

## An Investigation of the Psychological and Institutional Factors Impeding Individuals Becoming Business Entrepreneurs: Evidence from Public Sector Universities of Province Punjab, Pakistan

Muhammad Imran Siddique<sup>1</sup>, Dr. Babak Mahmood<sup>2</sup>, Muhammad Shahzad Iqbal<sup>3</sup>, Muhammad Tayyeb Riaz<sup>4</sup>

<sup>1</sup>Lecturer, Preston University Faisalabad

<sup>2</sup>Associate Professor, Department of Sociology, GC University Faisalabad, Pakistan

<sup>3</sup>Assistant Professor, School of Management Studies, the University of Faisalabad, Faisalabad. Pakistan

<sup>4</sup>Assistant Professor, School of Management Studies, the University of Faisalabad, Faisalabad. Pakistan.

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### ABSTRACT

This study was conducted in order to investigate if psychological and institutional factors have any impact on individual's decision to become business entrepreneurs. Some 288 business education students were taken as sample by using simple random sampling from public sector universities operating in Punjab. A well structured questionnaire comprising 30 questions was used to collect the data. Multiple linear regression analysis was then applied to find the impact of psychological and institutional factors on student's decisions about entrepreneurship. Results revealed that institutional factors have more impact than psychological factors on student's decision to become business entrepreneurs. Given the significance of entrepreneurship necessary measures have been suggested.

**KEY WORDS:** psychology, sociology, entrepreneurs, evasion, barriers, university students, Punjab, Pakistan.

### INTRODUCTION

Since the inception of this century, serious devotion has been given to entrepreneurship due to its ability to create employment, boost economic growth and incite innovation and productivity [1]. Entrepreneurship is widely known to be the major catalyst for the economic growth of a country [2]. Most researchers including [3] and [4] have supported the claim that entrepreneurial endeavors contribute to job creation, economic growth and competitiveness of the country.

In province Punjab, out of total 101.4 million population, 62% belongs to working class which accounts for 63 million people in which only 3.7% population is self employed. It means only every 26<sup>th</sup> person is self employed (Institute Of Policy Reforms, 2016). It is also seen that recent trends of entrepreneurship have not been very much favorable for Pakistan. Knowing the fact that entrepreneurship have driven an upsurge in prosperity in several parts of the developing world, the Pakistani economy remained stuck at low gear. In 2015, country was ranking at 123 on the Global Entrepreneurship Index (GEI) among 130 countries of the planet [35]. Country continued dropping down and in 2016, it was ranked 138 out of 189 countries on the index of world bank's doing business rankings [6]. Report revealed by [7] claimed that country's GEDI score was 20.1 ranking at bottom positions, needs 17% improvement in 'entrepreneurial efforts' and 3% 'cultural support'. This report says that the main hindrance in the country for nurturing entrepreneurial activities is bureaucratic red tape. Country is along with factor driven countries like Bangladesh and Uganda and is still in its nascent stages [5].

In order to promote entrepreneurship, both at government as well as at private level, several efforts have been made in last ten years. Currently, APNA ROZGAR Scheme and *Interest Free Loan* for TEVTA skilled students are being offered through Skill Development Council and TEVTA. In addition to this government funds are also being distributed through well performing entrepreneurship development private organizations such as 'AKHAWAT'. Currently, there are over 60 private institutions and NGOs working for the development of entrepreneurship in Punjab. The biggest incubator *plan9*; a product of Punjab Information Technology Board (PITB) has graduated 102 new companies. Since 2014, Lahore University of Management Science (LUMS) has been hosting a prominent business incubator 'Center for Entrepreneurship' and has graduated 42 new startups successfully. Moreover,

**Corresponding Author:** Muhammad Imran Siddique, Associate Professor, Department of Sociology, GC University Faisalabad, Pakistan. Email: babakmahmood@gmail.com.

corporations working in Pakistan have showed keen interest in contributing their role for promoting entrepreneurship. Telenor introduced ‘Velocity’, Mobilink is going to support new ‘National Incubation Center’, Engro foods, Coca Cola and Unilever have also projects to support new startups in country [6].

## LITERATURE REVIEW

### **PSYCHOLOGY AND ENTREPRENEURSHIP INTENTIONS**

Researchers have no an identical definition about individual’s entrepreneurship intension. However, in this paper the definition of [8] has been adopted; it is a mental orientation in the shape of desire, wish and hope which influences an individual in her choice of entrepreneurship.

Several studies have been conducted on how various elements of personality and psychology have impacted on individual’s desire to take a start up. It is seen that more a person is creative, more he is exposed as entrepreneur. However, it is not a final condition, as many innovative minds do not take risk in their life and thus use their creative skills for the businesses of others. A study conducted at CIPUTRA university, Indonesia by [9] checked three characteristics of students; intelligence, creativity, and personality and their relationship with their entrepreneurship achievement in their life. This cross sectional study used Minnesota Multiphasic Personality Inventory Test, Culture Free Intelligence Test and Verbal and Figural Creativity Test. Study disclosed that there was no significant relationship between creativity and entrepreneurship achievement (EA) as well as between intelligence (IQ) and entrepreneurship achievement. However, the relationship between (EA) and personality had been significant. This work however, did not consider the size and nature of businesses where psychology impacts significantly.

[10] mentioned that there is no area in which the interface between psychology and business becomes more obvious than small scale entrepreneurship. This work largely gives importance to small and medium sized businesses for promoting entrepreneurship. According to this study, one of the hurdles of starting a business is the individual’s strong desire to work for a large organization.

A very recent study conducted by [11] revealed that among psychological barriers; risk aversion and fear of failure are the most impacting hindrances in Pakistan. [12] resulted after an exploratory research conducted at Romania that some psychological factors such as achievement motivation, independence and internal locus of control have significant impact on individual’s decision to become entrepreneurs.

[13] emphasized the need for preparing students of universities by using psychology. He argued that having confidence is highly inevitable in order to effectively handle and accomplish a particular task. This confidence is actually ‘self-efficacy’ and ‘can do attitude’ (Bandura, 1997).

A study conducted by [14] of ‘YES network Pakistan’ also proved that the dominant factors are ‘fear of failure’ and ‘lack of experience’ which impede individuals to become business entrepreneurs. This is not simply a literary work but ‘an applied experiment’ in which over 1000 students were given Rs. 2500 each. The study confirmed that the subject of entrepreneurship should be more practical. The students should be assigned different tasks to do business and face the challenges of real world. The findings of [15] have also evidenced that locus of control, self efficacy [16], subjective norms and instrumental readiness have positive impact on entrepreneurship inclination.

In a study conducted in Poland, [17] reported that individual’s predictive value of beliefs regarding one’s problem solving skills; strong will and their persistency have positive influence on entrepreneurial spirit. [18] reported a positive impact of independence of work on entrepreneurial attitude. [19] reported that in Pakistan among other notable barriers, fear of failure was a significant element restraining people becoming entrepreneurs. Interestingly, the fear of failure percentage in Pakistan had been lesser than those of factor driven countries. This was also endorsed by [36] [20] who proved in a university study that dominant factors impeding students towards entrepreneurship had been psychological; internal locus of control, self efficacy and fear of failure.

While reporting the findings of nine universities of Xi’an China, [8] suggested that student’s risk propensity and self confidence have significantly positive impact on student’s self efficacy which in turn leads to entrepreneurship intension. The same findings were emphasized in the study conducted at Turkish and American students by [21] claiming that optimism, innovativeness and risk bearing attitude have significantly positive impact on entrepreneurial intension. [22] proved that psychological factors such as need for achievement, self confidence and

personal attitude have significant while tolerance of ambiguity, risk taking attitude, locus of control and innovativeness have insignificant impact on entrepreneurial intention.

A recent study conducted at Malaysia by [23] revealed that personal attitude, perceived relational support and perceived behavioral control were the major predictor to entrepreneurial intention among undergraduate students.  
Hypothesis 1: Psychological factors have positive impact on entrepreneurial evasion

#### **UNIVERSITY EDUCATION AND ENTREPRENEURSHIP INCLINATION**

A study conducted by [24] resulted that the university's role to promote entrepreneurship has been significant in shaping students mind towards entrepreneurship. Similarly, what they learn through subjects; their curriculum and content also affect on student's inclination towards or avoidance from entrepreneurship. Interestingly, what normally considered that father's occupation strongly influence individuals decision towards own business has been denied in this study, instead, their working experience, gender, and program of study affected most on their predilection towards own business. Study further revealed that internship programs, independent learning approach, image and role model also have lesser impact in their decision to become business entrepreneurs.

Another useful work performed by [25] claiming that the strongest factor impacting on willingness towards entrepreneurship of students of non business subjects at president university Indonesia is their 'own desires' based on their psychological condition followed by content of education and family background. This study was distinguishing from earlier works in a sense that it proved very little impact of family traditions and values. Azad Ivan University claimed that major factors affecting entrepreneurship of women in Iran were financial, social, educational, governmental, scientific and psychological. This is an interesting study which confirms the findings of [26] and [27]. [28] claim that there has been a significant growth witnessed in the studies of entrepreneurship education in institutions.

[29] say that the number of courses on entrepreneurship have gone to tenfold in USA between the period of 1979 and 2001 while this figure further has been tripled until 2014. As number of courses and number of learners of entrepreneurship increasing, the number of entrepreneurs must be increased proportionally. However, there has been contradiction among researcher on the stance if entrepreneurship education strengthens entrepreneurship culture or not. Generally, it is confirmed that entrepreneurship education has positive impact on entrepreneurship [30].

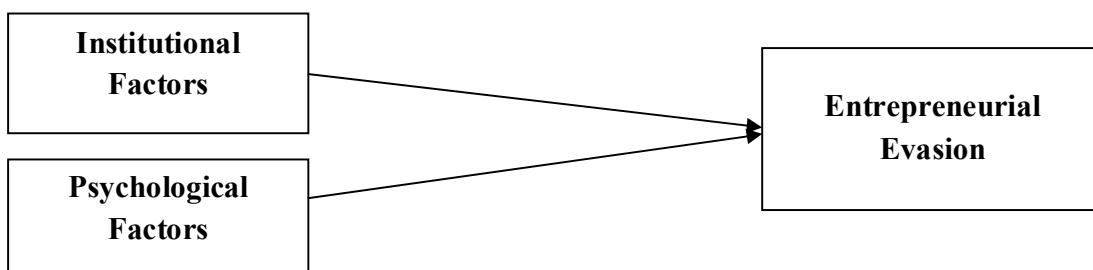
Under the supervision of World Bank Research Group an important study was conducted in Pakistani rural areas by [31] which reported that human capital, if sharpen through training and development, significantly increases the business knowledge, improves business practices and reduces failure rate. It further claimed that such trainings improve financial and labor allocation decisions, thus are very helpful in entrepreneurship adaptation and their successes.

[32] mentioned that poor training and personal interests have significant impact on student's decision regarding entrepreneurship in Pakistan. [15] also claimed that university role and parental income are the most decisive elements for entrepreneurship choices.

Hypothesis 2: Institutional factors have positive impact on entrepreneurial evasion.

#### **CONCEPTUAL FRAMEWORK**

Keeping in view, all the discussion on previous sections, the following model can be constructed;



Source: Author's own contribution

## METHODOLOGY

The data was collected through self administered questionnaire. The respondents were approached physically and also through online. The sample consisted of 305 business students who were studying in their last semesters. Only 283 students responded resulting in 93% response rate. The dependent and independent instrumentation were partially adopted from previous studies such as [33], [11], [15], [32], [24], [34]) and [16], however, words and sentences were changed to enhance understanding in Pakistani context. All responses were measured using five point likert scale, ranging from '1' as 'strongly disagree' to '5' as 'strongly agree'.

### DATA COLLECTION METHODOLOGY AND CHARACTERISTICS OF SAMPLE

The data was collected from the business students of last semesters at masters' level from 14 public sector universities of the province Punjab. Majority of the students were male, 75.3% or 217 students. Over 70% students were aged 23 or 24 years which totals to 198 students. 68% (197) students originally belonged to cities, 22% (63) belonged to towns and only 10% (28) students were from villages.

### THE RESULTS AND ANALYSIS OF DATA

The data were analyzed using *multiple linear regressions*. The analysis and interpretation of this model was a two stage process. First is the assessment of the reliability and validity of the measurement scale and the second is the assessment of the statistical model to test the hypotheses under study. These assessments are being presented in next sub sections.

#### ASSESSMENT OF THE MEASUREMENT MODEL

In order to ensure if the measurement scale is reliable, internal consistency and indicator reliability check were performed. The results of internal consistency are above the threshold value which is 0.6. it ranges from 0.619 to 0.937 which shows that the used items are satisfactory reliable with internally consistency. In order to check the convergent validity, the most popular method *Average Variance Extracted* was used. The results show that all constructs have AVE ranging from 0.678 to 0.819, demonstrating fair convergent validity. Similarly, Discriminant validity which shows the extent to which one construct differs from the other; was checked by using Fornell Larcker's criterion. It was found that AVE of each of the latent variable has been higher than the highest squared correlation with other latent constructs. Based on this, Fornell Larcker's criterion was met.

#### ASSESSMENT OF THE STATISTICAL MODEL

The value of multiple correlation coefficient is represented by R in table 2. The value of 'R' is considered to be the prediction quality of dependent variable which is entrepreneurial evasion in this case. The value in this case is 0.580, which indicates reasonable good level of fitness of predictor. The coefficient of determination is shown with 'R<sup>2</sup>' in table 2 which shows the variation in dependent variable due to independent variable. It is also called the fitness of model. The closer the value of 'R<sup>2</sup>' to the 1, the greater is the level of confidence of prediction. Although the vale of 'R<sup>2</sup>' is 0.336 which means it only explains the variation by 36% but in primary data, the value of 'R<sup>2</sup>' is normally low. So, the results of the study are significant enough to be accepted.

Adjusted R<sup>2</sup> is generally closer to the R<sup>2</sup>. It explains how the model generalizes. In this model, it is closer to R<sup>2</sup> i.e. 0.331 which explains good value.

The F-ratio in the ANOVA table (see below) tests whether the overall regression model is a good fit for the data. The table shows that the independent variables statistically significantly predict the dependent variable, Here these are F(2, 285)= 72.133 , p< 0.0005 (i.e. the regression model is a good fit for data).

**Table 1: ANOVA Table**

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	51.302	2	25.651	72.133	.000 <sup>b</sup>
	Residual	101.348	285	.356		
	Total	152.650	287			
a. Dependent Variable: Entrepreneurial evasion						
b. Predictors: (Constant), Institutional and Psychological						

It is also seen from the table below that institutional factors ( $\beta = 0.442$ ,  $p < 0.01$ ) is the most significant predictor of the entrepreneurial evasion among chosen students, followed by psychological factors ( $\beta = 0.346$ ,  $p < 0.01$ ).

**Table 2: Regression Analysis**

Hypothesis	Relationship	Beta ( $\beta$ )	Significance	Supported
<b>H1</b>	Psychological factors and entrepreneurial evasion	.346	0.02	Yes
<b>H2</b>	Institutional factors and entrepreneurial evasion	.442	0.01	Yes
<b>R= 0.580 and R2= 0.336</b>				

## DISCUSSION AND CONCLUSION

The implementation of this study was to verify if psychological and institutional factors hinder on student's intension towards entrepreneurship adaptation.. Knowing the vital importance of entrepreneurship for the economic and social growth of any country, this study was conducted so that student's concerns regarding adoption of 'own businesses' could be examined. The study found that both hypotheses formulated have significant impact on entrepreneurial evasion. Thus it is suggested that psychological and institutional issues need to be addressed in order to convince students towards entrepreneurship. In terms of psychological factors, this study has similar findings to the study conducted by [11], [12] and [20]. Similarly, the works of [15] and [32] are consistent with this study and showed positive significant impact of institutional role to develop entrepreneurial spirit in students.

The key contribution of this research is the acquiring of empirical evidence of the factors affecting student's evasion from entrepreneurship. The chosen individuals were nascent entrepreneurs and it was very important to understand their very needs, concerns and viewpoints regarding entrepreneurship.

The implication of this work to policy makers and educationist is, in addition to offer effective entrepreneurship developing opportunities in institutions, universities must consider other factors also in order to develop entrepreneurial attitude and motivation in students. These might be developing specialist courses of entrepreneurship, hiring of mentors, establishment of incubation centers, career counseling cells, more effective internship programs and creating in-large a healthy entrepreneurship culture in the business student's overall learning environment.

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