# MID TERM SUBJECTIVE QUESTION

# OF

# SME MANAGEMENT (MGT601)

# SOLVED

PREPARED BY: AMMAR AHMED

**Q* technical feasibility(3)**

**ANS:-**

**1. Technical Feasibility**

**It covers the following:**

**a) Identification of critical technical specifications comprising**

**a. The functional design of the product.**

**b. Adaptability to the new customer demand.**

**c. Durability**

**d. Reliability of performance.**

**e. Safety**

**f. Reasonable utility (i.e. acceptable level of obsolescence)**

**g. Standardization (i.e. elimination of unnecessary variety)**

**Q* you are a manger of fan company , ur sales volume is low, how do you improve ur sales volume(5)**

ANS:_

1) **improvement of product**

2) **marketing**

3) **ads in newz papers and professional journals, tv advertisemrnt**

4) **free samples with ur product**

5) **low pricesss**

**Q* market myopia ANS: (5) Market Myopia:-**

**A shortsighted approach of concentrating on production rather than on marketability could lead to avoidable disaster. An entrepreneur may fail to properly assess the market acceptability of his product. He may not appreciate that no product can become instantaneously profitable or could have an endurable success. Selection of the right time for introducing the product is important for its success. If actions are taken too soon or too late, it will result in failure.**

**Q* Environment post operative problems(5 marks) ANS_**

**• Environmental Causes:**

**o Changes in government policy; o Changes in social or political conditions; o Inflationary pressures leading to increases in the input cost.**

**Q* The benefits that SME enjoy in environmental issues(5 marks)**

ANS:-

1) **effectiveness of the technology**

2) **stabilization**

3) **capabilities to manage**

4) **generate**

5) **technological change**

**The benifits that SME not enjoy(2 marks) ANS:-** **1)**
**ineffectively exploit available technology options**

**2)** **inefficiently utilize the transferred technologies**

PAPER # 3:

**Q* "A drain having polluted water from one factory may be used to some other industry and suffer bad effects of pollution" This is an example of 'externality' what do you understand by term "externality"? Do you think externalities are positive or negative or both. Explain with examples. (3 marks)**

**ANS:**

**Definition: An externality is an effect of a purchase or use decision by one set of parties on others who did not have a choice and whose interests were not taken into account.**

**Classic example of a negative externality: pollution, generated by some productive enterprise, and affecting others who had no choice and were probably not taken nto account.**

**Example of a positive externality: Purchase a car of a certain model increases demand and thus availability for mechanics who know that kind of car, which improves the situation for others owning that model.**

**Q* When you plan a new business, you create a contingency fund to guard against unforeseen natural calamities. Write different natural calamities that are constant threat for your business. 3 marks**

ANS:

**Natural calamities such as burglaries, earthquakes, fire etc.**

**Q* How will you overcome you lack of experience to avoid the failure of you SME venture? 5 marks**

ANS:-

**The key ingredient-the crucial element-to avoiding the failure of a new business is knowing the business.**

**Due to inadequate study of SME sector, our entrepreneur failed to sustain their new business. Provide different reasons which may cause the failure of a new business? 5 marks ANS:1) Inadequate R&D facilities**

**2) Lack of skills & experience**

**3) insufficient information on technological cooperation**

Q* **question About entrepreneur?**

**an entrepreneur is "a person who organizes and manages a business undertaking, assuming the risk for the sake of the profit." However, there is much more to entrepreneurship than this simple definition.**

**Author and successful entrepreneur Michael Gerber once wrote, "The entrepreneur is our visionary, the creator in each of us.**

**We're born with that quality and**

**it defines our lives as we respond to what we see, hear, feel, and experience. It is developed, nurtured, and given space to flourish or is squelched, thwarted, without air or stimulation, and dies."**

**An entrepreneur's age, educational background, and previous business-related experience isn't nearly as important as his or her desire to learn and willingness to bounce back from the obstacles associated with creating a new business endeavor.**

**Entrepreneurs are passionate about the products and**

**services their businesses sell, but their efforts benefit the economy in other ways as well**

**Q* describe problems of small industries ?**

**ANS: PROBLEMS IN SMALL SCALE INDUSTRIES**

**Classification of the problems**

- The internal problems.

⦿ The external problems.

**Internal problems** ⦿ A) **Planning**:

⦿ a) **Technical feasibility**:⦿ - Lack of technical know-how.

⦿ - Locational disadvantage.

⦿ - Outdated production process. ⦿ b) **Economic Viability**:⦿ - High cost of inputs.

⦿ - Uneconomic size of the projects.

⦿ - Underestimation of financial requirements.

⦿ - Over estimation of demand. ⦿ B)**Implementation.**

⦿ C) **Production.**

⦿ a) **Production Management**:

⦿ - Poor quality control.

⦿ - Poor capacity utilization.

⦿ - Poor inventory management.

⦿ - Inadequate maintenance. ⦿ - High wastage.

b) **Labour management**:-

⦿ - Inefficient handling of labour problems.

⦿ - Excessive manpower.

⦿ - Lack of trained and skilled labour. ⦿ c) **Marketing management**:-

⦿ - Dependence on a single or small group of customers.

⦿ - Defective pricing policy.

⦿ - Lack of market research. ⦿ d) **Financial management**:- ⦿ - Liberal dividend policy.

⦿ - Inadequate working capital. ⦿ e) **Administrative management**:⦿ - Over centralization.

⦿ - Lack of professionalism.

⦿ - Lack of feed-back to management.

⦿ - Incompetent management.

**External problems**

⦿ A) **Infrastructural bottlenecks**:⦿ - Irregular supply of raw materials.

⦿ - Transport bottlenecks.

⦿ B) **Financial bottlenecks**:-

⦿ C) **Government controls and policies**:⦿ - Government price controls.

⦿ - Change in government policies. ⦿ D) **Market constraints**:⦿ - Market saturation.

⦿ - Technological advances rendering one's product obsolete. ⦿ E) **Extraneous factors**:⦿ - Natural calamities.

⦿ - Political situation.

⦿ - War.

⦿ - Strikes.

- Multiplicity of labour unions.

**Question:**

**How would you differentiate cottage industries from small industries?** • Cottage industry is an industry that is run by a person in his own home unlike small industry.

- He works with his own tool whereas in small industries some kind of mechanical power is used.
- He uses his own raw material resources.
- No hired labor is used instead if he needs he gets the help of his family members.
- He markets his product himself.
- He does not use external resources.

**Question:**

Starting a small business is an exciting endeavor and is typically accompanied by very high expectations. However, it is usually undertaken with a lot of anxiety and trepidation as well. If you are going to start a new business (new restaurant, new retail store etc) what are pre, mid, and post operative problems that an entrepreneurship has to face? Explain in your own words.

Following are the guideline about the different problems regarding starting a new restaurant.

**Pre-Operator Problems for new Restaurant**

After selecting the type of business that is a restaurant, the most important problems are listed below:

- A fast food restaurant or a traditional food restaurant
- A mix food restaurant (Burger, Pizza, or mix) or specialized item restaurant (Chinese, Italian, or some else)  Diversified or single item restaurant.

- Scope of business, (in one city, locality or it will be a chain business)
- Location of the business (with populated area, or developed areas or near the cinema, theater, or else where)
- The location will be purchased, constructed, taken on lease or rented.
- Identifying the availability of raw materials for food and for building construction.
- etc

## Mid-Operator Problems for new Restaurant

After completing the initial stage of the business following problem may occur:

- Delay procedure of loan sanction or remaining installment
- Shortage of raw materials
- Increasing cost of the project that may lead to modify the project.
- Strike of labour, or
- Coordination problem between different section of the project for the acquisition of different kinds of assets
- etc

## Post Operative Problems of a New Enterprise

- Due to increasing cost of inputs, there may be lack of profits.
- Change in the government policies about the import of raw material of food items
- Inexperience factor about anticipating the change in behaviour of customer, employees
- Reluctance of owner in introducing the new product line
- Weak advertising campaign, weak positioning with respect to competitors and inappropriate marketing strategy • High production costs and consequent high pricing
- Poor food presentation skills and none professional attitude of front line employees
- Technological obsolescence, low capacity utilization, inability of labor to correctly understand technology
- etc

Similarly, you can identify problems about retail store by placing yourself in real life situation.

## Question 10

**List and discuss the major levels of market segmentation and bases for segmenting consumer and business markets.**

Following factors can be used to segment consumer markets

1. Geographic segmentation
2. Demographic segmentation
3. Psychographic segmentation
4. Behavioral segmentation

In geographic segmentation, company segments the whole market into dissimilar geographic units, such as nations, regions, states, countries, cities, or neighborhoods. Many companies are confining the products, advertising, promotion, and sales efforts or are looking for to develop as-yet unexploited geographic region.

In demographic segmentation, segments the whole market into clusters based on variables such as age, family size, family life cycle, sex, earnings, profession, education, religious conviction, race and nationality. They are the most accepted features because they are trouble-free to determine, and consumer needs, wants, and usage rates often vary closely with demographic variables.

In psychographic segmentation, company segments customers into dissimilar clusters according to social class, lifestyle, or personality characteristics. Cluster entities in the similar demographic group each entity may be similar or different in all variable mention above.

In behavioral segmentation, company segments customers into clusters according to familiarity, thoughts, utilization, or reactions to a product by customers. Company believes that behavioral variables are the most excellent preliminary position for building the company observes some buyers buy when there is occasion only, some try to find the main advantages of the product, some buyers frequently change the brand or company.

A company can ignore market segment differences and targets the whole market with one offer. This mass-marketing strategy focuses on what is common in the needs of consumers rather than on what is different.

A company can target several market segments and designs separate offers for each. Companies hope for higher sales and a stronger position within each market segment.

Following factors can be used to segment business markets

- Operating characteristics
- Purchasing approaches
- Situational factors
- Personal characteristics

**Question**:

**Differentiate between small and medium enterprise, also explain role of SME's in a developing economy like Pakistan. (Marks: 10)**

**Solution:**

**Cottage Industry**:

The cottage industry or small scale industry may be defined to be an enterprise or series of operations carried out only by a workman skilled in the craft on his own responsibility, the finished products of which he markets himself. He works in his own home with his own tools and materials and provides his own labor. These workers are mostly hand labors and having personal skills with little or no aid from modern technology and machinery they work in accordance with the traditional technique.

Nowadays, a generalized definition is in practice and it says an SME entity is defined as a business with an investment in productive assets (not including land and building) ranging between rupees 2 to 40 million and employing between 10 to 99 workers.

**SMALL:** between 10 to 35 employees and productive assets ranging 2 to 20 million,

**MEDIUM:** between 36 to 99 employees and productive assets range of rupees 20 to 40 million.

**The SME'S in Pakistan**

Pakistan's economy is an economy of SME's. Policies in the past have given a general perspective, direction and defining broad parameters of activity within the macro economic framework, but efforts have focused on the large enterprises, neglecting SME's which are at the heart of our economy while SME's are being mentioned in some of our socio-economic strategies and policy documents, measures are not sufficiently specified and prioritized for us to be able to speak of any coherent SME policy or approach. SME promotion is an important issue for many government departments and central offices. However, there is an existing lack of coordination and regular information exchange mechanism among institutions that constrains their collective ability to deliver in the SME development process.

**Role of SME's in a Developing Economy**

Unemployment and under employment are the prevailing economic diseases in most of the Asian countries and they are result of a fundamentally disproportionate relationship between population and the use of available land resources. Rapid and continuing increase of population, in the last half century have led to a situation in which there are far too many people engaged in agriculture this situation is further aggravated by an antiquated system of land tenures, by poor standards of health and malnutrition by the use of primitive and inefficient techniques on small un-Economical holdings and by an uncertain climate for rains, weather changes etc. among the classical remedies suggested for tackling the problem of poverty and underemployment, large scale industrialization is perhaps the most important. This has no doubt, resulted in a phenomenal increase in the production of useful goods and have brought movement in living standards as well as in lowering the rate of population growth. But in many Asian countries large-scale industrialization has been slow particularly for the shortage of supply of capital.

Under the circumstances, the problem of unemployment and underemployment can be tackled by the expansion and modernization of the existing small-scale cottage industry and the introduction of new industries capable of raising the level of production and improving the present depressed standard of living. The large-scale industry has been slow to develop and has succeeded to a very limited extent in absorbing the surplus population of the countryside. SME's are still the most extensive tools for controlling unemployment.

## Pakistan

SME's are considered as engines of economic growth in both developed and developing countries. They provide low cost employment since the unit cost of persons employed is lower for SME's than for large-size units.

- Assist in regional and local development since SME's accelerate rural industrialization by linking it with some organized urban sector.
- Help achieve fair and equitable distribution of wealth by regional dispersion of economic activities.
- Contribute significantly to export revenues because of the low cost labor-intensive nature of its products.
- Have a positive effect on trade balance since SME's generally use indigenous raw materials.
- Assist in fostering a self-help and entrepreneurial culture by bringing together skills and capital through various lending and skill enhancements schemes.
- Impart the resilience to withstand economic upheavals and maintain a reasonable growth rate since being indigenous is the key to sustainability and self-sufficiency.

## Question:

## What are long term issues regarding SMEs, Why are they considered important, how can we perform better in the presence of these issues? Explain.

**(Marks: 10)**

### Long Term Issues

There are issues, which are beyond the scope of our current interventions. They are partially rooted in the multiple cultural structures of our society, frequently exacerbated by our geo-political situation. We, nevertheless, recognize their importance and therefore point them out here. However, it is not recommended to attempt to solve these questions by ways of an SME policy Initiative.

### Literacy

The evidence reveals that SME find it extremely difficult to grow because of their inability to delegate to soundly trained staff. The day the small businessman feels comfortable to delegate, SME start progressing.

The low literacy level also determines the potential of our labor force. Higher literacy rates are essential to enhance the quality of production can be enhanced by multiple factors which is what we need to be able to effectively compete in the international economy which is being extended to our local markets by the effects of opening up and WTO accession.

### Law and Order

Law and order situation in Pakistan has always been regarded as worrisome. One survey reports that one in five respondents report that the business was the target of at least one crime during 2002. Another assessment suggests that the businesses in NWFP spend 4.5%, Sindh and Punjab 1-2% of their revenue on security. One in four SME consider law and order to be a severe problem.

Law and order problems weaken property rights and as a result weaken investor's decision to invest. These problems are clearly linked to the manner in which the law enforcement and criminal justice system functions. The high time cost involved in seeking legal resource together with lack of access to both effective informal and formal enforcement mechanisms, increase the costs associated with contract enforcement.

### Intellectual Property Rights

Intellectual Property Rights (IPR) is a vital issue that needs to be looked into**.** It has been observed that many developing countries with the help of a change in their IP systems and laws are able to attract Foreign Direct Investment (FDI) in the Research and Development(R&D) especially in the industrial and the scientific field. Therefore, promotion and protection of the intellectual property spurs economic growth, creates new jobs and industries, enhancing the quality and enjoyment of life.

Another benefit for Pakistan in properly adopting IPR culture is that it will protect the indigenous products such as rice, kinno, traditional knowledge, pottery etc. the owners of the IPRs has the most valuable assets which can be utilized in commercial transactions, whether IP licenses, joint ventures, manufacturing, purchase or distribution agreements, or mergers and acquisitions. Licenses to use patents, trademarks and copyrights are often combined with transfer of know how in the form of training and are increasingly an important term in such transactions.

### Infrastructure

Basic physical infrastructure is a prerequisite to growth and development. Power outages and access to the connections are considered an irritant, which significantly affects the productivity of firms in Pakistan. It is estimated that a typical business in Pakistan loses 5.6% in annual sales revenue due to just this single factor.

Differences associated with firm size recognize that smaller firms are relatively hard hit in comparison with the larger ones because of inability to arrange alternate power source such as private power generators. High rates of power, the poor quality of delivery and its reliability are the serious concerns for SME in Pakistan.

Similarly, access to the telecommunication facilities and transport also serve as a detriment to smooth growth and transition of smaller firms to larger ones. The chief problem in the provision of the telephone services is the shortage of new fixed line connections, which currently stand at a mere 0.5-0.6 million a year for the whole country. Pakistan could also save up to 16.5% of the value of exports by improving its trade and transport logistics systems. Inefficiency in transport alone is estimated to cost the economy RS.320 Billion a year.

The concentration of power, telecommunications and transport services, except for road transport, in the public sector has been regarded as a major concern. Evidence suggests that Pakistan's state-controlled and concentrated structure of infrastructure delivery is highly inefficient.

### Question:

**What are pre, mid, and post operative problems that an entrepreneurship has to face while starting new enterprise?**
**Explain in your own words.** **(Marks: 15)**

Solution:

FIELD PROBLEMS OF STARTING A NEW ENTERPRISE

Identification of a venture after a thorough analysis of the five major aspects described earlier should not be regarded as the end of all problems. Rather the real problems have been summarized in the following paragraphs.

### (1)Pre-operative problems

(a)Problem of selecting an appropriate form of business organization.

(b)Problems related with the acquisition of basic facilities such as sources of raw materials, power, transport etc.

### (2)Problems during the construction phase.

These would be connected with:

(i) Acquisition of land;

(ii) Construction of building and other aspect of civil works;

(iii) Acquisition of machinery and its installation;

(iv) Preliminary work about the sources of supply of raw materials , labor and managerial inputs;

(v) Prospecting about marketing;

(vi) Preliminary work regarding sources of working capital;

(vii) Coordination problem connected with the acquisition of different kinds of assets or completion of jobs;

### (3) Post Operative Problems of a New Enterprise

Several Problems are common to starting a y enterprise-whether small or large. They need not always arise but an awareness regarding them could enable their timely avoidance prevention. Below are given some of the post operative problems.

(i) Lack or absence of profits.

(ii) Experience Factor:

(a)Unfamiliarity of lack of experience in product or services line.

(b)Lack of experience in management. There is a vast difference between being a machinist and being able to manage a machine shop.

(c)Over concentration of experience .e.g. .focusing only on the area of interest says, sales, finance, production etc and neglecting others.

(d) Incompetence of management.

(iii) Sale Causes

(a)Weak competitive position ;

(b)Lack of proper inventory control;

(c)Low sales volume ;

(d)Poor location ;

(e)Decline in demand due to recessionary trends in the particular industry ;

(f) Inappropriate marketing strategy ;

(g)High production costs and consequent high pricing ;

(iv) Expense Causes i.e. failure to control operating expenses that reduce profit and Pose a threat to survival of the firm. For instance, borrowing too heavily may force business to close if debts cannot be timely paid;

(v) Neglect Causes

Common Cases of neglect are; poor health, laziness, family or manage

Problems .Entrepreneurs needs to establish priorities for themselves relative To their involvement in the firm. They must concentrate on objectives of the

Firm.

(v) Capital Causes

(a)Low a over estimation of capital needs;

(b)Fund mismanagement ;

(c) Cash losses;

(d)Poor debt collection or unfavorable credit terms.

(vi) Customer Causes .i.e. extension of credit on liberal terms.

(vii) Personnel Causes.

(a)High rate of absenteeism &/or labor turnover;

(b)Unhealthy industrial relations;

(c) Frequent strikes and lockouts; (d)Low productivity ; (e)Militant trade unions.

(xi) Natural calamities such as burglaries, earthquake .fire etc.

(x) Government Regulations.

(a) Difficulty of compliance due to excessive cost burden; (b) Interference and dilatory tactics adopted by government authorities.

(xi) Unmindful expansion so that sufficient business is not generated to sustain Expanded capacity. (xii) Environmental Causes.

(a)Changes in government policy ;

(b)Changes in social or political conditions ;

(c)Inflationary pressures leading to increases in the input cost.

(xii) Production Causes

(a)Technological obsolescence ;

(b)Low capacity utilization ;

(c)Inability of labor to correctly understand technology ; (d)Non availability of spares and replacement ; (e)Poor machinery maintenance.

**Question: (Total Marks: 15)**

(a) **Define Training and Development. (Marks: 02)**

(b) **Objectives of Training (Marks: 03)**

(c) **Explain Methods of Training (Marks: 10)**

# TRAINGING AND DEVELOPMENT

## Objectives of Training

1) To improve job performance.
2) To develop employees for new responsibilities.
3) To prepare employees for promotion.
4) To reduce accidents and wastage.
5) To instruct in the operation of new equipment. 6) To ensure management succession.

Effective management succession requires prior planning. Seemingly simple matter has special problems in the case of small business particularly when it comes to its practical implementation. The entrepreneur is moulded in thinking in a groovy fashion. Moreover, training is not a one time job. It is a rather continuous process. Training seeks to upgrade an employee's knowledge to keep abreast of changes in competitive business environment and prepare for advancement to challenging opportunities.

Before initiating a training Programme, the owner/manager should ascertain as to what training would induct change. Change herein implies the attainment of improved ability. The change should benefit both individual and organization. The change should occur in the following five areas:-

### Knowledge

It refers to the storage of information by an individual for use in problem-solving and decision-making. Greater the amount of knowledge, better equipped shall be a person to accomplish a job.

### Attitude

It is a state of mind which creates an urge to work for personal and organizational growth.

### Ability

It is the proficiency in performance of a given task.

### Job Performance

It measures how well the individual meets the requirements of a position.

### Operational Results

These indicate how well the organization has been able to achieve its objectives and goals.

1. .

METHODS OF TRAINING

### 1. On-the-Job training.

It is the most practical and most often used technique in small business. Depending on the complexity of task and experience level of the employee, the training may vary from few hours to several days. Training of this kind is given in three phases.

### a. Demonstration

The job is demonstrated and each stage is explained. It is done slowly so that trainee can ask questions as well as provide feedback on his understanding of work procedure.

### b. Performance

Performance i.e. the employee applies what he has learned

in the preceding. **c. Inspection of work**

Inspection of work of employee is to provide immediate reinforcement of correct method of performance.

### 2) Apprenticeship Training.

Apprenticeship training is the from of training that combines both formal classroom learning and on-the-job training experience particularly in technical cadres.

### 3) Job Rotation.

It is particularly beneficial in the case of small companies wherein each employee has through understanding of different functions. Employees are moved from job to job for few days. It helps employees combat the problem of monotony and boredom because of varied work experience.

### 4) Group Training Through Conference Method.

Major advantage of this technique is that participant has opportunity to express their viewpoint and share their experiences through a discussion of a common problem.

### 5) Heir Apparent Technique.

In it, entrepreneur identifies the person to be trained for management succession. He is encouraged to learn every facet of company's functioning. He is rotated trough various positions of the company and is gradually given increasing responsibility.

### 6) Off the Company Premises Training.

It includes:

a. University & Technical College.
b. Correspondence Course.
c. Training Films.

## Describe the role of world trade organization (WTO) in Pakistan? What are the benefits of WTO on the trade of Pakistan?

### WTO

The World Trade Organization (WTO) is the only global international organization dealing with the rules of trade between nations. At its heart are the WTO agreements, negotiated and signed by the bulk of the world's trading nations and ratified in their parliaments. The goal is to help producers of goods and services, exporters, and importers conduct their business.

WTO in developing countries provide support in

### Technical assistance

The delivery of WTO technical assistance is designed to assist developing and least-developed countries and low-income countries in transition to adjust to WTO rules and disciplines, implement obligations and exercise the rights of membership, including drawing on the benefits of an open, rules-based multilateral trading system. **WTO Training courses**

The WTO training courses are intended for government officials only. The WTO does not normally hold training activities for private groups or individuals and does not consider applications that are submitted separately by the same. The invitation circulars containing the details of all the activities that are listed below are sent to the relevant authorities of eligible countries/customs territories, either directly to the capitals and/or through the Permanent Missions in Geneva.

### Pakistan and WTO

Pakistan being the founding member of GATT, the predecessor of WTO, accepted all the Uruguay Round agreements and is in the process of implementing them. It is modifying its domestic legal and administrative rules so as to make them consistent with WTO rules. Under these agreements Pakistan has to open up its market for full blown foreign competition, must have stringent enforcement of Intellectual property laws and maintain international quality standards.

**The 10 benefits**

1. The system helps promote peace
2. Disputes are handled constructively
3. Rules make life easier for all
4. Freer trade cuts the costs of living
5. It provides more choice of products and qualities
6. Trade raises incomes
7. Trade stimulates economic growth
8. The basic principles make life more efficient
9. Governments are shielded from lobbying
10. The system encourages good government

## 1. THE SYSTEM HELPS TO KEEP THE PEACE

This sounds like an exaggerated claim, and it would be wrong to make too much of it. Nevertheless, the system does contribute to international peace, and if we understand why, we have a clearer picture of what the system actually does.

2. **The system allows disputes to be handled constructively** As trade expands in volume, in the numbers of products traded, and in the numbers of countries and companies trading, there is a greater chance that disputes will arise. The WTO system helps resolve these disputes peacefully and constructively.

## 3. A SYSTEM BASED ON RULES RATHER THAN POWER MAKES LIFE EASIER FOR ALL

The WTO cannot claim to make all countries equal. But it does reduce some inequalities, giving smaller countries more voice, and at the same time freeing the major powers from the complexity of having to negotiate trade agreements with each of their numerous trading partners.

## 4. FREER TRADE CUTS THE COSTS OF LIVING

We are all consumers. The prices we pay for our food and clothing, our necessities and luxuries, and everything else in between, are affected by trade policies.

## 5. IT GIVES CONSUMERS MORE CHOICE, AND A BROADER RANGE OF QUALITIES TO CHOOSE FROM

Think of all the things we can now have because we can import them: fruits and vegetables out of season, foods, clothing and other products that used to be considered exotic, cut flowers from any part of the world, all sorts of household goods, books, music, movies, and so on.

## 6. TRADE RAISES INCOMES

Lowering trade barriers allows trade to increase, which adds to incomes—national incomes and personal incomes. But some adjustment is necessary.

## 7. TRADE STIMULATES ECONOMIC GROWTH, AND THAT CAN BE GOOD NEWS FOR EMPLOYMENT

Trade clearly has the potential to create jobs. In practice there is often factual evidence that lower trade barriers have been good for employment. But the picture is complicated by a number of factors. Nevertheless, the alternative — protectionism—is not the way to tackle employment problems.

## 8. THE BASIC PRINCIPLES MAKE THE SYSTEM ECONOMICALLY MORE EFFICIENT, AND THEY CUT COSTS

Many of the benefits of the trading system are more difficult to summarize in numbers, but they are still important. They are the result of essential principles at the heart of the system, and they make life simpler for the enterprises directly involved in trade and for the producers of goods and services.

## 9. THE SYSTEM SHIELDS GOVERNMENTS FROM NARROW INTERESTS

The GATT-WTO system which evolved in the second half of the 20th Century helps governments take a more balanced view of trade policy. Governments are better placed to defend themselves against lobbying from narrow interest groups by focusing on trade-offs that are made in the interests of everyone in the economy.

## 10. THE SYSTEM ENCOURAGES GOOD GOVERNMENT

Under WTO rules, once a commitment has been made to liberalize a sector of trade, it is difficult to reverse. The rules also discourage a range of unwise policies. For businesses, that means greater certainty and clarity about trading conditions. For governments it can often mean good discipline.

These are some reasons which put good effect on Pakistani trade .

## Small to medium-sized enterprises and making import-export decisions

There is no question that internationalization of markets is becoming increasingly important to the growth of small to medium-sized enterprises (SME) and their countries as these enterprises globalize their businesses and become the main engine of economic growth in their countries. Globalization has a direct impact on SMEs. The success of SMEs is directly related to jobs that helps stimulate the economic growth of a country.

As part of the globalization phenomenon, some SMEs may only market their product/service globally and others may have production facilities in one place and market their product/services in others. Most often SMEs use exporting as a primary mode of entry into a new market only because their risk is limited to the product sold.

While some SMEs realize the benefits of exporting/importing and are attempting to comprehend the world marketplace in which they must operate, many companies, have not looked to exporting/importing as a growth area. This is changing, however, as most SMEs are slowly realizing that success in the marketplace requires looking beyond national borders. The move to become a global player, whether it is a proactive decision or one imposed by competitive dynamics, has extensive implications for an SME's growth. If a company is to export/import it has to evaluate available human and capital resources, commitment by top management, market strength, product strength and establishing good relationships with suppliers or buyers.

SMEs are no longer confined to their national boundaries as they have been for decades. In many countries supported by their governments, business-friendly incentive programs are looking for opportunities to capitalize on the removal of barriers due to regional economic integration or agreement by member countries of the World Trade Organization (WTO). Global economics is all but breaking down international barriers and encouraging the free flow of goods, services, capital and people. Good examples of this are the European Union (EU), the North America Free Trade Agreement (NAFTA), the

Associations of South East Asia Nations (ASEAN), MERCOSUR in South America and ECOWA in West Africa. These are all regional agreements with objectives to remove trade and non-trade barriers among the member countries, thus providing opportunities for SME's to gain market share.

Many SMEs recognize, now more than ever, the need to be competitive in the marketplace; they have to look to other countries for markets, raw materials, components and final products. Additionally, many SME's have made dramatic changes in their organizational, quality and price structures for their products. These changes are helping them compete more effectively in the global marketplace. SMEs need to pursue aggressive business strategies for selling or purchasing goods and services if they are to remain competitive globally.

## MAKING EXPORT DECISIONS

Small and medium enterprises' attitudes toward going global are slowly changing. Many are finding that their product is competitive in price and quality, and, as a result, are seeing an overall increase in demand for their product or service. This increase in demand could be for current proven products that they have in the existing market, or for products that are facing obsolescence. Generally, SMEs have always felt that exporting was only for large companies; this, however, is changing and is driven by advancement in telecommunication, the Internet and transportation technologies. Even the smallest companies with limited resources are participating and are gaining market share from outside their boarders.

There are several ways that SMEs can measure their products' potential and to help them decide whether to export/import or not. One of the most popular indicators of a product's potential is the company's success in the domestic markets. If a company is selling successfully in the domestic market, there is a good chance that the company will be successful in selling its products or services in the international marketplace. For some SMEs, exporting/importing may not be all that different from domestic selling. A company may choose to sell its products or services to another domestic company, which then sells the product or service in the overseas market or purchase good for resale from an importer that purchased goods from foreign markets. The seller or buyer will probably notice little difference between that sale and other domestic sales.

The second indicator is the introduction of new products into both the domestic and international marketplace. This could also include a product that has reached its maturity stage in the product life cycle; when its sales starts to decline, the same product could be introduced in other markets in which the product was not previously sold, allowing SMEs entry into newer markets.

Most experts agree that any decision to export/import requires the same ingredients as decisions in domestic business. That is, the firm's commitment, knowledge of the market, a realistic budget, time and patience. Still, going global can be a challenging experience for SMEs, but the rewards can be substantial. To remain competitive, profitable and to be part of the main engine of economic growth in their country, SMEs must look beyond their borders and seek and capitalize on new opportunities in the global arena.

**Question:**

**Many companies have marketing research budgets that range anywhere from .02 to 1 percent of company sales. It is not unusual to spend 50 percent or more of the marketing research budget buying research from consulting firms.**

**What topics are addressed through marketing research studies? Please describe only the marketing research questions which you think are important.**

Marketing research can help small businesses answer the following ten crucial questions:

1. What should you market goods, services or both?
2. Should your marketing feature some sort of price advantage?
3. Should you emphasize your self, your quality offerings, yourselection, your service or merely the existence of your business?
4. Should you take on your competition or ignore all competitors?
5. Exactly who are your competitors?
6. What are your best prospects?
7. What income groups do they represent?
8. What motivates them to buy?
9. Where do they live?
10. What do they read or watch or listen to in the way of media?

## Q: Discuss the Role of Micro financing in boosting the SMEs.

Micro finance institution focuses on the existing SME to bridge their financial gaps of the running business activities.

Micro financing provides an easy access to the credit/loan to SMEs.

Mostly micro finance Institutions (MFI) requires no collateral or physical assets as security and even if they require the terms are very soft. The reason is to encourage the micro-enterprises.

Main target are women as entrepreneurs who leads to enhancement of their status reduces dependency on their husbands, participation in decision making.

Micro finance provides them an opportunity to use the loan for training to enhance their skills of product design, production management and marketing.

MFI provide various services other than credit grants like saving, consultancy and insurance coverage to poor and low income households and their micro enterprises.

Micro finance is a finance for poor so when a small entrepreneur get loan for managing the business, it may lead to profits that not only fulfills their basic needs but also provide them surplus that could be used to repay the loan or reinvest in the business for expansion. **Question**

Q: **What are the various factors that hamper the way of SMEs to enter the export market?**

•Lack of information on possible export market.

- Absence of guidance on export regulations and procedures.
- Inability to identify sources of assistance for product development and product upgrading for export.
- Lack of information on export credit and insurance facilities as wellas for export requirements.
- Lack of information on operation of indirect marketing channels likemerchant export houses.
- Absence of guidance on basic management issues relevant exporting firms.

- Absence of sound steps that need to be taken to enter in exportfield.

## Question # 01:

Are the current economic conditions of Pakistan conducive for Small and medium enterprises? Give at least 5 arguments in the favor of your answer.

## Answer # 01:

### Current economic conditions of Pakistan have badly affected the Small and Medium Enterprises (SMEs) and also are not favorable for SMEs, because:

- The role of government as a facilitator of SME sector in Pakistan is not supportive.
- Labor laws, banking laws, and other important laws are not in favor of SMEs.
- Load shedding and shortage of electricity is also very big concern, because no SME can make progress without electricity. According to the different researches conducted, many SMEs (Who utilize electricity, gas and oil in huge amount for the production) have been closed due to high load shedding and high cost.
- Due to load shedding and inflation, many persons have been dismissed from their jobs. The owners of SMEs are not offering the overtime facility which have increased our hardships and results in low sales, productions and profits.
- Purchasing power of peoples decreased due to inflation and prices of everything are increasing rapidly which results in low sales volume. So inflation has adversely affected the SME sector in Pakistan.
- The Literacy rate of Pakistan is very much low and due to low literacy rate, most of people do not have much knowledge about modern techniques of earnings which results as decrease in sales and revenue.
- High tax rates are also important reasons which are not in favor of SMEs.
- Inappropriate policies and regulations create hindrance in the development of SMEs.
- Rapid occurring of strikes, shutter downs, wheel jam strikes by political parties or other groups are also big hindrance in the development of SMEs in Pakistan.

## Question # 02:

In your opinion, being an owner of a small firm, how Mr. Malik Amjad can face the challenge of rising cost of doing business?

## Answer # 02:

**Mr. Malik can face the challenges of rising cost of doing business by following ways:** • Mr. Malik also needs to adjust the cost of their products due to increase in the cost of raw material and oil prices. He may also pull back cost when conditions become normal.

- He may offer other substitute and affordable products which are needed by customer which results in increase in sales revenue and high profit.

- Mr. Malik should have to reduce the unnecessary cost of labor, production and selling expenses.
- Excellent customer service is the key to increase sales and revenue. Mr. Malik should have to provide better customer services to build better relationship with their customers.
- Mr. Malik can also add value to his offerings which may not decrease the volume of sales and revenue.
- He may also use less input of raw material or low cost raw material for production if it does not affect the quality of product offerings.
- Mr. Malik should have to decrease the margin of profit as compared to previous profit margin.
- He may offer unique features in his product offerings which results in obtaining competitive advantage and higher profit gaining.
- He may transfer his business from offline mode to online mode which results in decrease in costs and expenses.

It is true that advancement in information and communication technology have permanently altered the workplace by changing the way the information is created, stored, used and shared. The advancement being made affect every area of business including SMEs in Pakistan. That's why government and supporting institutions are also using cyber work to never end workday for the development of SMEs. Everyone can be assist anytime, means they are just only one click away.

Here are the some examples from the real world where the local potential investors can acquire guidance online and these institutions are taking different initiatives for the development of SMEs in Pakistan by using online mode of communication and also the offline mode.

### 1. Small and Medium Enterprise Development Authority – (SMEDA):

SMEDA is the self directed institution working under the government of Pakistan which performs function of promoter and facilitator of SME sector in Pakistan by addressing their SME development agendas.

Here are the some functions performed by SMEDA either using online or offline mode of Communication:

- SMEDA has developed the online Industrial Information Network inconsultation with UNIDO whose objective is to support and promote

SMEs in Pakistan through the online facilities.

- SMEDA assist the potential investors by providing online serviceslike Virtual Help Desk, Legal Facilitation Services, Consultant and

Advisory Services.

- SMEDA facilitate investors in securing finance and other requiredresources and also formulates policies for the development of SME sector in Pakistan.
- Provides guidance and instructions to new entrepreneurs.
- Conduct seminars, workshops and training programs for thedevelopment of SMEs.
- SMEDA serve like an engine of sustainable growth of national economy and SMEs.
- Formulates sector agencies.
- SMEDA identify projects and develop business plans and alsoprovides institutional support for the overall development of the business.
- SMEDA's main purpose is to develop and assist SMEs in Pakistan by providing them every kind of support.

## 2. Business Support Fund – (BSF):

BSF is the non profit organization which was established by Ministry of Finance in 2005. The main Objectives of BSF is to assist the entreprenuers and investors in the improvements of SME sector in Pakistan. Through advancement in technology and using online mode:

- BSF helps to create new SMEs in Pakistan.
- Support and promote existing SMEs.

- Helps to improve services for SMEs.
- Helps to create Market access and demand for SME products and services offered.
- BSF has joined with Smart Energy Services (SES) to offer servicesto the SME sector in Pakistan.
- BSF also took initiatives of Peach peace and Prosperity to promotetrade and employment opportunities for the farmers of swat.

### 3. SME Bank:

SME Bank is the formal lending institution for SM entrepreneurs, established to address the financing and business support requirements for SMEs through online and as well as offline. SME bank offers financial services like Project financing, working capital and Leasing.

### 4. Punjab Small Industries Corporation (PSIC):

PSIC established in 1972 to support and promote SMEs in province Punjab to eliminate poverty and reduce unemployment. PSIC also took very important initiatives for development of SMEs using online medium.

### 5. Sindh Small Industries Corporation (SSIC):

SSIC was established to support and promote small and cottage industry as well as handicrafts in the province Sindh. SSIC also took different initiatives for the development of SMEs in Sindh by using online medium. SSIC is now marketing

Handicrafts and other products through internet and also participate in national and international exhibitions. Anyone can purchase any Handicraft products by going to the website of SSIC. This whole technological change is adopted for the development of SMEs in Sindh.

## Quality Management Systems and ISO 9000

Quality management systems are systems that describe the policies and procedures necessary for quality control. A good quality management system such as one that follows the guidelines set by ISO 9000 allows companies to maintain high levels of quality in their products or services and can lead to a reduction in the number of customer complaints, increased demand for the product or services due to higher customer satisfaction, a more efficient production system resulting in lower operating costs, and better working conditions for employees.

## Becoming Registered Under ISO 9001

The ISO does not itself provide registration, but it can provide companies seeking registration with a list of organizations that do perform auditing and registration for ISO 9001 certification. The company's sites, functions, products, services, and processes are assessed and a list of problems is written. If no major problems are found, the certifying organization will issue a certificate for each site it has visited once it receives an improvement plan to correct any problems it has found.

ISO standards also require internal audits performed by company staff trained for the purpose, intended to ensure a continual state of assessment and improvement in the company. The ISO recommends that the internal auditors perform their audits outside of their normal line of expertise in order to ensure maximum independence of the results.

Certificates issued by these certification organizations must be renewed periodically, usually every three years, but are accepted world-wide.

### ISO 27001 Certification

ISO 27001 is the newly published security standard that replaces ISO 17799 and BS 7799 as the only certifiable security governance standard. This new certification will become the most widely accepted proof of the quality of an organizations security program. Goliath Security is at the forefront of ISO 27001 certification consulting. Our certified auditors can guide your company through the certification process and acceptance.

ISO 27001 certification preparation involves a six stage progression:

1. DEFINE AN INFORMATION SECURITY PROGRAM

Goliath Security will work with your company to evaluate your existing security program, including policies, procedures, standards, organizational structure and oversight. We will then prepare a detailed gap analysis to the ISO 27001 standard along with a project plan and strategy for bringing your program into compliance.

2. **Define scope of the Information Security management system** Goliath Security will work you to define the organizational and technical areas of your company that will be included in the certification process.

3. PERFORM AN INFORMATION SECURITY RISK ASSESSMENT

Goliath security will conduct an assessment on all applicable areas of your company and identify areas of non-compliance and determine the risk levels.

### 4. MANAGE THE IDENTIFIED RISK

Once Goliath Security has identified all the areas of non-compliance, we will work with you to bring those risk items into compliance and appropriately document all risk mitigations.

### 5. SELECT CONTROLS TO BE IMPLEMENTED AND APPLIED

Goliath Security will then prepare you for the certification process by using the previous defined security program documentation to determine what areas of the ISO standard apply to your business.

### 6. PREPARE A STATEMENT OF APPLICABILITY

Goliath Security will then formally document the Statement of Applicability as the final stage of preparation for the official certification audit.

Once these steps are completed, Goliath Security will guide your company through the audit process. We will either perform the audit or assist you in selecting an appropriate and qualified auditor.