Study of Government Support System in SMEs: An Empirical Investigation

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ABSTRACT

The SMEs (Small and Medium Enterprises) have created its own place and value universally, no matter how tough global competition is there in international market. This research work was undertaken to assess the increase in importance of SMEs in growing nations such as Pakistan and to highlight the importance of SMEs. This paper is validated through research work undertaken by domestic and worldwide scholars. Research work was carried out in enterprises of Sindh, province of Pakistan, using questionnaire and personal discussions with business owners/entrepreneurs of enterprises. Their response was very positive on parameters which were focused towards taxation policies (Rebate), government technological support, financial support and loan facilities. In addition to this, the results were further investigated and measured through statistical measures such as mean/average, which indicate that majority of enterprises, were not happy with country's administration in terms of support they receive. Whereas, there are noticeable indications that government's assistance to small and medium enterprises is very necessary at every stage. Enterprises which have received assistance from their governments have proved to be successful in developing nations.

Key Words: Government Support, Tax Rebate, Credit, Loans, Logistics, Market Liberalization.

1. INTRODUCTION

Developing nations are focusing on SMEs these days. It is because; SMEs are a tool for value addition towards economy not only for urbanized but also for growing nations. SMEs have become main focus for many researchers and created more importance in global world. It is because SMEs sector help in creating employment opportunities, thus improving living standards for the poor people [1]. As a result, boosting SMEs' customs will be beneficial for economic development of country. The success of SMEs lies behind improvement, novelty and originality of latest ideas and performance of those thoughts into reality [2].

Therefore, converting thoughts into certainty requires proper capital supply and assistance to develop and form successful enterprise in this globalisation [2]. Since, SMEs have proved their contribution in economic development in developed countries therefore, it is the responsibility of
government to facilitate SMEs to boost economy [3]. Government may not be able to help enterprises straight away but, they may help in other ways such as; by giving them some discount or sometimes rebate in tax [4]. Government's assistance in technological backup also cannot be ignored by SMEs [3]. At the time of establishing the business, SMEs initially face financial instabilities due to limited capital. Therefore, if government assists them with credit and loans then it will help SMEs a lot towards economic growth [5]. Moreover, there is exceptional credit facility for enterprises which can be helpful when it is needed. Therefore it is responsibility of country's administration to monitor the market variation and maintain favourable regulation for SMEs growth [7]. In addition, government can assist enterprises in their internal systems such as logistics, which also help company's growth [8]. To sum up, many nations have already been benefited from SMEs sectors and still boosting it. Therefore, role of governments is very important in encouraging SMEs which lead in development of economy.

2. REVIEW OF LITERATURE

This paper presents the importance of boosting SMEs sector in developing countries like Pakistan. Therefore, for this research work many factors were considered in discussion and mentioned as under. Literature was reviewed through various research journals, on-line information and contacting concerned organizations.

2.1 Tax Benefit (Rebate)

The government collects taxes from public and businesses for betterment of country. When it comes to increase the spending behaviour of enterprises, often government takes initiative to benefit enterprises to fulfil their buying habit and help them to live normal. Therefore, government gives them tax rebate which is known as tax refund for public to buy necessary things [4]. On the other hand, it is also a common idea that, apart from promoting their spending, people may pay off their mortgages or can save for unknown events. The finding of tax refund suggests that, 20% of people increase spending behaviour, 50% of people replied that tax return will help them to payoff their money owing, whereas 30% indicate that they will save for future time [9]. Consequently, government gives these sorts of benefits to public and enterprises to increase their standard of living.

Furthermore, it is better way to help public by giving them their own money back which they have already paid or they paid extra amount than required. Apart from benefit to public, this also helps entrepreneurs and small and medium enterprises. This is confirmed that tax refund policy is best policy which helps enterprises to save money [10]. In addition, enterprises distribute profit into employees and in this case employees pay their share of tax rather paid by employer [11]. This is the best option for both tax payer and tax collector too. In this way there is no burden on employer only and government generate more profit, which in return benefit in economy. Moreover, government in different countries give tax rebate to support economy and social benefits such as contribution in charity is also helpful in tax rebate. Government’s help is always welcomed by enterprises which may be in the form of low taxes or tax refund [3]. Government's help is always there for economy growth but, sometimes it may be direct or indirect.

2.2 Technical Backing

New and up-to-date technology is the need for SMEs these days for its internal and external development and for spirit of entrepreneurship. Previously it was used by larger scale firms for betterment of company, production and reducing time. On other hand, technology has become first need for SMEs too in this age of globalisation [12]. There is no doubt, technology has reduced time of the response it. There is a need how to operate new equipment. Because, little mistake can lead to stoppage of the production and company functions. That is why the term technical backing is used which helps to overcome technical instability and future insecurity. It consists of unique technologies which are used by special skilled
technical mind people. These unique technologies are often available in companies, and sometimes need to be arranged from outside when problem arises.

Enterprises often deal with advanced technologies, which often put them in a position to deal with technical problems and make entrepreneurs to outsource from outside of the enterprise which increase their expenses and cost [13]. On this occasion, government can offer technical help which can save their expenses and cost. Therefore, government help is necessary for businesses to survive and run their business in timely manner [3]. Government support is always necessary at every stage but, technical support and its back-up is more important for SMEs growth because technical backup requires huge financial capital.

Small and medium enterprises need help of government in technical back-up because of lack of financial affordability. This support is necessary to help SMEs to maintain their operation [13]. It is often seen that government help SMEs in buying technologies to use in their business at cheaper rate. Government also offers technical help at affordable rate which is security for SMEs. This is because SMEs always look for government support when these are in problem. Furthermore, SMEs expectations are always there from government and expect that government's support will help to increase performance [12]. It saves company's financial capital, time and further helps in running smooth operations.

2.3 Easy credit facility

Every person has got different ideas, but ideas do not work by themselves unless they are practically not applied. There is need of investment or credit to convert ideas into practical and run business successfully. There are less chances of business growth with low financial support [14]. It is also fact that SMEs use very low assets. However, they are of huge importance, not only for developing countries but for developed countries too. That is why, administration of developing nations has been working too closely with lending institutes to help SMEs grow. State Bank of Pakistan's publication states that Pakistan has created atmosphere where SMEs are not only supported through training programmes but also facilitate with funds and credits available to them to encourage business practices. This is further claimed in research undertaken that both small and large industries can get fund from banks [15]. However, SMEs need fewer resources, less capital and may work in low rented offices as compared to large sector and can attract higher profit.

The low amount of money invested in business can get more return for SMEs, whereas same proportion of return for large scale needs more investment. Furthermore, easy credit is very helpful for SMEs in this competitive era [5]. Moreover, if SMEs want to grow at large level, then they need big investment [16]. These investments can be generated through different ways. However, best way to arrange additional capital to access is from banks or financial institutes by asking easy credit. This is also encouraged by government to take advantage of it and use resources in businesses to grow business and economy.

2.4 Special Loans

Financial institutes and banks have different schemes for different customers. In the same way these institutes have also special loans for those enterprises which want to grow in particular area, to expand it or want to grow further [6]. However, enterprises pay some what high interest rate to access these special loans. Whereas, banks/financial institutes do not approve these loans directly therefore, they go through different requirements which might include surveying of market, business operations, product demand and rate of return [16]. Due to this reason, sometimes SMEs provide false financial statements of their businesses which become difficult for banks to assess applications, resulting in delay in decisions for sanction of loan.
It has been noticed that SMEs have played very important role in economy development. Therefore, role of financial institutes is also appreciable and they earn more profit from this. That is why they provide easier loan facility to SMEs. This is further claimed in research work that, banks have created more easy process to access easy loans because, success of SMEs also bring more return to banks [17]. These institutes and banks have also opened other options for entrepreneurs to grow their businesses. When SMEs need any loan; they guide and grant them the loans to carry out current businesses and increasing other factors too.

The banks have performed most important role in expansion of SMEs sector which is appreciated [18]. Its role has been seen in large sector industries too. However, SMEs are more benefited from banks offer for loans. This is because SMEs need low level of capital for business which is easily accessible through banks. Furthermore, SMEs which are benefited from loans can include agricultural sector, pharmaceutical, tourism companies, automobile companies and so on. Apart from this, these loans attract SMEs because of lower interest rates, easy processing and less documentation. This is further confirmed that, there are few documentation and requirements to take the loan from government banks and SMEs take loan easily therefore, these easy policies are necessary for both [13]. These institutes further motivate individuals to involve in business world and participate in economy development.

2.5 Liberalization of Market Economy

There have been long discussions over liberalisation, which is very important terminology in economics. The globalisation has increased the involvement of entrepreneur in business at higher rate. This is the reason that economic liberalization is proved to be very important in economic development. It is also stated that, if economic policies are stabilized and liberalized then enterprises have chance to grow [7]. If government initiate enterprises growth then they make fair rules and liberalise the policies for country development. Moreover, if SMEs are growing and government policies are stable then it results in economy growth [19]. In addition, liberalisation has created opportunities for small firms to compete in this globalisation. This is because government levy minimum taxes on businesses, low restrictions on trade policies, employment benefits and stable position in global market.

Many governments of under developed nations are liberalising their policies to attract investments from other countries and to create more interest of domestic investors. Furthermore, liberalisation of policies in market has created more foreign trade in market in developing countries. This is the reason that economies of different countries are growing after liberalisation of market.

2.6 Logistics

Logistic has become essential part of business practice for both small and large scale business. It is important for individuals and businesses to understand process of logistics. This is process of taking goods or services from company to bring in the market for customer use [20]. In addition, logistic is a process of future estimation and dealing with it competitively to move furnished or unfurnished commodities from one place to another [20]. This process is very important for most businesses, it helps them to stock their products and move from one place to another place when needed.

All businesses are involved in this process therefore; they understand the need of logistic in business. This is also necessary in small enterprises because; this assists in both internal and external affairs of business and helps advance enterprise culture [8]. There is need of government support in logistics rules because, sometime regulations are over burden for enterprises. However, many enterprises receive support from government in these matters [3].

It has been discussed that government's assistance is necessary for both developing and developed countries
for SME growth which ultimately leads in economic development. Moreover, government's help and its importance can be seen from example of China which shows that government interference with businesses towards logistics issues is very important [21]. Furthermore, importance of logistics increases with complicated issues because of supply system in market [22]. Therefore, logistic professional often helps to solve those complicated issues. However, logistic has become separate field these days and created its own place in market, without logistics, it is difficult to survive in market.

3. RESEARCH METHODOLOGY

This is the process through which readers are informed for conducting research procedure. Therefore, 40 entrepreneurs practicing and growing in different sectors were contacted to collect the quality and authentic material to prepare this research paper. These enterprises were dates processing enterprises, glass industries, auto parts manufacturers, oil spelling and garments industries from Sindh province Pakistan. The focus on these enterprises within this research work was due to local touch and importance of these businesses. Furthermore, these enterprises are more popular in nature, especially in this area of study and most of people are familiar with these businesses therefore, it is easy for them to understand their process.

Moreover, triangulation technique was exercised to collect and asses the data, ideas were matched and observed. This method suggests that data may be gathered through the responses to the questions asked and direct interactions with entrepreneur to compare the opinion of business owners. In this process, data was gathered by sending questionaries to enterprises owners and personal interaction to compare the results with data collected. This process helped to assess their responses with written answers and personal interviews and observations. This process helps to increase relationships between entrepreneurs and researchers and also to understand the nature and process of research work. Collected data was analysed by using statistical method and Excel software.

4. RESULTS AND DISCUSSION

Enterprises were questioned regarding the level of satisfactions and dissatisfactions from government help and expectations which include; tax refund/rebate, technical help (backing), credit, loan facility, logistics and liberalisation. It was found that better way to analyse these results is to convert in scale from 1-5 which means from very satisfy to very dissatisfy. This is further classified as; 1 means strongly satisfied, 2 means satisfied, 3 means somewhat satisfied, 4 means dissatisfied and 5 means strongly dissatisfied. Furthermore, response given by enterprises is described in Table 1. Through statistical tool, average weight-age is pointed out that how usually enterprises are satisfied with government assistance. This is further discussed through graphs drawn in excel software. Enterprises also discussed about government assistance programmes in the areas as explained in Section 2, which is also discussed in this section.

Enterprises were questioned regarding the level of satisfaction in terms of tax refund. From Fig. 1 indicates that 5% enterprises are satisfied and as a result; enterprises ranked at scale 2. Other 25% are fairly satisfied and they ticked at 3. In the same way 30% are dissatisfied and they ticked at 4. Similarly, 40% are strongly dissatisfied and they are ticked at 5. It was noticed that no one is strongly satisfied.

The average perception is taken as 4.05; this means that most of the enterprises are not satisfied with tax refund system.

Business owners/entrepreneurs presented their views that government does not give any benefit to Small tax payers as whole and small and medium enterprises in general. Whereas, entrepreneurs work very hard to promote SME sector which ultimately help economy growth. However, government support is not noticed since SMEs has started shinning in the market. If they are provided assistance then SMEs have large proportion in country's GDP and GNI.
Therefore, there is need of special care from government side to encourage SMEs sector. If government takes favourable actions for SMEs which are mentioned below will be advantageous for SMEs and Economic development:

- Depreciation charge can further be moderated.
- SMEs should be considered in special class and should not be charged more than 18% of tax rate.
- Balance, modernization and replacement may be permitted to invest till 25%.
- Un-finished material supplies can be permitted with normal rate instead of final tax rate.

Enterprises were questioned regarding the level of satisfaction for technical backing. It is indicated in Fig. 2 that 40% enterprises are somewhat satisfied therefore, they are ticked at scale 3. Where as 25% are dissatisfied and they are ticked at 4. Similarly 35% are totally not satisfied and ticked at 5. It is further found that no one is strongly satisfied or just satisfied.

Analysis state that average degree of satisfaction was measured as 3.95, which shows that majority of enterprises are not satisfied with technical support from government.

Furthermore, job skills and technical knowhow in same field is more important towards failure or success stories. However, every time enterprise cannot deal with the problem therefore, they need government and other businesses support such as association of SME sometime provides special team or expert for technical backing. Government also can organise technical workshops on latest technologies for SMEs development such as:

- Calling foreign entrepreneurs in local SMEs.

### TABLE 1. GOVERNMENT HELP/ASSISTANCE TO SMEs

<table>
<thead>
<tr>
<th>Satisfaction/Dissatisfaction Degree</th>
<th>Areas of Government Assistance/Help and Percent of Enterprises</th>
</tr>
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<tbody>
<tr>
<td></td>
<td>Rebate in Tax</td>
</tr>
<tr>
<td>1</td>
<td>0.0</td>
</tr>
<tr>
<td>2</td>
<td>5.0</td>
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<tr>
<td>3</td>
<td>25.0</td>
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<tr>
<td>4</td>
<td>30.0</td>
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<tr>
<td>5</td>
<td>40.0</td>
</tr>
<tr>
<td>Mean Weightages</td>
<td>4.05</td>
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</tbody>
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![FIG. 1. TAX REBATE](image)
♦ Calling local expert from other companies to learn from each other.

♦ Organising training seminars with government support for SME association.

Enterprises were questioned regarding level of satisfaction by means of easy credit facility. Fig. 3 states that 7.5% enterprises are satisfied and they are ranked at scale 2. Whereas, 32.5% are somehow satisfy and ranked at 3. In the same way, 35% are dissatisfied and ranked at 4. However, 25% said that they are strongly dissatisfied and ranked at 5 and no one is strongly satisfied at all.

Study found average degree of satisfaction, is 3.77; which shows that almost enterprises are not satisfied with easy credit facility.

In some cases business people declared that, credit facility is available in large cities, but small towns have no access to funds and therefore they suffer. Consequently, there is need to organise programs by government for people and financial institutes so that they participate and know the benefits of promoting SMEs growth.

There are some options available for business owners to take loan from banks called over draft. Overdraft may be approved if there are strong evidence that borrower will return money back such as, property documentation, tax slips, yearly income etc. However, this is not an easy task for entrepreneurs therefore, they need to be given better option of easy loan facility so that they can keep continue their operation smoothly. It is also observed that SMEs requirements are more than large scale industries. Therefore, authorities can work out to make it easy for SMEs growth such as:
♦ SMEs should have micro finance facility.
♦ Instead of kibor plus three, entrepreneur should have access to easy credit on kibor plus one.
♦ Create awareness for financial institute to approve finance on minimum documents for SMEs growth.

Furthermore, enterprises were questioned on level of their satisfaction by means of special loans available to them. This is further mentioned in analysis that 5% enterprises are satisfied and they are rated at scale 2. In the same way, 35% say there is little bit satisfaction and they are rated at scale 3. On other side, 32.5% rated at 4 because of their dissatisfaction. All remaining 27.5% declared as strongly dissatisfied and rated at scale 5. On other side, no one strongly satisfied as shown in Fig. 4.

Analysis provides additional information that average degree of perception is calculated as 3.82, which means almost enterprises are not satisfied in this area.

Enterprises further say that it is difficult for them to obtain special loan. Whereas, it is truth that finance is necessity for every business but, it is very important for SMEs, if they need to grow. State Bank of Pakistan with government support may give special loans after careful consideration of facts and figures for SME growth. Therefore, there are few recommendations:

♦ There should be organisation which can work together with SMEs, government and financial institutes to make sure that borrower will return the amount back after certain time with interest rate fixed.

♦ Financial institutes can facilitate SMEs with mutual understanding and conditions for betterment of SMEs.

Enterprises were also questioned to comment on level of satisfaction by means of liberalization of market economy. Fig. 5 indicates that, 32.5% of enterprises are little bit satisfied and rated at scale 3. Where as 40% are dissatisfied therefore; rated at scale 4. But, 27.5% were totally dissatisfied and their scale is 5. Still, no enterprise is found strongly satisfied or satisfied.

It is shown in analysis that average degree of perception is calculated as 3.95, which shows that most of enterprises are dissatisfy with liberalisation of market economy.

It is claimed that market without rules and set of laws is unsafe because, large sector industries create problem for small scale. These situations are not acceptable in country like Pakistan. There is need of vigilant eye on market and monopoly situation to avoid problems in future. The government should play active part in creating equal atmosphere for everyone and help growing everyone.

![Fig. 4. Special Loans](image-url)
rather favouritism. Therefore, developing countries like Pakistan need regulatory authority that monitor and safeguard the economy and SMEs. There are few recommendations:

♦ There should be encouragement for own goods production and reduction in import products, and help entrepreneurs bring products to niche market.

♦ Liberalisation of market and economy should not be encouraged over domestic industry.

Enterprises were also questioned regarding satisfaction in means of logistics. Fig. 6 shows that 7.5% enterprises are satisfied and rated on scale 2. Apart from this, 20% say that they are somehow satisfied and ticked on scale 3. Also, 22.5% are not satisfied and they ticked on scale 4. Whereas 50% responded as strongly dissatisfied and ranked at scale 5. Yet, no one is strongly satisfied.

From the analysis average degree perception of satisfaction is 4.15; which shows that mostly enterprises are dissatisfied from logistics.

**FIG. 5. LIBERALIZATION OF MARKET ECONOMY**

**FIG. 6. LOGISTICS**
From entrepreneur’s views, transport plays vital role in economy and it is life blood for business. Businesses are growing at international level because of good communication transport and infrastructure. Advanced countries take very much care about infrastructure system and believe in first preference for transport system. There are many countries which import goods from different countries and it does not take much time for them to clear all things in few hours. However developing countries like Pakistan need to put more attention on transportation. Because, reducing the minimum time will benefit companies to produce things more efficiently and timely. Therefore, there are some recommendation which will help both economy and SMEs to boost.

♦ Government should understand the importance of timely available goods therefore; they should reduce time on ports to clear the ships.

♦ Roads authority and local government together should concentrate on bridges and roads for better transportation.

♦ Police and government role should also be accelerated for betterment of national and international routes, ensuring that proper maintenance is provided.

♦ Not only highways and motorway police but also other concerned and local departments should be encouraged to participate in safe and better transport system.

5. CONCLUSION

SMEs have long been marked as root of economic development in this age of globalisation. Therefore, not only entrepreneurs but also government role should be accelerated to boost up SMEs spirit for further economic growth. However, business owners/entrepreneurs often manage things to grow business but, sometimes they need the necessary support to operate business smoothly. Therefore, government can help SMEs in areas like technical support, financial support, economic and social support to run enterprises in smooth way. Furthermore, unemployment has been noticed to be rising since decades in developing countries like Pakistan. However, developed countries have managed to overcome unemployment problem by encouraging SMEs. It is because SMEs share in large amount of taxes and in return government work welfare of country and people. The research in this paper shows that, most enterprises are not satisfied with the support they are getting from government. Whereas, this is fact that SMEs cannot run without government support because, rules and regulations which they make can sometime hinder them. Therefore, it is necessary for the government to promote SMEs culture in any way to grow the country.

6. RECOMMENDATIONS

Small and medium enterprises and entrepreneurship is tool for employment and income generation. Therefore, they should be given priority to develop. Furthermore, there are some suggestions for promotion of SMEs.

(i) The officials working in government departments waste time of entrepreneurs in unnecessary requirements. Therefore, government should take care of this and minimize the time framework to open new businesses.

(ii) Government should also look to promote and develop SMEs in rural areas of countries like Pakistan, because people residing there are only working for hand to mouth, whereas their ideas are wasted without any use.
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REFERENCES


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