

# The Impact of Cultural Factors on the Growth of Small and Medium Enterprises in Hyderabad, Sindh

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**Abstract:** *This paper aims to contribute to an understanding of the cultural factors influencing the growth of SMEs in Sindh, Pakistan. The three factors i.e. family background, age of entrepreneur and management style in relation to owners education contribute to Hyderabad's handicrafts SME and are seen as determinants corroborating to the growth of the industry by 60 per cent. The results in this regard have determined that the owner's education has been a landmark in reaching positive outcomes in this respective area and might further lead to economic gains for the stakeholders. The empirical survey has concluded as well that a style of management, if better achieved, will help bring about diverse transition both for the owners as well as the employed. The present paper would stress on the role and significance of the owners' education as a key factor contributing to the socio-economic growth of the SMEs and its positive impact on the business in the region.*

**Keywords:** Entrepreneurial, human capital, Culture, growth, SMEs

## 1. Introduction

Thriving small and medium enterprise (SME) sector is the most vivid manifestation of a rising and developing economy (Fogel and Alina, 2001; Bruce, 2009). The contribution of SMEs to economic development all over the world is substantially vast in creating jobs for increasing rural and urban manpower with a provision of adequate resilience and innovation in the economy at large, developing entrepreneurship, indigenous skills and technology, enhancing exports, alleviating poverty situation and also building industrial base at different scales (Harvey and Calzado, 2000; Chemin, 2008; Dasanayaka, 2008; Nina et al., 2009).

SMEs play pivotal role in the developing economy of Pakistan; recognizing the fact the Government has announced this sector as one of the major agents of economic growth (Qureshi and Herani, 2011). In Pakistan, the SMEs are major shareholders in the private sector and over 90 percent of Pakistani private sector is composed of SMEs (Suresh, 2007 and Shah et al., 2007). The statistics reveal that approximately 3 million SMEs (out of the total 3.2 million) are absorbing 70 percent of country's labour force (Speechley, 2011).

The present research particularly investigates cultural factors in the context of Pakistan because Pakistani business communities are driven by following factors; family history of entrepreneurship, educational

background, age of entrepreneur and business management attitude (Basu and Goswami, 1999; Kozan, et al., 2006; Coy et al., 2007; Roomi, et al., 2009). These are four factors which were focused of our research. Therefore, the social and cultural factors have a direct bearing on the emergence, survival, and growth of entrepreneurship (Mars and Mard, 1984; Waldinger et al., 1990; Metcalf et al., 1996). But, unfortunately, there has been limited research in this area especially in the context of growth of SMEs at Hyderabad division, from 2001 to 2011. The study at hand aims to fill this gap.

Therefore, this study will focus on the role of culture in the growth of small and medium enterprises (SMEs). According to Samovar and Porter (1994), culture is collective means of sharing beliefs, values, attitudes, experiences, religious practices, morality, norms, do's and don'ts, treasure of knowledge's and architectural ideas from generation to generation. The culture is transmitted by imitation, teaching of ideas and behavioural factors (Boyd and Richerson, 1985). The evolution of entrepreneurship in indigenous conditions is reflected through birthplace of business, community ways of life, beliefs, culture, sayings and heritage. The idea of family history of an entrepreneur suggests that most of the entrepreneurs' children develop a tendency to follow the footsteps of their parents especially in business activities (Dunn and Holtz- Eakin, 2000; Davidsson and Honig, 2003; Giannetti and Simonov, 2004 and Gries and Naude, 2009). Natal (2001) and Forbes (2005) have put emphasis

on education being one of the critical factors that determine entrepreneur's skills, knowledge, motivation, innovation, discipline, self-confidence and decision making capability. These educational determinants help the entrepreneur cope with difficult situation successfully (Gibbs and Scott, 1986). The age of an entrepreneur also plays significant role in the development of given business (Rodriguez et al., 2003; Terziovski, 2010). The young/middle-aged entrepreneurs are capable of keeping themselves abreast of market-changes, partnership, innovation, increasing entrepreneur-employees relationship and swift movements in business area (Storey, 1994; Roomi et al., 2009). Burns (2011) believe that sometimes culture resists technological niceties and diffusion of new ideas and at times, it embraces them and makes them its integral part. The business management attitude entails the response of an entrepreneur to the technological advancement in business and application of new ideas in management in prevalent cultural settings (Rohra and Junejo, 2009; Ferrerira, 2011).

The growth of SMEs assessed through the influence of the four key independent cultural variables, mentioned above, and dependent variables such as number of employees, Sales/Revenue, Profit, Number of customers, and Value of assets (Smallbone and North, 1995; O'Gorman, 2001; 2006; Wiklund and Shepherd, 2003; Pena, 2002).

## 2. Sample and data collection

The study was carried out in District Hyderabad region, sindh, Pakistan. The names of 5 entrepreneurs were randomly selected from the list of Hyderabad chambers of commerce and industry and Small and medium development authority (SMEDA). Prior permission for conducting the interviews either by telephone or e-mail was sought. Random sampling was employed to lessen partiality in the data collection, although it must be recognized that sample was not representative of a fully far-reaching social spectrum, and mainly comprised small and medium-sized enterprises (SMEs).

The data were collected through five semi-structured interviews. Open-ended question designed to analyse the factors impacting the growth of SMEs in Hyderabad, sindh, Pakistan. The main reason for this method was to get in depth information and understanding for causes of increases or decrease in the SMEs growth (Saunder et al., 2000). A cumulative report, along with the transcript and detailed report was prepared involving ten questions each from entrepreneurs and percentage were drawn out. The findings of the study clearly indicate the increase in the growth of SME in terms of sales from 8.4 per cent to 18 % or more from 2001 to 2011 and 3 to 6 percent rise in the number of employees and customers respectively. (See Figure 1)

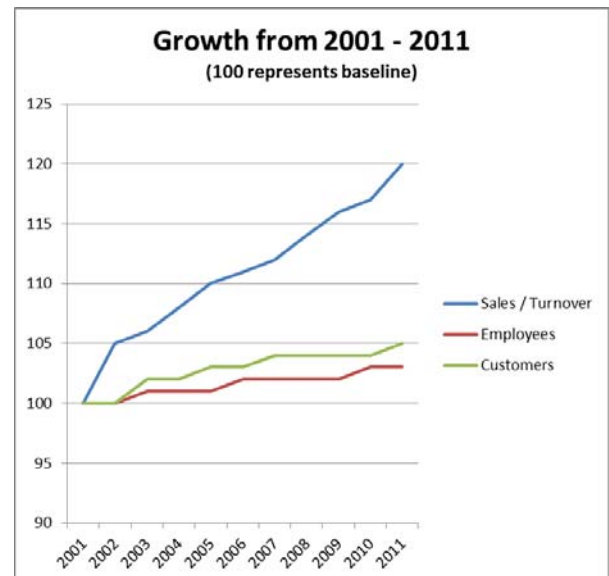


Figure 1: Growth from 2001 to 2011

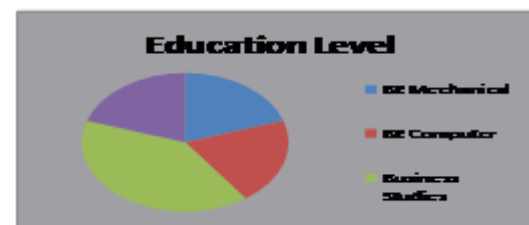


Figure 2: Educational Level

## 3. Findings and Discussion

All the interviewees were of the view that owned businesses through family hierarchy. The owner of the Palmolive said his founder was a highly qualified graduate from abroad, whereas other four SMEs owners said their predecessors were less educated however they had the capability to operate their businesses independently. The current owners possessed different educational levels; for example, both the proprietors of Colgate Palmolive and Punjab Biscuit had bachelor and master degrees in Engineering and Business Administration, whereas owner of Kanwal SME was a graduate, and rest of the two were graduates in Business Administration.

All entrepreneurs agreed that family history provided them the foundation to stick to the same family business but the entrepreneur of Bhatti Oil informed that one of the compelling determinants of coming to the family business was lack of job opportunities and meritocracy in Pakistan. All five of them were of the view that education played a pivotal role in order to expand the business and had corresponding influence on the growth of SMEs. From interviews it was gathered that some of the entrepreneurs were less experienced but their educational backgrounds helped them to effectively communicate with people, share good ideas and provide exposure to expand their business using advanced technology.

Two entrepreneurs of Colgate Palmolive and Kanwal SMEs aging between 50 to 60 respectively, whereas the rest of the three seemed promising young participants,

who reflected sheer optimism and satisfaction with their decision-making. They also expressed their delight over not being dependent to anybody in given work-setting. Couple of them said there should be a combination of the experienced and the inexperienced. Profit, sales, customer bank, quality products and number of employees is their top priority. However, Shadman Glass and Kanwal SMEs were in favour of employing their relatives in their business. The entrepreneur of Colgate Palmolive held different opinion as compared to that of other businesses. He said he was uncertain that his children would join the same line of profession and keep the same pace after completing their education. They may embark upon diverse professions as opposed to his.

Other entrepreneurs were of the view that definitely their children would hold that business but after getting proper education they would find themselves better equipped. They thought their children might emulate in exploring business opportunities because of modern technology, competitiveness and unemployment which are extant in the market. All of them agreed that the role of luck and timely launching of products were certain growth-determinants in their business. Considering the occurrence of business malpractices, they said, they could be ignored. According to the owner of the Punjab Biscuits SME, the chances of corruption in business were negligible and could easily be controlled, if monitored closely. Almost all the owners of SMEs agreed that the sincere efforts, efficiency and effective utilization of workforce were major characteristics that could make the business a success.

This is only possible by means of qualitative and quantitative education, young dynamic leadership and collective efforts at the helm of affairs. All entrepreneurs expressed their satisfaction and confidence over the area of study being conducted by the researcher and hoped that the expected results drawn out of it would greatly be beneficial for the growth SMEs with regard to family business. They also encouraged those family members who disliked their family businesses. Moreover, they anticipated that the results are likely to leave healthy and positive impact on the SME sector of this region. Almost all the entrepreneurs opined that their employees were loyal, honest and dedicated to their businesses. However, they expressed their deep concern over the price-hike in oil that directly or indirectly had affected the productivity and consumption process. "They get extremely upset whenever there is news on price- hike." they added. On the other hand, they all looked confident as this region had developed great prospects of influencing the growth of SMEs. According to them, the elements that could impact the growth of small and medium enterprises were favourable environment, geographical location, tangible resources, increasing population, consumer demands and higher education facilities in and around Hyderabad region. They considered that after Karachi, this region would emerge as the main hub of business activities for the rest of Sindh. The number of employees in all SMEs varied because of the nature of manufacturing of products.

#### 4. Conclusion

The importance of owner's education for the growth of ventures has not yet been widely acknowledged by the stakeholders, however, lack of orientation and knowledge about the very importance of education and its impact on the growth of business is a proven fact that commonly prevails among the most of the owners. It has also been observed that most of the owners and entrepreneurs were unaware about the outcome of investment in education. The main reason for that is the most of the SMEs were not maintaining any sort of data about their education and personal training programs. None of the SMEs owners are using education as a tool for the growth businesses in terms of sales/turnover, number of employees and customers respectively.

The results provide evidence of association between the owner's education and the growth of SMEs and benefits which enterprises can reap from this factor. So, the independent variable namely owner's education bears a positive impact on the growth of SMEs in terms of sales/turnover, number of employees and customers in the long run. The SMEs owners with higher education or skills have brought about lucrative results both in sales/turnover and their overall growth.

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