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## PERSONAL AND STRUCTURAL FACTORS AS DETERMINANTS OF AN ENTREPRENEURIAL APPROACH IN EMERGING MARKETS

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### ABSTRACT

Decision-making is constantly at the centre of the entire entrepreneurial process. In a process as dynamic as entrepreneurship, the entrepreneur always finds himself urged to make decisions that eventually impact business operation. This study intends to conceptualise how a certain set of structural and personal factors are at play in such a dynamic manner, eventually impacting the entrepreneurial approach, which is followed by an entrepreneur throughout his entrepreneurial endeavour. Structural factors are: the source of an entrepreneur's knowledge; the environmental trigger that drives the need to pursue entrepreneurial endeavours; and the source of entrepreneur's experience. We hypothesise that each of these different structural factors impacts personal factors, specifically entrepreneurial self-efficacy and the fear of failure, consequently impacting on the decision as to whether to follow a causal or effectual approach to starting and running an entrepreneurial venture.

**Key words:** entrepreneurial self-efficacy, entrepreneurial approach, effectuation

### INTRODUCTION

The factors that affect an entrepreneur's intent and approach to starting up a new business are still not fully clear in the field. According to recent entrepreneurship literature, entrepreneurs follow one of the two prevalent approaches when embarking upon new ventures: the synoptic or rational approach, i.e., "causal reasoning", or the spontaneous and improvised approach, i.e., "effectual reasoning" (Dew et al., 2009; Perry, Chandler and Markova, 2012). Sarasvathy (2001) suggests in her theory of effectuation that most entrepreneurs, when trying to set up a new start-up, instead of doing careful strategic planning and rigorous competitiveness analysis, revert to instinctive and effectual reasoning. Such entrepreneurs would make decisions based on available and accessible means and resources without necessarily having a certain set of goals in mind. The theory of effectuation developed by Sarasvathy (2001) constitutes a paradigmatic shift in our perceptions of entrepreneurship (Perry et al., 2012). However, the effectuation literature is still new, as very few researchers have carried out empirical research and tested the effectuation approach (Perry et al., 2012). Therefore, there is a strong need for further conceptual development that incorporates effectuation into existing entrepreneurial models.

This paper intends to fill this gap by revisiting some aspects of an earlier model developed by Al-Juma'I (2014). This study intends to investigate how a certain set of structural factors, the entrepreneur's knowledge source, the motivation behind seeking entrepreneurship, and experiential source, affect two personal factors, entrepreneurial self-efficacy and fear of failure. The interaction between these structural and personal factors eventually affects the choice of entrepreneurial approach – causal or effectual. The paper aims to test the conceptual model by sampling entrepreneurs from emerging markets, in this case the Middle East and North Africa (MENA) markets. According to the Global Entrepreneurship Monitor (GEM-MENA, 2010), respondents from several MENA countries scored among the highest rates in all the 55 countries studied by GEM for levels of entrepreneurial self-efficacy. Nevertheless,

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they also reported high levels of fear of failure and low entrepreneurial intention to start up a new business (Rosinaite, 2013; GEM-MENA, 2010). As contrasting as they may seem, these attributes leads to an assumption that studying entrepreneurs from the region will help us test the model.

In the following sections, the paper presents our conceptual model and supporting research (which we intend to test in the future in upcoming papers). Before presenting our full conceptual model, we will first elaborate on each of the model's variables.

## LITERATURE REVIEW AND CONCEPTUAL MODEL

### Structural factors

#### *Knowledge source*

The first of our structural factors is the entrepreneur's source of entrepreneurial knowledge, from which he had learned and might still be learning how to pursue entrepreneurship. As Drucker (1985) suggests, entrepreneurship is a "practice of innovation" that is "neither a science nor an art" but rather a knowledge base that can be learned like any other professional practice. A broader definition of the domain of entrepreneurial education, according to Hindle (2007), is as "the knowledge transfer about how, by whom, and with what effects opportunities to create future goods and services are discovered, evaluated and exploited". Fayolle et al. (2006a) also suggest that it involves any pedagogical programme or educational process that deals with the enhancement of certain entrepreneurial skills and personal attitudes, without necessarily focusing only on the immediate creation of new ventures.

Research indicates that entrepreneurship could be taught or at least encouraged through entrepreneurial education (Gorman et al., 1997). Although, according to Ronstadt (1990), the way entrepreneurial or other traditional business education impacts entrepreneurs remains unclear, there are still valid indications that entrepreneurs who receive such education could perform better than others, as it expands their knowledge and informs their decisions about when they embark on their entrepreneurial activities. For the purposes of this paper, we define the knowledge source as any form of entrepreneurial and/or business education or learning that the entrepreneur might have already attained or is currently receiving through different knowledge sources. We can categorise these sources into two main categories:

- a. Entrepreneurial learning through education:
  - (1) Formal education (school, undergraduate, graduate studies)
  - (2) Specialised training (business and entrepreneurship courses, online courses)
- b. Entrepreneurial learning through work:
  - (1) Working in a family business
  - (2) Working with/helping close friends in their businesses
  - (3) Working in other companies and organisations

We intend to study two dimensions of the knowledge source variable. The first dimension deals with determining the type of knowledge source to which the entrepreneur attributes most of his entrepreneurial knowledge prior to starting his first business venture. The second dimension deals with determining the type of knowledge source the entrepreneur perceives as being instrumental to his business operation subsequent to starting his venture.

Learning about entrepreneurship enhances individuals' self-efficacy (Krueger and Carsrud, 1993), as when a person has relatively little knowledge about the entrepreneurial behaviour, self-efficacy may not be particularly relevant or realistic (Ajzen, 1991). Entrepreneurial learning may have a positive impact on self-efficacy (Fayolle et al., 2006a; Karlsson and Moberg, 2013), while the impact of entrepreneurial self-efficacy may depend on

several factors, such as age, gender, entrepreneurial background and exposure (Wilson et al., 2007; Fayolle et al., 2006b).

Formal business and entrepreneurial education, just like any other type of education, follows a pedagogical path that encourages entrepreneurs to rigorously plan for their new or existing business ventures (Dew et al., 2009; Sarasvathy, 2001 and 2008). Hence, such education impacts a preference among these entrepreneurs for causal reasoning over effectual logic when they consider starting new ventures. In reality, entrepreneurs would usually use both causal and effectual approaches combined where the preference for a specific approach might depend on the entrepreneurial expertise, yet, theoretically, it is more logical to study causal and effectual approaches as strictly dichotomous (Sarasvathy, 2008, p. 16). Based on the reviewed literature, we hypothesise that knowledge sources will affect at different levels both entrepreneurial self-efficacy and preference for certain entrepreneurial approach, as follows:

**H1** *Entrepreneurial learning through both education and work positively affects entrepreneurial self-efficacy > learning exclusively through work > learning exclusively through education.*

**H2** *Entrepreneurial learning exclusively through work positively affects a preference for the effectual approach over the causal  $\geq$  learning through both education and work; whereas learning exclusively through education positively affects preference for the causal approach over the effectual.*

### **Environmental triggers**

Research suggests that individuals pursue entrepreneurship either because they have lost employment and have to survive i.e., “necessity entrepreneurship”, or because they have identified a viable business opportunity they want to seize, i.e., “opportunity entrepreneurship” (Reynolds et al., 2002). According to Smallbone and Welter (2004), necessity-driven entrepreneurship is often considered “reluctant entrepreneurship”, as individuals find themselves compelled to start new businesses before or after losing employment in order to survive. They suggest that such decision may not be driven by necessity alone but also by an individual’s previous experience, current external conditions, or the aspiration for better self-satisfaction and autonomy.

The level of entrepreneurial self-efficacy of individuals could significantly differ based on the motive behind seeking to start up a new business (Lee et al., 2005; GEM-MENA, 2010). An opportunity-seeking individual may not necessarily be confident that they could start up a new business, while a necessity-driven individual will have no option but to pursue entrepreneurship, irrespective of their perceived competence to do so. In developing countries, the rate of necessity-driven entrepreneurship will be often more prevalent than that of opportunity entrepreneurship (Reynolds et al., 2002; GEM-MENA, 2010). Opportunity-seeking entrepreneurs in developing economies have been found to have more pronounced sensitivity to self-efficacy than those driven by necessity, as self-efficacy has a stronger influence, among other factors, on their intention to start up a new business (Lee et al., 2005).

The paper defines the environmental triggers of opportunity and necessity motives as the major factors that would trigger the drive of an individual to pursue starting up a new venture. It intends to study two dimensions of the environmental trigger variable. The first dimension deals with determining the type of opportunity motive that triggered the entrepreneur’s drive to start his business venture, while the second dimension deals with determining the type of necessity motive. We categorise the key types of opportunity and necessity motives into the following:

- a. Types of opportunity motive:
  - (1) Seizing business opportunities/interesting ideas
  - (2) Spending extra free time

- (3) Investing one's savings
- b. Types of necessity motive:
  - (4) Due to lay-off
  - (5) Due to unemployment
  - (6) Need to help one's family

The study expects the drive to seek entrepreneurship to act as a major factor that would impact an individual's level of self-efficacy and thus the decision to pursue starting up new ventures. Based on the literature, we propose the following hypotheses:

**H3** *The motive behind seeking entrepreneurship will have a direct effect on entrepreneurial self-efficacy.*

**H3a** *Opportunity entrepreneurship positively affects self-efficacy while necessity entrepreneurship has no effect.*

#### **Experiential source**

Entrepreneurial experience is broadly defined as the level of experience and knowledge the entrepreneur has accumulated prior to starting up a new venture or after setting up multiple businesses. Such experience varies from one entrepreneur to another; those setting up their first business venture are usually considered novice entrepreneurs, while others with several ventures under their belt are habitual entrepreneurs (Politis, 2008). Exposure to entrepreneurial situations, and acquisition of management tools and experiences impact entrepreneurial self-efficacy (Krueger and Carsrud, 1993; Fayolle et al., 2006a). Other aspects of entrepreneurial experience, such as experiences of mastery and vicarious or observational learning, could also substantially develop and enhance entrepreneurial self-efficacy (Bandura, 1977 and 1982; Boyd and Vozikis, 1994). Mastery experience is the most effective method to develop self-efficacy, since individuals tend to learn from recurring achievements (Bandura, 1977 and 1982; Boyd and Vozikis, 1994).

The study defines the experiential source as the source from which the entrepreneur might have accumulated his entrepreneurial and/or professional experience. We categorise these sources into three main categories:

- a. Experience through working in a family business
- b. Experience through working in a previous personal business
- c. Experience through working in other companies and organisations

Further, the paper intends to study four dimensions of the experiential source variable. The first deals with determining the source or sources of the entrepreneur's experience prior to starting his business venture. The second dimension deals with determining whether the entrepreneur is a novice in his first business or a habitual entrepreneur with more than one business venture. The remaining two dimensions deal with the entrepreneur's experiences of success and failure in running businesses based on the number of successful and closed businesses.

Following effectuation as an entrepreneurial approach, entrepreneurs will revert to exploit any available means, including their experience, to start up and maintain business ventures (Sarasvathy, 2001 and 2008). Nonetheless, the causation approach compels entrepreneurs to carefully set plans for their new or existing ventures (Dew et al., 2009; Sarasvathy, 2008). These approaches are not mutually exclusive; entrepreneurs usually use a combination of both approaches. However, their entrepreneurial experience might be pivotal to the preference of a certain approach (Sarasvathy, 2008). Novice entrepreneurs would follow a causal approach, while habitual entrepreneurs would rather use both causal and effectual approaches together as they deem fit (Dew et al., 2009).

Hence, the paper hypothesises that experiential sources, based on the reviewed literature, will affect both entrepreneurial self-efficacy and preference at different levels, for a certain entrepreneurial approach, as follows:

*H4 Experience through working in other companies and organisations positively affects entrepreneurial self-efficacy > experience through working at family business; whereas experience through working in a previous personal business negatively affects entrepreneurial self-efficacy.*

*H5 Novice entrepreneurs will have more pronounced levels of entrepreneurial self-efficacy than habitual entrepreneurs.*

*H6 Novice entrepreneurs will prefer to follow the causal approach over the effectual approach, whereas habitual entrepreneurs will prefer to follow a combination of both approaches.*

## **Personal factors**

### ***Entrepreneurial self-efficacy***

Based on the premises of social learning theory (Bandura, 1977 and 1982), the concept of self-efficacy deals with the individual's perception of how competent they are to "execute courses of action required to deal with prospective situations" (Bandura, 1982, p. 122). Self-efficacy beliefs can influence thought patterns and emotional reactions, as well as the choice and preparation for activities (Ajzen, 1991). It becomes more accurately predictable when studied in a social system where the behaviour is evaluated (Bandura, 1977) and where this behaviour, i.e., entrepreneurship, is culturally legitimate (Klyver and Thornton, 2010).

Entrepreneurial self-efficacy (ESE), the individual's perceived competence to start a new entrepreneurial venture, is a construct that could measure the confidence and belief of an entrepreneur in his ability to successfully start up a new business (Boyd and Vozikis, 1994; McGee et al., 2009; Karlsson and Moberg, 2013). However, the literature relating to entrepreneurial self-efficacy includes different definitions and dimensions, and thus different scale instruments that could measure it (McGee et al., 2009). McGee et al. (2009) developed a multi-dimensional instrument that could measure entrepreneurial self-efficacy through the identification of five ESE dimensions, thus explaining the behaviour of nascent entrepreneurs. The dimensions that this study uses for its ESE variable are:

- a. Searching
  - (1) Creating new ideas for products/services
  - (2) Identifying the need for them
  - (3) Designing them to the satisfaction of potential customers
- b. Planning
  - (1) Estimating customer demand for new products/services
  - (2) Determining competitive prices
  - (3) Estimating the necessary funds to start business
  - (4) Designing effective marketing campaigns
- c. Marshalling
  - (1) Getting others on board
  - (2) Networking
  - (3) Clear communication
- d. Implementation of human resources
  - (1) Hiring
  - (2) Supervising and training
  - (3) Managing and delegating
  - (4) Leading and motivating employees
- e. Implementation of financial resources
  - (1) Keeping financial records
  - (2) Managing financial assets
  - (3) Reading financial statements

#### (4) Finding financial resources/funds

McGee et al. (2009) also found that nascent entrepreneurship and these dimensions were positively related and that the increased confidence of nascent entrepreneurs could be measured through entrepreneurial self-efficacy.

Entrepreneurial self-efficacy is influenced by the acquisition of management tools and exposure to entrepreneurial situations (Krueger and Carsrud, 1993; Fayolle et al., 2006a). It can be developed and enhanced by experiences of mastery, vicarious or observational learning, verbal or social persuasion, and judgments of emotional or physiological states (Bandura, 1977 and 1982; Boyd and Vozikis, 1994). Mastery experiences appear to be the most effective method to develop self-efficacy, as individuals tend to learn from recurring achievements (Bandura, 1977 and 1982; Boyd and Vozikis, 1994). However, when their achievements are easily attained, failure tends to quickly discourage them and affect their self-efficacy (Boyd and Vozikis, 1994). Also, as learning about entrepreneurship enhances an individual's self-efficacy, it could concurrently decrease his intent to start up a new business (Krueger and Carsrud, 1993). Based on the reviewed literature, the study proposes the following hypotheses:

**H7** *Entrepreneurial self-efficacy will have a direct effect on the entrepreneurial approach.*

**H7a** *High entrepreneurial self-efficacy positively affects a preference for the causal approach over the effectual approach.*

**H8** *Entrepreneurial self-efficacy negatively affects fear of failure.*

#### ***Fear of failure***

Failure is usually defined as the condition or fact where some desired result or end could not be achieved due to insufficient performance of a significant task by an individual or the fact that things in a certain situation did not go well as expected (Politis and Gabrielsson, 2009). The paper defines "fear of failure" in line with Atkinson's definition (1957) as the capacity or propensity to experience shame or humiliation as a consequence of failure. However, the paper expands the definition to include experiencing not only emotional consequences but also financial and entrepreneurial risks. Such a fear could have a significant influence on an individual's motivation to achieve his goals and might also inhibit his business aspirations (Burnstein, 1963). Although the recurrence of failure in the process of new venture creation should be seen as an accepted and natural outcome (Politis and Gabrielsson, 2009), the decision on whether or not to exploit a business opportunity are affected by fear of failure (Welpel et al., 2012).

Cope (2011) indicated that previous entrepreneurial experience, particularly with venture failure, could constitute a distinctive learning experience by which entrepreneurs learn to view failure positively. He argued that such learning experiences strongly impact the entrepreneur's knowledge, leading to his recovery and re-emergence from failure. Learning from failure also increases the readiness of the entrepreneur to undertake future entrepreneurial activities (Cope, 2011). Politis and Gabrielsson (2009) used theories of experiential learning to examine why and how some entrepreneurs view failure more positively than others. Through surveying entrepreneurs who have already started new ventures, they found that prior start-up experience is strongly associated with a more positive attitude towards failure. The experience from the closure of a previous business was also found to affect positively the entrepreneurs' attitude towards failure, and entrepreneurs' experiences with closure out of poor performance were deemed very valuable to their learning, as compared to closure for personal reasons (Politis and Gabrielsson, 2009). McGregor and Elliot (2005) argued that fear of failure is a self-evaluative framework in which failure is an indicator of overall incompetence where the entrepreneur fears being rejected and abandoned by significant others. Recognising that experiencing shame causes severe distress, the individual learns to orient himself toward failure and seeks to avoid it in achievement situations. According to McGregor and Elliot (2005), individuals who have a high fear of failure are reported to be more shameful upon a perceived

failure experience than those who have a low fear of failure. Furthermore, shame was found to be a distinct emotional outcome of perceived failure for those with a high fear of failure. It was also argued that, when possible, individuals with a high fear of failure will tend to avoid achievement situations, as they recognise failure as an unacceptable event that negatively impacts their self-worth and relational security. Such individuals are thought to view achievement events not as learning opportunities that could improve their competence or competition against others, but rather as intimidating experiences where the whole self is at stake. Such a view is responsible for the vigilant orientation towards failure and recurrent avoidance of it in achievement situations (McGregor and Elliot, 2005).

Hence, based on the reviewed literature, the paper hypothesises that fear of failure will directly affect the preference for a certain entrepreneurial approach as the entrepreneur delves into the unknown, uncertain world of the business start-up and attempts to minimise the risks of failure. This leads us to the study's ninth hypothesis, which is as follows:

**H9** *Fear of failure will have a direct effect on the entrepreneurial approach.*

**H9a** *High levels of fear of failure positively affect the preference for the effectual approach over the causal approach.*

### **Entrepreneurial approach**

The paper defines the entrepreneurial approach as that state which exists within the entrepreneur and is triggered by the entrepreneurial intention but which has not yet been realised by the actual starting of the enterprise. Recent research in the field of entrepreneurship suggests that most entrepreneurs, when trying to set up their new start-ups, revert to instinctive and effectual reasoning instead of careful strategic planning and rigorous competitiveness analysis (Sarasvathy, 2001 and 2008). As suggested by the literature, there are two approaches for starting up new ventures: the synoptic or rational approach (causal reasoning) and the spontaneous and improvised approach (effectual reasoning) (Dew et al., 2009; Perry et al., 2012). Entrepreneurs either follow the standard approach of establishing their businesses after thorough planning which leads to the achievement of their pre-set goals, or they improvise and make decisions based on available and accessible means and resources, without necessarily having certain pre-set goals in mind.

Causal reasoning, as referred to in this paper, indicates that entrepreneurs follow, in the creation process of their new ventures, a synoptic approach of rational planning (Méthé et al., 2000; Méthé, 2014). This synoptic approach significantly includes the notion of planning for an ultimate goal to be achieved. This planning is mostly done through rigorous market research that entails the availability of organisational resources and time to be conducted. The paper assumes that entrepreneurs in emerging markets will usually have very limited access to the necessary resources needed when a causal approach is followed to start up a new business. An entrepreneur in such uncertain market environment exploits a set of means when following an effectual approach (Sarasvathy, 2008), as follows:

- Who they are? (their personal traits, tastes, and abilities)
- What do they know? (their knowledge, not necessarily about subject matter only), and;
- Whom do they know? (their social networks and connections)

Although the recent entrepreneurship literature suggests that theoretically it is more logical to study causal and effectual approaches as a strict dichotomy (Sarasvathy, 2008, p 16), the study assumes that entrepreneurs would usually use both causal and effectual approaches combined when a preference for a specific approach might depend on the entrepreneurial expertise. Experienced entrepreneurs will usually tend to use a combination of both approaches whenever it fits their business model, in contrast to novice entrepreneurs, who arguably follow a causal approach (Dew et al., 2009). The paper intends to study the entrepreneurial approach variable based on the dimensions that Sarasvathy (2008) sets out (as below):

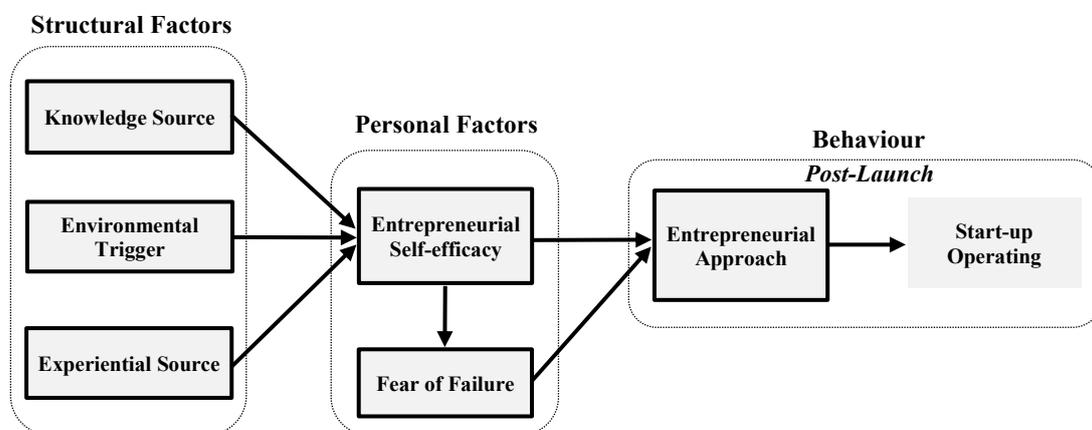
- a. Causation approach
  - (1) Goal-driven action
  - (2) Expected returns
  - (3) Competitive analysis
  - (4) Avoiding contingencies
  - (5) Prediction
- b. Effectuation approach
  - (1) Means-driven action
  - (2) Affordable loss
  - (3) Pre-commitment and partnership
  - (4) Leveraging contingencies
  - (5) Control

According to Perry et al. (2012)'s literature review on the theory of effectuation, the significance of the theory emanates from its proposition of individuals' behaviour in situations where causal approach assumptions are absent. They claimed that very few researchers have empirically tried to test the theory since its introduction. Nevertheless, they concluded that the lack of research could be attributed to how the concept of effectuation challenges the conventional established body of research around the causal approach in entrepreneurship field, and how difficult it would be for researchers to develop and validate effectuation measures.

### CONCEPTUAL MODEL

Following our review of the literature, the paper proposes the following relationships, as depicted in Figure (1).

**Figure (1): Conceptual model**



### EXPECTED RESULTS AND CONCLUSION

Based on the reviewed literature, proposed hypotheses, and conceptual model, the study first expects that knowledge and experience sources will have different levels of effect on both entrepreneurial self-efficacy and the preference for certain entrepreneurial approaches of entrepreneurs in emerging markets. The paper also expects that these entrepreneurs' motives to start up new businesses will directly affect their entrepreneurial self-efficacy; opportunity motives will positively affect their self-efficacy, whereas necessity motives will not have any such effect. The entrepreneurial self-efficacy of entrepreneurs in emerging markets is expected to have a direct effect on entrepreneurial approach, where entrepreneurs with high levels of self-efficacy opt to follow a causal approach. These entrepreneurs' fear of failure is expected to decrease as their self-efficacy increases and is also expected to directly affect their preference

for the entrepreneurial approach. The higher the entrepreneurs' fear of failure, the more they opt to follow an effectual approach to mitigate potential risks.

The paper aims to sample entrepreneurs from MENA emerging markets to test its proposed hypotheses and conceptual model. Respondents from MENA countries have scored among the highest rates in all the 55 countries GEM studies in several aspects of their entrepreneurial intent and behaviour (GEM-MENA, 2010). They reported high levels of both entrepreneurial self-efficacy and fear of failure (Rosinaite, 2013; GEM-MENA, 2010), which leads to our assumption that studying a sample from MENA countries will help us test if our conceptual model is valid. Meanwhile, effectuation is considered a paradigmatic shift in entrepreneurship research (Perry et al., 2012); the paper's model will help contribute to its nascent body of research. As we incorporate effectuation with existing entrepreneurial research into our conceptual model, our study on conceptualisation will contribute to the literature by expanding our understanding of how novice or habitual entrepreneurs confront the uncertainty of starting up a new business.

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