

Obstacles to Development of Entrepreneurship in Pakistan

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[Doi:10.19044/esj.2024.v20n4p52](https://doi.org/10.19044/esj.2024.v20n4p52)

Submitted: 14 June 2023

Accepted: 23 February 2024

Published: 29 February 2024

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OPEN ACCESS

Cite As:

Alam N., Shopovski J. & El Alaoui A. (2024). *Obstacles to Development of Entrepreneurship in Pakistan*. European Scientific Journal, ESJ, 20 (4), 52.

<https://doi.org/10.19044/esj.2024.v20n4p52>

Abstract

This paper aims to examine the obstacles to entrepreneurship in Pakistan. The study has adopted a qualitative and quantitative approach through descriptive approach. It conducted in-depth interviews and group discussions with mid and senior-level managements of SMEs and non-SMEs, as well as think tanks and students from relevant disciplines. Chi-square and Mann-Whitney U tests were followed by using Likert Scales for robustness in findings. A questionnaire was sent through e-mail to 150 Small or Medium Size Enterprises, SMEs, and 204 non-SMEs. 83 responses from SMEs and 135 responses from non-SMEs were obtained. The results show that the obstacles to entrepreneurship in Pakistan are multiple. Political instability, a deficient legal system, red tape-filled bureaucracy, and access to funding were registered as the main obstacles to entrepreneurship in Pakistan. The study recommends that the government adopt long-term objectives and strategies for SMEs and take a proactive stance.

Keywords: Entrepreneurship, SMEs, Obstacles, Connivance, Cronyism, Pakistan

1.0 Introduction

Small and medium-sized Enterprises (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 large companies, 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 labeled and acknowledged this SME-focused growth model as a vital economic instrument. Undoubtedly SMEs in the industrialized world are a crucial source of economic dynamism for every country and a necessary component to achieving inclusive economic growth (Batrancea et al., 2022).

In Pakistan, SMEs are pervasive and growing in all economic sectors. They not only provide employment but also play a significant role in the nation's "large Scale Manufacturing" (LSM) and "Service Sector" supply chains. Generally, the informal sector and the small-scale sector in Pakistan have dominated employment in the construction, wholesale, retail trading, hotels, transport, communications, and storage industries in urban areas. In Pakistan, there are 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 in different sectors, using 78% of the non-agricultural workforce, accounting for 25% of manufacturing exports and 30% of Pakistan's GDP (Shah, 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)¹ and later by promulgating a coherent Policy Framework in 2007 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).

Research confirmed the moral hazard issue among policymakers in Pakistan, especially in relation to their policies that focus on the interests of a single specific group, demonstrating connivance/collusion with cronies (Alam, 2023). Such connivance/collusion between civil servants and business

¹ SMEDA is the premium organization at the 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.

tycoons conceived a new definition of entrepreneurship in the country which was in contradiction with the norms of the established theories, and it was nothing but the misnomer of government's much more patronizing the investment at large industrial level with the belief of promoting entrepreneurship (White, 1947). This may be an obstacle for genuine entrepreneurship to flourish at a desirable level in Pakistan (Haque, 2007). Therefore, examine the factors that hinder entrepreneurship in Pakistan through a new research study will provide a solid ground for future strategies and policies to thrive Pakistani economy in general.

Contrary findings exist on whether bad governance and weak state institutions, which encourage rent-seeking, corruption, and cronyism impede economic progress, are frequently linked to poor economic outcomes (Murphy et al. [1991]; Acemoglu [1995]; Mauro [1995]; & Baumol [2004]). Entrepreneurship has typically been viewed as a beneficial phenomenon in communities since at least the 1930s when Schumpeter developed his creative destruction hypothesis and characterized it as actions that entail various sorts of inventions. The fundamental reason for this favorable attitude towards entrepreneurship is that it has been shown to have beneficial consequences on a nation's economic growth and prosperity (e.g., Reynolds et al. [1999]; Zacharakis et al. [2000]). Recent research has shown that entrepreneurship can also involve unproductive innovations, such as "innovations in rent-seeking procedures, for example, the discovery of a previously unused legal gambit that is effective in diverting rents to those who are first in exploiting it" (Baumol, 1990). Hence, under such a situation the phenomenon of cronyism becomes part of the game which is discussed in literature as "Crony Capitalism".

Soleiman (2016) contends that cronyism can be detrimental to productive entrepreneurship in society as a whole. However, he further upholds that his study does not reject scholars' general belief that having informal networks helps an entrepreneur to pursue his goals at the individual/organizational level, but it further clarifies that once having informal networks becomes an excessively important success factor for businesses in a country, then the level of productive entrepreneurship is influenced negatively at the national level. Similarly, El Alaoui et. al. (2016) confirmed that state policies towards SMEs, political instability/corruption, and tax legislation were recognized as the main obstacles to entrepreneurship in Albania, Georgia, Morocco, Nigeria, and Pakistan.

In the case of Pakistan, few studies have examined the role of governance and institutions in the macroeconomic outcomes. For example, Khawaja and Khan (2009), Hussain (2008), and Qayyum et al. (2008) have found that good governance and better institutional quality are necessary for better economic outcomes.

White (1974), documents that the government of Pakistan from the very beginning followed the policy of favoring tariff protection as a way to promote industrialization with special emphasis on the large-scale sector. Haque (2007) discusses that in Pakistan, the small-scale sector that can be characterized as entrepreneurship can be observed as an informal sector continually besieged by the state in its quest to protect its favorite child the large formal sector.

Today almost 40 percent of businesses take place in the informal sector and still as compared to the large-scale industry, the small-scale enterprise and industry continue to face unfavourable policies (White [1974]; Haque [2007]). Afraz et al. (2014) have shown that small and medium enterprises (SMEs) in Pakistan constitute 90 percent of all economic establishments, and therefore requires special attention. The majority of the studies on doing business in Pakistan discuss the stagnation of the manufacturing sector, low levels of productivity, and stunted firm growth (Afraz et al., 2014). 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 (Munir & Khan, 2011).

This paper seeks to address the following question: What are the factors/obstacles that hinder the growth of entrepreneurship in Pakistan? The paper will attempt to achieve this by analyzing questionnaire responses and secondary data. 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

Dar et al. (2017) found that the knowledge, abilities, and competencies of the owner and personnel have an impact on the success of SMEs. Lack of tangible resources, such as human 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 access to funding, and many of the SMEs lack the indemnification of security required, making it appear exceedingly difficult to acquire a loan from banks and lending agencies.

The findings of Manzoor et al. (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.

Shah (2018) also advocates 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 in Pakistan.

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 labor, 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. Katua (2014) found 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.

Afraz et al. (2014) conducted a thorough investigation of the obstacles to business growth in Pakistan utilizing 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, informality, finance, innovation, and labor, 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 et al. (2012) in a different survey, 7.9% of Lahore-based enterprises state 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 et al. (2010) and Khan and Saqib (2011) conclude that Pakistan's political unrest has a favorable 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.

Zaman et al. (2022) highlight the restrictions of financial assistance, low budget and income, lack of top management commitment, regulatory

framework, less or no SDGs² 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 employees' betterment leading to a better working environment and job satisfaction for workers and enhancing SMEs productivity.

The absence of a specialized and standardized legal framework for SME development hinders their activities, creating a broken interaction between the government and SMEs. The administrative practices are marked by rent-seeking bureaucrats taking advantage of semi-literate entrepreneurs with low wages. The overall legal environment negatively affects all economic agents, and research indicates discrimination by large firms against small businesses. SMEs, due to their size, struggle to adapt and conduct business effectively, facing unfair treatment that impedes their ability to compete in the business environment. These challenges have economic implications, making it difficult for SMEs to navigate global markets and adjust to the liberalization policies implemented by the Pakistani government.³

3.0 Methodology

The study has adopted qualitative and quantitative approaches using primary and secondary data sources. It uses data built up from the replies of the questionnaires circulated during the years end-2022 to early-2023. Chi-square and Mann-Whitney U tests were followed by using Likert Scales for robustness in findings. The sample size was 354 which included 150 SMEs and 204 non-SMEs of Pakistan, to whom the questionnaires were sent through e-mails. However, only 83 responses from SMEs and 135 responses from non-SMEs were received back; the response rate against the total sample is 62%. The following table summarizes the results.

² 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.

³Developing SME Policy in Pakistan SME Issues Paper - for Deliberation by SME Task Force - Policy Planning & Strategy Department. Turn Potential into Profit Small & Medium Enterprise Development Authority Ministry of Industries & Production Government of Pakistan <http://www.smeda.org-.pk>. (Retrieved on 05-08-2023).

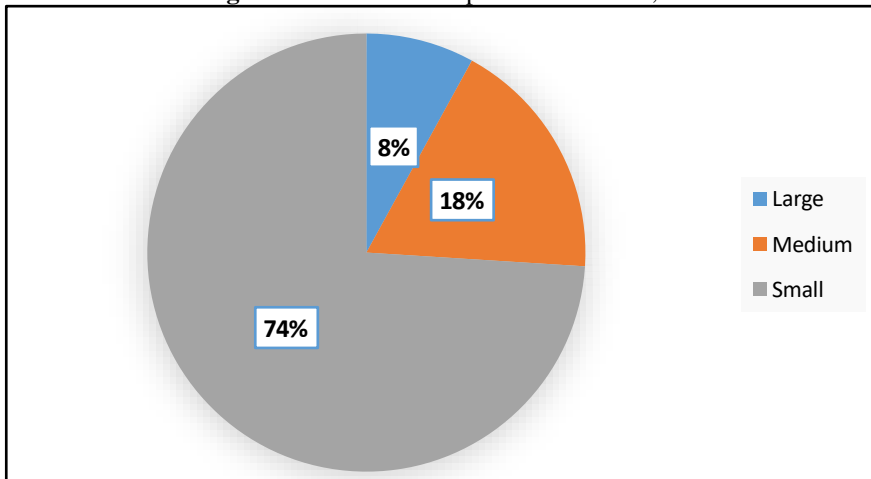
Table 1. Characteristics of sample

Sample	Initial size		Respondents		Non-respondents	
	Effective	%	Effective	%	Effective	%
SME	150	42%	83	38%	67	19%
Non-SME	204	58%	135	62%	69	19%
Total	354	100%	218	62%	136	38%

Source: Field data.

The 83 SMEs are small, medium, and large-sized businesses located in major cities (i.e., Islamabad, Karachi, Lahore & Hyderabad)⁴ of Pakistan. 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 1** portrays the ratio of various SMEs in terms of their sizes.

Figure 1. Size-wise composition of SMEs, %

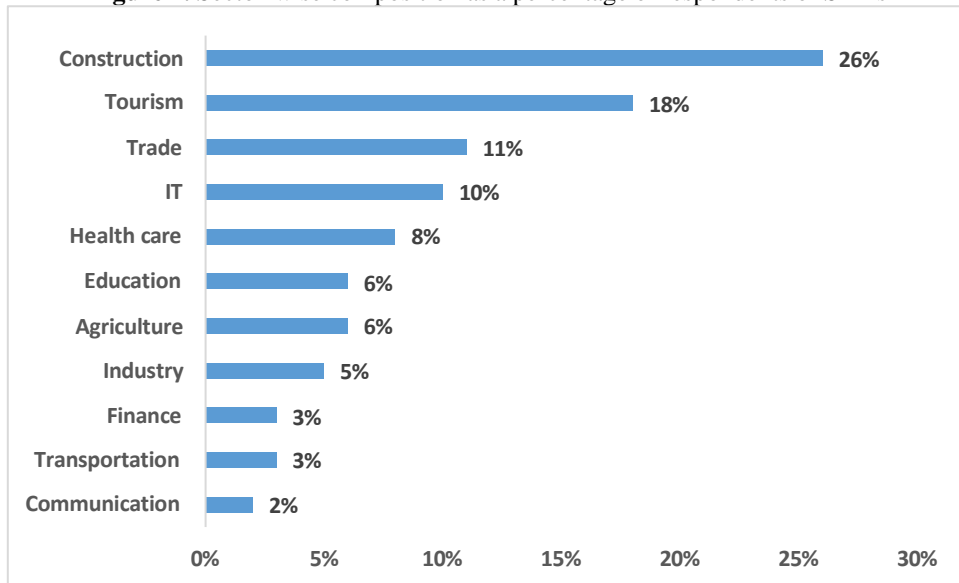


Source: Field data.

The 83 SMEs are involved in industries like agriculture, commerce, industry, communication, education, healthcare, tourism, transportation, construction, finance, and IT. Their composition as a percentage of SMEs respondents (83 SMEs) is revealed in Figure 2.

⁴ 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.

Figure 2. Sector-wise composition as a percentage of respondents of SMEs



Source: Field data.

The composition of non-SMEs highlights professionals (65%) and students (62%) as the major components of non-SMEs, followed by think tanks (8%), the 135 non-SMEs are mid and senior-level officers of the federal (central), and provincial (state), local, autonomous, and semi-autonomous bodies as well as multinational corporations, commercial banks, think tanks, and Master/Bachelor students of business/public administration and other disciplines.

This study used a questionnaire that was structured as shown in Table 2.

Table-: 2 Structure of Questionnaire
<i>How would you rate the current environment in the country for growth of Small and Medium Enterprises (SMEs) in Pakistan?</i>
<i>Does current environment facilitate SMEs for expansion of their business in the future in Pakistan?</i>
<i>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?</i>
<i>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?</i>
5(a). 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) State policy towards small and medium sized companies (registration of new companies etc.) (ii) Tax legislation. (iii) Access to finances (Bank credits, grants etc.). (iv) Security of private property protection.

- (v) Standard of living in the country.
- (vi) Political instability/corruption.
- (vii) International trade barriers.
- (viii) Absence of qualified human resources (HR).
- (ix) Inefficient judicial system.

5(b). Rate the hindering factors for the development of SMEs:

- (x) List of future activities of SMEs in Pakistan you consider beneficial for the business (see below list), and (xi) Additional comments (if any) on SMEs in Pakistan.
 - (i) *Export/Import.*
 - (ii) *Innovative product/service creation.*
 - (iii) *Agriculture sector (dairy farming, and livestock), smart farming, the conditions of Mandies (farmers' market).*
 - (iv) *Small and large enterprises merger.*
 - (v) *Initially, online startups are beneficial for business.*
 - (vi) *Car tools, spare parts, cloth, and cotton.*
 - (vii) *Construction related.*
 - (viii) *Paper Industry.*
 - (ix) *Recycling industry.*
 - (x) *Education.*
 - (xi) *Health.*
 - (xii) *Financial services.*
 - (xiii) *Engineering.*
 - (xiv) *Mobile software/apps development.*
 - (xv) *Tourism.*
 - (xvi) *Salon.*
 - (xvii) *Household industries for petty items (e.g., stationary, wooden accessories, shoes making etc.).*
 - (xviii) *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).*

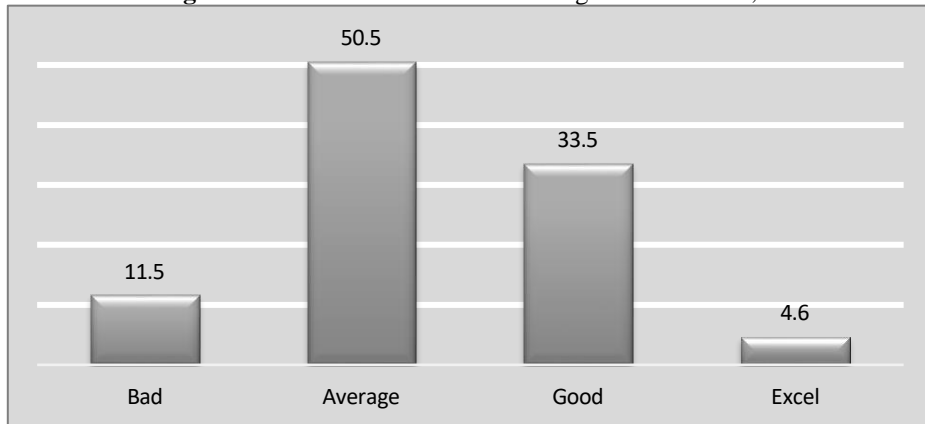
Interviews and group discussions were also held with mid and senior levels managements of Karachi and Hyderabad-based entrepreneurs, senior civil servants, senior officers of commercial banks, think tanks, Master/Bachelor students of economics, business/public administration, and other disciplines. The study runs SPSS technique and follows Chi-square and Mann-Whitney U test and it uses Likert Scales by a 3-point/5-point scales in its data analysis.

4.0 Results and Discussion

The response of the firms on question 1: "*How would you rate the current environment in the country for growth of Small and Medium Enterprises (SMEs) in Pakistan*", the results show that the majority (50.5%) have favored for "average" meaning that current environment in Pakistan for growth of small and medium sized business is not too much conducive and it is running bit by bit. However, 33.5% responded in favor of "good" or 4.6% for "excellent" revealing that some of these businesses are experiencing

growth in a positive direction due to peculiarity in the nature of their businesses. Moreover, the opinion of respondents is not linked to categories of firms according to Chi-square test (0.532 with P-value=0.912).

Figure 3. Current Environment for the growth of SMEs, %



Source: Field data.

For instance, during the COVID-19 period, despite the world economy being in recession, the health care and online delivery industries continued to function admirably. In several industries, Covid-19 has a detrimental impact on SMEs and causes them to shut down during pandemics. Compared to other businesses, the tourism sector has been severely harmed by the pandemic. Worldwide economic issues are brought on by the massive volume of travel cancellations (Kreiner & Ram, 2020). On the other hand, numerous sectors were helped by this epidemic to survive, and internet shopping, in particular, helped companies like Amazon, Target, and Walmart become profitable. During the pandemic crisis, several agencies and SMEs worked to gather critical information for reviving the ideal economy. Agribusiness, private health care, medical services, and e-commerce are a few sectors that might boost the economy (Hadi & Supardi, 2020).

The response of the firms to question 2: "***Does the current environment facilitate SMEs for expansion of their business in the future in Pakistan?***", the results indicate that 43.1% of the respondents say "Yes", 41.7% say "No" and 15.1% "don't know". In addition, these responses are also not related to the categories of firms (Chi-square test is equal to 0.601 with P-value=0.741). In fact, Pakistan's present business climate is rather gloomy as a result of the country's protracted political unrest and resulting economic decline.

The response of the firms to question 3: "***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?***", the majority of respondents (61.5%) say "Yes," confirming the notion that one of the greatest challenges to the growth of SMEs in Pakistan is due to collusion/connivance between state personnel and business tycoons there against 19.7% say "No" and 18.8% "don't know". The results show also that the response is not linked to the categories of firms (The chi-square test is equal to 5.586 with P-value=0.061). According to conventional wisdom, cronyism between corporate tycoons and public policymakers ultimately comes from systemic corruption, which is the root cause of cooperation between civil servants and business tycoons in every nation. Therefore, the policies on the creation and expansion of SMEs are captured by the designated groups i.e., business tycoons and public policymakers, who are effectively the cronies (Haber [2002]; Guseva [2007]; Hellman et al. [2003]; Kaufmann & Kraay [2002]; Fligstein [2001]). Soleiman (2016) discusses that consequently, cronyism leads to unfair access of certain groups of people to resources and opportunities in a business context, at the expense of other people who cannot or do not participate in this favor-seeking/offering game. When cronyism is prevalent, crony capitalism, an economic system where corporate success is determined more by political ties than by market forces emerges (Holcombe [2013]; Sobel & Graefe-Anderson [2014]). Numerous studies have focused on the moral hazard problems among public policymakers as the root cause of these threats (Alam, 2023).

The response of the firms to question 4: "***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 results indicate the negligible difference between "Yes" and "Don't Know", thus 39.9% and 40.4%, respectively; we ignore therefore the response on "Don't Know". Our assumption in this context is that 40.4% respondents saying "Don't Know" actually belonged to the non-SMEs which constitutes 62% of the total respondents (**Table 1**). Hence, it raises the question of their comprehension on the subject of SMEs consequently it seems plausible to treat their response as "Null" or "Zero response" in order to arrive at some conclusion. We note also that the responses to this question are not significantly linked to the categories of firms (Chi-square test is equal to 0.235 with a P-value equal to 0.889). Accordingly, we proceed to keep in view this assumption and treat 39.9% of respondents saying, "Yes" as the majority indicating that the government in Pakistan is patronizing investment at the large industrial level in the name of promoting SMEs signals a violation of the rules of accepted theories of SMEs.

The literature also supports our aforementioned criterion of assumption (see, Dar et al. [2017]; Khawaja [, 2006]).

To highlight the hindering factors for the development of SMEs, this study has listed a set of factors, as shown in Table 3. Each respondent indicates the magnitude of importance of these factors using the Likert scale, where 1 is the least important (scale 1) and 5 is the most essential hindering factor (scale 5). The findings are reported in Table 3.

Table 3. Rate the hindering factors for the development of SMEs (%)

Factors-2022 (Percentage-Term)	Scale 1	scale 2	scale 3	scale 4	scale 5	Standard Deviation
State policy towards small and medium sized companies (registration of new companies etc.)	11.0	27.1	25.2	18.8	17.9	1.272
Tax legislation	14.7	25.2	21.6	25.2	13.3	1.277
Access to finance (Bank credit, grants)	10.6	22.5	30.3	17.9	18.8	1.253
Security of private property protection	11.9	22.9	28.0	21.1	16.1	1.250
Standard of living in the country	14.7	27.1	25.7	22.5	10.1	1.214
Political instability/corruption	13.8	17.4	20.2	16.1	32.6	1.437
International trade barriers	8.7	24.8	27.1	23.9	15.6	1.204
Absence of qualified human resources	12.4	28.9	22.9	20.2	15.6	1.272
Inefficient judicial system	12.4	18.3	20.2	28.9	20.2	1.309

Source: Field data.

The results 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 the overall reaction, the criterion "Political Instability" received the highest score on a 5-point scale (32.6%) and less than 20% of the replies went to the remaining components. It shows that no single issue is to blame for SMEs' difficulties in Pakistan. The political instability (in consonance with the findings of Quraishi et al. (2010) and Yang (2011) and insufficient judicial system are however the core hindering factors.

To highlight the perceptions of firms about the hindering factors for their development, the findings indicate that there is no significant difference in their opinion except for four factors: "Standard of living in the country", "Political instability/corruption", "International trade barriers" and "Absence of qualified human resources (HR)" (Table 4).

Table 4. Firms' perceptions about the hindering factors

Factors-2022	Mann-Whitney U Test	Conclusion
State policy towards small and medium sized companies (registration of new companies etc.)	0.485	Distribution of this factor is the same across categories of firms.
Tax legislation	0.079	Distribution of this factor is the same across categories of firms.
Access to finance (Bank credit, grants)	0.131	Distribution of this factor is the same across categories of firms.
Security of private property protection	0.335	Distribution of this factor is the same across categories of firms.
Standard of living in the country	0.006	<i>Distribution of this factor is not the same across categories of firms.</i>
Political instability/corruption	0.000	<i>Distribution of this factor is not the same across categories of firms.</i>
International trade barriers	0.000	<i>Distribution of this factor is not the same across categories of firms.</i>
Absence of qualified human resources	0.008	<i>Distribution of this factor is not the same across categories of firms.</i>
Inefficient judicial system	0.701	Distribution of this factor is the same across categories of firms.

Source: Field data.

In additional comments, 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 Table 5 several significant ideas from the responders are reflected.

Table 5: Additional comments of respondents on SMEs in Pakistan

<ul style="list-style-type: none"> • <i>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.</i>
<ul style="list-style-type: none"> • <i>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.</i>
<ul style="list-style-type: none"> • <i>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</i>

<p><i>and regulatory agencies should adopt a focused strategy. The culture of license and trademark may be cultivated.</i></p>
<ul style="list-style-type: none">● <i>Digitalization, e-commerce, the IT industry, and software development (IT-based solutions) may be facilitated. Through consultation, a forum for innovative ideas is created.</i>
<ul style="list-style-type: none">● <i>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.</i>
<ul style="list-style-type: none">● <i>Cooperation between: (a) business and SMEs; (b) exporters and SMEs; (c) businesses and educational institutions.</i>
<ul style="list-style-type: none">● <i>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.</i>
<ul style="list-style-type: none">● <i>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 form alliances with other SMEs. If they fail, they must focus on their flaws. Instead of giving up on their enterprises if they fail, they must focus on their weaknesses.</i>
<ul style="list-style-type: none">● <i>The state of law and order and political stability, security for assets, money, and situations like thefts and robberies may be affirmed in letter and spirit.</i>

Source: Field data.

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 higher. 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 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.

Regarding future activities that can help to promote the Pakistani economy through SMEs, (see Table 5), the government may announce special packages/respites especially for SMEs engaged in vegetables/fruits supply,

dairy and cattle farming, supply of auto parts/spare parts, making/distribution of clothing/garments, construction related activities, real estates, paper recycling industry, IT-based businesses like mobile software/apps development, online startups for business, salon, restaurants, household industries for petty items (e.g., stationary, wooden accessories, shoes making etc.), 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.

The study further notes that SMEs operating in the aforementioned industries lack R&D (Research & Development) activities. As the majority of these businesses are a part of Pakistan's informal economy, it thus urges more study to better understand the difficulties they encounter. This is especially intriguing because different industries and enterprises could have distinct challenges, necessitating independent research or studies for each.

Conclusion

The study's main finding is that multiple factors prevent the growth and expansion of the SMEs in Pakistan. The most important ones are the political instability, insufficient judicial system, government policy, legislation, regulation, red tape-filled bureaucracy, and access to funding were registered as obstacles to entrepreneurship in Pakistan. 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 Table 5) also need attention of the public policy makers at federal and provincial governments' levels.

Conflict of Interest: Dr. Jovan Shopovski is a managing editor at the European Scientific Journal, ESJ. The other authors are reviewers of the ESJ. The ESJ Editorial Office was informed of this fact in order to take the necessary actions in providing an impartial peer review procedure.

Funding Statement: The authors declare that no funding was obtained for this study.

Data Availability: The data are available in the content of the paper.

Human Participants: This study was approved by the IOBM Review Board. The principles of the Helsinki Declarations were followed in the research process.

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