

An Eclectic Theory of Entrepreneurship: Three level analysis for developing Entrepreneurship Policy in Pakistan

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Abstract

The study was intended to recommend guidelines for developing entrepreneurship policy in Pakistan. For this purpose An Eclectic Theory of Entrepreneurship was used as theoretical frame work to analyze empirical research studies and available reports at three different levels. At micro level, low literacy rate was found to be foremost requirement for developing entrepreneurship. Lack of knowledge based economic system was found to be the center of problem at meso level. At macro level, core of the problem is that policy makers need to understand the spirit of entrepreneurship to plan economic policy accordingly. It was recommended that efforts may be made to: raise education level and entrepreneurial orientation of the people; reshaping to knowledge based economic system; and entrepreneurship may be designated as major pillar of economic policy.

Keywords: Eclectic Theory of Entrepreneurship; Micro level; Meso Level; Macro Level; Entrepreneurship Policy of Pakistan

1.1 Introduction

Policy is defined as “a theoretical or technical instrument that is formulated to solve specific problems affecting, directly or indirectly, societies across different periods of times and geographical spaces” (Estrada, 2011). Policy formulation is a pre decision stage that involves identifying, analyzing and wisely developing sets of policy alternatives according to a given problem and then narrowing down those set of solutions for final policy decision (Sidney, 2017). In order to solve public problems, policies are prepared. These problems can be economic, social and political in nature, therefore the governments involve relevant professionals, corporations, and interest groups to collaborate with policymakers in making public policy as it can have positive impacts on a country’s strategies of growth and development (Rich, 2005).

An economic policy is an action of the government intended to influence or control the behavior of the economy. The implementation of economic policies and then its administration according to requirements in a given economy is done by government (Ehrenberg & Smith, 2016). It strives to achieve economic growth through utilization of natural resources; capacity building and employment of human capital; efficient infrastructure of production; price stability, money supply and interest rates; and encouraging entrepreneurship (Bleischwitz, Welfens, & Zhang, 2017). It also benefits a country’s growth as there are four major goals of economic policy: market stability, economic growth, business development and employment generation (Rodrik, 1996).

Entrepreneurship fosters economic growth and provides viable economic platform to a nation. Entrepreneurship policy provides a framework to an economy to encourage entrepreneurial activities (Mirzanti, Simatupang, & Larso, 2015). The concept of entrepreneurship was given by Richard Cantillon in 1755 focused on a business judgment by an individual during uncertainty and was primarily associated with risk taking to organize the factors of production (McMullen & Shepherd, 2006). Over the years, the field kept on developing as more research theories were given. (Schumpeter, 1934) describes entrepreneur as a person who do creative destruction through new combinations. He considers the innovative entrepreneurs as a norm of healthy economy. While in Baumol’s view entrepreneur creates organization and organize it, whether there is something innovative or otherwise (Sobel, 2008). The definition of entrepreneurship has evolved with the passage of time in broader terms.

The government policy plays an important role in order to create infrastructure and environment that facilitates the entrepreneurship (Minniti, 2008). Due to the highly interactive nature of entrepreneurship one model does not fit all the countries, which makes the governments to understand the underlying concept of the field in order to make a productive policy in line with the natural and human resources of a certain area. The essential contribution of entrepreneurship in an economy is to establish new firms, job creation, provide new dimensions to economy and to boost the economy by providing continuously new life to it through innovation (Audretsch & Thurik, 2001). It links the large and small firms in an economy

and their alliance reduce unemployment and provides strength to economy (Alvarez & Barney, 2001).

Recently, there is a rising trend among nations to adopt the productive policies of other countries. But due to interactive nature of the phenomenon of entrepreneurship with individual capacity, society, culture and natural resources, one policy may not produce the desired results in all parts of the world (Welter, 2011). The essence of entrepreneurship can be generalized but its objectives, strategies and implementation needs to be in consonance with the national objectives of the country; economic policy; education policy; skill development policy; information technology and service sector policy. Therefore, it may not be appropriate to develop entrepreneurship policy in isolation. It must come up after a detailed analysis of the country's human capacity, socio-cultural environment and its resources (Lundstrom & Stevenson, 2006). In pre-policy stage, considering research studies followed by situational analysis at different levels in light of national economic priorities may enable the government to develop entrepreneurial policy which may serve a solid platform for all sub policies and projects to connect each component meaningfully and cohesively to develop entrepreneurship in the country. The matter is still complex as it comprises of various components that are changing in every context to transform an idea to feasible business venture.

Therefore, based on research studies about entrepreneurship, there are three streams. Firstly, an individual's knowledge, skills, capacity and behavior makes him entrepreneur (Pihie, Bagheri, & Sani, 2013). Secondly, an entrepreneur's ability to create and manage business firm requires certain business skills (Kirby, 2004). Thirdly, government's approach towards prioritizing entrepreneurship for economic and societal benefits makes it to deliver its impact on the whole economy (McCann & Ortega-Argilés, 2016). This shows that the entrepreneurship in an economy is rooted in its individual capacity, business firm development and the government's approach. Therefore to achieve this, the governments must formulate a policy for it which focuses on all these three aspects.

Pakistan's economy has traditionally been based on agricultures, fisheries and forestry that make 21% of its GDP (Azam & Shafique, 2017). The manufacturing sector has been encouraged since 1950. After decades of strong growth, the economy started to stall from later part of 1990 and the gap between trade deficit and large external debt kept on rising. Since then every government's priority was to reduce inflation (Attari & Javed, 2013), generate employment (Asrar-ul-Haq, 2015), enhance exports (Hanif, 2018) and widen the tax base (S. Ahmed, Ahmed, & Abbas, 2010). In order to achieve this, different governments from 1990 onwards focused on prioritizing agriculture, privatization, and developing small and medium enterprises though promoting entrepreneurship.

Therefore, entrepreneurship is on the agenda of the economic growth and steps were taken from the last two decades for its growth and development. So far no significant milestones have been achieved (Aslam & Hasnu, 2016). It may be primarily due to the fact that the concept of entrepreneurship has not yet been able to make its position in the whole system of the country. Its roots are yet to be reached and nurtured in minds of the people and as part of socio economic

system. Given the growth models in other developing economies where entrepreneurship focused economic policies yielded significant results, its importance in Pakistan has now been slightly sensitized by the governments. The steps taken in this regard are still not making significant difference. Therefore, there is need to develop entrepreneurship policy in Pakistan. Keeping in view the multifaceted nature of entrepreneurship, a multi-level pre-policy analysis is required. The study used “The Eclectic Theory of Entrepreneurship” (Verheul, Wennekers, Audretsch, & Thurik, 2001) as theoretical framework. According to this theory three level analysis: micro level, meso level and macro level are conducted to recommend policy guidelines for the development of entrepreneurship policy in Pakistan.

2.1 Research Methodology

This study is archival in nature. The reports and research studies published about Pakistan relevant to the theoretical framework were used for three level pre-policy analyses. According to the theoretical framework of the study, the analysis was conducted on three levels: micro, meso and macro. On micro level the education, skills and entrepreneurial capacity of individuals, on meso level entrepreneurial firms and on macro level the economic parameters of Pakistan were discussed.

3.1 Results and discussion

3.1.1 Micro Level

Education is a vital element of human and economic development (Brown & Lauder, 1996). The literacy rate in Pakistan is 60% (Government of Pakistan, 2020). This is very less as compared to neighboring countries. Similarly, according to Human Development Index (2019) Pakistan has been ranked 152 out of 189 countries in the United Nations Development Program (Conceição, 2019). This low rank is due to literacy rate, gross enrollment ratio and expenditure on education. The Government of Pakistan (2018a) has formulated National Education Policy Framework to improve education infrastructure in the country. The human capital has been addressed in it but no objectives were set down with reference to entrepreneurship. Pakistan has not made adequate progress in improving education outcomes. 40% of its population is illiterate. This make them handicap to acquire knowledge and skills for improving their living (Mohammad, 2007). The opportunities for access to education need to be provided to all parts and segments of the country to obtain the goal of educated and skillful people. In the national education policy of Government of Pakistan (2017), the entrepreneurship education has been discussed at Diploma level but unlike the progressive models of entrepreneurship education adopted by the developed countries of the world, where courses of entrepreneurship are included at secondary or in some countries at intermediate level. Similarly, vocational skills choice is used by a student after getting entrepreneurial orientation so as to make right decision in view of his or her inclination to a specific field. The European Union (EU) stress upon their member states to promote entrepreneurial education from primary level (Corbett, 2005).

The goal 4 of sustainable development goals about Quality Education and its further goal 4.4 “By 2030, substantially increase the number of youth and adults who have relevant skills, including technical and vocational skills, for employment, decent jobs and entrepreneurship”

.The vision 2025 of Pakistan under pillar 1, education goals were discussed in which it was emphasized that the 4% of the GDP will be spend on education but according to Economic Survey of Pakistan (2019-20) only 2.3% of the GDP constitute expenditure on education in the year 2018-19. Similarly the title used for pillar 1 is "Putting People First: Developing Human and Social Capital" endorses the focus on human development. But no specific measures regarding entrepreneurship or its learning objectives were streamlined for education at middle, secondary and higher secondary levels so as to develop entrepreneurial thinking and attitude among students (Matlay, Frank, Korunka, Lueger, & Mugler, 2005).

**Table-1 LEVEL OF EDUCATION - DISTRIBUTION OF POPULATION 10
+ YEARS OF AGE BY SEX**

Level of Education	2017-18		
	Total	Male	Female
A. Literate	62.3	72.5	51.8
No formal education	1.6	1.8	1.3
Below matric	36.9	43.0	30.6
Matric but less than Intermediate	11.9	14.3	9.6
Intermediate but less than Degree	5.9	6.7	5.2
Degree and above	6.0	6.8	5.1
B. Illiterate	37.7	27.5	48.2
Total (A+B)	100.0	100.0	100.0

(Source: Government of Pakistan, 2018b)

According to Table-1, population with qualification of matric constitutes 36.9 % of the total population. It means those who take admissions in schools, among them due to some reasons 36.9% of the people cannot extend their education beyond secondary level. These people are literate and they can join any profession. If they were taught entrepreneurship so they could have contributed far better for the economic development but unfortunately we cannot use the full potential of these people. Therefore, the educational policy needs to focus on developing the entrepreneurial orientation of these people.

The government has launched Kamyab Jawan Program for enhancing skills and facilitation to youth to play their part in the economic development of the country (Ali, Fatima, & Ahmed, 2019). Small and Medium Development Authority (SMEDA) is a government based organization established in 1998, mandated for fostering growth of SME sector in Pakistan (Fayyaz, Mian, & Khan, 2009). Its domain includes a broad spectrum of activities which also includes human capital development. For this purpose they conduct training programs. According to Government of Pakistan (2020), SMEDA conducted 228 training programs for

SMEs in Pakistan. It is pertinent to note that SMEDA conduct trainings for SME sector only. But their domain is incapacitated to address the entrepreneurial spirit among the masses (Kumar, 2020). Before it come to SMEDA there needs to be basic orientation and awareness among people about entrepreneurship and its components. Then, at later stage SMEDA will be able to facilitate people about information, trainings, management, financial resources and human resources regarding specific sectors and opportunities in the economy that has potential to grow. Similarly we mix the vocational skills and entrepreneurship skills with each other. At middle level schools if we provide an orientation course about entrepreneurship, this will sensitize the young minds about starting their own business ventures and they will get know how about it. Then at higher secondary level they will be able to make a choice about the field they should choose and accordingly they will make decision about the type of vocational skills they want to acquire.

3.1.2 Meso Level

The fall down ratio of new businesses is shocking for developing countries. A significant number of new businesses fail within first five years of their business operation (Khalique, Isa, & Nassir Shaari, 2011). The collapse rate of SMEs in initial stage in Pakistan is approximately 90% (Ullah, Shah, Hassan, & Zaman, 2011). The world is shifting from production-based economy to knowledge-based economy (Drucker, 1993). There is lack of intellectual capital about entrepreneurship in Pakistan (Khan & Khalique, 2014). The concept of entrepreneurial firms is rooted in knowledge based economy (Karlsson & Johansson, 2006) but unfortunately the same does not exists in Pakistan. The firms are tended towards production based economies for the reason that firstly the economy is not knowledge based and secondly the orientation of entrepreneurs is about production factors which are land, labor, entrepreneur and technology rather than human capital and technology. In Pakistan unstable political environment creates hurdle that hinders the performance of the firms to take risk and advantage of opportunities (Harram & Fozia, 2015). The new economic system is rooted in knowledge (Kalim, Lodhi, & Haroon, 2002). In a knowledge-based economy, innovative ideas rather than goods, is considered as source for economic growth (Neef, Siesfeld, Siesfeld, & Cefola, 1998). Whereas in Pakistan the entrepreneurial firms usually comes up in manufacturing sector due to the lack of entrepreneurial orientation. A number of industrial zones were established by the government(W. Ahmed, Tan, Solangi, & Ali, 2020). There are some success stories but the majority begins their business firms with the aim to develop their venture in to manufacturing industry. Which is right in some cases but an entrepreneur always begin his or her project with an innovative idea to produce maximum with utilization of in hand resources (Thompson, Alvy, & Lees, 2000). In other words entrepreneurs may sometimes act as a third party by utilizing the industrial products manufactured by large firms and applying their innovative idea to make it more customized as per the need of customers. The large firms often focus towards production. This creates an opportunity for new entrepreneurs to fill the services related gap of the product through innovative ideas and according to (Schumpeter, 1942) creative destruction.

A part from innovative ideas upon which a firm to be established, the new firms in Pakistan are facing problems related to the government's policy to identify and prioritize, the areas that need focus of the entrepreneurs (Hyder & Lussier, 2016). The entrepreneurs use their personal understanding to select the sector and field for establishing their business. The lack of empirical information about the field often create problem for sustainability of their business venture. But the family entrepreneurs have advantage as they get support and guidance from their family business circle (Shaheen & Junaid, 2018).

Pakistan being a developing country whose masses are mostly poor in rural areas where some people are skillful and makes home based products such as handicrafts, decoration pieces and hand woven garments has high value in international markets (Awan & Farah, 2015). The entrepreneurial firms can further enhance their quality and export to relevant places. The government needs to focus on this area and should relax export regulations to promote and develop it in to industry. Similarly, there is huge potential in tourism in Pakistan and can contribute to its economy through entrepreneurial interventions (Arshad, Iqbal, & Shahbaz, 2018).

There are a number of components such as: concept of business firms, database of preferred business opportunities, relaxation in government regulations, facilitation centers for new entrepreneurs, opening of new markets to export and loan facilities. These components intend to focus on government's policy makers can provide a platform for supporting business firms in Pakistan to make their significant contribution to the economy.

3.1.3 Macro Level

The economic policy of Pakistan has never remained persistent (Mahmood, Rehman, Rauf, & Rauf, 2008). The foreign assistance and investments has always remained priority of policy makers to achieve high growth. In 1950s it had heavily relied on agriculture. In 1960s the share of agriculture declined as oppose to industry whose share got double of the GDP. The industry growth from 1955-60 remained 23% per annum (Mahmood et al., 2008). The development of agriculture based large scale manufacturing sector enable to achieve the balance between agriculture and industry. The GDP growth rate was 6.9%. But it started to decline after 1965 war. The manufacturing sector recorded decline to 10% per annum due to resource shortage. The consequence of 1971 war and separation of East Pakistan were very bad to the economy. In 1972 the focus was given to industrial sector but the priorities were changed towards public investment in huge industries (Naqvi, 2018). Some key reforms like land, nationalization of key industries, labor reforms and export trade of cotton and rice were the main features of structural reforms. But unlike these reforms, the results were discouraging and both industrial and agriculture sector declined. The era of 1980s, the government focused market based economic policies through privatization (Aqeel, Nishat, & Bilquees, 2004). The GDP remained 7.1% on average. In 1990s structural reforms were introduced to improve the performance of agriculture sector and it was effective up to some extent. On the other hand industrial sector faced capacity utilization problem due to huge investment. Its capacity

utilization remained 60% in thermal projects, cement, sugar, automobiles and electronics. However fertilizer, steel, paper and paper board remained at full capacity. Some steps were taken to attract foreign investment but it did not shown any remarkable impact on increase in employment due to technical skill requirements. The era of 2000s is considered to constitute more liberal economic policies to increase exports and to integrate Pakistan economy to world economy. Steps were taken to bring more fiscal discipline. Major economic policies of 1990s were continued. Macroeconomic stability boosted investor's confidence. The annual average of GDP growth rate during 2000s remained 4.9%. The privatization process was the priority factor during first half of 2000s but in the second half its progress slowed down. The financial sector was reformed. This resulted in the growth of banking sector. The statistics of foreign direct investment and portfolio investments were showing progress. The deregulation of interest structure was done. The micro financing and the progress rate of SMEs resulted in increase in GDP. But unfortunately, increases in government borrowing again worsen the situation.

Initially Pakistan's economy focused towards industrialization. It had skilled people in small and cottage industry. However, with the passage of time the country did not focused towards promoting skill development in other fields. During 1950s and 1960s, the growth rate of large scale industrial sector was 20%. The trend of nationalization in 1970s could not bring desired economic results. The decades of 1980s and 1990s denationalization encourage private sector but the focus was still towards opening large scale industries. The later decades till now are considered for SMEs and entrepreneurship promotion. The small engineering sector in the province of Punjab evolved from ironsmiths and now manufacturing agriculture products (Rana & Ghani, 2004). Similarly, Sialkot has developed its expertise in surgical instruments. The electric fan and allied products industries emerged at Gujrat. The textile industry at Faisalabad gained popularity while some new firms at Karachi adopted modern technologies in textile sector. The new trend of retail brand stores has largely been focused by entrepreneurs all over the country. The province of Baluchistan blessed with enormous natural resources but stagnated due to limited investment and low industrial activity. The province of Khyber Pakhtunkhwa enriched with more than 150 million tons of marble reserves but its export is insignificant.

On economic side, historically, large scale industries were on the priority of all the governments (Haque, 2007). Subsequently, such policies were developed to support large scale enterprises. For the first time in the year 1999, the government developed policy for SMEs (Hobohm, 2006). Similarly institutions like Small and Medium Enterprise Development Authority (SMEDA) and SME bank were established. Recently, some initiatives in the form of projects like Kamyab Jawan Program and Centre for Social Entrepreneurship were launched to decrease unemployment by promoting business startups. Women Empowerment Centers has been established in some parts of the country that provides vocational training to widows and orphans in skills related to dress making, embroidery and other trades (Government of Pakistan, 2020).

A part from the efforts that government claimed for promotion of entrepreneurship in the country, its impact is not significant on the economy.

4.1 Conclusion

Based on the above analysis, following were concluded:

1. The literacy rate of Pakistan is low, which is the foremost requirement for entrepreneurship.
2. The lack of entrepreneurship courses at secondary and higher secondary level.
3. Less focus towards entrepreneurship education at graduate level.
4. Pakistan economy is production based whereas for entrepreneurship to foster and grow, knowledge based economy is required.
5. There is need to develop an understanding among new entrepreneurs about their creative role whereas the large industries role is focus towards production.
6. The policy makers need to understand the creative role of entrepreneurs under the domain of services sector to smartly utilize the natural, industrial and other resources. For attaining this, they need to develop entrepreneurship policy for Pakistan through adopting a holistic approach.

5.1 Recommendations

Based on the conclusion of the study the following is recommended:

5.1.1 Micro Level:

It was recommended that at micro level, in first step efforts may be made to increase the literacy rate in Pakistan. The courses of entrepreneurship may be included at secondary and higher secondary levels. One course of entrepreneurship may be included in the syllabus of all vocational training diplomas. Entrepreneurship education at graduate level may also be encouraged.

5.1.2 Meso Level:

It was recommended that knowledge based economic system may be adopted in Pakistan to nurture entrepreneurship. A national level database may be developed that should be online available to entrepreneurs that connects them to all financial and economic institutions and relevant information. Creative and innovate entrepreneurship may be encouraged.

5.1.3 Macro Level:

The entrepreneurship may be taken as capstone pillar of the economic policy. All the economic problems may be rectified according to entrepreneurship policy. A more liberal economic policy approach towards services sector may be adopted. The entrepreneurship policy may be designed in accordance with country's natural and human capital.

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