

**An Empirical Investigation of the Entrepreneurial Environment: Evidence from GEM Pakistan Data.****Soomro Raheem Bux<sup>1</sup>, Khair Mohammad<sup>2</sup>, Faqeer Muhammad<sup>3</sup>**

**Abstract:** *The Pakistani people possess a God-gifted ability to be entrepreneurial nation. In the national economy, Small and Medium Enterprises (SMEs) constitute nearly 90% of all private firms; they are a source of employment for nearly 80% non-agricultural labor force; and contribute a share of 40% annually in GDP of the country. Therefore, this research is basically carried out to investigate entrepreneurial environment in Pakistan through GEM data. This study has used two sources of data and they are: the Adult Population Surveys (APS) and 09 indicators of National Experts Survey (NES). Experts have generally rated entrepreneurial environment of Pakistan as a mediocre. The biggest constraint for entrepreneurs in Pakistan is access to finance, while the biggest contributing factor is Cultural and Social Norms and view of 51.50% experts is that access to finance is the most important recommendation given by the experts. In Pakistan men hold more positive attitude than females towards starting own business. The Male TEA rate is 21.27 while female rate is just 1.21. In order to promote an entrepreneurial environment in Pakistan, the government has to play an instrumental role.*

**Key Words:** *Entrepreneurship, Entrepreneurial Environments, GEM, National Experts Survey, Pakistan, TEA, Government Policies and Programs.*

**1.0 Introduction**

“Across virtually all periods of human history, entrepreneurship has served an important function in progress of the modern civilization (Shane, 2000)”. “Entrepreneurship has become more important than ever in recent years, and it has received attention as a leading factor in achieving economic growth, high employment, strong job creation, and positive social development (Acs, *et al.*, 2005)”. “Several scholars have demonstrated that entrepreneurship is not only beneficial but necessary for a healthy economy (Gorman 1997 and Henry 2003)”. “The entrepreneurial activities put their effects on an economy in three different ways. *First*, knowledge spills are created through entrepreneurial activities. *Second*, competition increases in the economy as the number of business entities increase. The increased competition in turn enhances the quality of products. *Finally*, knowledge diversification also occurs as an output of entrepreneurial activities (Van Stel *et al.*, (2005)”. “Mohar *et al.*; (2007) said that the developed economies ponder entrepreneurship as an energizing socio economic agent, a way of coping with unemployment problems, a potential catalyst and incubator for technological progress, the product and market innovation”.

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The Pakistani people as a nation possess a God-gifted entrepreneurial ability and this due to the significant contribution of Small and Medium Enterprises (SMEs) in the national economy. "SMEs constitute nearly 90% of all private firms; they are a source of employment for nearly 80% non-agricultural labor force; and contribute a share of 40% annually in GDP of the country (GEM Pakistan report, 2012)". "Haque (2007) argues that the development of a small scale sector may be regarded as the reflection of entrepreneurial efforts in Pakistan". The small and medium enterprises are mostly kick started by the individuals themselves or in partnership with their primary or secondary peers. While choosing entrepreneurship as a career, individuals base their decisions on certain environmental factors. "These factors may range from an evaluation of market opportunities to the assessment of their own capabilities. Furthermore, the decision to own a business may differ from country to country depending on cultural, social, political, and economic contexts (Chu et al., 2011)". Actually, these factors (cultural, social, political, and economic) are making an environment for any type of entrepreneurial activity.

There are few reasons behind carrying out research study. Firstly, despite of several efforts taken by the Government of Pakistan like establishing institutes (EPZA, SMEDA, SME Banks etc.), export re-financing schemes, loosening collateral security requirements and others to improve an entrepreneurial environment, but, even though, "GEM Pakistan report (2010) said that Pakistan lags in start-ups; with less than half the rate of early-stage entrepreneurial activity found in other factor-driven economies". "Bari et al. (2005) also reports that the SMEs in Pakistan currently perform below their potential and have low-growth performance". "Ullah et al. (2011) point out that the failure rate of SMEs has been estimated at 90-95 percent within the initial stage". Secondly, most of the young people after completing their education from higher education institutes give preference to stable jobs over exploring entrepreneurial career opportunities in Pakistan. Thirdly, being a Muslim country, Pakistan has dissimilar economic, cultural, values, educational, political and social environments; there is a need to study separately entrepreneur environment in Pakistan from other non-Muslim countries. Fourthly, there is a severe shortage of the literature which has examined an entrepreneurial environment in Pakistan. Most of the research has been conducted in developed countries and because of their higher institutional support, more advanced trainings and educational systems, the conclusion drawn from their research may not be applicable in Pakistani context.

With the above-mentioned background, the fundamental intention of this research paper is to found a theoretical base to the various authorities for developing effective strategies and plans to promote and augment the entrepreneurial development in Pakistan. This research paper has been organized in following manner. After an introduction, the next part discusses literature regarding entrepreneurship environment and economic development. In the subsequent sections, the methodology of the present study has been described and lastly, findings have been presented. At the end of this research manuscript, conclusions and recommendations for future research have been mentioned.

## 2.0 Literature Review

### 2.1 Entrepreneurship and Economic Development

“Entrepreneurship has been defined as a process of creating something new with value by devoting the necessary time and effort, assuming the accompanying financial, psychic, and social risk, and receiving the resulting rewards (Hisrich et al., 2005)”. “Scarborough et al., (2003) wrote in their books that entrepreneurship is a major engine driving many nations’ economic growth, innovation and competitiveness”. According to Schumpeter, the entrepreneur is the prime mover in economic development and his function is to innovate. “Ali (2013) stated that a small and medium enterprise helped in the society and economy development in the country through employment creation and enhancing the income level of the country people”.

“The University of Iowa's Center for International Finance and Development states that: “Economic development” is a term that economists, politicians, and others have used frequently in the 20th century. The concept, however, has been in existence in the West for centuries”. “Modernization, Westernization, and especially Industrialization are other terms, people have used while discussing economic development. Economic development has a direct relationship with the environment”. “According to the definition of Todaro (2012), economic development as an increase in living conditions, improvement of the citizen’s self-esteem needs and free and a just society”. Development economists distinguish three major phases of economic development:

- (1) “The economy specialized in the production of agricultural products and small-scale manufacturing;
- (2) The economy shifts from small-scale production towards manufacturing; and
- (3) With increasing wealth the economy shifts away for manufacturing towards services (Syrquin, 1988)”.

“Porter *et al.*, (2001) have provided a modern rendition of this approach by identifying three stages of development: (i) a factor-driven stage; (ii) an efficiency-driven stage; and (iii) an innovation-driven stage economies” as shown in Table 1.

**Table No. 1:** Characteristics of economic groups and key development focus.

<b>Factor-driven</b>	<b>Efficiency-driven</b>	<b>Innovation-driven</b>
<b>From subsistence agriculture to extraction of natural resources, creating regional scale-intensive agglomerations</b>	Increased industrialization and economies of scale. Large firms dominate, but supply chain niches open up for the small and medium enterprises	R&D, knowledge intensity, and expanding service sector. Greater potential for innovative entrepreneurial activity
<b>Basic requirement → efficiency enhancers → entrepreneurship conditions</b>		

### 2.2 Entrepreneurial Environment

“Entrepreneurial phenomenon has been studied excessively in many countries, using different methods and covering different aspects (Alvarez et al., 2011)”. Studying entrepreneurial environments is a key phenomenon among others. Entrepreneurial

environments can be defined as a blend of numerous factors which play a key role in order to promote entrepreneurial activity in any country. “As the infrastructure develops and as the entrepreneurial system grows, the system will thrive only if the environment is conducive for entrepreneurial activity and new venture creation (Pennings, 1980)”. “In order to develop an infrastructure and making conducive environment for entrepreneurship, the government has to play a pivotal role in this regard. Governments can influence market mechanisms, making them function efficiently by removing conditions that create market imperfections or administrative rigidities (Fogel, 1994)”. “Socio-economic factors may be as important as availability of the loans, technical assistance, physical facilities, and information (Gartner, 1985)”. “Beck and Demirguc-Kunt (2006) argued that for new business to grow, it is important to strengthen the entrepreneurial environments”. “Countries that keep rules and regulations at a minimum, offer tax and other incentive, and provide training and counseling services to start-up entrepreneur increase the likelihood of new venture development (Dana, 1987)”. “Therefore, changes in the entrepreneurial environment have either a negative or a positive effect on the growth or failure of small businesses (Ahmad et al., 2010)”.

### **2.3 Literature Linking Entrepreneurship Environment**

“The environment for entrepreneurship is important for new firm venture (Delmar and Wiklund, 2008; Ahmad et al., 2010)”. The term “entrepreneurial environments” refers to a combination of factors that play a role in the development or nurturing of entrepreneurship and entrepreneurial activities. “Many works have indicated the effect of different factors of entrepreneurial environments on entrepreneurship (Fogel, 1994; Brandstatter, 1997; Zapalska and Zapalska, 1999; Singh, 2000; Ahmad et al., 2010)”. In this regard, GEM has described several factors in the category of entrepreneurial framework conditions (EFCs) like; Education and training, Finance, Commercial and professional infrastructure, Government policies and programmes, Research and development, Market openness, Access to physical infrastructure, and Social and cultural norms.

Access to finance is being considered as the most widely discussed and a recognized device in the promotion of entrepreneurial activity in any country. “Finance was the only external regulator explicitly recognized by Schumpeter, who focused on the availability of bank credit, although he also mentioned private equity providers (Schumpeter 1934, p. 70)”. “Insufficient finance is regularly cited by non-entrepreneurs as a barrier to starting a business (Volery et al., 1997; Kouriloff, 2000; Robertson et al., 2003; Choo and Wong, 2006), and there is some evidence that restricted competition in banking and government credit controls can restrict entry in the non-financial sector (Cetorelli and Strahan, 2006; Kawai and Urata, 2002)”. In this regard, “Leibenstein (1968) suggested that there turn on an N-entrepreneurial investment had different qualities from an investment in routine entrepreneurship, and this had implications for policy and for the financial industry”.

Government policies have been explained by GEM as the extent to which regional and national Government policies and their application, concerning general and business taxes, Government regulations and administration, are size neutral and/or whether these policies discourage or encourage new and growing firms (Reihana et al., 2007). Government programmes at various levels (national, regional and local) are highly helpful for creating and nurturing entrepreneurial activity in any country. “In his

discussion of exogenous factors, Leibenstein (1968) recognized the role of “nurture” in building entrepreneurial capacity”. “Nurturing could be conducted by government agents through dedicated nurturing programs, or professional services advisors, such as accountants, bankers, lawyers and business consultants (Fischer and Reuber 2003; Clarysse and Bruneel 2007)”. “Governments may support entrepreneurial firms through programs which provide subsidies, material and informational support for new ventures (Dahles 2005; Keuschnigg and Nielsen 2001, 2002, 2004)”. “Such programs may reduce transaction costs for the firms (Shane 2002) and enhance the human capital of entrepreneurs (Fayolle 2000; Delmar and Shane 2003)”.

“Socio-economic factors may be as important as availability of the loans, technical assistance, physical facilities, and information (Gartner, 1985)”. “The presence of experienced and successful entrepreneurial role models in a community conveys a message to the other potential entrepreneurs that business is an attractive career option (Zapalska and Zapalska, 1999)”. “Successful entrepreneurs can be developed through educational and short-term training programs, especially when market imperfections exist, large industries dominate the industrial sector, government policies do not support small businesses and several bureaucratic hurdles have to be overcome to get permission to start a business (Davidson, 1991)”. “Countries that keep rules and regulations at a minimum, offer tax and other incentive, and provide training and counseling services to start-up entrepreneur increase the likelihood of new venture development (Dana, 1987)”. “Therefore, changes in the entrepreneurial environment have either a negative or a positive effect on the growth or failure of small businesses (Ahmad et al., 2010)”.

#### **2.4 Entrepreneurship in Pakistan**

“Pakistan is a developing country with a population of over 179 million in 2012, making it the world's sixth most-populous country, behind Brazil and ahead of Nigeria (GEM Pakistan Report, 2012)”. “The structure of the population pyramid has changed a lot in the past decade as the base of the pyramid has become very heavy and about 80 million people are in the age bracket of 15 to 40 years (GEM Pakistan Report, 2012)”. In the national economy Small and Medium Enterprises (SMEs) constitute nearly 90% of all private firms; they employ 80% of the nonagricultural labor force; and their share in the annual GDP is 40%.

“The attitude towards entrepreneurship in Pakistan is generally not that favorable; however, a higher percentage of males than females hold a positive attitude towards entrepreneurship (GEM, 2016)”. Probably, therefore, people in Pakistan prefer stable jobs over self-employment. In Pakistan, there is also a big gap between the TEA rate of male and female. “According to GEM Pakistan Report (2012), the male TEA rate in Pakistan is more than seventeen times that of the female TEA rate”. This gender gap in Pakistan is one of the highest in the world when compared with the rest of the world, including its other factor-driven peer nations.

“According to GEM Pakistan profile, the TEA rate is 11.6%. Most of the entrepreneurial activities have been done in necessity-driven (in case when no other alternate is available), while the level of opportunity-motivated entrepreneurship is very low”.

The growth of SMEs in Pakistan is not free from hidden and apparent constraints. The most important constraints are lack of coordination, financial constraints, political

instability, regulatory reforms, labor issues, energy crisis, taxation problems, law and order situation and a regular information exchange mechanism among institutions etc. All these constraints (hidden and apparent) are making a non-conducive environment for the entrepreneurship development in Pakistan. Therefore, we have discussed all these obstacles in coming parts of this research manuscript.

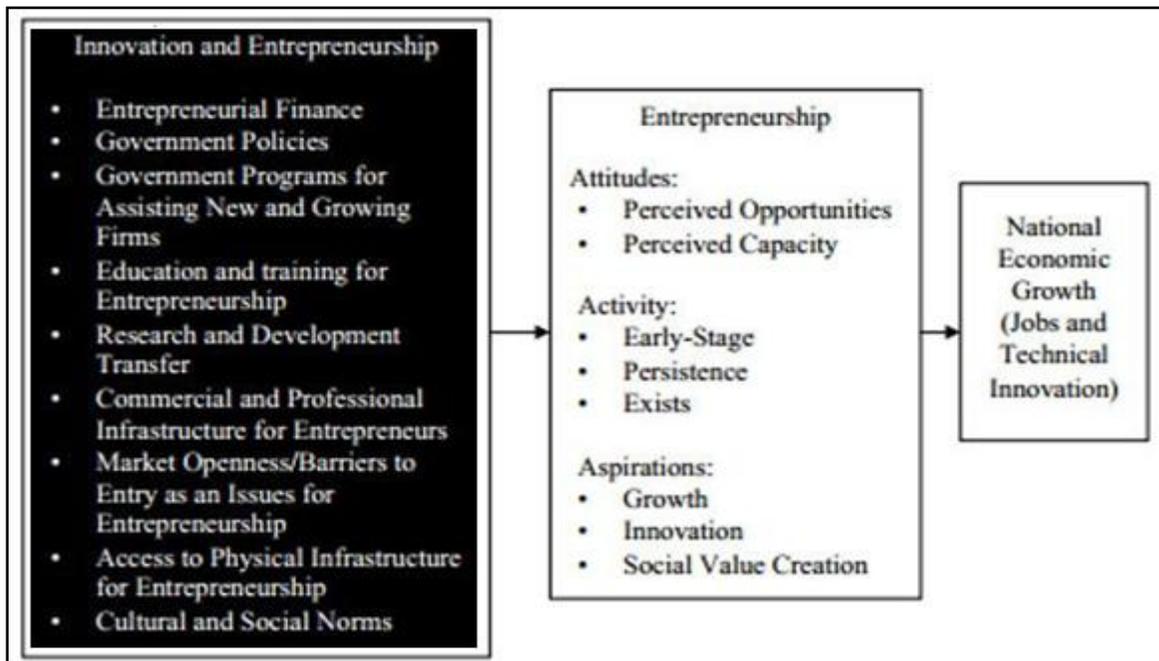
### 3.0 Research Methodology

#### 3.1 Premise of GEM model

“The basic model utilized to develop the GEM research program envisioned characterization of countries in terms of nine dimensions, referred to as entrepreneurial framework conditions (Paul Reynolds et al., (2005)”. “The conceptual model employed by GEM indicates entrepreneurship attitudes, activities and growth are influenced by factors of entrepreneurial environments such as availability of finance, government policies, government programs for assisting new and growing firms, education and training, research and development transfer, commercial and professional infrastructure, internal market openness/barriers to entry, access to physical infrastructure, cultural and social norms (Kelly et al., 2010)”.

The model shown in Figure 01 furnishes all formal institutional factors which can impact on an entrepreneurial environment. The model which was proposed by Reynolds in 1999 has attracted the attention of more than 60 GEM countries. Pakistan is also one country which joined hands of GEM in 2010.

**Figure 01: The GEM conceptual model.**



### 3.2 Data sources

Global Entrepreneurship Monitor (GEM) 2011 is the source of data collection for this study. This study has used two sources of data and these are: the Adult Population Surveys (APS) and National Experts Survey (NES). The primary source of data collection is APS. This survey (APS) provides data about the total entrepreneurial activities (TEA), characteristics of entrepreneurs, and new business structure. Whereas, National Expert Survey provides data for environmental conditions in Pakistan. “NES has been conducted through 57 structured interviews of the experts across the Pakistan (GEM Pakistan Report 2012)”. These experts belong to various groups like governmental officials, academicians and resource providers. These experts graded entrepreneurial conditions on the Likert scale of 5-point that denote various conditions of each entrepreneurial framework conditions (EFCs).

## 4.0 Results and Discussion

### 4.1 Demographic characteristics of Pakistani entrepreneurs

“In Pakistan men hold more positive attitude than females towards starting own business. In the factor driven countries the lowest level of women participation can be found in Pakistan, Egypt and Palestine (GEM Pakistan Report, 2012)”. Similarly, there is also a significant difference between the male and female rate of total early-stage entrepreneurial activity (TEA) in Pakistan. According to GEM Pakistan Report (2012), the male TEA rate is 21.27 while female rate is just 1.21. Established business ownership (EBO) rate of the male is 5.81 and female rate 1.6 is again very low GEM Pakistan Report (2012). Table 02 shows early stage entrepreneurial activity (TEA) rates of male and female by a province wise in Pakistan. In this table, the highest rate of Male TEA belongs to Khyber Pakhtoon Khowa (KPK) province, while Sindh province has the highest female TEA rate followed by Punjab. Expectedly, the female TEA rate in Baluchistan and KPK is zero.

**Table No. 2: Male and female Total early Entrepreneurial Activity in Pakistani Regions**

Province	Male	Female
Sindh	14.60%	3.20%
Punjab	20.50%	0.90%
Baluchistan	30.50%	-
Khyber Pakhtoon Khowa	37.50%	-

**Source:** GEM Pakistan Report 2012

Figures of an early stage entrepreneurial activity (TEA) rate of Male and Female based on necessity and opportunity are shown in a table 03. In this table, Khyber Pakhtoon Khowa (KPK) states the highest Male TEA rates for both opportunity (25.80%) and necessity (11.70%) followed by Baluchistan. Table 03 also shows that entrepreneurial activity rates of females are significantly lower than males in all regions of Pakistan. According to Rajput et al., (2009), the females who do business, the social, cultural, traditional, and religious norms make the environment complex for them. Further, most of Pakistani females have to remain as house wives to look after house affairs, helping

husbands in fields and bringing up their kids. While in the urban some females are engaged in their businesses in order to contribute something to the house income.

**Table No. 3: Male and Female Opportunity and Necessity-based Total early stage Entrepreneurial Activity in Pakistani Regions.**

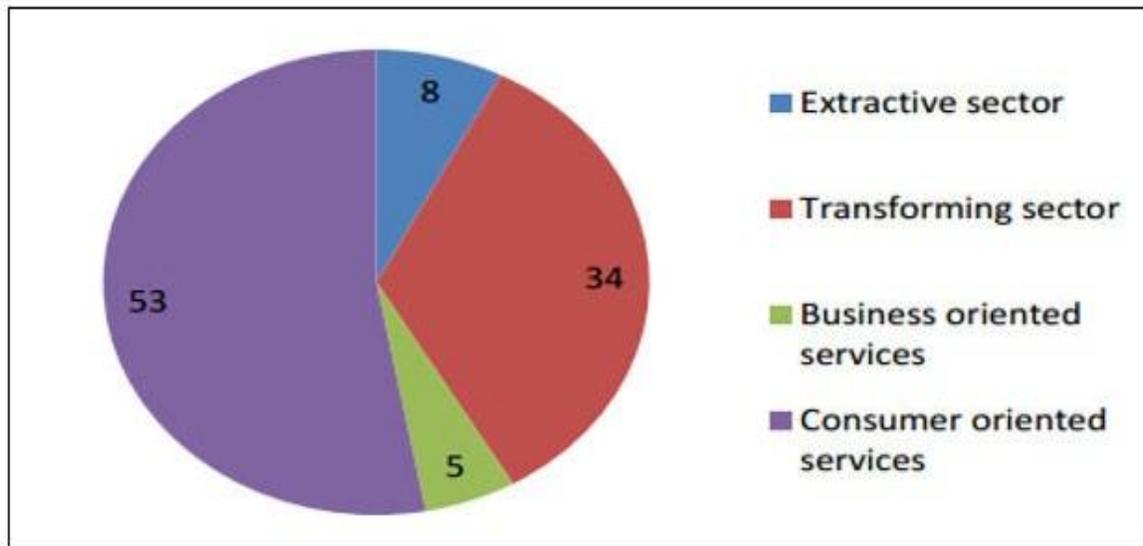
Province	Opportunity TEA		Necessity TEA	
	Male	Female	Male	Female
Sindh	5.40%	0.80%	8.90%	2.40%
Punjab	8.70%	0.20%	0.50%	0.50%
Baluchistan	10.20%	-	20.30%	-
Khyber Pakhtoon Khowa	25.80%	-	11.70%	-

**Source:** GEM Pakistan Report 2012.

#### 4.2 Sectoral environment of entrepreneurship in Pakistan

Economy of every country contains various sectors. People find opportunities in those sectors to start their entrepreneurial career. GEM classifies activity to International Standard Industry Classification. “This classification uses more than 500 different types of activity (Xavier, 2012)”. GEM distributes these 500 types of activity in four sectors like a transforming sector, extractive sector, consumer-oriented sector and business-oriented sector.

**Figure 02: Sectoral distribution of early-stage entrepreneurial activity in Pakistan.**

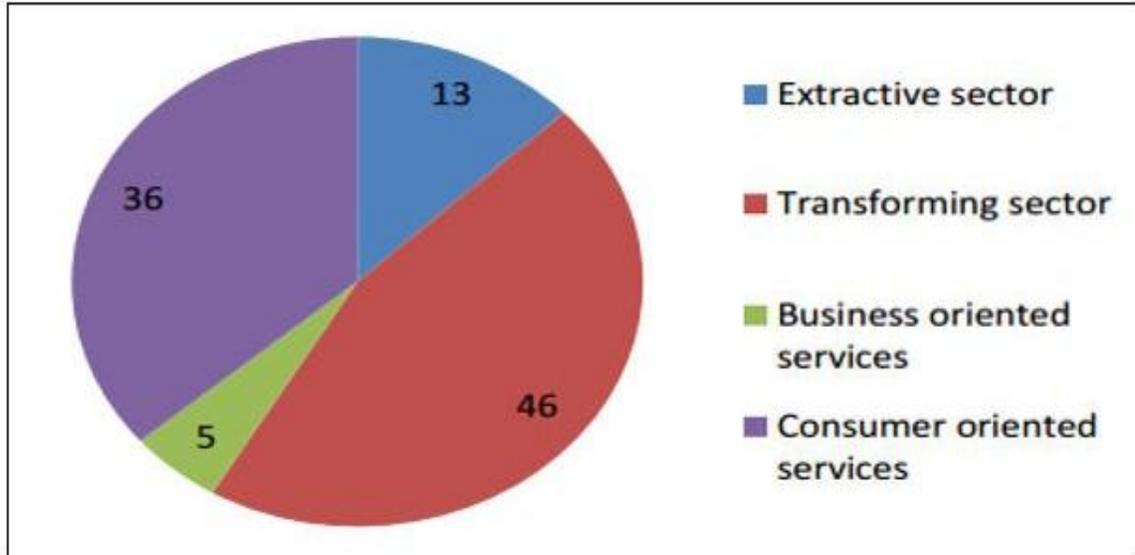


**Source:** GEM Pakistan Report 2012.

As a figure 02 shows that most of early-stage entrepreneurial activity (53%) has been done in a consumer-oriented sector followed by transforming sector (34%) in Pakistan. Consumer-oriented sector contains on daily-used items which are being purchased by

ordinary customers, therefore, it is very easy and common to start entrepreneurial activity in this sector. The lowest early-stage entrepreneurial activity has been done in an extractive sector which includes agriculture, oil and gas extraction forestry, fishing and mining. This is due to need of high initial capital and level of technical skills. While entrepreneurial activity in Established Business (figure 04) is somewhat different from an early-stage entrepreneurial activity. Where, the most of the entrepreneurial activity has been done in transforming sector (46%), while consumer-oriented services sector (36%) holds the second position.

**Figure 03: Sectoral distribution of Established Business Activity (EB) in Pakistan.**



**Source:** GEM Pakistan Report 2012.

### **4.3 Environment of entrepreneurship in Pakistan**

In order to understand the socio-economic environment for entrepreneurs in Pakistan, 57 interviews were taken from experts of different groups (resource providers, knowledgeable practitioners, observers and academics) regarding 09 entrepreneurial conditions in Pakistan. Experts were asked to rate various statements on a 5 point Likert scale (1 indicates “strong disagreement” and 5 indicates “strong agreement”) that represent different aspects of each entrepreneurial framework conditions (EFCs). These 09 entrepreneurial conditions are as under:

- (1) Financial support.
- (2) Government policies (both general policy and regulatory policy).
- (3) Government programs for assisting new and growing firms.
- (4) Education and training for entrepreneurship (primary/secondary school and post-school training).
- (5) Research and development transfer.
- (6) Commercial and professional infrastructure for entrepreneurs.
- (7) Market openness/barriers to entry as an issues for entrepreneurship
- (8) Access to physical infrastructure for entrepreneurship
- (9) Cultural and social norms.

**Table No. 4: Items employed in the 2012 National Expert Survey and mean score for each EFCs of entrepreneurship activity in Pakistan.**

<b>Description of EFC</b>	<b>Item wording</b>	<b>Mean</b>
<p><b>Finance</b>  <i>The extent to which financial support and resources are accessible for new and growing firms including grants and subsidies.</i></p>	<p>1. In my country, there is sufficient equity funding available for new and growing firms.                      2. In my country, there is sufficient debt funding available for new and growing firms.                      3. In my country, there are sufficient government subsidies available for new and growing firms.                      4. In my country, there is sufficient funding available from private individuals (other than founders) for new and growing firms.                      5. In my country, there is sufficient venture capitalist funding available for new and growing firms).                      6. In my country, there is sufficient funding available through initial public offerings (IPOs) for new and growing firms.</p>	<p>2.46                      2.21                      1.86                      2.21                      1.79                      1.91</p>
<p><b>Government Policies</b>  <i>The extent to which regional and national Government policies and their application, concerning general and business taxes, Government regulations and administration, are size neutral and/or whether these policies discourage or encourage new and growing firms.</i></p>	<p>1. In my country, government policies (e.g. public procurement) consistently favor new firms.                      2. In my country, the support for new and growing firms is a high priority for policy at the national government level.                      3. In my country, the support for new and growing firms is a high priority for policy at the local government level.                      4. In my country, new firms can get most of the required permits and licenses in about a week.                      5. In my country, the amount of taxes is NOT a burden for new and growing firms.                      6. In my country, taxes and other government regulations are applied to new and growing firms in a predictable and consistent way.                      7. In my country, coping with government bureaucracy, regulations, and licensing requirements it is not unduly difficult for new and growing firms.</p>	<p>2.15                      2.20                      3.00                      1.74                      2.60                      2.43                      1.82</p>
<p><b>Government Programmes</b>  <i>The presence of direct programmes to assist new and</i></p>	<p>1. In my country, a wide range of government assistance for new and growing firms can be obtained through contact with a single agency.                      2. In my country, science parks and business incubators provide effective support for new and growing firms.                      3. In my country, there are an adequate number of</p>	<p>1.80                      1.85                      2.00</p>

<p><i>growing firms at all levels of Government, national, regional and local.</i></p>	<p>government programs for new and growing businesses.</p> <p>4. In my country, the people working for government agencies are competent and effective in supporting new and growing firms.</p>	1.86
	<p>5. In my country, almost anyone who needs help from a government programs for a new or growing business can find what they need.</p>	1.89
	<p>6. In my country, government programs aimed at supporting new and growing firms are effective.</p>	1.79
<p><b>Education and Training</b> <i>The extent to which training in starting or managing small, new or growing business features in the educational and training system at all levels.</i></p>	<p>1. In my country, teaching in primary and secondary education encourages creativity, self-sufficiency, and personal initiative.</p>	2.19
	<p>2. In my country, teaching in primary and secondary education provides adequate instruction in market economic principles.</p>	2.03
	<p>3. In my country, teaching in primary and secondary education provides adequate attention to entrepreneurship and new firm creation.</p>	1.78
	<p>4. In my country, colleges and universities provide good and adequate preparation for starting up and growing new firms.</p>	2.56
	<p>5. In my country, the level of business and management education provide good and adequate preparation for starting up and growing new firms.</p>	<b>3.11</b>
	<p>6. In my country, the vocational, professional, and continuing education systems provide good and adequate preparation for starting up and growing new firms.</p>	2.75
<p><b>Research &amp; Development Transfer</b> <i>The extent to which national research and development leads to new commercial opportunities, and whether or not R&amp;D is available for new, small, and growing firms.</i></p>	<p>1. In my country, new technology, science, and other knowledge are efficiently transferred from universities and public research centers to new and growing firms.</p>	2.00
	<p>2. In my country, new and growing firms have just as much access to new research and technology as large, established firms.</p>	1.85
	<p>3. In my country, new and growing firms can afford the latest technology.</p>	2.00
	<p>4. In my country, there are adequate government subsidies for new and growing firms to acquire new technology.</p>	1.76
	<p>5. In my country, the science and technology base efficiently supports the creation of world-class new technology-based ventures in at least one area.</p>	2.12
	<p>6. In my country, there is good support available for engineers and scientists to have their ideas commercialized through new and growing firms.</p>	1.86

<p><b>Commercial and Professional Infrastructure</b></p> <p><i>The influence (including cost, quality &amp; accessibility) of commercial, accounting, and other legal services and institutions that allow or promote new, small or growing businesses.</i></p>	<p>1. In my country, there are enough subcontractors, suppliers, and consultants to support new and growing firms.</p> <p>2. In my country, new and growing firms can afford the cost of using subcontractors, suppliers, and consultants.</p> <p>3. In my country, it is easy for new and growing firms to get good subcontractors, suppliers, and consultants</p> <p>4. In my country, it is easy for new and growing firms to get good, professional legal and accounting services.</p> <p>5. In my country, it is easy for new and growing firms to get good banking services (checking accounts, foreign exchange transactions, letters of credit, and the like).</p>	<p><b>3.03</b></p> <p>2.68</p> <p>2.91</p> <p><b>3.58</b></p> <p><b>3.58</b></p>
<p><b>Market Openness</b></p> <p><i>The extent to which commercial trading arrangements are stable and difficult to change, preventing new and growing firms from competing with and replacing existing suppliers, subcontractors, and consultants.</i></p>	<p>1. In my country, the markets for consumer goods and services change dramatically from year to year.</p> <p>2. In my country, the markets for business-to-business goods and services change dramatically from year to year.</p> <p>3. In my country, new and growing firms can easily enter new markets.</p> <p>4. In my country, the new and growing firms can afford the cost of market entry.</p> <p>5. In my country, new and growing firms can enter markets without being unfairly blocked by established firms.</p> <p>6. In my country, the anti-trust legislation is effective and well enforced.</p>	<p>3.00</p> <p>2.82</p> <p>2.88</p> <p>2.82</p> <p>2.82</p> <p>1.77</p>
<p><b>Access to Physical Infrastructure</b></p> <p><i>Accessibility and quality of physical resources including communication-telephone, post, internet; basic utilities; transportation-roads, air/ship transportation; land, office /parking space; cost of land, property, office space, rent; accessibility and quality of raw materials and natural resources</i></p>	<p>1. In my country, the physical infrastructure (roads, utilities, communications, and waste disposal) provides good support for new and growing firms.</p> <p>2. In my country, it is not too expensive for a new or growing firm to get good access to communications (phone, internet, etc.).</p> <p>3. In my country, a new or growing firm can get good access to communications (telephone, internet, etc.) in about a week.</p> <p>4. In my country, new and growing firms can afford the cost of basic utilities (gas, water, electricity, and sewer).</p> <p>5. In my country, new or growing firms can get good access to utilities (gas, water, electricity,</p>	<p>2.85</p> <p><b>4.14</b></p> <p><b>4.29</b></p> <p><b>3.15</b></p> <p>2.91</p>

<i>such as wood, soil, climate that are advantages for potential entrepreneurial growth development.</i>	and sewer) in about a month.	
<b>Social and Cultural Norms</b>	1. In my country, the national culture is highly supportive of individual success achieved through own personal efforts.	<b>3.19</b>
<i>The extent to which existing social and cultural norms encourage, or discourage, individual actions that may lead to new ways of conducting business or economic activities and, in turn, lead to greater dispersion in wealth and income.</i>	2. In my country, the national culture emphasizes self-sufficiency, autonomy, and personal initiative.	2.83
	3. In my country, the national culture encourages entrepreneurial risk taking.	2.46
	4. In my country, the national culture encourages creativity and innovativeness.	2.47
	5. In my country, the national culture emphasizes the responsibility that the individual (rather than the collective) has in managing his or her own life.	2.88

Each aspect is measured by taking the average of the responses of national experts in Pakistan to several questions. A mean score of 03 is considered as an average on the Likert scale of five. Table 04 shows that the entrepreneurial environment of Pakistan has generally been rated by experts as a mediocre. Except few aspects (shown table 04 in bold figures) which are above 3, all others are below 03. Among all categories, access to physical infrastructure and services is only category which has achieved a mean score as good or very good (a mean score of 4 or above). Whereas, government programs and R&D transfer have achieved the lowest ratings by experts for Pakistani entrepreneurial environment.

**Table No. 5: Summary of expert’s rating of Pakistani entrepreneurial environment EFC.**

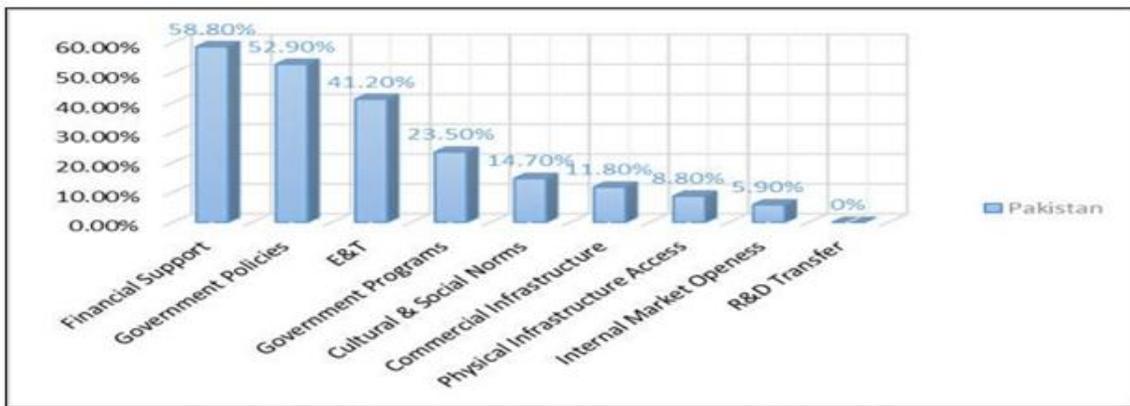
<b>Entrepreneurial Framework Conditions</b>	<b>Code</b>	<b>Mean</b>
Financial environment related with entrepreneurship	EFC1 (2.07)	2.10
Government Policies	EFC2 (2.27)	2.15
Government Programs	EFC3 (1.86)	1.84
Education and Training for Entrepreneurship	EFC4 (2.40)	2.00
R&D level of transference	EFC5 (1.93)	1.90
Professional and Commercial infrastructure access	EFC6 (3.15)	3.14
Market Openness	EFC7 (2.68)	2.91
Physical infrastructures and services access	EFC8 (3.46)	3.48
Cultural, social norms, and society support	EFC9 (2.76)	2.73

**Source:** GEM National Expert Survey (NES) (2011)

A comparison of the overall average scores of the EFCs in Pakistan in competition with the mean scores of the other developing countries is shown in table 05. According to the

ratings of experts, all indicators of entrepreneurial environments of Pakistan are insignificantly higher than mean scores of developing countries except for a financial environment related to entrepreneurship, market openness and physical infrastructures and services access. Generally, education and training for entrepreneurship and physical infrastructure and services access have been given higher values than a mean score of developing countries. This is also evident that Entrepreneurship as a subject is being taught in almost all business schools of Pakistan. Further, financial environment is substantially lower than the mean score of developing countries.

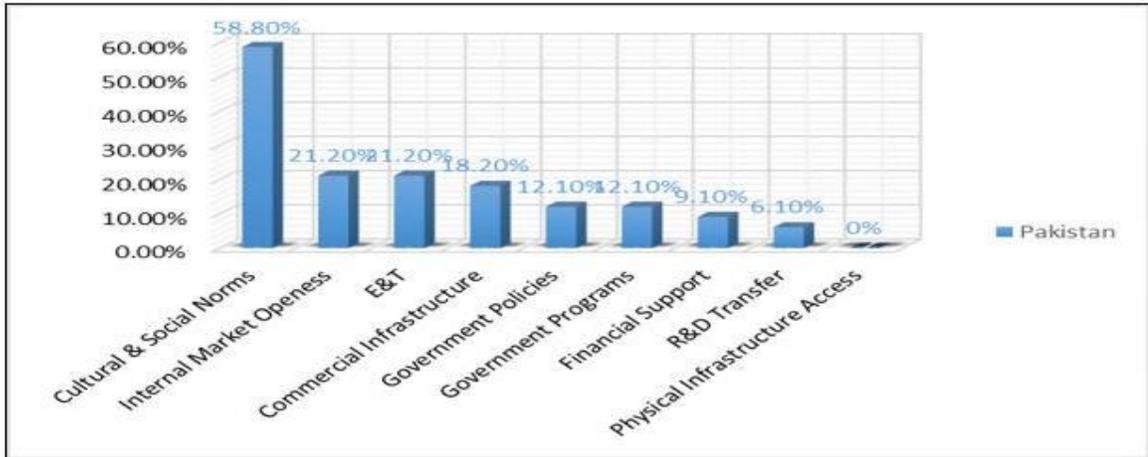
**Figure 04:** Significant factors that limit entrepreneurship in Pakistan.



**Source:** GEM National Expert Survey (NES) 2011.

GEM National Expert Survey also discloses numerous concerns over entrepreneurial environments in its member countries. Figure 04 shows various constraints for an entrepreneurial environment in Pakistan. According to GEM National Experts, the biggest constraint for entrepreneurs in Pakistan is access to finance. This constraint, lack of finance, has widely been reported in Pakistan and in other developing and developed countries. GEM Report (2012) says that small businessmen had little recourse to bank financing and they believed that the banks lent only to the big borrowers for non-commercial and political reasons. The World Economic Forum carried out a global survey in 2013 of active entrepreneurs from 43 countries. Pakistani entrepreneurs rated funding and access to finance at the bottom of the list with only 22% identifying it as being available (tribune.om). The same report (GEM Report, 2012) also showed that the movement of trained labor is another serious complaint by entrepreneurs in Pakistan.

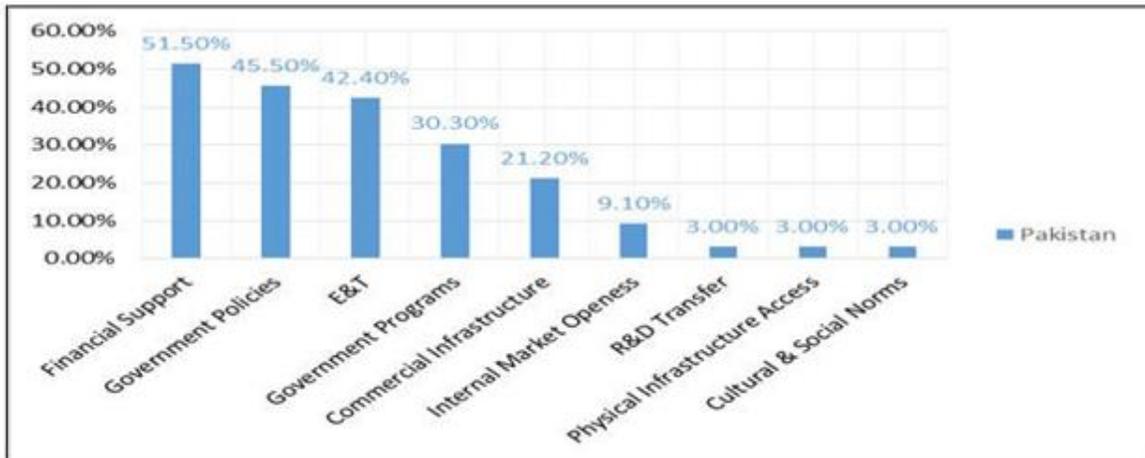
**Figure 05:** Significant factors that contribute entrepreneurship in Pakistan.



**Source:** GEM National Expert Survey (NES) 2011.

Figure 05 shows that the biggest contributing factor is Cultural and Social Norms and others are government policies, education and training and commercial infrastructure. While, R&D Transfer is the least contributing factor in this regard. But, according to “Chemin (2010), government policies resist entrepreneurial culture in Pakistan, they create challenges for entrepreneurs in several dimensions, in particular contract enforcement is very weak in Pakistan”.

**Figure 06:** Recommendations to improve entrepreneurial activity in Pakistan



**Source:** GEM National Expert Survey (NES) 2011.

Figure 06 shows recommendations which have been forwarded by various experts to promote entrepreneurial activity in Pakistan. Financial support (51.50%) is the most important recommendation given by the experts. Other recommendations are consistency in government policies, provision of education and training to people, improving commercial infrastructure and others.

## **5.0 Conclusion and Implication**

### **5.1 Conclusion**

Most of developing countries, including Pakistan, are facing poverty, unemployment and other social problems. “To overcome these issues in Pakistan entrepreneurship is the best solution (Haque, 2011)”. Fortunately, age structure of the population has been changed in Pakistan and now more than 80 million people are in the age bracket of 15 to 40 years. The nucleus objective of this research manuscript is to analyze an entrepreneurial environment through entrepreneurial framework conditions (EFCs) designed by Global Entrepreneur Monitor and data for this study taken from GEM Pakistan.

The findings of this study show that in Pakistan generally attitude of people towards entrepreneurship is not good. The TEA rate in Pakistan was 11.57%. This is significantly lower than the average TEA rates for factor-driven economies (23.68%) and also lower than efficiency- driven economies (13.11%). However, this is a greater than the average TEA rate of Innovation- driven economies (7.09 %). The gender gap in Pakistan is one of the highest in the world, where a male TEA rate is more than seventeen times higher than a female TEA rate (GEM Pakistan, 2012). The 70% of TEA rate is a necessity based while only 24% is opportunity based. The figure of 70% necessity based TEA show that role of government in creating entrepreneurial opportunities is very minimal. Except few EFC indicators, rest of all indicators is below the average of 3 on Likert scale of 5. GEM Pakistan report also says that a review of the past 6 decades of Pakistan’s development priorities reveals that entrepreneurship has never been the focus of economic development planners.

Research and development is a key of developing innovative business ideas for starting a new business. But, again entrepreneurs are not ready to invest in R&D due to high cost, lower profits and infringements of intellectual property rights (IPRs). Another big issue for entrepreneurs is a lack of skilled labor and their mobility for the sake of higher payments and other benefits. In accordance with GEM Pakistan national experts, the biggest ever problem faced by young people in Pakistan is access to finance. According to GEM Pakistan report, small business owners have complaints that banks lend loans to them but they lend to big borrowers only for non-commercial and political reasons and the biggest stumbling block was the State Bank of Pakistan’s Prudential Regulations and documentation requirements, which most owners of SMEs were unable to meet.

### **5.2 Recommendation**

In order to promote entrepreneurial environment in Pakistan, the government has to play an instrumental role. Government should level the playing field for young entrepreneurs by fulfilling the energy need of a domestic business sector, ensuring protection of IPRs (websites, trademarks, patents and copyrights), developing more Science and Technology parks changing and relaxing policies regarding access to finance for young people, law and order situation to make it easy for business startups. On the other hand, educational institutes can provide education, training and motivation to their students. Although, several higher education institutions have established business incubators and business start-up centers, but still there is for more initiatives like these. It is being said that money makes mare go. Several studies have verified the need for an

easy access of capital to enhance entrepreneurial activity in Pakistan.

Raising initial capital to start a business with the help of family, friends and retained earnings is a norm in developing countries. It has been observed that 57% of new investment to Small and Medium Enterprises and 67% of working capital finance come from internal finance or retained earnings; only about 7% of funds for investment or working capital come from banks or other financial institutions (SME Policy in Pakistan). Therefore, especially banking industry has to play its due role by providing instant and interest free loans to young students. “Countries that keep rules and regulations at a minimum, offer tax and other incentive, and provide training and counseling services to start-up entrepreneur increase the likelihood of new venture development (Dana, 1987)”.

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