



## **Business Case: Mehran Commercial Enterprises – Formalization Journey**

### **1. About the Enterprise**

Mehran Commercial Enterprises, established in 1985 in one of Pakistan’s key industrial hubs, is a medium-sized auto parts manufacturer specializing in precision components and assemblies for the automotive sector. Initially operating informally without registered labor or structured systems, the company made a strategic shift in 1997 by registering with FBR, EOBI, SESSI, and SECP, marking its transition toward formalization. Over the years, it expanded capacity, improved quality, and gained recognition as a certified vendor for leading OEMs such as Pak Suzuki, Indus Motors, FAW, and HINO, while also exporting selected components to the Middle East and Southeast Asia. Today, Mehran manufactures a wide range of products including sun visors, door trims, spare wheel covers, and floor mats, and holds ISO 9001:2015 certification. The company employs 45 workers, of which 7 are registered with FBR and 15 permanent employees are enrolled with EOBI and SESSI, while the remaining workforce is engaged on contractual or daily wage terms depending on seasonal production needs

### **2. Pre-Formalization Status**

Prior to 1997, Mehran operated largely under informal business arrangements:

- Workforce unregistered with labor and social protection institutions.
- Financial transactions handled manually without formal accounting system.
- Limited compliance with tax and environmental regulations.
- Minimal investment in new machinery or process improvements.
- Reliance on verbal agreements and local suppliers for materials.

The company’s reliance on an informal operating model posed significant limitations to its growth and competitiveness. While it allowed the business to function with flexibility in the short term, it restricted access to vital opportunities such as long-term supply contracts, institutional financing, and participation in large-scale tenders. These constraints meant the company often remained confined to smaller markets and short-term transactions, preventing it from building sustainable relationships with larger buyers and stakeholders who required compliance with formal standards.

Recognizing both the challenges and the opportunities, the company gradually committed itself to a path of formalization. This was not an overnight transformation but a deliberate, step-by-step process. The leadership realized that adopting formal systems in areas such as financial management, regulatory compliance, and human resource practices would not only

unlock access to institutional finance and government tenders but also improve credibility in the eyes of clients and partners.

### 3. Why They Decided to Formalize

Several internal and external factors compelled Mehran to formalize:

- Market Access Requirements – OEMs required documented compliance and certifications
- Export Potential – International buyers demanded legal status and traceability
- Access to Finance – Banks and FIs required audited financials and formal registration
- Strategic Vision – Leadership recognized the limitations of informality and aimed for long-term growth

The company's transition toward formalization was strongly influenced by external market requirements. Original Equipment Manufacturers (OEMs) demanded documented compliance and certifications to qualify as suppliers, while international buyers required legal status and traceability to ensure reliability and accountability across the value chain. Without meeting these conditions, the company risked being excluded from both local supply chains and lucrative export opportunities. The leadership recognized that informality not only limited immediate market access but also diminished credibility in the eyes of global clients, thereby restricting long-term growth potential.



#### 4. Comparative Analysis: Pre vs Post Formalization

Aspect	Pre-Formalization (Before 1997)	Post-Formalization (After 1997)
<b>Market Access</b>	Local buyers, informal contracts	Certified OEM vendor, export markets
<b>Technology</b>	Manual processes, outdated machines	Automation, precision tools, QA systems
<b>Workforce</b>	Unregistered workers, low training	Registered with EOBI/SESSI, regular training
<b>Finance</b>	Limited to personal funds	Banks and institutional finance access
<b>Reputation</b>	Low credibility with formal buyers	Trusted by OEMs, global buyers through exports
<b>Productivity</b>	Inconsistent output	Quality and standards increase post formalization due to vendor's compliance mechanism.

#### 5. Challenges Enterprise Faced

- Regulatory ambiguity with frequent changes in compliance requirements from the regulatory regimes and sometimes from OEMs.
- High cost of compliance including taxation and audits e.g. consultant fee, documentation charges, procurement from informal set-ups etc.
- Shortage of skilled labor to operate new machinery.
- Raw material price volatility without formal contracts
- Uneven competition from informal operators avoiding compliance costs
- Need for significant capital investment in modern technology

#### 6. Strategies Adopted To Overcome Challenges

- Hiring professional consultants to handle registrations and compliance
- Gradual technology upgradation to spread costs over time
- Workforce training programs by OEMs and formal labor registration in phases

- Standardization of processes and quality control systems
- Active participation in industry associations for advocacy and networking

## 7. Outcomes of Formalization

- Certification as an official supplier for Pak-Suzuki, Indus Motors, FAW, HINO etc.
- Enterprise earned reputation in the market and have more access to OEMs, and by maintaining quality standards has, since 2020, successfully entered export markets, through trade fairs and B2B platforms
- Improved access to credit lines and investment capital
- Enhanced employee welfare with social security, EOBI and Children Education Support
- Elevated brand reputation and trust among clients and regulators



## 8. Recommendations from the Enterprise

- Trust Building measures amongst the regulator and SMEs. Regulators should trust on Industry and likewise.
- Ensure consistency in industrial and tax regulations to build investor confidence
- Modernize the tax system through digital integration and one-stop solutions for greater efficiency and ease of compliance. .
- Provide vendor support schemes for easier and cheaper import of raw materials

- Develop cluster-based industrial zones with shared services like testing labs and logistics
- Join industry bodies for advocacy and market linkages
- Engage in training programs, exhibitions, and study tours
- Daily wage earners and contractual employees should also be integrated into **EOBI, Social Security, and other welfare schemes** through a minimal contribution model, shared between the employee, the SME, and relevant institutions. This can be facilitated by issuing a **standardized labor or employee card** that ensures their enrollment and provides them access to social protection benefits, regardless of the nature of their employment contract.

## 9. Lessons Learned

- Formalization, though costly at first, yields long-term benefits, however, trust between industry and regulators is a key success factor
- **Gradual Transition Yields Better Outcomes**  
SMEs that adopted a step-by-step approach—beginning with basic compliance, then improving financial transparency, and eventually pursuing certifications—were able to sustain formalization without disrupting operations.
- Partnerships with industry association will facilitate the transition
- Partnerships with development stakeholder e.g. SMEDA, TDAP, EDB, ILO will smoothen the transition.
- ILO, and employee welfare institutes should elaborate responsibilities of employees along with their rights so that productivity may also increase.

## 10. Conclusion

The transformation of Mehran Commercial Enterprises illustrates the practical lessons an SME learns when shifting from informality to formalization. One of the most important realizations was that while the initial costs of registration, audits, and compliance felt burdensome, they ultimately created credibility in the eyes of clients, banks, and regulators. The company learned that proper documentation and transparency were not just external requirements but also tools that strengthened internal decision-making and long-term stability.

Another lesson was the value of a phased approach. Mehran discovered that gradual steps—such as starting with financial record-keeping, then moving to certifications, and later engaging with export requirements—allowed the business to adapt without disrupting daily operations. The leadership also learned that formalization required cultural change within the organization. Staff needed to understand the importance of systems, processes, and



compliance for the business to grow sustainably, which demanded patience, training, and consistent communication.

Last but not the least, due to the formalization of Mehran Commercial Enterprises, employees also experienced significant improvements in their welfare and professional development. They became entitled to social protection schemes such as **EOBI** and **SESSI**, ensuring long-term security and access to healthcare facilities. The company also facilitated skill development opportunities through **training programs offered by OEMs**. These measures not only enhanced the financial and social wellbeing of employees but also strengthened their motivation, loyalty, and productivity, making the workforce a key beneficiary of the formalization journey.