

# **MANAGEMENT PRACTICES AND BUSINESS DEVELOPMENT IN PAKISTAN, 1950-1988**

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**A thesis submitted for the degree of  
Doctor of Philosophy**

**The London School of Economics and Political Science  
University of London  
February 1995**

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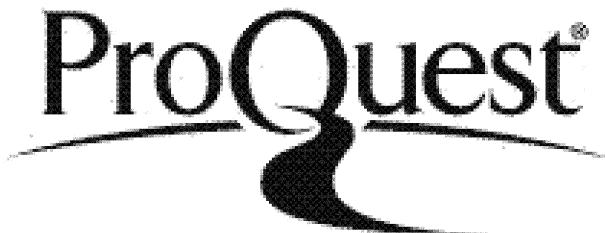


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## ABSTRACT

The impact of systematic and organised strategy on investment patterns is essential to an understanding of management development; an effective organisational strategy stimulates diversification of business house investments. There is a copious literature on management techniques which demonstrates its status as an intellectual discipline in its own right. In recognition of managers' role as decision makers, this thesis investigates those factors which were the necessary and sufficient conditions for better managed organisational systems and how these two conditions when harmonised, enabled Pakistani business groups to diversify their investments from trading to primary and light-engineering goods production. Using the case study approach, this thesis attempts to isolate the external stimuli (the necessary conditions) which contributed to the initial formation of business houses from the internal stimuli (the sufficient conditions) provided by effective management policies, which directed business house investments from 1950-1988. The exogenous factors which directed the structure of investments in the short-term, were derived from the groups' relations with the State and access to discounted sources of finance from credit lending institutions. As organisations matured, the impact of their internal systems, which were a function of the prevalent management philosophy, superseded and replaced the original stimulus provided by State largesse for enabling diversification; that is, the endogenous environment became increasingly responsible for the direction of future investments made by the managers of these groups. Endogenous organisational factors affecting long-term transition, were qualitative inputs such as the impact of training on employee skills and productivity. Where family managers consistently, although not necessarily consciously, applied the principles of the Systems Approach which are internal organisational factors, the business structures which so emerged were rationalised to produce a results-driven record of diversification. Management as a generic subject incorporates general concepts as well as specific techniques which mould the portfolio of business house investments. Management theory, in particular the tenets of the Systems Approach, focus on general concepts which have universal applicability as a problem-solving technique, which are tested on practical organisational situations. The principles of this approach are holistic and iterative since they deal with a general class of situations to which the methodology of the Systems Approach is applied to solve problems. A major premise of this approach is that those managers who viewed the form of a problem in order to develop a criterion to solve it, before addressing the content of the problem, (which was the domain of subject specialists such as engineers or economists), produced better managed organisational structures.

## ACNOWLEDGEMENTS

This thesis was written with the financial support of the Association of Commonwealth Universities as well as a bursary from the London School of Economics and the London Goodenough Trust in the United Kingdom. This support is gratefully acknowledged.

This work has benefitted from a number of people too numerous to name individually. I wish to acknowledge in particular those entrepreneurs on the Board of Governors and Trustees of the Lahore University of Management Sciences, who granted me access to their company data used in this project, especially their private limited company records and correspondence, and to all those who provided me the opportunity to interview them. I also thank the Case Services of the Harvard Business School for granting permission to quote from its case # 390-095.

I appreciate Gareth Austin's review of the initial drafts of this project and to those who consented to read parts of my work at different stages of completion and who offered useful comments.

My greatest debt is to Terry Gourvish, Director of the Business History Unit at the London School of Economics who supervised my work to its completion in a most constructive and gracious manner, for the guidance and good counsel he has given me, and to my family, in particular my father who provided me with the inspiration and opportunity to pursue research on an area which has remained the subject of discussion since as far back as I can remember. This thesis is dedicated to them.

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*UN Statistical Yearbook, 1981, 1988, official exchange rates:  
Rupee equivalent to US \$ 1 in,*

1948	3.50
1955-71	4.80
1972	11.00
1975-81	9.90
1982	12.80
1983	13.50
1984	15.30
1985	15.90
1986	17.20
1987	17.40
1988	18.60

## CHAPTER ONE

### INTRODUCTION

This study of post independence Pakistani business enterprise<sup>1</sup> addresses management practices, from 1950 to 1988 in four private-sector business houses.<sup>2</sup> These business houses were selected from three out of four provinces in the country.<sup>3</sup> Each business house constituted of up to 30 registered firms which were legally separate companies, managed by common directors and equity holding executives, functioning in different manufacturing and service industries. Records of over 80 companies were consulted to complete the analysis presented in this study. Cumulatively, these businesses embodied the leading sectors of industrial investment made by the pioneering entrepreneurs and so, formed appropriate units of observation. Investments in all business houses ranged from trading in commodities to manufacturing of intermediate and in instances, light engineering goods. The business group profile includes private limited companies [unquoted] drawing equity contributed by family managers and their spouses, and public limited companies drawing

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<sup>1</sup>Pakistan gained independence from British India in 1947.

<sup>2</sup>The year 1988 was taken as a watershed to conclude the analysis in this study, since it marked the end of President Zia's eleven year rule.

<sup>3</sup>The selected provinces were the Punjab, Sind and North West Frontier Province. Baluchistan was omitted from this study owing to the meagre scale of developed industry there.

equity contributed through public subscription of its shares. This is a pioneering study of Pakistani business groups' management practices extrapolated largely from their unquoted company records.<sup>4</sup> These pioneering entrepreneurs were a minority group of industrialists, empowered with the attendant economic and political privileges conferred on them by the State. The management practices and the investment structure of these companies which emerged, was initially a consequence of the distinctive position of its entrepreneurs.

The interest shown by business group entrepreneurs in this research was a significant factor which influenced the selection of business houses in this study. In 1968, three of the business groups<sup>5</sup> selected, the Wazir Ali, Crescent and Dawood Groups were among the ten largest, measured by the value of their net assets, and had moved up to rank among the five largest by 1988.<sup>6</sup> The fourth

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<sup>4</sup>One definition of the characteristics of a business group is given by H. Strachan, 'Nicaragua's Grupos Economicos: Scope and Operations', in S. Greenfield, *et al*, *Entrepreneurs in Cultural Context*, New Mexico, 1979, pp. 243-44. He assigns them with three characteristics: diversity, pluralist composition and kinship.

<sup>5</sup>In any case the term 'business group' in this study is used more for convenience to depict family behaviour and response through the decision-making criteria of its members, and it would be a misnomer to assume that any company within the group necessarily had any legally binding affiliations with others in the same group.

<sup>6</sup>A ranking of business groups by asset value is presented in, L. J. White, *Industrial Concentration and Economic Power*, 1974, Princeton, 1974, p. 60 and H. Haqqani, 'Pakistan's Top 22 Face New Challenges', *Far Eastern Economic Review*, 22 May 1986, p. 77.

group, the Ghulam Faruque Group was a relatively late-starter; in 1968, it was at forty-second position ranked by the value of its net assets and had moved up to thirteenth position by 1988.<sup>7</sup> The Crescent, Wazir Ali and Dawood Groups' early history was traced from the late 1940s, whereas the Ghulam Faruque Group's business records were accessible from 1964, when its owner made his debut in manufacturing industry.

From the early 1950s, manufacturing investment in a number of industries was spearheaded by these business group entrepreneurs. They were initially traders and moved on to the processing and production of primary commodities to light engineering goods. These products ranged from sugar, processed food, vegetable *ghee*,<sup>8</sup> cotton, polyester and jute textiles, steel and cement in the manufacturing sector, and shipping, construction, banking and general insurance in the service sector.

This chapter is divided into seven sections. **Section One** presents the sources of data used for this study. **Section Two** reviews previous research conducted on the behaviour of the industrial sector, which covers Pakistani industrialisation from a macro view where

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<sup>7</sup>*Ibid.*

<sup>8</sup>Vegetable *ghee* is vegetable oil which is solidified by the introduction of hydrogen gas in order to change its appearance and make its outward properties resemble those of clarified butter. The reason for doing this are cultural, based on unsubstantiated claims that clarified butter is more nutritious than vegetable oil. *Ghee* is also known by the alternate name of *Vanaspati*.

financial viability is used as an indicator of efficiency. This is presented in a review of Altaf, Haq, Amjad and Papanek's studies on Pakistani industrialisation<sup>9</sup> and the Chandlerian insight into emerging managerial hierarchies in the USA.<sup>10</sup> This thesis also pioneers a significant input by also improving upon and extending arguments presented in previous studies on Pakistani business groups. **Section Three** defines the approach used in this study for researching trends in management decision-making affecting business group investment. **Section Four** identifies the research issues that this study addresses. **Section Five** on the methodology of the Systems 'Approach',<sup>11</sup> highlights its holistic, problem solving

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<sup>9</sup>A considerable literature on Pakistani industrialisation is available in Z. Altaf, *Pakistani Entrepreneurs*, Croom Helm, 1983; Z. Altaf, *Risk and Uncertainty in Industry in Pakistan*, Croom Helm, 1988; R. Amjad, *Private Industrial Investment in Pakistan, 1960-1970*, Cambridge, 1982, and 'Industrial Concentration and Economic Power in Pakistan', mimeo, South Asian Institute, 1974; W. Falcon and G. Papanek (eds.), *Development Policy II - The Pakistan Experience*, Harvard, 1971; M. Haq, *The Strategy of Economic Planning*, Oxford, 1963 and *The Poverty Curtain*, Columbia, 1976.

<sup>10</sup>A synopsis of Chandler's historical approach to organisational strategy directing the form of organisational structures is discussed in T. Gourvish, 'British Business and the Transition to a Corporate Economy: Entrepreneurship and Management Structures', *Business History*, Vol. XXIX, No. 4, October 1987, pp. 19-20.

<sup>11</sup>Webster's New International Dictionary, unabridged 2nd., ed., describes a system as, 'An aggregation or assemblage of objectives united by some form of regular interaction or interdependence; a group of diverse units so combined by nature or art as to form an integrated whole, function, operate, or move in unison and, often, in obedience to some form of control; an organic or organised whole; as, to view the universe as a *system*; the solar *system*, a new telegraph *system*'.

methodology, with a view to show how it can be used to improve internal organisational performance. This methodology sets the foundation for an empirical investigation of internal organisation factors which influenced the business groups' transition from trading to the manufacturing of light engineering goods. Our aim here is two-fold. Firstly, to show that exogenous variables were not sufficient conditions for enabling this transition over the long-term. Secondly, the sufficient conditions facilitating this transition called for the injection of endogenous organisational systems and procedures. **Section Six** concludes that State patronage when replaced by applications of endogenous organisational systems, led to consistent and planned expansion of investments in some of the business houses studied.<sup>12</sup> Those businesses which were not afflicted by managerial inertia and adopted suitable organisational methods soon after their inception, made the transition to light engineering goods production in the long-term.

### **1.1 Sources of Data**

The data used in this thesis are derived from both private and public limited company documents. The inclusion of private unquoted companies provides a (more) empirical reflection of the causes which led to expansion of investments and also explains why

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<sup>12</sup>This approach of linking adoption of systems with long-term industrial development finds its merit in A. Hirschman, *The Strategy of Economic development*, 4th ed., Yale, 1963, p. 134n, '...historical studies of the conditions under which efforts at industrialisation have turned out to be abortive may yield more valuable lessons'.

transition occurred in selected business houses. By including unquoted company data, this study also contributes to an understanding of the management of private limited firms and how it affected the groups' portfolio evolution. Usually private limited firms' assets and decision-making criteria are concealed from public review. In Pakistan, this has in the past led to postulates on organisational policies in unquoted companies derived from secondary sources of data. This study is enriched to the extent that it was not handicapped by the absence of unquoted company records, which better uncovered the groups' business strategy from their inception in Pakistan. The company documents which are used here, but previously were not available for research purposes include, 'Minutes of Meeting of the Board of Directors' and financial statements of unquoted companies, as well as official letters exchanged between government officials, Heads of State and the business group leaders. The empirical evidence used to evaluate the groups' internal strategy from company documents, was one source of identifying the daily, monthly or annual decisions taken by its managers. This source was augmented by interviewing 40 family managers of the groups, along with their current and ex-employees, officials of government-owned financial institutions, management consultants and non-group managers. In instances, the information channels which were accessed differed across the groups, in that Board Minutes reflected business policy of a particular group and official letters and executive

committee reports served the same purpose for another group. However, both variety of sources generated data which lent itself to conclusive results.

## **1.2 Previous Analyses of Business Groups**

Knowledge of managerial decision-making in private-sector corporations and the factors which influenced it is important to an understanding of how and when investments in light engineering were a response to the internal organisational strategy. Yet, transition is not easy to measure and its determinants in a dynamic model are complex.<sup>13</sup> The pattern of transition in an organisation was a response to the sum total of decisions taken by its managers. The impact of these decisions was compounded when family managers were in control since they initiated the direction of future investments.

Earlier research by Amjad and White on Pakistani business house performance, also contributed to an understanding of how the financial acumen of business leaders affected long-term business

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<sup>13</sup>Dynamic enterprises are divisionalised and decentralised, as opposed to bureaucratised and centralised management structures. For literature on management structures, 1949-1973, see, H. Mintzberg, *The Structuring of Organisations*, Prentice Hall International, Inc., 1979, pp. 3, 9, 14, 162 and 286; also the definition of 'dynamic' provided by A. Chandler, *Scale and Scope*, Harvard, 1990, p. 10, suggests it deals with definitions, concepts and generalisations of processes within the organisation.

development.<sup>14</sup> Their respective study focused on the financial viability of the private-sector firm, given a particular infrastructure with possible explanations for investment and profitability attributed to quantifiable factors in the macro environment.<sup>15</sup> White relied on data from the private-sector, publicly quoted firms only.<sup>16</sup> Since White's data base excluded the size of private limited company assets, he postulated them by using indicators for scale, such as the number of spindles and looms used by other firms in the same industry.<sup>17</sup> The analysis in this study, uses actual data on private [and public limited companies] of the business groups.

In another study on Pakistan's industrial policy and its affects on business investment, Haq focused on industrial growth propelled by public policy.<sup>18</sup> He measured industrial growth using GNP as its

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<sup>14</sup>See R. Amjad, *Private Industrial Investment in Pakistan, 1960-1970*, Cambridge, 1982, pp. 3 and 47-54 and L. J. White, *Industrial Concentration and Economic Power in Pakistan*, Princeton, 1974, pp. 175-84.

<sup>15</sup>Growth has usually been measured against criteria such as an increase in corporate size through diversification or backward and forward integration of functions, mergers and buyouts, a decrease in per unit cost, reduction in resource wastage or the causes for underutilisation of capacity. See A. Chandler, *Scale and Scope*, Harvard, 1990, p. 9, where he assigns organisational expansion from technological and organisational innovations and managerial hierarchies.

<sup>16</sup>See L. J. White, *Industrial Concentration*, Princeton, 1974.

<sup>17</sup>See L.J. White, *Industrial Concentration and Economic Power in Pakistan*, Princeton, 1974, p. 185.

<sup>18</sup>Discussed in further detail in M. Haq, *The Poverty Curtain*, Columbia, 1976, pp. 88-95.

main indicator. Therefore, his study aligned organisational success to causal factors in the exogenous environment. The key macroeconomic factors influencing investment identified by Haq, were business confidence, expected rate of return on investment, availability of finance, labour supply, economic policies, political upheavals, level of foreign aid and related earnings, choice of technology, capital-output ratios, idle machine capacity and surplus labour and effective demand or capital formation in the economy.<sup>19</sup> Haq assumed that a mix of such exogenous incentives provided the necessary and sufficient conditions for sustained industrial growth. His model neglected to address the detail, that such factors were not sufficient conditions for sustained business development in the long-term. At this juncture, where Haq's concluded his analysis, it is the application of appropriate managerial policies that sustain long-term business development after the impetus to early organisational growth provided by the environment suggested by him become redundant.

Altaf, in his study on Pakistani entrepreneurs, argued that successful businesses were those whose pioneers benefitted from the fiscal and monetary incentives conferred on them by the State, through import duty concessions on raw materials and access to

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<sup>19</sup>See M. Haq, *The Strategy of Economic Planning*, Oxford, 1963, p. 58-66.

discounted finance.<sup>20</sup> Altaf's study provided an analysis of these business firms through gauging their performance in a given macroeconomic environment and conducive business-government relations.<sup>21</sup> He assigned success factors for entrepreneurs, as emanating from their accessibility to senior bureaucrats, who in turn had the power to oblige them on a reciprocal basis for favours. Altaf supported the view that the entrepreneurs' risk depended on whether their political views coincided favourably with those of the ruling regime. A favourable disposition provided currency for the issue of obtaining import licences, especially in times when their allocation was based on a partisan criterion. Altaf's study on Pakistani business enterprise omitted an analysis of qualitative factors, such as effective or ineffective management practices which also affected the firm's profitability and market share, independent of the macroeconomic environment and financial climate in which it operated. Altaf dismissed all other risk factors faced by the entrepreneur as insignificant for business development, in that adversity could be overcome through the businessmens' political leverage. That is, the greater was the entrepreneurs' agility at manoeuvring bureaucratic bottlenecks, the higher were their chances of becoming beneficiaries

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<sup>20</sup>See Z. Altaf, *Pakistani Entrepreneurs*, Croom Helm, 1983, pp. 24-25 and 30-35.

<sup>21</sup>For an account of business-government relations, see Z. Altaf, *Entrepreneurship in the Third World*, Croom Helm, 1988, pp. 53-61.

of State-sponsored industrialisation.<sup>22</sup> Our disagreement is not with Altaf's correlation of State largesse encouraging business house investment, rather we argue that there were other equally compelling factors which affected business development in the long-term.

Altaf's research on the growth of firms in Pakistan has also apportioned the blame for their decline on Prime Minister Bhutto's nationalisation policy of 1972.<sup>23</sup> Ten categories of large scale industry were nationalised, under the Economic Reform Order 1972.<sup>24</sup> By assigning the blame to nationalisation alone, he omitted to analyse the contributory factors emitting from weak management and control functions, regardless of nationalisation (ownership) or the

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<sup>22</sup>See Z. Altaf, *Entrepreneurship in the Third World*, Croom Helm, 1988, pp. 198-99, where he assigns entrepreneurial success to the inroads made to the sources of credit used for project sanctioning and debt financing. These sources included government-sponsored, development finance institutions and commercial banks.

<sup>23</sup>This is addressed in Z. Altaf, *Pakistani Entrepreneurs*, Croom Helm, 1983, p. 64.

<sup>24</sup>A study by the Chamber of Commerce and Industry, *Taken-over Industries and the Need for Denationalisation*, The Chamber of Commerce, 1979, pp. 20-44, lists ten holding corporations that were formed, cumulatively representing ten major industries of Pakistan. These holding companies were the Federal Light Engineering Corporation, for steel and engineering companies; Federal Chemicals and Ceramics Corporation; State Cement Corporation of Pakistan; Pakistan Automobile Corporation [which included farm equipment projects]; Pakistan Industrial Development Corporation, [for industries which were not assigned to any of the other group]; Pakistan Fertiliser Corporation Limited, [incorporating all public sector fertiliser units]; Oil and Gas Units; State Heavy Engineering; Vegetable Ghee Industry, [for control of supplies, production and distribution of edible oils] and Shipping.

political environment in which the businesses operated. Altaf aligned the public-sector's industrial performance with recurring inefficiencies because he argued that the public-sector could be not be efficient *per se*.<sup>25</sup> He presented this as a vicious circle which reinforced itself perpetually. Further light on the myth of nationalisation disrupting private investment in Pakistan was provided by the fact that the growth rate declined **prior** to the 1972 nationalisation decision by Prime Minister Bhutto.<sup>26</sup> The annual compound manufacturing growth rate in 1965-70 decreased to 7.7 percent, from an earlier high of 16.2 percent in 1960-64, which was mainly caused by a slowing down of investments forthcoming from private-sector initiative.<sup>27</sup> Since this decline was prior to nationalisation, it cannot be dismissed as the sole factor contributing to a decline in industrial output. It also leaves room open for further research to test the hypothesis that nationalised industries can be efficient if they follow the basic principles of the Systems Approach and adopt its attendant managerial rigour. Hence, macro-economic

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<sup>25</sup>See Z. Altaf, *Entrepreneurship in the Third World*, Croom Helm, 1988, pp. 56 and 84. For proponents of public enterprise as being efficient (given conducive management policies), see M. Ayub and S. Hegstad, 'Public Industrial Enterprises, Determinants of Performance', *The World Bank*, Industry and Finance Volume 17, 1986, p. 5.

<sup>26</sup>See D. Singhal, *Pakistan*, Princeton, 1972, p. 132.

<sup>27</sup>Source: R. Amjad, *Private Industrial Investment in Pakistan 1960-1970*, Cambridge, 1982, p. 22; R.M.U. Suleman, 'Manufacturing Industry Public and Private', *Pakistan and Gulf Economist*, February, 25, 1978, p. 24 and the *Economic Survey*, various issues.

indicators from 1965 to the pre-nationalisation period of 1970 to 1971, point towards declining private investment when there was no imminent threat of the government's take over of major industries.<sup>28</sup>

In the 1980s, when General Zia introduced economic and fiscal measures to encourage forthcoming investments by privately owned capital, exports in chemicals, metals, electrical and non-electrical machinery and transport equipment still registered an insignificant rise or absolute decrease compared with 1976 figures.<sup>29</sup> This indicated that irrespective of ownership mostly vested in the private-sector (Zia's industrial policy) or in the public-sector (Bhutto's industrial policy), private investment was impaired due to the omission of other factors which affected organisational performance. We argue that this factor is the internal management function in the organisation, and the Systems Approach its basic vehicle which directs effective strategy formulation.

Gerschenkron argued that in the initial stages of industrialisation, developing countries showed sudden spurts of growth by accessing sophisticated technology.<sup>30</sup> There was an emphasis on manufacturing producer goods and a tendency for a centralised

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<sup>28</sup>Source: R.M.U. Suleman, 'Manufacturing Industry Public and Private', *Pakistan and Gulf Economist*, February, 25, 1978, p. 24.

<sup>29</sup>This is presented in W. James, *et al*, *Asian Development: Economic Success and Policy Lessons*, Wisconsin, 1987, p. 60.

<sup>30</sup>See A. Gerschenkron, pp. 357-58.

structure of information dissemination. Wealth was preserved in the private-sector mainly through privileged access to government-sponsored financial institutions and financial benefits accrued from corrupt practices. Gerschenkron provided justification for State intervention based on technological and institutional factors.<sup>31</sup> State intervention was seen as a short-cut to industrialisation, and exploited by policy makers through the tools made available to them. Gerschenkron suggested that the later a country embarked on its development programme, the larger was the required savings base to feed it; and initially this could only be administered by State-led industrial financing and that stable economies could be pre-industrial, with economic tensions rising as spurts of industrialisation occurred. He also suggested that less developed countries experienced growth in sudden spurts, only to return to a low again. He assigned this phenomenon to these countries opting, at a point in time for the most sophisticated machinery available, leading to temporary growth, whereas their weak infrastructure could not support sustained growth over a longer period of time. Gerschenkron's study also supported the view that injection of capital was a necessary condition to reduce idle machine capacity in the earlier stages of the firm's growth. However, it was not a sufficient condition for sustained (transition) and growth, and successive injections of capital alone would be required in ever increasing

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<sup>31</sup>*Ibid.*

quantities to maintain earlier levels of output.<sup>32</sup> His analysis on the mode of industrialisation adopted by developing nations in the effort to industrialise, was limited by the pre-conditions he imposed. Even if earlier levels of output were maintained by increased injections of capital, industrial development would remain retarded in long-term, if the endogenous input from effective management practices was not forthcoming. Given the merits of interventionist theory, this study steers away from it and focuses on the internal management function, and how its application in a given context, helps in contributing to our understanding of long-term business house investment in Pakistan.

Rostow's stages of economic growth which began from the commodity producing sector, to secondary sectors, and the take-off stage of industrialisation provided one explanation of industrialisation through causal factors in the exogenous environment. He theorised that these stages followed a pre-determined and sequential pattern of events.<sup>33</sup> Rostow's view of

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<sup>32</sup>The prerequisites for development, presented by A. Gerschenkron, *Economic Backwardness*, Harvard, 1966, were critically evaluated, once his path-breaking analysis on industrialisation had saturated economic thought in an historical context. This critique is given in, R. Sylla and G. Toniolo, 'Introduction: Patterns of European Industrialisation During the Nineteenth Century', in R. Sylla and G. Toniolo, (eds.), *Patterns of European Industrialisation*, Routledge, 1991, pp. 12-17.

<sup>33</sup>See W. Rostow's, *The Stages of Economic Growth*, 3rd. ed., Cambridge, 1990, pp. 4-9, for the prerequisites of the stages of growth and for how one stage of industrialisation precedes and merges into the next, see pp. 7-13. Also see A. Gerschenkron,

encapsulating industrialisation into predetermined stages appeared simplistic and deterministic.<sup>34</sup> The time factor which delineates when an economy is ready to graduate to its next stage of industrialisation seems a convenient yardstick which planners and economists adopt in order to predict and satisfy political rhetoric. Rostow emphasised the macro-economic 'when' factors to invest, such as rate of capital backing and the level of savings as a percentage of GNP at a point in time.<sup>35</sup> His argument on how to increase investment did not take into account **how** these preconditions could be met in an institutional setting, which is what this research attempts to address. Institutional factors affecting performance are the internal organisation functions, such as the training of personnel, institution building, and developing an effective communications system within the operating framework of the business. In doing so the managers first use the scientific, inductive form of reasoning as the methodology to collect data within the cells of the organisation, and then arrive at the generalist's deductive approach to identify

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*Economic Backwardness in Historical Perspective*, Harvard, 1966, p. 15.

<sup>34</sup>A critique of W. Rostow's simplistic and deterministic approach at locating a stage in the economic growth of a nation, is available in, R. Sylla and G. Toniolo, *op cit*, (eds.), *Patterns of European Industrialisation*, Routledge, 1991, p. 4.

<sup>35</sup>In the political economy context, W. Rostow, *The Stages of Economic Growth*, Cambridge, 1990, p. 26, provide the predetermined necessary and sufficient conditions for the take-off of industry; pp. 9 and 20, provide his macro-economic indicators of the nation's position in its endeavour to industrialise.

overall organisational problems which the manager has to redress. The solution to a problem may well lie in rectifying a different cell of the organisation. This decision making process updates managers' knowledge through a closed loop system of assessment, which is applicable to even dramatically different business situations. That is why deductive reasoning enables the managers to grasp the form of the problem as a solution finding exercise in order to transmit the pervasive lessons learnt from one exercise, applied for solving other problems as and when they arise within the organisation. One-off exercises requiring immediate remedial solutions are those which fall in the domain of subject specialists, such as economists, technicians and engineers, which are not within the broad methodological framework of the Systems Approach.

Measures adopted to improve the management function form our prerequisites for continued quality and expansion of output in all functional areas of the enterprise. Such prerequisites include the correct choice and application of technology, evolved through research and development activities within the firm and their linkages with other operating units. For example, such endogenous applications can reduce the production department's dependence on labour, by reducing the time required for the processing of raw materials through better production scheduling. The control and execution of the management function is regarded as the most critical prerequisite for business development. For example, managers who

linked the effects of organised and researched technology adoption with the larger interests of long-term development, made the transition as trades to light engineering goods producers. This argument finds its merit in the case studies which follow from Chapters Three to Chapter Six.

As Chandler argued, industrial growth was a function of both organisational and technological innovations<sup>36</sup> within the business enterprise.<sup>37</sup> He also described modern businesses as having distinct operating units managed by salaried managers which provided a framework<sup>38</sup> of the organisational strategy of US firms in the late nineteenth century. Chandler's study also evaluated the effects of restructuring of departments on improved communication and control functions, by the increased reliance placed on the updating of accounting methods and a more precise definition of the duties of senior, middle and lower management. In achieving such objectives, salaried managers coordinated and monitored the production and distribution of goods more effectively and enabled

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<sup>36</sup>In his work on performance evaluation, capital budgets and financial forecasts in US firms, see A. Chandler, *The Visible Hand*, Harvard, 1977, p. 415. For US firms commencing operations from the late nineteenth century to pre-World War I, they used the Return on Capital Investment (ROI) gauge as the norm to evaluate performance of the enterprise.

<sup>37</sup>For an account of these innovations, see A. Chandler, *The Visible Hand*, Harvard, 1977, pp. 80 and 240-44.

<sup>38</sup>The success of the modern business enterprise and the zest for market share in the US is discussed in A. Chandler, *Scale and Scope*, Harvard, 1990, pp. 8-9.

better utilisation of the company's resources. Efficiency-oriented management practices included an effective communications network established within the firm or within a group of firms, to assist in monitoring and control of both employee and output performance. Chandler's theory on the prerequisites for the growth of the 'modern business enterprise' focused on distinct operating units managed by a hierarchy of managers.<sup>39</sup> However he neglected to assess some of the underlying reasons which contributed to the (initial), successful growth of these corporations, which included the privileged access to and ownership of relatively inexpensive sources of raw material from the firms' overseas operations. However, Lieberman and Montgomery describe the privileges conferred on first-mover industries by virtue of the management's foresight in accessing resources ahead of other contestants in the same industry.<sup>40</sup> They also explain that first movers in industry may be disadvantaged by second mover, free rider contestants who benefit from not experiencing the teething problems of their predecessors.<sup>41</sup>

As political and social isolation set the pace for a breakdown in lines of communication and common interests between the State and

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<sup>39</sup>The prerequisites for the formation of the 'modern business enterprise' are available in A. Chandler, *Scale and Scope*, Harvard, 1990, pp. 18, 20, and 36-38.

<sup>40</sup>See M. Lieberman and D. Montgomery, 'First Mover Advantages', *Strategic Management Journal*, Vol. 9, 1980, pp. 41-58.

<sup>41</sup>*Ibid.*

elite Pakistani entrepreneurs, those business leaders who had invested in organisation systems and procedures (whether consciously or unconsciously), found that their investments in the long-term paid off. At this juncture, systematic methods of organising their business became their insurance against the withdrawal of exogenous propellants to growth, a strategy which gave the Crescent and Ghulam Faruque Groups an edge over the Wazir Ali and Dawood Groups, where the focus remained on finding short-cuts to empire building.

### **1.3 The Approach Used in This Study**

The observations which contribute to our understanding of business group transition, are the dynamic factors affecting the managing of organisations, since the static or stable factors, being deterministic cannot not account for entrepreneurial changes in a dynamic setting.<sup>42</sup> The dynamic approach accounts for the business strategy adopted by managers, which was a response to the endogenous factors affecting business development. This response (within a dynamic framework), entails a constant re-evaluation of objectives which have outlived their use, by using the Systems Approach to improve the quality of future decision. This re-evaluation process, wherever it was evident, changed the direction of business house investment. Such an approach is also in harmony

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<sup>42</sup>For static and dynamic approaches, see H. Mintzberg, *The Structuring of Organisations*, Prentice Hall, 1979, p. 286.

with the 'new economic' and business history approach, to the extent that it integrates a specific theory to the latest research on company histories, so as to better understand more current organisational problems.<sup>43</sup> The more traditional approach used by historians emphasised the political, legal and social environment within which economic decisions were made. This study also draws what is useful from the traditional approach and combines these two approaches to provide an explanation of the structure of management decision-making which led to the transition. This approach also extends human reasoning, just as digital computers extend the ability to calculate. In dynamic models the time factor is important, such as

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<sup>43</sup>The debate on the 'traditional' as against the 'new economic [business] history' approach, specifically, the role of institutions, are available in the literature; see D. North, *et al*, *Growth Welfare in the American Past: A New Economic History*, 3rd. ed., Prentice Hall, 1983 and in R. Ransom, *et al*, (eds.), *Explorations in the New Economic History*, Academic Press, 1982. The 'evolutionary theory' proposed by R. Nelson and S. Winter, *An Evolutionary Theory of Economic Change*, Belknap, Harvard, 1982, pp. 4-17, provides an alternate explanation of firms' ability to survive and grow in the long-term, by responding to dynamic processes and by veering away from what conventional economic theory provides from formal theorising and using abstract concepts. D. Raff and P. Temin, 'Business History and Recent Economic Theory: Imperfect Information, Incentives, and the Internal Organisation of Firms', in P. Temin, (ed.), *Inside the Business Enterprise*, Chicago, 1991, pp. 7-35, suggests that business historians can make a more meaningful contribution to an understanding of the economics of industry, by revealing the costs of information retrieval, information which is required to gain [greater] control over product markets. J. Yates, *Control Through Communication*, John Hopkins, 1989, explores the internal organisational channels of communication adopted by American giants such as Dupont and the Illinois Central Railroad in exercising control in the work place. Literature on Management Information Systems, its origins and usage is given in, H. Osterle, *et al*, *Total Information Systems Management*, John Wiley, 1993.

in asking the (right) question whether the organisation should go in for higher production capacity now or after a few years. Dynamic principles also are adaptive since they draw connections in the system from more than one instance of occurrence (the Systems Approach), as against static principles where connections within the system are limited to one given instance of observation. A statically-oriented management structure can exchange with relatively less effort its small store of knowledge, but a larger build up of information handling through a daily flood of communication will need changing methods to remain efficient. The measure the effectiveness of past decisions in an organisation requires a decentralised structure, where there is training and the **absence** of conflicting precedents in resolving problems for similar cases or frequent change of plans in the reporting structure. In addition, there should be a clear delineation between staff and line functions, taking cognisance of both the sins of omission and commission, and in not having a punitive approach to the control function by showing flexibility to dissenting opinions, all of which leads to problem solving through the tenets of the Systems Approach.

The approach used in this study, to evaluate the causal factors within the endogenous environment which influenced business group transition, is both institutional and empirical. Being an applied study, one can hope to assess the proximate causes of corporate transition and development, for example, by examining the

entrepreneurs' power and influence as a contingency factor influencing transition in the short-term, and organisational systems and methods, here expressed in the methodology of the Systems Approach, influencing transition in the long-term. This thesis is source-driven and presents the organisation as a heuristic tool in explaining the phenomena of an increase in industrial assets<sup>44</sup> through forward and backward integration by acquiring distribution networks and sources of raw material, updating of technology, application of systems and procedures, and an effective information retrieval and dissemination system, all of which generate endogenous organisational conditions conducive for long-term expansion. By also including source-driven, company specific studies to draw our generalisations, this study contributes to an understanding of the patterns of business development using a theoretical framework which has universal applicability to solving organisational problems.<sup>45</sup> We have attempted to advocate case-specific

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<sup>44</sup>Industrial assets were used as an indicator of business group expansion in preference to using other indicators, such as an increase in sales or the rate of return of capital or investments. An increase in sales may not accurately reflect an increase when comparing a business group where its manufacturing unit is integrated, over another group which has separately registered companies selling their raw material to other companies within the group. The rate of return on investment may also not be a good indicator of performance because Pakistani industries were given protection through accessing discounted foreign exchange and raw materials.

<sup>45</sup>The need for a sound theoretical framework preceding any analysis on individual company histories is reiterated in C. Harvey (ed.), *Business History: Concepts and Measurements*, Frank Cass, 1989, p. 3.

conclusions,<sup>46</sup> which can be reiterated in a different business environment through drawing together the strategy adopted by managers in different (comparative) groups and in the same industrial sectors, in a more meaningful manner.<sup>47</sup> This is achieved by devising an approach which generates the elements of better organisational management regardless of ownership structures, scale, [industry] or the country-specific environment in which the business groups operated.<sup>48</sup>

At first glance, the investment portfolio of the groups studied, appears to be the product of the institutional setting driven by factors in the exogenous environment. Upon closer observation of empirical data, however a different setting emerges, its causes inherent in the management practices which shaped the business groups' corporate history in the long-term. The exogenous, institutional settings were similar to those found in other developing

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<sup>46</sup>Business history's contribution to concept-building in an organisational situation, through empirical case study analysis is discussed in T. Gourvish, 'Business History: in Defence of the Empirical Approach', *Accounting, Business and Financial History*, Vol. 5, No. 1, March 1995, pp. 3-16, (forthcoming).

<sup>47</sup>The more recent literature on the constructs of the 'new business history' approach is discussed in S. Nicholas, 'Locational Choice, Performance and the Growth of British Multinational Firms', in C. Harvey, (ed.), *Business History Concepts and Measurements*, Frank Cass, 1989, pp. 122-123.

<sup>48</sup>This approach incorporates the prerequisites which are the precursors to A. Chandler's managerial hierarchies which engendered better coordination and control of functions in large-scale US businesses, [in *Scale and Scope*, Harvard, 1990, pp. 85 and 249].

countries as were the consequences of adopting (or not adopting) systems and methods to expand the businesses. Since performance is difficult to measure, we rely on tools provided by management science, in particular the tenets of the Systems Approach, to highlight the value of adopting systems and methods in gaining maturity in business house investments, because management practices shape business development in the long-term. Initially, private investment in Pakistan was nurtured by State largesse directed at key industrialists. Over time, management practices superseded the direction provided by the initial impetus given to industry from State largesse. It was then that differing investment patterns emerged, which either represented stagnation or expansion, depending on the management philosophy practised by the entrepreneurs.

The existing literature on management theory and the tools used by managers to sustain or expand businesses, mostly restate what was already proposed by the Systems Approach theory in the 1960s on the (endogenous) causal factors for business success.<sup>49</sup> More recent studies on the causes of growth in business enterprise as

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<sup>49</sup>See G. Hamel and C. Prahalad, *Competing For the Future*, Harvard, 1994; M. Hammer and J. Champy, *Re-engineering the Corporation, A Manifesto for Business Revolution*, Nicholas Brealey, 1993; P. Drucker, *Managing For The Future*, Butterworth-Heinemann, 1992; M. Porter, *Competitive Advantage, Creating and Sustaining Superior Performance*, The Free Press, 1985 and M. Porter, *Competitive Strategy: Techniques for Analysing Industries and Competitors*, The Free Press, 1980.

proposed by Hammer and Champy, Porter, Drucker and Hamel and Prahalad are restatements of what was already proposed in the Systems Approach theory. They champion the causal factors (some presented as one-off factors and others as a theory) for successful businesses. Their respective study of corporate strategy has either built upon parts of what was already addressed in the tenets of the Systems Approach theory of the 1960s or have only 'one off' causal factors which propel organisational growth. For example, Porter<sup>50</sup> outlines generic strategies that different firms must choose to ensure their success. However, inspite of choosing the term 'generic', to define a management strategy, he then argues that strategies need to be changed with changing industrial structures. Therefore his strategy does not lend itself to one which has universal applicability. This quality of universal applicability is inherent in the management strategy proposed by the Systems Approach, whose tenets (look at the form of the problem) does not change with a change in industrial structures. Drucker's study addresses the need for managers to adapt to change as a means to produce results, a change which he defines as derived from raising new questions (management by objectives) regarding problems of accountability, which economists cannot diagnose. His approach identifies itself with the behavioural school of management where output is maximised. This issue for managers to prepare for solving (ever changing) business problems

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<sup>50</sup>See M. Porter, *Competitive Strategy*, The Free Press, 1980.

by asking new questions, is [already] addressed in the Systems Approach methodology. Specific parts of Systems Approach theory are also restated by Hamel and Prahalad [in the most recent literature on management],<sup>51</sup> in their argument that business expansion is dependent on managerial vision for future market needs. The Systems Approach theory has already proposed that managers should look at the generality of a problem so that their diagnosis of a current problem is applicable [iterative] to solving [other unknown] problems which may arise in the future. The management theory of 'business process re-engineering', is described by Hammer and Champy as a tool for meeting the challenges of large-scale businesses. They argue that businesses need to reinvent their work procedures in order to cope with growing competition, by throwing away old procedures for new and by abandoning all that is outdated. They define 're-engineering' as the 'fundamental rethinking and radical design of business processes to achieve dramatic improvements in critical, contemporary measures of performance'.<sup>52</sup> This approach of discarding outmoded procedures for new, is already part of the tenets of the Systems Approach theory, as explained in Chapters One and Two of this study. Broader generic

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<sup>51</sup>G. Hamel and C. Prahalad, *Competing For the Future*, Harvard, 1994, and 'Strategy as Stretch and Leverage', *Harvard Business Review*, March-April, 1993, pp. 75-87.

<sup>52</sup>See M. Hammer and J. Champy, *Re-engineering the Corporation, A Manifesto for Business Revolution*, Nicholas Brealey, 1993, p. 32.

organisational strategies are given in Chandler,<sup>53</sup> and in a more recent study by Porter.<sup>54</sup> Chandler advocates the three-pronged approach to industrial growth and Porter supports that more forward-looking and dynamic industries were the ones which became more competitive. Porter advocates that a nation's competitive edge comes from a mix of four factors, that is, the efficiency with which natural factors are deployed, the quality consciousness of the domestic market, the availability of supplier industries and the level of domestic competition.<sup>55</sup> Wherever recent studies deviate from what was already proposed in the Systems Approach theory, they align business success to causal factors in the macro environment or in the global conditions which permitted industries to operate or close down. These global conditions or constraints cannot lend themselves to a management theory which proposes universally applicable principles of effective management, regardless of the global or economic environment in which businesses operate. The universally applicable principles of effective management are proposed in the Systems Approach literature.<sup>56</sup> This approach evaluates the

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<sup>53</sup>See A. Chandler, *Scale and Scope*, Harvard, 1990.

<sup>54</sup>See M. Porter, *The Competitive Advantage of Nations*, The Free Press, 1990 and 'Why Nations Win', *World Executive Digest*, January 1991, pp. 18-23.

<sup>55</sup>*Ibid.*

<sup>56</sup>The tenets of the Systems Approach are explained in, P. Schoderbek, (ed.), *Management Systems*, John Wiley, 1967; S. Optner, (ed.), *Systems Analysis*, Penguin, 1973; E. Warren, *Long-Range*

managers' role in relation to their reliance on internally generated information used for better decision-making. With information flows and systematic recording of transactions such decisions can then be made on the basis of quantifiable knowledge. A closed loop system of accountability ensures that departments can be identified by origin of information and senior management can allocate costs and make individuals accountable for their actions. The quality of past decision-making can be useful in limiting the uncertainty inherent in future decisions. Predictability of results calls for standardisation of skills which can be replicated in individual situations. This approach improves the manager's proficiency in tackling controversial organisational issues related to both employees and their functional responsibilities within the firm. At all levels within the firm, the emphasis on documented and systematised procedure of information accelerates effective managerial decision-making. Information being the key to timely and accurate decisions leads to effective managerial decision-making, especially when external and internal adversaries to development exist. Accurate information generated on a daily, monthly and annual basis is also a perquisite for the exercise of control. Effective management practices establish linkages between the functional areas of the firm, such as production, marketing,

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*Planning*, Prentice Hall, 1966; R. Ackoff and P. Rivett, *A Managers Guide to Operations Research*, John Wiley, 1963; R. Johnson, *et al*, *The Theory and Management of Systems*, 3rd. ed., McGraw Hill Kogakushu, 1973, and V. Hare, *Systems Analysis: A Diagnostic Approach*, Brace and World, 1967.

finance, sales, research and development and a computerised communications network so as to generate better control and management of information flows.

This research evaluates Pakistani business history with its own business structures presented as a model in the explanation of how consistent growth was maintained at a pace conducive to investments in the light engineering sector through adopting organisation systems. Businesses in the private-sector which were aborted by nationalisation are not included in this study. For those groups which continued to remain operational after nationalisation, a comparative study of their organisational systems is conducted. We determine whether the adoption of an effective management system was responsible for assisting the groups' development in the long-run, in an economic environment which was initially encouraging and then inhospitable towards private enterprise. The transition made is evaluated irrespective of the political regime or the ownership structure of the industries on which this study is based. This thesis also attempts to show that any divergence away from adopting organisational systems, was a cause for a decline in business group investment in the long-term. For business group investment which continued across political regimes, this thesis rejects nationalisation as the first, most significant or sole cause for a declining investment portfolio. It identifies other (endogenous) causes of decline existing from the groups' inception, which when rectified, whether prior to or

after nationalisation, prevented further entrenchment of organisational malaise. These causes will include the significance of effective management, (or the lack thereof) in determining size and transition of these groups in the long-run. It is argued that in the long-term, business group expansion was not a function of factors in the exogenous environment, rather on investments made in endogenous systems and procedures which rescued it in times of adversity.<sup>57</sup> In certain instances, the ease<sup>58</sup> with which some industrial enterprises were purchased by influential businessmen diverted them from later developing internally generated systems and procedures. Wherever such internal systems were adopted, the group was able to overcome obstacles to its own self-perpetuating growth. Where internal organisational systems were compromised by relying solely on exogenous factors in the run for the acquisition of net assets, such a strategy could not enable the transition to manufacturing light engineering goods in the long-term.<sup>59</sup>

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<sup>57</sup>See A. Chandler, *Scale and Scope*, Harvard, 1990, pp. 144, 147-49, where he identifies factors which led to the expansion of US businesses in the nineteenth century. From amongst them, three are given special emphasis: the organisation's expansion emanating from organisational and technological innovations, and investment in management hierarchies.

<sup>58</sup>See documented and quantified data in a study of the PIDC, 'The Pakistan Industrial Development Corporation', unpublished report, PIDC, 1989, p. 46.

<sup>59</sup>See Chapters Three to Six, pp.164-467.

## **1.4 Research Issues and Methodology**

The four groups studied provide a comparative analysis of business group expansion, initially propelled by factors in the exogenous environment (accessible to all) and from which all groups benefitted initially. Differences in business group investment patterns arose as a consequence of managers' ability to react and adapt to changes which accompanied the initial surge. By the late 1960s, the exogenous environment became less significant as a contributory factor explaining business development. By not adopting internal organisational factors, it led to a reduction in light engineering investment in two of the business groups studied. However, the other two groups demonstrated expansion into the light engineering sector, through adopting a strategy directed at diversification and consolidation, which was maintained by its owners till the close of 1988. We evaluate the proposition that the groups' foray into the light engineering sector was a function of better managed organisation systems.

This study uses two types of measures. The first set of measures gauge the ingredients of an effective internal organisational system, which range from definition of objectives, the process by which they are achieved, and the validity of the rationale used to evaluate their effectiveness. The second measure gauges the transition from trading to light engineering manufacturing, which is a function of adopting the first set of measures. In businesses there are no right

or wrong formulae for defining effective control, and precision for its own sake can generate uneconomical costs. Therefore we have chosen selected non-mathematical (qualitative) measures which can be conveniently gauged in a business environment. The first set of measures can be fitted into standard procedures of empirical testing (and are not proxies for any other model). This research will not use models; rather it relies on information gathered **in** an operational situation. In doing so, the conclusions veer towards generality, by trading-off more precision which can be achieved under controlled conditions but where solutions can apply to only that one situation. Since such precision generates one-off solutions only, hence the need to apply a methodology which generates conclusions with universal applicability, as are found in the tenets of the Systems Approach. Models manipulated by mathematical techniques such as linear programming, simulation and game theory do not address the philosophical issues in choosing appropriate criteria for improving overall organisational performance. Models also cannot be applied to complex systems as a whole because of the limitations inherent in them. They are mainly useful as tools to solve, rather than to identify and analyse problems.<sup>60</sup> Also, models in business situations are neither true nor false, rather they can either be useful or not

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<sup>60</sup>See A. Moravec, 'Basic Concepts for Designing a Fundamental Information System', in P. Schoderbek, (ed.), *Management Systems*, John Wiley and Sons, Inc., 1967, p. 127.

useful for making predictions in certain situations.<sup>61</sup> The Systems Approach-based methodology encourages discovery of new facts in the organisation rather than measurement of existing techniques. In any case a mathematical model cannot be a substitute for intuitive thought and since managers are dealing with the human factor, the intuitive element or that learnt from experience cannot be underrated. In the Systems Approach, the workability of qualitative models is tested by incorporating the correct facts and the interchanging of parameters to see if they produce consistent results, rather than in just using a model *per se*. Managerial activity leading to options based on the correct choice, is the Systems Approach itself which is a broad and universal problem solving methodology addressing many variables affecting organisational performance, which generate alternative course of action which can then be adopted. The solutions provided by the Systems Approach lie in its ideas, approach and constructs rather than in formal mathematical apparatus. This normative approach explains how many sets of conditions (a system) affect a given case. It does not explain how in any one case you can change variables to generate an isolated and solitary conclusion. Development and conservation of a universal strategy relies on the problem solving methodology of the Systems Approach. The problem and its methodology produce a synergistic

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<sup>61</sup>A critique of models in business is in P. Schoderbek [in the preamble to the following section], in P. Schoderbek, (ed.), *Management Systems*, John Wiley, 1967, p. 325.

condition with one catalysing the other to evolve and develop.

Endogenous factors influencing business group transition include measurable resources, such as man hours, money and equipment, to the more intangible organisational assets, such as education, training, skills and goodwill. It is the latter group of resources that constitute the **form** of the problems addressed in the Systems Approach rather than the content of problems. It was the management scientist who introduced to this approach the importance of the application of intangible resources (qualitative criteria) which influenced performance as much as their counterparts in measurable assets (mathematical models) in generating blueprints for long-term business expansion. The analytical nature of the Systems Approach involves viewing the organisation at different levels to objectively evaluate change. In the West, management practices of the 1950s addressed manually operated systems when the scale of operations was limited and owner-managers did not favour delegation of their responsibilities. Such systems were 'localised' and tended to generate batch information (procedures) relevant for a particular transaction only. Procedures are a series of clerical operations, reviewed manually when the scale of operations was small which only worked up to a point after which an increase in the scale of businesses warranted upgrading of management techniques because the division of managerial functions could not be administered single-handedly by the owner manager. Mechanisation

of production led to a division of manual and managerial labour, so the need for functional managers arose. These managers then had to deal with a new class of problems, not limited to a single discipline. The functional managers put into practice the review of performance variables against their action-oriented objectives in order to evaluate the results. They did this through the use of cybernetics<sup>62</sup> as a tool to ensure timely arrival of information. Performance variables which are part of the Systems Approach methodology include the training and education of personnel and continuous research and development (R&D) of hardware facilities.<sup>63</sup> The economic benefits which accrue to the organisation from such applications, include more efficient production scheduling and tighter materials control, decreased origination costs by recording payroll and labour distribution transactions, increased sales through better management of inventory, more profitable use of computer time and availability of more current information through the initiation of queries, development of specialised functions

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<sup>62</sup>This phrase was coined by Norbert Winer, 1961 to '... describe the process for maintaining systems stability in electrical circuits, and later expanded to the more general phenomenon of control and communications in 'animal and machine' ', cited from W. Mitchel, 'Relevant Neoscientific Management Notions', in S. Optner, (ed.), *Systems Analysis*, Penguin, 1973, p. 318.

<sup>63</sup>A review of performance variables are in J. Woodward, *Industrial Organisation, Theory and Practice*, Oxford, 1965, pp. 185-241, describing contingency factors which identify relationships emerging from differing organisation structures, such as small firms having standard structures.

within the firm ranging from a distribution network, to raw materials supply, keeping abreast of the accompanying technology adoption and upgrading of machines in a changing environment, systems technology, expansion in production functions, market share, size and the formation of managerial hierarchies<sup>64</sup> in the business group. The adoption of internal organisational systems generates a more efficiently managed organisation paving the way for graduated development of its investments in the long-term.<sup>65</sup> These inputs for developing qualitative measures to improve organisational performance are elaborated below:

1. The profile of confirmed employees in a firm, to the number of probationary, contract and/or unconfirmed employees. The greater this ratio, the lesser the outflows accruing to the firm in payments such as, leave, medical, gratuity and provident fund emoluments. However a larger share of confirmed employees makes it incumbent on the employer to invest in their training which leads to standardisation of skills and creates professional managers. A system should be arranged to provide rewards for appropriate

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<sup>64</sup>The debate on nineteenth century US companies and the formation of managerial hierarchies which generated the mass production and distribution of goods is given in, A. Chandler, *Scale and Scope*, Harvard, 1990, pp. 85 and 249.

<sup>65</sup>These factors are the measures for effective management practices influencing long-term growth.

behaviour based on unequivocal cues<sup>66</sup> in harmony with existing company norms. In this study the related issues investigated will include the incidence (or lack of) training as a reflection of qualitative shift in the organisation; information flows which are the nervous system of the organisation; harnessing of technology as a condition for the management of change; the relationship between results and the structure of the organisation (emanating from the function of control and execution of decisions).

2. Whether the group's monopoly power disguised inherent inefficiencies or distorted the firm's performance through cross-subsidisation. The group's foray into light engineering could be a function of its monopoly power and successful tax evasion rather than its investment in systems and procedures. In such a case, the transition made would not be sustained. (It is the investment made in systems and procedures which can combat exogenous adversities such as nationalisation). Systems and procedures include support functions which ensure that the organisation's housekeeping is in order. Similarly, law and order in society are merely hygiene factors (a support function), therefore they cannot ensure development even if they do permit development to take place. Housekeeping functions in an organisation do not recognise managerial hierarchies, rather cut across them both within and between different firms reporting to

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<sup>66</sup>Cues are recognised by adhering to employee prompts, outlined in A. Hirschman, *Exit, Voice and Loyalty*, Harvard, 1970, p. 70.

a common holding corporation. Within organisations, effective housekeeping is a function of employees' reporting to a senior manager through work study methods, electronic data processing, procedure definition and implementation. An example is, when timely and accurate arrival of information is a critical factor for adjustments in inventory levels to the needs of distributors and consumers.

3. Whether expansion into related or other activities was sustained, and if the new management structures which ensued from an increase in the size of the business allowed for better control without direct supervision from the owner/family of the business group. Delegation of responsibilities is dependant upon procedures allowing built-in succession. Effective succession means not being individual- or protection-dependent for ensuring the sustained stability of the firm, but systems oriented, where the indispensability of individuals is not recognised.

4. Whether decisions were based on accurate information retrieval. Since managers handle information and make decisions, the quality and timeliness of information processing determines the quality of these decisions. A decision is a moment in a process, hence it is the process which influences the decision. The degree of availability of relevant information at the time of decision making influences the accuracy of the results of such a decision, in a future which is unknown.

5. Whether there was a disciplined reliance on investments made in R&D; the nature of technology employed which includes plant design and how accommodating was it to innovation and capacity expansion. Neglect of this area may lead to underutilisation of capacity, for both machines and labour<sup>67</sup> and also to inefficiencies in capital utilisation.

6. Whether wastage was reduced, particularly the kind emanating from delays in receiving energy supplies, raw materials, stored inventory and available technology.<sup>68</sup>

7. Whether marketing strategies were designed in the Board room drawn from both informal and formal access to data in the market, or were based on non-scientific principles.

8. How apparent were organisational inefficiencies prior to the period of nationalisation and whether nationalisation was used as a scapegoat by the original owners in accounting for their declining portfolio investment.

9. Whether substantial economies of scale and scope accrued to the firm in adopting a systems flow, where goods and materials were transported at greater speed through accessing channels of communication. This point addresses the operating culture of

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<sup>67</sup>See M. Haq, *The Strategy of Economic Planning*, Oxford, 1963, p. 38.

<sup>68</sup>The distinctive factors which differentiated late nineteenth century US business enterprises through the co-ordination and control of functions, are given in, A. Chandler, *Scale and Scope*, Harvard, 1990, pp. 21-45.

routinised operations, in particular the company guidelines, which affect all functional areas of business. In organisations the only stability is the process of change itself, whereas there is instability in the agents of change. Systems Analysis develops the orderly handling of shifting phenomena involving individuals and events. Its precision therefore lies in its application potential. The application potential is in the use of (orderly) diagrams, sequences, blocks and labels, which allow for the discovery of task relationships which otherwise may go undetected. The task analysis using flow diagrams also furnish an unambiguous basis for intra-company correspondence. It also forces a logical flow of a design where it becomes difficult to leave activity gaps and so has practical value, since its application can be used or imitated by other departments in the organisation. This is how the universal applicability or the iterative quality of the Systems Approach methodology helps to define management practices, a methodology which is more appropriate than mathematical modelling techniques in evaluating managerial decision-making. The broad application potential of the Systems Approach, across departments and independent companies in the same group makes it easier for the Board of Directors or the executive management to assess goals, performance and solution finding activity against a consistent methodological framework.

10. Whether line and staff functions to delineate roles were recognised, introduced and implemented in the organisation.

11. Whether the recurrence of bottlenecks, in marketing and production increased overhead expenses.<sup>69</sup> Bottlenecks are more damaging financially than idle capacity of machines, since they cut across all processes of production and their elimination depends on managers accurately recognising the form of the problem (bottlenecks), rather than just focusing on the deleterious affects on its localised occurrence, (wherein lies the content of the problem).

Those business groups which implemented the methodology of the Systems Approach on the principles mentioned above, were able to devise a business strategy conducive to making a long-term transition from trading to light engineering manufacturing.

### **1.5 The Methodology of Systems Analysis/Approach**

Systems Analysis is a vehicle for technical problem solving articulated in the system design. A system design includes activities geared to retrieve information. Only that much information should be generated as is economically viable, or that which is sensitised to management needs. The Systems Approach methodology is holistic in its nature and its general principles borrow concept from every scientific era.<sup>70</sup> Its application is a heuristic technique which

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<sup>69</sup>*Ibid.*

<sup>70</sup>Systems and procedures address problems commensurate with increasing organisational size and its attendant time compression, through scientific principles given in M. Hasan, 'Science, Technology and Administration', mimeo, Ministry of Defence, 1978, p. 7, through a process which: 'logically and clearly [uses] our faculties of logic and reasoning to be able to make observations, generate hypotheses, theories and then laws so that we are in a better position to apply

provides insights into organisational problems so that the outcome of decisions bases on its technique produces the required results. Results can reflect a better organised budget or inventory system through a classification of project expenses and budget by its number, so that all project activities are accurately accounted. If there is a malfunction in the system, (which is a set of conditions), another route for achieving the same end has to be found. Decisions are then made on the basis of systematically recorded information and not on randomly selected criteria. For example, the Crescent Group's<sup>71</sup> records (which follow) depict a systematic inventory of decisions made by its entrepreneurs. However such applications cannot guarantee the best fit solutions to problems *per se*, since the decisions made are a function of the system design itself. For example, if (currently) used data bases were designed on the principles of an older manual ledger, then the inherent design of a (new) system has not changed. Nor can the applications of new systems solve problems any better than they did before. Therefore the effectiveness of the systems design is measured by the closeness of the fit of the data base with its system design. The following table outlines the structure of the Systems Approach:

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something which matters which will help deliver the goods or produce the results'.

<sup>71</sup>See pp. 261-343.

**Table 1.1**  
**Functions of Systems Management, Systems Analysis and**  
**Systems Engineering**

	<b>Systems Management</b>	<b>Systems Analysis</b>	<b>Systems Engineering</b>
<b>Framework:</b>	Conceptual	Logic/Reasoned	Structured
<b>Nature:</b>	Total System	Analytical	Developmental
<b>Orientation:</b>	Macro	Evaluative	Task
<b>Emphasis:</b>	Decision Making	Problem Solving	Design and Implementation
<b>Methodology:</b>	Integrative	Analytic	Engineering
<b>Operating Level:</b>	Management	Staff	Line
<b>Approach:</b>	Eclectic	Scientific and Iterative <sup>72</sup>	Practical
<b>Application Level:</b>	Board	Situational ( Ad hoc )	Particularised
<b>Training:</b>	Business	Management Science	Engineering
<b>Skills:</b>	Management	Conceptual	Technical

Source: M. Hasan, 'Computerisation or Systematic Ways and Means', mimeo, Seminar on Modern Approaches to Management Administration and the Computer, Lahore, 1971.

Systems engineering is the mathematical analysis of electronic controls and considered to be the second child of the industrial revolution. The same event or problem in an organisation is viewed differently by various subject specialists such as economists,

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<sup>72</sup>An iterative procedure is drawn from a process of successive approximation; a single iteration constitutes a process of problem solving and computation, leading to a result. This result becomes the point of departure for formulating another problem, and so the process continues. See E. Quade, 'Military Systems Analysis', in S. Optner, (ed.), *Systems Analysis*, Penguin, 1973, pp. 127-28.

engineers or psychologists. They may each give a different solution to the same problem, but no one solution may successfully optimise the company's resources. The systems analyst advises managers to look at the problem from the overall company's objective and then suggests a solution which may lie in an area not visualised before by the subject specialists. A manager depicts foresight through reflection, by appreciating the limitations and potential of each type of service offered by subject specialists. The Systems Approach methodology itself follows a pattern addressing the form of problems by first using the inductive approach (as follows), only to use this approach to then derive generalisations which can be applied to more than one business situation:<sup>73</sup>

- Diagnosis of the problem and definition of objectives (the boundaries of the objective also define the boundaries of the system's environment)
- Categorisation of objective/s through symbol recognition, such as flow charts or manuals allocated to cost centres in an organisation.

This approach permits the flexible use of reports and extracts what is necessary from the departmental files and processes it for results which are then transmitted to other departments. Again this is possible if the form of the problem is given more attention than its content. The Systems Approach assigns particular emphasis on all

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<sup>73</sup>Source: S. Nikoranov, 'Systems Analysis: A Stage in the Development of the Methodology of Problem Solving in the USA', in S. Optner, (ed.), *Systems Analysis*, Penguin, 1973, p. 147.

departments' conduct towards R&D in recognition of the total systems requirements and does not place disproportionate emphasis on any one sub-system. This is the eclectic approach.

- Identification of constraints which are physical, financial, timing (length of time of data retention and scheduling of product delivery). Other constraints are policy related, such as the use of (outmoded) ledgers used for coding instructions which can no longer allocate budgets to those cost centres which have grown with the increase in size of the business.
- Elimination of constraints viewed from the totality of the problem.
- Analysis of possible company mission(s) and the approach used (informal or standardised procedures) for performance of tasks.
- Selection of the appropriate criteria which includes performance, timing, cost, risk and policy effectiveness.
- Generating output according to the mission plan and within its time frame.
- Synthesis of complex dynamic systems articulated in the movement of resources to meet the stated objective.

The above-mentioned sequence of events depicts a qualitative research model for which relationships in the system are defined, which are then shown to affect performance in accordance with the selected criterion. System designers evaluate options at every successive step in the Systems Approach which includes the redefinition of the company mission at different levels of decision-

making. Therefore the installation of a new system presupposes an intervention of the older order around which management policies initially evolved. The new order focuses on qualitative excellence such as the training of personnel and the documenting, installing, programming and testing of information. This approach is eclectic in nature and involves problem-solving viewing a situation in its totality and drawing upon common principles/lessons which can be learnt for transmission to other departments in the organisation (which is the iterative quality of this methodology).<sup>74</sup> This methodology reinforces the need for first inductive reasoning followed by deductive. The latter focuses on the form of the problem to identify common trends/problems so as to apply the same methodology of solutions to other problem areas regardless of their content. The content of a problem is left for functional area specialists to tackle, such as business design engineers, financial analysts, production managers and so forth. Form-based or deductive decisions are made on the basis of the company's overall desirable goals. The optimal decisions are made with respect to a class of situations rather than the particular situation, just as one should be able to differentiate the wood from the trees. This model

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<sup>74</sup>For an understanding of the basic structure of systems, the tools of analysis of systems and workability of results using the Systems Approach methodology in organisations, see, S. Nikoranov, 'Systems Analysis: A Stage in the Development of the Methodology of Problem Solving in the USA', in S. Optner, (ed.), *Systems Analysis*, Penguin, 1973, pp. 141-169.

is dynamic because it adapts with an increase in the inventory of knowledge, by updating the inputs which constitute a general class of situations. Updating instigates a re-evaluation of existing goals which may be subject to change, using social, economic and technical parameters. This in turn calls for constantly changing definitions of processes, concepts and generalisations. The fact that the form of problems can be similar across companies and groups is not incidental, since common patterns recur and can be identified by the Systems Approach methodology.

One of the most important characteristics of any methodology is its limitations including the Systems Approach methodology. The limitation itself is a function of the methodology, here used for solving problems originating at specific locations in the business enterprise. If the Systems Approach is a tool for 'development' then the term 'development' is itself arbitrarily acknowledged to mean the 'desired aim'. What constitutes a 'desired aim' is a relatively open-ended objective provided by managers.<sup>75</sup> For this reason, the Systems Approach pre-supposes rational behaviour by managers who are seeking to identify and solve problems in the business arena, and the articulation of this rationality depends on developing effective channels of information feedback. The precision of this approach is

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<sup>75</sup>The limitations of Systems Analysis is discussed [in the preamble to the following section], P. Schoderbek, 'Design of Management Systems', in P. Schoderbek (ed.), *Management Systems*, John Wiley, 1967, pp. 109-11.

also limited by the validity of the original objective along with its defined constraints, criteria and transmittance capability. Powerful methods for obtaining solutions are meaningless if problem identification is unsatisfactory. The symptoms of a problem should be separated from the disease, and this is where problem identification can err on the side of identifying only the disease, (a tendency reinforced when relying only on subject specialists to solve broader organisation problems). The Systems Approach starts from initial assumptions where the right questions need to be asked since the choice of initial assumptions affect the outcome. It is far better to get an incomplete answer to the right question than a neat answer to the wrong question. Similarly choosing the right objective is more important than the right means to achieve it, for choosing the wrong objective will produce unsatisfactory results and not solve recurring problems at all. Also, improperly selected criteria can overthrow the best technical solution. It is in doing otherwise, that the manager's capability as an effective administrator is put to the test. All this combined, is why the use of the Systems Approach methodology is the nearest that brings management to being an exact science.

## **1.6 Conclusion**

Initially, public policy directed at nourishing private industrial investment, and then internal management practices determined the direction of Pakistan's industrialisation. In the 1960s, the new class structure which emerged largely contributed to and shaped the

private-sector's investment stalemate of the early 1970s. This was because President Ayub's industrial policies provided easy money to investors, at a time when the class structure was forming in the new Pakistan. In undivided India the burgeoning business community constituted of Hindus. Most of the migrating Muslims constituted a transitional economy, with neither the attributes of the 19th century West, nor of traditional societies.<sup>76</sup> Moreover, they were inexperienced in commerce and weak educationally, while ownership of land in the new Pakistan was the paramount status symbol aspired. Therefore those without land and with the means, turned

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<sup>76</sup>See W. Rostow, *The Stages of Economic Growth*, Cambridge, 1990, p. 16, for a definition of traditional societies where the political, industrial and social value structure has not developed to its potential. Another explanation provided by J. Boeke, *The Structure of Netherlands Indian Economy*, 1942, in a social context is that traditional societies are also pre-industrial, that is they are tradition bound with considerable immobility of resources, an absence of profit seeking and a preference of speculative profit seeking. This explanation projects a society which is irrational owing to constraints it has no control over; another definition of traditional or pre-industrial societies stem from an economic or financial allocation of resources viewpoint, and for this, see B. Higgins, *Economic Development, Principles Problems and Policies*, Constable and Company, 1959, pp. 11-13 and 'The Dualist Theory of Underdeveloped Areas', *Economic Development and Cultural Change*, Issue 4, 1956, pp. 99-110; the concept of no-growth societies is reviewed by R. Zeckhanser, 'The Risks of Growth', in M. Olson and H. Landsberg (eds.), *The No Growth Society*, Woburn, 1975, p. 104, describes no-growth societies as 'traditional', with a low proportion of an affluent population, production and per capita income. These characteristics of no-growth societies limit the perspective on the debate of related criteria which influence development. The criteria omitted include non-tradeables which reduce value added, such as pollution costs, health hazards and less leisure time.

towards a manufacturing base in the cotton textile industry.<sup>77</sup> Once a critical point in the size of the business was achieved, the motivation to establish a corporate empire waned. The government became a crutch for the absence of an inner plan for the firm's future expansion.

The high growth rates in manufacturing industry in the 1960s were achieved mostly through heavy protection and scant international competition. Once these exogenous props to increase industrial output were removed, a change occurred in the post 1960s environment which was to influence business practices in the 1970s and 1980s. The new business elite organised into business houses initially entered into rent-seeking contracts with the higher echelons in government which later discouraged some from simultaneously investing in internal systems networks. This was because the industrialisation policy did not articulate institution building within businesses. Ayub's policy did not suggest that State-largesse should finance R&D or training of employees. This is not to say that government patronage was a cause *per se* for deterring the formation of endogenous organisational systems, rather its influence (on a few) in the Pakistani context was to postpone or not at all adopt them at

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<sup>77</sup>See G. Papanek, *Pakistan's Development, Social Goals and Private Incentives*, Harvard, 1967, p. 143, for a discussion on the bureaucracy rewarding individuals with clout, by issuing them with permits, in preference to those whose businesses were more productive. He states that this practice eventually lead to overall managerial inertia to devise methods to improve productivity.

all. Decline set in for those groups where the rent-seeking activity was not replaced by developing internal organisational systems, while those groups which adopted such systems made a sustained investment in light engineering manufacturing. Managerial inefficiencies became apparent after the exogenous stimulus, (which had initially nurtured industry) was removed but not replaced. The next chapter provides a more in-depth historiography of Pakistani industrialisation, its initial partiality toward elite entrepreneurs which advantaged them in using their clout to direct flow of resources towards them and by solely relying on this, and in not adopting internal organisational systems how it proved detrimental to business house expansion in the long-term. The historiography and tenets of the Systems Approach are also provided in the next chapter, which when adopted equips us with an alternate explanation of the conditions required for business groups to make a transition to light engineering manufacturing.

## CHAPTER TWO

### THE INDUSTRIAL POLICY AND EVOLUTION OF BUSINESS

Early industrialisation in Pakistan at the outset took place as a result from State-directed policies, which provided a network of incentives targeted at the development of private enterprise. With the creation of Pakistan as an independent State, there was ample potential to tap into the country's economic and financial resources.<sup>1</sup> President Ayub's vision for a new industrial structure was successfully orchestrated by the bureaucracy. This encompassed access to import licences, credit sources and overall support for new industrial ventures. These measures were the exogenous incentives which initially propelled private industrial investment to take off and from which all business groups benefitted equally.

The discussion in this chapter first identifies the exogenous factors

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<sup>1</sup>In 1947 British rule ended in the Indian sub-continent, dividing the region into two separate nations, India and Pakistan. Pakistan inherited 23 percent of Indian territory, 19 percent of the Indian Hindu population and 62 percent of the Indian Muslim population. Pakistan's economy was predominantly agrarian with cotton ginning and rice husking mills in the industrial sector. The province of Punjab called 'the granary' of India was also divided between the two countries; the Pakistani Punjab produced 40 percent of undivided India's long and medium staple cotton, on 22 million acres of irrigated land. Prior to partition, this region traded with [other regions in undivided] India, the latter supplying manufactured goods and receiving agricultural goods in exchange. In undivided India, the Indian railways were designed to transport industrial and agricultural raw material between the northern and southern regions. With partition, this transportation system was also disrupted, the loss of which was borne equally by both countries.

which contributed to the initial take-off in business group investment. This is followed by arguing that it were the investments made in endogenous organisation systems, which enabled the transition from trading to light engineering manufacturing.<sup>2</sup> These issues are divided into nine sections. **Section One** provides an overview of the development of Pakistani industry. **Section Two** presents the industrial policy as an exogenous factor stimulating business development, through an account of the economic and financial incentives provided to private-sector industrialists by the Ayub regime. The discussion on the economic environment extends into the Bhutto and Zia eras of nationalisation and privatisation of industry respectively. **Section Three** focuses on the pattern of structural linkages which ensued from the industrial policies, in particular the ramifications of Ayub's policies on initial business development. **Section Four** on interest group lobbying, reveals the links of business personalities with the Ayub regime of the 1960s (when the first industrial policy was implemented). **Section Five** discusses business group rent-seeking activities through accessing sources of finance and how this initially moulded business house investment. **Section Six** provides a historiography of the Systems Approach. The adoption of this approach within the micro-managerial framework of the groups, is shown as a means to

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<sup>2</sup>Transition is from trading in primary goods to that of the production of light engineering goods.

introduce new internal organisational systems which when adopted, enabled a sustainable transition to light engineering manufacturing. We argue that only effective internal organisation systems, through adoption of the Systems Approach methodology alter the conditions which affect long-term business development in achieving the transition. **Section Seven** provides the managerial prerequisites for the successful implementation of internal organisational systems and its ramifications on business development. **Section Eight** on endogenous organisational measures, demonstrates how the Systems Approach can be applied in the business situation with the co-operation and foresight demonstrated by managers. **Section Nine** concludes by reflecting on the effects of Ayub's industrialisation measures on business group performance in the short- and long-term. In some business houses managerial inertia towards adopting the Systems Approach (the endogenous factors) led to a decline in light engineering investment in the long-term.<sup>3</sup> Traditionally, the term 'engineering industry' refers to the design and assembly of machines intended for industrial use. The light engineering sector includes the production of steel-based goods, such as construction equipment, home appliances and spare parts for machines. For purposes of our research, we propose that the transition made from trading to light engineering goods production was an outcome of the business groups' management policy.

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<sup>3</sup>Presented in the case studies on business groups, pp. 164-467.

## 2.1 Patterns of Development: An Overview

Pakistan after its formation as a nation State, did not inherit an industrial base in the production of manufactured goods.<sup>4</sup> At the outset, Ayub's industrial manifesto propelled industrialisation into taking off.<sup>5</sup> However, by the early 1960s the economy had not met with the preconditions of take-off, in that it lacked the institutional support, such as that was required to invest agricultural surplus into industry. Rostow and Gerschenkron's stage models which defined the processes involved for an economy to make its transition from primary to capital goods production were not strictly followed in the Pakistani case, because the industrial structures which emerged did not conform to his 'correct' time of production. There were instances when business acumen flourished in a supportive environment of incentives and in doing so, by-passed Rostow's incubatory period necessary to reach his 'next stage of growth'. In less than a decade of the country's formation, industrial capability and investments in the manufacture of primary,<sup>6</sup> intermediate<sup>7</sup> and in certain

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<sup>4</sup>Information on industries inherited by Pakistan are on p. 68.

<sup>5</sup>The effect on economic development by State interventionist policies is given in, P. Armstrong, A. Glyn, and J. Harrison, *Capitalism Since 1945*, Blackwell, 1991, pp. 63-67 and 146 and a critique on this debate is given in, J. Toye, *Dilemmas of Development*, Blackwell, 1987, pp. 117-120.

<sup>6</sup>Primary goods are sugar, rice, raw cotton, unprocessed textiles and leather, edible oil, paper and wheat.

<sup>7</sup>Intermediate goods are semi-manufactured commodities, such as cotton yarn, leather and cement, industrial chemicals, fertilisers and

instances, capital goods<sup>8</sup> were apparent. Therefore, Rostow's demarcation of the 30-40 years incubation period for a nation to reach maturity in selected industries was negated. In the mid-1960s, manufacturing industry was approximately seven years old and was producing electrical engineering grids, chemicals and tools; products which Rostow aligned to the maturity stage in a nation's economic growth.<sup>9</sup> The reason why the Pakistani case did not fit Rostow's theory on the stages of growth was because the necessary and sufficient pre-conditions for take off (proposed by him) did not follow the particular chronological sequence of investments he envisaged and neither were his extraneous pre-conditions met for entering the next stage of economic growth. For example, where political support for industrialisation was forthcoming (Rostow's sufficient condition for take-off), the landed interests were not replaced by the new industrial elite (this displacement effect was Rostow's necessary condition for take-off).<sup>10</sup>

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petroleum refining products used for manufacturing producers' goods.

<sup>8</sup>Capital goods are machines used in the production of primary, intermediate and manufactured goods, such as basic metals, electrical machinery, steel, shipbuilding industry and petroleum products, used to manufacture finished goods such as carpets, electrical grids and cloth.

<sup>9</sup>See W. Rostow, *The Stages of Economic Growth*, Cambridge, 3rd. ed., 1990, pp. 9 and 52.

<sup>10</sup>Further details on how Rostow has segregated socio-economic conditions peculiar to stages of growth in industrialising economies, see Rostow, *The Stages of Economic Growth*, Cambridge, 1990, pp. 4-16 and 26.

Papanek suggested that sudden spurts of growth in developing countries were on account of resources directed to a few entrepreneurs which in effect created wastage and inefficient allocation of resources. The causal factors which led to wastage of resources was based on Papanek's case study of Pakistan.<sup>11</sup> His analysis advocated that absorption and diffusion inefficiencies were generated in Less Developed Countries [when Import Substitution Industrialisation (ISI) was opted], owing to inefficient industrial production, low quality exports, and a less developed domestic market.<sup>12</sup> However, Pakistan circumvented the negative effects of wastage by achieving a high growth rate in 1965, albeit from a low base.<sup>13</sup>

Haq's work on Pakistan's economic development in the 1960s, suggested that in order for industry to 'take off', entrepreneurs in developing countries should have unequal opportunities in accessing sophisticated machinery. Only entrepreneurs employing capital intensive machines should be the ones provided access to them. In this way the economy could 'take off', with the impetus coming from a few industrialists who created an environment of incentives for

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<sup>11</sup>Papanek's explains gradual diffusion of inputs from one sector to another which is necessary for development, in data gathered on Pakistan, by G. Papanek and W. Falcon, 'Pakistan's Development: An Introductory Perspective', in Papanek and Falcon, (eds.), *Development Policy II- The Pakistan Experience*, Harvard, 1971, p. 5.

<sup>12</sup>See G. Papanek, *Pakistan's Development*, Harvard, 1967, p. 14.

<sup>13</sup>The growth rates are presented in Table 2.4.

gearing overall industrial growth. However in the long-run, Haq omitted to appraise that investments in new technology which were **not** supported by investments in research and development, and which led to inefficient utility of capital employed and underutilisation of labour. Haq argued that all developing countries in the early stages of growth, increased output in large doses with proportionately smaller doses of capital injections. Haq did not address the economic costs of industrial spurts, rather he centred his argument on the necessary environment conducive to initiating such spurts.<sup>14</sup> In Pakistan, one of the macro effects of the 1964-65 high rate of manufacturing growth was the inegalitarian distribution of income which ensued, articulated in student riots and dissent leading to the eventual overthrow of Ayub's government.<sup>15</sup> In the 1960s when Haq<sup>16</sup> and Gerschenkron's writings were published, the implementation of Pakistani industrialisation policy coincided with structural changes in its political economy. These changes were an outcome of the merging of Rostow's two distinct phases (stages I and II) of industrialisation and to that extent also reinforced the Gerschenkronian possibility of sudden 'spurts' of growth evident in

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<sup>14</sup>Capital output ratios' applicability as a performance indicator is discussed in M. Haq, *The Strategy of Economic Planning*, Oxford, 1963, pp. 58-9.

<sup>15</sup>See Table 2.4 for growth rates.

<sup>16</sup>See M. Haq, *The Strategy of Economic Planning*, Oxford, 1963, pp. 26, 36 and 58.

developing economies.<sup>17</sup> The framework for understanding the shifting structural relationships stemmed from the pattern of industrialisation which was peculiar to the Pakistani case.

## **2.2 State Largesse, Industrial Policy and Business**

### **Development**

An understanding of business development in the late 1980s springs from studying the nature of the industrial policies of the late 1950s and early 1960s. The protagonists of industrial growth<sup>18</sup> were a small group of families, the majority of whom belonged to minority communities that had migrated to Pakistan upon partition. These emerging industrialists belonged to a group of Muslims who were by tradition soldiers and farmers, with a sprinkling of craftsmen and traders, but produced few businessmen. The mass outflow of Hindu commercial castes was compensated by the mass inflow of Muslim trading communities from Bombay and Gujarat in India. The communities which emigrated to Pakistan were mostly traders who had to establish themselves in a new milieu.<sup>19</sup> The country inherited a predominantly agrarian economy with limited

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<sup>17</sup>See A. Gerschenkron, *Economic Backwardness*, Harvard, 1966, pp. 6-7, on the nature of growth in developing countries.

<sup>18</sup>In an economic context, there are different explanations provided for growth. For purposes of this research focusing on the business history approach, growth means expansion of industrial investments and its sustainability through effective management practices.

<sup>19</sup>See G. Papanek, *Pakistan's Development*, Harvard, 1967, pp. 41-42.

natural resources or modern industry, organised banking or commercial establishments.<sup>20</sup> It also inherited seven million refugees, lost most of its skilled Hindu workers and experienced civil servants, businessmen and professionals. Only nine textile mills out of four hundred were left in Pakistan, along with an electric furnace.<sup>21</sup> Pakistan appeared to be an economic monstrosity and many prophesied chaos and political disintegration as the new State's inevitable future, 'Pakistan [is] an economic wreck...'.<sup>22</sup> This view stemmed from the fact that it was mainly the non-Muslim community who controlled trade and commerce, who emigrated to India in 1947. Most of industry which remained in Pakistan was in the primary goods sector, such as cash crops, handicrafts, and processed foods production. New industry was mostly concentrated in Karachi, owing to the city's accessibility to officials<sup>23</sup> who issued the export licences. In 1949, the Pakistani currency was not

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<sup>20</sup>A more detailed analysis of Pakistani migrants and their trade is covered in R. Wheeler, *The Politics of Pakistan*, Cornell, 1970, pp. 79-80.

<sup>21</sup>For Pakistan's economic and political history see D. P. Singhal, *Pakistan*, Prentice Hall Inc., 1972, pp. 3-4.

<sup>22</sup>Source: *Time*, 8 December 1947.

<sup>23</sup>In 1963, 40 civil servants were assigned Chief Controller of Imports and Exports, who were empowered with issuing import licences. A further 80 officers at the department of investment promotion were to 'control' investment. Other senior officials in the Ministry of Industries, Commerce, Finance and from the President's Secretariat, could intercept decisions made by the civil servants, to issue import licences to investors.

devalued, against pressure from India to do so.<sup>24</sup> The overvalued Pakistani currency made for cheaper imports of capital goods and machinery for Pakistan. The bulk of Pakistani jute was exported to India and the overvalued currency made jute imports to India a more expensive proposition for the latter. Thereupon, in 1949 the Indian government retaliated by ceasing trade altogether with Pakistan.

At partition, most private businesses in Karachi were owned by Hindus and Parsees as well as some Goanese Christians, with a limited amount of trade and commerce in Muslim hands. Two Muslim groups who practised trade and commerce were the Dawoodi Bhoras and Khoja Ismailis.<sup>25</sup> The Memon sect from Kathiawar in India, controlled one-fourth of investments in privately owned Muslim firms in Pakistan, in 1959.<sup>26</sup> These sects were traders who had cash liquidity and experience with machines, which enabled them to make a transition from trade to manufacturing with relative ease. Modern industry at the outset was framed by these industrial entrepreneurs who were not of feudal origin and benefitted equally from an environment conducive to the realisation of entrepreneurial

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<sup>24</sup>The economic consequences to India, from its trade war with Pakistan are given in B. R. Tomlinson, *The New Cambridge History of India, The Economy of Modern India, 1860-1970*, III, 3, Cambridge, 1993, p. 170.

<sup>25</sup>Ismaili Khojas were Muslims from Panjehai in the Sind province.

<sup>26</sup>The Dawood Group members were from a Memon sect originating from Kathiawar in India.

talent in industry.<sup>27</sup> Investments in industry were supported by imported technology and thrived in an environment of incentives and opportunities and State intervention was seen as a desirable prerequisite for industrialisation based on import protection and subsidies. From this community of businessmen emerged private-sector initiative prepared to exploit profit making opportunities in industries such as cotton textiles, cement, engineering goods and steel. These communities also exploited cheaply available refugee labour, in a seller's market in Pakistan, where they initially reinvested 'surplus' profits back into their businesses. Profits were used for further investment in metal-working, machinery and the construction industry, by those business groups which planned and structured their internal organisational strategy towards it. A summary of business houses by their geographical location, pre- and post 1947 is provided in Table 2.1:

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<sup>27</sup>The term feudal, denotes an economy where the traditional sector is predominantly engaged in peasant agriculture, handicrafts or in manufacturing within small-scale industry using labour intensive techniques of production. For this definition see Yujiro Hayami, 'Peasants and Plantation in Asia', in G. Meier (ed.), *From Classical Economics to Development Economics*, Macmillan, 1994, pp. 121-123; H. Rosovsky, 'Japan's Transition to Modern Economic Growth 1886-1885', in H. Rosovsky, (ed.), *Industrialisation in Two Systems*, John Wiley, 1966, p. 115. The behaviour displayed by feudal and industrial entrepreneurs as a response to early industrialisation is discussed in Gerschenkron, *Economic Backwardness*, Harvard, 1966, p. 39 and in D. North, *et al*, *Growth and Welfare in the American Past*, 3rd. ed., Prentice Hall, 1983, pp. 40-41, describes feudal societies as those with a lack of order, scarce labour, abundant land and differential military endowments.

**Table 2.1**

<b>Group<sup>1</sup></b>	<b>Origin of Business</b>	<b>Post-independence</b>
	<b>(pre-independence)</b>	<b>location</b>
	<b>City</b>	<b>City</b>
Wazir Ali	Bombay/Bhopal	Karachi/Lahore
Crescent	Madras	Faisalabad/Karachi
Dawood	Bombay	Karachi/Lahore
Ghulam Faruque	N.A.	Nowshera

<sup>1</sup> All group members were Muslims.

Source: Compiled from unpublished company documents.

The Korean War commodity boom (1950-52) provided a relief for Pakistan's depleting foreign exchange reserves, especially when Pakistani exporters captured the textile export markets of Korea. The ensuing export earnings from the niche made in Korean markets, enabled Pakistani businessmen to accumulate large foreign exchange cash reserves.<sup>28</sup> This was demonstrated with in rate of industrial investment which tripled from 1950 to 1955, once the export earnings from the boom, materialised.<sup>29</sup> The government

<sup>28</sup>For the macro-economic policies in 1951-52 see G. Papanek, *Pakistan's Development*, Harvard, 1967, p. 16.

<sup>29</sup>The economic consequences of the Korean boom are discussed in G. Papanek, *Pakistan's Development*, Harvard, 1967, p. 32.

complemented this opportunity, by expediting applications for new industrial units which enabled industrialists to make 50 percent to 100 percent profits on their initial investments.<sup>30</sup> The Planning Commission was formed in 1953, and replaced by the Planning Board in 1954, reviewed the allocation of foreign exchange, the screening of viable projects for investment and to relate annual budgets with proposed investments in the Five Year Plans. By 1954, the Planning Board's supervised industrial expansion of Rs 170 million or US \$ 34 million, which also represented 7 percent of the value of industrial assets in the country. In 1956-1957 manufactured output increased in both intermediate and capital goods production and from export earnings.<sup>31</sup> By 1957, the depleting foreign exchange reserves from the rising import bills and declining manufacturing output from 16 percent per year in the 1950s, to 11 percent in 1960-65, further reduced to 7 percent in 1965-70, mobilised the government to devise a strategy to increase exports in manufactured goods. This was demonstrated in not devaluing the currency in 1962 and in providing protection to manufactured goods through import controls.<sup>32</sup> The export duty levied on capital goods imports was removed. Since most

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<sup>30</sup>Source: R. Amjad, *Private Industrial Investment*, Cambridge, 1982, p. 169.

<sup>31</sup>See G. Papanek, *Pakistan's Development*, Harvard, 1967, p. vi, in the Foreword by Mason.

<sup>32</sup>See, Planning Commission, *The Third Five Year Plan, 1965-70*, Government of Pakistan, May 1965.

of industrial investment was concentrated in the manufacturing of consumer durables till 1958,<sup>33</sup> the consumer goods sector was mainly affected by the quota imposed on the imported raw materials it required.<sup>34</sup> Customs duty and sales tax were removed on the import of raw materials for the manufacturing of engineering goods such as airconditioners and deep freezers. To finance the gap between excess supply over the lagging domestic demand, the government resorted to foreign aid, as documented in the following quotations:

‘(a) Pakistan and the United States have signed an agreement which provides for the largest ever U.S. loan of \$ 140 million [about Rs 670 million] to Pakistan. The loan will finance Pakistan’s import of iron, steel and other commodities necessary for the country’s overall industrial development...’<sup>35</sup>

‘The Government of Pakistan made a drawing of \$ 16 million in pound sterling from the International Monetary Fund on January, 13 1965. Pakistan has a quota in the fund of \$ 150 million...’<sup>36</sup>

‘The World Bank has issued \$ 200 million in bonds through a group of U.S. underwriters on 18 January 1965. This was the first World Bank issue in the United States since January,

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<sup>33</sup>*Ibid.*

<sup>34</sup>Another measure to liberalise imports, was in the introduction of the ‘open general licence’ for the import of tractors, tires and vehicles. Eligibility for renewing a licence was on the basis of its retrospective ownership.

<sup>35</sup>Source: State Bank of Pakistan, *Bulletin State Bank of Pakistan*, January 1965, State Bank of Pakistan, 1965, p. 14.

<sup>36</sup>*Ibid.*, February 1965, p. 14.

1962...':<sup>37</sup>

The military government from 1958 to 1968, led by General Ayub Khan as President, encouraged businessmen to come forth and invest in manufacturing industry. To achieve its objective of industrialisation, the government used both fiscal and monetary measures, such as import controls, an over-valued exchange rate to keep permissible imports of machinery cheaper for industrial producers, tax holidays and accelerated depreciation allowances for private-sector industry.<sup>38</sup> Industry in the mid-1960s, supplanted agriculture and trading as the most lucrative sector.<sup>39</sup> Ayub's period of incentives coincided with the formation of another propellant to early industrialisation; the Pakistan Industrial

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<sup>37</sup>*Ibid.*

<sup>38</sup>In his study on these business families, see L.J. White, *Industrial Concentration and Economic Power in Pakistan*, Princeton, 1974, p. 121, where he discusses that the most significant condition for becoming a large manufacturer of goods in Pakistan was by obtaining an investment sanction, which was a necessary perquisite for then obtaining an import licence, used for importing capital equipment; also see the weekly, *Pakistan News*, London, 15 March 1961, p. 5, for a list of items permitted as imports under Ayub's 'open general licence' scheme.

<sup>39</sup>The rate of return on industrial investment was so high that industrialists were able to recover their initial investments in a period of one to two years. The rate of economic growth in the early 1960s was more than double the rate of population growth. See Z. Altaf, *Entrepreneurship in the Third World*, Croom Helm, 1988, p. 103, for the industrial investment figures including both movable and immovable assets, with methods of evaluation differing widely, at times, on the discretion of the entrepreneur. At times, when immovable property was evaluated, it was valued and pledged against loans as collateral, and the evaluation figure was usually arrived at arbitrarily.

Development Corporation, (PIDC)<sup>40</sup> in 1950.<sup>41</sup> The PIDC was a public sector, semi-autonomous entity which undertook the task of investing in large-scale producers' goods industry, in geographic areas and in industries where private-sector initiative was not forthcoming.<sup>42</sup> The government's objective was that once installed, these industries would be sold to the private-sector. The PIDC-led projects promoted industries that required large capital outlays, a long gestation period, high levels of technology, induction of foreign technicians, and industries where entrepreneurs were reluctant or unable to borrow large sums of credit from the government.<sup>43</sup> Another reason for the formation of PIDC, was initiate investment in less developed areas of the country, which did not attract private investors. The PIDC also benefitted from government patronage, in

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<sup>40</sup>The PIDC charter decreed State approval of sale of its units to private industrialists; in instances, PIDC was authorised to underwrite a portion or the entire share capital of a unit, if necessary. However PIDC was not permitted to divest its shares at a rate below the par value of its shares, unless the Central government sanctioned it. See PIDC, 'Development Programme of Pakistan Industrial Development Corporation', unpublished report, PIDC, 1989, pp. 10-14.

<sup>41</sup>See the PIDC charter under the 'Act of Federal Legislation, No XLV of 1950', 19 April 1950, [revised, 1962 by President Ayub], when certain industries were transferred by the PIDC to the provincial governments by 'Ordinance No, XXXVI of 1962', 1 June 1962.

<sup>42</sup>See Sylla and Toniolo, (eds.), *opcit*, *Patterns of European Industrialisation*, Routledge, 1991, for the role of the State on industrial progress, p. 17.

<sup>43</sup>See PIDC, 'Development Programme of the PIDC', unpublished report, PIDC, December, 1989, Annexure V, lists the manufacturing capacity created by its ventures from 1952 to 1988.

that it was able to bring along with its location of industry, the necessary infrastructure required for the maintenance and fruition of its projects. These support functions included, power lines, gas supplies, and other amenities necessary for continuous plant operations. PIDC investment was mainly in coal mines, textiles, jute, sugar, paper and cement manufacturing, shipping and engineering industries. PIDC projects retained by the public-sector were the railways, roads, seaports, power and irrigation projects.

PIDC's capital was underwritten as a development loan from the federal to the provincial governments.<sup>44</sup> The loan repayment was incumbent upon sale of the industries to the private-sector. Additional sources which financed its capital, were from Development Finance Institutions (DFI) and through foreign equity participation.<sup>45</sup> However, the actual sales were not tendered or advertised, rather acquisition made on the basis of the coalition of businessmen with the ruling regime or with senior PIDC officials.<sup>46</sup>

The PIDC became the main agent of State largesse with a select group of industrialists becoming its beneficiaries. On a more practical level, the State took on the role of the entrepreneur because of a lack of a well developed capitalist class who would take over the

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<sup>44</sup>*Ibid.*, p. 29.

<sup>45</sup>Source: A division of the value of equity contributed by other institutions is available in Finance Division, *Explanatory Memorandum on the Budget, 1976-77*, Government of Pakistan, 1976.

<sup>46</sup>This assertion finds its merit in the case studies, pp. 164-467.

economic institutions left behind by the British colonisers. Industrialisation was not forthcoming from the landowning class whose capital accumulation was seen as acquired in collaboration with the colonisers. Therefore, State intervention to promote industrialisation was originally seen as legitimate by the aspiring industrialists.<sup>47</sup> Ayub's policy of economic incentives and trade liberalisation supplemented by the economic proceeds from the Korean War commodity boom, provided a platform for our four business groups to accumulate foreign exchange. These reserves were initially accumulated from trade proceeds and were invested in cotton trading, which led to the high profit concentration in the hands of these few industrialists. However, this prior accumulation of capital (from trade proceeds) as a precursor to industrialisation in the 1960s, did not sustain intermediate and capital goods production in the long-term. The common denominator between business group investors was that they all either initiated as cotton textile traders or commenced production in a cotton-based industry. Cotton, as Pakistan's staple cash crop and the back bone of its exports led to pioneering investments made in textile trade, ginning,

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<sup>47</sup>In Latin America the success of State-led industrialisation during its ISI period (the interwar years), produced new social coalitions and alliances between the incipient industrialist class and the urban working class which challenged the landed oligarchy. This is given in, A. Hirschman, *A Bias for Hope, Essays on Development and Latin America*, Yale, 1971, p. 97, with reference to Latin America's ISI phase of industrialisation. Hirschman updates his discussion in, *Essays in Trespassing, Economics to Politics and Beyond*, Cambridge, 1974, p. 143.

spinning, weaving and finishing processes.

Ayub's trade control measures<sup>48</sup> were complemented with another catalyst of industrialisation. In 1959 a subsidy was provided to exporters in the form of export bonus vouchers which were targeted to increase exports.<sup>49</sup> The bearer of these vouchers could purchase foreign exchange equivalent to the value of goods he had exported. This foreign exchange (which was available from 10 to 40 percent of the value of goods exported) was meant to finance imports of raw materials and machinery used in manufacturing exported commodities.<sup>50</sup> These vouchers were also transferable, which meant that they could be sold by those exporters who had earned them, to anyone who was prepared to pay a premium for acquiring them. Owing to their scarcity, they fetched an 80 to 180 percent premium in the 'black' market. This artificially raised their price and in effect contributed to a dual exchange rate system for accessing foreign exchange. The following table provides the share of vouchers issued:

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<sup>48</sup>For a more detailed discussion on Pakistan's export and import policies see, G. Hufbauer, 'West Pakistan Exports: Effective Taxation, Policy, Promotion, and Sectoral Discrimination', in W. Falcon and G. Papanek (eds.), *Development Policy -II- The Pakistan Experience*, Harvard, 1971, pp. 56-114.

<sup>49</sup>Further discussion on foreign resource inflow and the implications of this scheme, see R. Amjad, *Private Industrial Investment*, Cambridge, 1982, p. 19.

<sup>50</sup>With the growing market for textiles, Pakistani cotton and jute exports comprised up to 35 percent of exports by the late 1960s as discussed in R. Amjad, *Private Industrial Investment*, Cambridge, 1982 p. 19.

**Table 2.2**  
**Rs millions**

<b>Year</b>	<b>Realisation<sup>1</sup></b>	<b>Vouchers<sup>2</sup></b>	<b>Average Rate<sup>3</sup></b>
			<b>of Bonus (%)</b>
	<b>A</b>	<b>B</b>	
1959/60	653.6	137.3	21
1960/61	691.3	141.6	20.48
1961/62	717.5	161.3	22.48
1962/63	845.6	188.8	22.32
1963/64	1079.2	254.9	23.61
1964/65	1198.3	296.1	24.71
1965/66	1524.5	368.0	24.13
1966/67	1778.3	426.4	23.97
1967/68	1891.0	574.2	30.36
1968/69	2335.6	798.3	34.17
1969/70	2676.5	890.7	33.29

<sup>1</sup> The value of exports of goods and services for which bonus vouchers were issued.

<sup>2</sup> Face value of vouchers.

<sup>3</sup> B/A x 100.

Source: State Bank of Pakistan, *Bulletin: State Bank of Pakistan*, *State Bank of Pakistan*, Department of Research, State Bank of Pakistan, Central Directorate, issue nos; July 1965, pp. 64-65; July 1966, pp. 74-75; July 1967, pp. 74-75; July 1968, pp. 74-75; July 1969, pp. 74-75; July 1970, pp. 74-75.

Amjad has compiled a cross section of Pakistani exports in the 1960s.<sup>51</sup> He shows a growing market in textiles, cotton and jute exports which comprised 35 percent to 69 percent of total exports by

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<sup>51</sup>The linkages between investments and structural changes in the economy are discussed in R. Amjad, *Private Industrial Investment*, Cambridge, 1982, p. 168 and G. Papanek, *Pakistan's Development*, Harvard, 1968, p. 198.

the late 1960s and 1980s.<sup>52</sup> Textiles remained the single major and most significant exports as a group for the period covered by this study. Therefore the pioneering capitalised on this by initiating textile-based trading and manufacturing. Only those groups which adopted internal organisational systems were able to make the transition from textiles to steel manufacturing.

In spite of the export incentives provided by the bonus voucher scheme, there was no significant increase in exports in the early 1960s owing to tariffs and quotas imposed by importing countries on Pakistani exports. The bonus voucher scheme did not significantly boost exports, since the export base was already high before the

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#### Exports by Major Economic Category

	(Rs millions)				
	1983	1984	1985	1986	1987
Textiles as % of all	66	59	66	69	66
Cotton:					
Primary Product	4383	1464	6823	7992	8144
Semi-Manuf. Yarn	3489	2785	4286	5971	5949
Manuf. Fabric	8013	5877	4529	6708	5841
Manuf. Garments	2630	2837	3114	6237	4897
Rice	5051	4738	4332	5035	5227
Leather	1503	1856	2529	3351	3930
Carpets	2090	2158	2085	3137	2619
Petroleum Products	753	355	581	398	742
<hr/>					
Total	27912	22070	28279	38829	37349

Source: *Statistical Bulletin of Pakistan*, Federal Bureau of Statistics, Islamabad, 1988.

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introduction of this scheme.<sup>53</sup> However it did contribute towards the concentration of wealth in the hands of a few industrialists who were the main beneficiaries of this scheme, all of whom are addressed in this study. This was particularly evident in the Crescent and Dawood Groups' profits in jute and paper manufacturing.<sup>54</sup> In 1964, Pakistan's production of jute was valued at Rs 503 million or 48 percent of the world's production, and the Crescent Group's jute exports were at Rs 50 million or 10 percent of Pakistan's jute exports.<sup>55</sup> The initial industrial take-off in the 1960s in textile and jute manufacturing was from State largesse and not from efficiently designed internal organisation systems. The following table lists exports under the bonus voucher scheme:

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<sup>53</sup>An analysis of exports by sectors is presented in A.R. Kamal, 'Sectoral Growth Rates and Efficiency of Factor Use in Large-Scale Manufacturing Sector in West Punjab', *Pakistan Development Review*, Winter 1976, Vol. XV, No: 4, p. 349.

<sup>54</sup>See Table 2.3 for exports in jute manufacturing.

<sup>55</sup>World and Pakistan's jute production figures are available in, State Bank of Pakistan, *Bulletin: State Bank of Pakistan, January 1965*, State Bank of Pakistan, 1965, p. 14; *ibid.*, July 1966, pp. 62-63.

**Table 2.3**  
**Exports Under Bonus Voucher Scheme**  
**Rs millions**

	1964-65	1965-66	1966-67	1967-68	1968-69
Percentage increase of total exports over the previous year	27	17	6	24	
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Primary Products	203.0	181.5	193.0	79.6	145.3
Cotton Manufactures	222.1	206.9	290.5	375.3	451.2
Jute Manufactures	296.3	541.3	618.8	546.1	662.7
Other Manufactures	253.1	281.5	382.3	450.7	544.1
Invisibles <sup>1</sup>	42.1	54.4	51.5	129.0	79.3
Home Remittances	181.7	258.0	242.2	310.3	453.0
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Total	1,198.3	1,524.5	1,778.3	1,891.0	2,335.6

<sup>1</sup> Includes earnings from supplies to Water and Power Development authority, ship repairs, shipping, hostels, aircraft repairs, salvage, and literary journalists' fees - all items included as invisibles in the balance of payments.

Source: State Bank of Pakistan, *Bulletin, State Bank of Pakistan*, State Bank of Pakistan, Karachi: Department of Research, State Bank of Pakistan, Central Directorate, issue nos: July 1965, pp. 64-65; July 1966, pp. 74-75; July 1967, pp. 74-75; July 1968, pp. 74-75; July 1969, pp. 74-75; July 1970, pp. 74-75.

In 1962, import restrictions were relaxed; importers no longer required registration and the time restriction on the validity of import certificates was removed. This diluted the privileged status that past importers enjoyed through owning bonus vouchers, and gave way for new importers spread over a larger base of industry. Opportunities for capital accumulation were also fuelled through

foreign exchange payments made to overseas suppliers of imported goods. In the 1960s such payments were shown to be illegally higher than the actual price at which they were imported.<sup>56</sup> The differential between the real (lower) purchase price and the higher amount (declared in Pakistan) as the value of imported goods, was the foreign exchange deposited by Pakistani importers in their overseas accounts. This was arranged in connivance with the overseas sellers.<sup>57</sup> Papanek who was a member of the Harvard Advisory group to Pakistan on economic restructuring in 1960, commented:

"Tax evasion was widespread: many industrialists kept three sets of books- one for the tax collector, one for partners or relatives and one for themselves. [One person claimed that sometimes there is a fourth set- to show the tax collector when he comes the second time insisting that he be shown the 'real books' ].<sup>58</sup>

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<sup>56</sup>This is corroborated by G. Papanek, *Pakistan's Development*, Harvard, 1967, p. 109.

<sup>57</sup>In stating the objectives of the Pakistani Constitution, R. Wheeler, *The Politics of Pakistan*, Cornell, 1970, pp. 131-32, states, 'The Constitution sought to strike a new balance between the bureaucracy and the political world by curtailing the privileges of the former while limiting the scope for pressure or 'interference' by the latter. The result was to decrease the bureaucracy's responsibility to the public, increase its dependence on its official superiors, and heighten the sense of political frustration among those who felt that only through corruption could the administration be successfully influenced' .

Quotation emphasis for 'influence' has been reproduced as is in the original text.

<sup>58</sup>See G. Papanek, *Pakistan's Development*, Harvard, 1967, p. 109.

Haq, the Chief Economist in Ayub's government stated:

'Income-tax is paid by one-tenth of one percent of the total population, the narrow coverage of income-tax thus robbing the State of any automatic means of having a rising share in the increase in national income'.<sup>59</sup>

The mid-1960s was an economic watershed, since Ayub's policy for industrialisation had successfully doubled the value-added in manufacturing (see Tables 2.4 and 2.5).<sup>60</sup> The following table shows the increase in manufacturing growth rates, from 1955-70:

**Table 2.4**

**Pakistan- Annual Compound Growth Rates and Value of Manufacturing at 1959-60 factor cost**

<b>Year</b>	<b>Growth Rates</b> %	<b>Value of</b>
		<b>Industrial Output</b>
1955-60	9.3	4,358
1960-65	16.2	9,284 <sup>1</sup>
1965-70	7.7	22,250 <sup>2</sup>

<sup>1</sup> Further detail on how the rate of manufactured output increased in intermediate and capital goods production from an enlarged base in 1965-66, is given in G. Papanek, *Pakistan's Development*, Harvard, 1967, p. vi.

<sup>2</sup> Value of industrial output is for 1969-70.

Source: R. Amjad, *Private Industrial Investment in Pakistan, 1960-1970*, Cambridge, 1982, p. 16.<sup>61</sup>

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<sup>59</sup>See M. Haq, *The Strategy of Economic Planning*, Oxford, 1963, p. 23.

<sup>60</sup>Most of the value-added was contributed by the textile sector discussed in, Ministry of Industries, *Industrial Policy Statement*, Government of Pakistan, June 1984, p. 6.

<sup>61</sup>For an increase in annual growth rates in manufacturing and in the consumer, intermediate and investment goods sectors, 1951-71, see S. Guisinger, 'Trade Policies and Unemployment: The Case of

From 1960-1965 Pakistan's growth rate increased at a pace which did not go unnoticed internationally. *The New York Times*, on 18 January 1965, reported:

'Pakistan may be on its way towards an economic milestone that so far has been reached by only one other populous country, the United States' '<sup>62</sup>

In 1960-1965, Pakistan's large-scale manufacturing sector, fuelled by private-sector capital, led to a growth of 16.2 percent, compared with 9.3 percent in 1955-1960; Table 2.5 provides an estimate of the value of private industrial investment in Pakistan, from 1960 to 1969:

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Pakistan', in A. Krueger *et al*, *Trade and Employment in Developing Countries*, Chicago, 1981, p. 301.

<sup>62</sup>This citation was taken from G. Papanek, *Pakistan's Development*, Harvard, 1967, p. 1.

**Table 2.5**  
**Estimates of Private Industrial Investment**  
**(constant prices)<sup>1</sup>**

<b>Year</b>	<b>Rs (millions)</b>
1960-61	805.1
1961-62	810.0
1962-63	640.5
1963-64	1025.6
1964-65	1106.22 <sup>2</sup>
1965-66	974.8
1966-67	880.1
1967-68	895.8
1968-69	836.8
1969-70	922.2

<sup>1</sup> Based on a price index of industrial investment, (1959-60)=100.

<sup>2</sup> Also see Table 2.6 on Index of Industrial Production, 1955-69.

Source: R. Amjad, *Private Industrial Investment in Pakistan 1960-1970*, Cambridge, 1982, p. 22.

The drive behind the increase in manufacturing output was provided by private industrial investment. The incentives provided to industry initiated a process of transition where entrepreneurs who were originally traders with merchant capital became venture capitalists. The rate of return on industrial investment was so high that industrialists were able to recover their initial investments within one to two years lead time from initial investment. In the early 1960s, the rate of economic growth was more than double the rate of population growth. The following table provides the

manufacturing index of industrial production, 1959-69:

**Table 2.6**

**Pakistan- Index of Industrial Production<sup>1</sup>**  
**(Base Year: 1959-60)**

<b>Year</b>	<b>Value Index</b>	<b>P e r c e n t a g e increase/(decrease) over previous year</b>
1959-60	100.0	
1960-61	123.4	23.4
1961-62	139.0	12.6
1962-63	161.9	16.5
1963-64	184.2	13.8
1964-65	210.6	14.3
1965-66	234.4	11.3
1966-67	274.5	17.1
1967-68	310.8	13.2
1968-69	355.7	14.4

<sup>1</sup> For an index of money wages, cost of living and real wages, see S. Guisinger, 'Trade Policies and Employment: The Case of Pakistan', in A. Kreuger *et al*, *Trade and Employment in Developing Countries*, Chicago, 1981, Table 7.13, p. 324. The lower the fluctuations in commodity prices, the more stable the economy, whereas inflation and deflation are indicators of the opposite.

Source: Central Statistical Office, *Index of Industrial Production- Pakistan*, Ministry of Economic Affairs, 1969.

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The industrial spurt of 1964-65, was a follow up of capital accumulation which occurred in the previous decade. To set up industry, capital was required to produce producers' goods as against consumer goods. Since this capital was not voluntarily forthcoming,

it was generated by proxy State industrialisation, through the creation of the PIDC and financial institutions, which opened up credit markets for industry. Local currency capital could be purchased by our business groups from the organised sector at interest rates of 6-8 percent.<sup>63</sup> State-supported subsidies in turn ensured that capital formation remained low which led to a vicious circle, inhibiting production of capital goods. The index of manufacturing output averaged at 2.3 percent during 1970-77, 9.9 percent during 1977-82 and 8.3 percent in 1983. The consumer goods sub-sector showed a steady decline but if the share of textile is excluded from it then its growth rate improves. The intermediate goods sector also showed growth rates except from 1978-82 with fertiliser and petroleum production being the major catalysts. From 1981-88 the growth in the automotive industry was the result of the government's investment policies which favoured investments made in the light engineering sector.

All business groups studied in this research were initially from a nascent entrepreneurial class which emerged as a response to Ayub's economic incentives,<sup>64</sup> which facilitated the transition from

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<sup>63</sup>See M. Haq, *The Strategy of Economic Planning*, Oxford, 1963, p. 41.

<sup>64</sup>See A. Gerschenkron, *Economic Backwardness*, Harvard, 1966, p. 326, where he describes that the finality of migration in an entrepreneurial class reinforces its zest for stability in a new milieu. The migrating communities to Pakistan adopted industrial investments as a vocation, through a frenzy of acquiring resources, especially when Ayub's partiality to them was forthcoming.

merchant to industrial capital.<sup>65</sup> The factors initially facilitated this, were removed once Ayub's regime was overthrown. By the close of the 1960s, a series of events emerged, largely economic with their attendant political constraints which created difficulties for the interventionist State model to continue. Ayub's policies accentuated the economic difference between the newly emerging capitalist class and the urban proletariat.<sup>66</sup> The anti-Ayub movement was also fuelled by the increase in prices<sup>67</sup> after a period of relative price stability.<sup>68</sup> Once the political consensus which buttressed the interventionist regime started to break down, policy-makers found it increasingly difficult to mediate the growing conflict between the

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<sup>65</sup>This is discussed in further detail in the study on the Crescent and Ghulam Faruque Groups, Chapters Four to Five, pp. 261-412.

<sup>66</sup>The Gerschenkronian view on how the old order is threatened by industrialisation is discussed in Sylla and Toniolo, (eds.), *opcit*, *The Patterns of European Industrialisation*, Routledge, 1991, p. 7.

<sup>67</sup>The general price index in the 1960s moved as follows:

1959/60	100.0	1965/66	117.5
1960/61	103.1	1966/67	133.9
1961/62	105.9	1967/68	128.6
1962/63	104.8	1968/69	136.1
1963/64	104.6	1969/70	140.0

Source: Central Statistical Office, *Twenty-Five Years of Pakistan in Statistics*, Ministry of Economic Affairs, 1972.

<sup>68</sup>H. Feldman provides an in-depth analysis of Ayub's psyche, first as a military ruler to that as President of Pakistan. [In *From Crisis to Crisis*, Oxford, 1972, pp. 237-271], Feldman provides an account of the events which led to the dismissal of the Ayub regime, with the decline in real wages after 1965, as a contributory factor, which is discussed in S. Guisinger, 'Trade Policies and Unemployment: The Case of Pakistan', in A. Kreuger, *et al*, *Trade and Employment in Developing Countries*, Chicago, 1981, p. 325.

State and the elements of dissent within it. Since the State had not developed anticipatory responses to the changes which ensued, it led to an increased resistance from interest groups, which provided the impetus for the revival of the left wing political economy which was to form a few years later. In 1968, Ayub's government was overthrown after a period of student unrest and dissent from the urban professional and industrial labour class, mainly because of his policies which favoured capital accumulation for a few families.<sup>69</sup> An interim period of two years featured the return of Martial Law which initiated a dampener effect on private investment, reinforced by the economic climate fostered by Bhutto, who acceded to power in 1971.<sup>70</sup>

In 1971, Zulfiqar Ali Bhutto was elected Prime Minister of a dismembered Pakistan; East Pakistan had seceded and became Bangladesh. Bhutto reneged on Ayub's industrialisation incentives by implementing his socialist manifesto,<sup>71</sup> through abolishing the

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<sup>69</sup>See, R. Amjad, 'Private Industrial Investment in Pakistan, 1960-1970', Ph.D. thesis, University of Cambridge, 1977, p. 10.

<sup>70</sup>Martial Law was imposed by General Yahya Khan who initiated the reversal of a number of economic incentives provided to industrialists in the Ayub era, recorded in a government document, as the 'Bulletin, State Bank of Pakistan'. For a reversal of Ayub's economic policies during 1969-71, see, State Bank of Pakistan, *Bulletin, State Bank of Pakistan, July 1971*, State Bank of Pakistan, 1971, p. xxv.

<sup>71</sup>The objectives of the Pakistan Peoples Party are given in its *Election Manifesto*, Pakistan People's Party, 1972, pp. 3-53.

managing agency system<sup>72</sup> and by nationalising key industries.

Initially 31 industrial units were nationalised in 1972 and their

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<sup>72</sup>The managing agency system was introduced by the British in undivided India to further their economic stronghold over the newly annexed territories to the Empire. The initiation of this system was by forming merchant houses [in British India] for representing the interests of the foreign direct investors; these merchant houses were then developed into a managing agency system, with the introduction of a sales branch which was ultimately replaced by managing of a production facility. This description of managing agencies is available in S. Nicholas, 'Locational Choice, Performance and the Growth of British Multinational Firms', in C. Harvey, (ed.), *Business History, Concepts and Measurements*, Frank Cass, 1989, p. 131. In India, this system was originally designed to separate ownership from control, where managers optimised group objectives even if it meant that its shareholders' interests were made subordinate to it. This is discussed in the economic context of British business administrators in India in, B.R. Tomlinson, 'British Business in India, 1860-1970', in R. Davenport-Hines and G. Jones, (eds.), *British Business in Asia Since 1860*, Cambridge, 1989, pp. 96-99. Also see, B.R. Tomlinson, 'Writing History Sideways: Lessons for Indian Economic Historians from Meiji Japan', *Modern Asian Studies*, Vol. 19, No. 3, 1985, p. 695, for the changing role of managing agencies in early nineteenth century undivided India. After 1947, in Pakistan the spirit behind the managing agency system had altered, in that it was essentially a business entity administered by a managing group in whom were vested powers to contribute to the equity of and to receive commission from the sale proceeds of the produce of subsidiary companies. The decision-makers in the managing agency system were usually the same entrepreneurs who managed other units in the group, and so exercised partiality in decisions which were commensurate with the larger interests of the group. Effectively, a 15 percent share ownership vested with the managing agents gave them practically 100 percent control over the decisions made for the entire group; however managing agents usually owned 51 percent shares in all subsidiaries of the groups. These were the views of Razak Dawood, a senior industrialist of the Dawood Group, interviewed, 26 October 1991. Also see Z. Altaf's [study on] *Pakistani Entrepreneurs*, Croom Helm, 1983, p. 103, where he cites a feudal entrepreneur's estimate that managing agents 'siphoned-off' profits, which ranged between 2.5 percent and 7.5 percent of a company's annual profits.

management entrusted to a Board of Industrial Management (BIM),<sup>73</sup> a public-sector entity which managed 10 holding corporations in industries such as the iron and steel, heavy engineering, motor vehicles, heavy electrical equipment, fertiliser, shipping, petroleum distribution, heavy and basic chemicals including petro-chemicals, public utilities such as electricity generation, transmission and distribution, cement, natural gas and oil refining, vegetable *ghee* and insurance.<sup>74</sup> In 1974 another spate of nationalisation of industry followed, targeted at commercial and agricultural banks and the shipping industry.<sup>75</sup> The spate of the 1972-74 nationalisation of industry had a dampener effect on private industrial investment. The following table depicts this trend:

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<sup>73</sup>The management structure and powers assigned to the BIM are given in, Naveed Hasan, *Fertiliser Production in the Public Sector*, Lahore University of Management Sciences, 1987, LBS case # 14-041-87-1, pp. 4-6.

<sup>74</sup>These changes were given legal form through the Managing Agency and Election of Directors Order, 1972, also known as the Presidential Order No: 2/72, 1972.

<sup>75</sup>This was nationalised under the 'Pakistan Maritime Shipping [Regulation and Control] Ordinance, 1974'.

**Table 2.7**  
**Incremental Private Industrial Investment**

<b>Year</b>	<b>Value</b>
	<b>(Rs millions)</b>
1971	1426
1972	1235
1973	964
1974	970

Source: R.M.U. Suleman, 'Manufacturing Industry Public and Private', *Pakistan and Gulf Economist*, February, 25, 1978, p. 24.

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To meet the need for specialised credit for the new industrial amalgam under the nationalised mode, new Development Finance Institutions (DFI) were established. The National Development Finance Institution (NDFC) was one such lending institution formed in 1973.<sup>76</sup> During Bhutto's rule, these institutions did not service a significant share of the private-sector's credit needs. It was during the Zia regime that the DFI's role matured, as financiers of private-sector industry.

In 1977, General Zia assumed power as President, through a military *coup d'etat* which overthrew Bhutto.<sup>77</sup> Zia's new industrial

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<sup>76</sup>The NDFC was established under the National Development Finance Corporation Act, 1973, [Act No. XIII of 1973], as a wholly owned government lending institution, with an initial share capital of Rs 100 million and with a further Rs 30 million contributed by the Federal government as the paid-up capital.

<sup>77</sup>The economic and political factors which led to the dismissal of the Bhutto government are available in the Government of Pakistan, *White Paper on the Performance of the Bhutto Regime, Mr Zulfeqar*

policy engendered the return of business confidence in private industrial investments.<sup>78</sup> His aim was intended at shifting the emphasis away from State control of industry and towards private-sector entrepreneurship to flourish. Zia's policy of privatisation was manifest in the partial deregulation of State-owned industries to its original owners, albeit executed at staggered intervals. In 1977, the cotton ginning, rice husking and wheat milling mills were denationalised. In order to restore the investors' confidence, the government also introduced 'The Protection of Rights in Industrial Property Order, 1979', whereby private industrial investment would not be arbitrarily acquired by the government, except where justified by the law to do so in the larger interest of the public good. In 1978, machinery imports for Balancing Modernisation and Replacement (BMR) schemes were abolished and the permissible imported value of goods raised from Rs 5 million to Rs 10 million.<sup>79</sup> The Uqaili Commission Report of 1979, extended the justification for denationalisation, by listing the factors which had previously contributed to the deteriorating production and financial performance

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*Ali Bhutto, His Family and Associates*, Headquarters of the Chief of Army Staff, Vol. 1, 1979.

<sup>78</sup>See Ministry of Industries, *Industrial Policy Statement*, Government of Pakistan, June 1984, pp. 5-32 and Zia's speech, Government of Pakistan, *General Mohammad Zia-ul-Haq, Chief of the Army Staff and Chief Martial Law Administrator, Address to the Nation*, Headquarters of the Army Staff, 25 June 1978, p. 10.

<sup>79</sup>*Ibid.*

of the nationalised industries.<sup>80</sup> The release of this report was followed by further denationalisation of a portion of the taken-over industries during the Bhutto regime. This new emphasis on privatisation was apparent in new investments made in the capital intensive, investment goods sector, such as assembly of automobiles and tractors and erection of new steel-based and cement plants. Producers of locally manufactured machinery were also made eligible for obtaining finance from the State Bank of Pakistan. The intent was to encourage deletion of imported components in favour of producing them locally. The State Bank of Pakistan's 'Locally Manufactured Machinery Scheme' provided concessionary rates of credit at 3 percent compared to the normal bank lending rate of 14 percent.

The government's strategy for investment also embraced large-scale manufacturing and trade in public-sector enterprise with its intended spin off effects in the private-sector. The private-sector responded to these incentives by financing investment in new industry through DFI loans rather than from capital generated from other companies within the business groups.<sup>81</sup> DFIs provided

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<sup>80</sup>The Government of Pakistan appointed a commission on 31 October 1977, led by N.M. Uquaili, [who was also the chairman, of a government lending institution, PICIC], to review the status of State enterprise, with regard to the problems faced by the management of nationalised industries, in order to suggest remedial measures.

<sup>81</sup>This is explained in Stephen R. Lewis Jr., *Pakistan Industrialisation and Trade Policies*, London, 1970a, p. 8.

medium- and long-term finances to industry, by underwriting new issue of shares, provision of debentures and bridge financing. They also acted as intermediaries attracting other sources of finance used for forthcoming investment. This was achieved by conducting project appraisals and supervising the fabrication of industrial units. The project assistance provided by DFIs was intended to lead to better scrutiny of capital, production and marketing costs and in improving the financial structure of the recipient units.

In the 1980s, the DFIs were a significant contributor to financing a package of incentives offered to investors. Zia's industrial policy also changed the Bhutto government's stipulation that DFIs could only extend credit as working capital loans for public-sector industrial projects to also include extension of credit to private-sector enterprise. In 1980, a bank for industrial development, Banker's Equity Limited (BEL) was formed drawing its equity from the State Bank @ 40 percent, with the remainder 60 percent financed by the Pakistan Banking Council and the (still) nationalised banks. BEL's provided local and foreign currency loans to finance the equity of private industrial units. BEL's criteria for loan extension to businesses was closely monitored by other DFIs, since the latter financed a portion of all BEL credit extended to industry. BEL's loan disbursements to industry increased from Rs 52 million in 1981 to 652 million in 1986 and through its syndication with the DFIs, was able to arrange disbursement of a further Rs 28 million in 1981 to Rs

244 million in 1986.<sup>82</sup> By 1987, the Industrial Development Bank of Pakistan (IDBP) had also revised its credit policies, in prioritising extension of working capital loans for the engineering and export-led industries. Its equity was wholly subscribed by the government and its controlled institutions.

With the expansion in the credit base emanating from the new industrial policy, the DFIs were given a new lease of life after the turbulent Bhutto years. These changes concerning credit extension were formally organised under the Banking Companies (Recovery of Loans) Ordinance, 1979 and the Banking and Financial Services (Amendments of Law) Ordinance, 1984. This reiterated the Zia government's intent to propel development of key industries in the chemicals, automobiles, petrochemicals and in the light and heavy engineering sectors which till then had remained neglected by the State. DFI loans to the private-sector were extended on relatively low rates of interest, which were meant for financing locally manufactured machinery. These interest rates ranged from 3 to 6 percent per annum, compared with 11 to 13 percent per annum charged by the commercial scheduled banks on loans meant for other categories of investments. By 1986 there were twelve DFIs involved

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<sup>82</sup>See S.M. Ghayasuddin, 'New Priorities for Industries, Increased Sanctions', *Dawn*, 28 March 1987, p. II.

in credit extension to industry.<sup>83</sup> The government also eradicated the need for prior investment sanctions for the fertiliser, cement, heavy mechanical and electrical plants, petrochemicals, ships, aircraft, basic steel, metal and alloys.<sup>84</sup> In 1986, import duty was exempted on machinery purchased for use by the fertiliser, ready-made garments, hosiery, towel and textile processing units.<sup>85</sup> Concessionary rates of duty were provided to locally assembled automotive vehicles such as, buses, trucks, station wagons, jeeps, pick-ups, motor cycles and auto rickshaws. If the produce was intended for export any raw material imports were also exempted from payment of import duty, under the 'Bonded Manufacture Scheme and Temporary Import Scheme'.<sup>86</sup> Any industrial venture requiring machinery imports as its only imports, were permitted to

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<sup>83</sup>These were the (a) Agricultural Development Bank of Pakistan, (b) Banker's Equity Limited, (c) Equity Participation Fund, (d) Industrial Development Bank of Pakistan, (e) Investment Corporation of Pakistan, (f) National Development Finance Corporation, (g) National Development Leasing Corporation Limited, (h) National Investment Trust, (i) Pak-Libya Holding Company, (j) Pakistan Industrial Credit and Investment Corporation, (k) Pak-Kuwait Investment Company, (l) Regional Development Finance Corporation, (m) Pak-Saudi Industrial and Agricultural Investment Company and (n) Small Business Finance Corporation.

<sup>84</sup>See N.A. Memon, 'Industrial Investment on the Rise', *Pakistan and Gulf Economist*, 5-11 March 1988, p. 13.

<sup>85</sup>The need for rationalising of the economic incentives package offered by the Zia government to investors, see, R.H. Syed, 'Incentives for Industrial Development', *Pakistan and Gulf Economist*, 10-16 May 1986, pp. 17-23.

<sup>86</sup>*Ibid.*

do so without seeking permission from the government, made possible under the 'Non-Repatriable Investment Scheme'. The Deregulation Commission also approved the removal of price subsidies on sugar and wheat flour in 1986.<sup>87</sup>

Additional sources of financing industrial investments were from the resources of the NDFC. By 1986, the NDFC grew to be the largest DFI in terms of its asset size which were then valued at Rs 9.4 billion.<sup>88</sup> A possible reason for its increase in assets stemmed from its tax free status up to 1986 and funds accumulated from its deposit mobilisation strategy.<sup>89</sup> By 1988, it was made [by the Economic Coordination Committee of the Federal Cabinet], the official window through which power generation projects owned by the private-sector were financed.

Other factors which restored the private-sectors' confidence in forthcoming investments was provided in the reorganisation of three exogenous factors; a) the removal of 'direct' controls for market forces to regulate foreign trade and industrial investment, b) an increase in foreign aid, particularly of US origin and c) a change in the fiscal and

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<sup>87</sup>An article by R. Jabir, 'Deregulation', *Pakistan and Gulf Economist*, 25-31 January 1986, pp. 14-15, focuses on the impact of the Zia regime economic package on investment.

<sup>88</sup>Source: A column article by a staff reporter in *Dawn*, 31 March 1987.

<sup>89</sup>Sources of funding of DFIs from 1972-76, is available in an article by D.M. Qureshi, 'Financial Institutions in Pakistan', *Pakistan Economist*, 8 March 1978, p. 26, Appendix I.

monetary exchange policy, which favoured exports.<sup>90</sup> However, industry was protected as such, and so retarded spontaneous reaction to international competition. This depicted a comeback of the ISI climate reminiscent of the 1960s. From 1978 to 1982, the per annum growth rate in manufacturing was 9 percent, of manufactured exports 8 percent and private investment in the large-scale manufacturing (LSM) sector was 12 percent. The export performance was enhanced since exporters were allowed a refund of import duties paid for raw materials used in the manufacture of exported goods which indicated a return of business confidence in the government's commitment to protect industry. The import policy from 1987 to 1988 declared a ban on the import of transformers, switch gear, cranes, pumps and generators on the grounds that they were being locally produced.<sup>91</sup>

According to James, Naya and Meier, the differences in GDP growth in Pakistan in the early 1980s, was not a function of the difference between the savings and investment rate, rather were a result of the types of investments made.<sup>92</sup> They assign such

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<sup>90</sup>The taxation structure during Zia's regime is available in Ministry of Finance, *Taxation Structure of Pakistan*, Government of Pakistan, 5 June 1976, pp. 1-51.

<sup>91</sup>See article by S.M. Fazal, 'Engineering Industry: Victim of Neglect by Policy Makers', *Pakistan and Gulf Economist*, 25 February 1989 - 3 March 1989, pp. 14-16.

<sup>92</sup>See W. James, S. Naya and G. Meier, *Asian Development: Economic Success and Policy Lessons*, Wisconsin, 1987, pp. 75-76.

investments as the contributory factors which made Pakistan achieve a real GDP growth rate in the early 1980s, nearly twice that of India's, with an investment rate that was only two-thirds as much as the latter's.<sup>93</sup> Other exogenous factors which propelled economic growth in the 1980s, were the overseas workers' remittances to their families in Pakistan; these registered a rise from US \$ 339 million in the financial year (FY) 1976 to US \$ 2.8 billion in the FY 1983.

However, in spite of Zia's commitment to enhance private investments, two decades after Pakistan's first industrial spurt, the development of the industrial structures had still not undergone a radical change. In the 1980s, industrialists were still doing the wrong things efficiently, namely successful tax evasion and in not reinvesting in internal organisational systems. A senior industrialist Muhammad Faruque, of the Ghulam Faruque Group claimed that:

‘underinvoicing of exports in yarn makes money ... US \$ half to one million is creamed off overseas [by underinvoicing] on a 14,500 spindles mill [on average]...Given [that there are] 13,500 textile mills in the country, [which means that] US \$ 3 billion a month [is the loss to the government as illegally transferred income to overseas accounts from underinvoicing]’.<sup>94</sup>

Therefore imports were once again officially overstated, and it was the inefficient importer who enjoyed monopoly profit and power.<sup>95</sup>

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<sup>93</sup>*Ibid.*

<sup>94</sup>Interview, 15 March 1992.

<sup>95</sup>Corrupt methods adopted by importers are highlighted in G. Papanek, *Pakistan's Development*, Harvard, 1967, pp. 16 and 113; for overinvoicing see, G. Winston, 'Overinvoicing and Industrial

A weak infrastructure nurtured the tendency to avoid investing in internal organisational support functions, which was evident inspite of the State's assurance that entrepreneurial effort would be rewarded. The incentives provided by the bureaucracy to encourage entrepreneurs were in areas where the multiplier effects and the value-added were relatively low.<sup>96</sup> This led to a decline in manufacturing value-added during the 1980s.<sup>97</sup> This was owing to investment sanctions provided to those industries as perceived by bureaucrats to have demand for its products in excess of its supply. The rationale for this perception was based on informal channels of feedback from randomly selected sources than on reliable data obtained from market intelligence reports. Usually industrial feasibility studies were contracted out to consultants who were protected under a political umbrella which made it incumbent for credit-lending institutions to adopt their recommendations. Feasibility studies funded by the World Bank and the USAID were particularly prone to this rationale of partiality, which at times inaccurately reflected an unviable industrial project as worthy of receiving credit from the DFIs. One effect of the inconsistent criterion for provision of investment sanctions was reflected in the

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Efficiency', in K. Griffith, and A. Khan, (eds.), *Growth and Inequality in Pakistan*, Macmillan, 1972, pp. 169-187.

<sup>96</sup>For further insights into partiality in industrialisation, see Z. Altaf, *Entrepreneurship in the Third World*, Croom Helm, 1988, p. 3.

<sup>97</sup>*Ibid.*

fluctuating machinery imports for industrial use from 1983-87 as follows:

**Table 2.8**  
**Import of Industrial Plant and Machinery**  
**Rs (millions)**

Description	1983-84	1984-85	% <sup>1</sup>	1985-86	%	1986-87	%
Power Generation							
Machinery	1,285	2,826	(119)	2,738	(-3)	2,282	(-17)
Machinery for							
Specialised Industry	6,168	6,671	(8)	6,881	(3)	7,524	(9)
Metal Working Mach.	233	291	(25)	674	(132)	491	(-27)
Machinery & Equip.	2,236	2,486	(11)	2,753	(11)	2,687	(-2)

<sup>1</sup> Figures in parenthesis represent a percentage increase or decrease over the previous year's imports. Consumer price inflation was 1985=7.5 %, 1986=4.8 %, 1987=3.9 %, 1988=6.3 %, EIU, [Economist Intelligence Unit Country Report, Pakistan and Afghanistan,, No. 4, 1989].

Source: Federal Bureau of Statistics, *Monthly Statistical Bulletin*, Government of Pakistan, issue nos: July 1984, Vol., 32, No. 6, pp. 146-176; July 1985, Vol., 33, No. 7, pp. 148-180; July 1986, Vol., 34, No. 7, pp. 174-210; July 1987, Vol., 35, No. 7 pp. 242-272.

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Investment sanctions involved a lengthy discourse with red tape orchestrated by the bureaucracy. To specify a few factors, permission to sanction a factory involved, the approval of the provincial government to install gas, electricity and telephone connections, and the procurement of labour; an agreement with the financial institutions for debt financing;<sup>98</sup> the approval of the chief controller

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<sup>98</sup>Financial Institutions were all those banking and non-banking institutions which provided or assisted investors to access short- and

of imports to finance machinery; the approval of the Security Exchange Corporation of Pakistan, and the permission for supply of energy from the Water and Power Development Authority, a State monopoly generating and distributing water and electricity for private- and public-sector consumption. The multiple steps leading to approvals encouraged abuse of powers vested with officials in connivance with the approval-seekers. At times, documents authorising a credit facility, originally charged at 6 percent under the Export Finance Scheme, were resold in the local market in collusion with the customs and excise staff.

In 1988, the government's apparent attempt to restore business confidence in private industrial investment was again articulated, on this occasion through the formation of a National Disinvestment Authority. The shares of fourteen loss-making public sector corporations were offered for sale to the public at a price less than the par [face] value of its shares. The share value of these units stood at Rs 2 billion in 1986.<sup>99</sup> The par value of its shares was Rs 10 per share and the price offered for privatisation was @ Rs 9.32 per

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long-term loans to industry. Non-banking financial institutions could not lend from their own reserves by law, rather they acted as a conduit to access finance from banks which was then lent to industrial users under the guidance and discretion of the directors of the non-banking financial institution.

<sup>99</sup>See R. Jabir, 'Deregulation', *Pakistan and Gulf Economist*, 25-31 January 1986, pp. 14-15, p. 14.

share.<sup>100</sup> In spite of this lucrative offer, the 14 loss making units identified by this unit for re-sale to the private-sector met with unsuccessful results at their disposal. Their loss-making status along with the predominantly labour-intensive mode of production were disincentives for forthcoming private capital investment in these units. In spite of the government's commitment on paper to assist in the divestiture of public enterprise in favour of the private-sector, the rise in the share of the latter in total investment, (1979-88) remained low. The divestiture policy remained essentially a mix of re-sale of government-sponsored corporations to the private-sector through sale of 49 percent shares to its employees and the remainder disposed off through public subscription. Eglin stated, that in spite of Zia's incentives, growth remained slow owing to a weak infrastructure, energy constraints and recurrent devaluation of the currency. He elaborated, that after 1977 the delimitating factors were from increased government capital expenditure which in constant prices remained one-third short of the target planned in the Fifth Five Year Plan.<sup>101</sup> Reasons given by Eglin for this shortfall in 1983, were a reduction in foreign aid, and construction projects falling short of their completion targets, and only 14 percent of the labour force

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<sup>100</sup>The Zia regime's disinvestment policy is critically analysed in A.H. Khan, 'Disinvestment', *Pakistan and Gulf Economist*, 10-16 May 1986, pp. 15-16.

<sup>101</sup>See D.R. Eglin, 'The Economy', in Richard F. Nyrop, (ed.), *Pakistan, A Country Study*, The United States Government, 1983, p. 141.

employed in industry, as against 55 percent in agriculture.<sup>102</sup> The Zia government attempted to treat the budget deficit shortfall by raising revenue from issuing government bonds. Owing to their appeal to the public the incidental success of these schemes did result in growth occurring in pockets in an overall period of slow investment. The following table shows a relatively low but more consistent level of private investment made during the Zia regime compared to its relatively unstable performance in the Bhutto era:

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<sup>102</sup>See M. Haq, *The Strategy of Economic Planning*, Oxford, 1963, p. 62, for an evaluation of the factors which reduce government expenditure. Government expenditure depends on its revenue from saving schemes, cash deposits, taxation and other income from taxes and duties on imports and exports. Haq suggests that if the saving rate declines then government income should be augmented by taking recourse to foreign assistance in the form of loans and grants. If such aid is not forthcoming, it reduces the government's income as well as expenditure.

**Table 2.9****Trends in Private Investment (Base year, 1959-60=100)**

Year	Percentage Share in Total Investment	GDP
1960-61	57.9	7.6
1965-66	54.8	9.7
1970-71	50.1	7.0
1974-75	32.1	4.6
1970-71	50.1	7.0
1974-75	32.1	4.6
1979-80	39.3	6.3
1980-81	39.3	6.1
1981-82	36.4	5.6
1982-83	38.4	6.0
1983-84	40.4	6.1
1984-85	41.4	6.2
1985-86	41.2	6.1
1986-87	40.7	6.3
1987-88	42.1	6.2

Source: *Economic Survey*, various issues.

Zia's deregulation policies were intended to restore business confidence which led to private industrial investment gradually picked up after 1982. The incentives for industrial investment were realised in an increase in the absolute rate of investment from Rs 3,332 million in 1973-77 (Bhutto era) to 8742 million in 1978-80, (portion of the Zia era), registering an increase of 162 percent.<sup>103</sup> Zia's industrialisation policy also generated an investment climate which was reminiscent of Ayub's incentive structure of the 1960s. To recapitulate a few points, post-tax profit increased with the

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<sup>103</sup>Source: Q. Raza, 'Industrial Revival in Pakistan', *Pakistan Economist*, 16 August 1980, pp. 27-31.

introduction of five-year tax holidays for new industries located in specified districts, the partial exemption of custom's duty on imported machinery, and the reintroduction of accelerated depreciation allowance in 1977-88, albeit with a difference; the trend was [then] on encouraging private investment in the light to heavy engineering industries. Imports were encouraged if they were intended as raw materials used in exported goods. This provided investors with an opportunity to once again overstate imports in order to access foreign exchange, as had occurred during the Ayub regime. Therefore, private industrial investment did not depict structural changes of the kind that concurred with four decades [except the six years of Bhutto's rule] of policy orchestrated at industrial development.

### **2.3 Structural Changes and Linkage Effects of the Industrial Policy**

The economic incentives of Ayub were conducive to new investments for industry, and provided a base for nurture capitalism to flourish. Such incentives to accumulate wealth in the 1960s made it easier for existing business houses to enter new domestic and export markets. The PIDC-led investments in producers' goods was part of the ISI policies of the 1960s. These investments in the capital goods sector were made when domestic demand and infrastructure supported production of consumption goods. Therefore PIDC investment, reduced the lead time required for industry to bridge the gap between production of consumption goods to that of intermediate

and capital goods production.<sup>104</sup>

It was the government's liberal policies of the late 1950s that pre-empted the high rate of economic growth in the mid-1960s. State largesse in the 1950s was directed at promoting consumer goods production and not investment goods. The increase in intermediate and capital goods productivity of the 1960s was a follow-up from the trend set in 1956-59, when almost half of trading returns were reinvested in manufacturing industry.<sup>105</sup> State largesse in the 1960s was evident by introduction of fiscal and monetary measures, such as an over-valued exchange rate, import controls on consumer goods, and tax holidays to industry. Prices of manufactured goods were kept artificially high through heavy protection. Prices increased for intermediate goods such as fertiliser, along with food and tobacco in the consumer goods industry. Prices for direct inputs to agriculture such as machinery and seed were kept low, with this subsidy also benefitted the textile industrialist. The increase in productivity in the intermediate and capital goods sector in the 1960s was a saving grace from the unsuccessful attempt to increase manufacturing output in 1956-57. The businesses which invested in manufacturing units in the early 1960s, contributed to and

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<sup>104</sup>This occurrence again challenges Rostow's pre-determined stages of growth as described in W. Rostow, *The Stages of Economic Growth*, Cambridge, 1990, pp. 6-13.

<sup>105</sup>See G. Papanek, *Pakistan's Development*, Harvard, 1967, p. 198.

benefitted from an increase in demand of its machines in the agricultural sector.<sup>106</sup> The overall effect in the 1960s, was an increase in value added in the economy, achieved through protection and after its removal there is a decline in value added in the producers goods sector. By 1962, the main industries on the government's development agenda were in the intermediate and capital goods sectors, such as the cement, metalworking, paper and chemical. From 1963 to 1970, growth in manufacturing induced from the ISI policies alone, increased output in the investment goods sector by 26 percent.<sup>107</sup> In the same period, consumer goods growth in manufacturing from ISI adoption, increased output by 15 percent.<sup>108</sup> Therefore the investments initiated in intermediate goods were not entirely a function of market forces, rather the outcome of proxy industrialisation. There was a mix whereby both consumer and intermediate goods production occurred simultaneously in spite of industrialisation not having reached maturity.<sup>109</sup>

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<sup>106</sup>For theoretical literature on the stages of growth and industrialisation, see P. A. David, 'The Mechanisation of Reaping in the Ante-Bellum Midwest', in H. Rosovsky (ed.), *Industrialisation in Two Systems*, John Wiley, 1966, p. 5.

<sup>107</sup>Source: S. Guisinger, 'Trade Policies and Unemployment: The Case of Pakistan', in A. Kreuger, *et al*, *Trade and Employment in Developing Countries*, Chicago, 1981, p. 303.

<sup>108</sup>*Ibid.*

<sup>109</sup>For further readings on levels of protection and the trade regime, see S. Guisinger, 'Trade Policies and Unemployment: The Case of Pakistan', in A. Kreuger, *et al*, *Trade and Employment in Developing Countries*, Chicago, 1981, pp. 312-314. In 1963-64 the

Rostow's maturity stage indicates industrial take off after 20-25 of a nation's formation, yet in Pakistan investments in chemicals and electrical equipment were apparent just 15 years after the nation was formed.<sup>110</sup> A peculiarity of these industries was their high capital investment per unit of output and an extended lead time for production. The paper and chemicals industry employed economies of scope where common raw material and distribution costs were shared by jointly produced products.<sup>111</sup>

Ayub's trade liberalisation policies distorted resource allocation<sup>112</sup> by favouring sale of PIDC units to key industrialists and import and

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highest rate of effective protection in the consumer goods sector was for textiles @ 733 percent, in the intermediate goods sector was for wood and lumber @ 1150 percent and in the investment goods sector was for basic metals @ 525 percent.

<sup>110</sup>See W. Rostow, *The Stages of Economic Growth*, Cambridge, 1990, p. 9.

<sup>111</sup>Economies of scope capture production efficiencies which divide costs by allocating them to jointly produced and related products, see an explanation in A. Chandler, in *Scale and Scope*, Harvard, 1990, p. 18.

<sup>112</sup>Anti-interventionist theories advocated wastage of government resources and the inability of the bureaucracy to monitor the behaviour of the private sector and Ayub's regime was culpable on all such counts. For a debate on the effect of the bureaucracy on economic institutions, see W. Niskanen, *Bureaucracy: Servant or Master? Lessons from America*, Institute of Economic Affairs, 1973, pp. 16-17 and 39-40, and C. Rowley, 'The Political Economy of the Public Sector', in R.B. Jones, (ed.), *Perspectives on Political Economy*, Frances Pinter, 1983, pp. 17-63 and R.B. Jones, 'Perspectives on International Political Economy', in R.B. Jones, (ed.), *Perspectives on Political Economy*, Frances Pinter, 1983, pp. 190-91. These theories also find support in Gerschenkronian thought which recognises the role of the State in promoting [or failing to promote] industrialisation depending on the particular 'mix' it adopts.

export licences which were not awarded on planned criteria such as evaluating production levels as a percentage of installed capacity; Authority to provide licenses rested with junior officials who abused this authority by awarding import licences to those who approached them through conduits of nepotism, influence or bribery.<sup>113</sup> Also, industrial sponsors (not included in this study) whose political sympathies fell on the wrong side of the bureaucracy, were invariably denied financial assistance required for pioneering investments.<sup>114</sup> The import licences were not awarded on economic rationale, such as comparative advantage, economies of scale, external economies or marginal saving rates in the intended industry; rather they were based on the discretion of the awarding party and at times awarded to technically unviable projects.<sup>115</sup> This abuse of authority postponed development in the intermediate and capital goods industrial sectors. Also, there were no extenuating reasons to voluntarily direct profits made from consumption goods sales to be

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<sup>113</sup>See G. Papanek, *Pakistan's Development*, Harvard, 1967, p. 122 which provides the scenario where the import policy was imbued in inefficient practices.

<sup>114</sup>Criteria for funds mobilisation in favour of protected industrialists is discussed in an article by D.M. Qureshi, 'Financial Institutions in Pakistan', *Pakistan Economist*, 8 March 1978, p. 21.

<sup>115</sup>Similar criteria in sanctioning of licences to favoured industrialists occurred in Japan in 1955 under different categories of permissible investments. This point is expanded upon in P. Armstrong, *et al*, *Capitalism Since 1945*, Blackwell, 1991, pp. 136-150.

invested in producing machines used to manufacture producers' goods. The leakages in the system also encouraged 'black' market sales of imported machinery permits originally allocated to larger producers who resold them to smaller (ineligible) producers.<sup>116</sup>

This was one of the reasons why the gains from the new industrial policy did not sustain the unfettered maturing of business house investment through those entrepreneurs who originally gained from the licensing system. The protected industries became oligopolistic because the ISI policies did not produce the gains from trade, that too for a domestic market with limited purchasing power.<sup>117</sup>

In the 1960s, growth was from supply-led ISI by PIDC sales, since the lagging domestic demand was a delimiting factor in developing the investment goods industry; one cause being that there were no mitigating factors to change the distribution of income and consumption patterns which was reflected in the product offerings aimed at those who could afford to buy them.<sup>118</sup> For a country in

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<sup>116</sup>See G. Papanek, *Pakistan's Development*, Harvard, 1967, pp. 122-23, for further analysis on the drift of resources towards inefficient producers, which originated from corruption economic systems. To preempt import restrictions, the industrialists would stock pile imported inventory, and create further blockages in the system.

<sup>117</sup>See p. 120, for the cartel board and monopoly commission.

<sup>118</sup>For linkages between taxation and the duty structure which structurally changed the economy see M. Haq, *The Strategy of Economic Planning*, Oxford, 1963, p. 24.

the early stages of industrialisation, the absorptive and diffusion capacity was slow and the rapid increase in investment could not be sustained. Early industrialisation was closely supported and monitored by the government with the larger entrepreneurs operating in a near monopoly environment.<sup>119</sup> Also, foreign staff recruited as technicians left after initialisation of projects, setting up the machines and identifying and training local staff. These factors retarded the development of secondary import substitution in the intermediate and capital goods sectors.<sup>120</sup> Another cause for low capital formation in the capital goods sector was that the financial markets were not sufficiently developed. The limited number of companies quoted on the stock exchange inhibited the reallocation of profits towards financing the capital goods industry. In 1960 there were only 63 publicly quoted manufacturing companies, which increased to 70 companies in 1961 and by 1962, there were 75 publicly quoted manufacturing companies.<sup>121</sup> A substantial representation of publicly quoted companies suggests a proportionate amount of encashable [marketable] securities. The greater their number, the greater the willingness of banks to extend credit, since

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<sup>119</sup>*Ibid.*

<sup>120</sup>For further discussion on structural investment distortions arising from Ayub's industrial manifesto, see R.M.U. Suleman, 'Manufacturing Industry Public and Private', *Pakistan and Gulf Economist*, 25 February 1978, pp. 21-26.

<sup>121</sup>Source: *Dawn*, 5 January 1960, 5 January 1961 and 5 January 1962.

the mortgage in encashable securities provides substantial cover for the banks on long-term loans. This also leads us to the question of size; initially business development in two business groups,<sup>122</sup> where internal organisational systems were not adopted, led to a shrinkage of its marketable securities and so retarded its pattern of future growth.

The LSM sector growth rate accelerated during the first half of the 1960s when increased foreign aid and more liberal trade policies induced strong export-led growth.<sup>123</sup> This positive environment was reinforced with concurrent PL 480 aid inflow and government subsidies on fertiliser.<sup>124</sup> The Indo-Pak war of 1965 caused a slow down in foreign aid [PL 480 aid was suspended by the USA] and the emphasis on capital goods intensive manufacturing shifted in favour of export-led growth. There was an overall resource constraint and to some extent a reversal of the import liberalisation policies of the first half of the 1960s.<sup>125</sup> The capital goods sub-sector only registered high growth rates from 1960-71. During this period, the bias against the engineering production component of this sector with

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<sup>122</sup>These were the Wazir Ali and Dawood Groups.

<sup>123</sup>See Table 2.4 on Annual Compound Growth Rates, 1959-70.

<sup>124</sup>For PL 480 (Public Law 480) food aid, which mainly comprised of wheat seedlings as an agricultural input, provided by the United States government to Pakistan, see M. Haq, *The Strategy of Economic Planning*, Oxford, 1963, p. 28.

<sup>125</sup>See Table 2.4 on Annual Compound Growth Rates.

its negative rates of protection contributed largely to its lack of any significant growth. These events also coincided with a two year drought. Cumulatively, these factors caused per annum growth rate in LSM to decline from 17 percent from the first half of the 1960s to 10 percent during the latter half.<sup>126</sup> Ayub's fragile ruling coalition also ran into trouble from the reduction of foreign aid after 1965 which caused an external shock to the system. Therefore in 1968, hoarding of both wealth and information led to the demise of his ten year rule. It was short-sighted of the Ayub to introduce import and export trade controls without addressing the egalitarian income distribution patterns which were simultaneously emerging. Exposure of the facts which caused a decline in investments and an increase in wealth for a few, could have created the extenuating circumstances which made incumbent industrialists accountable and perhaps avoiding the political onslaught which occurred. These disparities led to the overthrow of the Ayub government<sup>127</sup> and imposition of Martial Law in 1969.

The economic policies of Bhutto in the 1970s had a dampener effect on private investment in the LSM sector. From 1971 to 1974, the LSM sector grew at only about 2 percent and production declined in real terms. Several major factors account for this decline, namely the sharp decline in investment levels after the Indo-Pak war, the

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<sup>126</sup>See Table 2.4 on Annual Compound Growth Rates.

<sup>127</sup>*Ibid.*

creation of Bangladesh in 1971; the devaluation of the Rupee in 1972, which increased the cost of investment; the abolition of the Export Bonus Voucher Scheme which had subsidised this sector; reinforcement of the risk averse, entrepreneurial bent in initiating medium-size projects, the nationalisation of private industry, finance, shipping and the first oil price shock and the subsequent recession which ensued. This affected trade in that manufacturing imports were 63 percent and exports were 4 percent.<sup>128</sup> From 1970 to 1977, the commodity producing sector also faced virtual stagnation.<sup>129</sup> From 1971 to 1977, growth rates in all sub-sectors declined, with the decline in the capital goods sector being the greatest.

When General Zia assumed power as President in 1977 through a military *coup d'état*, there was a revival in the LSM sector which averaged 9 percent in real terms from 1977 to 1986. Its improved performance was initially due to the resurgence of the private-sector from its depressed state in the 1970s.<sup>130</sup> However, the value-added in LSM in 1983 was well below 1977 levels, since private investment in 1983 was 50 percent greater in real terms than in 1977, yet it was

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<sup>128</sup>Source: S. Guisinger, 'Trade Policies and Unemployment: The Case of Pakistan', in A. Kreuger, *et al*, *Trade and Employment in Developing Countries*, Chicago, 1981, p. 304.

<sup>129</sup>*Ibid.*

<sup>130</sup>In 1977, Zia initiated a reversal of Bhutto's nationalisation of industry by returning a portion of nationalised industries to its original owners, safeguarded under the 'Protection of Rights in Industrial Property Order of 1979'.

only 80 percent of the peak it reached in 1965. Its cause was the government's public investment programme financed mainly from external borrowing and increased domestic credit facilities. Investments in jute production increased and textile production decreased in the consumer goods sector.

Another feature of Pakistan's economic development since 1950 (except for the period 1971-77) was the relatively high growth rate of the large- and medium-scale manufacturing sector. The relatively rapid growth of the LSM sector from 1947 to 1988 generated structural linkages. Its share in GDP increased from 2.2 percent in 1950 to 14.5 percent in 1986, inspite of the delinking of the Rupee from the US \$ in 1982, when a similar level of investment in real terms produced a much smaller absolute level of investment. The share of all manufacturing in GDP in 1986 was 19.9 percent. Though some sectors grew faster during some sub-periods for the period as a whole the LSM sector growth rates were higher than for all other sectors (except electricity and gas), which generates evidence that the LSM sector has been the leading sector in Pakistan's economic development since independence, and merits further study from the point of view of business house investment in this sector.<sup>131</sup>

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<sup>131</sup>See Table 2.15 on Net Manufacturing Assets: three business houses captured the first ten positions [interchangeably], from 1968-88, measured by the value of its net assets.

## 2.4 Interest Group Lobbying: Control Networks

In undivided India the burgeoning business community was predominantly Hindu. Industry which vested with the Muslims was mainly owned by Dawoodi Bhoras and Punjabi Chiniotis. Their liquidity from trade enabled them to make investments in industry.<sup>132</sup> The Memons controlled one-fourth of Muslim private investment. In Pakistan, by the late 1950s both Chiniotis and Memons became prominent in non-traditional manufacturing of consumer goods. The Yusfzai Pathans from the North West Frontier Province (NWFP), also became owners of large-scale modern industry.<sup>133</sup> It is from these communities that our business group entrepreneurs emerged.

This section addresses the interplay of political and economic power which played a key role in the dynamism of capital accumulation. Control networks were the influence and power wielded by these business personalities for acquisition of resources, empowered to do so by their association with Ayub. The bureaucracy supported and liaised with key industrialists providing the latter with the economic and financial benefits for establishing initial industry. This liaison demonstrated itself in a mechanism of control networks employed by business leaders to direct the country's

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<sup>132</sup>For kinship factors affecting selection of trade, see G. Papanek, *Pakistan's Development*, Harvard, 1967, p. 55.

<sup>133</sup>The Ghulam Faruque Group belongs to this Muslim sect.

economic resources towards the initiation of their businesses. Benefits included access to import and manufacturing licences, tax holidays, bonus vouchers, and discounted foreign exchange. The military government of Pakistan established by Ayub in 1958, pronounced its overwhelming commitment to economic development and industrialisation.<sup>134</sup> In the early 1960s key business personalities emerged, who enjoyed the favour and became the confidant of Ayub who declared at a 1965 reception in Karachi,

‘It has been the policy of my government to associate representatives of industry and commerce with all agencies of Government dealing with their problems and no major decision of policy is taken by Government without taking into account the views and interests of the business community’.<sup>135</sup>

In the Pakistani case, the ineffective antitrust laws in the 1960s assisted the emerging industrialist to amass wealth. The only three known monopoly check inquiries were conducted by the Credit Inquiry Commission (1959), The Cartel Study Group Report (1963), a private study by Professor Louis Loss of the Harvard Business School (1964), and the Monopoly and Control Ordinance of 1969. None of these were seen to be enacted upon, in spite of Ayub’s assurances to the contrary, when he said:

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<sup>134</sup>The National Economic Council (NEC), was given charge of policy formulation. President Ayub was its Chairman along with a team of governors, the deputy chairman, of the Planning Commission and senior ministerial staff.

<sup>135</sup> Federation of Pakistan Chamber of Commerce and Industry, unpublished speech of President Ayub at a federation reception held on 29 January 1965, in Karachi.

'It will be our firm policy, therefore, to prevent excessive concentration of income and wealth in the hands of a few...'.<sup>136</sup>

The after effects of the Ayub-sponsored power group which benefitted from fiscal and monetary measures, affected the bureaucratic, industrial and feudal structures. The Dawood, Crescent, Wazir Ali and Ghulam Faruque Groups had cultural and economic characteristics which enabled them to re-establish and resume their business interests in Pakistan after migration. Prior to immigrating, they were experienced textiles traders. After immigrating, they continued to trade in cotton, the country's major export commodity. They were inexperienced in manufacturing industry and ownership of land was an economic status symbol aspired for in the predominantly feudal territories of Pakistan. Therefore, those without land but with the economic means, turned towards a manufacturing base in the cotton textile industry.<sup>137</sup> This is apparent in the initial investments of all groups studied. Since they were one of the first groups in Pakistan to venture forth in the textiles business, the Wazir Ali and Dawood Groups' management felt they had a head start over other contestants in acquiring industrial licences and so subordinated the need to reorient

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<sup>136</sup>Planning Commission, *Third Five Year Plan, 1965-70*, Karachi: Government of Pakistan, 1965.

<sup>137</sup>See G. Papanek, *Pakistan's Development*, Harvard, 1967, p. 143, for a reference of rewarding of those individuals who had clout with permits over and above those who were more productive. This too could lead to managerial inertia.

its internal organisational procedures on systematic principles. These groups were the prime beneficiaries of the government licensing system, along with the Ghulam Faruque and Crescent groups. By 1962, most of the PIDC units were purchased by at least ten business houses, which constituted one-third of total private-sector investment in industry. Ghulam Faruque, an industrialist who was PIDC's chairman personally approved PIDC-owned projects to be sold to other leading industrialists, such as in the Dawood and Crescent groups.

By 1959, PIDC investment amounted to Rs 600 million or US \$ 120 million, with its manufacturing assets valued at Rs 850 million or US \$ 170 million.<sup>138</sup> By 1960, PIDC had sold Rs 95 million or US \$ 20 million of its equity in industrial undertakings to the private-sector.<sup>139</sup> However, in spite its claim that the management of its units was independent of the private-sectors' influence, the PIDC officials did initially raise equity for one of its projects from the Crescent Group.<sup>140</sup> A further fourteen private-sector entrepreneurs supervised the management of PIDC projects worth Rs 189 million, which were later sold to these industrialists.<sup>141</sup> With the sale of

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<sup>138</sup>See PIDC, 'Development programme of the Pakistan Industrial Development Corporation', unpublished report, PIDC, 1989, p. 17.

<sup>139</sup>*Ibid.*, p. 17.

<sup>140</sup>*Ibid.*, p. 23.

<sup>141</sup>The role of private-sector interests and its influence on the management of the PIDC is discussed in R.M.U. Suleman,

PIDC units to industrialists, the private-sector also inherited external economies such as trained labour, and pre-constructed railways, roads and harbours.<sup>142</sup> By 1970, PIDC's management had completed 58 industrial and mining projects at a capital cost of Rs 1178 million, including Rs 248 million contributed by private-sector investment in shipbuilding, sugar, textiles, chemicals and paper and board mills. These sales to private-sector industrialists were not open to the public and those with the contacts and means, acquired them.<sup>143</sup>

Ahmed Dawood was the founder and doyenne of the Dawood Group and his proximity to Ayub paid dividends in his group's initial investments. In 1959, the Dawood Group purchased the Karnaphuli Paper Mills from the PIDC and the Burewala Textile Mills from the Ministry of Industries, Government of Punjab.<sup>144</sup> The former was purchased for Rs 65.9 million with a paid-up capital of Rs 46 million, and constituted 17 percent or the second largest PIDC sales made in terms of value of assets. In 1962, Ayub became increasingly

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'Manufacturing industry: Public and Private', *Pakistan Economist*, 25 February 1978, pp. 21-26.

<sup>142</sup>See M. Haq, *The Strategy of Economic Planning*, Oxford, 1963, pp. 33-34.

<sup>143</sup>For more information on PIDC's criteria for sales is given in R. Amjad, *Private Industrial Investment*, Cambridge, 1982, pp. 188-208; also see PIDC, 1989, Annexure I, p. 63 and Annexure II, p. 65, for PIDC sales to the Dawood and Crescent Groups.

<sup>144</sup>The Dawood Group is discussed on pp. 413-467.

dependent on the financial resources of wealthy businessmen to fund the 1964-1965 elections,<sup>145</sup> which led to chosen businessmen getting political appointments. In 1964, Siddique Dawood, a senior member of the Dawood Group was elected to the National Assembly and later appointed treasurer of Ayub's political party, the Muslim League as well as the Finance Secretary of its Karachi division. Herbert Feldman and Stanley Kochanek in their review of Ayub's political party, the Muslim League, accord it as a carefully controlled devise through which he coordinated patronage and coercion.<sup>146</sup> Ayub's son, Gohar Ayub was inducted into business by Ahmed Dawood, who assisted Gohar in establishing an automobile assembly plant called Ghandhara Industries.<sup>147</sup> This proximity to Ayub was also replicated in and paid dividends for the initial investments of the Wazir Ali, Crescent and Ghulam Faruque Groups.<sup>148</sup>

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<sup>145</sup> Ayub gained power in 1958 through a military *coup d'etat*, and changed the validity of his power base from military-rule to Presidential rule by holding the 1965 elections. For the legitimacy of this act see the debate in, H. Feldman, *From Crisis to Crisis*, Oxford, 1972, pp. 68-84.

<sup>146</sup> For Ayub's inroad into the political arena through party support, see H. Feldman, *From Crisis to Crisis*, Oxford, 1972, p. 55. A critique on Ayub's methods of obtaining the political favour of businessmen, is given in S. Kochanek, *Interest Groups and Development, Business and Politics in Pakistan*, Oxford, 1983, pp. 192 and 204.

<sup>147</sup> See H. Feldman, *From Crisis to Crisis*, Oxford, 1972, pp. 305-6, Appendix B, for wealth acquired by Gohar Ayub while his father was the President of Pakistan; also see *Ibid.*, p. 235.

<sup>148</sup> To quote S. Kochanek in *Interest Groups and Development in Pakistan*, Oxford, 1983, p. 271, to quote, 'By the late 1960s, however

Muhammad Amin, a Punjabi Sheikh, and the co-founder with Muhammad Bashir of the Crescent Group, was a beneficiary of PIDC's sale of a jute mill. The Crescent Group purchased Crescent Jute Products from the PIDC in 1962,<sup>149</sup> for Rs 20 million, which had a paid-up capital of Rs 12.50 million, representing 5 percent of PIDC sales made in 1962. This was purchased from profits generated and availed by the group from the bonus voucher scheme in jute manufacturing.<sup>150</sup> Unlike any other group, in 1959 Crescent were the first in approaching the PIDC to assist in setting up one of its on-going projects. This was a sugar mill, Crescent Sugar Mills and Distillery Limited, which the group later purchased from PIDC in 1964.

By virtue of their business acumen and comparative advantage, Crescent were also able to assimilate and maximise their returns on business investments with more ease than those groups which did not adopt organisation systems. Collectively, these groups were also first movers in acquisition of existing means to enhance their assets by acquiring PIDC units and as recipients of licences to encourage industrial investment.<sup>151</sup> The economic edge which Crescent

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business had become so closely identified with Ayub that when the regime came under attack, so did the business'.

<sup>149</sup>The Crescent Group is discussed on pp. 261-343.

<sup>150</sup>See Table 2.3.

<sup>151</sup>The investment behaviour of first movers in industry are discussed in greater detail in M.B. Lieberman and D.B. Montgomery,

enjoyed over other industrial contestants was matched by the comparative advantage of Dawood, Wazir Ali and Ghulam Faruque in having the ear of a series of Presidents and Prime Ministers of Pakistan, an association which benefitted their businesses financially.<sup>152</sup> Among other important appointments, Amjad Ali, the grandson of Wazir Ali, was appointed Pakistani ambassador to the US and also was the Minister of Economic affairs in the Washington embassy. He was also a PIDC director in 1952-53. His brother, Wajid Ali was the public relations representative of his group, and was recognised by both local and foreign dignitaries as being one of Pakistan's business leaders.

Ghulam Faruque, chairman of the Ghulam Faruque Group, was made the first chairman of PIDC, a position retained by him from 1952 to 1959. He was one of five PIDC's directors, and remained instrumental in advising senior businessmen to purchase PIDC units. As chairman, he had the latitude to take decisions without consulting others on the Board, and through his commanding role in industrial licensing was able to float his own group of companies in 1964.<sup>153</sup>

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'First Mover Advantages', *Strategic Management Journal*, Vol, 9, 1988, pp 4-58.

<sup>152</sup>See M.B. Lieberman and D.B. Montgomery, 'First Mover Advantages', *Strategic Management Journal*, Vol, 9, 1988, pp. 4-58; also see H. Feldman, *From Crisis to Crisis*, Oxford, 1972, pp. 60, 170-71, on contacts of Ghulam Faruque the entrepreneur, with different Heads of State of Pakistan.

<sup>153</sup>Further details on this group are on pp. 344-350.

While his appointment lasted as PIDC's chairman, he purchased the Sarhad bank from the NWFP government. The bank had Rs 20.2 million in deposits, and had extended Rs 7.1 million in loans and advances and had a paid-up capital of Rs 5 million. Ghulam Faruque later became the chairman of a State monopoly which was the country's largest supplier and generator of electricity, the Water and Power Development Authority (WAPDA). The following table summarises business group share in PIDC investments, prior to their sale to the private-sector:

**Table 2.10**

**PIDC Investment in Completed projects (1962)**

<b>Name of project/ Group</b>	<b>Paid up Capital:</b>	
	<b>PIDC</b>	<b>Private ownership</b>
	<b>Rs (million)</b>	

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Crescent Jute Mills Ltd.

/Crescent 5 12.50

Karnaphuli Paper Mills Ltd.

/Dawood 46

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Source: PIDC, *Annual Report*, 1962.

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Ayub also reinforced his political support by rewarding the new entrepreneurial class with senior positions in government-controlled companies. Those industrialists who did not fall under the purview of Ayub's industrial policy, (not included in this study) were marginalised from obtaining financial assistance needed for

industrial accumulation.<sup>154</sup> The following table shows number of private-sector industrialists as directors in government-controlled companies:

**Table 2.11**  
**Membership on the Boards of Directors of Government-  
 Controlled Companies by the Leading Industrial Families,  
 1968**

	<b>Total Number          of Directors</b>	<b>Number of          Directors          From Leading          Families</b>
Pakistan Industrial Credit and Investment Corporation	21	7
Pakistan Insurance Corporation	9	6
State Bank of Pakistan	13	2
National Bank of Pakistan	12	3 (president)
Bank of Bahawalpur	10	3
Zeal Pak Cement (WPIDC)	9	4
Harnai Woollen Mills (WPIDC)	4	0
National Shipping Corporation	9	1
Pakistan International Airlines	7	2
Pakistan House International	14	7
Pakistan Services	18	10
Platinum Jubilee Jute Mills	5	0
National Investment Trust	13	6

Source: I. Haideri and A. Khan, *Stock Exchange Guide of Pakistan*, Economic Publications, 1968 & *Stock Exchange Year Book 1968*, Economic Publications, 1968.

These privatisation measures were precursors to the high growth rates of the early 1960s spurred by monopoly house investments in textiles, paper and sugar mills. As in the USA or Europe where assessments for acquisition and viability of new businesses are preceded by feasibility studies, such criteria was not used for sale of

<sup>154</sup>Partiality in industrialisation is given more footage in, D.M. Qureshi, 'Financial Institutions in Pakistan,' *Pakistan Economist*, 8 April 1978, pp. 17-21.

PIDC mills. This was because any official procedure involved in the sale of a PIDC unit, could be superseded through the directive of its chairman or managing director. These sales, which decentralised ownership in favour of the private-sector, enabled the autonomous managing of large-scale industry and assured temporary expansion in the capital goods industry. However over the long-term, the profits generated from the endowment of State licences to private-sector businesses were usually not ploughed back into their businesses. A causal factor was bounteous State largesse which Papanek described as the rewarding of individuals who possessed clout, with licences, in preference to others who did not have influence but operated more productive businesses.<sup>155</sup> This is discussed in the next section.<sup>156</sup>

## **2.5 Power, Influence and Control: Rent Seeking Activity**

In all the business houses studied, businessmen sought economic rents by obtaining political appointments and as financiers of political movements which reaped for them financial rewards. Time and resources were allocated by them to obtain import licences, bonus vouchers which were then sold in the 'black' market and used

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<sup>155</sup>See G. Papanek, *Pakistan's Development*, Harvard, 1967, p. 143.

<sup>156</sup>Several studies have tried to analyse the causes of the increase in the growth rate during this period. Both W. Falcon and J. Stern, 'Pakistan's Development: An Introductory Perspective', in W. Falcon and G. Papanek, (eds.), *Development Policy II*, Harvard, 1971, p. 2, and R. Amjad, *Private Industrial Investment*, Cambridge, 1982, p. 190, presents a detailed analysis.

to boost private investment. These groups exercised control over the States' credit lines for which there was no independent spokesman. This was the main conduit through which control networks worked in the favour of select industrialists.

Rent-seeking benefits first accrued to select industrialists in the 1960s. The concept of rent, developed by Krueger asserts that the State assists businessmen in creating entry barriers for resource acquisition. These lead to standard deadweight welfare loss as well as additional 'wastage' from expenditure on 'unproductive' political activities which are intended to influence the State in its capacity as the creator of entry barriers and property rights.<sup>157</sup> Deadweight losses may include transfer of income from industrialists to bureaucrats or from businessmen financing political campaigns expecting reciprocity of favours from politicians. In such a case, the State becomes a predatory agent maximising revenue rather than social welfare.<sup>158</sup> The role of the State in aiding rent-seekers is articulated through rent accruing to individuals through diverting national resources, which lead to windfall gains for a few. The deleterious effects of rent-seeking would be ameliorated if these gains

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<sup>157</sup>A more detailed explanation of how businesses in India and Turkey sought rent-seeking privileges, and as a result the loss in output to society, see A. Krueger, 'The Political Economy of the Rent-Seeking Society', *The American Economic Review*, Issue 64, June 1974, pp. 291-303.

<sup>158</sup>The role of the State as a catalyst of change is discussed in D. North, *Institutions, Institutional Change and Economic Performance*, Cambridge, 1990, p. 128.

were used to benefit society in a more direct way, rather than expect that through their voluntary benevolence, rent-seekers would indirectly pass on their benefits to society. The State has to ensure that through the machinery at its disposal can limit the windfall gains from returning to the private bank accounts of businessmen and increase the benefits ploughed back into society.

In the 1950s, government restrictions were imposed on economic activities which in fact encouraged aspiring industrialists to compete for privileges through the process of rent-seeking. Through this route, the pioneering entrepreneurs accumulated wealth through channels denied to other less influential businessmen. Knowing that the State condoned the by-passing of competitors' access to the same privileges, entrepreneurs maximised rents by whichever means were at their disposal. This aspect of collusion prevented the development of checks and balances, which led to hoarding of information and restricted administrative accountability, both in a business or political situation. In Pakistan, it was under such conditions that its industrial base was set.

Ayub's industrial policies provided easy money to investors, at a time when class structure was forming in the new Pakistan. By the early 1950s, there were 3000 industrial firms, with 500 large firms having minimum assets of Rs 1 million or US \$ 200,000. These firms

contributed towards 85 percent of value added in the country.<sup>159</sup> Sixteen families controlled one-quarter of all manufacturing sales. In a country with a population of 100 million, they were a noticeable number. The organisational structures which reflective of the social, cultural and kinship patterns within them, which exerted leverage over other factors in determining expansion. The following table provides the sources of asset financing in industry, 1959:

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<sup>159</sup>See G. Papanek, 'Pakistan's Industrial Entrepreneurs, Education, Occupation, Background and Finance', in W. Falcon and G. Papanek, (eds.), *Development Policy II- The Pakistan Experience*, 1971, pp. 237-64.

**Table 2.12**

**Sources of Financing for Industrial Assets which  
Existed in 1959 (at cost)  
Rs (millions)**

1 "Initial" investment to establish particular units	
<b>a) Indigenous Private Investment</b>	
Pre-partition industry owned by Pakistani citizens	260
Trade import	250
Trade export	130
Trade-internal and Govt. contracting	250
Agricultural land and real estate	
sale or income	70
Commercial banks and other creditors	330
Other sources	80
Sub-total, indigenous private enterprise	1370
<b>b) Government and Foreign Investment</b>	
Government equity investment (through PIDC or directly)	550
Government credit (through PIFCO, PICIC)	10
Indian citizen's-pre-partition industry	120
Other foreigners	110
Sub-total, government & foreign	790
Sub Total, initial investment	2160
2. Later expansion from outside industry for expansion or modernisation of existing units	630
3. Industrial earnings reinvested in industry	
	2210
<b>Total Assets</b>	<b>5000</b>
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Source: Papanek, *Pakistan's Development*, Harvard, 1967, p. 195.

By the late 1960s, the beneficiaries of Pakistan's import liberalisation policies had emerged. Thirteen families (including the four groups included in this study) were among those able to access Rs 30 million or US \$ 6 million for investing in private industry.<sup>160</sup> The other groups (not included here) accessed another Rs 200 million, or US \$ 40 million. By 1961, the country's total industrial assets were Rs 6,000 million of which Rs 85 million were financed by loans provided by the Pakistan Industrial Credit and Investment Corporation (PICIC), and a further Rs 75 million financing of net assets was through IDBP financed loans.<sup>161</sup> White's study on industrial growth in Pakistan revealed that in 1968, 42 families or monopoly house controlled 98 of the 197 non-financial companies listed on the Karachi Stock Exchange. The 1960s addressed a more prosperous and acquisitive class of businessmen, as owners of leading industries and financiers of political groups. Such business houses also enjoyed the personal patronage of Ayub. As an example, the Dawood Group along with three other groups controlled 20 percent of the total industry assets.<sup>162</sup> Their combined wealth was

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<sup>160</sup>See G. Papanek, *Pakistan's Development*, Harvard, 1967, p. 102.

<sup>161</sup>The 1960s also marked an increase in foreign aid to Pakistan, which was a major cause for the formation of PICIC and IDBP. See G. Papanek, *Pakistan's Development*, Harvard, 1967, p. 89.

<sup>162</sup>The reason why profit levels were not included as a gauge of effective or ineffective organisational systems was because in Pakistan they were usually understated to avoid paying higher levels of corporate tax.

estimated between US \$ 10 and \$ 20 million by 1969.<sup>163</sup> Total manufacturing and industrial assets in these industries were Rs 8405 million in 1968, of which the groups included in this study collectively owned almost eleven percent.<sup>164</sup> These financial institutions were formed to furnish the private-sectors' capital requirements, a resource fully maximised by investors. With publicly quoted companies there was a requirement that 50 percent of its share ownership be vested with government-owned financial institutions, such as the National Investment Trust (NIT) and Investment Corporation of Pakistan (ICP). The NIT formed in 1963, was not an independently trust since it had a few businessmen on its Board of Directors, in whose companies the NIT had invested its shares. This led to an overlap of interests demonstrated in loans raised from NIT's resources (approved by its directors) and then extended to business group entrepreneurs. The following table provides business group share in NIT and ICP investments.

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<sup>163</sup>See S. Kochanek, *Interest groups and Development*, Oxford, 1983, pp. 203-206, for further readings on Ayub-led, patronage of business communities' success at accumulating wealth.

<sup>164</sup>*Ibid.*

**Table 2.13**  
**Business Groups' Share in Investments of**

<b>Group</b>	<b>NIT</b>	<b>I.C.P.</b>
<b>1970 %</b>		
Crescent	1.81	0.6
Dawood	6.95	26.3
Wazir Ali	0.96	17.1
Ghulam Faruque	1.43	-

Source: National Investment (Unit) Trust, *Director's Report and Statement of Accounts*, 1st, July 1969 - 30th, June 1970, National Investment Trust, 1970; Investment Corporation of Pakistan, *Fourth Annual Report, 1970*, Investment Corporation of Pakistan, 1970.

In 1970 NIT's portfolio was Rs 142 million of which our groups' owned 0.96 percent to 1.81 percent of its shares. The above percentages of business group shares in NIT and ICP investments was substantial compared with other business groups' (lesser) share in NIT and ICP shares. In 1970, the overlap of business group entrepreneurs holding NIT directorships, showed conflict of interest with 13 NIT directors, one of whom was from the Dawood Group. This director, Ahmed Dawood played a dual role of simultaneously representing NIT's interests in Dawood Group investments (as a NIT director from 1965 to 1988)<sup>165</sup> as well as himself being an equity holder in Dawood Group investments. Therefore this group's eligibility for NIT's credit line was not necessarily preceded by an

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<sup>165</sup>Source: NIT *Annual Reports*, 1965-88;

objective evaluation of Dawood Group investments. This was another instance of State largesse promoting early industrialisation in business group investments and from 1958 to 1968, the Dawood Group did not follow it up with developing internal organisational systems.

Of further importance were the links that these monopoly houses had with the Board of Directors of PICIC, one of the main financial institutions extending credit in foreign currency to investors.<sup>166</sup> PICIC was established in 1957 to disburse foreign exchange loans to and participate in the equity of business group investments. PICIC's policies were more amenable than the IDBP's policies towards assisting a select number of venture capitalists in the allocation of foreign exchange. The appeal for acquiring PICIC foreign currency loans was that they were extended at the official (and cheaper) exchange rate, usually at 1/2 percent lower interest rates than other financial institutions.<sup>167</sup> This favourably effected the recipient group's investment expansions. The main beneficiaries of PICIC's

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<sup>166</sup>The Chief Economist, Mahbub ul Haq in a news report published in the daily, *Morning News*, 29 March 1973, Karachi, is quoted to have said, 'For all practical purposes, the 22 families had become by 1968 both the planning commission and the ministry of finance for the private sector. They preempted most investment permits, import licences, foreign credits and government patronage because they controlled or influenced most of the decision-making forums, handing out such permissions. They had virtually established a strong hold on the system and were in the position to buy out any new entrepreneurs' '.

<sup>167</sup>See State Bank of Pakistan, *Bulletin, State Bank of Pakistan*, State Bank of Pakistan, August 1971, p. LXXII.

credit extension were Dawood and Crescent; a categorisation of credit allocation follows:

**Table 2.14**  
**Foreign Exchange Loans Obtained by Business Groups**

<b>Group</b>	<b>PICIC</b>	<b>1958-1970</b>		<b>% of Total</b>
		<b>% of Total</b>	<b>IDBP</b>	
		<b>Total</b>	<b>Total</b>	
Dawood	123.58	13	3.37	0.90
Crescent	117.76	13	0.68	0.18
Wazir Ali	23.64	3	3.56	0.95
G. Faruque	13.84	1.5	-	
<hr/>				
Total loans disbursed (1958-70)	911.43		374.55	

Source: R. Amjad, 'Private Industrial Investment in Pakistan, 1960-1970', Ph.D. thesis, University of Cambridge, 1977, p. 263.

PICIC's credit allocation criteria required researched and justified loan application proposals from potential investors, such as detailed projections of Return on Investment (ROI). The Crescent Group became its main beneficiary from among the groups studied here. PICIC was established for financing the credit needs of industries with known profit centres such as textiles, food and sugar industries, whereas the Pakistan Industrial Finance Corporation (PIFCO) and IDBP provided credit to a wider base of industry. PIFCO and IDBP were more amenable towards lending to a larger industrial base, both

small- and large-scale industries, in order to prevent industrial concentration and control of wealth in the hands of a limited clientele. However since the absolute amount disbursed by them was relatively smaller than PICIC's credit line, it defeated the purpose of reducing industrial concentration, in the long-term. Another revealing factor was that directors from Dawood and Crescent also represented PICIC directorships. Ahmed Dawood (Dawood Group) remained a PICIC director from 1958 to 1988, and Muhammad Bashir (Crescent Group) from 1962 to 1971, followed by Zahid Bashir's directorship (Crescent Group), from 1972 to 1988.<sup>168</sup> This presents a link between the financial institutions' decision-makers allocating the highest percentage of its credit to businesses owned and controlled by its directors.<sup>169</sup>

Throughout the 1960s, the concentration and ownership of capital and industrial wealth were issues having far reaching political consequences.<sup>170</sup> In all the groups these factors predominantly directed initial investments. The government's liberal credit line to a few industrialists helped in substantive, if temporary capital

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<sup>168</sup>Source: PICIC *Annual Reports*, 1958-88.

<sup>169</sup>See PICIC, *Annual Report*, 1970.

<sup>170</sup>The Chief Economist to the Planning Commission, Government of Pakistan, Mahbub ul Haq is quoted to have said at a 1968 convention of the Pakistan Management Association that '...22 families control 66 percent of the entire industrial capital, 97 percent of the total insurance, and 80 percent of the total banking assets of the country'.

formation. The following table provides details of the proportionate value of net assets in the business groups included in our study:

**Table 2.15**  
**Net Manufacturing Assets (Publicly and**  
**Privately Quoted Companies)**  
**(Rs millions)<sup>1</sup>**

<b>Group</b>	<b>1968</b>	<b>1974</b>	<b>1985</b>	<b>1988</b>
Dawood	558 (1) <sup>2</sup>	767.8 (1)	800 (2)	3,432 (3)
Crescent	200 (9)	201.7 (2)	435.9 (3)	4,217 (2)
Wazir Ali	179 (10)	87.6 (5)	271.2 (5)	2,220 (5)
G.Faruque	37 (42)	38.1 (30)	n.av. <sup>3</sup>	1,313(13)

<sup>1</sup> Consumer price inflation, 1985=7.5 %, 1986, 4.8 %, 1987, 3.9 %, 1988, 6.3 % [EIU, *Economist Intelligence Unit, Country Report, Pakistan and Afghanistan*, No. 4, 1989].

<sup>2</sup> Numbers in parenthesis denote the position of the group, as per value of business house net assets in the year under consideration.

<sup>3</sup> Figure not available for this year.

Source: *Balance Sheets* of all groups; N. Husnain *et al*, (eds.), *Bukhari's 101*, Khadim Ali Shah Bukhari and Company Limited, 1991; H. Haqqani, 'Pakistan's Top 22 Face New Challenges', *Far Eastern Economic Review*, 22 May 1986, p. 77 and L. White, *Industrial Concentration and Economic Power*, Princeton, 1974, p. 60.

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The Dawood, Crescent and Wazir Ali Groups captured the first ten positions measured by the value of their assets, interchangeably from 1968-88, with Crescent and Dawood occupying up to the first three positions after 1974. Dawood's asset position slipped from first in 1974 to third by 1988. Crescent's acquisition remained more steady

at second position in 1974 and by 1988. In 1988, its asset value was 23 percent ahead of its closest rival, the Dawood Group. Wazir Ali's assets decreased by -51 percent in 1974 over 1968 and increased by 719 percent in 1988 over 1985, and maintained its fifth position from 1974 to 1985. In 1988, Crescent, its closest rival ranked by the value of its net assets were 90 percent higher than the Ali Group, a substantial difference considering the large base tendered by the Ali Group. Ghulam Faruque made the most rapid increase in the value of its net assets, which was ranked at forty-second position in 1968; by 1988 it had moved up to thirteenth position.

The transient nature of capital accumulated, stemmed from proxy State industrialisation using exogenous economic propellants to develop businesses. These propellants separated authority from responsibility in organisations and only propelled industrialisation into taking off. It was through the adoption of endogenous organisation factors, that sustained transition was possible through redefining organisational strategy in light of growth in the size of businesses. For those businesses that chose to do so, the 'one off' economic favours of the government were gradually but effectively replaced by a sound organisational strategy more conducive to buoyant expansion.

## 2.6 Systems Management: A Historiography

Systems Analysis as a discipline was inherited by the USA from Britain after the Second World War. It was first termed Operations Research after the Second World War when it was used in military applications in the 1950s. A system is a network of related procedures (set of conditions) developed according to an integrated plan for performing a major activity of business. Its earliest business applications in 1956 were influenced by time and motion studies, plant layouts and work methods of industrial engineering, introduced by Frederick W. Taylor.<sup>171</sup> At that stage it was difficult to visualise its parallel applications in other functional areas of business, such as marketing, production after sales services and research and development.<sup>172</sup> This approach became a tool for systems management, when over time and with a rise in the scale of business, managers received feedback on the product design and its output from various departments.

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<sup>171</sup>The merits of employee management through Taylor's 'machine bureaucracy' and methods study, as practised in British firms, is given in, R. Fitzgerald, *British Labour Management and Industrial Welfare 1846-1939*, Croom Helm, 1988, pp. 6-7 and 12; also see S. Optner [in the introduction], in S. Optner (ed.), *Systems Analysis*, Penguin, 1973, p. 11.

<sup>172</sup>See S. Optner, [in the introduction], in S. Optner, *Systems Analysis*, Penguin, 1973, p. 10, explaining that Systems Analysis borrows '...from every scientific era, even from the Greeks of the fifth century B.C' .

In 1965, the publications of the Operations Research Society of America and the Institute of Management Science had articulated the use of systems in business applications.<sup>173</sup> These publications along with the support received from business applications, granted Systems Analysis a legitimacy as a problem solving technique with wide practical ability. Its normative methodology expressed qualitatively did not change the methodology used in mathematical models. This study accepts the value of quantitative models (for subject specialists to formulate) only in a defined condition.<sup>174</sup> Formal models using game theory are adopted as the point of departure **after** professional managers have applied the tenets of the Systems Approach to develop a basic philosophy of management. This philosophy builds the foundations upon which future models are developed. Therefore, if this philosophy (of the Systems Approach) is in any way deficient in its application, it will alter the beneficial effects of building models upon it, and also allow inefficiencies in management structures to develop in a growing order of magnitude. The operational setting [departments], when used as a data base, provide us with greater range of variation within/amongst variables and so is more plausible for generality. Controlled or model-based

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<sup>173</sup>This is given in the introduction of, S. Optner, *Systems Analysis*, Penguin, 1973, p. 13.

<sup>174</sup>C. Harvey (ed.), *Business History, Concepts and Measurements*, Frank Cass, 1989, p. 2., reiterates the value of quantitative models used in the business history approach.

experiments maybe more precise but can predict results derived from only that one experiment and not generalise its results for universal applicability. That is why this research focuses on the Systems Approach to explain the business groups' ability to make its foray (or the lack thereof) in the light-engineering sector of industry, by addressing their internally generated goal-seeking activities. To illustrate, the use of the normative methodology in a business situation, when in order to increase output the organisational system has to be changed. Normative systems can be an interface of man to man, man to machines or machines to machines.<sup>175</sup> This includes adoption of training and review of a sequence of events entailed in this methodology as illustrated in Joan Woodward's contingency theory.<sup>176</sup>

Prior to the adoption of the Systems Approach discipline, when problems arose in businesses they were solved by subject specialists from differing disciplines, whose diagnosis became the point of departure for problem solving methodology to emerge. The solutions proposed by subject specialists merely increased an understanding of a particular discipline but did not fill in the loop holes evident in their solutions. The existence of loop holes led to an increasing

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<sup>175</sup>See P. Schoderbek, [in the preamble to the next section], in P. Schoderbek, (ed.), *Management Systems*, John Wiley, 1967, p. 137, for normative systems in the business organisation.

<sup>176</sup>Training as a function of improving the structure of organisations is given in J. Woodward, *Industrial Organisation: Theory and Practice*, Oxford, 1965, pp. 78-79.

demand to measure and project needs on a rising scale of magnitude, in an environment with limited resources. Managers' attempts to address these loop holes led to auxiliary functions which forced them to identify methods to solve problems. The recognition of these limitations with a view to rectify them, led managers to eventually gravitate towards adopting the Systems Approach.

The 1970s saw the emergence of the value of information as a saleable commodity. The availability of information put managing back into the hands of managers.<sup>177</sup> This was the advent of Management Information Systems (MIS) which provided a shift away from systems theory. Information is the measure of the value (worth) of a message to a decision maker in a specific situation. The value of information is related to its timeliness of conveying the information for the organisational level it is intended for. Information by way of MIS support services led to centralisation of information, when decision-making was already decentralised. The quality of such decisions depended on the quality of the information received. Decentralisation reduced the discretion exercised by senior management in routinised decision-making. The purpose of a system was to carry the information to the decision-maker and the complexity of information increased the higher up in the hierarchy

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<sup>177</sup>Management systems are discussed in R. L. Martino, 'The Development and Installation of a Total Management System', in P. Schoderbek, (ed.), *Management Systems*, John Wiley, 1967, pp. 121-126.

the decision maker was placed. Once the information was sent to its recommended destination the involvement of management (or its lack thereof) in the delegation of their duties, made for successfully or unsuccessfully managed companies.

The most frequent users of the Systems Approach in industry, were the larger organisations in the West, which adopted this approach by looking inwards to address the complexities which arose with increasing size. Increasing size of operations led to divisionalisation of functions with many units reporting to a manager. This loosened senior management's control over decision-making and so more dynamic management structures emerged. Dynamic structures led to flexibility in seeing the form of a problem and to use the scientific approach, and so steered business away from antediluvian methods of problem solving. Pakistani businesses which took cognisance of this (new) approach and demonstrated it accordingly, succeeded in making a transition towards light-engineering manufacturing. Dynamic management structures emerged with the expansion of information requirements and generation of voluminous records, in the marketing, purchase, maintenance, store-keeping functional areas. Therefore practical considerations in industry gave rise to the need for application of systems in order to cope with the growing volume of data. The management scientist showed the way to maximise these resources in the future in line with mission objectives of the departments or sub-system objectives, such as research and

development of product lines. The measure of performance of the sub-system was linked to the measure of performance of the overall system. After all, the overall system could only be the sum of its parts which together constituted the business organisation. The Systems Approach drew its strength from the extent that all sub-systems were consistent with the overall mission objective of the organisation. This very consistency reinforced the foundations of this approach. All sub-systems united in this approach to solve problems by collectively borrowing knowledge which no single individual could have visualised. The advantage of collective knowledge or vision was that those variables could be suppressed which were not vital for finding the solution for the problem at hand. This approach focused mainly on alleviating the presence of negative variables. Once the Systems Approach was adopted by managers, it produced better rather than just optimal solutions, by phasing out the old system to make way for the new one. The sub-system addressed the different levels within an organisation and defined the reporting channels for each. A description was then provided of the functions located at different levels and identification of the links which tied together the overall flow of information. In organisations where the Systems Approach was not in use, there was a recurrence of learning and relearning cycles related to the same issues. This was because outmoded reporting cycles and historical information was not replaced by a new planning strategy to meet the changing conditions.

Outmoded systems were incapable of generating recognisable data patterns for problem solving in other departments of the business unit. That is why this approach tests the motives behind interpretation of messages which lead to their actions and explanations. This approach is tested on the management practices of the four groups studied here, whose management adopted divergent strategy to expand their business, where some accounted for changes in implementation of methods and procedures and others did not. Procedures were a series of clerical operations involving one or more persons in one or more departments. In the West, management practices of the 1960s addressed manually operated systems where the scale of operations was limited and owner-managers did not favour delegation of their responsibilities. These methods could only work up to a point after which an increase in the scale of businesses warranted upgrading of management techniques. The division of managerial functions could not be administered single-handedly by the owner manager. Mechanisation of production led to a division of manual and managerial labour, so the need for functional managers arose. These managers then had to deal with a new class of problems, not limited to a single discipline. Wherever this was not recognised, it became a constraint on expansion of the businesses and eventually lead to a decline in its investments. This decline manifest itself in the splintering of the certain Pakistani business groups and their inability to diversify, which arose from

liquidity restrictions or investments made in unrelated fields because of the unstructured pattern of planning and managing of the businesses. There was a positive correlation between the structure of an organisation and the results achieved. An example being the separation of ownership from those in control; a factory manager employed at the site reporting to a functional manager (most likely an engineer) who reviews his performance or output, while based at an alternate location.<sup>178</sup> This is a situation where the organisational structure promotes abdication, rather than delegation of responsibility.

The Systems Approach methodology is articulated when the manager receives a flood of messages which have to be arranged and filtered for further processing (outlined in the Chapter One). For the required information to make its timely appearance on the managers' desk there needs to be a system which ensures this happens fairly automatically. Again the automatic dissemination of information pre-supposes rational behaviour exercised by employees. If everyone complies with the system's commands which the Systems Approach delineates, then we can say that the 'system' is working. That it is producing results according to its methodology and fulfilment of its own prerequisites. The managers' role in implementing the systems methodology follows.

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<sup>178</sup>The debate on decentralised corporations' management practices is available in JoAnne Yates, *Control Through Communication*, John Hopkins, 1989, pp. 3-4 and 11-14.

## **2.7 Management Prerequisites: The Institutional Setting**

### **For Effective Systems Implementation**

The Systems Approach pre-supposes the existence of a finite entity, which in our research is the business organisation managed by common directors constituting a business group. A business group has multiple companies which have specific content, structure, communication and control systems. It also includes the existence of hardware facilities such as computers used for processing system inputs and their subsequent translation into output, for the business entity and its constituent parts. The organisation is taken to be the **total system** being studied and its boundaries are defined by the researcher. In our study, the boundaries are that of the business group and its sub-systems which have structured and functional firms operating within it. A system in our terminology means that which solves the problem. This involves the discovery of a problem, an assessment of its relevance, selection of criteria, determining the structure of existing systems, and how it hinders or abets the achievement of the desired objective and whether the new criteria addresses the (new) problem appropriately. It also includes structuring of alternatives which should lead to solution finding, choosing the right model for adoption of objectives, evaluating whether it in fact fulfils the original objective and the evaluation of results after implementation. In other words, the system is an agent of change that can be described, manipulated, analysed and

empirically studied.

The Systems Approach broadly deals with problems of choice under uncertainty. Exercising the choice under uncertainty (strategic decisions) is done by adoption of a system. Uncertainty can be reduced by testing one set of assumptions for results through a qualitative model. A system is adopted if there is a need for it, and if its initial and long-term installation costs justify anticipated returns both in the short- and long-term. This definition of a system can be extended to the application of the ‘scientific method’ to problems of economic choice in business organisations. The Systems Approach integrates applied scientific knowledge by using the inductive method to provide solution to problems, based on raw data gathered by getting ‘yes’ or ‘no’ responses to existing systems. Through investigation, data are accumulated to recognise relationships and formulate hypotheses, to then look for variances in the predicted outcome of such hypotheses. The deductive method merely transfers the question of validity of our deductions to then question the validity of the premises on which they were originally tested.

The know-how to solve a variety of problems is also a definition of technology. Technology adoption also enforces loyalty to the organisation rather than to individuals. Its application spurs scientific discovery which results in development by additions made to the incremental inventory of achievements. That is why this

approach has practical applicability and is not only a theory; every instance of the Systems Approach presupposes its practical applicability otherwise those observations are not relevant to this discipline. Its significance lies in remodelling managements' thinking on logical lines. Technology is an aid towards closing the management gap rather than the other way around. This is achieved by developing new problem solving know-how for commercial, industrial, administrative and technical information.

The applications of the Systems Approach also generate the professionalisation of knowledge<sup>179</sup> which propels productivity by provision of training. Training also provides exposure which increases the adaptiveness necessary for bringing about change. The need for training is self-assessing and self-regulatory in a closed-loop assessment system which lends itself best to system variations. Training of individuals is particularly important when with increasing communication needs there arose a concurrent qualitative shift in handling organisational problems. Qualitative shifts include development of communication, and research and development

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<sup>179</sup>Professionalisation of knowledge is a continuous process where the validity of training and skills are questioned and addressed by sending employees for training. On-the-job skills are measured by observations specific to the job at hand and the experience gained from the inductive ingredient of the job. However, the manager may succumb to repeating the same experience over again and that too, on a number of occasions, without increasing his incremental inventory of knowledge. This can be rectified by sending the managers to develop their skills through training programmes. This closed loop system of constant review, professionalises knowledge obtained by the manager.

methods which require qualified personnel to recognise the need for research in developing products in the organisation.

## **2.8 The Initiation, Usage and Implementation of the Systems Approach in Business Applications**

The impetus for introducing systems in organisations originates from managers who recognise a problem which warrants a solution. The management is involved in overall goal-setting in relation to the organisation's environment, resources and sub-systems. One of the most important tasks for senior management is to create a process for solution attainment and observation of its proper functioning. This process is part of the managers' executive functions created by the segmentation of management. The executive function is an integrating function, that is, it integrates operations of many departments reporting to a manager, who rationalises them against the organisation's overall objective. Effective management practices encourage the initiation of queries rather than just responding to them. It is a complex function because of the conflict of interest which arises between units coordinated by the manager. The conflict may be from environmental variables, which effect the system directly and alter the performance or degree of fulfilment of the objective. Exogenous constraints emanate from State intervention of business group activity and may include intangible issues, such as the manager's ability to influence a bureaucrat to issue licences and permits. These variables can be turned to their advantage if these

approval-seeking managers are also represented on political platforms. This in turn influences the internal dynamics of the organisation, which in our study had a major impact on the initiation of business group activity in Pakistan.

Organisational performance can be gauged by the time spent on evaluating the importance of and conflict between the multiple objectives involved in every manager's decision. These objectives could either be of minimising or maximising output. The technique of successive approximation and the willingness of management to try new approaches are vital to the dynamic process of determining system requirements. This is implemented through successive approximations by evaluating information gained at one point which necessitates a reevaluation of previous conclusions.<sup>180</sup>

Out of the proliferation of functional management the growing data bank of information provides an integrating medium. Information about endogenous variables can be provided by interviews which are effective means for obtaining research information on innovative skills, administrative and executive accountability and an operating system governing work flow at lower levels where the physical transactions take place. Any changes in the system can then be successfully brought using the managers' innovative skills. It is now

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<sup>180</sup>For a description of the dynamics of management systems see, Thomas Glans, *et al*, *Management Systems*, Holt, Rinehart and Winston, Inc., 1968, pp. 289-306.

recognised that the latent skills of employees are also a company's intangible assets which dominate its performance in the long-term<sup>181</sup> and their training is an essential element for retaining them as the organisation's intangible asset.<sup>182</sup> Intangible company assets generate qualitative shifts which arise with the rising number of workers and productivity. These qualitative shifts include the need to reassess training, coordination, evaluation, planning and methods of acquiring information. Disagreements between employees can occur not just because people are bound to differ but from lack of information which can be adjusted for by adequate training.

Endogenous organisational factors influencing business group performance also include measurable resources measured by man hours money, equipment, education to the more intangible assets such as education, training, skills and goodwill. It is the latter group of resources that constitute the **form** of the problem rather than its content and their application can generate the desired (system) solutions. Seeing the form of a problem, by taking an independent view before addressing its content, is a more accurate descriptor of existing relationships between functions, methods, objects and system

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<sup>181</sup>On the debate on training as an intangible asset of an organisation, see R. Ackoff and P. Rivett, *A Manager's Guide to Operations Research*, John Wiley, 1963, p. 64.

<sup>182</sup>*Ibid.*

properties and structure. Through a process of diffusion, the form of solving one problem maybe the same form as applied to solving another problem even if the two situations appear to be dramatically different. The form of a problem can be the need to reduce production capacity restrictions, which specifically address the inventory management systems (which is where the content or location of the problem exists). The decision to adapt inventory levels to the required demand would be taken by the planning managers. Similarly the form of a problem may be low capacity generation of machines, which can be rectified by locating the content of the problem: in this instance the need to replace the machine. The decision to replace it is the responsibility of the maintenance manager. The advantage of (first) looking at the form of a problem is that it provides an integrated rather than a localised solution. It also provides a logic of handling information and problems from a higher threshold of knowledge which produce better results, because the short-term solution implementation works within the framework of the long-term.

In organisations where the Systems Approach is operational, a logical flow of methods follows which is initiated by its senior management. This approach deals with the diagnostics of hierarchical decision-making and the separation of specific tactics (which lie in the domain of subject specialists) from the strategy of problem solving (which the Systems Approach addresses). Strategy

is formulated by the staff functions through tactics or procedures which are then implemented by the line managers. The Systems Approach is analytical in nature and involves viewing the organisation at different levels to objectively evaluate change. It is in its procedures that the foundations of an effective management system exist and should accordingly be addressed or changed to the growing demand for information. The economic benefits which accrue to the organisation from the application of this approach include more efficient production scheduling and tighter materials control, (since the manually operated system are 'localised' and tend to generate batch information relevant for a particular transaction only), a decrease in costs by recording of payroll and labour distribution transactions, an increase in its sales from better management of inventory control, more profitable use of computer time and availability of more current information.

The concept of cybernetics<sup>183</sup> or the science of systems of control is a powerful tool in the arsenal of administrators which feeds on the timely arrival of information, its processing and feedback cycles. Management policy exerts control over system processes by permitting or prohibiting certain actions. Once the desired results

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<sup>183</sup>See W. Mitchel, 'Relevant Neoscientific Management Notions', in S. Optner, (ed.), *Systems Analysis*, Penguin, p. 318.

are made known by the management to the employees, the former's response in rewarding the individuals concerned should occur with minimum delay. If corrective action is taken while the process is on-going, then there is an effective time control system. Systematised design principles produce better control systems, and a management-oriented system caters for the system design, installation and its maintenance appropriately. The complexity of the systems structure is a function of the involvement of people with machines and the former's performance evaluation by the management in a controlled environment.<sup>184</sup> The need for performance evaluation by the management enables them to act promptly to meet the future's (unknown) conditions and this is made simpler if information arrives when corrective action can yield the desired results. Control systems in business enterprise provide its managers with reports generated under the titles of Planning, Control or Operating reports etc. Planning reports evaluate the company's position in industry; control reports reveal the operating performance against budgeted targets and operating reports evaluate functional responsibilities against goals set out for managers. A pre-condition for the effectiveness of such reports lies in clearly defined objectives, criteria for evaluation of performance, corrective action and a feedback system to evaluate the effectiveness of the corrective action.

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<sup>184</sup>See H. Mintzberg, *The Structuring of Organisations*, Prentice Hall International, Inc., 1979, p. 221.

The manager also has to account for data generated which could be subject to tampering by employees from fear of exposing their own performance/misdemeanours, such as in the handling of customer complaints or product quality faults. That is why it is necessary that the new system satisfies the requirements of each user. If each user were to evolve his/her own system<sup>185</sup> it would defeat the purpose of a central data base and delay the generation of accurate data bases. This would eventually lead to the collapse of a recognisable system which in turn can prevent identification of viable alternate areas for investment or integration of existing investment portfolio. Decision-making itself is the outcome of managers assessing, comparing and monitoring such situations. The manager is the recipient of a flood of messages and his effectiveness depends on how he manages to filter or arrange it. Decision-making from available information should take into account user requirements rather be considered just an academic exercise for comparing and contrasting the strengths and weaknesses of men versus computers. It is information provided to the manager which enables him/her to measure task performance, which in turn is dependent on the technology available, economic conditions, the natural environment, management policy and the customs of the organisation. This measurability factor provides for

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<sup>185</sup>Systems which were adapted to individual preferences and affected management strategy in accordance with the entrepreneurs' impulses, are evident in the case study chapters which follow, in particular on the Wazir Ali Group, pp. 164-260.

evaluation and effectiveness of the problem-solving activity. This entire activity is repetitive and generates the identification of methods in the business entity. For example, repetitive generation of sales statistics can provide meaningful information for the accounting sub-system. It is important to see what use this information is then put to, within the organisation's structure. (This is analysed in the case study chapters which follow).

The Systems Approach enables managers to apply finite boundaries or delineate the boundaries of a dilemma which can then be converted into a cognisant problem requiring a solution. A good plan initiated by a manager must also have the strength of a good argument since procedures get moulded to the shape they are contained in. The logical steps towards its implementation should be documented to maintain its usefulness to others. Not all constraints are imposed, rather some are introduced by the designer, such as restricting the type of data gathered for processing. Data may also be screened for one product line or just for large-scale orders. Then the manager has to has define the structure and evaluation of the alternatives along with the constructs of its solutions. Once these solutions are accepted by the executive management it sets in motion the process of solution implementation. Such knowledge of system properties should be swiftly disseminated to all employees because it improves their performance more so than before. Again, qualitative criteria such as training of personnel or making multiple

use of reports generated by a single department are part and parcel of the solution implementation process. Monitoring this activity is the management of the solution implementation process, especially if the organisation is multi divisional.<sup>186</sup>

In business management, the Systems Approach can be used to explore and probe aspects of the methodology used for long range planning, through determining appropriate choice of technology and technology development and in generating solutions emanating from a systematic methodology. The effects measured by the Systems Approach are not arbitrary because its regimen can be applied to more than one managerial situation by repeating its methodology.

## **2.9 Conclusion**

The protagonist of industrial growth in Pakistan were not passive recipients of State largesse, rather formulated government policy and actively condoned and administered it. The striking feature of the corporate environment in the 1960s was the concentration of ownership of industrial assets by a small number of business groups, who initially acquired them through accessing sources of credit. Industry was heavily protected as such, and so retarded spontaneous reaction to international competition. The indirect controls initially benefitted the more influential industrialists equally, all of whom are addressed in this study.

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<sup>186</sup>See M.D. Mesarovic, *et al*, 'An Axiomatic Approach to Organisations From a General Systems Viewpoint', in S. Optner, (ed.), *Systems Analysis*, Penguin, 1973, p. 296.

One of the major premise of this research is to contribute towards an understanding of business group investment as directed by internal management practices in the long-term. In the larger context we look at the political, bureaucratic, economic and financial system within which these businesses initially operated and which shaped their initial investments. More specifically, we then separate the external factors to focus on the internal design and development of new systems and the improvement and evaluation of existing systems which carved a different future for those businesses which chose to adopt them. For example as the business organisation became larger and more complex, communication channels grew longer, slower and more difficult to manage. Within some groups, managers realised that supervision of the various segments was not possible by continuing with conventional structures and systems. This is where the adoption of systems may have upgraded techniques commensurate with the changing times.<sup>187</sup> The adoption of systems circumvented the decline in business group investments in light engineering goods in the long-term for those businesses where its managers chose to adopt them. Such systems rely on systematically recorded information and not on ad hoc criteria. Information retrieval is also made easier if the business group has an organisational memory of transactions and skills obtained through

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<sup>187</sup>See A.T. Spaulding, Jr., 'Is the Total System Concept Practical?', in P. Schoderbek, (ed.), *Management Systems*, John Wiley, 1967, p. 149.

training its employees. Managers and entrepreneurs appreciating the need to look at problems from a wider base and scope can only do so if they are looking long-distance into the future and not limited to only resolving one-off or short-term problems. Trained management consider and treat such problems carefully, especially when the system's domain is multi-departmental. This requires commitment from the senior management to re-examine long standing corporate cliches. Wherever this was recognised and implemented in the organisation, the group's portfolio expanded in accordance with a strategic plan.

## **CHAPTER THREE**

### **THE WAZIR ALI GROUP**

#### **Introduction**

This chapter provides a case study of the Wazir Ali Group, henceforth called the Ali Group. This chapter investigates the extent of the liaison between the group's business personalities with key political and bureaucratic figures. This liaison benefitted the group's initial investments but were insufficient conditions for sustaining business development in light engineering investment over the long-term. Long-term expansion depended on internally generated and institutionalised procedures, and by not adopting them, it lead to erratic patterns of growth for the Ali Group. They were erratic because growth took place incidentally rather than as a consequence of planned strategy.

The companies established by the Ali Group in the 1960s and 1970s were the consequence of its owners actively accessing State-privileges; management did not review problems to remain abreast of changing conditions within the group and diversification and integration remained low key compared to the potential opportunities made available to the pioneering entrepreneurs. For this group, foregone industrialisation was a consequence of not adopting systems to cultivate foresight, a prerequisite for designing future expansion.

By the close of 1988, the group's turnover [sales] were Rs 450 million.<sup>1</sup>

The organisation of this chapter is discussed in the following order. **Section One** outlines the formation and business development of the Ali Group. **Section Two** is a summary of selected company histories which represent the manner in which initial organisational structures of the group emerged. Government concessions as exogenous factors explain the direction of the initial of investments made by the group. Having established the group's origins with reference to individual company histories, **Section Three** on external relations highlights the group's philosophy, focusing on the aspirations of its decision makers, their links with key politicians and how this interaction influenced group investments in the short-term. This liaison which was initially beneficial for setting the foundations for industry was not followed up with injecting new methods to consolidate and diversify the business in the long-term. The entrepreneurs tapped into sources of industrial credit and received ministerial appointments, as part of the State's patronage of business leaders. This led to the short-lived monopoly capitalism in manufacturing for Ali. In most instances this group was a first mover in the varied industries it ventured into and by virtue of its entrepreneurs' influence on industrial policy was able to maintain its

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<sup>1</sup>Given in, H. Sanotra, 'Coming into Their Own', *Business Today*, 22 March to 6 April, 1992, p. 46.

status as sole producer and supplier of some key consumer and industrial goods from 1950-88. **Section Four** discusses the management strategy of the group. **Section Five** focuses on interlocking directorships and share ownership structure of members of the Ali Group in selected companies, with a view to establish their financial and managerial control over the group's resources. Its repercussions for the group will be discussed. In light of the evidence studied, **Section Six** concludes that the absence of organisational systems was an effect of not developing a planned strategy for growth at a time when the returns from adopting it could have left an indelible mark on the business landscape.

The absence of this system led to a reduction of trained permanent manpower, market share, profits and size. To avoid relative decline the organisation needed internally generated, routinised and a closed loop reporting system whereby cause and effect relationships could be identified, analysed and responsibility for decisions appropriated to departments and their managers.<sup>2</sup> Diversification of production functions were not issues given priority by members of the Ali Group,

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<sup>2</sup>See Board Minutes of the Ali Group companies; Ali Automobiles Limited, Board Minutes, 21 October 1970; Abbassi Textile Mills, 16 June 1971; Wazir Ali Industries Limited, Board Minutes, 31 March 1971 and Sind Oil Mills Board Minutes, 10 September 1952, indicate reference and discussion of issues pertaining only to operations at the factory site, which fall within the domain of subject specialists. The management lacked the approach of analysing, addressing and resolving strategic issues, by looking at the generality of the situation.

as is evident from the Board Minutes of its companies,<sup>3</sup> which indicate reference and discussion of issues pertaining to operations at the plants which fall within the domain of subject specialists. No evidence was seen of an analysis of addressing and resolving strategic issues, by looking at the generality of the situation. Better feedback from units to head office would have enabled this group's management to expand capacity and divert excess production towards vertically integrated product lines.<sup>4</sup> Till organisational systems existed in its initial years, the group's expansion followed a predictable course, reflecting the company strategy.<sup>5</sup>

### **3.1 Business Development: 1948-88**

The Ali Group's origin was in pre-partition British India, when its pioneer, Wazir Ali became the supplier of canteen contracts to the British Armed Forces.<sup>6</sup> In 1949, after Wazir Ali's death his son Muratib Ali migrated to Pakistan and formed a partnership

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<sup>3</sup>Given in, Ali Automobiles Limited, Board Minutes, 21 October 1970; Abbassi Textile Mills, 16 June 1971; Wazir Ali Industries Limited, Board Minutes, 31 March 1971 and Sind Oil Mills Board Minutes, 10 September 1952.

<sup>4</sup>See Alfred Chandler, *Scale and Scope*, Harvard, 1990, pp. 146-47, for an explanation of how better managed companies generate excess capacity which can be used for producing economies of scale through vertical integration.

<sup>5</sup>See [undated] letter of B O S Stevenson, managing director of Ford Motor Company India to Amjad Ali congratulating him on the successful operations of the company in Pakistan.

<sup>6</sup>This information is available in D. Fieldhouse, *Unilever Overseas*, Croom Helm, 1978, p. 246.

concern under the banner of Syed A & M Wazir Ali.<sup>7</sup> This was the holding company which initiated business by trading in razor blades and supplying railway carriages to the State railway.<sup>8</sup> As in the USA, towards the close of the 19th century most trading associations were transformed into holding companies, the same transformation took place with Syed A & M Wazir Ali.<sup>9</sup> Muratib Ali with his brother Ahsan Ali, initiated the group's foray into trading which was then taken over by their respective sons. A list of the group's listed firms and activities are presented in the following table:

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<sup>7</sup>For their status as canteen contractors, see letter from Wajid Ali to the Military Services Section, Office of the High Commissioner of United Kingdom, Karachi, 9 January 1951 where he has lodged a claim for 1 million outstanding in lieu of canteen supplies to the British officers of Her Majesty's Forces in undivided India, who owed money to Syed A & M Wazir Ali; also see partnership deed of Syed A & M Wazir Ali, drawn by J B Kanga on 25 November 1949, stating their profession as canteen contractors to the British Armed Forces in undivided India.

<sup>8</sup>Indicated in a letter from Muratib Ali, Managing Partner, Syed A & M Wazir Ali, West Wharf, Karachi to the Divisional Superintendent, North Western Railway, Karachi, # SMS/GS/AMW02/10042, 1 June 1952.

<sup>9</sup>The structure of ownership in late 19th century American companies is in A. Chandler, *Scale and Scope*, 1990, p. 75.

**Table 3.1**

<b>Entity</b>	<b>Nature of Business</b>	<b>Year Estb.</b>
1.Hyderabad Sind Vegetable Oil & Allied Industries Limited	Vegetable Oil/ <i>Ghee</i> Processing.	1948
2.Sanghar Cotton and Ginning	Cotton Ginning.	1948
3.Sind Oil Mills (Pvt) Limited	Oil seeds, delinting & Milling.	1948
4.Treet Safety Razor Corporation (Pvt) Limited	Safety Razor Blades Manufacturing.	1948
5.Saba Soap (Pvt) Limited	Soap Manufacturing.	1949
6.Sadiq Vegetable Oil & Allied Industries Limited	Vegetable Oil/ <i>Ghee</i> Processing.	1950
7.Abbassi Textile Mills Limited	Cotton Spinning.	1952
8.Sadiq Soap Company (Pvt) Limited	Soap Manufacturing.	1952
9.International General Insurance	Insurance Services.	1953
10.Packages Limited	Paper and Board Manufacturing.	1959
11.Ali Automobiles (Pvt) Limited	Motor Car, Television & Scooter Assembly.	1963
12.Wazir Ali Engineering (Pvt) Ltd.	Hollow Plate Bridge & Mechanical Engineering.	1963
13.Milkpak Limited	Milk, Fruit Juice, Cream & Butter Processing.	1978
14.Tetrapak (Pak) Limited	UHT/Tetrapak Packaging Material.	1985

Source: Ali Group, unpublished company documents; no year.

It was in 1945 that Amjad Ali, son of Muratib Ali purchased two *ghee* plants of vegetable oil or cooking fat, meant for erection at Bhopal and Bombay (which remained in India after partition). These plants were purchased for Rs 2 million.<sup>10</sup> In 1947, the machinery for these vegetable oil manufacturing plants intended for installation in India, were diverted to Pakistan. Both plants were relocated; the

<sup>10</sup>See Amjad Ali, *Glimpses*, Jang, 1992, p. 148.

Bhopal-intended was erected at Rahim Yar Khan, (in the province of Punjab in Pakistan) for which the plant's entrepreneurs collaborated with Lever Brothers (Pak) Limited and became partners with the Unilever Group.<sup>11</sup> The Bombay-intended plant was relocated to Hyderabad (in the Sind province) and remained under the control and management of the Ali Group.

By 1948, Syed A & M Wazir Ali's partners were extended to include a few third generation members of the group, namely four sons of Muratib Ali: Wajid, Amjad, Afzal and Babar Ali, and a son of Ahsan Ali, Akhtar Ahsan.<sup>12</sup> It was this third generation which, with the profits accumulated from the Second World War canteen supplies, matured into industrial entrepreneurs.<sup>13</sup> This generation was leader-oriented and started actively participating in the family business. Being a profitable business, by the late 1940s they were able to accumulate enough wealth to invest in manufacturing industry.

In 1948, the group acquired the **Sind Oil Mills (SOM)** and **Hyderabad Sind Vegetable Oil and Allied Industries Limited (HSVOAIL)**, as subsidiary concerns of the company Syed A & M

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<sup>11</sup>See D. Fieldhouse, *Unilever Overseas*, Croom Helm, 1978, pp. 246-251, for Lever Brothers (Pak) and the Ali Group partnership, from 1947 to 1964.

<sup>12</sup>The members of the Ali family are also identified in D. Fieldhouse, *Unilever Overseas*, Croom Helm, 1978, p. 246.

<sup>13</sup>Interview with Masood Hasan, 16 January 1994 in Lahore.

Wazir Ali. The Sind Oil Mills was purchased (by the group as refugees consequent to partition), from Sir Mohan Lal Sarkeria, a Hindu who emigrated to India. In 1949, the group also purchased the **Saba Soap Company** from him which was followed by the purchase of the **Sadiq Vegetable Oil and Allied Industries Limited (SVOAIL)**, located at Rahim Yar Khan, from the same seller. SVOAIL was acquired by the Ali Group in partnership with Lever Brothers (Pak) Limited in 1950. It was managed by the *Amir*<sup>14</sup> of Bahawalpur. This was followed by another partnership of Ali with Lever Brothers (Pak) Limited in the formation of the **Sadiq Soap Company**, in 1952. Both SVOAIL and Sadiq Soap Company were formally managed by Lever Brothers (Pak) Limited and were officially listed as their investments in Pakistan. The partnership share-holdings were as follows:

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<sup>14</sup>*Amir* is a title conferring leadership of an (e)state within Pakistan.

**Table 3.2**  
**Equity Structure (1947)**  
**Sadiq Oil Mills & Sadiq Soap**  
**Allied Industries Ltd. Company Ltd.**

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Unilever 45.43 % 70 %

(Commonwealth Holdings. Ltd.)

Bahawalpur State 36.66 % 20 %

Amjad Ali 15.00 % 5 %

Sir William Roberts 3 % 5 %

Source: D. Fieldhouse, *Unilever Overseas*, Croom Helm, 1978, p. 250.

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Even though Ali had shareholdings in the above Lever Brothers (Pak) Limited's investments, in effect the two parties were competing for the same share of the market for soaps and vegetable oil in Pakistan. This was because the HSVOAIL and the SOM were formally part of the Ali Group, which also manufactured soap and vegetable oil as did Lever Brothers (Pak) Limited's manufacturing units in Pakistan. An anomaly arises in that Fieldhouse lists the above shareholdings as those for Lever Brothers (Pak) Limited. Then why did Levers' management include equity contributed by their competitors and why did the Ali entrepreneurs accept this offer? A plausible reason is that Levers Brothers (Pak) Limited, in Pakistan needed the support of the Ali family in accessing the necessary

licences for purchase of machinery and equipment for Sadiq Soap Company and SVOAIL. Both these companies were located in Bahawalpur State which was owned by its *Amir*, who was a personal friend of Amjad Ali. His share in the ownership of Lever's investments (listed above) ensured that any necessary licences for initiating business were easily made available.<sup>15</sup> Then, Sir William Roberts was also a personal friend of Amjad Ali, owned tracts of agricultural land cultivating cotton and cotton seed, a necessary raw material for vegetable oil production.<sup>16</sup> Both the *Amir* and Sir William Roberts had equity contributions made in other Ali companies.<sup>17</sup> The *Amir*, and Sir William Roberts were introduced to Lever Brothers (Pak) Limited by Amjad Ali. In fact, it was on account of the Ali Groups' advantageous position to influence bureaucrats and politicians, that conditioned Lever Brothers (Pak) Limited to form a partnership with them.<sup>18</sup> This was an unusual step taken by the Lever Brothers (Pak) Limited, since they did not encourage majority share-holdings by third parties in any of their

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<sup>15</sup>See D. Fieldhouse, *Unilever Overseas*, Croom Helm, 1978, p. 246.

<sup>16</sup>*Ibid*, p. 249.

<sup>17</sup>These were the Abbassi Textile Mills Limited and Ali and Robertson (Pvt) Limited.

<sup>18</sup>The Ali family's leverage with politicians, attracted the attention of the management of Levers Brothers (Pak) Limited, who thereafter formed a partnership with the Ali Group. This is documented in D. Fieldhouse, *Unilever Overseas*, Croom Helm, 1978, pp. 246 and 249.

overseas investments.<sup>19</sup>

Machinery for a fourth plant meant for razor blade production was purchased from Treet (USA) and installed in Hyderabad in 1948, called the Treet Safety Razor Blade factory.<sup>20</sup> This machinery lay idle for six years before production commenced in 1954, when the company was renamed the **Treet Safety Razor Corporation (Pvt) Limited**. This company was later incorporated as part of Wazir Ali Industries Limited (WIL), the flagship company of the group. All these manufacturing facilities were set up in Hyderabad, Rahimyar Khan, Karachi and Lahore. Another plant for manufacturing cotton textiles was established in Rahim Yar Khan, called the **Abbassi Textile Mills Limited**. It was the first textile mill established in the country. The foundation stone of the Abbassi Textiles Mills Limited was laid before partition and the machinery order placed for installation intended at Rahim Yar Khan in 1946. The mill was made operational in 1952 in Rahim Yar Khan after its machinery lay idle for six years. The mill was inaugurated by Amjad Ali. The *Amir* of Bahawalpur owned Rs 150,000 of its shares, which represented 50 percent ownership through share-holding. The Ali family and Sir William Roberts owned a further 50 percent shares.<sup>21</sup> The mill had

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<sup>19</sup>This is given in D. Fieldhouse, *Unilever Overseas*, Croom Helm, 1978, p. 245.

<sup>20</sup>*Ibid*, p. 149.

<sup>21</sup>For share ownership, see letter from J. Tomkins, Managing Agent, The Bahawalpur Agencies, The Sadiq Vegetable Oils and

a spinning capacity of 50,000 spindles and a total equity of Rs 2 million. The income statement of Abbassi Textile Mills for 1950 showed that its textiles exports through trading were 39 percent of the country's exports. Abbassi Textiles Mills Limited registered exports of 2,90,000 cotton bales from the country's total export of 7,50,000 in 1950. Cotton remains Pakistan's staple cash crop and is the back bone of its economy. By erecting the Abbassi Textile Mills Limited in Rahim Yar Khan, the Ali Group tried to establish a base in textiles. Owning agricultural land and manufacturing textiles showed respectability of profession.<sup>22</sup> In doing so they tried to emulate the income and life-style of the land owning class in as close a manner as possible. Another agricultural investment by Ali was evident in two farms which they owned in pre-partition India called the **Palakmati Farms Limited** and **Gohar-i-Taj Industrial and Agricultural Farms Limited**.<sup>23</sup> Later, in 1971, the group was to invest in a poultry farm with 30,000 birds. The farm was jointly

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Allied Industries Limited, Katrak Mansion, Machi Mian Road, P.O. Box 220, Karachi, to Syed A & M Wazir Ali, 140, Bunder Road, Karachi, 14 March 1952.

<sup>22</sup>In Pakistan the association of land cultivation denoting an honourable profession, is discussed in M. Ashraf, 'Dairy Industry in Pakistan', *Dawn*, 11 March 1990, p. 7.

<sup>23</sup>See details of these farms in letters from the Custodian General of India to Syed A & M Wazir Ali, 18 October 1959 and 25 December 1959, informing them of the farms having been confiscated under the Evacuee Property Status Act.

owned by four Ali brothers with a sister.<sup>24</sup> Wajid Ali also purchased sheep from a prominent landlord, Khizar Hayat Tiwana.<sup>25</sup>

In 1949, Amjad Ali joined Pakistani politics and obtained the Ford motor dealership from the USA in the 1950s. Through this dealership, the third generation of the Ali Group made its foray in the engineering sector and formed **Ali Automobiles (Pvt) Limited** for the assembly of Ford motor cars, trucks, vans and televisions in addition to the manufacturing of Lambretta scooters under licence from its parent company overseas.<sup>26</sup> Assembly of motor cars commenced in 1963 in Lahore. In 1964 when the country's first television station was formed, the Ali Group pioneered locally assembled television sets. The first brand introduced in the domestic market was the Nippon Electric Company (NEC) television sets, assembled at Ali Automobiles (Pvt) Limited.

This Ford motor dealership was managed by Ali Automobiles (Pvt) Limited's management, and was the progressive assembly of motor cars in which 34 percent of the imported parts were replaced by manufacturing them locally. Additionally, other vehicles were assembled by this company, such as, vans, trucks, air conditioner

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<sup>24</sup>The details of the partnership deed for this farm was in Wajid Ali's open ended letter to 'all' shareholders, 25 June 1971.

<sup>25</sup>Evidence of this is in Wajid Ali's request for the same from Khizar Hayat, in a letter, 19 July 1971.

<sup>26</sup>Lambretta scooter's parent company was Innocenti located in Italy.

assembly units and related engineering works. Ali Automobiles (Pvt) Limited became Awami Autos when it was nationalised by Bhutto in 1972, and this marked the close of Ali Group's investment in the light engineering sector.

Another first for this group was a joint venture partnership with Akerlund and Rausing, two Swedish brothers who helped the Ali Group in setting up a paper and high grade board conversion mill in Pakistan; **Packages Limited** was formed in 1959, and production facilities were housed on its premises. The Swedes agreed to contribute to Packages Limited's equity and machinery, along with providing technical support for installing and managing the packaging unit. A major source of Packages Limited's equity was drawn from the International Finance Corporation, a subsidiary of the World Bank, on the latters' acceptance of a feasibility study on Packages Limited prepared by Masood Hasan, a non-family managing director at WIL.<sup>27</sup> The Paper and Board Manufacturing Mill was annexed to Packages Limited in 1964, in order to provide the raw material for downstream conversion of packaging material. Packages Limited's management also diversified its skills in paper manufacturing when the company commenced with the manufacturing and marketing of facial paper tissue. This was sold under the brand name of *Rose Petal* with its production facilities also located within Packages Limited. The facial tissue plant was the

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<sup>27</sup>Interview with Masood Hasan, 16 January 1994.

first locally manufactured product of its kind when introduced in 1981.

Another attempt to diversify the group's portfolio was realised in 1979 with the purchase of more agricultural land for a dairy farm called **Kabirwala Dairies**. This supplied fresh milk for processing at another Ali concern, called **Milkpak**.<sup>28</sup> The packaging material for milk processed at Milkpak was produced at **Tetrapak (Pak) Limited**, initially a subsidiary of Packages Limited which was also located on its premises. Under the Development Finance Institution (DFI) stipulation, the National Development Finance Institution (NDFC) was requested by the Ministry of Finance, Government of Pakistan, to prepare a report justifying the virtue of packaged milk in favour of (more) pure, non-packaged milk. The results of the report were accepted by the DFI's management and Tetrapak benefitted by financing its equity through loans extended by the NDFC and the World Bank. It was formed as a partnership concern, in technical collaboration of Ali with the Akerlund and Rausing company of Sweden to manufacture and store UHT milk and fresh fruit juices in tetrahedral cartons. Akerlund and Rausing owned the worldwide patent for manufacture of tetrahedral packaging material,

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<sup>28</sup>Milkpak obtained fresh milk from the dairy farm owned by Packages Limited. It then processed the milk at Ultra High Temperature (UHT), and sent it to Packages Limited for packaging it in tetrahedral paper. Additionally, Milkpak processed and marketed fruit juice, sterilised cream and dairy butter, all of which had an extended shelf life.

which aseptically packaged UHT milk and fruit juices. Packages Limited's shareholders were also shareholders in Tetrapak (Pak) Limited which was the first venture of its kind in Pakistan. In Pakistan, Tetrapak, with the Ali Group as its leading partners, had the sole licence to manufacture the specialised nature of its packaging material.

Ali also underwrote general insurance services to the public through its insurance company, International General Insurance. The following table provides the value of the Ali Group's assets from 1968-1985:

**Table 3.3**  
**Ali Group Net Assets**  
**(Publicly and Privately Quoted Companies)**  
**(Rs millions)**

<b>1968</b>	<b>1974</b>	<b>1985</b>	<b>1988</b>
179(10) <sup>1</sup>	87.6(5)	271.2(5)	2,220(5)
-51 %	+210 %	+719 %	

<sup>1</sup> Numbers in parenthesis show the position of the assets of the group.

Source: a) For public limited companies: *Balance Sheets* of all groups; N. Husnain, *et al*, (eds.), *Bukharis 101*, Khadim Ali Shah Bukhari and Company Limited, 1991; H. Haqqani, 'Pakistan's Top 22 Face New Challenges', in *Far Eastern Economic Review*, 22 May 1986, p. 77 and L. White, *Industrial Concentration and Economic Power*, Princeton, 1974, p. 60. b) For private limited companies: 'Minutes of Meeting of the Board of Directors', of various Ali companies and company correspondence.

In terms of the value of its net assets, Ali's position fluctuated from tenth in 1968, which lowered to and then maintained itself at the fifth position from 1974 to 1988.<sup>29</sup> The group's assets remained at fifth position, in spite of the first mover advantages it had over other contestants in industry.

### **3.2 Selected Company Histories**

This section encapsulates the formation and management practices of five Ali Group companies, registered as public limited and private limited concerns. It highlights the proposition that, in most fields the Ali Group were first movers in industry, but over the long-term encountered production and marketing bottlenecks owing to ineffective management practices. In the long-term, the potential for expansion in terms of backward and forward linkages of functions, was not exploited owing to the management policy of the group. This is explained by first examining management policies at Syed A & M Wazir Ali and WIL.

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<sup>29</sup>Business house positions by the value of their asset ownership, are provided in L.J. White, *Industrial Concentration and Economic Power*, Princeton, 1974, pp. 60-61; H. Haqqani, 'Pakistan's Top 22 Find New Challengers', *Far Eastern Economic Review*, 22 May 1986, pp. 74-78.

### **3.2.1 Syed A & M Wazir Ali (Pvt) Limited and Wazir Ali Industries Limited (WIL)**

Syed A & M Wazir Ali initially constituted four companies, the HSVOAIL and the Sind Oil Mills,<sup>30</sup> and since black bar soap was a by product of edible oil production, the group integrated forwards and formed the Saba Soap Company. The Treet Safety Razor Corporation (Pvt) Limited was inducted as part of Syed A & M Wazir Ali in 1954. In 1958, the management decided to formally incorporate and amalgamate these companies as a public limited company, under the banner of Wazir Ali Industries Limited (WIL).

These companies constituted the group's first manufacturing business venture after partition and the owners began recruiting non-family managers with a new vigour for the functional management of all companies in this set. The production facilities at the HSVOAIL and the Sind Oil Mills were managed by a team of professional managers. They were given autonomy of operations and reported to family managers such as Muratib Ali and his three sons Wajid, Amjad and Babar Ali. The professional managers were Zaka Rahmatullah, the marketing manager, and Masood Hasan and Imtiaz Mehdi alternating every three months as production and

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<sup>30</sup>Lever Brothers (Pak) Limited originally had majority shareholdings in these companies, which were later divested in favour of Ali.

commercial managers.<sup>31</sup> This team also formed a troika of a three-member executive committee which also doubled up as the 'Managing Directors' of WIL.<sup>32</sup>

The induction of professional managers at WIL introduced the training of managers as an intangible asset of a company, which directed planned growth through adopting the Systems Approach. Commensurate with this philosophy, in 1950 Masood Hasan was sent for training to Olympia Oil and Cake Mills at Selby, York and Warrington in the UK. In 1951, Imtiaz Mehdi followed for training to Lever Brothers, at Port Sunlight (UK) and Olympia Oil and Cake Mills at Whirlpool and Selby in the UK. This team was later increased after the 'Managing Directors' decided to enhance the designed production capacity of WIL. Amongst others, Khawaja Naseeruddin, a marketing consultant was inducted by WIL's management in 1961.

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<sup>31</sup>For the credentials of Zaka Rahmatullah as a professional manager, see the recommendation for employment at Ford Motors, Karachi, by his employer, E O Austin [Sales Department of Ford Motors at Bombay, India], in a letter addressed to Wajid Ali, 4 February 1950; Masood Hasan brought along with him to WIL, his professional experience gained in employment with Jos E Seagrams in the USA, Unilever UK (1949-50), also having served at Crosfields, Warrington; Watson, Leeds; Christopher Thomas', Bristol and Van den Burgh and Jurgens margarine plant at Purfleet; Imtiaz Mehdi also served at Unilever (UK), with time spent at Selby and Port Sunlight. He was inducted in, at WIL on account of being a grandson of Ahsan Ali [who in turn, was Wazir Ali's son], but within a short space of time, developed into a professional manager.

<sup>32</sup>Interview with Masood Hasan, 16 January 1994; this management troika is also mentioned in Amjad Ali, *Glimpses*, Jang, 1992, p. 290.

The combined efforts of this team produced bench mark results for WIL and for the group as a whole. The production of edible oil at WIL increased from 2,000 to 12,000 tons per annum over a period of five years from 1957 to 1962.<sup>33</sup> Their strategy also created a niche in the market share of soap and edible oil sales of their main competitor, Unilever, [part of Lever Brothers (Pak) Limited] who began producing and marketing *ghee* in Pakistan in 1952.<sup>34</sup> By 1961, fifty percent of the latter's branded oil and soap market was captured by WIL.<sup>35</sup> At the same time, the decline in Unilever's share of the edible oil and soap market is corroborated in the following table:

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<sup>33</sup>Interview with Masood Hasan, 6 November 1992 in Lahore.

<sup>34</sup>Given in, Nudah Hasan, *Dalda*, Lahore University of Management Sciences, LBS, case # 04-810-90-1, 1990, p. 1.

<sup>35</sup>*Ibid.*

**Table 3.4****Pakistan: Unilever's Volume of Sales 1957-65**

Year	Concern share of Vanaspati market %	Concern Share of Soap market %
1957	15	10
1958	16	11
1959	16	17
1960	23	18
1961	22	18
1962	19	21
1963	14	21
1964	13	19
1965	11	16

Source: D. Fieldhouse, *Unilever Overseas*, Croom Helm, 1978, p. 254.  
 a) Vanaspati is alternately known as edible oil/ vegetable oil/ vegetable *ghee*; b) the table is a condensed version of the original, [the omitted figures were for imports of edible oils or soap].

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The above table shows that for Vanaspati (vegetable oil), Unilever's market share registered a increase of seven percent in 1960 over the previous year. Thereafter, the rising trend did not recur. The market share for vegetable oil declined from one percent to five percent over successive years from 1961-65. It was at this juncture that WIL's marketing strategy for edible oil sales made inroads into Unilever's share of the market. Unilever's market share for soap also declined after 1963. It is evident that competitors' strategy to dip into Unilever's soap market share was succeeding. It was at this juncture that WIL's professional managerial strategy to dip into Unilever's edible oil and soap market worked to the former's advantage.

The reasons assigned by Unilever's management for their declining market share for the soap and edible oil market are documented by Fieldhouse. He reports that Unilever's management placed the blame on having chosen the wrong location and 'partners', for the wrong reasons.<sup>36</sup> Therefore Unilever realised, too late, that taking on (influential) competitors as equity holders in Unilever's investments was not a wise strategy in the long-term. Initially, Unilever needed the political and economic umbrella provided by Ali to establish a manufacturing base in edible oil and soap manufacturing, but when these competitors dipped into Unilever's market share, Unilever reversed their argument and said that they had chosen the wrong partners. The Ali management's investment in hiring professional managers at a critical juncture had worked to its advantage, and its share-holdings in Unilever investments became subordinate to the larger interests from the gains to be made from their own group's investment.

The WIL team also tackled another competitor, the local *Seth*. The *Seths* employed illegal tactics to manoeuvre the share of soap sales to their advantage. They manipulated the amount of excise duty payable to the State and in doing so succeeded in undercutting the existing sales price of soap. According to WIL's (ex) director, Masood Hasan:

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<sup>36</sup>See D. Fieldhouse, *Unilever Overseas*, Croom Helm, 1978, p. 254.

'The *Seths* provided unethical competition for WIL because they avoided paying excise duty on every alternate 35 lbs. bulk pack for edible oil. In this way the *Seths*' cost of production was lower than that of WIL, which enabled them [Seths] to undercut the sales price of oil and to pay less when raw materials were in scarce supply. To rectify this imbalance in prices we started selling oils in smaller branded consumer packs. We lowered our technical process losses and we avoided competing with the *Seths*' edge in the sale of bulk packs'.<sup>37</sup>

In the above case the apparent problem was the undercutting of sales price on bulk packs by a competitor. In seeing the situation from an overall stance, the management decided to change their product by introducing smaller packs. In doing so, the *Seths*' product no longer competed with WIL in the market. This decision produced successful results because the form of the problem had been addressed rather than its content. The form of the problem was that the product needed to be changed rather than trying to enforce ethical practices on to the *Seths* to make them declare the correct duty (which was the specific content of the problem).

Later, Masood Hasan served at the WIL regional office at Lahore. There he managed WIL edible oil sales in the northern areas of Pakistan as well as advised Ali Automobile's management on the assembly of 'Carrier' air-conditioners for which they held an agency. He left WIL in 1964 to form the first computer software consultancy service in Pakistan, and was followed by the departure of Imtiaz Mehdi in 1975. This management troika succeeded in

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<sup>37</sup>Interview with Masood Hasan, 6 November 1992.

professionalising the management function which was also demonstrated in the number of managers they trained.

In 1973, the oil section of WIL was nationalised by Prime Minister Bhutto. By then WIL's fourteen (out of sixteen) non-family managers had left to become leading executives in their respective fields. This was due to the training in the Systems Approach and methods study they had received at WIL which enriched their managerial skills, which they replicated at their new appointments. These skills in management were recognised by their potential employers. The following WIL employees who left for more senior positions in the *ghee* and automobile industry were as follows.

<b>Table 3.5</b>	<b>In WIL employment</b>	<b>New Designation</b>
1. Humayun Mufti, assistant accountant		Managing director of the nationalised Ghandhara Industries Limited; later progressed to become the chairman of the Federal Light Engineering Company Limited, a holding company for all the nationalised light engineering units in the country.
2. S.M. Salar, chief engineer, (1955-65), Treet Safety Razor Corporation Limited		Managing director of the nationalised, National Motors; later progressed to the Managing directorship of the Automobile Corporation of Pakistan, a holding corporation which managed the nationalised Ghandhara Motors Ltd., Hinopak Motors Ltd., and Al-Futtaim Ltd. The latter was a joint venture between the Pakistani and Japanese governments and the Al-Futtaim group.
3. Gert Lorenz-Bergmann, German electrical engineer, SOM		Managing director, and on the Board of Directors of AEG Telefunken in Germany.
4. Masood Hasan, 'Managing Director' WIL; Board of Directors, WIL		Federal Defence Secretary, (Production).
5. Imtiaz Mehdi, 'Managing Director' WIL; Board of Directors, WIL		Chairman, Board of Management, (BOM), Sind & BOM of all nationalised <i>ghee</i> and sugar mills in Sind.
6. Malik Iqbal, chief chemist		Managing director of a nationalised <i>ghee</i> company.
7. Hassanji		Managing director of a nationalised <i>ghee</i> company.
8. M. Anwaruddin, personnel manager.		Managing director of the nationalised Burmah Oil Mills and E.M. Oil Mills Limited.
9. Afzal, personnel department		Managing director of the nationalised EMI Mills Limited.
10. Waheed Zuberi, marketing		Managing director, A & B.
11. Khawaja Mushtaq, engineer Treet (Pvt) Limited		Managing director, Treet (Public) Limited.
12. Mohammad Shafi, production manager		Managing director of WIL after it was nationalised.

Source: Interview with M. Hasan and I. Mehdi, 16 Januray 1994.

Some members from the above team also organised sales and production strategy for the Treet Blades Safety Razor Corporation (Pvt) Limited, which enabled it to capture ninety percent of the country's razor blade market in the 1960s. The company enjoyed a monopoly in blades production till competition came from the Gillette Razor Blade Company provided competition, set up in the late 1980s. This early tradition of employing professional managers at WIL with the attendant delegation of authority was not emulated by other companies in the group, which led to different patterns of growth. The first example of this deviation away from using the Systems Approach in managerial policy was observed at Packages Limited.

### **3.2.2 Packages Limited**

This company was formed in 1959 as a private limited concern for a packaging unit using imported raw material (paper and board). It was the second mill set up, (after the one owned by the Adamjee Group at Nowshera), to convert pulp to paper, and then into packaging material. Initially the Ali family owned 77.31 percent shares and the Swedish partners, a further 22.69 percent. The Swedish share was given in exchange for technical and managerial assistance in operating the imported machinery. A contract for continued technical assistance gave the Swedes an additional US \$ 35,000 annually up to 1976. About 22 Swedes stayed on during the first three years of the company's initiation.

The debt equity ratio at Packages Limited was 70:30, on an initial

investment of Rs 50 million, therefore the owners only invested in its equity @ 30 percent, that is, Rs 15 million in 1959. The remaining capital was raised by obtaining foreign currency loans for purchase of imported equipment. This included an International Finance Corporation (IFC) loan of US \$ 6 million, which was approved on the basis of a feasibility prepared by Masood Hasan. Other professional managers who assisted in setting up Packages Limited and who were previously employed at WIL, were Zaka Rahmatullah and Imtiaz Mehdi.

The raw material for producing paper, was pulp and particle board, using wheat straw, which was then processed to make high grade board and paper which was then converted to make packaging material. Initially, Packages Limited had a capacity to produce 35,000 metric tons of board. Rotogravure and lamination machines provided more sophisticated flexi packaging material for the food industry.<sup>38</sup> The packaging unit was the main revenue earner and note books and stationery sales were subordinate products produced and marketed.

In 1964, the management generated sub-production assembly economies of scale by integrating backwards in a paper and board mill to feed the paper conversion unit. Till then Packages Limiteds' management purchased paper and board from a competitor. This

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<sup>38</sup>Pakistan Packaging Institute, 'Evolution of Packaging Industry in Pakistan', *Dawn*, 8 January 1991, pp. 5-6.

new mill was set up as a result of a decision to integrate backwards to ensure that the requisite quality and quantity of material for conversion to finished packaging material was available when needed. At the same time the company went public, in order to raise capital for the additional finance required to implement this backward integration. The public subscription of the company's shares fetched 12.98 percent from the general public and 6.62 percent from financial institutions.<sup>39</sup> The Ali family, its companies and associates owned 47.12 percent; Akerlund and Rausing with its associates another 20.38 percent and the International Finance Corporation 12.9 percent.

The paper and board mill commenced production in 1965 with an annual production capacity of converting 24,000 metric tons of paper and board, increased to 42,000 metric tons per annum by 1978. This gave Packages Limited a third of the market supply in paper and converted board. The remaining two-thirds capacity was met by the Adamjee Paper Mills Limited established in 1954 as a (Pakistan Industrial Development Corporation (PIDC) project and sold to the Adamjee Group in 1963, and the Crescent Board Mills Limited, established in 1969 as another PIDC project which was purchased later by the Crescent Group. In setting up its own paper and board

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<sup>39</sup>However since government-owned financial institutions also constitute the 'public', about 25 percent shares of the 'public' shares were subscribed by financial institutions, such as National Investment Trust (NIT), and National Investment Corporation (NIC).

mill, Packages Limited was the first to do so without PIDC's patronage. About 80 percent of its output was consumed internally by the packaging unit for manufacturing paper. The finished product was then sold as containers and packaging material to other industrial consumers. Packages Limited's largest customer was the Pakistan Tobacco Company (PTC). Other large customers were the Tetrapak Company, tea, cigarettes, food and beverage, soap and detergents, safety match, textile and hosiery, shoe, pharmaceutical, bulb manufacturers and the Defence Services. The following table summarises Packages Limited's key financial performance indicators,

1968-88:

**Table 3.6**  
**Packages Limited Pre-tax Profits**  
**Rs (millions)**

<b>Year</b>	<b>Sales</b>	<b>Pre-tax Profits</b>
1968	55.7	2.1
1969	57.3	2.2
1970	79.6	12.4
1971	76.6	8.4
1972	94.1	8.3
1973	118.6	15.4
1974	149.2	29.6
1975	150.0	18.0 <sup>1</sup>
1976	159.8	12.3
1977	212.7	34.5
1978	241.3	39.2
1979	290.0	49.0
1980	352.0	59.6
1981	406.6	69.0
1982	432.3	70.8
1983	465.3	77.0
1984	499.4	82.6
1985	574.1	68.1
1986	632.6	65.4
1987	745.0	36.0
1988	875.0	78.6

<sup>1</sup> By 1975, Akerlund and Rausing's share in Packages Limited was down to 14 percent. By 1976 new flotations on the Stock Exchange reduced Akerlund and Rausing's shareholdings to 14 percent, and increased State-owned and Ali Group shares to 40 and 27 percent respectively.

Source: Packages Limited, *Annual Reports*, 1969-1989.

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In 1974, Babar Ali relinquished daily operating control of the business for four years. Further insight into senior management's policies through Babar Ali's decisions show a variegated style of management. In Western economies the modern industrial enterprise transformed businesses because the zest for market share

drove them to become multinationals.<sup>40</sup> However, in 1974-76 the foreign collaborator's shareholdings in Packages Limited were reduced and this period also coincided with a reduction in the company's profits. By 1974, two decades after its inception, Packages Limited was still not a mature multinational. It neither had any direct foreign investment or subsidiaries overseas. (Since 1969, it had exported a small proportion of its packaging material to the Middle East). With its Swedish heritage it had the makings of a tough competitor; especially since Packages Limited had innovated a production process to create a new industry in tetrahedral packaging material. In 1974, Babar Ali was offered share-holdings in an Indonesian paper mill in exchange for technical input meant to be provided by Packages Limited. This offer was based on the Norwegian partners of the Indonesian concern being impressed by with Packages Limited's engineers, who had turned implemented a factory turnaround in under three months.<sup>41</sup> However, Babar Ali turned down the offer on the grounds that he would only accept if he was given full control of its operations.<sup>42</sup> Thereupon the

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<sup>40</sup>See A. Chandler, *Scale and Scope*, Harvard, 1990, on pp. 4-9, discusses that in order to maintain market share the management was pressurised into specialising and diversifying their product range.

<sup>41</sup>'Turnaround' signifies closure of a factory in order to exercise maintenance and modernisation of the plant.

<sup>42</sup>See Carlos Cordiero, *Packages Limited*, [case written under the direction of Professor Louis T Wells Jr.], President and Fellows of Harvard College, Harvard Business School case # 390-095, 1990, p.7.

Norwegians withdrew their original offer. Here was an opportunity for Babar Ali to make an international foray, and by refusing an offer which did not give him total control he preferred to opted for foregone industrialisation.

Packages Limiteds' company culture favoured a paternalistic approach which directed employee tenure. This approach included the non-development of individuals which led to a high turnover of its personnel. Graduates were recruited with the intention of grooming them as part of the company's culture. For those who did not conform, eventually left Packages Limited. Justifying this trend, the marketing manager, Javed Aslam commented:

‘The management prefers to train sales personnel for six months and if they decide to leave, the company does not object’.<sup>43</sup>

This attitude was an inherent ingredient of the company culture which discouraged non-family members being groomed to take on senior management positions. It also portrayed an indifference to loss of human resources which are a company's intangible assets. In 1974, the total workforce levelled at 2,872 employees of which 77 percent were on the shop floor and as supervisory junior staff in the technical and production departments. Middle management represented 22 percent of personnel and senior management the

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<sup>43</sup>Interview with Javed Aslam, 26 March 1992 in Lahore. See Appendix A for questions asked in the interview.

remaining one percent.<sup>44</sup> The directors preferred to hire those with minimum work experience to encourage maximum absorption of the company culture. Most of Packages Limited's employees in middle and senior management positions who had decided to continue were there for at least 20 years. From within their ranks, they had not been able to produce other than one person to take on senior management positions. This exceptional case, where a non-family manager occupied the combined positions of a senior director and was represented on the Board of Directors as well as being the general manager of Packages Limited was Tariq Hameed. Tariq Hameed's strength originally drew from his personal links with the raw material suppliers for Packages Limited.

The tendency for the non-development of individuals to accept responsible positions in the Ali Group, was exemplified when a vacancy arose at Milkpak Limited, for a managing director. This position was initially offered by Babar Ali to an employee of Packages Limited, who had twenty years of service there, to his credit. However, the latter declined on the grounds that the 'real action' was taking place at Packages Limited.<sup>45</sup> Therefore, even when the opportunity arose, Packages Limited's long-term employees had lost the initiative to better themselves professionally, which was an

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<sup>44</sup>Given in Ali Group, unpublished company documents.

<sup>45</sup>Given in, Eugene Salorio, *Selecting a New Manager at Milkpak*, Lahore University of Management Sciences, LBS case # 08-075-87-1, p. 3.

attitude in harmony with their company's philosophy.

Managerial inertia was evident again from the following example. An incident occurred which reflected the lack of co-ordination between the ink factory and costing departments at Packages Limited. The discord involved the inspectors of the ink factory who lacked formal qualifications for operating and monitoring the production quality. The only training provided by the company was on-the-job, which lasted for three months. The ink factory and costing departments had adopted different formulae for assigning ink production costs which then produced differing results. The latter were accused by the ink factory manager of pricing ink at (higher) imported prices which no longer applied and using too much colour to mix the ink.

On the issue of colour, another related incident occurred. The quality control of ink was the basis of another problem which arose at Packages Limited. In 1987 the production manager, Rafi Ahmad, was faced with a rejected customer shipment for an order for medicine display cards. The reason provided by the customer was the inferior quality of ink. The quality control lapse had occurred due to a lack of coordination between the ink factory and planning departments. The planning department obtained the customer specifications and sent them on to the production department who then coordinated operations with the ink factory. For this particular order, the batch of medicine display cards had unacceptable colour

variations which violated the customer's specification. Underlying this event was the absence of an organised computing system to monitor consistency of colour output. Quality checks were conducted visually and at random. At times instead of the quality control personnel conducting the checks, the ink factory manager and its operators or supervisors were executing them. In effect, the company's management were economising on hiring qualified technical staff, and therefore putting its ink quality in jeopardy, by over-utilising the services of its manager who was involved in supervisory checks of quality where a trained chemist was really required. The ink factory manager's line responsibilities were enhanced with staff functions in addition to conducting quality checks himself such as, production planning and management, quality control and laboratory operations, recipe development and human resource development. Stan Hooper, consultants to Packages Limited had suggested that the minimum number of chemists required to support the quality checks was four; at the ink factory there were none.<sup>46</sup>

In 1988, the financial loss to the company from delays in decision making which led to lost orders due to unacceptable quality of its

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<sup>46</sup>Ahmed Bilal, Mohammad Abid and Usman Babar, 'Strategic Decision for Diversification into Printing Ink', unpublished report, Lahore University of Management Sciences, 30 April 1990. [This report is available with the author].

ink, stood at Rs 4.5 million.<sup>47</sup> This loss was in spite of the high profits earned by Packages Limited in the same year. In the above example the form of the problem was the disorganised management at the ink factory whereas the specific content of the problem was the poor quality of the ink.<sup>48</sup> The permanent solution lay in addressing the form of the problem so that such an instance where a customer rejected an order did not recur. The content of the problem could have been solved by a subject specialist, such as a chemist, as was recommended by Stan Hooper consultants who could have recommended adoption of new equipment design in order to generate printing economies of scale in ink manufacturing. However, this would only resolve the problem at that particular moment and not when a new (dramatically different) problem arose in the ink factory. Therefore, it was all the more necessary to address the form of the problem which meant that a re-evaluation was necessary of the roles played by the planning and production departments and its interaction with the ink factory, in fulfilling customer requirements.

In 1977, Babar Ali and Aezaz Hussein, a computer specialist set up a software consultancy and hardware providing company, named Systems (Pvt) Limited. Its equity of Rs 550,000, was equally shared

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<sup>47</sup>Given in, Ahmad Bilal, Mohammad Abid and Usman Babar, 'Strategic Decision for Diversification into Printing Ink', unpublished report, April, 1990, p. 19.

<sup>48</sup>See p. 156, for the methodology recognising the form as against the content of problem solving.

between Babar Ali and Aezaz Hussein.<sup>49</sup> In spite of Babar Ali's commitment to promote the business of Systems Limited, he was unable to replicate his intentions by not providing Packages Limited with a main frame computer. An incident which follows, which also exemplifies Babar Ali's managerial inertia to adopt internal systems at Packages Limited. In 1987, the technical and planning managers at Packages Limited had expressed their discontent at the lack of an in-house computing system which led to delays in printed results arriving at their desks. When the information did arrive, it was already redundant and the report had lost its usefulness as a tool to make predictable decisions. Wherever computerised reports existed they were oriented more towards number crunching rather than generating information useful for analysis and decision making. Also whenever the technical manager requested the senior management to instal a system which rectified this problem, he was rebuffed with the view that the company had neither the need nor the expertise for computerising its operations.<sup>50</sup>

The following views were presented by Aezaz Hussien, the managing director of Systems (Pvt) Limited, who was recruited to evaluate the need for a new computer system at Packages Limited:

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<sup>49</sup>Given in, Javed Hamid, *Systems Limited (A)*, Lahore University of Management Sciences, 1987, LBS case # 08-168-87-1, p. 3.

<sup>50</sup>For a critical account of the drive towards computerisation at Packages Limited, see Munazzah Naqvi, *Packages Limited (A)*, Lahore University of Management sciences, LBS case # 18-008-88-1, p. 16.

'In my opinion the proposal has become a cost cutting device rather than a strategic enhancement device. They are not analysing the reasons for wanting a machine. The management at Packages has never been convinced of the strategic usefulness of computers. Moreover they are concerned that technology is a must but not concerned with the details',<sup>51</sup>

After 28 years of running the organisation without a centralised reporting system, the management invested in an in-house computerisation system in 1987. This system was still not geared for absorbing data from all departments stored in a centralised data base. Rather it amounted to replacing the drill of accounting and memo writing with installing desk top computers to do the same job. This still left senior management unable to access a centralised data base to monitor interdepartmental activities and flow of information. They were also unable to assign responsibility to individuals and so blocked any feedback which could have improved existing malfunctions. In 1987 Aezaz Hussein's earlier opinion was reinforced when Tariq Hameed vetoed his proposal to invest in an in-house computing system based on IBM technology and instead opted for a microprocessor based system. The microprocessor system relied on using personal computers, rather than a more sophisticated in-house system which was offered by IBM, to accommodate higher memory capacity at a faster speed. Cost was not the issue which detracted Packages Limited's management from adopting the IBM proposal, rather an inability to appreciate sophisticated technology which in

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<sup>51</sup>*Ibid.*

any case would have reduced costs over the long-term.

Twenty two years after its inception, Packages Limited no longer held a monopoly in the production of paper and board. There were 13 other paper and board manufacturing facilities.<sup>52</sup> The total installed capacities of these units is 294,600 tons per annum, of which Packages Limited owned 42,000 tons. By 1988 the packaging unit serviced 14 percent of the country's domestic market needs for packaging material.<sup>53</sup> The largest paper mill, Pakistan Paper Corporation was established in 1971 at Charsaddah with a production capacity of 45,000 tons per annum.<sup>54</sup> This indicated that the pioneer's competitive advantage remained only in producing packaging material and not in paper and board manufacturing. This advantage was gained from the protection received by Packages from the Akerlund and Rausing company, articulated through the Pakistani government. This meant that the patent to manufacture Tetrahedral cartons rested only with the Ali Group, and in doing so the quality conscious industrial consumer became its assured customer. Also the packaging industry flourished because it did not require installation or demonstration of how to use its output and

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<sup>52</sup>See N. Memon, 'Paper and Paper Board Industry', in *Pakistan and Gulf Economist*, Vol 3, September 23-29, 1989, p. 36.

<sup>53</sup>*Ibid*; also see an article by Pakistan Packaging Institute, 'Evolution of the Packaging Industry in Pakistan', *Dawn*, January 1991, pp. 5-6.

<sup>54</sup>Pakistan Packaging Institute, 'Evolution of the Packaging Industry in Pakistan', *Dawn*, January 1991, pp. 5-6.

neither were after-sales services expected by its customers. However, in an economic environment dominated by cotton textiles production, Packages Limited stood out in forging an identity of its own in an unfamiliar area.

### **3.2.3 Milkpak Limited (Milkpak)**

Milkpak was set up in 1978, as a public limited company, at the initiative of its chairman, Babar Ali. Milkpak processed fresh milk then sterilised it by subjecting it to UHT processing. It was the first company to start production and distribution of milk by modern methods. Milk was then packaged in Tetrapak brick-shaped and tetrahedral (triangular packs) by another Ali subsidiary, Tetrapak (Pak) Limited. It was then distributed to consumers outside the traditional channels by making it available at grocery stores and supermarkets. A traditional channel for supply of milk was from the local milkman, who delivered fresh milk from his personal dairy to houses on a door-to-door basis. The quality of such milk was inconsistent depending on the buffalo's lactation period and the adulteration of milk with water by the milkman.<sup>55</sup>

In 1982, the services of a Danish dairy consultant, the Danish Turnkey Dairies, were employed by Milkpak's management to assist local farmers on the care and vaccination of their cattle. The Danes provided a number of support services, namely the formation of a

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<sup>55</sup>Adulteration of milk by adding water to it, is a common practice among milkmen in Pakistan.

village milk collection enterprise which ensured a milk purchase market for farmers throughout the year, stationing at six different locations, 10 veterinary graduates and 15 stock assistants augmented by a mobile veterinary and vaccination service, provision of improved seeds for fodder to farmers on demonstration plots, advisory services for livestock management and encouraging cross breeding of cows with high milk yielding varieties.<sup>56</sup> These services, combined with the aseptically packaged milk, ensured consistent milk quality and also extended its shelf life.

Management practices at Milkpak were also subject to Babar Ali's style of management. When the position of managing director at Milkpak became vacant, Babar Ali decided not to hire a Packages employee for managing Milkpak on grounds that:

‘I did not want to use anyone from Packages because I needed them all [there]’.<sup>57</sup>

This comment was inconsistent with Babar Ali's earlier attempt to convince an employee of Packages Limited, (who had served twenty years at the company), to assume the managing directorship of Milkpak. Babar Ali then approached Aftab Ahmad to occupy the position of Milkpak's managing director. Aftab Ahmad was a chemical engineer who was also the managing director of the

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<sup>56</sup>In, M. Ashraf, ‘Dairy industry in Pakistan’, *Dawn*, 11 March 1990, p. 7.

<sup>57</sup>Given in, Eugene Salorio, *Selecting a New Manager at Milkpak*, Lahore University of Management Sciences, LBS case # 08-075-87-1, p. 3.

National Fertiliser Corporation Limited. In 1978, Aftab accepted the new job offered by Babar Ali. Babar Ali justified the offer on the following grounds:

‘A number of people considered him [Aftab] as a potential future candidate for the chairmanship [of the fertiliser company]. I thought he was very competent and of the highest integrity. So I hired him as managing director of Milkpak’.<sup>58</sup>

Babar Ali’s decision was clouded by his family’s tendency to base decisions on extraneous opinions rather than on the merit of an individual. He was soon to regret this decision. In 1982, there was a turnover in the management of the company. After four year’s of Aftab Ahmed’s tenure, Babar Ali terminated his services along with those of his management team. The grounds provided for dismissal were misuse of company facilities, a four year delay in commencing milk processing (from the time of Aftab Ahmad’s appointment in 1978) and the resulting decline in company profits, (in 1981, they were 1.7 percent lower than the profits for the previous year and in 1982 they were 5 percent lower than the profits for 1981). This contradicted Babar Ali’s former opinion of Aftab Ahmed when he was offered the job. Babar Ali justified the dismissal of this team with the comments:

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<sup>58</sup>*Ibid.*

"The problem with bringing public-sector managers into the private-sector is that they're more concerned with explaining why things went wrong than with making them go right'.<sup>59</sup>

Therefore, Babar Ali admitted (by implication) that his earlier criterion for choosing the candidate was a faulty one. However Masood Hasan thought otherwise of the reason which led to this Aftab Ahmad's dismissal:

"The real reason was because of the Packages mafia. They created problems'.<sup>60</sup>

This indicated that even though Milkpak was a separately registered company, its management was still subject to Babar Ali's influence, articulated by exercising his group's philosophy on the management practices of Milkpak Limited. The decision to hire Aftab Ahmed was proved erroneous to the extent that he did not demonstrate managerial skills in this appointment, a potential factor which was not visualised by Babar Ali when he recruited him. There was also no long-term investment in retaining skilled labour at Milkpak. The company strategy did not value retention of both skilled and executive manpower in that there was no workers' participation fund till 1987. Such factors, cumulatively contributed to the change over of management at Milkpak, particularly when there was incongruity between the personnel performance and the job

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<sup>59</sup> Given in, Eugene Salorio, *Selecting a New Manager at Milkpak*, Lahore University of Management Sciences, LBS case # 08-075-87-1, p. 1.

<sup>60</sup> Interview with Masood Hasan, 16 January 1994.

requirements. It was Babar Ali who was instrumental in the execution of daily decisions and so could not absolve himself as being a non-performing participant in the misdemeanours which occurred at Milkpak Limited.

In 1988, an exogenous factor contributed to the improved performance at Milkpak. The Nestle food company of Switzerland in agreement with Milkpak, extended its support through providing technical assistance and collaboration with them, to manufacture powdered milk at Milkpak under Nestle's brand name, *Nido*. The following table shows the pre-tax profits and (losses) at Milkpak:

**Table 3.7**  
**Milkpak Pre-tax Profits and (Losses)**

**Rs Millions**

<b>1981</b>	<b>1982</b>	<b>1983</b>	<b>1984</b>	<b>1985</b>	<b>1986</b>	<b>1987</b>	<b>1988</b>
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Pre tax profits (1.7)	(5.0)	6.0	8.9	5.7	5.3	5.0	5.1
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Source: Milkpak, *Annual Reports*, 1982-89.

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The technical input provided by Nestle was accompanied by the appointment in 1988 of Yawar Ali, as Milkpak's managing director. Yawar Ali was Babar Ali's nephew and his appointment was approved by the latter even though he did not consider Yawar to be an effective manager.<sup>61</sup> The anomaly lay in Babar Ali taking

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<sup>61</sup>This was conveyed to the author in an interview with Ahsan Raza, 30 March 1992, in Lahore [in his capacity as a non-family, ex-managing director of Kabirwala Dairies, who was selected and

cognisance of a manager's ineptitude and still recruiting him for managing a company. This anomaly was consistent with the Ali Group's inward-looking policies which led to their managerial inertia. The policy not to train individuals from within the company, had left Milkpak with no eligible or qualified candidates to assume its managing directorship. The position should have been offered to a manager with professionalisation of experience<sup>62</sup> especially since a foreign company was collaborating with Milkpak. However, the reigns of power were offered by default to a family member. There was also no indication by the close of the 1980s that this tendency was about to change.

### **3.2.4 Ali Automobiles (Pvt) Limited (Ali Autos)**

This company was set up in 1950, led by Wajid Ali.<sup>63</sup> The head office and assembly unit were based in Karachi with five branch offices at Lahore, Karachi, Peshawar, Rawalpindi and Quetta. Till the mid-1960s, WIL remained the flagship company of the group but thereafter it was Ali Autos by which the group's corporate identity was recognised. This was because when Ali Autos was formed, it was a rarity for entrepreneurs to produce or assemble motor vehicles. The group's first mover position in this industry enabled it to obtain

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appointed for this post by Babar Ali]. See Appendix A.

<sup>62</sup>This concept is explained on p. 152.

<sup>63</sup>See agreement signed by Wajid Ali and Babar Ali, with the former accepting his responsibility as the managing director of the company, 3 February 1969.

a licence from Ford (USA) to assemble its vehicles in Pakistan. This enabled the Ali Autos' management to replace a number of imported raw material parts for vehicle assembly with indigenously manufactured ones. The deletion content for Ford cars was 28 percent and 40 percent for Lambretta Scooters.<sup>64</sup> Armed with their arsenal of contacts made with the Ford company (USA), through Iskander Mirza's benediction, they were presented with no obstacles in obtaining the relevant licences from the Ayub government.<sup>65</sup> Assembly began with the production of 2,500 assembled Ford motor cars per year.<sup>66</sup> In 1950 the cost of production for a Ford 158" wheel base (WB) was Rs 10,580 and for a General Motor's Chevrolet 161.2 inches WB was Rs 10,350. In 1951 the market price for Ford cars in Pakistan fetched Rs 10,481.18.<sup>67</sup> Given the small profit margin derived from the difference in cost and selling price, the year-end profits in 1950 were Rs 9,850 or approximately equivalent to the sales price of one car.<sup>68</sup> Other agencies owned by Ali Autos were for

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<sup>64</sup>For these figures see, Amjad Ali, *Glimpses*, Jang, 1992, p. 116.

<sup>65</sup>Interview with Zia Shafi Khan, Personnel Adviser, Habib Group, 24 November 1992 in London.

<sup>66</sup>The production capacity is indicated in a letter from Wajid Ali, Ali Automobiles Limited, West Wharf, Post Office Box, 1130, Karachi to Major-General A. Whiteside, General Headquarters, Rawalpindi, Pakistan, 3 February 1950.

<sup>67</sup>See letter from Wajid Ali invoicing a buyer, M. Shoaib Esqr. of 203-B, E.I. Lines, Frere Street, Karachi, 2 February 1951.

<sup>68</sup>Given in, Statement of Sales and Expenses at Ali Automobiles Rawalpindi, from October 1949 to 31 March 1950.

the assembly of Ford trucks, tractors, NEC television sets, Carrier airconditioners, English Electric refrigerators<sup>69</sup> and Lambretta scooters. By 1971, 34 percent of television set parts (by volume) were indigenously manufactured at Ali Autos. This demonstrated, a 66 percent deletion component for assembly of television sets.<sup>70</sup>

The bulk of Ford cars were sold to the Defence Ministry.<sup>71</sup> Obtaining the Defence Ministry contract, was made possible from earlier links which Muratib Ali had with the Commander-in-Chief of the Indian Armed Forces, Sir Claude Auchinleck, and later those of Amjad and Wajid Ali with General Iskander Mirza. In 1969 the agency for sale of pre-assembled Lambretta scooters was given to the Ali Group by its parent company, Innocenti in Italy. When Innocenti set up their unit, the Ali family felt that expansion into motor vehicle assembly represented little competition. However, the general manager of Ali Autos, Mohammad Mohsin was not considered competent by Innocenti's chairman, Bonelli to conduct business on

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<sup>69</sup>See deed appointing Ali Automobiles as sole agents for supply of refrigerators of the English Electric Co. Limited, signed by E. Lewis, manager, Bombay branch, 20 October 1949. Also see a letter W.J. Orange, The English Electric Company, Mackinnons Building, McLeod Road, Karachi, to Amjad Ali, 18 Victoria Road, Karachi, 21 March 1951.

<sup>70</sup>Deletion means the process of replacing imported spare parts with locally manufactured ones.

<sup>71</sup>See offer of sales letter, from Wajid Ali to Ghulam Abbas, Financial Advisor, Ministry of Defence, Karachi, 7 March 1950, offering 35 Mercury and 15 Ford cars to the government.

Lambretta's behalf.<sup>72</sup> Thereupon, Innocenti withdrew its investments in Pakistan in 1971 at a time when the environment was conducive for developing the automobile industry. This was another instance of foregone industrialisation in engineering, faced by the group, owing to their inept management practices.

By 1970, and prior to nationalisation, motor car sales at Ali Autos declined.<sup>73</sup> This happened at a time when a government financial institution, the Investment Corporation of Pakistan (ICP) had financed the company's equity through a loan, which represented 16 percent of its credit extension to all private industry in 1970. All through this study there was also no evidence of a computerised record-keeping and monitoring system since accounts were manually prepared using the old ledger system. Before the Ali Group could consolidate their position, the automobile manufacturing industry was nationalised by the Bhutto government in 1972. Like the Treet Corporation (Pvt) Limited and Packages Limited, this company also followed an inward system of management, in order to keep costs low. This was reported by Nosher Mama, a non-family managing director of Ali Autos from 1960 to 1979, who was the only other exception to the Ali family's convention of recruiting family managers

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<sup>72</sup>See letter sent by Mohsin to Bonelli, 4 December 1969.

<sup>73</sup>A letter from R.N. Conn, the Direct Markets, operations manager for European Sales Operations at Ford Europe to Wajid Ali, 3 March 1970, diplomatically reprimanding Wajid Ali on loss of their sales market in Pakistan.

at senior positions.<sup>74</sup>

Mama reported that in the course of time Wajid Ali had turned down an offer from Japan's Toyota company for a joint venture offer, to assemble motor cars in Pakistan.<sup>75</sup> This decision was another example of foregone industrialisation for the group. The Japanese offer was an exogenous factor affecting expansion, and had it been accepted it could have solidified the groups' base in engineering, especially in the wake of nationalisation, this base could have had its spin off effects with Ali establishing other engineering facilities.

Wajid Ali's involvement with the Employees Federation at Karachi and Geneva indicate his interest in employer-labour relations.<sup>76</sup> Any labour conflicts which emerged at Ali Autos were personally resolved by Wajid Ali. However Wajid Ali did not differentiate between line and staff functions when delineating and accounting for the employees' performance. Decisions made by any non-family managers were effectively made redundant, since they were overruled by Wajid Ali's final veto power on them. The organisation was also centralised without diversifying into other product lines such as

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<sup>74</sup>Interview with Nosher Mama, ex-managing director Ali Autos, 18 January 1992 in Karachi. See Appendix A.

<sup>75</sup>*Ibid.*

<sup>76</sup>Wajid Ali's status as an influential figure in labour management on a national level is evident from a letter of invitation for a meeting, addressed to him from the Secretary, West Pakistan Labour Advisory Board, 105, Upper Mall, Lahore, 3 March 1967, to Wajid Ali, chairman, Labour Committee of the board.

manufacture of spare parts and paint, which were related products of the automobile. Such an extension would have reduced the effects of nationalisation and continued the Ali Group's interests in light engineering.

### **3.2.5 Treet Safety Razor Blades Corporation (Pvt) Limited**

**(Treet)**

The group's foray in blades manufacturing commenced in pre-partition India; where they were appointed the sole agents of the American Safety Razor Corporation of New York, USA.<sup>77</sup> The latter had a 50 percent share in the equity of this company.<sup>78</sup> However, owing to a disagreement between the two parties on the magnitude of expenses incurred by the Alis, the American Safety Razor Corporation pulled out a portion of their shareholdings by selling them to Ali in 1947.<sup>79</sup> In 1948 Treet was incorporated as a private limited trading concern with a paid up capital of Rs 1.5 million.<sup>80</sup>

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<sup>77</sup>This is mentioned as an historical introduction of the Ali Group's interests in blade manufacturing, in a letter from Wajid Ali to G. Faruque, secretary, Ministry of Industries, Pakistan, 25 March 1952.

<sup>78</sup>*Ibid.*

<sup>79</sup>*Ibid.*

<sup>80</sup>See letter from Wajid Ali to Ghulam Faruque, Secretary, Ministry of Industries, [of the Ghulam Faruque Group], 25 March 1952, informing him of the significance of this company in being able to meet the country's entire demand of 30 million razor blades annually.

The same year its sales from trade were 30 million razor blades.<sup>81</sup> The company augmented its sales capacity by importing blades from the USA.<sup>82</sup> Blades manufacturing was dependent on imported raw material. Most of the raw material, mainly strip steel was imported and processed before selling it as razor blades. Since India was a major buyer of its blades the company was still able to draw overdraft facilities by 1949, from the Mercantile Bank of India Limited (incorporated in England) up to Rs 500,000 limit.<sup>83</sup> In 1948, sales to India were made for 22 million blades and within Pakistan 8 million blades were sold. With an average selling price of Rs 0.036 per blade, its combined sales to both countries, fetched Rs one million in 1948.<sup>84</sup> The cost of production for the same quantity

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<sup>81</sup>See Statement of Sales of the Treet Safety Razor Blades Corporation Limited, 2 August 1948.

<sup>82</sup>See open ended letter from Robert Alfredson of the Pal Blade Company, 43rd West, 57th Street, New York, 19, USA, 8 April 1952, to an Ali company, stating their desire to appoint the Alis as their agents in Pakistan; also see a letter from Wajid Ali, to J. L. Mailman, Esq., Pal Blade Company., Inc., 43 West 57th Street, New York, N.Y., 3 June 1950, in which Wajid Ali advised Mailman that his query had been mediated by Wajid Ali, which had drawn a response from Ghulam Faruque, as Secretary Ministry of Industries, and subsequently conveyed to Mailman; also see letter from Wajid Ali to G. Faruque, 10 May 1950, requesting him to resolve the procedures involved in the import of Pal Blades from the USA.

<sup>83</sup>See letter from the manager of the Mercantile Bank of India to Wajid Ali, 21 June 1949, and from the chief accountant, Kemp and Company Limited, 88 C, Old Parbhadevi Road, Bombay 28, India to the parent company.

<sup>84</sup>See Statement of Sales of the Treet Safety Razor Corporation Limited Karachi, Pakistan, 2 August 1948.

amounted to Rs 0.044 per blade or Rs 1.3 million and so the plant was operating at a trading loss of Rs 300,000 in 1948.<sup>85</sup>

The initial installation and operation of equipment was handled by technicians recruited from Germany. In the mid 1950s, Mr Mead an American was appointed the general manager at the Hyderabad plant of the Treet. In 1951, the company's foreign partner, the American Safety Razor Corporation of New York which still had 50 percent investment in Treet's shares, sold its entire share-holdings in favour of Ali. This was owing to delays in commencing production since Wajid Ali was trying to dispose off the plant to potential buyers in Australia.<sup>86</sup> His attempts proved unsuccessful owing to the asking price to be economically unviable for the Australian buyers.<sup>87</sup>

By 1952, the plant had not fetched a buyer and thereupon the brothers decided to invest in production facilities at Treet, in order to make it an economically viable venture. To this effect they formed a strategy to liaise with those institutions which were formed to promote industry, a liaison which was to yield mutually beneficial favours. An illustration of such reciprocity was established in a

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<sup>85</sup>For a detailed report of the company's Income Statement, see company documents, 2 August 1948.

<sup>86</sup>This is evident in the document on the 'Transfer of Shares held by the American Safety Razor Blades Corporation and Mutual Release', prepared by Qadeeruddin Ahmed, Advocate, and sent to Wajid Ali Esqr., Ali Automobiles, West Wharf, Karachi, 24 October 1951.

<sup>87</sup>See letter from Commercial Secretary for Pakistan at the Pakistan High Commission in Australia to Wajid Ali, 21 June 1951.

letter dated 30 May 1952 from Amjad Ali to an employee of the Pakistan Industrial Finance Corporation (PIFCO), a Mr Havelicek.<sup>88</sup> Havelicek's assistance was sought in assisting Treet to obtain credit from PIFCO.<sup>89</sup> There appears to be a linkage between expediting this credit facility requested by Amjad Ali, for financing Treet and Amjad Ali's simultaneous offer to act as PIFCO's agent for import of machines from Britain. These machines were required by the PIFCO for an independent project that its management intended to finance. In a letter dated 7 April 1952, the UK branch of WIL confirmed their assistance in obtaining the requisite machines for PIFCO.<sup>90</sup> To capitalise on this favour, a week later Wajid Ali sent another letter to the managing director of PIFCO reiterating his need for credit, this time for modernisation of the vegetable *ghee* plant at Hyderabad.<sup>91</sup>

In 1954, Treet was made part of WIL and commenced production of razor blades in Hyderabad. Its head and regional offices were

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<sup>88</sup>The PIFCO was set up in 1949 to provide mortgage finance to running business concerns at a time when the scale of business was relatively small. When PIFCO was merged with the IDBP in 1961, it took under its umbrella a commitment to also finance medium sized firms.

<sup>89</sup>See Wajid Ali's letter to V. Havelicek Esq., of the PIFCO instructing him to expedite a loan application for Treet, 30 May 1952.

<sup>90</sup>See letter from Sir John R. Abercrombie, managing director, Wazir Ali (G.B) Limited to Amjad Ali, 7 April 1952.

<sup>91</sup>See letter from Wajid Ali to the managing director, PIFCO, 19 April 1952.

located in Karachi and managed by Wajid Ali's nephew, Asad Ali. In 1984, the blade manufacturing facilities were increased by the installation of a second factory at Lahore. This extension was made with the assistance of a Rs 30,000 loan personally extended by Amjad Ali.<sup>92</sup> The Lahore plant and head office management was delegated to a third generation member of the group who was Wajid Ali's son, Shahid Ali who was made its executive director. Before becoming the executive director, Shahid Ali had served at the Lahore plant as its administration manager, and resident director. Commenting on his career track he said: 'We have to prove ourselves'.<sup>93</sup> However he did not provide an example where style of management this was demonstrated.

Wajid Ali's personalised style of management was also emulated by Shahid Ali at Treet's office in Lahore. The company's production manager was transferred to the Lahore plant from the Hyderabad unit after serving there for 27 years. The Lahore plant had 530 shop floor workers. Shahid Ali claimed to have introduced promotion of employees on merit rather than based on their seniority. At the same time he perceived his company's culture to be along paternalistic lines which to him was one of the main reasons for the

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<sup>92</sup>See the agreement between Amjad Ali and Treet, 25 September 1948.

<sup>93</sup>Interview with Shahid Ali, 6 February 1992 in Lahore. See Appendix A.

growth of the company.<sup>94</sup> The financial performance of the company, 1977-88 follows:

**Table 3.8**

**Treet Safety Razor Blades Corporation (Pvt) Limited  
Pre-tax Profits and (Losses)  
Rs millions**

<b>Year</b>	<b>Sales</b>	<b>Pre-tax Profits &amp; (Losses)</b>
1977	30.3	4.1
1978	44.7	6.2
1979	51.1	5.5
1980	61.5	9.3
1981	71.5	10.9
1982	82.5	8.1
1983	98.2	9.9
1984	107.6	7.5
1985	116.3	1.9
1986	125.2	(2.1)
1987	152.6	(3)
1988	191.4	(1829)

Source: Treet Safety Razor Blades Corporation (Pvt) Limited, *Annual Reports*, 1978-89.

Profits of the company started to decrease significantly after 1984, and turned into loss from 1986-88. Reasons provided by the management for the losses incurred in 1986 were owing to machine obsolescence and stiff competition from competitors. The sources of competition included those emanating from imports and locally manufactured razor blades with the advent of the Gillette Razor

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<sup>94</sup>*Ibid.*

Company in Pakistan.<sup>95</sup> The same reasons were extended by the management for further losses incurred by the company in 1986-87.<sup>96</sup> The colossal losses incurred by the company in 1987-88 were acknowledged in the director's statement as emanating from the increase in the competitor's market share and from an unforeseen expense to repay dues to a government-lending institution, the Investment Corporation of Pakistan.<sup>97</sup>

The company's inward looking policies included the absence of investment in research and development expenditure for technological improvements, in an industry, which according to Shahid Ali, was highly competitive.<sup>98</sup> Their initial advantage of being the first in razor blades manufacturing, allowed them to make inroads when their market was not quality conscious. Treet, after remaining for 34 years in the business, lacked investments in blade technology improvement, which gave an edge to its main competitor, the Gillette Razor Blade Company which was established in Pakistan in 1987.<sup>99</sup> In Pakistan, the latter had spent Rs 250 million on

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<sup>95</sup>Mentioned by the director, S.A.Q. Haqqani and the chief executive, Wajid Ali's statement in Treet's, director's report to shareholders, *Annual Report, 1985-86*, p. 5.

<sup>96</sup>Mentioned by the director, Manzoor Ahmad and the chief executive, Asad Ali's statement to shareholders in Treet, director's report, *Annual Report, 1986-87*, p. 4.

<sup>97</sup>See Treet, director's report, *Annual Report, 1987-88*, p. 4.

<sup>98</sup>Interview with Shahid Ali, 6 February 1992.

<sup>99</sup>*Ibid.*

improvements in the blades manufacturing process. Shahid Ali described his company's strategy as being 'risk averse' in order to keep costs low. At the same time he accepted that the razor blade industry required sophisticated steel technology. Therefore a risk averse strategy was obstructing technological improvements in razor blades production at Treet.

Members of the Ali Group were pioneers in this industry, yet they failed to maintain its market share in blades, with the entry of competitors. The owner-managers at Treet did not develop professional managers to see the company through its next generation. According to Ahsan Raza:

'Shahid Ali is anti-professional management,... he says that professional managers are too expensive'.<sup>100</sup>

The entry of the Gillette Razor Company in the local market removed the monopolistic edge which Treet enjoyed for 33 years. Had Treet's management invested in internal organisational systems from the company's inception, they would have been better equipped to meet with the changed environment which competition presented to them. Also the fact that the job for the executive directorship at the Lahore plant was given to a family member again reflected the group's inward looking inertia, not to professionalise its management function and have built-in succession within the companies of the group.

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<sup>100</sup>Interview with Ahsan Raza, 30 March 1992.

### 3.3 External Relations

Members of the Ali Group, spanning three generations used their network of controls to further themselves, politically, economically and financially. Their contacts primarily benefitted their public image, and any benefits which accrued to the group's initial expansion, remained incidental to their larger interests of maintaining influence and power. One of their first investment in the Abbassi Textile Mills Limited and Sind Oil Mills largely benefitted from the *Amir* also investing in its shares. On this, Fieldhouse reports:

'Under the promoter's agreement the Nawab [Amir] was to assist the Alis in obtaining licences, import permits, sanctions for the issue of shares and the highest priority for the import of machinery, plant etc'.<sup>101</sup>

The Ali Group was one of the pioneers in manufacturing industry in Pakistan. Fieldhouse reports again:

'Amjad Ali, the effective head of the family business, was a leading Muslim industrialist who saw the opportunity created by partition and used his family wealth and political influence to build up an intensive industrial and commercial empire in West Pakistan in the later 1940s'.<sup>102</sup>

Amjad Ali's political influence began in the late 1940s. In the 1950s, when Unilever (Pak) invested in Pakistan, it was quick to capitalise on his contacts, as articulated by Fieldhouse:

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<sup>101</sup>Given in, D. Fieldhouse, *Unilever Overseas*, Croom Helm, 1978, p. 246.

<sup>102</sup>*Ibid.* p. 249.

'After partition the Ali family seemed- though this is impossible to demonstrate from the records-to have provided valuable contacts with the government and clothed the otherwise naked foreignness of this British Company'.<sup>103</sup>

In the above quotation, when Fieldhouse was compiling the company history of Unilever in Pakistan, he mentions that he could not substantiate his assertion, from the documents at his disposal, that the Ali family enjoyed leverage with politicians. However, those documents were accessed by the author of this study and provide considerable wealth of information validating this study's assertion that the Ali Group had access to the senior-most politicians and bureaucrats, in Pakistan and in instances overseas.<sup>104</sup>

Amjad Ali had direct access to different Prime Ministers and Presidents of Pakistan, from the first Prime Minister elected in 1951 to seven successive ones up to 1971, a liaison which was replicated to a similar degree in other business groups studied here. In most instances, these contacts provided the Ali Group with a head start in the acquisition of new businesses over other aspiring contestants. This edge manifest itself in Ali investment in the consumer, intermediate and capital goods industries. However since these investments were not part of a preconceived business strategy their occurrence did not generate linkages within the group and led to its eventual splintering. Plausibly, this was because of external factors

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<sup>103</sup>*Ibid.* p. 253.

<sup>104</sup>All referenced documents are with the author.

which initially prompted a particular investment, given the conducive financial and political backing from influential decision makers and which were not followed up with internal systems. It was in this lack of sufficient internal impetus that led to a decline in Ali's investment in light engineering in the long-term.

Key personalities in the Ali Group established a camaraderie with the higher echelons in Pakistani politics enabling the former to (initially) access venture capital with the support and blessings of the bureaucratic machinery.<sup>105</sup> These networks paid dividends, in particular, to Muratib, Amjad and Wajid Ali.

Muratib Ali, son of the group's pioneer Wazir Ali was made a director of the State Bank of Pakistan in 1948.<sup>106</sup> In 1951, his close association with the Prime Minister, Liaqat Ali Khan was evident from a letter in which he extends a personal invitation to the Premier for a meal.<sup>107</sup> Muratib Ali was also an associate of Field Marshal, Sir Claude Auchinleck, ex- Commander-in-Chief of the Armed Forces in British India.<sup>108</sup>

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<sup>105</sup>For patronage in Pakistani industrial policy, see pp. 77-83.

<sup>106</sup>Highlighted in a congratulatory letter to Muratib Ali from the director of the State Bank of India, C.D. Desghmukh to Muratib Ali, No: D.O. No. Sy 32, 20 July 1948.

<sup>107</sup>See letter from Muratib Ali to Liaqat Ali Khan, 26 March 1951.

<sup>108</sup>See letter from Wajid Ali to Field Marshal Sir Claude Auchinleck, C/O Messrs Grindlays Bank, London, 3 October 1951, informing him that his personal bearer in Pakistan would be provided with a quarter [room] and that all canteen dues were settled. [The dues from the Ali Group's business of supplying the

Wajid Ali also took after his father in maintaining personal contact with senior ministers and four Pakistani heads of State, in 1959-1971. The Heads of State included Ghulam Mohammad, who was the Governor-General of Pakistan in 1954-55. A few months later, in 1955, Mohammad Ali was sworn in as the Prime Minister of Pakistan. During his tenure as Prime Minister, he sent a letter to Wajid Ali acknowledging his input on American Aid to Pakistan.<sup>109</sup> This letter indicated two things, firstly that the Prime Minister had personally acknowledged and responded to Wajid Ali's views and secondly, the latter's involvement at a high level on Pakistan's policy on receiving American Aid. In 1962, when Ayub was the President, Wajid Ali also accessed him by sending a letter to his Military Secretary reminding him to provide a date suitable for the President to dine with Wajid Ali.<sup>110</sup> Another occasion was in 1970 when the then President General Mohammad Yahya Khan, granted Wajid Ali an interview.<sup>111</sup> In another letter signed by Yahya to Wajid Ali, the official relationship is complemented with a more personal note, one in which he thanks him for the condolence message received upon the

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British army with food].

<sup>109</sup>See letter from Prime Minister of Pakistan, Mohammad Ali to Wajid Ali, # 505-PMHI55, 18 January 1955.

<sup>110</sup>See letter from Wajid Ali to Brig. Nawazish Ali Shah, TQA, Military Secretary to the President of Pakistan, President's House, Rawalpindi, 23 November 1962.

<sup>111</sup>See letter from S.N. Rizvi, Private Secretary to the President, to Wajid Ali, 13 July 1970.

death of the President's sister.<sup>112</sup>

Wajid Ali's brother, Amjad Ali also enjoyed a personal friendship with President Ayub.<sup>113</sup> These contacts with various Pakistani Heads of State were not just in an official capacity. There is evidence that if the two parties met in an official capacity, there are just as many occasions when they met as personal friends, dining at the Karachi residence of the Ali family. Amjad Ali's links with the higher echelons were cemented when his son, Asad Ali married the daughter of the serving President of the country, Iskander Mirza in 1959. The personal aspect cemented the Ali Group's ties with the higher echelons which did not go unnoticed internationally.

Amjad Ali also did full justice to his family's penchant for remaining in the limelight. His career in politics began as an Honorary Secretary to the Muslim delegation to the Round Table Conference on the constitutional reform of India in 1931. In 1937 he was elected to the Punjab Legislative Assembly and later represented Pakistan in its diplomatic mission to the USA. Further evidence of his position as an industrialist with leading contacts was in his appointment as one of the four members of the Education Committee, of the Ministry of Education and Industries in 1950. From there on

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<sup>112</sup>See letter from the President, General Agha Muhammad Yahya Khan, H. Pk, H. J., President's House, Rawalpindi, to Wajid Ali, 18, Victoria Road, Karachi, 30 December 1970.

<sup>113</sup>Amjad Ali, [in *Glimpses*, Jang, 1992], mentions a lunch arranged by him at his residence in Karachi which was attended by the President on 8 October 1958.

his career went from strength to strength. In 1950-51, he was made Minister of Economic Affairs at the Pakistan Embassy in Washington as well as the leader of the Pakistani Delegation to ECOSOC of the United Nations. The latter designation was conferred on him in 1950 by the Finance Minister, Ghulam Mohammad. With the passage of time, Amjad Ali's familiarity with Ghulam Mohammad was to pay him dividends. When Ghulam Mohammad became the Governor-General in 1954-55, he immediately appointed Amjad as the Pakistani Ambassador to the USA, a position he occupied from 1953 to 1955.<sup>114</sup> In 1954, Babar Ali's marriage, in Washington D.C., USA, was attended by the then Vice President of the USA, Richard Nixon.<sup>115</sup> A few months later, Ghulam Muhammad's regime was overthrown. Amjad Ali returned to Pakistan to another high level appointment awaiting him; he was made the Minister of Finance and Economic Affairs (1955-58) by the new Prime Minister, Mohammad Ali. As a Minister with experience on Pak-American policy he exerted influence on the government's expenditure on subsidising wheat imports under the PL 480 aid from the United States. He negotiated an exacting issue of convincing the US government to release Rs 72 million in favour of Pakistan government, in lieu of the sale proceeds from the wheat aid.<sup>116</sup>

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<sup>114</sup>See Amjad Ali, *Glimpses*, Jang, 1992, p. 188.

<sup>115</sup>Interview with Masood Hasan, 16 January 1994.

<sup>116</sup>Given in, Amjad Ali, *Glimpses*, Jang, 1992, p. 200.

Amjad Ali was also consulted by senior officials both at home and overseas on financing business development projects in Pakistan. His involvement with economic policy framed by the World Bank on credit extension to developing countries was indicated in a letter sent to him by the President of the World Bank, USA, Eugene R Black.<sup>117</sup> Amjad Ali was also the Governor, Ambassador and Minister of Finance representing the country for the 6th to 13th Annual Meetings of the International Monetary Fund and International Bank for Reconstruction and Development, Washington, D.C., from 1951 to 1961. In 1962, he was appointed the chairman of the main vehicle for promoting private investment in Pakistan, the Investment Promotion Bureau (IPB). The IPB dealt with private-sector applications for foreign exchange loans, which were meant to be approved by the Ministry of Industries. This appointment was another instance where the Ali Group took the lead in exerting their influence and power over the country's financial structure.

Amjad Ali's position internationally is exemplified when the Secretary General of the UN, U Thant wrote to him:<sup>118</sup>

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<sup>117</sup>See letter from the office of Eugene R. Black, President, International Bank for Reconstruction and Development, Washington 25, D.C., USA to Amjad Ali, 17 December 1951.

<sup>118</sup>See letter from U Thant, Secretary-General, United Nations, New York, # FI 315/1, addressed to 'His Excellency', Amjad Ali, 11 December 1969.

'I take pleasure in informing you of your re-appointment as a member of the Committee on Contributions for a three-year term beginning on 1 January 1970, and enclose the relevant resolution (A/RES/2515 [XXIV]) adopted by the General Assembly on 25 November 1969. I would like to take this opportunity to congratulate you on your re-appointment and to express my personal appreciation of the service rendered by you to the United Nations and the general Assembly through your continued membership of this important Committee'.<sup>119</sup>

Amjad Ali's tour itineraries would be distributed to select Pakistani Embassies and High Commissions abroad along with Ministries relevant to industry in Pakistan.<sup>120</sup> When the Chinese Prime Minister Chou-en-Lai visited Pakistan in 1964, he visited the Treet Blades plant in Hyderabad.<sup>121</sup>

Amjad Ali also enjoyed the personal friendship of Nelson and David Rockefeller in the USA. In a letter addressed to David Rockefeller he acknowledged 'the beautiful casket of cigars' sent to Amjad Ali as a gift.<sup>122</sup> In another letter, this time, to Nelson Rockefeller, Amjad Ali updated him on the findings of the International Development Advisory Board and how its report affected the future of business in Pakistan.<sup>123</sup> These letters were examples of the business and

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<sup>119</sup>See letter from U Thant, Secretary-General, United Nations, New York, # FI 315/1, addressed to 'His Excellency', Amjad Ali, 11 December 1969.

<sup>120</sup>Tour itinerary prepared and circulated by the chairman, Investment Promotion and Supplies, Karachi, 2 September 1962.

<sup>121</sup>Given in, Amjad Ali, *Glimpses*, Jang, 1992, p. 301.

<sup>122</sup>See letter from Amjad Ali to David Rockefeller, 3 April 1951.

<sup>123</sup>See Amjad Ali's letter to Nelson Rockefeller, Terry Town, New York State USA, 13 March 1951. Amjad Ali conveyed his approval

personal links of the Ali family with senior industrialists and policy makers overseas.

Wajid Ali complemented Amjad Ali in promoting the group's public relations.<sup>124</sup> He too was recognised by both local and foreign dignitaries as being one of Pakistan's business leaders.<sup>125</sup> This is

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of the recommendations made by the International Development Advisor Board's recommendations for underdeveloped countries. Nelson Rockefeller was chairman of this Board. In the same letter Amjad Ali alluded to his conversation with Nelson's brother David Rockefeller, reminding him of his and the UN General Assembly's commitment to assist these countries to achieve full employment, effective demand and a democratic way of life; also see Amjad Ali, *Glimpses*, Jang, 1992, p. 314.

<sup>124</sup>Company documents of the Ali group time and again show Wajid Ali's close liaison with senior members of the bureaucracy. One such gathering was a dinner at the Intercontinental Hotel in Rawalpindi which had a guest list of 30 select government Secretaries, Ministers and the Commander in Chief of the Army. One such letter indicating this is from an employee, H.R. Chagla to another colleague, Ghulam Rasool at Ali Autos Limited (Rawalpindi), 10 November 1970.

<sup>125</sup>For an overview of Wajid Ali's public stature see personal letters received by him from: U Thant, Secretary General of the UN, August 1, 1969; and Margaret, Duchess of York, 3 November 1969; the extent of the Ali Group's liaison with Pakistan's political and business affairs is exemplified by correspondence received by Wajid Ali from heads of State and senior officials as follows: Prime Minister of Pakistan, Zulfiqar Ali Bhutto's letter to Wajid Ali, 23 August 1971; the President of Azad Jammu and Kashmir government, Mohammad Iqbal's letter to Wajid Ali, 22 September 1971; the Commander-in-Chief of the Pakistani army, General Yahya Khan to Wajid Ali, 11 November 1954; the Chief of Air Staff and Commander-in-Chief of Pakistan's Air Force, Air Marshal Asghar Khan's letter to Wajid Ali, 21 March 1961; the Chief Justice of Pakistan, Justice Cornelius' letter to Wajid Ali, 8 April 1968; the Governor of the State Bank of Pakistan, Ghulam Ishaque Khan's letter to Wajid Ali, 13 September 1973; International Organisation of Employers Geneva, latter from Raphael Lagasse to Wajid Ali, 4 March 1968; and International Labour Office Geneva, from ILO

exemplified when he was requested by the Ministry of Industries, Government of Pakistan to act on behalf of other industrialists in submitting their demands to the Ministry. The Ministry awaited his response as the necessary feedback in order to plan for the required capital.<sup>126</sup> This was when the government planned to set up an Industrial Development Bank, to meet the future credit needs for industry. This issue was raised in a forum called the Recommendation of the Council of Industries [Third Session] supervised by the Ministry. In a letter to Wajid Ali, the Council summoned him to a 'high level conference' on short- and long-term finance needed by industrialists and the nature of assurances the Ministry should extend them in order to accelerate industrialisation. The letter was sent to Wajid Ali and only nine other officials all of whom were senior ministers or Secretaries to the Federal government.<sup>127</sup> The following letter marked 'secret' and addressed to Wajid Ali from Abdul Qadir, Central Directorate, State Bank of Pakistan states:

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Principal Deputy Director General, C.W. Jenks to Wajid Ali in the latter's capacity as President Employers Association of Pakistan, 10 April 1968.

These letters are available with the author.

<sup>126</sup>See letter # N&P-2(52)/54, from M. Yasin, Officer on Special Duty, Ministry of Industries, Government of Pakistan to Wajid Ali, 16 February 1955.

<sup>127</sup>See letter from the Council for the Recommendation on Industries, no: MS-40/3.B(7)/5187-54, 16 December 1954 to Wajid Ali where he was consulted by senior State Bank officials on the viability of setting up an Industrial Development Bank in Pakistan.

‘....I enclose a copy of a circular which has been issued to leading industrialists and a few capitalists. In order to assist industrialisation and development of Pakistan, it is essential for our institutions to participate in the organisation of industrial credit in this country.....I hope you will put this matter before your Board of Directors and intimate the extent of investment your company will make in the Industrial Bank’.<sup>128</sup>

In 1961, another letter titled ‘confidential’ was sent to Wajid Ali from the Central Directorate of the State Bank of Pakistan, which briefed him on the credit policy and constraints that a new Industrial Development Bank would impose on industrial investors. This was prior to the official inauguration of the bank and Wajid Ali was kept updated before the information was committed to public knowledge.<sup>129</sup> By 1973, his association with policy-makers at the State Bank and the Industrial Development Bank had matured and this was reflected in Wajid Ali being the only businessman offered a directorship of the Industrial Development Bank.<sup>130</sup> He was also an equity contributor to it, along with the State Bank and an appointed member of a special committee to study and make recommendations on industrial policy matters.

There was no independent institution which monitored influence

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<sup>128</sup>*Ibid.*

<sup>129</sup>See letter from the Central Directorate, State Bank of Pakistan, Karachi to Wajid Ali, 15 December 1954 and letter from S.L. Haider, State Bank of Pakistan, Central Directorate, Karachi, # D.O. no: 3153/71-61 to Wajid Ali, 21 November 1961.

<sup>130</sup>See letter from the Governor of the State Bank of Pakistan, Ghulam Ishaque Khan to Wajid Ali, 13 September 1973.

and power accruing to a particular individual, demonstrated in Wajid Ali being privy to secret State documents, evident from the following extracts from a copy of a letter sent to him:

‘ TELEGRAM SECRET

FROM: PAREP PARIS  
TO :FOREIGN KARACHI  
9th November, 1957.

From President for Sardar Rashid Chief Minister West Pakistan Lahore repeated to Prime Minister Pakistan.  
Under Constitution we are compelled to call session of Assembly at Dacca before December 31st. King of Afghanistan coming from 10th to December 20th....Any adverse reaction will be reflected in general elections....On behalf of your party I have given my word to the Prime Minister that Republicans in the National Assembly will support a bill ushering in separate electorate and hope you will help me to your utmost to see my word is honoured to the hilt'.

In the above text the President was Hussain Suhrawardy and the text clearly shows that Wajid Ali was privy to such a confidential document. Wajid Ali's status as an industrialist of consequence was reinforced when he was asked to attend a conference of the representatives of Provincial Governments and States to advise on policy for the textile industry.<sup>131</sup> Another instance was when his advice was solicited by the Ministry of Works and Commerce, Commerce Division on how to design and establish a non-official agency to issue capital stock for joint-stock companies.<sup>132</sup> Wajid Ali

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<sup>131</sup>See letter addressed to Wajid Ali from Assistant Secretary Ministry of Industries, Karachi, 12 July 1950.

<sup>132</sup>Letter addressed to Wajid Ali by M Junaid, Deputy Secretary Ministry of Commerce, Works and Education, Commerce Division, 25 November 1950.

was also one of four individuals on the Ministry of Education and Industries' Establishment of the Commercial Education Committee.<sup>133</sup>

Wajid Ali also maintained close ties with Gohar Ayub's father-in-law, Lieutenant General Habibullah, another leading industrialist. General Habibullah's daughter was married to President Ayub's son.<sup>134</sup> Another letter sent by the General to Wajid Ali signified the latter's influence over Pakistani industrial policy. General Habibullah addressed the letter in his capacity as chairman of the National Press Trust inviting Wajid Ali for tea to meet other some publishers.<sup>135</sup> Wajid Ali's senior position as an industrialist was again reflected when he was chosen as one of the ten senior officials (most of whom were Federal Secretaries) to meet with Desmond Donelly.<sup>136</sup> Desmond Donelly was a Member of the House of Commons in London who visited Karachi in November 1954.

On the foreign front Wajid Ali enjoyed personal meetings with and wielded influence over senior industrialists and policy makers, which

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<sup>133</sup>See open document of the Ministry, 8 September 1950.

<sup>134</sup>Gohar Ayub's stake in Ghandhara Industries is documented in H. Feldman, *From Crisis to Crisis*, Oxford, 1972, pp. 305-306.

<sup>135</sup>This letter was sent on 29 October 1970 with an attached guest list of 72 other invitees, all of whom were either the managing director or chairman of their respective business groups.

<sup>136</sup>See letter from Hamid Nawaz Khan, Ministry of Foreign Affairs and Commonwealth Relations, Karachi # D.7905-P(ii)/54, 15 November 1954, to Wajid Ali advising the latter of Donelly's tour itinerary.

was illustrated in the following letter addressed to him by Mildred Hughes, Executive Vice President of Rockefeller's Far East-American Council of Commerce and Industry Limited in New York:<sup>137</sup>

'...The purpose of this meeting is to bring together leading executives in industry, finance and commerce from both sides of the Pacific and officials of the Governments of Asia and the United States for a series of intensive discussions on current conditions in Asia and an authoritative look at considerations bearing on future requirements and prospects in Asia-United States economic relations...As one of the business leaders in your country, we feel that you can contribute much to the deliberations of this important Conference. We know that too that you would find this meeting informative and profitable in every way'.<sup>138</sup>

Wajid's links with key political figures was not limited to those in the United States. In Britain he had friends who were politically prominent. For example on 22 June 1970, Wajid Ali sent a telegram to a former Prime Minister of Britain, Sir Alec Douglas-Home, which read as follows:<sup>139</sup>

'Please accept my heartiest felicitations upon your appointment as Foreign Secretary stop May Allah Almighty bless your endeavour with success stop Please convey my sincerest regards to Lady Home stop Regards'.<sup>140</sup>

A week later on 28 June 1970, Sir Alec Douglas-Home responded to Wajid's congratulatory telegram in a letter worded in formal jargon, to which he added a handwritten postscript which read as:

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<sup>137</sup>See letter from Mildred Hughes to Wajid Ali, 17 August 1961.

<sup>138</sup>*Ibid.*

<sup>139</sup>See telegram from Wajid Ali to Sir Alec-Doughlas Home, 22 June 1970.

<sup>140</sup>*Ibid.*

...‘It was nice to hear from you. Poor Iskander. I miss him a lot, With Love, Alec’.<sup>141</sup>

The informal ending to this letter confirmed the personal friendship between the two and lent credibility to the proposition that Wajid Ali shared influence and power with foreign political personalities as well. The reference to Iskander in Home’s letter is on the demise of Iskander Mirza, Pakistan’s President from 1958 to 1959.

Wajid Ali also represented Pakistan to the UNIDO in 1959. His position as President of Associations included the Cotton Exchange Board, Employers’ Federation of West Pakistan, Gulab Devi Hospital and Institute of Islamic Culture. One of the most prominent designation for Wajid Ali was as the Pakistani representative to the International Labour Organisation Governing Body at Geneva and League of Red Cross Societies, as their Executive Member. He was also the Pakistani representative to the Executive Body of the International Olympic Committee in Geneva. Another letter highlighting his role in policy making at an international forum was when he was asked to address a meeting of the International Labour Organisation at Geneva in his capacity as a Member of its Governing Body.<sup>142</sup>

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<sup>141</sup>Letter from Sir Alec-Douglas Home, K.T., M.P., House of Commons to Wajid Ali, 18 Victoria Road, Karachi, 28 June 1970.

<sup>142</sup>See letter addressed to K.S. Ahmad, Secretary Employers Association of West Pakistan by Wajid Ali’s Private Secretary, 17 November 1976.

In the group's formative years, both Wajid Ali and Amjad Ali's international and domestic connections benefitted their businesses. Wajid Ali's contribution to the group's initial take-off was from his liaison with the Ford company who were Ali Auto's Principals,<sup>143</sup> and with Pakistan's Defence Secretary, Iskander Mirza.<sup>144</sup> The cordial relations with the Principals which led to a long-term partnership between the two parties was also evident from the time that Amjad Ali served as Ambassador and adviser to the Pakistan Embassy in Washington D.C.<sup>145</sup> In 1963, it was Amjad Ali who was expedient in obtaining the Ford motor dealership and forming Ali Autos for the assembly of motor cars, vans, trucks and the manufacture of Lambretta scooters. The leg work for obtaining the requisite licences was done by the two brothers much earlier. According to Zia Shafi Khan,<sup>146</sup> a director of another monopoly group, the Habib Group, commented:

"The Alis set up Ali Autos because of their close associations with Iskander Mirza", [in the early 1950s].<sup>147</sup>

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<sup>143</sup>A Principal is the founding company located overseas.

<sup>144</sup>See letter from Wajid Ali to Iskander Mirza, 25 March 1950 and 26 March 1950, requesting his assistance to purchase Ford Vehicles for the Defence Services of Pakistan; also in a letter to the same, 24 June 1950.

<sup>145</sup>The Principal-subsidiary relationship is evident in a letter from Kamal Ali, managing director of Ali Autos to the Deputy Controller, Foreign Exchange, State Bank of Pakistan, Karachi, 17 July 1950.

<sup>146</sup>Interview with Zia Shafi Khan, 24 November 1992.

<sup>147</sup>*Ibid.*

Wajid Ali's links with Iskander Mirza were established in a professional capacity when the latter was the Secretary Defence in 1950. Syed A & M Wazir Ali supplied motor vehicles to the Defence Services and Iskander Mirza was responsible for accepting their delivery.<sup>148</sup> These links were to pay dividends for the Ali Group when Iskander Mirza became the President of the country in 1958.

There are other instances where Wajid Ali's connections directly benefitted his group's businesses. At times he would resort to pressure tactics to coerce government officials in awarding him with the requisite licences needed for company investments. One such letter was sent to a senior official for the country's imports and exports with a request for Wajid Ali to export cotton seed.<sup>149</sup> When Wajid Ali sensed that the request was not forthcoming he addressed a second letter to Karamatullah, the Chief Controller of Imports and Exports, Karachi reprimanding him on permitting the import of unauthorised quantities of alcohol in the country.<sup>150</sup> The content of this letter was on an issue unrelated to Wajid Ali's business. However, the text shows that Wajid Ali had put on record a misdemeanour committed by Karamatullah. In order to obtain his

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<sup>148</sup>This is evident in a letter from Wajid Ali to Iskander Mirza, Secretary Defence, Government of Pakistan, 26 March 1950.

<sup>149</sup>See letter from Wajid Ali to Karamatullah Esq., of the Ministry of Commerce and Education seeking his permission to export cotton oil seed as the first manufacturers to do so from Pakistan, 25 March 1950.

<sup>150</sup>See letter of Wajid Ali to Karamatullah, 25 March 1950.

cooperation in not exposing this revelation, Wajid Ali was in fact coercing Karamatullah to provide him with the requisite licence.

Another letter indicating Wajid Ali pressurising officials was in a letter to the Deputy Secretary, Ministry of Refugees and Rehabilitation, Government of Pakistan, Karachi into allotting him industrial land for a vegetable *ghee* plant at Hyderabad in the larger interest of establishing the country's first such mill.<sup>151</sup> A host of letters were sent to various ministries and one was strongly worded by Wajid Ali highlighting his designation as chairman Cotton Board to coerce the Deputy Secretary in granting him a licence to export cotton seed oil.<sup>152</sup> In 1952, Wajid Ali became the chairman of the Pakistan Refugees Rehabilitation Finance Corporation and therefore became more senior to the Deputy Secretary mentioned above. This finally enabled him to obtain the licence for buying industrial land at Hyderabad.

The group's senior management devoted their energy towards reinforcing their political networks. In the short-term, these networks assisted first time investments for a number of industrial

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<sup>151</sup>See letter from Wajid Ali to the Deputy Secretary, Department of Refugees and Rehabilitation, 5 June 1951; also see a similar open-ended letter sent by Wajid Ali to the Ministry of Food and Agriculture (Food) Division, 8 May 1952 and a third letter followed on the same issue, sent by Wajid Ali to Naseer Ahmad Esq., Ministry of Industries, Government of Pakistan, Karachi, 10 February 1952.

<sup>152</sup>See letter from Wajid Ali to Karamatullah Khan, Ministry of Commerce and Education, Government of Pakistan, Karachi, 10 January 1952.

investments of the group. However the group members did not follow it up with developing a long-term institutionalised strategy of consolidation and diversification. This policy of omission of company an effective strategy, had its deleterious impact within the departments and subsidiaries of the group. For most effective results, institutional improvement can best be brought about in the initial stages of business investment. Senior members of the Ali Group could have concurrently developed long-term strategy and structure while tapping into their political contacts and accepting ministerial appointments, but they chose not to do so then or at a later date.

### **3.4 Management Strategy**

Wajid Ali's penchant for new investments and acquisitive acumen in business, did not lead towards pioneering modern management in the country at a time when the opportunity to do so was ripe. His drive towards reinforcing political contacts was not replicated in the long-term development of ideas for his businesses. This group was a first mover in locally manufactured vegetable oil, razor blades, paper and board conversion, facial tissues, UHT milk, tetrahedral cartons and the assembly of motor vehicles, refrigerators, vans, scooters and televisions. Its foray in all these industries was not by design or as a consequence of management's long-range strategy. However, given these investment opportunities which were at their disposal, also called for continuous planning and consolidation of

functions, if the group was to sustain their investment in light engineering in the long-term. Most first movers in the USA gained scope advantages by cultivating production processes, patenting their product and incurring enormous expenditure on advertising and after sales service.<sup>153</sup> These activities were not evident in the Ali Group.

Once Ali made its foray in the vegetable oil and engineering, systems applications were needed to sustain long-term business development. A network of related procedures developed according to an integrated plan was then required for the effective implementation of new internal organisational systems. Such a plan, exacted the need for detailed feedback sent to senior managers, especially on product design, marketing strategies and research and development operations required to remain abreast of technological changes. The group's investment in vegetable oil and the steel were investments made in the consumer- and light engineering sectors, which required managerial dexterity in resolving problems which occurred on a rising scale of magnitude. This was only possible if managers had foresight to project into the needs of the future. In such a situation, one of the tools for solving problems which occurred on a rising scale of magnitude was by training employees which was a qualitative measure of performance. Such trained manpower would have been better equipped with handling problems that occurred with

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<sup>153</sup>Discussed in A. Chandler, *Scale and Scope*, Harvard, 1990, p. 35.

investing in different industries simultaneously. This was particularly relevant since the group's investment in engineering was not the outcome of product rationalisation, rather was incidental to a long-term strategy developed by the group's managers.<sup>154</sup> Obtaining the Ford motor agency pushed the group into engineering not from a conscious policy to diversify by forward or backward integration. Within one scoop the Ali Group was assembling scooters, motor cars, trucks, televisions and hollow plate bridges. This was a rare opportunity to in fact consolidate its base in engineering at a time when no other few businesses had the comparative advantage to do so. However this one-off, first mover enterprise lacked the necessary dynamic leadership to sustain this advantage over the long-term.

The Ali Group records show little evidence of any problems which were resolved using a systematic methodology. Management took decisions as and when they arose. Since each situation generated an equally unique decision, it was all the more necessary that the decision-makers followed guidelines which were applicable to all unique business situations. Guidelines of such a nature which the

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<sup>154</sup>Rationalisation as defined by A. Chandler, *Scale and Scope*, Harvard, 1990, is a reduction in family control, where new entrants who aspire for shareholdings in another company [of the group], do not need to purchase its shares, instead are made to surrender a larger portion of their stock held elsewhere for a smaller share in the new firm. Rationalisation in production processes means a large number of production units kept under a small number of locations and monitoring the flow of raw material from supplier to the end-user, *Ibid.*, p. 80.

Systems Approach methodology provides. If these guidelines were continuously updated and applied to recurrent problems, then the Ali management could have become sufficiently trained at differentiating the form of a problem weighed against its content to then enable diversification of its products. Certain instances where a decision was to be taken and the manner in which management resolved an issue are now discussed. Ali's senior management had a tendency to appoint family members to manage their companies. On its own merit, this would not have prevented effective management practices, but for the fact that this proclivity for appointing family managers dominated the group's history from its inception to 1988, indicated a lack of faith in adopting professional management. The following example demonstrates the deleterious affect of not having built-in succession within an Ali company. In 1971, Ali Auto's management required a new director to manage its local and overseas market for assembly of Ford vehicles. No individual from within the company was likely to be appointed owing to lack of training. The choice facing the management was to either hire a professional manager or induct another family member. The bias for favouring the latter option prevailed. Wajid Ali's nephew, Kamal Ali accepted the position of the new director in 1971.<sup>155</sup> Kamal Ali did not have an inclination for managing businesses or the requisite qualifications or

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<sup>155</sup>See agreement signed between Wajid Ali, Managing Director, Ali Automobiles Limited, and Kamal Ali, 1 January 1971.

experience to justify his appointment. In fact he was an artist who spent his time in painting.<sup>156</sup> His only credential was that he was from the Ali family and that sufficed as a reason for his appointment. At this juncture, Ali Autos had remained in business for over twenty years. If method study had been implemented (that is on how to improve upon or eliminate a process or procedure, which when it is implemented means that a methodological approach has been applied), or if the principles of the Systems Approach were part of the company's operating philosophy, then the proposed candidate would have emerged from its own hierarchy of managers. However, owing to lack of training and foresight there was no eligible person, which led Wajid Ali to appoint his nephew, Kamal Ali as the new director. In this situation, the content of the problem was that no employee from within the company was eligible for filling in the vacancy for a director of a motor vehicle assembly plant. The form of the problem lay in the overall lack of training which led to this predicament. According to the Systems Approach methodology, the problem identification lay in addressing the form of the problem; in this instance the lack of training which could not produce the right person from within the company. The right person would have been a qualified engineer with sufficient professionalisation of experience, to occupy a senior management position. However Wajid Ali's did not follow the above criterion for choosing a new manager, rather he

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<sup>156</sup>Interview with Ahsan Raza, 30 March 1992.

appointed a family member.

This attitude finds its parallel in other decisions taken by Wajid and Babar Ali, where the form of the problem remained the same, although in dramatically different situations. A similar choice was exercised in 1988 by Wajid Ali. His son, Shahid Ali was appointed the executive director of Treet's Lahore plant. All managerial decisions were under his control. Before becoming managing director, Shahid Ali had served as the administration manager and the resident director, successively at the Lahore plant, prior to which he was working for Packages Limited. This was another instance of a family appointment prevailing over the option to select a professional manager at Treet.

When Ali Autos was nationalised in 1972, the group's potential in developing linkages in the engineering sector also perished. This was because they had not diversified in the engineering industry at an earlier point in time when it was possible and lucrative for them to do so. Policies which lead to diversification required a certain degree of foresight and the ability to view situations from an overall point of view. To gain proficiency in this, management needed to view business problems in their overall form and not be detracted in doing so by resolving only problem content, which arose on a daily basis. In the long-term, such a strategy would have generated economies of

scale as well as scope for the group.<sup>157</sup> In turn, these economies would have made for a stronger base in engineering and a strong base can weather turbulence more effectively than a weaker one.

Wajid Ali's inertia to capitalise on rare investment opportunities is also replicated in Babar Ali's management style at Packages Limited. Ahsan Raza, an ex- managing director of Kabirwala Dairies commented:<sup>158</sup>

'Have you seen any young Ali worth his salt. Now look at Babar Ali. He is the doyenne of management in Lahore. Now Babar Ali's company [Packages Limited] is twenty-five to thirty years old and they have only produced one man by the name of Tariq Hameed and no one else... They cannot produce any man. Not in General Management nor in Financial Management. Now such a big company such as Packages, and they need a finance manager and they have to advertise this in the paper. Packages has centralised decision-making. Babar Ali is like a shadow on them. He has very peculiar ideas and he inflicts them on the company. Those ideas include the non-development of individuals including those from his family's next generation. Packages should have been the unofficial producer of modern management in Lahore. There should have been ex-Packages people all over the place'.<sup>159</sup>

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<sup>157</sup>See A. Chandler, *Scale and Scope*, Harvard, 1990, pp. 17-34, for economies of scope defined as the joint production and distribution of more than one product which reduces overhead costs and improves human skills common to for both commodities. Specifically these may include an improvement of plant design, and improving production processes. The nature of such reforms are part of viewing business problems from a distance [identifying the form of the problem]; this also provides a linkage with the methodology of the System's Approach, and for this see, R.L. Ackoff and P. Rivett, *A Manager's Guide to Operations Research*, John Wiley, 1963, p. 64.

<sup>158</sup>Interview with Ahsan Raza, 30 March 1992. After leaving the Ali Group, Ahsan Raza was managing his own private school and did not have any remaining working links with the Ali family.

<sup>159</sup>*Ibid.*

Ahsan Raza's opinion on Babar Ali was lent credibility when he interacted (as the managing director of Kabirwala dairies) with Babar Ali, on a labour issue which he narrated as follows:

'In 1982 the labour was threatening the top management that it will go on strike if its demands were not met. I was appointed by Babar Ali and Yawar Ali to negotiate with the workers and to arrive at an amicable settlement. Faced with this scenario the negotiations commenced on an aggressive note whereby the workers threatened to go on strike if their demands deadline expired. To this, I responded that if the deadline expired the management would shut down the plant so that the deadline could in fact not expire. While the arbitration was proceeding, I presented Babar Ali with an invoice for Rs 135,000. This represented what Kabirwala Diaries owed to me in lieu of their violation of a clause in my employment contract. On this Babar Ali's responded and told Yawar Ali 'This is not on, change that contract... I know you can do it'.<sup>160</sup>

However the employees at Packages Limited were convinced of the effectiveness of Babar Ali's policies. The marketing general manager at Packages Limited Javed Aslam, when asked to comment on the training policy in his company said:<sup>161</sup>

'...its a training ground for people. We do not force them back...in fact prefer it [if they leave]...its a teething problem'.

Teething problems are associated with the formative years of a business enterprise. The fact that after thirty three years of the company's formation, it still viewed problems as 'teething problems' is in itself an indication that management had failed in the developing skills of its employees. The existence of such problems

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<sup>160</sup>*Ibid.*

<sup>161</sup>Interview with Ahsan Raza, 30 March 1992.

remained one of the reasons that Packages Limited did not diversify into a larger, better managed structure with globalisation of its business activities when the opportunity to do so presented itself to Packages Limited's management.

A comment follows by a manager at NDFC, Talat Behzad, who had scrutinised the working philosophy of members of the Ali Group:

'Packages' senior executives may have made good decisions but somehow you will feel they are not giving you the right information. For example a Ph.D. employed at Packages for researching the conversion process of the eucalyptus tree bark to make pulp for paper manufacturing, was unable to supply any information pertaining to the same'.<sup>162</sup>

Talat Behzad continued his criticism of the Ali Group's management style, in particular that directed by Babar Ali:

'The management does not seem to be interested in their employees. They are still operating in the 17th century'.<sup>163</sup>

Talat Behzad concluded, by stating that Lever Brothers (Pak) Limited, (which was a competitor of WIL, in the manufacturing and marketing of soap and edible oil), had a Domestic Research Bureau which tested the pre- and post-launch of their soap sales. However, neither WIL nor Treet (which marketed the soap) contained a counterpart cell, and instead requested their advertising companies to prepare research and development reports on soap consumption in the country. This scenario depicted Lever Brothers (Pak) Limited's

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<sup>162</sup>Interview with Talat Behzad, 19 January 1994 in Karachi.

<sup>163</sup>*Ibid.*

superior position by 1981; in its marketing strategy which was not emulated by the management at WIL and Treet. This strategy would have enabled WIL and Treet's management to adopt more professional methods of determining its market share (as was the case in the 1960s, when WIL's management were practising professional management when the team had captured 50 percent of its competitor, Lever Brother (Pak) Limited's branded soap market). From Talat Behzad's information, Lever Brothers (Pak) Limited's soap market in the Punjab in 1981 was more than ten fold that of WIL.<sup>164</sup>

Instances where companies within this group showed favourable performance, was largely because they were monopolies. One such, the Tetrapak company had the sole licence to manufacture UHT packaging material in agreement with the Swedish Tetrapak organisation. Other milk and fruit juice producers remained unsuccessful, over time in obtaining a licence from the government for the production of similar tetrahedral cartons. The Tetrapak company was originally formed as an extension of Packages Limited and enjoyed a monopoly in the manufacture and sales of its cartons. This automatically provided Tetrapak with a niche in the sale of milk available in tetrapak cartons. Tetrapak cartons were also sold to other milk and fruit juice suppliers in the market. However the lead time for providing other suppliers with the empty cartons was at

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<sup>164</sup>Interview with Talat Behzad, 19 January 1994.

least two weeks. In a market such as Karachi's with a demand for 200,000 litres of milk per day in 1988, a two week lead time for obtaining cartons automatically gave Tetrapak an edge in the packaged milk market. At this juncture Tetrapak's packaged milk sales would increase by the same proportion as competitors' sales decreased. Tetrapak's edge in the packaged milk market was not an outcome of sound managerial policy rather was attained through its monopoly position. This circular scheme of events led the milk manufacturers to lobby with the government to put pressure on the separation of Tetrapak's management from Packages Limited. The main justification for the demand was that all other milk manufacturers were operating on only 30 percent of their installed capacity. These demands were conceded to by Packages Limited's management and Tetrapak (Pak) Limited became a legally separate entity in 1987. This separation also reduced the costs charged to milk manufacturers and suppliers by visiting Tetrapak officials, when the latter inspected the former's milk packaging facilities.

Over the long-term, an inventory of misdemeanours committed by members of the Ali Group by not adopting or implementing the Systems Approach methodology, led to a change for the worse. From the 1960s-1980s, this attitude was the cause for the relative decline in the group's investment portfolio when compared with the progress

made by other groups in the same era.<sup>165</sup> In neglecting to address issues promoting long-term growth, the owners sowed the seeds of their organisation's decline. Since these businessmen were first movers in certain industries and also enjoyed the benefit of close access to Heads of State as well as their senior ministerial and diplomatic postings, they were initially in a privileged position. They were more often than not absorbed in policy framing and became flippant towards adopting systematic methods essential in spurring and maintaining growth and particularly in helping to promote and motivate professional managers.<sup>166</sup> In spite of their high level connections, which could have assisted in accessing foreign technology, members of the Ali Group used their contacts to project their personality and charisma. They could just as easily have used their contacts to develop overseas branches of their manufacturing facilities. The absence of changing managerial strategy with expansion was also evident from the agenda developed in the Board meetings of the group; that is the low priority given to resolving internal problems of the firm which was to have far reaching

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<sup>165</sup>See Table 2.15 on the value of net assets of the Ali Group from 1968 to 1988.

<sup>166</sup>For more details on this see L.J. White, *Industrial Concentration and Economic Power*, Princeton, 1974, pp. 150-55 and PIDC, 'Development Programme of Pakistan Industrial Development Corporation', unpublished report, PIDC, 1989, p. 4.

consequences.<sup>167</sup> An example of this is a letter from Amjad Ali to Wajid Ali on the appointment of a new general manager at Ali Autos, which reads as:<sup>168</sup>

‘Father and myself strongly disagree proposal appointing technician as general manager...we should have someone [for general manager] who is entirely dependable’.<sup>169</sup>

This message was followed by another letter sent to Sir William Roberts by Amjad Ali on the same date as the one written above.<sup>170</sup> The issue raised was on the appointment of a general manager for the Abbassi Textile Mills Limited. Amjad Ali advised Sir Roberts that a technical person was inappropriate to manage a mill such as theirs. The reasons provided by Amjad Ali were that:

‘...anyone ...who may have the technical knowledge will not be conversant with local conditions...The experience we have had is, that technical people don’t take the same amount of interest which they used to years ago, and the result is everything slows down. Moreover they also do not keep an eye on expenditures which results in spending more than is necessary’.<sup>171</sup>

Both the above mentioned letters indicate that an employee with a technical background was not a qualified candidate for

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<sup>167</sup>These board minutes are from the ‘Minutes of Meeting of the Board of Directors’, of Ali Automobiles Limited, 1, West Wharf Road, Karachi, held on 21 October, 1970 at 2.30 P.M.

<sup>168</sup>Letter sent by Amjad Ali to Wajid Ali, 31 July 1950.

<sup>169</sup>*Ibid.*

<sup>170</sup>See letter from Amjad Ali to Sir William Roberts, Northern Bank Limited, Grafton Street, Dublin, Ireland, 31 July 1950.

<sup>171</sup>*Ibid.*

spearheading an organisation, which runs counter to Alfred Chandler's support of professional management enabling group diversification and consolidation.

Members of the Ali Group also did not evince any interest to move their base away from the urban centres of Karachi or Lahore. That is why they did not develop the textiles sector of their portfolio since it would have required at least some family members to relocate their base to Rahim Yar Khan, (a small village) in order to manage the textile mill. In not doing so they missed out on developing an industry where other business groups were developing their comparative advantage, in a predominantly agricultural economy.

### **3.5 Interlocking Directorships and Kinship Patterns**

The ownership of share capital, determined the controlling power of the Ali Group. There was a tendency for family members to finance capital for new subsidiaries in the group as well as appoint themselves on the Board of Directors and other senior managerial positions within the group. In one instance when Amjad Ali loaned Rs 30,000 to the Treet Corporation, the agreement mentioned that in case of Treet Corporation defaulting in its repayment, its property (other than the factory), would be liquidated to meet its obligation to the lender.<sup>172</sup> Thereafter the terms of repayment of the loan were made on soft terms @ 4 percent interest annually, approved by family

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<sup>172</sup>See, the agreement between Amjad Ali and the Treet Safety Razor Blades Corporation, 25 September 1948.

consent.<sup>173</sup>

Wajid Ali was the managing director of Ali Autos, WIL, Packages Limited and Wazir Ali Engineering (Pvt) Limited. He was also a partner with Muratib Ali and Ahsan Ali in Syed A & M Wazir Ali. For non-group firms, his directorship extended to Pakistan Services Limited, Adamjee Jute Mills Limited, Zeal Pak Cement Factory Limited, the National Steel of Pakistan and the Imperial Chemical Industries, a British multinational. There was only one steel mill in the country and Wajid Ali's directorship stemmed from his equity contributed to this venture.

The Memorandum and Articles of Association of WIL indicate that there were interlocking directorships among the individuals of the group. At WIL's inception, Wajid Ali was its managing director with Syed A & M Wazir Ali as its managing partner.<sup>174</sup> Its three directors were from the Abbassi Textile Mills Limited, Karachi Cotton Association Limited and the National Bank of Pakistan Limited. Another instance of a family member investing in shares of another group company is that of Abid Hussain a brother-in-law of Wajid Ali. Abid Hussien owned 50 percent shares in Abbassi Textile Mills indicating a reinforcement of family control.<sup>175</sup>

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<sup>173</sup>*Ibid.*

<sup>174</sup>See Partnership Deed of Syed A & M Wazir Ali.

<sup>175</sup>See letter from Wajid Ali to Abid Hussain, 9 May 1951 explaining the shareholding.

In 1959, when Packages Limited was a private limited concern, the Ali Group's share-holdings in it were 77.31 percent, with 22.69 percent owned by the Akerlund and Rausing family. The Swedish share-holding was given in exchange for their technical and managerial assistance and for arranging the import of European machinery required for start-up. In 1964, when Packages Limited floated its shares to the public, 50 percent of its shares became vested with the public. However, since government-owned financial institutions also constituted the 'public', about 25 percent shares were owned by these institutions, such as National Investment Trust (NIT), and National Investment Corporation (NIC). Packages Limited obtained loans from these institutions at attractive interest rates. Packages Limited also had ten directors of which three were representatives from public financial institutions, and a further two were represented by the Ali and Rausing family. An additional three executive directors represented the Ali family, namely Wajid Ali who as a family member worked with two non-family executive directors.

Milkpak was another joint venture of Ali with Akerlund and Rausing, the latter owned 8.6 percent of Milkpak's shares by 1988. The Rausing family was the supplier of technology. Additionally, Milkpak shares were owned by Packages Limited @ 7.1 percent, with International General Insurance, another Ali company owned 5.7 percent shares and the International Finance Corporation owned 5.7 percent. The public owned 45.7 percent and the remainder 11.3

percent was divided between foreign firms who were advisors to local farmers on cattle health and milk quality. The Ali family owned 15.7 percent shares, in exchange for providing Milkpak with dairy farming and milk processing facilities through its 100 percent owned subsidiary, Kabirwala Dairies. The latter was originally owned by Fakhar Imam, (Wajid Ali's nephew) and this company was later merged with Milkpak. Packages Limited also owned and managed the Shiekhupura farms near Lahore, jointly associated with Cattle Breeds Limited in Shah Jewana, district Jhang. These farms raised imported cattle for milk which was sold to Milkpak for further processing.

These interlocking directorships stood in good stead in the group's formative years. With mainly family presence dominating the shareholdings they exhibited a risk averse attitude to business. This attitude was not just reflected by limiting share-holdings within the family but in the reluctance to employ professional managers. In the long-term, the family presence on different company Board of Directors made the group's collective vision even more myopic. The repercussions of not adopting internal organisational strategy left the Ali group with scattered investments without any links binding them to build the foundations of a cohesive business dynasty.

### **3.6 Conclusion**

Members of the Ali Group used various tactics to acquire businesses in Pakistan. By manoeuvring jointly held share-holdings in favour of the family, they reinforced their network of controls over their own businesses and sought the favour of the State in obtaining investment licences to initiate their business. This assisted them in the group's initial expansion. However sustaining this expansion required a certain vigour, and because of the internal structures peculiar to their businesses, innovative management never developed. This meant that innovation was largely dependent on adoption of the Systems Approach methodology; as the volume of business multiplied with its attendant information flows, the manager was required to handle problems on a rising scale of magnitude and complexity. The complexity itself gave rise to practical considerations whereby managers were meant to replace more traditional methods of collecting information towards developing a more manageable and goal-oriented data base. This qualitative approach imposed upon management a certain discipline to view problems from a distance in order to see their form more clearly. The success of the new approach was dependent on monitoring detailed documentation and generation of related reports. Their use by senior management would have provided them with a closed loop system of continuous assessment and feedback. All departments were required to follow the same methods of information generation and retrieval in the

interests of maintaining consistency. Unstructured management styles could not fulfil or keep pace with handling the growing volume of information in a meaningful way. One of the effects of unstructured policies in the group, was that investments was made in unrelated industries which ultimately prevented functional linkages from forming. Over the long-term, this led to a further a deterioration of managerial control over both human and capital resources, and this control was what the members of this group did not relinquish. The responsibility for introducing institutional changes in the group rested with its owner managers. However in this group, the intent to bring about such changes was lacking in conviction. The initial experiment with hiring professional managers at WIL (Hyderabad) was a success, demonstrated in their capturing a significant portion of the competitor's share in the vegetable *ghee* and soap markets and secondly. However when they left for more senior positions in industry<sup>176</sup> it indicated that the time was ripe for the group's management to pass over control to non-family management. Initially the success factors were part of a pre-conceived strategy which was designed by non-family managers. Once they left, the owners chose not to repeat the hiring of professional managers or to substitute by training members from within their family. Instead they diverted their business acumen in

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<sup>176</sup>See p. 188, for WIL managers who left for more senior management positions in industry.

continuing to further their personal image rather than investing in changes that would glorify their businesses. In the ensuing years, Ali's management strategy developed a void, which became even more difficult to circumvent and led to the eventual decline of the group investment in the light engineering sector.

In the early life of the companies, 1960-68 success remained a function of the owner-entrepreneurs' first mover or monopoly status and political leverage and the consistency with which they pursued and maintained the favour of the politicians and bureaucrats.<sup>177</sup> In some instances, these businessmen themselves got politically strategic appointments. By the mid-1970s, after nationalisation of its automotive assembly and vegetable *ghee* plants, the only successfully run businesses left were where the group enjoyed monopoly power. This monopoly status gave them a stability which was as strong as its weakest link. Examples where unstructured decision-making were involved, bear testimony to this point. However, in an economic environment dominated by textiles, Packages Limited was one Ali Group company which was able to forge an identity of its own in an untraditional sector of manufacturing paper and UHT packaging material.

Decline set in for this group because its managers did not adopt systems. Given that the political environment was also unstable, this should not have prevented senior management from investing in

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<sup>177</sup>*Ibid.*

new internal organisation systems which in itself would have been a capital investment, cushioning eternal shocks in the long-term. The management had the option to allocate its resources on improving its methods. The motivating factors which spurred initial investment and success was derived from their aspirations to know and be recognised in political, military, business and bureaucratic circles as leaders in industry. They sought this status by paying lip-service<sup>178</sup> to good management yet barely implemented its principles. They sought upward mobility through political contacts, not for expanding their businesses but for recognition as first movers in industry. The Ali Group's managers remained diplomats and politicians first and managers second.

The Ali Group as a leading industrial family was not a passive recipient of State largesse, rather actively formulated and administered it. There were instances where it was the voice of the government on industrial development, a role they adopted in both an official and personal capacity. The underlying and unofficial criteria for success as seen by them was whether their income matched that of the landowning class. Having reached that level, the motivation to expand the business waned away. This was evident from two members of the Ali group who turned down lucrative joint venture proposals offered by (potential) foreign collaborators. The

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<sup>178</sup>In the 1980s, Babar Ali was a participant of the Harvard Business School's Advanced Management Programme, targeted at imparting strategic management skills to influential practitioners.

first was when the Japanese Toyota car manufacturers approached Wajid Ali in 1970 with an offer to establish a joint venture with Ali Automobiles (Pvt) Limited and the second was when Babar Ali turned down a similar offer from the Norwegians to collaborate with him in erecting a paper processing facility based in Indonesia.

Members of the Ali Group were also content to keep an urban base at the cost not relocating to Rahim Yar Khan to manage their textile business there.<sup>179</sup> Decline set in from their inability to diversify arising from liquidity restrictions or investment in unrelated fields because of the unstructured pattern of planning and managing of their businesses. Their myopic management philosophy did not contribute towards empire building but rather focused on personality building as the ultimate reward for their efforts. What we saw was a consolidation of the business image of an already dominant class of businessmen who won the allegiance of the country's Premiers and Presidents and in instances, foreign Prime Ministers and Presidents. Other groups which had also participated in the run for seeking such favours, but later replaced them with investing in internal organisational systems, appeared to grow over the course of their business history.

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<sup>179</sup>The Ali group's aversion to shifting their residence to RYK where the first manufacturing facility the WIL was formed is also mentioned in D. Fieldhouse, *Unilever Overseas*, Croom Helm, 1978, p. 260.

## CHAPTER FOUR

### THE CRESCENT GROUP

#### Introduction

The Crescent Group commenced its business activities as traders of leather and hides in undivided India. The founding members were two brothers, Muhammad Amin and Muhammad Bashir, who formed a business partnership, named Muhammad Amin Muhammad Bashir Limited (MAMBL). They were assisted by another two brothers, Haji Muhammad Shafi and Fazal Karim. MAMBL was established as a private limited concern which also doubled up as managing agents for new group investment. After migrating from India in 1951, the four brothers invested in manufacturing, in cotton and its related products where they had a comparative advantage. By building a base in this field they were able to accumulate enough capital to enter non-traditional fields in industry. These included manufacturing investments made in the light engineering sector, such as steel processing and as financiers of machinery and equipment required by industrial users. The group produced 12 second generation managers, of which the more prominent in business were Altaf Saleem, Anjum Saleem, Ahsan Saleem, Tariq Shafi, Nasir Shafi, Javed Amin, Muhammad Rafi and Zahid Bashir.

This chapter is divided into six sections. **Section One** outlines the early history of the group. **Section Two** presents its business

development over 37 years, (1951-1988). **Section Three** highlights the management philosophy peculiar to this group and the unique management strategy adopted from its inception. This is explained through four company histories, selected for their important role in the group's expansion. **Section Four** highlights the external relations of the group, in particular relations with financial institutions. **Section Five** provides insight into the group's endogenous policies which explain its development over the long-term. **Section Six** concludes with a summary of the factors which enabled the Crescent Group to make a relatively more defined transition from trading to textiles, light engineering and industrial finance.

#### **4.1 Group Formation and Background<sup>1</sup>**

The Crescent Group was established in 1914 in undivided India in Madras by Fazal Karim, who traded in hides and leather. He made a significant breakthrough for the business when he negotiated with Japanese ship owners, who transported cargo to India, to load their ships with leather on the return journey. This deal was deemed acceptable by the Japanese, particularly since the ships returned to Japan without any cargo, and normally the ships' weight was kept stable on the seas by filling them with rocks.<sup>2</sup> Such were the origins

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<sup>1</sup>Interview with Altaf Saleem, chairman, Shakarganj Mills Limited, 12 December 1991 in Faisalabad. See Appendix A for questions asked in the interview.

<sup>2</sup>*Ibid.*

of industrial enterprise for this group. Fazal Karim's two brothers, Muhammad Amin and Muhammad Bashir joined him in the leather business. In 1947, they migrated to Lahore as part of the mass exodus of Muslims to Pakistan and resumed trading activities in raw cotton, jute, sugar, cement, polyester fibre and edible oil. This encapsulated the business activities of the company named MAMBL.<sup>3</sup> Later, in 1951 the group diversified into the manufacturing of the goods in which it initially traded, and the financial conduit for new company flotations was MAMBL. Where jute, viscose fibre and steel scrap were once imported for re-sale in the market, the group started to import them as essential raw materials for its own manufacturing facilities. By 1988, the companies managed by MAMBL had generated over 30 independently-managed sister concerns of the Crescent Group<sup>4</sup>, as private- and public-limited companies, employing 30,000 employees and producing a turnover of over Rs 6 billion per annum<sup>5</sup>. The

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<sup>3</sup>Mohd. is the shortened version of the name Muhammad.

<sup>4</sup>The transition from trading to manufacturing, is presented in the Crescent Group's in-company document entitled, 'The Crescent Textile Mills', p. 27.

<sup>5</sup>With Crescent's 1988 turnover of £ 214 million, it ranked with the circa 334th largest UK company measured by its turnover. [See M. Allen, (ed.), *The Times 1000, 1987-1988*, Times Books, 1987]. Crescent's net assets in 1988 were £ 143 million, which was equivalent to the circa 255th position of UK's largest industrial company ranked by the value of its net assets, [*ibid*]. With an employee strength of 30,000 at Crescent, an equivalent number were employed by a food manufacturer Unigate, which was the 51st largest UK company measured by its net assets, [*ibid*].

following table provides a 37 year summary of company formation and expansion under the banner of the Crescent Group.

**Table 4.1**

Company	Nature of Business	Year Estb.
1. Mohd. Amin Mohd. Bashir (Pvt) Limited	Textile trading	1951
2. Premier Insurance Co. Ltd.	Insurance sales	1952
3. Crescent Textiles Limited	Textile Manufg.	1953
4. Crescent Sugar Mills and Distillery Limited	Sugar Manuf.	1959
5. M.D. Shams (Pvt) Limited	Shipping Line	1959
6. Jubilee Spinning and Weaving Mills Limited	Textile Manuf.	1959
7. Crescent Foundation (Pvt) Ltd.	Secondary Schools, Religious Institutions and Trusts	1965
8. Crescent Jute Products	Jute Manufg.	1965
9. Shakarganj Mills Limited	Sugar Manufg.	1967
10. Shams Textiles Limited	Textile Manufg.	1968
11. Crescent Board Limited	Paper Board Manufg.	1969
12. Shams Food Processing	Food Processing	1969
13. Elite Textile Mills Limited	Spinning Unit	1979
14. Ghulam Hussain Hidayatulla Mills Limited	Ginning unit	1979
15. Crescent Apparel (Pvt) Ltd.	Ready made Clothes Manufg.	1980
16. Ujala Cotton Mills (Pvt) Ltd.	Textile Manufactg.	1980
17. Crescent Cotton Products (Pvt) Ltd.	Spinning Unit	1980
18. Crescent Group Services (Pvt) Ltd.	Engineering Utilities	1980
19. Crescent Group Engineering (Pvt) Ltd.	Consultancy Services	1980
20. Crescent Steel & Allied Products Ltd.	Steel Pipes Manufg.	1983
21. Karachi Bulk Storage and Terminals (Pvt) Limited	Warehouse for edible oils	1984
22. Crescent Investment Bank Ltd.	Banking Services	1984
23. Suraj Cotton Mills (Pvt) Ltd.	Spinning unit	1986
24. Crescent Business Management (Pvt) Limited	Lending & Management	1986
25. Pakistan Industrial Leasing Corporation Limited	Leasing Services (financial)	1988
26. Crescent Spinning Mills Ltd.	Spinning unit	1988
27. Crescent AGDEVCO	Removal of Water Logging & Salinity	1988
28. Crescent Cotton and Allied Factories Limited	Ginning Unit	1988
29. Crescot Limited	Spinning Unit	1988
30. Crescent Resins Limited	Chemicals	1988
31. Crescent Marketing Limited	Marketing Services	1988
32. Crescent Trading Limited	Textiles & Edible Oil Trading	1988
33. Crescent Business Management (Pvt) Ltd.	Modaraba <sup>1</sup> flotation & management services	1988
34. World Class Textiles (Pvt) Ltd.	Textiles Manufacturing	1988

<sup>1</sup>Modaraba is a joint stock company, engaged in leasing, trading and investment in shares, without lending by charging interest [N. Husnain, *et al.* (eds.), *Bukhari's 101*, 1991, p. 9]. Source: Crescent Group, unpublished company documents; no place, no year.

The section which follows, describes the formation and growth of the group from 1951 to 1988. It focuses upon managerial strategies which enabled the group to make the transition from trading to the manufacture of light engineering goods. Trends and features of managerial policy which emerge from the company histories reveal how this group made consistent progress and a sustained transition.

#### **4.2 Business Development: 1951-88**

**Mohd Amin Mohd Bashir (Pvt) Limited (MAMBL)** was incorporated in 1951 as the trading company for the group. It was involved in the domestic and international trading of raw cotton, jute, sugar, cement, polyester fibre, edible oils and textiles. Prior to migrating to Pakistan from India, MAMBL was one of the largest traders of leather.<sup>6</sup> It applied the experience gained from its trade in India by replicating it in trading activities in Pakistan. Once the base was set, the company formed forward linkages at an early stage in its history by establishing manufacturing facilities in Pakistan. This was achieved by the control vested in MAMBL as the managing agents for Crescent Group investments.<sup>7</sup>

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<sup>6</sup>Interview with Altaf Saleem, 12 December 1991.

<sup>7</sup>For the managing agency system in British India, see B.R. Tomlinson, 'British Business in India, 1860-1970', in R. Davenport-Hines and G. Jones, (eds.), *British Business in Asia since 1860*, Cambridge, 1989, pp. 96-100; S. Kochanek, *Business and Politics in India*, California, 1974, pp. xi, and 14. A managing agency was a cluster of legally separate companies operating under its own Board of Directors; its managing agents were usually the owners of the business group who also represented the commercial interests of the company which they represented. For example, they could hold the exclusive rights to obtain raw

By 1952, the group had acquired 36 ginning units of which four were leased out by them and the remainder were used by the group to gin cotton. These units ginned raw cotton which was then fed as the raw material for the cotton spinning units.<sup>8</sup> By 1964, the group had disposed all but 12 of its ginning factories.<sup>9</sup> (By 1988, MAMBL's annual turnover was Rs 1648 million).<sup>10</sup>

In 1952, the group floated its first public limited company, the **Premier Insurance Company of Pakistan Limited** which underwrote general and livestock insurance. The company had a co-

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material for a subsidiary or to sell its product by charging it commission. The agents were not supposed to participate in the decision-making activity of such companies. However in Pakistan, the managing agents had exclusive control over decisions made on behalf of subsidiary companies, such as new investments and at financed equity from the managing agency's income. This created an overlap of interests between the agent, the subsidiary company and the group. With the subsidiaries' interests becoming subordinate to those of the agents, the latter also became a conduit for undeclared subsidiary company profits and/or siphoning of inter-company funds by the agents. For these reasons the managing agency system was abolished in Pakistan by Bhutto in his Economic Reforms Order in 1972. See Managing Agency and Election of Directors Order, 1972, also known as the Presidential Order No: 2/72, 1972.

<sup>8</sup>Interview with Altaf Salem, 12 December 1991.

<sup>9</sup>*Ibid.* Since MAMBL was a private limited company, it was not possible to accurately rank its position by the value of its sales as part of all private- and/or public-limited companies in Pakistan. However, on a comparative scale, its sales in 1988 equalled that of the fourteenth largest publicly quoted company [out of 500] called, Millat Tractors, as given in N. Husnain, *et al*, (eds.), *Bukhari's 101*, Khadim Ali Shah Bukhari and Company Limited, 1991.

<sup>10</sup>See Crescent Group's internal document, 'Crescent Group', Corporate Office, 1990.

operative partnership with a foreign firm, the Zurich Insurance Company of Switzerland, with Premier Insurance Company of Pakistan representing Zurich Insurance's Pakistani interests.

In 1953, the group made its debut in manufacturing; the **Crescent Textile Mills Limited (CTML)**, a public limited company was formed in Faisalabad and remained the parent company of successive manufacturing extensions made in textiles. Its subsidiaries included the Jubilee Spinning and Weaving Mills Limited and Crescent Sugar Mills and Distillery Limited. CTML provided equity capital and management services for its subsidiaries and also extended loans and wrote off financial losses when projects failed. CTML was in the business of dyeing, bleaching, printing, combing, preparing, spinning and weaving raw cotton and synthetic fibres, fabrics, bed sheets, finished fabrics, cotton and polyester yarn, for both domestic and international markets. A power generation plant was erected to provide energy, thus eliminating dependence on the government's erratic electricity supply.<sup>11</sup> In 1988, 21,000 new spindles were added to a total of 135,000 spindles and 810 looms and<sup>12</sup> by then CTML's annual turnover was Rs 1158 million.<sup>13</sup>

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<sup>11</sup>Given in, N. Husnain, *et al*, (eds.), *Bukhari's 101*, Khadim Ali Shah Bukhari and Company Limited, 1991, page code 081160.

<sup>12</sup>Source material used for in-company documents is available with the author.

<sup>13</sup>Given in, Crescent Textile Mills Limited, *Annual Report*, 1988.

In 1959, the **Jubilee Spinning and Weaving Mills Limited (JSWML)**, a private limited company was added to the group's textile base in the commercial hub of Karachi. It was acquired as a closed-down textile mill which was originally designed to manufacture bed sheets, finished fabrics and cotton yarn. These were the same products which its parent company, CTML produced. In 1974, it separated from CTML and its shares were floated on the Karachi Stock Exchange for public subscription. In 1988, its annual turnover was Rs 273 million or 23 percent of CTML's turnover and employed 26,600 spindles and 403 looms.<sup>14</sup> Compared to CTML, it had twice the number of spindles with half its looms. Spindles were used for spinning raw cotton to make yarn and looms converted it to woven cloth. With fewer looms than CTML, JSWML's market was limited to the export of yarn which rendered lower value added and so fetched a lower price than that of woven cloth. JSWML's yarn was also marketed by CTML. This was an instance where economies of scope accrued to the group.<sup>15</sup>

In 1959, the group diversified its base by buying into shipping and sugar manufacturing. **Crescent Sugar Mills and Distillery**

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<sup>14</sup>*Ibid.*

<sup>15</sup>Economies of scope occur when the same source for raw materials is used for processing more than one product lines of the group. Cf. A. Chandler, *Scale and Scope*, Harvard, 1990, pp. 146-47.

**Limited (CSMDL)**<sup>16</sup> was formed as a private limited entity. Members of the Crescent Group approached the Pakistan Industrial Development Corporation (PIDC) to help set up the infrastructure of this mill, originally managed as a PIDC project. The group later purchased it from the PIDC and made it a separately located subsidiary of CTML. It shares were offered to the public in 1965 when the distillery plant commenced production. The manufacturing facilities at CTML consisted of a sugar mill, distillery and a cotton spinning plant which manufactured yarn. Both CSMDL and JSWML's textiles arm supplied yarn to CTML. CSMDL's annual turnover in 1988, from sugar, alcohol and yarn sales was Rs 750 million, making it the twenty first ranked business by value of its sales in Pakistan.<sup>17</sup>

In its formative years, the group invested repeatedly in textiles. The acquisition of CSMDL's portfolio was another instance of this strategy. Expansion into new industries always included a textile unit, as a safety valve to absorb potential losses. As a third generation family manager, Altaf Saleem pointed out, textiles were considered traditionally 'safe' investments which could subsidise

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<sup>16</sup>A subsidiary of Crescent Textiles Mills Limited.

<sup>17</sup>Crescent Sugar Mills and Distillery Limited's, sales are given in CSMDL, *Annual Report*, 1988 and N. Husnain, *et al*, (eds.), *Bukhari's 101*, Khadim Ali Shah Bukhari and Company Limited, 1991, which ranks it, in 1988, at twenty-first position measured by the sales of all public limited companies in Pakistan.

losses incurred in new ventures.<sup>18</sup>

**M.D. Shams**, a shipping line was acquired in 1959 as a step towards backward integration of the group's activities. Owning their own high seas transportation, facilitated and generated economies for the group's import and export trade.<sup>19</sup> This strategy to integrate backwards was aimed at reducing the distribution costs of traded goods and imported raw material.<sup>20</sup> In 1972, this service was nationalised by Bhutto, only to be returned to the Crescent Group by President Zia in 1980.<sup>21</sup>

In 1965, the group ventured into another new area of production by establishing the country's largest jute mill, **Crescent Jute Products Limited (CJPL)**, which was organised as a public limited company. CJPL was located in Faisalabad and manufactured twine, gunny bags, rope, hessian, cotton yarn and cotton garments. In 1988 its annual turnover was Rs 750 million with sales stretching overseas to the USA and EEC.<sup>22</sup>

Textile production was still the group's favoured area for new investment and in 1968 **Shams Textile Mills Limited** was formed.

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<sup>18</sup>Interview with Altaf Saleem, 12 December 1991.

<sup>19</sup>*Ibid.*

<sup>20</sup>Backward and forward linkages in industry are discussed in A. Chandler, *Scale and Scope*, Harvard, 1990, p. 9.

<sup>21</sup>Interview with Altaf Saleem, 12 December 1991.

<sup>22</sup>Given in, *Crescent Jute Products, Annual Report*, 1988.

Initially privately subscribed, this company went public in 1974. This was an addition to the group's textile base in Faisalabad. It was more integrated than the other textile units in that 660 looms and 25,335 spindles augmented forward linkages in the plant with dyeing, printing, processing and finishing facilities. In 1988 its annual turnover was Rs 293 million comparable to that of JSWML in the same year.<sup>23</sup> A food processing plant named **Shams Food Processing**, a private limited company was set up in 1969 as a subsidiary of Shams Textiles and marketed frozen food to overseas buyers.

Having spent the first eighteen years in traditionally risk averse areas of business, where agricultural raw material for textiles, sugar and jute production was easily accessible, the group gradually veered towards non-traditional fields but always including a textile facility in every new venture. The country's third paper and board mill, **Crescent Boards Limited (CBL)** was formed in 1969 as a private limited subsidiary of CSMDL. Both facilities were located in the same building at Faisalabad. The first high grade board mill in Nowshera was established by the PIDC in 1954, later purchased by the Adamjee Group in 1963. [As noted in Chapter Three, the Ali Group's paper and board mill was established in 1964 which used straw in manufacturing board for its paper].<sup>24</sup> CBL used a more

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<sup>23</sup>Given in, Shams Textile Mills Limited, *Annual Report*, 1974.

<sup>24</sup>See pp. 189-92, for Ali's paper manufacturing facility.

refined input for pulp and board manufacturing, that is, sugar cane bagasse which was produced at CSMDL. This exemplified the Crescent Group's strategy of vertical integration through forward linkages of its production facilities at CSMDL.<sup>25</sup> CBL was the second plant in the world to manufacture particle board from sugar cane bagasse, and the first of its kind in the sub-continent.<sup>26</sup> CBL produced hard, laminated and particle board and also furniture panels, artificial ceilings and cotton yarn. Again, yarn manufacturing remained a component of CBL's production facilities in addition to paper manufacturing. This group exhibited initiative in broadening its industrial base yet circumvented associated risk by including textile production in new company flotations. In 1988, CBL's annual turnover was Rs 209 million.<sup>27</sup>

By 1967, the second generation of the group was ready to emulate its predecessors in continuing with the family tradition of expansion.

Altaf Saleem established **Shakarganj Mills Limited (SML)**, a public limited company. The equipment was purchased in 1967, and production commenced in 1974 for refined sugar and industrial

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<sup>25</sup>See A. Chandler, *Scale and Scope*, Harvard, 1990, p. 9, for backward integration of firms; and Shakarganj Mills Limited, company documents for the use of sugar cane bagasse used for paper board production at Crescent Boards Limited.

<sup>26</sup>See Crescent Group document, 'Crescent Group', unpublished, Corporate Office, 1990.

<sup>27</sup>See Crescent document, unpublished, Corporate Office, 1990.

alcohol. As with the CSMDL, this unit also tapped into forward linkages by utilising its by-product, sugar bagasse to feed the group's particle board plant at CBL. Wherever backward or forward integration could be adopted, these entrepreneurs were seen to have done so. This particular expansion was in an area requiring agricultural raw material, which blended in with the group's philosophy to develop industry where they could influence access to its raw material supply. This strategy was evident as personnel at SML educated local cane growers on the adoption of superior quality sugar cane seed. This seed was developed by a team of scientists employed by Altaf Saleem at the mill's Cane Research Centre. Once a better quality seed was developed in its laboratory, a trial patch was then grown on the mill's premises. Satisfactory results meant that the pilot project was repeated for local farmers on the latter's land. Larger crops of sugar cane motivated farmers to purchase their seed from SML. The same crop was then purchased by SML as raw material to process into refined sugar and industrial alcohol. In 1988, SML's annual turnover was Rs 600 million. It had produced 8,66,552 tons of crushed sugarcane, which was five percent of the country's output.<sup>28</sup> SML's value by its sugar sales in 1988 ranked

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<sup>28</sup>Source: N. Memon, 'Sugar Mill Recovery', *Pakistan Agriculture*, April 1989, p. 22, gives sugar production statistics.

it at second position in Pakistan.<sup>29</sup>

In 1979, another publicly quoted company was floated, **Elite Textile Mills Limited (ETML)**, to spin cotton yarn. By 1988, it had 26,800 spindles with an annual turnover of Rs 164 million.<sup>30</sup> The group also chose to fragment their textiles investments in separate companies rather than reinvesting in existing ones to avoid the government's attention that they were becoming too large. The experience with Bhutto's nationalisation of textile mills in 1972 made businessmen shy in reinvesting in existing structures and they preferred to establish legally separate companies, manufacturing similar products. This gave an appearance that their nature of business was relatively small-scale.

In 1980, the growth momentum for the group was on the upswing; three manufacturing facilities were added and two service-sector companies formed. All these additions were in the private limited domain of the group. The manufacturing facilities were subsidiaries of CJPL, situated at separate locations. They were **Crescent Apparel Manufacturing Company (Pvt) Limited (Crescent Apparel)**, **Ujala Cotton Mills (Pvt) Limited** and **Crescent Cotton Products (Pvt) Limited**. Crescent Apparel manufactured

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<sup>29</sup>SML's statistics are given in, Pakistan Sugar Mills Association, *Annual Report*, 1988. Ittefaq Sugar Mills Limited, was the largest, measured by the value of its sales and cane rushing capacity. It was owned by Mian Nawaz Sharif who became Pakistan's Prime Minister in 1990.

<sup>30</sup>Given in, Elite Textile Mills Limited, *Annual Report*, 1988.

and marketed finished fabric and the others were spinning units with a combined total of 36,000 spindles, making their spinning capacity amongst the average size operating in the country.<sup>31</sup>

In 1980, two engineering companies were formed, in the service sector, which were **Crescent Group Services (Pvt) Limited (Engineering Division)** and **Crescent Group Engineering (Pvt) Limited**. The former was a wholly owned subsidiary owned by the group, providing machinery manpower and services for engineering and construction projects in the private- and public-sectors. Contracts accepted were for projects spanning land reclamation, construction of highways, diesel/thermal and hydel plants, chemical and process plants, and industrial electrification. The company also acted as a trading conduit for engineering goods manufactured in China, Europe and America which were required by Pakistani companies. Completed projects included reclamation of 135,000 acres of water-logged land through installation of 1300 kilometres of sub-surface drains for the Water and Power Development Authority (WAPDA) in Faisalabad and D.I. Khan, electrification of three textile mills, eight power generating stations with gas driven engines and a power station installed at CTML.

Crescent Group Engineering (Pvt) Limited provided construction and engineering services to group-owned projects and those managed

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<sup>31</sup>Given in Crescent Group, unpublished company documents; no year, no place.

by other companies in the private- and public-sectors. These services included conducting research, the initial planning of projects and the provision of civil, mechanical, electrical and chemical services from their pool of engineers. The formation of these companies was the first signal of the group's investment in an unconventional, light engineering sector of industry.

By the mid-1980s the group's base in engineering applications had gelled as advisors and implementors of projects contracted out to it. Also, the initial engineering investment had provided its owners with the requisite confidence for diversifying into the steel industry. This was achieved in 1983, when the group established **Crescent Steel and Allied Products Limited (CSAPL)**, a public limited company, manufacturing large diameter steel pipes. These pipes were suitable for high pressure transmission of oil, gas, steam and water. CSAPL was also a downstream investment for steel produced at the Pakistan Steel Mill. CSAPL was recognised by the American Petroleum Institute (API) for adhering to their steel manufacturing specifications and maintaining quality.<sup>32</sup> CSAPL's annual turnover in 1988, was Rs 293 million, for an annual production of 80,000 tons of steel pipes.<sup>33</sup>

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<sup>32</sup>API, the American Petroleum Institute publish a manual for pipe specifications and procedures for oil and gas. CSAPL's pipes were reviewed every eight months by API, and if its quality was deemed to be satisfactory, then the company was permitted to continue adopting the API logo.

<sup>33</sup>Given in, CSAPL, *Annual Report*, 1988.

Another privately listed company for the group was formed in 1984, named **Karachi Bulk Storage and Terminals (Pvt) Limited (KBSTL)**. KBSTL was formed to store group-produced and client's products. It provided warehouse space for molasses and edible oil, both commodities imported by the group for re-sale to their own facilities and to other buyers. Warehouses were constructed for storing the group's imports of edible oil and export of other commodities along with transportation within Pakistan of molasses produced at CSMDL. Storage capacity for molasses was 44,650 metric tons and for edible oils 28,130 metric tons, making this company a major warehousing facility in the country. In 1988, KBSTL's annual turnover was Rs 151 million of which 79 percent constituted business generated from commodity exports.<sup>34</sup>

President Zia, during his eleven year rule, 1977-1988, encouraged private-sector industrialisation by declaring a number zones as tax free. One such was near Karachi, used by this group to erect yet another textile mill. This was called **Shams Cotton Mills Limited** formed in 1986, which had 30,720 spindles for producing cotton yarn. In 1988 its annual turnover was Rs 198 million.<sup>35</sup> This was another company registered as a legally separate unit to avoid attention that this group had established a concentration of wealth and influence.

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<sup>34</sup>Given in Crescent Group, unpublished company documents.

<sup>35</sup>*Ibid.*

Another private limited company named **Crescent Business Management** was floated in 1986 to extend finance and monitor management practises of the group companies. **Crescent Spinning Mills Limited (CSML)** was also floated in 1988.

The group's pioneering expansion into the financial-sector was made in 1988, through the formation of a public limited, leasing company for asset financing, named **Pakistan Industrial Leasing Corporation Limited (PILCORP)**. The formation of this company reflected the fact that the group had made the transition from trading and textiles to manufacturers of light engineering goods and as providers of industrial finance. PILCORP had an equity participation from the Asian Development Bank and the Pakistan Industrial Credit and Investment Corporation (PICIC) at 24.6 percent collectively, and Crescent Group companies contributed a further 33.67 percent. The remaining equity was raised from public subscription of its shares. PILCORP leased out industrial machinery, vehicles, computers, construction and office equipment from three to five years of usage by its customers. In 1988 it leased out assets worth Rs 150 million.<sup>36</sup>

By 1984, 33 years since its inception, the Crescent Group had consolidated its business by diversifying widely into textiles, jute, sugar and steel manufacturing, and in the provision of financial and technical expertise for machinery installation and for engineering

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<sup>36</sup>*Ibid.*

works. Total group turnover reached nearly Rs 6.5 billion in 1988, making it a major enterprise in Pakistan, measured by both the value of its sales and net assets.<sup>37</sup> The need of the hour was to better manage the assets of this ever growing corporate empire. This was realised in 1984, by the group's first flotation of a bank named **Crescent Investment Bank (Pvt) Limited (Cresbank)**. This was another investment in the financial-sector. Altaf Saleem commented on the significance given to evaluation of financial performance at Cresbank:

‘ We will come back after 10 years and ask you about profitability. Just build the bank as an institution and then worry about profitability’.<sup>38</sup>

The bank was critical to the management of Crescent’s diverse portfolio; it traded in listed securities and as a broker on the call money market. This was the first investment bank to become operational in the private-sector.<sup>39</sup> Encouraging inter-company competition was a group policy and a tool used for bringing about institutional changes by bridging technology gaps. Towards the close of 1988, Crescent’s management was considering floating a leasing company on the New York Stock Exchange in the USA and in setting

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<sup>37</sup>The [comparative] value of its net assets is given in Table 2.15.

<sup>38</sup>Interview with Altaf Saleem, 12 December 1991.

<sup>39</sup>Given in N. Husnain, *et al*, (eds.), *Bukhari's 101*, Khadim Ali Shah Bukhari and Company Limited, 1991, page code, 041040.

up a construction company in Pakistan.<sup>40</sup>

### **4.3 Management Philosophy: Four Company Histories**

This section uses internal company correspondence, interviews with family managers and their staff to reveal the management practices of the Crescent Group. Four company histories demonstrate strategy implementation and the organisational structure which emerged for the group as a whole. Other companies in the group also emulated the same policies as revealed by those which follow.

#### **4.3.1 Muhammad Amin And Muhammad Bashir (Pvt) Limited**

##### **(MAMBL)**

This was the first Crescent Group company incorporated in Pakistan. Its chairman and managing director was appointed in 1951, namely Muhammad Amin and Muhammad Bashir respectively, and the company was known by its acronym, MAMBL.<sup>41</sup> MAMBL commenced trading operations by appointing itself as the managing agents for the group,<sup>42</sup> and forming a trading partnership with the

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<sup>40</sup>*Ibid.*

<sup>41</sup>See 'Minutes of Meeting of the Board of Directors' of MAMBL, 18 September 1951, p. 1.

<sup>42</sup>See, managing agency agreement of MAMBL signed by the five directors of the group, Muhammad Amin, Muhammad Bashir, Mian Buksh Elahi, Haji Muhammad Shafi and Mian Gulzar Ahmad, in the first Annual General Meeting of MAMBL, recorded in the 'Minutes of Meeting of the Board of Directors' of MAMBL, 11 September 1951, pp. 1-3.

Amritsar Swadeshi Woollen Mills Limited in 1952.<sup>43</sup> MAMBL's 1,100 shares were allocated to the close family members in equal proportions, namely going to three brothers; Muhammad Amin, Muhammad Bashir, Fazal Karim and a cousin Haji Shafi, along with their sons, Mazhar Karim and Muhammad Saleem, and their respective spouses.<sup>44</sup> Mazhar Karim was appointed as MAMBL's managing director in 1954.<sup>45</sup>

A written record of the Board minutes of MAMBL was preserved from the first Annual General Meeting, which showed that the management insisted upon documentation and systematic record keeping. The documentation of records and related procedures which were initially developed at the group provided the base for the systematically developed procedures of the future.<sup>46</sup> These records helped MAMBL to handle organisational problems more adeptly as the business expanded.

In 1951, the first instance of inter-company nurturing occurred. MAMBL became the managing agents for the group's first textile

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<sup>43</sup>The Amritsar Swadeshi partnership is recorded in the 'Minutes of Meeting of the Board of Directors' of MAMBL, 5 September 1952, p. 1.

<sup>44</sup>Recorded in the 'Minutes of Meeting of the Board of Directors' of MAMBL, 18 September 1951, p. 2.

<sup>45</sup>*Ibid.*, 2 April 1954, p. 1.

<sup>46</sup>For a historiography of the Systems Approach, see pp. 142-50.

expansion of the group in the formation of the CTML.<sup>47</sup> The onus of CTML's policy making fell on its managing agents, who were also MAMBL's directors.<sup>48</sup> The managing agents arranged for borrowed finance for CTML, from the National Bank of India's branches in Karachi and Lahore, received in staggered instalments of Rs 1 million in 1953, Rs 0.5 million in 1954, Rs 10 million in 1955 and Rs 6.5 million in 1956.<sup>49</sup> The initial overdraft facility was used to pay for textile machinery imported for CTML from Germany amounting to £187,235 pounds sterling, which was repayable in half-yearly instalments within five years. The company directors also ordered power generators and machinery from Germany for the initial installation of the mill.<sup>50</sup>

The management at MAMBL was also cognisant of the value of its employees as its intangible assets. Therefore in 1957, the directors of MAMBL provided mill workers with annual bonuses equalling one-and-a-half-times, their basic salary at a time when this was not

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<sup>47</sup>See managing agency agreement of MAMBL signed by the five directors of the group, Muhammad Amin, Muhammad Bashir, Mian Buksh Elahi, Haji Muhammad Shafi and Mian Gulzar Ahmad, in the first Annual General Meeting of MAMBL, recorded in the 'Minutes of Meeting of the Board of Directors' of MAMBL, 11 September 1951, pp. 1-3.

<sup>48</sup>See p. 91n, for what the managing agency system stood for with respect to businesses.

<sup>49</sup>Information recorded in the 'Minutes of Meeting of the Board of Directors' of MAMBL 21 September 1953, p. 1; 2 April 1954, p. 1; 27 September 1955, p. 1 and 30 December 1956, p. 1].

<sup>50</sup>*Ibid.*, 19 January 1952, p. 2.

standard business practice.<sup>51</sup> Rewarding employee performance assured them that monetary rewards were recognised and disbursed, commensurate with their performance.<sup>52</sup> This policy was also introduced to convey to the employees that the management was ready to share its profits with its workers.<sup>53</sup> The working philosophy (which helped them in expanding their investments) was evident from the issue of bonus shares to the equity holders of CTML. This decision was taken by the managing agents at MAMBL.<sup>54</sup>

In 1958, the Board of Directors approved a resolution to make CTML a public limited company and a call was made for public subscription of its shares. The additional equity raised was meant for expansion of the plant, and its new status made it an independent company of the group. Nurturing companies in the early years of their formation by keeping their status as private limited concerns provided the managing agents with the lead time needed to make them financially viable concerns. In the meantime,

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<sup>51</sup>*Ibid.*, 30 March 1957, p. 1.

<sup>52</sup>This is another pre-condition for the successful implementation of systems in an organisation. Rewarding employees as a means for making organisational systems more effective are discussed in its theoretical context on p. 159.

<sup>53</sup>This point of view is reiterated by the directors of MAMBL in the 'Minutes of Meeting of the Board of Directors' of MAMBL, 23 August 1959, p. 11.

<sup>54</sup>*Ibid.*, 1 April 1964.

the finances required for new company flotations were raised from the resources of MAMBL and by accessing credit from commercial banks. This strategy also ensured the group's control over the direction of the emerging business structure within it.

MAMBL's status as the managing agents of the group remained unchanged till 1972, when this system was abolished by Prime Minister Bhutto under Presidential Order, Part III of the Companies (Managing Agency and Election of Directors), 1972.<sup>55</sup> Bhutto's decision was rooted in the idea of social democracy and splintering the concentration of power in the hands of a few businessmen. However, Pakistani businesses circumvented these controls by reappointing their managing agents as formal directors of the companies (still) owned by them. The Crescent Group's strategy was no different and Muhammad Amin and Muhammad Bashir, along with the other directors of MAMBL were formally made the directors of CTML in 1972.<sup>56</sup>

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<sup>55</sup>For the role of managing agencies in British India, see B.R. Tomlinson, 'Writing History Sideways: Lessons for Indian Economic Historians from Meiji Japan', *Modern Asian Studies*, Vol. 19, No. 3, 1985, p. 695. Also see p. 91n, for a description on what the managing agency system meant and the *modus operandi* of managing agents in Pakistan.

<sup>56</sup>Recorded in the 'Minutes of Meeting of the Board of Directors' of CTML, 18 April 1972.

#### **4.3.2 Crescent Textile Mills Limited (CTML)**

This company was registered as a private limited concern in 1951 under the managing agency of MAMBL.<sup>57</sup> From the onset the directors of MAMBL had decided to import the machinery required at CTML. This conferred on CTML an immediate edge over other cotton manufacturers using locally manufactured weaving machines which produced inconsistent quality yarn. The decision taken by CTML's management to invest in sound weaving technology was based on the entrepreneurs' experience in cotton textile trading and manufacturing. Weaving machines which did not adhere to quality specifications could break the thread which then led to an instant halt to the rest of the production.

MAMBL, as CTML's managing agents negotiated with Union Matrix of West Germany, a consulting firm to advise them on the type of equipment to be imported, along with supervising the installation of their machinery.<sup>58</sup> In 1952, the managing agents for CTML decided to import power generators<sup>59</sup> for the mill from

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<sup>57</sup> Recorded in the 'Minutes of Meeting of the Board of Directors' of MAMBL, 18 September 1951, pp. 2-3.

<sup>58</sup> Interview with Nasir Shafi, deputy chief executive, CTML, 13 December 1991, in Faisalabad. See Appendix A.

<sup>59</sup> Import licence No. M 009452, issued by the Chief Controller of Imports and Exports under the 'Deferred Payments Scheme', as recorded in the 'Minutes of Meeting of the Board of Directors' of MAMBL, 21 September 1953, p. 1.

Messrs. W. Schlaforst and Co., M. Gladbach, in West Germany.<sup>60</sup> A series of loans, obtained by CTML from the Reserve Bank of India's Karachi and Lahore branches, funded CTML's early machinery investment. In 1953, CTML approached Messrs. W. Schlaforst and Co., again for procuring their equipment. This was finally financed by an overdraft facility of Rs 2 million, extended to CTML by the National Bank of India which still retained a branch office in Karachi.<sup>61</sup> The agreement with the German company was that they would receive payment in half-yearly instalments of £36,447.60 pound sterling, over a five year term.<sup>62</sup> Cotton yarn production commenced at CTML in 1953 with the installation of 15,120 spindles.<sup>63</sup> The following year, an additional Rs 4.5 million was borrowed from the Reserve Bank of India's branch at Karachi.<sup>64</sup> This was followed up in 1955, with a further Rs 10 million borrowed and in 1956 Rs 6.5 million borrowed from the Reserve Bank of India's Lahore branch.<sup>65</sup> By 1958, CTML was an integrated textile unit,

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<sup>60</sup> Recorded in the 'Minutes of Meeting of the Board of Directors' of MAMBL, 19 January 1952, p. 2.

<sup>61</sup> *Ibid.*, 21 September 1952, p. 1.

<sup>62</sup> *Ibid.* 21 September 1953, p. 1.

<sup>63</sup> *Ibid.*, 19 January 1952, p. 2.

<sup>64</sup> *Ibid.*, 14 December 1953, p. 1.

<sup>65</sup> *Ibid.*, 27 September 1955, p. 1 and 30 December 1956, p. 1.

spinning ginned<sup>66</sup> cotton to produce yarn, then weaving the yarn to make thread and finally converting it to make finished cloth which was then bleached and dyed or printed for the domestic and export market. Its spindles had also increased to 48,000. By the 1960s, CTML had established itself as the flagship company of the group by virtue of its size measured by its sales which were the highest within the group. Thereupon, it became the umbrella for new company flotations, first as private limited concerns later to be made public limited.<sup>67</sup>

In 1957, all CTML employees with at least three months of service, were entitled at year end bonus of one- and a half-month's average basic salary earned by them.<sup>68</sup> MAMBL's management philosophy was emulated by CTML's management right from its onset, which focused on attracting and retaining its labour and executive employees.<sup>69</sup> CTML's weavers received in-company training which eliminated the need to send them elsewhere for developing their

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<sup>66</sup>Ginned cotton is the cotton lint which has been separated from the cotton seed.

<sup>67</sup>Crescent Group companies which were sponsored by CTML, were JSWML [1958], CSML [1958], CJML [1962] and STML [1971].

<sup>68</sup>Recorded in the 'Minutes of Meeting of the Board of Directors' of MAMBL, 30 March 1957, pp. 1-2.

<sup>69</sup>See company document, 'The Crescent Textile Mills Limited,' Corporate Office, 1990, p. 6.

technical know-how.<sup>70</sup> By 1958, CTML had established itself sufficiently for its managing agents to make it a public limited concern.<sup>71</sup> This decision was implemented in 1958 and CTML's shares were offered for public subscription with MAMBL retaining the managing agency<sup>72</sup> of CTML. In 1965, CTML's management recruited a German manager named Bixtenstein, for managing the West German weaving machines and to train CTML's workers on the correct manner of operating them.<sup>73</sup>

CTML was also the first company in the group to export its production. Exports went mainly to the UK, Germany, Sweden, Benelux, USA, Canada, Australia, Japan, Korea, Taiwan and Bangladesh. By 1970, its employee strength increased to 5,500 management and non-management staff, making it a major employer of labour in textiles.<sup>74</sup> The employees also continued to receive their salary and bonus even when there was a 65 day strike at CTML in 1973.<sup>75</sup> The reason for the strike as provided by Nasir Shafi, commercial director of CTML, was the deleterious effect on businesses from Prime Minister Bhutto's socialist manifesto which

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<sup>70</sup>Interview with Nasir Shafi, 13 December 1991.

<sup>71</sup>Recorded in the 'Minutes of Meeting of the Board of Directors' of MAMBL, 2 December 1957, p. 2.

<sup>72</sup>*Ibid.*

<sup>73</sup>Interview with Nasir Shafi, 13 December 1991.

<sup>74</sup>*Ibid.*

<sup>75</sup>*Ibid.*

encouraged and gave more power to the labour unions to demand that their rights be met by their employers.<sup>76</sup>

In 1978, Nasir Shafi, son of Muhammad Shafi was appointed the commercial director of CTML. He was responsible for the production of cotton yarn and cloth at CTML. His elder brother, Muhammad Anwar was the chief executive of CTML but in effect, the daily operating control vested with Nasir Shafi. He was keen to improve the production quality of cloth produced at CTML and in 1980 introduced suggestion boxes on the shop floor for recording employee complaints.<sup>77</sup> This scheme did not prove successful. With a work force of nearly 4,500 workers on the shop floor and an increase in the scale of business, an improvement in management techniques was clearly required. In addition, the work force had been reduced from 5,500 in 1970 to 4,500 in 1980 as a result of technological improvements in equipment design.<sup>78</sup> The upgrading of production techniques at CTML, gave rise to a new class of problems, on how to encourage workers to maintain quality production. Nasir Shafi was cognisant that a change in techniques was a necessary condition for maintaining production quality. Therefore, in 1985 he embarked on a tour of Japan with the specific objective of familiarising himself

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<sup>76</sup>*Ibid.*

<sup>77</sup>Given in, Arif Rana, *Quality Circles at Crescent Textiles*, Lahore University of Management Sciences, LBS case # 03-366-90-1, p. 8.

<sup>78</sup>Interview with Nasir Shafi, 13 December 1991.

with the management concept of Quality Circles and its two components, Quality Control (QC) and Quality Assurance (QA).<sup>79</sup> Quality Circles was a management tool used to monitor and improve production operations in an industry. The Japanese style of management was to resolve work-related problems by collectively applying Quality Circles and implementing them through the mutual consent of employer and employee, via a system of Quality Control. Imbued with these ideas, Nasir Shafi returned from Japan to organise a task force at CTML, to introduce and monitor a Quality Circles programme. The leader of the team was Rizwan Ahmed, who held a post-graduate degree in Industrial Sociology. With his assistance, this concept was implemented at CTML by conducting in-company lectures provided to the QA and QC coordinators, along with the provision of text books on the subject followed by presentations. After absorbing the regimen of Quality Circles, the coordinators formed their own circles with workers in different departments. These were followed by weekly meetings which lasted an hour and were followed by identification and resolution of a current problem in their division. From the communication channels which such methods generated, there also emerged techniques to

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<sup>79</sup>Quality Circles, as a management concept was developed in Japan in the late 1950s, based on D. McGregor's Theory Y [the behavioral school of management]. Its benefits are best seen where the proper management style, especially employee training is compatible with its implementation. This debate is in M. Robson, *Quality Circles in Action*, Gower Publishing Company Limited, 1984.

resolve problems. The suggestions provided by the workers were of particular value to the decision makers in the departments. Commenting on decisions taken unilaterally by consensus using the Quality Circles methodology, Rizwan Ahmed's view were:

'Just to have a cup of tea with a senior manager was very fulfilling for workers. For them the honour is more important than pay. Many of them kept on saying things like 'We have been here for 27 years and nobody ever listened to us...' 'Besides we realised that contrary to most top managers perception the workers were very intelligent. It was surprising how well they understood the consequences for Pakistani companies of not being able to compete internationally. Also being on the shop floor all the time, they had practical ideas that proved to be very beneficial'.<sup>80</sup>

The Quality Circles programme improved relations with labour and generated a company policy providing them with lifetime employment. The improved working conditions which ensued coincided with increased productivity at CTML, (see Table 4.2). These results also gelled in with the smooth operation of systems which ensured that the sub-systems were coordinated with the overall company mission (the Systems Approach). Nasir Shafi attributed the continued success of CTML to encouraging the 'generation of ideas from below to the top'.<sup>81</sup> In effect, the QC programme at CTML incorporated the methodology used in the Systems Approach, which defines the boundaries of the objectives at hand, identifies the surrounding physical, financial and time

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<sup>80</sup>*Ibid.*

<sup>81</sup>*Ibid.*

constraints, and provides the alternatives which can eliminate them, through the performance of tasks. These tasks were in themselves a research model which identified relationships within the system which affected performance in accordance its own criteria. The QC exercise used brainstorming techniques to identify problems, in a similar manner as that prescribed by the system designers, identified in the Systems Approach section in Chapter One. The latter evaluate options at every successive step in the Systems Approach which includes the redefinition of the company mission at different levels of decision-making. By adopting QC at CTML, the older order (traditional approach) of production management was challenged and replaced with a new order focusing on qualitative excellence. Qualitative excellence is the synthesis of training of personnel for improved documentation, installation, programming and testing of information.

The new management programme at CTML also had a profound effect on the financial future of the company. The management team which comprised MBA graduates and textile, mechanical, electrical, industrial and civil engineers, provided a generalised and holistic view of tackling production and managerial problems.<sup>82</sup> By 1988, CTML was exporting its entire production range and executed production from 90,000 spindles.<sup>83</sup> The company records of CTML

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<sup>82</sup>*Ibid.*

<sup>83</sup>Interview with Nasir Shafi, 13 December 1991.

reveal that prior to the implementation of QC, the organisational chart was line-oriented with the cloth finishing, mechanical and electrical engineering and civil works managers reporting to the technical manager. After adopting QC at CTML, the organisational chart became functional with managers responsible for both line and staff functions, and all of whom ultimately reported to Nasir Shafi.<sup>84</sup> The technical, finance and operations functional managers were from the Crescent Group,<sup>85</sup> but this did not deter CTML's management from introducing new management techniques to upgrade its production frontiers. The other managers were non-group employees.

The company records also show a systematic record of provision of benefits to skilled employees such as old age pensions, annual bonuses equalling five months' annual [basic] salary and five percent of total profits redistributed to the workers, with an annual provision of five kilograms of cotton yarn and 40 meters of cloth.<sup>86</sup> In the executive cadre, approximately three employees were sent away every month on training courses in finance and management.<sup>87</sup> In addition, the workforce benefitted from loans provided by the

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<sup>84</sup>See Arif Rana, *Quality Circles at Crescent Textiles*, Lahore University of Management Sciences, 1990, LBS case # 03-366-90-1, Exhibits 5 and 6, pp. 20-21.

<sup>85</sup>Interview with Nasir Shafi, 13 December 1991.

<sup>86</sup>See, 'The Crescent Textile Mills Limited', unpublished document, Corporate Office, 1990, p. 7.

<sup>87</sup>*Ibid.*, p. 24.

company for the purchase of a car, motorcycle, cycle or furniture. The management also awarded scholarships for the education of the workers' children.

Nasir Shafi had also developed an organisational structure for CTML. The general managers of finance, works, management and production operations reported directly to him. In turn these department heads managed eighty employees.<sup>88</sup> The 'Minutes of Meeting of the Operations Department' focus on specific issues which arose in the daily execution of the mill's activities.<sup>89</sup>

CTML's exports increased as a result of the Zia regime's fiscal and monetary measures. The contributory factors were the depreciation of the Rupee and availability of cotton yarn at cheap rates.<sup>90</sup> The company maximised the benefits from the exogenous environment by complementing it with endogenously generated measures. The combination of these two factors, along with CTML's largely export-oriented sales, led to an increase in its gross profits by 25 percent per annum since 1984.<sup>91</sup> Since 1986, and for three consecutive years thereafter, it was awarded the Export Trophy for the leading

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<sup>88</sup>Given in, CTML's, unpublished company documents.

<sup>89</sup>See 'Minutes of Meeting of the Operations Department', CTML, 29 November 1990, p. 2 and 22 June 1991, p. 3.

<sup>90</sup>In 1982, the Pakistani Rupee was delinked from the US Dollar, leading to a 25 percent devaluation by 1983. Its effects are discussed in D. Eglin, 'The Economy', in R. Nyrop (ed.), *Pakistan, a Country Study*, United States Government, 1983, p. 176.

<sup>91</sup>*Ibid.*

exporting firm in cotton exports in Pakistan.<sup>92</sup> In 1987, its total sales were Rs 886 million, which in 1988 increased to Rs 1131 million or 10 percent of the group's total annual turnover. The following table provides CTML's pre-tax profits and (losses):

**Table 4.2**

**Crescent Textile Mills Limited**  
**Rs (millions)**

<b>Year</b>	<b>Pre-tax Profits</b>
1973	25
1974	9
1975	7
1976	6
1977	8
1978	9
1979	13
1980	17
1981	15
1982	16
1983	31
1984	40
1985	50
1986	70
1987	180
1988	260

Source: Unpublished In-company document, 'The Crescent Textile Mills Limited', p. 9 and CTML, *Annual Reports*, 1975-89.

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The above figures are the financial results of the emphasis given to systems and training, in employing effective management techniques at CTML reflected in its [improved] results in productivity, employee morale and in company profits, especially after 1985, when Nasir Shafi returned from Japan and initiated the

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<sup>92</sup>Recorded the document, 'Crescent Textile Mills Limited', unpublished document, Corporate Office, 1990, p. 10.

QC programme at CTML. The impetus for introducing this programme came from his predecessors' enthusiasm for rewarding employee performance, which ultimately contributed to the company's expansion (on a rising scale of magnitude), over the long-term.

#### **4.3.3 Shakarganj Mills Limited (SML)**

Shakarganj Mills Limited was established in 1967, governed by a management agency agreement with MAMBL. The agreement affirmed the agents' representation and promotion of SML's interests till 1977.<sup>93</sup> The machinery for sugar and distillate production at SML was acquired in 1974 from a Dutch company, Starkworkspur. The machines provided a daily sugar cane crushing capacity of 1,500-2,000 tons of crushed cane.<sup>94</sup> By the 1980s, SML contributed to ten percent of Crescent Group's turnover. Its principal activity was the manufacture and sale of sugar and distillate (industrial alcohol). Altaf Saleem was the chief executive officer of the company, recorded in the 'Minutes of Meeting of the Board of Directors' of SML.<sup>95</sup>

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<sup>93</sup>See the 'Managing Agency Agreement' signed by representatives of MAMBL and SML, 1967.

<sup>94</sup>Interview with Altaf Saleem, 12 December 1991.

<sup>95</sup>See 'Minutes of Meeting of the Board of Directors' of SML, 18 January 1974 and 11 November 1978, whereby Altaf Saleem was appointed SML's chief executive officer. He was given this authority by the directors of the company, to sign, authorise, execute and deliver all company documents, such as bonds, promissory notes, letters of credit, trust receipt forms, application forms, letters of hypothecation, presenting the memorandums of deposit of the title and mortgage deeds to the Registrar, joint stock companies, accepting bills drawn on the company, securing payments, loans, overdrafts and honouring all liabilities of the

The company's share-holders were joint stock companies which owned 46.09 percent of the shares in SML. Financial institutions, of which PICIC had the largest share, owned 22.63 percent, investment companies a further 10.01 percent, 15 percent was held by family members, 5 percent by the NIT, and the remainder by the non-institution 'public'.<sup>96</sup> The family's control over SML's share-holdings was evident from the 15 percent owned by family individuals and a further 46.09 percent owned by joint stock companies, all of which were Crescent Group companies.<sup>97</sup>

Altaf Saleem's foresight in keeping abreast of computerised records at SML led to his appointing a computer advisory service in 1976, to process a report on automation in the sugar industry. The consultancy assignment was awarded to United Bank Limited's computer division. They monitored the generation of reports on cane purchase, the accounts payable to cane growers and accounts receivable from them. These results were assembled for each transaction, and copies were distributed to all relevant parties as

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company. These powers assigned to Altaf Saleem were updated in 1974 when his duties were extended to include the signing and execution of all mercantile documents, production reports, excise, taxation documents, and import licences, updated in the 'Minutes of Meeting of the Board of Directors' of SML, 16 March 1974.

<sup>96</sup>See N. Husnain, *et al.*, (eds.), *Bukhari's 101*, Khadim Ali Shah Bukhari and Company, 1991, page code, 101220, for the shareholdings of SML.

<sup>97</sup>Interview with Altaf Saleem, 12 December 1991.

required.<sup>98</sup> This system speeded up the payments to growers and provided a computerised record of loan recoveries from farmers.

In 1981, Altaf Saleem developed a computerised accounting and spare parts inventory system.<sup>99</sup> Owing to technical drawbacks in choosing software, this scheme was postponed till 1985. In 1985, Systems Limited was contacted to develop a computerisation strategy for SML. [Systems Limited was the software development marketing concern, established in 1977 by Babar Ali of the Ali Group along with another partner]. The consultants at Systems Limited identified the cane procurement, accounting and inventory accounting systems at SML as those which should be prioritised for computerisation.<sup>100</sup> In 1987, upon their recommendation, SML purchased two IBM S/36 mainframe computers. The new system enabled the input/output computerisation of inventory records, particularly those pertaining to the finance, control and accounting departments. The reports generated a summary of information required by the senior management to gauge performance in the SML's respective departments.

In 1988, further improvements were made on replacing manually operated systems in the materials management section of the

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<sup>98</sup>Source: Arif Rana, *Information Systems at Shakarganj*, Lahore University of Management Sciences, LBS case # 18-036-89-1, p. 5.

<sup>99</sup>*Ibid.*, p. 6.

<sup>100</sup>*Ibid.*, p. 7.

company, with computerised records of transactions. In the manually operated system, the cane growers arrived at the factory premises and obtained an entry slip after verification that their arrival was as scheduled. This was followed by a weighbridge which weighed the trolley with its enclosed cane. Upon confirmation of the weight, the farmer was presented with a second receipt which was his payment guarantee, honoured by the bank. Upon the farmer's departure from the factory premises, the trolley weight was again recorded, and the difference between its in-coming and out-going weight was set as the net weight of the cane supplied by the farmer. An employee of SML suggested that the weight of cane could be automatically recorded in a single transaction by installing a personal computer (PC) at the factory gate.<sup>101</sup> This was implemented in 1988, and an IBM PC was installed which was linked to the mainframe IBM/36 at the finance and control department of SML. An additional weighbridge was also installed which eliminated the older method for calculating cane weight. The two weighbridges

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<sup>101</sup>A definition of 'business process re-engineering', a term developed in the literature on management by M. Hammer and J. Champy, *Re-engineering the Corporation, A Manifesto for Business Revolution*, Nicholas Brealey, 1993, states that multiple business transactions can be combined into a single [more efficient] transaction. This proposal is not an original idea developed by them, since this concept was already proposed in the Systems Approach methodology, where transactions which have outlived their usefulness are either replaced or eliminated to meet with changing conditions when businesses expand. At Shakarganj Mills Limited, the management had proposed to reduce the time spent in weighing in-coming cane, by installing a computer which combined more than one [previously] designed transactions.

would automatically feed the in-coming and out-going trolley weight into the PC, which was immediately verified for schedule and quantity of cane supplied by the farmer. A printed receipt of goods delivered was then presented to the farmer.<sup>102</sup> This new system reduced the dependence on manual systems of control where the chance of human error was greater. The computerised system made this particular transaction one that was more efficiently executed at SML, which was commensurate with the methodology of the Systems Approach where older methods are replaced by new ones to meet with the changing business conditions.

The management at SML also complemented their computerisation measures with the promotion of research and development. A Cane Research Institute (CRI) was formed by Altaf Saleem in 1983.<sup>103</sup> It was located adjacent to the sugar factory.<sup>104</sup> Altaf Saleem's vision for the CRI was to establish a private-sector facility for research in sugar technology.<sup>105</sup> Initially, this institute acquired sugar cane seeds from abroad, which were then tested locally for

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<sup>102</sup>Source: Arif Rana, *Information Systems at Shakarganj*, Lahore University of Management Sciences, LBS case # 18-036-89-1, p. 10.

<sup>103</sup>Interview with Altaf Saleem, 12 December 1991.

<sup>104</sup>This institute was renamed by Altaf Saleem as the Shakarganj Sugar Research Institute in 1984, recorded in the 'Minutes of Meeting of the Board of Directors' of SML, 23 February 1984.

<sup>105</sup>*Ibid.*

their growth rate. The sugar cane output was then used for demonstrating to the farmers the results which could be duplicated on their land. A new seed variety, named F-162 was also developed by Professor Qureshi who was a resident scientist at the CRI.<sup>106</sup> The new variety won recognition from local sugar cane growers as to its superior cane quality.<sup>107</sup> The benefits of this recognition for the company were two-fold. Firstly, the sugar cane growers were a captive market for the seeds produced at the CRI. Secondly, the farmers, in turn provided SML with the raw material required for processing sugar cane to make sugar. Financial assistance was also provided to farmers by SML acting as the guarantor of farmers' loans obtained from the banks. The mutually cordial relations between the two parties benefitted SML in obtaining an uninterrupted supply of sugar cane from the farmers. Sugar cane was a seasonal crop and the factory remained operational only during the cane season. Therefore any interruption in the production process adversely affected the company's profitability for the year. This delicate situation called for SML's management to maintain cordial relations with the farmers, which it achieved through the process described above. In 1984, the directors of the company arranged facilities for the extension of loans by the Agricultural Development Bank of

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<sup>106</sup>Interview with Altaf Saleem, 12 December 1991.

<sup>107</sup>Letter from Mian Javed Shafi, of Ittefaq Sugar Mills to Altaf Saleem, no ISML/RD/S-1/1744, 1 January 1988.

Pakistan to sugar cane growers. These loans were extended against hypothecation (mortgage) of the sugar cane crop intended for sale to SML. To expedite loan disbursements to the farmers, SML's management appointed a representative from their staff to negotiate with and represent the farmers' interests to the bank.<sup>108</sup> The management's foresight in assisting the farmers, by enabling them to access sources of institutional credit used for growing the sugar cane crop, paid SML dividends in an assured supply of the raw material and a reduction in wastage from cane processing downtime.<sup>109</sup> This was a critical factor in the production of an agricultural raw material, which was subject to constraints such as the vicissitudes and uncertainties of weather conditions and seasonal demand, the ability of the farmer to honour creditors on time and the government's price ceilings on sale of primary commodities to manufacturers, dealers and the distributors. Professor Qureshi was the leader of a team whose primary objective was to invent new seed varieties by improving the size and quality of existing sugar cane seed, which were later sold to the farmers. This backward integration in sugar production, directly benefitted SML's quality of sugar produced. The CRI team pioneered superior methods of sugar cane recovery in Pakistan, through the introduction of new seed

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<sup>108</sup>See, 'Shakarganj Mills Limited, Resolution by Circulation', unpublished company document, signed by the director Muhammad Javed Amin, 24 September 1984.

<sup>109</sup>When the production facility was closed for maintenance.

varieties developed in its laboratories.

Specialisation in sugar cane production was also supported by an agricultural department at SML, which provided support facilities to farmers who grew sugar cane. These facilities included the provision of technical and financial assistance, the procurement of fertiliser and pesticides, operating a model farm for experiments on improving seed varieties, estimating crop yields and acreage through field surveys and assessing projected cane procurement capacity from the crop yields.<sup>110</sup> The CRI was the only centre of its nature in the country and received considerable praise from local sugar cane farmers whose results spoke for themselves. A typical letter to Altaf Saleem from a sugar mill manager read as follows:

‘I congratulate you and your team for the excellent work being done at your Cane Research Centre....you have developed a very good variety namely SPSG-26 which we also want to introduce and propagate among the progressive growers of our Gate area.... Please make available one truck load of seed’.<sup>111</sup>

Such feedback was testimony given by the farmers to the growing success of the seed varieties nurtured at the CRI. This centre also published a quarterly journal, called the *Pakistan Sugar Journal*, sponsored by Altaf Saleem in 1988, which provided an update on the government’s sugar policy and statistics of crushed cane in the

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<sup>110</sup>Given in, Arif Rana, *Information Systems At Shakarganj*, Lahore University of Management Sciences, LBS case # 18-036-89-1, 1989, p. 4.

<sup>111</sup>Letter from Mian Javed Shafi, of Ittefaq Sugar Mills to Altaf Saleem, no ISML/RD/S-1/1744, 1 January 1992.

country.

Altaf Saleem influenced and operated the daily, routinised reporting system at SML. He took decisions based on daily feedback provided by the company's departments. This was evident from the SML Board minutes, where he indicated his concern for changes in SML's profitability from the increased outlay from excise duty payments and how the management could contribute their suggestions for reducing it.<sup>112</sup> Other issues raised in the Board minutes included the appointment of an independent valuer for the company's plant, building and machinery and the upsurge in its stock price derived from regular dividend payments.

As the spokesman for the Sugar Manufacturers Association, and through his representation on other panels, Altaf Saleem was able to address the government policy on issues, such as the excise duty exemption for sugar manufacturers based on sugar production capacity.<sup>113</sup> In 1988, this association was successful in making the government exempt excise duty on the amount of sugar produced above the average production of a unit, calculated on the basis of its

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<sup>112</sup>The 'Minutes of Meeting of the Board of Directors' of SML, 23 February 1984.

<sup>113</sup>*Ibid.*, 21 February 1985, gives the rate of exemption of excise duty on SML's sugar output; also see, Pakistan Sugar Mills Association, *Annual Report* 1986-87, p. 1, which identifies Altaf Saleem on its executive committee and as vice-chairman of the association. This source also shows a decrease in the rate of excise duty paid by sugar manufacturers in 1988 over the previous year.

production over the previous three years.<sup>114</sup> The duty exemption incentive was applicable to all sugar manufacturers and was designed to increase sugar production.

Management decisions initiated by Altaf Saleem also led to intermittent investments in a 'Balancing Modernisation and Replacement' (BMR) exercise to upgrade the machines' cane crushing capacity. In 1985, an application for a cash facility was presented to the Allied Bank of Pakistan Limited to extend finance to SML, under their BMR scheme. In 1987, Rs 8 million was allocated to SML's annual budget for BMR expenditure on rollers, screens, a pressure filter, seven pumps, enhancing the boiler's steam emission efficiency, a juice heater for energy conservation and computerised equipment for the laboratories.<sup>115</sup> In 1988, an additional Rs 300 million was spent on BMR of the plant which increased SML's production capacity by a further 30 percent, to 60,000 tons of sugar and 40,000 litres of alcohol per day.<sup>116</sup> Another Rs 40.45 million was expended on improving the production capacity of the automated sugar plant. In 1988, a report was submitted to PICIC and the National Investment Trust (NIT) for provision of loan facilities to implement techniques for automation, tools, testing equipment, weighbridges,

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<sup>114</sup>Interview with Altaf Saleem, 12 December 1991.

<sup>115</sup>This is recorded in the 'Minutes of Meeting of the Board of Directors' of SML, 22 February 1987, pp. 6-7.

<sup>116</sup>*Ibid.*, 21 February 1985, p. 3.

cane preparation and milling equipment, a process house, spray pond, turbo alternators, and for housing and office buildings.<sup>117</sup>

SML employed 1100 staff in 1974, who were reduced to 750 by 1988; 450 of whom were permanent and 300 were seasonally employed workers, recruited during the sugar cane crushing season. Altaf Saleem accounted for this reduction in the work force, to the updating of automotive production processing of the plant design at SML.<sup>118</sup> The management complemented the reduction in the workforce by improving techniques to operate the storage tank and boilers at the factory. Its manually controlled levers were replaced by automated controls in 1988.<sup>119</sup> SML's employees also were encouraged by the management to make on-the-job innovations. In 1986, after 19 years in the sugar business, SML's staff designed an evaporator with 70,000 square feet of heating surface at a cost of Rs 20 million.<sup>120</sup> The technical innovations at SML were complemented by systematic documentation of records which offer testimony to SML's rapid expansion. The following table provides a ten year summary of pre-tax profits and (losses) at SML:

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<sup>117</sup>*Ibid.*, 29 February 1988, p. 8.

<sup>118</sup>Interview with Altaf Saleem, 12 December 1991.

<sup>119</sup>*Ibid.*

<sup>120</sup>*Ibid.*

**Table 4.3**

**Shakarganj Mills Limited  
(Rs millions)**

<b>Year</b>	<b>Pre-tax Profits &amp; (Losses)</b>
1979	(12.5)
1980	(15.3)
1981	21.7
1982	45.3
1983	38.3
1984	31.0
1985	32.1
1986	23.1
1987	7.9
1988	106.4

Source: SML, *Annual Reports*, 1980-89.

The steady increase in profits suffered a setback in 1984, owing to a sudden surge in payment of excise duty to the government; in 1986-87, the fall in profits was caused by disputes between management and the workers at SML, over the payment of additional bonuses.<sup>121</sup>

SML's strategy of quality control for input and output was emulated by other companies in the group. SML was also seen to have introduced a Quality Circles and Quality Assurance (QC & QA), programme for cost and performance accountability in the departments. A summary of procedure manuals developed by Ferguson, the consultants for SML is as follows (Table 4.4):

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<sup>121</sup>Discussed in Zafar Qureshi, *Shakarganj Mills Limited-Worker's Strike (A)*, Lahore University of Management Sciences, LBS case # 05-273-89-1, p. 4.

**Table 4.4**

**Software Applications and Information Systems at SML**

Cane Accounting System
Grower's Ledger
Payment Log
Production Planning and Control Manual
Cane Procurement Scheduling System
Suppliers Selection
Purchase Ordering
Import Licenses
Marine Insurance
Letters of Credit
Expediting Export Orders
Clearance of Goods
Clearing Agent's Bill
Excess Duty Claims
Receipt of Materials
Inspection of Materials
Inventory Accounting and Control System
Interface with Accounting
Updated record of each inventory item
Computer Ledger Account of each dealer
Corporate Planning and Budgetary Control Manual
Payslips and Payroll Statistics
Wages and Salaries
Administration and Personnel
Agriculture
Operations
Finance and Accounts
Engineering Support Services
Materials Management
Marketing and Sales
General Ledger Accounting
Accounting Reports on data base structure, and classification of expenses and accounting responsibility, cost centre codes, analysis of fixed expenses and subsidiary ledgers
Periodical Trial Balance
Financial Statements

Source: SML, company manuals, [available with the author], on QC & QA; 'Corporate Planning and Budgetary Control Manual'; 'Production Planning and Control Manual', Vol. 1; Cane Procurement Manual', Vol. 2; 'Materials Management Manual'; 'Finance and Accounts Manual', Vol 1; 'Chart of Accounts', Vol. 2; 'Accounting Procedures', Vol. 3; 'Costing', Vol. 4 and Treasury Management Manual.

The production department and the quality control manuals identified the allocation of costs by their centre of origin.<sup>122</sup> Such documentation of procedures by their departments ensured that the senior management's potential to allocate responsibility to individuals for their actions was better organised. This system of accountability led to information generation at SML, which was an indispensable tool for senior management in making effective decisions. The accountability process uncovered the performance of less efficient departments, which could have remained camouflaged by the better performance of the more efficient ones. SML's business philosophy was also in harmony with the group's overall strategy, in the systems adopted to monitor departmental performance and in making the publicly quoted companies responsible, not only for their own performance but in also nurturing private limited subsidiaries; the latter category included Crescent Business Management (Pvt) Limited and World Class Textiles (Pvt) Limited, which were subsidiaries of SML.<sup>123</sup>

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<sup>122</sup>By adopting an information generation and retrieval system of allocating costs to their centre of origin within SML, Altaf Saleem showed initiative in an industry where SML had a sizable niche in the Punjab [and aggregate] sugar market. The debate on the costs and benefits of adopting cost accounting procedures for small and large-scale manufacturers are given in, H. Johnson and R. Kaplan, *Relevance Lost: The Rise and Fall of Management Accounting*, Harvard, 1987, [especially chapter six].

<sup>123</sup>Given in, N. Husnain, *et al*, (eds.), *Bukhari's 101*, Khadim Ali Shah Bukhari and Company Limited, 1991, page code, 101220.

#### **4.3.4 Crescent Steel and Allied Products Limited (CSAPL)**

CSAPL established in 1983 and was the group's venture in light engineering manufacturing. In 1985, Altaf Saleem's brother, Ahsan Saleem was appointed its chief executive officer by the Crescent Group.<sup>124</sup> CSAPL produced large diameter steel pipes<sup>125</sup> using hot rolled coils as the raw material<sup>126</sup> and were purchased from the only facility using them, the Pakistan Steel Mill. Therefore, CSAPL was a downstream industry of the Pakistan Steel Mill's steel production. CSAPL's initial machinery was imported from Germany; the machinery was exempt from incurring import duty, a facility extended by the Zia regime to industries established in designated tax-free zones.<sup>127</sup>

Since the steel industry was an unconventional area of business, CSAPL had to provide its technicians with on-site training. The initial installation of its plant was staged in Germany, where the German engineers trained three CSAPL's employees on the mechanics of erecting the plant in Pakistan. Once this exercise was

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<sup>124</sup> Recorded in the 'Minutes of Meeting of the Board of Directors' of CSAPL, 30 January 1985, p. 3.

<sup>125</sup> The pipes ranged in size from 8 inches to 86 inches. Such details of size and specifications are available in an in-company document, CSAPL, 'Technical Data', unpublished company document, pp. 10-11.

<sup>126</sup> Interview with Ahsan Saleem, 12 March 1992 in Karachi; *Ibid*, p. 1. See Appendix A.

<sup>127</sup> Interview with Ahsan Saleem, 12 March 1992.

completed in Germany, the plant was dismantled and shipped to Karachi where the same team of engineers supervised its installation.<sup>128</sup>

The overall group strategy of quality control and monitoring of performance was emulated by Ahsan Saleem of CSAPL. The operations of CSAPL incorporated a system of Quality Control and Quality Assurance. By 1988, 43 reports on QC & QA were generated from the personnel and production departments. These reports enabled management to exercise more effective control over and monitor costs and departmental performance.<sup>129</sup> Technology adoption was inherent in the procedures for quality maintenance used for the non-destructive testing of pipes. This involved electronically testing the pipes, then subjecting them to an X-Ray, then hydraulically testing them at 150 percent of the test pressure and at 200 percent of the design pressure, and finally the pipes were ready for welding.<sup>130</sup> Ahsan Saleem claimed that, 'The pipes produced in this factory are better than any in the world, by 50 percent'.<sup>131</sup> CSAPL had the distinction of being awarded the API logo, an award of international recognition of quality production of

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<sup>128</sup>*Ibid.*

<sup>129</sup>See Cresbank company documents on QC & QA.

<sup>130</sup>Interview with Ahsan Saleem, 12 March 1992.

<sup>131</sup>*Ibid.* Ahsan's claim could not be substantiated owing to the global gauge of performance which is necessitated in order to verify it.

steel pipes.<sup>132</sup>

On training manpower located at the factory premises, CSAPL's management developed a specific programme owing to the unconventional nature of the business.<sup>133</sup> Ahsan Saleem commented:

'The plant was purchased in Germany and also erected there for a trial run there, and two or three boys were sent and they dismantled the plant and brought it over to Pakistan. Then these three engineers went to UK for training on running the plant'.<sup>134</sup>

By 1988, CSAPL's annual turnover was 25,000 tons of steel pipes. This investment in steel, represented a landmark for the group in making a sustained transition from trading in the 1950s to processing steel (light engineering) by 1983.

#### **4.4 External Relations**

The Crescent Group produced and marketed Pakistan's key products, such as, sugar, vegetable ghee, cotton, wool and jute textiles in the manufacturing sector, and extended banking, leasing and general insurance facilities in the service sector. This group's political affiliations were limited, however Muhammad Amin and his brothers became members of the Muslim League and the Legislative

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<sup>132</sup>*Ibid*; also see unpublished in-company document, 'Crescent Steel and Allied Industries Limited', p. 8, where it is maintained that the API, in recognition of CSAPL's steel quality, had permitted it to use the API monogram engraving on the steel pipes produced at CSAPL.

<sup>133</sup>*Ibid*.

<sup>134</sup>*Ibid*.

Assembly in Pakistan.<sup>135</sup> That was all. This group initially gained much economically through State patronage because it was the main beneficiary of PICIC loans in 1958-70. However political influence was limited.

The group's net manufacturing assets were valued at Rs 100 million in 1952<sup>136</sup> which increased to Rs 4,217 million by 1988. This group was ranked in the first ten measured by ten companies' asset value from 1968 to 1988. In 1968, it was the fourth largest group in terms of the net asset value and by 1974 it had become the second largest, a position which it maintained up to 1988.<sup>137</sup> The following table confirms that the extent of State patronage was minimal in explaining the increase in the group's portfolio, rather there were other [internal] organisational factors which were becoming increasing responsible for explaining this expansion in the long-term:

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<sup>135</sup>See Z. Zaidi, 'Aspects of the Development of the Muslim League Policy 1937-47', in C. Phillips and M. Wainwright, (eds.), *The Partition of India*, Allen and Unwin, 1970, p. 253. The Muslim League was a political party which played a prominent role in realising the demand for the creation of Pakistan, [from the British, and later the Hindus in India].

<sup>136</sup>Calculated from the Crescent Group's unpublished company documents which were prepared in 1952.

<sup>137</sup>See, L.J. White, *Industrial Concentration and Economic Power*, Princeton, 1974, pp. 60-61 and H. Haqqani, 'Pakistan's Top 22 Find New Challengers', *Far Eastern Economic Review*, 22 May 1986, pp. 74-78.

**Table 4.5**  
**Crescent Group Net Assets**  
**(Publicly and Privately Quoted Companies)**

(Rs millions)				
<b>1952</b>	<b>1968</b>	<b>1974</b>	<b>1985</b>	<b>1988</b>
100	200(9) <sup>1</sup>	201.7(2)	435.9(3)	4,217(2)
	+100 %	-	+116 %	+867 %

<sup>1</sup>Numbers in parenthesis show the position of this group.

Source: For public limited companies: Crescent group, Balance Sheets; N. Husnain, *et al*, (eds.), *Bukhari's 101*, Khadim Ali Shah Bukhari and Company Limited, 1991; H. Haqqani, 'Pakistan's Top 22 Face New Challenges', *Far Eastern Economic Review*, 22 May 1986, p. 77 and L. White, *Industrial Concentration and Economic Power*, Princeton, 1974, p. 60 and for private limited companies, 'Minutes of Meeting of the Board of Directors', and internal correspondence of various Crescent Group companies.

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The above table shows that the group's equity structure was not affected by nationalisation since the net assets in 1968 and 1974 are approximately the same. This group did initially access a large portion of PICIC's credit, to finance its assets. However, upon closer examination of the evidence, the members of this group replaced State largesse with internally generated wealth creation made possible for organisational capability. The Crescent Group's interplay with the bureaucracy in the initial years of its growth is evident in one area. Muhammad Bashir was on the Board of Directors of the National Steel of Pakistan Limited (NSPL), the enterprise operating the first and only steel mill in the country. This organisation was a

consortium formed with the capital contributions of key industrialists along with the State's share.<sup>138</sup> Muhammad Bashir was one of seven other NSPL directors, the others were also key business personalities.<sup>139</sup> The other industrialists were Ghulam Faruque (Ghulam Faruque Group), Wajid Ali (Ali Group) Ahmed Dawood (Dawood Group), A.W. Adamjee (Adamjee Group), Hamid Habib (Habib Group), Rafique Saigol (Saigol Group) and M.A. Rangoonwala, a leading businessman.<sup>140</sup> Based on their founder's experience with managing the affairs of the Pakistan Steel Mill, the Crescent Group benefitted and formed forward linkages by forming CSAPL in 1983. CSAPL had 20 percent of its equity contributed by a government financial institution, the National Development Finance Corporation (NDFC), which was formed to finance large-scale industry based in the private-sector.<sup>141</sup> NDFC could influence the suitability in terms of selection and size of new, [large-scale industry proposals] presented to them by industrial entrepreneurs for financing.

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<sup>138</sup>See 'Minutes of Meeting of the Board of Directors' of National Steel Mills Pakistan Limited, 7 July 1965, p. 1.

<sup>139</sup>*Ibid.*, [lists the names of these industrialists].

<sup>140</sup>*Ibid.*, 11 February 1966, p. 1., gives a list of NSPL directors.

<sup>141</sup>The NDFC was established under the National Development Finance Corporation Act, 1973, [Act No. XIII of 1973], as a wholly owned government financial institution.

This group did initially benefit from its links with the PIDC, NIT and PICIC,<sup>142</sup> from which it derived considerable financial benefits. We will first discuss its links with the PIDC, then go on to uncover those it had with the NIT and PICIC. In 1959, Muhammad Amin was the beneficiary of PIDC's divestiture of a sugar mill, CSMDL. This was the first private-sector sugar mill established in the Punjab province. Private-sector companies did not voluntarily invest in sugar mills, since it required a heavy capital outlay. The PIDC-established sugar mill was an attractive investment acquired by the group since its initial overhead costs, such as the investment made in its infrastructure, that is road access, machinery, electricity and workforce requirements was met by the PIDC. Altaf Saleem's comment on CSMDL's acquisition was that it was, 'No real disinvestment by PIDC, because Crescent set it up instead of PIDC'.<sup>143</sup> Altaf was referring to the group's equity contributed to CSMDL and not to the heavy capital expenditure incurred by the PIDC in establishing this mill. In 1962, the PIDC invested in a jute mill, CJPL. PIDC's equity in the mill was Rs 7 million and a further Rs 15.50 million was contributed by the Crescent Group.<sup>144</sup> In

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<sup>142</sup>PICIC's financial contribution in assisting SML's new investments was acknowledged by Altaf Saleem in an interview, 12 December 1991.

<sup>143</sup>Interview with Altaf Saleem, 12 December 1991.

<sup>144</sup>Given in, PIDC, 'Development Programme of the PIDC', unpublished report, PIDC, December 1989, Annexure II, p. 65.

1965, CJPL was sold by the PIDC to the Crescent Group for Rs 20 million, or at less than the historical value of its financial assets.<sup>145</sup> Therefore, the sale was made at the nominal price of the investment made by the PIDC. The mill was acquired by the group from its profits made in jute manufacturing,<sup>146</sup> through Ayub's bonus voucher scheme introduced in the early 1960s.<sup>147</sup> Therefore this group also benefitted from Ayub's economic policies. In 1965, the PIDC sold four projects for Rs 56 million and the sale of CJPL represented 36 percent of all PIDC divestitures by value, in that year.<sup>148</sup> The reason why this group had contributed to CJPL's equity while it was owned by the PIDC, was that by 1962 the PIDC was running a number of units at a loss.<sup>149</sup> Therefore, in the larger interests of continuing with its agenda of promoting industrial development, the PIDC began accepting equity contributions from the private-sector to finance its on-going projects. This was on the

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<sup>145</sup>*Ibid.* p. 78.

<sup>146</sup>For the high rates of profits made through jute sales in 1958, compared with the relatively lower returns from cotton, sugar and cement sales, see G. Papanek, *Pakistan's Development*, Harvard, 1967, p. 99.

<sup>147</sup>Interview with Nasir Shafi, 13 December 1991; also see pp. 78-84, on the bonus voucher scheme and its financial appeal to private-sector industrialists. The mechanics of the bonus voucher scheme are given in O. Noman, *The Political Economy of Pakistan 1947-85*, Routledge, 1988, p. 38.

<sup>148</sup>Given in, PIDC, 'Development Programme of the PIDC', PIDC, unpublished report, December 1989, pp. 77-78.

<sup>149</sup>*Ibid.* p. 23.

understanding that the PIDC projects partially financed by the private-sector would also be purchased by the latter.<sup>150</sup> The Crescent Group contributed to CJPL's equity and participated in its management while it was under PIDC's ownership. The project's divestiture in favour of the group in 1965 showed that PIDC's strategy had been successfully implemented.

The NIT was another financial institution which was obligated by law to invest in the shares of business groups. Reciprocally, these groups had to invest in NIT shares. In 1968, NIT's portfolio was Rs 143 million, of which Rs 94 million or 60 percent was invested in private capital.<sup>151</sup> Twenty percent of all private capital was owned by our five business groups, of which Crescent represented three percent (of the twenty percent).<sup>152</sup> Conversely, the Crescent Group owned Rs 4.7 million or 3 percent of NIT's shares. By 1970, Crescent's investment in NIT shares reduced to 1.81 percent of NIT's portfolio. The following table shows Crescent investment in NIT and ICP shares:

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<sup>150</sup>*Ibid.*, pp. 23-24.

<sup>151</sup>Given in, L.J. White, *Industrial Concentration and Economic Power in Pakistan*, Princeton, 1974, p. 157.

<sup>152</sup>*Ibid.*

**Table 4.6**  
**Crescent Group's Share in Shares of**

	<b>NIT</b>	<b>I.C.P</b>
	<i>%</i>	<i>%</i>
1968	3	-
1970	1.81	0.6

Source: National Investment (Unit) Trust, Director's Report and Statement of Accounts; NIT, *Annual Report*, 1 July 1969 - 30 June 1970, Karachi and Investment Corporation of Pakistan, *Annual Report*, Karachi, 1970.

Wherever NIT directors were also the owners of business groups, they could influence NIT's investments in favour of their own businesses. The NIT was also the government's voice in monitoring the business group's organisational performance. The NIT enforced the government's stipulation on appointment of company directors and the percentage of shares that could be owned by subsidiary companies in other companies of the group. Even though NIT investments were skewed in favour of business houses as a whole, they were not heavily concentrated in the assets of the Crescent Group. To this extent, this group as a beneficiary of State largesse through NIT's patronage was low key. The following table provides the equity contributed by financial institutions to SML in 1971-74:

**Table 4.7**

**Equity Participation in  
SML  
1971-74**

<b>Shareholders</b>	<b>Rs (millions)</b>	<b>%</b>
Financial Institution		
PICIC	31.50 <sup>1</sup>	22.63
ICP	8.52 <sup>2</sup>	10.01
NIT	1.50	4.71
Joint Stock Cos.		
of the Crescent Group		46.09
Premier Insurance		0.93
Family members		15.00
Others		0.63

Source:<sup>1</sup> For 1971 figures see 'Minutes of Meeting of the Board of Directors' of SML, 27 February 1971, p. 2; [for 1973 figures], see the Minutes of 16 November 1973, p. 1.

<sup>2</sup> ICP was the Investment Corporation of Pakistan which contributed to right share issues of SML, on 19 August 1971 and 8 March 1972. See 'Minutes of Meeting of the Board of Directors' of SML, of 27 February 1971 and 16 November 1973.

N. Husnain, *et al.*(eds.), *Buhkari's 101*, Khadim Ali Shah Bukhari and Company Limited, 1991.

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The largest contributors to SML's equity were from the sister concerns of SML and that contributed by PICIC.<sup>153</sup> The Crescent family's control in SML's decision making was apparent from the majority shares held by other Crescent companies or those directly owned by Crescent family members in SML's equity. The PICIC was established in 1957, to disburse loans to and contribute to the equity of business house investment, in order to promote new enterprise. Its policy was partial towards lending foreign exchange to a selected

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<sup>153</sup>See 'Minutes of Meeting of the Board of Directors' of SML, 6 March 1972.

and known group of industrialists, for those industries which had more predictable levels of profit returns, such as those in textiles, food and sugar manufacturing.<sup>154</sup> Crescent had a family member, Zahid Faruque as one of PICIC's 25 directors, a position held by him from 1972 to 1988.<sup>155</sup> The appeal for businessmen in acquiring PICIC foreign currency loans was that they were extended at the official (and cheaper) exchange rate which favourably affected the recipient group's investment portfolio.

From 1960 to 1980, the tempo of industrial investment was spurred by monopoly house investments in textiles, paper and sugar mills. The Crescent Group had manufacturing investment in all three industries. In 1961, the country's total private industrial assets were Rs 6,500 million of which Rs 80.5 million were financed by loans provided by the PICIC and Rs 70.5 million were IDBP financed loans.<sup>156</sup> In 1958-70, of the Rs 911.4 million loans extended by PICIC to private industry, 13 percent was extended to the Crescent Group. Therefore this group was one of the main beneficiaries of this source for credit. The companies in this group

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<sup>154</sup>See G. Papanek, *Pakistan's Development*, Harvard, 1967, p. 88, for partiality in loans extended by PICIC and IDBP to industrialists in the 1960s.

<sup>155</sup>Given in, PICIC *Annual Reports*, 1972-88 and R. Amjad, *Private Industrial Investment in Pakistan, 1960-1970*, Cambridge, 1982, p. 50.

<sup>156</sup>See G. Papanek, *Pakistan's Development*, Harvard, 1967, p. 89.

which were the beneficiaries of PICIC credit were, CTML, CSMDL, STML, JSWML, CBL, SML, CJPL, ETML, CSWML, Suraj Cotton Mills (Pvt) Limited, Ujala Cotton (Pvt) Limited, Karachi Bulk Storage (Pvt) Limited, and Shams Food Processing.<sup>157</sup> The equity contributed by [government-owned] financial institutions in business group investment increased under the Presidential Order No. 2 of 1972. This order was passed by Prime Minister Bhutto, in his economic reforms for industry which designated a larger share of the State's involvement and investments in private industrial capital investment. State involvement was attended by the abolition of the managing agency system and the increased government representation on company directorship which were made mandatory.<sup>158</sup> This representation enabled this group to access even more credit from financial institutions, such as the PICIC because under Bhutto's reforms, financial institution representation also increased on the Board of Directors of Crescent companies.<sup>159</sup>

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<sup>157</sup>Interview with PICIC's executive vice president, Abdul Haq, 2 April 1992, in Lahore. See Appendix A.

<sup>158</sup>See 'Minutes of Meeting of the Board of Directors' of SML, 6 March 1972, p. 2, where stated that, 'The chairman informed the members that the Managing Agency of Messrs. Mohd. Amin Mohd. Bashir stands terminated with effect from 15 January 1972, according to the Companies [Managing Agency and Election of Directors Order, 1972]' .

<sup>159</sup>Wahab-ud-Din Shah, was a nominee from PICIC represented on the Board of Directors of SML, as recorded in 'Minutes of Meeting of the Board of Directors' of SML, 18 August 1981, p. 1.

By 1976, PICIC and ICP ownership of Crescent Group shares rose considerably.<sup>160</sup> Also the percentage of shares held by the public in Crescent companies increased. This group circumvented Bhutto's directive to float further shares to the public by offering them to other companies in the group, since the 'public' also included other companies of the group, the ICP, insurance companies and banks. Under Bhutto's industrial reforms, the number of company directors were increased to include representatives from government-owned financial institutions.<sup>161</sup> SML responded by reappointing a family member, Haji Muhammad Shafi, a brother of Muhammad Amin of MAMBL on its Board of Directors. Nominees of PICIC were also represented on its Board.<sup>162</sup> The SML Board minutes also specified conditions set by PICIC that SML's Board of Directors required equity contributions from public limited companies; CSMDL's management, being a public subscriber to SML's shares, agreed to extend a bridge financing facility for SML's expansion programme.

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<sup>160</sup>The increase is documented in the 'Minutes of Meeting of the Board of Directors' of SML, 22 March 1976.

<sup>161</sup>An example follows of how the government influenced Crescent Group businesses, in particular that of SML: Under the new Presidential Order 2/72, 1972, [of Bhutto], the ICP as shareholder and surveillance arm of the government charged a fee of half percent or Rs 10 million from SML, for professional assistance and examination of its projects in 1973. This was a statutory payment imposed by the government on private-sector businesses.

<sup>162</sup>See 'Minutes of Meeting of the Board of Directors' of SML 18 August 1981, indicating PICIC's representation on the SML's Board of Directors.

This reinforced the group's stance (discussed earlier) on adopting a policy of nurturing financial support from companies within the group. When CSAPL was floated, SML invested Rs 3 million in its shares.<sup>163</sup> By 1988, PICIC's nurturing of this group had matured when the group formed PILCORP, an industrial leasing company floated by the group, which had up to 24 percent of its equity owned by PICIC. Therefore from being a financier, PICIC became a major shareholder in Crescent investments.<sup>164</sup> From 1958 to 1970, the Crescent Group's share in loans extended by PICIC and IDBP to them was as follows:

**Table 4.8**

**Foreign Exchange Loans Obtained by the Crescent Group  
1958-1970**

	<b>PICIC</b> <b>Rs millions</b>	<b>% of Total</b>	<b>IDBP</b> <b>Rs millions</b>	<b>% of Total</b>
	117.76	13	0.68	0.2
<b>Total loans disbursed</b>	<b>911.43</b>		<b>375.55</b>	

Source: R. Amjad, 'Private Industrial Investment in Pakistan, 1960-70', Ph.D thesis, University of Cambridge, 1977, p. 268.

<sup>163</sup> Documented in, 'Resolution by Circulation' an unpublished document, SML, 22 September 1984, signed by the company secretary, Mirza Muhammad Khan and a director, Muhammad Javed Amin.

<sup>164</sup> Given in, N. Husnain, *et al*, (eds.), *Bukhari's 101*, Khadim Ali Shah Bukhari and Company Limited, 1991, page code, 041100.

From 1969 to 1987, SML received a further Rs 50.5 million in local currency and US \$ 2,00,449 in foreign currency from PICIC as follows:

**Table 4.9**

**Loans received from PICIC by SML  
(Rs millions)**

<b>Year</b>	<b>PICIC loans</b>
1969	15
1971	3
1972	3.9
1985	28.6
<hr/>	
<b>Total</b>	<b>50.5</b>

Source: For 1969, see 'Minutes of Meeting of the Board of Directors' of SML, 23 June 1969, p. 1.; for 1971 figures see 'Minutes of Meeting of the Board of Director's of SML, 27 February 1971, p.2.; for 1972, recorded in the 'Minutes of Meeting of the Board of Directors' of SML, 22 November 1972, p. 1.; and for 1985, the figures are recorded in the 'Minutes of Meeting of the Board of Directors' of SML, 21 February 1985, pp. 2-3.

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So when Altaf Saleem commented that: 'We have not participated in privatisation schemes because of [the] stigma of favouritism',<sup>165</sup> his statement requires qualification, in that the group kept a low profile with their political associations but gained leverage by influencing PIDC and PICIC policy at a senior level, to provide the group with favours from which it initially benefitted. In fact, this group by-passed the need to solicit political favours by initially appointing family members on PICIC's Boards of Directors. This policy was also gradually replaced by developing its organisational

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<sup>165</sup>Interview with Altaf Saleem, 12 December 1991.

systems which enabled the group to sustain its rapid transition from trade to light engineering manufacturing.

Although the Crescent Group was not the first to set up a textile mill, it became the largest proponent in textiles. Altaf Saleem's views on the relative success of his group was from:

'Group failure can occur because they [Crescent] are not thrown out with individual failure [of businesses].'<sup>166</sup>

He qualified the above statement, that when other groups wavered in their plans to expand from the fear of further nationalisation by Bhutto, Crescent persisted in developing its businesses regardless of the political and economic climate of the country. This strategy was consistently followed even though some of their businesses were nationalised by Bhutto in 1972. These were the 12 cotton ginning factories, the 'life insurance' portion of Premier Insurance Company Limited, and their shipping line, M.D. Shams (Pvt) Limited. The losses which ensued from nationalisation of its business were circumvented by a consistent policy of consolidating the group's base in textiles. The group did not suffer further nationalisation of its industry and it continued to invest in textiles in order to finance leasing and steel-based manufacturing companies later on through the capital accumulated from its pioneering investments.

Commenting on the tapping of sources of finance for floating new companies in the group Altaf Saleem commented: 'Financial

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<sup>166</sup>Interview with Altaf Saleem, 12 December 1991.

institutions of Crescent cannot go to the same financial institutions for borrowing'.<sup>167</sup> This meant that Crescent companies could not borrow from financial-lending companies within the group, [but they could raise equity from its sister concerns]. This practice was proposed by members of the Crescent Group to discourage any misdemeanours from occurring in the form of loan default or loans being written off through family consent. Crescent's management philosophy provided it with a cushion against the higher risks which accompany rapid portfolio expansion. Its grand strategy directed its future investment and PICIC's continued support of new group investment became an incidental factor for enabling group expansion. By virtue of its management's business acumen, it operated in an exogenous environment similar to the Ali Group, but responded differently in its endogenous strategy, targeted at expansion. In expending its resources on addressing internal problems, this group maximised its return on business investment with more ease than groups which did not adopt internal organisational systems.

Members of this group pride themselves on their leaders' prudent business vision. From the evidence available, it seems that this group did benefit from State patronage in its initial years but later on, its rapid expansion was a function of managerial capability, rather than State patronage. This was because Crescent did not depend on the government for implementing its expansion in the

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<sup>167</sup>*Ibid.*

long-term. During Ayub's regime, when other business groups were receiving concessions, the Crescent Group also benefitted from factors in the exogenous environment, but the consolidation of its business was achieved from innovating endogenously developed procedures.

#### **4.5 Management Strategy: Endogenous Systems for Business Development**

Management practices peculiar to this group enabled it to make the transition to light engineering manufacturing. A significant factor contributing here was its policy of nurturing subsidiaries in its formative years, which were made public upon their reaching maturity. The Crescent Group's management felt that the parent company would act as a shock absorber in the event of losses occurring in its new companies.<sup>168</sup> On minimising losses associated with risk, Altaf Saleem commented that the group, 'won't go into any business where the government is the only buyer'.<sup>169</sup> This philosophy bore fruit in the 1980s, when the group's investment matured and it established its own steel facility. The transition from trading to processing steel was bridged from 1951 to 1983.

The policy of nurturing subsidiaries was evident in CTML which nurtured JSWML and CSMDL by contributing to their equity as

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<sup>168</sup>For example, CTML was a textiles manufacturing facility and within which new company flotations were registered. There were also other textile companies in the group which contributed to the equity of newly established subsidiaries. These textile companies were MAMBL, CTML, CSMDL or CJPL.

<sup>169</sup>*Ibid.*

private limited concerns, until they became public limited companies.<sup>170</sup> Also, Crescent Boards Limited was a subsidiary of CSMDL. CJPL nurtured Ujala Cotton Mills (Pvt) Limited and Crescent Apparel (Pvt) Limited. All subsidiaries were initially formed as private limited companies which later offered its shares to the general public.<sup>171</sup> Examples of the holding company's financial contribution to develop its subsidiaries companies emerged as follows when in 1974 CTML invested Rs 4.9 million on SML's building, land, vehicle, furniture, electricity, office equipment and bicycles for the employees.<sup>172</sup> Also some family members active in the group, were present on SML's Board of Directors; Haji Muhammad Shafi; Mazhar Karim, the son of Muhammad Amin; Zahid and Khalid Bashir, both sons of Muhammad Bashir, and Muhammad Rafi.

Financial support provided to by sister concerns to other companies within the group was as follows: In 1972, under Bhutto's Presidential Order, SML was required to float a further 8.5 million shares to the public.<sup>173</sup> From this, 0.15 million shares or 1.8

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<sup>170</sup>See pp. 268-80, for when Crescent companies became public limited.

<sup>171</sup>The decision for the parent company nurturing subsidiaries was also recorded in the 'Minutes of Meeting of the Board of Directors' of SML, 6 March 1991.

<sup>172</sup>An example of this point is evident in 'Minutes of Meeting of the Board of Directors' of SML, 18 January 1974, which records the appointment of family members on its Board of Directors.

<sup>173</sup>See the Presidential Order No: 2/72, 1972, on Bhutto's industrial reforms.

percent were offered to CSMDL as its public subscriber, 0.25 million shares or three percent were purchased by the ICP, 0.02 million or 0.2 percent shares were purchased by United Bank Limited, 0.01 million shares or 0.1 percent each, were bought by the Eastern Federal Union Insurance Company Limited, Commerce Bank Limited, New Jubilee Insurance Company Limited, and Muslim Insurance Company Limited. Another 0.15 million shares or 1.8 percent were underwritten by the (then defunct) managing agents but still active parent company of the group, MAMBL. The balance of its share-holdings were offered to the general public.<sup>174</sup> In 1975, CTML purchased CJPL and JSWML shares valued at Rs 23,663 and Rs 44,869 respectively.<sup>175</sup> In 1975, CTML offered 2,64,000 shares that it owned in SML, to the chief executive officer of CJPL.<sup>176</sup> By 1977, sister concerns of SML, included JSWML, CTML, CSMDL and MAMBL which had extended loans in staggered amounts of 11.5 percent, 11.5 percent, 13 percent and 10 percent to SML, respectively.<sup>177</sup> In another instance in 1980, CTML transferred its

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<sup>174</sup>*Ibid.*

<sup>175</sup>See 'Minutes of Meeting of the Board of Directors' of CTML, 5 November 1975, p. 3.

<sup>176</sup>See offer letter written by the chief executive officer, CTML, Muhammad Anwar his counterpart at CJPL, no: AO- 128/1201, 30 October 1975.

<sup>177</sup>See 'Minutes of Meeting of the Board of Directors' of SML, 3 May 1977, indicating the proportion of loans extended by sister companies to SML.

shares to CBL.<sup>178</sup> Cresbank was a publicly subscribed company, and other companies of the group owned significant number of its shares: CJPL, CSMDL, JSWML, CTML and SML. Crescent's sister concerns owned 11.5 million shares in CTML.<sup>179</sup> The ownership structure of Crescent Group shares expose that even after Bhutto's attempt to reduce industrial concentration in the hands of a few families, this group was able to circumvent this by offering a large portion of its publicly shares to sister concerns of the group.

The pioneering entrepreneurs of this group preferred to expand in new industries only if a textile unit was part of the new expansion. Later, the group expanded in industries for which they had originally acted as advisors; an instance being their role as advisors to the National Steel of Pakistan, to which CSAPL became a contractor for executing major steel manufacturing projects.<sup>180</sup>

Crescent's management also formed forward and backward linkages in its industrial investment when the opportunity to do so was ripe. Cresbank was formed when the group's sales exceeded Rs 6 billion; at CTML a dyeing and finishing section was added to its

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<sup>178</sup>See 'Minutes of Meeting of the Board of Directors' of CTML, 22 April 1980, p. 1.

<sup>179</sup>*Ibid.*

<sup>180</sup>Group diversification and investment in new businesses was evident from the records of SML, as recorded in the 'Minutes of Meeting of the Board of Directors' of SML, Annexure 'A' New Articles to be Incorporated in Memorandum of Association', 25 May 1987.

existing spinning and ginning facilities. This new addition to CTML supplied the raw material required at other spinning and finishing units of the group as well as to the public. Then at SML, industrial alcohol was produced as a by-product of sugar cane processing in manufacture sugar. Alcohol was then conserved through the installation of an alcohol manufacturing plant at SML. This was a backward integration facility for sugar cane processing at SML. Further backward integration was implemented by utilising sugar cane bagasse (used for alcohol production) to also produce particle board. SML's management, namely Altaf Saleem pioneered this idea of conversion from sugar cane to particle board and it was later replicated at 400 other sugar factories in the country.<sup>181</sup> In the production of sugar at CSMDL, its by-product sugar cane bagasse was used as raw material for CBL in the production of particle board. Another inter-company linkage was made with acquiring a shipping line, M.D. Shams, to facilitate sea transportation of commodities in which the group traded.

From 1974 to 1988, after the spate of nationalisation was over, the group continued to invest in cotton textiles and formed ten new companies, namely the JSWML, ETML, Ghulam Hidayatulla Mills Limited, Ujala Cotton Mills Limited, Crescent Cotton Products (Pvt) Limited, Suraj Cotton Mills (Pvt) Limited, CSML, Crescent Cotton and Allied Factories Limited, Crescot Limited and Crescent Trading

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<sup>181</sup>Interview with Altaf Saleem, 12 December 1991.

Limited.<sup>182</sup> Altaf Saleem claimed that the group's ability to maintain the original vision of expansion originated from, 'checks and balances built into the system, therefore any chief executive officer cannot beat the system'.<sup>183</sup> Group diversification and investments in new businesses were pressing issues discussed in the records of SML.<sup>184</sup> In 1987, its management expressed its intent to invest in over 30 new industries.<sup>185</sup> This group also included foreign equity participation at a much later stage, after their textile base was entrenched.

Another route adopted by this group in establishing new businesses was to purchase 'sick' mills. These mills were declared 'sick' by the government owing to their state of bankruptcy. Usually the sick unit

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<sup>182</sup>The chronology of their inception as Crescent Group companies is presented on pp. 265-80.

<sup>183</sup>*Ibid.*

<sup>184</sup>*Ibid.*

<sup>185</sup>See 'Minutes of Meeting of the Board of Directors' of SML, 22 April 1982, with details of the intended new industrial investments as follows: The directors agreed to incorporate new areas of business activity as dealers of leather, waterproof material, floor cloths; manufacturers and machinery importers for silk weaving, spinning, cotton ginning, weaving and spinning, importers and exporters of textile fabrics, pharmaceutical, surgical and scientific apparatus; traders and manufacturers of steel convertors, iron masters, coke manufacturers, miners, smelters, tinplate makers, iron founders; in the resale, exchange, repurchase, mortgage of land, building, machinery, engines; sellers of insecticides, agricultural products, fungicides, agricultural chemicals, petrochemicals, automobiles, automotive parts, fertilisers; erect *ghee* manufacturing plants, dairy products, juices, colours, dyes, enamel, and all types of construction material based on cement and gypsum.

came with its obsolete machinery and technology. Once the group had benefitted from PIDC sales it changed over to purchasing units which were already installed, albeit declared 'sick'. The onus for turning the 'sick' units' production facilities around, rested with the new owners. Three 'sick' units were purchased by the group. The first was the JSWML, intended for manufacturing cotton yarn, when the group purchased it in 1959. It was subsequently made into a profitable venture, manufacturing finished fabrics and bed sheets by 1972. In 1974, it was made a public limited company and the shareholders demonstrated their confidence in the profitability of the company by purchasing its shares. The second 'sick' unit acquired by the group was the Ghulam Hussain Hidayatulla Mills Limited, a ginning factory purchased in 1979. The third 'sick' unit purchased by the group was Elite Textile Mills Limited, in 1979. It too was converted into a profit centre for the group. Purchase of 'sick' units by this group demonstrates that its owners had the confidence to invest in a loss-making concern and turn it into an economically viable enterprise. An attendant factor which made the owners invest in 'sick' units, was that they were located in industries where the group was already established, and also where the members of the Crescent group had become seasoned businessmen. This contributed to the reduction of the degree of risk involved in such acquisitions and represented another area where the group maintained a competitive edge over other industrial concerns in similar areas.

Another strategy followed by the group was in initially contributing to the equity of a PIDC concern which was later purchased outright by the group. Again this strategy was more economical than purchase of a PIDC unit as a completely new investment. By initially contributing to the equity of PIDC financed mills, generated economies for the group, when it was purchased by it. This was because in the initial period of investment, the overhead and related investment expenditure was met by the PIDC. Since the PIDC was a brain child of the government, it had access to credit and infrastructure facilities that private ownership could not easily subscribe to.<sup>186</sup> The PIDC units acquired by the group were the CSMDL and CJPL. After the 1960s, this group avoided approaching the government for outright concessions. Rather they purchased 'sick' or PIDC units. In both instances, someone else had made the initial investment which was then acquired by Crescent. Initially this group did maintain links with bureaucrats at PICIC and the PIDC for expectant favours beneficial to its investments.

By the 1980s, the group's risk averse behaviour in new investments changed; they began investing in new areas of business. These included leasing and finance companies, and steel manufacturing units, such as the CSAPL, established in 1983 and PILCORP,

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<sup>186</sup>See the PIDC charter under the 'Act of Federal Legislation, No XLV of 1950' [revised in 1962] by President Ayub, when certain industries were transferred by the PIDC to the Provincial governments by 'Ordinance No, XXXVI of 1962', 1 June 1962.

established in 1988. The other factor which differentiated its 1980s policies from the ones practised earlier, was that new companies were directly floated as public limited companies. The management felt it no longer needed to subject the new businesses to the test of time that it took to make them profitable. This was unlike the group's practice in the 1960s to first keep new flotations as private limited and once their credibility was established, then float them as public limited concerns.

This group's philosophy was to initially look inwards and to then steadily learn and assimilate business techniques in new fields. It was after three decades of the group's formation, that its members were prepared to invest in less familiar areas of business, such as in the light engineering sector and in financial markets. The management philosophy of the group, reiterated by Altaf Saleem, was in first nurturing subsidiaries and then creating inter-company competition, with each unit being independently managed. This made each unit a cost centre with its own methods and documentation procedures. Altaf Saleem's comment on encouraging other firms in the group to emulate this philosophy was, 'Crescent Textiles in 38 years has not ever missed a dividend'.<sup>187</sup> The

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<sup>187</sup> Interview with Altaf Saleem, 12 December 1991. A comment was also made by Tariq Shafi on the group's philosophy of inter-company competition, reported by H. Santora, 'Coming Into Their Own', *Business Today*, March 22 - April 6, 1992, pp. 42-53 as follows: 'We have been able to hold the flock together because of the value systems imbibed from our parents. They believed in doing things together'.

philosophy of nurturing subsidiaries was made part of the group's grand strategy because it was one way of reacting to keep the business within the family. The group members provided insurance by adhering to what they knew best: textiles manufacturing. Inter-company competition was an extension of the Chinioti community's penchant to maximise profits a factor which was not restricted to them alone as a group. It was only in the 1980s that they moved in a different direction. Their internal organisational strategy worked and this group became more forward looking, in that Crescent risked entering unconventional areas of business and yet diversified and became larger than the other groups studied.

#### **4.6 Conclusion**

The Crescent Group was the first in Pakistan to manufacture and sell textiles, both locally and overseas and this flair for commerce provided it with an advantageous start. It diversified rapidly from a base in sugar, jute and textiles manufacturing to downstream production of steel pipes and setting up shipping, leasing and investment companies. In the 1960s, the group accessed government financial institutions for servicing of its credit needs. PICIC's credit facility proved most beneficial. However by the 1980s, credit worthiness with multinational banks assumed greater significance for raising corporate loans. These banks, such as the American Express Banking Corporation (Pak) Limited, and Citibank (Pak), had more exacting criteria for extending credit, than the financial institutions

of the 1960s, such as the PICIC and PIFCO. It was during the 1980s, that the Crescent Group was successful in making its entry into steel manufacturing.

After 1967, the economic edge gained by Crescent was due to the initiative shown by its owners to reorganise its internal procedures which gave it an edge in entering new areas of business over other industrial leaders who continued to only seek the State's patronage to expand their business. The transition made from trade to investments in the light engineering was a response to its senior management's motivation to consolidate its holdings. This group's focus remained on functional specialisation such as plant expansion and modernisation, technology improvement and the hiring of professional managers. Collectively, these contributed to the growth of the enterprise, especially after 1965. This group invested in systematised procedures from within (endogenous factors propelling expansion) which generated quantifiable information. The precondition for generating systematised reports was a clearly defined objective and criteria for evaluating alternate routes to achieve that objective where corrective action was enacted upon swiftly through a controlled feedback system. Such methods better explained the causal relationship between decisions made and its effects. The early records of MAMBL and CTML stand testimony to this approach. Other Crescent company records also showed that its management was interested in resolving managerial problems. SML's Board

minutes were a detailed study of the daily running of its business, where problems were resolved through QA & QC techniques. This group were concerned to address and resolve issues through such methods. It kept a systematic record of its Board minutes from 1951, initially maintained by Muhammad Amin.<sup>188</sup> The effective management practices in this group developed as a response to market forces in initially meeting the demand for textiles which enabled Crescent to become the second largest group, measured by the value of its assets in 1988.

An underlying factor for it not continuing to seek State largesse was financial. Pakistan was a new country which had seen considerable political instability in its first decade. Ten Presidents and Prime Ministers came and went from 1951 to 1959. Such beginnings were likely to make the risk averse industrialist even more cautious in proclaiming his political affiliations, lest an opposing political party assumed power. Therefore, the statements of Altaf Saleem and Tariq Shafi that they prided themselves in not canvassing for favours from politicians was rooted in their risk averse behaviour. However, in the absence of their **continued** support of political regimes, the group was forced to develop its own internal organisational systems to expand. This was the main factor which enabled them to sustain external shocks from nationalisation,

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<sup>188</sup>See 'Minutes of Meeting of the Board of Directors' of MAMBL, 1951-1970.

the devaluation of the currency, and the Indo-Pakistan war of 1965. All said and done, Crescent's third generation left an indelible mark on the business landscape of Pakistan. Family members on its several Boards of Directors or at senior management positions remained amenable to suggestions on improving organisational procedures. Thus, for this group family presence reinforced efficient management practices.

The common denominator between the groups studied so far was that they all either began as cotton textile traders or went directly into production in a cotton-based industry. Cotton remains Pakistan's staple cash crop and the backbone of the economy, hence these groups specialised in textile ginning, spinning, weaving and finishing processes. The difference between the Crescent Group compared with others is that it branched off on a tangent, not seeking short-cuts to its expansion. Informally, it became known as the professional in its field or the 'cotton kings',<sup>189</sup> who were forward looking entrepreneurs. Since they did not continue to seek State privileges, they were protected from the vicissitudes of government policy and instead could concentrate upon handling the teething problems when entering new markets and finding their own level in industry. To a large extent, their five companies which also exported its production provided the group with an insurance against local fluctuations of demand in the economy. These companies were

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<sup>189</sup>Interview with Altaf Saleem, 12 December 1991.

ETML, CJPL, MAMBL, CTML and Shams Textile Mills Limited.

Another factor contributing to the group's stability was that the fear of nationalisation did not prevent them from continuing investing in manufacturing industry. Therefore when Bhutto nationalised the 'life' section of their insurance business along with the shipping line and ginning factories they swiftly recovered as a group. At this juncture they prided themselves on not having succumbed to individual failure in one industry because of nationalisation, which could have become a catalyst for group failure as a whole, as did happen with the Fancy and Valika Groups based in Sind.<sup>190</sup> Members of the Crescent group were not rural landlords, nor did they feel threatened by the power vested in the landed elite, rather they focused on converting their gains made from trade into manufacturing industry. As the new industrial elite, their drive to succeed was not impaired by illusions of an illustrious past.

The development of internal organisational systems mainly assisted this group to make a smooth transition as textile barons to manufacturers of light engineering goods. The presence of family managers who were seen to be producing results through the attendant training of their permanent manpower, led to an increase in the output, sales, profits and size of the group. To maintain this momentum, Crescent managers produced internally generated,

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<sup>190</sup>*Ibid.* The Fancy and Valika Groups were prominent until Bhutto's nationalisation of industry destroyed their industrial base, after which its entrepreneurs refused to invest in Pakistan.

systematised and routinised reporting systems (initially unconsciously and then consciously), which enabled cause and effect relationships to be quantified, analysed and costs and responsibilities appropriated to departments and their managers. The impetus for introducing these institutional changes was vested with the owner managers of this group. Through effective systems applications, which involved a breakdown of project expenses and budget by its numbers, they enabled better administrative accountability. Decisions made on the basis of systematic processing of information lead to self sustaining growth which improved the group's access to sources of raw material, adoption of new technology and machine upgrade necessary to keep abreast in a changing environment. This enabled the group's transition under conditions that set its industrial base.

## CHAPTER FIVE

### THE GHULAM FARUQUE GROUP

#### Introduction

This chapter centres on the evolution of manufacturing investment (1964-88) made by Ghulam Faruque Group, henceforth called the Faruque Group. Its business interests were represented in of four provinces in Pakistan: Sind and the NWFP. (This is the first group in this study which had its manufacturing facilities concentrated largely in the NWFP). The Faruque family made its foray into manufacturing industry in 1964 as a post-independence family, which made their settlement into a new milieu more difficult than those business families which had began as traders in pre-partition India.<sup>1</sup> The group traded in commodities and produced and marketed goods such as carbon brushes, mechanical seals, carbon bearings, electrical inserts, crushed sugar, cement, airconditioning equipment, overhead electrical transmission lines, electric cables, grid stations and

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<sup>1</sup>See M. Lieberman and D. Montgomery, 'First-Mover Advantages', *Strategic Management Journal*, Vol. 9, 1988, pp. 41-58, where they analyse the business advantages and disadvantages accruing to pioneering industrialists. One of the advantages of being a late-starter in industry arose from process technology leakages from the pioneers to the second-movers. However, both first- and second-movers benefit equally from government subsidies, in enabling them to take-off in their field of specialisation. The latter condition when studied in the context of Faruque investment, articulated through its owner's connections, enabled him through the experience he had gained in administering licences to others who were first-movers in industry to also help in setting up his own industry.

electrification projects for installing cement and textile mills and for State-owned projects, such as the Ordnance Factory and the country's airports.<sup>2</sup> In the service sector, it provided freight and after sales service on airconditioning equipment manufactured by the group.

The chapter is divided into six sections. **Section One** provides the group's formation and background, the early aspirations of its founder Ghulam Faruque, and his career as a bureaucrat which preceded the formation and investments of his group. The ramifications of his earlier career will be seen in the establishment of a series of quoted and unquoted companies in the group.<sup>3</sup> **Section Two** provides an overview of the group's activities, and examines whether its initial manufacturing investments coincided with any landmarks in the founder's career as a bureaucrat who had originally benefitted from State largesse. **Section Three** comprises selected company histories, analyses the decision-making process and asks whether management practices facilitated expansion of the group's investments into related product lines. **Section Four** analyses the external relations of the group and its founder's dealings with the government, which provided Ghulam Faruque with the impetus to initiate business house investments. The section examines how far his personality affected the diversification of the

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<sup>2</sup>See 'Faruque Group of Companies', unpublished company document; no year, no place.

<sup>3</sup>The Faruque Group comprised nine private and public limited companies.

Faruque Group's activities. **Section Five** outlines the Group's management strategy and the structure which emerged as a consequence of managerial decision making. **Section Six** provides a conclusion.

The focus of this chapter provides the reader with an overview of Ghulam Faruque's political leverage which helped him to tap into opportunities to initiate his business. Consolidation of Faruque investment was dependent on the information reporting channels developed through the accessing of information and the use made of it by managers to diversify their business interests. Where the information reporting channels accurately identified the location of problems within departments, and were then followed up by managers taking appropriate remedial action, then the effects of such decisions on the company's structure will be reviewed accordingly.

## **5.1 Group Formation and Background**

Ghulam Faruque, chairman of the Faruque Group was of *Pathan* origin.<sup>4</sup> In 1940, his career commenced with his appointment as a transport adviser to Tata Iron and Steel Works Limited in India. In 1944, in recognition of his services he was made an Officer of the Order of the British Empire. He served as general manager of East India Railways from 1946 to 1948. After migrating to Pakistan he served the bureaucracy as secretary, Ministry of Industries in 1948-

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<sup>4</sup>*Pathan* denotes a native of the North West Frontier Province.

49, and as the chairman of the Cotton and Jute Boards in 1949-52.<sup>5</sup>

He was appointed the first chairman of the Pakistan Industrial Development Corporation (PIDC), a position which he held in 1952-58.<sup>6</sup> In 1952-62, Rs 49 million was invested by the PIDC in projects located in Ghulam Faruque's native province, the NWFP. Rs 5 million or ten percent of PIDC projects in the NWFP were initiated by Ghulam Faruque himself in 1952-58.<sup>7</sup> While at the PIDC, Ghulam Faruque played a key role in encouraging business leaders to buy PIDC's business assets.<sup>8</sup> The PIDC charter permitted the sale of its industrial assets to the private-sector at par [face]

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<sup>5</sup>His membership of the Jute Board is in, Wajid Ali to J. L. Mailman, Pal Blade Company, 43 West, 57th Street, New York, N.Y., 3 June 1950 and Wajid Ali to Ghulam Faruque, 10 May 1950. Wajid Ali advised Mailman that Ghulam Faruque, had expedited the delivery of Pal Blade imports through the power conferred on him as the secretary, Ministry of Industries.

<sup>6</sup>The PIDC Act of 1950, Order # C 7 P - 9/17/62, approved by the Minister of Industries and Natural Resources, Government of Pakistan [Industries Division], gave executive powers to its chairman, executive officer and four directors on its Board of Directors to supervise PIDC investments. In 1962, Ghulam Faruque also briefly served as the Governor of [former] East Pakistan. For further insight into the politics of his appointment and dismissal as PIDC's chairman see, H. Feldman, *From Crisis to Crisis, Pakistan 1962-1969*, Oxford, 1973, pp. 170-172.

<sup>7</sup>See PIDC, 'Development Programme of the PIDC', unpublished report, PIDC, 1989, p. 2.

<sup>8</sup>Ghulam Faruque's dealings with other business personalities included those with Wajid Ali and Muhammad Bashir [Ali and Crescent Groups respectively].

valuation of its shares.<sup>9</sup> On the whole, asset values increased from the time of construction to the time of sale. The purchasers of such units benefitted by buying at par. The valuation of net assets of an on-going PIDC project was calculated on a formula approved<sup>10</sup> by the Minister of Industries. However, as chairman of PIDC, Ghulam Faruque had the freedom to influence this calculation in his favour which facilitated PIDC sales to his associates in industry, [such as the sales made to the Crescent Group].<sup>11</sup> Ghulam Faruque had assumed the chairmanship of PIDC after his appointment as secretary, Ministry of Industries. This provided a continuing link to his influence on the criterion for valuation of PIDC's net assets. While he was PIDC's chairman, Ghulam Faruque benefitted personally as well, by purchasing the Sarhad Bank from the NWFP government in 1958.<sup>12</sup>

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<sup>9</sup>This was provided cover by the PIDC charter under the 'Act of Federal Legislation, No XLV of 1950' [revised in 1962] by President Ayub, when certain industries were transferred by the PIDC to the Provincial governments by 'Ordinance No, XXXVI of 1962', 1 June 1962.

<sup>10</sup>Information given in PIDC, 'Development Programme of the PIDC', unpublished report, PIDC, 1989, p. 35.

<sup>11</sup>Ghulam Faruque's powers while he served as PIDC's chairman are documented in PIDC, 'Development Programme of the PIDC', unpublished report, 1989, p. 35.

<sup>12</sup>The purchase of this bank by the Faruque Group is documented in R. Amjad, *Private Industrial Investment in Pakistan, 1960-1970*, Cambridge, 1982, p. 48.

In 1958 Ghulam Faruque's career turned to the defence industry, with his appointment as the chairman of the Ordnance Factory. This was the sole arms and ammunition manufacturing facility in Pakistan. From 1958 to 1961, he also acted as the chairman of a State monopoly, the Water and Power Development Authority (WAPDA), which was the country's sole supplier and generator of electricity. In 1962, he became the governor of East Pakistan. Ghulam Faruque's career as a bureaucrat continued even after his group had made its debut in manufacturing industry in 1964. In 1965-67, he graduated to the position of Minister for Commerce and Defence and was instrumental in expediting the import documents required by Wajid Ali to instal the first safety razor plant in the country.<sup>13</sup> Ghulam Faruque then turned to politics. In 1970 an elected member of the National Assembly representing his native constituency in the NWFP at the time of General Yahyah's Martial Law regime. His political career continued after the election of

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<sup>13</sup>The Ali Group commenced razor blade imports in pre-partition India; they were appointed the sole agents for the American Safety Razor Corporation of New York, USA. In 1948 the Treet Safety Razor Blade Corporation (Pvt) Limited was incorporated as a private limited trading concern in Pakistan, with a paid up capital of Rs 1.5 million. This was mentioned as an historical introduction of the Ali Group's interests in blade manufacturing, in a letter from Wajid Ali to G. Faruque, secretary, Ministry of Industries, Pakistan, 25 March 1952; also see letter from Wajid Ali to Ghulam Faruque, Secretary, Ministry of Industries, 25 March 1952, informing him of the significance of this company in being able to meet the country's entire demand of 30 million razor blades annually. The Ali group's interests in blade manufacturing are referred on pp. 213-18.

Bhutto's government, he became Minister of Finance, Planning and Development, Industries and Labour, Government of NWFP in 1972-73. His political appointments continued in General Zia's regime when he was made an 'appointed representative of the people' in the Federal Cabinet in 1981. General Zia's appreciation of Faruque's acumen demonstrated itself in another high level appointment offered to the latter in 1983, as the chairman of a government-owned, credit-lending institution, the Investment Corporation of Pakistan (ICP). He also remained an unopposed elected candidate to the NWFP Senate until 1988.

By the close of 1988, Faruque had invested in nine manufacturing and service-sector industries, of which three were under the umbrella of publicly quoted and six were private companies. (See Table 5.1). The group also had plans to diversify into airconditioner assembly, cement bag production and the provision of leasing services for new industrial plants.<sup>14</sup>

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<sup>14</sup>Interview with Zahid Faruque, 9 March 1992 in Karachi. See Appendix A for questions asked in the interview.

**Table 5.1**  
**Faruque Industrial Investments, 1964-88**

<b>Company</b>	<b>Nature of Business</b>	<b>Year Estb.</b>
1. Sarhad Bank	Banking services	1958
2. Faruque (Pvt) Limited.	Parent company	1964
3. Greaves Cotton (Pvt) Ltd.	Construction services, sale and servicing of electrical equipment	1964 <sup>1</sup>
4. Mirpurkhas Sugar Mills Limited	Sugar Production	1964
5. Greaves Carbon (Pvt) Ltd.	Electrical Equipment Manufacturing	1965 <sup>2</sup>
6. Associated Constructors (Pvt) Ltd.	Construction Services	1970
7. Greaves Cotton Airconditioning (Pvt) Ltd.	Airconditioning Services	1975
8. Cherat Cement Company Ltd.	Cement Production	1981
9. Maersk Line Agency (Pvt) Limited	Shipping Line	1988 <sup>3</sup>

<sup>1</sup> The year in which Faruque acquired this company from its previous owner.

<sup>2</sup> Acquired in this year from a multinational company, Crompton Parkinson Limited, a company originally established in the UK in 1949. The biography of its British founder, Brian Bowers Crompton, an electrical equipment manufacturer, is given in, D. Jeremy, (ed.), *Dictionary of Business Biography*, Vol. 1, Butterworths, 1984, pp. 835-38.

<sup>3</sup> This was a subsidiary of Maersk Line Agency incorporated in Denmark.

Source: Faruque Group, 'Faruque Group of Companies', unpublished company document; no year, no place.

## **5.2 Business Development: 1964-88**

This section focuses on Faruque investments, in the period 1964-88, highlighting the policies which directed its investments in trading and light engineering. The group's origins were rooted in its first generation owner's vision, drive and motivation to establish a business empire. This ambition was lent strength from the fact that

Ghulam Faruque was a seasoned bureaucratic with strong political affiliations. He first acquired the Sarhad Bank from the NWFP government,<sup>15</sup> which also provided him with secure access to finance. He then established the first private limited company of the group, **Faruque (Pvt) Limited** in 1964. Unlike the Crescent Group, where the parent company provided both equity and management support for its subsidiaries through the umbrella of the managing agency system, Faruque (Pvt) Limited provided sponsorship capital for newly floated ventures in the group. It was also the trading arm for commodities manufactured by other subsidiaries in the group, and acted as a cushion for absorbing their financial losses. The first manufacturing facility of the group was an investment made in **Greaves Cotton (Pvt) Limited (GCPL)** in 1964. This company was originally formed in undivided India in 1859 by two British engineers who in 1948 shifted to and registered the company in Pakistan. In 1964, Faruque bought a majority of its shares. GCPL represented a company of engineers, merchants and contractors who specialised in the sale and servicing of engineering equipment used for earth-moving and construction activities.<sup>16</sup> The company had also diversified into electrical and mechanical construction. As a

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<sup>15</sup>The source for this information on the acquisition of the Sarhad Bank by the Faruque Group is given in R. Amjad, *Private Industrial Investment in Pakistan, 1960-1970*, Cambridge, 1982, p. 48.

<sup>16</sup>Given in 'Faruque Group of Companies', unpublished company document; no year, no place.

trading company, it dealt in metals and chemicals. Some of the projects contracted out by the government to GCPL were for rural and urban electrification.

In 1964, the Faruque Group decided to invest in a sugar mill and **Mirpurkhas Sugar Mills Limited** which was set up in the town of Mirpurkhas in Sind. It was established as a public limited company. Its initial daily production capacity was to crush 1,500 tons of sugar which by 1987 had increased to 3,500 tons of crushed sugar per day.

In 1965 the group bought the foreign equity shareholding of Crompton (Pak) Limited's investments in **Greaves Carbon Products (Pvt) Limited**. As the new owners, this investment represented a move towards backward integration; in the ownership of production facilities of carbon lubricating rings, bearings and brushes, electrical inserts and mechanical seals, all used in the installation of grid and power stations.

So far, three companies were simultaneously established in 1964: GCPL, Mirpurkhas Sugar Mills limited and Faruque (Pvt) Limited. Another company, **Associated Constructors (Pvt) Limited** was floated as a private limited concern in 1970. In 1975, the group's management established **Greaves Cotton Airconditioning (Pvt) Limited** for the design, erection, maintenance and servicing of airconditioning, heating and ventilating systems intended for industrial use. This company also had the capability to instal equipment for special applications, such as for humidity and

temperature control of laboratories, sterile airconditioned environment, for hospitals and its body scanning units and pharmaceutical and computer laboratories. Some of its more significant projects completed by 1988, were for a 100 tons of air- and water-cooled airconditioners for a multinational, pharmaceutical factory, Beecham (Pak) Limited located in Karachi, a 30 horsepower water-cooled chiller and cooling tower for supplying chilled water to the anodising plant of Pakistan Cables Limited, at Karachi, a 10 and 15 horsepower airconditioning unit installed for an operating theatre, a body scanner and intensive care unit installed at the Liaqat Memorial Hospital at Karachi, a 168 ton chilled water system at another multinational, pharmaceutical factory, Johnson and Johnson (Pak) Limited and a further 30 projects completed of a similar magnitude.<sup>17</sup>

Commensurate with its basic expertise in the construction and engineering industry, the Faruque Group established a cement manufacturing company in 1981 called **Cherat Cement Company Limited (CCCL)**. This was a public limited venture located in Nowshera in the NWFP. The raw material required for cement manufacturing was largely limestone, which was available in ample quantities of 400 million tons in the Cherat hills where the factory was located. The designed daily production capacity of the plant was 1,100 tons of cement, which was increased to 1,400 tons per day by

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<sup>17</sup>*Ibid.*

1988 through the process of Balancing Modernising and Rehabilitation (BMR) of machines. This was the first cement plant in Pakistan producing high grade B.S.S. 12/1983 cement.<sup>18</sup> In 1988, this group became the Pakistani agents of a Danish shipping line called **Maersk Line Agency (Pvt) Limited**. It operated cargo liners serving Pakistan and North Africa, the UK, the Continent, North America and the Gulf States.

### **5.3 Selected Company Histories**

Section 5.3 provides an introduction to an analysis of the internal organisational systems which evolved at GCPL and CCCL. These companies were chosen to provide a support function to the mainstream business activity of the group in construction services and to characterise the company culture adopted by its chief executives.

The following two sections analyse the management practices at two manufacturing concerns of the group which represent its leading areas of manufacturing investment. Information about their organisational strategy was derived from minutes of meeting of various functional area departments and from company correspondence and interviews with Ghulam Faruque's two sons, Muhammad Faruque and Zahid Faruque, and a non-family manager, Muhammad Akram. The first company discussed is GCPL, as follows.

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<sup>18</sup>*Ibid.*

### **5.3.1 Greaves Cotton (Pvt) Limited (GCPL)**

GCPL was formed in 1859 in Bombay as a partnership owned by two British engineers. These engineers directed their acumen towards manufacturing electrical equipment.<sup>19</sup> After the creation of Pakistan, the Faruque family acquired a 20 percent stake by investing Rs 3 million in the company in 1964. A further Rs 7 million of GCPL's shares were acquired by the Faruque Group in 1969, when its annual profits peaked at Rs 400,000 per annum.<sup>20</sup> It became the flagship company of the group, with a paid-up capital of Rs 10 million in 1969. Under the Faruque management, GCPL initiated by trading in imported equipment<sup>21</sup> used for erection of construction equipment which was then leased out to industrial users of machinery.<sup>22</sup> The company also traded and specialised in the sale and servicing of imported engineering equipment used earth-moving and construction projects. By the mid-1960s, the company had diversified, through backward integration into manufacturing its own electrical and mechanical construction equipment. These were cranes, diesel generating and pumping sets, air compressors and steam turbine machines required to instal sugar and textile mills.

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<sup>19</sup>Interview with Muhammad Akram, chairman, Mirpurkhas Sugar Mills Limited, 3 March 1992, in Karachi. See Appendix A.

<sup>20</sup>Interview with Muhammad Faruque, 15 March 1992, in Karachi.

<sup>21</sup>*Ibid.*

<sup>22</sup>*Ibid.*

By 1971, the company integrated forwards by servicing the equipment that was produced at GCPL and sold to other industrial users. In 1979, the company's strategy to consolidate its business led to its participation in joint venture construction projects with British and Japanese companies.<sup>23</sup> This was realised through jointly entering into turnkey contracts, for which GCPL's expertise in the field was forthcoming, especially in the implementation, installation and servicing of related equipment. The company's foreign links also extended to two large-scale construction contracts fulfilled in Saudi Arabia for a 380 KV and 110 KV overhead transmission line constructed from Yanbu to Medina, and Al-Mussajid to Badr respectively, collectively covering a distance of 200 miles.<sup>24</sup> The Saudi Arabian projects were supervised by a German consultancy company, Lahmeyer International, which was selected by Faruque's management. In Jeddah, Saudi Arabia, GCPL had also collaborated with Fujikura Limited, a Japanese company, to construct an oil-filled cable, spanning 38 miles of territory.<sup>25</sup> In the domestic market, WAPDA was GCPL's prime client, a liaison which reached fruition in 1974, 16 years after Ghulam Faruque was appointed WAPDA's chairman. Ghulam Faruque had maintained his bureaucratic and

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<sup>23</sup>Given in, 'Faruque Group of Companies', unpublished company document, no year, no place.

<sup>24</sup>*Ibid.*

<sup>25</sup>*Ibid.*

political links, across three regimes which enabled GCPL to act as a major contractor to WAPDA. In 1974, the first WAPDA contract was for a 500 KV line from Tarbela to Khushab, covering 116 miles of rugged terrain. Till then, this was financially the most lucrative project for GCPL, which fetched Rs 100 million as fees paid to the company.<sup>26</sup> The second WAPDA contract awarded to GCPL was in 1979, for a 500 KV over head transmission line from Faisalabad to Ghazi Ghat, covering a distance of 180 miles. The third WAPDA contract was for installing a transmission line from Sahiwal to Multan, which covered 101 miles of terrain. In 1986, GCPL invested through backward integration in erecting its own electrical substations which fed electricity to the main power line grid stations also installed by GCPL. By 1988, it had completed projects which ranged from erection, installation and testing of over 20 large contracts located at different centres in the country.<sup>27</sup> Projects completed by GCPL, were the installation of overhead electrical transmission lines, capable of generating up to 500 kilowatts (KV) of electricity, laying of underground transmission lines, capable of transmitting upto 380 KV of electricity, installation of large pump irrigation facility and as suppliers of raw material required for civil engineering works. For underground transmission cable laying, the company had generated business overseas as well as locally. Just on rural electrification

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<sup>26</sup>*Ibid.*

<sup>27</sup>*Ibid.*

projects alone, GCPL had completed over 15 large-scale cable laying contracts for installation of oil, sugar and jute mills (including, for the Crescent Group's Crescent Sugar Mills Limited) and other electricity supplying cables for industrial and home consumption.<sup>28</sup>

In the process the company had contributed to easier access of electricity at rural locations, used in the mechanisation of agriculture. As claimed by Muhammad Faruque, the chairman of GCPL, 'we are the second to third largest electrical contracting business in Pakistan'.<sup>29</sup>

Because of the extended distance between project locations, GCPL hired 50 percent of its labour on a contractual basis, who were mostly foremen and other workers. The remaining 50 percent were the permanent sales and engineering staff of GCPL. The engineers were largely recruited from Peshawar University in the NWFP, seventy percent of whom usually left the company soon after undergoing training in engineering. This was because of the company's nature of business required a predominantly temporary component of labour, and its management did not feel the need to invest in devising training manuals and procedures to retain its temporary engineering staff. For example, in 1979, the Saudi Arabian-based projects involved hiring of 800 temporary workers.<sup>30</sup> Documentation of

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<sup>28</sup>*Ibid.*

<sup>29</sup>Interview with Muhammad Faruque, 15 March 1992.

<sup>30</sup>*Ibid.*

training procedures contributes to an organisational memory of skills, and since Ghulam Faruque had cultivated his foresight and had invested in forward planning of his businesses by integrating its investments at an earlier stage in his career, GCPL also benefitted from his guidance and was able to circumvent the deleterious effects of not concentrating on training its permanent staff, and yet successfully investing in light engineering. The Systems Approach advocates that managers should apply their foresight when making decisions so that the outcome is a more effective one. This foresight was cultivated by Ghulam Faruque before he became an industrial entrepreneur, through his professionalisation of experience gained as a bureaucrat. This also concurs with our earlier statement made in Chapter One, that regardless of the political environment or of ownership patterns, if systems are adopted they will enable a transition from trading to light engineering production. Ghulam Faruque had unconsciously adopted the tenets of the Systems Approach while he was PIDC's chairman, demonstrated by him sending his staff<sup>81</sup> on training assignments in order to better manage PIDC-owned units. Muhammad Faruque also took pride in his educational background in electrical engineering, which he claimed had contributed to a better understanding in solving the technical problems which arose when executing electrical engineering

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<sup>81</sup>Interview of Muhammad Akram, 3 March 1992. See Appendix A.

projects.<sup>32</sup> GCPL's problems were reviewed in the monthly meetings designed as a forum for heads of departments to review and take action on the previous week's operations. The overall progress made by GCPL in extending its local contracts to overseas locations, indicated its management's more global approach, open to capturing business wherever the opportunity to do so presented itself. This was an outcome of GCPL's management strategy demonstrated by looking beyond its domestic frontiers and in capturing overseas businesses (which were not captured by the Ali Group entrepreneurs, because of their lack of vision). This strategy at GCPL also captured the essence of the Systems Approach which advocates managers to look beyond the boundaries set by older management systems (when the scale of business is small) to change its strategy accordingly when the scale of its business increases.

### **5.3.2 Cherat Cement Company Limited (CCCL)**

This section evaluates the internal organisational policies of CCCL. This company was chosen for perusal, since it was one of the two public limited companies of the group, and because the management practices adopted by Zahid Faruque, were very different from those used by his brother Muhammad Faruque at GCPL.

In 1981 CCCL was incorporated as a cement manufacturing facility located in Nowshera with its regional office in Peshawar. This company was formed as a response to the encouragement provided

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<sup>32</sup>*Ibid.*

to private-sector industry in Zia's industrial policy, which gave a five-year tax holiday to new cement plants established in designated zones within the country. The Faruque management responded by establishing CCCL as the country's first facility owned by the private-sector. It also benefitted from the export duty concessions provided to cement manufacturers in Zia's industrial policy, by being the first company to export its cement.<sup>33</sup>

Zahid Faruque, assumed responsibility for managing the plant as its director in 1987.<sup>34</sup> He recalled that CCCL's plant location was chosen for its proximity to 400 million tons of limestone rock formation, first discovered by him while he was on an aerial tour of the terrain in 1981.<sup>35</sup> Limestone was the raw material used for cement manufacturing.<sup>36</sup> CCCL's cement plant required only 40,000 tons of limestone for maintaining its annual cement production capacity. Seventy five percent of CCCL's raw materials requirements, other than limestone rock were imported.<sup>37</sup> The

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<sup>33</sup>See Ministry of Industries, *Industrial Policy Statement*, Government of Pakistan, June 1984, pp. 5-32 and Zia's speech Government of Pakistan, *General Mohammad Zia-ul-Haq, Chief of the Army Staff and Chief Martial Law Administrator, Address to the Nation*, Headquarters of the Chief of Army Staff, 25 June 1978, p. 10.

<sup>34</sup>Interview with Zahid Faruque, 9 March 1992.

<sup>35</sup>*Ibid.*

<sup>36</sup>*Ibid.*

<sup>37</sup>*Ibid.*

plant's original production capacity was designed at 300,000 tons per annum, which increased to 410,000 ton per annum by 1985, and to 511,000 tons per annum by 1988.<sup>38</sup> CCCL was the second largest cement manufacturing facility in the country and faced few, if any, barriers to selling all of its production, in the domestic and export market. Its cement was purchased locally by large construction companies for building works such as hydro-electric dam building and the construction of roads and city airports. GCPL was one of its customers, since CCCL's formation was a move towards backward integration of the group's construction facility. Its major shareholders were the 'public', which owned 50 percent of the shares.<sup>39</sup> (Since insurance companies and Bankers' Equity Limited which extended credit to CCCL, also included the 'public', they owned 86 percent of CCCL's shareholdings vested with the public).<sup>40</sup> Thirty three percent of CCCL's shares were owned by members of the Faruque Group and the remainder were owned by financial institutions.<sup>41</sup> It was the first cement plant originating from the private-sector, after the State monopoly held by Zeal Pak Cement on

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<sup>38</sup>*Ibid.*

<sup>39</sup>The 'public' is the individual and institution which purchases shares in a new company flotation after it advertises that it is now being made a public limited company.

<sup>40</sup>Given in, N. Husnain, *et al*, (eds.), *Bukhari's 101*, Khadim Ali Shah Bukhari and Company, 1991, page code, 13100 and an interview with Zahid Faruque, 9 March 1992.

<sup>41</sup>*Ibid.*

cement sales for almost a decade. CCCL's sales for 1988 were Rs 471.4 million.<sup>42</sup> By the close of 1988 four additional cement plants were established in the private-sector.

By 1988, cement was sold through CCCL's certified dealers who earned commission on every bag sold by them to industrial and domestic consumers. The cement was processed by applying the clinker and crusher machines to the raw materials.<sup>43</sup> A large portion of these machines was imported and technical assistance for installation and operating them was provided by CLE, a French-based company which processed petroleum and also had a cement manufacturing division.<sup>44</sup> Imported spare parts for the machines included those required for stacker accessories, apron feeders, drive units, cast iron pipes, gate valves, copper cables, welded cement, compressed air tanks, electric motors for the cooler, cables and switchboard accessories, dry battery elements and fillings and fuel oil preparation equipment.<sup>45</sup>

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<sup>42</sup>Given in CCCL's, *Annual Report*, 1989.

<sup>43</sup>See 'Minutes of Meeting of the Production Department', of CCCL, 3 November 1986, where the stages in cement manufacturing are given.

<sup>44</sup>Interview with Zahid Faruque, 9 March 1992.

<sup>45</sup>For further details on machinery imports under bill of lading number 501924, 17 December 1983, see the 'Installation Certificate', prepared by Amir Muhammad Marwat, assistant collector, Government of Pakistan, Office of the assistant controller, Central Excise Division, Peshawar.

Labour relations appeared to be the recurring area of concern for CCCL's management. CCCL employed 200 permanent workers, with a further 70 employed on contractual terms who were required for operating the packing unit; a further 30 were involved in site maintenance and an additional 400 employees were permanent recruits occupying management positions in the personnel and executives cadre located at the head office in Karachi.<sup>46</sup> Company correspondence and production department minutes frequently refer to instances of strained employee-management relations, which were raised but seldom resolved effectively by the management. Other recurring issues which were presented to CCCL's management originated from faults in the technical department, that is in the frequent break down of factory equipment and machinery at the kiln site and the failure of senior management to attend to administrative bottle-necks in the production department.<sup>47</sup> Administrative delays in communications between the head office at Karachi and the factory site in Nowshera were omnipresent issues raised in the company correspondence between employees and senior management. For example, in 1986 an employee of the company sent a letter to CCCL's administration manager at Nowshera complaining that since the former's appointment in 1980 he had not been issued with an

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<sup>46</sup>Interview with Zahid Faruque, 9 March 1992.

<sup>47</sup>Recorded in the 'Minutes of Meeting of the Production Department' of CCCL, 1986-1989.

appointment letter. This incident reflected the relaxed attitude of CCCL's senior management in not properly recording employee tenure, which was reinforced by the time taken by the employee to raise this issue.<sup>48</sup> In response to his query, the administration manager at Nowshera told CCCL's financial controller, Akbarali Pesnani at the head office in Karachi, that in fact no such appointment letter had been issued to the complainant and instructed him to issue a letter with retrospective effect.<sup>49</sup> This incident suggests an attitude of indifference towards adopting a systematic approach of record-keeping, which was fuelled by the secure niche CCCL had made in the domestic cement market. This incident was characteristic of senior management's inertia in addressing internal organisational problems quickly, and also lends credibility to this study's premise that those businesses which commenced production with an assured and secure market for its products, albeit through State patronage, required organisational systems to sustain long-term growth. In 1986, when the above misdemeanour was reported, CCCL had been established for five years, and therefore was a relatively young company within the Faruque Group. Its director chose not to emulate Ghulam Faruque's management style to develop an integrated base upon which to

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<sup>48</sup>See letter from M. Shafiq Khattak to CCCL's administration manager, 8 April 1986.

<sup>49</sup>See letter from CCCL's administration manager to CCCL's financial controller, no: LOF-32/203/254, 14 April 1986.

expand his business.

Similar instances of mismanagement at CCCL were evident from the administration manager's memos sent to Akbarali Pesnani at the Karachi head office. These memos show regular cause for concern by the Nowshera and Peshawar based staff that the management at head office did not resolve matters promptly. In 1986, he addressed a letter to Akbarali Pesnani requesting him not to send letters destined for the staff at the Nowshera office together in the same envelope as those addressed to Zahid Faruque,<sup>50</sup> since this method allowed open access to their mail. This open access system, condoned by Zahid Faruque, was probably a device used to control rather than delegate the channels of information retrieval and dissemination. The initial perusal of the mail by Zahid Faruque led to delayed action taken on matters mentioned in the correspondence, which at times required the urgent attention of its addressee. Since these issues languished till the indirect method of routing the mail reached its addressee, it led to ineffective decision making by those who were made accountable for their ensuing misdemeanours. This scenario which was encouraged by Zahid Faruque, was indicative of his lack of trust in his employees' intentions and was one cause of the rising tension between them, even though when asked to comment on the preferred style of management at CCCL, Zahid Faruque claimed that

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<sup>50</sup>See letter from CCCL's administration manager to Akbarali Pesnani, no: ACF-36/804/1431, 22 October 1986.

he preferred a structure which delegated responsibility to individuals.<sup>51</sup>

Similar factors also had a bearing on recurrent labour strife at the Nowshera factory. Lightly dismissing labour strife as an issue meriting discussion, Zahid Faruque claimed that turbulence in labour relations was there at all times and this itself justified its existence.<sup>52</sup> He did not elaborate on this point other than saying that:

"The major flaw in labour laws is that 25 percent of outsiders<sup>53</sup> can be office bearers, therefore they are a source of trouble".<sup>54</sup>

This indifferent attitude could not be the vehicle for improving worker relations at CCCL. The issue of in-coming also mail continued unabated into 1988 when CCCL's general manager wrote again to Akbarali Pesnani, reminding him of the latter's intent to ease employee relations with its senior management, by not opening the official and personal mail intended for the Nowshera-based employees.<sup>55</sup> This letter shows that in spite of relatively mundane

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<sup>51</sup>Interview with Zahid Faruque, 9 March 1992.

<sup>52</sup>*Ibid.*

<sup>53</sup>Bhutto's reforms introduced the representation of non-company trade union leaders who arbitrated between management and its employees in times of strife.

<sup>54</sup>*Ibid.*

<sup>55</sup>See letter from the CCCL's general manager to Akbarali Pesnani, no: GCF/13/325, 8 February 1987.

issues raised in the correspondence between the decision makers at the head office and factory employees, it in fact was a symptom of an underlying problem; in this case the distrustful attitude of Zahid Faruque towards the rapid dissemination of information to his employees, which must have had deleterious effects on organisational performance in the long-term. In the context of labour-management relations, this attitude was to have its spin off in a growing order of magnitude for CCCL's internal management systems. The noticeable absence of correspondence relating to strategy formulation, raised by decision makers or by the workers, indicated senior management's complacency towards the need to disseminate information. In the long-term, it affected the company's structure as directed by its senior management. However, according to Zahid Faruque, the only influence the management at the head office exerted over the factory's administrative affairs was in the preparation of the monthly budget.<sup>56</sup> This perception at head office was that it exercised partial control over the factory employees, a perception not shared by the employees themselves. This anomaly also found its parallel at CCCL's NWFP-based management. An instance of a discord between personnel at the two locations within this province occurred in 1988. The administrative records of the Nowshera factory were filed and managed at its regional office at Peshawar. There too, the financial accountant at Peshawar, sent a letter of complaint to the sales

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<sup>56</sup>Interview with Zahid Faruque, 9 March 1992.

accountant based at Nowshera demanding an explanation as to how three employees had been reimbursed their medical expenses in excess of the authorised limit. The financial accountant stressed the need for maintaining 'proper' records to avoid a repetition of such mistakes.<sup>57</sup> Other incidents of strained relations between senior management and its employees, whether labourers or executive staff, were evident from this bilaterally fuelled communication gap where the management took the initiative in showing the way. The low priority given to workers' welfare was evident from the fact that a workers' participation fund formed in 1987, seven years after the company's formation.<sup>58</sup> [When compared with the Crescent Group, whenever a new company was floated, its management promptly introduced a workers' welfare fund]. A telex sent by a family manager, Shehryar Faruque to Akbarali Pesnani read as follows:

'Please expedite approval [of] grant [for] compensatory leave. Individuals concerned are clamouring for early sanction'.<sup>59</sup>

The hand written comments by the addressee on this telex, indicate his surprise as to the series of events that had brought this situation to a head. This also showed that the communications

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<sup>57</sup>See letter from CCCL's financial accountant to CCCL's sales accountant, no: CCCL/JJ/3220, 14 June 1988.

<sup>58</sup>Information provided in an inter office memo titled 'Office Order', signed by the general manager of CCCL, Zaka-ud-din, 14 December 1987.

<sup>59</sup>See telex from Shehryar Faruque to CCCL's administration manager, 18 June 1988.

network was weak, across CCCL's offices, especially with regard to the approval and delivery of documents originating from the head office. This rift was not addressed in CCCL's Board minutes, but was rather addressed through emergency telex services sent on an ad hoc basis. Similar complaints by the factory employees and directed at the head office staff appear in another telex from Shehryar Faruque to Akbarali Pesnani.<sup>60</sup> In it, Shehryar voiced his concern over the delayed arrival of an income tax exemption certificate required by him to file his annual tax returns. Even though these examples of disgruntled employee complaints may be evident in any company, some of which may even have effective systems, the fact was, that at CCCL, 'management by crisis' was the only form of management practised by its senior managers. There was no evidence found that at CCCL, an alternate, more effective organisational system co-existed with the ad hoc system of management. If a better system had existed, it would have emerged in the perusal of CCCL's records.

At CCCL, there was no written record relating to dealer agreements. This was brought to light in a telex sent by CCCL's marketing and sales manager to the head office in a review of commissions paid out to the dealers by competitors in 1988.<sup>61</sup> The

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<sup>60</sup>See telex from Shehryar Faruque to Akbarali Pesnani, 8 July 1988.

<sup>61</sup>See telex from CCCL's sales manager to the head office, 11 March 1988.

management at CCCL had fixed sales targets for the sales officers who monitored sales made through their dealers. Zahid Faruque revealed that the sales officers sent copies of their booked orders with dealers to the factory premises which were then consolidated for despatch to the head office.<sup>62</sup> No evidence of these copies was found and if they existed, they were certainly not used as a data base for the perusal and written feedback of confirmed orders communicated to the management at the head office.

Another example of CCCL's 'management by crisis' as directed by its senior management, was in an inter office memo issued by Shehryar Faruque to the sales officers,<sup>63</sup> in which he warned and reprimanded them that their employment would be terminated if sales fell short of the company's target.<sup>64</sup> This ultimatum indicated that there was an internal organisational problem which required a solution, probably not directly originating from the sales officers' inept performance (the content or in this instance the location of the problem), but from their low morale to deliver (which was the form of the problem). The problem identification lay in CCCL's overall strained relations with its staff at large (which was again a form of

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<sup>62</sup>*Ibid.*

<sup>63</sup>See letter from Shehryar Faruque to CCCL's field officers, no: CCCL/PSH/S.A/ASM/0020, 4 July 1989.

<sup>64</sup>Annual sales targets were available in an inter-office memo, from Shehryar Faruque to all CCCL field sales officers, No. CCCL/PSH/S.A./ASM/0020, 4 July 1988.

the same problem). There was no evidence of brain storming or feedback forums initiated by senior management, to resolve difficulties faced by the sales officers in fulfilling their targets. Shehryar Faruque's ultimatum to the sales officers appeared to be a measure of last resort which was not preceded by discussions where the form of the problem might be addressed to resolve this issue. Zahid, when asked to comment on measures taken by his team to obtain information from his managers in order to develop a more effective reporting system, responded as follows:

'Sales officers have regular weekly meetings, marketing officers have regular weekly meetings, there are daily and weekly meetings in the factory of all officers, with copies sent to head office at Karachi'.<sup>65</sup>

These meetings were organised without following them up with remedial action in the light of the issues which they brought to the fore. On studying CCCL's correspondence, the only evidence of written communication was in the production department's weekly meetings as discussed above where no organisational procedures were discussed.

Recurrence of the detached relations between head office managers and personnel at the factory premises in Nowshera continued unabated into 1988. The issues, which were raised from either direction, focused on complaints vis-a-vis daily operating control. The head office management appeared to take routine decisions on behalf

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<sup>65</sup>Interview with Zahid Faruque, 9 March 1992.

of the factory staff. This was exemplified in another telex sent by Akbarali Pesnani to CCCL's executive marketing manager at Peshawar, Aslam Faruque,<sup>66</sup> informing him that a special marketing magazine on the cement factory could be published directly by him by disregarding certain inputs awaited from the factory staff.<sup>67</sup> The factory staff preferred to refer decisions to head office, in view of the anticipated back lash if they made decisions independently. A letter to Akbarali Pesnani from Muhammad Maqsood Khan, the senior vice president and circle executive, marked 'confidential', confirmed that even factory personnel such as Aslam Faruque, (a member of the Faruque family), preferred to abdicate responsibility of major decisions in favour of the senior management based at the head office. The letter referred to the negotiation of terms with the cement dealers, where Aslam preferred the head office-based management to initiate the negotiations, which was perceived by him to be the 'correct' channel of communication.<sup>68</sup> Therefore, there was no independent spokesman (or an inbuilt management system) to represent and resolve problems at the factory premises.

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<sup>66</sup>Aslam Faruque was a member of the Faruque family.

<sup>67</sup>See telex from Akbar Pesnani to Aslam Faruque, 7 March 1990.

<sup>68</sup>See letter from Muhammad Maqsood Khan to Akbarali Pesnani, no: COP/DEV/RAK/89/-1885, 13 February 1988.

The administrative system also required fine tuning for monitoring and achieving production targets. CCCL's production department was managed by departmental heads with all senior engineers reporting to them. The minutes of meeting of the production department are testimony to numerous breakdowns of machinery and repair work arising from lack of technical maintenance. In many instances these meetings were also used as a platform to cover issues ranging from machinery repairs to personnel grievances. While this was the expected forum to air production grievances, no record was found of follow up action taken on the issues raised in these meetings. From one such record, the attention of senior production officials was drawn to the need to acquire a resin for an X-ray analyser which stabilised electricity voltage fluctuations. In addition, the issue of coating the new kiln burner zone which had weakened was raised. The final issue raised in this meeting was the need to fill a vacancy for a fabricator mechanic for the auto workshop.<sup>69</sup> From the records of another meeting, the frequent interruption in the production assembly line caused by electricity voltage fluctuations was raised as an issue.<sup>70</sup> By 1987, the cement plant experienced frequent electricity surge owing to the high temperature conditions

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<sup>69</sup>See 'Minutes of Meeting of the Production Department', of CCCL, documented by Muhammad Ali, co-ordination manager, 23 November 1986.

<sup>70</sup>Documented in the 'Minutes of Meeting of the Production Department' of CCCL, 30 November 1986.

in the motor bearings. This was another problem for CCCL's management to resolve,<sup>71</sup> since the cause for the temperature surge over the recommended level could not be ascertained. After an investigation, the over-heating of the motor was attributed to its consumption of extra current from the electricity supplied by WAPDA. To this effect, the engineers kept making recommendations to CCCL's senior management to lodge a complaint with WAPDA, which does not appear to have been successfully negotiated from the documented evidence.<sup>72</sup> The conveyer belt was also prone to disconnecting from its mains and the calibration of the weigh feeder at the raw mill also showed a deviation of four percent from the recommended specification.<sup>73</sup>

The kiln, where the cement bricks were baked, represented a critical juncture in the cement production process. It was also an area characterised by frequent breakdowns and calls for repair.<sup>74</sup> In 1988, after two years of regular performance but with no attempts to modernise the hearth through research and development (R&D),

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<sup>71</sup>*Ibid.*, 28 June 1987, p. 1., and 2 August 1987, p. 1.

<sup>72</sup>*Ibid.* 11 October 1987.

<sup>73</sup>*Ibid.*, 13 September 1987.

<sup>74</sup>*Ibid.*, 11 January 1987, p. 1., 4 January 1987, p. 1., 14 March 1987, p. 1., 15 March 1987, p. 1., 7 April 1987, p. 1., 31 May 1987, p. 1., 2 November 1987, p. 2. and 20 December 1987, p. 1.

it broke down.<sup>75</sup> In spite of the computerised monitors installed, the kiln was not operating smoothly. Zahid Faruque commented on the computerisation programme at CCCL: 'We have computerised kiln control therefore there is no margin for human error'.<sup>76</sup> In another comment on computerised monitoring of operations, Zahid Faruque commented: 'Everything is computerised and as a result we have the lowest energy consumption for cement plants in Pakistan'.<sup>77</sup> Justifying the benefits of computerisation he also commented that with the research and development of production processes at CCCL, it had reduced fuel and energy consumption by 25-30 percent for the rolling cement unit, and the cement grinding clinker which used steel spherical balls for grinding the cement had also been replaced by the more energy efficient hydraulic roller presses. Zahid Faruque claimed that, 'we will be the second company in the world to have this [energy efficient] technology'.<sup>78</sup> The new technology was intended to reduce energy consumption by up to 30 percent.<sup>79</sup> The only area where a technique for upgrading technology was seen to have been introduced at CCCL, was in the scanner at the factory,

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<sup>75</sup>*Ibid.*, 11 June 1988, p. 1. 18 June 1988, p. 1., and 19 December 1988, p. 1.

<sup>76</sup>Interview with Zahid Faruque, 9 March 1992.

<sup>77</sup>*Ibid.*

<sup>78</sup>*Ibid.*

<sup>79</sup>*Ibid.*

which scanned each brick, and monitored the temperature variations in the kiln. Any deviation from the recommended temperature caused the bricks to collapse which they infact did as recorded above.<sup>80</sup>

Furthermore, limited attention was given to the retention of company records at CCCL. The availability of such records contribute to an organisational memory, which is the data base of information available for the group to review past decisions made by its predecessors in order to study their impact on subsequent performance, with the additional benefit of hindsight. A related incident occurred in 1987, when CCCL's general manager at Nowshera requested the financial controller at Karachi to advise the former on a final date, after which all incoming and outgoing telex records could be incinerated.<sup>81</sup> The company's policy on this seemed to be to retain records for up to three years at the head office after which they were destroyed.<sup>82</sup>

The overall management strategy of this company was directed by Zahid Faruque. He did not feel the need to address conflicts which arose between the senior management and the more junior staff of

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<sup>80</sup>See 'Minutes of Meeting of the Production Department' at CCCL 11 June 1988, p. 1. 18 June 1988, p. 1., and 19 December 1988, p. 1.

<sup>81</sup>See letter from CCCL's general manager to CCCL's financial controller, no: GCF/13/324, 7 February 1987.

<sup>82</sup>Interview with Zahid Faruque, 9 March 1992.

CCCL. This stance was encouraged by the fact that his company marketed a product for which demand did not fall short of supply. CCCL had a monopoly of cement sales in the NWFP because it was the only plant located there, and it was not economical for other cement manufacturers located further south to pay for transporting cement to this province. CCCL's records indicate that only more immediate issues rectifying production bottlenecks were addressed, but there was little to indicate that there was a long-term strategy targeted at CCCL's business development in the cement industry. As mentioned earlier in this chapter, by the close of 1988, Zia's government had approved the installation of four new cement plants in the private-sector which would certainly affect CCCL's monopoly in cement sales in the NWFP.

#### **5.4 External Relations**

From 1964 to 1988, Ghulam Faruque's successively maintained proximity to Ayub, Bhutto and Zia provided him with a political environment in which to realise his expansionist blueprint for forming new investments for the group. Faruque was a beneficiary and overseer of State largesse to other businessmen, across these three political regimes. When the exogenous factors which enabled initial group investments were replaced in Ghulam Faruque's prudent business sense, it helped him to increase his group's net manufacturing assets from Rs 37 million in 1968 [at 42nd position], to Rs 1313.21 million by 1988, which moved the group up to the

thirteenth position.<sup>83</sup> However, by 1988 the Faruque Group was relatively young group with 24 years of business activity compared with other groups studied. All the other groups studied expanded too rapidly in the initial phase, and it was only after at least 30 years of business activity, that the benefits (from adopting) or disadvantages (from not adopting) internal organisational systems come to the fore.

Ghulam Faruque's personality was that of a seasoned bureaucrat, adept at making an industrial investment in the large-scale manufacturing sector, which was directed by him to reach fruition.

According to Papanek:

‘... Ghulam Faruque ... was a strong-willed, powerful individual who made rapid decisions, saw them carried out and worried about government rules, procedures or approvals only afterwards, if at all. He was prepared to take substantial risks, smothered opposition by the combination of ability and ruthlessness and thought constantly in terms of growth and expansion’.<sup>84</sup>

His career took off in the early 1960s, initially as the chairman of PIDC and then of other parastatals. The PIDC was established under the 1950 Act with its capital underwritten as a development loan from the federal to the provincial governments.<sup>85</sup> The loan

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<sup>83</sup>A breakdown of Pakistan's largest 43 houses, by the value of their net manufacturing assets, is provided in L. White, *Industrial Concentration*, 1974, pp. 60-61.

<sup>84</sup>G. Papanek, *Pakistan's Development*, Harvard, 1967, p. 95.

<sup>85</sup>See PIDC, ‘Development Programme of Pakistan Industrial Development Corporation,’ unpublished report, PIDC, December 1989.

repayment was incumbent upon sale of its units to the private-sector. However the actual sales were not tendered or advertised; rather acquisition was made on the basis of personal contacts of the buyers with the PIDC officials. By 1960, PIDC had initiated projects with assets of Rs 850 million, with its own equity contribution of Rs 600 million. Would-be entrepreneurs came forward with liquidity sums of Rs 20-30 million for investing in PIDC-initiated ventures. By 1960, the total capital outlay on PIDC projects exceeded Rs 1,048 million, of which private investment owned Rs 280 million or had a 27 percent share. As chairman of PIDC, Ghulam Faruque was also able to tap credit sources and government licences which benefitted his own business, especially in accessing loans disbursed by the lending institutions to private-sector investors, such as himself.<sup>86</sup> He achieved this by duplicating his efforts in directing investments for other businessmen by also establishing his own industrial empire. As a businessmen, he used the expertise he had acquired in the installation of sugar mills, by establishing the Faruque Group's, Mirpurkhas Sugar Mills Limited in 1964. The Sarhad Bank was also bought by him from the NWFP government in 1958. It had Rs 5 million as its paid up capital and a further Rs 5 million as its equity. By 1970 it had Rs 20 million as its deposits,<sup>87</sup> and had extended Rs

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<sup>86</sup>Interview with Muhammad Akram, 3 March 1992.

<sup>87</sup>The source for this information is in R. Amjad, *Private Industrial Investment in Pakistan*, Cambridge, 1982, p. 48.

7.1 million in loans and advances to individuals and institutions.<sup>88</sup>

Its shares traded at Rs 15 on the Stock Exchange, a premium of 50 percent over the Rs 10 per share par value when sold to Ghulam Faruque. This represented a sale below its market value when banks with similar equity holdings also had their shares quoted at Rs 15 per share, on the Stock Exchange<sup>89</sup> To the extent that the Sarhad Bank's share value was understated for arriving at a sale price payable by Ghulam Faruque, this transaction comprised a rent-seeking activity, which had also enabled other chosen industrialists to benefit from the government's policy of partiality in privatising industry.

When Ghulam Faruque served as the Minister of Commerce, Education and of the Cotton Board in 1951, he counselled other industrialists in the setting up of new industry. In a letter to Wajid Ali (Ali Group), Faruque requested that the son-in-law of the Pakistani High Commissioner to India be provided with training in the cotton export business.<sup>90</sup> Such favours were granted on mutual grounds, a relationship which was reinforced by those businessmen holding directorships of the country's sole steel mill association, the National Steel of Pakistan Limited (NSPL). This was a consortium

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<sup>88</sup>*Ibid.*

<sup>89</sup>Source of shares of other comparable banks quoted on the Stock Exchange are available in *Dawn*, 5 January 1960, 5 January 1961 and 5 January 1962.

<sup>90</sup>See letter from Ghulam Faruque to Wajid Ali, 27 March 1951.

of eight large industrialists with equity participation from the government.<sup>91</sup> The industrialist directorships which overlapped with all other group members included in this study, were Wajid Ali (Ali Group) Ahmad Dawood (Dawood Group) and Muhammad Bashir (Crescent Group). These industrialists wielded their financial muscle to procure credit for NSPL from overseas and from the director-industrialists themselves, who were equity participants in NSPL. One such instance was a loan of Rs 493,600 extended by Wajid Ali to the project. The loan was financed by an Ali company, Ali Automobiles (Pvt) Limited.<sup>92</sup> Shortly after this loan was finalised, Wajid Ali was summoned (as a representative of NSPL) to London by Ghulam Faruque, to participate in loan negotiations with Schnieders of France.<sup>93</sup> Not only did these business personalities espouse the cause of the NSPL but were also appointed by Ghulam Faruque on the Board of Directors of a Faruque company, Mirpurkhas Sugar Mills Limited. These ones relevant for purposes of this study were Muhammad Bashir (Crescent Group) and Ahmad Dawood (Dawood

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<sup>91</sup>The consortium members were listed in the 'Minutes of the 35th Meeting of the Board of Directors' of NSPL, 12 September 1967, in Karachi.

<sup>92</sup>Recorded in the 'Minutes of the 35th Meeting of the Board of Directors' of NSPL, 12 September 1967, at the office of A.W. Adamjee, Adamjee House, Mcleod Road, Karachi, p. 2.

<sup>93</sup>See telex from Ghulam Faruque to Waheed Adamjee in Karachi, [a director of NSPL], advising him to convey this message to Wajid Ali, # LONDON 82 26 1202 FI/50, 27 September 1967.

Group) who served from 1965 to 1968.<sup>94</sup> Their directorships (on Mirpurkhas Sugar Mills Limited's Board) coincided with their active involvement with the NSPL till 1968, after which they failed to get re-elected.<sup>95</sup>

On the foreign front, Faruque, while acting on behalf of the interests of the NSPL, frequently corresponded with the Secretary to the Ministry of Industries, negotiating loans, licences and foreign technical assistance required to launch this steel mill.<sup>96</sup> Faruque gained preferential access to the then secretary, on the grounds that the former held the same position earlier. This meant that since Ghulam Faruque had served as secretary to the ministry of Industries in 1948-49, he would have been given preferential access

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<sup>94</sup>See Mirpurkhas Sugar Mills Limited, *Annual Reports*, 1965-68.

<sup>95</sup>The directorships are given in Mirpurkhas Sugar Mills Limited, *Annual Reports*, 1969-88.

<sup>96</sup>See letters from Ghulam Faruque to the Secretary, Ministry of Industries and Natural Resources, [Industries Division], Rawalpindi, No: SDA-p-15, 8 October 1964, updating him on negotiations with Mr. Hill, Vice President Engineering, National Steel Corporation, Pittsburgh, USA; also see letter from Ghulam Faruque, Sanatorium Richmond, Karlovy Vary, Czechoslovakia, to S. Shafqat, NSPL, Karachi, 8 September 1967, advising him to convey to the other directors of the NSPL that he was optimistic that a loan of US \$ 20-30 million was forthcoming from the East German representatives of their government; see the 'Minutes of Meeting of the Board of Directors' of NSPL, 12 September 1967, pp. 1-2, for Ghulam Faruque's negotiations with an Austrian firm, Voest which was a prospective equity participant in the NSPL and of negotiations with other foreign firms, such as the Skoda of Czechoslovakia and Sofresid of France. The latter had expertise in designing and installing a steel plant at Dunkirk.

on the grounds of this camaraderie. To this effect, he was appointed the chief executor in negotiating with European officials and banks for financial assistance to make the steel mill a fully operational and viable project.<sup>97</sup> Copies of all high level negotiations with foreign creditors and the NSPL staff were forwarded to Faruque. In 1967, a letter from Shafqat Ali to Faruque confirmed that credit to the tune of US \$ 250 million appeared to be forthcoming for the steel mill from Schneiders, which was a French steel processing company.<sup>98</sup> In another letter, Faruque briefed the Pakistani Finance Minister on the status of credit negotiations of NSPL with the heads of European steel boards, banks and government officials, to the following effect:<sup>99</sup>

‘... the position is that against an approximate total requirement in foreign exchange of [US] \$ 163 million, Schneiders have in hand offers totalling over [US] \$ 180 million’.<sup>100</sup>

Schneiders had the financial support of the Banque de Paris in France and so had the leverage to tap into the large scale credit

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<sup>97</sup>Ghulam Faruque’s status as the chief negotiator was evident from the correspondence of NSPL. One such letter from Shafqat Ali of the NSPL to all directors of NSPL, 26 September 1967, CM (C)-65, provides a summary of Ghulam Faruque’s negotiations with the Schneiders in London.

<sup>98</sup>See letter from Shafqat Ali to Ghulam Faruque dated 16 October 1967.

<sup>99</sup>See letter from Ghulam Faruque to N.M. Uquaili, Minister for Finance, Karachi, 30 December 1967.

<sup>100</sup>*Ibid.*

requirements of the NSPL, serviced by the French bank.<sup>101</sup> The French negotiators to the NSPL were active supporters of NSPL and entered into regular negotiations with both Faruque and Wajid Ali.<sup>102</sup>

Faruque's influence on the NSPL's policy making board was also reflected in his other foreign links, such as the negotiations he had with Eximbank officials in Washington D.C., USA, for a loan required by the NSPL. To this effect, Welk Eximbank [who was an Eximbank family member employed at a senior position at this bank], communicated a telex to Ghulam Faruque, which follows:<sup>103</sup>

'His Excellency Ghulam Faruque Minister of Commerce, care Comdivis Rawalpindi. My best estimate now is that your presence here is probably not required until formal aid and bank decision on loan made and detailed discussions on provisions of credit agreement require guarantees etc taken stop This is not likely to be before end of August if all goes well Regards

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<sup>101</sup>See letter from Ghulam Faruque to Shafqat a senior official in the Ministry of Industries, informing him on the content of such negotiations, 15 August 1967, p. 2.

<sup>102</sup>The Schneider management's interest in involving Wajid Ali in their high level meetings on the future of NSPL were highlighted in a telex sent by Ghulam Faruque from London to the Karachi office of NSPL, LONDON LG 69 19 1309, 20 September 1967, in which Wajid Ali was cautioned to be prepared for his departure for London, in case he was summoned for by Schneider himself.

<sup>103</sup>Also see letter, preceding this telex sent from T.E. Rangoonwalla of the National Steel of Pakistan to all NSPL's directors, informing them on the telex enclosure, no: EXIM-4, dated 20 July 1965.

Welk Eximbank'.<sup>104</sup>

At the level of the State, Faruque's close relationship with Ayub can be seen in a letter he wrote to the Finance Minister, Mohammad Shoaib, in which he provided a progress report on the affairs of NSPL:

'At my last meeting with the President, he made detailed enquiries with regard to the progress of National Steel...I gave the President full details and informed him that we were hoping that there would be a satisfactory settlement of the case and that we were utilising the good offices of National Steel of U.S.A...I informed the President that we hoped that he would honour the National Steel of Pakistan by laying the foundation stone of this great project and it was expected that it would take place about the end of December 1964. The President said that he would be at our disposal...'.<sup>105</sup>

Ghulam Faruque's intimacy with Ayub paid dividends and coincided with the initial group investments.<sup>106</sup> In 1964 alone the group floated three companies; Faruque (Pvt) Limited, GCPL and Mirpurkhas Sugar Mills Limited. From 1974 to 1979, GCPL was awarded three major construction contracts it implemented in Saudi Arabia, which materialised from the links which Faruque had with

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<sup>104</sup>This telex from Welk Eximbank [of the Eximbank] to Ghulam Faruque, [undated but on record] shows that Faruque as a representative of NSPL, was negotiating with Eximbank officials for a loan.

<sup>105</sup>See letter from Ghulam Faruque to Muhammad Shoaib, no: SDA(P)-15, 17 October 1964.

<sup>106</sup>To quote S. Kochanek, [in *Interest Groups and Development in Pakistan*, Oxford, 1983, p. 271], 'By the late 1960s, however business had become so closely identified with Ayub that when the regime came under attack, so did the business' '.

the higher echelons in the Pakistani ministries, both in his capacity as a bureaucrat and political figure. In 1964, Ghulam Faruque also spearheaded the first independent National Press Trust for the country.<sup>107</sup> He was appointed by Ayub to lead the National Press Trust which was an autonomous subsidiary of the Ministry of Information and Broadcasting.<sup>108</sup> Control of the press by an industrialist such as himself, lent itself well to favourable reviews published of the achievements of business group personalities.<sup>109</sup> The Trust's decision makers were the business group industrialists discussed in this study, who had also contributed to the equity of this organisation.<sup>110</sup> Ghulam Faruque also obliged Ayub, by publishing favourable reviews on him, mentioned in the publications owned by the National Press Trust.<sup>111</sup> Faruque's influence over the publications owned by the trust, was evident from a letter he sent to Wajid Ali:

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<sup>107</sup>Ghulam Faruque's associations with Ayub are documented in H. Feldman, *From Crisis to Crisis*, Oxford, 1973, pp. 23 and 60.

<sup>108</sup>*Ibid.*; also see letter from Ghulam Faruque to Wajid Ali [Ali], no: NPT/GF, 27 June 1970, p. 2, explaining him the status of the National Press Trust.

<sup>109</sup>This information is available in H. Feldman, *From Crisis to Crisis*, Oxford, 1973, on p. 61.

<sup>110</sup>*Ibid.*, pp. 63-64.

<sup>111</sup>*Ibid.*, p. 60.

‘... The need for an independent National Press with its objectives as mentioned above<sup>112</sup> was a notion, in one form or another, in the minds of a number of thinkers in the country... It took its concrete shape as the fulfilment of a mission on the part of some friends and myself... I became a member of the Committee and thus one of its principal organisers...’<sup>113</sup>

Faruque’s non-family personal assistant at the PIDC was Muhammad Akram who served him loyally, to be rewarded in 1970 for his past services, in his appointment as the director of a Faruque company, Mirpurkhas Sugar Mills Limited.<sup>114</sup> Muhammad Akram’s association with Faruque overlapped with the latters’ appointment on the Cotton and Jute Board in 1949-52. Akram’s career took off when he was appointed a director of PIDC after East Pakistan seceded from Pakistan in 1971.<sup>115</sup> In 1972, he was appointed the managing director of Mirpurkhas Sugar Mills Limited

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<sup>112</sup>These objectives contained in the same letter from Ghulam Faruque to Wajid Ali, no: NPT/GF, 27 June 1970, p. 1., were as follows:

‘Whereas the Settlers have a feeling of responsibility as citizens and are desirous of establishing, helping and encouraging the promotion of sound and healthy journalism with a truly national outlook, untainted by parochial, partisan or sectarian inclinations, so as to contribute to the making of the Press a truly objective and effective instrument for the furtherance of unity, solidarity, integrity and prosperity in the various spheres of national life...’.

<sup>113</sup>See letter from Ghulam Faruque to Wajid Ali no: NPT/GF, 27 June 1970, p. 1.

<sup>114</sup>Given in Mirpurkhas Sugar Mills Limited, *Annual Report*, 1970.

<sup>115</sup>Muhammad Akram’s career appointments are documented in *Dawn*, 1 January 1994, p. 8.

and the chairman of Associated Constructors (Pvt) Limited. [These appointments were initiated and endorsed by Ghulam Faruque]. Other Faruque directorships occupied by Akram were at GCPL, Faruque (Pvt) Limited and Associated Constructors (Pvt) Limited.<sup>116</sup> Akram perceived his contribution to the country's industrialisation through his services rendered at the PIDC:

'It passed through my hands. We did not have any skills. There were no B.Com's<sup>117</sup> available for our accounts. We got hold of an old Goanese who worked for BOAC.<sup>118</sup> The first M.Com Masters<sup>119</sup> I recruited after several years. We recruited a team of people trained in every field, chemical, mechanical engineering. We would recruit them and send them abroad for training and then they would come back by the time the erection of the project was taking place'.<sup>120</sup>

Muhammad Akram was also a representative of the Pakistan Sugar Mills Association.<sup>121</sup> This was a zonal committee of sugar manufacturers, who organised had themselves as an association representing their interests to the government. Its executive committee comprised seven members, one of whom was Altaf Saleem (Crescent Group). Additionally, there were three zonal committees

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<sup>116</sup>*Ibid.*

<sup>117</sup>B.Com is the Bachelor of Commerce degree.

<sup>118</sup>BOAC was the acronym for British Overseas Airways Corporation.

<sup>119</sup>M.Com was the Master of Commerce degree.

<sup>120</sup>Interview with Muhammad Akram, 3 March 1992.

<sup>121</sup>See Pakistan Sugar Mills Association, *Annual Report*, 1989, p. 11.

representing the interests of sugar manufacturers based in the provinces. In 1970-72, Akram acted as the chairman of this association and in 1988 was elected the regional chairman for its Zonal Committee, in Sind.<sup>122</sup> This organisation gathered and compiled data on sugar prices and its production. It also presented in its annual report, the allocation in the national budget for any exemptions in duty provided to the sugar industry. Since the Management of Pakistan Sugar Mills Association was the voice of all registered sugar manufacturers, bringing their grievances to the government,<sup>123</sup> it published its activities in its Annual Report, which was accessible to the public.<sup>124</sup>

Furthermore, with publicly quoted companies there was a requirement to float 50 percent of the shares to government-owned financial institutions, such as the National Investment Trust (NIT). The NIT, through its share ownership of business group shares, also became an equity participant in Faruque investments. Through this mechanism, the NIT also represented the government's voice, in monitoring business group performance. In 1968, NIT's portfolio was Rs 143 million, of which Rs 94 million or 60 percent was invested in

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<sup>122</sup>Given in, Pakistan Sugar Mills Association. *Annual Report* 1981, Islamabad, 1982, p. 1 and *Dawn*, 1 January, 1994, p. 9.

<sup>123</sup>The grievances of sugar manufacturers are given in W. Kazmi, 'Mirpurkhas Sugar Mills, a Dramatic Turn', *Pakistan and Gulf Economist*, 23-29 June 1990, p. 35.

<sup>124</sup>*Ibid.*, pp. 13-18.

private capital, and 20 percent of all private capital was owned by our business groups. Its investment in Faruque share-holdings was Rs 286,000 in 1970 which constituted 0.30 percent of NIT investments in business groups' portfolio in this year. Conversely, the Faruque Group owned 1.43 percent of NIT shares in 1970.

Zia's industrial policy allowed excess cement capacity to be exported, and this had the effect of generating savings in freight costs. CCCL exploited this situation, since it no longer incurred transportation costs from Nowshera to its domestic customers, located 1,100 miles south in Karachi. Till Zia introduced the new export measures, the government had remained one of CCCL's prime customers, and by doing so had presented CCCL with an assured domestic market in cement. With the Faruque Group, the strategy of permitting the government to be its main customer reduced its risk because of its owner's contacts with senior politicians. However, there was one recorded instance when government policy had an adverse affect on the profitability of a Faruque company, GCPL, when in 1985-86 the government awarded WAPDA's electrification contract to GCPL's Chinese competitors. Because GCPL relied heavily on government orders, the loss of this contract meant substantial financial losses for the company.<sup>125</sup> The experiment with the Chinese project, and the subsequent cancellation of the order with GCPL, eventually led to financial losses incurred by

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<sup>125</sup>Interview with Muhammad Faruque, 15 March 1992.

WAPDA as well, because the Chinese did not fulfil their contractual obligation, which cost the government US \$ 4 billion, in sunk costs already expended on this project.<sup>126</sup> This disaster typified the risk to the private-sector, when the government contracted out large-scale projects to them. A possible reason for losing the order, as quoted by Mohammad Faruque was the, 'everchanging government dealings [policies] and figuring out their impact on investment opportunities'.<sup>127</sup> He meant that business-government relations were constantly changing which also affected GCPL's profits in 1985-86. He reiterated, however that group diversification was only possible when there was an overlap of government policies with that of business interests.<sup>128</sup> He meant that government support was a prerequisite for the private-sector to grow.

In 1986, this breakdown in business-government relations for GCPL's management, occurred at a time when they felt that they had a stranglehold over the bureaucratic and political machinery. Therefore this experience was an eye opener for them, in that reliance on the government for its favours especially where large contracts were involved, also carried with it attendant risks in the event of failure. Earlier on, the management at GCPL had circumvented risk, by looking inwards and forming Greaves

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<sup>126</sup>*Ibid.*

<sup>127</sup>*Ibid.*

<sup>128</sup>*Ibid.*

Airconditioning (Pvt) Limited in 1975 in order to acquire an assured source of raw materials required for GCPL's construction needs. The formation of CCCL in 1981 was also a step towards backward integration from GCPL's point of view, to meet with another assured source for obtaining cement used in its construction activities. Overall this group's alliance with the government, on an on-going basis proved financially lucrative for the group members. Muhammad Faruque perceived that in his line of business the government's support assisted in maintaining barriers of entry for would-be aspirers in the construction industry. These barriers were mainly high operating costs and the difficulties in finding an assured market in construction and related industries.

Ghulam Faruque successfully used his control networks with various political and bureaucratic figures to further his economic aims. He was ahead of other groups which initiated investments in textiles manufacturing whereas the Faruque Group invested directly in light engineering and continued to do so for a quarter of a century. This pattern of industrial investment initiated by Ghulam Faruque was because of his experience gained in the managing of new businesses, firstly for others and then for his own group's investments. His business experience came from organising the installation of machinery to sale of the product in the market. This was only possible because of State-directed nurturing of Faruque, as a bureaucrat who had the power to oversee and implement large-

scale industrial investments. This background gave him the leading edge as an entrepreneur who carried his experience over to managing Faruque investments.

### **5.5 Management Strategy**

The Faruque Group's initial management strategy was to invest in industries that it had previously installed for its clients, such as sugar and textile mills and the laying of electricity transmission lines. The group's management initially leased out its imported equipment to industrial users of machinery,<sup>129</sup> and later specialised in the installation of imported electrical plants and equipment used in the construction of factories for other industrial consumers. Once they had gained their expertise in installing imported equipment for others, they started assembling and manufacturing the equipment used for construction and electricity cable laying. Once their manufacturing base was set, they strengthened their management strategy by integrating production functions. This was implemented by backwards vertical integration of its facilities, when it formed Greaves Carbon (Pvt) Limited, which produced the raw materials GCPL used in manufacturing its steel-based equipment. Under the Faruque management, GCPL was initially floated as a concern trading in imported equipment which was re-sold in the domestic market. A portion of these imports were also consumed in the initial

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<sup>129</sup>Interview with Muhammad Akram, 3 March 1992.

machinery installed at GCPL in 1964.<sup>130</sup> By the late 1960s, trading in imported machinery was completely replaced at GCPL by the backward integration of manufacturing its own electrical and mechanical construction equipment, mostly consumed in the production needs of other Faruque companies. The owner managers' initiative in investing in the light engineering industry was lent strength by the successive additions made to GCPL's manufacturing facilities in related areas. By 1971, GCPL's facilities were extended to servicing of the equipment installed for other manufacturers in industry. In 1986, GCPL had integrated backwards again by erecting electrical sub-stations which fed electricity in to the main power line grid stations owned by WAPDA. Another example of backward integration, was when GCPL accessed electrical technology made available by Greaves Carbon (Pvt) Limited in 1965. This company provided GCPL with carbon brushes, electrical motors, textile machinery and related carbon products, as the raw material used in manufacturing electrical installations at GCPL. By 1988, GCPL had an authorised capital of Rs 10 million with a further paid-up capital of Rs 1 million.<sup>131</sup> Faruque's integrated business strategy made it a prominent, electrical projects contractor.

The group's initial management strategy was to acquire the

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<sup>130</sup>Interview with Muhammad Faruque, 15 March 1992.

<sup>131</sup>Given in 'Faruque Group of Companies', unpublished document; no date.

majority shares of foreign companies owned by British investors in Pakistan. This provided the group with a ready base on which to build its future investments. One strategy for expansion was to acquire established companies, preferably with foreign equity participation and then to purchase a majority stake. For example, Greaves Carbon Products (Pvt) Limited was originally owned by Crompton Parkinson (Pak) Limited which had its parent company in the UK, called Crompton Parkinson Limited formed in 1949. In 1965, Greaves Carbon (Pvt) Limited acquired a majority holding and in doing so set up a base in the electrical industry by producing the raw materials required by GCPL's machinery manufacturing facility. GCPL was made another Faruque investment in 1965 when it purchased the majority shares of its British owners who were in the electricity contracting business. Till 1984 it still had foreign investment which changed when this group purchased the remaining 20 percent of its foreign share-holding. These shares were valued at Rs 600,000 as the Faruque Group's equity which was increased by a further Rs 100,000 in 1988.<sup>132</sup>

In tune with the group's preference to integrate functions, Greaves Airconditioning (Pvt) Limited used steel alloys manufactured by GCPL, in manufacturing its airconditioning equipment. Greaves Cotton Airconditioning (Pvt) Limited provided the support facilities of servicing, erection and maintenance of the airconditioning

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<sup>132</sup>Interview with Muhammad Faruque, 15 March 1992.

manufacturing facilities at Greaves Airconditioning (Pvt) Limited. Another example of integrating functions, was to manufacture their own cement at CCCL, which provided the raw material to erect grid stations and instal electrification projects executed by GCPL. CCCL was initially established through the equity contributed by its sister concerns, GCPL and Mirpurkhas Sugar Mills Limited. In 1984, CCCL itself was to integrate backwards into manufacturing equipment and spare parts used to make refectory bricks. By 1986, the management had spent Rs 160 million annually on its brick imports, and 75 percent of CCCL's bricks were still imported by 1987. When asked to comment on his group's criterion for a successfully run business, Zahid Faruque responded that it was measured by its higher profits of Rs 65 million in 1988 compared with its closest rival, Zeal Pak Cement's profits at Rs 8.5 million. Since 90 percent of CCCL's sales were made through dealers coupled with an assured niche it had in the domestic cement market, Zahid Faruque believed [erroneously] that its profits base was secure and assured, and that this stability allowed them to compete with other cement manufacturers on technological terms as well.

By the mid-1970s, the group's brief experience of construction and related services had provided its management with the confidence required to enter into joint venture contracts with foreign partners.

In 1979, GCPL's collaborated with British and Japanese companies,<sup>133</sup> by entering in to turnkey contracts with them, where GCPL provided its expertise in the implementation, installation and servicing of the equipment. The group members actively sought foreign investment but at the same time did not have to compete internationally for the award of these construction contracts.

In the domestic market WAPDA was GCPL's main client, a liaison which reached fruition through an association which commenced in 1958 with Ghulam Faruque's appointment as the chairman of WAPDA, and was realised in three large domestic construction contracts which were awarded by WAPDA to GCPL in 1974-79. In 1974, the first, was for a 500 KV line from Tarbela to Khushab, covering 116 miles of rugged terrain. Till then, this was financially the most lucrative project, which fetched Rs 100 million for the company.<sup>134</sup> The second contract in 1979, was for a 500 KV over head transmission line from Faisalabad to Ghazi Ghat, covering a distance of 180 miles; the third, for a similar facility, was from Sahiwal to Multan, covering a distance of 101 miles. This company's strategy remained fuel and technology efficient in an environment where other manufacturers had faded out owing to increasing costs

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<sup>133</sup>Given in, 'Faruque Group of Companies', unpublished company document.

<sup>134</sup>*Ibid.*

and an inability to recover from or circumvent the risks incurred.<sup>135</sup>

CCCL's management strategy related to employee welfare was an area representing a recurrent problem. On his company's strategy on grooming its employees, Zahid Faruque mentioned the dismissal of, 'one or two individuals who did not prove up to the mark'.<sup>136</sup> He felt that the information feedback system was effective in so far as booked orders for sales and production targets were recorded on the computers and all reports were sent on to him. He perceived the working environment to be clean and comfortable and the company to be a good pay masters.<sup>137</sup> He also justified the positive 'public' image cultivated by CCCL's management since they had installed an electronic precipitator which controlled emissions from its cement plant.<sup>138</sup> However, an instance occurred in 1988, which proved to the contrary which involved the selection of a V-belt supplier by CCCL's mechanical manager. The supplier was known by CCCL's management to have supplied counterfeit V-belts to the company and a motion was proposed to blacklist the supplier for future orders. However the mechanical manager agreed to do so only for V-belt orders but continued to place orders with the same supplier for other

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<sup>135</sup>Interview with Muhammad Faruque, 15 March 1992.

<sup>136</sup>Interview with Zahid Faruque, 9 March 1992.

<sup>137</sup>*Ibid.*

<sup>138</sup>*Ibid.*

types of conveyer belts.<sup>139</sup> In doing so, he made an exception of the supplier's misdemeanour which confirmed that unprofessional practices were prevalent at CCCL. However, Zahid Faruque's claimed that his management style set CCCL apart from its competitors in that:

'Everything here is computerised and as a result [we] have [the] lowest energy consumption for [a] cement plant in Pakistan, or the highest profit margin per ton of cement'.<sup>140</sup>

The success of the computerisation programme at CCCL's factory had its merits in helping information dissemination but did not necessarily demonstrate an effective management style. Zahid Faruque's opinion on the factors which contributed to the success of his business were threefold namely:

'Ninety percent sales with dealers, computerisation and good management [which] knows where we stand and can compete in technology'.<sup>141</sup>

Zahid's opinion of a successfully managed business was based on the existence of the requisite tools which assisted the implementation of orders, but does not explain how the management used these tools to improve organisational systems. The tools on their own cannot produce appropriate results, rather it is in how they are used and to

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<sup>139</sup>See 'Minutes of Meeting of the Production Department' of CCCL, 22 May 1988, p. 1.

<sup>140</sup>Interview with Zahid Faruque, 9 March 1992.

<sup>141</sup>*Ibid.*

fulfil which objective, by the managers (either effectively or ineffectively) that makes the difference between appropriate or inappropriate management practices.

As was the custom in the Ali and Crescent Groups, the Faruque Group had family members who owned substantial shares in its publicly subscribed concerns. In 1988, as far as overlap of family members or from subsidiary companies within the groups was evident, 33 percent of CCCL's share-holdings rested with family members and 43 percent with financial institutions and insurance companies and the remaining 21 percent with the (non-financial institution) public. By 1988, the share-holding structure at Mirpurkhas Sugar Mills Limited was 32 percent vested with family members, 42 percent with NIT and ICP, 5 percent with insurance companies, 10 percent with financial institutions, 10 percent with joint-stock companies and the remaining 1 percent with other non-group foundations.<sup>142</sup>

The management at CCCL had addressed the issue of in-built succession by appointing its third generation members through induction into senior management positions at CCCL; Azam Faruque, who was Zahid's son, was made the coordination manager in 1988; two nephews of Zahid Faruque, Shehryar and Aslam Faruque were appointed the product and executive marketing managers

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<sup>142</sup>Given in, Mirpurkhas Sugar Mills Limited, *Annual Report*, 1989.

respectively in 1988.<sup>143</sup> Additional company directors of CCCL were also monopolised by family presence in the appointment of Aslam and Shehryar Faruque.<sup>144</sup> There were minimal non-family managers located at the factory premises and it was evident from this structure that it was designed to maintain family control, which according to Zahid Faruque's perception was not the case, 'we don't believe in government designations - too many chiefs and no Indians'.<sup>145</sup>

As a whole, built-in succession or the grooming of non-family individuals for senior management positions was not forthcoming in this group. The sole exception to this was the appointment of Muhammad Akram as a director of Mirpurkhas Sugar Mills in 1970 who was later appointed as its managing director in 1974.<sup>146</sup> He was considered by the Faruque family to be a confidant of Ghulam Faruque. Muhammad Akram's views on the significance of company

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<sup>143</sup>See letter from Azam Faruque to Ghulam Muhammad, GCPL, Khyber View Plaza, Sarhad Road, Peshawar, 21 September 1988, where the former's designation was specified. Aslam Faruque's designation as the executive marketing manager was documented in a letter sent by Muhammad Maqsood Khan, senior vice president of the group, to Akbarali Pesnani, no: COP/DEV/RAK/89/-1885, 19 February 1988.

<sup>144</sup>See a draft signed on 12 September 1988 by the executive director, Zahid Faruque for a resolution to appoint company directors who could operate the Muslim Commercial Bank account.

<sup>145</sup>Interview with Zahid Faruque, 9 March 1992.

<sup>146</sup>Given in, Mirpurkhas Sugar Mills Limited, *Annual Report*, 1970, p 1.

correspondence as a resource which assisted in devising its strategy was not positive, since he felt that all the relevant facts were available in the balance sheets, ‘this is how we were given information at PIDC’.<sup>147</sup> This attitude showed that he had not gone through a process of professionalisation of his experience (explained in the Systems Approach methodology) and preferred to apply the older management style he used while serving at the PIDC. He was adamant that the process of growth could not be effectively revealed from company correspondence, rather its correct source was the balance sheet of the company.<sup>148</sup> The balance sheet was in any case available, by government statute for all shareholders and members of public to peruse through and its inherent information on company activities was usually doctored. Muhammad Akram’s reluctance to expand upon other sources, which could be relied upon for gauging his company’s management strategy, were effectively blocked by his non-conciliatory stance in providing further insight into the management practices at Mirpurkhas Sugar Mills Limited, or in being able to analyse the impact of modern management methods (if at all existing) in this company.

The only recorded occasion when non-family employees exceeded family members in senior decision-making roles at Faruque was at GCPL’s construction project in Saudi Arabia, which entailed

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<sup>147</sup>Interview with Muhammad Akram, 3 March 1992.

<sup>148</sup>*Ibid.*

employing an additional 800 temporary staff and workers. The foreign location of this project necessitated employing a large component of non-family management, who were relocated overseas. In Muhammad Faruque's opinion, the management policies at GCPL encouraged delegation and decentralisation of responsibilities.<sup>149</sup> His management team mostly comprised of engineers who were line managers with few individuals involved in performing staff functions.<sup>150</sup> For updating production processes at GCPL he first commissioned the support of a selection committee, which comprised of members from the Faruque Group, and then proceeded to implement the changes.<sup>151</sup> Timely decision making as seen by him was in the prompt receipt of reports to the senior management reviewed in the monthly meetings of the Board of Directors.<sup>152</sup> Muhammad Faruque viewed his style of management as

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<sup>149</sup>Interview with Muhammad Faruque, 15 March 1992.

<sup>150</sup>Line functions are situational and ad hoc addressing work methods; staff functions synthesis the management function and address the standardisation of skills and output. This concept is discussed in considerable detail with regard to management structures in H. Mintzberg, *The Structuring of Organisations*, Prentice Hall International, Inc., 1979, pp. 186 and 192-93, and by C. Myers and J. Turnbull, 'Line and Staff in Industrial Relations', in J. Litterer, *Organisations: Structure and Behaviour*, John Wiley, 1963, pp. 308-316. Also see J. Yates, *Control Through Communication*, Baltimore, 1989. The Systems Approach methodology addresses the standardisation of procedures, across hierarchies, in upward and downward business communication through an iterative process.

<sup>151</sup>Interview with Muhammad Faruque, 15 March 1992.

<sup>152</sup>*Ibid.*

constructive, especially when GCPL was successful in obtaining three important contracts in 1974 for the construction of the Tarbela-Khushab and- Lahore transmission lines, valued at Rs 100 million and Rs 230 million respectively.<sup>153</sup> These contracts indicated proved financially lucrative in a specific year emanating from factors in the exogenous environment. It also showed the group's dependence on the government in obtaining lucrative contracts but did not provide the basis of an effective internal organisational system explaining success in business. As with the case with his brother, Zahid Faruque's style of management, Muhammad Faruque too relied more on verbal communication, or through facsimile transmission of inter group communication, than on documented company records and procedures.<sup>154</sup> On the training of managers at GCPL, Muhammad Faruque conceded that for every 12 engineers recruited by GCPL from Peshawar University, at least seven would leave the company for better job prospects else where. This explained the small proportion of permanent staff both in line and staff functions employed at GCPL.

The Faruque Group opted for developing its investments in the light engineering sector from its onset without going through the earlier [teething] stages of investing in primary or intermediate goods

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<sup>153</sup>*Ibid.*

<sup>154</sup>*Ibid.*

production as Faruque investments.<sup>155</sup> They were able to do this by virtue of their late entry into an area of business where they had already gained expertise through observation and in extending advice to other industrialists, when the latter were setting up a base in textiles manufacturing.<sup>156</sup> While other groups, such as Crescent, were expanding their base in textiles, Faruque had started manufacturing and assembling the machines used to process primary commodities into finished goods, such as machinery used by sugar and cement manufacturers and electricity suppliers. No doubt Ghulam Faruque's experience in managing PIDC projects from their onset to completion, and in the issuing of permits for the same (when he was Secretary, Ministry of Industries), was a viable substitute for any experience he would have gained through trial and error, were he to have invested in industry from his personal resources without any prior knowledge of how to operate capital-intensive, technical plants. Ghulam Faruque the bureaucrat-turned-industrialist, was familiar and experienced in the organisational procedures involved in the implementation of machinery installation required for industrial use, and this enabled him to foresee, recognise and invest in meeting the demand for engineering goods at a time when Ayub's

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<sup>155</sup>See W. Rostow, *The Stages of Economic Growth*, 3rd. ed., Cambridge, 1990, pp. 4, 9 and 52.

<sup>156</sup>See M. Lieberman and D. Montgomery, 'First Mover Advantages', *Strategic Management Journal*, Vol. 9, 1988, pp. 41-58.

industrialisation programme was on the upswing. In 1959-63, a ready demand for machines in a new market dominated by the demand for consumer goods (which needed machines to process them into saleable commodities), circumvented the need for this group to first process primary commodities before themselves becoming producers of light engineering goods. Capital goods demand was artificially induced by the government in the capacity generated by PIDC-led units which became available for sale to the private-sector by 1960.<sup>157</sup>

To minimise their risk the group members, at the same time also kept cordial relations with the government, so to maintain their access to an assured market for its goods and services related to large construction projects. Ghulam Faruque's previous connections with various government officials, cultivated while he was a senior bureaucrat, served well in assisting him to obtain the necessary licences for the formation of Mirpurkhas Sugar Mills Limited in 1964. This was implemented at a time when the group's management was in the business of installing machinery for sugar mills for its industrial clients. Throughout Faruque's history, the government played a multifaceted role for them; firstly as Ghulam Faruque's employer, secondly as a facilitator of licences for PIDC and

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<sup>157</sup>Details of PIDC projects established and then sold to the private-sector from 1955-1989, are available in PIDC, 'Development Programme of the Pakistan Industrial Development Corporation', PIDC, unpublished report, 1989, p. 77-78.

Faruque investment, (for PIDC projects executed under the direction of Ghulam Faruque) and thirdly by cementing this bond bilaterally, by making the government its main customer.

### **5.6 Conclusion**

This group had a similar history to the Ali Group, in that its founder, Ghulam Faruque was a prominent figure through his role as a policy maker who articulated the design of new industrial investments, at a time when few individuals were given the opportunity to do so. During Ayub's regime, his successful career in politics and as a bureaucrat provided him with the impetus to conceptualise launching his own group of companies. Ghulam Faruque, as WAPDA's chairman was able to tap into other senior bureaucrats and politicians' working agenda on a regular basis. Most of Faruque investments in electrical engineering works and construction activities were integrated and inter-related. Since it was a relatively late-mover compared with its predecessors in initiating business house investments as a whole, the Faruque Group was able to absorb more lucidly from the implementation logistics attendant to assisting the initial investments of other pioneering industrialists. To this extent, this group's members did not undergo the same teething problems of learning skills in the managing of its light engineering goods investments, as was the case in other groups

studied so far.<sup>158</sup> Its management strategy of direct engineering investments in the 1960s, was cushioned from the fact that Ghulam Faruque had acquired the necessary expertise in managing such investments even though they were not originally owned by him. Because of Ghulam Faruque's expertise in setting up light engineering industries for others, he displayed confidence in himself opting for light engineering investments, without necessarily gaining prior experience in the traditionally popular and less risk averse area of textiles manufacturing. This strategy enabled a relatively late-mover in industry, to catch up with his predecessors in the making of his group's business history. One of the spin off effects of being a late-mover in industry, was that members of the Faruque Group capitalised on becoming first-movers in higher value-added industry, such as the assembly and installation of transmission lines for dams, roads and related works. This led the value of the group's net assets to rapidly rise from 42nd position in 1968, to thirteenth position by 1988.<sup>159</sup> Therefore, from its inception the group's potential to supersede other groups in the **rate** of increase of the value of its net assets, was achieved over a shorter period, by virtue of the higher returns that capital goods investments in higher order industries

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<sup>158</sup>See M. Lieberman and D. Montgomery 'First-Mover Advantages', *Strategic Management Journal*, Vol. 9, 1988, pp. 42-43, for entry barriers to and advantages of being a late-starter in industry.

<sup>159</sup>See Table 2.15 for a comparative presentation of business group net assets.

perpetrate.

On its personnel policies, CCCL was faced with internal strife, labour disputes and a management lacking the drive to take remedial action in resolving its internal issues. Zahid's inertia to resolve them emanated from the secure base that CCCL had in the cement market. As with the other groups studied so far, the secure base was initially a necessary condition to direct government concessions needed for empire building but was not a sufficient condition to sustain, consolidate and expand the business in later years. As in the case of GCPL, the dependence on government contracts reversed its profitability into losses<sup>160</sup>, in a year when a major contract was awarded to its competitors. This showed that for pioneering businesses, (as with CCCL's formation), State patronage remained an effective stimulator of the business ethic but not necessarily a reliable patron for its business development in the long-term. From other groups studied, this patronage did not alone sustain development in the long-term, rather it had to be supplanted by internal organisational systems to sustain it. By 1988, CCCL had to face four new competitors in cement manufacturing and marketing, and it would surely have required a change in its management practices to meet the challenge posed to it through the change in market conditions.

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<sup>160</sup>The loss for GCPL was incurred in 1985, conveyed to the author in an interview with Muhammad Faruque, 15 March 1992.

In Ghulam Faruque's case, it was his dealings with people and situations when he was an administrator of industrial investments that familiarised him with the effective managing of business. He was then able to carry his inventory of knowledge over to managing Faruque Group investments. Therefore, as an entrepreneur he succeeded in sustaining the Faruque Group's investments in light engineering, because he had received the necessary training in effective internal organisational systems, even though it initially happened when he was not the leader of a business group.

## **CHAPTER SIX**

### **THE DAWOOD GROUP**

#### **Introduction**

The Dawood Group family commenced their business activities in undivided India in the 1920s. Its members traded in spices, foodstuff, cotton yarn and vegetable oil. The Dawood family were a community originating from Bentwa in India. Prior to migrating to Pakistan in 1947, they invested in manufacturing while continuing with their interests in trade. This chapter analyses the development of the Dawood Group and the complexion of its investment over 39 years (1949-1988) of its business history in Pakistan. **Section One** provides the early history of the Dawood Group. **Section Two** provides an overview through an historical account of the group's manufacturing investment from 1949 to 1988. **Section Three** presents three case studies of selected Dawood Group companies, which reveal the management practices of its managers and their effects on the investment patterns which emerged. **Section Four** deals with external relations. It addresses the interplay of political and economic power wielded by key business personalities in the Dawood Group, derived from their close association with President Ayub and other bureaucrats. It shows how this liaison initially translated itself into a network of controls and economic benefits for the group. These benefits were used by the group leaders to direct

the country's economic resources towards the creation of their businesses, such as through accessing import and manufacturing licenses, tax holidays, bonus vouchers, and discounted rates of foreign exchange. **Section Five** analyses the specific rent-seeking activities of members of the Dawood Group, through their association with those in the higher echelons in the government. These activities reveal that energy consumed on such activities were not replaced by effective internal organisational systems which ensure long-term growth. **Section Six** presents the management strategy adopted by those members of this group in positions of responsibility. **Section Seven** concludes that the group members orchestrated the transition to light engineering production only where new internal organisational systems were adopted.

### **6.1 Group Formation and Background**

The Dawood Group initiated its trading and manufacturing investment in undivided India. At an early age, its first generation entrepreneur Ahmad Dawood, was entrusted with the charge of his younger brothers whom he inducted into business. He initiated his career in Bombay as a dealer of cotton and rayon yarn and went on to import and export the same commodities.<sup>1</sup> Ahmad Dawood was more ambitious than his brothers and went to great lengths to transform their collective status as traders, to becoming a recognised

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<sup>1</sup>Given in, 'Introducing Dawood Group', unpublished company document; no place, no year.

and articulate member of Pakistan's business elite. His endeavours were not in vain and the following table stands testimony to the rapid rise of the Dawood Group from its origins to the close of 1988, when group turnover peaked at Rs 3,300 million.<sup>2</sup>

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<sup>2</sup>Given in Bhojani and Sanotra, 'Coming Into Their Own', *Business Today*, March 22 - April 6 1992, pp. 42-52.

**Table 6.1**  
**Dawood Industrial Investments, 1948-88**

<b>Company</b>	<b>Nature of Business</b>	<b>Year Estb.</b>
1.Dawood Corporation (Pvt) Ltd.	Importing agency	1948
2.Dawood England (Pvt) Ltd.	Brokerage house	1949
3.Dawood Industries (Pvt) Ltd.	Managing Agents	1951
4.Dawood Cotton Mills Ltd.	Woven and Finished Cloth and Yarn	1951
6.Dawood Petroleum Ltd.	Marketing Crude oil	1959
7.Burewala Textile Mills Ltd.	Ginned and Spinned Cotton	1959
8.Karnaphuli Paper Mills Ltd.	Paper Manufacturing	1959
9.Lawrencepur Woollen Mills Limited	Woollen Cloth Manufacturing	1960
10.Central Insurance	Insurance	1960
11.Dawood Foundation (Pvt) Ltd.	Charitable Trust	1961
12.National Mines Ltd.	Coal Mining	1961
13.Karnaphuli Rayon & Chemicals Ltd.	Rayon Fibre	1967
14.Dawood Jute Mills Limited	Jute	1967
15.Dilon Ltd.	Nylon Yarn	1968
16.Dawood Hercules Ltd.	Fertiliser, (Urea)	1968
17.Dawood Shipping Company Ltd.	Shipping Services	1968
18.Descon Engineering (Pvt) Ltd.	Consultancy Services	1977
19.Transpak Corporation Limited	Manufacturing & Trading in Detergent & Gas Appliances	1984
20.Lahore Cycle Industry (Pvt) Ltd.	Cycle Manufacturing	1985
21.Baluch Engineering Works	Engineering Works	1985
22.Delta (Pvt) Ltd.	Unsaturated Polyester and Alkyd Resin Manufacturing	1986
23.Dawood Yamaha Ltd.	Motor Cycle Assembly	1988
24.Crescent Pak Soap Industries Ltd.	Soap Manufacturing	1988
25.Sulfina (Pvt) Ltd.	Sulphuric Acid	1988
26.United Refrigerators Ltd.	Airconditioner and Refrigerator Assembly	1988

Source: Dawood Group, 'Introducing Dawood Group', unpublished and undated company document; no place, no year.

The following section presents an historical account of the evolution of the Dawood Group.

## 6.2 Business Development: 1948-88

The Dawood Group's trading origins were in spices and foodstuffs in undivided India. By the 1930s, the group's first company was established, under the banner of **M Siddique and Co.**, trading in cotton yarn imports from Japan. This activity continued until the Second World War.<sup>3</sup> By the 1940s, the company had 17 offices scattered over British India, from Amritsar in the north to Madras and Calcutta in the south. All branches were managed by family members. In 1946, the group made its entry into manufacturing industry and invested Rs 7.5 million in establishing a cotton ginning unit, an oil mill and a *ghee* mill, located at Bombay, Madras and Calcutta respectively.<sup>4</sup> The ginning mill ginned 100 bales of cotton per day and the oil mill crushed 15 tons of groundnuts per day. The *ghee* mill, trading as **United Vegetables Manufacturers Limited**, crushed 10 tons of oil per day.<sup>5</sup> This was the first group in this study which entered manufacturing industry prior to the group members' migration to Pakistan. In 1947, the turmoil presented by

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<sup>3</sup>Interview with Razak Dawood, managing director, Delta (Pvt) Limited, Lahore Cycles (Pvt) Limited and Descon (Pvt) Limited, 26 October 1991, in Lahore. See Appendix A for a list of questions asked in the interview.

<sup>4</sup>Interview with Haji Muhammad Ghani, son of Haji Abdul Ghani, 8 March 1992 in Karachi. See Appendix A.

<sup>5</sup>*Ibid.*

partition to both Muslims and Hindus alike, also made for the mass exodus of the Dawood community to Karachi in Pakistan. Upon emigrating, the group's leader, Ahmad Dawood determined to continue trading in cotton. His two brothers, Suleman and Siddique were given the responsibility of managing respectively the sales/accounts and procurement/finances of the business.<sup>6</sup> The three brothers were assisted in exercising their daily duties by three managers: Ali Muhammad and Abdul Ghani, who were family members and Aziz Moon, a non-family manager of the group. Abdul Ghani was the technical adviser to the group, keeping them informed about the benefits of adopting new technology. In 1947, Ahmad Dawood travelled to Britain and was successful in obtaining credit from the Chartered Bank in Oldham, UK, assisted by a British official named Jeifer, who organised the requisite finance required for trading in cotton.<sup>7</sup> In 1948, once the group had established itself in a new milieu in Pakistan, it formed **Dawood Corporation (Pvt) Limited**, a private limited concern in Karachi.<sup>8</sup> This company was to become the parent company of the group and specialised in

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<sup>6</sup>Interview with Razak Dawood, 26 October 1991.

<sup>7</sup>*Ibid.* The Memon community had commercial links with British companies in undivided India, and this is given in S. Levin, 'The Upper Bourgeoisie from the Muslim Commercial Community of Memons in Pakistan, 1947 to 1971', *Asian Survey*, Vol. XIV, March 1974, p. 234.

<sup>8</sup>Interview with Razak Dawood, 26 October 1991.

importing cotton yarn from Oldham, for re-sale in Pakistan.<sup>9</sup> This company was also the managing agent for the group's investment and helped to set up future Dawood industries. By the close of 1988 it was also involved in the sale of fertiliser and insecticide and provision of plant protection services.<sup>10</sup> In 1949, **Dawood England (Pvt) Limited** was formed in the UK, specifically to obtain credit to finance the sale of British finished cotton in Pakistan. Dawood England (Pvt) Limited were the brokers (agents) for Ralli Brothers and Volkart Brothers in the UK;<sup>11</sup> raw cotton yarn was purchased on their behalf in undivided India by the Dawood brothers which was then exported to Britain, where it was re-exported to Pakistan in its finished form.<sup>12</sup> Ahmad Dawood was based in the UK while his brothers managed the trading partnership from Pakistan. At the same time, the cotton ginning and *ghee* mills in India were sold and the proceeds from their sale were used to provide venture capital for Dawood investment in Pakistan.<sup>13</sup> This group also successfully

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<sup>9</sup>*Ibid.*

<sup>10</sup>Given in, 'Introducing Dawood Group', unpublished company document; no place, no year.

<sup>11</sup>The Ralli Brothers and Volkart Brothers agents for cotton and machinery sale who had trading interests in undivided India since the early 1900s.

<sup>12</sup>Interview with Haji Muhammad Ghani, 8 March 1992.

<sup>13</sup>Till 1948 there was open trade between India and Pakistan, after which diplomatic relations were [temporarily] severed. This is given in B.R. Tomlinson, *The Economy of Modern India, 1860-1970*, Cambridge, 1993, pp. 165 and 170.

obtained the requisite import licences, which were not freely accessible to all those holding aspirations to set up industry in Pakistan.

In 1949, seven sons of the three Dawood brothers were sent to the UK and USA for further education.<sup>14</sup> They were to return to positions of responsibility in managing Dawood companies. By 1950, Ahmad Dawood also returned to Pakistan to initiate a business dynasty; in 1951, **Dawood Industries (Pvt) Limited and Dawood Cotton Mills Limited** were established, the latter in Landhi as a public limited company involved in spinning and weaving cotton. Dawood Cotton Mills Limited was a mill which operated with 25,000 spindles [which by 1988 had been increased to 100,000 spindles]. Its facilities were fully integrated to include weaving, dyeing, bleaching and finishing facilities all located within the same unit.<sup>15</sup> Dawood Cotton Mills Limited was managed by eight directors, six of whom were from Dawood and two were non-family directors. By 1988 the paid-up capital of this unit was Rs 45 million and annual turnover was Rs 400 million.<sup>16</sup> In 1952, the export sales of spun cotton at Dawood Cotton Mills Limited met with an up swing, when the Korean war provided Pakistani cotton exports with a niche in the

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<sup>14</sup>Interview with Razak Dawood, 26 October 1991.

<sup>15</sup>Interview with Haji Muhammad Ghani, 8 March 1992.

<sup>16</sup>See 'Introducing Dawood Group', unpublished company document, no place, no year and Dawood Cotton Mills, *Annual Report*, 1989.

Korean market for cotton textiles. Dawood Cotton Mills Limited was the selling arm of Dawood Industries (Pvt) Limited. Over the next 17 years, a large portion of which covered Ayub's political era, the group members invested in nine additional manufacturing/service industries; in 1959, a public limited concern, which was a cotton textile mill, the **Burewala Textile Mills Limited** was acquired, for Rs 100 per share, from the Punjab Industrial Board through Ahmad Dawood's contacts with the director of this organisation, I.H. Usmani.<sup>17</sup> At the time of purchase the market value of its quoted shares was Rs 130 per share.<sup>18</sup> Technicians from the Dawood Cotton Mills Limited were loaned out to organise a team at Burewala Textile Mills Limited. The unit was designed for 500 looms and 26,000 spindles and the ginning machines were imported from the USA. This plant had other manufacturing facilities operating under its umbrella, namely an oil mill, a vegetable oil plant and a poultry feed processing unit.<sup>19</sup> By 1988 there were 66,000 spindles and the company had a paid up capital of Rs 37 million and its combined sales from all the products had reached Rs 530 million.<sup>20</sup> The **Karnaphuli Paper Mills Limited** was acquired from the Pakistan Industrial Development Corporation (PIDC) in 1959, through Ahmad

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<sup>17</sup>Interview with Haji Muhammad Ghani, 8 March 1992.

<sup>18</sup>*Ibid.*

<sup>19</sup>Company document, 'Introducing Dawood Group'.

<sup>20</sup>Given in, Burewala Textile Mills, *Annual Report*, 1989.

Dawood's close contacts with the Nawab of Kalabagh, an individual quite assertive in Pakistani politics.<sup>21</sup> The mill had a capacity for producing 100 tons of paper per day and was acclaimed as South Asia's largest paper producing mill at the time.<sup>22</sup> In 1959, **Dawood Petroleum Limited** was formed as a marketing company supplying crude oil to government-owned oil refineries in the country.<sup>23</sup> In 1960, the purchase of the **Lawrencepur Woollen and Textile Mills (Pvt) Limited**, from the Pakistan Co-operative Society was an outcome of the close connection of Ahmad Dawood with the Nawab of Kalabagh.<sup>24</sup> This manufacturing facility was organised as a co-operative society with the Nawab of Kalabagh as its chief patron and its sale to Ahmad Dawood was made at a time when the mill's was facing financial losses, hence Ahmad Dawood purchased it at an economically low price which was at par value of its

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<sup>21</sup>The Nawab of Kalabagh's political stature is given in H. Feldman, *From Crisis to Crisis*, Oxford, 1972, pp. 56, 109 and 190.

<sup>22</sup>This reference to size was documented in S. Levin, 'The Upper Bourgeoisie from the Muslim Commercial Community of Memons in Pakistan, 1947 to 1971', *Asian Survey*, Vol. XIV, March 1974, p. 237; also see, 'Introducing Dawood Group', unpublished company document, no place, no year.

<sup>23</sup>See unpublished company document, 'Introducing Dawood Group', no place, no year.

<sup>24</sup>The Nawab of Kalabagh's stint as chairman of the PIDC and the Governor of West Pakistan is given in H. Feldman, *From Crisis to Crisis*, Oxford, 1972, p. 56.

shares.<sup>25</sup> The wool scouring and finishing machinery was for the mill was imported from Japan.<sup>26</sup> By 1988, Lawrencepur Woollen and Textile Mills had a paid-up capital of Rs 27 million.<sup>27</sup> In 1960, the **Central Insurance Company** was also added on to the group's investments as a public limited flotation on the Stock Exchange. The company offered insurance services for fire, marine and accidents. In 1988 its paid-up capital was Rs 4 million.<sup>28</sup> The **Dawood Foundation and National Mines (Pvt) Limited** were floated in 1961, the former a charitable trust and the latter, a company involved in coal mining. The **Karnaphuli Rayon Mills Limited** and the **Dawood Jute Mills Limited** were established in 1967. Both were joint venture projects with a Japanese company called Asahi, who contributed 10 percent of the equity.<sup>29</sup> The rayon manufacturing plant was reputed to be the world's largest rayon fibre manufacturing unit using bamboo as its raw material.<sup>30</sup> By 1968,

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<sup>25</sup>Interview with Aziz Moon, executive director, Dawood Corporation (Pvt) Limited, 17 January 1994, in Karachi. See Appendix A.

<sup>26</sup>Interview with Haji Muhammad Ghani, 8 March 1992.

<sup>27</sup>See, 'Introducing Dawood Group', unpublished company document, no place, no year.

<sup>28</sup>*Ibid.*

<sup>29</sup>Interview with Aziz Moon, 17 January 1994.

<sup>30</sup>Given in, 'Introducing Dawood Group', unpublished company document and S. Levin, 'The Upper Bourgeoisie from the Muslim Commercial Community of Memons in Pakistan, 1947 to 1971', *Asian Survey*, Vol. XIV, March 1974, pp. 231-243, on the industrial history of Memons from the 12th century onwards, which he

three further additions were made to the group's investments in the formation of the following: a nylon processing plant with a capacity to process 20,100 tons of nylon yarn per year was set up in 1968, called **Dilon (Pvt) Limited**. By the close of 1988, Dilon (Pvt) Limited's paid-up capital was Rs 10 million and its annual sales turnover was Rs 95 million.<sup>31</sup> In 1968, **Dawood Hercules Limited** was established (as another foreign joint venture collaboration, on this occasion with Hercules Incorporated of the UK).<sup>32</sup> Hercules Incorporated was a subsidiary of the chemicals section of Dupont, an American conglomerate. Dawood owned 40 percent equity in Dawood Hercules Limited, and Hercules Incorporated owned a further 40 percent, with 10 percent sponsored by the International Finance Corporation and the remaining 10 percent owned by the general public. By 1988, its paid-up capital was Rs 139 million and sales

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unveils through their commercial occupation in undivided India.

<sup>31</sup>See unpublished company document, 'Introducing Dawood Group' and Dilon Limited, *Annual Report*, 1989.

<sup>32</sup>DHL was formed with foreign equity collaboration with Hercules, UK in 1968, for the manufacture and sale of urea in the Punjab province. It was one of the existing two private-sector and multinational fertiliser plants in the country, the other one being Exxon Chemicals (Pvt) Limited, also formed in 1968. According to Ahsan Raza, [the finance and administration manager of Dawood Hercules Limited from 1969 to 1982], interview, 30 March 1992, Exxon Chemicals (Pak) Limited's management assisted the Pakistan government in the exploration and tapping of gas fields in the Sind, where its manufacturing facility was located. However, Dawood Hercules' fertiliser plant located in the Punjab, had a history of erratic gas supply which was more highly priced for them by the government than what they charged from Exxon Chemicals (Pvt) Limited.

were Rs 950 million.<sup>33</sup> In the same year, the group also formed the **Dawood Shipping Company Limited**.

The Karnaphuli Paper Mills Limited and Karnaphuli Rayon Mills Limited were lost by the group when East Pakistan seceded from West Pakistan in 1971.<sup>34</sup> This loss was followed by the nationalisation of Dawood Petroleum Limited, as part of Bhutto's socialist reforms, as well as the 'life insurance' section of the group's insurance business. This led to the Dawood Group concentrating on their business activity in (West) Pakistan.

After a pause of a few years during which the group's management adopted a risk averse stance of not making any further investments, they made a comeback in manufacturing industry, albeit in new areas. In 1977 an engineering consultancy and construction company was floated called **Descon Engineering (Pvt) Limited** which represented an investment made in the light engineering sector. The **Transpak Corporation**, a public limited concern was floated in 1984 to manufacture detergents and trade in gas appliances and foodstuff. [By the close of 1988 its paid-up capital was Rs 5 million

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<sup>33</sup>Unpublished company document, 'Introducing Dawood Group' and Dawood Hercules Limited, *Annual Report*, 1989.

<sup>34</sup>These three manufacturing facilities were located in [former] East Pakistan and according to Razak Dawood, [interview 26 October 1991], though there was no official estimate of the loss incurred, his rough estimate of the loss for the Dawood Group, amounted to Rs 70 million. According to R. Amjad, 'Private Industrial Investment in Pakistan, 1960-1970', Ph.D thesis, University of Cambridge, 1977, p. 263, in 1970, the Dawood Group had Rs 311.8 million invested as in its net assets in East Pakistan.

and annual sales were Rs 120 million].<sup>35</sup> The **Lahore Cycle Industry (Pvt) Limited** and **Baluch Engineering Works** were formed in 1985, for the manufacture and assembly of bicycles and provision of engineering consultancy services respectively. Purchase of the bicycle unit was another investment in the light engineering sector, which had synergy with the engineering facilities offered by Descon (Pvt) Limited. The cycle unit was a comprehensive unit, purchased from a private party to manufacture 60,000 bicycles annually. **Delta (Pvt) Limited** was floated for manufacturing unsaturated polyester and alkyd resin in 1986 and four further companies were floated in 1988 specialising in home appliances, refrigerators and motor cycle assembly plants and enlisted onto the group's investments.

### **6.3 Selected Company Histories**

The case studies which follow are selected from the Dawood Group's private limited companies, namely Descon Engineering (Pvt) Limited, a company extending construction and related consultancy services; Lahore Cycle Industries (Pvt) Limited, manufacturing bicycles and Delta (Pvt) Limited, manufacturing resins. These companies were selected on the grounds that there was no obligation to reveal their management practices to the public and so plausibly provide an insight into the internal organisational systems adopted

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<sup>35</sup>See 'Introducing Dawood Group', unpublished company document and Transpak Corporation Limited, *Annual Report*, 1989.

by its entrepreneurs.

### **6.3.1 Descon (Pvt) Limited (Descon)**

Razak Dawood was the managing director of Descon from the company's inception in 1977. Its head office was in Lahore with a regional office in Karachi. Descon's provided mechanical and electrical engineering and construction projects. It specialised in the design, installation, pipe-laying, fabrication and commissioning of construction projects.<sup>36</sup> The company owned cranes, bulldozers, excavators, vending machines, generators, earth moving equipment, most of which were imported by Descon (unlike Greaves Cotton [Pvt] Limited [Faruque Group] which manufactured its own earth-moving equipment).<sup>37</sup> It also offered specialised construction services which encompassed the preparation of feasibility studies, arranging for manufacturing licences and assisting its clients in all phases of the project's implementation and execution. Technology transfers from foreign to local projects were supplanted with integrated design and engineering expertise provided by Descon's engineers. Projects normally took up to two years from inception to completion.<sup>38</sup> Descon's main clients were the government, as was the case with

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<sup>36</sup>Interview with Amin Latif, Descon's general manager, 3 March 1992 in Karachi. See Appendix A.

<sup>37</sup>*Ibid.*

<sup>38</sup>Given in, 'Descon', unpublished company document.

Greaves Cotton (Pvt) Limited (GCPL) of the Faruque Group.<sup>39</sup> By 1982, Descon's management had capitalised on the construction boom in the Middle East by capturing major contracts located there. However, in 1982-86, Descon lost 90 of its technical staff to Middle Eastern employers who were able to pay them higher salaries.

By the end of 1988, Descon had completed over 20 domestic and overseas projects. The ones completed in Pakistan were those for Attock Refinery Limited, ICI Polyester Plant, Pakistan Steel Mills Corporation, National Logistics Cell, LPG Refinery, Pakistan Oilfields Limited, National Refinery Limited, Pak-Arab Refinery Limited, Burewala Textile Mill's extension and for fertiliser manufacturing facilities.<sup>40</sup> Most of Descon's local contracts were concentrated in northern Sind and southern Punjab, which included work done on the Mangla dam (the world's largest earth filled dam) and other contracts awarded to them by the government. Wherever it was feasible, Descon subcontracted parts of its construction projects to smaller companies specialising in specific engineering services. Compared with Greaves Cotton (Pvt) Limited of the Faruque Group, Descon was a late-mover as a provider of services in the construction industry and subcontracted specialised

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<sup>39</sup>See pp. 395-97, for a comparison with GCPL.

<sup>40</sup>*Ibid.*

requirements.<sup>41</sup> However, as with Greaves Cotton (Pvt) Limited, Descon had also successfully tapped into the foreign markets, as seen in projects awarded to them by Construction International Inc., USA; CTS, Italy; Industrial Import and Export Company, Romania; Howe Baker Engineers Limited, USA; Simchem, USA and CTIP, Italy.<sup>42</sup>

Razak Dawood, as Descon's managing director, was responsible for the two divisions operating under his company's umbrella: Descon Engineering (Pvt) Limited, and Descon (Pvt) Limited, the latter providing the hardware, engineering and manufacturing facilities to Descon Engineering (Pvt) Limited.<sup>43</sup> The engineering division addressed mainstream logistics of construction and plant design whereas the manufacturing division addressed the process logistics of plant installation and its layout, as well as the recruitment of design engineer specialists in vessels, pipe laying, and in structural, electrical and instrumentation fields.<sup>44</sup> This strategic division of functions between the two companies orchestrated by Razak Dawood, was reminiscent of Suleman and Siddique Dawood's management style at Dawood Cotton Mills Limited, where they separated the production function on the one hand, and grouped all other functions

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<sup>41</sup>*Ibid.*

<sup>42</sup>Given in, 'Descon', unpublished company document; no place, no year.

<sup>43</sup>Interview with Amin Latif, 3 March 1992.

<sup>44</sup>Given in, 'Descon', unpublished company document.

under the supervision of senior management on the other hand.

Descon hired up to 3,000 workers on contract, as and when the need to do so arose, which limited more long-term labour problems from arising. The nature of temporary training labour at Descon was based on informal techniques. Weekly reports were generated from project managers at their location which were then sent on to the regional office at Karachi. Razak Dawood had four general managers reporting to him in the functional area of finance, mechanical project management, electrical and instrumentation project management and engineering project management.<sup>45</sup> It appears that till 1981, there was no designation for a marketing manager, an activity which was performed by Razak Dawood himself. However with an increase in the size of business, a marketing manager's position was created in 1982, along with one for an overseas project manager and a technical director was appointed in 1985. By 1988, all the project managers were managing an array of staff; from technical managers in the design, computing, fabrication of machines, to those in materials management and civil engineering works.<sup>46</sup> These additions to the team were made from the rising scale of business, achieved through a widening of Descon's base in through the technical expertise offered to the agriculture and electronics industries. By 1988, Descon had 272 management staff of which 142 were qualified in technical areas

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<sup>45</sup>*Ibid.*

<sup>46</sup>*Ibid.*

and 16 were in general management.<sup>47</sup>

Amin Latif was a non-family the general manager at Descon's regional office in Karachi.<sup>48</sup> He was assisted by two managers who occupied the business development and project managers positions respectively. Other non-family managers at Descon, Karachi, included the engineering director, and a senior general manager who was an engineer by qualification.<sup>49</sup> Even though this staff was located at Karachi, they reported to the senior management based at Lahore. This was part of Razak Dawood's company strategy to keep decision-making centralised and vested in him. Most transactions at Descon were computerised and closely monitored, which assisted administrative accountability since expenses were charged to their project accounts and not to the regional or head office's overhead expenses. According to Amin Latif, this was only made possible by computerising all operations at Descon.<sup>50</sup> Amin Latif also felt that Razak Dawood's management style was commendable in that the accounting system proposed and engineered by the latter was based on numbers<sup>51</sup> assigned to every on-going project.<sup>52</sup> This method

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<sup>47</sup>Interview with Amin Latif, 3 March 1992.

<sup>48</sup>*Ibid.*

<sup>49</sup>*Ibid.*

<sup>50</sup>*Ibid.*

<sup>51</sup>Since a project was identified by its number, it assisted in better monitoring and control of expenses and budgets.

ensured accountability in separating the overhead and variable project costs, which were accurately charged to their project numbers as and when the expenses were incurred.<sup>53</sup> This system also enabled more realistic budget allocation and its subsequent approval from senior management, since they were based on accountable and justifiable criteria. Descon's annual sales in 1988 were Rs 200 million.

Razak Dawood's initial style of management was fairly similar to that of the first generation members of his family, in that a number of functional area responsibilities were vested within one individual; himself. Till 1985, Descon's finance manager was also accountable for procurement, administration and personnel management.<sup>54</sup> However with an increase in the size of the business on a rising scale of magnitude, Descon was reorganised along more functional reporting channels. Razak Dawood felt that this reorganisation had not been to the company's best advantage: 'we actually took the decision to decentralise, and I tell you it was a wrong decision'.<sup>55</sup>

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<sup>52</sup>*Ibid.*; also see Descon's documents titled 'Project No., Weekly Progress Report' and 'Project Cost Analysis Report', both of which were intended for the project manager's perusal at the Lahore head office.

<sup>53</sup>Interview with Amin Latif, 3 March 1992.

<sup>54</sup>Interview with Razak Dawood, 26 October 1991.

<sup>55</sup>Information conveyed by Razak Dawood in an unpublished speech to the MBA [class of 1994], Lahore University of Management Sciences, 12 February 1992.

Razak Dawood's perception that the decision itself was a bad one stemmed from the fact that 1987 and 1988 were badly managed years for the business, when most project managers made their own little kingdoms and hid their division's profit margins from Descon's senior management. That is why Razak Dawood felt that the decision to decentralise was demonstrated as counterproductive to the initial rationale which initially directed it. This however, did not support the fact that the decision to decentralise operations was in itself an ineffective one, rather it showed that the company did not have an effective system of control and checks where more than one person could access the same information and monitor output. Such checks and control could have been introduced in an information reporting system organised on the principles of the Systems Approach. In this approach, managers are expected to fulfil their designated tasks using a holistic approach to gather data in order to identify problems to lead to an implementation criteria, which is a process built into the methodology of this approach itself.

### **6.3.2 Lahore Cycle Industries (Pvt) Limited (LCI)**

The LCI was formed in 1985 as a private limited concern, for the assembly and sale of bicycles. Purchase of this unit was a move into the light engineering sector, which had synergy with the engineering facilities already extended by Descon. The LCI was an integrated unit purchased from its previous owner, with a designed production capacity of 60,000 bicycles annually. LCI had four main competitors

who were more experienced than members of the Dawood Group in the fabrication, execution and managing of bicycle assembly. Therefore when its ownership changed hands, a team of six engineers were hired by Descon to manage the bankrupt company. According to a survey conducted by the Ministry of Industries, the bicycle demand was expected to peak at 1 million bicycles by 1992.<sup>56</sup> Therefore, entering into this area of production appeared to be a lucrative opportunity which was captured by Razak Dawood in acquiring LCI.

LCI's bicycles were designed using imported technology from Hercules Incorporated of the UK. Since the foreign suppliers were also partners in another Dawood investment, it enabled Descon to easily buy the rights for Hercules' patented technology and its related manufacturing patents.<sup>57</sup> Ten Hercules engineers were sent from the UK to Lahore to help set up the plant. These bicycles were supposed to be technologically superior in quality than those manufactured by other local producers. An additional advantage of the investment made in LCI, was that there was no government price control on bicycles and that in a sellers market, its demand in 1985 was more it supply.<sup>58</sup> In 1989, the sales price per bicycle was fixed

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<sup>56</sup>Given in 'Descon', unpublished company document.

<sup>57</sup>This is given in A. Rana, *BMX CYCLES (A)*, Lahore University of Management Sciences, 1989, LBS case # 03-332-89-1, p. 2.

<sup>58</sup>*Ibid.*

at Rs 1,200 which provided the company with a projected gross margin of 15 percent, provided it sold a minimum of 48,000 bicycles per year.<sup>59</sup>

In 1988, the company faced production constraints on the delivery of steel and plastic rimmed bicycles to its marketing department.<sup>60</sup> To accommodate the pressure on the production department to expand its output, the factory premises were expanded to twice its capacity, at a cost of Rs 8 million in 1988; a further Rs 1.2 million was spent on production assembly line units, and an enamel painting unit was also purchased for Rs 1.5 million.<sup>61</sup> By the close of 1988, the company employed 240 full time staff and 120 contract labour who were paid an average salary of Rs 1,700 per month.

LCI was annexed to the group's business at the initiative of Razak Dawood at a time when other engineering companies in the group provided consultancy services which specialised in executing commissioned construction projects. This investment in LCI, was part of an integrated strategy evolved and directed by Razak Dawood, who consciously advocated that the companies managed by him should have synergy. This strategy continued into 1986, when Delta (Pvt) Limited was formed, which constructed fittings and

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<sup>59</sup>*Ibid.*

<sup>60</sup>Given in, A. Rana, *BMX CYCLES (A)*, Lahore University of Management Sciences, 1989, LBS case # 03-332-89-1, p. 1.

<sup>61</sup>*Ibid.*

fixtures used in household interiors and outdoor sports complexes.

### **6.3.3 Delta (Pvt) Limited (Delta)**

Delta (Pvt) Limited was formed in 1986, in technical collaboration with Reichold, to manufacture unsaturated polyester and alkyd resin. Its managing director was Razak Dawood. The resin industry was characterised by low entry barriers articulated through low capital installation costs and low brand loyalty among customers. Resin was a chemical which was used to manufacture fibre glass, which was also the raw material used in assembling bath tubs, automobile components, boats, furniture and sports goods. However, the management was faced with a problem of not adequately tapping into these markets adequately. Its closest rival, BASF (Pak) Limited, a German multinational in Pakistan had captured a much larger share of the market owing to cash incentives offered by BASF (Pak) Limited's management to the dealers through whom the resins were sold to the ultimate consumers. The following table shows the 1986-88 sales of Delta and of its main rival, BASF (Pak) Limited.

**Table 6.2**

<b>Year</b>	<b>BASF sales</b>	<b>Delta sales</b>
	<b>(Metric Tons)</b>	
1986	144	35
1987	198	176
1988	300	231

Source: S. Ali, *et al*, 'Progress Report, Delta (Pvt) Limited', Lahore University of Management Sciences, unpublished report, 1989.

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In 1986, BASF (Pak) Limited had captured 80 percent of the market, derived mainly from its first-mover position in the domestic market.<sup>62</sup> Delta's market share was 19 percent, with a small percentage of the demand met through resin imports. BASF (Pak) Limited's parent company in Germany provided its Pakistani subsidiary with technical support which was not matched by Delta's technical capabilities. Delta's management had also not recruited or trained its sales force who were not qualified chemical engineers. Also BASF (Pak) Limited had diversified into manufacturing other types of resins, leaving behind them a trail where Delta's product range offered more limited varieties. Three apparent causes for

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<sup>62</sup>A description of the advantages and disadvantages accruing to pioneering industrialists are given in M. Lieberman and D. Montgomery, 'First-Mover Advantages', in *Strategic Management Journal*, Vol. 9, 1988, pp. 41-58.

Delta limited variety of products were, the lack of in-house Research and Development (R&D) facilities, the lack of technical information provided to its dealers who sold Delta products to the end-users, and that Delta's management did not keep a record of who their customers were, or of their preferences for which category of resins they required. The company's sales force lacked the technical education and formal qualifications in chemical engineering, a necessary prerequisite required for them to educate their customers on the benefits of buying resins. Therefore it was not surprising that BASF (Pak) Limited, which had qualified staff had captured a much larger share of the resins market. At Delta, on each occasion when a particular customer query had emerged it had to be routed to its R&D department for resolution, and this procedure led to continuous delays in meeting the customers' orders. The management's ineptitude was evident from hiring unqualified sales officers, who through their technical ignorance could not familiarise themselves with the product specifications of the goods they were selling. This misdemeanour was compounded when the management also did not maximise damage control by publishing literature on resin specifications, which would have guided their sales force to address customer requirements. Also Delta's product line was narrow and economies of scope in process production were not adopted for producing the additional [related] varieties of chemicals which BASF

(Pak) Limited was already doing.<sup>63</sup> Most of Delta's sales were made on the personalised contact of the sales officers with the dealers and this hampered accessing a potentially larger network of dealers selling Delta products, covering a wider segment of the market.

This case study was an example of how an ineffectively managed organisational system, hindered the development of a strategy which could have been used to capture the competitor's market share, as well as to carve a niche in a branded product market. Although Delta was managed by Razak Dawood, whose management style was more effective, demonstrated in the changes he proposed at Descon and LCI, he chose to adopt a different strategy in managing Delta. Since strategy is directed by the decision-makers, it can only reflect how management chooses to conduct it.

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<sup>63</sup>Economies of scope in process production, such as for liquid chemicals or oil production are given in A. Chandler, *Scale and Scope*, 1990, pp. 23-29, increase volume and lower costs in greater magnitude than economies of scale, because process production combines new production processes [of related goods] by using existing facilities to produce, market and distribute related products.

## 6.4 External Relations

This group entered manufacturing industry in Pakistan, by the kick start given to them through the liaison<sup>64</sup> of its pioneering entrepreneurs with Ayub and the Nawab of Kalabagh.<sup>65</sup> The latter was PIDC's chairman in 1959. This liaison directly benefitted Dawood through its acquisition of three industrial units, the Karnaphuli Paper Mills, purchased from the PIDC in 1959, and the Burewala Textile Mills from the Ministry of Industries, Government of Punjab in 1959. The former was purchased by Dawood for Rs 65.9 million after PIDC had invested Rs 120 million<sup>66</sup> in establishing the mill. This constituted 17 percent or the second largest PIDC sale made till 1959, measured by the value of PIDC's industrial assets. The Burewala Textile Mill's sale in favour of Dawood was assisted Ahmad Dawood's contacts with I.U. Usmani, the director of the Punjab Board of Industries. The group acquired the Lawrencepur Woollen Mills (Pvt) Limited in 1960, another transaction approved by the Nawab of Kalabagh who used his leverage as PIDC's chairman to do enable this sale. When this sale was made to Dawood, the Karnaphuli Paper Mills Limited also had the Nawab of Kalabagh as

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<sup>64</sup>The privileged position of the Dawood Group as a leading industrial group is conferred on them in S. Kochanek, *Interest Groups and Development*, Oxford, 1983, p. 298.

<sup>65</sup>The Nawab's title and status is given in H. Feldman, *From Crisis to Crisis*, Oxford, 1972, p. 56.

<sup>66</sup>Information given in G. Papanek, *Pakistan's Development*, Harvard, 1967, p. 93.

its managing agent, and so its sale to Dawood was also met with relative ease. It was originally set up at the initiative of the PIDC in 1953 and sold at par value of its shares<sup>67</sup> to Dawood six years later.<sup>68</sup> The Dawood family were industrialists who knew those on the Board of Directors of PIDC, and became the beneficiaries of its sales at economically attractive rates. The PIDC sales to private industrialists were not open to the public and those with the contacts acquired them.<sup>69</sup>

Ahmad Dawood was the founder and doyenne of his group, and his proximity to Ayub paid dividends for the initial group investments. The bonus voucher scheme also assisted Dawood in accumulating capital used to finance the purchase of its initial investment, through the group's profits made in jute manufacturing.<sup>70</sup> However this scheme did not significantly boost exports, since the export base was

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<sup>67</sup>Interview with Aziz Moon, 17 January 1994.

<sup>68</sup>The sale of PIDC units to the private-sector industrialists is given in PIDC, 'The Development Programme of the Pakistan Industrial Development Corporation', unpublished report, 1989, p. 63.

<sup>69</sup>Further information on the criterion of sale of PIDC units is given in R. Amjad, *Private Industrial Investment in Pakistan, 1960-1970*, Cambridge, 1982, pp. 188-208.

<sup>70</sup>See Table 2.3, for jute and paper exports made in the 1960s through the bonus voucher scheme. Pakistan's jute manufacturing as a percentage of its world production are given in State Bank of Pakistan, *Bulletin: State Bank of Pakistan, January 1965*, Government of Pakistan, 1965, p. 14; *Ibid.*, July 1966, pp. 62-63.

already high before the introduction of this scheme,<sup>71</sup> but it did contribute towards the concentration of wealth in the hands of a few industrialists who were its main beneficiaries.

Ahmad Dawood's links with the higher echelons in the government were also evident from the fact that he introduced Ayub's son, Gohar Ayub, into business and also in the support Ahmad Dawood extended him in setting up Ghandhara Industries.<sup>72</sup> For other strategic appointments, Ahmad Dawood was made chairman of NIT in 1965-88;<sup>73</sup> Ahmad Dawood was not the only member of his group to access Ayub and hold positions of national importance. Suleman and Siddique Dawood, both supported Ahmad Dawood's stake in the Settler's Trust which was spearheaded by Wajid Ali of the Ali group.<sup>74</sup> In 1962, Ayub became increasingly dependent on the

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<sup>71</sup>An analysis of exports by investment sectors is given in A.R. Kamal, 'Sectoral Growth Rates and Efficiency of Factor Use in Large-Scale Manufacturing Sector in West Punjab', *Pakistan Development Review*, Winter 1976, Vol. XV, No: 4, p. 349.

<sup>72</sup>Gohar Ayub's managing directorship of Ghandhara Industries is documented in H. Feldman, *From Crisis to Crisis*, Oxford, 1972, pp. 305-306; and Gohar Ayub's induction into the corporate arena, with Ahmad Dawood as his benefactor, was conveyed in an interview with Ahsan Raza, 30 March 1992; also see S. Kocahnek, *Interest Groups and Development in Pakistan*, Oxford, 1983, pp. 209- 210, where Ahsan Raza's claim is substantiated.

<sup>73</sup>Given in, NIT *Annual Reports*, 1965-88.

<sup>74</sup>The Settler's Trust comprised of members who led the National Press Trust. The membership list of the Settlers' Trust is available in the 'Minutes of Meeting of the Settlers', 9 March 1970 at the premises of the National Press Trust [an organisation which was chaired by Ghulam Faruque (Faruque Group)].

financial resources of wealthy businessmen to fund the 1964-1965 elections.<sup>75</sup> For political appointments, Siddique Dawood was made the treasurer of Ayub's political party, the Muslim league in 1962 as well as the Finance Secretary of its Karachi division.<sup>76</sup> In 1964, Siddique was elected to the National Assembly. Herbert Feldman reviews Ayub's political party, the Muslim League as one which he carefully controlled through a process of patronage and coercion.<sup>77</sup> This proximity to the Ayub paid dividends, especially for the initial Dawood investment,<sup>78</sup> especially as the prime beneficiary of PIDC divestitures.<sup>79</sup>

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<sup>75</sup>Ayub gained power in 1958 through a military *coup d'etat*, and changed the validity of his power base from military-rule to Presidential rule by holding the 1965 elections. For the legitimacy of this act see the debate in, H. Feldman, *From Crisis to Crisis*, Oxford, 1972, pp. 68-84.

<sup>76</sup>Siddique Dawood's political affiliations are presented in S. Levin, 'The Upper Bourgeoisie from the Muslim Commercial Community of Memons in Pakistan, 1947 to 1971', *Asian Survey*, Vol. XIV, March 1974, p. 242 and Siddique Dawood's induction into party politics by Ayub, is given in S. Kochanek, *Interest Groups and Development, Business and Politics in Pakistan*, Oxford, 1983, p. 209.

<sup>77</sup>For Ayub's inroad into the political arena through party support, see H. Feldman, *From Crisis to Crisis*, Oxford, 1972, p. 55.

<sup>78</sup>To cite S. Kochanek, *Interest Groups and Development in Pakistan*, Oxford, 1983, p. 271, 'By the late 1960s, however business had become so closely identified with Ayub that when the regime came under attack, so did the business' '.

<sup>79</sup>See PIDC, 'Development Programme of Pakistan Industrial Development Corporation,' PIDC, unpublished report, December 1989.

Continuing with the power and influence of members of the Dawood Group, Ahmad Dawood was on the Board of Directors of the National Steel of Pakistan (NSPL). This was a consortium of eight large industrialists with equity participation from the government.<sup>80</sup> The other industrialists directors of NSPL who are addressed in this study, were Wajid Ali (Ali Group), Muhammad Bashir (Crescent Group) and Ghulam Faruque (Faruque Group). Ahmad Dawood's prominent position in politics and through his personal association with Ayub also led to his arrest (along with other senior industrialist) in 1972, when Bhutto nationalised industry which was followed with its attendant realignment of voters' powers on company Board of Directors.<sup>81</sup> Other industrialists arrested with Ahmad Dawood, included General Habibullah, both in their capacity as industrialists and particularly so because of their proximity to Ayub; General Habibullah more so, because of he was closely related to Ayub. The passports of all senior industrialists were also confiscated on Bhutto's order. According to Razak Dawood, at the time of nationalisation Bhutto's planning minister, Mubashir Hasan announced that, 'if these businessmen do not behave, we will hang them by the lamp posts' <sup>82</sup>. This adverse and threatening climate towards the

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<sup>80</sup>See 'Minutes of the 35th Meeting of the NSPL Board of Directors', 12 September 1967 in Karachi.

<sup>81</sup>See Presidential Order no: 2/72, 1972.

<sup>82</sup>Interview with Razak Dawood, 26 October 1991.

promotion of private enterprise, led to a decline in overall private investment, and the rate of increase of Dawood's net assets remained relatively unchanged from 1974 to 1985.<sup>83</sup> These reforms truncated the controlling links between the managing agents and the businesses which they managed, which was replaced by a system of cumulative voting which considerably increased the smaller shareholders' prerogative in business group decision-making.<sup>84</sup> When the managing agency system was abolished, no company could sell its produce exclusively to another company within the same group. This restriction was circumvented by the businessmen forming multiple 'dummy' companies which could, without detection, just as easily purchase the entire produce of another company operating within the group.<sup>85</sup> Therefore, in practice the old order was not be replaced by Bhutto's new decree, especially if the management was resistant to adapting to the changed circumstances and sold their produce through the same channel, albeit using 'dummy' companies.<sup>86</sup>

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<sup>83</sup>See Tables 2.7 and 2.9 for the declining trend in overall private industrial investment, immediately after nationalisation of industry and Table 6.5 for Dawood Group's net assets.

<sup>84</sup>This new arrangement applied to all private-sector businesses, as conveyed by Razak Dawood in an interview, 26 October 1991.

<sup>85</sup>*Ibid.*

<sup>86</sup>*Ibid.*

## 6.5 Rent Seeking Activity

The interplay of economic power and political influence was evident from members of the Dawood Group who had political and economic characteristics which provided them with an edge over other industrial aspirers in re-establishing and resuming their business interests in Pakistan after migration. Establishing political contacts with Ayub cemented Dawood access to the country's available resources and infrastructure. On Ayub's partiality towards conferring political appointments to businessmen, Feldman felt that Ayub created his own government party, which he carefully controlled through a process of patronage and coercion.<sup>87</sup>

Control networks were the influence and power used by these business personalities, to acquire assets and also to prevent other aspiring businessmen in doing the same. These rent-seeking benefits accrued to select industrialists in the 1960s and Dawood was no exception, where rent-seeking manifested itself in government patronage in providing it with import licences and discounted foreign exchange, which benefitted only a handful of recipients and not society.<sup>88</sup> Any windfall gains accruing to the Dawood's elite entrepreneurs were mostly diverted towards the owner-entrepreneurs personal accounts, rather than ploughed back into the firms, or used

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<sup>87</sup>See H. Feldman, *From Crisis to Crisis, Pakistan 1962-69*, Oxford, 1972, pp. 14, 16-20 and 24-32.

<sup>88</sup>See L. White, *Industrial Concentration*, Princeton, 1974, pp. 156 and 183.

for the expansion and diversification of their business.<sup>89</sup> Ahmad Dawood sought rent through the political appointments which reaped him financial benefits in a personal and business capacity; in allocating loans and receiving import licences to initiate his businesses as well as in acquiring PIDC and Punjab Board of Industries managed mills at discounted prices.

Ahmad Dawood played a dual role of simultaneously representing NIT's interests in Dawood investment (as a NIT director from 1965-88)<sup>90</sup> as well as himself being an equity holder in Dawood investment. Therefore this group's eligibility for NIT's credit line was not necessarily preceded by an objective evaluation of Dawood investment. This was another instance of State largesse promoting early industrialisation in business group investments. The continuity of such policies over the decade 1958-68, stultified the impetus for members of this group to develop performance criterion of their own violation. The following table depicts the Dawood Group's share in NIT and ICP investments:

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<sup>89</sup>For a comparative analysis on rent-seeking behaviour articulated in Indian and Turkish businesses, see A. Krueger, 'The Political Economy of the Rent-Seeking Society', in *The American Economic Review*, June 1974, pp. 291-303; for the case of the Dawood entrepreneurs' aversion towards reploughing company profits for enhancing their business investment, the comments by Ahsan Raza in an interview, 30 March 1992, which are documented in this chapter.

<sup>90</sup>NIT *Annual Reports*, 1965-88.

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Dawood	6.95	26.3
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Source: (a) National Investment (Unit) Trust, *Director's Report and Statement of Accounts*, 1st, July 1969 - 30th, June 1970, 1970, (b) Fourth Annual Report, 1970, Investment Corporation of Pakistan, 1970.

Of further importance were the links that these monopoly houses had with the Board of Directors of the Pakistan Industrial Credit and Investment Corporation (PICIC), a large financial institution extending foreign currency credit to investors.<sup>91</sup> PICIC was established in 1957 to disburse funds in the form of loans and equity investments in newly floated business house shares. The appeal for acquiring PICIC foreign currency loans was that they were extended at the official (and cheaper) exchange rate, usually at 1/2 percent

<sup>91</sup>The Chief Economist, Mahbub ul Haq in a news report published in the daily, *Morning News*, 29 March 1973, Karachi, was quoted to have said, 'For all practical purposes, the 22 families had become by 1968 both the planning commission and the ministry of finance for the private sector. They preempted most investment permits, import licences, foreign credits and government patronage because they controlled or influenced most of the decision-making forums, handing out such permissions. They had virtually established a strong hold on the system and were in the position to buy out any new entrepreneurs'.

lower interest rates offered by other financial institutions.<sup>92</sup> This favourably affected the recipient group's plans to expand its investments. One of the main beneficiaries of PICIC's credit was the Dawood Group, a facility expedited to it through Ahmad Dawood's PICIC directorship from 1972 to 1988.<sup>93</sup> This led to the decision-makers of PICIC allocating the highest percentage of its credit to businesses owned and controlled by one of its directors.<sup>94</sup> The following table shows loans extended to the Dawood Group by credit-lending institutions:

**Table 6.4**  
**Foreign Exchange Loan Obtained by the Dawood Group**

Group	PICIC	1958-1970		% of Total	% of Total
		Total	IDBP		
Dawood	123.58	13	3.37	0.90	
<hr/>					
Total loans disbursed (1958-70)	911.43		374.55		

Source: R. Amjad, 'Private Industrial Investment in Pakistan, 1960-1970', Ph.D. thesis, University of Cambridge, 1977, p. 263.

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<sup>92</sup>See State Bank of Pakistan, *Bulletin, State Bank of Pakistan*, State Bank of Pakistan, August 1971, p. LXXII.

<sup>93</sup>PICIC *Annual Reports*, 1972-88.

<sup>94</sup>See PICIC, *Annual Report 1970*.

From 1958 to 1970, the Dawood Group was the highest single recipient of PICIC's credit, not just among the four groups studied here, but from within the country. This was one of many significant occasions when the control networks employed by the members of the Dawood Group did work to their economic advantage, at a time when most other industrial aspirers were unable to access the sources of industrial credit which buttressed empire building for the future.

## **6.6 Management Strategy**

In the initial years of the group's formation, the cotton industry where the group's initial investments were made, was a sellers' market. Members of the Dawood Group capitalised on this opportunity provided by the potential demand in the textile industry where they already had gained expertise as traders. According to Razak Dawood:

'Memon<sup>95</sup> had much more than today, in that we are basically traders. We have gone through this enough times over now. If you prepare a feasibility study and go into a project based on a feasibility study, you never learn as much about that business as if, if you are in the trade, if you are dealing in the business, if you are trading in it, you know the size of the market, you know this, you know what the products are that are required, you know the geographical qualities, you know a lot more. So it is easier to get a job into trading and then to move backwards into industry. You know one of the strengths of the Memons was the ability to know and

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<sup>95</sup>For a description and importance of the Memon as a prominent businessman, statesman and political figure, see S. Levin, 'The Upper Bourgeoisie From the Muslim Commercial Community of Memons in Pakistan, 1947-1971', *Asian Survey*, Vol. XIV, March 1974, pp. 231-243.

understand trading'.<sup>96</sup>

All managers situated at the group's manufacturing sites reported directly to the senior management located at Dawood Corporation (Pvt) Limited and Dawood Industries Limited in Karachi. According to Haji Muhammad Ghani, the management team were organised around human resource management principles which were developed by him.<sup>97</sup> The organisational structure of each unit was functionally arranged to reflect of its departments' activities. Initially, Razak Dawood's management style also drew on that adopted by Haji Muhammad Ghani, in that the engineering division at Descon addressed mainstream logistics of construction and plant design whereas the manufacturing division addressed the logistics of plant installation and its layout as well as the recruitment of design engineer specialists in vessels, pipe laying, and in structural, electrical and instrumentation fields.<sup>98</sup>

Razak Dawood conceded that initially in the 1950s, most of the key decisions regarding their group's activities were made informally, in the car journeys back and forth from their grandmother's house and the office, or over lunch appointments. Suleman Dawood, who was the sales manager of Dawood Corporation (Pvt) Limited, had a

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<sup>96</sup>Interview with Razak Dawood, 26 October 1991.

<sup>97</sup>Interview with Haji Muhammad Ghani, 8 March 1992.

<sup>98</sup>Given in, 'Descon', unpublished company document.

peculiar style of assessing the merit of doing business with a potential client; by first judging the incumbent's sales pitch over the telephone, and it followed up by observing the gait of the salesman when he was in the process of walking over to Suleman Dawood's desk at the office.<sup>99</sup> Suleman Dawood, on a daily basis also opened all incoming mail at the office, which was a condition replicated by Zahid Faruque at CCCL. [However, by the 1970s, Suleman Dawood no longer directed management practices of his group, whereas Zahid Faruque did so into the 1980s]. Suleman Dawood also kept a daily summary of any dialogue with a potential or existing salesman along with a record of any transactions which had been mutually agreed. At the end of each day, this summary was passed on to the group's leader, Ahmad Dawood. This mechanism ensured Ahmad Dawood's control over the daily activities at Dawood Corporation (Pvt) Limited. In its initial years, the group members attempted to integrate functions within the same operating unit. For example, technicians from Dawood Cotton Mills Limited were loaned out to organise a team at Burewala Textile Mills Limited. The latter also had other manufacturing facilities operating under its umbrella, namely an oil mill, a cooking oil plant and a poultry feed processing unit.<sup>100</sup>

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<sup>99</sup>Interview with Razak Dawood, 26 October 1991.

<sup>100</sup>Given in, 'Introducing Dawood Group', unpublished company document.

Razak Dawood explained that his management style had evolved by emulating his predecessors' 'hands on' strategy to familiarise themselves with the company practices. Compared with Babar Ali's (Ali Group) style of management, Razak Dawood said that, 'Some people are not hands on. Babar Ali just wants the summary'.<sup>101</sup> Razak Dawood also expressed his preference for a 'hands on' style of management, over that of centralised decision making where the senior management only received summarised reports from departments as an the sole input used for decision making. His self-professed, 'hands on' style made him more sensitive to the needs of the market and led to the implementation in 1961, to two proposals initiated by him. He approached Ahmad Dawood to obtain his consent on firstly wanting the woollen cloth produced at Lawrencepur Woollen Mills Limited to be [higher] priced at Rs 19 per yard, when similar products were priced at Rs 7 per yard by the company's nearest competitor. Secondly, Razak Dawood also presented Ahmad Dawood with an advertising proposal budgeted targeted at Rs 80,000. Since members of the Dawood Group had up till then not expended any funds on advertising their products, this request from Razak Dawood, topped up with the higher sales price that he had requested for *Lyla*,<sup>102</sup> was met with considerable resistance. However, Razak

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<sup>101</sup>Interview with Razak Dawood, 26 October 1991.

<sup>102</sup>This was the brand name, given to womens' woollen cloth manufactured at Lawrencepur Woollen Mills Limited.

Dawood did succeed in having his own way in getting the advertising budget approved, and his sales launch was successful when *Lyla* became a popular material for ladies' winter suiting in the market. Thereafter, Razak Dawood did not face further resistance from the group's senior management in getting his advertising budgets approved. The launch of *Lyla* was a novel idea, in that woollen material used for womens' clothing in Pakistan, had not been experimented with before.

In the following years, Razak Dawood's 'hands on' style of management matured when the Descon's project managers generated weekly reports which were sent to the head office. Even though the project staff was located at Karachi, they were ultimately responsible to the senior management based at Lahore. This in fact reflected Razak Dawood's strategy to keep decision making centralised and vested ultimately with him. According to Amin Latif who was Descon's general manager at Karachi, Razak Dawood's management style was commendable in that the accounting system proposed and engineered by the latter was based on specific numbers assigned to each on-going project.<sup>103</sup> By assigning numbers to all costs, this method ensured accountability, by separating the overhead and

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<sup>103</sup>Interview with Amin Latif, 3 March 1992; also see Descon's documents, 'Project No., Weekly Progress Report' and 'Project Cost Analysis Report', which were intended for perusal by the project manager at the head office.

variable project costs.<sup>104</sup> This system apparently enabled a (more) realistic budget preparation and eased its subsequent approval from senior management, since it was based on justifiable expenses.

Most transactions at Descon were computerised and closely monitored, but upon closer examination it was revealed that Razak Dawood's management style, from 1977 onwards regressed to that of his predecessors, in that a number of functional area responsibilities at Descon became vested in one individual, namely himself. Until 1985 Descon's finance manager was also accountable for procurement, administration and personnel management,<sup>105</sup> and with the rising scale of business Razak was forced to reorganise responsibility along functional lines. Razak was to regret this decision since he felt that it encouraged the concealment rather than the dissemination of information by the department heads. He argued that the point of departure for good management was in the 'delegation' of the technical, marketing and finance authority to senior management at head office. This attitude begged the question that how was it that a company could be effectively managed from long distance, and that too by senior management who preferred to apply more informal methods of communication as their basis for decision making?

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<sup>104</sup>Interview with Amin Latif, 3 March 1992.

<sup>105</sup>Interview with Razak Dawood, 26 October 1991.

Dawood Hercules Limited (DHL) was managed by Ahmad Dawood and his son, Hussain Dawood. DHL had a less well defined organisational structure than that designed at Descon. In the 1970s, Razak Dawood was briefly appointed at DHL's factory premises to assist in managing the affairs of the plant. Based on his experience there, he commented on the overall style of management:

'Was our method of running good? I would say, excellent. All the people running factories were concerned with production. Technical decisions, marketing and finance were controlled by the head office. Since Dawood Corporation was involved in selling, it was a big marketing department [for the group]'.<sup>106</sup>

Ahmad, Suleman and Siddique Dawood were not formally trained in modern management techniques or in technical expertise, and neither did they attempt to remain abreast of technological developments in the fertiliser and cloth manufacturing industries.<sup>107</sup> This deficiency by their not having adopted systems (whether consciously or unconsciously) was also not remedied by management in employing technical advisers or professional managers to fill the technology and management gap at DHL. It also appears from the above quotation, that as in the Ali Group the Dawood management felt that the production requirements justified the presence of an on-site manager, but the demands of other functional

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<sup>106</sup>*Ibid.*

<sup>107</sup>These three individuals had not formally completed their secondary school education, a fact conceded to by Razak Dawood in an interview, 26 October 1991.

areas could easily be managed by family members based at the head office, and so did not justify appointing professional managers. When the scale of business was small, there was no reason to believe that family managers could not have performed 'just as well' as hired professional managers; however with expansion, the informal and older approach could not keep abreast with the information demands that the new order placed upon the management.<sup>108</sup> The Dawood Group members at DHL did not plough back the capital needed to expand their business, such as for example, plant expansion, modernisation, technology improvement and the hiring of professional managers, all of which affected the successive growth of the enterprise. An example of ineffective management practices at DHL are found in the following example. At DHL, Hercules Incorporated (UK) and the Dawood Group entered into a joint venture contract in which the Hercules management would assist in the construction and management of the factory, upon payment of a fee by Dawood, an amount arrived at mutually. Until the Hercules' management had the power of veto on decisions, the management strategy at DHL was directed according to the pattern developed by Hercules' parent company, Dupont in the USA.<sup>109</sup> Razak Dawood's second appointment in the Dawood Group was at DHL where he

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<sup>108</sup>The justification for changing management attitudes accompanying a rise in the scale of businesses, is discussed on pp. 145-48.

<sup>109</sup>Interview with Ahsan Raza, 30 March 1992.

reported to Ahmad Dawood. At the time, Razak had returned from the USA with a degree in Business Administration from Columbia University, and he chose to agree with the on-site Americans on their particular style of managing the company. However, this affinity with the Americans proved to be unacceptable behaviour for Razak's cousin, Hussain, who then forced Razak to tender his resignation from the company.<sup>110</sup> The other Dawood member on the management team was Siddique Dawood, did not challenge (whether voluntarily or not) the management strategy directed by the Hercules staff.<sup>111</sup> However, Hussain and Ahmad Dawood accepted the American's advice only grudgingly because they distrusted them from the beginning.<sup>112</sup> According to Ahsan Raza who was the finance and administration manager of Dawood Hercules Limited in 1969-82, Ahmad Dawood's views on employee status was that there were only two kinds of employees: family members; and employees hired by the Dawood management. No individual fell in between the two categories.<sup>113</sup> The implication was that Ahmad treated family managers differently from non-family managers. Raza also felt that any advantage accruing to DHL's performance through the Rs 1,250

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<sup>110</sup>*Ibid.*

<sup>111</sup>A point conceded by Razak Dawood in an interview, 26 October 1991.

<sup>112</sup>*Ibid.*

<sup>113</sup>Interview with Ahsan Raza, 30 March 1992.

million spent on the Balancing, Modernising and Rehabilitation (BMR) of machines was not properly utilised on upgrading machine capacity by Ahmad and Hussein Dawood.<sup>114</sup> He corroborated this by saying that after the BMR exercise was completed, the plant continued to operate at its (former) daily production capacity of 1,100 tons of fertiliser.<sup>115</sup> He ascertained from this that either the correct technology had not been applied or that the management was not committed to updating the machines' capacity performance.<sup>116</sup> He also complained that in his role as finance manager, he was subject to constant pressure from the Dawood management to modify the profit figures to suit their requirements.<sup>117</sup> This pressure was effectively imposed on him, derived from the government's stipulation that if fertiliser manufacturers wished to remain eligible for government subsidy, then they had to declare an annual profit of a minimum of 15 percent (it seems that this was regardless of the means employed). Dawood's management adhered to this stipulation by declaring only 15 percent profit annually and any profit made in excess of the declared value, was not depicted in DHL's balance sheet.<sup>118</sup> Ahsan Raza also felt that if the members of the Dawood

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<sup>114</sup>*Ibid.*

<sup>115</sup>*Ibid.*

<sup>116</sup>*Ibid.*

<sup>117</sup>*Ibid.*

<sup>118</sup>*Ibid.*

Group had not been so distrustful of the American managers, DHL could have grown to up to five times its size of what it was when the company was formed in 1968.<sup>119</sup> This managerial inertia inhibited the company's expansion. According to Razak Dawood this attitude was,

'...at a very painful cost to the company. Not that we lost money; more than half the family was not ready to accept delegation of authority'.<sup>120</sup>

While Razak Dawood was at DHL, he advised the Dawood management, that if they were apprehensive that the Americans would siphon off funds from the company, then they should have considered setting up 'proper' controls to prevent this eventuality from occurring. His perception here was that the American managers were not acting professionally, whereas Ahsan Raza claimed that in fact the reverse was a more accurate depiction of the correct state of affairs at the company. It was when Razak's services were terminated<sup>121</sup> at DHL that he proceeded to form his own company, called Descon (Pvt) Limited, (Descon) where he could exercise his style of management. With the ideas he had assimilated from his business school education, he proceeded to manage Descon on more 'professional' lines.

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<sup>119</sup>*Ibid.*

<sup>120</sup>Interview with Razak Dawood, 26 October 1991.

<sup>121</sup>Interview with Ahsan Raza, 30 March 1992.

Dawood investment in new industry during the Zia era brought with it an increase of 515 percent in net manufacturing assets. (See Table 6.5):

**Table 6.5**  
**Dawood Group Net Assets (Publicly and Privately Quoted Companies) (Rs millions)**

<b>Group</b>	<b>1968</b>	<b>1974</b>	<b>1985</b>	<b>1988</b>
Dawood <sup>1</sup>	558 (1)	767.8 (1)	800 (2)	3,432 (3)
		37.5 %	4 %	329 %

<sup>1</sup> Numbers in parenthesis indicate the position of the group in terms of the value of its net assets in the year under consideration.

Source: *Balance Sheets* of all groups; N. Husnain *et al*, (eds.), *Bukhari's 101*, Khadim Ali Shah Bukhari and Company Limited, 1991; H. Haqqani, 'Pakistan's Top 22 Face New Challengers', *Far Eastern Economic Review*, 22 May 1986, p. 77 and L. White, *Industrial Concentration and Economic Power*, 1974, p. 60.

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The Dawood Group was at first position from 1968 to 1974, measured by the value of its net assets, though it fell to third by 1988. During the 1980s, the Dawood group diverted its investments towards the food and toiletries industry. This broadening of its base was the result of two factors. Firstly, the second generation members of Dawood who had to be provided with jobs upon completing their studies abroad.<sup>122</sup> Secondly, the Zia era brought with it a return

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<sup>122</sup>Razak Dawood obtained the degree of Master of Business Administration, from Columbia University, USA; his cousin, Faruque Dawood earned a Ph.D. in Chemical Engineering from the USA and Rafique Dawood obtained a degree from Harvard University, USA, with two cousins who also returned to work for

in business confidence which and was reflected in the Dawood Group expansion in 1988 into sulphuric acid, home appliances, chemicals and refrigerators and an increase in its net manufacturing assets. Whatever advantage the Dawood members initially gained through their trading activity, was soon neutralised (compared with the rise of the Crescent Group) once the scale of their business increased and other variables became increasingly responsible for the direction taken of future investment of this group. The Dawood Group members' attitude towards adopting modern management methods was exemplified as follows. When Razak Dawood was asked as to what was the most significant factor leading to the success of the Dawood Group, he responded unequivocally, 'Ahmad Dawood'.<sup>123</sup> Razak conceded that the Dawood Group were in a privileged position in the 1950s and 1960s, to access import licences, largely owing to Ahmad Dawood's links with the higher echelons in the government.<sup>124</sup> This showed that all decision-making powers were vested in one individual and attention was not paid to developing an organisational memory of systems for its posterity. In response to another query on how did Razak Dawood as a manager, differentiate organisation problems, in their content as against their form, he

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the family business, upon returning with diplomas from Western universities.

<sup>123</sup>Interview with Razak Dawood, 26 October 1992.

<sup>124</sup>*Ibid.*

responded that dealings with the government were the most time consuming issues.<sup>125</sup> This response did not address the question asked, most probably due to the respondent not fully comprehending the question.

Another Dawood company where systematic management was lagging behind was at Delta (Pvt) Limited; the management had not recruited a sales force who were qualified chemical engineers at a time when its closest rival, BASF (Pak) Limited had diversified into manufacturing other categories of resins when Delta's product range offered limited varieties. Also Delta lacked R&D facilities and technical information required by its dealers.

On foreign equity participation in Dawood, initially in 1949, Dawood England was formed in the UK, specifically to obtain credit to finance the sale of British finished cotton in Pakistan. Dawood England were the brokers (agents) for Ralli Brothers and Volcart Brothers in the UK. Raw cotton yarn was purchased on their behalf in undivided India by the Dawood brothers which was then exported to Britain, where it was re-exported to Pakistan in its finished form.<sup>126</sup> Ahmad Dawood was based in the UK while his brothers managed the trading partnership from Pakistan. Then the Dawood Jute Mills Limited and Karnaphuli Rayon Mills Limited, was established in 1967. These were both joint ventures with 40 percent

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<sup>125</sup>*Ibid.*

<sup>126</sup>Interview with Haji Muhammad Ghani, 8 March 1992.

of its equity contributed by Asahi, a Japanese company. These were followed by DHL, a joint venture collaboration with Hercules Incorporated (UK) in 1968, with Hercules contributing to the equity as well as providing its own trained manpower which was permanently based at DHL.

The group's management strategy appeared to be opportunistic where they capitalised on incentives without developing a coherent management strategy, which explains why Razak Dawood at times chose to adopt effective organisational systems and on other occasions did not. However, the group did benefit from its second generation managers bringing with them ideas of foreign collaboration of capital. The second generation of the group continued with its predecessors' experiments in collaborating with foreign capital, which was evident in Yamaha of Japan for motorcycle assembly, with Hercules Incorporated (UK) for fertiliser manufacturing and with engineering companies that implemented Descon's projects. Other joint ventures included that with Meiji biscuits and powdered milk manufacturers of Japan and the Mitsubishi company of Japan for the assembly of airconditioners and refrigerators. Then, similar to Greaves Cotton (Pvt) Limited (Faruque group), Descon tapped into the foreign markets demonstrated in projects subcontracted to them by Construction International Inc., USA; CTS, Italy; Industrial Import and Export Company, Romania; Howe Baker Engineers Limited, USA; Simchem,

USA and CTIP, Italy.<sup>127</sup> Then, LCI bicycles were designed using imported technology from Hercules Incorporated (UK) which allowed Descon to buy the rights for Hercules' technology patents and related manufacturing rights.<sup>128</sup> Ten Hercules engineers were sent from the UK to Lahore to help set up the DHL plant. Delta (Pvt) Limited was also formed in 1986, in technical collaboration with Reichold, to manufacture unsaturated polyester and alkyd resin. By the close of 1988, there were 15 second generation members of the Dawood Group in charge of business in textiles, fertiliser, general trading, engineering services, home appliances, electrical appliances, chemicals, food, motorcycle and refrigerator assembly. The branch of the group specifically spearheaded by Razak Dawood had made a transition from investment in trading to light engineering, due to the effective management style that he chose to adopt in running his companies.

### **6.7 Conclusion**

By the late 1960s, the splintering of the links with those that commanded political influence was attended by no endogenous organisational systems for the Dawood Group to fall back upon. Initially the Dawood Group had a comparative advantage over others in being experienced textiles traders. Ayub's son, Gohar Ayub was

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<sup>127</sup>Given in, 'Descon', unpublished company document.

<sup>128</sup>Given in, A. Rana, *BMX CYCLES (A)*, Lahore University of Management Sciences, 1989, LBS case # 03-332-89-1, p. 2.

inducted into business by Ahmad Dawood, who assisted Gohar in establishing an automobile assembly plant named Ghandhara Industries.<sup>129</sup> This proximity to Ayub also paid dividends especially for the initial Dawood manufacturing investment. Being of trading origins, these businessmen felt that manufacturing did not require a new approach to conducting business. Therefore from the beginning, investment in internal organisational systems was not considered by senior members of Dawood as an option. After migrating to Pakistan, they continued to trade in cotton, the country's major export. Since they were one of the first business families in Pakistan to enter the textiles business they felt that handling the manufacturing business did not need a reorientation in the procedures to be followed. This meant that the old order of conducting business was not effectively replaced by the new order which should accompany a rise in the scale of business.

Systems application involve a breakdown of project expenses and budgets by numbers, whereby all activities related to the project are accounted and allocated. If this system does not exist, then management cannot keep abreast of or consolidate their business effectively when its size increases dramatically. With an increase in size, decisions are supposed to be made on the basis of systematically recorded information and not on ad hoc criteria. One of the effects

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<sup>129</sup>See H. Feldman, *From Crisis to Crisis*, Oxford, 1972, pp. 305-6, Appendix B, for wealth acquired by Gohar Ayub while his father was the President of Pakistan.

of not adopting internal organisational systems was evident at Delta (Pvt) Limited, where there were only two main resin manufacturers in an industry where entry barriers were also low and yet Delta's management could not capture a significant share of its domestic market. However, where Razak Dawood chose to adopt internal organisational systems, such as at Descon and LCI, he was able to make it to the cutting edge of technology which earned him substantial financial rewards in the light engineering sector.

## **CONCLUSION**

### **I**

In this thesis I have undertaken an empirical study of four Pakistani business houses, over approximately 40 years of their business history. At the micro level, this study has highlighted the effects of adopting improved organisational systems on the ability of these businesses to make the transition from trading to light engineering goods production, particularly when the influence of macro imperatives no longer directed long-term investment patterns. This research examined investments made by both the publicly and privately quoted companies within the groups. In this way, it differs from previous studies of Pakistani business groups. The inclusion of private limited company records enriched this study to the extent that the pioneering entrepreneurs initiated business house investment through such companies, whose Board minutes were not made available to researchers or any member of the public. Wherever access to private limited firms' records is denied, both researchers and practitioners alike lack significant insights into the strategies adopted in managerial decision-making.

The conclusions reveal three kinds of investment pattern which emerged as a consequence of the decisions taken by the pioneering entrepreneurs. No one pattern was exclusive to a particular group or companies across the same group. The juxtaposition of investments which emerged in an environment where all business

houses were initially recipients of State Largesse was as follows. Firstly, there were those business houses where their owners were unable to make the transition, because a substantial reduction in State largesse was not replaced by adopting internal organisational systems to increase investments. The Ali Group and some companies within the Dawood Group are prominent examples. Secondly, there were those groups whose owners did not continue to aspire for or to receive State largesse, yet were able to make the transition driven from adopting internal organisational systems. The Crescent Group and certain companies within the Dawood Group are examples. Thirdly, there was one group whose owner initially directed State benefaction to other industrialists including himself, and later when his own group was formed he (consciously) adopted a planned strategy of diversification, which helped sustain the transition to investments in light engineering. This was evident in the Faruque Group.

This research also attempted to separate the effects of exogenous factors affecting early business group development from endogenous factors (whether consciously or unconsciously applied), with the latter regarded as being a necessary condition for sustaining a transition to investments made in light engineering in the long-term. It was imperative to separate the effects of two the conditions, in order to isolate the impact of the owners' decisions on the direction of their groups' investment, as distinct from those initially derived from

State-sponsored industrialisation. The endogenous factors (or the lack thereof) highlighted the origins of organisational reform by assigning the ultimate responsibility to the business group owners for the direction of their investment. The dynamic factor in affecting the transition were improved management practices, here expressed in terms of the Systems Approach methodology. Such an approach encouraged successful backward and forward integration. This research also analysed whether in the 1980s these businessmen had been able to build on the assets accumulated via economic and financial favours from the government in the 1950s.

## II

These business groups benefitted equally from the initial exogenous factors directing business group investment. Most of Pakistan's modern industry formed after 1947 contributed to the country's industrial development articulated through its pioneering entrepreneurs. Ayub's policies and the inflow of foreign aid which preceded the spurt in manufacturing industry in the mid-sixties engendered the flourishing of business house investment. With the formation of the PIDC and Ayub-led industrialisation, the boundaries between public policy and private-sector investment objectives also became blurred. When this was not accompanied by adopting internal organisational systems, the value of the business groups' net manufacturing assets remained at the same position or fell in the long-term. This was evident in the Ali Group and in some companies

in the Dawood Group respectively. In the early life of these corporations, 1960-68, success remained a function of the owner-entrepreneurs' political leverage and the consistency with which they pursued and maintained the favour of the politicians and bureaucrats. However in the long-term, the growth of non-productive activities in the group influenced the growth of the potentially productive. This was reflected in the differing patterns of business house investment across the groups. The deleterious effect of the non-productive activities was alleviated, where older methods of information retrieval and dissemination were replaced by application of method study [the process of information reporting and retrieval, with the objective to either improve or eliminate a process or procedure] to solve organisational problems. In the Ali and Dawood Groups, managers paid lip-service to the new methods of information retrieval, which in practice was not applied and so prevented the adoption of improved organisational systems. The verbal tribute paid by the Ali Groups' senior managers to modern management practices was not enacted in the companies managed by them. This was exacerbated when the absence of the requisite administrative capability to link control to the execution of decisions led them to fight shy of possible diversification. Members of the Ali Group appeared to emulate the high-consumption lifestyle of the land-owning class in as close a manner as possible and prior capital accumulation was not used to finance company mergers or vertical

and horizontal integration. As a result they failed to concentrate on consolidating the group's investment in the light engineering industry at a time when it was possible to do so. Once they perceived they had gained the status of rural landlords, their motivation to expand their business gradually languished.<sup>1</sup> Wajid and Amjad Ali's close liaison with all Pakistani Heads of State from 1951 to 1971, provided them with a platform to achieve influence that was commensurate with the power of the landowning class.<sup>2</sup> This aspiration to emulate rural landlords could not be the platform for a well directed business plan. Rather it deterred Wajid Ali and his family from retaining professional managers within the group, managers who might well have introduced improved internal organisational systems.

Investors in Pakistan's business houses did not derive their wealth from feudal relationships. Rather they were traders motivated by a

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<sup>1</sup>The first agricultural investment made by Ali Group were in two farms located in pre-partition India, called the Palakmati Farms Limited and Gohar-i-Taj Industrial and Agricultural Farms Limited. The group also invested in sheep purchased from a prominent landlord, Khizar Hayat Tiwana, and in a poultry farm with 30,000 birds; the farm was jointly owned by four members of the Ali Group. Another attempt to invest in agriculture involved the purchase of agricultural land for a dairy farm called Kabirwala Dairies, which supplied fresh milk for processing at another Ali Group concern, Milkpak.

<sup>2</sup>In Britain, a study of the elite railway executives and how they gained upward mobility from entry level recruitment to senior management positions is given in, T. Gourvish, 'A British Business Elite: The Chief Executive Managers of the Railway Industry, 1850-1922', *Business History Review*, Vol. XLVII, No. 3, Autumn 1973, pp. 293-301.

desire to emulate the economic and political position of their feudal lords. The industrial enterprises which thus emerged were initially large-scale, and thrived in an environment of incentives and opportunities. However, a closer examination of the policies adopted by the industrial pioneers reveals a fundamental conservatism in their ideas about business management, a constraint deriving from their economic origins as traders. Even if they were willing to adopt improved internal organisation systems, they remained influenced by the desire to achieve the lifestyle of rural landlords. On the other hand, those entrepreneurs who recognised that better business opportunities were there for them to tap into, responded by initially assimilating the package of incentives offered to them by the State and replacing them with internal organisational systems. They did not compromise the gains made from their earlier occupation as traders, by dissipating them on personal glorification. For example, State incentives did not prevent the Crescent Group entrepreneurs from adopting internal organisational systems (initially done unconsciously and then consciously), in contrast with members of the Ali Group, who chose not to adopt them. Crescent were first movers in textiles and were also able to maintain their head start over other aspiring textile industrialists through a continuous process of consolidation and expansion of investment. This was demonstrated as follows. In its initial years, the Crescent Group's access to high-level bureaucrats was later effectively converted into diversifying

investments in light engineering production. One contributory factor was the contacts made by the group's founder, Muhammad Bashir, who was on the Board of Directors of the National Steel of Pakistan (NSPL), an enterprise operating the first and only steel mill in Pakistan. Based on Muhammad Bashir's working experience with other businessmen on the Board, and in managing the affairs of the steel mill, Crescent benefitted and formed forward linkages by forming an engineering utilities company, Crescent Group Services (Pvt) Limited in 1980 (28 years after the group's formation) and Crescent Steel and Allied Products Limited in 1983. The former provided construction and engineering services to group-owned and public sector projects. These services included research, project planning and engineering advice (civil, mechanical, electrical and chemical). The formation of these Crescent companies represented an investment in an unconventional, light engineering sector of industry.

The NSPL was a consortium of key industrialists,<sup>3</sup> among whom were Wajid Ali (Ali Group), Ghulam Faruque (Faruque Group), Muhammad Bashir (Crescent Group), Ahmad Dawood (Dawood Group) and another key industrialist, Rafique Saigol, whose group

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<sup>3</sup>See 'Minutes of Meeting of the Board of Directors of National Steel Pakistan Limited', 7 July 1965, p. 1., which lists the names of these industrialists, and of 11 February 1966, p. 1, for the complete list of its directors.

was not included in this study.<sup>4</sup> Another forum where these businessmen met was the National Press Trust, formed in 1964 as a wholly-owned subsidiary of the Ministry of Information and Broadcasting. Led by Ghulam Faruque, this was a consortium of eight large industrialists with equity participation from the government. The industrialists included Wajid Ali, Ahmad Dawood and Muhammad Bashir. Control of the press by an industrialist such as Ghulam Faruque encouraged favourable reviews of his achievements as well as those of President Ayub.

The interplay of economic power and political influence was evident in all the groups studied. Dawood enjoyed political advantages over Crescent by having the ear of the President, while having the same economic advantage as Crescent through a base in textiles trading. The Crescent Group possessed economic characteristics which gave them an edge over the Ali and Faruque Groups, but this was counterbalanced by the latter's political advantage over the others, in having the ear of the President and senior bureaucrats. The commercial training of members of the Ali, Crescent and Dawood Groups helped them to re-establish their business interests in Pakistan fairly quickly after partition. Establishing political connections with Ayub cemented Dawood and Ali's access to the

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<sup>4</sup>This was the Saigol Group, which was omitted from this study since its pioneering entrepreneurs only agreed to be interviewed, and refused to provide documentary evidence on their group's history. See Appendix A for the questions asked in the interviews.

country's available resources and industrial infrastructure. Government restrictions imposed on economic activities forced aspiring recipients of State patronage to compete for concessions and in this process rent-seeking occurred.<sup>5</sup> In 1959-63, a ready demand for machines in a new market with both consumer and (artificially created) capital goods demand by the PIDC, circumvented the need for the Faruque Group to first gain experience of manufacturing consumer and intermediate goods, before making its entry into light engineering manufacturing. The market for capital goods was initially created and serviced by the PIDC and then by the Faruque Group's investment in light engineering. Throughout Faruque's history, the government assisted it in various ways; first as an employer; secondly as a facilitator of licences for Ghulam Faruque-led PIDC projects, and then the Faruque Group's own investments; and thirdly as the group's main customer.

Ayub's industrial policies also provided easy money for investors, at a time when the class structure was forming in the new Pakistan. Key personalities within these business houses established a personal rapport with the higher echelons in politics enabling the former to access venture capital with the full support of the bureaucracy. In instances, a major segment of business activity was apportioned

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<sup>5</sup>A more detailed explanation of how societies in India and Turkey sought rent-seeking privileges which produced a loss to society, see A. Krueger, 'The Political Economy of the Rent-Seeking Society', in *The American Economic Review*, Issue 64, 1974, pp. 291-303.

towards reinforcing this network, at the expense of a more sustained and institutionalised programme within the departments and subsidiaries of the business groups. The upper echelon in business benefitted and remained dominant political and economic forces, while the position of the less privileged remained weak, both in a relative and absolute sense. The State's economic assistance was also evident from the some of the PIDC-led investments acquired by the Crescent and Dawood Groups. Although Ghulam Faruque was the chairman of PIDC from 1952 to 1958, it was the connections which Ahmad Dawood enjoyed with its next chairman, the Nawab of Kalabagh, that produced the financially most lucrative sale made by the PIDC to a private-sector buyer, when the Dawood Group acquired the Karnaphuli Paper Mills in 1960 for Rs 46 million.<sup>6</sup>

All the groups studied here had equal opportunity to initially access a similar amount of discounted finance and to Ayub's political help in promoting new industry. Financial institutions, such as the Pakistan Industrial Credit and Investment Corporation (PICIC) which extended foreign exchange loans, were more often than not used by the entrepreneurs to amass personal wealth.<sup>7</sup> From 1958 to 1970, the Dawood and Crescent Groups were the country's highest recipients by value of credit allocated by them by PICIC; they

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<sup>6</sup>See Table 2.10 for PIDC sales to business groups.

<sup>7</sup>See Table 2.14 for the allocation of credit to these groups.

collectively received 26 percent of its credit.<sup>8</sup> The magnitude of PICIC's credit received by these groups coincided with Ahmad Dawood (Dawood Group) holding a PICIC directorship from 1958 to 1988 and Muhammad Bashir (Crescent Group) from 1962 to 1971. The difference lay in the fact that the conservative members of the Dawood Group were on the whole unable to make the transition to a modern corporation, whereas the Crescent Group demonstrated its capability by processing steel by the close of this study.

With the formation of the National Investment Trust (NIT), the share of each group in NIT's investments ranged from 0.96 percent to 6.95 percent in 1970, with the Dawood Group having the largest share by virtue of it being the only group whose owner, Ahmad Dawood had a NIT directorship (1965-88). Again, Ahmad Dawood took the group into manufacturing, but he was not an advocate of improved internal organisational systems, as was evident from the management practices directed by him at Dawood Hercules Limited.

In spite of the success of new investment by the Ali and Dawood Groups derived from their association with Ayub, the management policies adopted by the Crescent Group took it from the number nine position in 1968 to the number two position (measured by the size of net manufacturing assets) in 1974 and 1988.<sup>9</sup> In the 1970s, the

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<sup>8</sup>*Ibid.*

<sup>9</sup>See Table 2.15 for a cross section of business group assets from 1968 to 1988.

value of the Ali Group's net assets declined and its position fell, while the Crescent Group's net assets and its position, both increased. Even though the Faruque Group was a late-starter, its net assets increased from 1968 to 1988 at the highest rate. Being a late-mover in its own-group investments, compared with Dawood and Ali, the Faruque management showed more initiative in investing in areas where their predecessors did not venture. This was because Ghulam Faruque had gained management experience while he was an administrator of PIDC-led investments and sales. Therefore, he carried with him his experience as an administrator to initiate and consolidate own-group investment. This also concurs with our earlier statement that regardless of ownership structures, if an administrator adopts internal organisational systems, he creates the conditions for a sustained transition from investments in trading to light engineering production. In Ghulam Faruque's case, he gained his initial administrative experience as a bureaucrat and successfully transposed it into diversifying Faruque investment.

In the Dawood case, the continuing collusion between business interests and sources of finance, splintered a modern management strategy. This group's position, measured by the value of its net manufacturing assets fell from number one in 1968 to number three in 1988. Adoption of the Systems Approach strategy would have imposed administrative accountability accompanied by its inherent standardisation of new methods and procedures. It would also have

reduced rent-seeking means from only maximising profits by insisting that they also introduce methodical techniques of inventory and cost management, to expand the business. Followers of the old kind of management where manual ledger systems and piece-meal solutions to problems prevailed, were observed in Ali and in most companies of Dawood, where its owners benefitted personally from State support. The comfort given by State support prevented the Ali and Dawood entrepreneurs from introducing improved organisational systems. However, it did not prevent the Crescent and Faruque entrepreneurs from adopting systems. In Pakistan, therefore, State patronage when not replaced by adopting internal organisational systems, was the largest single influence discouraging the transition from investments made in trading to light engineering production.

### III

The adoption of endogenous organisational factors became increasingly responsible for directing business group transition from investments made in trade to light engineering. Of all the groups studied, Faruque and Crescent made the most sustained transition. Descon was the only company in the Dawood Group, that specialised in steel-processing equipment. However, Descon's owner, Razak Dawood was exceptional among his family in adopting a more forward looking management strategy. This is why he decided to invest in steel-based manufacturing in the first place. Faruque made the transition, because its owner had gained the expertise in

managing large-scale steel investments while he was PIDC's director, and had carried with him his expertise to establish a base in steel for his group. The Faruque Group's direct entry into light engineering industry was a function of Ghulam Faruque's experience in the managing of new investment in this sector, which later provided him with the edge and confidence required to innovate, without undergoing prior trials in investing in risk-prone (unconventional) areas of industry. The risk averse strategy was more appropriate in describing the management philosophy of the Crescent Group which moved into light engineering (though more tentatively). The Faruque management showed risk aversion only in its sales to the government which provided it with a stable market for its products. This strategy of permitting the government to be its main customer was different from that practised at Crescent, where its management followed a policy of selling to a wider base of customers, preferably excluding the government. This was because Crescent was using its resources to consolidate its investments and chose to be risk averse in the industries **in** which it invested rather than in **who** their customers were.

The Faruque Group was able to make a transition, inspite of not adopting systems at one of its companies, the Cherat Cement Company Limited (CCCL). Ghulam Faruque's forward looking approach was not emulated by his son, Zahid Faruque in managing CCCL. At CCCL, the relations between the employees and

management were largely strained. One example of this was when Shehryar Faruque issued a memorandum to CCCL's sales officers in which he warned them that their services would be terminated if sales fell short of the company's target. According to the Systems Approach methodology, the form of the problem was a serious concern of industrial relations at CCCL which required a solution. There was no evidence of brain storming or feedback forums used by senior management to resolve difficulties faced by the employees in fulfilling their targets. When CCCL's management practices are compared with those used at Crescent's Crescent Textile Mills Limited, it becomes evident that in the latter there existed a system of Quality Assurance and Quality Control, which was a platform used by employees to voice their grievances. These examples where management directed strategy, provide insights to why Crescent made a more sustained transition than Faruque in light engineering production.

As was customary in all groups, Faruque appointed younger members of the family to senior management posts in its companies. At CCCL, Zahid Faruque's son Azam, was appointed as the co-ordination manager,<sup>10</sup> and Zahid's two nephews, Shehryar and Aslam were appointed as product and executive marketing managers respectively. The directors' positions at CCCL were also monopolised

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<sup>10</sup>The co-ordination manager was responsible for liaising between senior and junior staff at CCCL.

by the family, with the appointment of Aslam and Shehryar Faruque. There were very few non-family managers at the factory, (and this structure was designed as such in Zahid's style). The Ali Group, like Faruque, was also a family concern with close knit ties. Initially they did hire professional managers, who eventually left for more responsible positions elsewhere. They did so because the group followed a system where it had abdicated responsibility to them, instead of delegating it. Structural changes consequent on the adoption of new technology were also lacking and the dependence on salaried managers was no substitute for an adequate organisational system with procedures. The Systems Approach dictates that management precepts which have outlived their usefulness need to be replaced with the tenets of the approach itself. In the Ali Group, inertia encouraged a host of misdemeanours which reached unmanageable proportions. Ownership and control were not separated, and the professional managers who were initially recruited were not replaced. The owners' resistance to change was also a consequence of their monopoly power and lack of administrative accountability, whether to their salaried managers or to any panel within the exogenous environment. Organisational procedures were there to be adopted for those that chose to do so. The adoption of new procedures and specifically modern management systems helps enterprises to absorb the increased workload which increasing size imposes on management. The Ali Group did not

follow the Systems Approach. (In the Chandlerian model<sup>11</sup>, companies have to make the three-pronged investment in innovation/technology, scale of production and distribution and management, all of which need a set of conditions (a system) to sustain them). Salaried managers at Ali were appointed for specialised tasks and after they left family control revived. The owners of the Ali Group diverted resources used for their personal glorification and acknowledged the need to respond positively to the situation. This need was expressed in the following example. On a comparative note, Babar Ali of the Ali Group, who had started the company Systems (Pvt) Limited, did not himself make use of its software development proposals. However Altaf Saleem of the Crescent Group chose to do so. In 1985, Saleem asked Systems (Pvt) Limited, to develop a computerisation strategy for Shakarganj Mills Limited (SML). The consultants identified cane procurement, accounting and inventory accounting systems as the priority areas for computerisation. By 1987, upon their recommendation, SML purchased two IBM S/36 mainframe computers. The new system enabled input/output computerisation of inventory records and those pertaining to the finance, control and accounting departments. The reports generated summary information required by the senior management to gauge performance in their respective fields and also

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<sup>11</sup>See A. Chandler, *Scale and Scope*, Harvard, 1990, p. 17.

reduced the number of tasks performed per transaction.<sup>12</sup> This enabled, SML to reduce its costs and expend the amount saved elsewhere in the company.

Another comparison between the Ali and Crescent Groups' management practices was reflected in the raw material they used in their respective paper manufacturing facilities. The Ali Group's paper and board mill was established in 1964. As noted in Chapter Three, it used straw in manufacturing board for its paper.<sup>13</sup> The Crescent Group's, Crescent Board Mills Limited (CBL), used a more refined input for pulp and board manufacturing, sugarcane bagasse, which was produced at another Crescent company, Crescent Sugar Mills and Distillery Limited (CSMDL). This is a good example of the Crescent Group's strategy of backward vertical integration of production facilities at CBL.<sup>14</sup> CBL produced hard, laminated and particle board and also furniture panels, artificial ceilings and cotton

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<sup>12</sup>The reduction in the number of tasks performed per operation was an idea **first** proposed by the proponents of the Systems Approach methodology given in S. Optner, (ed.), *Systems Approach*, Penguin, 1973, and not by the business process re-engineering model for businesses as proposed by M. Hammer and J. Champy, *Re-engineering the Corporation, A Manifesto for Business Revolution*, Nicholas Brealey, 1993, in which they restate the Systems Approach theory by propagating that in order to remain successful, businesses need to reinvent themselves by doing away with older procedures for new ones.

<sup>13</sup>See pp. 189-92, for the Ali Group's paper manufacturing facility.

<sup>14</sup>See A. Chandler, *Scale and Scope*, 1990, p. 9, for backward integration of firms; and Shakarganj Mills Limited, unpublished company documents for the use of sugarcane bagasse used for paper and board production at CBL.

yarn.

The Ali and Faruque Groups were first movers in a number of industries; the former in razor blades, milk packaging, processing of Ultra High Temperature (UHT) milk, motor car, motor cycle and television assembly and in manufacturing packaging material in a fully integrated plant; the latter were first movers in the construction of earth moving and related equipment. Over time, the Ali management became complacent about systems applications, which were essential for sustaining its long-term development.<sup>15</sup> The Board minutes contain little to suggest that managerial strategy was ever discussed. The Ali Group's first mover business became segments of a corporate dynasty, and once they reached a certain size failed to develop further. The Crescent Group were also first movers, in textiles, where they integrated textile manufacturing facilities to an extent not seen in Pakistan before. However, unlike the Ali Group, they were able to maintain the benefits of having a head start over other pioneering entrepreneurs in textiles, by consolidating their holdings through a planned philosophy which predominantly included adopting internal organisational systems. This enabled the Crescent Group's transition to light engineering production. The members of the Dawood Group were the first in this study who commenced

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<sup>15</sup>For more details on Pakistani elite entrepreneurs, see L. White: *Industrial Concentration*, Princeton, 1974, pp. 150-55 and PIDC, 'Development Programme of the PIDC, unpublished report, PIDC, 1989, p. 4.

production prior to migrating to Pakistan. Most of Descon's contracts, managed by Razak Dawood, were concentrated in northern Sind and southern Punjab, which included work done on the Mangla dam (the world's largest earth filled dam) and other contracts awarded by the government. Compared with Faruque's Greaves Cotton (Pvt) Limited (GCPL), Descon's approach was very different. It was a late mover in the construction industry whereas GCPL had a head start over Descon by 13 years, and that too after it had initially gained experience through first leasing out and then manufacturing and using its own construction equipment to generate business in the construction industry. Because of Ghulam Faruque's head start over others in organising industry, by 1971, GCPL manufactured its own earthmoving and construction equipment. However, like GCPL, Descon by 1977 had 'caught up' and it owned (imported) earth-moving and construction equipment and it had also successfully tapped into the foreign markets through several projects awarded to them by European and American companies.<sup>16</sup> The sales arm of the Dawood Group was the unquoted parent company, Dawood Industries (Pvt) Limited, whose owners had at their discretion the power to appropriate the group's profits in an unaccountable manner till Bhutto's reforms reduced the scale of this practice. The Dawood Group was unable to embrace the idea of

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<sup>16</sup>See, 'Descon', unpublished company document of the Dawood Group; no place, no year.

‘scientific management’ as a tool for the planned reconstruction of its businesses.<sup>17</sup>

Members of the Ali Group also initiated manufacturing industry in Pakistan, simultaneously with the Dawood Group, but only after partition in 1948. With the Ali Group, and within certain companies of the Dawood Group, the initial incentives provided by the State which led to the subsequent accumulation of private industrial capital, were not utilised for company mergers and vertical and horizontal integration of functions. Rather the proceeds from short-term profits were used for personal consumption. Here the government’s initial favours became a substitute for expending resources on modernisation and expansion based on a system designed to meet with changing conditions. Industry was initially heavily protected as such, and this protection was not replaced by opening up their markets globally in the Ali Group. This is evident

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<sup>17</sup>Scientific management in the context of this study means in order to develop a new system, ‘yes’ or ‘no’ responses are given for every organisational procedure. In the USA, scientific management generated a new hierarchy of technicians based on scientific principles of management directed to operational and first supervisory levels proposed by F. Taylor, *The Principles of Scientific Management*, W. Norton, 1967. His management theory viewed the organisation as an atomistic concept of mechanical precision rather than as organic or socially-oriented. A critique of Taylor’s ‘scientific management’ model of shop floor production techniques which was essentially designed to maximise the employers’ economic gain rather than to increase workers’ welfare, is given in R. Fitzgerald, *British Labour Management and Industrial Welfare*, Croom Helm, 1988, pp. 4-8. Taylors’ simplistic view was also challenged by the behavioral school analysts who focused on the institutional approach of managing people and management by objectives.

from the refusal of Babar Ali and Wajid Ali to enter into a joint venture contract with the Norwegians for a erecting a packaging unit, and with the Japanese Toyota company for motor car assembly respectively. In the Ali Group, the indirect controls on the market (one example of indirect control being the inability of competing owners of milk processing units to obtain a licence from the government to manufacture tetrahedral paper, similar to that produced by Tetrapak), benefitted the larger firms of the group, while smaller inefficient firms had their true performance camouflaged by cross-subsidisation. Comparing his style of managing with that of Babar Ali's of the Ali Group, Razak Dawood said that, 'Some people are not hands on. Babar Ali just wants the summary'.<sup>18</sup>

In all the groups, the family unit was the pivotal point of reference for decision making. Included in the group's assets were commonly owned assets with other firms in the group. The ownership patterns of share capital largely determined the controlling power of the group. The *biradari*<sup>19</sup> system of recruitment and reward determined management practices and career paths in these groups, as did more informal and subtle bonds which thrived on kinship.<sup>20</sup> These recurrent patterns reduced efficiency since kinship patterns

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<sup>18</sup>Interview with Razak Dawood, 26 October 1991.

<sup>19</sup>*Biradari* denotes a common caste, extended family or community.

<sup>20</sup>Kinship bonds originate and are reinforced by claiming descent from a common family or caste.

based on family and caste which determined careers in the Ali and Dawood Groups did not lend themselves to pioneering management techniques. Throughout the period under study professional management remained low key if not entirely absent in these two groups.

#### IV

Ayub was the vehicle for the industrial transformation of Pakistan. During his ten years of rule, he aimed to develop a corporate infrastructure with the hope that Pakistani businesses would take off. All he did, ofcourse, was provide externally generated financial incentives to aid business start-ups. The onus to complement this with internally generated measures to sustain long-term growth rested with the owner entrepreneurial class, a challenge which was largely neglected by them. Ayub's industrial policies produced a buoyant investment climate which generated only exogenous conditions for the promotion of initial growth in these businesses. Although the Planning Commission tried to prevent it, these policies created an industrial base in Pakistan which was dominated by a few very wealthy entrepreneurs.<sup>21</sup>

An internal organisational system in management science, may be defined as a set of processes that veers towards rectifying the form

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<sup>21</sup>See Planning Commission, *Third Five Year Plan*, Government of Pakistan, p. v., where it is stated, by the head of the commission that, 'It will be our firm policy, therefore, to prevent excessive concentration of income and wealth in the hands of a few...'.

of a problem so that problems do not recur in the same form. This approach is institutional and dynamic, emphasising standardisation of procedures (over output). Standardisation of output requires many vertically integrated units reporting to a centralised data base, and where there is less control over employees to permit decentralisation of functional management, (rather than standardisation of skills, as proposed by F. Taylor's classical approach to horizontally integrated and static management structures). The Systems Approach proposes that it is the **procedure** that should be standardised because it affects every functional and divisional hierarchy created by managers. In a more tangible sense, just as Chandlerian process [scope] economies in production address a different set of conditions than their counterpart in scale [content] economies of production, we can also make a similar distinction between the differing conditions which either address the process of an organisational problem or its content. For example the effect of employee training on better production quality or the economic benefits of [new] computerised ledgers which saves time spent on their interpretation are addressing the process of a problem. Such processes (organisational methods) have an holistic effect on developing more accurate measures to gauge the effectiveness of decisions taken set against the alternative options. The organisation's internally generated, routinised reporting

system<sup>22</sup> stimulates the recognition of cause and effect relationships, which enables better quantification and analysis by those made responsible to do so within departments and across companies in the groups. The causal relationships improve the quality of decisions in that their predictive value complies more closely with the actual outcome. The closeness of this fit enables business groups to expand investment through institutionalising their training procedures, which can then increase output, sales, profits and ultimately, the size of the groups' net manufacturing assets in light engineering. Internal organisational systems generate information which has seen itself through the rigours of detailed record-keeping, proves to be a better vehicle for making accurate predictions. Detailed records of transactions ensure that in a given context, causal relationships between the decisions taken can be assigned more plausibly to their effects, and that relationships can be quantified, analysed and responsibilities allocated to managers and to departments of origin. Information recording and generation facilities lead to a predictable extension of the business groups' investments. These internal organisational factors prevent internal atrophy from finally consuming the organisational structure because the managers have remained abreast with adopting new

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<sup>22</sup>Internal, routinsed reporting systems and its impact on management decision-making are given in J. Yates, *Control Through Communication*, John Hopkins, 1989 and P. Temin, (ed.), *Inside the Business Enterprise*, Chicago, 1991.

management styles as the scale of their business increases. The impetus for introducing such institutional changes rested with the owner managers of our business groups. In the case of Ali and Dawood, they largely ignored taking corrective action to rectify this atrophy. The hiring of professional management, as especially those (consciously) trained in the tenets of the Systems Approach, could have repaired the damage done. However, the owner managers in these groups chose to spend their time cultivating their personal wealth rather than investing in changes that would glorify their businesses. The managers of the Ali and Dawood Groups paid lip-service to the adoption of systematic management, which in practice was seldom applied, whether consciously or unconsciously. The outcome was that these groups failed to produce an organisational memory of skills through the training of employees, who could have imparted their skills iteratively, to other less experienced managers operating in dramatically different situations. However, the absence of the requisite administrative capability to link control with the execution of decisions led to a dampener effect on possible diversification of the Ali and Dawood investments in light engineering. Any apparent gains, were compromised by the personal capital accumulated by a few businessmen within these groups. This failure of vision could not enable the transition in Ali and in certain companies within Dawood. Crescent portrayed similar historical characteristics found in Dawood; however Crescent then branched off

on its own, not seeking short-cuts to success and became known as professionals and forward looking entrepreneurs in business management. Since its owners did not continue with the earlier trend to seek State patronage, they were better able to manage the 'teething' problems of entry into new markets and swim their way out of bottlenecks, individually. Therefore Crescent made a sustained transition to light engineering production, driven by its internal organisational systems.

These leading industrial families (namely members of the Ali and Dawood Groups) were not passive recipients of the benefits of government policy, they initially actively formulated and administered them. The ease with which they initially accessed discounted finance were not replaced by adopting internal systems and procedures to ensure self-sustaining growth in the future. Wherever such systems were adopted, the group(s) was able to overcome obstacles to its own self-perpetuating growth. The Ali and Dawood groups' 'easy' acquisition of assets were not replaced by adopting systems, which encouraged production and organisational inefficiencies.<sup>23</sup> Had they chosen to act otherwise, it would have led to a buoyancy propelling self-perpetuating growth within the groups. In instances, the increase in size of the business with a decrease in

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<sup>23</sup>See the Ali Group's external relations, pp. 221-55. The theoretical context is given in P. Schoderbek, 'Design of Management Systems', in P. Schoderbek, (ed.), *Management Systems*, John Wiley, 1967, pp. 109-111.

State patronage, ultimately altered the conditions that had made the initial businesses viable. The beneficiaries of Ayub's trade liberalisation policies in the Ali and Dawood Groups were unable to absorb and transfer these benefits to industry in the long-term. Ayub, as the stalwart of industrialisation, spurred initial business house investments but was not responsible for their future growth.

For the Dawood Group, the growth surge was later accompanied by the traditional sub-continental malaise of family sub-divisions of the group's assets. Preceding these sub-divisions, the group had also suffered the splintering of its assets, at the hands of nationalisation. By not replacing the losses which incurred, by investing in internal organisational systems, these conditions became the reasons why long-term growth was not sustained within certain companies of the Dawood Group. The group's initial expansion was a function of exogenous economic policies but thereafter, as also seen in the Ali Group, they dispensed with the need to supplant them with internal organisation systems, a necessary condition to sustain the transition from trading to light engineering. They chose to make the government a crutch for the absence of an inner strategy for the group's expansion. For the Ali and Dawood Groups, the repercussion of a constant neglect of internally generated systems manifested itself in outmoded systems which could not provide the leading edge for incisive organisational leadership. Attempts to solve problems by traditional methods of management, reinforced by a centralised

decision-making structure, was not consistent with the tenets of the Systems Approach. A failure to recognise this is the main deterrent to its adoption and thereby perpetrated the use of traditional management methods. Where the transition to light engineering goods production occurred, as in the Crescent and Faruque Groups, it was mainly a consequence of the businessmens' prudence and vision which engendered a systematic approach to enhancing their investment portfolio.

Throughout the 1960s, the concentration and ownership of capital and industrial wealth were issues having far-reaching political consequences. The government's liberal credit line to a few industrialists helped in substantive, if temporary capital formation. The transient nature of capital accumulated, stemmed from proxy State industrialisation using exogenous economic propellants to develop businesses. These propellants initially made the owners unaccountable for their actions while at the same time successful in increasing their groups' net assets. Adoption of endogenous organisation factors enforces an ethic which redefines authority without separating it from responsibility. In order to sustain growth through the rising magnitude of capital formation, organisation strategy also needs redefinition. Wherever this was applied, the 'one off' economic favours of the government were gradually but effectively replaced by a sound organisational strategy more conducive to buoyant expansion.

The case study chapters which preceded this conclusion provide support for the assertion that the Systems Approach methodology has explanatory power in an historical setting. There clearly was a linkage between its application and predictable patterns of investment within the business groups. Upon closer examination of the policies adopted by the owner managers, it was revealed that in the long-term, groups which chose to **remain** most 'rentier' were least likely to adopt new management systems, and the least 'rentier' that were the most enterprising in their internal changes. Adoption of new management systems, could have cushioned the blow received by groups from macro economic set backs, such as nation splintering,<sup>24</sup> the devaluation of the Rupee and the nationalisation of industry, all of which could have been negotiated through effective internal systems of management and control. Therefore surrogate industrialisation stimulated by State-led institutions only achieved the planners' objectives in the short-run and in the start-up phase of businesses. In most instances, the absence of improved organisational systems, in the long-term, deprived Pakistan's industrialisation of the necessary institutional linkages required to cement business effort in achieving a conglomerate stature.

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<sup>24</sup>The break away of East Pakistan from West Pakistan in 1971.

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**INTERVIEWS WITH CURRENT AND EX-EMPLOYEES,  
FAMILY MANAGERS, GOVERNMENT OFFICIALS AND  
NON-GROUP MANAGERS**

**a. The Wazir Ali Group**

Shahid Ali  
Executive Director  
Treet Corporation (Pvt) Limited  
72-B Kot Lakhpat  
Lahore

Nosher Nama  
Ex-Managing Director  
Ali Automobiles Limited  
6 Mary Road, Bath Island  
Karachi

Fakir Syed Aijazuddin  
Chairman  
International General Insurance  
Lahore

Syed Yawar Ali  
Managing Director  
Milkpak Limited  
40-A Zafar Ali Road, Gulberg-V  
Lahore

M Hanif Rajput  
Finance Manager & Company Secretary  
Milkpak Limited  
40-A, Zafar Ali Road, Gulberg-V  
Lahore

Javed Aslam  
Marketing Manager  
Packages Limited  
Amirsidhu  
Lahore

**b. The Crescent Group**

Altaf Saleem  
Chief Executive Officer  
Shakarganj Mills Limited & PILCORP  
Toba Road  
Jhang

**Ahsan Saleem**  
**Chief Executive Officer**  
**Crescent Steel and Allied Products Limited**  
**9th Floor, SIDCO Avenue Centre**  
**264 R. I. Lines**  
**Karachi**

**Anjum Saleem**  
**Chief Operating Officer**  
**Crescent Cotton Products**  
**Habib Bank Building**  
**Circular Road**  
**Faisalabad**

**Zaheer A Sheikh**  
**PILCORP**  
**4th Floor, PAAF Building**  
**P. O. Box 2287**  
**Kashmir Road**  
**Lahore**

**Zahid Aslam**  
**General Manager (Operations)**  
**The Crescent Textile Mills Limited**  
**Sarghoda Road**  
**Faisalabad**

**c. The Ghulam Faruque Group**  
**(Late) Muhammad Akram**  
**Managing Director**  
**Mirpurkhas Sugar Mills Limited**  
**Modern Motors Building**  
**Moulvi Tamizuddin Khan Road**  
**Karachi**

**Zahid Faruque**  
**Executive Director**  
**Cherat Cement Company Limited**  
**3rd. Floor, Modern Motors Building**  
**Moulvi Tamizuddin Khan Road**  
**Karachi**

**Muhammad Faruque**  
**Chairman**  
**Greaves Cotton (Pvt) Limited**  
**2nd. Floor, Modern Motors Building**  
**Moulvi Tamizuddin Khan Road**  
**Karachi**

**d. The Dawood Group**

Razak Dawood  
Managing Director  
DESCON  
Akhavan House, 38-Davis Road  
Lahore

M Amin Latif  
General Manager  
Descon Engineering (Pvt) Limited  
5th Floor, Dawood Centre  
Moulvi Tamizuddin Khan Road  
Karachi-4

Suleman Dawood  
Chairman  
Dawood Corporation (Pvt) Limited  
Dawood Centre  
Moulvi Tamizuddin Khan Road  
Karachi-4

Haji Muhammad Ghani  
Finance Manager  
Dawood Corporation (Pvt) Limited  
2nd Floor, State Life Building  
I.I. Chundrigar Road  
Karachi

Aziz Moon  
Executive Director  
Dawood Corporation (Pvt) Limited  
Dawood Industries (Pvt) Limited  
3rd Floor, Dawood Centre  
Moulvi Tamizuddin Khan Road  
Karachi-4

Ahsan Raza  
Ex-Finance Director  
Dawood Hercules Chemicals Ltd  
Lahore

**e. The Atlas Group [not included]**

Yusuf Shirazi  
Chairman  
Atlas Group of Companies  
8th Floor, Adamjee House  
I.I. Chundrigar Road  
Karachi

**Talha Saad**  
Production Manager  
Atlas Honda Limited  
F/36, Estate Avenue  
Karachi

**Khalid Jilani**  
General Manager Technical  
Atlas Batteries Limited  
D/181, Central Avenue  
S.I.T.E  
Karachi

**M Kizilbash**  
General Manager  
Allwin Engineering Industries Limited  
15th Mile, National Highway  
Landhi  
Karachi

**Mohammad Naib**  
Manager Administration  
Atlas Autos  
F/36 Estate Avenue  
S.I.T.E.  
Karachi 75350

**f. Saigol Group** (not included)  
Naseem Saigol  
Chairman  
Saigol Computers (Pvt) Limited  
Egerton Road  
Lahore

Tariq Saigol  
Chairman  
Kohinoor Textile Mills Limited  
42-Lawrence Road  
Lahore

Iqbal Saigol  
Chairman  
Saitex Spinning Mills Limited  
19-K Gulberg II  
Lahore

Jalees Abidi  
Export Manager  
Kohinoor Trading (Pvt) Limited  
1st Floor  
12 Mandviwala Chambers  
Talpur Road  
Karachi

S. I. H. Zaidi  
Executive Director  
Saigols (Pvt) Limited  
6 Egerton Road  
Lahore- 54000

**g. The Lakson Group (not included)**

Sultan Lakhani  
Chief Executive Officer  
Lakson Group  
Lakson Square  
Sarwar Shaheed Road  
Karachi- 74200

Zulfiqar Lakhani  
Managing Director  
Colgate-Palmolive (Pak) Limited  
Lakson Square  
Sarwar Shaheed Road  
Karachi- 74200

**h. Government and Semi-Government Officials**

**PIDC**  
Bilal Farooqi  
Chairman  
PIDC  
PIDC House  
Moulvi Tamizuddin Khan Road  
Karachi

**PICIC**  
Khurshid Marker  
(Honorary) Chairman  
PICIC  
6th Floor  
State Life Building No. 1  
I.I. Chundrigar Road  
Karachi

**Abdul Haq**  
Executive Vice President  
PICIC  
19 Davis Road  
Lahore

**NDFC**  
Talat Behzad  
Manager NDFC  
2nd Floor  
Finance and Trade centre  
Shahra-e-Faisal  
P.O.Box No. 5094  
Karachi

i. **Non-group Managers**

Ahmed Allawala  
Chairman  
EMMAY Associates (Pvt) Limited  
F-109/1  
Kehkeshan, Clifton  
Karachi

Masood Hasan  
[Ex- Managing Director, WIL],  
Managing Director  
EMMAY Associates (Pvt) Limited  
90 A, Canal Park  
Gulberg-2  
Lahore-54660

Zia Shafi Khan  
Director  
Habib Group  
Karachi

Imtiaz Mehdi  
Ex-Commercial Manager, WIL  
90 A, Canal Park  
Lahore-54660

**V**

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**VI**

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## APPENDIX A

### INTERVIEW QUESTIONNAIRE

#### For Chief Executive Officers and Department Heads of Family Controlled Business

1. When was your family business established/registered?
2. When did it go public?
3. Is it a family owned business?
4. In which city (India/Pakistan)?
5. Who were the family pioneers:  
at inception?
6. When were non-family members' recruited  
at decision making levels:  
at inception  
by 1950  
by 1970  
by 1980  
by 1987?
7. What was the family members equity contribution?  
at inception  
by 1960  
by 1970  
by 1980  
by 1987?
8. Why did you go in for manufacturing/industry  
trade/service and export sectors?
9. Which factors provided you with this edge  
to invest in the above at the time you did?
10. What was the equity of this company:  
at inception  
by 1960  
by 1970  
by 1980  
by 1987?

11. What component of expenditure was spent on machinery imports under licence?
12. Did you benefit from the bonus voucher scheme?
13. At the time of investment, did you visualise specialization only in the original industry? If yes - what constraints did you visualise would not make expansion viable in other industries?
14. How many employees were there:
  - at inception
  - by 1960
  - by 1970
  - by 1980
  - by 1987?
15. How much equity was contributed by you and the debt component?
16. What labour problems and union (CBA) dealings has the company encountered?
17. How much has been the labour turnover of permanent and temporary workers?
18. How many family members were in management positions:
  - at inception
  - by 1960
  - by 1970
  - by 1980
  - by 1987?
19. Where were non-family members introduced at a decision-making level?
  - at inception
  - by 1960
  - by 1970
  - by 1980
  - by 1987?
20. What were the means for monitoring and control of professional managers, in order to obtain information and develop a reporting system on them?
21. What productive measure were introduced to monitor disbursements, and control misdemeanours, through supervision?

40. If you rely on written communication, are your records filed by:  
a) department of origin/destination  
b) decision makers file  
c) master file?

41. How far dated are the written file records?

42. Is there a consistency in their format or does each employee report arbitrarily?

43. Was expansion into related or other field successful?

44. If you - who took over the management of the newly acquired enterprise?

45. To what causes do you attribute an increase in profits in successive years?

46. What is your sales turnover?

47. Do you have procedural manuals? If so, what mechanism is used to update them?

48. Are there systems and procedures operating in your company?

49. What is your idea of Research and Development (R&D)?

50. Has R&D generated market expansion? If yes, how?

51. What role does size and technology play in innovation?

52. Has technology adoption led to expansion of your business. If so, was it backwards, forwards or both?

53. Have you made any innovation in technology or machines. If so, how many years after start up?

54. Are most of your raw materials imported?

55. What is the time lag between negotiation and loan sanctioning/ dealing with government approvals?

56. What is your company's capital-output ratio?

57. Is there an inventory build up?

58. Are there production bottlenecks idle capacity and surplus labour accumulation, in any of your business? If yes, owing to which factors, such as market information or demand?

59. What is your firm's marketing strategy?

60. What is your projected market strategy?

61. How did nationalisation affect your company's performance?

62. What policies of the government have had a negative influence on your industries and which ones have been helpful?

63. When did you start using computers? For what type of work are they used?

64. Did you ever have to change structure for strategy?

65. How do you influence functional managers and coordinate their activities?

66. Why do family business persist in Pakistan?

67. What issues are most time consuming for our business leaders?

68. What criteria helps diversification?

69. How helpful was the import licensing policy for procurement of machines? Did you obtain the licence from:  
a) loan through PICIC  
b) cash licence  
c) any other source; specify?

70. Do you think that your group is in a better position in acquiring licences from the government than:  
a) multinationals  
b) other business groups  
c) any other entity  
d) more than one of the above; specify?

71. How do you find the opportunity to apply for a licence from the government:  
a) By approaching the government formally  
b) By approaching the government informally  
c) On your initiative  
d) As a response to competitor's action  
e) Any combination of the above; specify?

85. Does your firm conduct a formal analysis of its major competitors, including their control over the distribution channels?

86. Viewing space and distance, which of the following factors are significant for industry location and continuity:

- a) proximity to raw materials
- b) plenty of land
- c) proximity to information
- d) production costs
- e) pollution discharge costs by locating a factory away from cities?

87. In your organization, which of the following accrue production economies:

- a) labour intensive in cheap labour areas
- b) technology intensive in high wage areas
- c) economies of scale derived from high demand?

88. Did your company expand from:

- a) benefits of already being large
- b) takeovers and merges
- c) nationalisation?

89. Any strategic decisions in your organization from brainstorming techniques?

90. How do you distance yourself from distracting stimuli (the content) to observe the broader view picture (the form) of a problem?

91. Do you send your managers on courses to outside institutions for functional or management training? Any benefits accruing?

92. What is the process of accountability in your organization. Do you distinguish between administrative and legal accountability?

93. What is your organizational structure. Is there an informal or formal reporting channel?

## ERRATA

### Page

6 (Table 3.3)	1968
7	<b>Pak Rupee</b>
12 (FN 12)	Development
19 Last Line	pp. 586-66
25 Line 3	traders
27 Line 12	cannot
27 Line 20	decisions
29 Line 10	The measurement
33 Line 16	and do not
61 Last Line	(delete 'managerial'), <b>economic</b>
68 Line 13	(delete 's' in foods)
79 Line 22	(delete 'State Bank of Pakistan')
82	(Total for 1965-66 is <b>1523.6</b> )
96 2nd. Last Line	Rs 652 million
101	US \$ 3 billion
107 (Table 2.9)	delete two repetitive lines
107 Line 2	(delete 'to')
107 Line 3	<b>picked</b>
112 Line 3	licences
129 (FN 156)	present (delete <b>s</b> )
129 (FN 156)	(delete 'both')
129 Last Line	(delete 's' in presents)
131 Line 4	disposal, <b>it</b> can
132 Line 4	(delete 'which' for <b>were</b> )
161 Line 13	protagonists
162 Line 10	chose
168 (FN 7)	Rs 1 million
173 Line 7	Ali, <b>who</b> owned
178 Line 10	delete 'Institution' for <b>Corporation</b> )
179 Line 10	1988
190 Line 2	(delete '15' for <b>22</b> )
194 Line 15	had <b>implemented</b> , turned
195 Line 3	(delete 'ed' in opted)
196 Line 5	(delete 'therefore')
199 Line 15	necessary,
202 Line 5	replace 'is' with <b>was</b>
213 Line 2	automobile <b>industry</b>
215 Line 6	the Treet
217 Line 11	where <b>this</b> style
219 Line 5	from
224 Line 10	level <b>meeting</b> on
226 Line 9	1954
239 Line 4	(delete 'company an')
240 Line 6	(delete 'the')
241 Line 10	(delete 'few')
255 Line 1	advisers
257 Line 4	(replace 'was' with <b>were</b> )
257 Line 6	(delete 'a')
259 Line 2	external
260 Line 7	cost of not
277 Line 8	advisers
278 Line 15	number of zones
279 Line 3	practices
288 Line 11	(replace 'at' with <b>a</b> )
296 Line 2	(replace '1131' with <b>1158</b> )

300 Line 4 (replace 'which' with **weighed**)  
332 Line 12 advisers  
344 Line 3 in two of  
356 Line 13 (replace ' used' with **through**)  
372 Line 9 (delete apostrophe after 'crisis')  
378 Line 10 replace 'An' with **A**  
380 Line 2 (delete 'group')  
406 Line 4 (delete 'indicated')  
414 Line 3 licences  
422 2nd. last Line mill  
430 Line 4 trained  
430 3rd. last Line in engineering  
433 Line 2 years  
434 Last Text Line more **than** its  
447 2nd. last Line (replace 'violation' with **accord**)  
452 Line 3 followed it  
466 Line 6 Dawood's  
465 Line 18 (delete 'management')  
469 3rd. last Line of the two  
494 (FN 23) pp. 221-39  
516 Associates  
506 Lahore, 1990  
527, Qs. 44 If you **expanded**