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# Do External Factors Influence Students' Entrepreneurial Inclination? An Evidence Based Approach

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## 1. Introduction

For decades world economies have witnessed increasing unemployment rate. Recent developments in world economic systems have also affected the employment level in countries (Alam, 2009). In Pakistan, continuous wave of terrorism and increasing instability has shattered all economic activities. This in result has negatively influenced level of employment in Pakistan. It is challenge of the time to employ these unemployed persons. Unemployment rate has increased drastically in Pakistan from 13.60% in 2008 to 15.20% in 2009 (CIA-the world fact book). Now this unemployed workforce is creating lots of problems both for the public and state like increased crimes, law and order situation, and many more social problems. One of the most effective solutions adopted by researchers is self employment. Self employment or entrepreneurship can contribute a lot for both the state and society as a whole. As noted by Awogbenle and Iwuamadi (2010) concluded that entrepreneurship can be a tool that might minimize the level of unemployment and can be source of sustainable economic development.

Entrepreneurship offers opportunities to enjoy independence, reap greater financial returns, and overall contribution to economy through innovation and economic development. Entrepreneurship works like an engine for economic development, job creation and social adjustment for developing economies (Alam, 2009). Family characteristics have implication on emergence of new business, recognition of opportunity, start up decisions and resource mobilizations (Aldrich & Cliff, 2003). Various researchers have identified various factors that might affect the entrepreneurial start ups, out of those factors one factor that has been of great significance is/are external factors. Various researchers have found various external factors that might influence entrepreneurial start up decisions, like, Bowen & Clercq (2008) have studies effects of economic freedom, regulatory environment, quality of government, political stability, and other aspects as external factors that might influence the intentions to set up business. Amoros (2009), Bowen & Clercq (2008) have studies effects of economic freedom, regulatory environment, quality of government, political stability, and other aspects as

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external factors that might influence the intentions to set up business. Sullivan & Shkolnikov (2004) investigated the effects of political factors and corruption on economic development and entrepreneurial intentions in the society. Barro (1985) have discussed that political instability slows down the economic activity in the country. Like other external factors terrorism can be a factor that might influence the entrepreneurial intentions. Like, Huddy *et al.* (2002) found that when individuals feel personal threat they adopt such attitude through which they can reduce their risk. Similarly, national threats reduce economic activities (Huddy *et al.*, 2002). Perception regarding chances of future terrorist attacks leads to pessimist approach regarding future of the economy and stock market (Huddy *et al.*, 2002). As entrepreneurial start ups and business developments are one of the major economic activities performed at micro and macro level, so these factors might influence entrepreneurial start up decisions.

So, linking external factors with business start up decisions is an area of research that requires further in-depth investigation, as entrepreneurship contributes for social and economic development of country, entrepreneurship is a topic requiring a lot of attention from academicians and researchers. This paper is aimed to study impact of external factors i.e. Family support, Political stability, and terrorism on the entrepreneurial intentions of students.

## 2. Literature review

Entrepreneurial intentions are said to be state of mind, which guides and gives direction to individuals towards formulation of new business concepts (Bird, 1988). Entrepreneurial intentions have received much attention from researchers through out the world. The existing literature consists of study of personality dimension (Yosuf *et al.* 2007; Shaver and Scott, 1991; Gartner, 1988), theory of planned behavior, impact of education (Souitaris *et al.* 2007; Shepherd and DeTienne, 2005; Franke & Luthje, 2004; Jo & Lee, 1996; Dyer, 1994; Krueger & Brazeal, 1994), impact of gender differences (Gupta *et al.* 2008; Brush *et al.* 2006; Welter *et al.* 2006; Marlow & Patton, 2005; Boden & Nucci, 2000; Fay & Williams, 1993; Brush, 1992), family background (Carr & Sequeira, 2007; Aldrich & Cliff, 2003), personal and family experience (Krueger, 1993; Rajman, 2001; Basu & Virick, n.d.; Shapero & Sokol, 1982), and their impact on desire to become entrepreneur. All these studies are primarily aimed to studies is to segregate entrepreneurs from non-entrepreneurs and to find whether entrepreneurial intentions can be developed or not. If it can be developed how it can be implemented to increase entrepreneurial intentions of students. But very few studies have considered importance of external environment and supporting factors that might influence intentions to become entrepreneur or not. Like considering the entrepreneurial behaviors of management in organizational setup, Huang *et al.* (2010) while considering the entrepreneurial orientation of the management of organization found that social capital influence relationship of entrepreneurial orientation and resources acquisition in organizational set up. There are numerous studies available that have discussed the entrepreneurial inclinational of students with respect to various factors i.e. Basu & Virick (n.d.) discussed the impact of personality traits and prior family experience on the entrepreneurial intentions of students, Franke & Luthje (2004) studied the impact of education and planned behavior on the entrepreneurial intentions of students, similarly Ali *et al.* (2010) have studies external factors that might influence

students entrepreneurial intentions, their research considered governance system as the external factor that might influence the entrepreneurial system. This study is aimed to discuss external factors i.e. political stability/instability & Family support and increasing terrorism as the external factors that might influence individual’s intentions to become entrepreneur.

External environment is considered to be one of the most important determinants of entrepreneurial intentions, as noted by Drucker (quoted by Mcquaid, 2002) entrepreneurship is an action that can be attributed to systematically analyzing the opportunities already prevailing in the environment. Amoros (2009), Bowen & Clercq (2008) have studies effects of economic freedom, regulatory environment, quality of government, political stability, and other aspects as external factors that might influence the intentions to set up business. Sullivan & Shkolnikov (2004) investigated the effects of political factors and corruption on economic development and entrepreneurial intentions in the society. Barro (1985) have discussed that political instability slows down the economic activity in the country.

Exogenous influences (like demographics, society, traits, financial support, and culture) affect the attitudes and also the intentions indirectly and behaviors to become entrepreneurs (Shapero and Sokol, 1982). Out of the exogenous factors family support is one of the most important as it proves to be backup of the entrepreneur. Family characteristics have implication on emergence of new business, recognition of opportunity, start up decisions and resource mobilizations (Aldrich & Cliff, 2003). Financial resources in the family have direct bearing on entrepreneurial intentions (Raijman, 2001).

Pakistan has been in wave of severe terrorism for last two decades. Like (Embassy of Pakistan, Economic Division) in its report showed that there were 8141 terrorist incidents have taken place since 2002 which caused 8875 deaths and 20675 injuries; and these terrorist attacks costed \$ 51.3 billion of loss to Pakistan economy in form of reduced GDP growth, fall in FDI, declined exports, increased unemployment and other factors. When individuals feel personal threat they adopt such attitude through which they can reduce their risk (Huddy *et al.*, 2002). Similarly, national threats reduce economic activities (Huddy *et al.*, 2002). Perception regarding chances of future terrorist attacks leads to pessimist approach regarding future of the economy and stock market (Huddy *et al.*, 2002). Karolyi & Martell (2005) investigated impact of terrorist attacks on the stock market; he found that terrorist attacks significantly effects stock market. Presence of Terrorist threats reduces the business success prospects. Prospects of starting business are the prime consideration in formulation stage of new venture (Atherton, 2007).

From the discussed literature we can formulate following hypothesis and research model:

Hypothesis Statements	
H1	Family support is positively related with entrepreneurial intentions
H2	Political instability is negatively related with entrepreneurial intentions
H3	Terrorism negatively effects entrepreneurial intentions

Table 1. Hypothesis Statements

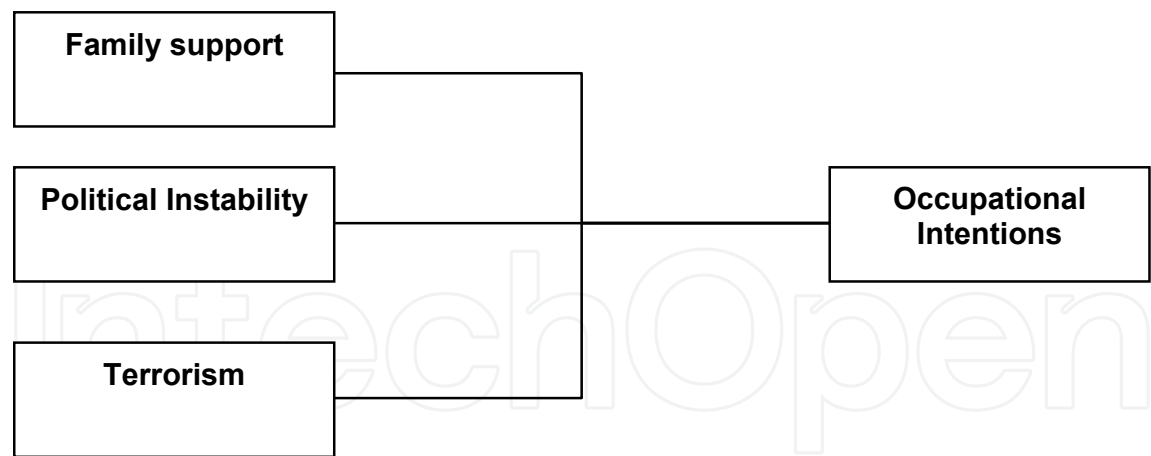


Fig. 1. Research Model

3. Research methodology

For the purpose of the study 200 students were selected from graduate classes of both business and non-business programs. Simple random sampling technique was used for the study. Students from both business and non-business background were selected to identify overall impact of external factors on entrepreneurial intentions of students. The purpose was to remove the affect of education as Frank and Luthje (2004) found that business graduates are noticed to be more inclined towards the entrepreneurial career because education positively influences entrepreneurial inclination. For data collection purpose questionnaire was constructed, to make sure that questionnaire was usable its reliability was tested which was 0.87 which falls in accepted level. The questionnaires were personally distributed to the students in the class. The method is beneficial as instructions and explanation can be given to students to obtain better response. The instrument for data collection comprised of 5 point likert scale. Questionnaire consisted of 21 questions excluding of demographical questions. It consisted of nine questions of family support, four factors of political stability/instability, five item of terrorism, and three questions for occupational intentions. Structural equation model was used (SEM) was used for analysis of data and AMOS 16.0 was adopted for this purpose. Results of the study are given in the finding section.

4. Findings

The index fit of the model is shown in the table-1. Most index values satisfy the general standard values for index fit. The general accepted standards for model fit are; Chi-square value (significant level > 0.05), goodness of fit index (GFI > 0.80), adjusted GFI (AGFI > 0.80), Normed fit index (NFI > 0.90), comparative fit index (CFI > 0.90), and root means square residual (RMR < 0.05). Although this model fit does not meet all standards, it may be overall an accepted model.

The results of hypotheses tests of the relationship between constructs of external factors and entrepreneurial intentions are given in table-2 and figure-2. In order to accept the hypothesis the P value should be <0.05. Table-2 shows that all values of estimates and critical ratio (C.R) in positive terms which means that presence of family support increases entrepreneurial intentions of students; while presence of political instability and terrorism will not restrict

entrepreneurial intentions of students. So we can conclude that students are not influenced by external forces of Political instability or terrorism and would like to start their own business in future.

Path	Estimates	S.E.	C.R.	P	Hypothesis	Results
FamilySupport-Occupational Intentions	.257	.051	5.021	.000	H1	Accept
Political_ Instability- Occupational Intentions	.262	.045	5.829	.000	H2	Reject
Terrorism-Occupational Intentions	.149	.056	2.657	.008	H3	Reject

Table 2. Regression Weights (Results of Hypothesis Tests)

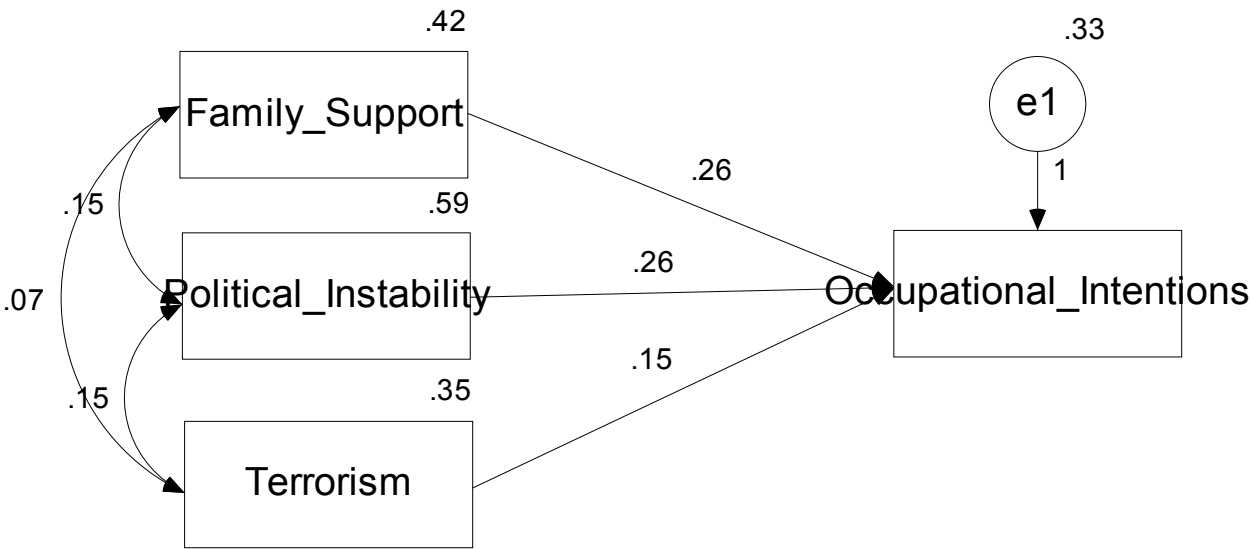


Fig. 2. Structural Equation Modeling

Figure-2 explains the nature of relationship between external factors i.e. Family support, Political instability, Terrorism and entrepreneurial intentions.

Findings of the study suggest that there is positive relation between family support and entrepreneurial intentions of students, which justify H1, these findings are consistent with the findings of Krueger (1993), Rajiman (2001), Basu & Virick (n.d) and Shapero & Sokol (1982), who found that family support positively influences entrepreneurial attitude. But the findings do not prove other two hypotheses H2 and H3, and results indicate that political instability and Terrorism are not having influence on the entrepreneurial intentions of students. Discussion of the study is given in the following section.

5. Conclusion

This study provides interesting findings as it can be concluded from the study that students are not negatively influenced by external forces of political instability and terrorism. Rather students are willing to start their businesses even in such hostile situation. This would be an interesting study to find out the main reasons why students are not influenced by these factors. The reason that has been observed is that people are now willing to face the problem

of terrorism and want to get rid of it and only solution proposed is to overcome the issue by facing it courageously, similarly political instability is a common phenomenon in Pakistan, so this might not influence intentions of students. It is also observed that, students are willing to start their own business even in such hostile situations that might be outcome of increasing unemployment level in the country due to economic crunch, lack of investment, and distrust in Government policies, which fail to increase employment level and youth feel insecure. So conclusively saying, students are not influenced by these factors and they will still like to be entrepreneur in future.

## 6. Future Implementation

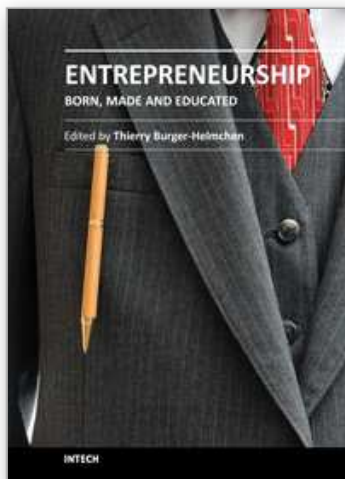
This research gives good insight into the factors that might influence the entrepreneurial decision, but the findings are quite interesting as the students are not influenced by external factors like terrorism, political instability, and economic crunch. These findings are surprising in itself and require further research in itself. This research gives direction to researchers that why students are not influenced by these factors (behavioral aspects), what are the other factors that would have more influence on the students to be inclined towards entrepreneurship (economic and social aspects) and any other factor that is deemed to be studied.

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## **Entrepreneurship - Born, Made and Educated**

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Entrepreneurship has a tremendous impact on the economic development of a country. As can be expected, many public policies foster the development of self- entrepreneurship in times of unemployment, praise the creation of firms and consider the willingness to start new ventures as a sign of good fortune. Are those behaviours inherent to a human being, to his genetic code, his psychology or can students, younger children or even adults be taught to become entrepreneurs? What should be the position of universities, of policy makers and how much does it matter for a country? This book presents several articles, following different research approaches to answer those difficult questions. The researchers explore in particular the psychology of entrepreneurship, the role of academia and the macroeconomic impact of entrepreneurship.

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