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## **The Mediating Role of the Business Environmental on Entrepreneurship Development in Small to Medium Enterprises in Zimbabwe**

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### **Abstract:**

*The study examined the effect of external environmental factors on entrepreneurship development in small to medium enterprises in Zimbabwe (SMEs). SMEs in the Makonde District of Mashonaland West Region participated in the study. A structured questionnaire was administered to a sample of 100 SME owners/managers. The independent variables were government, economy, education and technical knowhow and psychological factors. To test the hypothesis, correlation, regression analysis and independent sample T test were performed. The dependent variable was entrepreneurship development. The results of the study showed that environmental factors, such as government, economy, education and technical knowhow and psychological factors have a positive relationship with entrepreneurship development in small to medium enterprises in Zimbabwe.*

**Keywords:** *Entrepreneurship development, external environmental factors, SMEs' owners/managers, psychological factors and regression analysis.*

### **1. Introduction**

Schumpeter (1950:1961) described an entrepreneur as “an agent of change” or as a creator of business wealth. Kanbur (1979) on the other hand, defined an entrepreneur as a person who manages production in an organisation. Yuih (2009) sees an entrepreneur as a risk taker. The concept of entrepreneurship has been defined as an economic activity adopted by an entrepreneur for self-sustenance (Murphy, 1999). Gries and Naude (2011) defined the concept of entrepreneurship as the process of identifying and utilizing opportunities in both the external and the internal environment. Studies on entrepreneurship development have shown that entrepreneurial activities within the firm increase the firm's performance (Phillip et al, 2009; Simsek et al, 2009). Most authorities in entrepreneurship studies have associated entrepreneurship development with concepts such as risk taking, innovation, pro-activeness, resources mobilization and competitive aggressiveness (Antoncic and Hisrich 2004; Zahra 1991; Dess and Lumpkin 2005). According to Motihar (2012), entrepreneurship development is a concept that is used to describe the relationship between entrepreneurial processes and the use of technology to develop, expand and improve the efficiency and effectiveness of the organisation in the use of resources. The entrepreneurial process as suggested by Motihar (2012) is a whole list of activities, such as (1) the search for business ideas (2) Idea processing, (3) idea selection, (4) Input requirements (5) organisation of business and (6) the day to day operations and business work.

Studies on entrepreneurship orientation in organisations have shown that entrepreneurship development increases firm profitability and growth (Antoncic and Hisrich 2004). Some studies have shown that entrepreneurship development in organisations does not translate into economic growth, increased productivity or increased employment levels (Naude (2010)). There is a negative relationship between entrepreneurship development and a “country's level of economic development, as measured by Growth Domestic Product (GDP) per capita (Naude, 2010).

Experts in the field of entrepreneurship development argue that differences in entrepreneurship behaviour between men and women are well pronounced (Minniti and Naude 2010). Businesses managed by women entrepreneurs tend to be smaller and tend to provide less employment opportunities compared to organisations managed by male entrepreneurs (Minniti and Naude 2010). Yueh (2009) argues that the majority of women in developing countries lack the needed psychological drive to create new businesses therefore the effect of external environmental factors on entrepreneurship development in SMEs cannot be underestimated.

#### *1.1. Literature Review*

### 1.1.1. The External Business Environment

According to Duncan (1972) the term external environment refers to all factors that reside outside the organisation and these factors include related industries, customers, laws and regulations, finances, raw materials, skilled workers, demographic factors, plants, animals, air, light and soil. Fernando (2011) looks at the external environment of a business as consisting of customers, suppliers, distributors, industry trends, substitutes, regulations, government activity, the economy, demographic, social and cultural factors. Adeowe (2012) argues that external environmental factors such as legal, educational, financial, cultural, economic, social and political forces have a positive effect on entrepreneurship development in Small to Medium Enterprises (SMEs). The external environmental factors can facilitate or hinder entrepreneurship development in SMEs (Adeowe 2012). Therefore, there is need to examine the effect of government, economy, education and technical knowhow and psychological factors on entrepreneurship development in SMEs.

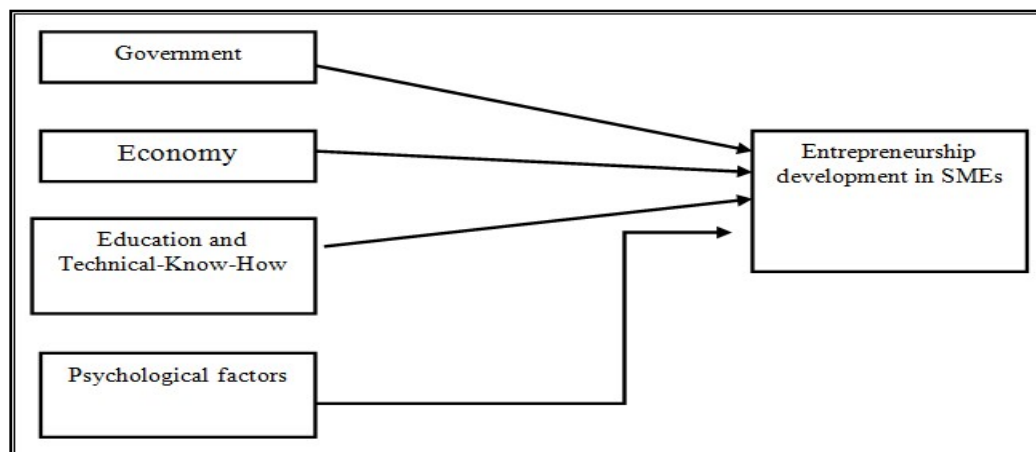


Figure 1: The Conceptual Framework on the Effects of External Environmental Factors on Entrepreneurship Development in SMEs

### 1.1.2. Government

Any form of investment made by government in infrastructure such as electricity, water supplies, roads, ports, industrial zones, telecommunications and the internet are crucial for the development of entrepreneurship capacities in SMEs (Lloyd Reason et al 2002). The Czech government created industrial parks in order to assist SME owners/managers with a strategic option for accelerating the pace of development by reducing “60% of the construction cost” of SMEs (Lloyd Reason et al 2002). Sando-Kriszt (2000) argues that a poor economic infrastructure hinders entrepreneurial development in SMEs. According to Minzhu and Garg (2005) basic infrastructure such as transport, communication facilities, electricity, water supplies and public services has an impact on entrepreneurship development in SMEs. According to Lumpkin and Dess (1996), the legal regulatory framework is a government instrument that creates a favourable “business climate” in which entrepreneurship development is guaranteed. Davidson (1989) argues that unfavourable tax regime; complicated rules and regulations can militated against the development of entrepreneurial skills in SMEs. St-Jean et al (2008) points out that unfair competition in the industry, heavy regulations and tax rates do not present a favourable business environment for the development of entrepreneurial skills in SMEs.

### 1.1.3. Economy

Omobolanle (2009) defines the economic business environment as consisting of economic factors such as inflation rate, exchange rate, unemployment rate and the Gross Domestic Product (GDP). Adewoe (2012) argues that entrepreneurship development in SMEs depends to a large extent on prevailing economic conditions in the country. According to Adeoye (2012) the economic environment of the business is characterised by such factors as GDP, government fiscal and monetary policies, unemployment rate, the exchange rate and capacity utilisation. Asiedu (2002) noted that a lower inflation in the country presents a favourable economic climate for the development of entrepreneurial skills in SMEs. Griffin (1997) argues that a high rate of unemployment is unfavourable to entrepreneurship development in that companies become selective in the manner in which they hire workers and this situation results in production of poor quality goods and services. The literature on entrepreneurship has shown that many female entrepreneurs in Africa are unable to access commercial credit, training facilities and information on business start-ups and this situation has made it difficult for women to achieve the same level of entrepreneurship development as their male counterparts (Beck et al, 2000; Addison and Teixeira, 2003).

Quantitative studies in Paraguay, Malawi and Bangladesh reveal that more business women than men are not able to meet their needs for capital and have less access to financial information (Kylo and Kiganane 2014). Most governments in Africa are unable to address youth unemployment and poverty among women because the youth and women have no access to financial capital and lack assets that can be used as collateral (Buttner and Moore 1997). Consequently, capital in Africa remains out of reach for most women, the youth and poor people (Ong, 1981).

#### 1.1.4. Education and Technical Knowhow

Bruderl et al (1992) argues that education has always been regarded as a critical ingredient in the entrepreneur's human capital development and is significantly correlated with entrepreneurship development. Miller (1983) suggests that the entrepreneur and his new education have a positive effect on entrepreneurship development in SMEs. Studies on entrepreneurship show that knowledge management, knowledge creation and knowledge sharing have a strong positive relationship with innovative behaviour (Mehrdad and Chegini, 2010). The level of education acquired and the technical skills possessed help the entrepreneur to handle the various problems in the organisation (Cooper et al 1994). There is a positive relationship between the survival and growth of the firm and the education of the entrepreneur (Shame 2000). Many studies have acknowledged that the technical knowhow possessed by SMEs managers or owners contribute significantly to the development of entrepreneurial skills in SMEs (Olawale and Garwe, 2010). Singh et al (2008) suggest that the use of entrepreneurial skills such as managerial competencies, innovation and knowledge management is always associated with entrepreneurship development in SMEs. Numerous studies have shown that a number of firm specific factors such as entrepreneur characteristics, poor management, lack of marketing skills, lack of business research and poor technological capacities have contributed significantly to limited entrepreneurship development in SMEs (Bouazza et al, 2015).

#### 1.1.5. Psychological Factors

Numerous studies have shown that psychological factors such as (1) the need for achievement, (2) the need for cognition and (3) internal locus of control are very much related to the behaviours of entrepreneurs in organisation (Di Zheng and Bruning 2011; Lumpkin and Dess, 2001; Miller and Toulouse, 1986). There is a positive relationship between the need for achievement and entrepreneurship development in SMEs (Smith and Miner 1984; Begley and Boyd 1987). Studies by Davidsson (1989) have established that the need for achievement is highly correlated to the entrepreneurship development in SMEs. Lee and Tsang (2001) confirm that there is a positive relationship between the need for achievement and entrepreneurship development in SMEs.

Locus of control is yet another psychological factor that differentiates entrepreneurs from non-entrepreneurs (Shantakumar ,1982). Loci of control theories describe the attitude of entrepreneurs towards their responsibilities and tasks at hand (Rotters 1996). The locus of control doctrine shows the entrepreneurs tendency to believe that they are in absolute control of the outcomes of events in the firm and that the cause of events is not due to serendipity, lucky or chance (Shanthakumar 1992). According to the locus of control theory of Rotter (1966), entrepreneurs are high risk takers because they have an internal locus of control which helps them accept responsibility for the outcomes of their actions. The locus control doctrine describes entrepreneurs who are guided by a strong belief that "the success they achieve in life is a consequence of their hard work or effort" (Oyeniya and Adeniji, 2010). Accordingly, internal locus of control highly correlates with firm performance, entrepreneurship development and carrier development (Judge and Bono, 2001). Another significant psychological factor that is related to internal locus of control is self-efficacy trait (Oyeniya and Adeniji ,2010). According to Wood and Bandura (1989), self-efficacy as a concept is used to describe the entrepreneur's capacity to make sacrifices that are needed to achieve both personal and organizational objectives. Consequently, there is a strong relationship between self-efficacy and entrepreneurship development in SMEs (Judge and Bono 2001).

#### *1.2. Hypothesis*

- H1- Government is positively related to entrepreneurship development in SMEs.
- H2- The economy is positively related to entrepreneurship development in SMEs.
- H3- Education and technical knowhow of the entrepreneur is positively related to entrepreneurship development in SMEs.
- H4- The need for achievement is positively related to entrepreneurship development.

#### *1.3. Methodology*

The purpose of the study was to test hypothesis since the study established the relationship between external environmental factors, such as, government, economy, education and technical knowhow and psychological traits of the entrepreneur and entrepreneurship development in SMEs. The survey was carried out in Chinhoyi District of Zimbabwe. A questionnaire was used to collect data from 100 SMEs owners/ managers. The participants were drawn from all economic sectors of the economy. Data collected from questionnaires was analysed using computer based statistical data analysis package SPSS version 15.0. The data for this study was collected at a single point in time hence the study was cross sectional in time horizon. Conclusions of the research were practically based on the findings of the research study

## 1.4. Analysis and Discussion

|                                     |                     | <b>Entrepreneurship Development</b> | <b>Government Initiative</b> |
|-------------------------------------|---------------------|-------------------------------------|------------------------------|
| <b>Entrepreneurship development</b> | Pearson correlation | 1.000                               | 0.578**                      |
|                                     | Sig (1-tailed)      |                                     | 0.003                        |

*Table 1: Government Initiatives and Entrepreneurship Development*  
 \*\*correlation is significant at the 0.01 level (1-tailed).

Source: Questionnaire

The Pearson correlation between government and entrepreneurship development is 0.578, which is fairly positive. This means that there is a fairly positive relationship between government activities and entrepreneurship development in SMEs and the relationship is statistically significant.

|                                     |                     | <b>Entrepreneurship development</b> | <b>Economic factors</b> |
|-------------------------------------|---------------------|-------------------------------------|-------------------------|
| <b>Entrepreneurship development</b> | Pearson correlation | 1.000                               | 0.776                   |
|                                     | Sig (1-tailed)      |                                     | 0.001                   |

*Table 2: Economic Factors and Entrepreneurship Development*

Source: Questionnaire

Economic factors and entrepreneurship development are correlated at 0.776, which is positive. Therefore, a positive relationship between economic factors and entrepreneurship development exists.

|                                     |                     | <b>Entrepreneurship development</b> | <b>Education</b> |
|-------------------------------------|---------------------|-------------------------------------|------------------|
| <b>Entrepreneurship development</b> | Pearson correlation | 1.000                               | 0.345            |
|                                     | Sig (1-tailed)      |                                     | 0.002            |

*Table 3: Education and Entrepreneurship Development*  
 \*\*correlation is significant at the 0.01 level (1-tailed).

Source: Questionnaire

There is a positive relationship between education and entrepreneurship development in SMEs as this is evidenced by the Pearson correlation between the two variables (0.345). The relationship is not that strong since the correlation coefficient is lower than 0.5. Nevertheless, the relationship is statistically significant.

|                                     |                     | <b>Entrepreneurship development</b> | <b>The need for achievement</b> |
|-------------------------------------|---------------------|-------------------------------------|---------------------------------|
| <b>Entrepreneurship development</b> | Pearson correlation | 1.000                               | 0.733                           |
|                                     | Sig (1-tailed)      |                                     | 0.002                           |

*Table 4: Need for Achievement and Entrepreneurship Development*  
 \*\*correlation is significant at the 0.01 level (1-tailed).

Source: Questionnaire

There is a positive relationship between the need for achievement and entrepreneurship development and the Pearson correlation between the two variables is 0.733. The relationship is strong as the correlation coefficient is higher than 0.5. Furthermore the relationship is statistically significant.

## 1.5. Discussion and Conclusion

The results of this study show that there is a positive relationship between government in initiatives and entrepreneurship development. Studies by Eme (2014) and Gulani Usman (2013) revealed that government initiatives such as capacity building,

infrastructure development and small business funding programmes, influence entrepreneurship development in SMEs. Similar studies by Adeusi and Aluko (2014) have shown that there is a positive relationship between government initiatives and entrepreneurship development. The results of this study reveal that there is a positive relationship between economic factors and entrepreneurship development in SMEs. Similar studies by Omobolanle (2009) have shown that there is a positive relationship between economic factors and entrepreneurship development. The results of this study reveal that there is a positive relationship between education and entrepreneurship development. Similar studies by Shane and Chai (2006) have shown that the education of the entrepreneur correlates highly with entrepreneurship development in SMEs. Wang and Verzat (2011) argue that there is a positive relationship between the education of the entrepreneur and entrepreneurship development in SMEs. In conclusion, there is a positive relationship between external environmental factors (government initiatives, economic factors, education and psychological factors) and entrepreneurship development in SMEs.

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