ESSENTIAL STEPS FOR PAKISTANI COMPANIES TO COMPETE GLOBALLY

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WHY CAN'T PAKISTANI BUSINESSES COMPETE IN GLOBAL MARKETS?

The business sector of Pakistan keeps blaming the lack of support from government (poor regulatory framework, policy uncertainty and an overall economic Mis governance), while government blames past government policies for all the inefficiency exist in the business industry of the country. As a consequence of this blame game, Pakistani based firms did not flourish globally.

This article will address following questions to highlight the factors that inhibits Pakistani firms to compete globally.

Q.No. 1: Why Pakistani companies are so stunted? We have hardly any Billion Dollar Companies. Internationally Billion Dollar companies are SMEs. Can we grow without growing companies?

The major reasons behind stunted growth of Pakistani companies include:

- The monopoly control authorities (MCA) and Pakistan competition commission (PCC) are not very much effective.
- Profit margins of Pakistani companies are too high (e.g. internationally profit margins are very narrow but volumes are high whereas in Pakistan profit margins are high and volume is low).
- Majority Small and medium-sized enterprises (SMEs) failed to provide value added services.
- The level of competition is almost absent due to the lack of interest of investors and poor government policies.
- Majority of the businesses due to personal beliefs do not take loans at the cost of business growth thus the size of their business remained small.
- The government protect some industries like an infant child. If it continues like this, we cannot grow.

Q.No. 2: Most of the companies are "seth companies". Pakistanis hate to professionalize their management. Similarly, they do not like to be listed on the stock exchange. Family control also means that at the time of inheritance, most companies split up among the next generation thereby reducing the chances for growth. PIDE recommends that companies be given incentives to professionalize and list on the stock exchange and grow.

With the population of 25 crore people Pakistani seth companies don't focus to enhance their production mainly because

- They are satisfied with their existing roaring profit margins (25 crore Pakistani make a consumption led economy).
- They are not facing competition especially from foreign enterprises.
- 'Seth companies' willingly (probably not the lack of knowledge and skill) do not adopt efficient corporate culture in Pakistan mainly because they don't want to disclose their accounts in order to avoid taxes.

- It is the need of hour to list Pakistani companies on the stock exchange in order to reduce the size of undocumented economy.

Q.No. 3: Why do companies in Pakistan not target foreign markets? Most of the companies are not exporters. Large houses have always been incentivized by policy to remain in the domestic market, either through protection, or through given opportunities such as IPPs, privatization, subsidies etc. PIDE recommends that government give incentives to companies based on their performance in exports.

- Pakistani companies not target foreign markets because of the lack of required knowhow of international markets, lack of understand of the shifts in production trends and markets, the changing cost structures and emerging supply chains. Consequently, our businesses failed to go into the value-added segments at the right time and thus giving up market share to new entrants (especially to India, Bangladesh, Turkey and Vietnam - who are far better organized to deal with the changed market needs).
- Government of Pakistan must not give incentives (i.e. tax rebates and subsidies) other than export sector of Pakistan.

Q.No. 4: What are the major areas where companies in Pakistan lag behind global competitors?

The corporate globalization challenges for Pakistani companies include:

- Pakistani industries rely on basic production capabilities while the world invests in superior marketing strategies.
- As a nation our exposure to international markets is limited.
- Pakistani corporate managers are hesitant to challenge the status quo and have difficulties understanding other international market and so preferred to remain isolated.
- Businesses in Pakistan lack management skills which are required to compete in the global markets.
- our entrepreneurs never felt the need to compete globally due to exorbitant local profit margins (e.g. Pakistan's largest conglomerates like fertilizer, energy, cement, sugar, automotive – all meant for the local population)
- They preferred to operate in industries which served the domestic market where they could influence their networks.

Q.No. 5: Why is there no R&D and innovation from Pakistan based firms and businesses to make their product or service unique in the global market?

- Lack of venture capitalist in Pakistan (it is rare in our seth culture to think outside the box and venture into new avenues).
- In Pakistani corporate entities the board of directors mostly consists of family and relatives, thus hindering any outside approaches of fresh/ innovative ideas.
- The use of latest technology can also be a major innovation in improving business regulations

Q.No. 6: Most of the companies do not focus on developing a brand name with a known product. That is why they do not need R&D. For this reason, they also do not need any local research or any local university which is also depressing our thought and research industry

- In Pakistan majority of the businesses do not go for branding mainly because of lack of awareness and lack of support.
- This is where the state, the private sector and academia must join hands in order to develop educational programs in areas like international marketing, project management, overseas customer support & service, product design, development and foreign languages and finally cultural awareness.

Q.No. 7: What are the regulatory hurdles preventing the companies from operating outside Pakistan and targeting foreign markets? Exchange controls prevent Pakistani firms from expanding overseas. Is this a good thing?

- In Pakistan there exists too many requirements and regulations (regarding documentation and disclosures) to be fulfilled by the private sector if they decided to become public listed companies.
- The strong exchange control is a good thing to do because it results in low cost of production (i.e. with cheap import) and low inflation (i.e. low prices of foreign goods and services).

WAY FORWARD ...

- More ease of doing business steps should be taken by Securities and Exchange commission of Pakistan (SECP) especially for the private sector to make them registered.
- There is a dire need to promote local and foreign business competition in Pakistan.
- The Seth approach of "owner and worker" model must be replaced by the model of "employee as a stakeholder and contributor".
- Pakistani businesses should be moving up the value-added chain rather than focusing on little value added commodities.

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