
Influence of Environment on Entrepreneurship

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Entrepreneurship is a function of environment and the concept of entrepreneurship changes with change in environment. Consequently, there is a need to examine the influence of environment on the concept of entrepreneurship. For this purpose it is necessary to consider separately the effect of the two components of the environment-the internal and the external. The internal environment signifies the climate of production within an organisation and the external environment signifies the socio-economic and legal conditions under which the organisation has to function. The external environment may further be bifurcated as economic and non-economic.

External Economic Environment

The external economic environment is composed of many elements, each one of which influences the growth of economy as well as the growth and development of entrepreneurship. For instance, the system of economics, the stage of economic growth of the country, rate of growth of the economy, the structure of the economy, the economic

policies of the government in the areas of agriculture, industry, trade, transport, finance, development of infrastructure facilities, foreign exchange and balance of payment situation, all influence economic growth and growth of entrepreneurship, It may further be noted that growth of entrepreneurship is an essential component of economic growth. Hence, Wilken¹ concludes that "the same factors that promote economic growth and development account for the emergence of entrepreneurship".

Influence of economic system on growth of economy and entrepreneurship

At present three types of economic systems prevail in the world. They are (A) Capitalism (B) Socialism (C) Mixed economy.

(A) Capitalistic system

This system is also known as market economy or free economy. In this system, there is a competitive market and consumer sovereignty prevails. The economy is characterised by mobility of resources and complete freedom to enter any business. This system is prevalent in

all major developed countries of the freeworld. Such an economic system favours rapid growth of entrepreneurship as the business climate is highly conducive. For instance, such a system offers unlimited market opportunities both at home and abroad, makes capital available on massive scale, enables large scale operation and profitability due to the large size of the market and has comparatively less risk and uncertainty, so that there is incentive for invention and innovation. The U.S. economy is a prime example of such an economy which fosters growth of economy as well as growth of entrepreneurship.

(B) Socialist economy

This is also identified as a closed economy because in this system the domestic economy is completely insulated from the world economy and there is no free world trade. Also it is not market oriented but a centrally planned system controlled by the central government of the country. In such a system market opportunities (both domestic and foreign) are highly limited. Consumer sovereignty is totally absent. Centralised planning and control, shortage of capital, lack of free entry to business and industry and lack of mobility of resources prevail here. The absence of consumer sovereignty and lack of mobility of resources lead to low productivity and non-optimal allocation of resources. Since business and industry are controlled and

managed by either government or party bureaucracy, there are no entrepreneurs but only salaried managers running the ventures. The business climate is not conducive either to growth of economy or to growth of entrepreneurship. This system prevails in the socialist/communist countries.

(C) Mixed economy

Mixed economy, as the name suggests, is a mixture of capitalistic and centrally planned systems. There is in such an economy a large public sector which is centrally planned and a market economy comprised of private, co-operative and joint sectors. This system is prevalent in most of the developing countries. The public sector is developed in those sectors where massive capital investment is required and private entrepreneurs are not in a position to raise the necessary capital. It is also developed in those areas where risk is high and private capital is shy to enter. It is also developed in core sectors or in strategic industries. In such system market opportunities exist; yet the entrepreneurs are unable to exploit the opportunities due to limited availability of capital, lack of technical knowhow, non-availability of technical manpower, lack of adequate infrastructure facilities and social overheads. In such economies entrepreneurs grow but at a slow rate. They emerge as owners and operators of small scale industrial units and not as business

magnates controlling large corporations or cartels. They make meagre profits and hence have a limited growth rate.

The study of various economic systems suggests that market opportunities, availability of capital and existence of infrastructure facilities are crucial factors influencing growth of economy and growth of entrepreneurship. Lack of capital is sometimes bridged by import of capital by way of joint ventures with foreign corporations or by inviting multinationals to set up industries in the country.

Non-Economic External Environment

The non-economic environment comprises of sociocultural and politico-legal environments which greatly influence both economic growth and growth of entrepreneurship.

Influence of socio-cultural environment

(A) Influence of culture and social values

Culture and social values exercise a profound influence on human behaviour in general and entrepreneurial behaviour in particular. In the old world and in developing countries culture and tradition have deep roots and they exercise deep and abiding influence on the people of those countries. Since culture and traditions change over time human behaviour and consequently entrepreneurial behaviour also undergo a change. Thus the entrepreneurial behaviour in the twentieth century is not the same as the entrepreneurial

behaviour in the previous century. This explains why the entrepreneurship concepts of Schumpeter and Richard Cantillon differ. They differ because they were formulated in the context of differing socio-cultural climates.

Further culture changes and many factors contribute to cultural change. McClelland, who has made an indepth study of this aspect, found that there were sharp cultural differences between the developed and developing countries explaining the difference in entrepreneurial behaviour in those countries. He argued² that some people, notably entrepreneurs, have a psychological need for high achievement and this is not possible in a tradition-ridden economy. High achievement is possible only in societies with high social mobility and cultural freedom as they offer better achievement opportunities. Creative entrepreneurs like Henry Ford can come up only in a dynamic society which offers high social mobility and cultural freedom³ and not in a tradition-bound, custom-dominated society. In fact, theories of entrepreneurship are developed and concepts of entrepreneurship blossom only in a society where a large class of successful entrepreneurs exists. This is so with the developed countries. In centrally planned economies where this class of entrepreneurs is notably absent, there is no propriety in discussing theories of entrepreneurship. In developing countries even though the entrepreneurs are small, a

large class of such entrepreneurs is emerging. Hence, there is need to develop a concept of entrepreneurship and theories of entrepreneurship relevant to the socio-cultural conditions of the mixed economy prevailing in such countries. It has been observed that the traditional social and cultural values in such countries are not conducive to growth of entrepreneurship and there is an urgent need for social and cultural transformation to accelerate their economic growth and growth of entrepreneurship. For instance Mr. Advard H. Newman⁴ has stated that the U.S.S.R. was wealthier than the U.S.A. in the nineteenth century though the situation has been reversed in the current century. This is because the U.S.S.R. had few entrepreneurs while the U.S.A. has a large class of entrepreneurs both then and now. This follows the differing socio-cultural conditions in the two countries and the conditions in the U.S.A. are favourable to the growth of entrepreneurship while the conditions in the U.S.S.R. are not.

(B) Influence of religion

Religion is the mother of culture and as such it influences greatly both human behaviour and entrepreneurial behaviour and attitudes. While it is true that religion influences attitudes and behaviour in all societies, what is really important is whether religion is conducive to growth of attitudes and values favourable to development of

entrepreneurship. It is well known, for instance, that Hinduism because of its fatalism (faith in fate) discourages taking of undue risks and making Zealous efforts to build business.

This happens because entrepreneurs, attitudes are also conditioned by religious beliefs and traditions. In fact, B.C. Tandon⁵ has remarked that "in such countries (as India, Pakistan and Thailand) a great deal of superstition exists. People generally believe that success or failure of an enterprise depends upon the mercy or pleasure of some special god (who needs to be propitiated). Any important event such as planting of fields, laying down the foundation of a building, launching of a project, or even starting on some journey for business or for some special work may be undertaken only on special days (considered auspicious), recommended by priests and pundits, and only after a suitable offering has been made to god".

Also in such countries high status is attached to inherited wealth and property and unearned income. The new rich do not enjoy the same high status as the traditionally wealthy families or the landed gentry. This type of social condition is not conducive to risk-taking and entrepreneurship.⁶

However, in recent years much change has taken place in the socio-religious conditions and attitudes towards entrepreneurship which is becoming an increasingly respectable

profession with rising social status. As Advard H. Newman⁷ has indicated, in the sixties the entrepreneurs were under-rated by the society as well as by the economists. However, in the seventies both society and the economists came to realise and recognise the key role played by the entrepreneurs in providing goods and services needed by the society. The economists were also greatly impressed by the role of entrepreneurs in setting up new enterprises, in generating employment and in accelerating the growth of industry and the economy. They were also impressed by the innovations made by the entrepreneurs as well as their contribution towards improving quality and productivity in the industry.

From the preceding analysis it becomes clear that the socio-religious conditions and attitudes in developed and developing countries are markedly different and that while the conditions in developed countries are conducive to growth of entrepreneurship, those in developing countries are not as conducive. As a result, concepts and theories of entrepreneurship relevant and significant in developed countries provide no clues and no useful guidance for promoting entrepreneurship in developing economies. They only indicate the need for social transformation in developing countries to create a climate favourable for the growth of entrepreneurship.

In this context it may be noted that while

Christianity exercised a liberalising Influence in the Western world, those countries which were under the grip of Roman Catholic faith like Spain, Portugal, Italy and Latin American countries have remained relatively backward as compared to countries like the U.S.A., U.K., and Germany which were influenced largely by the protestant faith which was relatively more liberal.⁸ This shows it is not so much the religion as the conservative traditions and attitudes which influence growth of entrepreneurship and growth rate of the economy. Consequently, the developed countries with their progressive values and attitudes have registered a much faster growth rate of the economy and entrepreneurship than the under-developed and developing economies ridden with conservative system, traditions. Values and attitudes. Hence, the only hope for rapid growth of entrepreneurship and economy in these countries is socio-cultural transformation.⁹

Influence of Politico-Legal Environment

Just as the economic system of a country influences the growth of its economy and entrepreneurship, so does the political system. Political systems like monarchy, democracy, fascism, communism, military dictatorship, greatly influence the basic attitudes of people as well as of entrepreneurs and the availability of opportunities for the growth of entrepreneurship.¹⁰ It should also be noted

that like all human behaviour, political behaviour is also generally influenced by religion and politics. However, religion and politics do not always work hand in hand and sometimes there is confrontation between them. This is revealed by a study of relationship between religion and politics in East European countries where the atheistic communist polity and the Roman Catholic Church were at loggerheads and at one stage there was a serious confrontation between the two in Hungary. The political system because of its power to pass laws, create institutions and provide opportunities and incentives or ban or discourage activities, wields a high degree of influence on economy and entrepreneurship. This is because the political system is able to modify the environment and transform society to create conditions which can either promote or inhibit economic and entrepreneurship growth. There are numerous instances of governments changing the course of a country in these respects. This is illustrated by developments in Japan, China, and, the U.S.A.¹¹

(A) Case of Japan

Before the Second World War Japan was a monarchy with a feudal system of economy. After defeat and destruction during the World War II the country changed both its political and economic systems. A democratic political system and a free market economy were

introduced. This social transformation gave a big boost to growth of entrepreneurship and economic development in Japan with the result that Japan was able to reconstruct its economy and emerge as a major economic power on the world map.

(B) Case of China

In the days of Mao, China was a communist country following a centrally planned closed economy. In accordance with such system, foreign capital investment and technology were shunned and therefore China remained backward with a stagnant and inhibited economy. In the post-Mao era China opened its doors to foreign technology and capital investment. It also encouraged international trade. This Liberalisation brought a massive inflow of foreign capital and latest technology. International trade opened up foreign markets and boosted domestic production. In this conducive climate Chinese industry is being modernised, the economy is growing faster than before and entrepreneurship is developing.

(C) Case of India

In India of pre-Independence entrepreneurship in its true sense was largely restricted to the colonizers. The natives were allowed to practise only such trades and crafts and commerce as were necessary to keep them going and to meet the day-to-day needs

of the local communities. And this in essence could not be called entrepreneurship.

The advent of the First Great War however changed the complexion of this situation. Driven by acute shortage of all the consumer and other necessary items arising due to impossibility of imports, the ruling class had no option but to throwing large number of thus far protected areas open to local enterprise. And the native capitalist was not slow in catching up.

Later the Swadeshi movement gave added impetus to this trend, and the zeal for native production flared like wild fire. Yet for a long period this ardour was confined to the pursuit of artisan crafts, petty trade and business and money lending -mainly money lending.

Researchers in the history of entrepreneurship in India like D.R. Gadgil, R.A. Sharma and others have identified specific communities traditionally practising entrepreneurial activities and endowed with a high degree of business acumen.¹² Four such communities flourishing in the northern, western and central parts of the country were specially highlighted. They are: Baniya, Marwari, Gujarathi and parsi communities. Though originally they were engaged in trading and moneylending, later in the free society they have given birth to many a successful and epoch-making entrepreneur. (Household names like Tata, Birla, Kirloskar are from these communities).

The transition from mere trading and moneylending had been through a phase called managing agency system. Dwarkanath Tagore was the first Indian native to introduce this system by promoting and managing the Steam Tug Association of Calcutta (in partnership with others).

The attainment of Independence gave a dramatic twist to the shape of things. Entrepreneurship has been made a welcome option and new avenues have been ever opening. Yet the deep-seated loyalty to tradition and the inherent aversion to change peculiar to human nature have made the growth of entrepreneurship a rather tardy affair in the post-Independence period. It has been only since the eighties that the idea of entrepreneurship started gathering momentum with its attractive frills of incentives, subsidies and concessions and developmental plans, promotional strategies and facilities specially directed to encouraging small scale entrepreneurship.

Now at last industrial entrepreneurship in India can be said to have arrived.

It has now emerged and stabilized as a profession to be Proud of. The socio-cultural transformation which was set in motion as a prelude to the Independence struggle coupled with the new free political atmosphere and favourable economic policies has helped in a big way in achieving this in the post - Independence period.

However, the most important change in the business climate was the recognition of the fact that entrepreneurs are not born but are developed through suitable training.¹³ The Japanese and Korean experience in this respect re-inforced this conviction which was at the root of the policies and programmes of the government in promoting entrepreneurship development programmes for small scale industrial units.

Effect of Independence on the growth of Indigenous Entrepreneurship in India

In the post-Independence period because of highly favourable government policies and socio-economic environment, there has been a rapid increase in the number of entrepreneurs. New SSI manufacturing units sprouted all over the country . However, the new entrepreneurs were neither inventive nor innovative but were of the "drone" or "fabian" type.¹⁴ That is why they were engaged in the manufacture of traditional goods. Thus development though rapid was mainly quantitative and not qualitative. This does not in any way mean that the Indian entrepreneurs were inferior to the foreign entrepreneurs. It only means that the basic condition for rapid development of dynamic and innovative type of entrepreneurs had as yet not been created in the country. None the less there was also some qualitative development and the country did produce industrial giants like J.R.D. Tata, G.D. Birla,

S.L. Kirloskar, Mafatlal and some others. The founders of the 20 leading Indian business houses appeared on the industrial scene of India at this juncture and they later emerged as industrial leaders and founders of big business houses controlling many industries and large factories. However, the main contribution to industrial growth of the country came from small scale industrial sector.

Conclusion

However, in developing countries, a large sector of the economy is market oriented and vast opportunities are open to the entrepreneurs. Also, the governments understand, support and encourage business and industry. In view of this, there is growth of entrepreneurship and industry in these countries and their economies are growing. More important, the growth is mostly in the small scale industrial sector. In these countries either because of government monopoly or because of competition from multinational companies, or their subsidiaries, and due to low capital base, the local entrepreneurs are inhibited not only from entering into large scale industry but also from growing larger in size.

Further, sometimes, these countries suffer from temporary political or economic crisis. And at such times economic policies unfavourable to growth of industry and

entrepreneurship are adopted and pursued. Commenting on this aspect A.K. Dasgupta has remarked that .

Many of the Government policies like new tax schemes, new industrial policies, new policies about exports and imports, etc., create an atmosphere of crisis in the country and it is no wonder that under such conditions the complaints (of the business community) are completely ignored, That is how in under developed countries, particularly in those countries where the business community is weak (and disorganized) and the entrepreneurs are shy, there is a wide gap not only between the promises and performance of the government but also between the policies adopted by the government and desired by the people (and the business community). Therefore, the external environment in developing countries is fluctuating and not stable, and this inhibits growth of entrepreneurship and the economy.

However, the environment in these countries is progressively improving. Policies favourable to development of entrepreneurship are being instituted and implemented.

The small scale industrial units are being encouraged and special programmes of assistance are being developed to encourage and foster them. Particularly in the 1970's such policies got a big boost and as a result entrepreneurship has been growing rapidly in

these countries. The owners and operators of the SSI units belong to this rapidly growing class of entrepreneurs and they are being encouraged through a policy package favouring growth of the SSI units. Thus, the development of entrepreneurship and growth of small scale industrial sector have come to be linked irrevocably.

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