

Mediating Effect of Entrepreneurial Self Efficacy between Social Networks, Environmental Dynamism, and Entrepreneurial Self-Leadership and New Venture Success

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Abstract: The purpose of this study is to investigate the elements that reduce the entrepreneurial failure and endorse new venture success. In this study, entrepreneurial based social cognitive model has been used to investigate the reciprocal interactions of entrepreneurial self-efficacy, entrepreneurial leadership, social network and environmental dynamism. A multiple regression analysis will be used to assess the relative influence of the independent variables in predicting the dependent variable of new venture success. Additionally, the study provide a guide line for the policy makers in developing policies to prevent SME failure in the country.

Keywords : Mediating Effect, Entrepreneurial Self Efficacy, Social Networks, Environmental Dynamism, Entrepreneurial Self-Leadership, New Venture Success

INTRODUCTION

Entrepreneurship study has flourished based on the small business enterprises and it is potentially valuable for both economic and social change. The literature demonstrates the importance of entrepreneurship in small business. ER? has helps out in both educating and organizing various cultures or communities, globally to improve their economic and social living environments (Ayala & Garcia, 2010; Fairouz, Hirobumi, & Tanaka, 2010).

According to the traditional view, entrepreneurs are like Bill Gates, Richard Branson, and James Dyson who launched a completely new idea and commercialize their idea successfully for own business rather than anyone else. Thus, people who succeeded in implementing new ideas can be termed as entrepreneurs (Uzma & Nouman, 2007). Countries such as India, Bangladesh, and Pakistan placed great emphasis on the development of entrepreneurs such as Anil Dhirubhai Ambani of Reliance Industries Limited and NR Murthy who leading the market of India. Dr. Muhammad Yunus of Grameen Bank, Shahnaz Hussain of the Shahnaz Husain Group: one of the biggest manufacturers of ayurvedic and herbal products in the world, Saurabh Srivastava, founder of Indian Angels Network and Nasscom; Raj Desai of Rhythm New Media and founder of TIE Global (Uzma & Nouman, 2007) South Korea's Samsung, and Thailand's charoen Pokphand Group (Brant, 2011; Isaacson, 2011) are some of the examples. However, only few corporations can achieve success, but millions of SMEs fail within the first five years of establishment (Hunter, 2012).

This high failure rate affect the unemployment rates, native economies, and the domestic economy (Plehn-Dujowich, 2010). In Pakistan, entrepreneurship is extremely weakened by government policy, law, and regulation. According to the government of Pakistan, investment at industrial level is entrepreneurship (Uzma & Nouman, 2007). In the last few decades the entrepreneurial trend in Pakistan has risen and it has been familiar by the local and internationalized in media by relatively a few bloggers.

According to small and medium enterprise (SMEDA??), about 5.96 million SMEs are working in Pakistan but the new arrivals rate is unknown. Small and medium enterprise (SMEs) sector is the back bone of the economy in Pakistan. The SMEs sector in Pakistan has a vibrant role in economy and considered as a survivor in unpleasant economic condition (Khalique, Isa, & Shaari, 2011). SMEs represented nearly 90% of all the enterprises in Pakistan (Khalique, Isa, & Shaari, 2011; Ullah, Shah, Hassan & Zaman 2011). There is approximately 40% sharing in GDP of non-agricultural labor force, in which 80 % of it are SME (Malik, Khan, Bhutto, & Ghouri 2011). The failure ratio of SMEs is alarming for emerging business along with developed countries (Khalique, Isa, & Shaari, 2011). Although the importance of small businesses for the long term economic stability, reliable knowledge on decreasing failure of new venture is limited (Pervaz, 2011). There is shortcoming of literature on this concerning issue in Pakistan (Hussain, Si, Xie, & Wang, 2010). Past literature acknowledged that there is sufficient

number of new SMEs failure within first five years from establishment (Zimmerer, Searborough & Wilson 2008; Hodgents & Kuratko 2004). This study will attempt to find the key reason for the failure of SMEs in Pakistan and to find out the ways on how to reduce failure rate. Some valuable variables will be used which may reduce the failure rate in Pakistan.

Social network

Among the study of current entrepreneurship, social network has become a great interest with the aim to encourage performance of small and medium enterprise. In establishing businesses, entrepreneurs develop relationship with others through social networking and produce sources for each other (Johannisson, 1990). Most of the entrepreneurs have some knowledge, capability, and innovation, though, they also need capitals to deliver and provide their services or products (Teece, Pisano, & Shuen, 1997). The people and organizations within their social networks with which entrepreneurs are connected to and interact with have a propensity to increase the availability of resources that can help endure their businesses (Hansen, 1995).

Entrepreneurs need information, just like they need labor, capital, and skills in order to start a business. While, they may have initially use these resources by themselves, they tend to access their acquaintances in order to augment these resources??? (Aldrich & Zimmer, 1986; Cooper, Folta, & Woo, 1995; Hansen, 1995). Frequently, social structures support to create social capital which is the practical and actual resources that assist entrepreneur to attain their objectives (Birley et al., 1991).

This information describes strategic position in the long-term through engaging ~~the~~ in several phases of business organization. Wilkens (1979) identified three uniform phases in ~~the~~ establishing enterprises: motivation phase, planning phase, and establishment phase. First, in the motivation phase, entrepreneurs convey the initial notion and develop the business idea. In the planning phase, entrepreneurs preparing to set-up a business. They involve in various activities, while getting the necessary resources and knowledge needed during this phase. Finally, when entrepreneurs establish and run the business, this is known as the establishment phase, whereas the entrepreneur focus less on problem solving, communications, and daily actions (Carter, Gartner, & Reynolds, 1996; Greve, 1995; Greve & Salaff, 2003; Wilken, 1979; Zhao & Aram, 1995).

Entrepreneurial Leadership

Entrepreneurial Self-Leadership is a self-influence process that allows ~~the~~ entrepreneur to accomplish the self-direction and self-motivation needed for achieving desired tasks (D'Intino et al., 2007). At

the development stage, entrepreneurs must articulate the mental image of what the business will be and a roadmap for reaching the goal (Ruvio, Rosenblatt & Hertz-Lazarowitz, 2010). According to ~~the~~ Darling and Beebe (2007), entrepreneurial leadership needs a vision to build another vision of the future. Entrepreneurial leaders are concentrated on new opportunities and outcome. Research has broadened the scope of entrepreneurial leadership outside concentrating simply on a person who is starting a new business to contain the wide characteristics of a particular type of leader, name as entrepreneurial (Cohen, 2004).

According to Timmons (1999) there are some characteristics of entrepreneurial leadership which are risk-taking, propensity, internal locus of control, need for achievement, creative tendencies, tolerance for ambiguity, need for autonomy, and self-confidence. Eggers et al. (1994) have done several researches on characteristics of entrepreneurial leaders. In their research, they describe ~~there are~~ nine characteristics which include having a need to attain, locus for control, self-esteem, optimism, goal orientation, courage, tolerance for ambiguity, strong internal motivation, and screening for opportunity.

Researchers have defined the characteristics of entrepreneurs as being risk bearing, innovative, showing initiative, having a desire for responsibility, having a need for power, personal value orientation, having a need for achievement, screening for opportunity, self-esteem, courage, optimism, tolerance for ambiguity, goal orientation, and strong internal motivation, internal locus of control, and a need for independence (Darling & Beebe, 2007; Eggers et al., 1994; Timmons, 1999).

Environmental dynamism

Environmental dynamism states the changes and the uncertainty occurred in the external environment (Ensley et al., 2006; Goll & Rasheed, 2004) that may affect new venture success (Dess & Beard, 1984; Goll & Rasheed, 2004). According to Ensley et al. (2006), the entrepreneurial environment is the arrangement of factors that foster entrepreneurship. Socio-cultural, Economic, and political factors affect an individual's willingness and capability to quest entrepreneurship, along with the accessibility of livelihood services that help the start-up procedure (Mueller, 2006; Sine, Mitsuhashi, & Kirsch, 2006). In societies, states, and regions, entrepreneurs are at the center of addressing crucial issues that influence the entrepreneurial environment (Carmeli & Tishler, 2004; Folta, Cooper, & Baik, 2006).

During the first half of the 20th century management and organizational research concentrated on the universal principles of planning, structure, and control, to the disadvantage of environmental uncertainty (Frishammar, 2006). Regenerate interests in the environment start with

work by Aldrich (1979). Dess and Beard (1984) prophesized on the influence of the environment to a business in terms of instability dynamism, complexity, and munificence. Complexities allude to the dispersion and heterogeneity in an organization. Dynamism alludes to market uncertainty over time and the instability reason by interconnectedness amid organizations. Munificence alludes to the magnitude to which an environment could foster persistent growth.

By examining the environmental dynamism researchers have explored the effects of the environment on the entrepreneur and new venture. For instance, the environment has a significant role in persuading the relationships between entrepreneur and new venture success (see Figure 3; Bosma et al., 2000).

Entrepreneurial Self-efficacy

Entrepreneurial Self-Efficacy has various theoretical and practical implications for entrepreneurial success. Entrepreneurial self-efficacy allude the belief in one's ability to take entrepreneurial actions based on a personal judgments of one's technical and managerial skills (Chen et al., 1998; DeNoble et al., 1999). Self-Efficacy is a motivational concept that is gradually increasing through one's practices (Zhao, Seibert, & Hills, 2005). Furthermore, self-efficacy can influence one's persistence, goals, and success (Sequeira, Mueller, & McGee, 2007). An important aspect of self-efficacy is that it is task and domain specific (Bandura & Locke, 2003). A person may have high self-efficacy in one area and low self-efficacy in another (Wilson, Kickul, & Marlino, 2007). Moreover, self-efficacy is a construct which is clear from locus of control.

The principal sources of self-efficacy contain social persuasion, mastery experiences, modeling, and physiological response to experiences (Bandura, 1997). Mastery experiences are the powerful source of all other sources in designing one's perception about success. The second ~~one~~ source of self-efficacy is beliefs. It is about modeling. When people perceive role models, it can give indirect experiences in bringing self-efficacy (Wood & Bandura, 1989; Zhao et al., 2005)

New Venture Success

New venture performance is measure by new venture success. "New venture success occurs when a new venture produces value for its customers in a sustainable and economically efficient way" (Headd, 2003). When owner of an organization meets the nonfinancial measures of success it means new venture is moving positively (Walker & Brown, 2004). Financial estimation for the success of new venture is challenging (Kraus, Harms & Fink 2010). New venture success is most often implied in terms of economic measures that are deem for openly held firms, for instance, return

to shareholders (Reilly, 2012). Whereas, in an entrepreneurial new venture, it is not clear that entrepreneurial success is constantly one dimensional (Chen, West & Noel, 2009). Systems resource approach and goal approach are two theoretical approaches for measuring new venture success. Goal approach measures proceed toward attain of organizational goals (Redecker, Ala-Mutka, Bacigalupo, Ferrari, & Punie, 2009). The system resource approach measures the capability of the organization to obtain resources to preserve the organizational system (Smith, Jayasuriya, Caputi, & Hammer, 2008).

Current study highlight on the goal approach, which deliberate the owner-manager standpoint (Sarasvathy, Menon, & Kuechle, 2013). Other goal based measures contain indices that reflect the size of the enterprise, normally in terms of number of employees and revenues (Li, Huang, & Tsai, 2009). In order to ascertain for the success of new venture these financial dimensions need increases in the numbers of employees or profit (Dess & Robinson, 1984). Number of employees and revenues are mostly invaluable measures for new ventures, which often do not have profit record and are not likely to show profitability during the first year of establishment (Khair, 2010). Furthermore, revenues are considered as a valid measure for presenting overall success (Carroll, & Stater, 2009).

Research Gap

The ~~failure~~ success of small venture is crucial for the stabilities of local and national economies (Allen, 2009). The characteristics and actions of leaders of new venture directly affect the profitability, success/failure of the venture. According to Alstete (2008), small business owners with poor leadership skills, social networking (Johannisson, 1990), low self-efficacy (Zhao, Seibert, & Hills, 2005), and environmental dynamism (Dess & Beard 1984), τ will result in business failure.

Conclusion

The goal of this study is to identify and prioritize the owner personal factors (e.g., self-efficacy) and characteristics (e.g., leadership skills) that owner's should posses to increase the probability of survival for their business. The variables such as social network, entrepreneurial leadership, environmental dynamism, and entrepreneurial self-efficacy may reduce the failure rate of new venture and filled a gap in the literature. George et al. (2011) suggested that knowledge about success measures could lead to a new phase of small businesses activity and could contribute to the growing business environment. The purpose of this study is to investigate the elements that reduce the entrepreneurial failure and endorse new venture success. In this study entrepreneurial based social cognitive model has been use to investigate the

reciprocal interactions of entrepreneurial self-efficacy, entrepreneurial leadership, social network and environmental dynamism. The purpose of the

study is to provide a guide line for the policy makers so that they may develop policies to prevent SME failure in the country.

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