



Obstacles to Entrepreneurship in Pakistan

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Abstract

In Pakistan, the government's much greater patronising of investment at a large industrial level with the belief that it had been promoting entrepreneurship was the result of the connivance/collusion between civil servants and business tycoons, who created a new definition of entrepreneurship that was contrary to the norms of the established theories. The Paper-II is a continuation of our previous paper on the same topic (see Alaoui et al. [2016]) however with an approach of intertemporal analysis and focusing Pakistan which includes population from SMEs and non-SMEs. The fundamental conclusion of this study is that there is no one factor that prevents the growth and expansion of SMEs in Pakistan, but political instability, a deficient legal system, red tape-filled bureaucracy, and bank loans and grants do so to some extent. It has been discovered that intertemporal factors significantly affect how respondents behave. The study notices that one of the main barriers to the growth of SMEs in Pakistan is connivance/collusion between public policy makers and business tycoons, and that the myth that government is patronising investment at large

industrial level with the belief of promoting SMEs signals a violation of the standards of established theories. The study recommends that the government adopt long-term objectives and strategies for SMEs and take a proactive stance. There is a need to boost research and development (R&D) on the most recent technical advancements in a variety of disciplines for SMEs.

Keywords: Entrepreneurship, Small and Medium Entrepreneurs, Hindering Factors, Connivance/Collusion, Misnomer

1.0 Introduction

Small and medium-sized businesses (SMEs) are an important driver of economic growth and socioeconomic development. They play a crucial role in the global economy of today, have the potential to reduce poverty, create jobs, serve as supply chains for luxury brands, and foster economic expansion, making them a crucial component of any country's overall economic structure (Amir et al., 2020; Naveed et al., 2022). Leading international financial institutions including the IMF, World Bank, and Asian Development Bank have labelled and acknowledged this SME-focused growth model as a vital economic instrument. It is reasonable to assume that SMEs in the industrialised world are a crucial source of economic dynamism for every country and a necessary component to achieving inclusive economic growth.

Notwithstanding, the SMEs in Pakistan could not get pretty much attention since its establishment¹. From the very first early period of its creation, Pakistan had been a country with resource constraint therefore principles of equity and efficiency remained a matter of concern as it was not followed in letter and spirit. Given the resource constraint, both physical and human, the magisterial functions of government that included law and order, property rights and judicial began to experience a decline. This decline in turn contributed to the decline in governance and reinforced rent-seeking and corruption (Haque, 2007). As a result, a small and powerful elite group emerged with enough leverage on the country's trade and economic activities. There is an abundance of research addressing the moral hazard issue among policymakers, especially in relation to their policies that focus on the interests of a single specific group, demonstrating connivance/collusion with cronies (Alam, 2023). Such collusion between civil servants and business tycoons conceived a new definition of entrepreneurship in the country which was in contradiction of the norms of the established theories, and it was nothing but

¹ Establishment of Pakistan- 14th August 1947.

the misnomer of government's much more patronizing the investment at large industrial level with the belief of promoting entrepreneurship. Hence, the genuine entrepreneurship could not flourish at a desirable level in Pakistan from the very early days that obviously violated the theories of modern economics and business.

There is little dispute in the research that bad governance and weak state institutions, which encourage rent-seeking and corruption and impede economic progress, are frequently linked to poor economic outcomes (Murphy et al., [1991]; Acemoglu [1995]; Mauro [1995]; & Baumol [2004]). In the case of Pakistan, few studies have examined the role of governance and institutions in macroeconomic outcomes. For example, Khawaja and Khan (2009); Hussain (2008); and Qayyum, Khawaja and Hyder (2008) document that good governance and better institutional quality are necessary conditions for better economic outcomes. As seen by Pakistan's economic policy, which has been biased in favour of the large-scale sector, policy has always been in favour of the elite who own large-scale industrial institutions. As a result, this industry has grown based on rent-seeking incentives rather than entrepreneurial ones. As a result, it was government policy, law, and regulation that had the biggest impact on Pakistan's entrepreneurship.

White (1974), documents that the government of Pakistan from the very beginning followed the policy of favouring tariff protection as a way to promote industrialisation with special emphasis on large scale sector. Whereas Haque (2007) discusses that in Pakistan, the small-scale sector that can be characterized as an entrepreneurship can be observed an informal sector continually besieged by the state in its quest to protect its favourite child the large formal sector. Today almost 40 percent of business takes place in the informal sector and still as compared to the large-scale industry, the small-scale enterprise and industry continues to face unfavourable policies. In this context, Turab and Usman (2014) quote that small and medium enterprise (SME) sector in Pakistan constitute 90 percent of all economic establishments needs special attention for its improvements in the SME sector with an intention to make this sector a focal point for industrial policy. The vast body of literature that exists on the cost of doing business in Pakistan talks about the stagnation of the manufacturing sector, low levels of productivity, and stunted firm growth. Taking a broader approach, the literature explains how different factors i.e., political instability, insufficient judicial system, corruption, macroeconomic instability, the limited availability of skilled labor, credit market failures, weak institutions, infrastructural constraints, the shortage and high cost of energy, inadequate business management and strategy have, over the years, inhibited the growth of Pakistani firms.

This Paper is a continuation of our previous paper on the same topic (see Alaoui et al. [2016]) however with an approach of intertemporal analysis and focusing Pakistan which includes population from SMEs and non-SMEs². It further answers two new questions introduced as (1) *Do you agree that the collusion between civil servants and business tycoons in Pakistan is one of the major hindering factors for the growth of SMEs in Pakistan at desirable level?* and (2) *Do you agree that the misnomer of government's patronizing investment at large industrial level with belief of promoting SMEs in Pakistan signals a violation of the norms of established theories of SMEs?*

The organization of this paper is as follows: Section 2 covers a detailed literature review; section 3 explains methodology; section 4 includes analysis; and section 5 is on conclusion.

2.0 Literature Review

In Pakistan, SMEs are pervasive and growing in all economic sectors. They not only provide employment but also play a significant role in nation's "large Scale Manufacturing" (LSM) and "Service Sector" supply chains. Generally, the informal sector and the small-scale sector in Pakistan has dominated employment in the construction, wholesale, retail trading, hotels, transport, communications, and storage industries in urban areas. In Pakistan, there were 5.2 million SMEs (Najeeb, 2021). The SMEs in Pakistan make up nearly 90% of exclusive private businesses containing manufacturing units, service suppliers, and startups working at different stages using 78% of the non-agricultural workforce, accounting for 25% of manufacturing exports and 30% of Pakistan's GDP (Shah and Syed, 2018). Hence, they can be the key factor in overcoming the economic woes of the country (Amir et al., 2020). Pakistan, since the 90s, had attempted to revitalize SMEs' growth by offering lucrative business opportunities and enacting the "Small and Medium Enterprise Development Authority" (SMEDA)³ and later by promulgating a coherent Policy Framework in 2007 with the objective to boost growth and expansion. Nonetheless, major policy and execution issues including business regulations, bureaucratic anomalies, a scarcity of qualified human resources, restricted investment, etc. have slowed down the expansion of SMEs and prevented Pakistan from fully using the genuine potential of SMEs (Amir et al., 2020).

² non-SMEs were not the part of the previous study i.e., Alaoui et al (2016).

³ SMEDA is the premium organization at Federal level in Pakistan established in 1998 with major objectives to formulate policy in order to boost the growth of SMEs and to advise the Government on its fiscal and monetary issues and acts as a coordinator/facilitator in all matters of SMEs in Pakistan.

Dar et al. (2017) discuss that the knowledge, abilities, and competences of the owner and personnel have an impact on the success of SMEs. Lack of tangible resources, such as physical and financial capital, severely hinders the development of SMEs, but smart use of intangible resources might significantly accelerate growth. One of the biggest challenges for SMEs is finding financing, and many of them lack the indemnification of security required, making it appear exceedingly difficult to acquire a loan from banks and lending agencies.

The findings of Manzoor, Wei, and Siraj (2021) have demonstrated the significance of SMEs to economic development in developing nations like Pakistan and recommend that policy be taken by the government and its agencies to improve investment conditions for SMEs and provide technological, financial, technical, managerial, and infrastructure support. The new definition of SMEs is made easier by Shah (2018), who also calls for considerable government assistance and a strong enabling environment from both the public and private sectors. This is because SMEs are expected to be extremely productive and serve as a catalyst for economic growth and development.

According to Syed et al. (2012), SMEs in Pakistan have a variety of issues and institutional shortcomings. These obstacles have made it difficult for SMEs to fully take advantage of opportunities and the rapidly shifting global business environment. On this continuum, regulations for businesses, "constrained access to formal finance and other input resources," a lack of technology, a shortage of skilled labour, a relatively small base of value-added products, weaknesses in an effective business information culture and infrastructure, a lack of SME support services for anticipated entrepreneurship development and preferment, and a low level of integration in global value chains. While Katua (2014) documents that the constraints that typically thwart someone's ambition to start their own business are more commonly mentioned in literature as administrative challenges, banks' unwillingness to finance new initiatives, the shame associated with failure, risk aversion, views of friends and family, etc. All countries have historically encountered significant obstacles to the growth of entrepreneurship, albeit these obstacles might vary by country. One of the essential elements of SMEs' success in regional nations is, as was previously noted, their efficient and goal-oriented approach to overcoming the difficulties. Likewise, Pakistan must address to mitigate these challenges as without addressing these structural issues the current SMEs development pattern in Pakistan could not be altered.

Afraz, Turab, and Usman (2014) conducted a thorough investigation of the obstacles to business growth in Pakistan utilising the "World Bank's Enterprise Survey 2007" as a point of reference. Infrastructure, trade,

finance, rules, taxes, and business licenses, as well as crime, corruption, and informality, as well as finance, innovation, and labour, are all included in this study as potential obstacles. However, their research indicates that the most pressing issues are the lack of energy supply, followed by crime and corruption, which were found to be more severe than in other nations in the area. They also noted the importance of access to land, tax rates, and financial resources.

Whereas Hussain, Khan, Malik, and Faheem (2012) in a different survey, 7.9% of Lahore-based enterprises cite political and macroeconomic volatility as one of their top three limitations, while nearly 46% regard it as one of their top two. For businesses that rely on imported raw materials, macroeconomic volatility is particularly significant since it drives up their production costs due to the devaluation of the rupee. Both inflation and currency rate fluctuation are considered to be obstacles to conducting business. While Qureshi, Ali, and Khan (2010) and Khan and Saqib (2011) conclude that Pakistan's political unrest has a favourable and substantial influence on inflation. According to Yang (2011), 20 percent of Pakistani businesses saw political unrest as their biggest obstacle to expansion in 2010.

According to Iftikhar et al. (2022), SMEs in Pakistan operate on a tight budget and can rarely afford to implement a sustainable development strategy for their workforce. While Zaman et al. (2022) highlight the restrictions of financial assistance, low budget and income, lack of top management commitment, regulatory framework, less or no SDGs⁴ knowledge, lack of strategic planning for workers, and SDGs related to workers' rights implementation complexity in SMEs in Pakistan (as cited in Naveed et al., 2022), all shareholders, employees, and customers expect a similar pledge to sustainability from all small and medium businesses regardless of size and income. Naveed et al. (2022) suggest that SMEs management can be improved by adopting SDGs 2030 for employee betterment leading to a better working environment and job satisfaction to workers and enhance SMEs productivity.

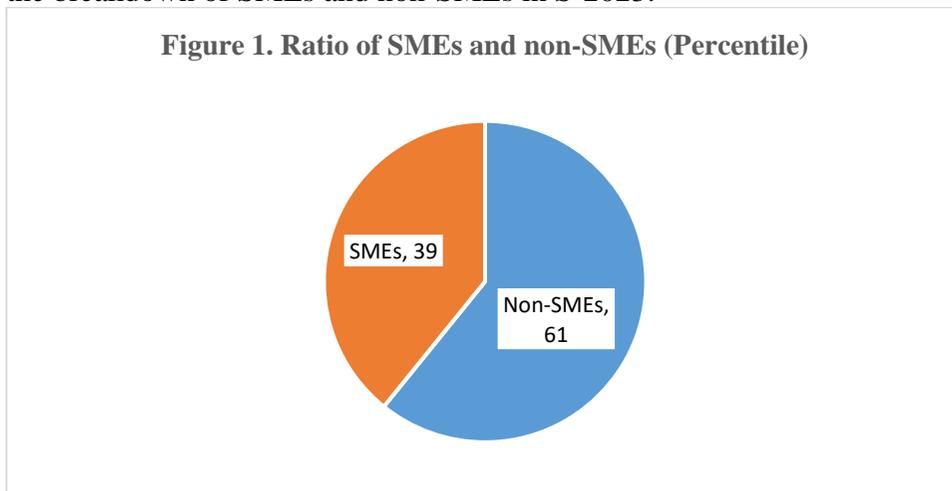
SMEs are essential to fostering economic growth, creating jobs, and limiting inflation, making them the foundation of the economy. In low- and middle-income countries like Pakistan, this sector's significance is noticeably bigger. As a result, SMEs ought to be established with the intention of establishing future businesses, and they ought to be run by experienced professionals rather than by families with inadequate business acumen. The

⁴ The Sustainable Development Goals (SDGs), also known as the Global Goals, were adopted by the United Nations in 2015 as a universal call to action to end poverty, protect the planet, and ensure that by 2030 all people enjoy peace and prosperity. <https://www.undp.org/sustainable-development-goals?>. Retrieved on 27-05-2023.

government should develop a long-term plan and select a goal and area that calls for the engagement of SMEs since it is implausible to believe that a shift in governance and success would come immediately. Since it is unlikely to assume an adjustment in governance and success to occur quickly, the government should establish a long-term strategy and choose a goal and area that calls for the involvement of SMEs. The government must adopt a targeted strategy to provide the conditions for SMEs to gain momentum and power the economy. It should be used domestically to make the nation self-sufficient with little to no reliance on imports. The Pakistani government might follow the examples set by China, Japan, and Korea in this regard.

3.0 Methodology

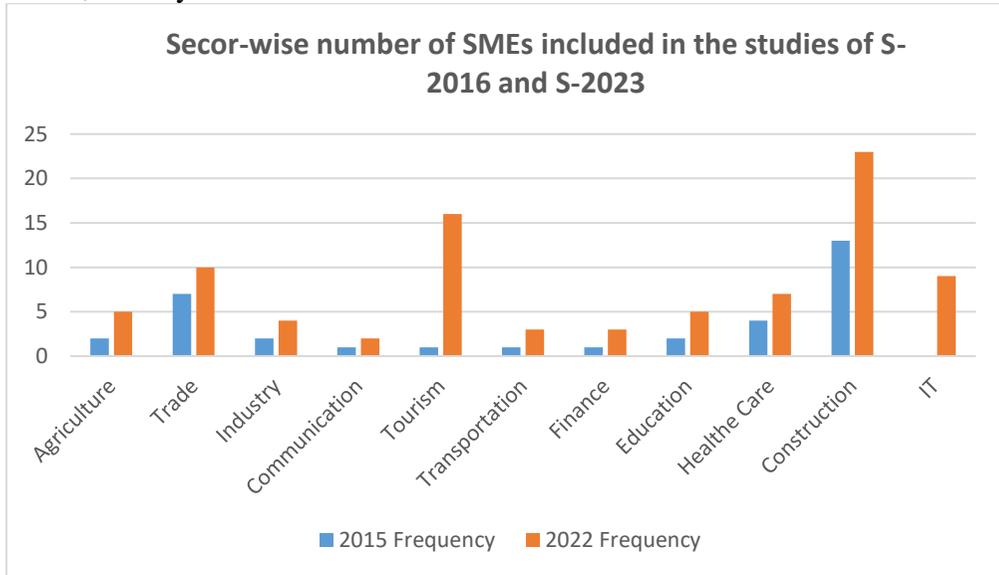
In Paper-II, we employed the same analytic strategy as we had adopted in our previous study (i.e., Alaoui et al. [(2016)] however with an approach of intertemporal analysis and focusing Pakistan which includes population from SMEs and non-SMEs. In order to do this, a comparison of the replies from the aforementioned study (Alaoui et al. [2016] abbreviated as "S-2016") and this study (abbreviated as "S-2023") has been conducted. S-2016 used data developed from the replies of the questionnaires circulated during the year 2015, whereas S-2023 used data built up from the replies of the questionnaires circulated during the year 2022. The S-2023 chooses 135 respondents from non-SMEs in addition to 87 Pakistani SMEs (a 149% increase over the sample size of SMEs included in S-2016⁵). Figure 1 depicts the breakdown of SMEs and non-SMEs in S-2023.



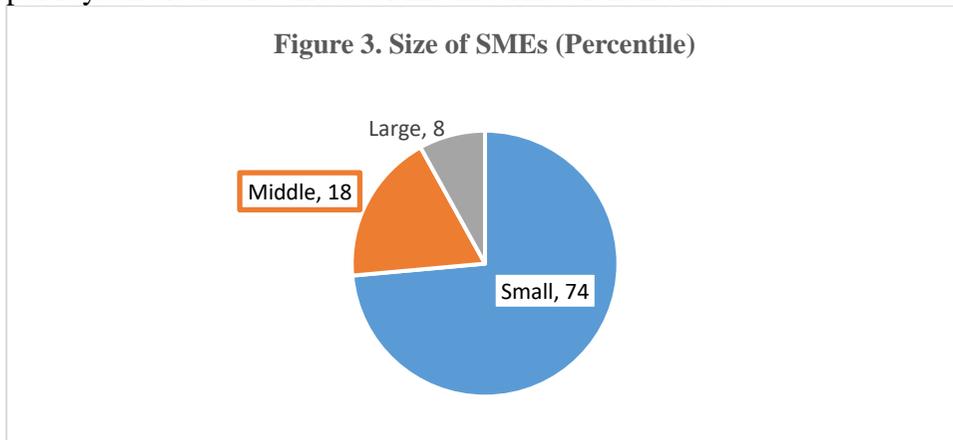
The 87 SMEs are small, medium, and large-sized businesses located in major cities including Islamabad, Karachi, Lahore, and Hyderabad. They are involved in industries like agriculture, commerce, industry,

⁵ For details see Alaoui et al. (2016).

communication, education, healthcare, tourism, transportation, construction, finance, and IT. A comparison of the sectoral positions of the SMEs covered in S-2016 and S-2023 is shown in Figure 2⁶. The S-2023 also covers a new sector, namely IT⁷.



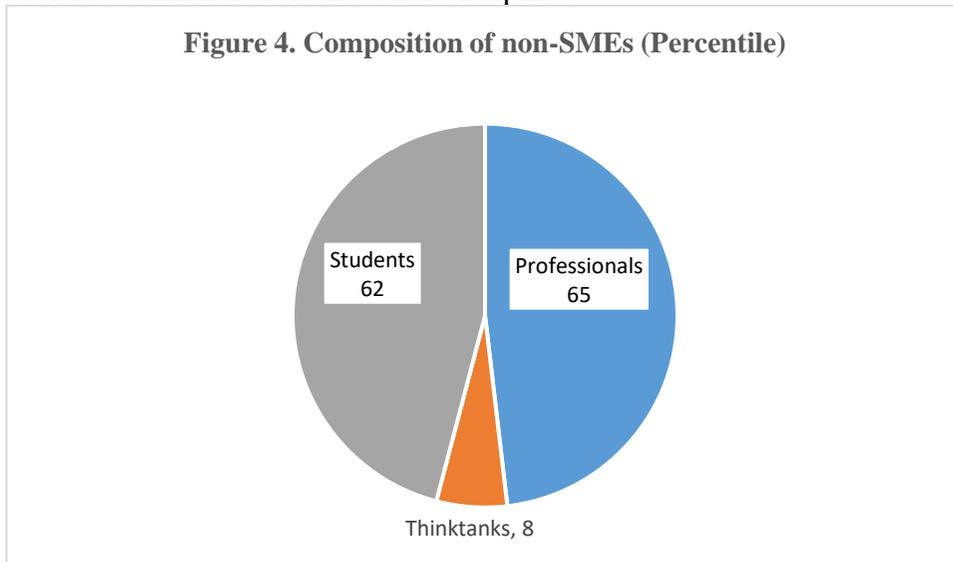
The size of SMEs is divided into the following categories based on the number of workers. The terms "small size" and "medium size" refer to businesses with fewer than 50, "more than 50 but fewer than 250," while "large size" refers to businesses with more than 250 workers. Figure 3 portrays the ratio of various SMEs in terms of their sizes.



⁶ Frequency-2015 & Frequency-2022 i.e., years of respondents' replies.

⁷ The IT sector was not the part of S-2016.

According to Figure 4, which highlights professionals and students as the major component of non-SMEs, the 135 non-SMEs are mid and senior level officers of the federal (central), provincial (state), local, autonomous, and semi-autonomous bodies as well as multinational corporations, commercial banks, think tanks, and Master's and Bachelor's students of business administration and other disciplines.



The structure of questionnaires was designed as shown in Box-1 and Box-2.

Box-1

Part-A: Replica of S-2016

1. How would you rate the current environment in the country for growth of Small and Medium Enterprises (SMEs) in Pakistan?
2. Does current environment facilitate SMEs for expansion of their business in the future in Pakistan?
3. Rate the hindering factors for development of SMEs, listed below by a 5-point system (5 - the most important hindering factor, 1 - the least important hindering factor):
 - (i) Administrative procedures (registration of new company, licenses etc.).
 - (ii) Tax legislation.
 - (iii) Access to finances (Bank credits, grants etc.).
 - (iv) Security of private property protection.
 - (v) Life standard in the country.
 - (vi) Political instability/corruption.
 - (vii) International trade barriers.
 - (viii) Absence of qualified human resources (HR).
 - (ix) Inefficient judicial system.
 - (x) List of future activities of SMEs in Pakistan you consider beneficial for the business.
 - (xi) Additional comments (if any) on SMEs in Pakistan.

Box-2**Part-B: New Questions introduced in S-2023**

4. Do you agree that the connivance/collusion between civil servants and business tycoons in Pakistan is one of the major hindering factors for the growth of SMEs in Pakistan at desirable level?

5. Do you agree that the misnomer of government's patronizing investment at large industrial level with belief of promoting SMEs in Pakistan signals a violation of the norms of established theories of SMEs?

Questionnaires were sent to 150 small, medium, and large size firms of big cities (Islamabad, Karachi, Lahore & Hyderabad)⁸ of Pakistan through e-mails. However out of 150 only 87 responses (i.e., 58%) were received back. Interviews and group discussions were also held with mid and senior levels managements of Karachi and Hyderabad based entrepreneurs, senior civil servants, senior officers of commercial banks, thinktanks, Master/Bachelor students of economics, business/public administration, and other disciplines. The study runs SPSS technique and uses Likert Scales by a 3-point/5-point scales in its data analysis.

4.0 Analysis

It is divided into two parts: "Part-A: Replica of the Study-2016⁹ (S-2016)" which contains Questions 1, 2, and 3, and "Part-B: New Questions (i.e., Questions 4 & 5 introduced in the Current Study-2023 [S-2023])." A comparative trend analysis (intertemporal) of questionnaire responses from the "Study-2016" and the "Study-2023" in questionnaires is covered in Part-A. Part-B analyses the responses received on the new questions (question 4 and question 5).

Part-A: Replica of the Study-2016 (S-2016)

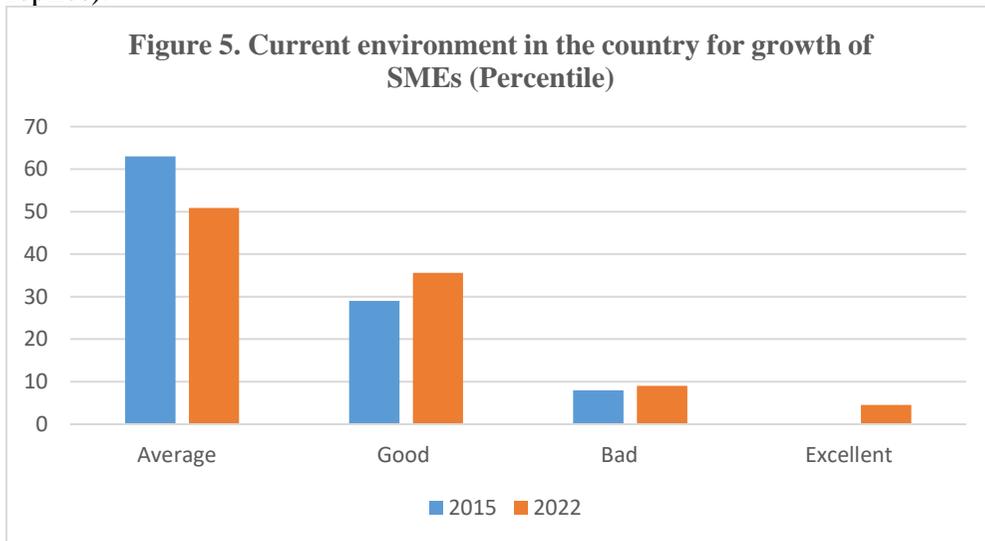
1. How would you rate the current environment in the country for growth of Small and Medium Enterprises (SMEs) in Pakistan?

The results of the replies to the questionnaire's first question are shown in Figure 5. In contrast to the "Study-2016" which garnered 63% replies, the "Study-2023" received 51% responses for "Average".

⁸ Islamabad is the capital city of Pakistan; Karachi is the port and provincial capital city of Sindh province; Lahore is the capital city of Punjab province; and Hyderabad is the second big city of Sindh province.

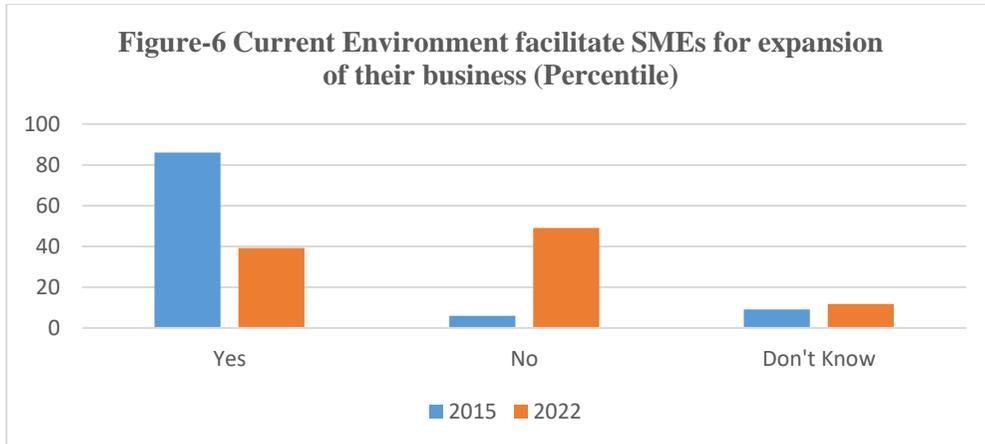
⁹ Alaoui, A.E., Shopovski, J., Kvirikvaia, M., Alam, N., & Onyeka Uche Ofili, O. U. (2016). Obstacles to Entrepreneurship in Albania, Georgia, Morocco, Nigeria, and Pakistan. European Scientific Journal December 2016 edition vol.12, No.34 ISSN: 1857 – 7881 (Print) e - ISSN 1857- 7431.

Additionally, a little rise (i.e., 7%) in "Good" replies and 5% endorsements for "Excellent" supported the previous responses' assumption that the present climate in Pakistan for the growth of small and medium-sized businesses is somewhat favourable, but it is progressing gradually. It suggests that certain SMEs are expanding in a good way as a result of peculiarities in the nature of their commercial endeavours. The 5% support for "Excellent" reveals that some of the S-2023's respondents are generally optimistic about the expansion of SMEs in Pakistan with time. Thus, it supports the importance of time variance (intertemporal behaviour) in defining the intensity of responses at two different times (2015 and 2022 i.e., years of respondents' replies).



2. Does current environment facilitate SMEs for expansion of their business in the future in Pakistan?

The results of replies to the questionnaire's second question are displayed in Figure 6. Surprisingly, the "S-2023" scenario played out differently than the "S-2016," which was unexpected. The ratio of replies in "S-2023" that were "Yes" declined by 55%, while those that were "No" climbed by 717%, showing that the climate is not favourable for SMEs in Pakistan to expand at this time, despite the fact that it was highly appropriate in 2015 (i.e., year of respondents' replies).



Q 3 Rate the hindering factors for the development of SMEs:

(i) Administrative procedures, (ii) Tax legislation, (iii) Access to finances, (iv) Security of private property protection, (v) Life standard in the country, (vi) Political instability/corruption, (vii) International trade barriers, (viii) Absence of qualified human resources (HR), and (ix) Inefficient judicial system.

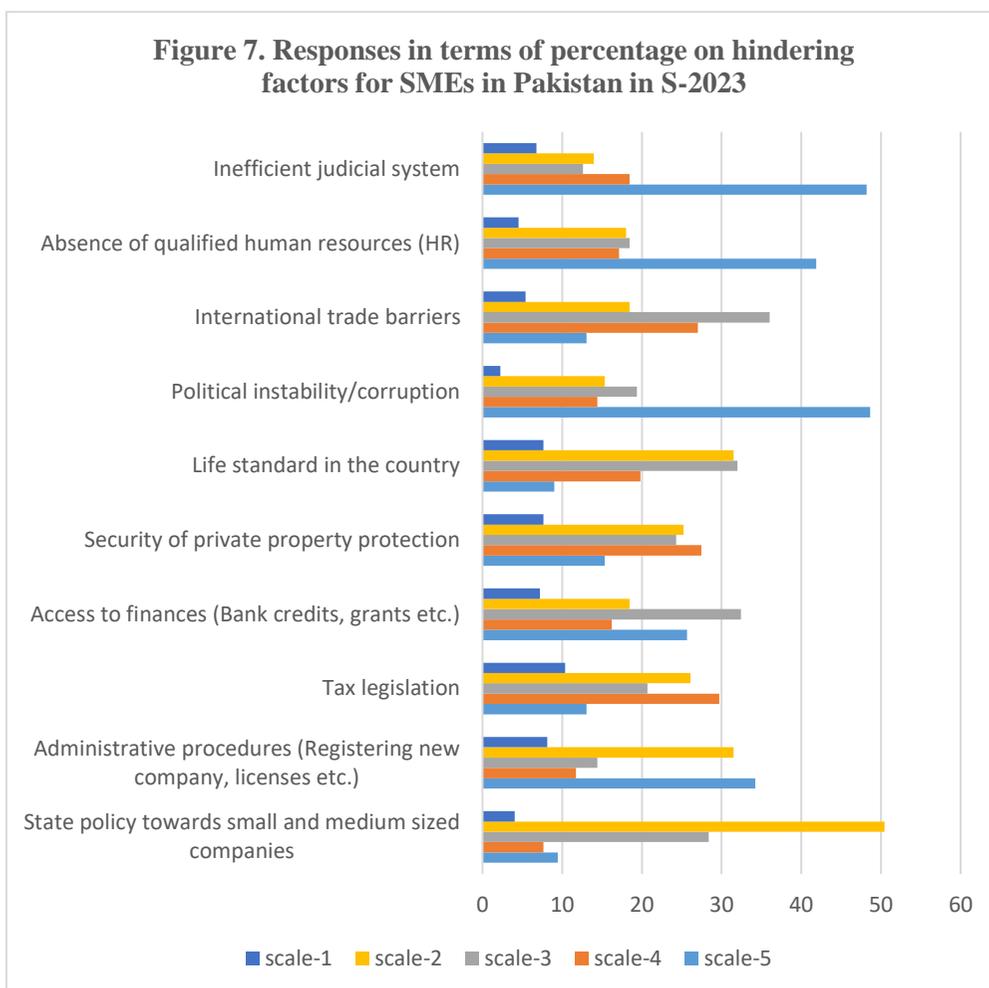
The study used 5-point Likert scales, where 1 is the least important and 5 is the most essential hindering factor. The findings in Table 1 and the trend in Figure 7 show that respondents' opinions are varied and that none of the identified impediments addressed in our surveys have a particularly significant effect. In terms of overall reaction, the criterion "Political Instability" received the highest score on a 5-point scale (49%) and was followed by the factors "Insufficient Judicial System" (48%), "Absence of Qualified Human Resources" (42%) "Administrative Procedures" (34%), and "Bank Credits/Grants" (26%). Less than 20% of the overall answer went to the remaining components. It shows that no single issue is to blame for SMEs' difficulties in Pakistan. The political instability, insufficient judicial system, administrative procedures, and bank credits/grants are however the core hindering factors.

Table 1. Rate the hindering factors for the development of SMEs (%)

Factors-2022 ¹⁰ (%)	scale 5	scale 4	scale 3	scale 2	scale 1
State policy towards small and medium sized companies	9	8	28	50	4
Administrative procedures (Registering new company, licenses etc.)	34	12	14	32	8
Tax legislation	13	30	21	26	10

¹⁰ Factors-2022 i.e., year of respondents' replies.

Access to finances (Bank credits, grants etc.)	26	16	32	18	7
Security of private property protection	15	27	24	25	8
Life standard in the country	9	20	32	32	8
Political instability/corruption	49	14	19	15	2
International trade barriers	13	27	36	18	5
Absence of qualified human resources	42	17	18	18	5
Inefficient judicial system	48	18	13	14	7



3. Rate the hindering factors for the development of SMEs:

(x) List of future activities of SMEs in Pakistan you consider beneficial for the business and (xi) Additional comments (if any) on SMEs in Pakistan.

Both SMEs and non-SMEs provided excellent replies for parts (x) and (xi). The Box-3 below contains a list of upcoming activities of SMEs in Pakistani SMEs that was created based on their replies.

Box-3	
<u>Future activities that can help promote the Pakistani economy through SMEs.</u>	
(i)	<i>Export/Import.</i>
(ii)	<i>Innovative product/service creation.</i>
(iii)	<i>Agriculture sector (dairy farming, and livestock), smart farming, the conditions of Mandies (farmers' market).</i>
(iv)	<i>Small and large enterprises merger.</i>
(v)	<i>Initially, online startups are beneficial for business.</i>
(vi)	<i>Car tools, spare parts, cloth, and cotton.</i>
(vii)	<i>Construction related.</i>
(viii)	<i>Paper Industry.</i>
(ix)	<i>Recycling industry.</i>
(x)	<i>Education.</i>
(xi)	<i>Health.</i>
(xii)	<i>Financial services.</i>
(xiii)	<i>Engineering.</i>
(xiv)	<i>Mobile software/apps development.</i>
(xv)	<i>Tourism.</i>
(xvi)	<i>Salon.</i>
(xvii)	<i>Household industries for petty items (e.g., stationary, wooden accessories, shoes making etc.).</i>
(xviii)	<i>Cottage Industry/low-cost investment (hosiery, paper manufacturing, spices, food items, handicrafts and pottery, food, and related items Packing. Content writing, blogging, free-lancing, photography, textile, dietary supplements).</i>

In “Additional comments (if any) on SMEs in Pakistan”, the majority of respondents believe that the government is essential to the growth of SMEs in a nation. If barriers can be overcome, Pakistan has enormous potential for SMEs by offering a competitive atmosphere and taking strict/punitive action against counterfeit and inferior goods. Pakistan's SMEs have the capacity to expand despite an unstable and underdeveloped economy and a bad currency exchange rate. In the Box-4 several significant ideas from the responders are reflected.

Box-4**Additional comments of respondents on SMEs in Pakistan**

- *The government must support business development and make specific allowances for SMEs. Long-term goals and policies, measures that encourage investment, open government, and a shift in the national attitude, support at the policy and regulatory levels, institutional and networking support.*
- *A favourable atmosphere improved regulatory environment, simple process for registering SMEs. Process of decentralisation for establishing new SMEs. Business efficiency, such as a single point of contact for interacting with government entities, favourable tax legislation and tax breaks. Tax laws should be made better and levied at a single-digit rate, lowering import taxes on basic supplies, assisting with waivers for electricity.*
- *A sound legal system with clear and convenient legal processes, enhancing the regulatory environment and backing for internet trading. Quick permit processing and financial access, obliteration of corruption within government agencies. Government and regulatory agencies should adopt a focused strategy. The culture of license and trademark may be cultivated.*
- *Digitalization, e-commerce, the IT industry, and software development (IT-based solutions) may be facilitated. Through consultation, a forum for innovative ideas is created.*
- *Easy access to bank credit promotes a business-friendly climate. The banking industry should offer business loans to aid enterprises and be a partner rather than charging interest. It should also give proper counsel and convenient credit options. When arranging for cash, neither age nor gender is considered, and financing for the agriculture industry.*
- *Cooperation between: (a) business and SMEs; (b) exporters and SMEs; (c) businesses and educational institutions.*
- *The formation and regulation of new legislation covering the security and stability of assets and enterprises and the recruitment of appropriate ideal fit, including HR, would greatly assist the future growth of SMEs in Pakistan. Hence, SMEDA requires significant adjustments as a result of numerous accusations about personnel inefficiency and corruption. In order to grow exports, SMEs should concentrate on domestic consumption, making Pakistan self-sufficient with little to no reliance on imports.*
- *Just as they must help other firms, SMEs should focus on long-term objectives. They should prepare to become major corporations. To grow their company they must*

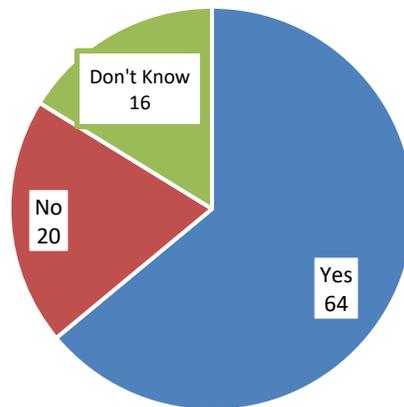
Part-B: New Questions

4. Do you agree that the connivance/collusion between civil servants and business tycoons in Pakistan is one of the major hindering factors for the growth of SMEs in Pakistan at desirable level?

Figure 8 shows the results of replies to questionnaire's Question 4, with the majority answering "Yes," supporting the assumption that one of the main obstacles to the development of SMEs in Pakistan is because of connivance/collusion between public employees and business tycoons in that country. The common wisdom in this situation states that corruption in the

system, which eventually results in cronyism between business tycoons and public policy makers, is the source of collaboration between civil employees and business tycoons in any country. Therefore, the chosen groups—business tycoons and public policy makers—who are essentially the cronies—capture the policies on the growth and expansion of SMEs. There is abundance of literature highlighting moral hazard problems in public policy makers which is the main contributor to this menace (see Alam [2023]).

Figure 8. Trend in responses on Question 4 (Percentile)

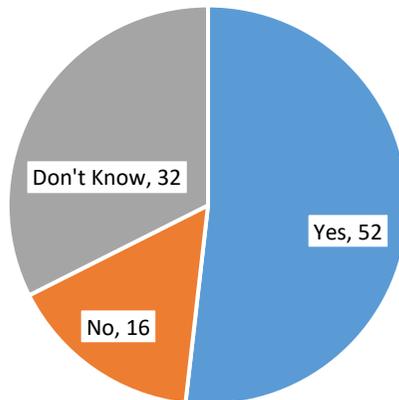


5. Do you agree that the misnomer of government’s patronizing investment at large industrial level with belief of promoting SMEs in Pakistan signals a violation of the norms of established theories of SMEs?

Figure 9 displays the results of responses to Question 4 of the questionnaire, where the majority of respondents indicate that the government in Pakistan is patronising investment at the large industrial level in the name of promoting SMEs signals a violation of the rules of accepted theories of SMEs. The research shows that government policies in Pakistan place a greater emphasis on major enterprises than SMEs. For instance, Dar, Ahmed, and Raziq (2017) examine how Pakistan's SMEs were ignored until the late 1990s while the corporate sector, particularly major industrial facilities, received much of the attention. The major sector was given greater priority by the government, banks, and financial institutions than the SMEs. Insensitively, Khawaja (2006) asserts in his paper that Pakistan's regulatory and policy environment is not very favourable for the development of the SMEs sector and that the government's general focus is still on the expansion

of large enterprises. SMEs have traditionally lacked proper access to resources, with the emphasis being placed on huge industrial scales.

Figure 9. Trend in Responses on Question 5 (Percentile)



Conclusion

The Paper-II is a continuation of our previous paper on the same topic (see Alaoui et al. [2016]) however with an approach of intertemporal analysis and focusing Pakistan which includes population from SMEs and non-SMEs.

Small and medium-sized businesses (SMEs) are regarded as the foundation of the economy since they play a crucial role in boosting economic development, generating jobs, and controlling inflation. This sector's importance is significantly greater in low- and middle-income nations like Pakistan. In Pakistan, the SMEs continuum is pervasive, having a presence in every sphere of the economy. They not only provide employment but also play a significant role in the nation's "Large Scale Manufacturing" (LSM) and "Services Sector" supply chains. Nevertheless, the lack of resources forced its civil administration to deteriorate, which resulted in the breakdown of government. The country's notion of entrepreneurship was changed by the connivance/collusion of corporate tycoons and public servants. This went against accepted theories' principles and was nothing more than the government patronising investment at a major industrial level under the pretense of fostering entrepreneurship. As a result, true entrepreneurship could not develop in Pakistan at a level that was wanted from the very beginning since it flagrantly contravened the theories of contemporary economics and business.

The study's main finding is that there is no single reason that prevents the growth and expansion of SMEs in Pakistan, but political instability, an inadequate legal system, bureaucratic red tape, and bank loans/grants do so to some degree. Furthermore, genuine entrepreneurship is not allowed to thrive at a suitable level due to the connivance/collusion between government employees and business tycoons, which is clearly against the theories of contemporary economics and business. The study recommends long-term goals and policies and suggests a proactive approach on part of the government. The government ought to develop regulations that make it easier for SMEs to access resources including funding, information, and infrastructure, and assist them by reducing their tariffs and promoting their goods on both home and foreign markets. There is a need to boost research and development (R&D) on the most recent technical advancements in a variety of disciplines for SMEs. The recommendations of respondents (see Box-4) also need attention of the public policy makers at federal and provincial governments' levels.

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