

## Impact of Factors that Inhibit the Drive of Entrepreneurship in Pakistan: Empirical Evidence from Young Entrepreneurs and Students

Nasir Mahmood<sup>1\*</sup>, Cai Jianfeng<sup>1</sup>, Hina Munir<sup>1</sup> and Nosheena Yasir<sup>2</sup>

<sup>1</sup>*School of Management, Northwestern Polytechnical University, Xi'an, 710072  
Shannxi, P.R. China*

<sup>2</sup>*Northwest university Xi'an 710069, Shannxi, P.R. China.  
\*nasirmahmood@mail.nwpu.edu.cn*

### Abstract

*Nowadays, in the era of competitiveness, competition, innovation and development of a country cannot be achieved without the successful entrepreneurial process. The current research is intended to elaborate the factors that obstruct the drive of entrepreneurship in Pakistan. For this purpose a quantitative survey was conducted in order to examine the six factors: lack of education and skills, terrorism, social status, political environment, lack of financial resources and business environment with motivation of entrepreneurship. Data was collected through questionnaire using simple random sampling technique from the young businessmen and students from the 3 cities of Pakistan which includes Lahore, Gujranwala and Islamabad. For the purpose of the analysis the sample of 250 were selected out of which 200 questionnaires which show the response rate is 80%. Analysis was run by using SPSS 19 and results showed that the factors including lack of education and skills, terrorism, social status, political environment, lack of financial resources and business environment have significant relation with the motivation of entrepreneurship in Pakistan. The current study has provided valuable information and recommendation to government, financial institutions, socialists and potential entrepreneurs to improve the culture of entrepreneurship in Pakistan.*

**Keywords:** *Innovation, economic development, entrepreneurship, Pakistan*

### Introduction

In this era of competitiveness, innovation and development in the economic situation of a country can be achieved through the entrepreneurship. Previous research studies have emphasized the importance of entrepreneurship towards the growth of the economy (Acs *et. al.*, 2008, 2012; Audretsch and Keilbach, 2004a,b, 2008). Entrepreneurship contributes positively towards the development of the economy as well as enhances financial performance, and through innovation and economic development makes a positive and significant contribution towards the economy of a country (Alam, 2009). Furthermore, Afolabi and Ehinomen (2015) are of the view that entrepreneurship can also reduce the unemployment, thereby resulting in sustainable economic growth.

However, entrepreneurship is not an easy process as it is affected by various factors that inhibit the success of entrepreneurship in a country. As explained by Bowen and De Clercq (2008), that economic freedom, government policies, political climate, controlling government as well as other external factors that affects the intentions of the entrepreneur individuals who are about to start new business. Moreover, research studies of (Ahmed, Nawaz and Ramzan, 2012) focused on examining the impact of the political environment

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\*Corresponding Author

and corruption on the growth of the economy as well as entrepreneurship in a society. Hence, it is clear that, entrepreneurship in a country is affected by certain environmental factors.

In Pakistan, the economic development can be attributed to the significant contribution of the small business enterprises (Coy *et. al.*, 2007). Raouf (1998) explained that in Pakistan, approximately 85% of the business comprises of the small and medium sized enterprises that are contributing significantly towards the growth of the economy.

Although entrepreneurship played significant part towards the growth and development of the economy in Pakistan, however, there are many challenges faced by the entrepreneurs in Pakistan. Raouf (1998) identified some challenges that hinder the success of the entrepreneurship in Pakistan. He explained that mostly lack of finance, and training in the human resources, lack of advanced technology and lack of innovation have considerable adverse effects on the enterprises in Pakistan. As Pakistan is a developing country, yet such obstacles have been minimized but still individuals face such problems while starting their own business ventures. Moreover other factors that hinder the success of entrepreneurship in Pakistan are heavy government interventions, as well as political climate of the country (Altaf, 1998; Haque, 2007). Hence, it can be presumed that the success of the initiatives taken by the individuals in the entrepreneurship relies heavily on the existing political climate as well as government interventions. Support of the government is the key factor influencing the success of the entrepreneurship, as explained by Altaf (1988), if the size of the newly established enterprise is large, then it can get the support of the government in the form of favorable government policy. However, if the size of the enterprise is small, then there are less chances of government support. Fayyaz *et. al.*, (2009) conducted a research study on examining the perspective of the entrepreneurship in Pakistan and found that there is unavailability of sufficient authentic data on entrepreneurship, lack of business development services providers and lack of interest groups like associations and chambers *etc.*, Such factors hinder the success of the entrepreneurship in Pakistan. Moreover, Haque (2007) and Coy *et. al.*, (2007) highlighted that business network also contributes towards the growth of the entrepreneurship in Pakistan.

Past research studies have explored the critical success factors of entrepreneurship (Coy *et. al.*, 2007), as well as studied the entrepreneurship environment and associated factors (Awais and Manzoor, 2011). However, this study will emphasize on the factors that inhibit the success of the entrepreneurship in Pakistan. In this regard, certain factors that have considerable adverse effects on the entrepreneurship in Pakistan will be explored. The basic purpose of this research study is to examine the factors that hinder the entrepreneurship in Pakistan. These factors can be external as well as individual factors related to the entrepreneur.

This research study will be helpful for the young entrepreneurs in Pakistan to understand the factors constraining the entrepreneurship. Moreover, it will help the policy makers in Pakistan to understand the hindering factors of entrepreneurship and in the light of the research findings; they can develop such policies that are favorable in the promotion of entrepreneurship in Pakistan.

The main purposes of the current study includes;

1. To identify and examine the factors that hinders the entrepreneurship in Pakistan.
2. To study the impact of such factors on the motivation of the entrepreneurs in Pakistan.

## Literature Review

Word, entrepreneurship has been derived from a French word, *entreprendre* which means “to undertake” (Burch, 1986). Entrepreneurship means to do something without the fear of risks, and the individual who is willing to do this is called entrepreneur. Past

researches have provided many definitions of entrepreneurship, however, in simple words, entrepreneurship can be described as, the process through which new opportunities can be identified and ideas are originated. These opportunities and ideas are then converted into products and services. Lazear (2005) defined entrepreneurship, as process through which different factors of production are accumulated, such factors comprises of physical, human and information resources. He described, entrepreneur, as an individual who gather and combine people with the capital and useful innovative ideas and transfer it into unique products and services. Montaye (2006) identified entrepreneurship as an innovative factor of production, and the compensations of the entrepreneurship are associated with profits and uncertainty. Moreover, Entrepreneur is the person, who takes risks and brings innovation and uniqueness in the development of products or services (Von Gelderen, Frese and Thurik, 2000).

Two theories holds significant value in the history of entrepreneurship, these include McClelland's theory of need for achievement and Rotter's theory of locus of control.

### **McClelland's Theory of Need for Achievement**

For the first time in the development of sociological theories, McClelland (1965) started working on the need for achievement. He was of the view that in some societies, the economic and social development nurtures the entrepreneurship. The economic and social developments in such societies were because of the prevalence of the need for achievement in those societies that contributed towards the cultivation of entrepreneurship. McClelland (1965) argued that when an individual has high need for achievement, then he is more self-confident and likes to take risks. An individual with high need for achievement tends to observe is surrounding environment more keenly and measures his own performance in the context of the society.

### **Theory of Locus of Control**

Rotter's theory of locus of control has made a significant contribution in the research of entrepreneurship. According to the Rotter's theory of locus of control, the internal and external locus of control plays a considerable role in developing the intentions and attitude towards the entrepreneurship. The expectations of the internal locus of control are associated with the learning and it stimulates the active striving of the individuals. Expectations of the external locus of control hinder the learning and develop pessimism. The characteristics of the entrepreneur individuals are found to be related with the internal locus of control which drives the active striving of the individuals ((Ekpe, Mat and Razak, 2011).

Rotter (1966) further explained the notion of the locus of control. He stated that, when the entrepreneur individuals have a strong internal locus of control, tend to assume that external environment is not under their control. They perceive that whatever happens to them cannot be determined by the fate or their luck. However, they believe that they have certain elements in their hands through which the external environment can be taken into control to some extent. Brockhaus (1975) explained that young business students, who are intended to pursue entrepreneurship have high internal locus of control. On the other hand, business students who do not have any intentions towards the entrepreneurship have high external locus of control.

### **Factors Inhibiting the Entrepreneurship**

There are many factors that have significant effect on the entrepreneurship which include lack of training in business, obstacles in attainment of credit to make investment in business, and deficiency in managerial expertise (Hisrich and Brush, 1996; Williams *et al.*, 2012). Baron and Henry (2012) defined entrepreneurship as an area that helps in the

understanding of creating new opportunities to develop new products or services, which are developed by the individuals by launching new businesses.

External environment is found to have considerable effect on the entrepreneurship as well as the intentions of entrepreneurs (McQuaid, 2002). Through the process of entrepreneurship, certain opportunities that already prevail in the environment can be analyzed and utilized. A studied and identified by Amoros (2009) and Bowen & Clercq (2008), factors related to the external environment like government policy, political climate, economic freedom *etc.*, tend to affect the intentions of the individuals to start their own business. Political instability is the major factor that hinders the growth of the economy by slowing down the economic activities (Barro, 1985).

Other factors that are likely to influence the entrepreneurship in a society are exogenous which mainly include demographic characteristics, culture, traits of the individuals, and society. These exogenous factors also have impact on the attitudes, intentions and behaviors of the young entrepreneurs (Shapiro and Sokol, 1982). Support and encouragement of the family plays a great role in developing the attitudes and intentions of the entrepreneurs. Aldrich and Cliff (2003) explained that characteristics of the family tend to affect the identification of the business opportunities, decisions of starting new business and deployment of the resources. Similarly, Mahmood (2015) argued that intentions of the entrepreneurship are influenced by the availability of the financial resources in the family. If family of an individual has financial resources, then there is likelihood of the individuals to develop favorable intentions towards the entrepreneurship.

Baron and Henry (2011) developed a three stage model of entrepreneurship, which include pre-launch, launch and post-launch stage. At each stage, there are certain factors that tend to affect the behavior of the entrepreneurship. Following are the variables that have been identified as significant variables influencing the entrepreneurship at the initial or pre-launch stage in the process of the entrepreneurship. On the basis of McClelland's and Rotter's theories of entrepreneurship, various factors can be classified as the factors that hinder the entrepreneurship. These factors are explained as under:

### **Lack of Education and Skills**

Another factor that affects the entrepreneurship is the level of an individual's education and skills. As explained by Schroder (2005), education on entrepreneurship, competent business skills, sufficient training and information about the business and its environment tend to affect the intentions of the entrepreneurs in a society. Moreover, research findings of Charney and Libecap (2000) revealed that if the individuals have sufficient training and relevant entrepreneurial education and skills, then they can handle the risk associated with the entrepreneurship easily. It also influences the intentions of the individuals to be self-employed by starting new business. Therefore, adequate entrepreneurial education and skills have positive effects on entrepreneurship. When individuals develop high managerial skills and expertise, then they become more confident and their likelihood of starting own business increases (Peterman and Kennedy, 2003.) In the Global Entrepreneurship Monitor report, Mian and Quershi (2010) explained that in Pakistan, the entrepreneurial culture is weak because of the inadequate development of the human skills and lack of educational and managerial support. Lack of education, skills and training regarding entrepreneurship inhibits the entrepreneurship significantly.

**H1**= Lack of entrepreneur education and skills has negative relationship with the motivation of entrepreneurs in Pakistan.

### **Business Environment**

Business environment in a country is an important factor that is considered by the entrepreneurs while starting a new business. Klapper *et. al.*, (2007) explained that

business environment is the controlling environment that favors the operations and success of the business. He further elaborated various elements of the business environment, which comprises of initiation of a new business, obtaining license and copyrights, acquiring and developing the human resources, obtaining financial credit to support the business activities, tax payment, registering the business property, making business contacts, starting the trade globally as well as concluding the business. Such activities of the entrepreneurship heavily rely on the perceived business environment in a country. Business environment also constitutes economic system in a country which in turn affects the governance system, as well as other resources along with the perceptions of the entrepreneurs. Therefore, business environment can be considered as an important factor that could hinder or facilitate the entrepreneurship in a country.

The research on the business environment and its impact on the entrepreneurship have been validated by other authors as well. For example, Young and Welsch (1993) suggested that higher tax rates on business tend to have negative impact on the intentions of the entrepreneurs. They explained that, when the tax rates are high in some cities, such localities with high tax rates are not perceived attracted to create new business. Moreover, high taxes negatively affect the motivation to create new business, work and making investment in entrepreneurship. Increase in tax rates result in the low returns from the private investments, which may lead to an increase in the demand of relaxation (N.Mahmood, 2015). In addition to tax rates, other factors that are likely to affect the motivation level of the entrepreneurs include government regulation and policies of business, ease of access to government financial support, and labor market *etc.*,

**H2=** Business environment has a significant relationship with the motivation of entrepreneurs in Pakistan.

## **Terrorism**

Terrorism is the most important factors that are significantly considered by the entrepreneurs, as explained by Atherton (2007) that while starting a new business ventures, prospects of the success of the business is often taken into consideration by the entrepreneurs. Terrorism is likely to affect the prospect of success of a business in a society.

In case of Pakistan, terrorism is the biggest threat towards starting the new business for two decades. Terrorism has adversely affected the economy of Pakistan and this threat has sustained for more than two decades. Economic division of the Embassy of Pakistan reported that since 2002, more than 81421 terrorist attacks have taken place in Pakistan that has caused 8875 deaths and more than 20675 injuries, which resulted in the loss of \$51.3 billion to the economy of Pakistan. As a result of terrorism, GDP growth has slowed down, FDI and export has decreased with the increase in unemployment. Huddy *et. al.*, (2002) is of the view that, when individuals are intended to start new business venture, they feel terrorism as threat and they develop attitudes that reduce the risk of terrorism. Huddy *et. al.*, (2002) further explained that when individuals in a society perceive that there are chances of future terrorism in the society, they develop doubtful approach about the future of economy. Another study conducted by Karolyi and Martell (2005) examined the effect of the terrorist attacks on the trends in the stock market, and the research findings indicated that such attacks have negative effects on the stock market.

**H3=** Terrorism has negative relationship with the motivation of entrepreneurs in Pakistan.

## **Lack of Financial Resources**

Another factor that inhibits the success of entrepreneurs is the lack of financial support, as explained by Pretorius and Shaw (2004) and Atieno (2009), that in order to start a new business, the most crucial resource required by the entrepreneurs is the financial resources

to make initial investment in the new venture. Lack of financial resources is one of the most significant obstacles that hinder the entrepreneurs' efforts in starting a new venture of their own. Fatoki (2011) explained that, for the survival and success of the new business of entrepreneurs, financial support from the internal as well as external sources is required. However, lack of financial assistance could be a major barrier that negatively affects the intentions of the entrepreneurs to start new business. Lingelbach (2005) stated that in developing countries, families do not have personal savings that results in the lack of financial resources that could be used in entrepreneurship.

**H4=** Lack of financial Resources has negative relationship with the motivation of entrepreneurs in Pakistan.

### **Political Environment and Government Policies**

For newly established business entities, political environment is a considerable factor that affects the operation of the newly founded organization. Various authors have identified that political climate in a country can inhibit the newly founded businesses. As explained by Carroll (1965), political environment causes extreme displacement which leads the individuals to form a company of their own. Ali *et. al.*, (2010) are of the view that political uncertainty negatively affects the intentions of the individuals regarding entrepreneurship. Baena (2012) described that Pakistan as a developing country faces many economic challenges in the forms of fluctuations in the interest rates, inflation, import and export as well as aggregate demand *etc.*, which hinders the success of entrepreneurship in Pakistan. Therefore uncertain economic conditions along with the political instability adversely affect the entrepreneurship in Pakistan.

**H5=** Political environment has a significant relationship with the motivation of entrepreneurs in Pakistan

### **Social Status**

The notion of social status was introduced by Weber (1978), according to which, social status is a claim of individuals for social esteem. Various studies have validated the impact of social status on the motivations of the entrepreneurs as well as trends of the entrepreneurship in a country. For instance, research studies of (Licht and Siegel (2006) and Schumpeter (1934), suggested the impact of the social status and social cues from the society on the behavior of the entrepreneurs to start new business. Moreover, socio-cultural values also affect the environment that nurtures the entrepreneurship in a society Shapero and Sokol (1982). In addition to the socio-cultural factors, societal norms also led individuals in a society towards the acceptance of entrepreneurship in a country (Giannetti and Simonov, 2003). Moreover, Fershtman and Weiss (2003) explained that occupations in a society also have social status and benefits associated with the workforces in entrepreneurship. Such benefits are usually in the form of wages and association with a specific occupation in a society. Furthermore, individuals in a society have varying attitudes towards the social status; such attitudes influence the balance of the economic results of the entrepreneurship.

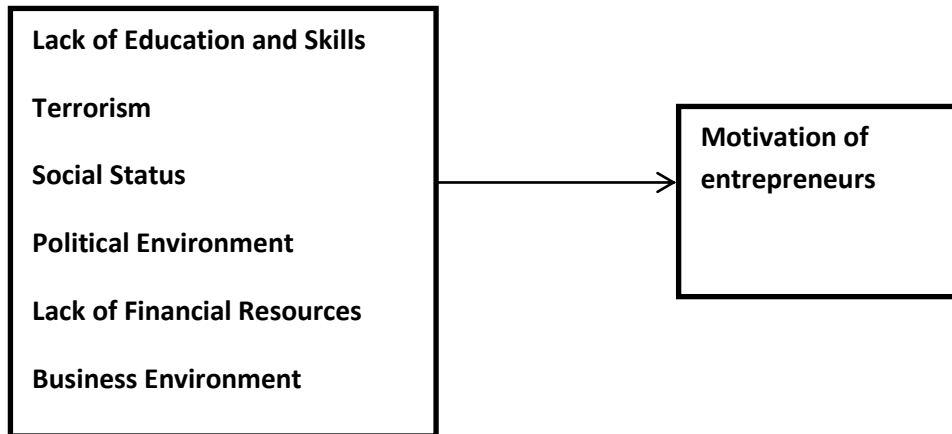
**H6=** Social Status has a significant relationship with the motivation of entrepreneurs in Pakistan

### **Motivation of Entrepreneurs in Pakistan**

Motivation is the key factor that significantly affects the efforts of an individual that one puts in developing a new product or service and starting a new business (Baron and Henry, 2011). Many authors believe that motivation of an individual contributes enormously towards his efforts in the initiation of a new business. As explained by Rauch and Frese (2000), individuals have certain motivations behind the entrepreneurship; most

probably they want to work towards the development of the economy and to achieve autonomy or want to be successful. According to Rauch and Frese (2000), individuals have certain motivations behind the entrepreneurship; most probably they want to work towards the development of the economy and to achieve autonomy or want to be successful.

### Conceptual Framework



**Figure 1. Factors Inhibiting the Motivation of Entrepreneurship in Pakistan**

### Research Methodology

This research aims to elaborate the factors that inhibit the motivation of entrepreneurship in Pakistan. a questionnaire survey was used to gather the data from target population. The survey contained two sections

- Demographic
- Subjective

Demographic section consists of the questions related to the age, gender and qualification of the respondents and subjective section includes the items related to the Lack of Education and Skills, Terrorism, Social Status, Political Environment, Lack of Financial Resources, Business Environment and dependent variable motivation of entrepreneurs. 5 point measurement scale was used in this study. 250 questionnaires was distributed among the young entrepreneurs and students of different universities and 200 out of 250 questionnaires was received and was useful for the study and which shows the response rate of 80%. The sample size of the study was 250 which were selected through the simple random sampling technique. Data was analyzed through SPSS 19.0 and analysis section included the demographic profile of the respondents and regression analysis.

### Analysis and Results

This section includes the demographic presentation of personal information of respondents. The relationship between independent variables (Lack of Finance, Lack of Education and Skills, Business Environment in Pakistan, Political Environment, Terrorism and Social Status) and dependent variable (Motivation of the Entrepreneurs) was examined by linear regression analysis technique. SPSS 19.0 tool was used for data analysis purpose.

**Table 1. Demographics of the Respondents**

Demographic Variable	Category	Frequency	Percent
Gender	Male	126	63.0
	Female	74	37.0
	Total	200	100
Age	18-25	73	36.5
	26-35	80	40.0
	Above 35	47	23.5
	Total	200	100
Qualification level	Graduate	49	24.5
	Masters	70	35.0
	MPhil	81	40.5
	Total	200	100

**Table 2. Regression Analysis**

Variables	R	R2	Beta	F	Sig.	Std. error
Lack of entr. edu. and skills	.551 <sup>a</sup>	.303	-.360	28.438	.000	.32383
Business environment	.980 <sup>a</sup>	.960	.449	78.256	.000	.07826
Terrorism	.787 <sup>a</sup>	.620	-.374	79.582	.000	.23972
Lack of financial Resources	.501 <sup>a</sup>	.251	-.176	21.881	.000	.33578
Political environment	.978 <sup>a</sup>	.956	.735	14.26	.000	.08119
Social Status	.954 <sup>a</sup>	.910	.708	44.939	.000	.11647

Dependent variable: Motivation of entrepreneurship

Predictor: (Constant), Lack of entrepreneur education and skills, Business environment, Terrorism, Lack of financial Resources, Political environment, Social Status.

Table 2, explains the regression analysis results which show the values of independent variables while independent variable of the study is motivation of entrepreneurship. R square = .303 which means that 30.3% variance is explained by lack of entrepreneur education and skills in motivation of entrepreneurs in Pakistan, R square = .960 which means that 96.0% variance is explained by business environment, R square = .620 which means that 62.0% variance is explained by terrorism, R square = .251 which means that 25.1% variance is explained by lack of financial resources, R square = .956 which means that 95.6% variance is explained by political environment, R square = .910 which means that 91.0% variance is explained by social status in motivation of entrepreneurs in Pakistan. The above values of f-statistics shows that the regression values are fit as shown by the significant value which shown in the Table 2, as  $p < 0.001$ . The value of beta for lack of entrepreneur education and skills shows as  $-.360$  which shows that there is negative relationship between lack of entrepreneur education and skill and motivation of entrepreneurship which is in favor of hypothesis 1. The value of beta for business environment, political environment and social status are as  $.449$ ,  $.735$  and  $.708$  respectively that show the positive relationship with motivation of entrepreneurship, however, the values of beta for terrorism, lack of financial resources are  $-.374$ ,  $-.176$  that shows the negative relationship with motivation of entrepreneurship and all that values shows the acceptance of all the hypotheses.

## Conclusion

Entrepreneurship contributes positively towards the development of the economy as well as enhances financial performance, and through innovation and economic development makes a positive and significant contribution towards the economy of a



country. The above results and analysis shows the factors that hinders the motivation of entrepreneurship in Pakistan. Entrepreneurship is not an easy process as it is affected by various factors that inhibit the success of entrepreneurship in a country. The economic development can be attributed to the significant contribution of the small business enterprises in Pakistan. Raouf (1998) explained that in Pakistan, approximately 85% of the business comprises of the small and medium sized enterprises that are contributing significantly towards the growth of the economy, but there are factors that hinders that motivation of entrepreneurship in Pakistan. The findings of this research showed that there are opportunities for entrepreneurs to start the business. Local citizens of Pakistan is motivated enough to start their own set up. But unstable political situation and terrorism negatively affect their motivation. There is positive business environment for entrepreneurs in Pakistan. Entrepreneurs have respectable social status in Pakistan.

## Recommendation

This research gave valuable recommendation for government authorities, socialist, potential entrepreneurs and financial institutions. Firstly, government of Pakistan should make entrepreneurs friendly policies to promote entrepreneurship in Pakistan. Secondly, financial institution should offer easy term loan packages for entrepreneurs. Thirdly, banks should educate the public about entrepreneurship rules. Fourthly, government should organize technical institutes for potential entrepreneurs. Lastly, government should take serious steps to finish the terrorism from Pakistan in order to create profitable financial stream.

## Limitations

The current study is aimed at to identify the factors inhibit the drive of entrepreneurship in Pakistan. Due to the shortage of time and money we didn't consider the other cities of Pakistan and the other big and multinational firms as well.

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