



## Impact of Sound Decision-Making on Small and Medium Businesses in Pakistan

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### ABSTRACT

This research aims to investigate the significance of sound decision-making in the success and sustainability of Small and Medium Businesses (SMBs). The study will concentrate on key constructs such as risk management, financial stability, innovation and adoption, and customer relationship management. The study uses a quantitative approach, surveying a sample of SMB owners and managers in Pakistan's different industries to gather data. In order to find out how respondents feel about decision-making processes and how they affect SMB performance, a structured questionnaire is used. Regression analysis is one of the statistical techniques used to examine the data and evaluate the hypotheses. The results demonstrate how important sound decision-making is to the resilience and success of SMBs in Pakistan. Financial stability stands out as a crucial component that impacts the performance of small and medium-sized businesses (SMBs). This is followed by efficient risk management, innovation and adoption, and customer relationship management. These results highlight how crucial strategic decision-making is for promoting SMB sustainability and growth in a fast-paced business climate. The results provide useful information to managers, owners, and regulators of SMBs who want to improve SMB decision-making procedures. Small and medium-sized businesses (SMBs) can enhance their competitive standing, boost operational effectiveness, and promote long-term growth and profitability by placing a high priority on financial stability, proactive risk management, innovation, and customer-centric methods

## INTRODUCTION

An important factor in a country's economic progress is its enterprising population (Gibcus et al., 2008; Simpson & Padmore, 2011). Less than 500 people, smaller revenue than larger companies, and more straightforward organizational structures are the basic characteristics of small and medium-sized businesses (SMBs). SMBs are vital to the economy despite their modest size (Pyrrh, 2023). Medium-sized and small businesses are profit-driven companies that work in a variety of industries. They support market competition, deal with social and economic issues, and follow certain rules set down by government (Nefedov, 2023).

Decisions are undoubtedly the foundation of entrepreneurial pursuits, integrally linked to every aspect of entrepreneurial acts. Across the entrepreneurial range, decision-making emerges as a critical factor in establishing goals, guiding direction, and driving performance (Ardakani & Avorgani, 2021). Small and medium businesses are essential for stimulating economic growth because they create jobs, eliminate poverty, distribute income, and encourage innovation (Msomi & Olarewaju, 2021). Furthermore, the level of success, importance, and favorable influence on business performance are determined by the creativeness of decisions (Danai et al., 2018).

Making decisions involves deliberating over options and selecting a course of action (Eston, 1984). It is an important component of every profession and is distinguished by the sensitive and difficult nature that results from the complexities of decision-making (Sidney et al., 2012). A decision is essentially a position, idea, or assessment that is reached after research (Miller, 2009). It is a cognitive phenomenon that results from a complex process of deliberation that includes evaluating unknown and possible consequences (Müller & Ozcan, 2009).

(Kreitner, 1966; Frese et al., 2000) defined decision-making as the process of determining and selecting a different course of action in a way that is suitable for the demands of the circumstance. Regardless of size, all organizations frequently go above and above to promote respecting rules while making decisions (Sutcliffe & McNamara, 2001). In small business, making decisions is ongoing time to time or day by day to survive or growth (Canco, 2014). Many different kinds of decisions must be made, and their timing, nature, and impact on the success of the firm are all taken into consideration (Mullins, 2010).

Our research is predicated on two premises: first, that awareness of decision practice is essential to comprehension of subsequent decisions and decision outcomes; and second, that scholars examining decision-making procedures should give the social and contextual factors operating in organizational systems more methodical attention (Mowday & Sutton, 1993). Decision making have direct impacts on the success or failure of small and medium businesses (Talebi et al., 2014; Negulescu, 2014; Negulescu & Doval, 2014; Cristofaro, 2017).

Important obstacles to the financial stability of small and medium-sized businesses include a number of features of a developing economy, including economic instability, uncertain exchange rates, growing transaction expenses, a

poor information infrastructure, substantial income inequality, political unpredictability, and an increase in trade policy unilateralism (Islam & Wahab, 2021). Leaders of small and medium-sized businesses believe that the lack of funding is the main obstacle to strong investment. There are many different types of money sources, but each has certain qualities of its own. However, small and medium-sized businesses have difficulty utilizing these resources since not all of the possibilities are practical or easily accessible to them. The final makeup of financial resource structures for small and medium-sized enterprises is influenced by a variety of factors (Naumkin, 2020).

The difficulties experienced by small and medium businesses in developing countries may be increased by their inability to properly manage risks, which would hinder their potential to expand and endure stated by (Mthiyane et al., 2022). Encouraging the organization to achieve optimal performance, facilitate accurate reporting, and ensure compliance with standards is the core objective of enterprise risk management by (Malik et al., 2017).

The forces of globalization and digitization are constantly changing the landscape of client demand. Due to this ever-changing environment, competition has significantly increased, posing difficult obstacles for small and medium-sized businesses (Yang, 2017). One of the most important strategic tools for attaining sustainable growth is innovation. Businesses need to innovate to keep up with changing consumer tastes, dynamic market conditions, and disruptive technical breakthroughs. For small and medium-sized businesses to prosper, grow, and maintain a competitive edge, innovation is now essential (Puriwat & Tripopsakul, 2021).

A key managerial component for improving enterprise performance in the small and medium-sized business sector is the use of a customer relationship-oriented approach. Using personal connections in interactions between consumers and businesses is essential to developing genuine customer relationships (Odondo, 2022). Business enterprises have come to regard customer relationship management as a survival strategy, especially in today's increasingly competitive and customer-centric corporate market (Davireng et al., 2022). Businesses must focus on efforts to attract in and keep customers and consumers of their products as the globalization continues to change the business landscape and increase competition among small and medium-sized businesses globally. This makes it necessary to put in place efficient methods for managing and keeping customers loyal (Adewole, 2018).

In conclusion, this study explores the critical role that sound decision-making plays in supporting Pakistani SMBs expansion and sustainability. Our goal is to shed light on how SMBs may improve their performance and flexibility in a competitive market by analyzing the relationship between decision-making and important predictors including risk management, financial stability, innovation, and customer relationships. This research aims to offer practical insights to assist the growth and prosperity of SMBs in Pakistan's economic environment through empirical research and Research frameworks.

## LITERATURE REVIEW

The review of literature stresses the importance of sound decision-making for Small and Medium-Sized Businesses (SMBs), emphasizing the ways in which it affects risk management, innovation, financial stability, and customer relations. The present research is grounded in previous studies that highlights the crucial impact these elements have in the success and growth of small and medium-sized businesses.

A widely accepted definition that fully captures the idea of SMBs does not yet exist. Different nations define SMBs according to different standards that include business-related and demographic elements. The number of employees, the company's size, age, ownership structure, sales volume, and the degree of innovation and technological use are a few examples of these variables (Zeinalnezhad et al., 2011). Since SMBs represent an important share of the national economy, their role in national development and Pakistan's sustained economic advancement is crucial. First and foremost, SMBs account for around 90% of all businesses in Pakistan, provide 80% of non-agricultural jobs, and contribute 40% of the country's yearly GDP (Shah et al., 2017).

According (Rizvi, & Querishi, 2018) execution is utilized by small businesses in Pakistan to make decisions, and it has a good correlation with both financial performance and levels of innovation. (Jamil et al., 2017) stated that growth of Pakistani small and medium-sized businesses is greatly impacted by effective decision-making. Reasonable choices and high levels of management produce significant growth – an impressive 80% increase for every 1% invested. In small and medium-sized businesses (SMBs), decision-making is heavily influenced by financial stability (Franco & Haase, 2010; Ismaila, 2011; Fatoki, 2014). The availability of finance affects the financial stability of SMBs in Pakistan. While a lack of outside funding reduces risk, it also restricts prospects for expansion, underscoring the significance of good financial management techniques for sustainability (Shahbaz et al., 2014). Financial statements serve as the foundation for decision-making for small and medium-sized businesses (SMBs) in Pakistan, where owners' knowledge, expertise, and aptitude for interpreting financial data also play a role stressed by (Akhtar & Liu, 2018).

According to (Crovini, 2019), small and medium-sized enterprises in Pakistan may strengthen risk management through making better decisions, raising awareness, and taking a comprehensive strategy. Corporate managers of listed Pakistani companies use risk management techniques, and both non-financial and financial aspects play a role in decision-making. The study shows that risk management techniques and factors are directly related addressed by (Mehdi et al., 2019). Furthermore, (Sultan & Khurram, 2018) points out risks have a moderating effect on the performance of SMEs in Karachi when it comes to outsourcing decisions. In Pakistan, small and medium-sized enterprises rely heavily on risk management while making decisions.

(Nazir & Khan, 2022) includes that small and medium businesses creativity and decision-making processes are impacted by the government's backing, cultural norms, and entrepreneurial traits when it comes to SMEs' adoption of ICT in Pakistan. (Nazir & Khan, 2022) has identified in their other

paper that the impact and factors influencing ICT adoption in Pakistani SMEs are examined in this research article, with a focus on the role that government support, entrepreneurial traits, and cultural decisions play in successful adoption. The study indicates that the adoption of ICT in Pakistan improves innovation and decision-making in small and medium-sized businesses, hence improving corporate performance mentioned by (Akbar et al., 2022).

(Irfan et al., 2019) explored that in Pakistan, small and medium retail stores concentrate on in-store logistics to improve customer happiness, retention, and loyalty while supporting CRM decision-making. (Tanveer, 2021) focused on that the study emphasizes relationship growth and dependability while analyzing the effects of online retail ethics on customer loyalty and repurchase intentions in small and medium-sized Pakistani businesses. (Solangi et al., 2019) pointed out that relationship marketing, which emphasizes trust, commitment, communication, and dispute resolution for long-term client interactions, is vital to Pakistani businesses' decisions about customer retention.

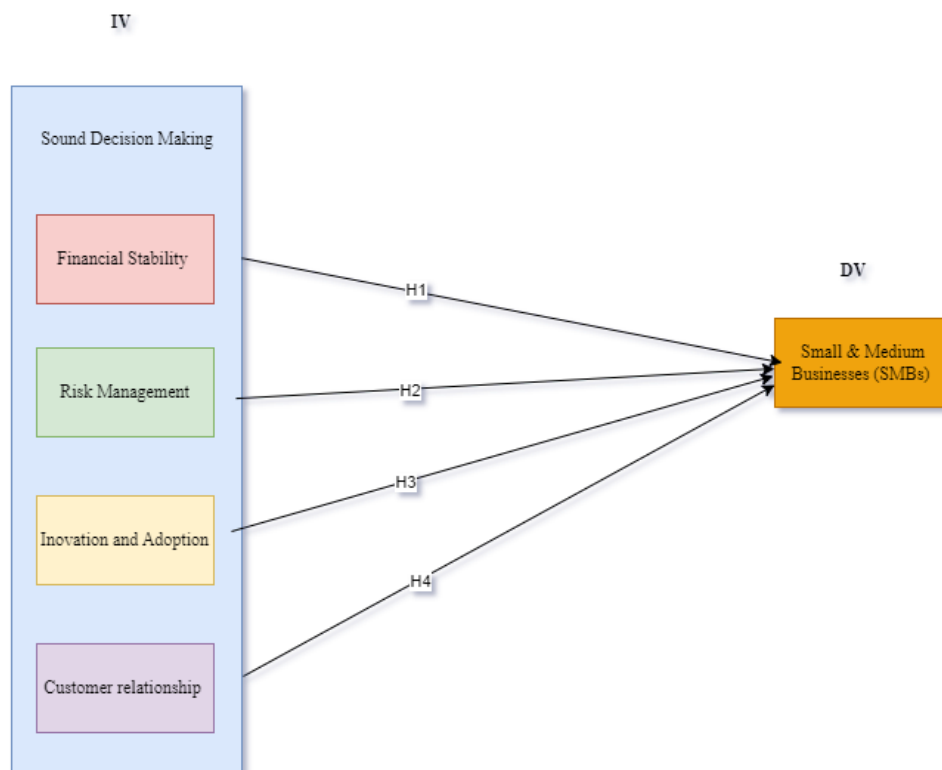


Figure 1. Research Model

### Research Hypothesis

H1: Financial stability has a significant positive impact on the success of SMBs.

H2: Effective risk management positively influences the success of SMBs.

H3: Innovation and adoption positively impact the success of SMBs.

H4: Strong customer relationships have a significant positive impact on the success of SMBs.

### **Problem Statement**

While everyone agrees that making wise decisions is crucial to success, not enough is known about the particular effects this has on small and medium-sized businesses in Pakistan. This study intends to explore the details of decision-making processes in this setting, with the goal of improving business strategies and bridging the gap in empirical evidence.

### **Objective of the Study**

The study aims to achieve the following objectives

1. Examine the relationship between sound decision-making and financial stability in SMBs.
2. Analyze the impact of sound decision-making on risk management strategies within SMBs.
3. Assess the role of sound decision-making in fostering innovation and adoption of new technologies among SMBs.
4. Determined how sound decision-making contributes to enhancing customer relationships and satisfaction in SMBs operating in Pakistan.

### **METHODOLOGY**

This study looks into how sound decision-making affects Pakistani small and medium-sized businesses (SMBs) using a quantitative research design. There are 1425 individuals in the sample, representing a range of Pakistani various sectors. In order to ensure representation from a variety of industries, including manufacturing, services, retail, and technology, among others, participants were chosen through the use of a convenient sample technique. Structured surveys that were given both in-person and electronically were used to gather data. Validated scales for measuring important constructs like risk management, financial stability, innovation adoption, customer relations, and their effect on SMB performance were incorporated in the survey instrument. To add context, demographic data on age, gender, education, and marital status was also gathered. The independent variables in this study include financial stability, risk management, innovation adoption, and customer relations. The dependent variable is the performance of SMBs in Pakistan. Statistical analyses were conducted using software such as SPSS "Statistical package for social sciences", frequencies and percentages were employed to summaries key indicators and demographic data. Correlation coefficients will be calculated to examine the relationships between variables such as financial stability, risk management, innovation adoption, and customer relations. Multiple regression analysis will be conducted to explore the predictive relationship between the independent variables (financial stability, risk management, innovation adoption, and customer relations) and the dependent variable. ANOVA will be employed to assess the impact of different factors (e.g., business sector) on SMB performance. The coefficients obtained from regression analysis will be interpreted to understand the strength and direction of the relationships between predictor variables and outcome variable. Throughout the research procedure, ethical guidelines will be followed to, guaranteeing informed consent, privacy of participants, and privacy.

## RESULT AND DISCUSSION

### Reliability

The Alpha reliability test is used to assess the reliability of the questionnaire data, and questions are modified from various sources. The instrument reliability is assessed using Cronbach's Alpha. The range of error-free and bias-free quantitative methods is shown by their reliability (Sekaran, 2003). To determine alpha values, follow the steps suggested by (Tabachnick & Fidell, 2007).  $\alpha > 0.9$  indicates excellent;  $\alpha > 0.8$  indicates very good;  $\alpha > 0.7$  indicates good;  $\alpha > 0.6$  indicates acceptable;  $\alpha > 0.5$  is dubious; and  $\alpha < 0.5$  indicates unacceptable. The study demonstrates that the questionnaire is acceptable and dependable, as evidenced by its reliability score of variables were ( $\alpha = 0.9944$ ,  $\alpha = 0.9998$ ,  $\alpha = 0.9982$ ,  $\alpha = 0.9986$ ,  $\alpha = 0.9966$ ).

Table 1. Cronbach's Alpha Reliability Results

Variables	Cronbach's Alpha	No of Items
Small and Medium businesses	0.9944	5
Financial Stability	0.9998	5
Risk Management	0.9982	5
Innovation and Adoption	0.9986	5
Customer relationship	0.9966	5

### Data Analysis

Data analysis is almost always the last and most crucial element in the marketing research process. Without it, researchers find it impossible to come up with recommendations for the appropriate individuals. We utilized SPSS software to analyze the primary data and ran several tests, including regression, correlation, ANOVA, model summary, and coefficients.

Table 2. Gender Wise Distribution

Gender	Frequency	Percentage
Male	1311	92.00
Female	114	8.00

The data shows in table 2 that 1311 of the 1425 respondents who were questioned are men and 114 are women. This indicates that there is a preponderance of male representation among the respondents, with 92.00% of respondents being male and only 8.00% being female.

Table 3. Age Wise Distribution

Age	Frequency	Percentage
Under 18	214	15.00
18-24	236	16.60
25-34	235	16.5
35-44	250	17.50
45-54	240	16.80
55 and above	250	17.50
<b>Total</b>	<b>1425</b>	<b>100.00</b>

The data indicates in the table 3 that presents an age distribution of the respondents, indicating a varied representation in different age groups. Of the 1425 participants, 214 responses were younger than 18 years old, or 15.00% of the sample as a whole. 236 respondents, or 16.60% of the sample, were in the 18–24 age range, and 235 respondents, or 16.5% of the sample, were in the 25–34 age range. There were 250 respondents in each age group – 35–44 and 55 and older – which accounts for 17.50 percent of the sample in each case. With 240 responses, the 45–54 age group accounted for 16.80% of the total. This distribution indicates a fairly balanced distribution across age groups, with a minor overrepresentation of those in the 35–44 and 55 and older categories. This demonstrates that the survey sample includes a wide range of age demographics.

Table 4. Education Wise Distribution

Education	Frequency	Percentage
Yes	989	69.33
No	436	30.60
<b>Total</b>	<b>1425</b>	<b>100.00</b>

It can be seen from the table that out of the 1425 respondents in total, (989) respondents, or 69.33 percent were respond as yes, and 436 respondents, or 30.60 percent were respond as No.

Table 5. Marital Status Wise Distribution

Marital Status	Frequency	Percentage
Yes	1138	79.79
No	287	20.14
<b>Total</b>	<b>1425</b>	<b>100.00</b>



According to the data table, 1138 respondents, or 79.79% of the 1425 respondents that participated in the research overall, are married. Furthermore, 287 respondents, or 20.14% of the total, are unmarried.

### Descriptive Statistics

The descriptive data shed light on how small and medium-sized businesses (SMBs) view different aspects of the world. The 1425 respondents' mean scores, which range from roughly 2.7491 to 2.7923, show an overall good perception across all factors. The standard deviations, which fall between roughly 1.2912 and 1.3041, indicate that reactions to the various dimensions are quite variable. According to the data as a whole, respondents believe that SMBs have rather positive qualities in terms of customer interactions, financial stability, risk management, and innovation and adoption. These results can help develop strategies to improve SMB performance and address problem areas so that stakeholders' expectations and industry standards are better met.

Table 6. Descriptive Statistics

Variables	N	Mean	Std. Deviation
<b>SMBs</b>	1425	2.7923	1.3041
<b>FS</b>	1425	2.7597	1.2912
<b>RM</b>	1425	2.7587	1.2932
<b>IA</b>	1425	2.7585	1.2926
<b>CR</b>	1425	2.7491	1.2972

SMBs: Small and Medium businesses, FS: Financial Stability, RM: Risk Management,

IA: Innovation and Adoption, CR: Customer relationship

### Correlation Analysis

The variables SMBs (small and medium-sized businesses), FS (financial stability), RM (risk management), IA (information accessibility), and CR (customer relationships) show high positive associations, according to the correlation study. There is a strong positive correlation between SMBs and the other factors, as indicated by correlation values ranging from 0.95 to 0.998. With coefficients ranging from 0.993 to 0.999, FS, RM, IA, and CR similarly show substantial associations. According to these results, there appears to be an inverse relationship between variables that are important for the functioning of businesses; that is, when one variable rises, the others also tend to rise. This emphasizes the significance of complete and interconnected methods to managing SMBs, financial stability, risk, information accessibility, and customer relationships. It also shows that changes or enhancements in one area may have equal effects on the others.

Table 7. Correlation Analysis

Variables	SMBs	FS	RM	IA	CR
<b>SMBs</b>	0.998	0.956	0.954	0.955	0.95
<b>FS</b>	0.956	0.997	0.998	0.999	0.994
<b>RM</b>	0.954	0.998	0.998	0.999	0.994
<b>IA</b>	0.955	0.999	0.999	0.994	0.995
<b>CR</b>	0.95	0.994	0.994	0.995	0.993

SMBs: Small and Medium businesses, FS: Financial Stability, RM: Risk Management,  
IA: Innovation and Adoption, CR: Customer relationship

### Model Summary

A high R value of .956 in the model summary indicates a strong link between the predictor and outcome variables. This indicates that the predictor variables included in the model can account for about 91.3% of the variability observed in the outcome variable. Even after accounting for sample size and predictor count, the model's explanatory power is still quite high, as evidenced by the adjusted R square, which stays steady at 91.3%. Furthermore, the estimate's standard error is comparatively small at 1.90443, suggesting that the model's predictions are reliable and only slightly deviate from the actual values. The model's overall high degree of explanatory power and prediction accuracy indicates that it is successful in capturing the relationship between the predictor and outcome variables.

Table 8. Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.956 <sup>a</sup>	0.913	0.913	1.90443

a. Predictors: (Constant), Sound decision-making

b. Dependent Variable: Small and medium businesses

### Anova

The findings of the analysis of variance (ANOVA) show that there is a substantial correlation between the predictor and outcome variables. A considerable amount of the variance in the outcome variable is explained by the regression model, which has four degrees of freedom and a sum of squares of 54344.736. This is demonstrated by the high F-value of 3745.990, which is linked to a statistically significant p-value ( $p < .001$ ). This implies a high degree of predictive potential for the model. The outcome variable's variability that the regression model was unable to account for is indicated by the residual sum of squares (5150.142), which yielded a comparatively low mean square value of 3.627. The positive F-statistic and overall ANOVA results point to a strong fit of

the regression model to the data, suggesting that the predictor variables together have a meaningful effect on the outcome variable.

Table 9. ANOVA

Model	Sum of Squares	Df	Mean Square	F	Sig.
Regression	54344.736	4	13586.184	3745.990	.000 <sup>b</sup>
Residual	5150.142	1420	3.627		
Total	59494.877	1424			

- a. Predictors: (Constant), Sound decision-making  
 b. Dependent Variable: Small and medium businesses

**Coefficients**

The results of the coefficients analysis indicate a significant relationship between the outcome variable and the predictor variables (risk management, financial stability, innovation adoption, and customer relations). The unstandardized coefficients (B) of 0.928, 0.921, 0.917, and 0.924 for each predictor variable show a favorable link with the result. Additionally, the standardized coefficients (Beta), which range from 0.919 to 0.927 and show values close to 1, highlight the strength of these associations even more. According to these standardized coefficients, financial stability, risk management, innovation adoption, and customer relations are the main factors that impact the outcome, with each predictor variable having a significant impact. Furthermore, the t-values that are statistically significant and the corresponding p-values ( $p < .005$ ) suggest that these coefficients are consistently different from zero.

Table 10. Coefficients

Variables	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
(Constant)	0.751	0.119		6.301	0.000
Financial Stability	0.928	0.202	0.926	4.593	0.000
Risk Management	0.921	0.180	0.919	0.163	0.020
Innovation and Adoption	0.917	0.255	0.927	0.155	0.005
Customer Relationship	0.924	0.077	0.920	0.195	0.003

- a. Dependent Variable: Small Medium Businesses

### **Limitation of the study**

This study's boundaries include concentrating only on Small and Medium-Sized Businesses (SMBs) in the Pakistani environment. The focus of the research is on how SMBs performance is affected by decision-making components such financial stability, risk management, innovation and adoption, and customer relationship management. Furthermore, the study is restricted to a quantitative methodology, gathering data from SMB owners, managers, employees through survey methodology. Beyond the defined components, the study does not explore the more general macroeconomic variables or cultural influences that could have an impact on SMB decision-making processes.

## **CONCLUSION AND RECOMMENDATION**

### **Conclusion**

This study shows how essential sound decision-making is to Small and Medium Businesses' (SMBs') survival and performance in Pakistan's changing business environment. Our findings shed light on the complex relationship between effective decision-making and the performance and growth trajectory of small and medium-sized businesses (SMBs). This is achieved through a thorough analysis of several important dimensions, such as financial stability, risk management, innovation and adoption, and customer relationship management.

First, our research shows that strong financial decisions are fundamental to SMBs, providing a solid foundation for long-term survival, strategic planning, and resource allocation. Strong financial management procedures help small and medium-sized businesses (SMBs) take advantage of growth prospects, manage economic turbulence, and build resilience in the face of market swings.

Furthermore, our study illustrates how vital proactive risk management techniques are to reducing uncertainty and protecting SMBs from future upheavals. Small and medium-sized businesses (SMBs) can improve their ability to adjust to changing market conditions, take advantage of new opportunities, and strengthen their competitive position by methodically recognizing, evaluating, and managing risks.

Moreover, it is impossible to overestimate the essential part that innovation and adoption play in propelling SMB success. Innovation-friendly cultures and technical innovations help small and medium-sized businesses (SMBs) stand out from the competition, improve operational effectiveness, and open up new growth and expansion opportunities.

Additionally, our research stresses how crucial it is to cultivate solid customer relationships as the basis for wise decision-making in small and medium-sized businesses. Focusing on customer-centric strategies helps small and medium-sized businesses (SMBs) build brand advocacy, loyalty, and critical insights into changing consumer wants and preferences.

In conclusion, our findings underline the fundamental linkage between competent decision-making and the ongoing success of SMBs in Pakistan. By embracing a proactive and integrated approach to decision-making encompassing financial stability, risk management, innovation and adoption, and customer relationship management, SMBs can position themselves for long-term growth, resilience, and prosperity amidst an ever-evolving business landscape. This

research contributes to a deeper knowledge of the variables driving SMB success and delivers actionable insights to stakeholders, policymakers, and practitioners looking to build a suitable ecosystem for SMB growth and development in Pakistan.

### **Recommendations**

1. Spend some time identifying the risks that could affect your company, such as shifts in regulations, supply chain delays, or financial crises. Create backup strategies to reduce these risks and guarantee business continuity.
2. Stay flexible to fresh ideas and advancements in technology that may enhance the products and services you provide. Encourage your team to come up with creative answers to problems and cultivate an environment that welcomes adaptability and change.
3. Examine reasonably priced technological options that can increase productivity and simplify your business processes. This can include utilizing digital tools for customer relationship management, internet marketing, or inventory management.
4. Spend time getting to know your customers on a personal level. Reward loyalty, pay attention to their input, and immediately resolve any complaints they may have. Content customers are more likely to use your business again and refer others to it.
5. Become a member of associations or industry networks to exchange experiences and learn from other professionals. Working together with other SMBs can give you access to information, resources, and assistance that will boost the growth of your business.

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