

Exploring training and development practices in Pakistani SMEs

Abdul Raziq ^{1*} and S.M.Khair ²

^{1&2} Faculty of Management Sciences, BUIITEMS, Quetta

Abstract

This study examines the adoption of training & development practices in Pakistani small & medium-size enterprises (SMEs). The study was conducted in the service and manufacturing sectors in a Pakistani context. The primary data was collected through a survey of recruitment & selection practices and as such the study is quantitative in nature. For the purpose of this study, a SME is defined as an organisation employing between 20 and 250 employees with a small organisation employing 20-100 employees and a medium sized organisation employing 101-250 employees. The target population of the study consisted of SMEs operating in the city of Karachi, Pakistan. Stratified random sampling method was applied to collect data from 357 SMEs. Cross tabulation was used to examine the level (low, moderate or high) of adoption of training and development practices in small and medium size firms. Chi square statistics was used to see the significant differences between small and medium-size firms regarding the use of training and development practices. Our findings indicate that there is a low level of adoption of recruitment and selection practices in Pakistani SMEs. However, there were significant differences between small and medium-size firms regarding the use of majority of training and development practices.

Key words: Pakistan; Training; Development; SMEs

Corresponding author's email: araziq85@gmail.com

Introduction

Small and Medium Enterprises (SMEs) play a significant role in the economic development of a country (Bacon & Hoque, 2005) both through employment creation and income generation (Lange, Ottens, & Taylor, 2000). Key to strengthening the SME sector is through the optimal utilisation of its human resources, technology and processes (Barney, 1991; Huselid, 1995). Within SMEs each employee constitutes a larger percentage of the total workforce (Hill & Stewart, 2000) emphasising the crucial importance of recruitment and selection practices which create an environment within which the skills and capabilities could be optimised and contribute to firm performance (Golhar & Deshpande, 1997; Hornsby & Kuratko, 2003). Further to the latter, the focus of this paper is on exploring training and development practices in Pakistani SMEs.

Prior studies have indicated that there is no uniform definition of SMEs in Pakistan (Dasanayaka, 2008; Mustafa & Khan, 2005; Rana, Khan, & Asad, 2007). The Small and Medium Enterprise Development Authority (SMEDA), SME Bank, Pakistan Bureau of Statistics (PBS) and State Bank of Pakistan (SBP) have defined SMEs in different ways. For example, SMEDA defines a SME based upon the number of employees and total number of productive assets. The SME bank uses only total number of assets as the criterion. PBS takes into consideration only the number of employees. Whereas, SBP's definition of a SME is based on the nature of the business, number of employees, amount of capital employed and net sales value per annum. In this paper a SME is defined as: A small business is defined as an organisation employing one hundred or fewer employees, whereas medium-sized businesses are defined as ranging from 101 to 250 employees (the maximum size of employees are used as 250, as most of the official organisations in Pakistan use this size

of employees in their definition of SMEs). Twenty employees are used as the lowest extremity for size because five out of the six practices that the study focuses on are functional HRM practices and SMEs with a workforce with more than 20 employees are expected to have some kind of management structure (Wiesner, McDonald, & Banham, 2007).

Pakistan's economy, like that of many developing countries is a direct reflection of its SME sector (Khalique, Isa, & Nassir Shaari, 2011). According to Economic Census of Pakistan 2005 (this is the latest census in Pakistan), there are 3.2 million businesses in Pakistan. SMEs represent more than ninety percent of all private businesses and employ nearly 78 percent of the non-agriculture labour force in Pakistan (PBS, 2011). SMEs' contribution to Pakistan's Gross Domestic Product is more than thirty percent. Additionally, the sector represents 25 percent of exports of manufactured goods and thirty-five percent in manufacturing value added. Almost 53 percent of all SME activity is in retail trade, wholesale, restaurants and the hotel sector. Twenty percent of SME activity is in industrial establishments and 22 percent in service provision (PBS, 2011).

However, regardless their economic importance, SMEs in Pakistan suffer from a variety of shortcomings, which have confined their ability to adjust to the economic liberalisation measures introduced by the GoP and their capacity to take full advantage of the rapidly growing world markets. These shortcomings include for example a focus on low value-added products, absence of an effective business information infrastructure, energy crisis, lack of strategic planning, low levels of financial literacy, unskilled human resources and non-aggressive lending strategies by banks (Bari, Cheema, & Ehsan-ul-Haque, 2005; Khawaja, 2006; Mustafa & Khan, 2005; Rohra & Panhwar, 2009; SBP, 2010).

What makes a study on Training and Development practices in Pakistani SMEs important? Pakistani SMEs are facing a big challenge in managing their human resources (SMEDA, 2007). For example, the higher education institutions and the

technical training institutions are the only two educational providers, both of which are not familiar with the unique requirements of SMEs nor are they equipped to deal with the challenges associated with SMEs. Yasmin (2008) noted that the Human Resource Management (HRM) systems employed in Pakistani firms is in a developing phase. Many businesses have renamed their personnel and administration departments to Human Resource (HR) departments, while in reality they still tend to practise reactive HRM approaches (Yasmin, 2008). Khilji (2001), argues that HRM practices are not applied in a systematic and integrated way in Pakistani firms. As a result, low motivation, lack of commitment and high turnover in employees are common problems within these organisations. Hence, there are very few businesses that have followed a systematic approach to HRM. In addition, the limited financial resources of SMEs significantly limit their human resource development (Bari et al., 2005). In view of the fact that Pakistani SMEs are in a growth phase, there seems to be a need for Pakistani SMEs to realise the prominence and importance of the role of a skilled and a more career oriented labour force that could play an important role in economic sustainability. Khawaja (2006) argue that most Pakistani SMEs are in a low growth trap dealing with traditional products and an inability to enter into the modern technological world. He further argues that most of the time they fail to absorb various shocks and eventually have to close their businesses. His study indicates that nineteen percent of SMEs are less than five years old and only four percent are able to survive beyond 25 years. However, he suggests that such SMEs could be supported by the provision of capital, finance, and marketing, trained human resources, quality management and the upgrade of technology.

Literature

Most small business owners need to be 'micro managers' during their initial (first three) years of their business development and continuously engage in everyday affairs of their businesses (Mazzarol, 2003). As the

business grows, the owner/managers may not be able to make all decisions and thus need to develop a team by hiring competent people to occupy the new positions and delegate authority (Mazzarol, 2003; Smith, 1992). However, Rutherford et al. (2003) found that as the firm grows, the HR issues move from recruitment to retaining and then to training. They suggest that SME owner/managers should be ready to make these changes along with the growth of a firm.

Human resource development is the crucial element that affects the performance of SMEs (Pansiri & Temtime, 2008; Temtime & Pansiri, 2004). Two components of Human resource development are training and development. Training is defined as '*activities that teach employees how to better perform their present job*' and development is defined as '*activities that prepare an employee for future responsibilities*' (Stone, 2008, p. 353). Lange et al. (2000) argues that highly skilled employees are the key to enhancing a firm's competitiveness and sustainable growth. In line with the discussions in the previous two sections, research on small firms have shown that informal, on the job training is the predominant training method for human resource development (e.g. Kotey & Slade, 2005; Lange et al., 2000; Nolan, 2002).

Mixed results exist regarding the prevalence of training and development in SMEs. Duberley and Walley (1995) studied manufacturing SMEs in UK and report a very low level of training and development, whereas Cassell et al. (2002) found that SMEs are quite focused and targeted in their training. Low levels of training and development in small firms could be attributed to four key barriers to skill development. These are: cultural barriers, financial barriers, accessing skill development opportunities barriers and awareness barriers (Lange et al (2000).

Pansiri and Temtime (2008) noted that SMEs do not use the services of consultants in their human resource development. There are two possible reasons for this: it could be due to a lack of knowledge about the role of consultants; and it could also be that good

consultants are hard to come by and expensive (Temtime & Pansiri, 2004).

Regarding the training and development and firm performance link, a large number of research studies have shown a positive relationship (e.g. Syed Akhtar, g, & GE, 2008; Chand & Katou, 2007; Huang, 2000; Ichniowski & Shaw, 1999; Katou & Budhwar, 2007; Lange et al., 2000; Michie & Sheehan, 2003; Singh, 2004; Van de Wiele, 2010). According to Katou and Budhwar (2007), an effective training process can enhance firm performance by producing highly trained and skilled employees. Ichniowski and Shaw (1999) argue that well-trained and skilled employees are able to react quickly to future changes in production and market conditions. Van de Wiele (2010) and Shih et al. (2006) noted a positive relationship between employee's participation in training programmes and firm performance.

Similarly, Michie and Sheehan (2003) found a negative relationship between low level of training and innovation. Singh (2004) indicated a positive and significant impact of training on firm performance. In a comparative study of high and low performer firms, Huang (2000) indicates that high performers tend to identify training and development as a highly important function and address these practices on a long-term basis in comparison to low performers. Chand and Katou (2007) examined 436 high performing hotels in India and found a high correlation between training and development and good service quality. Moreover, in a study of manufacturing and service sector firms, Akhtar et al. (2008) indicated a significant impact of training on both quality of products/services and financial performance.

The above literature indicate that prior research has mainly focused on large organisations and conducted in developed countries. Thus, in order to fill such gap (focusing SMEs of the developing country), the objective of this study to explore training and development practices in Pakistani SMEs.

Methods

Sample

To explore Training and Development practices in Pakistani SMEs, a large scale questionnaire survey was conducted in the industrial city of Karachi, Pakistan. The sampling frame was based on the following data bases: Karangi Association of Trade and Commerce (KATI) Karachi; Karachi Chamber of Commerce and Industry (KCCI) and Jamal's Yellow pages, Pakistan. However, the three databases were not specifically designed for SMEs. Nevertheless, these data bases were deemed to be the most reliable and updated databases in Karachi, Pakistan. A random sample of 703 firms was selected. The population was stratified by industry sector (manufacturing and services). These two sectors were selected based on their economic importance (Economic Survey, 2010-11) and their likelihood to have some management structure.

Data collection

It was not possible to collect data in the 'normal' postal survey method and the researcher had to utilise a team of 10 individuals to collect data from the selected sample owing to the following reasons: (1) security was an issue, (2) data collection commenced shortly after a major flood occurred in Pakistan, (3) SME managers who represented the target sample may not have a good command of the written English language, and (4) education levels of SME managers are low. The data collection team consisted of postgraduate research students at University of Karachi. The researcher is a senior university lecturer and was able to identify suitable individuals. The researcher provided a 2-day training course to the data collection team on the content of the survey itself and collection of the data through filling out the questionnaires by face-to-face collaboration with survey respondents. The team was continuously monitored by the researcher. To seek participation from the selected organisations, the research team contacted the organisations first by telephone and through their personal interaction with the management of trade associations. The selected organisations

were first asked about the size of their workforce and the number of employees they employ since the databases were not designed specifically for SMEs (as mentioned above). If the selected organisation fulfilled the requirements of the definition of a SME (20-250 employees), the SME manager was invited to participate in this survey. In cases where a particular organisation declined the invitation, it was replaced by contacting another organisation in the same industry as per the sampling frame.

A total of 703 firms were selected, contacted by phone and invited to participate in this survey. Of these firms, 357 SMEs (50.78 percent response rate) accepted the invitation to fill out the survey questionnaire. Most of the respondents who agreed requested that the researcher visit their organisations personally, and only a few respondents (from services sector) agreed to fill questionnaire by email (five firms). In each case, the procedure was explained to the respondents about how to fill the questionnaire out and they were assured that their responses would be treated as strictly confidential. The questionnaires were filled out by either the owner or human resource manager in each firm. In the end, 357 questionnaires were collected. Of the 357 responses collected from SMEs, 243 were from the manufacturing sector and 114 responses from the service sector. A total of 227 responses were collected from small firms (145 from manufacturing and 82 from service sector) and 130 responses from medium sized firms (98 from manufacturing and 32 from service sector).

Measures

Questionnaire: The survey instrument was adapted from Wiesner et al. (2007) and was applied in the Pakistani context of this study. In addition, the language of survey questionnaire was English as this language is commonly used in most of the Pakistani organisations. This survey questionnaire was originally developed and validated by Wiesner et al. (2007) for the study of 'high performance management practices' in Australian SMEs during 2007. The content validity and reliability of the updated

questionnaire were also addressed. The *content validity* of the revised questionnaire was determined by interviewing and presenting the questionnaire to 10 SME owner-managers in different SMEs within Karachi, Pakistan. In addition, five managers from SMEDA (Small and Medium Enterprise Development Authority Pakistan) were invited to comment on the questionnaire. This was followed by a pilot survey conducted in 20 different SMEs in Karachi, Pakistan. On the basis of the interview feedback and results from the pilot survey, the survey instrument was revised and presented to the selected sample.

Results

Table 1 indicate that 65 percent of SMEs reported providing training to their employees. However, informal on the job training (52%) and informal mentoring (62%) were the dominant training methods. None of the practices was adopted to a high extent. There was a moderate level of adoption in 4 out of 23 practices (Does your business provide any kind of training, Conduct an informal training needs analysis, Does your provide informal on-the-job training, Provision of informal mentoring) and a low level of adoption in the rest of the practices (Conduct a formal training needs analysis, Does your business have a formal training budget, Does your business have informal individual development plans for employees, Formal individual development plans for employees, Training of a vocational or technical nature, Management and development training, Has your business increased training where a program previously existed, Introduced formal training where none previously existed, Introduced new career paths, Provision of formal mentoring, Provide computer-based/aided instruction/training, Evaluate the satisfaction of trainees regarding training programs, Evaluate the results of training, Utilise web-based learning, Management values learning as long as it's related to performance, Formal in-house training provided by own staff, Formal in-house training provided by an external consultant, Provide external training (e.g. provided by a training body or institution) (see Table 1).

Discussion

In relation to training and development practices, SMEs have a low level of adoption in all of the practices. None of the practices was adopted to a high extent. There was a moderate level of adoption in only 4 practices, and a low level of adoption in nineteen of the practices. Thus, eighty two percent of practices by SMEs were adopted to a low level which indicates a 'bleak prospect' (Wiesner & McDonald, 2001) of Training and Development practices in Pakistani SMEs. The results were indicative of an avoidance of formal practices. Once again there was a reliance of mainly informal practices training practices such as: an informal training need analysis, informal on the job training and informal mentoring. In the UK, a study by Hughes et al. (2002) reported mixed reactions of SME managers towards formal training and development practices. For instance, they acknowledge the positive side of formal training such as employee motivation, increased productivity and high business growth. However, they also report some negative aspects of formal training such as increased wages, disruption in the workplace and high turnover rates (competitors or larger firms may attract them). In addition prior research provides significant evidence on the use of informal training and development practices in SMEs (e.g. Kotey & Slade, 2005; Lange et al., 2000; Nolan, 2002). SMEs tend to shy away from the use of consultants in their human resource development (Duberley & Walley, 1995; Pansiri & Temtime, 2008). The general lack of training and development activities and the trend towards predominant informal training practices in Pakistani SMEs may be the result of certain key barriers. However, it could also be owing to barriers in accessing skill development opportunities and awareness of these opportunities (Lange et al., 2000). For instance, in a recent study, Memon et al. (2010) argue that lack of formal HR policies and a HR department have resulted in informal HR practices such as recruitment, selection, training and compensation. Due to this SMEs are facing difficulty in entering and competing in the international market (Shameel Akhtar, Raees, & Salaria, 2011).

Table 1: The prevalence of Training and Development practices in SMEs

Practices	Overall						Small Firms						Medium-Size Firms												
	Never		For some jobs		For all jobs		Total		Never		For some jobs		For all jobs		Total		Never		For some jobs		For all jobs		Total		
	(a)	(b)	(c)	(b+c)	(a)	(b)	(c)	(b+c)	(a)	(b)	(c)	(b+c)	(a)	(b)	(c)	(b+c)	(a)	(b)	(c)	(b+c)	(a)	(b)	(c)	(b+c)	
	n	%	n	%	n	%	n	%	N	%	n	%	n	%	n	%	n	%	n	%	n	%	n	%	n
Does your business provide any kind of training?	115	35	214	65	2	1	216	65	77	36	137	64	1	1	138	64	38	33	77	66	1	1	78	67	
Conduct a formal training needs analysis	315	95	15	5	1	0	16	5	205	95	9	4	1	1	10	5	110	95	6	5	0	0	6	5	
Conduct an informal training needs analysis	183	55	145	44	3	1	148	45	118	55	94	44	3	1	97	45	65	56	51	44	0	0	51	44	
Does your business have a formal training budget?	317	96	14	4			14	4	205	95	10	5			10	5	112	97	4	3			4	3	
Does your provide informal on-the-job training	158	48	151	46	22	7	173	52	96	45	104	48	15	7	119	55	62	53	47	41	7	6	54	47	
Formal individual development plans for employees #	312	94	19	6			19	6	203	94	12	6			12	6	109	94	7	6			7	6	
Does the have informal individual development plans for employees	263	80	64	19	4	1	68	21	167	78	45	21	3	1	48	22	96	83	19	16	1	1	20	17	
Training of a vocational or technical nature	252	76	62	19	17	5	79	24	167	78	36	17	12	6	48	22	85	73	26	22	5	4	31	27	
Management and development training	301	91	30	9			30	9	195	91	20	9			20	9	106	91	10	9			10	9	
Introduced formal training where none previously existed	310	94	21	6			21	6	207	96	8	4			8	4	103	89	13	11			13	11	
Has your business increased training where a program previously existed	301	91	30	9			30	9	198	92	17	8			17	8	103	89	13	11			13	11	
Introduced new career paths	295	89	36	11			36	11	198	92	17	8			17	8	97	84	19	16			19	16	
Provision of informal mentoring	125	38	184	56	22	7	206	62	82	38	116	54	17	8	133	62	43	37	68	59	5	4	73	63	
Provision of formal mentoring	293	89	38	12			38	12	193	90	22	10			22	10	100	86	16	14			16	14	
Provide computer-based/aided instruction/training	300	91	31	9			31	9	197	92	18	8			18	8	103	89	13	11			13	11	
Evaluate the satisfaction of trainees regarding training programs	281	85	25	8	25	8	50	15	183	85	18	8	14	7	32	15	98	85	7	6	11	10	18	16	
Evaluate the results of training (ROI)	282	85	27	8	22	7	49	15	187	87	14	7	14	7	28	13	95	82	13	11	8	7	21	18	
Utilise web-based learning	312	94	19	6			19	6	203	94	12	6			12	6	109	94	7	6			7	6	
Management values learning as long as it's related to performance	297	90	18	5	16	5	34	10	197	92	9	4	9	4	18	8	100	86	9	8	7	6	16	14	
Formal in-house training provided by own staff	279	84	43	13	9	3	52	16	186	87	21	10	8	4	29	14	93	80	22	19	1	1	23	20	
Formal in-house training provided by an external consultant	318	96	13	4			13	4	203	94	12	6			12	6	115	99	1	1			1	1	
Provide external training (e.g. provided by a training body or institution)	329	99	2	1			2	1	213	99	1				2	1	116	100	0	0			0	0	

In another regional study, (HafizUllah, Shah, Hassan, & Zaman, 2011) mentioned that the failure rate of SMEs in Pakistan is 90-95% at the initial stages. They identified a lack of training and education (before initiating a business), entrepreneurial skills, and SME characteristics as causes of failure of Pakistani SMEs.

Within the training and development component, the subcomponents such as formal training budget; providing informal on-the-job training; training of a vocational or technical nature; introducing formal training where none previously existed; increased training where a program previously existed; introducing new career paths; provision of formal mentoring; evaluating the satisfaction of trainees regarding training programs; evaluating the results of training; management values learning as long as it's related to performance; formal in-house training provided by own staff; featured significantly more in medium firms as opposed to small firms. This finding is consistent with other studies including (e.g. De Kok & Uhlaner, 2001; Kotey & Slade, 2005; Marlow & Patton, 1993; Wiesner & McDonald, 2001; Wiesner et al., 2007). However, Wiesner & Innes (2012) argue that informality in small firms reflect their needs and types of management and thus are more dependent on informal interactions which integrate their norms and direct behaviours. Moreover, Bacon et al. (1996) argue that the communication in small organisations is more direct and informal and employees tend to have more flexibility. They also argue that small firms have a horizontal hierarchy and the contribution of each employee to organisation performance is more obvious. In addition, they assert that due to high insecurity, small firms are more responsive to changes in customer demands and markets. Similarly, small firms tend to use more informal approaches to change in comparison to formal bureaucratic approaches employed by large firms. As a result, it is much easier to bring about change in small firms than in large organisations (Bacon et al., 1996). Misztal (2000) argue that informality may be driver of effective interactions and communication in a small,

family owned and single owner/manager SMEs as is mainly the case in this study.

SMEs in Pakistan are facing challenges such as political instability, lack of intellectual capital and infrastructure, and an energy crises (Khalique et al., 2011). Such problems have been highlighted by the State Bank of Pakistan in its annual report of 20092010 (SBP, 2010). According to this report, SME's financial and economic health have been significantly affected due to power failures, the economic down turn, and the poor law and order scenario of the country (SBP, 2010). As a result, SMEs received low credit provision compared to 2009 (p. 27). The report further mentions the effect of the global economic crises on Pakistani SMEs as a result of a conservative lending approach by Pakistani banks to the SME sector since they consider SMEs as one of the more risky sectors of Pakistan economy (SBP, 2010).

Moreover, specific triggers of this lack of adoption of formal training & development practices, could be the lack of resources (Kaya, 2006; Shih et al., 2006), current financial and economic problems (SBP, 2010), a lack of awareness about the benefits of such practices (as discussed above) and also a lack of training, education, and entrepreneurial skills which are integral to the current characteristics of the respondent SMEs (HafizUllah et al., 2011).

Conclusion

SMEs have a low level of adoption in all of the Training and Development practices. None of the practices were adopted to a high extent. There was a moderate level of adoption in only 4 practices, and a low level of adoption in nineteen of the practices. Thus, eighty two percent of practices by SMEs were adopted to a low level which indicates a 'bleak prospect' (Wiesner & McDonald, 2001) of Training and Development practices in Pakistani SMEs. Significant differences were also found between small and medium size firms in adopting training & development practices such as formal training budget; providing informal on-the-job training; training of a vocational or technical nature; introducing formal training where none previously

existed; increased training where a program previously existed; introducing new career paths; provision of formal mentoring; evaluating the satisfaction of trainees regarding training programs; evaluating the results of training; management values learning as long as it's related to performance; formal in-house training provided by own staff; featured significantly more in medium firms as opposed to small firms.

Like any other research, this study is not without its limitations. First, the data have been obtained from a single person in the form of owners/managers who rated their HPMP in their organisations (Gerhart, Wright, McMahan, & Snell, 2000). However, collecting data from owners/managers, managing directors or the chief executive officer (CEO) as the self reporting person is a common approach since CEOs are well informed about all strategic and operational activities within the organisation (Frost, Birkinshaw, & Ensign, 2002). Nevertheless, in order to enhance the internal validity of the research, an extension of this study to collect data from employees within the organisations may be beneficial (Shih et al., 2006). The data for this research study was collected from SMEs in services-based and manufacturing firms in a single city (Karachi) within Pakistan. Thus, caution should be applied for interpreting the generalisability of results. The survey in this study was conducted at a single point in time. This limitation could be overcome by conducting longitudinal studies in the future (Barnes, 2002). Longitudinal data will further clarify the causal relationships between HPMP and economic sustainability (Tsai, 2006).

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