

BUSINESS COMMUNITY PROBLEMS IN PAKISTAN: AN OVERVIEW



Farhat Mahmood

The business community (small size entrepreneurs) in Pakistan faces many challenges before and after starting a new business. There are many brilliant business minds with innovative and sustainable business ideas but are unable to sustain their business ventures particularly from last ten years²⁴. Following are the top common business community problems of Pakistan, which if could be solved, Pakistan can progress by leaps and bounds.

▶ **WEAK CONTRACT ENFORCEMENT SYSTEM**

The biggest problem for attracting foreign and local investment in Pakistan is the inefficient contract enforcement mechanism. According to the World Bank's Ease of Doing Business Report 2019, Pakistan stands 156 out of 190 countries in terms of enforcing contracts indicating less priority area for the government. State Bank of Pakistan (SBP) statistics also revealed that investment was shifting out of the country due to weak contract enforcement system of the country. Due to weak contract enforcement system in Pakistan, big businessmen exploit the young/new entrepreneurs which is why they are unable to sustain their business. Hence, without independent and efficient judiciary system the business environ

ment will remain very uncertain and full of risk and will damage entrepreneurship and investment climate in Pakistan (Haque 2007). The solution of the problem is to make exclusive courts for speedy trials for small size enterprises.

PRODUCT OPTIMIZATION

Many Pakistani business owners replicating foreign business ideas without having done proper local market research. This creates big problem when they join the real business world. The solution is to amend foreign business ideas according to the socio-cultural needs of Pakistani society. In this regard handholding of small entrepreneurs by experienced successful business tycoons could solve the problem.

BUREAUCRACY INVOLVEMENT

Another challenge faced by young entrepreneurs in Pakistan is the bureaucracy involvement in business. In fact, Pakistan lacks innovation and creativity in businesses because of being a controlled economy (controlled by bureaucracy). People are trained to opt for jobs in future not for businesses due to the fear of failure in business because of excessive involvement of bureaucracy. The solution is that bureaucracy's role should be zero or minimal, only then businesses can flourish in Pakistan. For this Bureaucratic reform is the need of hour (Sameen 2023²⁵).

ROLE OF EDUCATIONAL INSTITUTES

There is a very limited collaboration between industry and academia in Pakistan. This is because academia lacks an insight into real business problems. The main focus of most of the higher education institutes (especially public institutes) is to deliver only theoretical aspects of business without going into the practicality of business. This prevents students to think innovatively. The solution of the problem is to connect young students/future entrepreneurs with business community into education institutes so that students learn from their experience (to avoid major mistakes) and become able to think innovatively to work in a competitive environment. Even all vocational centers should be closed or updated with latest technology trainings. There should be frequent lectures given by top businessmen in these centers.

LACK OF FINANCIAL SUPPORT

One of the major reasons for most of the failed small businesses in Pakistan is the lack of finance. Mostly small size businesses rely on informal financial sources (personal savings

²⁴The list of defaulting companies has increased sharply in 2023 comparing to previous years, see <https://www.psx.com.pk/psx/resources-and-tools/Defaulting-Companies-Profile-Portal>

²⁵<https://pide.org.pk/research/bureaucratic-reform/>

or loans from relatives) and so when they face financial problems they were not able to sustain in the market. The solution is that the government must focus on micro- level businesses in Pakistan. Even at the time of crisis small and medium size businesses could survive to some extent but micro level businesses are unable to sustain without government support especially financial support at the time of recession. There should be an institute under the patronage of government which provides finance to the business sector only and especially promotes businesses with innovative ideas. The amount provided to support such ideas should be generous not marginal like the existing micro- finance banks which offer very small amounts with huge markups. There should be no requirement of collateral if a business has an NTN. Therefore, the government should provide interest free and collateral free loan schemes to sustain small size businesses at the time of financial crunch.

▶ **ATTITUDE TO RISK/RISK MANAGEMENT**

In Pakistan people are usually reluctant to apply innovative ideas due to fear of failure and societal pressure and so opt secure professions. Even after facing few business failures the young entrepreneurs/small size companies choose for safest investment such as investment in T-bills to cater their short-term investment requirements (Mehmood and Fraz 2020). Therefore, there is a dire need to change the risk-averse business mind set and this could be done with the involvement of government in risky business projects.

▶ **LOW FEMALE PARTICIPATION**

The gig economy motivate women to enter into businesses but due to social restrictions from their male counterparts they are unable to express their full potential. The solution is that the government should develop more flexible policies to promote female entrepreneurship in Pakistan.

▶ **SETH LED FAMILY BUSINESS CULTURE**

In Pakistan the family-run business remains the dominant model (PIDE RASTA Conference, 2023) due to lack of competition especially from small size entrepreneurs who do not receive government support to enlarge their businesses. As a result, family businesses lack innovative capabilities and professional growth culture. There is a need to replace the Seth model of "owner and worker" with the model of "employee as a stakeholder and contributor".

▶ **LACK OF VENTURE CAPITAL FUNDS**

Due to very small size of available venture capital funds, many young entrepreneurs/startups are not able to materialize their business ideas in Pakistan. They are unable to secure the venture capital financing (which they need to grow) because it is very competitive in case of Pakistan. The solution is that the government should foster more venture capital funds by offering them multiple benefits such as tax breaks (Mahmood 2024).

Finally, the government policies should reflect upon the best practices of other Asian countries to solve small entrepreneurs' problems. Hence, it is the need of hour that government should make separate and more flexible policies to flourish micro level businesses (i.e. 10million - 150million annual sales turnover) to achieve more sustainable long run economic growth.

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