Nurturing Entrepreneurship Ecosystem in a Developing Economy: Myths and Realities

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Abstract: Entrepreneurship is considered as a panacea for economic infirmities. Development and prosperity can be fostered, upon the organized availability of the required resources, ambidextrously. Entrepreneurship ecosystem is an appropriate approach where a systematic and conducive atmosphere for business activities is paved by providing support and services in the area of business policy, financing, human capital availability, infrastructure accessibility, entrepreneurial culture orientation and internationalization of indigenous products. However, despite having numerous entrepreneurship reinforce institutions, the entrepreneurship ecosystem of many developing countries is still sluggish, Pakistan is prominent among those. To improve entrepreneurship ecosystem, experts have endorsed the role of state ‘pivotal’. In this study, the entrepreneurship ecosystem of Pakistan is explored by focusing the role of government along other dimensions. For the purpose of this examination, an inductive approach was adopted in which twelve open ended interviews were conducted from policy makers, entrepreneurs, entrepreneurship professors and trade associations across the country. After thematic analysis, entrepreneurial ecosystem was found stagnant, where the role of government revealed as ambivalent, yet unfriendly and deficient. In order to develop entrepreneurship, a specific national policy for entrepreneurship should be enacted on priority and then ‘one size fit approach’ must be relinquished.

Keywords: Entrepreneurship, Entrepreneurship Ecosystem, Small and Medium Enterprises, Developing Economy, SMEs

1. Introduction

Competitive markets, unexpected economic downturns and influx of technology have brought entrepreneurship under the limelight. Due to this, governments of both developing and developed countries have started putting efforts to promote the entrepreneurial agenda. In this vein, to have a systematic role of government in promoting the entrepreneurship, entrepreneurial ecosystems are captivating increased attention both from researchers and the government (Auerswald et al., 2015; Stam et al., 2017). A larger number of projects have also been launched in middle-income and advanced economies under the umbrellas of entrepreneurial ecosystem (Mason, 2014).

The fundamental idea of an entrepreneurship ecosystem is to create conducive environment to support innovation, formation of new successful firms and corresponding sustainable employment growth within a specific geographic region (Bendixen & Migliorini, 2006; Michener & Bersh, 2013). The entrepreneurship ecosystem is a highly complex multi-level construct. At the regional field level, it includes stakeholders, such as political decision makers, government
agencies, universities and industry associations (Isenberg, 2011; World Economic Forum, 2014). In this regard, entrepreneurs are most successful when they have access to the human, financial, and professional resources they need and operate in an institutional environment in which norms and policies encourage and safeguard entrepreneurs. Entrepreneurship flourishes in ecosystems where multiple stakeholders play key synergistic roles, which often requires multi-stakeholder collaboration (Van Caneghem & Van Campenhout, 2012). Prior research indicates that the combinations observed difference across regions that have evolved organically for years depending on the social, economic, political, cultural, and geographic conditions (Fauziah, 2016; Mason, 2014).

Promoting entrepreneurship ventures provide substantial job opportunities and they contribute significantly in expansion and growth of GDP while ensuring the proper flow of money throughout the economy (Smallbone & Welter, 2006). Studies show that entrepreneurship at small and medium enterprises (SMEs) level contribute to over 55% of GDP and over 65% of total employment in high-income countries (Mason, 2014). Therefore, governments worldwide have recognized the growing role of SMEs and entrepreneurship as drivers of growth and job creation, and as effective tools for poverty alleviation (Wattanapruttipaisan, 2003). Consequently, many countries have implemented policies and programs to develop the innovation and entrepreneurship among SMEs. In a well-known developing economy, Pakistan, despite having many government institutions to support entrepreneurship, the pace of entrepreneurial activities is still sluggish (Haque, 2007) which lead towards economic deterioration. Similarly, entrepreneurial ecosystem of Pakistan measured by Global Entrepreneurship Monitor (GEM, 2012) where shrank and dented situation was found as shown in figure 1. Against this backdrop, this study has explored the role of government in fostering entrepreneurial ecosystem by taking the case of Pakistan as a developing country.

![Fig. 1 - Entrepreneurship Ecosystem of Pakistan](image)

**2.0 Entrepreneurship Ecosystem**

Although the importance of entrepreneurship eco-system was identified long before, it has come under limelight with the dawn of new millennium (Isenberg, 2010). As a matter of fact, there is no unanimously agreed definition of entrepreneurial ecosystems amongst researchers or practitioners. According to researchers (Suresh & Ramraj, 2012) earlier definition of entrepreneurial ecosystem can be traced back to Prahalad (2005), Cohen (2006) and Bernardez (2009) which was initially used to define conditions in which the individual, enterprise and society interact together to foster the generation of economic prosperity, which is supported by the government. Before proceeding further, it is pertinent to have brief descriptions of the term entrepreneurial ecosystem. The conception of an entrepreneurial ecosystem refers to the interaction that takes place between a range of institutional and individual stakeholders so as to foster entrepreneurship, innovation and SME growth. It was brought into prominence in 2010 by Professor Daniel Isenberg from Babson College through an article in the Harvard Business Review (Isenberg, 2010). Putting together,
entrepreneurial eco-system is a process of exploring, evaluation and exploiting the opportunities for generating new products and service in interaction with culture, community, government, institution and other relevant stakeholders. The entrepreneurial ecosystem approach taps entrepreneurship down to “high-growth start-ups”, putting them forward as the vital source of innovation, productivity and growth (World Economic Forum, 2014; Malecki, E. J., 2018).

The six essential components of entrepreneurship ecosystem conceived by (Isenberg, 2010) include policies, finance, culture, supports, human capital and markets.

Foremost constituent of this ecosystem is government policy which captures wide cross-section of policies relating to taxation, financial services, telecommunications, transportation, labor markets, immigration, industry support, consultancy, education and training, infrastructure and health (Wan Yusoff, 2016). It covers the steps taken at state or governmental level. Another domain which is significant to stimulate entrepreneurship encapsulates finance which focuses on monetary factor, ranging from loans, debt, investments, crowd-funding, and ventures which is used for all kinds of entrepreneurial activities.

Entrepreneurial culture is considered a catalyst for boosting an economy. It shelters the norms, success stories, and role models within an entrepreneur society, which carries effect towards people intentions to join entrepreneurship (Mubarik et al., 2018). Subsequently, Business Support and Infrastructure caters both intangible supports such as business-related consultations, technical advisories, and entrepreneur-friendly associations; as well as tangible supports such as incubators, telecommunication, buildings and workspaces. Similarly, marketing sphere entails paying attention to the accessibility and network of both local and foreign market (Wan Yusoff W.Y., Mubarak M.F. and Rajah S., 2018). Last but not the least, human resource is pivotal to elevate an economy by providing skilled manpower. In entrepreneurial ecosystem context it also surrounds labour issues in terms of entrepreneurial skills and expertise, as well as educational institution in producing graduates and conducting entrepreneurship training (Ostergaard, A., & Marinova, S. T., 2018).

Although each of the entrepreneurial ecosystems in heterogeneous societies is unique, the formation of the ecosystem in each society depends on the level of implementation of domains within the society (Isenberg, 2011). In the latest article on entrepreneurship, Isenberg, (2016) again stressed the nature of self-sustain, multidirectional causality and high order interaction. In detailed, when the six domains mature, in terms of its positive yet strong influence towards entrepreneurial activities, and the interactions among domains and entrepreneurs produce a successful outcome, all the domains will reinforce each other. Researchers discovered that all the six components found to be important (Mubarik, 2015; Wan Yusoff, 2016).

2.1 Role of government to develop entrepreneurship ecosystem

Government’s role is considered as pivotal factor to nurture and develop an economy. The role can be diverse and multidisciplinary in nature of action. In presence of many roles the three types of roles which must be played in order to advance an entrepreneurial ecosystem. First one regarding regulations and taxes, if played appropriately it can play a significant part to foster entrepreneurship. It includes tax incentives in which government can facilitate entrepreneurs by giving tax reliefs and duty free packages. Afterwards the perseverance of entrepreneurial business can be enabled through protection of patents, copyrights, intellectual property rights and entrepreneur protectionism. Furthermore, the enactment of entrepreneurship-friendly fiscal policies which can even encourage inclusion of foreign entrepreneurs in the country’s business ecosystem. For instance, if favorable interest rates are regularized and entrepreneurship-friendly fiscal measures are introduced, resultantly, investors and entrepreneurs can also be attracted in (Cohen, 2006).

The second role is more towards support function which embraces legal support, financial support including granting soft loans and duty-free schemes, the infrastructural support including hard infrastructure (e.g. telecommunication, roads, supply chain etc.) and soft infrastructure (including better services to aid entrepreneurship like financial institutions and insurance). Consultancy and advisory support is also a reasonable step for entrepreneurial initiation and development (Isaak, 2002).

In third dimension, government offers various programs and schemes for entrepreneurship development. These steps can include special packages for nascent as well as for existing entrepreneurs. Numerous programs regarding, training and education of entrepreneurship, and steps to make society an entrepreneurial can prove fruitful to inculcate entrepreneurial orientations and risk taking attitude in the masses. However, the government support backing this risk is indispensable if outcomes are not met as expected (Diana & Ingram, 2014). The summary of above proposed three dimensional roles are presented below in table 1.

Previously, governments had continuously invested on large industrial sector of Pakistan (Haque, 2007). Various policy measures such as tariff protection, import licensing schemes and other controls on imports were focused on enhancing productivity and encouraging growth for large scale industries. Such policies severely inhibited the growth of small and medium businesses. The role of government in entrepreneurial ecosystem development was investigated by World Economic Forum (2014) in which it was found that government’s role is playing very little part in entrepreneurial development of the country.
**Table 1 - Threefold role of government**

<table>
<thead>
<tr>
<th>Roles</th>
<th>Descriptions</th>
</tr>
</thead>
</table>
| **Regulatory and Incentives role** (Cohen, 2006) | Tax Incentives (e.g. Tax Holiday, low tax rates, duty free etc)  
Patent, copy right and Intellectual property rights  
Legislation and up-gradation of contract laws time by time in order to protect entrepreneurs  
Favorable Fiscal Policies towards entrepreneurship  
Encouragement of foreign investors by devising business migration programs |
| **Supportive Role** (Isaak, 2002) | Legal Support  
Financial Support (e.g. Loans, duty baits etc.)  
Infrastructural support (hard and soft infrastructure)  
Consultancy and advisory support |
| **Entrepreneurship Promotion role** (Diana & Ingram, 2014) | Special programs and packages to promote entrepreneurship (for nascent and existing entrepreneurs as well)  
Training and entrepreneurial education programs  
Programs for creating entrepreneurial culture (e.g. creative business plan competitions, etc.)  
Partnering with private establishments or NGOs working for entrepreneurial cause |

Fayyaz, et al, (2009) contend that entrepreneurship development in Pakistan seriously underperformed due to lack of proper government policy, legislation and regulation. Through a research World Bank identified main issues that hampered entrepreneurship in Pakistan including cost of financing, lack of tax incentives for entrepreneurship, and corruption of concerned bodies (MS Mubarik, N Naghavi, MF Mubarak, 2019). Beside these, regulatory issues, energy issue, non-systematic approach of business like informality, among others issues, also created interferences in development of the entrepreneurial activities (Kaufmann & Stone, 2001). All these barriers can be removed with the help of appropriate support and role played at governmental level as shown in figure 2.

![Fig. 2 - Constraints for Entrepreneurship startup in Pakistan](Image)
Furthermore, Global Entrepreneurship Monitor investigated entrepreneurial ecosystem of Pakistan in which they reported lack of supportive role at governmental level and the policies and programs to develop and promote entrepreneurship were also found as unclear (GEM, 2012).

In a nutshell, Pakistani governments in past neglected small business and entrepreneurial development, instead of giving prominence and incentives to SMEs as much as priorities set for large industrial sector (Wan Fauziah, Mubarak M.F. and Sivan Rajah, 2018). Furthermore, the lack of government programs for promotion of entrepreneurship and absence and reliable advisory, consultancy or financial support can be seen for SMEs and entrepreneurship. So far, this is one of the main reasons considered in less development of entrepreneurial ecosystem in Pakistan. However, starting from 2018, the new government’s attention to promote entrepreneurship and small business seems right then earlier. The prominent steps include liberalization of visa policy, tariffs support, micro loans, human capital development, entrepreneurial culture promotion and marketing of national products in abroad. The impact and outcomes of such measures and policies can be measured in long-term.

3.0 Methodology

Since this study is exploratory in nature, that is so, an inductive approach was adopted in this study where qualitative method was implemented. Data was collected through open ended interviews questionnaire which was developed on the Isenberg’s (2011) six pillars of entrepreneurship ecosystem. Face to face interviews were conducted involving twelve respondents from policy making institutions, businessmen, university entrepreneurship lecturers, researchers and business associations as shown in table 2. The respondents were selected across the country including the province of Sindh, Punjab, Khyber Pukhtunkhwa (KPK) and Islamabad federal territory. These experts were selected through purposive sampling. On the basis of data acquired through interviews, thematic analysis was applied based on Miles and Huberman (2014) approach. The remarks of interviewees are not mentioned specifically on their request as the part of confidentiality policy.

Table 2 - Taxonomy of Interviews

<table>
<thead>
<tr>
<th>Professionals</th>
<th>Number of interviews</th>
<th>Respondents’ Origin</th>
</tr>
</thead>
<tbody>
<tr>
<td>Policy makers</td>
<td>Three</td>
<td>Sindh/Punjab</td>
</tr>
<tr>
<td>Entrepreneurs</td>
<td>Four</td>
<td>Sindh/Punjab/KPK</td>
</tr>
<tr>
<td>Researchers</td>
<td>Three</td>
<td>Sindh/Punjab/Islamabad</td>
</tr>
<tr>
<td>Trade Association</td>
<td>Two</td>
<td>Sindh/Punjab</td>
</tr>
</tbody>
</table>

4.0 Results and Discussions

The analysis of results follows the structure of Isenberg’s (2010) six domains as stated in the previous section. The role of government is analyzed on the basis of these domains. Summary of interviews is shown in table 3 below. In which total twelve interviews’ data is summarized. In first column roles of government for entrepreneurial development are specified, second column comprises of the number of respondents who endorsed about positive or supportive role or government and in third column respondents having non-positive opinions is specified. In last column of remarks, the conclusion of each dimension is drawn as favorable or unfavorable towards entrepreneurship development.

Table 3 - Summary of government’s role

<table>
<thead>
<tr>
<th>Role</th>
<th>Friendly Role Proponents</th>
<th>Non-Friendly Role Proponents</th>
<th>Prominent Remarks</th>
</tr>
</thead>
<tbody>
<tr>
<td>Overall Role</td>
<td>3</td>
<td>9</td>
<td>Insufficient role and unclear</td>
</tr>
<tr>
<td>Policy</td>
<td>2</td>
<td>10</td>
<td>No Entrepreneurship Policy</td>
</tr>
<tr>
<td>Finance</td>
<td>4</td>
<td>8</td>
<td>Unclear role of state</td>
</tr>
<tr>
<td>Infrastructure</td>
<td>5</td>
<td>7</td>
<td>Available but insufficient</td>
</tr>
<tr>
<td>Human Capital</td>
<td>3</td>
<td>9</td>
<td>One size policy for all</td>
</tr>
<tr>
<td>Marketing</td>
<td>1</td>
<td>11</td>
<td>Role absent</td>
</tr>
<tr>
<td>Culture</td>
<td>4</td>
<td>9</td>
<td>Employment culture</td>
</tr>
<tr>
<td>All-inclusive Roles</td>
<td>3</td>
<td>9</td>
<td>Unsatisfactory and Unfriendly</td>
</tr>
</tbody>
</table>

First of all, the overall role of government towards entrepreneurship development in Pakistan was asked. Where most of the respondents expressed that the holistic role of government is inconsistent towards entrepreneurship promotion. The government’s part in creating an amicable business environment and entrepreneurship policies is missing. This fact was also highlighted by Khan (2004) where the role of state towards preferment of entrepreneurial
activities was found as non-supportive. Therefore, the general role was pronounced as uncooperative towards entrepreneurial development.

Subsequently, the question on the role of government to policy development was inquired. Since entrepreneurship is different in nature than conventional business and one size fit for all approach was reported which is not suitable for innovation and growth of business (Mubarik, 2015). In our study it was also found that government has doing nothing in aspect of entrepreneurship policy. The authorities are not yet able to even devise a specific policy for entrepreneurship development. Hence, it is an immediate need to come up with a specific entrepreneurship development policy.

Afterwards the role of government towards financial assistance for entrepreneurship was ascertained where majority of the interviewees argued that role of government in finance or loan availability is unclear. This phenomenon was also confirmed in World Bank (2002) report as well. Nevertheless, it is not easy for a common person to obtain state financial support due to procedural and merit problems.

Furthermore, the role with regard to infrastructural support was also inquired in which it was found that infra-incentives are available but not sufficient. However, experts also expressed that entrepreneurs are bound to make almost all arrangements from business establishment to development in their personal capacity. Also, they are unclear what government can offer to support or initiate a business. Haque (2007) already specified this issue while investigating the entrepreneurship of Pakistan. Besides, human capital development and marketing supports were also investigated where the majority of experts shared their views that in Pakistan governments do not fulfill their responsibility to market or promote the local entrepreneurial products in such a way this domain is abandoned. Similarly, human capital development is also facing ‘one-size-fit for all’ approach and is far away from the required attention of government for entrepreneurship development. Current study is confirming the issue highlighted in previous researches on human capital of Pakistan (Mubarik, 2015).

Putting all together, the overall role of government is found unsatisfactory, unfriendly and ambiguous for entrepreneurship development in Pakistan. Hence, after this investigation the ecosystem of Pakistani entrepreneurship is pronounced as stagnant. In figure 3 the favorable opinions of twelve interviewees about each role is illustrated. The more opened and spreader curve towards outside shows the friendlier role of government and vice-versa. The absence of a specific entrepreneurship policy can be seen. Nevertheless, authorities seem to be absent from the scene either it is entrepreneurship policy, financial support, infrastructural support, marketing, and commercialization support or human capital support.

![Investigation Report of Entrepreneurship Ecosystem of Pakistan](image)

**Fig 3 – Investigation Report of Entrepreneurship Ecosystem of Pakistan**

### 5.0 Conclusion

Entrepreneurship ecosystem is an interaction and connection of various stakeholders in order to facilitate entrepreneurship. It encompasses six components including role of government, finance, human capital, infrastructure, markets and culture. When these components collaborate effectively the synergetic results are achieved and development of whole entrepreneurship ecosystem takes place. This study explored the role of government towards entrepreneurship ecosystem development of Pakistan. The results revealed that the role of government is found unfriendly, unsatisfactory and unclear for startup and existing businesses as well. Public should be informed about the
roles of government and available support for the businesses. Nevertheless, the key issue at government level is lack of a specific national policy for entrepreneurship. Instead business policy is acting as entrepreneurship policy and one size fit approach prevails. A clear demarcation should be made between business policy and entrepreneurship policy. Furthermore, in order to develop entrepreneurship ecosystem in Pakistan, government needs to play a collaborative and informative role. This can be performed by devising specific strategies and programs in order to promote the entrepreneurial culture and to develop the overall ecosystem of entrepreneurship. For this purpose, Pakistani missions in foreign countries should be utilized to market and promote the national products. In such a way international markets can be accessible to Pakistani entrepreneurs and international partnership can be achieved.

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