FACTORS DETERMINING SUCCESS OF MICROENTERPRISES: EVIDENCE FROM DISTRICT PESHAWAR

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ABSTRACT

Manufacturing microenterprises are a major source of employment in Pakistan and particularly in North West Frontier Province. This paper presents evidence on factors determining success of microenterprises in district Peshawar using primary data and employing analytical techniques. Economic and financial ratios and qualitative information are found important determinants of success of microenterprises in district Peshawar.

INTRODUCTION

Pakistan is an economy of small and medium enterprises (SME). SME contribute over 30 percent to GDP (Government of Pakistan, 2005) and 78 percent of non-agricultural labour force is employed by this sector (Government of Pakistan, 1998). The growth in Pakistan's manufacturing employment has remained insignificant over the past fifty years (SMEDA, 2003). The Government of Pakistan and international financial institutions are taking a special interest in creating productive employment opportunities and support SME by providing credit, technical and marketing assistance since large-scale industries have become more capital intensive and are unable to absorb the growing labour force in the country. According to the (World Bank, 2002) about 90 percent of all private enterprises in the industrial sector are employing up to 99 persons. This reflects the importance of microenterprises in the economy of Pakistan. However, the incentives and facilities provided for investment in small-scale industries show that microenterprises have not given their due importance.

The literature to explain the growth and success of small enterprises includes reviewing work on determinants of enterprise birth, closure and expansion (Mead and Liedholm, 1998) summarizing experience of manufacturing firms in developing countries (Tybout, 2000); and documenting differences in size and productivity distribution between firms in less-developed and developed countries

(Biesebroeck, 2005). Many family enterprises stay small, scaled to fit an economic niche, support a single family and can exhibit remarkable longevity, without ever growing (Carlock and Ward, 2005). Daniels (2003) examines the factors that influence the expansion of the microenterprise sector.

Mead and Liedholm (1998) find that information on business closures is more limited than that on enterprise births. Based on econometric studies they conclude that the survival of micro and small enterprises is higher if a firm is older; grown in past; small initial size; not in trading; urban; and run by a male entrepreneur. Probit estimation is used by (Frazer, 2005) to take into account characteristics such as productivity, size, capital intensity, age, unionization, exports and ownership structure of the firm in order to successfully determine manufacturing firm exit.

The purpose of this paper is to explore the characteristics of survived microenterprises in determining their success and to provide empirical evidence about the success of microenterprises in Pakistan.

The overall objective of the research is to empirically examine the success of microenterprises in NWFP, Pakistan. To this end, the research has set out to examine the success or less-success of manufacturing microenterprises that can be explained with the help of economic ratios, financial ratios and qualitative characteristics. It is hypothesized that success of manufacturing microenterprises can depend on these ratios and characteristics. These can influence the