

Correlation between Business Environment and Entrepreneurial Development: A Study of Entrepreneurship in Emerging Capitalistic Market of Balochistan

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This paper studies the correlations between business environment and entrepreneurial orientation in an emerging capitalistic market. The city of Quetta in Pakistan was chosen for the study, which as an emerging individualistic market and is in its transition from traditional tribal and feudalistic socio-economic relations. Interview with the owners of 62 micro-firms of the district on predetermined questionnaire has been used as medium of collecting survey data. Five factors/ characteristics with entrepreneurial orientation/development were identified which are Risk-taking, Pro-activeness, Innovativeness, Autonomy, and Aggressive Competitiveness. Similarly, three factors /characteristics are identified as attributes to the emerging/transition economy of Quetta. These are Hostility, Dynamism, and Uncertainty. Three hypotheses were developed and tested by using canonical correlation model. It is considered that entrepreneurial orientation is shaped by the environmental factors and this is true particularly in an emerging transition economy. Thus, it is emphasized that interrelationship exist between business environmental forces and the entrepreneurial development of micro-entrepreneurs. The study finds that the factor of uncertainty, which is induced by the external factors as well as perceived by the entrepreneurs themselves as a main characteristic, is focus of entrepreneurial research and policy-making. Thus, all SME institutions and donors, including Non Government Organizations, should formulate policies that target improvement of business environment and creation of stimulating and predictable conditions for the small business during the transition.

Keywords: Entrepreneurship, Buisness, Environment, Entrepreneurial development, Small business policy.

Introduction

Entrepreneurship has captured the imagination of economists, business management theorists and practitioners during 1980s and 1990s and it is seen that a healthy economy is clearly related to the degree that individuals can express business interests. Therefore, the economic development and effective business strategies must attempt an environment that is conducive to the initiation and growth of small businesses (Sage, 1993). However, the entrepreneurship opportunities have its flip side as well. Entrepreneurial behavior is transitory (Carrol and Mosakowski, 1987) and it is empirically observed that the majority of new firms fail within the first 18 months. Only 20% will survive to see their 10th year. Secondly, small entrepreneurial firms offer employees less income and benefits than the larger firms. Despite the transition nature of entrepreneurship, Schumpeter (1934) isolated Entrepreneurially driven innovations in products and processes as the crucial engine driving the economic

change processes. Therefore, the absence of entrepreneurship from our collective theories on markets, firms, organizations, and economic/business change makes our understanding of the business landscape incomplete (Shane, S. and Venkataraman, S., 2000). Many scholars, including economists and business theorists, have contributed in unraveling the way entrepreneurial initiatives have contributed to economic development (Hebert and Link, 1982). Maria T. Brouwer (2002) has analyzed the contribution of three leading scientists Max Weber, Joseph A. Schumpeter, and Frank H. Knight. They debated on the motives and effects of entrepreneurship, their theories explained why new ventures emerge and how they are financed. According to Weber the reason for the relatively rapid growth of western capitalism is found in the specific attitude to life of the Calvinist Puritan as opposed to the Catholics and Lutherans. Calvinism favored rationality in business matters, because it is believed that material success acted as a 'proof' of being one of the chosen. Calvinism—in Weber's

view—perfectly fitted a society of free laborers, who were no longer tied to master and a soil by extra-economic considerations as in tribal and feudal societies. Weber thus portrays the Puritan as a group that was driven by religious zeal to apply rationality to the pursuit of economic activities. Schumpeter defined the entrepreneur as the founder of a new firm and as an innovator, who breaks up established routines and opposes the old ways of doing things. Schumpeter's entrepreneur only undertakes those ventures which turn out to be successful. The entrepreneur's special leadership qualities, particularly the innovativeness, enable him to see the right way to act. In order to introduce his innovativeness, the entrepreneur needs to withstand the opposition of the environment, which is usually hostile to deviating behavior and novelty. According to Knight the motivating factor for investment and entrepreneurship is the uncertainty. In contrast to Schumpeter, Knight contends that only uncertainty can explain profits (and losses). Not all new ventures will become successes; some will fail. However, which ventures will succeed and which will fail cannot be predicted in advance. He points out that only the investors with above average skills of perceptions would earn excess profits, whereas investors, whose perceptiveness was below average, would lose money on their ventures. Thus these scholars contend that entrepreneurship with rationality, innovativeness, and uncertainty is driving engine of economic growth.

Enterprising individuals can be found in all societies, all types of economic circumstances, and in all sectors/organizations—small-businesses, existing large corporations (corporate entrepreneurs / intrapreneurs), and non-profit organizations (Schaper, 2002).

Universality of entrepreneurial phenomena and existence of entrepreneurs across societies and sectors have induced research scholars in recent times to hypothesize and empirically establish that the overall improvement of the business environment is very important factor of market transformation success and economic reforms in developing countries. As noted by Zahra (1999), entrepreneurship should be considered as a significant factor of socio-economic development solving employment problems, providing wider range of consumer products & services, and increasing competitiveness and overall prosperity. Entrepreneurship is often recognized as a response to some environmental conditions that could hinder or support business success by the nature of the climate they establish (Aldrich and Wiedenmayer, 1993).

Entrepreneurial Behavior

The author of this paper, while studying a limited literature on entrepreneurship, have found that majority

of researchers have focused on the personal characteristics (psychological and socio-cultural) of entrepreneurs and on some specific aspects of entrepreneurship as a process. It is felt that for studying interaction of environmental factors and entrepreneurship that shape the entrepreneurial behavior and act as engine of economic activities, it is imperative to adopt an integrative approach. Naffziger, Hornsby, & Kuratko (1994) have identified five major categories of variables which interactively influence an individual's decision to behave entrepreneurially. Those variables are: (1) an *entrepreneur's personal characteristics*—need for achievement, locus of control, risk-taking, energy-level, conformity, need for autonomy, persistence, dominance, and desire to build something of one's own; (2) an *individual's personal environment*—family factors, sex, educational background, social support, partial social alienation, psychological & physical disposition, demonstration effect, and precipitating events); (3) *the relevant business environment*—societal attitude towards business, economic climate of market, availability of accessible funds, and business incubators that are reflected in the dynamism, hostility, and uncertainty in the external environment); (4) *the specific business idea*; (5) *the goal of the entrepreneur*—business growth, cash out, to be one's own boss, provision of financial security for current and future family generations, self-employment, and to keep one's self busy after retirement. These factors with certain degree of variability influence shaping of entrepreneurial behavior. However, just having entrepreneurial behavior doesn't motivate an individual to enter entrepreneurship process in order to sustain business and contribute in economic growth. The entrepreneurial strategy and entrepreneurial management are additional factors for attaining economic outcomes of the entrepreneurship. The model proposed by Naffziger et al. has been shown at annexure-I. The model proposes that future entrepreneurial behavior is based on the results of these comparisons. When outcomes meet or exceed expectations, the entrepreneurial behavior is positively reinforced and the individual is motivated to continue to behave entrepreneurially. When outcomes fail to meet expectations the motivation of the entrepreneur will be lower and will have a corresponding impact on the decision to continue to act entrepreneurially.

Definitions of Constructs

For the current paper 3 environmental dimensions (constructs)—*hostility, dynamism, & uncertainty*, and 5 entrepreneurial orientation constructs—*autonomy, innovativeness, risk-taking, proactiveness, & competitive aggressiveness* have been chosen from the

literature surveyed, particularly the work of Naffziger et al. (1994). These constructs are explained in this section.

Environmental Constructs

•The *hostility* construct/dimension has been defined by Miller and Friesen (1983) as “the degree of threat to the firm posed by the multifacetedness, vigor, and intensity of competition and downswings and upswings of the firm’s principle industry. This is reflected in a wide range of factors like industry growth rate, level of competitive intensity within the industry, industry’s access to major inputs, perceived randomness of competitors’ behavior, and availability of exploitable product-market opportunities (Potter, 1994).

•The *dynamism* construct is considered as unforeseeable change in the complex of environmental factors. According to Dess and Beard (1984) dynamism includes both the rate of unpredictable environmental change and the stability of environment. It is presumed in this paper that dynamism encourage entrepreneurial behavior as individuals and their organizations respond it with risk-taking, innovativeness, and exhibiting proactive behavior.

•The *uncertainty* dimension is considered as one of the most important characteristics of business environment. The recent studies consider uncertainty as a perceptual construct and a state of mind of decision-maker evaluating subjective estimates of the risk of disappointment (Penrose, 1995). Millken (1987) defines the uncertainty as “inability of the individual to discriminate between relevant and irrelevant data coming from external environment”. He suggests three types of uncertainties originating from business environment—effect uncertainty, response uncertainty, and state uncertainty.

Entrepreneurial Orientation Constructs

•*Autonomy* is considered as the independent spirit of freedom necessary to create new ventures. This orientation is available to entrepreneurs in a society with minimal societal constraints encouraging independent economic behavior, maintaining personal control and seeking business opportunities.

•*Innovativeness* is a crucial entrepreneurial dimension and is thought as ability of individuals to experiment and create new ideas and ventures. Societal support is also important for having this orientation by intending entrepreneurs.

•*Risk-taking* is assumed as an implicit entrepreneurial behavior. Existence of above two factors encourage this component to be exhibited by individuals’

•*Proactiveness* is an attitude when individual anticipates and participates in new and emerging business situations.

•*Competitiveness* is considered as an aggressive economic behavior and non-avoidance of intense competition. This orientation is necessary for entrepreneurs in order to satisfy their needs for achievements and strengthen their position in the market against competitors.

Hypotheses

For studying the relations of environmental factors to the dimensions of entrepreneurial orientations following three hypotheses are developed:

H 1: *Perceived environmental hostility is positively related to (a) autonomy, (b) innovativeness, (c) risk-taking, (d) proactiveness, (e) competitiveness.*

H 2: *Perceived environmental dynamism is positively related to (a) autonomy, (b) innovativeness, (c) risk-taking, (d) proactiveness, (e) competitiveness.*

H 3: *Perceived environmental uncertainty is positively related to (a) autonomy, (b) innovativeness, (c) risk-taking, (d) proactiveness, (e) competitiveness.*

Research Design

According to SME law in Pakistan, firms employing not more than 10 persons are categorized as micro-enterprises. The author presumes that over 95% of all existing enterprises in Quetta, where this research is conducted, are such business entities and include those which are run by owners themselves only and those which are run by the owners and his/her family members. Relatives, i.e. those having blood relations with the owners and working in the micro-enterprises are considered as ‘employees’ as in all such cases surveyed these individuals are paid wages by the owners. The existence of large number of micro-enterprises determines their importance as economic agent in the market development of the city.

The framework of the study was designed on the basis of quota sampling and face-to-face interviewing. Personal interviews were taken on the basis of predetermined questions on a questionnaire so that indicator variables are extracted and measurements are taken for statistical analyses. Self-administered questionnaire was avoided in view of the expected low responses and errors due to low-education amongst the respondents. The empirical survey was conducted in the period July-October 2005 from a quota sample of 62

active micro-enterprises functioning in 6 different business localities of Quetta city. Three kinds of distribution were used for quotas determination utilizing available statistical data for the active business entities—territorial, sectoral, and by number of employees.

Questionnaire specifically designed for this study asked respondents to rate on a 5-point scale their perception about each environmental characteristic considered as inherent to the transitional and developing economy of Quetta: *hostility, dynamism, and uncertainty*. For example the items evaluating *hostility* were the following by choosing a single rank between the two extremes (totally agree / totally disagree):

- Your firm's environment is hostile, with many entry barriers to new markets.
- Your firm's access to input resources is extremely limited

Similarly, the measurement of entrepreneurial orientation dimensions (*autonomy, innovativeness, risk-taking, proactiveness, and competitiveness*) was done on a 5-scale with two extreme rankings. Three questions (items) were included in the questionnaire associated to each dimension of the entrepreneurial orientation. For example, the risk-taking propensity was measured by respondents' preferences about investments with low risk and moderate return opposed to those with high risk-return position; preference to change the business location to a new promising geographical area; and shifting the all resources to entirely a new business.

Description of the Sample

The description of the territories surveyed is as follows:

Zone A: Liaquat Bazaar, Masjid Road, Fatima Jinnah Road, Abdul Sattar Road, and Sharah-e-Iqbal.

Zone B: Sirki Road, Zarghoon Road (Double Road), and Old Fruit/Vegetable Markets.

Zone C: Sariat Road

Zone D: Mission Road, Suraj Ganj Bazar, and Toughi Road

Zone E: Airport Road and adjacent area.

Zone F: Brewery Road and adjacent area.

As illustrated in the Table-1, there is relatively more concentration of micro-enterprises in zones A, B, and D. This is due to the fact that prior to introduction of the new Local Government Plan (the Devolution Plan), all these localities were under the Quetta Municipal Corporation (QMC) having better civic facilities and non-traditional urban legislative base. Thus these areas of the city were having better business climate for small enterprise development inducing new private

business start-ups with large market and convenient infrastructure.

Table-1: Distribution of Micro-enterprises in the Sample by Territory, Economic/Business Sector, and Number of Employees

Zones	Count	%
Zone-A	18	29.00
Zone-B	15	24.00
Zone-C	09	14.50
Zone-D	13	21.00
Zone-E	02	03.50
Zone-F	05	08.00
Total:	62	100.0

Sector	Count	%
Wholesalers	13	21.00
Retailers	11	17.75
Hotel & Restaurants	10	16.00
Transport	06	09.75
Legal Services	02	03.25
Medical Services	05	08.00
Furniture Manufacturers	06	09.75
Nurseries/Forestry	03	04.75
Maintenance (Garages, etc)	06	09.75
Total:	62	100.0

Number of Employees	Count	%
None	28	45.25
1 - 2	18	29.00
3 - 5	09	14.50
6 - 8	05	08.00
9 - 10	02	03.25
Total:	62	100.00

The above distribution of sample demonstrates that trade and services business entities prevail in the sample. Small manufacturing firms are rare. As for the employment distribution the larger portion of the sample is run by the owner and his/her family members. The self and business perception of the entrepreneurs is one of the important aspects of the entrepreneurship. Therefore, the interviews specifically addressed this in order to determine the characteristics of the market information and business environment awareness by entrepreneurs of Quetta. The data as described in the Table-2 also reflects the awareness of the entrepreneurs about the business position and the existing strategies of the competitors in the market.

Table-2: Expected Profit Perception and Discernment about Business Sustainability

Entrepreneur Perception About Future (As they see during future one year)	Count	%
The profit will increase	12	19.1
The profit will maintain the same level	19	30.6
The profit will decrease	06	09.7
The business will fail	05	08.0
The future profit level is unpredictable	20	32.6
Total:	62	100.0

The above data suggests that the dimensions of uncertainty (32.6%) and optimism (19.1%) are significant in the entrepreneurs of Quetta. However, the perception about profit-level sustainability needs to be explored further through revision of the data collection instrument by including questions rechecking the real perception. This is felt so by the author as the explicit opinion and general observation don't support the certainty about keeping same level of profit in coming 12 months.

Results and Discussion

All the three hypotheses outlined in section-4 of this paper were tested from the available primary data collected and by using the canonical correlation model with the following sets of variables:

Right Set: a_1 Uncertainty + a_2 Hostility + a_3 Dynamism
Left Set: b_1 Risktaking + b_2 Proactiveness + b_3 Innovativeness + b_4 Aggressive Competition + b_1 Autonomy

The statistical data in the following correlation matrix indicate that all three business environment variables are significantly related to entrepreneurial orientation variables. The smallest coefficient of 0.20 in the matrix may lead to the assumption that the canonical correlation analysis used in this study has produced reliable statistical results for all variables used in our model.

As can be seen in the Table-3 this variable is strongly related to innovativeness and risk-taking orientations of entrepreneurs surveyed under this study. The negative signs of their canonical weight indicate the decreasing willingness of the sample to behave innovatively and risky. The positive sign of proactiveness gives confirmation of the hypothesis H3 (d): environmental dynamism is positively related to proactiveness. The other two variables, i.e. aggressive competition and autonomy are not significantly related to dynamism.

The positive relations in the H1 and H2 between the remaining business environment dimensions / variables (uncertainty and hostility) and the entrepreneurial orientation factors in the small business owners of Quetta city are also not confirmed except for proactiveness variable and up to some extent, for autonomy of decision-making which has low negative relations.

Table-3: Correlation Matrix of Variables
(N = 62)

Variables	1	2	3	4	5	6	7	8
1. Risk-taking	1.00							
2. Proactiveness	0.51	1.00						
3. Innovativeness	0.65	-0.25	1.00					
4. Aggressive Competition	0.32	-0.40	0.44	1.00				
5. Autonomy	0.22	-0.26	0.23	0.31	1.00			
6. Uncertainty	-0.24	0.38	-0.42	-0.44	-0.29	1.00		
7. Hostility	-0.23	0.34	-0.49	-0.28	-0.54	0.41	1.00	
8. Dynamism	-0.66	0.46	-0.69	0.32	-0.20	0.46	0.31	1.00

Due to the weak economic institutional measures and policies, inefficient market set-up, strong traditional non-capitalistic background, and tribal interrelationships, the significant majority of the micro-business entrepreneurs are not risk-takers by their nature. The results of this survey, despite of its limited nature due to small size of the sample and relatively not sufficiently developed research design, show that long run business opportunities of Quetta are being missed by the entrepreneurs in spite of the presence of high dynamic, hostile, and uncertain environment. This is the reason that these business decision makers are earning fewer profits, although the future prospects are higher. However, to some extent their proactiveness and trends indicating attainment of autonomy indicate that they have started engaging in searching of new business opportunities. Thus, the presence of elements of transition to developed capitalistic market is evident from these relations.

The significant relations of the dynamism to the entrepreneurial orientation variables—innovativeness, risk-taking, and proactiveness—suggest that Quetta micro-entrepreneurs perceive dynamism as the most important and influencing force in the external business environment. The negative relations with innovativeness and risk-taking has an implication for the policy makers: the intensity of unpredictability of the environmental changes especially those caused by the government regulators, legislators, planners, politicians, and other pressure groups, need to be decreased through governmental efforts so that the factors of innovativeness and risk-taking are inculcated and strengthened in the entrepreneurs of the City. In absence of such efforts the entrepreneurs prefer to gain rapid and easy low returns on their capital concentrating more on liquidity than reinvesting in the future business expansions. They actually have taken a waiting position expecting appropriate conditions for more risky and innovative business disposition. Thus, the economy of Quetta is missing some important sources for its growth and development. Although environmental dynamism is an attribute of a transition market due to fundamental structural changes and political instability (particularly tax legislations, changes in small business support services from the government, weak and corrupt administrative practices, etc.), but serious and sincere

long-term government efforts are effective in development and harmonizing the environmental factors consonant to the entrepreneurial orientation.

Conclusions

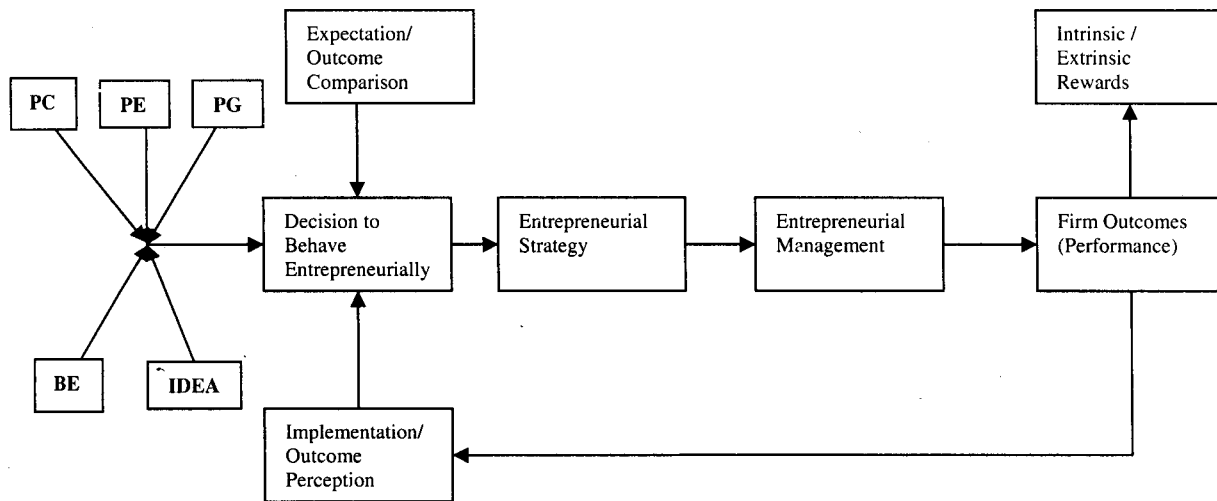
The results obtained in the survey have identified sources of uncertainty in the business environment of small enterprises of Quetta. These results also indicate influence of major external factors of the small business environment on the performance of entrepreneurs and their business firms. The strongest negative sources of uncertainty are found to be the low level of consumer demand and the overall weak economic conditions of the country (identified by almost 95% of the respondents). The relative high interest rates and low creditor support do not encourage entrepreneurs to take long-term credits, which to a great extent hinders the decision making characterized with risk-taking and innovations. This is accompanied with the heavy bureaucratic procedures (85%), high taxes (87%), and expensive personal obligations by the entrepreneurs (90%).

The survey data, however, identify some positive factors that contribute to development and improvement of entrepreneurial business environment. The telecommunication facilities and competition in this industry has positively affected the business operation of small businesses in Quetta like other regional markets of the Country (80%). A mentionable number of respondents has perceived the post-1999 economic liberalization, privatization, and governmental institutional reforms as supporting to risky business decision making.

The above results lead to the major conclusions that the Small Business Enterprises development policy formulation should focus on the factors forming the small business environment. Improvement of these environmental dimensions impacts the entrepreneurial orientations positively, which in turn contribute to overall economic prosperity.

Annexure-I

Entrepreneurial Decision-Making Model of Naffziger et al.



PC = An Entrepreneur's Personal Characteristics

PE = The Entrepreneur's Personal Environment

PG = The Entrepreneur's Personal Goal

BE = The Relevant Business Environment

IDEA = The Specific Business Ide

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