracting and buyer-supplier relationship. Given that the Japanese subcontracting system has been attracting great interest both in advanced and developing countries as an efficient method of manufacturing at low cost while maintaining high quality. A comparison of Japanese and Western firms approach is then thoroughly synthesized throughout the chapter to understand two different conceptual business philosophies and their implication in the rest of the world.

As the purpose of this study is also to make explicit comparisons between different conceptions, it is wise to clarify some country-specific contexts. This task is particularly important, as there are clearly some differences in what the Western and the Japanese businessmen understand by subcontracting and buyer-supplier relations. In the second part of the chapter, a Japanese Style Partnership (JSP) is thoroughly examined, concept of which is popular to bring better results in the shape of price reduction or at least control over quality. Finally, its implications for the U.S. and the Western Style business is also examined with an idea to study the possibilities of this concept utilization in the indigenous small firms business in a developing economy for their business growth.
3.2 ENGINEERING SUBCONTRACTING

Introduction and a Policy Focused Review

"Japanese manufacturing industry owes its competitive advantage and strength to its subcontracting structure". -- Ministry of International Trade and Industry.

Was Japan's powerful Ministry of International Trade and Industry (MITI) serious when it made this statement? Is it possible that much of Japan's competitive advantage can be attributed simply to its subcontracting structure? Indeed, evidence from an increasing number of industries and sources suggests that much of the Japanese success can be attributed to Japanese-style business partnerships.

Over the past decade a number of influential studies have appeared to advance interpretations on engineering or production subcontracting. The important works of Taylor and Thrift (1982), Holmes (1986), Lawson (1992), and Rainnie (1993) caution us of the need to unpack the meaning of the "loose" term subcontracting and to distinguish a number of identifiable sub pieces of subcontracting relations between firms.

Kashyap (1992) describes, in policy terms it is important to interpret subcontracting in relation to the various organizational forms that may exist for small industrial enterprises. At the broadest level, a distinction can be made between situations where (i) small firms are isolated in lonely (ii) dependent large firm subordinates of (iii) enjoy mutual relations of interdependence. For most small industrial enterprises especially to the developing world, survival and growth will hinge upon an appropriate support structure, which would generate conditions of either dependence or interdependence. This support structure could assume various forms: political on bureaucratic patronage in terms of the allocation of scarce inputs and government contracts for purchase of a
firm's output the promotion of situations of commercial or industrial subcontracting; the fostering of interdependence between a space-bound cluster of small firms in a specialized industry (an industrial district) or subcontracting.

Official initiatives to promote subcontracting linkages might assume a variety of guises. At one end of the policy spectrum, moralization could furnish the base for expanded subcontracting. Alternatively, governments could implement a system of direct incentives designed to encourage the subcontracting of production between large and small enterprises. Further indirect support could be afforded through the construction of industrial estate or information services that might forge subcontracting networks. Finally, mandatory obligations for large enterprises, particularly those in the public sector to subcontract part of their work to small industrial enterprises.

Harris (1990) notes, whatever path is chosen it must be appreciated that in developing economies subcontracting need not lead to dependence, albeit that often does so when relations of exchange and power are unequal. Lawson (1992) and Lazerson (1990) describes, those exchanges, which are determined in market power, usually imply that small industrial enterprise function as capacity contractors or job workers or generally in a manner where their contracts are easily terminated. By contrast, Kasyap (1992) notes, in situations of diffused market power or where inter-firm interdependence serves common (rather than particular) interests, contracts could enhance the division of labor and expand production possibility frontiers through innovation. The most fertile environments for such relationships are those contained in industrial districts or through layers of subcontracting around a large firm. As stressed by Kashyap (1992) the nature of such relationships emphasizes co-operation (rather than competition), mutual obligations and trust.
These broad observations on the organizational forms of small enterprise and the issue of subcontracting lead to the conclusion that official support structures could influence the direction of development of small-scale industry and of associated forms of subcontract relationships. Sengenberger and Pyke (1991) make a useful policy distinction between two 'roads of development'. The first, termed the "low road" consists of seeking competitiveness through low labor costs and a deregulated labor market environment, a path in which small enterprise subcontracting would be dominated by situations of dependence and exploitation. Beneria (1987), Mukherjee (1990), and Wilson (1991) describes that the result would be a proliferation of "sweatshop" conditions in the small-scale industry sector as currently typified best by descriptions of working conditions in India, Mexico or Brazil. The second alternative, the "high road" is based on constructive competition, efficiency enhancement and innovation with subcontracting relations ordered by regimes of common interest, mutual obligations and trust. Worris (1992) and Pyke (1992) note that the core elements of this desirable model are filtered in the experience of many of the industrial districts of Italy and the organizational structures of Japanese enterprise. Kashyap (1992) describes, the two situations are not mutually exclusive categories but rather represent and points of a continuum and any point within this continuum could encompass elements of "low road" and "high road".

3.3 BUYER-SUPPLIER RELATION

The relationships between Japanese manufacturers in Japan and their suppliers tends to be very different from the relationship between traditional Western manufacturers and their suppliers, and this chapter will consider the evidence that Japanese and non-Japanese manufacturers are attempting to establish Japanese Buyer-Supplier relations.
In Japan, manufacturers and their suppliers have tended since the early 1950s to have long-term, interdependent relationships, whereby both parties hold at least some equity in each other's organization, work together on product development, quality improvements and cost reductions, and share the profits of their collaboration. In Britain manufacturers and suppliers generally have short-term, non-collaborative relationships, which may begin and end with the supplying of a single component at a contract price.

Once a relationship has been established with Japanese suppliers, their customers 'organize' them in such a way as to minimize competition and facilitate co-operation between them, so that different suppliers can work together for the benefit of their customers. In Britain competition between suppliers is encouraged, so that the customer always has the 'upper hand'.

In the 1950s Toyota, for example, organized suppliers in tiers. First their suppliers were responsible for working as an integral part of the product development team. Each first is supplier assembled a second tier of suppliers, which were responsible for making the individual parts of the major component that the first-tier supplier produced for Toyota. Each tier of suppliers consisted of companies that were not competing with each other and so could be expected to share production and technological expertise. This way of working not only cut down the number of suppliers with which Toyota had to deal, it also encouraged quality improvements as did Toyota's policy of sharing with suppliers the profits of productivity and quality improvements made by them.

The suppliers were thus intimately involved in product development, had interlocking equity with Toyota, relied on Toyota for finance, and accepted Toyota people into their personnel systems. Finally Toyota introduced its just-in-time production system, the idea of which was to convert the vast group of suppliers and parts plants into one large 'assembly line'. Womack (1990) notes that it took 20 years to implement, with the principles of the Toyota manufacturing system'
only fully worked out by the early 1960s. It took many years for other Japanese auto firms to adopt them.

It has been calculated that a Japanese auto firm could have 171 subcontracts in the highest level of the hierarchy, 4,700 in second, and 31,600 in the third. Four out of five of the 13,430 firms making components for motor vehicle production in Japan in 1978 had 20 or fewer workers; almost one in three employed three workers or fewer.

At the end of 'lean' supply in the Japanese auto industry lies a different system of establishing prices and jointly analyzing costs. First, the car assembler establishes a target price for the car and then, with the suppliers, works backwards, calculating how the vehicle can be made for this price while allowing a reasonable profit for both the assembler and the suppliers. It is a market-price-minus system rather than a supplier-cost-plus system. To achieve the target cost, both the assembler and the supplier use value engineering techniques to break down the costs of every stage of production, identifying each factor that could lower the cost of each part. The first-tier supplier designated to design and make each component then enters into mutual bargaining with the assembler, not on price, but on how to reach the target and still allow a reasonable profit for the supplier. Once the part is in production, value analysis techniques are used to analyze the cost of each production step in detail, so that cost-critical steps can be identified and targeted for further work to reduce costs still further. These savings may be achieved by continuous incremental improvements (Kaizen), the introduction of new tooling or the redesign of the part.

Wormack (1990) identifies a second feature of Japanese-style supplier relations is continually declining prices over the life of the model. While western producers assume that bidders are actually selling below cost at the outset of the contract and will expect to recoup their investment by raising prices year by year, Japanese producers accept that the price for the first year's
production is actual cost plus profit. Since there is a learning curve for producing practically any item, they work on the basis that actual costs will fall in subsequent years, even though raw materials and labor costs will probably rise.

Garrahan (1992) describes that in a Japanese-style production technique thus demand a very close working relationship between core producer and supplier, often as the only purchaser. This can have a debilitating effect. While small subcontractors may acquire expertise in limited areas of technology and quality control, they will not develop the kind of all-round marketing and designs skills of the more traditional type, and within the new relationship they will tend to be much more vulnerable to contraction or closure by the core producer.

Garrahan (1992) pointed out that in a the Western-style, car production involves the assembly of many thousands of parts into around 100 major components, which are brought together in the final assembly plant. Henry Ford at one point manufactured nearly 100% of components in-house, a figure that had declined to around 50% by the late 1940s, but most western-including British-vehicle producers now deal with hundreds of suppliers. Independent component suppliers compete against each other in Britain to obtain short-term contracts with assemblers. The relationships between buyer and seller is usually a short-term one of each organisation for itself making it unlikely that the two parties could work together to improve profit margins and reliability.

3.3.1 Buyer-Supplier Relations at Different Geographic Situation

a) Japan vs. Britain Model

A study undertaken in 1992, by Andersen Consulting Cardiff Business School and the University of Cambridge, of 18 component suppliers, nine in Japan and nine in Britain identified
five high quality, high productivity (world class) plants, all of which were in Japan. Both world
class and non-world class plants had about the same number of suppliers but the volume of
business per supplier was twice as high in the world-class plants. The distribution of business,
however, was more evenly spread between suppliers in the world-class plants. The world class
plants had only six thousands of finished goods stock, while the other 13 plants had almost four
times as much. 23 hours of stock deliveries to customers occurred one every three hours compared
to one every 18 hours for the non-world class plants. Deliveries from suppliers were once every
seven hours compared to once every 47 hours. Lower performers had to deal with a defect rate for
incoming parts that was 50 times larger than that for the world-class performers.

Andersen (1993) mentions, the world-class plants were located slightly, but not
substantially, closer to both their customers and suppliers in terms of journey times.

At the end of 'lean' supply in the Japanese auto industry lies a different system of
establishing prices and jointly analyzing costs. First, the car assembler establishes a target price for
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each production step in detail, so that cost-critical steps can be identified and targeted for further
work to reduce costs still further. These savings may be achieved by continuous incremental improvements (Kaizen), the introduction of new tooling or the redesign of the part.

b) **Japan vs. U.S. Model**

Consider the auto industry, from 1965 to 1989, the combined Japanese market share of worldwide passenger car production jumped from 3.6 percent to 25.5 percent. In striking contrast, the market share of U.S. firms dropped from 48.6 percent to 19.2 percent\(^4\). Moreover, by the early 1980s, Japanese firms had achieved a 20 to 25 percent cost advantage per car, versus U.S. automakers, while receiving customer satisfaction scores 50 percent higher than those of competing U.S. cars. Can it be attribute to the astonishing Japanese success to their partnership approach? Consider the following:

* American automakers are more vertically integrated than their Japanese counterparts, with approximately 48 percent of parts manufactured internally as opposed to 25 percent for Japanese automakers.

* Even though U.S. automakers are more vertically integrated, they contract directly with 1,500 to 3,000 parts suppliers for the parts they don't make. Toyota, by contrast, works with approximately one-tenth that number, buying more --- in many instances, entire subsystems --- from each supplier.

* A study conducted by Bain & Company (1995) found that the total cost of components from a Japanese car was more than 30 percent below that of a comparable U.S. model in 1984. A Similar comparison of components costs reported in Fortune by Fisher (1995), indicated that, in 1985, U.S. automakers spent an average of $2,750 --- a cost savings of more than 22 percent that was achieved mainly "through more efficient vendor relations".
While the gap has narrowed, Japanese automakers still have a cost advantage over U.S. makers.

Clark (1991) describes, Japanese automakers develop new vehicles at least 30 percent faster than U.S. automakers, which means that products include the latest in technology. Apparently, this advantage is due largely to Japan's subcontracting structure. According to Clark, in U.S. companies, the projects in our sample were heavily influenced by the traditional system in which suppliers produced parts under short term, arm's length contracts and had little role in design and engineering. Clark (1989) describes that in the Japanese system, in contrast, suppliers are an integral part of the development process: they are involved early, assume significant responsibility, and communicate extensively and directly with product and process engineers. Japanese suppliers frequently give automakers a head start in development by starting work on projects even before they are assured of winning the project.

Although these and other studies point to supplier relationships as critical to Japanese success, they don't explain why Japanese suppliers are more cooperative and willing to take risks, nor do they explain why they are more productive than traditional arm's length supplier relations. Recently, U.S. automakers and other U.S. businesses have been making changes (notably, consolidating suppliers) that have moved U.S. supplier management practices closer to Japanese business practices. However, simply consolidating suppliers or moving to sole source supply is not the key to Japanese style partnerships and in fact may lead to problems if it is an isolated act. If U.S. companies are to adopt Japanese intercompany practices successfully, they must understand how and why they work. Consequently, two questions are critical:
1. Why are Japanese-style partnerships more productive than either buying suppliers or customers (vertically integrating) or rotating business across numerous suppliers?

2. Why are Japanese suppliers so cooperative and willing to take risks? (Doesn't that make them overly dependent?)

3.4 JAPANESE STYLE PARTNERSHIP

3.4.1 What Is a Japanese Style Partnership?

A Japanese style partnership (JSP) is an exclusive (or semi-exclusive) supplier purchaser relationship that focuses on maximizing the efficiency of the entire business system (value chain). These supplier partners are typically called kankei-geisha (affiliated companies) in Japan and are considered to be the vertical keiretsu of the parent company. (Companies that are not kankei-geisha are typically referred to as dokurisu-geisha or independent companies. Independent companies will often work with parent firms in much the same way as the kankei-geisha.) Our findings are primarily from a two-year study of fifty kankei-geisha in the automobile industry compared to fifty U.S. supplier. U.S. automaker relationships.

The goal of Japanese partnerships is to increase quality while minimizing the total value added costs that both the supplier and the purchaser incur. In short, the goal is to create a "see through" value chain where both party's costs and problems are visible. Then both parties can work jointly to solve the problems and expand rather than split the pie. JSPs also take advantage of economies of scale in both production and transaction costs. In short, JSPs attempt to capture most of the synergies that would exist if the two firms (or portions of the firms) were combined under common ownership with our actually incurring the costs or many of the dysfunctional aspects of combining the firms. (The disadvantages of acquisition premium: a tendency toward increased
wages in the acquired firm since the larger firm, which usually does the acquiring, typically pays higher wages that are then transferred to the acquired company to and a loss of market discipline because a captive customer reduces the supplier's incentive to innovate and continuously improve. Indeed, as we shall describe, the Japanese partnership structure create substantial incentives for firms to improve continuously.)

To summarize, the key characteristics of JSPs in the auto industry are:

* Long term relationships and commitments with frequent planned communication, which reduces transaction costs and eliminates inter-company inefficiencies.

* Mutual assistance and a focus on total cost and quality, working together to minimize total value chain costs (not just units costs).

* Willingness to make significant customized investments in plant, equipment, and personnel as well as share valuable technical information.

* Intensive and regular sharing of technical and cost information to improve performance and set pieces, which share equally the rewards of the relationships.

* Trust building practices like owning stock (e.g., stock swaps), transferring employees, having guest engineers, and using flexible legal contracts that create a high degree of goal congruence and mutual trust (see Table 3.1 on page 97, for a comparison of the traditional U.S. model of vendor relations with the Japanese partnering model).
Table 3.1 Characteristics of Vendor Relations in Japan and the United States

<table>
<thead>
<tr>
<th>Traditional U.S. Model</th>
<th>Japanese Partnering Model</th>
</tr>
</thead>
<tbody>
<tr>
<td>Department or firm focus, &quot;Optimize firm efficiency&quot;.</td>
<td>Business system focus (include supplier/Customer economics, &quot;optimize value chain efficiency.&quot;</td>
</tr>
<tr>
<td>Emphasis on unit cost/price (minimum quality standards)</td>
<td>Emphasis on full value chain (systems) costs as well as on improving quality.</td>
</tr>
<tr>
<td>Manufacturer defines needs; specialization of activities; sequential planning.</td>
<td>Joint efforts to define needs and problem solve; highly integrated operations and planning.</td>
</tr>
<tr>
<td>Communication is sporadic, problem driven; little sharing of information or assistance.</td>
<td>Communication is frequent and planned; continuous sharing of information and assistance.</td>
</tr>
<tr>
<td>General investments; uniform approach.</td>
<td>Customized investments to meet unique customer or supplier needs (e.g. in information systems, people, manufacturing equipment, etc.).</td>
</tr>
<tr>
<td>Precise contracts that split economic benefits beforehand.</td>
<td>Flexible contracts that adjust to split economic gains fully as market condition change.</td>
</tr>
<tr>
<td>No additional collateral bonds, arm's length relationship.</td>
<td>Numerous collateral bonds employed to build trust and align the firms financial fortunes and safeguard customized investment.</td>
</tr>
</tbody>
</table>
3.4.2 Why are JSPs More Efficient?

JSPs realize economic benefits not available to firms that either vertically integrate or keep a large supplier base. There are usually three types of benefits: i) fewer direct suppliers, ii) customized investments, iii) forced competition.

3.4.2.1 Fewer Direct Suppliers

It is no secret that reducing the total number of direct suppliers can lower costs while increasing quality. Using fewer suppliers can create value by providing economies of scale and experience curve benefits that lower either transaction costs or production costs.

- Reducing Transaction Costs. Transaction costs, as defined here, are all the costs associated with affecting an exchange (e.g., information gathering and analysis, negotiation, contracting, product movement costs, and so on). While most managers understand that greater economies of scale can reduce production costs, many fail to consider the extent to which they also affect transaction costs. Just as scale economies can lead to lower per unit production costs, the economics of scale associated with increasing the volume of exchanges with a given supplier or customer can also lead to lower per unit cost associated with completing the transaction. For example, a 1985 study conducted by Bain and Company (1985) of sourcing for wiring harnesses (electrical wiring) comparing the number of suppliers used by Toyota and a U.S. automaker revealed that Toyota gave virtually 100 percent of its volume to two suppliers while the U.S. manufacturer used more than twenty different suppliers. Naturally, the costs associated with managing twenty suppliers (preparing and analyzing bids, comparing products, negotiating prices, writing contracts, and so on) were substantially higher for the U.S. manufacturer than for Toyota, and tracking quality problems was a nightmare for the U.S. carmaker. The total cost of
managing multiple suppliers can quickly add up. McMillan (1990) has given an example in his study that, in 1986, General Motors employed approximately 3,000 purchasing people to procure goods and services for 6 million cars (2,000 cars per buyer). In contrast, Toyota employed 340 people to procure goods and services for 3.6 million cars (10,590 cars per buyer). Dyer (1993) describes that the GM's procurement costs were approximately five times higher than Toyota's. (In fact, the difference was wide because the GM buyers were buying only 50 percent of the value of the car --- due to high vertical integration, while Toyota buyers were buying 75 percent.) Why are the purchasing departments within US automakers so large? Apparently, they were created to rotate the business and reduce the company's dependence on any one supplier. When asked why GM has so many suppliers, one executive explained, "Our purchasing activities are huge and extensive. Most activities have been geared to making sure we don't get stung by an unscrupulous supplier out there".

3.4.2.2 Reducing Production Costs.

Ghemawat (1986) describes that within most industries, as cumulative production experience in producing a product or service increases, quality is improved and costs are reduced. More specifically, each time accumulated experience doubles, costs per unit typically fall (in real terms, adjusted for inflation) by 10 percent to 30 percent, with comparable increases in product quality".

Dyer (1992) describes that by applying the partnership approach, Japanese automakers have consolidated their business with a few highly efficient suppliers and created conditions that permit the suppliers to make the investments necessary to accelerate down the experience curve and to share the full advantage of this volume (and the resulting lower costs per unit) with the carmakers.
When a Japanese supplier wins a contract with Nissan or Toyota, it is essentially guaranteed four years of business (or the life of the model). Moreover, if the supplier performs up to expectations, it can usually win the business for the next model as well. The Japanese suppliers in our sample indicated that historically they have a more than 90 percent probability of winning the contract again when the model changes. While a supplier may have a contract for four years, in reality, Toyota's and Nissan's partners have essentially open ended contracts. According to a Nissan purchasing manager, "have no real termination date." As one Toyota supplier said, "Once we win the business, it is basically our business unless we don't perform. It is our business to lose". Naturally, these practices encourage long-term plans and investments. Suppliers invest in developing ideas and plans for the next model well in advance. Engineers from the two companies have long-term experience working together, making it easier to rapid development designs for the next model.

In contrast, U.S. auto manufacturers have attempted to keep input prices low by maintaining size and bargaining power over suppliers. By splitting their business among many suppliers and rotating them frequently, U.S. manufacturers have repeatedly destroyed the experience curves of suppliers by ensuring that no one supplier could accelerate down the experience curve to accumulate decisive cost advantages. The U.S. suppliers in our sample claimed that they typically have only a 69 percent chance of rewinning the business at a model change. Thus, at each model change, the experience of the previous supplier is destroyed and a new supplier must incur start up costs. Suppliers' engineers typically do not develop long term relationships and experience with automaker engineers. Moreover, U.S. suppliers are unable to effectively plan long term production and investments, which is reflected in lower average plant capacity utilization.
A 1989 survey conducted by Helper (1989) found that the average length of the contract between U.S. suppliers and automakers was only 2.5 years, up from 1.3 years in 1984. The survey also found that, as the length of the contract between the supplier and automaker increased, so did the suppliers investments in CNC machine tools, CAD/CAM systems, robotics, and manufacturing cells. Without long-term commitments, U.S. suppliers rationally refuse to make long-term investments in capital equipment. Moreover, without the ability to make long-term forecasts, it is very difficult to make maximum use of capacity and capital equipment.

Walton (1986) describes that a final benefit of having fewer suppliers is the positive effect on quality. When more suppliers are used for a given part variation increased and reliability goes down. As quality guru W. Edwards Deming notes, "Even with a single suppliers, there is substantial variation lot-to-lot and within lots". Using multiple suppliers the variation of parts significantly increases the production problems and poor quality.

### 3.4.2.3 Customized Investments

Developing a Japanese-style partnership is much more complex than simply reducing the number of suppliers you use. The differences between JSPs and more traditional supplier relationships are illustrated by the following questions. How often do supplier purchaser agreements in the United States involve.

- Building a supplier plant within fifteen miles of the customer plant to reduce transportation costs, improve delivery, and generally improve coordination?
- Allowing supplier engineers to work daily at customer technical centers with customer engineers in designing new products?
• Transferring the purchaser's executives or employees to the supplier to work on a temporary (one to two years) or permanent basis?

• Sending in consultants (paid by the purchaser) to work with the supplier (often for months) to improve production methods, implement just-in-time delivery systems, or assist in solving other problems?

The answer to all four questions is, "Rarely." Most U.S. companies are simply not willing to take the risk in making customized investments. Consequently, they forgo the value that these investments can create.

JSPs generally require various types of investments in customized assets (investments specifically related to the relationship) by one or both firms in order to optimize the production and flow of goods and services. Three of customized investments are employed:

1. Site-specific investments--- plants are located so that they are dedicated largely to a particular customer in order to improve coordination and economize on inventory and transportation expenses.

2. Physical investments --- manufacturing equipment such as tools, dies molds, jigs, machinery, and so one is customized.

3. Human capital investments -- dedicated design or manufacturing engineers develop significant partner-specific knowledge.

These partner-specific investments create substantial buyer and supplier switching costs and, once made, make the two parties highly interdependent. This interdependence can create potential contracting problems if the parties do not completely trust each other. (Contracting problems may arise because these investments are not marketable or redeployable; thus one party
may act opportunistically since it has a monopoly on the customized investments. However, the investments also create value substantially beyond what could have been achieved without them.

Toyota's just-in-time (JIT) systems are a good example of how customized investments can create value. JIT was designed to reduce complexity and costs by eliminating inventories and work in process and to ensure that there were no redundant buffer stocks, distribution facilities, or quality inspections. However, to effectively implement JIT, Toyota and its partner suppliers had to make customized investments in information systems, plants, and flexible manufacturing systems that create mutual dependency. Womack (1990) notes that in their survey of twenty-five Toyota partner supplier, they found that the average (median) distance from the supplier's manufacturing plant to the Toyota assembly plant was only seventeen miles. the close proximity of these plants makes it economical for suppliers to make an average of 7.4 deliveries each day (over 30 percent of Toyota suppliers make hourly deliveries) and keep minimal inventories. Naturally, this site-specific plant investment, more than 75 percent of which is dedicated to Toyota, keeps inventories extremely low. In a comparison of the now closed GM (Framingham) plant and the Toyota (Takaoka) plant, Womack et al. (1990) found that, while the GM plant had an average of two weeks of inventory, the average buffer inventory at the Toyota plant would last only two hours. Thus, in this particular case, GM and its suppliers needed to invest in and store as much as 200 times the inventory, on average, as Toyota and its suppliers (assuming the plants operate sixteen hours a day). While this may be an extreme example, clearly the savings from Toyota's supplier investments in customized assets (i.e., site specific investments in plants) can be substantial.

Walton (1986) notes, of course, one must remember that these investments tend to bind suppliers to customers. However, JSPs work because these partner specific investments that reduce costs and increase quality outweigh the costs (risks) associated with being dependent on outside
parties. Thus, these investments expand the pie for both parties. As Deming notes, "A supplier assured of long-term contracts is more likely to risk being innovative and modify production processes than a supplier with a short-term contract who cannot afford to tailor a product to the needs of a buyer".

3.4.2.4 Forced Competition

The first two benefits explain why partnerships may be better than rotating business among a large number of suppliers. However, by vertically integrating, you get all of the benefits of fewer direct suppliers and customized investments. But vertical integration removes the supplier from the discipline of the market and essentially eliminates competition because the supplier has a captive customer base. Walsh (1988) describes that the autonomy and incentives that keep the company innovating and focused on continuous improvement are lost. Moreover, numerous studies show that critical managerial and technical employees often leave small entrepreneurial companies after they are acquired. This does not occur in Japanese partnerships because they are structured to provide substantial incentives for the suppliers to continue to compete and innovate. They employ at least two important mechanisms so that suppliers continue to reduce costs and improve quality.

- **Assistance to the Weaker of Two Suppliers.** Nishiguchi (1990) notes that the previous researchers have noted that Japanese firms usually employ a two-vendor policy to force competition, even though they may forgo economies of scale. Thus Japanese automakers are less likely to rely on one supplier than U.S. automakers are. They maintain competition so that one supplier's ability to generate cost or quality improvements provides an incentive for the other supplier to keep up. The intense competition often begins at the design stage when the automaker invites guest engineers from the two suppliers to work at the automaker's technical
center as part of the design team. The competitor engineers work in the same room during the initial design development. The automaker meets with each separately to review proprietary ideas and designed and eventually decides which supplier has a superior product design and cost, thus becoming the major supplier for the model. The losing supplier may become a secondary supplier for that model or may simply have an opportunity to develop a design for a different model.

The buyer can strengthen the incentives for cost or quality improvements by making the price paid (or volume given) to each supplier dependent on relative performance, like paying a bonus. The second place supplier loses out on additional business and the bonus for good performance. However, the buyer does not abandon a weak supplier, but works with it to help it compete with the stronger supplier. A manager of an NEC supplier explained the process:

*We were always in competition with another supplier to produce the lowest cost, highest quality circuit boards. NEC would often provide assistance to both of us by sending in teams of engineers to help us improve. We usually won the competition but NEC did not just give us all the business. Instead, it seemed like they renewed their efforts to help the other supplier compete. They would send in people to help them improve production methods. They would buy our technology and then share it with them. Dyer (1993) describes in short, they would try to help them to keep up with us. Of course, they praised and rewarded us for being their best supplier but they would always remind us that they could go elsewhere if we did not continuously improve.*

Dyer (1992) describes that this practice of helping weak suppliers is not unusual in Japan. Toyota and Nissan have large supplier assistance management consulting groups with specialized expertise that work full time --- free of charge ---- with suppliers to help them
improve their production techniques and achieve total quality, cost, and delivery. Both Nissan and Toyota have at least one consultant for every four to six suppliers. According to a Nissan internal consultant:

_We will often expend additional resources to help the weaker suppliers improve their capabilities. To have really good competition between suppliers, their abilities should be about the same. However, if suppliers do not make changes and respond to our recommendations, then we suggest to the buyer that they cut back on their purchases from that particular supplier._

Providing assistance to suppliers is a highly effective method for both helping and forcing suppliers to continuously innovate and improve to stay ahead of the competition. However, this puts tremendous pressure on suppliers to improve. In Japan, a commonly used phrase in the supplier community is _Toyota jigoku_ (Toyota "hell"). _Toyota jigoku_ refers to the process of working and negotiating with Toyota. Toyota is extremely demanding of suppliers and puts tremendous pressure on them to be more efficient. The result is that Toyota and its suppliers make 50 percent higher profit returns than U.S. automakers and their suppliers. Suppliers often feel indebted or obligated to the parent company, but they also have mixed feelings about the system. On the one hand, they sometimes feel that sharing the business with another supplier is inappropriate when they are clearly ahead in both cost and quality. Moreover, they have to share not only the business but also information or technology in order to help their competitor improve. On the other hand, since they realize that someday they may need such assistance, they view the system as insurance. Toyota or Nissan suppliers rarely go bankrupt because of the help they receive if they are experiencing difficulties. Only suppliers that are unwilling or unable to
improve continuously are cut off completely, and suppliers will do almost anything to avoid such damage to their reputations.

Finally, in addition to giving the automaker a standard for comparison, keeping two suppliers on equal footing protects the buyer against unforeseen supply interruptions. And suppliers know that they cannot afford to have a strike or other interruption that would give the buyer a chance to immediately shift more business to the competitor --- business that they may never recover.

- **Experience Curve Pricing.** According to McMillan (1990), the Japanese recognize that, due to the experience curve an experience curve-based price path set in advance that reflects a reasonable expectation of learning by the supplier. Our research on the automobile industry indicates that, in most cases, a specific price path is not set in advance. Instead, every six to twelve months, the customer usually negotiates a lower price based on how much it has been able to reduce costs during that period. The supplier is expected to reduce its price, but it is difficult to set in advance due to differences in market conditions, technology (e.g., maturity), and so on. U.S. automakers are much more likely to be price focused, meaning they put constant pressure on suppliers to reduce prices, regardless of whether the supplier reduces costs. Moreover, for a supplier to get a long-term contract, it must first agree to explicit price decreases each year. Conversely, Japanese automakers are much more cost focused, meaning they are constantly working with suppliers to reduce costs so that suppliers can afford to reduce prices. But they do not explicitly set those rates in advance because, in some cases of mature technology, the rate of cost reduction may be only two percent to three percent, while in other cases of new technology, it may be ten percent or more. What the automaker cares about is that the supplier is constantly improving and sharing its savings.
To share ideas on how reduce costs or improve quality, Toyota suppliers often set up a jiskuken (cooperation and assistance group) that includes other suppliers and consultants from Toyota. Since the suppliers conduct this continuous improvement activity without the Toyota purchasing organization's knowledge, the improvements realized through jiskuken activities accrue primarily to the supplier in the short term, and suppliers are highly motivated to improve (of course, suppliers must share those savings over the long term).

Brich (1987) describes, this method of forced competition and giving assistant typically produces more overall learning and innovation than would occur in a highly integrated, bureaucratic firm. Numerous research studies have shown that innovation is more likely to come from small firms than large ones. Pemple (1982) describes, developing partnerships rather than huge bureaucracies enables the Japanese to maintain a decentralized economy in which two thirds of the Japanese labor force are in establishments with fewer than 300 workers, while in the United States, two-thirds are in establishments with over 300 workers. Moreover, as Friedman (1989) observes, "From 1954 to 1977, the contribution of small and medium-sized firms to Japan's manufacturing value added rose from about 49 percent to 58 percent of total manufacturing, a share that remained steady throughout the postwar era". In short, during the past forty years, small manufacturers have become markedly more important throughout the Japanese economy. Perhaps this explains why Japanese firms are so good at rapid incremental innovation --- there are thousands of entrepreneurs trying to make rapid, albeit minor, improvements to their products as they try to stay one step ahead of their roughly equal competitors.
3.4.3 Why Are Japanese Companies More Cooperative?

Nishiguchi (1989) notes, the Japanese have recognized the need to be interdependent (especially on highly complex tasks) and have responded by developing bonding mechanisms that build trust and goal congruence between companies. There are numerous competing theories on why the Japanese have developed networks of partnerships firms. Perhaps the lack of an open market for corporate control in Japan explains why firms have not attempted to integrate more frequently. This suggests that the Japanese were forced to develop new organizational arrangements because of constraints on mergers and acquisitions. Also, the Japanese government has provided protection and financial support for small companies, thereby making it easier for small firms to be competitive. Dore (1990) describes, cultural reasons may explain the relationships among firms --- they are simply an anomaly of a homogeneous and unique culture.

Asanuma (1985) notes, the Japanese do not rely on legal contracts to protect their interests in exchange relationships. Indeed, Asanuma describes how Japanese firms use a flexible legal contract that is a very general "constitution" for a relationship and can be constantly adjusted and renegotiated. However, the key issue is understanding why Japanese companies can use such a flexible agreement. Next we discuss some of the most important Japanese practices in developing intercompany trust.

3.4.3.1 Stable, Long-Term Employment

Ouchi (1990) notes, much has been written about the Japanese practices of long-term employment within one firm but, its importance in developing trust among individuals both within the firm as well as across firms cannot be ignored. There is real personal contract between the purchasing manager of Toyota and the manager or owner of a subcontracting firm. Naturally, you
are more likely to trust someone with whom you've done business for a long period of time. It is much harder to build a trusting relationship with someone if you think they will be gone in six months, as happens in many U.S. companies. Hence because people can develop long-standing relationships with their counterparts at the supplier or buyer, it is surprising that the Japanese have developed significantly greater trust across firms.

3.4.3.2 Career Paths between Firms

Gerlach (1987) described, another way that Japanese firms build trust is by requiring career paths in which employees transfer from firm to firm (or simply work at partner firm facilities). Employees’ transfers, both temporary (usually two years) and permanent, are common among business partners, particularly between large manufacturers and their sub-contractors. Cusumano (1985) describes how executive transfers were particularly important in the auto industry because they usually preceded technical assistance, loans, or exclusive procurement contracts. He found that employees’ transfers preceded additional partner-specific investments by the automakers. Toyota is more likely to make investments in partners when it trusts the individuals it is dealing with --- and who better to trust than former employees or people you've worked with for years. Our own study indicates that almost 30 percent of the top management teams at Nissan's kankei-gaisha are former Nissan employees. Clearly, this innovative practice helps Nissan and its suppliers work co-operatively.

In addition to permanent and temporary employees swaps, suppliers often send guest engineers to work at their customer technical centres on an ongoing basis. For example, Toyota currently has almost 350 guest engineers (mostly from supplier partners) at its main technical centre in Japan. These engineers become a part of the design team and are given desks next to the Toyota
engineers. Thus, supplier and automaker engineers jointly design the component for a new car model. Supplier engineers may work at Toyota's facility for as long as two to three years.

Dyer (1993) describes, this practice is not usual in Japan. A U.S. manager working for Mitsubishi told us that, while working in Japan, each day he agreed coworkers who worked at the same facility. Six months later he discovered that the coworkers didn't work for Mitsubishi but for one of its suppliers. The manager said he "was astonished to find a supplier's employee working at our facility every day just as though he worked for Mitsubishi, I've never seen anything like that in the United States.

Not only do these career-path practices help build trust between firms, but also transferred and guest-employees are better able to understand how to optimize the efficiency of the value chain because they know both customer and supplier operations.

3.4.3.3 Face-to-Face Contract

Direct contract is much more important than other forms of contract in developing ways for employees to know and trust each other. Kankei-gaisha and automakers encourage a tremendous amount of face-to-face contract between supplier salespeople and engineers and between automakers purchasing agents and engineers. The kankei-gaisha in our sample had an average of 7,235 days per year of direct contract with automakers (including guest engineers). Conversely, the U.S. suppliers averaged 1,129 days of face-to-face contract with automakers. Thus, kankei-gaisha have almost seven times the direct contract with automakers, even when one does not include employee transfers.
3.4.3.4 Minority Ownership

Companies need creditable commitments if they are going to be willing to make customized investments. Stock ownership in Japanese trading relationships represents commitments that firms have made to each other, and in many ways, it is an arrangement that is akin to an exchange of hostages. If I own a portion of a partner company, then I am less willing to try to take advantage of it because I am only hurting myself. Moreover, I benefit financially when the partner is successful. Gerlach (1987) notes, in Japan "Equity shareholdings take on symbolic meaning in signifying relationships with other firms, rather than as straightforward investments for capital gain"(64). Japanese firms like Nissan, instead of vertically integrating, will either swap stock or take significant minority ownership position in many key suppliers. Nissan owns 33 percent (on average) of the shares of its major supplier partners (see Table 8.2). This ownership stake builds trust and goal congruence between Nissan and its supplier partners. Interlocking stock ownership represents a commitment to the supplier that needs an incentive to make the customized investments Nissan requires.

3.4.3.5 Specialized Investments

As previously mentioned, Japanese auto suppliers develop more unique parts for their customers and make greater investments in specialized assets than do U.S. suppliers. A kankeigaisha does not receive a separate payment for the investment in tools, dies, molds, and jigs that are highly customized (because they "touch the part") and would offer to the supplier. (In contrast, U.S. suppliers require that U.S. automakers buy the customized tools, dies, and molds that the supplier uses to make the product).
Executives at twenty-eight kankei-gaisha indicated that, on average, 31 percent of their total investment in capital equipment could not be redeployed to products for other customers if they were prohibited from selling to their primary customers. Executives at thirty-one U.S. suppliers indicated that only 15 percent of their capital equipment investment could not be redeployed on their primary automaker.

Moreover, as previously mentioned, kankei-gaisha manufacturing plants are built close to the customer and are largely dedicated to a specific customer. The average distance between a kankei-gaisha plant and an automaker plant is forty-one miles in Japan (eighty-seven miles in the United States), and an average of 61 percent of output is dedicated to a specific customer. (In comparison, U.S. supplier plants are an average distance of 521 miles from their primary automaker plants.) Clearly, the suppliers's specialized capital investments make them highly dependent on the automakers, with the real possibility of opportunistic exploitations.

Dyer (1993) describes, automakers are also significantly dependent on kankei-gaisha. Most Kankei-gaisha parts are "black box", meaning that the automaker provides only very general specifications while the supplier does all of the detailed functional specifications and blueprints. Consequently, suppliers have significantly more knowledge about the design and manufacture of the part than does the automaker. Because kankei-gaisha black-box parts are customized to a specific model, the automaker is highly dependent on the supplier. If the supplier did not perform as desired, automaker would have difficulty simple shifting business to another supplier, given the product's customized nature. Some kankei-gaisha claim they do not provide the Carmakers with all of the specific functional details when they submit their design drawings for approval (although they admitted they would if the automaker insisted), but intentionally leave out certain important details such as tolerances. Because the automaker does not know the part's exact design
specifications, it is difficult to change suppliers, resulting in the automaker's dependence on the supplier. One kankei-gaisha executive states, "They can't really move business away from us very easily". They need us for our skills, just as we need them.

Under these conditions, each party makes substantial specialized investments, which creates a composite profit stream only if the transactors continue working together. If the relationship is terminated, each party loses some portion of the rent. Thus these specialized investments create interdependence, which in turn creates incentives to cooperate.

3.5 What Are the Implications for U.S. and Western Style Business?

What does all this mean for U.S. and rest of the world managers? The companies located in other part of the globe need to develop a capability for partnering of be at a competitive disadvantage. The question is whether the Japanese partnership approach is adoptable to U.S. companies or is uniquely "Japanese". The answer is that we can adapt the partnership approach to our environment in the same way that we are learning Japanese production practices. For example, Toyota has worked successfully as a partner with Flex-N-Gate, a bumper maker, and Johnson Controls Inc. (ICI), a set maker. Both U.S. companies have allowed Toyota consultants to spend weeks with their organizations teaching them how to improve their operations and work closely with Toyota. Both have made significant changes in their production systems. Both have incorporated Toyota's just-in-time system. And both claim that the Toyota model of working with suppliers is far superior.

Trecce (1992) notes, the results speak for themselves: Flex-N-Gate has reduced die change time from forty-seven minutes to twenty-two-minutes, and a bumper that used to take three days to produce now takes only forty-two-minutes. Overall Flex-N-Gate has more than doubled
productivity while cutting lead times 94 percent, inventories 98 percent, and defects 91 percent. JCI's Georgetown plant (just down the road from Toyota's Georgetown assembly plant) operates almost one-half hour of inventory. The entire process of ordering, seat assembly, shipping, and installation into the Camry takes a little over three hours. JCI makes complete seats only for Toyota. According to JCI general manager Don Buchenbeger, "Toyota took a close look at our metals operation, and we began making changes. At one time, we had a thirty-two-day inventory in metals. Now it's seven days.... The Toyota supplier technical support group taught us about quick die change. The savings over the old way are immeasurable."

Treece (1992) identifies, perhaps most important is the trust and cooperation building between Toyota and these suppliers. According to Jallery Smith, JCI's Toyota account executive, this kind of cooperation has built a depth of trust he has not seen any where else: "We've spent $10 million preparing for the 1992 Camry model change, without a single purchase order. I don't know that we'd do that with any other customer".

Other U.S. firms are making progress. Xerox has lowered costs and increased quality by reducing its suppliers from 4,000 to 500, while imitating many features of the Japanese approach. Chrysler, Ford, Boeing, and other U.S. companies are starting to do the same. However, to effectively utilize partnerships, their managers must learn the following lessons:

1. Don't overintegrate. In cases where all things appear equal, you should probably show a preference for outside production. Extensive vertical integration often leads to less innovation and world-class underperformance. In short, these managers must recognize their dependence on those individuals and companies outside their organization who have the ability to supply key inputs and perform key tasks more efficiently and effectively than they do.
2. Reduce the number of direct suppliers to reduce costs and increase quality through greater economies of scale and less variation in inputs.

3. Make customized investments to optimize the value chain and tailor the system to meet customer and supplier needs. Investments in customized assets can create significant economic value when information is openly shared, problems are continuously identified and solved, and a see through value chain is created.

4. Force suppliers to compete and reward superior performance. Moreover, help your weaker suppliers improve so that they will continue to provide competition to your stronger suppliers. Work with partners as a consultant to solve problems jointly and improve productivity.

5. Protect investments by building trust. Whether it be through stock swaps, interfirn employee transfers, flexible contracts, or other mechanisms, find ways to trust each other while making customized investments to reduce costs and improve quality.

Of course, many will argue that these practices simply won't work in the rest of the world because we were "different." But much of what has made Japanese corporations successful is transferable to companies existing in the rest of the world. Indeed, Japanese firms operating outside Japan have been able to achieve roughly equivalent productivity in their plants located anywhere in the other part of the world including developing countries like India and Pakistan. Toyota's relationships with Flex-N-Gate and JCI suggest that JSPs can work anywhere in the globe. The challenger for these firms is to learn from the Japanese in order to gain the advantages of Japanese-style partnerships. But we must adapt them --- as the Japanese have adapted our best practices --- to fit the requirements of our environment. If we fail to learn from Japan's subcontracting structure, we
may continue to give Japanese companies the competitive edge they need to win in the global marketplace.

3.6 SUMMARY

This chapter has examined policy-focused review on engineering subcontracting and buyer-supplier relationship. Comparisons of Japanese and Western specifically Britain and U.S. firms approach in establishing this relationship is thoroughly synthesized and their implications for the rest of the world including developing countries are explained.

To summarize, it may be argued that the small and medium companies, particularly small manufacturing firms, anywhere in the world, by adopting the Japanese Style Partnership, can bring better results in the shape of quality product and price reduction to succeed both in the local and global market, which will ultimately lead them towards their smooth growth. The models presented in this chapter will be compared with the indigenous environment described in chapter six and to reach on some definite conclusions it will further be synthesized with the real situation explained in chapter seven on case studies.
Chapter Four

Marketing and the Small Firms

Engineering Subcontracting and Enterprise Development in Pakistan
Chapter: 4

MARKETING AND THE SMALL FIRMS:
LITERATURE SURVEY

4.1 INTRODUCTION

The first part of this chapter clarifies the associates’ range of terms, which appear in the literature and are used to examine and explore the issue of marketing and its implementation in the small firms. It is pointed out that the preponderance of terminology in this area can lead to confusion and misinterpretation and as a consequence, obfuscate the challenge for the practising manager. The term ‘marketing’ is certainly an over-used word in the business vocabulary and the looseness of interpretation which surrounds it needs to be clarified in the context of a detailed study of how small companies utilize marketing strategies and plans in their business activities.

The precise nature of the marketing planning process and its relationship to corporate, business or strategic planning is then reviewed. This section begins to address one of the considerations of this thesis: the role marketing plays in the small firm’s business-planning activities. It is argued that many of the researchers and authors in this field use such terms interchangeably and in a loose manner, without giving much thought as to how marketing interacts with corporate decisions. In similar vein much of the discussion, which exists in the literature, tends to focus on large or multinational firms; with little corresponding focus on the small firm. This apparent inconsistency is redressed, referring to the relevant literature, and an attempt is made to relate to the characteristics of the small firm. This exercise indicates that much of the conventional theories regarding marketing have little applicability or indeed relevance for such companies.
The last part of the chapter examines the few attempts put forward as a framework for understanding how small firms can utilize the marketing function and integrate it into overall activities. Moreover, reviewing these concepts, some alternative views are identified and put forward for testing in the subsequent study of small indigenous manufacturing firms.

4.2 MARKETING DEFINED

There have been numerous attempts to define and place marketing in context. A random selection is presented for consideration. While it is necessary to examine what is meant by the marketing concept, it is deemed to be more appropriate to consider the misconceptions, which people have about the term and, more fundamentally, why companies have failed to implement much of what has been recommended in the literature. Felton (1959) describes the marketing concept as a corporate state of mind that insists on the integration and co-ordination of all of the marketing functions, which, in turn, are welded with other business functions, for the basic objective of producing maximum long-range corporate profits.

McCarthy (1984) defines the marketing concept means that an organization aims all its efforts at satisfying its customers at a profit.

Kotler (1971) describes that the marketing concept calls for most of the effort to be spent on discovering the wants of a target audience and then creating the goods and services to satisfy them

In addition to these definitions, a reprise of the works of Drucker in his book, “The Practice of Management” and Levitt (1960) identifies the purpose of business as that of creating and retaining satisfied customers. In achieving this position, the early work of Keith (1960) can be identified as one of the most effective attempts to explain the marketing concept. In his article
he used the Pilbury company, as a case study, to trace the managerial phases through which a company must go through in order to arrive at what he calls the marketing control phase. He suggests that a company moves from the initial production philosophy (which places the emphasis on the notion of "selling what we make"), to a sales orientation which stresses the need for a large amount of promotional and selling effort, through to the marketing philosophy which revolves around the notion of "making what we can sell". This approach as articulated by Keith as far back as 1960 has formed the basis for most opening chapters in introductory marketing textbooks. By implication it is prescriptive in nature, suggesting that it is the most appropriate avenue to success for every company. It clearly identifies both the production and sales orientations as being inferior to the marketing orientation.

It would be wrong to assume that the marketing concept has been embraced avidly by everyone. For instance Bennett and Cooper (1982) have argued that American companies which have claimed to adopt marketing, have diverted attention away from a long-term emphasis on product development and quality manufacturing to a short-term emphasis on tactical areas such as advertising selling and sales promotions. As a consequence, product value has suffered. They cited the cases of the American automobile and television industries - once dominated by local companies, but now dominated by imports. Their thesis suggests that American companies have become seduced by the need to focus on market research to generate new products as opposed to basing strategy on the creative insights of the R & D personnel. As a consequence they argue that the consumer is only able to provide feedback on products with which they are familiar with - leading to "new, improved" products, in contrast to radical innovative products. They perceive the "technology-push" approach leads to truly new products of superior quality and product value. They are supported in this view by Hayes and Abernathy (1980). Thus this notion of the
product concept begins with the ingenuity and inventiveness of the scientists and engineers, not the needs and wants of the consumers. This alternative view would appear to be at odds with the established definitions of the marketing concept.

McGee and Spiro (1988) present a more balanced assessment and note that such criticisms do not contradict the basic tenets of the concept itself. They argue that the product concept is "synonymous with customer satisfaction as described by the marketing philosophy". They support this stance by noting that the product concept is but one implementation of the marketing concept. While in some product categories, customers do demand high quality, innovative products, not all categories require technical excellence, or indeed should be positioned as premium goods within a particular market sector. This is undoubtedly a more balanced, pragmatic position. While scientists (under the technology - push theory) may well generate ideas which subsequently translate into successful products, there have been many instances where this has not been the case. This latter point reiterates a tendency of many writers on the marketing concept to adopt an unduly simplistic, prescriptive approach, which is then applied to all situations, irrespective of the idiosyncrasies and nuances of particular market situations. This extends to the view that markets do exist where the production philosophy, so derisively dismissed by many advocates of the marketing concept, can be an appropriate strategy to pursue.

In the mid 1980's King (1985) wrote an influential article portraying his views as to the performance of marketing within firms in the United Kingdom. He identified a number of false areas of marketing being practised by managers and which have been misunderstood as marketing. This has led to British companies under - performing He suggests four such routes to failure:-
1. **Thrust Marketing** - this reflects a view which focuses almost exclusively on price and price - cutting as the main method for achieving sales. It thus makes the erroneous assumption that the consumer is looking for cheapness: it fails because the consumer is really looking for value.

2. **Marketing Department Marketing** - this practice emerged when companies recognized that selling and marketing were not the same and therefore two departments were created. This encouraged marketers to develop their own arcane practices and jargon, bolted on to the typical company bureaucratic structure with all its hierarchies and departmental boundaries.

3. **Accountants Marketing** - in this particular case, companies have stressed the bottom line figure on the profit and loss statement. This approach, of necessity, has focused on short-term consideration rather than the longer term.

4. **Formula Marketing** - this approach holds the view that control is more important than innovation. This is reflected in the tendency for companies to recruit executives from MBA schools. People from this background are taught to approach problems in the same way; typically relying on excessive number crunching and analysis. They also tend to move between jobs and companies without spending the necessary time to gained the requisite competence in any given area. This approach encourages safe, "middle-of-the-road" brands. It leaves such products open to attack from competitors on a number of fronts however.

The four false marketing practices outlined above appear to make sense from an intuitive point of view. It is easy to cite countless examples of companies who have fallen into one, some or all of those traps. King succeeds in making people think about the true role of marketing and
its basic function in the company. He is on less sure ground when it comes to the recommendations for improving marketing practice. While it is difficult to disagree with his suggestions: that a) a company should start with the company, b) adopt a longer term perspective, c) use all the company resources and d) innovate, it is less clear as to how such thoughts might be implemented in such organizations.

The views of Bennett and Cooper (1982) provide some telling evidence as to why marketing has not played as proactive a role in strategic planning as many advocates would desire.

Schnaars (1991) puts forward the view that the greatest gulf between marketers and business strategists exists in the respective attitudes to the competitor. Historically much of what has been written on strategic planning has considered the competitive effects. By contrast he notes that the traditional marketing paradigms have focused on the consumer, not the competition.

The mention of competition and the concomitant need to study competitive manoeuvres in essence identifies the link between the marketing concept and marketing strategy. The seminal work of Michael Porter (1980) in the 1980’s, most notably his book Competitive Strategy moved competition to the forefront of strategic thinking. Although his background is in the area of industrial economics and his work has been directed towards the mainstream business strategists, he has succeeded in concentrating the minds of marketers on the role of the competition when designing marketing strategy.

Schnaars (1991) makes the valid observation that marketing strategy requires a balance between two separate groups - consumers and competitors. Historically, marketers and business strategists have focused on only a single orientation.
Schnaar's views have some degree of substance in that they suggest that the marketing concept by itself, has proved to be an incomplete view of business. He can be challenged however on the claim that many of the writers have ignored competition. It is more accurate to suggest that they have downplayed the influence of competition. It is less accurate, indeed simplistic, to suggest that the competitive factor has been ignored. A perusal of many standard textbooks on marketing provides evidence that the competitive factor is given attention. A good example is that of Murray's (1987) book which depicts the marketing function as "managing market needs with company resources in a competitive environment to produce products or services that is needed at the appropriate time, price and location, and which is clearly communicated to the target market."

4.3 MARKETING STRATEGY

Greenley and Aaby (1992) provide a synthesis of the various approaches used by writers in the literature to explain the concept of marketing strategy. They present five differing schools of thought as to what makes up marketing strategy. These are outlined in table 4.1.

Their categorisation of the various approaches serves the highlight the incremental manner in which marketing strategy has begun to overlap with much of the strategic management literature; once again highlighting the difficulties of differentiating between the various terms.

The Marketing Mix School reflects the traditional way of explaining marketing strategy. This approach is best summed up in the work of Boyd and Larreche (1978) who put forward three levels of strategies by which the elements of the marketing mix are organized:

* marketing strategies - the generalized statement which applies to the marketing mix across a set of product - market entries. It is company specific and stresses the
interrelation of those elements related to the product, its price, the distribution system and the communications system.

* marketing element strategies - this adopts a narrower focus, emphasizing a specific element of the marketing mix such as the particular type of product strategy (innovative versus follower), pricing strategy (penetration versus skimming) or distribution strategy (selective versus exclusive versus intensive)

* product - market entry strategies - this kind of strategy statement sets forth guidelines pertaining to a specific product - market relationship. It bears a close relationship to corporate strategy, because it focuses on the general product - market equation and thus involves decision - making in the areas of resource allocation, and investment.

**Table 4.1**  **EXPLANATIONS OF MARKETING STRATEGY**

<table>
<thead>
<tr>
<th>FIRST: THE MARKETING MIX SCHOOL</th>
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<td>How a company organises the elements of the marketing mix</td>
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<td>SECOND: THE TARGETING PLUS MIX SCHOOL</td>
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<td>Targeting and positioning in certain segments of the market and how the elements of the mix are used in each segment</td>
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<td>THIRD: THE SEMANTICS SCHOOL</td>
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<td>The establishment of marketing objectives, selecting target market segments and developing a mix for each segment</td>
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<td>FOURTH: THE HIERARCHY SCHOOL</td>
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<td>The utilisation of marketing through the management hierarchy at the corporate, business and functional levels</td>
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<td>FIFTH: THE STRATEGIC MANAGEMENT SCHOOL</td>
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<td>The establishment of product - market spaces, sustainable competitive advantage and the commitment of resources</td>
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The second attempt at explanation; the Targeting Plus Mix School, defines marketing strategy as the integration of market choice plus marketing mix configuration choice. For example popular textbooks such as McCarthy (1981) and McCarthy and Perreault (1984) use the term "target market" extensively, to highlight how a firm will establish market share in any given segment. A related term, "positioning", has also featured prominently in the works of Kotler (1976), where he uses the concept to establish leadership for companies in selected markets. In a similar vein, Greenley (op cit, Murray(1987)) uses the term in the context of the decision as to which market segment or segments to participate in.

The Semantics School is best represented by the works of Cravens (1982) and Cravens and Woodruff (1986) where the objectives are included as part of marketing strategy. To add to the confusion, another strategy label is introduced, where positioning is used in the context of formulating particular activities as opposed to positioning the company in the market-place (as was the case with the previous school).

The Hierarchy School is based on relating marketing to different levels in the organisation. This is best evidenced in the writings of Jain (1987) where he uses the term corporate marketing, strategic marketing and marketing management almost synonymously. He suggests that marketing strategy takes place at the business unit level and that a number of inputs from the corporation, customers and competition shape the resultant strategy.

Aaby and McGann (1989) take up this theme and argue that marketing has a role to play throughout the management hierarchy. They identify three levels: -

* corporate marketing strategy - the mix elements

are applicable across the whole company, being part of the navigational role of the company
* business marketing strategy - the sharing of certain mix elements, such as
  channels and sales force, where the implementation for each SBU is the same
* functional marketing strategy - a specific mix unique to each business, formulated
to address the specific needs of served segments and/or markets

As a result, Aaby and McCann (1989) define marketing strategy as an activity that
organizes marketing mix efforts and resources relative to strategic references, such that the
resource allocation, in the long run, enhances the value of the firm to all stakeholder groups.

The final group as identified by Aaby (1989), the Strategic Management School, argues
that much of the confusion in the use of terminology springs from the fact that strategy is used as
either a process or the output of that process.

This synthesis by Greenley and Aaby (1989) raises more questions than answers. For
instance it is debatable whether the five separate "schools" identified in their analysis are as
clearly separated as they would wish the reader to believe. The hierarchical effect - whereby
marketing is perceived to operate on a number of different levels (from functional to corporate)
would appear to exist to a great extent in each of the categories. The only discernible difference,
which can be detected, is the extent to which a particular school overtly advocates the fact that
marketing strategy equates with strategic marketing and that both terms are used synonymously.

Aaby's work has only served to further add to the confusion surrounding the use and
application of these and other terms. However it is submitted that it is both pragmatic and logical
to use these terms interchangeably provided a number of caveats are entered into.

Firstly it is prudent to consider the specific category level. For example are we talking at
the corporate, strategic business unit or purely functional level? Here, delineation can be made,
as many of the marketing activities most commonly associated with the elements of the marketing mix, would clearly be undertaken at a functional, departmental level.

Secondly, much of the discussion and examination contained in the literature fails to address the differences which can occur in both the interpretation and utilization of terms such as marketing strategy and strategic marketing as a result of company size and whether or not a company is a single or a multi-business operation. This is partly due to the background of the academics responsible for promulgating the alternative viewpoints and also due to the focus, which is given to the large enterprise.

It can be seen from the preceding analysis of the literature that marketing has a major role to play in the strategic planning process. Wind (96) has identified the development of product and marker opportunities and the preparation of a detailed marketing plan for such ventures as being pre-eminent in this regard. He also suggests that the marketing function acts as a motivator of change within the company and contributes a range of analytical tools and concepts, which can aid the strategic planning process. This latter observation of course presupposes that marketing, as a function, is accepted unequivocally within the ranks of senior management and that such recommendations which emanate from the marketing personnel will be acted upon and implemented within the realms of the overall corporate plan. It is submitted that this is a rather simplistic point of view which ignores the inter-functional rivalries and prejudices which have been discussed in greater detail earlier in this chapter. It is one thing to advocate a range of functions which marketing should be expected to perform; it is quite something else to expect them to be implemented.

It is further argued that there is a great likelihood that much of the preceding discussion needs to be re-evaluated in a number of different contexts. Firstly discussion needs to take place
in the context of the small, growing enterprise, which after all is the primary target for investigation in this study. Likewise it is also necessary to present an examination of the interface between marketing planning and strategic planning.

4.4 MARKETING PLANNING AND THE SMALL FIRM

The characteristics of the small firm, together with the contribution, which it has made to the economy, have been considered in great detail in earlier chapter. In addition the entrepreneur and the growth patterns of the evolving firm have also been examined. One significant area which has not been addressed so far (and which is central to the development of the research methodology for the study) is the way in which the small, growing firm utilizes and adopts overall business planning and in particular how it uses marketing and marketing planning within such a framework (if one exists in the first place).

The analysis of the characteristics of small enterprises indicated a number of areas in which owner - managers differ from professional management in larger companies. Carson and Cromie (1989) and the earlier work of Cohn and Lindbore (1972) note that the former tend to adopt a negative attitude to marketing; perceiving it as a cost to the business (in contrast to an investment), treat distribution and selling as uncontrollable problems and perhaps more significantly, harbour rather cynical views about whether or not general marketing rules and principles can be applied in all cases. By contrast it would appear that they believe each case to be so specific and idiosyncratic, that the latter practice would be dangerous.

More pragmatic considerations also ensure that a different marketing perspective prevails in the smaller enterprise. For example, most owner - managers have (by the very nature of the operation allied, to the limited financial resources) to be experts in all matters pertaining to the
running of the business; ranging from telephonist to accountant to salesperson. Schollhammer and Kuriloff (1979) suggest that as a consequence, the smaller firms adopt a much more pragmatic approach to the use of marketing techniques and tools as an aid to problem-solving. Given the limited resources, expertise and limited impact (due to fewer orders, less customers and fewer employees) it is not surprising therefore that Carson and Cromie (1989) argues that the small firms' marketing is shaped by the peculiarities of the small firm and may well be constrained by them.

4.5 MARKETING AND THE SMALL FIRM

The essential benefits associated with marketing strategy and planning have been well aired in previous part of the chapter. However a clear dichotomy between what has been prescribed in the literature and what actually happens in practice, with regard to marketing strategy and planning was identified. This in turn calls into question the level or degree of acceptance which companies associate with the marketing planning process. In this regard the 1991 study by Leppard and McDonald (1991) has put forward some tentative suggestions as to precisely what types of planning process exist. These are outlined in table 4.2.

This framework is undoubtedly useful because it identifies the fact that the planning approach will differ, depending on the stage in the phase of organization growth. It also demonstrates that a degree of flexibility is required, in contrast to a rigid, formalistic approach (which is often encouraged within the literature).

What then does the relevance of the above framework have for the small firm? It is clear from the empirical studies carried out by Leppard and McDonald (1991) that there are great dangers associated with applying a standard framework of the marketing planning process to all
companies, irrespective of size, length of establishment or nature of the products - markets served. As Carson (1991) notes, "marketing planning must fit the circumstances of the organization". It is further submitted that the characteristics of the small firm reinforce this notion and that as a consequence, attention needs to be paid to the precise manner in which the marketing planning process can be tailored in such a way as to prove to be meaningful to such companies.

To what extent therefore can the literature on marketing and the small firm help to provide a clearer insight? Yet again, a review of the relevant work indicates a paucity of meaningful research in the area. For instance, Davis et al (1985) in 1985 found that there was not a single article in the Journal of Marketing, which addressed the theme of marketing and firm size. This may simply reflect the fact that much of the research in this journal is based on American businesses; where the focus has traditionally been on the large company. On the other hand, Cannon (1987) observes that much of what is written is largely descriptive or pedagogical. He also notes that the reluctance of researchers to examine the smaller firm may relate to the fact that such companies may be less accessible than larger firms. This view however can be strongly challenged, given the increasing difficulties associated with obtaining interviews with executives from the latter companies, due to the number of academic and commercial researchers operating within the business environment. Most of the entrepreneurial models of behavior as evaluated in chapter two, pinpointed the view that such an individual tends to be a generalist, with responsibility for all aspects associated with the running of a business. This, Cannon (1987) argues, would appear to conflict with the traditionally held view that marketing is a professionalised pursuit and perceived as a functional activities. If one also accepts the results of work by Chell (1985) which shows that proprietors of small firms tend to operate to very short
time horizons, allied to the intuitive approach which many such firms adopt to planning, then an alternative view of how marketing is utilized by such firms, begins to emerge.

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<th>TABLE 4.2 CATEGORIES OF PLANNING</th>
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<td>Phase of development</td>
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<td>Creative evolution</td>
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Carson (1991) has provided the most recent and comprehensive work with respect to the way in which the small firm uses marketing. He has put forward six marketing models which he perceives as intending to be used in an exploratory assessment of small firms' marketing performance. They are worthy of evaluation.

**Model 1: Marketing Limitations.**

This approach takes the view that the small firm’s constraints effectively limit the manner in which they can use marketing within their business operations. These constraints: limited resources, lack of specialist expertise and limited impact on the market - place all conspire to ensure that in the vast majority of cases, such companies are not in a position to adopt many of the marketing tools, concepts and techniques which have been identified in the literature.

While identifying some pragmatic reasons for not adopting marketing (or utilizing it in a very limited manner), this model offers only a partial explanation and is too superficial, if accepted in isolation, to provide a detailed understanding. Carson (1991), however, does caution against this view, suggesting that the six models should be considered as an interlocking network.

**Model 2: Levels of Generalization.**

This model argues that while general concepts, theories and approaches to marketing are acceptable in the "general" sense, but they need to be adapted for use in the "situation specific". Carson (1989) cites the work of Weitz and Anderson (1988) who constructed a "structure - environment match" model which matches complexity, unpredictability and interconnectedness - called environmental characteristics, with differentiation and integration, which they call organizational characteristics. In essence this model puts suggests a "trickle - down" effect: from the general marketing concepts, through to those which reflect particular industry or product
sectors e.g. services, industrial or consumer, eventually arriving at situation specific situations - such as small business marketing.

This model makes intuitive, good sense, although it lacks any real depth of rigour or adequate empirical testing to suggest that it is anything more than supposition.

Model 3: Planning versus Operations

This approach identifies two distinctive kinds of marketing decisions and speculates on how difficult it can be for small firms to maintain a balance between the two areas. This is perhaps best illustrated in the work of Sanderson and Luffman (1988) who make the distinction between thinking and doing. Thinking referring to planning as a response to the environment, whereas doing is self-explanatory, focusing on the immediate environment.

Thus Carson (1991) argues that planning activity in small firms can be viewed as being minimal or balanced. "Minimal", refers to a situation where a firm carries out little or no planning but instead is concerned with the operations of marketing. Any planning, which is carried out, is treated as a loose guideline. Balanced is defined as a circumstance where some marketing planning occurs i.e. at least once a period and where marketing is "appropriately balanced" between planning and operational activities.

This approach (yet again) makes intuitive good sense. However there is a great degree of "fuzziness" associated with terms such as "appropriately balanced". It is difficult to pinpoint the demarcation line between operations and planning. It can be argued that operational activities are part of the planning process anyway. Supposition wins out at the expense of empirical evidence.

Model 4: Marketing Planning Adapted for Small Firm

This would appear to be a "re-working" of the theme outlined in model two. It accepts the general principles of marketing, but argues that it needs to be applied in a simplistic manner,
in order to be both workable and attractive to the owner - manager. Two broad components form the nucleus of the planning process: external considerations and internal considerations. He further suggests that two categories can be used to describe the small firm's ability to use marketing planning techniques: limited adaptation, where the company uses techniques which are wholly unsuitable for a small firm, e.g. major media advertising, and substantial adaptation, which indicates the degree of refinement of marketing planning techniques to suit the characteristics of the small firm and its particular circumstances.

This approach appears to be vague and somewhat repetitive (see model 2). However it does make the cogent observation that in all likelihood, a small firm will tend not to have a separate marketing plan from an overall business or corporate plan. Instead, it is more likely ( if it utilizes plan in the first place ) to operate with a standard business plan, embracing marketing, financial and production issues. This, allied to the stress on the need for adaptability and refinement, reinforces the view that an alternative perspective of small business planning needs to be borne in mind.

Model 5: Stages of Marketing Development

This approach is indirectly based on the "stages of growth" model identified in chapter three. It argues that the actual practice of marketing within small firms is based on how it develops from the time it is established through to when it is about to break through the threshold to be a medium - sized firm. It follows the line of argument that the form of marketing which is practiced will vary in terms of sophistication and complexity, depending on the stage of development of the company. Carson identifies four such stages (based on empirical research ). They are as follows:-
* Stage One - Reactive stage; where the company usually starts with one, or a very limited number of customers and is largely dependent for its survival on word of mouth and personal contacts. Marketing as is commonly portrayed in the literature, does not really exist at this stage. If it does, it is likely to be haphazard and primitive.

* Stage Two - Tinkering marketing; here marketing activity is still likely to be haphazard and carried out spasmodically and spontaneously. A typical example of this would be where a company decides to undertake a mail shot exercise or attend an exhibition.

* Stage Three - Entrepreneurial marketing; this is defined as marketing which is recognised explicitly by the owner manager for its value in generating sales but which is carried out by the entrepreneur as part of his or her business activities.

* Stage Four - Proactive marketing; this is defined as a methodical, controlled approach to marketing. This will be usually carried out by a marketing specialist who has been brough into the company from outside, when it hasa grown beyond a certain level.

This approach is more comprehensive than the preceding models. Carson's (1991) research demonstrates that the stages identified in the model are replicated by the companies, which he studied.

Model 6: Levels of Activity

This is a composite model, which draws on much of the content surrounding the previous approaches. It examines the techniques and operations of marketing practice whilst still taking
account of the planning dimensions. It argues that small firms will do marketing in various
degrees of different levels of activity depending on a multiplicity of circumstances, not least of
which may be their stage of marketing development (as discussed in model five). Carson
identifies three such degrees of marketing: little or no marketing - where companies are largely
reacting to customers, implicit or simple marketing - where it occurs as a purely instinctive
activity and finally explicit and sophisticated marketing - where the marketing activity is part of a
co-ordinated and integrated programme. Classification of these three dimensions can be made to
both external and internal considerations. Carson (139) stresses that the six models which he
presents, should be viewed "as an interlocking network revolving around the hub of marketing
planning" (p28). He further suggests that by considering any firm's marketing planning, using any
or all of the models, it should be possible to assess that firm's marketing capability and
performance.

How then should Carson's (1991) work be assessed? In its defence, it can be argued that it
represents a major attempt to treat the topic of marketing planning and its application in the
context of the small firm, with a degree of pragmatism and realism which is not evident in the
rest of the literature. The interviews which Carson and Cromie (1989) have conducted with
almost seventy small firms would appear to support the view that such companies fall into one of
three marketing planning categories: non-marketing, implicit marketing and sophisticated
marketing.

The six models as proposed by Carson (1991), could be reduced in numbers. There would
appear to be a great deal of overlap and duplication within them; particularly in models two and
three. Rather than presenting them as six interlocking models, it would seem to make greater
sense instead, to treat model six as the culmination of the preceding five models.
Earlier work into the issue of marketing and the small firm certainly lacked the detail and depth of analysis, which Carson and Cromie have managed to generate.

Ford and Rowley (1979), in 1979, using a similar research methodology found that many owner-managers reject the use of the marketing planning framework because they believe it to be incompatible with their objectives and motivations. These included issues such as: achieving a satisfactory financial return, acquiring a high level of job satisfaction, retaining maximum personal control, maintaining a minimal reliance on external finance and taking pride in the quality of the product supplied. In essence, they reinforce the view that much of what is written about planning, by academics, does not "speak the language" of the small business owner.

The results of the research reported on, in the preceding paragraphs have also been replicated in the United States e.g. Shuman and Seegar (1986), Kelley and Young (1983) and Robinson et al (1982). Indeed Carland et al (1989) suggest that the relative paucity of planning in small firms may be explained by the personality of the entrepreneur and have conducted research which supports this view.

In a later article Carson (1993) has developed a holistic model for entrepreneurial marketing development. Under this scheme, Carson identifies three aspects which contribute to the model: formalizing the marketing network, developing marketing management competencies and maximizing education resources.

With regard to formalizing the marketing network, Carson argues that it is based on the rationale that entrepreneurs have an intuitive understanding of marketing concepts. While not necessarily knowing about such techniques, their "common sense" approach to doing business is harmonious with marketing development. The mechanism for helping them to develop this approach exists through the personal network of the entrepreneur. While it can be argued that
such a framework is already used informally and sub-consciously, Carson argues that it should be placed on a more proactive and conscious footing. This follows the view that an entrepreneur will introduce an idea to one or a number of trusted individuals within the network, and as a result of feedback, will make the marketing decision. This, he suggests, is more beneficial and more relaxing to the entrepreneur, than having to formally present his idea to "forced" peer groups, which are often to be found in action learning programmes, or in seminars or workshops sponsored by Government agencies.

The second aspect: concentrating on marketing competencies, addresses the issue of which particular attributes are best suited to entrepreneurs and marketing. Carson argues that since the literature has been sparse in its treatment of the topic, it can be inferred that those management attributes, which can be deemed to be characteristic of both the entrepreneur and marketing management, are taken into account. His review of the relevant attributes includes; vision, leadership, creativity, intuition, motivation, initiative, communication, adaptability and achievement orientation. A reasonable assumption which emerges from this, is that any marketing management decisions that incorporate some or more of these competencies will be sound and consistent decisions. Such decisions are made within the context of the marketing decision spectrum. Carson identifies four main headings to encompass such an area: product, price, image and service. Under his argument, the various management competencies identified earlier, should be viewed as an integrative mix of attributes, which, when used in a balanced manner, will lead to better decision making in relation to the marketing spectrum.

The final factor refers to the need to maximize the education resources available. This involves creating an environment, which is designed to encourage opposite perspectives to come together and share their knowledge in the form of joint learning. Carsons (1993) suggests that
there are many benefits to be attained from bringing young managers (new or recent graduates) and entrepreneurs together. This is based on the notion that in many respects, they reflect both ends of the learning spectrum.

Carson (1993) argues that such a joint approach capitalizes on the compatible strengths which derive from both parties. In his view, it succeeds in reducing the dichotomy between marketing and entrepreneurs while at the same time offering an opportunity to combine education and training.

In evaluating Carson's framework, it should be acknowledged that it is in the process of being empirically tested within the confines of his university. The results of this are not yet published, although verbal feedback indicates that it is proving to be popular with both young managers and entrepreneurs. It should also be borne in mind that such a programme has been designed in a small open economy (Northern Ireland), which has a major priority to develop and further improve the quality of marketing activity within smaller firms.

This latest approach by Carson tacitly acknowledges the discrepancy, which exists between the theoretical perspectives offered by many marketing programmes and the specific attributes and characteristics, which motivate entrepreneurs to start up a business in the first place. It reinforces his previously held view that marketing can be used more efficiently and profitably after the company has overcome the initial stages of growth and is about to embark on activities which will have a major impact on its future success. Hence the overwhelming need to provide a programme which will improve the quality of marketing decision making in such firms, while at the same time avoiding the mistake of "imposing" a series of concepts and theories more attuned to the needs of the large or multi-national enterprise.
It is submitted that this type of approach bridges the gap between theory and practice. A constantly recurring theme running through this and the previous chapter has been this failure on the part of many researchers, academics and practitioners to focus on the specific characteristics facing entrepreneurs and owner - managers. In this respect the work of Carson is to be commended. It does not of course provide a solution for those owner - managers who are still cynical about becoming involved with academics or recent marketing graduates. However it can be argued (albeit without the benefit of empirical evidence) that in technology based sectors e.g. electronics, computers and engineering, such owner - managers / entrepreneurs are most likely to be the recipients of some form of a degree from a college or university and thus more receptive to the contributions which recent graduates can make to the development of their business.

4.6 SUMMARY

The main theme to emerge from this chapter is the elucidation of the relevance of marketing for the small, evolving firm. It is argued that the treatment of this topic has not been well developed within the existing literature. The looseness of organizational structure, allied to the level of informality, which exists in such enterprises, raises serious questions about the most effective and appropriate planning mode.

The role which marketing plays in strategy formulation is extensively examined in this chapter. Much of what has been written from the perspective of the company in general, has again been largely prescriptive and normative. The traditional marketing literature has tended to highlight (not surprisingly) the important role which marketing can play in shaping a firm's future. However, a number of recent studies have begun to question its relevance. Brady and Davis have raised a number of doubts about the self - proclaimed importance of marketing, as a
business function. In response to these rather negative impressions, the Chartered Institute of Marketing commissioned a study which examined the extent to which marketing had entered into a mid-life crisis. The results, based on a survey of leading academics and consultants, coupled with a series of in-depth interviews with fifteen successful companies, makes depressing reading and reinforces many of the criticism which has been made in the past about the manner in which companies have misused and misunderstood marketing as a concept and function. The main findings indicated that many companies still associated marketing with selling and advertising - rather than forming an integral part of a customer-driven philosophy.

This study concluded that far from being in a mid-life crisis, marketing is "somewhere between childhood and adolescence". Yet again, there would appear to be a wide discrepancy between the theory and the practice. The argument here is not about a theory's usefulness or appropriateness. Rather it is about the lack of insightful research, which has attempted to find out why companies do not plan or do not make use of the techniques and principles of marketing. When the characteristics of the small firm are taken into account, it becomes even more imperative that research should address the reasons for the discrepancy. The review of the literature contained in this chapter only succeeds in shedding dim light on the matter.

To summarize, this chapter has examined the wide literature on marketing and the small firm, conception of which will be synthesized with the existing marketing practices of indigenous firms described in chapter six and seven so as to extract some conclusive propositions.
CHAPTER : 5

RESEARCH METHODOLOGY

5.1 INTRODUCTION

The literature survey has identified a number of potentially critical issues which have major importance for the subsequent design and construction of a methodology for investigating the manner in which small firms utilize subcontracting and marketing in their planning processes and procedures. This chapter examines the implications of these issues for research objectives; the subsequent selection of the research methodology employed together with a detailed justification of the logic and rationale behind that selection and concludes by pinpointing the possible limitations associated with such a methodology.

5.2 OBSERVATIONS FROM THE LITERATURE REVIEW

The review of the literature in the areas of the small, evolving firm, has identified a number of issues and observations which serve to highlight the subsequent difficulty associated with designing a research methodology. These will adequately address the need to develop an understanding of the process and procedures, the small firm plans its business activities.

These identified observations are:
i) A tendency to apply theoretical frameworks designed in the context of the large organization, to the case of the small firm. This presents a distorted perspective, at best, of the specific characteristics of the small firm and the personality of the owner-manager, and their respective ability to utilize, relate to or adopt the prescribed approaches to planning and strategy development. Similarly, an empirical studies into
small business to focus on broad, macro issues (e.g. contribution to the economy, characteristics of small businesses) without a corresponding concentration on micro issues (such as the internal decision-making processes) could be construed as "putting the cart before the horse"; where the bigger issues are being addressed without a clear or insightful picture of the internal mechanisms.

ii) A tendency on the part of researchers to concentrate on deductive approaches to research design: reflected in a concentration on quantitative methods with a focus on data collection. In essence, this creates a situation where such researchers attempt to provide answers to such questions as "how much?" and "how often?" at the expense of more fundamentals questions such as 'how?' and "why?"

iii) A tendency to "impose" a rationalistic framework to the concepts of planning and strategy development. Thus when many studies subsequently demonstrate that many owner-managers/entrepreneurs do not "conform" to such a mind-set, they are highlighted in a negative context - specifically in the areas of managerial inefficiency and ineptitude. More specifically, Brytting (1990) identifies the tendency on the part of researchers "to separate organizational phenomena in small firms from the thoughts, feelings and lives of the individual human beings involved". This is often reflected on the stress which researchers and authors place on the formal, tangible aspects associated with planning: the documentation, the allocation of management time to the drawing up of the plan and the focus on yearly targets and "bottom-line" figures. By contrast, the literature is distinctly less helpful when it comes to providing an understanding of the internal motivation, leadership quality, personality and decision-making skills of the individual
owner-manager/entrepreneur. Thus it is argued that the "softer", more intangible aspects of plotting a firm's growth path are often ignored, at the expense of an over concentration on the "hard", more distinctly tangible issues, such as the production of a marketing planning document.

The gap between theory and practice, which has been, so clearly identified in the literature focuses ultimately on the twin issues of relevance and realism. Tibbits (1979) provides a fuller discussion of this debate, largely relying upon a synopsis of Mintzberg's (1979) views. This has been comprehensively addressed in an earlier chapters and it is not proposed that the debate should be "re-visited" at this juncture. It is argued that the preceding observations highlight the dangers associated with designing a research methodology based on a single research technique: be it deductive or inductive. In order to obtain a clear insight into the planning practices and procedures which exist in the evolving firm, it deemed necessary to construct a multi-stage, multi-method format, consisting of a mixed qualitative and quantitative approach; reflecting the need to achieve a balance between the collection of statistical data (which provides a superficial picture) and an opportunity to go beneath "statistics" and acquire a more insightful understanding of the processes, procedures and internal mechanisms exist in the smaller firm. This combination of research approaches provides the opportunity to gain an insight into the informal, intuitive means by which the entrepreneur may plot the firm's development.

5.3 RESEARCH DESIGN IMPLICATIONS

It is clear that the design of any proposed research into the planning practices of the small firm is not a simple one-dimensional exercise. Romano (1989) argues that the development of
small business strategies should adopt an "open-ended approach because each individual small business varies in organizational structure and management control". Stanworth and Curran (1976) in an earlier article put forward the view that in order to more fully comprehend the detailed issues of small business, much greater attention needs to be paid to the social dynamics and character of the owner managers. Although written in the 1970's, the review of the literature in this study reveals that their observation is apposite in the 1990's.

This apparent conflict between the desire for conventional quantitative surveys to collect data which is of a generalist nature, and the perceived need to utilize methodologies which provide an opportunity for the researcher to gain an insight into the internal logic which exists in the small firm (and which shapes the subsequent approach to decision-making and strategy development) needs to be resolved before consideration can be given to the more tactical issues concerned with information gathering. This requires debate on the different philosophies, which influence research design.

5.4 **The Two Main Philosophies:**

i) Phenomenology  
ii) Positivism

Traditionally the debate surrounding the most appropriate approach to designing research in the area of the social sciences, has focused on two viewpoints: positivism and phenomenology. Often, much of the writing has portrayed these philosophies as being at opposite ends of the spectrum. However this is not necessarily an accurate reflection of current thinking among researchers. Easterby-Smith et al (1991) in an influential review of the debate on the philosophy of research design observe that in practice, even hardened advocates from either side do not hold consistently to one position or another. They further note that while there has been a trend away
from positivism towards phenomenology in recent years, it is more common to see researchers in
the management field who adopt a "pragmatic view by deliberately combining methods drawn
from both traditions".

The positivistic tradition rests on the assumption that the social world exists externally
and that its properties should be measured through objective methods. The position is most
accurately reflected in the views of the French philosopher, Comte (1853) who observed that "all
good intellects have repeated, since Bacon's time, that there can be no real knowledge but that
which is based on observed facts". This viewpoint has subsequently influenced and indeed
guided much of the thinking with regard to research design.

Not every upholder of the positivistic tradition would necessarily subscribe to each and
every one. However the central tenet of this philosophy is that reality is objectively determined.
What then are the implications for researchers in the management field, should they attempt to
pursue the positivistic school of thought?

Rubenowitz (1980) notes that positivism represents the most prevalent tradition in the
field of the social and behavioral sciences; consisting of statistical analysis of data by means of
descriptive and comparative studies and experiments and more significantly assumes that only
knowledge which is obtained by means of objective measurement and objective identification
can be considered to possess the truth. He coins the term logical empiricism to describe the
results of research, which have been conducted in this fashion.

However researchers questioned the importance placed on the fact that reality can be
objectively determined. Rather they began to argue that the starting point in terms of trying to
understand reality, should based on the notion that it is socially constructed as opposed to being
determined objectively. Easterby-Smith et al (1991) summarize the so-called phenomenological school of thought thus the task of the social scientist should not be to gather facts and measure how often certain patterns occur, but to appreciate the different constructions and meanings that people place on their experience. One should however try to understand and explain why people have different experiences, rather than search for external causes and fundamental laws to explain their behavior.

Easterby-Smith et al (1991) provide a hypothetical example of the two different ways in which a positivist and a phenomenologist would attempt to study the area of managerial stress. Most likely the latter would be interested in the aspects of work that managers consider to be "stressful" and perhaps in the strategies and procedures that they have managed to develop to help them overcome the problem. Thus the researcher would arrange to talk with a few managers about the nature of their jobs and the specific aspects, both difficult and easy. The positivist would start with the assumption that occupational stress exists and would then try to measure the levels of stress experienced by managers and how these levels relate to a number of external variables such as organizational changes, inter-personal conflicts, negative appraisals and so on. These measures might be collected on the basis of standardized verbal reports or perhaps on physiological factors such as blood pressure or glandular secretions.

The kernel of this hypothetical example is that researchers, who are primarily influenced by the positivistic tradition, utilize a highly structured approach (e.g. a series of personal interviews), which lends itself to the orderly collection of data, which can then be easily analyzed by computer software packages such as SPSS or SNAP. However, potentially important consideration as well as useful sources of information is ignored. Gummesson (1992) points to
non-verbal signs of communication such as body language, the physical environment or unexpected events which may occur during the interview as important influencers on the response of the interviewee and perhaps more importantly on how such a response can be interpreted. It is the emphasis on registering such cues and how they are subsequently interpreted which tend to delineate between the positivistic and phenomenological schools of thought. Gummesson (1992) focuses on the word "interpret" in his writings and adopts the word Hermeneutic (derived from the Greek word hermeneuein = interpret). This, he argues, is going one step further than the traditional phenomenological approach of attempting to understand the respondent and the physical environment. The Hermeneutic paradigm advocates that the researcher goes further and "interpret the immediate events in the light of previous events, private experience and whatever else they find pertinent to the investigation under consideration".

The preceding discussion provides a level of synthesis regarding the two predominant and largely opposing philosophies of research design. While both appear at opposite end of a spectrum, it would be inaccurate to suggest that researchers are to be found in one camp only. Easterby - Smith et al (1991) point to the need for compromises to be made on the part of researchers. This is reflected in the tendency to develop methods and approaches, which provide a middle ground between the two schools of thought. The choice of method is further complicated by what Easterby - Smith et al (1991) label a number of "political" influences. Examples of this would be the attitude of academic institutions to phenomenological research, and the inherent prejudice of many academic journal editors - it is only recently that many journals in the management area have begun (grudgingly) to accept articles based on non-positivistic research design.
It is however too simplistic to suggest that there are only two broad schools of thought, if there is a tendency on the part of researchers to seek compromises or a refinement in approach to research design.

Thorpe and Moscarola (1991) provide an illuminating insight into the various styles, which pertain in designing management research strategy. They use the analogy of the great fictional detectives to illustrate the alternative styles and approaches, which are possible in research. While this creates (if read quickly) a somewhat whimsical and superficial treatment of what is a complex topic, more careful reading suggests that it provides a good insight into the selection of a research strategy. They identify the following approaches.

- **The Theoretical Approach:**

  This follows a process of logical deduction. Here the example of Hercule Poirot is used. In the novels, he listens to witnesses of the crime, withdraws and reflects. Then he goes over their behavior, routines, habits and motives, searching for contradictions. By reconstructing in theory the information, and by deductive reasoning he discovers by logic, the guilty party. In terms of management research this approach would be reflected in collecting all sources of relevant information, having a thorough understanding of the models and theories in the field in which you wish to understand or interpret, applying your own knowledge and expertise and analyzing what you find out and deducing answers.

- **The Scientific Approach:**

  It could be said that the great fictional detective, Sherlock Holmes, behaved in the true manner of a scientist with regard to the manner in which he solved crime. In his quest for evidence, the instruments of observation and analysis (in the form of test tubes and chemicals)
play an important role. It is arguable that without such tools at his disposal, Holmes would be unable to help the clues emerge. In relation to management research, Thorpe and Moscarola (1991) use the analogy of sampling methods - where a sample is selected in order that features about the whole population can be determined. This involves in many cases, minute and systematic observation made either by questionnaires or by structured interviews, repeated numerous times so that statistical accuracy can be derived. It also requires the researcher to make use of data processing tools and resultant elaborate statistical analysis.

- **The Empirical Approach:**

Maigret; the detective popularized in the crime literature by Simenon, is used as the example of this approach. In many of the novels, Maigret appears to place great emphasis on discovering the world within which the crime has been committed - a small, rural, French village for example. He meets people in the local hostelry and engages them in conversation. Following this focus on empathizing with the people concerned, he follows his intuitions and feelings and begins to advance to an answer to the problem of who has committed the particular crime. This clearly calls for skills, which allow him to empathize and gain the confidence of the people concerned. Relating this analogy to the management field, Thorpe and Moscarola (1991) pinpoint the following as being requirements: having physical contact with the field in question, accepting the need to listen to others and see them from their perspective, understand things in depth - without stopping at a prior judgment, give way to one's sensitivity, intuition and instinct and know how to find the real experts in the field so as to be able to benefit by winning their confidence and gaining their experience.

Thorpe and Moscarola (1991) argue that the lesson from using the analogy of the
different styles employed by the detectives reinforces the view that there is a need for a range of composite skills in order to be a competent detective and/or researcher. These include the ability to reason logically, acquire a clear understanding of the tools and techniques which are capable of collecting the data with scientific rigour, whilst at the same time never losing the quality of empirical intuition that helps to provide some crucial insights into the problem. The television detective, Columbo is cited as a good example of a detective who portrays this amalgam of skills.

As a final contribution towards an understanding of the requirements for detecting a research strategy, the character "Dirty Harry" as played by Clint Eastwood, is mentioned. This individual adopts the view that in order to bring about solutions and resolve problems, the best method is to try something - provoke a reaction and thus, through action, remove the uncertainty and understand or confirm the situation. This style of approach is gaining more acceptances in the area of management research - specifically through the adoption of action research. This approach is based on two premises:

i) A belief that the best way of learning about an organization or social system is through attempting to change it and that this therefore should to some extent, be the objective of the action researcher;

ii) The belief that those people most likely to be affected by or involved in implementing these changes should as far as possible become involved in the research process itself.

Thus the researcher actually becomes involved as part of the change process.

The article by Thorpe and Moscarola (1991) provides a useful summation of the key issues that need to be taken into account at the outset of the design of a major research study. They reinforce the view that a one-dimensional perspective of how research should be
conducted, is at best, simplistic and at worst, wrong. This would also appear to support the conclusions, which have been drawn from the extensive review of previous research into small business development, carried out in earlier chapters.

5.5 **AIMS AND OBJECTIVES OF THE RESEARCH STUDY:**

The rationale for undertaking an investigation into the subcontracting and marketing planning approaches which the smaller firm adopts, is based on the initial prejudice that the prevailing literature and past empirical research do not do justice to the complexity and heterogeneity which exists in such enterprises.

5.5.1 **Overall Design:**

The "gap" between theory and practice clearly presents warnings that need to be addressed when subsequently setting aims and objectives for a study into the approaches to planning which such firms adopt. Thus the following considerations were taken into account when designing the aims and objectives.

1. **The balanced approach between deductive and inductive research:**

The earlier discussion on the opposing philosophies has reinforced the view that the adoption of a purely positivistic or phenomenological approach would be unduly simplistic and ignore the reality of the situation where researchers are beginning to compromise between the two schools of thought. The contrasting properties surrounding deductive and inductive research which demonstrate how both approaches can complement each other with clear insight into the problem are mentioned as under:
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<tr>
<td>Identify Properties</td>
<td>Isolate instances</td>
</tr>
<tr>
<td>Measure</td>
<td>Note sequences and contexts</td>
</tr>
<tr>
<td>Select Situation to Study</td>
<td>Select special instances to observe</td>
</tr>
<tr>
<td>Measure, Compare, Explain Variances</td>
<td>Observe, interview, record</td>
</tr>
<tr>
<td>Interpret</td>
<td>Find patterns, sort.</td>
</tr>
<tr>
<td>Prepare Tables and Charts</td>
<td>Triangulate, Validate, Reinterpret</td>
</tr>
<tr>
<td>Report</td>
<td>Make Case Studies - with emphasis</td>
</tr>
<tr>
<td>Explanation - emphasising properties</td>
<td>on particular phenomenon</td>
</tr>
<tr>
<td>Formalistic Generalisations</td>
<td>Naturalistic Generalisations</td>
</tr>
</tbody>
</table>

2. The Use of number of different methods of data collection and analysis:

In line with the argument that a balanced approach to research design is required, so too, it is submitted, is the need for triangulation - which refers to the use of multiple, but independent measures. The justification for such an approach is summed up by Abrahamson (1983) who advances the view that a reliance on one particular tool or technique renders the research method bound and as a consequence ignores the fact that the strength of each particular method is invariably flawed in some way or another. This means that the researcher can counterbalance the strengths and weaknesses of each method. Smith (1975) indeed argues that this use of triangulation can extend beyond the use of data collection methods. It can allow for the borrowing of models and frameworks from different disciplines. Likewise, Todd (1979) advocates the use of methodological triangulation - where the researcher uses both qualitative
and quantitative methods of data collection. For instance in his research, use was made of
questionnaires for overall survey, and in-depth interviews and case studies.

The precise manner of the methods used and the sample selection process is outlined in fig. 5.1

**Figure 5.1 Methods and Sample Selection**

| Phase One: - Methods Employed. | An unstructured interview - following a series of
| Sample Selection. | broad themes and issues. |
| All 30 firms - selected from a same industry sector. |

| Phase Two: - Methods Employed. | Depth interviews, observation, formal and informal
| Sample Selection. | interviews, input of a research colleague. Case studies.
| 3 firms which comprise a representative picture of
| enterprize at various stages of the company life - cycle. |

**5.6 SPECIFIC DESIGN OF THE RESEARCH STUDY:**

A general overview of the design of the study was presented in section 5.5 of this chapter.

The rationale for adopting a study consisting of two phases, ranging from the general to the
specific, reinforced the view that a multi-stage methodology would be most effective in
addressing the stated aims and objectives. It is now necessary to consider in greater detail, the
justification for choosing the two main techniques for collecting the necessary data i.e.,

- Survey of all Units
- The depth interview and the case study.
5.6.1 Phase one: Collection of Information

Both primary and secondary sources were used for collection of information. Very little published information was available. On this the greater attention was therefore paid to the primary source.

The following methods can be used for the collection of primary data:

- Experimentation
- Observation
- Survey

Experimentation is a new technique, which has been introduced, in marketing research. Nelson (1982) states that an “experiment” investigates the extent to which a change in one variable (called the independent variable) leads to changes in another (dependent variable) for an identical problem under control condition. In experimentation, the researcher tries to control or manipulate the independent variable before measuring the effect on the dependent variable. Parasuraman (1986) believes that experimental research will increase the degree of confidence one can have in any suggested cause. The difficulty, however, in using any experimentation technique may be that the independent variables are beyond the control of researcher or that it may be too expensive and time consuming. For the purpose of this research experimentation is not possible due to lack of control over the market environment, particularly the market pricing, and the actions of other suppliers and subcontractors.

Chisnall (1986) identified a second method available for the collection of primary data is the use of the “observation” technique. It is suggested that the major advantage of this technique is the convenience of the respondents, since they do not participate directly in the data generation
process. Also, as the respondent does not interact with the researcher, distortions stemming from the respondents are minimized. This technique, however, is not quite versatile enough and its application is limited to the visible characters only. In addition, the researcher may have to wait till the relevant event or behavior occurs. This technique is not applicable in this case because of diversified nature of problem being examined. Tull and Hawkins (1984) assert that observation techniques are both underdeveloped and underutilized. Little research has thus far been focused on assessing the accuracy of the observation method.

Tull and Hawkins (1984) describes, the survey research method is considered to be the most common method of collecting primary data to be used in marketing decisions. Kinner and Taylor (1987) provide both the qualitative and quantitative data required meeting the research objectives. Survey research is concerned with the administration of questionnaire. Tull and Hawkins (1984) described that it involves the systematic gathering of information from respondents for the purpose of understanding and/or predicting some aspects of the behavior of the population of interest.

Kinner and Taylor (1987) describes that the main constraints affecting this method are the extent to which respondents are willing and able to provide the desired data. In addition, an interviewee may be influenced by the interviewing process and accordingly provide distorted information. These constraints can, however, be minimizes by carefully designing the research and data collection instrument and ensuring its proper implementation. Considering the overall usefulness of the survey research method, the secondary source, 12 adopted such kind of data gathering method covering all 30 units given in figure 5.2, located in the cluster.

There are four possible ways of administering a questionnaire (also called methods of
interviewing). These includes:

- Mail
- Telephone
- Computer
- Personal

Questionnaires may be sent by mail to the respondents who return completed questionnaires to the researcher by the same method. Tull and Hawkins (1984) states mail interviewing tends to take the longest time and the response is the slowest. The response is less spontaneous as the respondent can read the whole questionnaire and can change his answers to the earlier questions. Nevertheless, this may be the most economical technique to use. This method of interviewing however, is not feasible for this research, because:

- All the respondents are not sufficiently well educated to be able to reader and understand the questionnaire.
- The response may be very slow as there is general tendency to avoid such surveys because of fear of disclosing some important information relating to the respondent’s business that may be used against them.
- All the respondents are living in one cluster.

Data may also be collected through interview conducted be telephone. While instant data analysis is possible by mean of computer aided telephone interviewing and this method may be more economical compared with personal interviewing. The method cannot be used for this research, as:

- Very few production units seem to have telephones. Therefore an adequate sample
cannot be selected.

- The length and complexity of the questionnaire does not allow the telephone method to be used for the collection of data.

Interviewing by computer is an advanced technique whereby the interviewer interacts with the respondent through a computer terminal. The respondent's access to the terminal is important. This technique is not possible, as the farm machinery producing industry located at Mian Channu does not have such a facility.

Direct Personal Interviewing is a suitable and appropriate technique for the purpose of this research. Tull and Hawkins (1984), assert that personal interviewing is the best technique when the interview is likely to be fairly complicated and period involved is lengthy. The technique is widely used in marketing research.

In personal interviewing, the interviewer submits questions to the respondent in a face-to-face situation. Questions can be explained to the respondents and the interviewer can judge whether or not the respondent fully understands the question. The interviewer has a greater measure of control over the situation and cues can be clearly observed. This method allows the greatest opportunity for gathering a considerable amount of information. (Luck and Rubin (1987). The level of response is also higher, as in a face-to-face situation it is less easy to refuse a request for interview. The advantages of personal interviewing are therefore far greater than those gained by using other techniques. Conducting a survey of all agricultural machinery production units, as given in the figure 5.2, located at Mian Channu categorized on the basis of annual turnover, through direct personal interviewing has therefore been considered to be the most appropriate for fulfilling the objectives of this part of research i.e., finding out the general
characteristics of industry, their subcontracting and marketing practices.

5.6.2 Phase Two: In - Depth Interview and Case Studies

5.6.2.1 In - Depth Interview

It will be recalled that in the section 5.5.1, detailing the overall design of the study, considerable emphasis was placed on the need, at the initial phase, to gain a deeper insight into the manner in which companies, irrespective of size, length of time in existence, or industry sector, go about the task of developing, implementing and monitoring plans. In order to achieve significant benefit from such an exercise, attention had to be paid to the particular data collection method, which would yield optimum results. In order to achieve such a level of insight, it was felt that the traditional structured methods of collecting information such as mailed or personally administered questionnaires, would only succeed in providing a superficial grasp of the relevant issues, practices and procedures. Thus, it became clear, from a very early stage, that it would be necessary to employ a method which would succeed in giving the researcher access, in an open-ended manner, to the potential respondent's opinions and attitudes and experiences. This is perhaps best summed up by Burgess (1982) who describes the interview as providing an opportunity "for the researcher to probe deeply to uncover new clues, open up new dimensions of a problem and to secure vivid, accurate inclusive accounts that are based on personal experience". This open-ended approach to interviewing needs greater clarification. Burgess argues that such a "qualitative interview" encompasses a broad range of different types of interview covering a totally non-directive or open approach to one where the interviewer arrives with a series of prepared questions or themes. She further notes that the main purpose of such interviews is to "understand how individuals construct the meaning and significance of their
situations from the complex personal framework of beliefs and values, which they have developed over their lives in order to help explain and predict events in their world".

**FIGURE 5.2**  **FARM MACHINERY PRODUCTION UNITS**

<table>
<thead>
<tr>
<th>Micro</th>
<th>Small</th>
<th>Medium</th>
</tr>
</thead>
<tbody>
<tr>
<td>Chauhan Engg. Works</td>
<td>Kamyab Mujahid Industry</td>
<td>Bhatta Agri. Industry</td>
</tr>
<tr>
<td>Malik Shaukat Engg Works</td>
<td>Master Agri. Industry</td>
<td>Dogar Agri. Industry</td>
</tr>
<tr>
<td>Quami Zarai Aalat industry</td>
<td>Pakistan Agri. Implements</td>
<td>Karman waley Agri. Indst.</td>
</tr>
<tr>
<td>Zamindar Engg. Works</td>
<td>Rizwan Industry</td>
<td>National Agri. Industry</td>
</tr>
</tbody>
</table>

The choice as to whether to opt for a structured versus unstructured approach was a relatively easy one to make. Given the desire for a probing, exploratory approach, it became clear that a highly structured approach would be unsuitable because:

a). It restricts the respondent from talking freely and openly,

b). It forces the researcher to adopt pre-conceptions about the questions, which need to be asked,
Chapter Five: Research Methodology

162

c). It restricts the open-ended nature of exploratory research.

When the above observations are reconciled against the stated objective of gaining an insight into planning practices and procedures, then the depth interview appeared as an attractive, but more importantly, correct means of generating such information.

All agricultural machinery-producing firms located at Mian Channu were included in this phase of the study. The criteria used for their selection were as follows:

- Age of the business.
- Size of company (initially defined as annual turnover)

As a result, three companies emerged as candidates for this phase of the research. They formed a basis for the main focus of the project: the case study.

5.6.2.2 The Case Study.

This phase of the study concentrated on an examination of a number of case studies in order to gain a deeper understanding of the process of planning and the differing procedures utilized by the small evolving firm. This met the original objective of the design of the study: namely to move from a general, quantitative survey of the sector to a more detailed and specific investigation. It was felt that the most appropriate research tool for achieving this objective would be the case study method. Given the sharp divergence between theory and practice, allied to the over-emphasis on positivistic approaches to research design, it was felt that there was a need to incorporate research tools which would allow for the development of theory. In this respect, researchers such as Eisenhardt (op cit, Gummesson (1992)) advocate the adoption of the case study as an appropriate technique. It is therefore necessary to justify the selection of this tool and evaluate its usefulness.
5.6.2.2.1 The Nature of Case Study Research

Gummesson (1992) notes that there are two types of case study: one which attempts to derive *general conclusions* from a limited number of cases and the second which seeks to arrive at specific conclusions regarding a *single case*. A tighter definition is provided by Yin (op cit. Gummesson (1992)) who suggests that a case study is an empirical inquiry that:

- investigates a contemporary phenomenon within its real-life context; when
- the boundaries between phenomenon and context are not clearly evident;
- and in which
- multiple sources of evidence are used.

Perhaps of more relevance to the researcher is the manner in which case studies can be used for research purposes. Yin (op cit, Gummesson (1992)) identifies three such types of uses: *exploratory, descriptive and explanatory*. Traditionally in the field of business research, researchers have viewed case studies as a pilot study; in order to generate questions for subsequent hypothesis testing in a quantitative survey. By contrast a descriptive case study is an attempt to describe a sequence of events in a particular situation. For instance it can be used to describe how a particular product has been developed and launched in the market place. This is often regarded in low esteem by many people who evaluate it in contrast to predictive and prescriptive methods. This rests on the assumption that the material is generated from simple observation and reporting. However Gummesson (1992) quotes the views of one researcher who suggests that in order to make descriptions in the first place, the researcher has to make choices and these choices in turn are based on analysis and interpretation. Gummesson (1992) takes the view that case studies can also be used for studying processes in companies and also for
explanatory purposes. In similar vein, Kjellen and Söderman (ibid, Hagg (1978)) suggest that case studies can help to generate theory and indeed as a means for initiating change in organizations. This latter view places great emphasis on the need for the researcher to concentrate on processes that are likely to lead to understanding - *Verstehen* - rather than simply as a search for causal explanations.

Gummesson (1992) picks up on this theme and argues strongly in his book that one of the important advantages with the case study (if used correctly) is that it can provide the opportunity for a holistic view of a process. He quotes the views of Valdelin (op cit, Gummesson (1992)) who notes that the detailed observations entailed in the case study method enable us to study many different aspects, examine them in relation to each other, view the process within its total environment and utilize the researcher’s capacity for "Verstehen". Consequently, case study research provides us with a greater opportunity than other available methods to obtain a holistic view of a specific research project.

This is clearly viewed as the opposite of reductionism; where the emphasis is focused on breaking down the object of study into small, well-defined parts. It is clear when looking at the results from the second phase of the study that the process of planning within the smaller firm does not lend itself to a neat delineation of elements. It is much more fluid than that and as a consequence it is submitted that the case study method is highly appropriate in an attempt to gain a clearer insight into the process of planning.

5.6.2.2.2 Criticisms of the Case Method

It has to be acknowledged that the very nature of case studies as highlighted in the preceding section, has attracted a considerable degree of criticism. Hagg and Hedlund (1978)
identify three such criticisms:

- Case studies lack statistical validity
- Case studies can be used to generate hypotheses but not to test them
- Generalizations cannot be made on the basis of case studies

The issue of generalization is perhaps a critical one. Gummesson (1992) provides a persuasive argument to suggest that researchers should be increasingly more dubious about the term. The emphasis on the need to be able to generalize comes in part from the research tradition in the field of marketing, which has been limited to statistical and mathematical methodologies combined with survey techniques drawn from the behavioral sciences. This is changing somewhat. The influential article written by Bonoma (1985) in 1985 for instance argues for greater use of qualitative methods in marketing research. In addition he adopts a pragmatic view by suggesting that while the primary objective of all researchers is to achieve a high level of both data integrity and currency, in most cases they will have to trade off one against another. An example would be where the researcher acknowledges the possibility of some bias, in an attempt to achieve a greater degree of generalization. While this may appear to be a serious weakness, it is submitted that it is a realistic view of the process of, and outcomes associated with research. Bonoma (1985) indeed argues that the cause for this possible trade-off is “the inability of any single research method simultaneously to generally multiple threats to both data integrity and currency”. If this view is accepted, then it reinforces the ever-recurring theme that runs through this chapter: namely the need for triangulation.

Gummesson (1992) himself states that his views have been heavily influenced by Normann (1970) who argued that provided the researcher has a good descriptive or analytical
language which allows for a comprehensive grasp of the interaction between various parts of the system, possibilities exist to generalize from very few cases, or even one single case. Yin (1984) identifies the key to such a possibility exists in the ability of the researcher to “reach a fundamental understanding of the structure, process and driving forces, rather than a superficial establishment of correlation or cause – effect relationships”.

Gummesson (1992) has refined this view and argues that “science is a journey; not a destination”. This is a simple but nonetheless a profound statement because it acknowledges that research should be viewed as a continuing process of understanding that never actually reaches the final truth. This sentiment would appear to be very much a driving force for the objectives behind phase two of the study.

5.6.2.2.3 Making Effective Use of the Case Study Method

Yin (1984) identifies a number of required skills that can help to make the case study a more effective research tool. They include:

- The ability to be able to ask good questions - and to interpret the answers.
- The ability to be a good listener and not allow predisposition or prejudices to influence the interpretation of the information collected.
- The ability to be adaptive and flexible so that newly encountered situations can be seen as opportunities, not threats.
- The ability to retain a firm grasp of the issues being studied.
- The ability to remain unbiased by preconceived notions.

Yin (1984) argues that most of these attributes are remediable and that any researcher who is lacking in one or some of the skills can work on them. However there is a fundamental
requirement to carry out an honest assessment before embarking on the case study method.

Leavy (1994) makes the astute observation that many of the classical exponents of case-based research agree on the fact that there is a *craft* process attached to what they do. He also cites the views of Mintzberg (1979) who draws the analogy of detective work or the tracking down of patterns as being of critical importance during the development and subsequent analysis of case studies.

The preceding observations reinforce the perception that the case study method should not be viewed as a simple, straightforward exercise. Leavy (1994) encapsulates this perception by noting that the Case-based qualitative studies consist of 95% perspiration and 5% inspiration. Leavy (1994) also identified that 5% element is particularly critical in qualitative research and is the product of a somewhat mysterious process of the imagination.

**5.6.2.2.4 Justification for the Selection of the Case Method**

The purpose and nature of the case study method have been investigated in the previous sections, together with an outline of the criticism, which have been made of it. It is necessary at this stage to put forward the main reasons as to why such a method was utilized for this study.

Firstly the case study provides for a situation where a variety of different methods can be used in the generation of data and subsequent analysis and interpretation. This approach ensures that the researcher does not become hidebound or dependent on any one technique. As has been stressed earlier, the case study method calls for a degree of flexibility in the approach of the researcher. While this can create problems, it is argued that it follows a more realistic approach than would be the case where a single data collection method is used. Thus triangulation is achieved through this mixing of methods.
Secondly the case study is viewed as being a suitable tool, which allows the researcher to gain access to reality. It means that the level of personal involvement and amount of interaction is far higher than is the case with traditional research tools such as telephone interviews or mailed questionnaires. Thus the case study provides a logical, sequential development from the information gathered in phases one and two of the study. It can be argued that action research, where the researcher works in the capacity of a consultant / change agent, with a company or organization, over a long period of time, provides a much greater level of interaction, understanding and access. However this was not possible from a practical or indeed logistical point of view.

Given that both the review of literature and the results obtained from phases one and two, highlighted the clear deficiencies between current theory and apparent practice, it became clear that there was a need to utilize inductive research. In this respect, the approach as advocated by Gummesson (1992) was deemed to be most appropriate. Thus both inductive research and deductive research can work hand in hand. Initially, inductive work can generate data. This data can subsequently generate deductive research in an effort to arrange data in meaningful patterns, followed by new indications and so on.

It has been constantly argued throughout this work that the study of how the evolving firm utilizes planning is a complex one. It therefore behooves the researcher to gain an understanding of the procedures adopted, within a range of different contexts (depending on the stage of the life cycle). It is argued that this cannot be achieved through the positivistic paradigm. Instead it calls for a level of interaction and access, which can only be found through the case method.
5.6.2.2.5 Utilization of the Case Study Method in the Study

Three firms were identified as being suitable candidates for further, more detailed investigation in the second phase of the study. Therefore it was relatively easy to set up a series of company visits.

The first potential problem, which had to be addressed, was the question of how many cases should be conducted within phase three? The approach known as purposive or theoretical sampling as advocated by Gummesson (1992) was finally adopted. Under this method, the principle of saturation is pursued. This means that the researcher adds cases until the marginal utility of additional cases is small i.e. a new case adds little to the understanding which has been already achieved. Thus while several visits were made, only three detailed case studies with assessment and analysis are presented in chapter 8.

It was also felt that the analysis of the material generated from the studies would be improved if a research colleague accompanied this researcher on the visits to the companies. This is a stance, which is strongly advocated by Pettigrew (1985) who argues that it allows the case under investigation, to be viewed from the differing perspectives of multiple observers. Eisenhardt and Bourgeois (1989) have also made effective use of the variation in their research. In this way, a subsequent sharing of interpretation would further add to the richness of the data and the subsequent interpretation. This colleague had been aware of the researcher's work in the earlier phases and was fully conversant with the subject matter prior to the company visits.

Every attempt was made to tape the interviews. For the most part, respondents were happy to comply with this request. The typical interview lasted one to two hours with a detailed tour of the factory. Most respondents provided access to documentation (business plans) so that
the researchers could observe the tangible evidence. This part of the case study could be deemed to be the formal interview. Where possible (depending on the time available and the willingness of the respondent) both interviewee and interviewers went to lunch. This part of the investigation was not taped. Rather the objective was to create a relaxed atmosphere where both parties could unwind. It proved to be an effective means of "gaining access" to the respondent because it took place away from the "office environment". This in turn meant that information was shared which may not have emerged in the formal interview.

When the company visit and interviews were completed, both this researcher and his colleague remained in the hotel, where time was spent sharing thoughts and interpreting / summarizing the information which had been generated. This was "talked" into a tape recorder; thus providing a further level of data and more importantly ensuring that early impressions or thoughts were captured. It was felt that if such an exercise was not pursued, a number of ideas would be lost, through the passage of time.

This pluralistic view of method adoption and techniques employed greatly enhanced the quality and richness of data and supported the view of previous researchers such as Gummesson (1992) that it is better to use a strategy where the "problem recruits methods rather than the method recruits problems." The results of this approach can be examined in chapter seven.

5.7 SUMMARY

This chapter has provided a detailed examination of the research methodology adopted in the study. The review of the literature in the area of small business development and entrepreneurship revealed a large discrepancy between the normative, prescriptive approaches which appear in the literature, and the practices which are adopted in reality. Thus it was of
paramount importance that the research strategy developed for this study should take account of this feature.

The first stage of the study involved a series of in-depth interviews with thirty owners, data of which was already collected from the survey with the overall objective of providing the researcher with a pre-understanding of the converging and diverging approaches to planning which are employed by a broad spectrum of firms located in Mian Channu. This step was taken to confirm the authenticity of the secondary source, while not viewing this phase of the study as being central to the eventual aims and objectives, this research work is submitted to provide an initial insight into subcontracting and marketing practices. This can subsequently be used to structure the remaining phases of the study.

It has been argued that there is a need for a pluralistic approach to be adopted when designing the research methodology to be employed. Because of the lack of understanding of the nuances and processes associated with planning and growth in the small firm, an inductive approach is needed. This would allow the researcher to get closer to the specific environment than would be the case if a purely deductive research design were utilized. Given the idiosyncratic nature of the entrepreneur with regard to business subcontracting and marketing practices, it was felt that the case study method would allow the researcher to investigate a number of firms to establish patterns and attempt to improve the level of understanding and generate theory.

Prior to arriving at this phase of the study, it is also submitted that a quantitative survey should be employed. This would allow the researcher to establish a general picture of the current practices with regard to the utilization of procedures within the indigenous agricultural
machinery sector. This phase also allows the research to identify those companies, which could subsequently be invited to participate in the final stage of the study.

In essence, a cascading approach to research strategy was adopted, moving a general investigation of subcontracting and marketing practices in small firms, to a detailed examination of three cases. The remaining chapters present the analysis of the data generated with conclusions and recommendations.
NOTES


Chapter Six

Profile of the Firms Surveyed
CHAPTER : 6

PROFILE OF THE FIRMS SURVEYED

6.1 INTRODUCTION

This chapter examines the general characteristics of the entrepreneurs located in the cluster under study, and their vendors, who are either subcontractors or supplier of different components. Comparisons of their status, marketing practices and their views/expectations from one another have been analyzed and presented in this chapter to understand the real situation of the indigenous environment. The last portion of the chapter describes the role of state developmental institutions and its relationship with the entrepreneurs for providing service and credit facilities, technical know-how, training, and other related supporting functions of enterprise development.

For this purpose secondary sources\(^5,6,9,11\) data were collected about the following existing entrepreneurs and their vendors:

a) 30 agricultural machinery-manufacturing units existing in the town of Mian Channu, which formed a relevant cluster.

b) 20 Vendors (subcontractors/suppliers of agricultural machinery parts/implements located in the province of Punjab).

6.2 EXISTING RELEVANT ENTREPRENEURS

6.2.1 MAJOR PRODUCTION CENTRES OF AGRICULTURAL MACHINERY IN PUNJAB

The major centres of farm machinery production in Punjab are:\(^1,3\)

Mian Channu is known for the manufacture of great variety of agricultural implements. The main machines/implements produced include cultivator, wheat thresher, rotavator, seed drill, and etc.

In Faisalabad, the focus is almost exclusively on the implements for secondary farm processing, namely fodder cutter, cane crusher, and wheat thresher.

In Lahore, the stress is only on two implements viz., cultivator and rear blade. These are the most traditional implements, which are usually attached with the tractor for different field operation. No real diversification is taking place. Cultivators are especially produced in different models and quality standards. A number of trolleys are also produced there. Lahore is the place where tractors and combine harvester are also manufactured/assembled.

Gujranwala has almost the same production profile but in addition to that more sophisticated front blade is produced there and also seed drill is an important item of local production.

Daska has more diversified production structure. However, the emphasis is on reaper, rice & wheat thresher, and cultivator.

6.2.2 LOCAL ENTREPRENEURS – CLUSTER UNDER STUDY

Mian Channu is located in cotton belt of the Punjab where cotton-wheat is the main crop rotation. Due to overlapping of harvesting and planting seasons of the two crops, it was recognized that mechanization of these two operations would facilitate the rotation of these two crops. Since there was no other major agricultural machinery production centre in the cotton belt, the industry that developed in Mian Channu in mid-sixties expanded in the subsequent years. Thus Mian Channu has emerged as one of the important agricultural machinery production
centres in the province. Since it is close to upper Sindh, machinery manufactured in Mian Channu is also being utilized there. In Mian Channu, there are nearly 30 agricultural machinery-manufacturing units, which are producing different agricultural machines/implements. The existing production units are given as under:

<table>
<thead>
<tr>
<th>Micro</th>
<th>Small</th>
<th>Medium</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Al-Hilal Mech. Works</td>
<td>• Al-Haider Industry</td>
<td>• Awami Agri. Implements</td>
</tr>
<tr>
<td>• Al-Mairaj Engg. Works</td>
<td>• Ghaus Engg. Works</td>
<td>• Bhatti Industries</td>
</tr>
<tr>
<td>• Chauhan Engg. Works</td>
<td>• Kamyab Mujahid Industry</td>
<td>• Bhutta Agri. Industry</td>
</tr>
<tr>
<td>• Malik Shaukat Engg Works</td>
<td>• Master Agri. Industry</td>
<td>• Dogar Agri. Industry</td>
</tr>
<tr>
<td>• New Jalandhar Agri. Indst.</td>
<td>• Mian Industry</td>
<td>• Hanif Agri. Industry</td>
</tr>
<tr>
<td>• Sardar Agri. Industry</td>
<td>• M.Yousaf &amp; Bros. Industry</td>
<td>• Jamal Industries</td>
</tr>
<tr>
<td>• Super Agri. Industry</td>
<td>• New Saleem Agri. Industry</td>
<td>• Jafari Agri. Industry</td>
</tr>
<tr>
<td>• Haidri agri. Industry</td>
<td>• Nasrullah Nasir Engg Co.</td>
<td>• Kamran Agri. Industry</td>
</tr>
<tr>
<td>• Quami Zarai Aalat industry</td>
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<td>• Rizwan Industry</td>
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</tr>
</tbody>
</table>

6.2.2.1 MACHINERY AVAILABLE IN PRODUCTION UNITS

Table 6.1 shows the machines available in production units located in the cluster under study. Lathe, welding transformer, drill, hand shear and electric grinder are the common machines available with most of the entrepreneurs. Smaller workshops are generally equipped with one or two centre lathes, bench drill, welding transformer and some units have gas and welding facilities. Larger units were equipped with more lathes, pillar drill and shaper.
## Table 6.1  MACHINES AVAILABLE IN PRODUCTION UNITS

<table>
<thead>
<tr>
<th>S.No.</th>
<th>Machines</th>
<th>No. of Entrepreneurs</th>
<th>%age</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>Lathe</td>
<td>29</td>
<td>97</td>
</tr>
<tr>
<td>2.</td>
<td>Welding Transformer</td>
<td>30</td>
<td>100</td>
</tr>
<tr>
<td>3.</td>
<td>Drill</td>
<td>29</td>
<td>97</td>
</tr>
<tr>
<td>4.</td>
<td>Gas Cutter</td>
<td>11</td>
<td>37</td>
</tr>
<tr>
<td>5.</td>
<td>Hand Shear</td>
<td>25</td>
<td>83</td>
</tr>
<tr>
<td>6.</td>
<td>Shaper</td>
<td>11</td>
<td>37</td>
</tr>
<tr>
<td>7.</td>
<td>Nibbling Press</td>
<td>04</td>
<td>13</td>
</tr>
<tr>
<td>8.</td>
<td>Power Press</td>
<td>06</td>
<td>20</td>
</tr>
<tr>
<td>9.</td>
<td>Electric Grinder</td>
<td>30</td>
<td>100</td>
</tr>
<tr>
<td>10.</td>
<td>Compressor for Spraying</td>
<td>19</td>
<td>63</td>
</tr>
<tr>
<td>11.</td>
<td>Power Hacksaw</td>
<td>08</td>
<td>27</td>
</tr>
</tbody>
</table>

Source: Tanveer et al. (1992)

### 6.2.2.2  PRODUCTION OF AGRICULTURAL MACHINERY

A large variety of agricultural implements/machines are manufactured in Mian Channu such as cultivator, m.b.plough, chisel plough, sub-soiler, rotavator, disc harrow, rear blade, land-leveler, scraper, ridger, ditcher, border disc, fertilizer broadcaster, seed-cum-fertilizer drill, cotton/maize planter, potato planter, sugar cane planter, bar harrow, cotton inter-cultivator, cotton ridger (with and without fertilizer attachment), boom sprayer, potato digger, tractor high clearance, maize sheller, wheat thresher, sunflower thresher, gram thresher, sorghum thresher and trolley.

### 6.2.3  GENERAL CHARACTERISTICS OF RELEVANT INDUSTRY

Mian Channu is the major cluster in the province of the Punjab, rather the only cluster with 30 relevant units located all together in the country, for the production of farm implements and tools. Its geographical location, infrastructure and resource endowments has apparently strengthened its potential for further industrialization. However, the following aspects of the
existing sample farm machinery production units in Mian Channu have also a close bearing on
the prospects of more capital investments in this particular industry in the area:

- Pattern of establishment.
- Ownership status of the production units.
- Registration status of the production units.
- Personal profile of entrepreneurs.

6.2.3.1 PATTERN OF ESTABLISHMENT

The data in the table 6.2 is regarding the pattern of the establishment of farm machinery
production units in Mian Channu, which reflects that 60% units were established before 1985
AD, while remaining 40% came into existence after that.

<table>
<thead>
<tr>
<th>Category</th>
<th>No. of Units</th>
<th>Establishment Period</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>Before ’75</td>
</tr>
<tr>
<td>Micro</td>
<td>10</td>
<td>-</td>
</tr>
<tr>
<td>Small</td>
<td>10</td>
<td>-</td>
</tr>
<tr>
<td>Medium</td>
<td>10</td>
<td>1</td>
</tr>
<tr>
<td></td>
<td></td>
<td>(10)</td>
</tr>
<tr>
<td>All Size</td>
<td>30</td>
<td>1</td>
</tr>
<tr>
<td></td>
<td></td>
<td>(3)</td>
</tr>
</tbody>
</table>

Source: Socio-Economic Study of Agricultural Machinery Production Units at Mian Channu (1993)
Figures in parentheses show the percentage distribution of units

6.2.3.2 OWNERSHIP STATUS OF SAMPLE UNITS

From the secondary data gathered, it reveals that agricultural machinery production
units in Mian Channu were of two types:

(1) Single proprietorship  (2) Joint partnership

The data given in the table 6.3 indicates that on overall basis, the majority of the units (60 percent) are managed by the single proprietorship.

TABLE 6.3  OWNERSHIP STATUS OF PRODUCTION UNITS

<table>
<thead>
<tr>
<th>Category</th>
<th>No. of Units</th>
<th>Single Proprietorship</th>
<th>Joint Partnership</th>
</tr>
</thead>
<tbody>
<tr>
<td>Micro</td>
<td>10</td>
<td>6 (60)</td>
<td>4 (40)</td>
</tr>
<tr>
<td>Small</td>
<td>10</td>
<td>8 (80)</td>
<td>1 (10)</td>
</tr>
<tr>
<td>Medium</td>
<td>10</td>
<td>4 (40)</td>
<td>5 (50)</td>
</tr>
<tr>
<td>All Sizes</td>
<td>30</td>
<td>18 (60.0)</td>
<td>10 (33.3)</td>
</tr>
</tbody>
</table>

Source: Socio-Economic Study of Agricultural Machinery Production Units at Mian Channu (1993)
Figures in parentheses show the percentage distribution of units

Amongst the remaining units, family partnership/ownership was dominant as it accounted for 33 percent of such units, which in Chell et al (1991) has described this situation with the views that these are the small-firms and the entrepreneur has the ownership status of the industrial unit, which directly affects the way in which such enterprise is managed. For example, it may be relatively easier to take decision on various operation aspects when there is only one proprietor as against partnership. Derived from his views it is concluded that the ownership characteristic has an important role for the growth of these enterprises.

Again, it confirms the status of enterprise ownership as a small-firm which has been
described by Schollammer and Kurilof (1979) who put forward qualitative attribute that the
equity of small-firm is generally owned by one person or, at most, a very few people mostly
family members.

6.2.3.3 **REGISTRATION STATUS OF THE ENTERPRISES**

The research survey results as is evident in table 6.4 reveal that 30% of the Production
Units in Mian Channu are registered firms. The remaining 70% of the units are not registered
with the state registration authority. This is the typical situation of a Pakistani small enterprise.

<table>
<thead>
<tr>
<th>Category</th>
<th>No. of Units</th>
<th>Registered</th>
<th>Unregistered</th>
</tr>
</thead>
<tbody>
<tr>
<td>Micro</td>
<td>10</td>
<td>1 (10)</td>
<td>9 (90)</td>
</tr>
<tr>
<td>Small</td>
<td>10</td>
<td>4 (40)</td>
<td>6 (60)</td>
</tr>
<tr>
<td>Medium</td>
<td>10</td>
<td>4 (40)</td>
<td>6 (60)</td>
</tr>
<tr>
<td>All Sizes</td>
<td>30</td>
<td>9 (30)</td>
<td>21 (70)</td>
</tr>
</tbody>
</table>

Source: Socio-Economic Study of Agricultural Machinery Production Units at Mian Channu (1993)
Figures in parentheses show the percentage distribution of units

6.2.3.4 **LABOUR EMPLOYED BY ENTREPRENEURS**

The basic idea was to gather statistics on the labor force employed by the entrepreneurs.
Table 6.5 below indicates that 99% labor has attained the educational level as primary and below,
whereas only 1% labor has matric as educational qualification. Similarly 35% labor is on
contractual basis and 65% on regular cadres. Given the requirements of the job and technicalities
involved in the job, the education level of the workers is very low.
Trace-wise analysis has reveals that there is no qualified Engineer at all. Unskilled labor constitutes 28% of the total force employed. Whereas, the remaining skilled labor force constitutes 72%.

### TABLE 6.5 STATISTICS ON LABOUR EMPLOYED BY ENTREPRENEURS

<table>
<thead>
<tr>
<th></th>
<th>Engineers</th>
<th>Technicians</th>
<th>Mechanics</th>
<th>Fitters</th>
<th>Welders</th>
<th>Painters</th>
<th>Unskilled</th>
<th>Total</th>
<th>% age</th>
</tr>
</thead>
<tbody>
<tr>
<td>On contract</td>
<td>0</td>
<td>1</td>
<td>16</td>
<td>6</td>
<td>10</td>
<td>23</td>
<td>44</td>
<td>100</td>
<td>35</td>
</tr>
<tr>
<td>Regular</td>
<td>0</td>
<td>26</td>
<td>54</td>
<td>34</td>
<td>35</td>
<td>3</td>
<td>36</td>
<td>188</td>
<td>65</td>
</tr>
<tr>
<td>Total</td>
<td>0</td>
<td>27</td>
<td>70</td>
<td>40</td>
<td>45</td>
<td>26</td>
<td>80</td>
<td>288</td>
<td>100</td>
</tr>
<tr>
<td>Metric</td>
<td>0</td>
<td>3</td>
<td>1</td>
<td>4</td>
<td></td>
<td></td>
<td></td>
<td>4</td>
<td>1</td>
</tr>
<tr>
<td>Primary</td>
<td>0</td>
<td>14</td>
<td>26</td>
<td>17</td>
<td>13</td>
<td>11</td>
<td>5</td>
<td>86</td>
<td>30</td>
</tr>
<tr>
<td>Illiterate</td>
<td>0</td>
<td>10</td>
<td>43</td>
<td>23</td>
<td>32</td>
<td>15</td>
<td>75</td>
<td>198</td>
<td>69</td>
</tr>
<tr>
<td>Total</td>
<td>0</td>
<td>27</td>
<td>70</td>
<td>40</td>
<td>45</td>
<td>26</td>
<td>89</td>
<td>288</td>
<td>100</td>
</tr>
</tbody>
</table>


#### 6.2.3.5 PERSONAL PROFILE OF ENTREPRENEURS

Saini and Bhatia (1995) in their research study, which was undertaken in a similar situation of Northern India, identified the effectiveness of entrepreneurship development programmes through a comparative analysis of performance of trained and untrained entrepreneurs of different age group. The findings of the study reveal that the educated and trained entrepreneurs showed significantly higher growth rate of employment generated and sales turnover achieved. Also, the trained entrepreneurs were better than untrained ones in terms of entrepreneurial vision and future plans. Lesser percentage of trained entrepreneurs perceived training needs in production and marketing management - the two important line functions of an
entrepreneur. Therefore, the Personal profile of an entrepreneur is a key indicator to assess his management ability for the enterprise.

Taking into account the importance of this factor, as described by the Saini and Bhatia (1995), the personal profile of the entrepreneurs and their vendors has been further examined in section 6.3 of this chapter. However, for the purpose to understand the personality picture of the entrepreneurs and real situation of the cluster under study, based on the secondary source(s) of data, it is imperative to discuss the following characteristics of the entrepreneurs:

i) Age profile
ii) Educational status
iii) Technical training obtained
iv) Work experience

6.2.3.5.1 AGE PROFILE OF ENTREPRENEURS

As shown in Table 6.6, the mean age of the entrepreneurs of this industry in Mian Channu was observed 38 years. 30% of them were in each of the age group of 30-39 years and 40-49 years. This reflects the age group 30-49, which covers the 60%, dominates the overall business setup of the cluster.

6.2.3.5.2 EDUCATIONAL STATUS OF ENTREPRENEURS

Education is one of the important factors affecting the capability of the entrepreneurs. The literacy status of an entrepreneur may influence the adoption of innovations and scientific methods in an industry.
### TABLE 6.6 AGE PROFILE OF ENTREPRENEURS

<table>
<thead>
<tr>
<th>Category</th>
<th>20-29</th>
<th>30-39</th>
<th>40-49</th>
<th>50 &amp; above</th>
<th>Mean Age</th>
</tr>
</thead>
<tbody>
<tr>
<td>Micro</td>
<td>4(40)</td>
<td>3(30)</td>
<td>1(10)</td>
<td>2(20)</td>
<td>35.3</td>
</tr>
<tr>
<td>Small</td>
<td>1(10)</td>
<td>2(20)</td>
<td>5(50)</td>
<td>2(20)</td>
<td>40.8</td>
</tr>
<tr>
<td>Medium</td>
<td>2(20)</td>
<td>4(40)</td>
<td>3(30)</td>
<td>1(10)</td>
<td>37.8</td>
</tr>
<tr>
<td>All Sizes</td>
<td>7(23.3)</td>
<td>9(30)</td>
<td>9(30)</td>
<td>5(16.7)</td>
<td>38.0</td>
</tr>
</tbody>
</table>

Source: Socio-Economic Study of Agricultural Machinery Production Units at Mian Channu (1993)
Figures in parentheses show the percentage distribution of units

The data given in the table 6.7 shows that 97 percent of the entrepreneurs are literate. Amongst the literate, 49 percent were matriculate and above. While average of the schooling of literate entrepreneurs was calculated at 8.3 years.

### TABLE 6.7 EDUCATIONAL STATUS OF ENTREPRENEURS

<table>
<thead>
<tr>
<th>Category</th>
<th>illiterate</th>
<th>(Literate)</th>
<th>(Literate)</th>
<th>(Literate)</th>
<th>Average Years of Schooling</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>Primary</td>
<td>Middle</td>
<td>Matric</td>
<td>F.A.&amp;&gt;</td>
</tr>
<tr>
<td>Micro</td>
<td>1(10)</td>
<td>4(22)</td>
<td>2(22)</td>
<td>2(22)</td>
<td>1(11)</td>
</tr>
<tr>
<td>Small</td>
<td>10(100)</td>
<td>1(10)</td>
<td>3(30)</td>
<td>2(20)</td>
<td>2(20)</td>
</tr>
<tr>
<td>Medium</td>
<td>-</td>
<td>2(20)</td>
<td>2(20)</td>
<td>3(20)</td>
<td>3(30)</td>
</tr>
<tr>
<td>All Sizes</td>
<td>1(3)</td>
<td>10(34)</td>
<td>5(17)</td>
<td>8(28)</td>
<td>6(21)</td>
</tr>
</tbody>
</table>

Note: Figures in the parentheses shows the percentage.
6.2.3.5.3 TECHNICAL TRAINING OBTAINED BY ENTREPRENEURS

The survey results revealed that none of the entrepreneurs had any formal training. Such a situation of technical training of entrepreneurs is not conducive for the efficient management of farm machinery production units where they have to make decisions on many technical aspects such as quality check up of raw material, quality assurance and control of products, and marketing.

6.2.3.5.4 WORK EXPERIENCE OF THE ENTREPRENEURS

Generally, the entrepreneurs entered the industry even without formal technical training but they inherited and acquired technical skills. Competence in farm machinery manufacturing units was acquired mainly through on the job training either before or after starting independent manufacturing setup.

**TABLE 6.8 WORK EXPERIENCE OF ENTREPRENEURS**

<table>
<thead>
<tr>
<th>Category</th>
<th>Experience Status</th>
<th>Average</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Experience</td>
<td>1-5 Years</td>
</tr>
<tr>
<td>Micro</td>
<td>No Experience</td>
<td>2 (20)</td>
</tr>
<tr>
<td>Small</td>
<td>1 (10)</td>
<td>-</td>
</tr>
<tr>
<td>Medium</td>
<td>3 (30)</td>
<td>-</td>
</tr>
<tr>
<td>All Sizes</td>
<td>6 (20)</td>
<td>2 (7)</td>
</tr>
</tbody>
</table>

Source: Note: Figures in parentheses show percentage
A small number of entrepreneurs (20 percent) started manufacturing work without any experience because families of these entrepreneurs were the pioneers of this industry in Mian Channu. It is obvious from the information given in Table 6.8 that 47% of the entrepreneurs have had below ten years and remaining 53% have above ten years of relevant experience.

6.2.4 Existing Marketing Practices

Marketing channels provide the linkage through which producers’ products flow to the market. As identified by Still and Cundiff (ibid, Khan (1986, 1993)), marketing may be described as the business process by which products are matched with markets and through which transfers of ownership are affected. The marketing process in general includes estimating the demand, pricing the product to satisfy profit criteria, and promotion and distribution of the product. The existing marketing practices, as observed during the survey\(^5\) is mostly based on the following factors:

6.2.4.1 Price Determination

Although, the determination of price is an important feature in the marketing process and the price of a product to the ultimate consumer depends mainly on the cost of production of the product and profit margin fixed by the entrepreneurs but in this industry the entrepreneurs fix the prices and there is no government intervention. These entrepreneurs are in a good monopolistic competition i.e., a market structure of industry in which there are many sellers, but each seller has a product, somewhat differentiated from the others giving him some control of over his price. Each of the production unit in Mian Channu has an absolute monopoly over its own brands of machines/implements, but various brand are in greater or lesser degree of substitutes and there is intensive personal competition or rivalry among them. Consequently, different manufacturer for
same machine/implement is charging different prices. The data regarding average prices collected from these units is presented in table 6.9.

## Table 6.9 Prices of Agricultural Implements

<table>
<thead>
<tr>
<th>Sr.No.</th>
<th>Agri. Machinery</th>
<th>Unit Price (Rs.)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Cultivator (9 times)</td>
<td>7000.00</td>
</tr>
<tr>
<td>2</td>
<td>Cultivator (11 times)</td>
<td>8500.00</td>
</tr>
<tr>
<td>3</td>
<td>Cultivator (13 times)</td>
<td>10000.00</td>
</tr>
<tr>
<td>4</td>
<td>M.B. Plough (3 bottoms)</td>
<td>5500.00</td>
</tr>
<tr>
<td>5</td>
<td>M.B. Plough (5 bottoms)</td>
<td>7000.00</td>
</tr>
<tr>
<td>6</td>
<td>Subsoiler (3 times)</td>
<td>5500.00</td>
</tr>
<tr>
<td>7</td>
<td>Chisel Plow (5 times)</td>
<td>7000.00</td>
</tr>
<tr>
<td>8</td>
<td>Rotavator (36 blades)</td>
<td>20000.00</td>
</tr>
<tr>
<td>9</td>
<td>Rotavator (42 blades)</td>
<td>21000.00</td>
</tr>
<tr>
<td>10</td>
<td>Rotavator (48 blades)</td>
<td>22000.00</td>
</tr>
<tr>
<td>11</td>
<td>Disc Harrow (14 disc)</td>
<td>23000.00</td>
</tr>
<tr>
<td>12</td>
<td>Rear Blade (6.5 ft single hydraulic)</td>
<td>2800.00</td>
</tr>
<tr>
<td>13</td>
<td>Rear Blade (6.5 ft double hydraulic)</td>
<td>3200.00</td>
</tr>
<tr>
<td>14</td>
<td>Rear Blade (7 feet single hydraulic)</td>
<td>3100.00</td>
</tr>
<tr>
<td>15</td>
<td>Rear Blade (7 feet double hydraulic)</td>
<td>3500.00</td>
</tr>
<tr>
<td>16</td>
<td>Rear Blade (8 feet single hydraulic)</td>
<td>3600.00</td>
</tr>
<tr>
<td>17</td>
<td>Rear Blade (8 feet double hydraulic)</td>
<td>4000.00</td>
</tr>
<tr>
<td>18</td>
<td>Land Leveller (10 feet)</td>
<td>7500.00</td>
</tr>
<tr>
<td>19</td>
<td>Scraper (6 feet)</td>
<td>17500.00</td>
</tr>
<tr>
<td>20</td>
<td>Scraper (7 feet)</td>
<td>18000.00</td>
</tr>
<tr>
<td>21</td>
<td>Scraper (8 feet)</td>
<td>19000.00</td>
</tr>
<tr>
<td>22</td>
<td>Cotton Ridger (w/o fertilizer attachment)</td>
<td>9000.00</td>
</tr>
<tr>
<td>23</td>
<td>Cotton Ridger (with fertilizer attachment)</td>
<td>13000.00</td>
</tr>
<tr>
<td>24</td>
<td>Ridger (3 row)</td>
<td>6000.00</td>
</tr>
<tr>
<td>25</td>
<td>Ditcher (one row)</td>
<td>5000.00</td>
</tr>
<tr>
<td>26</td>
<td>Border Disc</td>
<td>6500.00</td>
</tr>
<tr>
<td>27</td>
<td>Rabi Seed Drill (9 times w/o fertilizer attachment)</td>
<td>6000.00</td>
</tr>
<tr>
<td>28</td>
<td>Rabi Seed Drill (9 times with fertilizer attachment)</td>
<td>8000.00</td>
</tr>
<tr>
<td>29</td>
<td>Rabi Seed Drill (11 times w/o fertilizer attachment)</td>
<td>6500.00</td>
</tr>
<tr>
<td>30</td>
<td>Rabi Seed Drill (11 times with fertilizer attachment)</td>
<td>10000.00</td>
</tr>
<tr>
<td>31</td>
<td>Multipurpose Seed Drill (18 times)</td>
<td>12000.00</td>
</tr>
<tr>
<td>32</td>
<td>Cotton Planter (4 row w/o fertilizer attachment)</td>
<td>6500.00</td>
</tr>
<tr>
<td>33</td>
<td>Cotton Planter (4 row with fertilizer attachment)</td>
<td>8500.00</td>
</tr>
<tr>
<td>34</td>
<td>Cotton Planter (4 row with manual metering mech.)</td>
<td>4500.00</td>
</tr>
<tr>
<td>35</td>
<td>Potato Planter</td>
<td>8000.00</td>
</tr>
<tr>
<td>36</td>
<td>Sugar Cane Planter</td>
<td>16500.00</td>
</tr>
<tr>
<td>37</td>
<td>Bar Harrow</td>
<td>4300.00</td>
</tr>
<tr>
<td>38</td>
<td>Boom Sprayer (45 feet range stainless steel tank)</td>
<td>14500.00</td>
</tr>
<tr>
<td>39</td>
<td>Boom Sprayer (35 feet range, stainless steel tank)</td>
<td>14000.00</td>
</tr>
<tr>
<td>40</td>
<td>Boom Sprayer (45 feet range, plastic tank)</td>
<td>8500.00</td>
</tr>
<tr>
<td>41</td>
<td>Boom Sprayer (35 feet range, plastic tank)</td>
<td>7500.00</td>
</tr>
<tr>
<td>42</td>
<td>Potato Digger</td>
<td>8500.00</td>
</tr>
<tr>
<td>43</td>
<td>Maize Sheller (with PTO Shaft)</td>
<td>9500.00</td>
</tr>
<tr>
<td>44</td>
<td>Wheat Thresher (Belt type)</td>
<td>34000.00</td>
</tr>
<tr>
<td>45</td>
<td>Wheat Thresher (P.T.O. Shaft type)</td>
<td>37000.00</td>
</tr>
<tr>
<td>46</td>
<td>Sunflower Thresher</td>
<td>18500.00</td>
</tr>
<tr>
<td>47</td>
<td>Gram Thresher (Belt type)</td>
<td>35000.00</td>
</tr>
<tr>
<td>48</td>
<td>Gram Thresher (PTO Shaft type)</td>
<td>39000.00</td>
</tr>
<tr>
<td>49</td>
<td>Sorghum Thresher</td>
<td>35000.00</td>
</tr>
<tr>
<td>50</td>
<td>Tractor High Clearance</td>
<td>35000.00</td>
</tr>
<tr>
<td>51</td>
<td>Trolley (11' X 6'-1/2' x 2')*, single rim without tire</td>
<td>27000.00</td>
</tr>
<tr>
<td>52</td>
<td>Trolley (12' X 6'-1/2' X 2') single rim without tire</td>
<td>29000.00</td>
</tr>
<tr>
<td>53</td>
<td>Trolley (14' X 7' x 2') double rim without tire</td>
<td>35000.00</td>
</tr>
<tr>
<td>54</td>
<td>Fertilizer Broadcaster</td>
<td>5000.00</td>
</tr>
<tr>
<td>55</td>
<td>Cotton Inter-Cultivator (kumbi hall)</td>
<td>5000.00</td>
</tr>
<tr>
<td></td>
<td>- for one foot high crop (21 times)</td>
<td>8000.00</td>
</tr>
<tr>
<td></td>
<td>- for three feet high crop (15 times)</td>
<td>7000.00</td>
</tr>
</tbody>
</table>

Source: Tanveer et al. (1992)
Further category wise analysis concludes that the average price (table 6.10) for wheat thresher is found to be higher in medium size category units as compare to small and micro size units, which reflects that medium size enterprises has some price edge on the machinery totally produced within the cluster. The average price for cultivators, cottonseed drill, boom sprayer, and rotavator in which some ready-made components are installed, is higher in micro units as compared to small and medium firms. This indicates that the production cost in small and medium size industry is comparatively less for the items for which some components are procured in bulk quantity from vendors/suppliers. This finding verify the usefulness of the concepts of subcontracting for price reduction with maintained quality as is applicable in Japanese Supply System explained in chapter three.

### Table 6.10
CATEGORIES-WISE AVERAGE PRICES OF FARM MACHINES/IMPLEMENTS PRODUCES AT MIAN CHANNU.

(Rupees per Implement)

<table>
<thead>
<tr>
<th></th>
<th>Wheat Thresher</th>
<th>Cultivator</th>
<th>Cotton Seed Drill</th>
<th>Tractor Blade</th>
<th>Boom Sprayer</th>
<th>Ridger for Tractor</th>
<th>Rotavator</th>
</tr>
</thead>
<tbody>
<tr>
<td>Micro</td>
<td>34312</td>
<td>10176</td>
<td>7571</td>
<td>3724</td>
<td>13810</td>
<td>6632</td>
<td>1985</td>
</tr>
<tr>
<td>Small</td>
<td>34951</td>
<td>9246</td>
<td>7178</td>
<td>4303</td>
<td>9448</td>
<td>6637</td>
<td>1914</td>
</tr>
<tr>
<td>Medium</td>
<td>36829</td>
<td>8917</td>
<td>7412</td>
<td>4186</td>
<td>10271</td>
<td>6932</td>
<td>1684</td>
</tr>
<tr>
<td>All Sizes</td>
<td>36501</td>
<td>9120</td>
<td>7399</td>
<td>4170</td>
<td>9885</td>
<td>6859</td>
<td>1775</td>
</tr>
</tbody>
</table>

Source: Tanveer et al. (1992)
6.2.4.2 CHANNELS OF DISTRIBUTION

The concept of the channel of distribution is uniquely a part of the marketing discipline and can be defined as equalizing of supply and demand at the root of marketing. And to achieve this equilibrium, it is necessary that the channels of distribution be designed so as to ensure an efficient flow of supplies in all circumstances (Walker, 1967).

In contrary to that, the survey results reveal that almost all the entrepreneurs sold their products direct to the farmers. There are many reasons, as observed during the survey, for using this method as:

1. The manufacturer’s own desire to ensure free after-sale service and technical advice to consumer.
2. Consideration for manufacturer that he can increase his revenue by eliminating the middleman.
3. Preference of the buyer to buy direct from the manufacturers to avoid possible malpractice’s by middleman and to have relationship with the manufacturer.

However, one small unit and two medium units sold part of their product through dealers/agents and government agencies.

6.2.5 GENERAL BUSINESS CONSTRAINTS

In the survey, an attempt was made to identify the problems faced by agricultural machinery production units and their possible solutions, it was found that the problems which the agricultural machinery industry in Mian Channu are facing are multifarious and inter-related. The results of this exercise are presented as under:
6.2.5.1 MARKETING AND MARKET

Marketing of agricultural machinery is an important issue for the agricultural machinery manufacturers. About 73% of the manufacturers in Mian Channu are facing marketing problems for agricultural machinery.

It proves to be very difficult for entrepreneurs to keep production of agricultural machinery in line with the actual sales. This may be due to a combination of reasons such as inadequacies in the following areas:

- Market research
- Product planning
- Advertising and sales promotion
- After-sales service
- Financing

Entrepreneurs frequently mentioned the lack of market for agricultural machinery. Some suggested causes identified during the survey\(^6\) are:

- Farmers have low purchasing power;
- Land is fragmented about 1-2 hectare on the average;
- Products manufactured are limited to low or intermediate technology;
- The range of farm implements used by Pakistani farmer is limited (even progressive farmers sometimes use only 3-4 implements);
- Farmers are not aware of the benefits of certain farm implements.

It was observed during the survey\(^6\) that most of manufacturers sold their machinery directly to farmers. A few manufacturers have dealers in other cities but even those manufacturers told that
recovery from dealers is difficult.

Appraisal mission\(^3\) reported that small workshops worked exclusively to sale orders. No dealer mediated between producer and user. It was the farmer who found the workshop in the bazaar. No entrepreneurs were found exporting agricultural machinery to foreign countries at present.

On one hand, according to entrepreneurs, farmers prefer to buy low priced machines without considering the quality of machines. This awareness, in the entrepreneurs’ view, can be created by educating the farmers/end-users about the advantages of better quality machines through demonstrations of their product.

On the other hand there seems to be an overcapacity in Mian Channu. So to attract farmers, entrepreneurs lower the prices of machinery and/or produce low quality machines. This happens mostly in off-seasons. It was also observed that the prices of agricultural implements manufactured in Mian Channu are relatively low as compared to other implements manufacturing centres in Pakistan. About 43% entrepreneurs reported that their business is suffering due to this strong competition.

From the above facts, it can be concluded that a healthy competition could be created if manufacturers in Mian Channu are willing to establish mutual beneficial cooperation in the field of subcontracting, vendor systems, specialization and standardization. A manufacturers association, which already exists with low profile, could play a vital role in this process.

6.2.5.2 RAW MATERIAL

70% of the entrepreneurs complain the non-availability of good quality raw material and consider non-availability of raw material as major bottlenecks. The entrepreneurs are not satisfied
with the quality of raw material especially of gears (e.g. 47% of the manufacturers are manufacturing rotavators. According to the entrepreneurs, some components like rotavator gears are not available at the desired prices and they are using second-hand gears. Similarly, they are using sub-standard quality tines, cultivator springs, construction steel, nuts & bolts and welding electrodes procured from anywhere, these are available. And this, they are doing to keep their final product price low.

Common raw materials consumed in the units are, angle iron, T-iron, channels, round bar, square bar, flat, sheets, pipes of various sizes. Ready made items such as nozzles, tanks, pumps, rims, shovels, blades, discs, nuts, bolts, springs, chains, tines, metering units, etc. are also consumed. These items are purchased from the local market and main market of Lahore. Sieves for thresher are purchased from Hafizabad. Large castings are purchased from foundries in Faisalabad and Gujranwala. Some local foundries are able to cast small foundry parts. Many parts such as gears and bearing are bought second hand.

During the survey, it was also observed that the owners of small units are purchasing raw material from the local market of Mian Channu (sometime from medium size units) at higher rates as compared to the main centres of raw material and component supplies in Lahore and Karachi, because additional transportation costs, octroi, etc. and local suppliers also earn some profit. This is one of the constraints, as observed, for the micro and small enterprises to grow further.

6.2.5.3 FINANCE

The research survey results reveal that 70% of the entrepreneurs lack sources of finance for their business. Entrepreneurs have the opinion that they cannot bear the high mark-up of commercial banks. During the survey, it was reported by the entrepreneurs that their business
suffered due to high interest payments. Owners of smaller units cannot take advantage from financial institutions due to their lengthy procedures.

6.2.5.4 AVAILABILITY OF SKILLED AND UN-SKILLED LABOR

Apparently, there seems to be no serious problem of availability of un-skilled labor as only 20% of the entrepreneurs faced this constraint. On the other hand about 50% of the entrepreneurs reported lack of availability of required skilled labor.

6.2.6.1 PROBLEMS AND OPINION OF ENTREPRENEURS

To conclude from the above findings, it is presented that the entrepreneurs regard training in the field of welding, turning, sheet metal, milling, tractor operation, technical drawing and quality control as very important for the improvement of their production system.

To summarize, the factors standing in the way for the success of this industry are among others, poor marketing practices including after-sale, market potential, insufficient product development, lack of trained-manpower, non-availability of quality raw materials and components (e.g. gears), enterprise financing, standardization and quality control of components supplied from vendors, and etc. But, above all, the educational level of the entrepreneurs is one of the major constraints to understand the these related issues of their growth.

6.3 COMPARATIVE STUDY OF ENTREPRENEURS AND THEIR VENDORS

To understand the exact situation of the existing status of the relevant 30 entrepreneurs and their 20 vendors i.e., subcontractors or component suppliers, two different sources of data gathering have been selected with the prime objective of analyzing response from different perspectives, identifying trade linkages between them and exploring the possibility of
subcontracting arrangements. However, for the purposes of tabulation, and the facility of logical interpretation, the entire field data has been grouped under the following major captions:

- Entrepreneur Profile
- Marketing Profile

6.3.1 ENTREPRENEURAL PROFILE

6.3.1.1 SOCIO-ECONOMIC CHARACTERISTICS.

Socio-economic characteristics of the Agricultural Machinery Manufacturing Units (AMMUs) at Mian Channu have been reflected in the first portion of this chapter which indicates that majority of the AMMUs (79%) possess matric and below matric academic qualification. The impact of product diversification seems to be least significant, as 76% entrepreneurs are manufacturers of only agricultural machinery and implements.

Whereas, the level of education of the vendors is higher as compared with the manufacturers. Table 6.11 indicates that number of illiterates is 24% in vendors as compared to 34% in case of manufacturers. There are 9.5% graduates amongst the vendors as compared to 3% in case of manufacturers.

Table 6.11 VENDORS CLASSIFIED BY EDUCATION

<table>
<thead>
<tr>
<th>Sr. No.</th>
<th>Education</th>
<th>Responses</th>
<th>%age</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>Post-Graduate</td>
<td>1</td>
<td>4.8</td>
</tr>
<tr>
<td>2.</td>
<td>Graduate</td>
<td>2</td>
<td>9.5</td>
</tr>
<tr>
<td>3.</td>
<td>Inter</td>
<td>6</td>
<td>28.6</td>
</tr>
<tr>
<td>4.</td>
<td>Matric</td>
<td>7</td>
<td>33.3</td>
</tr>
<tr>
<td>5.</td>
<td>Primary</td>
<td>5</td>
<td>23.8</td>
</tr>
<tr>
<td></td>
<td>Total:</td>
<td>21</td>
<td>100.0</td>
</tr>
</tbody>
</table>

6.3.1.2 BUSINESS EXPANSION

The opinion of both the entrepreneurs, and the vendors on whether they wish to expand their business or not, has been sought (table 6.12) 77 percent of the manufacturer and 85% the vendors are interested in business expansion. The trend for business expansion is greater in vendors as compared to the manufacturers at Mian Channu.

**TABLE 6.12 VENDORS' OPINION ON BUSINESS EXPANSION**

<table>
<thead>
<tr>
<th>Parameters</th>
<th>Total No.</th>
<th>Responses</th>
</tr>
</thead>
<tbody>
<tr>
<td>Manufacturers</td>
<td>30</td>
<td>23</td>
</tr>
<tr>
<td>Vendors</td>
<td>20</td>
<td>17</td>
</tr>
</tbody>
</table>

6.3.1.3 RESOURCES REQUIRED FOR BUSINESS EXPANSION

In the survey\textsuperscript{11}, The AMMUs were asked to identify the additional resources, which are essentially required for the business expansion. Table 6.13 indicates that majority of the respondents (76%) have characterized the “Financial Support” as the major resource required for business expansion. Other requirements for expansion include:

(i) Improved workshop equipment (33%)

(ii) Technical support (24%)

(iii) Education and training of workers (21%)

(iv) More area for factory premises (18%)

### TABLE 6.13 ADDITIONAL RESOURCES REQUIRED FOR BUSINESS EXPANSION BY MANUFACTURES

<table>
<thead>
<tr>
<th>Sl No.</th>
<th>Additional Resources</th>
<th>Responses</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>No.</td>
</tr>
<tr>
<td>1.</td>
<td>Financial support</td>
<td>25</td>
</tr>
<tr>
<td>2.</td>
<td>Technical support</td>
<td>8</td>
</tr>
<tr>
<td>3.</td>
<td>Export opportunity</td>
<td>2</td>
</tr>
<tr>
<td>4.</td>
<td>Good quality material</td>
<td>4</td>
</tr>
<tr>
<td>5.</td>
<td>Material testing facilities</td>
<td>2</td>
</tr>
<tr>
<td>6.</td>
<td>Education &amp; training of workers</td>
<td>7</td>
</tr>
<tr>
<td>7.</td>
<td>Tax exemption</td>
<td>1</td>
</tr>
<tr>
<td>8.</td>
<td>Land for workshop premises</td>
<td>6</td>
</tr>
<tr>
<td>9.</td>
<td>CASTING SERVICES</td>
<td>1</td>
</tr>
<tr>
<td>10.</td>
<td>Improve workshop equipment</td>
<td>11</td>
</tr>
<tr>
<td>11.</td>
<td>Power supply 3 Phase</td>
<td>1</td>
</tr>
</tbody>
</table>

### TABLE 6.14 ADDITIONAL RESOURCES REQUIRED BY VENDORS FOR BUSINESS EXPANSION

<table>
<thead>
<tr>
<th>Sl No.</th>
<th>Additional resources needed</th>
<th>Responses</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>No.</td>
</tr>
<tr>
<td>1.</td>
<td>Financial assistant.</td>
<td>16</td>
</tr>
<tr>
<td>2.</td>
<td>Better heat treatment set up</td>
<td>2</td>
</tr>
<tr>
<td>3.</td>
<td>Temperature control setup (forging)</td>
<td>1</td>
</tr>
<tr>
<td>4.</td>
<td>Land required for expansion</td>
<td>5</td>
</tr>
<tr>
<td>5.</td>
<td>Skilled/educated labor</td>
<td>5</td>
</tr>
<tr>
<td>6.</td>
<td>Better equipment</td>
<td>8</td>
</tr>
<tr>
<td>7.</td>
<td>Quality raw material</td>
<td>4</td>
</tr>
<tr>
<td>8.</td>
<td>Trained marketing personnel</td>
<td>2</td>
</tr>
<tr>
<td>9.</td>
<td>Technical assistance</td>
<td>0</td>
</tr>
<tr>
<td>10.</td>
<td>Exemption from taxes</td>
<td>1</td>
</tr>
<tr>
<td>11.</td>
<td>Renovation of workshop</td>
<td>3</td>
</tr>
<tr>
<td>12.</td>
<td>Price control over raw material</td>
<td>1</td>
</tr>
<tr>
<td>13.</td>
<td>Laboratory services</td>
<td>4</td>
</tr>
<tr>
<td>14.</td>
<td>Fuel problem (natural Gas not available)</td>
<td>1</td>
</tr>
</tbody>
</table>

For the same, when the vendors were asked to indicate the additional resources required by them for business expansion. They indicates (Table 6.14) that majority of the respondents (80%) have demanded financial assistant in order to expand their business. The other two important variables are “better Equipment” and “Technical Assistance” each constituting 40% of the responses.

6.3.1.4 SUBCONTRACTING

The opinion of the manufacturers at Mian Channu was sought on the Sub contracting arrangement. It was disclosed that only one manufacturer is involved in sub contracting, whereas all the remaining 29 respondents (97%) are neither having any sub contracting arrangements nor they are interested in having such arrangement in future, as indicated in Table 6.15 below:

**TABLE 6.15 OPINION OF ENTREPRENEURS ON SUBCONTRACTING**

<table>
<thead>
<tr>
<th>SL No</th>
<th>Entrepreneur</th>
<th>Responses</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Who are involved in subcontracting?</td>
<td>1</td>
</tr>
<tr>
<td>2</td>
<td>Who are not involved in subcontracting?</td>
<td>29</td>
</tr>
<tr>
<td>3</td>
<td>Who intend to have subcontracting</td>
<td>1</td>
</tr>
<tr>
<td>4</td>
<td>Who do not intend to have subcontracting?</td>
<td>29</td>
</tr>
</tbody>
</table>

Source: Technical Survey of Agricultural Machinery Manufacturing Units. (1994)

Lack of interest in sub contracting arrangements on the part of entrepreneurs was further explored in order to tie it up with possible reasons for not having the sub contracting arrangements. The data analysis (Table 6.16) reveals that 24% respondents are not sure of the
quality of the parts to be supplied by the sub contractor. 12% respondents fear from the competitions rivalry and only 3% respondents indicated:

(i) Profit sharing
(ii) Non-cooperation of big manufacturers
(iii) Personal dislikes as the reasons for not subcontracting.

**TABLE 6.16 MANUFACTURERS' REASONS FOR NON SUBCONTRACTING**

<table>
<thead>
<tr>
<th>Sl No.</th>
<th>Reasons for not subcontracting</th>
<th>Responses</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Profit sharing</td>
<td>1</td>
</tr>
<tr>
<td>2</td>
<td>Not sure about quality of supplies</td>
<td>8</td>
</tr>
<tr>
<td>3</td>
<td>Delivery not on time</td>
<td>2</td>
</tr>
<tr>
<td>4</td>
<td>Rivalry among competitors</td>
<td>4</td>
</tr>
<tr>
<td>5</td>
<td>Big manufacturers do not cooperate</td>
<td>1</td>
</tr>
<tr>
<td>6</td>
<td>Personal disliking</td>
<td>1</td>
</tr>
</tbody>
</table>

% Age

1. 3%
2. 24%
3. 6%
4. 12%
5. 3%
6. 3%

6.3.1.5 **GENERAL CONSTRAINTS IN BUSINESS**

From the technical survey data, finance, limited market, low profit margin, non-availability of raw material, and skill labor are identified to be the major constraints. These have been presented, with level of their importance, in table 6.17.

**TABLE 6.17 ENTREPRENEURS' MAJOR CONSTRAINTS IN BUSINESS**

<table>
<thead>
<tr>
<th>Sl No.</th>
<th>Constraints</th>
<th>Responses</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Financial</td>
<td>30</td>
</tr>
<tr>
<td>2</td>
<td>Skilled labour</td>
<td>30</td>
</tr>
<tr>
<td>3</td>
<td>Low profit margin</td>
<td>30</td>
</tr>
<tr>
<td>4</td>
<td>Limited market</td>
<td>30</td>
</tr>
<tr>
<td>5</td>
<td>Quality raw material</td>
<td>30</td>
</tr>
</tbody>
</table>

% Age

1. 100%
2. 100%
3. 100%
4. 100%
5. 100%

Level of importance

1. 1
2. 2
3. 3
4. 4
5. 5

**Source:** Technical Survey of Agricultural Machinery Manufacturing Units (1994)
6.3.2 MARKETING PROFILE

6.3.2.1 PRODUCTS OFFERED FOR SALE

In the technical survey, the entrepreneurs were asked to enlist those implements, which are presently being manufactured at Mian Channu indicating the selling price range of each equipment, manufactured (Table 6.9). The major products, which the majority of the entrepreneurs are manufacturing, included (i) spring loaded tine cultivators (ii) boom sprayers and (iii) interline cultivator/ridger, all constituting 76% of responses. The next important product is the wheat thresher constituting 73% responses. About half of the respondents (55%) were reported to be involved in manufacturing seed drill (Multicrop planter) and rotavator.

The average price of the above-mentioned products is given in the table 6.10. The average price of the parts manufactured by the vendors was also determined (Table 6.18). The analysis has revealed that the highest cost of the product is Rs. 3,450.00 per Piece on the average basis for steel tank. The next costly product is cross shaft (complete unit) valuing Rs. 2,000.00 per unit on the average. The third costly product is the gear box (rotavator) costing Rs. 1,800.00 per piece on the average. The cheapest products are (i) blade (reaper) and (ii) nozzle which cost Rs. 10.00 per and 21.50 per piece respectively on the average basis. However, the costs of fly-wheel (thresher), pulleys, star wheel (thresher), sieves etc. have been worked out by the vendors on the basis of per Kg weight. Although, its comparison with the manufacturers cannot be made owing to reluctance on the part of manufacturers to give the prices of these components sold by them but, it transpires that the there is a big difference of price margin which provide a good opportunity to bargain.
TABLE 6.18 PRICES OF VARIOUS PARTS MANUFACTURED BY VENDORS

<table>
<thead>
<tr>
<th>Sl. No.</th>
<th>Name of Part Manufactured</th>
<th>No. of responses</th>
<th>Price Range (Rs.)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td>MIN</td>
</tr>
<tr>
<td>1.</td>
<td>Tines (per piece)</td>
<td>4</td>
<td>60</td>
</tr>
<tr>
<td>2.</td>
<td>Springs (per piece)</td>
<td>5</td>
<td>60</td>
</tr>
<tr>
<td>3.</td>
<td>Blades (per piece)</td>
<td>2</td>
<td>45</td>
</tr>
<tr>
<td>4.</td>
<td>Gear Set &amp; Sprocket set</td>
<td>8</td>
<td>750</td>
</tr>
<tr>
<td>5.</td>
<td>Shovels/Shafts (per set)</td>
<td>4</td>
<td>80</td>
</tr>
<tr>
<td>6.</td>
<td>Knives (per set)</td>
<td>2</td>
<td>800</td>
</tr>
<tr>
<td>7.</td>
<td>Fly wheel, pulley, star wheel12, Weight (per KG)</td>
<td>2</td>
<td>13</td>
</tr>
<tr>
<td>8.</td>
<td>Cross shaft (complete unit)</td>
<td>3</td>
<td>1400</td>
</tr>
<tr>
<td>9.</td>
<td>Pressure Pump (Rotavator &amp; Diaphragm)</td>
<td>5</td>
<td>1700</td>
</tr>
<tr>
<td>10.</td>
<td>Nozzle (per piece)</td>
<td>3</td>
<td>18</td>
</tr>
<tr>
<td>11.</td>
<td>Steel Tank (per Piece)</td>
<td>4</td>
<td>3400</td>
</tr>
<tr>
<td>12.</td>
<td>Bracket, Spacer (per piece)</td>
<td>2</td>
<td>157</td>
</tr>
<tr>
<td>13.</td>
<td>Sieves (Per Kg)</td>
<td>2</td>
<td>20</td>
</tr>
<tr>
<td>14.</td>
<td>Chains (per foot)</td>
<td>2</td>
<td>160</td>
</tr>
<tr>
<td>15.</td>
<td>Seed &amp; fertilizer distribution unit</td>
<td>2</td>
<td>50</td>
</tr>
<tr>
<td>16.</td>
<td>Gear Box (per piece)</td>
<td>3</td>
<td>1800</td>
</tr>
</tbody>
</table>

Source: Technical Survey of Agricultural Machinery Manufacturing Units. (1994)

6.3.2.2 POPULAR PRODUCTS FOR AGGRESSIVE SALE

The most popular parts identified by the vendors for aggressive sale include pumps (20%), springs (15), tines (10%), sieves (10%), rotavator blades (10%), shovel/shears (10%). These list of the parts is given in the table 6.19.
TABLE 6.19 MOST DEMANDED PARTS FOR AGGRESSIVE SALE SUPPLIED BY VENDORS.

<table>
<thead>
<tr>
<th>Sl: No.</th>
<th>Most Demanded Parts</th>
<th>Responses</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>No.</td>
</tr>
<tr>
<td>1.</td>
<td>Tine</td>
<td>1</td>
</tr>
<tr>
<td>2.</td>
<td>Pump</td>
<td>5</td>
</tr>
<tr>
<td>3.</td>
<td>Spring</td>
<td>3</td>
</tr>
<tr>
<td>4.</td>
<td>Sieves</td>
<td>2</td>
</tr>
<tr>
<td>5.</td>
<td>Rotavator Blade</td>
<td>1</td>
</tr>
<tr>
<td>6.</td>
<td>Shovel/Shear</td>
<td>1</td>
</tr>
<tr>
<td>7.</td>
<td>Cross-Shaft</td>
<td>2</td>
</tr>
<tr>
<td>8.</td>
<td>Gear-Sprockets</td>
<td>1</td>
</tr>
<tr>
<td>9.</td>
<td>Forged Blank</td>
<td>1</td>
</tr>
<tr>
<td>10.</td>
<td>Weight, Fly-Wheel</td>
<td>1</td>
</tr>
<tr>
<td>11.</td>
<td>Nozzle</td>
<td>2</td>
</tr>
<tr>
<td>12.</td>
<td>Thresher Weight</td>
<td>1</td>
</tr>
<tr>
<td>13.</td>
<td>Brackets</td>
<td>2</td>
</tr>
</tbody>
</table>

6.3.2.3 PRICING METHODS

From the survey data gathered, product pricing methods adopted by the entrepreneurs in selling the agricultural machinery is analyzed, which reveals that the “cost plus profit” seems to be the most common method of sale constituting 70% and the second important method is “bargaining with customers” representing 30%.

TABLE 6.20 PRODUCT PRICING METHODS ADOPTED BY VENDORS

<table>
<thead>
<tr>
<th>Sl: No.</th>
<th>Pricing Method</th>
<th>Responses</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>No.</td>
</tr>
<tr>
<td>1.</td>
<td>Cost Plus %Age profit</td>
<td>8</td>
</tr>
<tr>
<td>2.</td>
<td>Bargaining with Customers</td>
<td>2</td>
</tr>
<tr>
<td>3.</td>
<td>Price of the Competitors</td>
<td>10</td>
</tr>
<tr>
<td></td>
<td>Total</td>
<td>20</td>
</tr>
</tbody>
</table>
In order to make a comparison of product pricing methods followed by manufacturers and the vendors, the data on prices was also collected from vendors, presented in table 6.20, is also compared. On analyzing, it is concluded that 50% of the vendors determined the prices of their products by adopting the same prices as of their competitors and 40% of the vendors work out their prices on basis of cost plus percentage profit. Only 10% vendors bargain with the customers.

6.3.2.4 CHARACTERISTICS OF BUYERS

From the technical survey, some characteristics of the customers have also been ascertained to find out some direct relationship with the marketing and sale efforts. The data collected on this issue reveals that the customers with large size of holdings are 20%, with medium size of holding 48%, and with small size of holding it is 33%. Considering the education level, there are 57.3% uneducated and 42.7% educated customers. The term educated here denoted education up to primary level and below. Regarding the localities from where customers buy the products, 43% buyers are from Mian Channu, 20% from Khanewal District, 16% from Multan District and 31% from other places. On analysis of the data, it is concluded that majority of the customers having small and medium size land holdings are uneducated and mostly belongs to Mian Channu Tehsil. This finding confirms the views of the entrepreneurs who claims that their customers, because of their education are not aware of the outcome of the quality product.

6.3.2.5 PURCHASE DECISION CRITERIA

The customer's preferences for making purchases are essentially the key factors in the marketing management. In the survey, following preferences, with rating numbers were asked from the entrepreneurs.
- Quality
- On time deliver
- Price
- Credit
- After sale service

The responses indicate "price" as the first major consideration for making purchases. "Credit" stands for Rating No.2. Quality as No.3. After sale service on as No.4 and the last preference for making purchases is the "on time delivery", which is a consistent and logical finding see tables 6.19 & 6.21).

The buyers purchase decision criteria as perceived by the vendors is also analyzed and presented in the table 6.21. The first preference, as observed, on the rating scale of the customers in making purchase decision is the price discount, the second preference is the quality, the third preference is for the credit facility and the last preference is for in-time delivery. This indicates that the customers are cost conscious.

6.3.2.6 PRODUCT DISTRIBUTION SYSTEM

Product distribution system occupies a pivotal position in the marketing management. In the survey, following distribution criteria was evolved to ascertain the opinion of both the manufacturers as well as vendors.

- Door delivery
- Customer’s own arrangement.
- Through dealers network.
- Through banks.
- Through Agri Ext. Department of the Govt.

**TABLE 6.21 CUSTOMER'S CONSIDERATION IN MAKING PURCHASE DECISION AS PERCEIVED BY VENDORS**

<table>
<thead>
<tr>
<th>Parameters</th>
<th>Rating Numbers</th>
<th></th>
<th></th>
<th>Response</th>
<th>Score</th>
<th>Rating</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>(1) No. %</td>
<td>(2) No. %</td>
<td>(3) No. %</td>
<td>(4) No. %</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Quality</td>
<td>10 50</td>
<td>2 10</td>
<td>7 35</td>
<td>1 5</td>
<td>20</td>
<td>39</td>
</tr>
<tr>
<td>On time delivery</td>
<td>0 0</td>
<td>6 30</td>
<td>2 10</td>
<td>12 60</td>
<td>20</td>
<td>66</td>
</tr>
<tr>
<td>Price/Discount</td>
<td>9 45</td>
<td>5 25</td>
<td>5 25</td>
<td>1 5</td>
<td>20</td>
<td>39</td>
</tr>
<tr>
<td>Credit</td>
<td>1 5</td>
<td>7 35</td>
<td>6 30</td>
<td>6 30</td>
<td>20</td>
<td>57</td>
</tr>
</tbody>
</table>

On analyzing the data, it concludes that only 18% of the manufacturers at Mian Channu provide door delivery to the customers. 77% of the customers, therefore, make their own arrangements to take the product to their fields. The door delivery to the customers may not be an important variable to optimize marketing and sales as the customers themselves may prefer to take the product by themselves and may not be willing to pay extra cost of transportation to be charged by the manufacturers.

Similarly the vendor’s product distribution system has also been analyzed which indicates (Table 6.22) that the majority of the vendors (83%) distribute their products through customer’s own arrangements. Only 11% of the vendors deliver their products at manufacturers end. The result of the survey reveals that the delivery to the entrepreneurs’ doorstep by vendors cannot only increase the sale of the vendors but will further strengthen their relationship.
TABLE 6.22 VENDOR'S PRODUCT DISTRIBUTION SYSTEM.

<table>
<thead>
<tr>
<th>Sl. No.</th>
<th>Distribution System</th>
<th>Responses No.</th>
<th>%age</th>
<th>Sum</th>
<th>%age</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>Deliver at Manufacturer's end</td>
<td>3</td>
<td>15</td>
<td>2.25</td>
<td>11%</td>
</tr>
<tr>
<td>2.</td>
<td>Customer's own arrangement</td>
<td>19</td>
<td>95</td>
<td>16.55</td>
<td>83%</td>
</tr>
<tr>
<td>3.</td>
<td>Through dealers network</td>
<td>3</td>
<td>15</td>
<td>1.2</td>
<td>6%</td>
</tr>
<tr>
<td>4.</td>
<td>Through banks</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0%</td>
</tr>
<tr>
<td>5.</td>
<td>Through Agri. Ext. Department</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0%</td>
</tr>
</tbody>
</table>

Product distribution system was further studied to identify those major cities where the vendors market their products.

The data analysis output also reveals that there are 10 major cities where the vendors market their products. These cities include Mian Channu (95%), Multan (79%), Lahore (74%), Rahim Yar Khan (47%), Okara (42%), Sadiqabad (37%) and Daska, Vehari, Faisalabad, & Hyderabad (32% each).

6.3.2.7 PROMOTIONAL MEDIA AND STRATEGIES

The product promotion efforts of entrepreneurs is evaluated which reveals that more than half of the entrepreneurs are not involved in the promotion activities of their product. Even those, who launch a product promotion program, are using different means. The “product discount” constitutes the highest percentage (42.4%) in the sale promotion activities whereas the “advertisement” constitutes 24.2%. product display and product exhibition” both constituting 18.2%. Credit and discounts both are the most significant variables in the marketing of agricultural machinery.
In addition to the manufacturers, the methods of product promotion efforts adopted by vendors have been analyzed and presented in the table 6.23 from where it reflects that 60% of the vendors do not launch any product promotion efforts. Out of the remaining 40% of the respondents, 62.5% respondents advertise their product, 37.5 respondents present gifts, key rings, diaries etc. as promotion efforts, and 37.5 respondents promote their product by display on boards.

A comparison of promotional efforts between the manufacturers and the vendors reveals that manufacturers seem to be more interested in the promotional efforts in marketing their products as compared to vendors.

**TABLE 6.23 PRODUCT PROMOTION EFFORTS BY THE VENDORS**

<table>
<thead>
<tr>
<th>S1: No.</th>
<th>Promotion Methods</th>
<th>Response</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>No.</td>
</tr>
<tr>
<td>1.</td>
<td>Advertisement</td>
<td>5</td>
</tr>
<tr>
<td>2.</td>
<td>Promotion through gifts, key rings, diary</td>
<td>3</td>
</tr>
<tr>
<td>3.</td>
<td>Display Board</td>
<td>3</td>
</tr>
<tr>
<td>4.</td>
<td>No Promotional efforts</td>
<td>12</td>
</tr>
</tbody>
</table>

*Total No. of vendors who promote their product = 8*

6.3.2.8 WARRANTY, CREDIT, AND AFTER SALE SERVICE

The opinion of manufacturers on warranty, credit facility, transport facility and after sale service has been sought in the survey11. The provision of warranty or guarantee to the customers constitutes 100%, which is a consisting finding as it collaborates with the finding of “free after sales service for one year”, constituting 85%. In case of vendors, 85% of the respondents
provide warranty or guarantee to the entrepreneurs. However, only 9% of the manufacturers are providing transport facility to the customers, which is not adequate.

On further exploring the inner views of the entrepreneurs regarding the period for which credit facility they offer to the customers, it transpired that the credit for six months represents 39% and credit for less than six months as 21% of the responses. This means that 60% sale of agricultural machinery is on credit for six months or less. The finding is quite consistent with:

(i) Table 6.13 representing 76% responses asking for financial support.

(ii) Table 6.17 where the finance is considered as number one constraint in their business and

(iii) Table 6.20 where credit has been second best consideration of customers in making purchases.

Similar to the entrepreneurs, the opinion of the vendors was also sought on credit and other services provided by vendors to the customers which reflects (Table 6.24) 75% of the respondents do not provide services to the customers. Out of the remaining 25% of the respondents, 100% vendors provide credit to the customers, 20% vendors deliver their products at manufacturers doorstep and 20% vendors replace free of cost the defective parts to the manufacturers. The significant variable is therefore, the credit facility provided by the vendors to the manufacturers.

**TABLE 6.24**  FREQUENCY OF SERVICES PROVIDED BY VENDORS TO THE CUSTOMERS

<table>
<thead>
<tr>
<th>Sl. No.</th>
<th>Services provided to Customers</th>
<th>Responses</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>Credit</td>
<td>5</td>
</tr>
<tr>
<td>2.</td>
<td>Deliver at Manufacture</td>
<td>1</td>
</tr>
<tr>
<td>3.</td>
<td>Any other</td>
<td>1</td>
</tr>
<tr>
<td>4.</td>
<td>Services not provided</td>
<td>15</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th></th>
<th>No.</th>
<th>% Age</th>
</tr>
</thead>
<tbody>
<tr>
<td>Credit</td>
<td>5</td>
<td>100</td>
</tr>
<tr>
<td>Deliver</td>
<td>1</td>
<td>20</td>
</tr>
<tr>
<td>Other</td>
<td>1</td>
<td>20</td>
</tr>
<tr>
<td>Not provided</td>
<td>15</td>
<td>75</td>
</tr>
</tbody>
</table>
“After-Sale-Service” was further bifurcated into various modes of providing such services including:-

- Mechanic can be sent
- In house workshop facility.
- Frequent field visits
- Complaint handling

In order to further identify the most dominant aspect of “After Sale Service”, the analysis given in table 6.25 reveals that (i) “complaint handling” constituting 78% and (ii) “Mechanic can be sent” constitutes 70%. The other modes of After Sale Service include “Frequent Field Visit” representing 52% and in house workshop facility representing 45%. The over all analysis concludes that the entrepreneurs have a positive view on the sale promotions activities and consider it essential for the marketing of their product.

<table>
<thead>
<tr>
<th>Sl. No.</th>
<th>Methods of service</th>
<th>Responses</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>Mechanic can be sent</td>
<td>23</td>
<td>70</td>
</tr>
<tr>
<td>2.</td>
<td>In-House workshop facility</td>
<td>15</td>
<td>45</td>
</tr>
<tr>
<td>3.</td>
<td>Frequent visit</td>
<td>17</td>
<td>52</td>
</tr>
<tr>
<td>4.</td>
<td>Complaint handling</td>
<td>26</td>
<td>79</td>
</tr>
</tbody>
</table>

### 6.4 ROLE OF DEVELOPMENTAL INSTITUTIONS IN SMALL AND MEDIUM ENTERPRISE DEVELOPMENT

Small Industries in Pakistan, which fall in the category of depressed sector, went through a period of neglect for the first seven years after independence. In 1955, however, its importance
was first recognized in the first plan document. As a result of this an independent agency was created for undertaking limited functions of promoting small industries. Some time later the scope of activities of small industry organization was enlarged with the creation of central and then provincial corporations. The Punjab Small Industries Corporation (PSIC) is an autonomous body of the Government of Punjab, playing the important role of small-scale industries in the province. The present setup is the outcome of the dissolution of the West Pakistan Small Industries Corporation in July 1972, and was created under the act of the provincial legislature. The functions and the responsibilities of the West Pakistan Small Industries Corporation in the provinces of Punjab, Sindh, and N.W.F.P. were taken over by the newly created provincial autonomous organizations, and in Baluchistan by the government of Baluchistan. The outline activities of these organizations are described in the first chapter of this study whereas the industrial support of the institution relevant with focus on immediate facilities extended to the entrepreneurs is presented as under:

6.4.1 FUNCTIONS OF PUNJAB SMALL INDUSTRIES CORPORATION

The functions of the Punjab Small Industries Corporation (PSIC) have been designed as to provide maximum possible facilities and services for the establishment of small-scale industries in order to standardize production, reduce financial difficulties and provide trained manpower.

The Corporation is providing assistance to the small-scale industries in the province through a number of programmes detailed below:

- Investment promotion services
- Rural Industrial Programme
• Self Employment Schemes
• Estate Development Programme
• Technical Training-cum-Common Facilities and Technology Transfer

6.4.2 TECHNICAL TRAINING-CUM-COMMON FACILITIES AND TRANSFER OF TECHNOLOGY TO THE ENTREPRENEURS

Since the small industries, in view of their size and resources, do not always have access to modern machinery and production methods, the Punjab Small Industries Corporation, in order to introduce new product techniques and to improve the quality and quantity of the industrial output of small industries in the province of Punjab, has established 12 technology specified service centers i.e.;

1. Centre for Agri. Machinery Industries, Mian Channu
2. Cutlery & Small Tools Service Centre, Nizamabad.
3. Institute of Blue Pottery Multan.
4. Institute of Ceramics, Gujrat.
5. Institute of Leather Technology, Gujranwala.
7. Leather Service Centre, Kasur.
8. Light Engineering Service Centre, Gujranwala.
9. Metal Industries Development Centre, Sialkot.
10. Sports Goods Service Centre, Sialkot

These Centres provide mainly the following facilities:

a) Technical Training & demonstration of improved technology.

b) Advisory services for technology improvement and design development.

c) Common facilities and Micro-Credits to the entrepreneurs.

6.4.3 **PSIC CENTRE FOR AGRICULTURAL MACHINERY INDUSTRIES AT MIAN CHANNU**

Pakistan is basically an agricultural country and agricultural section is considered as major thrust for development of this country. In order to increase agricultural produce mechanization of agricultural sector has long been recognized as an important ingredient. With this in view assembly and production of tractors was introduced both in private and public sectors. However, the production of agricultural implements remained in the domain of private sector. As there were no proper guidelines and knowledge with the prospective entrepreneurs, a number of small units were established in different areas of the province to meet the demand of agricultural implements. This has resulted in a mushroom growth of agricultural implements manufacturing units in the country, which just produce implements according to their own knowledge, without following any standards, design specifications, quality control and without using proper raw material and manufacturing technology.

Agricultural implements manufacturing units got concentrated at Mian Channu, besides, Faisalabad, Lahore, Deska & Gujranwala. The range of agricultural implements produced at Mian Channu includes Cultivator, mould board plough, Rotavator, disc harrow, rear blade, land leveler, scraper, cotton ridger (with and without fertilizer attachment) ridger, ditcher, border,
disc, seed-cum-fertilizer drill, cotton/maize planter, bar harrow, boom sprayer, maize Sheller, wheat thresher and trolley.¹⁰

Lathe, welding transformer, drill, land shear and electric grinder are the common machines available with most of the entrepreneurs in Mian Channu. Small size workshops are generally equipped with one or two center lathes, bench drill, welding transformer and some have gas cutting and welding facilities. Larger units are equipped with more lathes, pillar drill and shaper. These facilities are not sufficient for quality production therefore entrepreneurs were traveling to other cities for specific tasks.

Mian Channu is located in the cotton belt of the Punjab province where cotton-wheat is main crop rotation. Due to overlapping of harvesting and planting seasons of two crops, it was recognized that the mechanization of these two operations would facilitate the rotation of these two crops. Since there was no other major agricultural machinery production centre in the cotton belt, the industry, which developed in Mian Channu in mid sixties, expanded in the subsequent years. Thus Mian Channu has emerged as one of the important agricultural machinery production centres in the province.³ Due to closeness to upper Sind, the machinery manufactured in Mian Channu is also being utilized there.

At present thirty agricultural machinery production unit are established in Mian Channu, representing an output value of Rs.50 to 70 million per year.⁸ A large number of other industrial units like cotton textile mills, cotton ginning factories, oil mills cold storage, flour mills, etc. are also established in Mian Channu. The town of Mian Channu is located on the main national highway and railway line, which connects Lahore & Karachi. Other infrastructural facilities like water, disposal system, telephone and telegraph etc are available.
The Punjab Small Industries Corporation (PSIC) jointly with the Dutch government explored the possibilities to extend help and assistance for the development of Agricultural Implement Manufacturing Industries. In 1986, both reached to the conclusion that there was a need to establish a Service-Cum-Facility Centre at Mian Channu in order to provide training, advisory and technical services to the agricultural machinery and implements manufacturing industries.²

The PSIC in collaboration with the Netherlands Government has established a Centre for Agricultural Machinery Industries (CAMI) at Mian Channu. This center has mandate to provide common facilities and extension services, training, credit facilities, and quality raw material to the entrepreneurs. It is also engaged in testing, designing and development of farm machinery and in generation and dissemination of information related to local farm machinery manufacturing to the entrepreneurs. The Centre for Agricultural Machinery Industries (CAMI) of PSIC is undertaking steps to promote local agricultural oriented metal industries.

6.4.3.1 OBJECTIVE OF THE CENTRE

This center is going to achieve the following objective.²

a) Provision of common facilities, which are not yet available in the private sector.

b) Provision of design, production, testing facilities to enhance possibilities for product research and development.

c) Provision of technical and managerial advice to small-scale industries through extension services.

d) Improvement of the technical know-how and skills of workers from small-scale farm implement industries by training.
e) Developing a quality assurance and control system, promoting the acceptance of quality standards for new implements to be manufactured.

f) Provision of credit facilities for small-scale agricultural machinery manufacturers/metal industries.

6.4.3.2 ENTREPRENEUR'S RELATIONSHIP WITH THE CENTRE

In order to determine the relationship of the entrepreneurs with this developmental institution established in the geographical location of the cluster, the manufacturers were asked to point out the problems/short-comings of the Centre. For this purpose, an attempt was made to gather the views and opinion of the entrepreneurs involved in the manufacturing of Agricultural machinery at Mian Channu, in order to evaluate critically the effectiveness of CAMI or other-wise.

On analyzing the data collected from the survey,11 the following very interesting findings have emerged on the existing activities and the role of the Centre:

- Manufacturers have to incur additional costs of transportation and octroi charges, as CAMI is located at distant place from the city. = 18%

- CAMI's manufactured products are costly. = 6%

- The machinery manufactured by CAMI does not cater for the local market requirements and the customer's needs. = 6%

- The duration of training conducted by CAMI is very short = 6%

- CAMI provides benefits mostly to large manufacturer who are very few. = 6%

- There is less technical and more Administrative/Supervisory staff at CAMI = 3%

The above findings are based on the data reflected in the following table 6.26.
Table 6.26 MANUFACTURER’ OPINIONS ON EXISTING ACTIVITIES OF CAMI

<table>
<thead>
<tr>
<th>Sl: No.</th>
<th>Complaints against CAMI</th>
<th>Responses</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Transportation difficult &amp; costly</td>
<td>6</td>
</tr>
<tr>
<td>2</td>
<td>High prices</td>
<td>2</td>
</tr>
<tr>
<td>3</td>
<td>Training duration small</td>
<td>2</td>
</tr>
<tr>
<td>4</td>
<td>Slow/No response</td>
<td>1</td>
</tr>
<tr>
<td>5</td>
<td>Ineptitude of helping small manufacturers</td>
<td>1</td>
</tr>
<tr>
<td>6</td>
<td>Less technical staff more Admin. Staff</td>
<td>1</td>
</tr>
<tr>
<td>7</td>
<td>Communication in Urdu</td>
<td>1</td>
</tr>
<tr>
<td>8</td>
<td>Complete range of machine not available</td>
<td>1</td>
</tr>
<tr>
<td>9</td>
<td>Training not applicable to local environment</td>
<td>1</td>
</tr>
</tbody>
</table>

In order to determine the future role of this developmental institution and to evaluate its development activities, the opinion of the manufacturers was sought in the technical survey on the possible improvements that can be made in the Centre. From the survey data following important suggestions for providing required assistance to the entrepreneurs by the developmental institutions like CAMI’s, are extracted:

- Enhance training and education facilities = 79%
- Provide quality material bank = 36%
- Provide required technical/financial assistance = 33%
- Provide specification/design drawings to promote product standardization = 27%
- Provide forging and casting facilities. = 24%

6.5 SUMMARY

The initial part of this chapter has provided the general features of the indigenous agricultural machinery manufacturing industry existing in shape of a cluster. A scientific
approach, as described by the Thrope and Macarola to understand the real situation of all relevant units, is adopted for a systematic observation at a glance. This is done in order to determine the real entrepreneurship and their marketing practices.

The second part of the chapter is partly based on empirical approach to detect and identify the comparative features of both the entrepreneurs and their vendors (subcontractors/suppliers). This is presented to understand and confirm their relative abilities. This segment in combination with the subsequent part of the chapter on relationship among the entrepreneurs and the state developmental institutions, will contribute towards full understanding of the real issues. Thrope and Moscarola has described this approach as the best method to try something – provoke a reaction and thus, through action, remove the uncertainty and understand or confirm the situation. In their views, this style of approach, which is gaining more acceptances in the area of management research.

In order to cover the apparent conflict between the two extremes of positivism and phenomenology described in chapter five of this study, an attempt is made in this chapter to extract some essential findings with a positivistic approach before adopting other approaches identified by the Thrope and Moscarola, for case studies and analysis, which will be presented in chapter seven.

To summarize, this chapter has provided an important input from the detailed study of the following perspectives of the small firms surveyed:

- Entrepreneur Profile
- Marketing Profile
- Entrepreneur’s relations with their Vendors
- Entrepreneur's relations with the state developmental institutions

The result derived from this part of the research study will be synthesized with the propositions extracted from the case studies and analysis, to reach on balanced conclusions, which will be presented in chapter eight of this thesis.
NOTES


9. Tanveer, T., Beek, R., and Bhutta, M.S., (1992), Some Basic Data of Agricultural
Machinery/Implements Manufacturing Industry in Mian Channu, CAMI, Mian Channu.


Chapter Seven

Case Studies and Analysis

Engineering Subcontracting and Enterprise Development in Pakistan
CHAPTER : 7

CASE STUDIES AND ANALYSIS

7.1 INTRODUCTION

This chapter presents in-depth studies of three cases, one each on micro, small, and medium categories which were selected on the basis of justification for selection and utilization of case method in the study, as defined in research methodology chapter five of this thesis. Moreover, as described in chapter one of the thesis, there is strong evidence to suggest that this is appropriate for a study of the small firm. For instance, Stanworth and Curran (1976) argue that in order to gain an insight into the social dynamics and operations of the entrepreneur/owner manager, the case study method allows the researcher to get closer to the small firms. Bonoma (1985) is the other strong supporter of this method. Moreover, given the idiosyncratic nature of the entrepreneur with regard to business subcontracting and marketing planning, it was felt that the case study method would allow the researcher to investigate a number of firms to establish patterns and attempt to improve the level of understanding and generate theory. Taking into account these evidences, the research hypotheses were tested and some findings from three case studies were generated which is presented in the next chapter of this thesis.

Prior to arriving at this phase of the study, a quantitative survey was conducted which allows the researcher to establish a general picture of current practices with regard to the utilization of procedures within the indigenous agricultural machinery sector. Moreover, this phase also allows for identifying those companies, which could subsequently be invited to participate in the final stage of the study.
The first stage of the case development involves a series of in-depth interviews with thirty owners, with the objective of providing the researcher with a pre-understanding of the converging and diverging approaches to marketing and subcontracting which are employed by a broad spectrum of firms located in Mian Channu. While not viewing this phase of the study as being central to the eventual aims and objectives, this provides an initial insight into subcontracting and marketing practices, and the influence of government’s policies as well as the effects of developmental institutions on growth of these small firms. This stage is subsequently used to structure the remaining phases of the study.

As argued in previous chapters, a pluralistic inductive approach was adopted. This allows the researcher to get closer to the specific environment.
7.2 Case Study: JAMAL INDUSTRIES, MIAN CHANNU

Haji Muhammad Rafiq Mughal started his Agricultural Implements Manufacturing Factory in September 1979, when he was 26 years old. His qualification was B.Com, LL.B when he started the factory business. Initially just after law graduation he started legal practice at Mian Channu local courts but could not adjust himself in that field. After that he started trading business as a local dealer of cement and fertilizer but was not satisfied with that business.

Mian Channu was famous for the production of agricultural machinery and implements. Ghazi and Roomi Industries were famous manufacturers of agricultural implements at that time. Mr. Mughal's father had a big shop of raw material and both large manufacturers were purchasing raw material from that shop and a balance of Rs.2 lac always remained towards these big manufacturers.

One bank manager of Muslim Commercial bank, a friend of the family, motivated Mr. Mughal for establishing a farm implement production unit. Mr. Mughal informed the manager that he had not enough finance. Bank manager inquired him about any property he owned. Mr. Mughal informed that his father had a plot of 5.5 kanal on G.T road which his father purchased in the year 1968 at Rs.10,000/-. Bank manager suggested him to start production unit on that plot and avail bank loan facility on mortgage of that plot. Mr. Mughal was preparing the paper for obtaining the loan from Muslim Commercial Bank. Meanwhile National Bank of Pakistan announced the credit scheme namely "The Supervised Credit for Technology". Being loan facility on soft term Mr. Mughal applied for availing the credit under that the scheme. The bank called Mr. Mughal for interview in Islamabad. Later on Mr. Mughal received a letter from the bank with advice note that his loan of Rs.3 lacs has been sanctioned so he should arrange
registered mortgage of his plot. The cost of registered mortgage was very high so Mr. Mughal requested the bank to allow him equitable mortgage. Bank allowed the equitable mortgage and provided Rs. 3 lacs after necessary paper work. Mr. Mughal invested Rs.150,000/- from his own pocket and started production of agricultural machinery.

Ghazi Industries was very famous at that time. Mr. Mughal offered two time higher salary to the foreman of Ghazi industries employed him as foreman in his factory. He also employed one of his friends as a manager and 15 other workers. To start with the production, he purchased three lathes, three electric welding units, two drilling machines, one gas cutting unit, two hand shears, one shaper, one electric grinder and one compressor for spraying. He started the production of thresher, cultivator, trolley and seed drill.

His factory in the beginning was consist of a small office, machine shop, foundry, forging shop, assembly shop, painting shop, small raw material store having a covered area of 2800 sq.ft. When he started the firm, he immediately got manufacturing order of three tractor trolleys. In the first year of the commencement of business he sold 85 threshers and earned a profit of nearly three lacs. His father had good relations with the farmers and business related people living within 30 Kms surroundings. This helped him in marketing his product.

Punjab Agricultural Development and Supply Corporation (PADSC) a semi-government organization of Punjab Agriculture department has a network of branches throughout the Punjab province. They supply different inputs to the farmer. PADSC purchased the threshers from Jamal Industries from 1982-1987 and provided to the farmers. In this way the firm got a regular order for five year which give Mr. Mughal a better foundation for flourishing the business. PADSC supplied these threshers to farmers throughout the province of Punjab, which introduces the firm throughout the province. The annual sale turnover during the first few year was 20 lacs.
Mian Channu and around is a cotton growing area. The cotton crop was very good when Mr. Mughal established his factory. In 1982-83 the cotton mechanization started. Jamal Industries started manufacturing of cotton related implements in 1982-83 and diversified its product range. The business was at its peak during year 1989.

With the passage of time Mr. Mughal expanded his firm. Total area of the factory now is seven kanal with a covered area of 12000 sq. ft. He has now a good office, machine shop, forging facility, assembly shop, painting shop, raw material store, small testing facility and a platform for finished product.

Production capacity and number of machines has also increased. He has now eight lathe machines, eleven electric welding unit, six drilling machines, one shapper, one nibbler, two power press, three electric grinders, two compressors for spraying, one power hacksaw, one heat treatment furnace, one milling machine, one guillotine shear and one heavy power press. The approximate value of his factory now is Rs.85,00,000/-.

<table>
<thead>
<tr>
<th>Year</th>
<th>Annual Sale (Rs.) ('000)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1991</td>
<td>8000</td>
</tr>
<tr>
<td>1992</td>
<td>11000</td>
</tr>
<tr>
<td>1993</td>
<td>12000</td>
</tr>
<tr>
<td>1994</td>
<td>18000</td>
</tr>
<tr>
<td>1995</td>
<td>16000</td>
</tr>
</tbody>
</table>

**TABLE 7.1**
Due to virus attack, the production in the last two years (1995-96) was very low (see sale decline in table 7.1). This has affected the sale of implements. The government earlier has liberal policy of credit for tractor purchase now it is little bit restricted which has indirectly adversely affected the sale of implements. Jamal Industry is manufacturing almost all parts of machinery in the factory. Mr. Mughal informed during the establishment year he was sub-contracting some parts which require machining etc but the quality of components supplied under sub-contracting was not good so he stopped this practice.

The firm is now manufacturing variety of farm implements like cultivator, seed drill, rear blade, wheat thresher, scraper, chisel plough, M.B.plough, land leveller, boom sprayer, bar harrow, ridger, potato planter, border disc, disc harrow, potato digger, fertilizer broadcaster and trolley. This brought the annual turnover range between Rs.125,00,000 to Rs.150,00,000 as shown in table 7.1 and figure 7.1.

![Figure 7.1](image)

For the production of agricultural machinery the firm takes loans from the commercial banks. The cash finance limit of the firm is Rs.30,00,000/- with a local bank. Mr. Mughal's
factory is registered with Chamber of Commerce and industry, Multan and regularized by the Industry Department. He is the chairman/president of local Agricultural Implements Manufacturing Association and member of Pakistan Agricultural Machinery Implement Manufacturing Association.

In 1985, a serious setback came to this company, which seriously affected the smooth growth of the firm. Mr. Mughal through bid competed for the supply of agricultural implements to the Water Management Wing of Punjab Agriculture Department. He succeeded in obtaining the supply. He manufactured the implements but due to bureaucratic hurdles he could not supply this order to government department. The worth of this order was about Rs. five lacs. The disposal of these implements became a serious problem because in this way the firm was facing working capital problem. He sold these implements in private sector, which took nearly two years. However he also earned a good profit on these implements because the price of these implements increased by one and a half to almost double within two years. On the other hand this was a good experience for him as a young entrepreneur and he learnt a lot to tackle this type of environment. Later on he again succeeded in obtaining the order from Water Management Wing of Agriculture department and successfully supplied these implements. Punjab Small Industries Corporation (PSIC) a semi-government organization, of the province in joint collaboration with the Dutch Government had established a Centre for Agricultural Machinery Industries (CAMI) at Mian Channu in 1992 to assist local manufacturers for production of quality products. Mr.Mughal succeeded to supply different implements through third party to the Punjab Agriculture Department of about Rs.2,00,00,000/-. For the completion of this supply order, the Jamal Industry fully utilized the modern manufacturing facility of CAMI. The CAMI had assisted the firm in the development of material storage rack. Mr. Mughal was very interested in the
development of new machine. The CAMI had provided the technical assistance for the
development of new machine i.e Potato Digger. The firm is producing this potato digger on
commercial basis.

This firm now has a qualified staff for calculating the cost of products and keeps proper
record of cost incurred on products and issues proper receipts for the implement sold. 70% of the
product is sold directly to the farmers and 30% through dealers. There are four dealers located at
Vehari, Shujaabad, Rahim Yar Khan and Bahawalpur. Sale through bank and other source is
negligible. This is because of the banks provide cash up to one lac directly to the farmers for the
purchase of agricultural implements. Implements to the dealers are provided at a discount of
about 5% of sale price and then dealers sell the same to the farmers according to their own price.
Warranty coverage is provided for one season in which the repair of implement is done by
providing the material and labor but does not cover standard spare parts such as belts, bearing
and tyres etc. No Instruction booklets and parts catalogues is provided at the time of delivery.
After-sale-service is extended only to those farmers who bring implements to the firm. Sale is
normally 50% on cash payment and 50% on credit basis. 60% of the credit is within 6 months,
30% up to one year and 10% after one year. A very few farmers provide part of payment as
advance deposit prior the physical delivery of implements.

Mr. Mughal is now 42 years old. He is among the famous manufacturers of agricultural
implements in Mian Channu. Few years ago, Ghazi and Roomi Industries stopped the production
of agricultural implements and diverted to other field. Jamal industry is located in the neighbor
Roomi industry so it also attracts most of the Roomi industry clients. The demand of agricultural
implement at present is less as compared to 1989-90.
ASSESSMENT

Phase 1: Establishment

Haji Mohd Rafiq Mughal demonstrated a number of characteristics commonly identified with the entrepreneurs: a restless mind lack of interest in the profession which was chosen by him (through the influence of his family), the ability to seize upon an opportunity, an aptitude for risk taking and the ability to utilize resources which were readily available to him. It reinforces the view originally put forward by Chell et al (1991) that the following characteristics of entrepreneurs can be used to distinguish them from owner-managers; opportunistic, innovative, creative, imaginative, idea-people, proactive and agent of change. It further supports the view of Drucker (1985) who by adopting the views of Joseph Schumpeter (1934, 1961), argues that entrepreneurship is not confined to the economic sphere. He suggests that the entrepreneur "always searches for change, responds to it, and exploits it as an opportunity". Clearly, Mughal demonstrated such characteristics of personality.

In many ways the ability to utilize opportunities, which were presented to him, lay at the centre of Mr. Mughal's success in establishing the company. This is evidenced by his reaction to the advice presented to him by the bank manager (a social friend). Many of the subsequent initial developments stemmed from his tendency to react instinctively and collectedly to unplanned and opportunistic events. This is highlighted in figure 7.2.

During this initial phase, it could be argued that Mr. Rafiq Mughal actually contributed very little of his own individual efforts to the formation of the company. Evidence from this can be gleaned from his reliance on the good business reputation of his father. For potential customers to come to his factory and eventually place an order. He also did not make any formal
attempt to use marketing techniques such as advertising etc.

**ACTING AND THINKING OPPORTUNISTICALLY**

*(FIGURE 7.2)*

Attached the attention
of Suppliers and potential Customers

Generation of initial orders

Using the *Family Name* for the new enterprise

Indirect Role Played by Father

Profit Exceeding Expectations at the end of First Year

Credibility Established

Recruitment of *Expertise* from Rival Firm
However, such as superficial observation does not recognize the enterprising manner in which Mr. Mughal established business. He consciously recognized the benefits to be attained from keeping his father’s name or business. This was a shrewd move on the part of Mr. Rafiq Mughal, and one which played a large part of securing such an advantageous return on profits at the end of the first year.

The other major success factor during this phase was recruitment of a foreman and employees from one of the manufacturers in the area. This action immediately addressed the inherent weakness associated with the formation of the enterprise: a lack of technical knowledge about the business. If this business was to succeed, it became critical that expertise was recruited.

Mr. Rafiq Mughal demonstrated the ability (which is common in many successful entrepreneurs) to utilize networks effectively. He did not pro-actively seek out such technical expertise. Instead, friends of his introduced him to the foreman. When Mr. Mughal discovered that he was earning only Rs.600/-, he promptly doubled this salary, again acting an opportunitistic manner. It can be equally argued that this action correlates to a high degree of resourcefulness, which is identified in the literature as being a typical trait in entrepreneurs. This reflects a counter-dependency characteristics identified by Timmons (1989) who describes it as an extreme case where the individual tries to achieve everything on his own.

This phase of development reveals the importance of establishing credibility in the given market. It is an issue, which all companies have to address in that critical, early stage in its development. For most companies this represents a different obstacle to overcome. The most fundamental difficulty being a lack of resources and expertise, it can be argued that in the case of Jamal Industries, Mr. Rafiq Mughal had a very central resource readily available to him: the well established business reputation of his father. As stated earlier, he capitalized on this resource in
an opportunistic way, and, as a consequence, the company experienced no significant problem during this critical, initial phase of growth. However, such an initial competitive advantage can be short lived and a total reliance on the good name of his father will not necessarily guarantee longer-term success.

**Phase 2: The PADSC Order**

This phase is an important stage of development in the company’s development. It marked the transitionally stage from Mr. Mughal fulfilling a large number of small orders to a position where he would meet the requirements of an institutional order. It also helped to further establish the company’s credibility in the market. Already word-of-mouth had lead to a situation where the head of Punjab Agriculture Development and Supply Corporation (PADSC), who had previously bought from Ghazi Industries, learnt of from one of his managers.

*Mr. Mughal demonstrated* the initiative by being able to meet the initial order of 200 machines, at a lower price, reinforcing his credibility as a serious businessman. He further demonstrated that he was a humble and a hard worker in contrast to the attitude displayed by those at Ghazi Industries.

The net effect of being able to supply to PADSC meant that it further strengthened the reputation of Mr. Mughal within the market: leading to further order from the customers.

This placed the company on a sound footing in every sense. The extra sales and profits, which were generated, allowed Mr. Mughal to invest further in the business. He also demonstrated good business acumen by being attentive to the needs of every customer, not just the larger ones.
Phase 3: Serious Setback – The Water Management Order

A serious setback came to this firm in the year 1985 that seriously affected the smooth growth of the firm. Mr. Mughal succeeded in obtaining the supply order. He manufactured the implements but due to bureaucratic hurdles he could not supply his order to government department. The worth of this order was about Rs. Five lacs. The disposal of these implements became a serious problem because in this way the firm working capital became stagnant. He sold these implements in Private sector that took nearly two years. However, he also earned a good profit on these implements because the price of the price of these implements increased by one and a half to almost double within two years. On the other hand this was a good experience for him as a young entrepreneur and he learnt a lot to tackle this type of environment. Later on he again succeeded in obtaining the order from the Water Management Wing of the Agriculture department and successfully supplied these implements.

This setback experienced by Mr. Mughal with regard to Water Management Wing of the Punjab Agriculture department showed that he was vulnerable to competitive activities. In this case Ghazi Industries had spread malicious gossip about the quality of Jamal’s product.
### SWOT ANALYSIS
(Jamal Industries)

<table>
<thead>
<tr>
<th><strong>STRENGTH</strong></th>
<th><strong>WEAKNESS</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td>o Strong Financial Background</td>
<td>o Central Control/Dependency</td>
</tr>
<tr>
<td>o PSIC/CAMI's Service Facilities</td>
<td>o Mian Channu remote location</td>
</tr>
<tr>
<td>o Market Area Coverage</td>
<td>o Weak Dev. Objectives</td>
</tr>
<tr>
<td>o Entrepreneur's Literacy</td>
<td>o Least Marketing Efforts</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th><strong>OPPORTUNITIES</strong></th>
<th><strong>THREATS</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td>o Many Target enterprises in larger Multan-Sahiwal area.</td>
<td>o Low concentration on specific objectives</td>
</tr>
<tr>
<td>o CAMI &amp; AMRI facilities</td>
<td>o Succession Risk</td>
</tr>
<tr>
<td>o Surrounded by Agro-based enterprises</td>
<td>o Political Instability</td>
</tr>
</tbody>
</table>

#### STRATEGY

- Geographical Diversification/Enlargement into Larger Area.
- Product Diversification/Enlargement into Agro-based Industrial Machinery (parts).
- Penetrate into Agri-implement's Spares Market and Explore Subcontracting Possibilities both in and around Mian Channu Area.

#### TARGETS/ACTIVITIES

- Strengthen Dealership Network for new target locations.
- Strengthen existing Marketing activities in and around Mian Channu.
- Introduce proper after-sales setup
Overall Assessment of the Jamal Industries:

Future Prospects

1. Mughal demonstrates many of the characteristics associated with the entrepreneurs, which are highlighted in the literature: perseverance, a quest for independence, a belief in his product offering and an ability to take risks. These characteristic are evidenced by manner in which he handled the various opportunities and difficulties presented to him, as the company evolves.

This entrepreneurial characteristic found in Mughal is described by Harwood (1982), who elaborates further by proposing that an entrepreneur is one who takes initiative, assumes considerable autonomy in the organisation and management of resources, shares in the asset risk, shares in an uncertain monetary profit, and innovates in more than a marginal way.

While this interpretation reiterates much of what is contained in the Hull et al (1980) definition. It introduces the notion that an entrepreneur needs to demonstrate a level of independence, self-motivation and innovation which is not to be found within the majority of people in society.

In similar vein, Meredith et al (1982) argue that entrepreneurs are people who have the ability to see and evaluate business opportunities; gather the necessary resources to take advantage of them; and to initiate appropriate action to ensure success.

2. The role which personal contact networks played in the development of this business cannot be underestimated. Initially, the bank manager of the Muslim Commercial Bank,
who was a friend of the family, provided the early encouragement of Mr. Muhgal and suggested that he should make use of family land to develop the production unit.

Personal friends of Mr. Muhgal introduced him to the Foreman of an established firm—Ghazi Industries. Likewise one of his friends joined Jamal Industries as a Manager.

3. The impeccable business reputation of his father also helped in no small measure, to establish early credibility for his son, as the new business venture established itself. In a developing economy such as Pakistan, word of mouth plays a fundamental role in either securing a firm on an initial sound footing, or destroying within the local market. In this case, because of his father had a strong reputation; this created a favorable impression in the minds of local farmers. They were thus in a positive frame of mind to place an order with Jamal Industries. Of course, this is not sufficient itself to guarantee the success of a business; if the owner fails to deliver a product, which meet the needs of the market, then it will not succeed. Negative word of mouth will take over in this situation. However, Mr. Mughal demonstrated his ability to meet the requirements of the local farmers.

4. The larger order placed by the Punjab Agricultural Development and supply Corporation (PADSC) proved to be both an opportunity and a major even in the development of the company. Mr. Mughal took a risk because prior to this his company had dealt with small individual orders placed by local farmers, not a large institutional order. There was a danger therefore that he may not have the credibility to meet the requirement to fulfill such a placement. However, the order was met and the resulting profits were utilized to further develop the business.
5. The manner in which the profits ploughed back into the company reflects a typical characteristic of many indigenous Pakistani enterprises: internal financing. In general such companies, because of the strong influence of the family, religious attitudes and collectivist tradition of doing business, avoiding external financing. This situation is also influenced by a lack of basic education or the part of many small business owners and a resulting shyness in establishing contacts with the banks are perceived as being unhelpful and largely looking after the interests of big business. In the case of Jamal Industries, this did not happen. Mr. Mughal utilized personal contacts to secure the initial loan and subsequently with invested profits back into the business and also took loans from the commercial banks. This demonstrates a shrewdness and flexibility, which is necessary, if firms such as Jamal Industries are to grow the business.

6. Networking continues to play a strong role in the development of the enterprise. Mr. Mughal is active in his capacity as Chairman/President of the local agricultural implements manufacturing association. He uses these positions of power and influence not alone to represent local farmers and traders, but also to project himself as someone at the forefront of the industry. This further reinforces his credibility as a successful businessman in the region and perhaps more importantly allows him to monitor trend and developments in the industry.

7. In terms of providing direction and leadership to the company, Mr. Mughal demonstrates many of the characteristics of the entrepreneurs; among them, the desire to retain control over the business. Since the formation of the company in 1979 he has retained responsibility for all strategic decisions, most notably in the area of finance and customer management. He recruited a friend of his to manage day-to-day operations of the business
associated with production. This again is symptomatic of many successful business; the ability to focus on the strategic long term decisions while delegating responsibility for the operational issues to some one else. He has also ensured that qualified staff exists to maintain cost analysis of raw materials, and finished goods, together with proper bookkeeping.

8. Evidence of Mr. Muhgal’s ability to make use of formal network is shown through his linkage with the Centre for Agricultural Machinery Industries (CAMI), when help was needed with new product design; specifically the potato digger.

9. The serious setback experienced by Mr. Muhgal with regard to the Water Management wing of the Punjab Agriculture Department showed that he was vulnerable to competitive activities. In this case Ghazi Industries had spread malicious gossip about the quality of Jamal’s products.

10. It can be argued while Mr. Mughal has been successful in directly attracting orders for the company, more work needs to be done with cultivating more effective sales response from the dealers, which operate in outlying regions. The suspicion is gained from the interviews with Mr. Muhgal that he is wary of relinquishing too much of the responsibility to the dealers.

11. Jamal Industries also needs to consider its approach to customer service presently the warranty coverage is limited and no instruction booklets or parts catalogues is proved at the time of delivery. Given the low level of literacy and educates of the local farmers, this may not necessarily be a weakness. However the after sales services, which presently extends to those customers who brings the implements to the firm could be extended
towards the provision of workshops outlying districts or to the dealer network. This could give Jamal Industries a competitive advantage as the industry become more competitive.

**The Future**

Jamal Industries has established itself as a major player in the local regions since its formations in 1979, this is due, in no small measure to the enterprising nature of Mr. Mughal’s approach to business.

Perhaps the biggest danger facing the company is that of succession. Since its foundation, Mr. Mughal has led the company and made all of the business decisions. He has involved nobody else in these matters. There are no sons interested in becoming involved in the business. Much of the success achieved to date has been built around the reputation of initially Mr. Mughal’s father and subsequently himself. If he should become severely incapacitated or die then the company would be extremely vulnerable.

Greater focus needs to be placed on the development of new products. He has partially addressed this issue by working closely with the Centre for Agricultural Machinery Industries (CAMI) notably in the development of a new potato digger. This collaboration is essential in the future for further developments.

Mr. Mughal needs also to address the issue of quality. To date the demands of the local market place little emphasis on quality. This is done in part to a lack of willingness to pay extra for better quality products. However the onus is on companies like Jamal Industries to inverse the awareness level among local farmers of the benefits, which can be achieved from utilizing better quality machinery as the land. The focus should be on of stressing that quality should be viewed as investment not a cost. Unless companies like Jamal seize the initiative and become proactive
in developing quality, that attitude among the local farmers will remain negative. More importantly for Jamal, the focus on improving quality could grow them a clear competitive advantage in the local market.

The company to date has remained with the local markets. The impression gained from the interviews with Mr. Muhgal is that he is happy with his lot and is unlikely to become involved in exporting the three areas for future development of Jamal Industries would appear to the quality management, customer services and new product development. The role, which a third party operator like CAMI can play in these areas, is crucial to the future success of Jamal Industries.

In light of the likely problems associated with successor, Mr. Muhgal needs to give serious consideration to establishing a formal management and organization structure within the company. Presently he has introduced production and book keeping expertise, let at a relatively operational level of the business none of their people are actively involved in strategic decision making.

**Research Propositions**

This case has identified a number of potential explanations as to why Jamal Industries has been successful. These can be placed in the context of research propositions, which can subsequently be tested, in further research projects. They can be summarized as follows:

1. Close personal contact networks play a major role in establishing a business venture in Pakistan.

2. The ultimate success or failure of a firm will be achieved by the personality and leadership style of the founder.
3. The lack of formal organizational structure will restrict the ability of the company to further develop business opportunities, as a stagnant tendency is also evident in graph 7.3.
7.3 Case Study: AL-HAIDER INDUSTRIES, MIAN CHANNU

Al-Haider Industry is situated on G.T.Road, Mian Channu. M/s. Muhammad Tufail and Siddique are two partners of the firm. Mr. Muhammad Tufail is an active partner. He looks after the managerial work, in addition to some technical working. Whereas, Mr. M. Siddique only works as technician in the firm. The education level of Mr. Muhammad Tufail is matric with a technical diploma of two years in mechanical technology. The other partner Mr. Siddique carries a general education of primary standard. Both have not obtained any formal practical training in the field of farm machinery production but their 20 years experience in repairing of agricultural machinery and implement counts.

The partners of this industry own a commercial plot located on G.T.Road, Mian Channu which they purchased in the year 1975 at a price of Rs.10,000/-. Keeping in views the market trend and with a hope that market of agricultural machinery and implements will flourish they establish this unit in 1980. For the establishment of unit they constructed building and purchased machinery. The cost of construction was Rs.20,000/- and cost of machines was Rs.10,000/-. At that time when they established the firm, the covered area of the building was 625 Sq. ft. with an uncovered area of 1125 Sq. ft. For starting the business they purchased a lathe machine, an electric welding unit, a drilling machine, a nibbling press, a power press, and an electric grinder. They started the production of Wheat Thresher, Cultivator, Seed drill besides repairing of agricultural implements and diesel oil engines.

With the passage of time they expanded their business as is evident in figure 7.4 which indicates the a steady increase in revenue generation and now the covered area of this firm is 1175 Sq.ft which has reduced uncovered area to 575 Sq.ft but, for this deficiency, they are using the
roadside. They have also increased their machinery and now this firm has four lathe machines, three electric welding units, two drilling machines, one shaper, one power press, one electric grinder, one compressor for spraying, one power hacksaw, and one milling machine. They have sold out a nibbling press, which was purchased at the time of establishment. This, they have done due to its non-utilization and now they want to sale out a power press. This is also because of the same reason of its non-utilization. At present they are producing, rotavator, wheat thresher, broadcaster and rear blade and for this production they obtained a loan of Rs.1, 00,000/- from a commercial bank i.e., National Bank of Pakistan.

Managerial manpower at the time of establishment was one and now it is two whereas technical manpower at the time of establishment was one and now it is raised to six. The annual turnover at the time of establishment was Rs.36, 000/- and now it is Rs.9, 00,000/- as shown in table 7.2.
Both the partners have the same opinion, i.e., government policies did not help them in boosting their production. On the other hand, the government has recently imposed sale tax, which has adversely affected the business of small firms. The partners did not conduct any market study before starting this business. They belong to majority community. Moreover, parents of both carry background in business. They have technical know-how, therefore they started the unit and made a good progress. This in their views is because of better quality work. At the same time, in their opinion, since last two years, their business position is not so good.

The firm does not have qualified staff for calculating the cost of product but the managing partner calculates by himself and maintain a record of costs incurred on the products. This firm issues no proper bill or sale receipt for any product sold. They sell almost hundred percent of their product directly to the farmers and do not have any dealer network. However, warranty coverage of one season is provided in which they rectify technical faults of manufacturing nature. No operation instruction manual/booklet and parts catalogue is provided to the customers. Their sale is 75% on cash payment and 25% on credit basis with a recovery of 30% within first three months, 30%
within second three months, 30% within one year and remaining 10% after that. Very few customers provide part of payment as an advance against purchase of the product.

The initial investment of both the partners in this unit is Rs.1.00 Lac with equal participation. They believe that the above-mentioned investment is not sufficient and at least Rs.5.00 lacs are essentially needed for smooth production and sale. They keep proper record for job costing. In addition to agricultural machinery production, they are planning to enter into a business of fabrication and erection of ice and cold storage machinery. Mostly they planned their production well in time, sell out the product accordingly. This is how they are surviving under the present declining position of the overall agricultural machinery business. They do not hire consultancy and advisory services on cost basis but are ready to avail free of cost advisory services of any developmental institution.

For the retaining of staff this firm provides incentives such as overtime, advance payment, annual increment and help the individual worker on need basis and both the partners some time also solve their domestic problems. They produced running items and from the start their business is expanding slowly but smoothly. In their opinion the Income Tax system is not good and agricultural implements should not have sales tax.
ASSESSMENT

Phase 1: Establishment-stage of Existence

It is an example of a firm of effective partnership, which is good for the establishment of proper setup in the Pakistani environment. Here, one of the partners with a reasonable level of educational and technical background has ultimately brought some good results by performing a managerial role. Mr. Muhammad Tufail carries basic education at secondary school level with post-matric two years diploma in mechanical technology as well as 20n years experience in manufacturing business in the same cluster. The second partner, Mr. Muhammad Siddique has a sound background of manufacturing agricultural machinery. Combination of both partners’ skills has resulted in a smooth business running with a potential of further growth by adding some possible elements for this enterprise development.

The partnership is an ideal one in which there is no risk involved for any further investment in different direction.

Phase 2: Stage of success and Take-off

Both the partners have a good understanding in business and social community. Important factor for this level of the firm is that a permanent structural asset is needed which gives a strong edge towards stability. Both the partners jointly purchased a plot on the roadside in the center of the cluster where a farmers approach for buying the implements. This situation has resulted some regular customers who visit the firm and after collecting useful information for proper utilization of machines also provide a support of Al-Haider Industry’s business.
Here the important point is permanent structural facilities, location of the firm deep routed attachment with the community, and the technical knowledge of both the partners, which is resulting in shape of strong footings for a growing firm.

**Phase 3: Stage of Successful Survival**

The year from 1994 onwards, a serious fall in the sale of tractors and farm equipments is observed. Almost all firms micro, small, or medium are facing serious problems, and their survival has become extremely difficult. Political instability in the country is one of the main reasons of their failure. Despite of all these constraints, this firm is not only surviving, but also growing further. This indicates that this kind of partnership combination with a strong attachment with the community can play a successful role in enterprise development. This is an evidence of effective partners who are utilizing their abilities for a common goal.
SWOT ANALYSIS
(AI_Haider Industries)

STRENGTH
- Partnership Understanding/Benefit
- Private Sector Flexibility
- Partner’s Technical Know-how
- Location in Cotton & Wheat Belt

WEAKNESS
- Mian Channu remote location
- Narrow Geographic focus
- Partner’s Educational Level
- Limited Area Marketing activities

OPPORTUNITIES
- Many Target Groups in larger Multan-Sahiwal area.
- CAMI & AMRI facilities
- Surrounded by Agro-based Enterprises and Subcontracting Potential

THREATS
- Low Concentration on specific objectives
- Financial Sustenance and Possible Closure
- Non-retention of skilled & qualified man-power.

STRATEGY
- Geographical Diversification/Enlargement into Larger Area.
- Product Diversification/Enlargement into Agro-based Industrial Machinery/Parts.
- Penetrate into Agri-implement’s Spares Market and Explore Subcontracting Possibilities both in and around Mian Channu Area.
- Develop and Expand Marketing in Diversified Area.

TARGETS/ACTIVITIES
- Create Dealership Network for new target locations.
- Strengthen existing Marketing activities in and around Mian Channu.
The overall assessment of Al-Haider Industries

Future prospects:

1. A strong and active partnership associated with a combination of entrepreneurial skills reflects a stable successful business opportunity as is evident in figure 7.4

2. Effective utilization of active partners technical skills in the proper directions is a guarantee towards success of business.

3. Basic knowledge continues to play a strong role in the development of firm. One of the partners Mr. Muhammad Tufail is playing the part of as a Managing Partner whereas Mr. Muhammad siddique is also participating as an active partner and contributing towards the real manufacturing. This combination is bringing stability even under difficult situation.

4. The managing partner's ability to make use of linkage with the development institutions like CAMI and AMRI are the evidences of his abilities.

5. It can be argued that this partnership is successful and directly attracting orders. The major weakness gained during interview of both the partners is avoiding risk in business expansion by availing loan from any commercial bank, which is seriously needed for this purpose.

6. Presently after-sale coverage is very limited and also by avoiding sales promotion tactics, the Al-Haider Industries is not taking any competitive advantages of its potential.
The Future:

The Al-Haider Industries was established in 1980 on the basis of very limited investment with an effective combination of partnership has now reached to the level where it can further grow very rapidly, if some financial needs are met.

This firm has no problem of any succession as both the partners are developing the second line within the family in the same business. One of the sons of Mr. Muhammad Tufail is partially involved in this business. Much of the success achieved to date has been built around the reputation of both the partners is evident in figure 7.5 reflecting smooth take off position.

Al-Haider Industries
Annual Growth

![Graph showing annual growth of Al-Haider Industries](image)

Figure 7.5

The main focus needs to be placed for expansion of firm in availing some loan from some development/commercial banks.

Some improvement in quality, after-sale-services, and establishment of agent/dealership network to cover the broader area of product marketing can attract more business.
By adopting some sale promotional activities, the firm can grow further by availing a clear competitive advantage in the local market.

**Research Propositions**

This case identifies a number of potential explanations. These can be placed in the context of research propositions that can be tested in future research work. These propositions are summarized as under:-

1. Strong and effective partnership play a major role in establishing a business.

2. The basic skills of the partners play very effective role in understanding the problems for business growing.

3. The location of the activities also plays an important role, both for business stability and its growth.

4. The lack of financial resources is a major constraint for business expansion.

5. Effective sale promotional and after-sales activities are important factors for business development.
7.3 Case Study: MALIK ENGINEERING WORKS, MIAN CHANNU

Malik Shaukat Ali started his Agricultural Implements Manufacturing micro setup in 1990 when he was 34 year old. He is the sole proprietor of the firm namely “Malik Engineering Works” situated on Burewala Road, Mian Channu. His qualification was matric with 16 years of experience earned in different agricultural machinery production units in Mian Channu, when he established his own business.

In his last five year (1985-90) of services, there was a reasonable growth of tractor and machinery business therefore he started with a vision that it will continue.

During the years 1980 to 1990 was a period of smooth growth of Farm Mechanization in Pakistan particularly in the province of Punjab and sale of tractor was at its peak. The sale of farm machinery is linked with tractorisation in the area. During this decade there was an immediate demand for all kind of farm implements. Malik Shaukat Ali, a skilled technician with an experience of 16 year worked in the neighbor-manufacturing unit of Mian Channu decided to grasp the opportunity and to setup his own firm on the roadside.

He had little capital of his own therefore he took a loan of Rs.2.00 lacs from his friends and relatives and established a micro workshop in the year 1990 as an un-registered firm located at the roadside in a rented shop/building with a covered area of 100 sq.ft.

Malik Shaukat got a rented building of 100 sq.ft. covered area at the time of establishment. He established machine shop in that area and was assembling implements on the roadside.
For starting the production he purchased one lathe machine, two electric welding units, one drilling machine, one hand shear, one electric grinder, and one compressor for spraying. He started the production of cultivator, seed drill, Thresher Ridger, and rear blade.

Malik Shaukat was working as Foreman in an industry before the establishment of his own set up, therefore he has full knowledge about this sector. He has already relationship with the some farmers, which help him for the sale of implements.

With the passage of time he extended his micro setup. Total covered area now is 400 sq.ft., though it is also rented. In addition to machinery he procured at the time of establishment, Malik Shaukat has now two more electric welding units and gas cutting equipment. He is producing rotavator, thresher, cultivator, drill, ridger, and rear blade.
The government has imposed sale tax on the sale of agricultural machinery, which has adversely affected the progress of the enterprise. The production of cotton was less during the year 1993-94 that has also affected his business. Malik Shaukat informed that now-a-days the condition of business is not good and if it prevails he will shift to some other business. The government first has liberal policy of credit for tractor purchase now it is little bit restricted that has also adversely affected the sale of implement. He also sub-contracts the job to some vendors.

The owner of the firm is basically a technician but in his micro set up he also work as manager of his enterprise. At the time of establishment the technical manpower was ten. Now only five workers are employed because the condition of business is not good. Turnover per year at establishment was Rs.1,00,000/- and now it is Rs.150,000/-.

<table>
<thead>
<tr>
<th>Year</th>
<th>Annual Sale ('000)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1991</td>
<td>100</td>
</tr>
<tr>
<td>1992</td>
<td>150</td>
</tr>
<tr>
<td>1993</td>
<td>200</td>
</tr>
<tr>
<td>1994</td>
<td>250</td>
</tr>
<tr>
<td>1995</td>
<td>100</td>
</tr>
</tbody>
</table>

Although turnover has increased with less production this is due to inflation (high price of implements). The year-wise sale of this enterprise during last five years is given in table 7.3.
Malik Shaukat informed that the government policies never helped him for boosting his production. Although there are some policies, which help enterprise to boost their production but as the education level of Mr. Shaukat is low and there could be many other reasons that he could not take advantages of that policy.

This firm has no qualified staff for calculating the cost of product. The owner himself calculates the product cost just by his experience. The owner neither maintains proper record of cost incurred on products manufactured in the firm nor any job costing is done. Moreover, he also does not issue proper receipt of product sold.

Mr. Shaukat is selling 95% of the total sale directly to the farmers and remaining 5% through agents and other sources. In his view, as his unit is very small therefore he has not appointed any dealer. He provides warranty coverage for one season in which he repairs the implement by providing the material and labor but he does not provide standard spare parts such as belts, bearing and tyres etc. He does not provide instructions booklets and parts catalog. His sale is 100% on cash payment basis.

The owner of the firm, Malik Shaukat is member of local agricultural implements manufacturing association. He belongs to a majority caste community residing in the area. His parents are engaged in hotel business. His personal investment in shape of fixed assets in this micro unit is Rs.3, 00,000/- and for working capital he availed some credit from the market. He believes that his present investment is not adequate and needed at least Rupees Three Lacs to further boost his business. He planned his production and sale according to prevailing circumstances.
ASSESSMENT

**Phase 1: Establishment – Stage of Existence**

Malik Shoukat Ali established his business in the year 1990 with an amount of Rs.2.00 lacs as a sole proprietor and with a vision that the agricultural business will further grow like it happened during the period 1985-90. With this limited vision he arranged all business setup in a rented building, which in fact was two attached shops on the roadside. But, after some time he realized that with the passage of time the overall business situation is worsening. Malik Shoukat Ali demonstrated a number of characteristic: he was a skilled technician working in different manufacturing units located in the cluster having a mission to establish his own business which he has done only by keeping in view the rising stories he listened about those who successfully established business at the early stage (1980’s) of tractorization in the country. He took this risk for availing the business opportunities without searching another business partner. This reflects his inward personally which seems to be only meant to meet out his living expenses. During the interview, it was observed that he has no idea of establishing any proper set up except to start his own business for getting the maximum benefit out of the opportunity available in the rising situation of the overall business. The reality is that it was the stage of beginning of a tractor business declining.

**Phase 2: Stage of Survival**

Based on some false assumptions, the firm established but did not grow as is evident in figure 7.6. This was very important stage for the firm particularly it became extremely difficult when Malik Engineering Works established purely by an individual with no long term planning. The existence of an enterprise in a cluster has some advantage but the competition some time
creates very serious negative impact on a newly start up business with all demerits of educational level, financial constraints, lack of managerial skill, and weak marketing setup. These negative factors have severely affected his growth.

**Phase 3: Stage of Success or Failure**

Although Malik Shoukat Ali is a permanent settler of the town but being a part of minority with no political affiliation, and without financial access to finance the business is not in a position to avail any linked-up advantage for moving further. During the interview, it was observed that, he has no definite plan neither production nor marketing products.

Although, he got two more shops on rental basis for the expansion of his production activities, but, these shops are just lying vacant with no equipment and job in process. During the personal interview, Malik Shoukat Ali was not found in a self motivated form and waiting a miracle instead of any proper planning or approach. This reflects the tiredness of a week entrepreneurial personality with very limited resources.
## SWOT ANALYSIS
Malik Engineering Works

<table>
<thead>
<tr>
<th>STRENGTH</th>
<th>WEAKNESS</th>
</tr>
</thead>
<tbody>
<tr>
<td>o Private Sector Flexibility</td>
<td>o Serious financial Position</td>
</tr>
<tr>
<td>o Low Overhead Expenses</td>
<td>o Narrow Geographic focus</td>
</tr>
<tr>
<td>o Market Relevance</td>
<td>o Restrictive Product Programme &amp; Dev. Objectives</td>
</tr>
<tr>
<td>o Location in Cotton &amp; Wheat Belt</td>
<td>o Limited Area Marketing activities</td>
</tr>
<tr>
<td></td>
<td>o Sole Proprietorship</td>
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</tbody>
</table>

### OPPORTUNITIES

<table>
<thead>
<tr>
<th>o Expansion Potential/Flexibility larger Multan-Sahiwal area.</th>
</tr>
</thead>
<tbody>
<tr>
<td>o Surrounded by Agro-based enterprises</td>
</tr>
</tbody>
</table>

### THREATS

| o Low concentration on specific objectives                   |
| o Financial Sustenance and Possible Closure                  |

## STRATEGY

| o Product Diversification/Enlargement into Agro-based Industrial Machy. (parts). |
| o Penetrate into Agri-implement's Spares Market and Explore Subcontracting |
| o Develop and Expand Marketing in Diversified Area.          |

## TARGETS/ACTIVITIES

| o Product Quality Improvement                           |
| o Adoption of After-Sales Support/Practices             |
The overall assessment of Malik Engineering Works

Future Prospects

1. Poor vision associated with the sole proprietorship reflects a very weak growth of the firm from its beginning. Poor knowledge and managerial/marketing skills are playing a weak role in the negative growth of the firm. Quality of the product is not based on requirement but is counted as a comparison with cheap production to catch the customers for sale at lower price. This is creating a conflicting situation with the customer after product is sold and is ultimately giving bad reputation for the entrepreneur and the firm. Lack of finances and being the part of minority community, Malik Shoukat Ali is not in a position to avail any advantage of the business in local market.

2. In the absence of business promotional and after sales coverage, the firm has reached a stage of stagnation.

The Future

The Malik Engineering works was established in 1990 with a very limited investment as sole proprietorship firm. The firm carries varieties of problems, which are serious nature and major constraints for the firm growth. The entrepreneur is striving hard for nothing. The firm’s annual sale is declining as is evident in figure 7.7.

Malik Engg Works

Annual Growth

![Figure 7.7](image-url)
Research Propositions

This case identifies a number of potential explanations. These can be placed in the context of research propositions, which can be tested in future research work. These propositions are summarized as under:-

1. Sole proprietorship is a disadvantage fact for the failure of the business.

2. The educational level and managerial skills are the important factors for the business growth.

3. The financial resource is a major parameter for the enterprise development. Sale promotion and after sale activities.

4. Sale promotion and after sales activities are important factors for business development.

7.5 SUMMARY

In this chapter three case studies, related to micro, small, and medium size enterprises have been examined by taking into account all four parameters i.e., influence of government policies, entrepreneur's personality including competence in management, inter-firm relations, and marketing approach. The outcome of the same is synthesized with the detailed study of all thirty units, located at Mian Channu and their twenty vendors spread through out the province. These cases have further been analyzed by keeping in view different conceptual descriptions given in the literature surveyed.

All the three cases have been examined firstly, by in-depth understanding their existing business operation, approach pursued in handling their problems, and the serious constraints they are facing in the growth of the firm. The viability of their marketing activities and relations with
Chapter Eight

Research Findings and Concluding Remarks
CHAPTER 8

RESEARCH FINDINGS AND CONCLUDING REMARKS

After the industrial revolution, every aspect of life became more complex. It is not easy for everyone to solve the problems. The same is true in the field of marketing, management, economics, and business administration. In all these fields knowledge about the new developments is a necessity condition. Policy makers and research analysts are regularly trying to remove the obstacles in the development of that area. The main objective of this study is based on the same postulate that there is not enough knowledge available about the development of enterprises in Pakistan.

To carry out real research work is difficult in a developing environment particularly with a socio-political situation, as it exists in Pakistan. There is no smooth trend towards economic stability, which is one of the main obstacles to forecast on any logical basis for prediction. No study on realistic basis has been carried out until now particularly with a focus on small and medium enterprises, taking into account the main influencing factors like government policies, management competence, marketing skills, and subcontracting practices in small indigenous firms, which should identify the problems of their business growth.

In this chapter main gist of the present study based on four basic inquiries has been presented.

- influence of the government policies
- owner-manager personality and competence in management
- inter-firm relationship
marketing approach

These four parameters are the focal points of the present investigation. The empirical analysis is based on:

a) a detailed study of all thirty units manufacturing agricultural machinery, located at Mian Channu

b) comparative study of the general characteristics of the thirty manufacturers and their twenty vendors (subcontractor/suppliers) located throughout the province

c) in-depth analysis of three case studies, related to micro, small, and medium size enterprises

The research findings have been presented by keeping in view different conceptual descriptions given in the literature surveyed including policy-focused issues. This chapter finally closes with some concluding remarks about the environment in which the Pakistani enterprises should operate/grow and compete in local and external markets.

The main findings of this study are summarized as under:

i) One of the important factors emerging from this study is the absence of a systematic government policy to exploit the potential of small-scale industry particularly the manufacturing sector. The analysis of economic survey reports described in chapter one reflects government involvement in various ways i.e., credit policy towards private sector, running of the developmental institutions which provide services to small and medium enterprises, export policy etc. It is observed that in many of these areas government commitment is lacking. The ‘self reliance’ objectives focused in various five years/annual development plans and other policy documents appear to be hollow as
the local capability has been ignored. As a result, most small enterprises with a very few exceptions like Jamai Industries, failed to graduate to medium size enterprise.

ii) Considering that export of engineering items is emerging strongly in countries such as Korea and Taiwan, there is a case for adopting a positive export policy in this regard. Subcontracting is one area, which demands close attention. It can reduce manufacturing cost due to the availability of skilled labor at low wage rates for serial production, and by maintaining standards of other developing countries competing for engineering exports. This is expected to be a major cost saving advantage to exporters of products in Pakistan.

iii) Some firms could not expand because they were inefficient and they are surviving just by avoiding taxes (e.g., Malik Engineering Works). In other cases, a number of factors like inefficient management of the firm, poor marketing practices including ineffective after-sales, low market potential, insufficient product development, lack of trained manpower, and non-availability of quality raw material/components from the vendors have not allowed the small firms to grow. Lack of finances is the most restricting element followed by inadequate demand, lack of balanced & appropriate technology.

iv) The analysis of the data presented in chapter six points out explicitly that the educational level of the entrepreneurs, is not up to the mark: more than 50% of them are below matric, which is one of the major constraints to understand the related factors of firm growth. This deficiency is more clearly perceptible at micro level where 77% entrepreneurs have their education even less than matriculation level.
Moreover, on this point, the findings extracted from the case studies reveal that educated and uneducated, as well as trained and untrained entrepreneurs had no significant difference in terms of availing facilities and incentives. However, entrepreneurs with some education and training were better off in terms of entrepreneurial vision and future plans. For example, the quick growth of Jamal Industries is because of its owner's education whereas the failure of Malik Engineering is the result of its owner's inability to catch up with the latest in the field. And, the smooth take off position of the Al-Haidcr Industries is mainly due to the education level of one of its partner and his skill and training which contributed to better production, marketing and management – the most important attributes of a successful entrepreneur.

v) The main factor of raising the productivity, as reflected in the study of Japanese model, (chapter three) is by keeping workers happy. Although this approach is not very common in Pakistan, the firms like Jamal Industries and Al-Haidcr Industries, which are providing more incentives to the workers, as referred in the case studies, are getting the benefit by applying this idea. Whereas, nothing of this type of management tool is found in Malik Engineering. This demonstrates that the firm, which understands this indirect way of getting things done is not only surviving but is also making the definite progress in the market without any fear of its closure. As a matter of fact, such an attitude toward workers has always existed in Pakistani working conditions, yet the Japanese success story needs to be put in stronger terms to convince the entrepreneurs
that work attitudes and friendship attitudes are not opposed to each other. They rather complement each other to achieve the desired results.

vi) The general outlook analysis of all units located in the cluster under study reveals that majority (73%) of the manufacturing units were found to facing serious problems to market their product. This is mostly because of a combination of inadequacies such as market research, product planning, advertisement, and after-sales coverage.

vii) The growth of some firms e.g. Jamal Industries, is affected by the absence of the R & D and other scientific knowledge required essentially for their graduation to the next stage of development. For this kind of the situation, it becomes necessary for the state to give assistance to small-scale industry for providing employment at a very small cost and economic benefit of producing goods at affordable price. Unless the government participates with fullest commitment, these medium-sized firms will lose their potential for providing tremendous benefits they are extending to the nation. The talent for innovation, flair for developing technology and even very high grade of skilled craftsmanship which owners of small industry usually have, cannot make up for lack of research and development, considered crucial for the quality of product.

viii) The availability of loans from formal and informal sources is limited; the small firms cannot expand and have failed to graduate into larger firm. As presented in chapter six explaining the general outlook of all thirty units, it is revealed that 70% of the entrepreneurs do not have the adequate finances. Further analysis of the case studies singled it out to be the most important variable for micro firms as well.

ix) On analyzing the relationship among entrepreneurs and the state developmental
institutions as described in section 6.4 of chapter six with reference to the facilities offered by the Centre for Agricultural Machinery Industries (CAMI), Mian Channu to all thirty units located in the cluster, particularly relations between CAMI and the Jamal Industries which has been explained in chapter seven. The role played by this institution (CAMI) in the growth of industries is quite significant but, still there is a need for an even greater role of this institution in the growth of surrounding small industries.

In fact, the importance of small industries in the economy can hardly be ignored. They provide employment opportunities to a large number of workers, require less technical skills, depend mostly on indigenous resources, and have better linkages with the other sectors of the economy. Realizing the importance of this sector, as described in chapter two, the government of Pakistan has provided a number of incentives – fiscal, financial and others – for its promotion in the country. Establishment of Small Industries Corporations in the Punjab and the Sindh, Small Industries Board in the NWFP, and Small Industries Directorate in Baluchistan was an important step in this connection. These institutions are playing a significant role in the promotion of small industries by establishing industrial estates and providing of financial, technical, and marketing facilities. Although all these activities are commendable, there is a need for even greater role of these institutions in the growth of small industries. The currently available credit and training facilities are insufficient and need to be improved.

It is observed that just launching small industries in the country can not alone bring desired results. They need a very meticulous preparation and planning before the
scheme is launched, followed by lot of hard work in helping the people to run them.

Following points are highly important in this regard:

a. To run a small industry with optimal results, a sufficient knowledge of technology, metallurgy, management and marketing is a pre-requisite. Technology is concerned with producing finished goods of high quality; metallurgy looks at the raw material, its characteristics, quality and its various ways in which it could be improved. Management deals with diverse factors of production together and finally the marketing has to devise ways and means of getting the finished product to the end user. In short, any industry is based on; technology, management, and marketing.

b. Technology itself has three factors; knowledge, implements-machinery and plant, and skill. While knowledge - talent for innovation and flair for technology as well as partly skill may be natural gift, so also entrepreneurial capability - machinery plant and large part of skill have to be paid for. To be competitive, a small industry must have inputs of management and marketing at minimal cost if not always free. This is what distinguishes it from a large-scale industry where all these have to be paid for. In this context, it can be said that investment is most important but still a small step towards successfully establishing and running a small-scale industry.

xi) In all thirty units studied, no inter-firm relationship within these units with large companies is found. This scenario also explains that the relationship between small-scale industries and large companies in Pakistan is either invisible or so unstable and
disorderly, unlike that in Japan where the sub-contractors and their respective companies depend on each other so much that they have to swim or sink together. This bond is seldom present in the Pakistani setting.

On the other hand, the demand for export commodities is highly competitive both in price and in quality of the product. Small-scale industries in Pakistan simply cannot compete successfully with others on their own, particularly with more established, competitors such as Taiwan, Hong Kong, or Korea. Because of this isolation, Pakistani industries are truly in a difficult position. There is a case for adopting a positive export policy in this regard. Subcontracting is one particular area, which demands close attention to reduce manufacturing cost with the availability of skilled labor at low wage rates for chain production and maintaining standards of other developing countries competing for engineering exports.

xii) One main finding extracted from the case study analysis, when compared with the five stages model described by Churchill and Lewis (1983), is that the medium size firms like Jamal Industries are confronting the situation of resource maturity, the small size firms like Al-Haider Industries are at the stage of success or take-off, whereas the micro size firms like Malik Engineering are unfortunately still operating on ad hoc basis and empty hopes.

xiii) A common proposition emerging from the in-depth analysis of the all the three cases reveals that for the ultimate success or failure of a firm it is basically, the entrepreneurs personality, education level including skills of owner or partners as seen in the success
of Al-Haider Industries which is mostly dependent on this important factor. From this detailed analysis the following two propositions are extracted:

a. The entrepreneurs’ abilities in running the small firms have positive effect on the efficiency of the firm.

b. The growth of the firm is dependent on the entrepreneur’s skill.

xiv) Although, externally it seems that the inter firm relationship and subcontracting practice is totally invisible in Pakistani environment, still there is a situation which has some resemblance to Japanese Style Partnership (JSP) described in chapter three with regard to the Jamal Industries operating in collaboration with the Centre for Agricultural Machinery Industries (CAMI). It succeeded in meeting the bulk order of improved quality agricultural implements supplied to Agriculture Department, which in isolation was impossible to handle. It emphasizes the fact that the relationship development between two different enterprises for achieving common production objectives can bring better results in Pakistani environment and can enhance the small firm’s ability for growth.

xv) Another important factor emerging from the study of all thirty manufacturing units and their vendors, as described in chapter six, is that the entrepreneurs of the manufacturing firms fail to link up with vendors because the former simply do not organize themselves to fit the relation requirements of the vendors nor they are keen to make relationship with vendors to expand their business. This is evident from the trend analyzed in section three of chapter six of this study.
In fact, as described in section 6.2 of chapter six, quite often (80%), a small firm is set up by some experienced technicians who feel confident that they can earn more by being in charge. This is true provided that their performance is consistently up to standards as is the case of Al-Haider Industries. Unfortunately, the problem with most small-scale operations like Malik Engineering is that they lack the necessary financial resources and managerial skill to tide them over lean periods, making control of performance difficult. As a result, such independent small-scale operators become inconsistent in their performance, and eventually short become unreliable.

In speaking about the experience of Jamal industries case, one recommendation occurs: that a recently established central authority for small-and medium enterprises development namely SMEDA be made more effective. The main purpose of this authority would be to eliminate unnecessary cutthroat competition amongst the local bidders for job contracts. Furthermore, this authority could act as an arbitrator in any disputes. It must be backed up by the government to enable it to perform its duties with a necessary power and prestige, especially when dealing with the institutional sale or foreign business groups. For example, the conflicting situation like Jamal vs. PADSC, referred in the case study of Jamal Industries, which once became a major set back for the firm’s growth, risk of which can be minimized through an intervention of this kind of authority.

It also shows that both the Government and the Entrepreneurs should apply human relations principles in management style so as to prevent the situation from worsening. Technical know-how can be bought and sold easily. But the secret of success in running
a business still boils down to just one factor. This is more true in the running of small-scale enterprises.

xvii) Finally, seasonal demand, customer credit, delivery deadlines, and keen competition all contribute to hinder the small operator in his marketing efforts, But the roots of marketing problems are mainly due to poor designs, which are both inefficient and inartistic, poor quality of finished products due to use of cheap quality raw material, and a lack of quality control. This is further aggravated by a lack of after-sale service and a lack of precision due to inadequate equipment and shortage of skilled and trained personnel.

xviii) To conclude, all the three cases presented in this study represent a variety of factors, identified in the main body of the research study which influences the growth of the small enterprise. But, above all, each one reinforces the importance of recognizing the respective inputs of the entrepreneur’s competence in management and skill in marketing and are the major constraints for them to understand these related issues of their growth, weakness of which can not be overcome in isolation unless the state gives a helping hand and participates with fullest commitment.

On the basis of these findings, the following concluding remarks are presented:

1. The task of promotion and development of small-scale industry is largely assigned to the provincial governments, which pursue their policies through their respective small industries corporation. On the other hand, the commercial banks and other lending institutions are under the control of the federal government. There is a great need for a
homogeneous development policy for small-scale industry at the national level. It is suggested that a committee consisting of representatives from the federal and provincial governments, like Small and Medium Enterprise Development Authority (SMEDA), provincial Small Industries Corporation, and lending institutions should be formed to formulate a systematic policy for the promotion of small-scale industry in the country. The representatives of entrepreneurs and workers can be included in such a committee to present their points of view. The committee can co-ordinate and supervise the activities of the relevant institutions.

2. It is a well-recognized fact and also observed in this study that lack of funds is one of the major constraints in the expansion of small-scale industry in Pakistan as only a very small proportion of units in the industry has access to institutional credit. Since the commercial banks and other institutions providing loans to small industries are in the public sector, the government can take appropriate policy measures to ensure that a larger amount and proportion of the funds goes to small manufacturing units in particular. The role of the Small Business Finance Corporation, which looks after the credit needs of small enterprises, can be increased considerably in this regard.

Another problem faced by small units is that they find it very difficult to provide guarantees for their loans as demanded by commercial banks. Guarantee at least part of the loan can be provided by the government through the Small Industries Corporations. With the Islamization of the banking sector and the introduction of profit-and-loss-sharing system, the financial institutions in Pakistan may be reluctant to provide loans to small industries for their being characterized as relatively high-risk enterprises. Some
near schemes, therefore, need to be worked out to ensure continued flow of required funds to small industries.

3. Small-scale industry has a great potential for foreign exchange earning. Foreign markets should be explored and the entrepreneurs or their representing bodies be informed of the demand for their products. They should also be informed of acceptable designs and quality of products so that they can compete in the foreign markets for competition, the small has to improve its state of technology.

4. Provincial Small Industries Corporation and other organizations have set up a number of training centers for workers. There is an equally great need to set up training centers for entrepreneurs of small-scale industry. A few basic courses on management, marketing, quality control, etc., should be offered at these centers. With great knowledge of these aspects, entrepreneurs may become more productive and be able to make better use of the existing facilities.

5. Now the question arises, why should government help small enterprises? The reasons are obvious.

a. Small-scale enterprises represent a large majority in non-agricultural sector in Pakistan. Their importance is reflected in the significant role they play in the modernization and development of the country. They employ more workers per unit of capital and they help to increase total savings of the country's balance of payment. Furthermore, small-scale enterprises enhance income distribution by reducing concentration of wealth.
b. Small-scale enterprises provide training for developing the skills of industrial workers by playing a much-desired complementary role with large companies.

What is required in the situation is an investment policy on two planes; direct, as loans and assistance to the entrepreneurs and indirect, in setting up new and modernized infrastructure and reinforcing whatever exists. Generated on the basis of findings of this study, following are the submissions on indirect state investment.

a) **The first Concern: Reactivation of Developmental Institutions.**

The first concern, of course, is ensuring the input of R&D and science. There exist many, and some of them extremely fine, institutions for R&D in many field of industry and many disciplines of technology and science on federal and provincial levels. These are: PITAC, MIRDC, MIDC, and many other centres and institutions for metal, textile, pottery, ceramics, wood working, agricultural machinery manufacturing. But they are working in isolation.

As a first step they should be brought closer to the industry to work for it. Then, more should be set up to fill the gap. These institutions and centres should provide to small industry at affordable cost in various fields and disciplines, knowledge about the better materials and ways to raise quality. They should become a good example for providing common facilities/services to create environment of subcontracting and inter-firm relationship, and teach more effective testing techniques to ensure consistent quality.
For example, in engineering better heat and surface treatment and improved hardening methods are needed for quality. In this way every industry can be covered.

Once new and better material is introduced, it should be easily available to the industry. To ensure this, particularly for material not easily available, the material banks should be established until private traders come forward. Also, simultaneously enterprising traders can be promoted to undertake this work wherever possible. Whatever steps are needed to ensure affordable price for the material needed. Expensive material and services can cripple the industry.

b) **The Second Concern: Loaning Industry.**

Service centres and material banks set up to serve small-scale industry should be treated as industry for the purpose of loaning. Liberal and cheaper loans should also be provided to those enterprising educated technologists and other educated entrepreneurs to establish service and advisory centres in all disciplines of industry and in all parts of the country. Of course, where private enterprise is not forthcoming the state should continue intervening till it sheds its reservation.

Even the best technology has to be managed and the best product sold. Not every industrialist has got the experience and training of proper management and marketing. Large-scale units can afford to have the related experts. For small-scale industry, firstly arrangement has to be made to train the entrepreneurs in the methods of simple management, accountancy and marketing. Secondly, advisory centres have to be established in small industry centres all over the country.
The management, accountancy, and marketing should preferably be included in an loan package. It should be in simple language, of which the people of the particular area are well versed with. It should be communicated in practicable manner because most small industrialists are not expected to be highly educated. The general outlook of the indigenous industry reflects that most entrepreneurs are just literate.

c) **The Third Concern: Guidance Centre**

There should be established advisory and guidance centres mentioned above. Here, experts in these disciplines, who have motivation to sympathize with small people, should provide expert advice and guidance. It too should be in a very small so that the industrialists can understand. The language should be simple and mode of communication suited to the nature and education of the people addressed.

Small industry is a great national asset in two ways. Firstly, it meets substantial portion of goods and services. Secondly, it is run by real entrepreneurs unlike large industry run by feudal-capitalists. Some of the small entrepreneurs have great potential to become big. They can then replace phoney and pseudo variety—the feudal-capitalists. But to take full advantage of this great potential it is necessary for the state to move with strongest national commitment supported by even stronger political will. If this does not happen then proposed switch to capitalism will fail.
Prospects for Further Research:

I. This study is confined to the town of Mian Channu where thirty units producing and marketing agricultural machinery are located. Altogether thirty units covering three categories viz., micro, small, and medium were surveyed, which come under state definition of small size enterprise. In actual practice the design of the study had to be considerably modified for certain reasons. The chief among them is the absence of adequate number of 'sample' units in other towns to test these parameters in different situation within the same developing economy.

To give more coverage to this aspect, a research study carrying same factors that affect the growth of the small firms should be conducted in a similar situation like Daska - a town in another region of the province, where manufacturing concentration is also towards agricultural machinery. It can be covered in further research and its findings can be compared/analyzed with this study to reach some more concrete results.

II. This study mainly covers four influencing factors like government policy/support, entrepreneur's competence in management, inter-firms relationship, and marketing practices for the growth of small firms. There are several other factors that also affect small firm's growth e.g., product profile, manufacturing profile etc., which can be examined to find out some more insight problems, the small firms are facing for their growth.

III. In developing countries, particularly the environment where there is no balanced regional development, at initial stages, due to various difficulties, small indigenous firms are left to themselves, and hence cannot progress at a desired rate and require special institutional
assistance. There are different state fully or partially sponsored tools suitable for different situations and locations. This study, because of its focus on management and marketing aspects of the enterprise growth, has more concentration on these non-financial parameters. To examine the growth constraints in Toto, some other supporting devices both financial and non-financial especially the institution of industrial estates, which has wider appeal for industrial development, can be considered for further research with an objective to find out comparative facts for the growth of the firms located within the boundaries of industrial estates and outside.

IV. Last but not least is the need for regular periodical surveys of the small-scale industry at the national level. In the absence of precise and up-to-date information about the industry, the policy-makers are seriously handicapped in working out future plans for this sector.
i: List of Entrepreneurs
ii: List of Vendors
iii: Questionnaire for Case Development
# List of Farm Machinery Manufacturing Units in Mian Channu

<table>
<thead>
<tr>
<th>Micro</th>
<th>Small</th>
<th>Medium</th>
</tr>
</thead>
<tbody>
<tr>
<td>(Annual turnover &lt; Rs. 0.5 million)</td>
<td>(Annual turnover Rs. 0.5-1.0 million)</td>
<td>(Annual turnover &gt; Rs. 1 million)</td>
</tr>
<tr>
<td>- Quami Zarai Aalat industry</td>
<td>- Pakistan Agri. Implements</td>
<td>- Karman waley Agri. Indst.</td>
</tr>
</tbody>
</table>
VENDORS (Subcontractors/Suppliers)

- Madina Agro Ind; Lahore.
- Ramzan Industries, Lahore.
- Lahore Mach Store, Lahore.
- Master Engg. Works; Lahore.
- Shahzan Agro Ind; Lahore.
- M. Abdul Rehman, Lahore.
- Malik Engineering, Lahore.
- Lal Hussain, Okara
- Pak. Engg. works, Okara.
- Royal Engg. works, Okara.
- Azahar Rngg. works, Okara
- Haji Hafeez, Faisalabad.
- Int'l Ind; Hafizabad.
- MughalEngg.Works, Hafizabad
- F.D.I., Sheikhupura.
- M.Siddique & Co; Sadiqabad.
- M. Ashiq, Multan.
- Majeed Hardware, Multan.
- Shazad Engg. Works, Multan.
- Iqbal Industries, Sahiwal.
QUESTIONNAIRE
FOR CASE STUDY DEVELOPMENT

1. **Name of the firm:**

2. **Address of the firm:**

3. **Year of Establishment:**

4. **Name of the Owner/Partners:**
   i)
   ii)
   iii)

5. **Age:**

6. **Qualification:**

7. **Training:**

8. **Related Experience at the time of commencement of business:**

9. **Registration (if any):**
10. **Member of Agri. Machinery Association:**
   Yes No

11. **If yes, then type of Association:**
    National Regional Local

12. **Member of any foreign Association:**
    Yes No

13. **If yes, then give name(s):**

14. **Covered Area:**

   i) **Now:**
   
   ii) **At the time of establishment:**

15. **Uncovered Area:**

   i) **Now:**
   
   ii) **At the time of establishment:**

16. **Sections of the premises:**

   i) **Now:**

      Office _____ Machine shop _____ Foundry _____
      Forging _____ Assembly _____ Painting _____
      Raw Material Store _______ Testing _____
      Store of Finished Goods _______
i) **At the time of establishment:**

<table>
<thead>
<tr>
<th>Office</th>
<th>Machine shop</th>
<th>Foundry</th>
</tr>
</thead>
<tbody>
<tr>
<td>Forging</td>
<td>Assembly</td>
<td>Painting</td>
</tr>
<tr>
<td>Raw Material Store</td>
<td>Testing</td>
<td></td>
</tr>
<tr>
<td>Store of Finished Goods</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

17. **Name of the Machines / Facility:**

i) **Now:**

| a) Lathes: | b) Elect. Welding: | c) Drilling: |
| d) Gas Cutting: | e) Hand Shear: | f) Shaper: |
| g) Nibbling Press: | h) Electric Grinder: | i) Compressor for Spraying: |

ii) **At the time of establishment:**

| a) Lathes: | b) Elect. Welding: | c) Drilling: |
| d) Gas Cutting: | e) Hand Shear: | f) Shaper: |
| g) Nibbling Press: | h) Electric Grinder: | i) Compressor for Spraying: |

18. **Name of the implements manufactured:**

i) **Now:**

| a) | b) | c) |
| d) | e) | f) |
| g) | h) | i) |
| j) | k) | l) |
| m) | n) | o) |
| p) | q) | r) |
ii) **At the time of establishment:**

a) 

b) 

c) 

d) 

e) 

f) 

g) 

h) 

i) 

j) 

k) 

l) 

19. **Did you establish this unit with your own resources/fund:** Yes No

*If yes, then>*

*Amount for fixed assets: Rs.*

*Working Capital: Rs.*

*If no, then from where the loan was taken (Bank/DFI):*

*Amount of loan : Rs.*

20. **Have you taken any loan now for regular production:** Yes No

*If Yes, then amount : Rs.*

*Name of the bank:* 

21. **Manpower:**

i) **Now:**

a) *Managerial manpower:*

b) *Technical manpower:*

ii) **At the time of establishment:**

a) *Managerial manpower:*

b) *Technical manpower:*
22. **Annual Turnover:**

<table>
<thead>
<tr>
<th>Year</th>
<th>Turnover (Rs.)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1989-90</td>
<td></td>
</tr>
<tr>
<td>1990-91</td>
<td></td>
</tr>
<tr>
<td>1991-92</td>
<td></td>
</tr>
<tr>
<td>1992-93</td>
<td></td>
</tr>
<tr>
<td>1994-95</td>
<td></td>
</tr>
</tbody>
</table>

23. **Any government policy which helped you for boosting your production:**

24. **Any Government policy which adversely affected your production:**

25. **Why you started this business:**

26. **Did you conduct any market study before starting this business:**

27. **Did you prepare any feasibility study:**

28. **What is your future plan:**

29. **Do you subcontract your job to vendor:**

30. **Brief history of your business in your own language:**
MARKETING:

31. Do you have qualified staff for calculating cost of your product? Yes/No

32. Do you keep proper record of costs incurred on your products? Yes/No

33. Do you issue proper receipts for product sale?

34. Mode of Sale of Products:
   (a) Direct: Yes/No
   (b) Through dealers Network:
       • if yes then number of dealers:
         (specify tehsil or district)

         ■ commission paid to the dealers
         (specify amount)

   (c) Sale Through banks Yes/No
   (d) Sale through any other source: (specify)

35. Do you offer following to the Customers:
   (a) Warrant coverage: Yes/No
       • if yes then how you handle the warranty?
   (b) Operators instructions booklet: Yes/No
   (c) Parts catalogue Yes/No
   (d) After sales service Yes/No
(e) Any other facility (specify) Yes/No

36. Mode of Payment (Sale in Percentage):

Cash: %
Credit: %
Advance: %

37. Business Investment:

i) Loans Rs.-------- Personal Investment Rs.--------

ii) Working Capital Rs.--------

iii) Do You think Your Investment Is Adequate: Yes/No

If No, How Much is further (essentially) needed : Rs.---

38. Record Keeping and Financial Control:

i) Proper Record Keeping: Yes/No

ii) Job/ Product Costing: Yes/No

39. Industry Experience:

i) Agri. machinery industry Yes/No

ii) Other (pl. specify which:) Yes/No

40. Management Experience: Yes/No

If yes then number of years -------

41. Planning:

i) Production Planning Yes/No

ii) Sales Planning Yes/No
42. **Professional Advice:**
   Do you hire Consultancy/Advisory Service  
   Yes/No

43. **Education:** *(Above Matric)*  
   Yes/No

44. **Staffing:**
   (Incentive for staff and Retainability)
   Please specify the type:
   Yes/No

45. **Product / Service timing:**
   *(Selection of Product for Production)*
   Running Items or Too New/Old

46. **Economic Timing:**
   Business Starting Period: Expansion or Recession

47. **Age:**  
   __________ years  
   *(Owner's age at Business start)*

48. **Partnership**
   i) Single or Partnership *(No. of partners ------)*  
   ii) if partnership, Are other partners active  
   Yes/No

49. **Parents Background**  
   Business-- Other--

50. **Minority:** *(Family Background)*  
   Majority Minority

51. **Marketing Skills:**
   i) Owner's Skill  
   Yes/No
   
   ii) Staff Skills  
   Yes/No
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acquired top management teams are significantly higher than 'normal' turnover rates, and that visible, very senior executives are likely to turn over sooner than their less visible colleagues." [p. 173].


