BUSINESS RECORDER

Stunted governance, stunted economy

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Even after 60 years of financial market development, the local companies are still a small part of the market at about 30%. The KSE-100 is dominated by 31 family-owned companies, where the owners keep a stranglehold on the management. Arguably, a bulk of shares held by these owners lowers the liquidity, trade volumes and market efficiency.

This leaves fewer free float shares to be traded. Compared to regional peers, Pakistan's business market is shackled. PIDE is among those think tanks where the researchers under the mentorship of Dr Nadeem-ul-Haque have voiced this issue on various platforms.

High protectionism, permit and licensing requirements, stringent government footprints and regulations and monopoly practices by the conglomerates and family-run businesses are the mucks that have restricted the prospects of business expansion and productivity in Pakistan.

The dominance of the conglomerates and family-run businesses can be attributed to a lack of competitive markets and the government's misguided protection and subsidy policies leading to lack of a professional growth culture. One core element highly linked to family-owned businesses is the phenomenon of ownership and composition of the board of directors in these businesses.

Unlike the private sector, where a competitive environment ensures that the most competent flawlessly gets promoted to take charge of key decision-making roles, the leadership in family-owned companies is the product of network clustering.

The business ecosystem is dominated by the members of 31 primary families holding directorship positions to steer the market conditions. One common practice prevalent in these family-owned companies is connectedness to their network. The board of directors of the family-owned companies is controlled by a small group of interconnected people, who are reluctant to allow some accomplished people outside their club on the boards.

The network analysis depicts that individuals occupying directorship are part of their elite club. A study shows that each director in the central position holds or held identical positions in parallel companies at least 10 times, some have or had as many as 17 times.

This signifies that these companies do not bother to ensure adequate procedures to appoint the key board positions in an independent way. There is a dearth of democratic norms, transparency measures, accountability mechanisms, and meritocratic practices in the corporate sector and the companies hardly adhere to the Code of Corporate Governance.

The board members are predominantly male, with disproportionate female presence. The color of the colonial remnants of the 'Seth' culture is so deeply inherent that a major part is unwilling to professionalize their management and wants to maintain the status quo to extract the maximum benefits.

The management of these companies has a regressive vision. Their culture suffers from corporate myopia, lacking foresight and long-term plans. The boards normally consist of the members from the elite club like corporations, family members of business founders, retired personnel of armed forces, retired and active civil servants, and a sizable portion of non-executive directors with prior government experience.

The appointment of designating bureaucrats and government officials as independent directors on business boards creates a mismatch in priorities, strategies, knowledge, capabilities, and perspectives between the corporate and bureaucratic domains.

These officials once appointed cannot navigate the corporate sector that is competitive and dynamic in nature. This is also against the State-Owned Enterprises Act of 2023, which forbids the appointment of bureaucrats as independent boards of directors.

There is always an economic cost related to poor governance, therefore, there is a need to restructure the governance mechanism.

In short, Pakistani companies are mainly family-owned, showing stunted growth and are mostly unlisted. Only a few companies are valued over $2 billion in the stock market. Whereas, the presence of many multibillion-dollar companies globally is a point to pause and ponder about the ineffective business policy making and poor governance practices prevalent in Pakistan as rightly pin-pointed by PIDE and Dr Nadeem-ul-Haque.

The major reason can be attributed to the presence of the government footprints and burden of unnecessary and redundant regulations. The easy breaks provided by the government through import substitution, opportunities and subsidies make them crippled to compete globally. Markets with less regulations can provide an arena for fair competition to companies to grow and develop.

In short, the causes of the prevalent doldrums in economic activities are multifaceted and are embedded in structural, institutional, and cultural factors. There is a dire need for reforms at all levels to ensure a stable economic growth in the country. To pave the way for sustainable economic growth and development, the need is to prioritise meritocratic practices, encourage transparency, foster a culture of innovation, learn from international best practices, promote competition, privatisation, credit provision, and R&D, etc.

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