

## **THE ENTREPRENEUR'S QUEST: A QUALITATIVE INQUIRY INTO THE INSPIRATIONS AND STRATEGIES FOR STARTUPS IN PAKISTAN**

MUHAMMAD NAVEED IFTIKHAR AND MAHA AHMAD\*

**Abstract.** For rapidly urbanizing Pakistan, entrepreneurial activity is a critical source of employment and economic development. This study adopts a qualitative approach to investigate what drives an entrepreneur's decision to establish a business and which elements of a city may possibly nurture the growth of new firms. The study explores the entrepreneurs' perspectives on the factors that lead to the successful growth and expansion of small and young firms. The study also presents reform proposals in public and urban policies that would enable a conducive environment for entrepreneurship. The results are based on focus group discussions with IT sector entrepreneurs in the two largest cities of Pakistan: Lahore and Karachi.

**Keywords:** Entrepreneurship, knowledge spillovers, urbanization, cities, public policy, startups

**JEL Classification:** J48, K20, L26, L53, M13, O32

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\*The authors are respectively Adjunct Faculty at Lahore University of Management Sciences (LUMS), Lahore-Pakistan and Assistant Professor at National University of Science and Technology Islamabad-Pakistan.  
Corresponding author's e-mail: cheema@udel.edu

## I. INTRODUCTION

This paper is aimed at exploring factors that drive the creation and the subsequent expansion of small and young firms. Knowledge spillover and urbanization in conjunction with entrepreneurship, particularly firm entry and consequent expansion of small and young firms, is key to job creation, innovation and productivity improvement. An understanding of how to enhance creation and expansion of small and young firms can be helpful for entrepreneurs, policy makers and the academic community. Entrepreneurship remains an under-researched area in the field of urban economics (Glaeser, Rosenthal & Strange, 2010). This may partially be attributed to the dynamic nature of the entrepreneurship phenomenon. The knowledge spillover theory of entrepreneurship (KSTE) argues that the ability of knowledge intensive environments to foster new ideas can create entrepreneurial opportunities and their commercialization, leading to urban success (Audretsch, Belitski and Korosteleva, 2019). Urban environments are particularly conducive to entrepreneurial activities, innovation and growth because of agglomeration economies (Jacobs 1969). Different competencies and financial resources are more accessible in cities, allowing for denser information flows and market proximity (Acs et al. 2009). Hence, literature finds a two-way relationship between cities and knowledge-driven entrepreneurship. While urbanization has vast potential for social and economic development, the urbanization process also poses serious challenges (Glaeser 2012). Some of these challenges include traffic congestion, higher crime rates, pressure on urban services, and the spread of disease. The twenty first century will witness the movement of 5 billion people into cities—more than half of which will be in Asia. So, it becomes important to investigate how cities can support or hinder entrepreneurship.

The growth rate of employment creation by small and young firms is higher as compared to large corporations (Decker et al. 2015). Identification of factors that influence creation and expansion of small and young firms can be useful for employment generation and improving the quality of life in urban centers (Glaeser. et al. 2010, Backman & Lööf, 2015). Building on Knowledge Spillover Theory of Entrepreneurship (Acs et al. 2009, Audretsch & Keilbach, 2007, Audretsch & Lehmann 2005), this paper attempts to contribute to the

discourse on entrepreneurship through qualitative insights by analyzing perspectives of entrepreneurs about the role of various sources of knowledge spillover and constraints being faced by them. This paper specifically attempts to analyze the entrepreneurial process of young firms (3 to 5 years) in the information technology (IT) sector of the two largest cities of Pakistan, namely Karachi and Lahore. It also sheds light on the strategies that may help startups in scale up and how cities can promote entrepreneurship.

The remaining study is organized as follows: Section II presents a literature review; Section III outlines the research design employed for the study; Section IV discusses the key characteristics of focus groups and select cities; Section V describes the findings and analysis of focus groups; and Section VI concludes.

## **II. LITERATURE REVIEW**

Traditionally, research and theory in entrepreneurship were built using quantitative analysis, which may sometimes not capture the real-world interplay of knowledge spillover and other related issues relevant to entrepreneurship. Considering the role of tacit knowledge, quantitative data has limitations and forges aggregation biases in capturing knowledge spillover. Suddaby, Bruton, & Si (2015) explain that while the quantitative approach has helped in accumulating knowledge, it also undermines many subjective and reflexive aspects in the theoretical process leading to missing elements within the endogenous entrepreneurship theory. Peters and Waterman (1982), for example, have inspired research that fills this gap by compiling an account of successful American corporations. Their study was based on extensive interactions with different levels of management and front desk employees of various corporations. The study found how customer care, autonomy of front-desk officials, and eagerness for experimentation led to success of those companies. The unique individualistic narratives of success of those corporations could not have been captured in quantitative data or financial indices. Simpeh (2011) has compiled an outline of different dimensions of entrepreneurship theories including sociological and psychological aspects among others, which highlights the need for qualitative and interdisciplinary research in entrepreneurship.

Compared to developed countries, governments and firms in developing countries do not invest much in knowledge creation. Property rights are also not very strong in the latter. In this context, the incentives and factors affecting entrepreneurship may be different in the developing world. Leff (1979) explains that a key function of entrepreneurship in developing countries is to mobilize factors such as capital and skilled labor which might otherwise not be supplied or allocated to the activities where their highest productivity is unleashed. In this context, the necessity of well-functioning markets to facilitate the entrepreneurial process has been recognized in many countries, and governments have worked substantially on improving markets and removing barriers to entrepreneurship and other market failures. It is imperative, however, that urban policy be designed to ensure that positive externalities (knowledge, network and demonstration) flourish and assist in the growth of entrepreneurship.

Young incumbent firms grow more rapidly and undertake risks that often lead to more innovation (Wadho, Goedhuys & Chaudhry, 2019). Thus, it becomes important to understand the perspectives of entrepreneurs running small and young firms. There has been relatively little focus in research on qualitative techniques to understand entrepreneurship; insights through such techniques can bring forward important perspectives and many aspects which remain hidden through a country or city level analysis of quantitative data. Williams, Shahid & Martinez (2016) surveyed 300 informal enterprises in Lahore and shared how the motivations for informality display heterogeneity and instead of compliance cost, informality is driven by the nature of entrepreneurs and enterprises. Considering a sizeable informal economy in Pakistan, this was an important finding as this result counters the traditional view that the informal economy is a direct result of high regulatory compliance costs.

The initial years of a startup or business firm are important to raise investment and gain customers. A study conducted by the World Bank has found “the early stage capital gap”, in which entrepreneurs highlighted the challenges posed by limited financing due to a lack of venture funding. The same study has also reported: “the stakeholders interviewed for this study unanimously highlighted the unfriendliness of the current policy and regulatory environment” (World Bank, 2019).

However, the study mainly analyses such regulatory barriers in the case of investors and venture funds. There was also no discussion on urban policy and governance issues that directly affect startups and IT firms in any city. The current study attempts to further unravel the influences of urban policies and governance on starting and expanding a firm.

There is substantive literature on drivers of entrepreneurship in Pakistan that highlights the importance of research and development expenditures, and government stability (Rasool, Gulzar & Naseer, 2012). Sector, city and cluster level studies provide important insights about entrepreneurship, innovation and expansion of firms (e.g. for textile sector innovation: Wadho and Chaudhary, 2016). Many city level dynamics are active in Pakistan such as presence of skilled and creative workforce, education level and urbanization trends (Iftikhar, Ahmad & Audretsch, 2020). Agglomeration and urbanization also play an important role; firms prefer to start their operations where there is concentration of similar or diverse firms. This may be helpful for firms to gain from knowledge spillovers and business-to-business (B2B) contracts (Haroon & Chaudhary, 2014). Personal perspectives of entrepreneurs can lead to a deeper understanding of the dynamics associated with entrepreneurship. Nishat & Nadeem (2016) have found that personal contact with successful entrepreneurs reduces the risk of failure among potential entrepreneurs. However, the study had limitations as it only pointed out that direct contact reduces the fear of failure but could not explain whether such personal contacts could lead to knowledge spillover from incumbent entrepreneur to potential entrepreneurs.

A strand of literature also explores entrepreneurial intentions and entrepreneurial education (Ahmed, Chnadran & Klobas, 2017). Pakistan has witnessed a rise of public and private national incubation centers recently. It is important to understand perspectives of entrepreneurs about how they have gained knowledge and mentoring from such programs by university based and other entrepreneurial education programs. Such incubation centers may also help in developing social capital of entrepreneurs. Social capital has been found to be an important contributor of entrepreneurial success (Khan, 2020).

Haque (2007) examined entrepreneurship in Pakistan and used focus groups with businessmen to collect their perspectives about the

challenges they face. The study found that many of the businesses in Pakistan lack innovation and are being operated as inherited property. The businessmen also shared constraints such as unfavorable legal framework, corruption, lack of financing and unfriendly city management. The focus groups were conducted in four cities of Punjab and participants were selected from various industries without any constraint with regards to the age of the firm in question. The current study differs in two ways; one, it is concerned with young firms and two, it considers specifically the IT sector.

There is not much literature in Pakistan that attempts to understand the motivations of entrepreneurs, especially in the IT sector. There is an understanding that entrepreneurial intentions play an important role in the entrepreneurial journey. However, the motivations that trigger someone to pursue entrepreneurship remains a scarcely explored dimension in the literature. Similarly, there is room to further investigate the formal and informal sources of knowledge for Pakistani entrepreneurs. Secondly, urban policy and governance have not gained traction as important contributors to varying performance of entrepreneurs across different cities of Pakistan. Third, there is a high rate of failure amongst IT startups in Pakistan and in general; this warrants an exploration into why some small firms and startups perform better than others. Existing literature revolves around regulatory constraints, but we rarely come across discussion on management practices, which can be helpful at an early stage of a firm. What are the motivations, personal perspectives and experiences of entrepreneurs? What are the city level dynamics that might explain their success or failure? Insight to such questions can contribute to the scholarship on entrepreneurship and may inform public policy.

### **III. RESEARCH DESIGN**

The key research question is: What drives firm creation and expansion in major cities of Pakistan? Focus group interviews for this study were conducted with IT sector entrepreneurs, based in the two largest cities of Pakistan namely Karachi and Lahore. The IT sector was selected due its emerging presence in Pakistan. There has been much debate in academic as well as policy circles about the rise of this sector as well its domestic growth and export potential. However, there have been many cases of

failure; moreover, many IT startups opt to leave Pakistan and set up shop in other countries in search of favorable and promising business environments. Lahore and Karachi are the main hubs of IT activity. These cities are selected due to the ease in identifying IT sector firms and due to a stronger presence of IT sector entrepreneurs. Respondents were chosen through Pakistan Software Houses Association (P@SHA). Such organizations play the role of gatekeeper in research regarding identification of respondents for interviews and FGDs. Focus groups are effective in understanding collective perspectives of participants through discussions on motivations, priorities, experiences, and reflexivity. FGDs were chosen as the method of information in this study as they help to gain an understanding of perspectives through interaction amongst similar participants which may not be obtained through individual interviews. FGDs have the advantage that they allow participants to explore and clarify ideas with each other, which provides checks and balances on various perceptions and opinions. They allow for an in-depth exploration of cultural norms, attitudes and opinions, and help bring out shared values. The participants influence each other through their ideas and experiences and the moderation also helps to stimulate conversation required on key questions (Freitas, Oliveira, Jenkins & Popjoy, 1998).

The key advantage of FGDs is the interaction amongst participants of focus groups and the role of the moderator. Literature also discusses pros and cons of the level of engagement of the moderator e.g. active or passive. Morgan (1996) explains three essential components of focus groups: (1) its purpose i.e. data collection (2) interaction amongst the group as a source of data, and (3) the researcher's active role in facilitating the group discussion. He also highlights other additional dimensions and forms of focus groups, but the three components measured above hold a key position in this regard. The process of focus groups was conducted in four phases: (a) planning for participant selection and elaboration of key questions, (b) organizing and conducting focus group sessions, (c) transcription of sessions, and (d) analysis. Semi-structured focus groups were conducted in order to explore perspectives of entrepreneurs beyond a priori expectations. A priori codes have been identified in the Appendix. A few broad questions and probes for focus groups are described below.

**How (and where) do entrepreneurs acquire ideas and knowledge about starting and growing a business?**

Discussion in the focus group started with this broad question and was followed by supplementary questions: Did you come up with the idea about the business and firm creation while working in another organization? Did anyone help you identify a business idea and then expand it? Have you ever registered or reviewed a patent document relating to your business concern? Was there any research by any other organization (public or private) that you found helpful? What kind of support did you get from family members, friends, colleagues and employees for starting a business and then learning new ideas to expand the business?

The aforementioned and following questions were posed to the participants since the purpose was to shed light on research regarding the role and sources of knowledge required to start a business.

**What are the key factors and practices that helped in the survival and growth of the businesses/startups?**

Many businesses fail in their initial years. If you have succeeded, what about your approach made you successful? What are some of the managerial or business practices which have helped you? Where did you learn those practices and ideas? Should the government focus more on research for your business area or should it strive to fulfill infrastructure requirements such as energy and roads among others?

**What is the role of urban policies and design on firm performance?**

Why have you set up your business in this city? What are the advantages and disadvantages of doing business in this city? How effective is this city in inspiring business ideas and how has it facilitated you in finding resources to work on your business ideas? Have you ever considered shifting your business to another city? Why or why not?

The replies of the entrepreneurs to this particular question were useful in explaining whether urbanization and city dynamics play a moderating role for knowledge spillovers.



### **What urban policy changes can be conducive for business?**

Should this city focus more on urban transport or housing? How do these issues affect your businesses? What do you think about internet facilities in this city? Are there enough places and forums where businessmen meet with each other and professionals to discuss business issues? How can the city government enhance learning opportunities which will be helpful to you and to your employees?

This question was posed to the participants in order to understand their perspectives regarding key policy changes required to promote entrepreneurship.

## **IV. KEY CHARACTERISTICS OF FOCUS GROUPS AND THE TWO CITIES**

Three focus group interviews were conducted in each city in year 2018. 6-12 entrepreneurs participated in each group and a total of 55 entrepreneurs were interviewed in this process. Each focus group interview lasted for 60 minutes. Owners of domestic small and medium enterprises in the IT sector were invited to participate. As a token of appreciation, a small gift was given to participants and they were apprised in advance, through invitation letters, about this study, expectations of the researcher, and potential benefit for entrepreneurs in the form of collective learning. Members of the focus groups were selected based on the criterion that they have a small business that has survived for at least three to five years. The approval for research with human subjects was obtained from the University of Delaware<sup>1</sup>.

Table 1 shows similarities and contrasts between the socio-economic profiles of the two cities.

TABLE 1

### **Economic and Social Profile of Karachi and Lahore**

Key Indicators of Socio-Economic Profile of Cities	Karachi	Lahore
Province	Sindh	Punjab
Sea Port	Yes	No

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<sup>1</sup> The first author was enrolled as a PhD student at the University of Delaware

Total Population in 2017 (Millions) Source: Pakistan Census Data 2017	14.91	11.13
Increase in Population in 2017 since 1998 census Source: Census Data 2017	59.65%	116.3%
Area (Sq.Km) Source: Census Data 2017	3,527	1,772
Total Number of New Limited Liability Companies (from 2002 to 2015) Source: Securities and Exchange Commission of Pakistan (SECP)	10,696	13,902
Employment in Finance, Business, and Technical/Engineering Professions as a percentage of total employment Source: Global Cities Extract for the World Bank	4.72%	4.12%
Industry Employment as percentage of GDP (2015) Source: Global Cities Extract For World Bank	34.72%	34.57%
Labor Force with Secondary Education as a Percentage of Total Labor Force (2015) Source: Labor Force Survey of Pakistan	23%	20%
Labor Force with Tertiary Education as Percentage of Total Labor Force Source: Labor Force Survey of Pakistan (2015)	10%	10%
Net Migration Rate (Per Thousand population) Source: AERC calculations based on LFS (2010-11)	141	176
GDP Per Capita 2015 (US\$)	1,910	1,864
Labor force participation Source: PRIME (2018)	38.0%	37.9%
Metropolitan Competitive Index (Islamabad ranks first with 0.744 score, higher score is better) Source: PRIME (2018)	0.450	0.503

It may not be possible to generalize the findings of focus groups in this study due to limited representation. However, a few important dimensions of outcomes of focus groups may contribute to the analysis in five ways. First, focus groups provide contextual and personal narratives about entrepreneurial activity. Second, they capture the collective perspective about sources of knowledge including urban design and policies. Third, most entrepreneurship studies focus on constraints to entrepreneurship, however little is known about how small businesses grow and survive. This aspect has been discussed in focus groups and effort has been made to identify the defining factors for growth of small business following Peters and Waterman(1982) who highlighted successful business practices in US firms. Fifth, the literature identifies tacit sources of entrepreneurial knowledge in agglomeration economies

which have been explored through focus groups. Chen, Zou, & Wang (2009) have also highlighted how soft skills and networks nurture growth in small ventures. So the findings of this paper may be helpful for academics, policymakers and entrepreneurs.

## **V. FINDINGS AND ANALYSIS OF FOCUS GROUPS**

This section discusses the data obtained through six focus groups, 3 each in Lahore and Karachi. These two cities are the most populated and industrialized cities of Pakistan. They are under different provincial jurisdictions and are the pioneering grounds for IT based entrepreneurship in the country. The same set of questions was posed to all focus groups in both cities. This section is divided into four subsections based on the four primary questions and topics discussed in the focus groups. Names of entrepreneurs are not mentioned in the analysis and each entrepreneur was given a code. Entrepreneurs occupied numbered seats for the focus group discussions. The first letter denotes city (L for Lahore and K for Karachi), the first digit represents the sequence of the focus groups (there were 3 groups in each city), and the last digit represents the seat number that an entrepreneur occupied during the focus group discussion. Thus, if an entrepreneur participated in the second focus group in Lahore and was sitting on the fourth seat, he/she was assigned the identifier L.2.4. If an entrepreneur in Karachi participated in the third focus group and was sitting on the seventh seat, he/she was assigned the identifier K.3.7.

### **IDEAS, KNOWLEDGE AND INSPIRATION TO START A BUSINESS**

This section explores perspectives and insights into how (and where) entrepreneurs acquire ideas and knowledge about starting a business and the operational and decision-making process of starting a business. Literature reports that educational achievements and patents may be considered as sources of knowledge for starting a business. Discussion in the focus groups, however, revealed that patents may not hold much significance as a source of knowledge. Similarly, there was no mention of the role that research and development by the public or private sector might play in encouraging startups. However, they reported other sources

of knowledge and ideas that contributed to their process of starting a business.

In contrast to the a priori codes, most entrepreneurs narrated how their business idea was inspired by a problem or issue in their surroundings. They confronted a problem either by themselves, with people around them or during an interaction in the market. A scholar may call it a gap in the market that entrepreneurs identify. However, entrepreneurs considered it as a problem to be solved through their business ideas. An entrepreneur (K.3.9) who started an e-commerce platform for trading fabrics described, *“The basic problem in the online business of fabrics was customer frustration”*. His response to this problem took the shape of firm creation as he decided to resolve this issue in the market. Another entrepreneur (K.3.2) who established an online platform for matching businesses and freelancing workers said, *“The idea generated when I outsourced my own work to somebody”*. He encountered a problem in dealing with his supplier and it motivated him to address this issue by matching clients and outsourcing industry according to their mutual requirements. Similarly, an entrepreneur (K.3.3.) said, *“Ideas are derived from needs. When an entrepreneur finds that there is a need for a product or service in their surroundings, he/she starts working on it”*.

Many entrepreneurs reported a similar personal experience of observing a problem and then trying to solve it. An entrepreneur (K.3.4.) who is involved in banking and financial solutions said:

*“I think ideas are based on experiences that you gain through travel and meeting people. Ideas arise when one comes up with alternate means of performing a task. Ideas usually come from experiences. They may arise when you work with someone, they may arise when you go out with the kids at the shopping mall or the park. You find ideas from what is happening around you.”*

The above statement highlights the importance of confronting a problem or challenge and a subsequent response to addressing the problem in question. However, it also shows the spillovers of working in other organizations or setups as people get ideas from their jobs and then try to exploit them by forming their own businesses. This aspect also appeared as a consistent theme in all focus groups. An entrepreneur

(L.2.5.) said, *“My previous job enabled me to acquire the right skill set which geared me up to start a business and groomed me to confront the challenges that I faced when running the business”*. An entrepreneur (L.3.2.) shared that when he decided to start the business, he talked to his ex-employer and proposed a B2B relationship. Thus, it shows that existing work and job experience feeds the potential entrepreneur. But it is clear from the analysis of the focus group data that there is indeed diversity in motivation, reasons, and ideas to start a business. An entrepreneur (L.2.2), for example, said that he entered into business immediately after graduation and the motivation was that he wanted to venture into something different.

As mentioned earlier, problem solving was a consistent theme. An entrepreneur (L.2.3) shared that he came up with the idea to improve Kidney Dialysis Machines after his Aunt and Uncle died. He shared:

*“I watched my Aunt and Uncle suffer many diseases due to unsafe kidney dialysis machines in Pakistan. That is when I realized patients in Pakistan requiring dialysis were exposed to health risks due to poor quality of kidney dialysis machines. I observed that there were no alternatives. I was working in a similar industry in the US and knew that the technology used in dialysis machines in the US was decades ahead of the obsolete and cheap technology Pakistan was relying on. After my Aunt and Uncle died, I moved back to Pakistan and decided to develop technology to introduce state of the art dialysis machines in Pakistan at an affordable price for a developing country.”*

Thus, in this particular case, confronting the problem was not enough and there was still a need for knowledge stock and ideas which came from his work experience in the US. Many entrepreneurs also said that they look around the world especially the US market and observe the latest occurrences and activities there. Then they try to replicate or build on the same idea. However, this may only be true for sectors like IT and it may have limited generalizability to other sectors. An entrepreneur (L.1.7) said that her nephew's blindness led her to develop new gadgets for the blind. After observing the problem, she confronted it by discussing it with people with special needs to gauge their requirements and design solutions for them. This shows that the entrepreneur in this case was sensitive to what was happening around her and it led her to set

a business to provide entertainment and learning opportunities to blind children.

Given that IT is one of the most knowledge-intensive sectors, it was expected that the entrepreneurs would be drawing knowledge from research-oriented initiatives and universities, however, this only applied to a few cases. An entrepreneur (L.2.5.) said: "*LUMS (Lahore University of Management Sciences) taught us business development and many of the lessons and insights I gained during those classes have proven to be of core value in running my business*". One of the entrepreneurs (L.3.2.) shared that they found research papers of a professor from Washington DC who was working on the same idea that they wanted to commercialize. They approached the professor with a request to explain the paper in detail as they had difficulty in understanding it. In this case they found the relevant work but had to resort to interaction for a deeper understanding. Similarly, an entrepreneur (L.2.5.) who was working on virtual reality said that at some stage he was stuck and could not find a solution to the problem he was confronting. He then approached his former teacher who informed him about a paper by a Stanford professor. That paper indeed helped the entrepreneur to develop his idea further. This highlights the process of knowledge spillover. It is important to understand that in this case a personal connection played an important role in helping the entrepreneur reach the required information and knowledge. Thus, human to human interactions are essential for knowledge spillover. It is widely understood that uncodified knowledge is transferred through personal connections. In this case, even codified knowledge was transferred through both personal and digital connections.

A few entrepreneurs also acknowledge the role played by friends. An entrepreneur (L.3.5.) said, "*I think the fact that we started this initiative with friends is an important aspect behind the success of our business. Moreover, support from family is common for startups especially at the early stage.*" Pakistani society is structured around families and personal connections, which carry weight for starting a business. A study by Qidwai et al. (2017) pointed out that "...in a joint family, the family has been more dependent on the decision-making powers of the elderly members of the family as compared to the ones who are living separate from their parents and almost all the areas of their lives have been contributed to by them". Many entrepreneurs reported that they discussed

ideas with friends and family members to refine them and to get new knowledge.

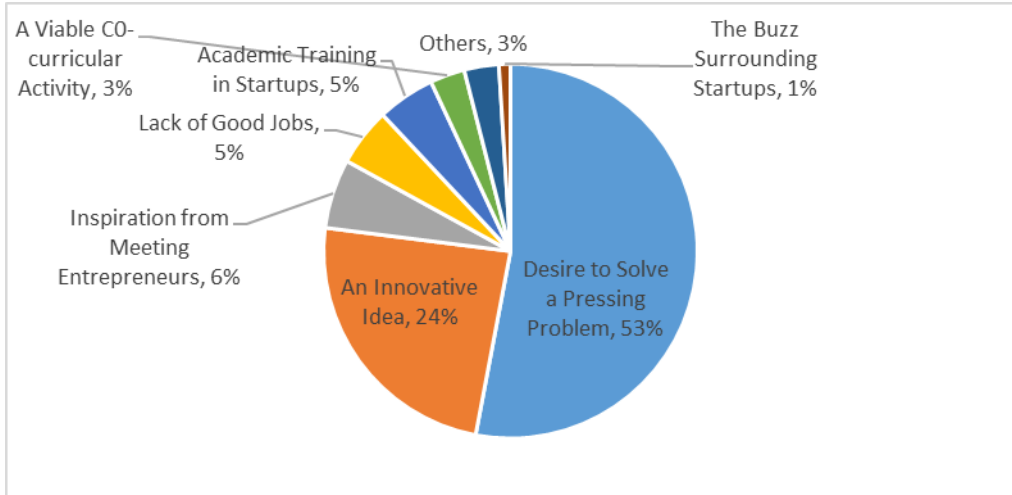
Regarding the process of starting a business, only a few complained about hurdles in the business registration process. Starting a business is considered an important indicator in World Bank's Ease of Doing Business Report and governments have been focusing on reforms in this area. But its impact on entrepreneurship is debatable. One entrepreneur (K.2.1.) opined, "*The barrier to entry is very weak in Pakistan*". Some entrepreneurs however did talk about other regulatory problems (discussed later) but it was clear that once they have an idea, they observe their surroundings and try to test it before starting a business. Some of them discussed with peers and colleagues while others focused on market research. This finding was in line with the Austrian school of economics which postulates that entrepreneurs learn from interactions with the market. An entrepreneur (K.2.2.) who started a portal for e-books said: "*We conducted market research to gauge the demand for an e-book portal. It was very useful since we came across a couple of good opportunities. Eventually we pitched the idea to some investors and were successful.*"

One entrepreneur (L.3.2.) got the idea to turn his hobby into a business. He was a motorcyclist in California and decided to start a motorcycle business in Pakistan. These diverse perspectives were interesting as they showed that it is not possible to generalize the sources of knowledge or the process of starting a business. The diversity in experiences of entrepreneurs makes a strong case for qualitative research in entrepreneurship. Another entrepreneur (K.1.4.) started a business because he felt that he could not utilize his creativity fully at his previous job.

A survey conducted by the Social Innovation Lab (SIL) in 2018 reports the following results based on responses by 200 startups from sixteen cities of Pakistan:

FIGURE 1

## Founders' Motivation to Establish Startups



Source: SIL (2018)

Figure 1 corroborates the results of the focus groups conducted in this study. It shows the popularity of the various reasons or motivating factors that inspired entrepreneurs to start their businesses. A majority of entrepreneurs reported “desire to solve a problem” as their motivation to establish a startup. However, the second most common motivation is the entrepreneur striking “an innovative idea”. If we combine categories of “an innovative idea” and “academic training in startups”, it reaches 29% in the above pie chart.

Thus personal interactions, previous jobs, and personal motivations play a role in driving entrepreneurship. However, the dominant theme in these focus groups was that in Pakistan many entrepreneurs recognized a problem and tried to provide the solution. Many people may come across the same dilemma but may not think of starting a business to solve it. An entrepreneur when confronting the same problem would create a business solution. This points to an important dimension of entrepreneurship which is the unique personality of the entrepreneur. This also highlights the importance of understanding behavioral aspects of decision-making by entrepreneurs and what makes them different. This is beyond the scope of this study, but some experimentation and research can enhance the body of knowledge further.



## **KEY FACTORS AND PRACTICES FOR FIRM SURVIVAL AND GROWTH**

The endogenous growth theory highlights the role of knowledge spillovers among incumbent firms that lead to the expansion of firms and ultimately enhance economic growth in a society. This section explores answers to the questions: What helps businesses in expanding and flourishing? What are the key factors and practices which support firms in growing during initial years of their establishment?

Other than a priori code, an emerging theme in the discussion was centered on client/customer care or need. Many entrepreneurs reported that the key to their survival and growth can largely be attributed to client care. An entrepreneur (K1.1.) said; *“In my opinion the most important factor is the value you give to the customer”*. Another entrepreneur (K.3.8.) said: *“Keep a good relationship with them (clients)”*. Hence the entrepreneurs discussed various aspects of dealing with and managing clients in order to survive and succeed in the business. An entrepreneur (K.1.1.) highlighted that working with large businesses really helps young firms. He said, *“If you are working with an established brand and providing quality services within a given time, it multiplies your business”*. It seems like a good strategic choice and it points to the diversity of factors that shape the growth of a firm.

After client-related practices, the second most discussed factor for the survival and growth of a business was patience and persistence. Entrepreneurs shared stories of the hard times they faced during the initial years of business. They expressed how patience and commitment proved vital for their survival. An entrepreneur (K.2.4.) opined: *“The passion needed to run a business is what helped us survive”*. Failure also played an important role as learning key lessons helped entrepreneurs make better decisions in subsequent ventures.

The third most discussed factor was financial management. Many entrepreneurs mentioned that prudence in spending was a major factor in survival and growth. Some entrepreneurs said that they did not have any finances when they started commercializing their ideas. The fact that they had to raise everything from scratch taught them valuable lessons in financial planning and this proved to be a crucial ingredient for their success. An entrepreneur (K.2.1.) said: *“We focused on strategically*

*minimizing costs and this proved to be a highly beneficial approach. Better financial management helped in the long term*". However, it is difficult to ascertain whether too much focus on prudence is a good practice. Sometimes it may lead to avoiding essential expenses on human resources, research as well as marketing. Thus, a one-size-fits-all financial management practice is not good for businesses and the best financial management practice is often figured out while in operation.

A few participants considered that a good team is vital for business survival and growth. An entrepreneur (K1.2.) said: *"In hard times, the most important support comes from your team and not from finances"*. An entrepreneur (L.2.5.) said: *"The team factor is vital for business development"*. It may be interpreted that the teams are not only good for implementing ideas but may contribute to new ideas as well. This is an area that needs further exploration.

Some entrepreneurs mentioned that support of family members is a crucial element behind their success during hard times. On the other hand, some expressed their exasperation over excessive and unwelcome intervention from their family, as many Pakistanis continue to live with their parents during their adulthood, a lifestyle which is also prevalent in the rest of Asia to some extent. Such influences of family systems on economic progress and political mobility have been researched. Alesina & Giuliano (2014) found that "strong family ties may interfere with activities leading to faster growth, but they may provide relief from stress, support to family members and increased wellbeing." However, one of the entrepreneurs (K.3.5.) said; *"It is indeed a dual edge. On one hand, joint families put pressure on you to avoid failures and on the other hand they support you in case you fall."* However, personal network was considered a key factor in business survival and growth. Members of the younger generation may take over the family business and introduce latest management and operational techniques; however, such innovation in the family business is not always appreciated by the family elders. An entrepreneur (K.3.1.) said:

*"I brought the family business towards technological innovation and have transformed it into a more innovative business solution; we reshaped the process to reach the end customer instead of sharing profits with retailers and middlemen. At first, I faced resistance from my family,*

*but insisted on running the business according to modern and contemporary business strategies. It worked out well in the end”.*

However, another entrepreneur (K.3.5) had different views and he said: *“Family supports you, yes. But friends and family do not help much. Frankly speaking, they disturb you a lot as well”.* Thus, opinions regarding the role of family and friends vary across entrepreneurs, but most entrepreneurs considered family support a positive factor in the survival and growth of their businesses. An entrepreneur (L.3.2.) specifically mentioned the dominant role played by a friend who helped him grow his business.

In terms of sources of ideas, an entrepreneur (K.3.9.) reported that he watched movies to understand coding and business ideas. He said: *“I watched the movie Social Network (a movie about coding on Facebook), and decided to do something along these lines. Then I started coding and a year and a half later, I established my startup”.* An entrepreneur (L.2.5.) said: *“We watched movies/seasons and Steve Jobs’ interviews to improve business development”.* Thus, it is important to know that research and development in the form of research papers and patents are not the only sources of knowledge that entrepreneurs draw on. They extensively explore various other sources of information and ideas to start and grow their businesses. Only a few entrepreneurs mentioned it as a source of ideas and knowledge, but it does point to the role of such avenues for ideas. Robert Shiller, the Nobel Prize Winner in Economics, emphasized the role of narratives to change the course of development in a society (Shiller, 2017). However, there may be many people who have watched such movies but did not aspire to become entrepreneurs. Thus, the uniqueness of being an entrepreneur is reiterated through this finding. An entrepreneur (L.2.2.) said: *“We do business with clients in the US and most of our ideas come from that market”.* This again points to the diversity in sources of knowledge spillovers for entrepreneurs in developing economies.

An entrepreneur (L.1.1.) emphasized that there is a need to synchronize your ideas with client needs. He said: *“If our services, ideas and end customers are on the same page, business will grow. There are three recipes for disaster when running a business: 1) running out of cash, 2) undesirable products and services, and 3) time consuming*

*business processes.*” An entrepreneur (L.2.5.) was of the view that “*A businessman should have good planning and startup investment*”. In terms of knowledge spillovers, an entrepreneur (L.2.3.) mentioned: “*Mentorship and hired consultants are helpful in gaining new ideas and knowledge when planning to expand a business*”. Similarly, an entrepreneur (L.2.1.) said: “*I meet CEOs of various companies for techniques, ideas, and learning how to attract customers*”. An entrepreneur (L.2.4.) while discussing business growth said: “*In my field, core technical knowledge gained from my engineering education and relevant work experience helped me*”. Thus, knowledge spillovers do play a role in the growth of a firm but almost nobody mentioned the role of any government research or any such project that may have served to create new knowledge relating to their business.

## **IMPACT OF URBAN QUALITY AND CITY DYNAMICS**

The focus groups were held in the two largest and most industrialized cities of Pakistan. They host majority of the IT companies and startups operating in the country. However, both cities fall under separate provincial jurisdiction and differ significantly in terms of city dynamics. So, while there were many similarities, some contrasts also emerged in the data obtained through focus groups. The role and dynamics of each city were discussed with regards to promoting entrepreneurship.

Most entrepreneurs shared that they started the business in a particular city because they were already living there. This is in line with the argument presented by Glaeser (2011), who holds the opinion that entrepreneurs first choose where to live and then decide where to establish their business. An entrepreneur (K.2.3.) said: “*I was born and raised in Karachi. That was a major factor that kept me on track...In the business of e-distribution, all our connections are based in Karachi*”. An entrepreneur (K.2.4.) shared “*I was brought up in Karachi and started the business at a very early age. Karachi seems to be the hub of all kinds of products.*”

Many entrepreneurs reported that they preferred a particular city because they had strong family and professional connections there which were helpful at the early stage of their business. However, an entrepreneur (K.3.5.) said that if he had to move his business, he would

move to Lahore or Islamabad because, *“these cities have a stronger community of entrepreneurs”*. It highlights the role of connections and bonding among like-minded professionals that help them start and grow a business. An entrepreneur (K.2.3.) said; *“The support system of the family was of much benefit in everything from recruitment to office space to opening up a bank account. This is the advantage of being in your home ground”*. Another entrepreneur (L.2.4) shared his story of the resistance he faced from his family when venturing into entrepreneurship.

Entrepreneurs discussed that they preferred cities like Karachi and Lahore because they had higher literacy levels and a large market. An entrepreneur (L.1.6.) started a marketing business in Lahore because he thought a higher literacy level was essential for such a business to be popular. He said, *“Our startups depend on the education levels of people. The more aware and enlightened they are, the more we sell”*. Similarly, an entrepreneur (L.1.2.) said: *“People choose Lahore to start their business because of higher education and awareness levels in Lahore as compared to other cities. The marketing cost is low in Lahore because of educated people in this city”*. Education levels affect both the supply and demand side of entrepreneurship. Moreover, many entrepreneurs pointed to relatively better access to internet and broadband services in these cities. This finding shows that urban quality (including access to infrastructure such as broadband services) contributes to higher entrepreneurship.

Although Karachi has the largest share in the GDP of Pakistan and is also the most industrialized city, entrepreneurs shared that Lahore seemed more conducive to startups and early stage IT companies. Entrepreneurs attributed this to the proactive role of the provincial government of Punjab in Lahore as compared to provincial Government of Sindh operating in Karachi. The federally administered legal and regulatory arrangements are the same in both cities, but the sub-national policies have a strong impact on the entrepreneurial environment. An entrepreneur (L.1.5) said: *“The establishment of an IT park called Arfa Kareem Tower and a government-run incubator inside this park has helped Lahore promote startups”*. However, an entrepreneur (K.2.5.) from Karachi said: *“I appreciate Karachi for its mature business environment especially in the IT sector. The market in Karachi is diverse and extensive, making it suitable for business”*. It seemed that there was

some bias in considering the other city better than theirs. However, there is still a lack of research on in-depth comparison between these cities to make a conclusive argument. An entrepreneur (K.3.6) for example said: *“Government support is much better in Lahore as compared to Karachi. Sindh Government is not doing a lot for entrepreneurs”*.

The focus groups revealed that more participants in Lahore had moved to the city from other smaller cities. The entrepreneurs talked about talented professionals who were based in other cities but ended up working in Lahore. This was not the case in Karachi. Most entrepreneurs were born in Karachi and were hiring staff only from Karachi. This is in line with Pakistan’s recent Census 2017 according to which Lahore has grown by 116% in population from 1998-2017 while Karachi has grown by 60% during the same period. An entrepreneur (L.1.1.) said: *“I belong to Sialkot, a small city and could not find appropriate staff and opportunities there and thus decided to shift to Lahore”*. Similarly, an entrepreneur (L.1.3.) said: *“I am from Mandi Baha Uddin and pursued my education from Lahore”*. There were not many entrepreneurs in Karachi who had migrated from other cities as compared to Lahore where many entrepreneurs had moved from smaller cities and rural areas. There is a lack of concrete evidence, but it appears that more talent is now moving more towards Lahore than Karachi. Further research is needed to substantiate this claim. It is an important area for enhancing further understanding about the entrepreneurship process. As pointed out by Hamguchi and Kondo (2016), turn-over of knowledge is more significant for entrepreneurship and innovation as compared to knowledge stock. Turn-over in their study was referred to as the movement of knowledge/talented workers to and from a city. An entrepreneur (K.3.3.) shared: *“Punjab Government’s incubation center in Lahore has made an impact on the entrepreneurship culture and has promoted startups. However, I personally feel that Karachi is a multicultural society and suffers less from social ills such as class segmentation as compared to the rest of Pakistan, and also offers a huge market. That is the strength of Karachi.”* However, in terms of governance, the public transport system may have made a difference. Lahore started a public bus transit system which was appreciated by many entrepreneurs who participated in the focus groups. No such system exists in Karachi. Entrepreneurs pointed to the lack of a public transit system in Karachi which makes it difficult for

workers to commute smoothly. In this case entrepreneurs preferred to hire workers who lived closer to their office which restricts their choice to recruit workers from a diverse pool. An entrepreneur (K.1.5.) said: *“General infrastructure as well as property is too expensive. If an employer wants to hire someone who lives far away from the business site, it becomes an issue. Karachi is a huge city, so if one wants to find the best talent it is a challenge because the natural preference is to hire only those who live nearby due to transport constraints. By doing so the talent aspect is constantly undermined. So efficient and safe public transport systems will allow men and women to work freely anywhere in Karachi”*. This is an important point to appreciate the role of public transport in promoting entrepreneurship and facilitating knowledge spillovers.

In terms of constraints and regulatory barriers, entrepreneurs pointed towards the negative role played by the informal economy. Entrepreneurs working in the formal sector comply with all taxation and regulatory requirements while informal businesses substantially reduce costs by avoiding taxes and other regulatory compliances. This type of situation in any sector makes it difficult for formal entrepreneurs to compete with informal businesses. An entrepreneur (K.3.4.) said: *“As far as weaknesses are concerned, there is an issue of the lack of proper documentation of all businesses operating in the city which leads to the growth of the informal economy”*. It was also pointed out in the focus groups that Karachi had faced a law and order situation in the past which has contributed to relatively suboptimal performance of entrepreneurs. An entrepreneur (K.3.5.) said: *“The worst aspect of Karachi is its law and order situation”*, while another (K.3.10.) shared: *“The situation of security is much better in Lahore and Islamabad as compared to Karachi. It explains why there are more startups in those cities...I think it impacts your thinking power...You would go to the safest place”*.

An interesting contrast became evident during the discussions. Karachi hosts big corporate conglomerates which are considered to create an unfavorable environment for startups and entrepreneurs. This situation is partially analogous to the comparison between Pittsburg and New York carried out by Chinitz (1961). He points to large agglomerates in Pittsburg which were not conducive to small entrepreneurs as compared to the culture of diverse and relatively small enterprises based in New

York. Karachi also has the presence of a huge number of small and medium enterprises, but the presence of large corporate agglomerates has probably made a difference as they generally prefer to do business with more established firms instead of young companies and startups. However, entrepreneurs expressed that one positive aspect of Karachi is the presence of banks and financial institutions; one entrepreneur (K.3.8.) said: *“We work with financial insurance companies. All banks are operating from here...Similarly headquarters of major insurance companies are based in Karachi. It is an added advantage as we do not have to travel to other cities.”* Similarly, an entrepreneur (K.1.1.) said: *“The advantage of doing business in Karachi is that B2B relationships can start easily”*. On the other hand, an entrepreneur (K.1.3.) believed: *“Karachi is a highly saturated and very competitive market”*. Hence profit margins are also thin in the city. Contrary to this perspective, another entrepreneur (K2.3.) said: *“Operating cost is cheaper in Karachi”*. Thus, population density, as pointed out by Glaeser (2012) poses both negative and positive externalities for economic activity. Effective urban policies and governance can help a city to maximize positive externalities and minimize negative externalities.

## **PERSPECTIVES ON POTENTIAL URBAN AND PUBLIC POLICY REFORMS**

This section discusses the ideas and proposal public policies in promoting or hindering entrepreneurship. It was not astonishing that most entrepreneurs highlighted the role of tax policies and their enforcement as the biggest constraint to the entrepreneurial process. Many entrepreneurs mentioned that the presence of multiple tax regimes and agencies hinder business growth. Pakistan has recently allowed provincial governments to collect General Sales Tax (GST) on services. Earlier the federal government used to collect GST on services on behalf of the provinces. But recently provinces established their own revenue collection authorities. Provincial revenue authorities are now proactive in terms of collecting taxes. Most entrepreneurs said the duplication between federal and provincial taxes really hurt them. An entrepreneur (L.1.6.) said: *“Tax policies should be reviewed overall in Pakistan”*. Startups also mentioned that the recent move of the federal government to exempt startups from income tax for three years was a healthy development.



Regarding regulatory barriers an entrepreneur (K.2.3.) shared an interesting observation:

*“I think when your business is small, regulatory barriers do not hurt it. In fact, it works to your advantage. You have sole proprietorship; the bank manager will facilitate you in opening the account and obtaining checkbooks. EOBI (Employees Old Age Benefits Institute) persons will not give you any trouble, but as the business grows, these regulations will create difficulties. Generally, middle-size businesses face more problems. Both the large corporations and small businesses do not worry much about regulations. The system works in their favor or they can turn it to their advantage. But medium size businesses usually get trapped. Public sector officials are bribed by large corporations while small businesses are usually not on their radars. The moment a business starts growing, regulatory officials come to impose all sorts of barriers. Thus, there is an inherent bias against medium size businesses in Pakistan”.*

This is an important finding regarding how young and growing firms face more challenges as compared to large corporations. While small firms remain informal and avoid all sorts of levies, corporations are powerful enough to manipulate the system. Similarly, a few entrepreneurs said that the government should support new businesses to compete with established corporations. Participant (L.2.2.) said that a public-sector organization in Punjab working in the IT sector directly competes with many small entrepreneurs during the process of public procurement which has hurt small and young private businesses in the city. He further said: *“The Government needs to stay away from running businesses itself. It should help industry and universities through financing research initiatives”*. An entrepreneur (K.2.3.) appreciated the federal government for establishing National Incubation Centers (NICs) in large cities and suggested: *“The government should establish a growth fund with some good Venture Capital Firms”*. There has been a rising trend in Pakistan to invest in property speculation which has squeezed investment for entrepreneurs and other productive sectors of the economy. In this regard, an entrepreneur (K.3.3.) said: *“The biggest problem in Karachi is that one can purchase a piece of land worth Pakistan Rupees (PKR) 10 million and it would sell for PKR 10.2 million after six months. Under such circumstances why would people with savings invest in innovative ideas of young entrepreneurs?”*

An entrepreneur (K.2.4.) mentioned the weak enforcement of property rights and an inefficient judicial system as the biggest constraints in the growth of IT companies and startups. He said: *“I think the judicial system is highly flawed in Pakistan. If you face any dispute, it goes nowhere for a very long period. We faced a lot of problems regarding such issues. Even if you get a decision of a commercial dispute in your favor, it takes years and years to recover the amount. We went through painful experiences of this nature.”*

Another entrepreneur (L.2.4.) said: *“Infrastructure is very important for a healthy business environment”*. An entrepreneur (K.1.3.) highlighted the parking problem in Karachi and opined that it is a major loophole in the urban architecture given that a public transit system is non-existent, and everyone has to use their personal vehicles for commuting. Ride sharing services have partially contributed to overcoming this problem.

An entrepreneur (L.2.5.) suggested: *“The Punjab Government should make the province a freelancing hub for the IT sector’s development”*. However, such policies should be carefully designed as many initiatives of the sort turn out to be unsuccessful in fostering the true essence of entrepreneurship. In some cases, many startups are launched but only survive during the incubation phase. One of the entrepreneurs (K.3.2.) highlighted the need to revisit the curriculum in order to produce more entrepreneurs and said: *“The role of curriculum is crucial in promoting entrepreneurial spirit amongst the young. When we went to school and university, we did not know that entrepreneurship was a career option. Including inspiring stories from the corporate world into the national curriculum may promote entrepreneurship in the young generation”*. However, an entrepreneur (K.3.4.) mentioned an interesting initiative by one of the leading business schools in Karachi: *“They invite CEOs for mentorship and have even designed courses that are meant to be taught exclusively by CEOs”*. An entrepreneur (K.3.9.) said: *“Our education system is not working. We pay PKR 80,000 fees for children, but they end up studying like horses and donkeys. Our society only cares about getting degrees and overlooks the value of genuine education. My own parents did not want me to become an entrepreneur.”* The popular view in Pakistan is that children should pursue a good education just so that they can secure a good job.

An entrepreneur (K.1.3.) especially highlighted the constraints he faced in importing a particular hardware for his startup. The same entrepreneur also said; “*The charges for getting our payments from other countries through banking channels, against our services/products, are very high in Pakistan.*” Many entrepreneurs expressed constraints they face in receiving and sending payments abroad due to a number of foreign exchange controls imposed by the State Bank of Pakistan. It has led to higher costs and delays in business transactions. Entrepreneurs further informed that due to the lack of reliable and efficient payment methods and gateways like PayPal, many IT companies have shifted their offices to UAE and Singapore.

Table 2 presents a summary of key findings of the FGDs. The summary is presented in terms of the same four categories discussed in this section.

TABLE 2  
A Summary of Findings

<p>Ideas, Knowledge and Inspiration to Start a Business</p> <ul style="list-style-type: none"> <li>• <i>Bridging Gaps.</i> Many entrepreneurs observed social surroundings around them and tried to come up with business ideas create opportunities or fill gaps. In some cases, entrepreneurship may be a response to observing everyday problems and trying to solve them or seek alternative means to perform a task.</li> <li>• <i>Observation of Social Needs.</i> Encountering social problems may precede the search for ideas and knowledge to start a business. Many entrepreneurs shared that their motivation to start a firm was driven by a social need and they explored knowledge in the relevant field subsequently.</li> <li>• <i>Universities as a source of knowledge.</i> Few entrepreneurs attributed their knowledge to universities and teachers.</li> <li>• <i>Motivation in unlikely places.</i> In terms of sources of ideas, an entrepreneur shared that he was inspired by the movie <i>The Social Network</i> to further his understanding of coding and develop business ideas. Another entrepreneur shared that interviews by Steve Jobs were instrumental in his inspiration to start a business.</li> </ul>
<p>Key Factors and Practices for Firm Survival and Growth</p> <ul style="list-style-type: none"> <li>• <i>Client Care.</i> Many entrepreneurs reported that the key to their survival and growth can largely be attributed to client care.</li> <li>• <i>Patience and persistence.</i> After client-related practices, the second</li> </ul>

most discussed factor for the survival and growth of a business was patience and persistence of an entrepreneur. Entrepreneurs shared stories of the hard times they faced during the initial years of business and how patience and commitment proved vital for their survival.

- *Linkages with big firms.* Few participants shared that linkages with established firms can help young businesses grow.
  - *Financial management.* It was unanimously agreed that financial prudence is of paramount importance.
  - *Teamwork.* A few participants considered that a good team helps business survival and growth.
  - *Family and friends.* Some entrepreneurs mentioned that support of family members is a crucial element behind their success during hard times. On the other hand, some expressed their exasperation over excessive and unwelcome intervention from their family.
  - *Interactions with the market.* Understanding the dynamics of the potential market can be instrumental
- 
- *Impact of Urban Quality and City Dynamics Higher literacy rates.* Entrepreneurs discussed that they preferred cities like Karachi and Lahore for their higher literacy levels. Education levels affect both the supply and demand side of entrepreneurship.
  - *Large market and access to facilities.* Densely populated cities provided a large market in terms of customers, labor as well as inputs. Many entrepreneurs pointed to relatively better access to internet and broadband services in these cities.
  - *Proactive role of the provincial government.* Entrepreneurs shared that Lahore seemed more conducive to early stage IT companies. Entrepreneurs attributed this to the proactive role of the provincial government of Punjab in Lahore as compared to provincial Government of Sindh in Karachi. The federally administered legal and regulatory arrangements are the same in both cities, but sub-national policies have an impact.
  - *City Level Initiatives.* City level initiatives also play a significant role. An entrepreneur said that he appreciates Karachi for its mature business environment. There was also some discussion how the lack of public transit system in a large city like Karachi hurts business activity.
  - *Negative role of informal economy.* The negative role played by the informal economy was highlighted. Entrepreneurs working in the formal sector comply with taxation and regulatory requirements while informal businesses substantially reduce costs by avoiding taxes and other regulatory compliances. Entrepreneurs expressed that this type of situation in any sector makes it difficult for formal

entrepreneurs to compete with informal businesses.

- *Law and Order.* It was also pointed out in the focus groups that Karachi had faced a law and order situation in the past which has contributed to relatively lower performance of entrepreneurs.
- *Advantages and disadvantages of large conglomerates.* Large corporate conglomerates in Karachi generally prefer to do business with more established firms instead of young companies and startups. However, entrepreneurs expressed that one positive aspect of Karachi is the presence of banks and financial institutions.
- *Infrastructure.* An entrepreneur highlighted the parking problem in Karachi and opined that it is a major loophole in the urban architecture given that a public transit system is non-existent, and everyone must use their personal vehicles for commuting.

#### Perspectives on Potential Urban and Public Policy Reforms

- *Tax Policies.* Most entrepreneurs suggested reforms in tax policies and their enforcement to improve the entrepreneurial outcomes in the country. Many entrepreneurs mentioned that the presence of multiple tax regimes and agencies hinder business growth. While small firms remain informal and avoid all sorts of levies, corporations are powerful enough to manipulate the system. Medium sized firms end up suffering.
- *NICs and need for venture funds.* An entrepreneur appreciated the federal government for establishing National Incubation Centers (NICs) in large cities and suggested that more venture capital firms would further promote the startup culture.
- *Judicial System.* The weak enforcement of property rights and an inefficient judicial system were identified as major hurdles in the growth of IT companies and startups. This needs to be addressed to support entrepreneurs.
- *Import Constraints.* Entrepreneurs pointed out the need to reform import procedures and the movement of foreign exchange into and out of the country by IT sector firms.

## VI. CONCLUSION

The research on entrepreneurship and knowledge spillovers has dominantly been quantitative in nature. The Knowledge Spillover Theory of Entrepreneurship stipulates that potential entrepreneurs decide to start a business when they come across unexploited knowledge. However, the above analysis reveals that the starting point for most of the businesses was an encounter with a problem or an issue that exists in the surrounding of a potential entrepreneur. Entrepreneurs highlighted the

importance of knowledge spillover but this step came after the decision to start a business.

The discussion also highlights the channels of knowledge spillover such as family connections, association with teachers and mentors, work experience in other companies and abroad, and hiring of consultants. Entrepreneurs reported their learning from business relations with either established domestic brands or international clients. Some entrepreneurs also passionately searched for ideas and knowledge from research on Silicon Valley. The discussion has also added to the body of knowledge through sharing the first-hand experiences of entrepreneurs in expanding their businesses. Client/customer care was described as the most important management practice that helps a business expand. Similarly, meticulous financial management and patience were considered the most important qualities of entrepreneurs that help them foster business growth. Entrepreneurs learn such practices from various personal interactions and experiences which indicates the role of knowledge spillovers in the process of firm expansion.

As hypothesized in this article, entrepreneurs shared that the overall quality of urban policy and a city's ability to attract talent are important considerations for an entrepreneur. Karachi, being the largest and most industrialized city, displayed a relatively weak performance in starting and growing IT companies recently as compared to Lahore, the second largest and industrialized city. This has emanated in part due to Lahore's relatively better law and order situation, public transport, provincial support for IT based startups and ability to attract talent from many parts of the country. Thus, the analysis highlights important insights into establishing and expanding IT businesses including the moderating role played by urban policies and governance in Lahore and Karachi.

Entrepreneurs especially suggested improvement of education system, commercial dispute resolution system, enforcement of property rights, quality of infrastructure such as broad band access and public transport as well as support by the government for small and young firms in the form of incubation centers, growth funds, favorable public procurement rules, and tax facilitation.

This qualitative analysis was limited to IT sector entrepreneurs in the largest cities of Pakistan. A similar research on other sectors cities in Pakistan can help to generalize the findings of this paper.

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## APPENDIX

## A Priori Codes for Focus Groups

## Starting a Business

1. Ideas for Starting a Business
2. Support for Starting a Business
3. Help for Starting a Business
4. Process of Starting a Business
5. Constraints to Business Startup
6. Difficulties in Business Startup

## Role of Knowledge Investment

1. Familiarity to Patents
2. Ideas from Patents
3. Learning from earlier employment
4. Support due to personal education
5. Interaction with Highly Educated Peers and Family Members

## Business Growth

1. What Helped to Grow Business?
2. What mattered most?

## Urban Quality

1. Why only this City for Business?
2. City policies
3. What the city did not do to support business
4. How many workers came from rural areas?
5. What a city should do?

### Supporting Entrepreneurs

1. What matter most for entrepreneurs
2. How to ensure more entrepreneurs
3. What should the Federal and Provincial Government Do
4. What a City Government Should Do