

## **FACTORS INFLUENCING GROWTH OF COTTAGE INDUSTRY IN PUNJAB, PAKISTAN: COTTAGE INDUSTRY OWNERS' PERSPECTIVE**

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### **ABSTRACT**

In this paper the author has tried to highlight the factors, which determine growth of cottage industry in province of the Punjab. A questionnaire has been developed to check the significance of different variables that have already been examined in different prior studies on the matter in different countries. The respondents were owners of cottage industries selected randomly, from rural and urban areas of the Punjab. The findings of the study will help the government of Pakistan to take necessary actions to protect cottage industry of Pakistan. The study will also help the owners of cottage industry to identify the factors, they must focus to promote their business. Thus, the research findings have its implications in twofold; primarily for the policy makers to help the cottage industry for its survival and growth and secondly for the owners of cottage industry to stress only on the most relevant factors. On the basis of data collected it has been observed that five variables have significant impact over the growth of cottage industry of Pakistan.

**Keywords:** Cottage Industry, Growth, Performance

### **INTRODUCTION**

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Cottage industries of India, Bangladesh, and China are currently growing because of the government support, which resulted in the attraction of new investors for the markets of these countries (Bhattacharyya, 2014; Abdin, 2014). Ghalib, Malki, and Imai (2011) have suggested that entrepreneurial activities, especially at micro level, are the key for the development of any economy. They emphasized that for developing countries entrepreneurial activities play a key role. Entrepreneurial activities are considered as a mean to self-achievement in terms of earning and contribution to economy of the country (D'Este, Mahdi, Neely, & Rentocchini, 2012). In developed countries the contribution of small business and cottage industry is almost 80% (Aslam, 2013) and the contribution of SMEs in the world activities varies from 60% to 90% (Abe, Troilo, Juneja, & Narain, 2012). In the light of the above statistics there would be no harm in saying that cottage industry and small businesses have a great impact on the economic development of any country. The cottage industry may also act as a comparative advantage over the other countries as in case of India, China, and Bangladesh. By the inculcation of cottage industry not only self-employment is created but cottage industry also results in employment generation and thus, creates a multiplier effect in the overall economic growth. Cottage industries and the small businesses are the real drivers of economic activities that actually create value to the resources of a country. The value creation results in income generation of the contributors and ultimately results in savings and spending, which give birth to investments and thus, the circle of the economy is initiated. So, it would be right to say that small businesses and cottage industries play a vital role in the economic development of a country.

Cottage industry of Pakistan is in severe crisis especially in the last decade and the cottage industry of the Punjab is not an exception to it. The contribution of this sector in the GDP has decreased drastically as compared to 1980s. The contribution is very low as compared to its real potential regarding development of the country. The banks and other financial institutions are not willing to give credit to this industry. According to a study conducted by World Bank in 2013, the shortage of credit facility is almost 90 percent. People of the country require microfinance but the facility is available only to seven percent of needy people (Aslam, 2013). This huge gap is the major reason behind the deterioration of the industry. Unavailability of financing requirements is among the key hindrances in the growth of cottage industry. The second key factor behind the closure and deterioration of cottage industry is acute energy crisis. Other than the abovementioned reasons political instability, terrorism, lack of government

support, lack of infrastructure, and lack of facilities are the root cause behind the hindrance of growth of cottage industry.

In the Punjab cottage industries of Sialkot, Wazirabad, and Gujarat were playing a vital role in 1980s but with the passage of time the contribution of cottage industry in GDP has decreased and currently the cottage industry is towards closure. Many big firms are dependent on the small businesses as small businesses provide raw material and other services to them. At the same time it is neither easy nor cost effective for the big firms to establish their own distribution networks. The synergy that is created by the collective effort of cottage, small, medium, and large enterprises help in overall economic growth and job creation in the country. If any of the part will be closed the overall economic development of the country will suffer. As the main hub of the country is the Punjab therefore, the research has been conducted in the Punjab. The maximum rate of closure of cottage industry is also in the Punjab. Secondly, the Punjab was initially contributing maximum in GDP and employment creation through its cottage industry, but in the last decade the contribution has decreased. Several attempts have been made for the promotion of SMEs and large enterprises. However, this sector despite having major contribution in the overall economy has always been ignored. The government is not paying any attention towards the growth of the small businesses and the cottage industry is continuously being ignored by the policy makers, no budget is allocated for the cottage industry, no regulations are developed for the protection of cottage industries. Therefore, there is a great need to identify the critical factors for the growth of cottage industry in order to establish a framework that may help to bring sustainability in the cottage industry.

## **LITERATURE REVIEW**

The life cycle of any small business is a central factor. The stages where cottage industry is initiated is the time when maximum capital is required, but the owners of cottage industry lag behind in this regard. Hatten (2015) has explained different patterns of small businesses by using life cycle approach. The foremost problem of cottage industry is lack of access to capital and financial markets when they are in dire need of it, like during expansion that is the root cause of hindrance in the growth of cottage industry. The owners of the cottage industry provide initial capital and after maturity they get the opportunity to get loan from banks or other financial institutions, but the problem is that cottage industry requires financing during the period of growth to reach maturity (Janda & Zetek, 2014). If the government provide easy access to capital market to the cottage industry, one of the major issues may be resolved

(Aslam, 2013). Cottage industry is renowned for its spontaneous financing. Riaz, Muhammad, Ashraf, and Zafar, (2012) argued that cottage industry and small businesses arrange finances through savings of the owners and do not use any other arrangement like short-term financing. Cruz, Justo, and Castro (2012) elaborated that the size of the cottage industry determines profitability. Degryse, Goeij, and Kappert, (2012) have observed that comparatively small cottage industry have long life as compared to medium sized businesses or large enterprises.

Bhattacharyya (2014) argued that small businesses and the large business have similar factors for the success and failure but the only difference is capacity to bear shocks, which the large businesses have more as compared to small businesses or cottage industry. The sustainability and growth of cottage industry is highly dependent on efficient management practices. Cottage industry should go for higher productivity through the use of latest technology and skilled labor, but actually it is difficult for the owners of cottage industry to hire skilled labor and to purchase the latest equipment because of financial constraints. A strong relationship also exists between job creation and the growth of cottage industry or the growth of small businesses.

Skilled labor and the management of human resource is a critical factor that is always ignored by the owners of cottage industry. Almeida and Aterido (2010) argued that the best investment is in human resource to enhance productivity, but actually the owners of cottage industries do not pay any attention to the training of their employees. The owners of the cottage industry are reluctant in investing in human resource because of two reasons; they believe that it is just a cost rather than an investment and they believe, once the labor will gain skills, either they will ask for more wage, or they will leave the job. Lack of financial resources is another reason behind not investing in human resource. Furthermore, it has been observed that the coordination among employees of larger firms is higher as compared to the same in employees of cottage industry (Almeida & Aterido, 2010).

Business education is considered as very important to operate a business but in practical it is not true. According to Tundui and Tundui (2012), it was observed that education cannot be ranked as an important factor in determining the success of cottage industry, because in Tanzania, people having secondary education were more successful entrepreneurs as compared to graduates who initiated their business; age and the migration from other countries have no correlation with the success of venture; this research prohibits the entrepreneurs to opt for export and favor the expansion of small business in the same area and location.

The growth of cottage industry takes place in three phases. Primarily an individual who is the owner of the cottage industry grows this results in the growth of cottage industry itself and ultimately the third phase is exposed that is the growth of the whole environment. Slater (2013) also argued that there are three perspectives of growth of cottage industry that is, individual, organizational, environmental. According to Ahmad, Nawaz, Shaukat, Usman, and Rehman (2010) motivation, relevant skills, need for attainment, firm life, financial performance, accelerated financing, and readiness to grow are significantly important for the growth of small business and cottage industries.

The role of cottage industry is significant in the economic development and the areas have to be explored that need to be regularized for the growth and sustainability of the cottage industry. The above mentioned brief review of literature has shown that small businesses have certain issues, namely lack of finance and skilled workers, which can be controlled. The role of cottage industry in the economic development cannot be denied, hence this study focuses on the identification of exact issues faced by the cottage industry of the Punjab, Pakistan. The identification of factors will help the government and the practitioners to promote and secure cottage industry, which can prove to be a major contributor in the GDP of Pakistan. Furthermore, this sector is considered as the top most sector for providing employment.

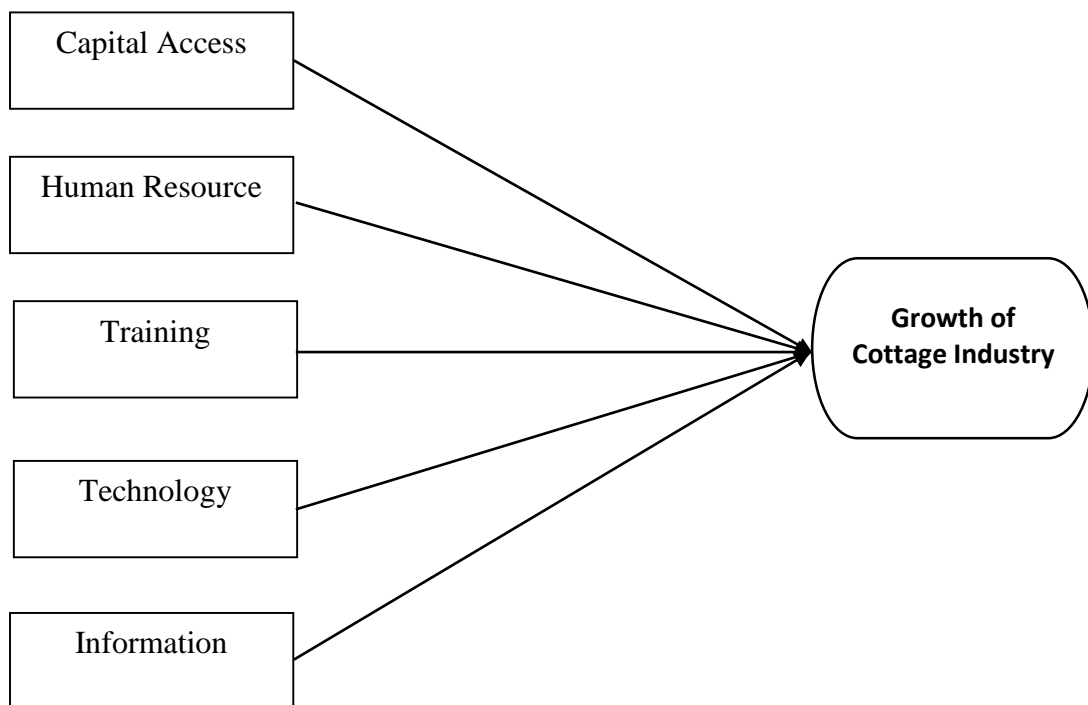
### **THEORETICAL FRAMEWORK**

Cottage industries have three dimensions of capital that is, fixed capital used for non-current assets, working capital required to meet daily requirements, and accelerated capital required to expand the business. Andaleeb, Anwar, and Saad (2007) conversed the success and failure strategies of small businesses and mentioned lack of competency of human resource, lack of training, lack of financing, and lack of technology as major reasons.

Resource Based View (RBV) of a firm supports the argument built in this framework. According to RBV to succeed and to gain competitive advantage firms require resources, and cottage industry is no exception to this rule. In this era of technology and invention, cottage industry is more innovative as compared to the large industry because small businesses are flexible and are more willing to change (Philip, 2011). Handling a small business is critical because the decision maker in cottage industry and small business is one, and once the owner gets control success is guaranteed (Katz & Green, n.d.). On the basis of above discussion and literature reviewed a model has been developed covering the significant factors for the growth and sustainability of cottage industry or small businesses. The variables have already been

analyzed by different studies in different eras. Resource based view supports the arguments raised in the study. Furthermore, access to finance (Aslam, 2013), human resource (Cruz, Justo, & Castro, 2012), training of human resource (Almeida & Aterido, 2010), use of technology (Hatten, 2015), and availability of information (Ahmad, Nawaz, Shaukat, Usman, & Rehman, 2010) are considered the key factors that determine the growth of cottage industries. The previous researchers have studied different variables independently but in this study the impact of all these critical factors have been seen. This collective analysis of all the significant variables will be very helpful to develop proper policies to promote cottage industry in the country. On the basis of the literature reviewed and the theoretical grounds following framework has been developed.

FIGURE 1  
Theoretical Diagram



### RESEARCH METHODOLOGY

Survey research has been conducted for the collection of data. A questionnaire has been developed to conduct the survey, correlational study has been conducted because this technique is commonly used for such kind of studies. The respondents who were the owners of cottage industries were given the choice to rate the variables on the basis of their experience. 380 correctly filled questionnaires were received from the respondents. The response rate of the study was good. The data was then coded and entered into SPSS to run hierarchal regression

in order to find the impact of each variables. The proposed equation on the basis of framework is given below that will be finalized on the basis of regression results.

$$Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \beta_5 X_5$$

The model variables are listed below along with their names:

- Y refers to Growth of cottage industry
- X<sub>1</sub> refers to Capital access
- X<sub>2</sub> refers to Information
- X<sub>3</sub> refers to Training
- X<sub>4</sub> refers to Technology
- X<sub>5</sub> refers to e-commerce

TABLE 4.1  
Regression Results

Model	R	R square	Adjusted R square	Std. Error of the Estimate	Durbin-Watson
1	0.932 <sup>a</sup>	0.869	0.833	0.406	1.965

The values of regression and correlation have been calculated to check the relationship between dependent and independent variables. The results are showing a strong relationship between the variables and the value of Durbin-Watson shows that there is no issue of autocorrelation between the independent variables. The value of Durbin Watson is 1.966, which is between ranges 1.75 to 2.25, this shows that there is very little possibility of autocorrelation.

TABLE 4.2  
ANOVA

Model	Sum of Squares	F	Sig.
1 Regression	68.362	25.916	.000 <sup>a</sup>

The ANOVA table mentioned above is showing F value as 23.573, which is greater than 5 showing that the overall fitness of model is good. On the basis of F test and significance it can be said that the model is over all a good fit.

TABLE 4.3  
Coefficients

Model	Un-standardized Coefficients		Standardized Coefficients		
	B	Std. Error	Beta	T	Sig.
1 (Constant)	.288	.973		.297	.768
Capital access	.367	.041	.009	2.161	.012
Human resource	.347	.027	.013	3.244	.028
Training	.289	.027	.018	3.327	.025
Technology	.085	.041	.114	2.098	.010
Information	.129	.058	.130	2.243	.018

*Note.* Dependent Variable: Growth of Cottage Industry

All the variables that were used in the questionnaires were regressed at 10% level of significance and all the variables have shown significant impact.

### **CONCLUSIONS AND RECOMMENDATIONS**

In the light of the literature reviewed and the data analyzed on the basis of responses of the owners of cottage industries that are operating in the Punjab, all the major variables that were studied have a significant impact on the growth of cottage industry of the Punjab. The results of this study comply with results of other studies reviewed. The government should try to persuade the owners of cottage industry to incorporate the significant factors in their business models. The government should make policies to provide easy credit facility to the cottage industry so that the industry may survive. Because there is a strong need to revive the cottage industry for the creation of employment and to improve the GDP of the country. The government should also develop training institutes or skill centres of cottage industry. The variables of cottage industry somehow, similar with the large industries but the consequences are different as the large businesses can absorb the shocks, but the small businesses and especially the cottage industries are unable to bear the shocks and as a result businesses are closed. In a nutshell the owners should concentrate on their human resource, and the government should concentrate on facilitating the small businesses.

### **LIMITATIONS AND GUIDANCE FOR FURTHER RESEARCH**

The main limitation faced while conducting the study was data collection, because most of the entrepreneurs were reluctant to respond to the questions. For future research, it is suggested that the whole country should be included in the target population so that proper guidelines may be developed for the policy makers. Furthermore, social networking should be added as a moderator because micro and small business or cottage industries have a strong



influence of social networking over performance. Thus, while determining their performance and growth it should also be catered in future research.

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