Gallup Pakistan Analysis of World Bank Enterprise Survey

Firm Performance – World Bank Enterprise Survey 2022

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REAL ANNUAL SALES GROWTH

Businesses in Pakistan recorded a -6% growth in real annual sales in 2022.

5%

EMPLOYMENT AND LABOR PRODUCTIVITY

While employment in firms in Pakistan has increased by 5%, real annual labor productivity has declined by 8%.

PERCENT OF FIRMS BUYING FIXED ASSETS

Only 5% of firms in Pakistan are buying fixed assets; this is 8 times less than the rest of the world (40%)

GALLUP PAKISTAN
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Pakistan's Foremost Social Research Lab

Source: World Bank Enterprise Survey; analyzed by Gallup Pakistan

PRESS RELEASE

Gallup Pakistan Analysis of World Bank Enterprise Survey

Businesses in Pakistan recorded a -6% growth in real annual sales from 2019 to 2022 – **Firm Performance – World Bank Enterprise Survey 2022**

Islamabad, August 01, 2023

Gallup Pakistan, as part of its Big Data Analysis initiative, is looking at Firm Performance (2022). This data is part of a publication by the World Bank called the 'Enterprise Survey 2022'.

The complete Enterprise Survey 2022 is available HERE.

Gallup Pakistan has not conducted the survey work. We are only analyzing the publicly disclosed data and reports provided by World Bank. This is a public service activity done on individual initiative of Gallup Pakistan and not in any way endorsed or commissioned or supported by WB or its agents.

What is the Big Data Analysis Series by Gallup:

Gallup Pakistan's Big Data series was started by Bilal I Gilani, Executive Director of Gallup Pakistan. Bilal explains the rationale of the series: "The usual complaint from academics and policy makers is that Pakistan does not have data availability. Our experience negates that. Pakistan has lots of data, but it is not available in a usable form and not widely accessible. At Gallup we plan to bridge this gap in terms of accessibility and use of data. The Gallup Big Data series has earlier worked with data sets such as PSLM and Economic Survey reports as well as National Census Reports and Election Commission Data sets. The current series is using the World Bank Enterprise Survey, a periodic compilation which reports facts and perceptions of enterprises and businesses operating in Pakistan. We hope that these series are useful, and welcome feedback and possible collaborations as we create a public good in the form of useful data sets in Pakistan.

What data points this current edition covers:

This series aims to present the important learnings from the Enterprise Survey 2022 for policy makers, the public, as well as for marketers in an easy and understandable way. In particular, this edition looks at Firm Performance as of 2022. Performance measures for firms, computed using annual sales and the total number of permanent full-time employees, provide insight to policymakers to determine which aspects of the business environment may be impeding or enabling the growth of the private sector. The series' main aim is to provide data. Implications of these data points for the development sector as well as wider socio-political ramifications is something we would like to trigger in relevant circles.

Today's topic is "Firm Performance (2022)"

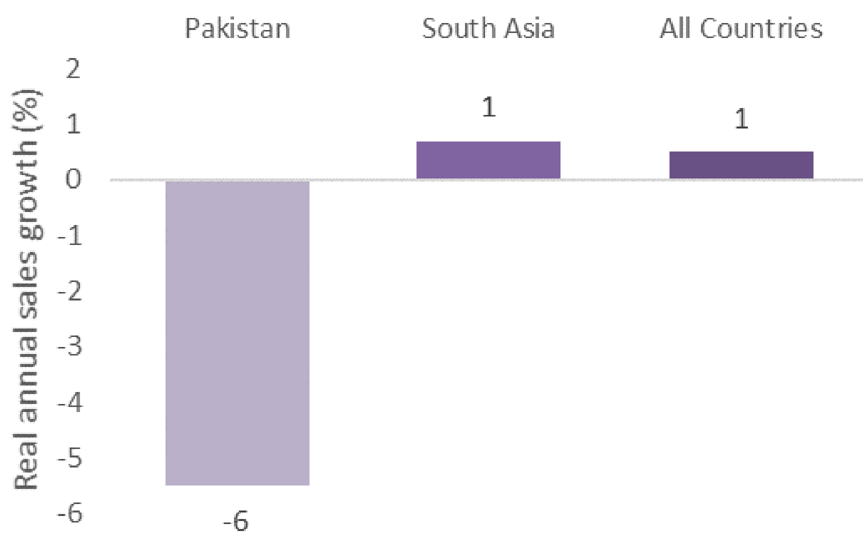
Key Findings:

1. **Real annual sales growth:** Businesses in Pakistan recorded a -6% growth in real annual sales in 2022.
2. **Employment and labor productivity:** While employment in firms in Pakistan has increased by 5%, real annual labor productivity has declined by 8%.
3. **Percent of firms buying fixed assets:** Only 5% of firms in Pakistan are buying fixed assets; this is 8 times less than the rest of the world (40%).

1. Real annual sales growth

Businesses in Pakistan recorded a -6% growth in real annual sales in 2022. This means that comparing the sales to the last fiscal year and three fiscal years earlier yielded a decrease in the growth rate of sales by 6%. Since the data is computed on real annual sales, external effects like inflation are accounted for. The growth rates for South Asia and all countries globally were approximately 1%. Even though their real sales are not increasing by a very large amount, a positive value indicates that sales are growing nonetheless. In the case of Pakistan, a negative growth rate means that sales have not only decreased, but they have decreased enough to reverse the rate of growth.

Figure 1: Real annual sales growth (%)



Source: World Bank Enterprise Survey; analyzed by Gallup Pakistan

A breakdown of the annual sales growth rate by firm size reveals interesting insights both for Pakistan and on a comparative level with South Asia and the rest of the world. For small firms, while the growth rate in Pakistan is -6%, it is also negative in South Asia as a region at -1%. Even for the world as a whole, the real annual growth rate in sales is close to zero for small firms. This could indicate a trend where smaller firms, before they establish themselves and reach a sustainable level of growth, suffer in terms of sales. Since this survey was computed for 2022, just after Covid 19, it is possible that the smaller firms suffered more because of lack of security and alternatives.

It is also interesting to note that large firms in South Asia suffered more than firms in Pakistan, in terms of their annual sales growth. Their growth rate decreased by 3% compared to the 2% of Pakistan, while that of the world as a whole remained positive at 2%. This could mean that large firms in Pakistan are better equipped to deal with shocks compared to those in South Asia as a region.

While small and large firms in South Asia have faced a negative growth rate, the medium sized firms in the region have done the best in reference to Pakistan and even the world, showing a 4% growth rate compared to -6% for those in Pakistan and 2% for all countries.

Figure 2: Real annual sales growth (%) - by firm size

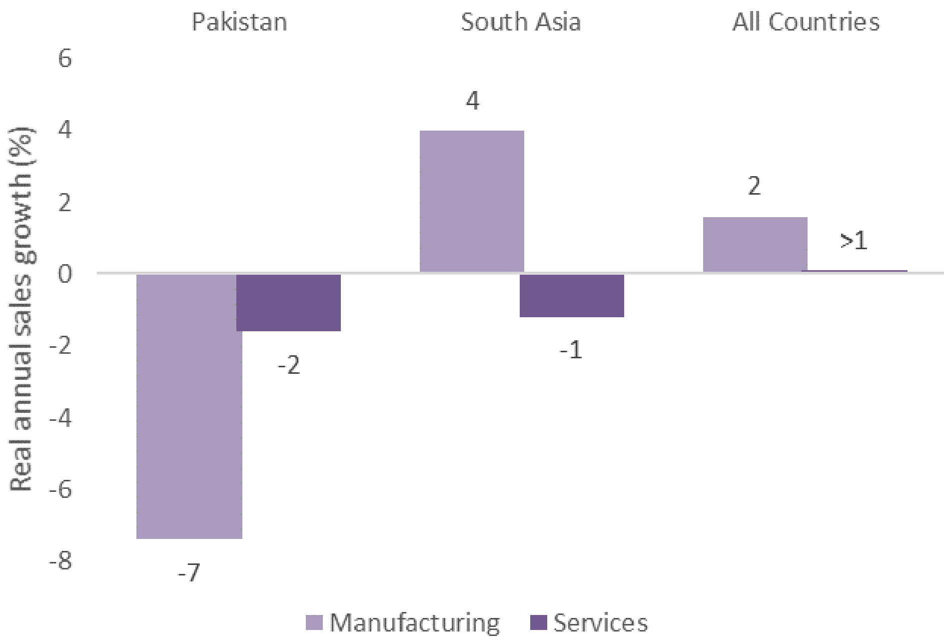
Source: World Bank Enterprise Survey; analyzed by Gallup Pakistan

The manufacturing sector in Pakistan has seen a higher decrease in annual sales growth compared to South Asia and the world. While growth has decreased by 7% for the manufacturing firms in Pakistan, they have increased for similar firms in South Asia by 4% and for the rest of the world, by 2%.

Compared to the manufacturing sector, the performance of the services sector in Pakistan has been better, despite the negative growth rate in sales. Real annual sales for the services sector in Pakistan decreased by 2%, while service-oriented businesses in South Asia saw 1% decrease. Even on a global scale, the increase in annual sales has been close to zero.

For Pakistan, this implies that the services sector has been better receptive to shocks and has not taken as great a hit as the manufacturing sector. This is a positive takeaway, indicating that perhaps more investment and favorable policies for the services sector could strengthen it further. Similarly, these distinctions will allow policymakers to probe further into the obstacles that are reducing the performance of the manufacturing sector, and if internal problems, devise plans to mitigate them.

Figure 3: Real annual sales growth (%) - by sector



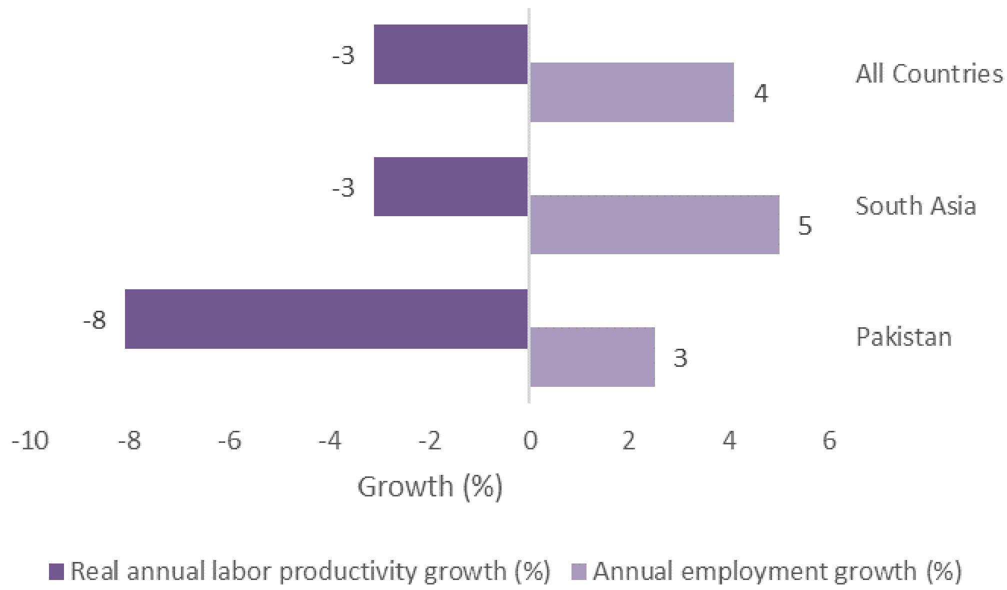
Source: World Bank Enterprise Survey; analyzed by Gallup Pakistan

2. Employment and labor productivity

While employment in firms in Pakistan has increased by 5%, real annual labor productivity has declined by 8%. Labor productivity has also shown a decreasing trend for the comparative categories of South Asia and the world, having declined by 3% for each region, it has decreased by almost triple the amount for Pakistan. Granted that economies in 2022 were recovering from the shocks brought about by Covid 19, a decrease of this magnitude may have other underlying structural and procedural basis.

The growth in the rate of annual employment for both South Asia (5%) and the world (4%) is more than the decrease in annual labor productivity (3%). On the other hand, the opposite is true for firms in Pakistan. Even though their employment rate is growing, the rate of productivity is decreasing at a greater rate. To make the workforce more efficient and reduce losses and costs, it is important for employment to have a more proportional relationship with productivity. Potential reasons for this not being the case could be inefficient utilization of labor, or a gap in labor qualifications and training.

Figure 4: Annual employment growth rate and real annual labor productivity growth



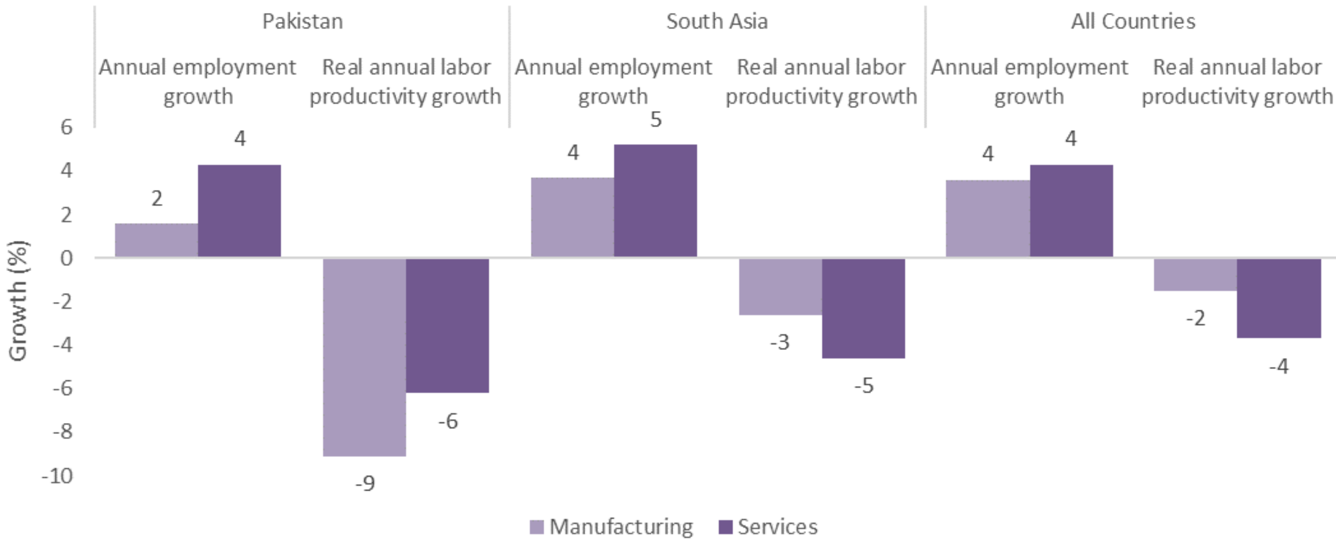
Source: World Bank Enterprise Survey; analyzed by Gallup Pakistan

Breaking down the employment and labor productivity growth rates into sector-wise distinctions shows that across all zones, the services sector has had higher growth in annual employment. This is intuitively explained as well, since the services sector is more people-driven than the manufacturing sector. In Pakistan and all countries combined, services saw a 4% increase in annual employment, while this rate was 5% for South Asia.

When looking at annual labor productivity, it was also the services sector for South Asia and the world that saw a sharper decline than the manufacturing sector in these regions. Labor productivity declined by 5% in South Asia and 4% in the world for the services sector, compared to a 3% and 2% decline, respectively, in the annual productivity growth rate for the manufacturing sector. However, for Pakistan, the productivity rate in the manufacturing sector declined more than the services sector - a 9% decrease compared to a decline of 6%.

While these numbers alone cannot determine the causes of decreasing labor productivity despite an increase in the annual employment for any region or sector, they provide significant foundations for further investigations into what might be causing these decreases. There could be problems in the quality of the labor coming into the firms or how they are utilized by the firms once they are hired, which could be worth exploring.

Figure 5: Annual employment growth rate and real annual labor productivity growth - by sector



Source: World Bank Enterprise Survey; analyzed by Gallup Pakistan

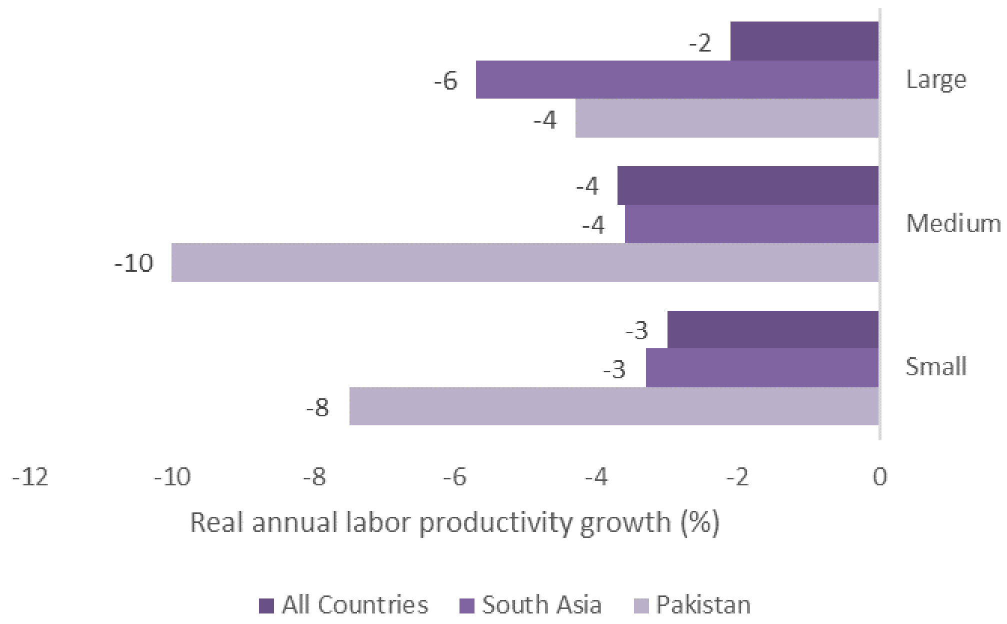
Isolating labor productivity growth and looking at it by firm size shows that for Pakistan, small firms have the highest decrease of 8%, followed by South Asia and the world at about 3% each. Medium sized firms in Pakistan are a subcategory across regions and firm sizes that have seen the most decrease in real annual labor productivity, the rate decreasing by 10%. Productivity in such firms has only decreased by approximately 4% in South Asia and across the world.

On average, large firms have seen the least decrease in real annual labor productivity, but the rate has decreased for them nonetheless. Large firms in Pakistan actually fared better than those in South Asia, their productivity decreasing by 4% compared to 6% of the region. The overall decrease for all countries for large firms is also the lowest, at 2%.

For Pakistan, the decrease in labor productivity in small and medium sized firms is more concerning, since it is two times higher than that for large firms. This difference may be attributed to the cost of hiring and retaining skilled labor, the expenses and resources required for training them, and the capital and infrastructure needed to allow them to be productive. Another factor could be the quality and skill level of the labor coming to these firms in the first place. If the labor lacks the necessary qualifications, its productivity would be low during the period it is receiving training. It can be expected that such decreases in productivity will be made up for once the workers have gained expertise.

Whatever the reason for low labor productivity compared to the region and the world, both private companies and policymakers could help contribute by catering to the obstacles and factors in the business environment that are not conducive to growth.

Figure 6: Real annual labor productivity growth (%) - by firm size



Source: World Bank Enterprise Survey; analyzed by Gallup Pakistan

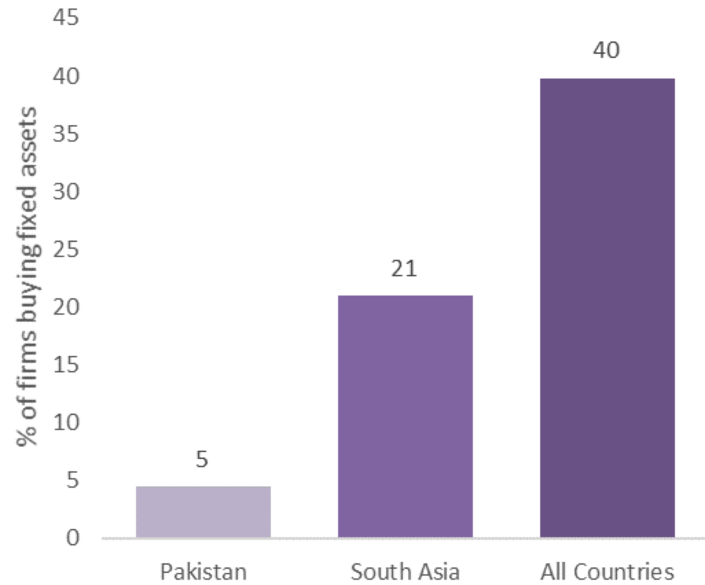
3. Percent of firms buying fixed assets

Only 5% of firms in Pakistan are buying fixed assets; this is 8 times less than the rest of the world (40%). South Asia is in the middle with 21% firms buying fixed assets. This means that for a single Pakistani firm that buys fixed assets, there are 4 in South Asia and 8 across the world that do so.

A fixed asset is a long-term tangible property or piece of equipment that a company owns and uses in its operations to generate income. Having more fixed assets implies that a company has additional sources of income that it can utilize if the need arises; examples include land, buildings, heavy machinery, vehicles and IT equipment. Assets like land and buildings increase capacity for production, machinery adds to the capital stock, while IT equipment and similar technological assets help companies stay efficient and innovative.

One explanation for the low proportion of firms in Pakistan purchasing fixed assets could be that larger firms have already invested in them in the previous years while smaller firms do not have the financial means to purchase them yet. Another reason could be that firms in 2022 were recovering from Covid 19 and instead of buying fixed assets, were more focused on regaining lost ground in terms of immediate sales and profits.

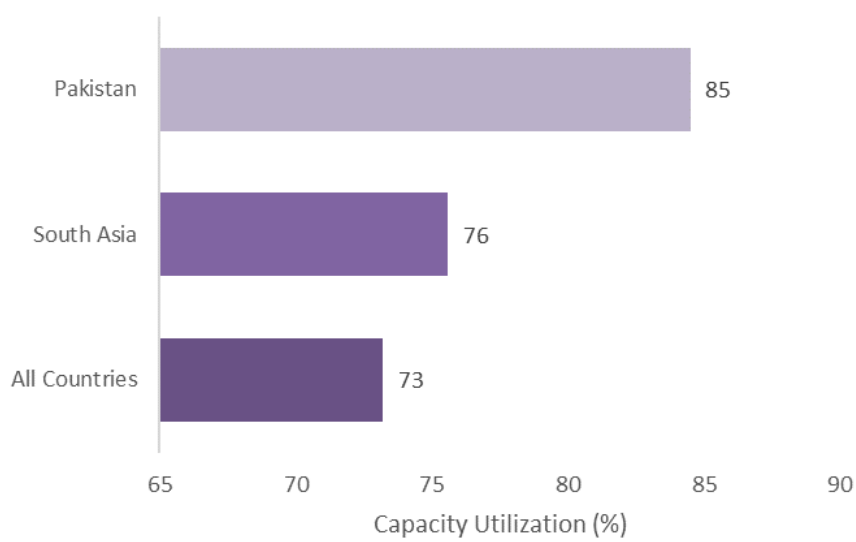
Figure 7: Percent of firms buying fixed assets (%)



Source: World Bank Enterprise Survey; analyzed by Gallup Pakistan

A concept similar to fixed assets and relating to capital is that of capacity utilization. It is the manufacturing and production capabilities that are being utilized by a firm at any given time; the relationship between the output produced with the given resources and the potential output that can be produced if capacity was fully used.

Figure 8: Capacity utilization (%)



Source: World Bank Enterprise Survey; analyzed by Gallup Pakistan

For firms in Pakistan, the rate of capacity utilization is 85%, higher than both South Asia and the world, which are at 76% and 73% respectively. This means that of the resources present to these firms, those in Pakistan are, at any point, using 85% of them. This is generally considered a measure of efficiency and is a positive sign.

However, it is important to note that firms in Pakistan are also on the lower rung of investment in fixed assets, with only 5% of them buying fixed assets as of 2022. This could mean that one reason why the capacity utilization for Pakistan could be high is that there is low capacity to begin with. If this is the case, then investing in more fixed assets like land and machinery could be a way to cater to this problem.

Wish to Contribute to Gallup Big Data Analysis?

Gallup Pakistan is looking for collaboration with researchers to expand the Big Data Analysis project. If you have any ideas, please write to Bilal I Gilani, Project Director, Big Data Analysis at Gallup Pakistan.

Wish to know more about the Enterprise Survey 2022?

The Enterprise Surveys (ES) focus on many aspects of the business environment. These factors can be accommodating or constraining for firms and play an important role in whether an economy's private sector will thrive or not. An accommodating business environment is one that encourages firms to operate efficiently. Such conditions strengthen incentives for firms to innovate and to increase productivity — key factors for sustainable development. A more productive private sector, in turn, expands employment and contributes taxes necessary for public investment in health, education, and other services. Questions contained in the ES aim at covering most of the topics mentioned above. The topics include infrastructure, trade, finance, regulations, taxes and business licensing, corruption, crime and informality, access to finance, innovation, labor, and perceptions about obstacles to doing business.

The ES are repeated approximately every four years for a particular economy (or region). By tracking changes in the business environment, policymakers and researchers can look at the effects of policy and regulatory reforms on firm performance. Repeated surveys aid in studying the evolution of the business environment and how it affects the dynamics of the private sector.

You can find more information on the Enterprise Survey, and complete tables, on

www.worldbank.org

Or visit:

Enterprise Surveys 2022

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