

University Student's inclination of Governance and its Effects on Entrepreneurial Intentions: an Empirical Analysis

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Abstract—Entrepreneurship is considered as engine of economic growth. Entrepreneurial process starts from development of entrepreneurial intentions. A large number of scholars have focused on the internal and psychological aspects regarding entrepreneur. However, little is known about how external factors can influence the development of entrepreneurial intentions. This study fills this gap by providing the effect of different governance variables on entrepreneurial intentions, which research is scarce. Primary data was collected from a sample of 550 students belonging from different universities of Pakistan. Structural equation modeling technique was used to analyze the data. The study found negative effects of individual governance variables on student's entrepreneurial intentions. The study proposed a system of good governance to develop higher level entrepreneurial intentions.

Index Terms—Governance, entrepreneurial intentions, government ineffectiveness, Pakistan.

I. INTRODUCTION

Word entrepreneurship and economic growth are being used as synonyms in modern business literature. Countries are increasingly realizing the significance of entrepreneurship and adopting it as a mean to boost employment and economic development. More focus is being given now on small scale organizations which are not only source of self-employment but also providing jobs to others and business opportunities to many stakeholders. In this regard the students considering the entrepreneurs of future are also given more consideration.

Entrepreneurial Incentives are being given to start small scale business to young people, which are more innovative, energetic and enthusiastic. Education, workshops, symposiums are being arranged in almost every country, in

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order to promote entrepreneurship and reduce economic problems. In entrepreneurship literature, university student's entrepreneurial intentions have gained significant importance. Much of research has been devoted to explore and develop the traits that can enhance student entrepreneurial intentions as part of their psychological behaviour and internal response e.g. Gartner et al. (1985); Robinson et al. (1991). Many traits have been found that can differentiate entrepreneur from non-entrepreneurs and can lead an individual to opt entrepreneurship as a career choice.

Little work has been seen so far, focusing on effects of governance on entrepreneurial intentions of university students. The political, economic, legal and social conditions of a country are the results of governance mechanism prevailing in the society. The governance mechanism includes various aspects like; voice and accountability, rule of law, regulatory quality, political stability, government effectiveness and control of corruption. These factors collectively shape the socio-economic environment of the country that may encourage or discourage innovation and risk taking behaviour of the citizens of the country. Students in no exception are also the residents of the same society and feel the effects of governance policies of government on their daily life.

In Pakistan the governance conditions are worst than most parts of the world. Pakistan Economist Intelligence Unit has ranked Pakistan on 7th number out of 170 countries in their Political Instability Index in 2007. The World Bank has stated in its reports that Pakistan's bureaucracy is having structural problems; politicization is the main obstacle in implementing policies to establish culture of merit in Pakistan. The Transparency International Pakistan in its National Corruption Perception Survey (NCPS 2009) declared Pakistan at number 42 among a total of 180 countries in its corruption index, it stated that corruption in last three years has increased by 400% in Pakistan.

II. CONCEPTUAL REVIEW AND DEVELOPMENT OF HYPOTHESES

An entrepreneurial intention refers to a state of mind, which directs and guides the actions of the individual towards the development and implementation of new business concepts (Bird, 1988). Abundance of literature available is on entrepreneurial intentions, majority of which have investigated the internal and psychological aspects of

an entrepreneur e.g. personal traits, demographics theory of planned behavior, self-efficacy and perceived desirability of student to become an entrepreneur e.g. Kolvereid (1996); Ajzen, I. (2002); Douglas and Shepherd (2002); Antoncic (2009); and Zaidatol (2009). The objective of these studies is to segregate entrepreneurs from non-entrepreneurs and to find out whether entrepreneurial intentions can be developed or not? If yes then what skills and traits can be focused to develop entrepreneurial intentions in university students? Few researches have studied effects of external environmental support and environmental influence on entrepreneurial intentions, but environment here means behavior of market, industry, and regional start-up infrastructure towards entrepreneurs for instance Erich et al. (2009). This study has investigated the external environment in more detailed context i.e. governance system prevailing in the country. The concept of governance in this study have six dimensions including voice and accountability, rule of law, regulatory quality, political stability, government effectiveness and control of corruption. These dimensions of governance were introduced by the Kauffman, Kraay and Mastruzzi (2004). These dimensions usually shape the political, economic, legal and social conditions of the country and innovation and risk assumption behavior of entrepreneurs are largely influenced by these forces. So, in this context it is very important to study the effects of governance dimensions on entrepreneurial intentions of the inhabitants of the society. Belso-Martinez (2005); Ahmad and Hoffmann (2008); Bowen and Clercq (2008); and Amoros (2009) studied the effects of quality of government, economic freedom, political stability, regulatory environment and other aspects of governance on entrepreneurship.

The word governance is being used in many disciplines including public administration, political science and development studies. Governance has been defined by The Worldwide Governance Indicators project of the World Bank as The traditions and institutions by which authority

in a country is exercised. This considers the process by which governments are selected, monitored and replaced; the capacity of the government to effectively formulate and implement sound policies and the respect of citizens and the state of the institutions that govern economic and social interactions among them.

Governance variables plays vital role in shaping a people' s perception towards various aspects economy and society. Drucker (as quoted by Mcquaid, 2002) stated that entrepreneurship is an action that can be cultured from systematic analysis of opportunities prevailing in the environment through experiential learning. Kaufmann, Kraay and Zoido-Lobaton (1999); Hellman et al. (2000); and Kaufmann, Kraay and Mastruzzi (2008); stated that governance impacts on economies, counting entrepreneurship through the government's general role to provide an effective rule of law and entrepreneurship friendly environment. Luthan et. al. (2000); Tanzi and Davoodi (2001); and Sullivan and Shkolnikov (2004) also investigated the effects of corruption and political factors on entrepreneurship and economic development. Lambsdorff (1999) found that corruption reduces overall attractiveness of country to invest capital and discourages capital inflows in the market; it also sands the wheels and size of official economy. Lambsdorff (1999) argued that corruption reduced the competition and thus, innovation orientation; it increases poverty and inequality in the country. Haque (2007) stated that in Pakistan around 15-20 government departments visits entrepreneurs and collects around 2-5 percent of their sales through threats. Luthan et. al. (2000) discussed the importance of regulatory quality in a market economy and stated that strong legal framework promotes entrepreneurship. Hibbs, (1973); Barro, (1991, 1996); Alesina and Rodrik, (1994) found that political instability slows the economic activity in the country. The following hypotheses statements can be derived from the previous theoretical review.

TABLE I: HYPOTHESES STATEMENTS

	<i>Hypotheses statements</i>
H1	Lack of voice and accountability has negative effects on entrepreneurial intentions
H2	Political Instability has negative effects on entrepreneurial intentions
H3	Lack of Rule of law has negative effects on entrepreneurial intentions
H4	Poor Regulatory quality has negative effects on entrepreneurial intentions
H5	Government Ineffectiveness has negative effects on entrepreneurial intentions
H6	Higher levels of Corruption has negative effects on entrepreneurial intentions

III. RESEARCH METHODOLOGY

This is an exploratory study based on primary data. 550 students were selected from graduating classes of business and non-business programs. The questionnaires were distributed in the classroom and necessary instructions and explanation were made to student to obtain better response. The university student' s perceptions about governance are measured on five point Likert scale (1 = strongly disagree to 5 = strongly agree) developed by the Kauffman, Kraay and Mastruzzi (2004) used by Amoros (2009). The instrument included thirty items about voice and accountability, rule of law, regulatory quality, political stability, government effectiveness and control of corruption. The entrepreneurial intentions have been measure on five point Likert scale (1 = strongly disagree to 5 = strongly agree) within six items.

The similar items scale has been used by Chen et al. (1998) and Zhao et al. (2005) and Linan and Chen (2006). Structural equation model (SEM) has been used to analyze data and AMOS 7.0 version was adopted for this purpose.

IV. RESULTS AND DISCUSSIONS

The index fit of the model is shown in the table II. With (15) degree of freedom into consideration, most index values satisfy the general standard values for index fit. The general accepted standards for model fit are; Chi-square value (significant level > 0.05), goodness of fit index (GFI > 0.80), adjusted GFI (AGFI > 0.80), normed fit index (NFI > 0.90), comparative fit index (CFI > 0.90), and root means square residual (RMR < 0.05). Although this model fit does not meet all standards, it may be overall an accepted

model.

TABLE II: INDEX OF THE FIT OF THE MODEL

Index of fit	Chi-Square (df)	P	GFI	AGFI	NFI	CFI	RMR
Value	48.218	.000	.904	.872	.268	.259	.42

The results of hypotheses tests of the relationship between constructs of service quality, customer satisfaction and consumer retention are given in table III and figure II. To accept any hypothesis the p value of the variable must be < 0.05. Table III shows all values of estimates and critical ratio (C.R) in negative terms which means that these governance variables are having negative effects on student's entrepreneurial intentions. Moreover, rule of law is having significantly negative relationship with student's entrepreneurial intentions, which means that rule of law is more important governance indicators in the eyes of students.

Figure I explain the nature of relationship between governance variables including lack of voice and accountability, political instability, lack of rule of law, poor regulatory quality, government ineffectiveness, higher level of corruption and entrepreneurial intentions. The SEM results presented in figure I shows

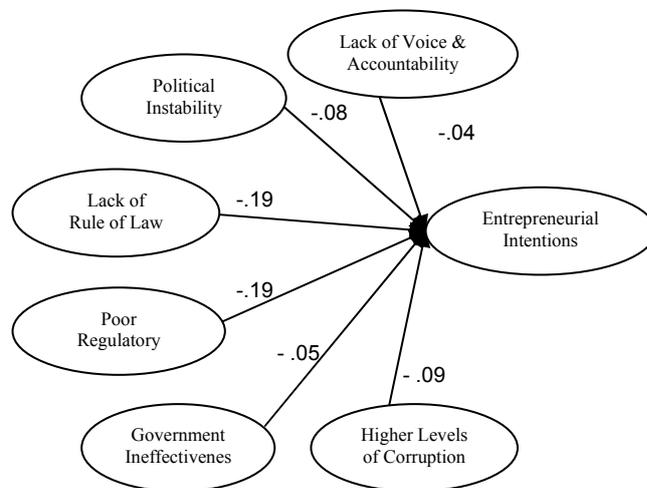
negative relationship between all indicators of governance and entrepreneurial intentions.

Tanzi and Davoodi (2001) found significant negative effects of government corruption on entrepreneurial and economic activity. Moo (2001) found that one unit increase in corruption index reduces growth rate by 0.545%. Sullivan and Shkolnikov (2004) found that corruption discourages competition, innovation, efficiency, and productivity and growth rate. Haque (2007) also found that rule of law, effective role of government, efficient bureaucracy and well defined growth policies are mandatory to boost entrepreneurship in Pakistan. Luthan et. al. (2000) declared that strong regulatory quality is inevitable for development of entrepreneurship. Hibbs, (1973); Gupta, (1990); Barro, (1991, 1996); also found that political instability has negative effects on economic activities. Amoros (2009) also stressed the importance of regulatory quality for entrepreneurship development.

TABLE III: REGRESSION WEIGHTS (RESULTS OF HYPOTHESES TESTS)

Path	Estimates	S.E.	C.R.	P	Hypotheses	Results
Lack of Voice and Accountability – Entrepreneurial Intentions	-.044	.060	-.730	.466	H 1	Accept
Political Instability – Entrepreneurial Intentions	-.082	.084	-.976	.329	H 2	Accept
Lack of Rule of Law – Entrepreneurial Intentions	-.195	.067	-2.908	.004	H 3	Accept
Poor Regulatory Quality – Entrepreneurial Intentions	-.192	.097	-1.980	.048	H 4	Accept
Government Ineffectiveness – Entrepreneurial Intentions	-.048	.082	-.590	.555	H 5	Accept
High level of Corruption – Entrepreneurial Intentions	-.086	.078	-1.113	.266	H 6	Accept

Figure I: Structural Equation Model of Governance and Entrepreneurial Intentions



V. CONCLUSION

The study found negative effects of lack of voice and

accountability, political instability, lack of rule of law, poor regulatory quality, government ineffectiveness and higher level of corruption on student's entrepreneurial intentions.

The study found that university student's inclination is badly effected by the poor governance mechanism prevailing in the country.

The study proposes a system of good governance characterized by more opportunities for media and general public to raise their voice against the policies of government and a system of fair accountability in the country. Political stability is mandatory to ensure long-term implementation of government policies. Finally, there should be effective control of corruption both at individual and institutional level to promote merit and transparency in every sphere of life. This research contributes towards literature on governance and entrepreneurship especially in the context of Pakistan.

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