

**Causes of Sick Industrial Units and their Remedial Measures:  
A Case Study of Hayatabad Industrial Estate, Peshawar,  
Khyber Pukhtun Khwa**

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**Abstract**

*This paper aims to find the specific causes of sick industrial units of Hayatabad Industrial Estate, Khyber Pakhtunkhwa and their remedial measures. Data was collected through questionnaires from 36 industrialists of sick industrial units. In addition to this, interviews were conducted with officials of Sarhad Development Authority, Small and Medium Enterprises Development Association and Industrialists Association Hayatabad Industrial Estate. The data was analyzed through descriptive statistics and exhibited in cross tabs, graphs, charts, showing percentages and other numerical results. The results showed that lack of entrepreneurial skills, unskilled labor, unavailability of raw materials, weak promotional activities and misuse of financial resources are the specific causes of sick industrial units of Hayatabad Industrial Estate, Peshawar.*

**Key words:** Sick Industrial Units, Hayatabad Industrial Estate

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Industries play an important role in the economic development of a country (E. Sanderson, 1992). They not only help in increasing the employment in a country but also increase the Gross Domestic Product (GDP) of that country. Greater the number of industries in a country, greater is the production and job opportunities, hence more employment (Rugman, Lecraw & Booth, 1985). An increased level of employment leads to higher

standard of living of the residents of that country. Large number of industries increases the ability of a country to export its products to other countries also. This helps in minimizing its balance of payment deficit (Brooke, 1996).

The above cause and effect relationship is shown diagrammatically by the researcher as following in figure-1.

In this figure it is shown that industrialization increases overall production in a country, which generates employment, and hence a higher per capita income. It also helps in making favorable the balance of payments due to which inflation decreases and economy becomes strong. All of these in turn increase industrialization in the country.

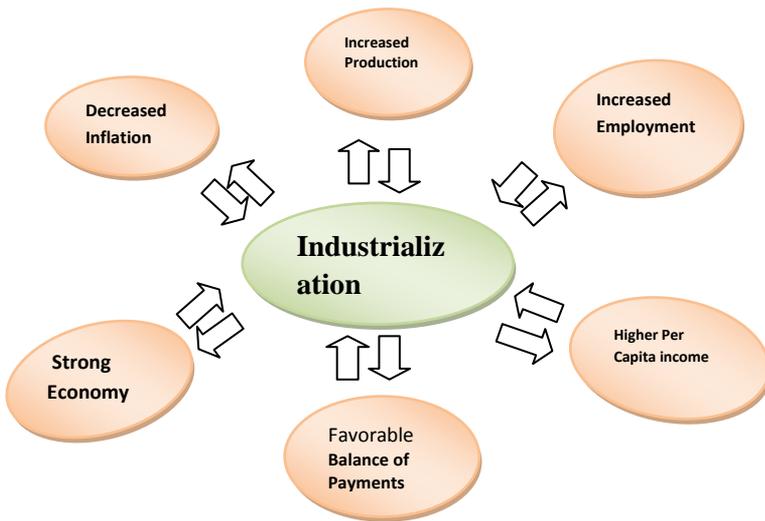


Figure 1. Impact of Industrialization on the economy

The topic of industrialization has been worked out by several people at the national and international levels. Some of them have mentioned the importance of industrialization for underdeveloped countries while others have pointed out its role in the economy of developed and developing countries. As far as industrial history of Pakistan is concerned, it has been traced by a very few economists. Some have suggested modern technology for

industrial development; some are in the favor of promotion of small scale industries and many economists have pointed out the industrial problems of the country.

As far as the industrial units of Khyber Pakhtunkhwa are concerned, Tariq & Shah(2003) have worked on the topic of “Causes of industrial failure and its implication in N.W.F.P.(the former name of KP).In their study, they found the general causes for sick industrial units as the inconsistent policies of the Government, location disadvantage, law and order situation, non-availability of skilled labor, lack of entrepreneurial skill and others.

Kausar (2005) in her Ph.D. thesis has pointed out that the main cause of the sickness of industries of Gadoon Amazai Industrial Estate is the discontinuity in the policies of government and has recommended that instead of criticizing the policies of previous governments, the successive governments should keep on facilitating the industrialists of the estate.

Azam, Shah & Khan (2009) have analyzed the industrial development in Khyber Pakhtunkhwa in particular and in Pakistan in general. The findings of their study suggested that in order to accelerate the economic progress of the country, the industrial development in all the provinces including Khyber Pakhtunkhwa should be promoted by regularizing the supply of electricity, providing fiscal and credit incentives and by stopping the illegal inflow of foreign goods.

The local chief of Small and Medium Enterprise Development Authority (SMEDA) Javed Iqbal Khattak (Frontier Post 28<sup>th</sup> March, 2011) has pointed out that the major causes for the closure of industrial units in KP are financial and management issues. He further explained that in most of the cases the financial institutions did not provide credit and some became victims to partnership disputes. Moreover some units have been affected by free trade agreements (FTAs) and smuggling.

Since far no work has been done on the causes of sick industrial units of Hayatabad Industrial Estate. Therefore the researcher has

tried to explore the specific causes for sick industrial units of Hayatabad Industrial Estate, Khyber Pakhtunkhwa.

According to a profile of Hayatabad Industrial Estate provided by Sarhad Development Authority (2011), Hayatabad Industrial Estate is divided into two main estates i.e. Small Industrial Estate and Large Industrial Estate. Small industrial estate comprises of the industrial units covering an area of less than one acre each whereas large industrial estate comprises of the industrial units covering an area of more than one acre each. Large industrial estate has a total number of **206** industrial units out of which **44** are closed down due to continual losses whereas small .Industrial estate has total number of **100** units out of which **9** are closed down. These closed industrial units are causing a total capital loss of Rs: 425.505 million which is a huge loss. Hence the researcher has tried to find out those specific reasons due to which these industrial units are facing the closure and has also recommended some suggestions for their revival.

### **Industry and Economic Development**

It is a well known fact that economic progress and industrialization of a country are interrelated to each other. According to a web chapter\* developed by the world Bank, it is revealed that all the rich countries of the world are those which are industrially advanced and the poorest are those which are still depending on the primary sector i.e. agriculture sector.

The real progress of any country depends upon its industrialization (Meti,1989).According to Meti , the real progress of underdeveloped countries can be achieved only through industrialization for it will make use of its available natural resources and the raw material produced over here. If we look at the developed countries of the world e.g. America, Japan, EU and China ,we find that the main contribution to their development has been done by their industries. Actually, industrialization started in

England, France and U.S.A. in eighteenth century and the entrepreneurs.

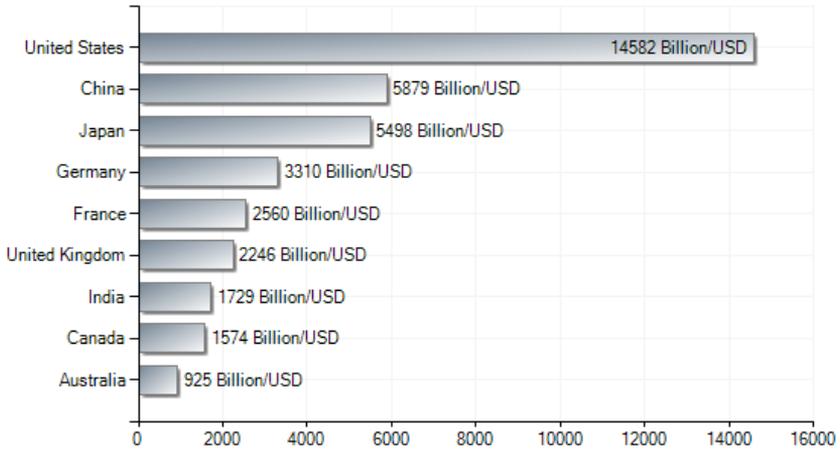


Figure 2. *The Economics of Developing Countries*, World Bank

Where the producers of textiles (Azam, Shah & Khan, 2009). Presently, the annual GDP of these countries is far more than Pakistan's GDP. According to Tito (1970), the underdeveloped countries are facing a serious problem of unemployment. This problem of unemployment can be solved through industrialization. Industries are a source of providing employment to the people as a result of which their income raises and their living standard gets higher.

Stanley (1972) has investigated a number of industries in the USA. According to Stanley, greater amounts of products and their equitable distribution lead to higher standards of living which results in the social, political, educational and religious institutions' development.

According to a study conducted by Carl Mosk University of Victoria, Japan has achieved the sustained growth through industrialization. The per capita income in Japan has increased by shifting from agrarian based economy to the manufacturing and technological mode of production.



Industrial estates facilitates the industrialists in establishing their industrial units. They get power and water and other facilities and as such, the industrial installation is done with ease and comforts and at a cheaper cost.

It is notable here that about **702** industrial units have been closed (Directorate of Industries, Commerce & Labour, KP, Peshawar) which has given rise to many so problems like increase in smuggling, unemployment etc.

According to Tariq and Shah the main causes of these closures are inopportune locations, (away from the seaport), no availability of skilled labour, incompatible government policies, lack of local capital, lack of proper infra - structure and a poor law & order situation in the region etc. Sarhad

### **Theoretical Framework**

The researcher has based the research on the concept that the development of a country depends upon its industrial development and so has tried to find out the ways by which the sick industrial units can be revived.

### **Research Methodology**

#### **Type/Nature of the Research**

The study was descriptive as well as exploratory in nature which emphasized on describing the present status of the industrial units of Hayatabad industrial estate and at finding the causes for the sick industrial units.

#### **Objectives of the Research**

The basic objective of this research is to explore the main cause/causes for the sick industrial units and to find out ways by which these sick industrial units can be revived, the overall production efficiency of the industrial sector of Pakistan could be increased and hence it could become a profitable source for the country.

The underlying objectives of the research are as following:

1. To determine the present performance of the industries of Industrial State, Peshawar, Khyber Pakhtunkhwa.
2. To find out the reasons for the sick industrial units.
3. To suggest the remedial measures that may be helpful in reviving the sick industrial units and
4. To find out the ways for increasing the overall efficiency of industrial sector and its contribution to GDP of Pakistan..

### **Target Population of the study**

As the study was aimed at finding the causes of sick industrial units of Hayatabad Industrial Estate, so the total population comprised of the total sick industrial units of Hayatabad Industrial Estate , Peshawar.

The total number of industrial units was **250** out of which, **44** large and **9** small industrial units were sick and ultimately closed down. Hence the total population comprised of **53** sick Industrial units.

The sample size was **36** Industrial units which is about **68%** of the total population. The sampling technique used was Random sampling i.e. **40** sick industrial units were selected on convenience basis out of **53** sick industrial units.

### **Tools for data analysis**

The data was analyzed through descriptive statistics and exhibited in cross tabs, graphs, charts, showing percentages and other numerical results.

### **Detail of Industrial Units of Hayatabad Industrial Estate**

Hayatabad Industrial Estate is spread over an area of 693.036 acres. This area is divided into small and large industrial units, infrastructure commercial area and government departments.

Total area allotted for large and medium industrial units is 582.468 acres whereas small industrial units have been allotted a total area of 34.462 acres. About 71.790 acres of land is under

different government departments which include a grid station capable of producing 132 KVA of electricity, a telephone exchange, labor colony, mineral testing laboratory (MTL), and others.

Table.1

*Detail of Existing Infrastructure Facilities*

Facility	Quantity in Numbers
Telephone Exchange	01
Grid Station	132 KVA
Tube wells	08 with total capacity of 12 cusecs
Infrastructure	Roads, Drains and water supply system
Bank	01 (UBL)
a. Police Chowki	01
b. Police Post	02
Utility Store	01
Social Security	01
Dispensary	
Computer Training Institute	01
Model School	02 (One constructed by Workers Welfare Board WWB for laborers' children and another is Pak Turk International school)
Primary School	01
Technical Training Institution	03
Vocational Training Institute	01
Labour Colonies	03
	i-300 quarters, ii- 200 and iii- 224 flats

Source: Sarhad Development Authority

Table 2

*Status wise Summary of Industries of Hayatabad Industrial Estate**4.A- Main Estate:*

S.No	Status	No. of Units	Area(Acres)	Capital Cost(Rs. in Millions)	Total Staff
1	Operational units	206	382.653	3641.736	10580
2	Closed units	44	97.510	400.408	2759
3	Under construction units	66	98.170	696.498	2370
4	Plots allotted but construction not started	8	4.135	81.605	250
	Total	324	582.468	4820.247	15959

*Source.* Sarhad Development Authority (SDA)

Table 3

*4.B – Small Estate:*

S.No	Status	No. of Units	Area(Acres)	Capital Cost(Rs. in Millions)	Total Staff
1	Operational units	100	28.077	190.957	780
2	Closed units	9	3.597	25.097	85
3	Under construction units	15	2.788	26.425	0
4	Plots allotted but construction not started	0	0	0	0
	Total	124	34.462	242.479	865

*Source.* Sarhad Development Authority (SDA)

## **Status wise Summary of Industries of Hayatabad Industrial Estate Peshawar**

Table 3 depicts the status wise summary of industries of Hayatabad Industrial Estate, Peshawar. The Industrial Estate is divided into two estates i.e. Large and Small industrial estates. Large or main industrial estate consists of plots for industrial units having an area of more than one acre whereas small industrial estate is the one with industrial units having an area of less than one acre.

There are 324 large industrial plots and 124 small industrial plots. Among 324 large industrial plots, 206 are occupied by operational industrial units and 44 are those which are occupied by closed units. In addition to these, 66 units are under construction and for 8 industrial units plots are allotted but construction have not yet started.

Large industrial estate covers a total area of 582.468 acres having a total capital cost of Rs: 4820.247 million. The small estate has a total no of 124 industrial plots, covering a total area of 34.462 acres. Out of the 124 units, 100 are in operational status, 9 are closed and 15 industrial units are under construction. The total capital cost of small estate is Rs: 242.479 million.

### **Findings**

The following is the analysis and findings of the responses of the 36 respondents for the questions asked in the questionnaire. The analysis of the question regarding the ownership details shows 48% industrial units are sole proprietors, 44% are private limited and 8% are partnership.

The above analysis shows that a major portion of the sample is proprietary i.e, 48% and 44% are private limited which entails that these units have to face all the disadvantages of sole proprietorship.

Table 4

*Education Level of Industrialists*

	Non Graduate	Graduate	Technically Qualified
No.	4	24	7
Percentage	12%	68%	20%

The above results show that a major portion of the industrialists are graduates i.e.68% and a minimum number of them was technically qualified i.e.7%.The remaining 12% are Non Graduates.

The data received about education level of the industrialists show that most of the entrepreneurs are not sufficiently qualified for their specific type of business. It is well known that the strategic management of an organization is mostly done by the top management.

They are responsible for the long term planning and setting objectives after analyzing the external and internal environment of the organization. Therefore it is very necessary that the top management must be highly qualified and experienced for their specific job (Stephen.P.Robbins, 2004).

Table 5

*Entrepreneurial History*

Whether a first generation entrepreneur?	Yes	No
	33	3

**Entrepreneurial history:**

The responses to the question asked about the entrepreneurial history show that 33 out of 36 respondents i.e.92% are first generation entrepreneurs while 8% are having their businesses inherited from their parents.

According to the above results it is true to say that most of the industrialists were new to the industrial setup. Such entrepreneurs don't know which business will be more profitable,

how to plan for the fixed and working capital, how to allocate these resources in a best possible way to day operational problems, and how to manage for the day to day operational problems.

Table 6

*Previous Work Experience of Industrialists*

Previous work experience?	Yes	No
	8	28

**Previous work experience:**

28 out of 36 industrialists were having no past working experience, while 8 out of 36 were having work experience. The above analysis shows that about 78% of the selected sample units were not having any work experience of industries. This shows that along with their first generation entry into the market, they also lacked the industry related experience.

Table 7

*Size of industries*

Size of industry	Small	Medium	Large
	5	0	31

The data was collected from the industrialists of small and large industrial units. The sample comprised of 5 small and 31 large industrial units.

Table 8

*Adequacy of loan amount*

Was loan amount adequate?	Yes	No
	21	15

The analysis regarding the adequacy of loan amount shows that 21 out of 36 sample units regarded the loan amount sufficient and 15 regarded it as insufficient. It means that 58% of the

industrialists were lacking sufficient amount of investment whereas 42% were having enough for investment.

Table 9

*Sufficiency of demand for the products*

Demand for product	Yes	No
Less than production	27	9
Equal to production	4	32
Greater than production	5	31

From a sample of 36 industrialists, the data received about their product’s demand indicates that **27** industrial units were having less or insufficient demand for their product as compared to their production level. This was mostly in the cases of flour mills, Bread and bakery products, shoes, poultry feeds.

**Is subsidy one of your mean of finance?**

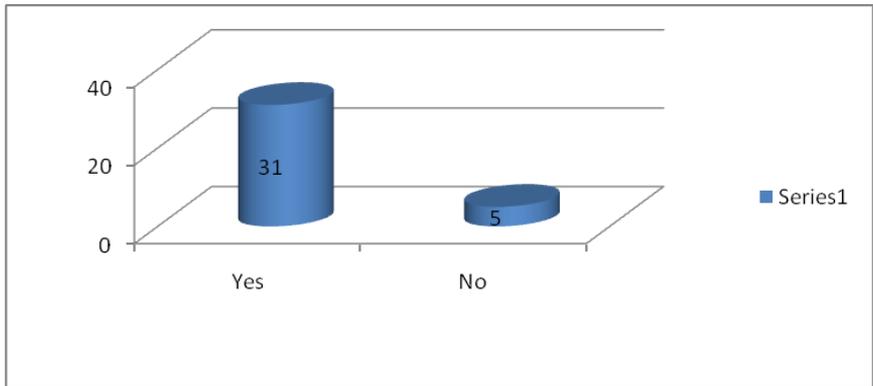


Figure 4. Is subsidy one of your mean of finance?

The responses to the above question indicate that 31 out of 36 respondents agreed to the statement that they are provided with the government subsidy. Only 5 out of 36 responded that they are not provided with the subsidy.

### Working capital was provided by the financial institution

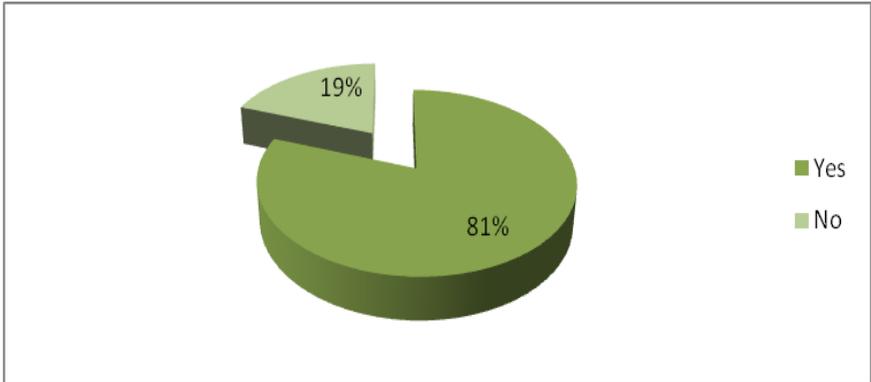


Figure 5. Whether timely working capital was provided by the financial institution

The responses to the question regarding the timely availability of working capital show that 81% industrialists were having no problem in the provision of working capital from financial institutions, whereas 19% were having the unavailability of working capital from financial institutions.

### Problem in getting incentives and concessions

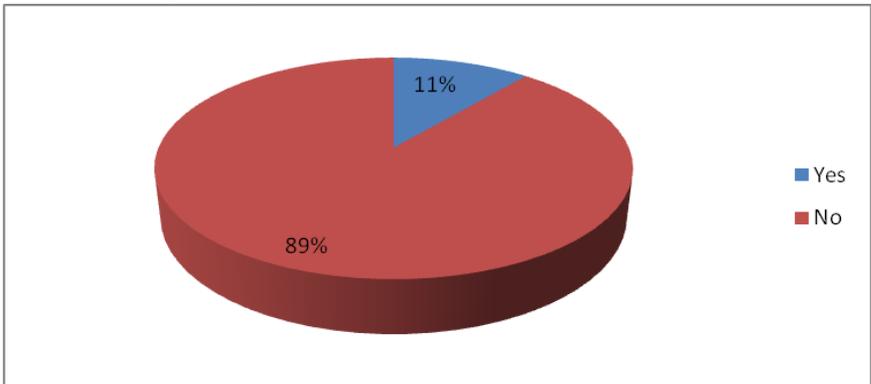


Figure 6. Did you have any problem in getting incentives and concessions sanctioned and released?

89% of the respondents had faced no problem in getting incentives and concessions, whereas 11% were having problems in getting concessions and incentives from the government. The

above data entails that most of the industrialists had got concessions and incentives from the government.

Table 10

*Type of promotional campaign used by industrialists*

Type of Promotional Campaign	Yes	No
Personal Selling	19	17
Advertising	6	30
Sales Promotion	21	15
Publicity	8	28
All of them	0	36

The above table shows that 19 of 36 sample units used personal selling, 6 used Advertising, 21 used sales promotion and 8 used publicity method for promotion of product.

The above analysis regarding promotional campaign shows that majority of the industrialists relied on sales promotion which was done by giving free samples, and discounts where as personal selling was also done by most of them through sales persons by going door to door and selling the products at lower prices. The basic reason behind that was, as reported by the industrialists was lack of sufficient finance to use effective promotional campaign.

Table 11

*Compatibility of product with domestic and imported products*

Comparison of product's quality with:	Yes	No
Domestic product	36	0
Imported product	23	13

The data from the respondents indicates that the products of all industrialists had the same quality as that of the other domestic products whereas 23 of 36 respondents regarded as the quality of their products matched imported products whereas 13 respondents said their products quality did not match the quality of imported

products. The above information indicates that the products of the sick industrial units matched the quality of domestic products but there was some incompatibility with imported products. The incompatibility was mostly found in computer assembly, ghee, readymade garments, toffees(candies) and other food products.

Table 12

*Availability of skilled labor*

Availability of skilled labor	Yes	No
	10	26

The analysis regarding availability of skilled labor indicates that 26 industrial units were faced with the problem of unskilled labor where as 10 industrial units were having sufficiently skilled labor. As we can see from the responses of the above question, that majority i.e. 72% of industrialists reported of unskilled labor in Industrial Estate.

Table 13

*Timely availability of raw materials*

Timely availability of raw material	Yes	No
	9	27

The above table shows that 27 out of 36 industrial units faced the problem of Nonavailability of raw material which makes about 75% of the sample of sick industrial units. The rest of 9 units did not face such problem.

Table 14

*Provision of training to managers*

Provision of training to managers	Yes	No
	3	33

The above table shows the comparison of industrialists who provide job related training to the managers and those who don't provide at all. The results show that about 92% of the industrialists

do not provide training to their managers where as 8% responded that they do provide such training.

Avery limited number of industrialists has given the reply that they provide training to their managers. Actually there is no culture of business training/education in industrial estate.

Another major reason which was found during the research was the lack of effective marketing campaign. This problem was actually backed by lack of financial resources. As we know that in the modern world of globalization, profitability is not impossible but difficult without promotional efforts.

### **Recommendations**

On the basis of above analysis and findings, following recommendations are suggested by the researcher for the revival of sick industrial units.

#### **Availability of raw material should be ensured**

Pakistan being an agrarian country, can use its agricultural products and mineral resources to boost up industrialization.

#### **Entrepreneurial development and training programs**

Entrepreneurial development and training programs should be designed to promote professional entrepreneurial climate. For this purpose, entrepreneurship should be offered as a field of specialization in educational institutes.

#### **Quality enhancement cells**

Quality enhancement cells should be introduced which might give proper guidance for quality maintainance and check on the quality of industrial products.

#### **Transparent Internal and External Audits**

In order to maintain the financial worthiness and clarity of Industrial units, government should ensure a transparent internal and external audit system. These audits should be free from any political influence. Such audits will help in detecting any flaws and frauds which will ensure maximum financial control and soundness for industrialists as well as for government.

**Vocational training institutes for labour**

Although ,according to SDA, there are three vocational training institutes, presently working in Hayatabad Industrial Estate, but it should be ensured that properly and sufficiently trained labor are produced .Moreover it should also be ensured that these labor, after the completion of their courses should provide services in the industries of Hayatabad Industrial Estate.

**Development of Advertising Agencies**

Unlike other provinces, in Khyber Pakhtunkhwa the advertising agencies are not in a sufficient number. Moreover the industrialists here are mostly relying on personal selling and cheap sources of advertising. They should be convinced about the fact that through an effective advertising campaign ,a large number of customers can be attracted towards their product.

**Conclusion**

In the present pace of industrialization by developed and developing countries the significance of industrial development for Pakistan cannot be denied. For a developing country like Pakistan, industrialization can be a gateway to the overall economic and social progress. As mentioned before, Pakistan has a lot of financial deficit in its balance of payments.

From its very beginning, Pakistan is having a very weak industrial base. It inherited a minimum number of industrial units. Since its independence different governments came into regime but no considerable attention has been given to industrialization in the country. Different policies were developed by different governments for this purpose, but they too ended without any fruitful results.The government authorities used their political influence for the benefit of few industrialists at the cost of all others. Pakistan at country level, provincial level and industrial estate level lacks industrial enhancing strategies. Generally there are problems of electricity breakthroughs, inflation, high taxes, distributive injustice etc.

As far as the case of KP in general and Hayatabad Industrial Estate in specific is concerned, the industrial estates are always subject to changing government policies. There is no consistency in development plans.

The province lacks an entrepreneurial climate. In Hayatabad Industrial Estate, firstly, the investment is done blindly without thinking for the availability of raw material. There is the prevalence of mushroom growth in industrial sector. Seeing the profitability margin in an industry, a number of industrialists enter into the market without having any specific compatibility. As the results of analysis show, most of the industries like flour mills, bakery products and ghee mills were having the problem of lack of raw material, which clearly shows that no proper product planning was done by the industrialists.

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