

*Full length research paper*

## **SMEs' export problems in Pakistan**

**Jamshed Khan Khattak\*, Muhammad Arslan and Muhammad Umair**

Mohammad Ali Jinnah University Islamabad, Pakistan

Accepted 25 October 2011

**The aim of this study is to explore the current export challenges for SMEs in Pakistan and how these barriers affect the SMEs. One industry (textile) was selected for this study. 25 textile SMEs were selected for data collection. A structured interview was conducted for every SME. Each interview took 30 minutes. Findings of this study showed that internal barriers are more influential than external barriers. This study is limited to one industry i.e. textile industry. This study disseminates the attention of SMEs export managers towards the genuine and main problems coming across the SME exports so they can deal with these barriers to magnify their exports as internal barriers are more controllable as compared to external barriers. This study offers insights into SME export barriers in a (relatively under-researched) Pakistani context.**

**Keywords:** SMEs; Export Barriers; Textile.

### **INTRODUCTION**

Small and medium enterprises can be defined separately by the number of employees. According to SMEDA (small and medium enterprises development authority), "An organization having up to 250 employees with paid up capital up to Rs.25 million and annual sales up to 250 million is referred as small and medium sized enterprise. According to SME bank of Pakistan, "An enterprise having total assets of Rs. 20 million is small enterprise and an enterprise with total assets of Rs. 100 million is called medium enterprises. This estimation is made in Pakistani currency Rupee. Moreover SME sector has shown immense growth in current scenario as compared to the industrial sector. The potential of SMEs is the opportunity to invest. The Government of Pakistan has established an association called small and medium enterprises development authority (SMEDA). This body is liable for the promotion and development of SMEs in Pakistan

The importance of small and medium sized enterprises was not being considered in past history. Only the large firms were believed to take part significantly in the growth of the economy of the country as well as an important part in the struggle of gaining huge foreign reserves. But

the situation changed when the developing Asian countries like Taiwan, Japan, and Korea developed on the basis of their small and medium sized businesses and economists started to believe in the potential of SMEs. As the small and medium sized enterprises belong to the grass root level, it is also seen that mentioned economies were developed all the way through the grass root level. It is also noticeable for those who think that only large firms are dependable for the economic growth that small merchants and small suppliers also play an important role for in the production of large organizations. So the SMEs are very important for the worldwide economy.

Export is an important phenomenon for the worldwide economic growth. The importance of export has remained a hot topic for centuries. Export is an international trade whereby goods are produced in a certain country and shipped to some other country. The action of export sales is really beneficial for the gross domestic production of an exporting country. Export phenomenon can also be used for the services. Export is one of the oldest kinds of economic transfer and between nations it takes place on a large scale whereas some legal laws and regulations are applicable.

SME importance is now accepted worldwide, but the situation is different in Pakistan. Awareness of developing Small and medium sized organizations is delayed in Pakistan. According to SMEDA, SMEs comprise almost

\*Corresponding Author E-mail: [jktkgaju@gmail.com](mailto:jktkgaju@gmail.com); Tel: +92 091-4445183, +92 333-5169590; Fax: +92 091-9256187

90% of all the enterprises in Pakistan; employ 80% of the non-agricultural work force; and their part in the annual GDP is 40%, roughly and according to the Asian development bank report, SMEs in Pakistan are contributing in terms of value added 30% and 80% employment in industrial sector. As the SME sector was neglected in Pakistan so this affected the small and medium enterprises as well as Pakistan's economy. Despite some efforts for the improvement of SMEs in Pakistan, more endeavors are required to attain considerable improvement. The potential of the market of Pakistan is not doubted. So if appropriate and structured steps are undertaken then the SMEs of Pakistan can contribute positively to the growth of the economy in no time. The benefits acquired by the SME exporting can enlarge the foreign exchange reserves to develop a helpful skeleton to progress.

Pakistan's SME growth is sluggish because while in the process of exporting it has many hurdles on its progress path way. So the development in the SME sector is impossible without identifying, exploring and resolving the problems faced by SME export sector. There is a lack of study on this topic specifically in Pakistani context. But many researchers have pointed out the SME export challenges in some other context. SMEs face many hindrances in the exporting procedure. These barriers are different in nature but can be summed up in to internal and external barriers. These barriers directly or indirectly have some effect on the exporting procedure. However internal barriers can be handled easily but external factors are difficult to tackle (Leonidou, 2004).

There are many challenges that an SME exporter has to face and which influence export performances, these can be classified as internal and external export barriers. Internal export barriers are related to company and product characteristics. External export barriers are related to distinctive foreign consumer preferences, unusual business procedures and practices, the imposition of tariff barriers and regulatory import controls by overseas governments, severe competition, exchange rate fluctuations and limited hard currency for international trade (Ahmed et al., 2004). The abovementioned problems are classified as industry, export market and the macro environment barriers. (Ahmed et al., 2004)

As there is a significant difference between low level income economy and middle level income economy so it is very important to highlight the role played by SMEs in the adaptation of financial economies from low income levels to middle income levels. This exercise is particularly important for the countries like Pakistan to achieve the middle income status. In view of the foregoing, the following research questions were asked: What export challenges are being faced by SMEs in Pakistan? How can export challenges create hurdles in SMEs exporting business in Pakistan? The research objective is to explore the current SME export challenges in Pakistan.

This study provides the guideline with which SMEs exporting business is enhanced by recognizing the SMEs exporting barriers and removing them. This research provides a threshold for all SMEs to enhance their business profit and business boundaries by increasing their export and in order to increase their export level this study provides a distinctive and latest means with respect to the Pakistani context.

## Literature review

Small and medium enterprises play a very significant role in the development of any economy. This statement is even applied to developing countries more strongly. So for the developing countries like Pakistan, small and medium sized enterprises are very helpful to for economic development (Altintas, 2007).

In Pakistan, the concept of small and medium enterprises is increasing. SMEs are having a huge part in GDP of Pakistan. But the exports of SMEs need some serious attention. Entrepreneurs of Pakistan face several challenges in the exporting process. Fletcher (2004) states that Small and medium enterprises play a significant and critical role in development of export and economy of countries in every part of the world.

Exporting is considered as a complicated and expensive process. In the initial stage, exporting process consumes high cost as well as a lot of time. But with the passage of time, it provides many strategic opportunities and chances for profit taking. So for the companies, it is a very important and difficult decision to make (koksal and kattaneh 2010).

Authorities in the organizations have agreed upon that continuous growth that can be obtained by exploring the foreign trade opportunities. So exporting factor is a key factor for the organizations which require a huge growth potential (Karakaya and Harcar 1999). Exporting behavior is greatly dependent upon export barriers. Export stimuli and export barriers play a significant role in the exporting performance; so the role of exporting barriers cannot be ignored (Morgan 1997). Katsikeas and Morgan (1994) explained that the size of an organization matters a lot in the barrier's perspective. Small firms face more exporting problems as compared to the large organizations.

Generally in importing countries, the reasons behind the export barriers are lack of government support in defeating export barriers, rivalry with firms in foreign markets, the need to adjust pricing and promotion strategies, high foreign tariffs in export markets and a lack of resources to finance expansion into foreign markets were the major barriers to enlarge the exports (Ahmed et.al 2004)

Okpara (2011) identified many barriers that hamper export development in developing countries. These are shortage of finance, insufficiency of export knowledge, scarcity of qualified personnel and severe international

competition. These barriers play a key important role in the obstruction of export growth of SMEs of a developing country.

SMEs face many hindrances in the exporting procedure. These barriers are different in nature and can be internal (informational, functional and marketing) or external (procedural, governmental, task and environmental). These barriers particularly affect the exporting in different manners. However internal barriers are easier to handle and manage but external factors are not convenient to tackle (Leonidou 2004). Koksai and kattaneh (2010) narrated that generally there are two types of export problems internal and external. Internal export problems refers to the inside of the company and usually related to the company resources for export activities they are generally related to the products characteristics for example low quality product, high prices, lack of information. The troubles originating from external factors such as export market competition, image of exporting country and policies made by both host and home countries are referred to as external barriers.

Leonidou (1995) concluded while differentiating internal and external barriers that barriers originating from organizational resources, internal potentials and company advancement towards export business are internal barriers. Whereas the barriers which an exporting firm faces during the export procedure from exporting state to host state are external barriers. Internal barriers include: dearth of production inputs and shortage of domestic capability; and external barriers include those related to the business environment such as government policies, trade barriers, and the nature of competition (Bagchi-Sen, 1999).

Barriers are distinguished in to initiating problems and on-going problems. Initiating problems are linked to problems which are initiative in nature like recognizing foreign opportunities, export documenting process and capital requirement. Whereas on-going issues includes such problems which occur during the export process like analyzing payment and cost, demonstration and difference between values provided by firm and values demanded by buyer (Tesar and Tarelton, 1982).

The most difficult barriers differentiating exporters and non exporters are, (1) adapting products for foreign markets, (2) pricing for foreign market, (3) minimizing the foreign exchange risk, (4) obtaining information on prospects overseas, (5) providing technical advices overseas, (6) knowing exporter procedures, (7) shipping and distributors overseas, (8) financing exporters, (9) advertising in foreign markets and last (10) communicating with clients overseas (Moini, 1997; Eshghi et al., 1992). One of the major problems faced by exporters is to obtain the information required to enter the export market.

SMEs have to cope with different kinds of exporting challenges. It depends upon that from which a native land

SME belongs. SMEs originating from a transition country mostly face problems which are internal in nature like unprofessional conduct or lack of capital. SMEs from developed countries usually face external problems like political instability or strict import policies (Neupert et al., 2006). Many SMEs don't go for exporting just because of the expected barriers. In view of non exporting firms some key barriers are lack of awareness of prospective markets, the less technical aptness, intense competition in expected market and need of professional personnel. But the opinion of exporting firms is different, which consider warehousing and controlling of physical product flow in the expected country, threat of overseas buying behavior and unavailability of business place as the most important export barriers (Pinho and martins, 2010).

Stamatovic and Zakic (2010) concluded that skill and knowledge of managerial group is directly proportional to the SME exports. Trained and effective management can play a significant role in the development of SME exporting while in the presence of worldwide economic crises. By improving the training and development of entrepreneurs and creating trade with large enterprises, the SME growth can be enhanced. It is also proved that information gathering for long term vision is the key to success for the flourishing small and medium-sized exporters as compared to those SME exporters who formulate policies and strategies on daily basis (Ortega, 2003).

While the export of any organization is inversely proportional to the barriers existing, barriers do not only make clear the smooth exporting process but some other factors also play a considerable role in the function of these barriers. These factors are the distinctive qualities of managers, the organization and environment of the organizations (Barret and Wilkinson, 1985).

Koksai and kattaneh (2010) confirmed that tariff/non tariff barriers implied by host countries, production capacity of company and packaging bear negative effects on the export sales volume and the strong global competition, brand image, high production cost, lack of qualified personnel, difficulty in obtaining foreign market information and transportation affects positively export sales volume.

Craig (2005) explains that the export barriers are more severe and intense in the psyche of those non exporters who have never tried export. So the cognitive dissonance of export barriers is more rigorous than in non exporters when compared to the exporters. Non exporting firms consider the obstacles more severe if they were exporting. These differences between thinking of exporters and non exporters can be eliminated through exporting experience.

Although much research is conducted on the topic of barriers of SME exporting but a greater part of the research is done in the Europe and North America. Research work on the topic barriers of exporting in small and medium enterprises is relatively uncommon in

developing countries. Pakistan is also lacking research work on SME export problems (Leonidou, 2004). So the above literature provides a substantial research gap for this study.

## METHODOLOGY

The SMEs of Pakistan were selected as the population of this study. The target population of this study comprises all textile SMEs. The sample of this study was taken from one city (Faisalabad) due to own convenience and one industry Textile was selected. A sample size of 25 firms from the textile industry was surveyed. The sample size was taken for the convenience of research as only limited resources were available. All taken firms were SMEs. The data was collected from SMEs export managers and owners. Out of 18 SMEs, owners were working as export managers themselves whereas rest of 7 SMEs had distinct export managers. Due to confidential policy of most companies, names of the sample selected SMEs and respondents could not be mentioned. A descriptive approach was used to conduct this study and in-depth interviews were performed to evaluate the real export barriers for SMEs in Pakistan. A question of (Eisenhardt, 1991) was adopted to conduct the interviews. Interviews were conducted in English. Neupert et al., (2005) also used this procedure to make an identification of the complete background of the problems. The written records were then reviewed by researchers and grouped according to common themes. Due to the descriptive nature of this research, observational method was the key factor to conclude results.

The following data as presented in table 1 were gathered after the interviews. Barriers are categorized into internal and external barriers. All of the 25 firms are faced with the internal or external barrier on the basis of nature of most significant problems of each firm (Table 1 and figure 1).

## Findings

The following findings were deduced from the summary of interviews: Figure 2 shows that the 68% of barriers are internal whereas external barriers are 32%. As the weight age of internal export barriers is relatively larger than that of external export barriers for Pakistani small and medium enterprises, it reveals that SMEs in Pakistan face more internal problems as compared to external problems. SMEs have opportunities for export in foreign markets but there are plenty of barriers within the country. Although internal barriers are more controllable as compared to external barriers but all stakeholders should play their roles to minimize these internal barriers in order to magnify the SME exports.

The Figure 3 shows that internal barriers are more dominant in the overall barrier chart. Now this figure tells

us the internal problems which cause internal barriers to prevail. Simply the internal barriers are narrowed down. Here the energy crisis is making the largest contribution in internal barriers. The energy crisis is 39% of internal barriers. It is because the situation of energy sector is worse in Pakistan. Functional barriers contribute 29% to internal barriers. It is the second biggest internal problem after energy crises. Environmental and marketing barriers make their part of 19% and 13% respectively.

Figure 4 shows the strength of components of external barriers. Competitive barriers are the main external barriers. SMEs have to face tough competition from other countries like China, India, and Bangladesh etc. as competitive barriers constitute 45% of total external barriers. These countries are providing the export product on cheaper rates. Procedural barriers like documentation, quality clearance, late payments etc. comprise 33% of the total barriers. Environmental barriers are 22% of total external barriers. Environmental barriers include unstable political situation, cultural effects and may be economic problems etc. So by and large competitive barriers form the biggest external barriers.

## Discussion and Conclusion

This study explored the export barriers faced by SMEs in Pakistan. Basically two types of main export barriers exist i.e. internal barriers and external barriers (Leonidou 2004). Findings of this study showed that internal barriers are more influential than external barriers. Internal barriers include functional barriers, marketing barriers, energy crises and environmental barriers. Energy crises contain shortage and high charged prices of electricity, gas and other energy components. An energy crisis leaves industry unable to fulfill orders. High rates of electricity, gas and oil increases the production cost. Environmental barriers comprise political, economical, social and technological problems of exporting country i.e. Pakistan. Economic problems include poor economic conditions in the country and fluctuating currency exchange risks. In poor economic conditions it is very difficult for exporters to invest as SMEs are always facing lack of funds. Political problems include political instability in exporting country or strict exporting rules and regulations and high tariff, non tariff barriers these issue can shake the confidence of importers and they hesitate to sign a contract. Socio cultural barriers include unfamiliar local business practices and lack of foreign verbal, non verbal languages. Dissimilarity between cultures of host country and export country causes inability to adapt exporting process. Marketing barriers include problems related to product, price, distribution and promotion. Barriers related to product include barriers concerned with product like developing new product for foreign markets, adapting exporting product design and style, meeting exporting product quality standards/specs, meeting export packaging/labeling

**Table 1:** Export barriers

RESPONDENTS	CLASSIFICATION OF BARRIERS	INTERNAL BARRIERS		EXTERNAL BARRIERS	
1	Internal	Energy crises		Environmental Problems	
2	Internal			Environmental Problems	
3	Internal	Energy crises			
4	External				Competitive Problems
5	Internal	Energy crises	Functional Problems		
6	Internal		Functional Problems	Marketing Problems	
7	External				Procedural Barriers
8	Internal			Environmental Problems	
9	External				Environment al Problems
10	Internal		Functional Problems		
11	Internal	Energy crises			
12	Internal		Functional Problems	Environmental Problems	
13	External				Competitive Problems
14	Internal	Energy crises			
15	Internal			Marketing Problems	
16	External				Procedural Barriers
17	Internal				
18	Internal				
19	External				Procedural Barriers
20	Internal			Marketing Problems	
21	External				Competitive Problems
22	Internal	Energy crises			
23	Internal				
24	Internal	Energy crises			
25	Internal		Functional Problems		

requirements, offering technical/ after sale services. Product which is not according to the customer demand and specifications will cause a failure and less future ordering. Pricing problems include offering unsatisfactory

prices to customers, lack of granting credit facilities to foreign customers. In such a competitive scenario, difference in price will eliminate the exporter from competition. The problems such as difficulty in supplying

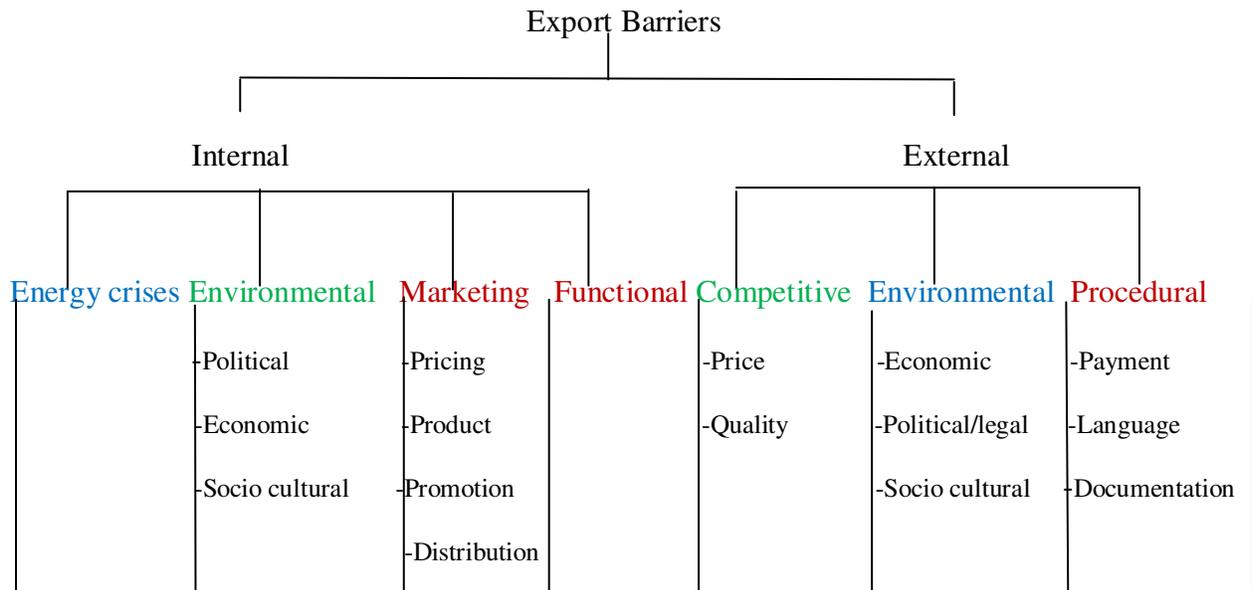


Figure 1: Classification of export barriers.

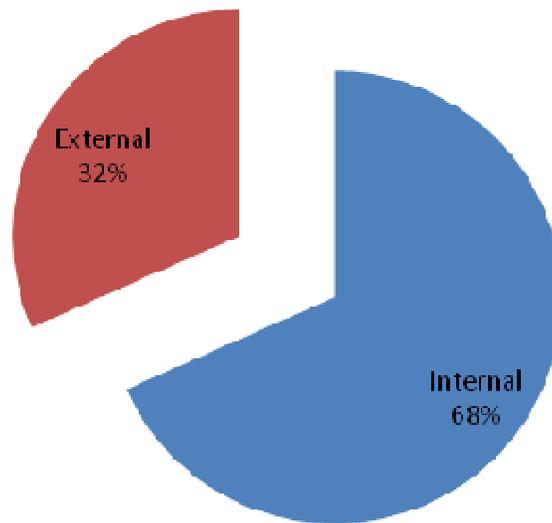
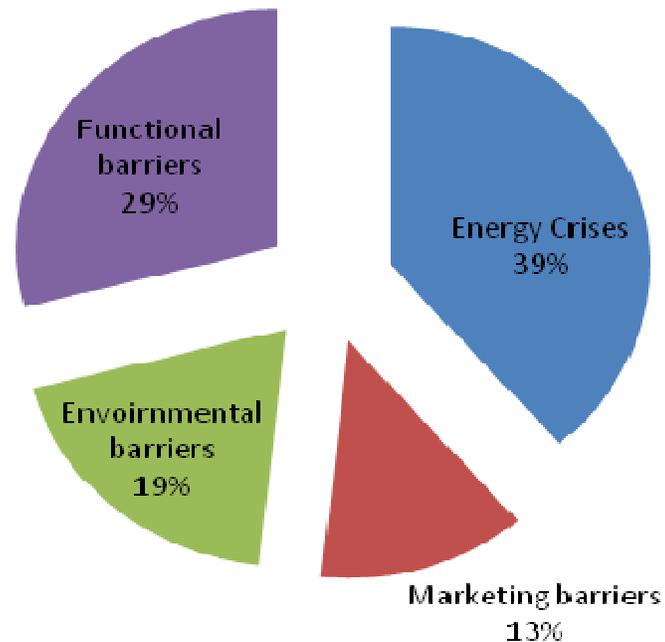


Figure 2: Percentage of Internal and External Barriers

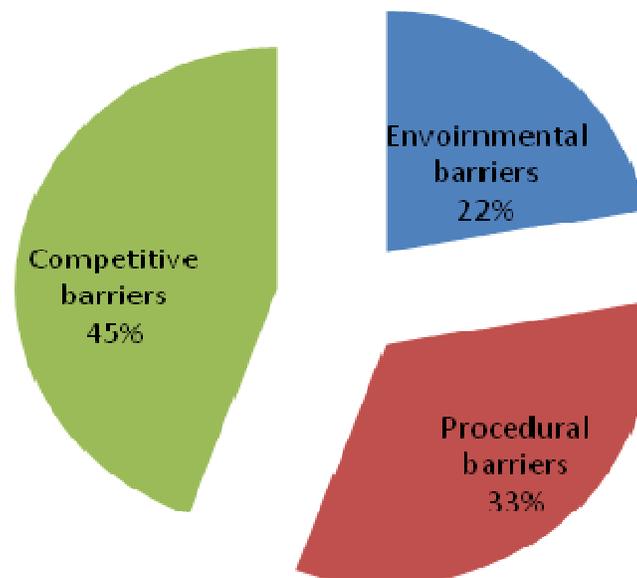
inventory abroad, unavailability of warehouses, unreliable foreign representations and less access to export distribution channels are included in distribution. Product making is not only the last thing but product should also be delivered to customer otherwise it can impose a bad exporting impression. Promotion contains lack of adjusting export promotional activities whereas lack of promotional activities can create unawareness for customers which finally leads to fewer exports. Functional barriers are related to the capacity of SMEs i.e. lack of working capital, production capacity, inadequate

personnel. These include lack of managerial time to deal with exports, inadequate/untrained personnel for exporting, lack of excess production capacity for exporting and shortage of working capital to finance export. Due to functional barriers, exporters would not be able to meet the requirements of the buyer.

External barriers include environmental, competitive and procedural barriers. Competitive barriers include barriers such as severe competition, low prices offered by other countries and good quality products of other competitors. Competitive barriers keep the exporter out of



**Figure 3:** Segregated percentage of internal barriers



**Figure 4:** Segregated percentages of external barriers

competition and other competitors start dominating. Mostly competitive problems are related to price and quality. Provision of low prices from customers create price competition problem whereas quality problems include provision of high quality products by competitors. Environmental barriers are political, economical, social and technological problems of host country. Procedural

barriers consist of slow collection of payment from abroad, problematic communication with overseas customers and unfamiliar exporting documentations/paperwork. This can cause dejection in exporter and he will be less inclined towards exports due to the complicated exporting procedure. Previous study concluded that SMEs can play an important role in

economic and industrial development of a developing country, if they are provided proper support and direction to reduce the export barriers (Hyari and Abutayeh, 2011).

### Limitation and future research

The limitations related with this research are acknowledged. This study is limited to only one sector i.e. textile sector so it can be expanded to other sectors. This study is also limited to 25 textile SMEs concerning data collection. The sample size of this research is small to generalize the results, so authenticity of this study can be enhanced by increasing sample size for future research. As this research is a new one in its nature, it can be conducted in other sectors and in other countries relating to their own environmental factors to enhance the scope of this research. The results might be different when it is conducted in different scenarios. This study also provide base and add literature for researchers to hit this issue more deeply in future.

### REFERENCES

- Ahmed ZU, Craig JC, Baalbaki I, Hadadian TV (2004). "Export barriers and firm[2] internationalization: a study of Lebanese entrepreneurs", *J. Manage. World Bus. Res.* 1(1): 11-22.
- Altintas MH, Tokol T, Harcar T (2007). "The effects of export barriers on perceived export performance: an empirical research on SMEs in Turkey", *EuroMed J. Bus.* 2(1): 36-56.
- Bagchi-Sen S (1999). "The Small and Medium Sized Exporters' Problems: An Empirical Analysis of Canadian Manufacturers," *Regional Studies*, 33(3): 231-45.
- Barrett N, Wilkinson IF (1985). "Export stimulation: a segmentation study of the exporting problems of Australian manufacturing firms", *Eur. J. Mark.* 19(2): 53-72.
- Craig JC, Ahmed ZU (2005). "The impact of barriers to export on export marketing performance", *J. Glob. Mark.* 19(1): 71-94
- Eisenhardt K (1991). "Better stories and better constructs: the case for rigor and comparative logic", *Acad. Manage. Rev.*, 16(3): 620-5.
- Eshghi A (1992). "Attitude-Behaviour Inconsistency in Exporting," *Intl. Mark. Rev.*, 9(3): 40-61
- Moini HA (1997). "barriers inhibiting export performance of small and medium sized manufacturing firms" *J. Glob. Mark.*, 10(4): 67-93.
- John OO (2011). "Strategic Export Orientation and Internationalization Barriers: Evidence from SMEs in a Developing Economy", *J. Intl. Bus. Cult. Stud.*
- Karakaya F, Harcar T (1999). "Barriers to export for non-exporting firms in developing countries", *Acad. Market. Stud. J.* 3(2): 59-77
- Katsikeas E, Morgan R (1994). "Differences in perceptions of exporting problems based on firm size and export market experience", *Eur. J. Mark.* 28(5):17-35.
- Khalil Al-Hyari and Abutayeh (2011) Exporting Performance and Manufacturing Activities in Jordanian SMEs: External Barriers and Relationships, *Intl. J. Glob. Bus.*, 4 (1): 44-72.
- Koksal HM, Kettaneh T (2011). "Export problems experienced by high and low performing manufacturing companies a comparative study", *Asia Pacific J. Mark. Logistic*, vol, 23 No.1, pp. 108-126.
- Leonidou CL (2004). "An analysis of the barriers hindering small business export development" *J. Small Bus. Manage.*, 42(3): 279-302.
- Leonidou L (1995). "Export barriers: non-exporters' perceptions", *Intl. Mark. Rev.* 12(1):4-25.
- Morgan R (1997). "Export stimuli and export barriers: evidence from empirical research studies", *Eur Bus Rev* 97(2):68-79.
- Neupert EK, Christopher CB, Thanh TLD (2006). "SME export challenges in transitional and developed economies" *J. Small Bus. Enterp. Dev.*, 13(4): 535-545.
- Ortega S (2003). "Export barriers: insights from small and medium-sized firms", *Intl. Small Bus. J.* 21(4): 403-19.
- Pinho CJ, Martins L (2010). "Exporting barriers: insight from Portuguese small and medium sized exporters and non-exporters", *J. Intl. Entrep.* 8: 254-272.
- Stamtovic M, Zacic N (2009). "Effect of the global economic crisis on small and medium enterprises in Serbia" *Serbian J. Manage.*, 5(1): 151-162.
- Scharf F, Bell J, Loane S, Fletcher R (2004). "the export problems of internationalizing SMEs: some empirical evidence using a "critical incident" technique", In Jones M, Dimitratos P (eds) *Emerging paradigms in international entrepreneurship*. Edward Elgar, Chetenham.
- Zafar U, Ahmed CC, Julian IB, Tamar VH (2004). "Export Barriers and Firm Internationalization: A Study of Lebanese Entrepreneurs" *J. Manage. World Bus. Res.*, 1(1): 11-22.