

## **CONSEQUENCES OF EXTERNAL ENVIRONMENT ON ENTREPRENEURIAL MOTIVATION IN IRAN**

**Hassan Gholipour Fereidouni<sup>1\*</sup>, Tajul Ariffin Masron<sup>2</sup>, Davoud Nikbin<sup>3</sup> and  
Reza Ekhtiari Amiri<sup>4</sup>**

*<sup>1, 2, 3</sup> School of Management, Universiti Sains Malaysia,  
11800 USM Pulau Pinang, Malaysia.*

*<sup>4</sup> School of Humanity and Ecology, Universiti Putra Malaysia,  
43400 UPM Serdang, Selangor, Malaysia.*

\*Corresponding author: hassanhgf@gmail.com

### **ABSTRACT**

*The purpose of this study is to examine importance of business environment, social status of entrepreneurs, and country external conflicts as predictors of motivation to start a business in an environment, such as that in Iran, in which the economy is highly dependent on government initiatives. Data are collected from 106 MBA students through questionnaires. Respondents are questioned regarding the perceived importance of the business environment, socio-cultural factors (social status), and country external conflicts. The results show that the importance of business environment and country external conflicts contribute considerably to the level of entrepreneurial motivation. Further, the results reveal that social status is not a critical factor in determining the level of motivation to start a business. In particular, business environment is the most important factor in predicting entrepreneurial motivation. The results contribute to the growing body of literature in entrepreneurship and provide some implications for Iranian policy makers to create favourable external environment for potential entrepreneurs.*

**Keywords:** Iran, entrepreneurial motivation, business environment, social status of entrepreneurs, external conflicts

### **INTRODUCTION**

Entrepreneurship appears to be an important issue and policy tool for economic growth (Venkataraman, 1997) and economic development (Shane, 2008) because it enables structural change and regional development (Morris, 2001), generating employment, promoting innovation, producing competition, and creating economic wealth (Chiles et al., 2007). It also creates invention and diversity

(Daft, 2000), promotes a greater ability to adjust to and focus on customer needs, and introduces new technologies and management methods (Ghanatabadi, 2005). Moreover, it can benefit a society by bringing in new products and services (Low, 2006). Therefore, because entrepreneurship and small firms appear to play a vital role in economic growth and social prosperity (Reynolds, 1997), entrepreneurship is increasingly seen as a major force for economic development in different countries (Gupta & York, 2008). However, despite this evidence, Iran has placed little emphasis on factors influencing entrepreneurship (Global Entrepreneurship Monitor [GEM], 2008). While Iran tries to promote private ownership and encourage entrepreneurship, business ownership is still highly concentrated in the hands of the government. A current report by GEM (2008) shows that Iran has the lowest score on attitudes for starting businesses and in indicators for entrepreneurial activity among economies that are highly dependent on natural resource exports. This study, therefore, attempts to gauge intentions and/or motivations among MBA students who have had some exposure to the importance of entrepreneurship to the state of the economy.

## **BACKGROUND**

### **Entrepreneurship in Iran**

In Iran, policy makers have considered entrepreneurship a special issue for the last decade (Analoui et al., 2009). The government is spending more than ever to promote and encourage this concept. According to Deldar (2008), this consideration is largely due to high unemployment rates. Thus, policy makers and planners have started giving attention to entrepreneurship as a possible solution via the Third (2000–2005) and Fourth (2005–2010) Development Plans (Analoui et al., 2009; Keyhani & Moghadam, 2008). As a first step, a plan called "KARAD" became an important driving force for promoting entrepreneurship in universities, establishing entrepreneurship centres, and introducing entrepreneurship courses into undergraduate education by the Ministry for Sciences, Research and Technology (Keyhani & Moghadam, 2008). Moreover, the media in Iran have also started encouraging entrepreneurship among Iranians with ads in newspapers, magazines, radio stations, and on national television (Keyhani & Moghadam, 2008). In spite of these efforts, entrepreneurial activity has not developed well in Iran in recent years (GEM, 2008). In the following section, some evidence concerning the business, social, and political conditions of Iran (which can hinder entrepreneurial activities and motivation) are presented.

### **Lack of a Pleasant Business Environment**

The first issue confronting entrepreneurs pertains to the lack of a pleasant business environment in Iran. A survey conducted in 181 countries by the International Finance Corporation on "Doing Business" found that the world ranked Iran as 142nd in terms of ease of doing business, 96th in ease of starting a business, and 147th in ease of registering property.

### **Social Status of Entrepreneurs**

In addition, the social status of entrepreneurs is found to be one of the most limiting factors of an entrepreneur's success in Iran (Khatoonabadi & Andadeh, 2007). Several observers and academics argue that the elites' negative attitude towards the private sector has limited entrepreneurial activities in Iran. For example, Habibi (2008) argues that "Iran's elites have adhered to a statist ideology that calls for an active economic role for the government. This mindset has led to the growth of rent-seeking activities at the expense of economic competition. The statist mentality was prevalent before the Islamic Revolution and became even more popular afterwards. Hostility toward private sector and market institutions led to the nationalisation of banks, and of many industrial units whose owners had fled the country during the Revolution". Rostami (2009), one of the most active business owners in Iran, echoes this sentiment. He argues that Iran's historical and cultural attitudes toward entrepreneurs and wealth are negative, while the new industrial world is based on wealth and entrepreneurship. In fact, there is no particular place for entrepreneurs in Iranian society.

### **Political Situation**

In recent years, the development of a nuclear program, the increase incidence of human rights violation, and Iran's support for terrorist groups — all claims made by the West — have formed the main challenges faced by the present (Ahmadinezhad) administration. Among these challenges, Iran's nuclear program has been the focus of the international community and has had a great effect on the economic situation of Iran. Since 2005, Iran's nuclear program has become a subject of contention with the West because of suspicion regarding Iran's military intentions. This suspicion has led to two types of sanctions: the official United Nations (UN) economic sanctions and the unilateral sanctions of the US and, more recently, the European Union (Habibi, 2008). The UN Security Council has imposed sanctions against Iran on selected companies linked to the nuclear program, has imposed restrictions on cargo to and from Iran, has enacted travel bans, has frozen the assets of people involved in the program, and has tightened the monitoring of Iranian financial institutions, thus furthering its economic isolation on the international scene (Beehner, 2007). Furthermore, the US and the

European Union have tried to make these international sanctions even more comprehensive (Habibi, 2008). Recently, the US has also discouraged many foreign firms from engaging in trade and investment activities in Iran (Habibi, 2008). Clearly, broad economic sanctions against Iran from the UN Security Council, the US, and the European Union can hinder entrepreneurial activities by raising the cost of doing business (such as increasing the cost of importing goods). These higher costs result in reduced profits and, thus, smaller return on investment for entrepreneurs over the long run. In other words, the risk of sanctions translates into uncertainty, and uncertainty is not good for investment, especially private investment (Nabli, 2006). In addition to the uncertainty created by sanctions, Iranian investors must also contend with rumours that Israel and the US have decided to strike at Iran's nuclear facilities. According to Kleintop (2008), the extended psychological campaign against Iran makes current and new investors uncertain about the future. To summarise, international sanctions and the possibility of military strikes by Israel and the US have worsened the economic situation in Iran and, therefore, may dampen the motivation of entrepreneurs to start businesses.

In short, by focusing on MBA students, this study attempts to examine how the business environment, the social status of entrepreneurs, and external conflicts influence the motivation of entrepreneurs to start businesses in Iran. This study will also seek to discover which factor is the most important in motivating these students to start businesses. It is believed that the present study will make several contributions to the research on entrepreneurship. First, the present study intends to understand the importance of external environment on entrepreneurial motivation. Such an understanding can provide insight to Iranian policy makers and planners on how to encourage entrepreneurial activity among Iranians in the future. Second, although some Iranian researchers have studied entrepreneurship in Iran, most have concentrated on the obstacles and success factors of entrepreneurship (Bahae, 1995; Jeddi & Zanjani, 2001; Khatoonabadi & Andadeh, 2007; Papzan et al., 2008; Analoui et al., 2009). Focusing on these factors is an attempt to fill the gaps left by these studies.

## **HYPOTHESIS DEVELOPMENT**

A large number of previous studies on entrepreneurship have focused on psychological characteristics of entrepreneurs such as achievement striving (Collins et al., 2004), optimism (Cooper et al., 1988), risk taking (Tan, 2001), desire for independence, ambition (Lee & Chan, 1998), social networking (Taormina & Lao, 2007), and demographic factors including educational level (Wu & Wu, 2008) and the family background of business founders (Goel et al., 2007). However, studies focusing on the effects of external environment on

entrepreneurial motivation, particularly in Iran, are scarce. Moreover, as mentioned earlier, because external environmental factors are the main barriers to entrepreneurship in Iran, understanding the relationship between external environmental factors and entrepreneurial motivation is of the utmost importance. Further, following the contention made by Gnyawali and Fogel (1994), Wang et al., (2001) and Aldrich (2000) that external environmental factors are more useful in understanding business start-up than personal traits, this study is timely. Some studies have examined the effects of external environmental factors such as the business environment (e.g., government regulation and access to financing), socio-cultural factors (e.g., the social status of entrepreneurs and the value placed on innovation), and political factors (e.g., democracy), separately, following investors' motivation and intentions over time (Brandstatter, 1997; Begley & Tan, 2001; Perotti & Volpin, 2004). However, there has been no study focusing on potential entrepreneurs' perception of the importance of business environment, social status and external conflicts on entrepreneurs' motivation to start businesses in Iran. Therefore, this paper attempts to fill that void.

### **Motivation to Start a New Business**

Although there are many models of entrepreneurial motivation, research on this topic often reveals *push* and *pull* factors as motivators for business start-ups (Gilad & Levine, 1986; Watson et al., 1998). *Pull* factors are those that make starting a business attractive (e.g., controlling one's own time at work), and *push* factors are those that impel a person to start a business in order to avoid some undesirable situation (e.g., an abusive boss). Many studies have found that people start businesses mainly because of pull factors (Birley & Westhead, 1994; Segal et al., 2005; Taormina & Lao, 2007). For instance, Hamilton's (2000) evidence strongly suggests that self-employment offers substantial non-financial benefits, such as "being your own boss". Several studies hold that entrepreneurs find special importance in their independence (Blanchflower, 2000). Therefore, a pull-factor scale is used in this study to measure motivation to start a business.

### **Perceived Importance of Business Environment**

Klapper et al., (2007) defines the business environment as the relative strength of the regulatory environment conducive to the operation of a business. This definition includes starting a business, dealing with licenses, employing workers, registering property, getting credit, protecting investors, paying taxes, trading across borders, enforcing contracts, and closing a business. The business environment affects the dynamics of entrepreneurship within any given country. This environment includes economic development and institutions, which affect quality of governance, access to capital and other resources, and the perceptions of entrepreneurs. Hence, if one is interested in understanding entrepreneurship,

the link between economic development, institutions, and entrepreneurship is an important area of inquiry (GEM, 2008). Brandstatter (1997) has shown that the general economic conditions and laws largely determine what entrepreneurs can do and will do. The expected link between perception of the business environment and the motivation to start a business is largely based on the pragmatic notion that times of economic recession or depression are unfavourable to entrepreneurs, particularly because banks are less likely to give loans (Neal, 1996). Times of economic uncertainty are characterised by deflation, bankruptcy, high unemployment, and the concomitant reluctance of consumers to spend on goods and services (Greasley et al., 2001; Naples, 1997). Alternately, when the economic environment is favourable, banks are more willing to give loans (Keeton, 1994) and consumers are more able to spend on goods and services (Bradbury, 1992), which should be encouraging to those who plan to start new businesses. Young and Welsch (1993) have observed that cities with higher tax rates are less attractive for business creation. High levels of taxation may distort incentives to produce, work, and invest because taxes reduce returns from private investment and productive effort and may, in turn, lead to increases in the demand for leisure over work (Easterly & Rebelo, 1993). Moreover, the government regulation of business, labour, and credit markets may have an impact on entrepreneurial motivation. Theoretically, heavy regulatory burdens impose high transaction costs on businesses and may distort competition (and consequently lower efficiency) by raising barriers to entry in certain industries, possibly with the aim of protecting certain producer interests. Furthermore, such regulations may relegate a significant proportion of economic activity to the informal sector (Busse & Hefeker, 2007). North (1990) has shown that secure private property rights are necessary for establishing individual and firm level incentives to produce and invest. Insecure property rights imply an enhanced risk that future profits from current investments will be lost either through theft or outright government expropriation (Olson, 2000). This discussion leads to the following hypothesis:

H<sub>1</sub>: Perceived importance of business environment is positively related to motivation to start a business.

### **Perceived Importance of Social Status**

The concept of social status was first introduced and defined by Weber (1978) as an "effective claim for social esteem". Studies on entrepreneurial motivations suggest that entrepreneurial behaviour responds to a rich set of cues from the social environment (Licht & Siegel, 2006; Schumpeter, 1934). Shapero and Sokol (1982) have found that socio-cultural values are a main aspect of the entrepreneurial environment. They have stated that "the social and cultural factors that enter into the formation of entrepreneurial events are most felt

through the formation of individual value systems. More specifically, in a social system that places a high value on the formation of new ventures; more individuals will choose that path. More diffusely, a social system that places a high value on innovation, risk-taking, and independence is more likely to produce entrepreneurial events than a system with contrasting values". Similarly, Giannetti and Simonov (2003) argue that social norms may drive people into entrepreneurship in spite of lower individual profits. Bernheim (1991) argues that the search for status, measured by popularity, induces conformity in a variety of economic activities. Likewise, Fershtman and Weiss (2003) claim that different occupations have different social status and workers benefit not only from the wage they receive but also from being associated with a particular occupation. Moreover, they have shown that different attitudes towards social status affect the equilibrium outcome for some key economic variables such as wages and output. This discussion leads to the following hypothesis:

H<sub>2</sub>: Perceived importance of social status is positively related to motivation to start a business.

### **Perceived Importance of Country External Conflicts**

The Political Risk Services (PRS) Group defines external conflicts as "the risk to the incumbent government from foreign action, ranging from non-violent external pressure, such as diplomatic pressures, withholding aid, or trade sanctions, to violent external pressures, ranging from cross-border conflicts to all out war". Entrepreneurs seem to care about external conflicts that affect the host country because of their effects on economic and political instability. The threat of incidents stemming from these conflicts, such as trade and investment sanctions, cross-border conflicts, or all-out war, creates higher uncertainty (Wild et al., 2008). Thus, investors increase the risk premium of investment projects, which, in turn, reduces overall investment. As these events create higher uncertainty, they reduce entrepreneurial activities. Therefore, favourable government foreign relations may foster a more stable business environment and increase investments. In general, favourable political relations lead to increased opportunities, and lower risk and uncertainty for domestic and foreign companies (Wild et al., 2008). Khavand (2009) argues that favourable political and legal conditions as well as the business environment are important in all economic activities. He emphasises that the quality of a country's international relationship and its ability to create adequate security at the regional and international level are vital for investment decisions and business start-up. Some studies have investigated the effects of political issues on investors' motivation in starting a business. For instance, Tan et al., (2003) examined the relationship between political freedom and entrepreneurship among twelve countries. The results show that political freedom explains roughly 7% of the individual's interest. In

addition, Perotti and Volpin (2004) have advanced a political economy model and evidence that suggests that a lack of political (democratic) accountability and economic inequality hinder investors' entry. Busse and Hefeker (2007) have shown that external conflicts have a significantly negative impact on foreign investment inflows. Thus, a hypothesis based on the above discussion emerges as follows:

H<sub>3</sub>: Perceived importance of country external conflicts is positively related to motivation to start a business.

## **METHODOLOGY**

### **Research Model**

The idea of the theoretical framework for this study (see Figure 1) is developed based upon the work of Taormina and Lao (2007). Their study focused on psychological characteristics and on people's perceptions of the business environment and its relative influence on business start-up. Taormina and Lao (2007) argue that the cognitive-motivation theories of Fishbein and Ajzen (1975) and Ajzen (1991) are relevant to understanding the influence of external environment on entrepreneurial motivation. Therefore, if it is perceived that economic, social, and political environments are favourable towards new business start-ups, then such perceptions should stimulate a favourable attitude toward opening a business and encouraging the motivation (behavioural intention) to start a new business.

Based on this approach, the present study focuses on people's perceptions of how the business environment, social status, and external conflicts influence business start-up. The independent variables in this study include the perceived importance of business environment, social status, and external conflicts. The dependent variable is motivation to start a business (entrepreneurial motivation).



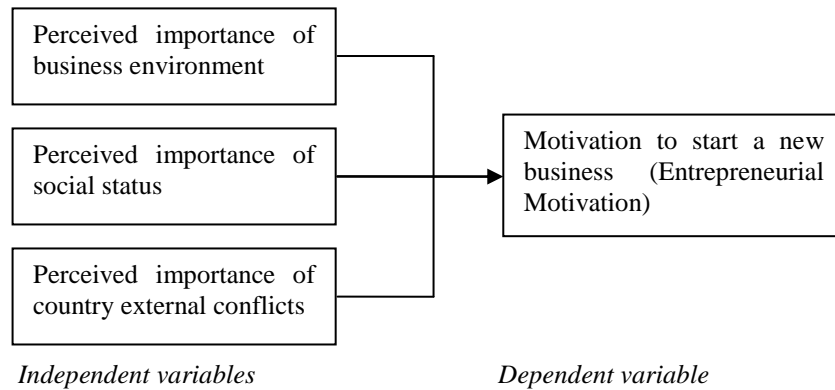


Figure 1. Research Model

### Sample and Data Collection Procedure

Questionnaires were used to collect the required data from potential entrepreneurs (MBA students) drawn from a few universities in Tehran province. MBA students were chosen because they (as potential entrepreneurs) are interested in business and are quite familiar with the business conditions (Begley & Tan, 2001). In addition, they have experienced the importance of entrepreneurship in the economy through their MBA classes. A total of 200 questionnaires were distributed to MBA students. A total of 115 questionnaires were collected from respondents, and the response rate are approximately 57%. However, of the 115 questionnaires, only 106 questionnaires could be used. Nine questionnaires contained either incomplete or improper answers.

### Measurements and Validation

The questionnaire in this study was largely derived from previous studies (such as Taormina & Lao, 2007; Begley & Tan, 2001). Some questions were modified to fit the current study. The questionnaire items obtained from existing questionnaires were translated into Persian. A linguist, who was educated in the US, was involved in the translation process. A pilot test was performed by distributing the questionnaires to 35 MBA students from universities in Tehran province and soliciting feedback on questionnaire design. The pilot test was conducted in order to improve the overall quality of the questionnaire. Based on their feedback, several minor changes were made to the questionnaire. The questionnaires were deemed ready for distribution after these modifications.

## **Research Instruments**

A five-page self-report questionnaire was used. With the exception of demographic questions, all of the variables were measured on interval scales. All the variables with scale instruments borrowed from the literature are briefly explained below.

Items for "perceived importance of business environment" were adopted from Taormina and Lao (2007). In their study, 10 items measuring the perceived importance of the business environment had a coefficient alpha of 0.82. A 7-point Likert scale, ranging from 1 (extremely unimportant) to 7 (extremely important) was used. An example of an item measuring perceived importance of business environment is "Government policies that support small businesses". Four items were used to measure "perceived importance of social status". Items were adopted from Begley and Tan (2001). The study used a 7-point Likert scale ranging from 1 (extremely unimportant) to 7 (extremely important) to measure how important they thought the factors would be in influencing their decision to start a business. An example of an item is "Starting a new business need to generate respect for entrepreneur". Because few measures existed for measuring the perceived importance of external conflicts, in this study the indicators are taken from the International Country Risk Guide (ICRG) provided by the Political Risk Services (PRS) Group. This variable, "external conflict", is defined as follows: the risk to the incumbent government from foreign action, ranging from non-violent external pressure, such as diplomatic pressures, withholding aid, or trade sanctions, to violent external pressures, ranging from cross-border conflicts to all-out war. In general, this indicator is widely used as a high-quality measure of political and institutional risk (Noguer & Siscart, 2005; Bolaky & Freund, 2004). A total of six items were constructed. A 7-point Likert scale, ranging from 1 (extremely unimportant) to 7 (extremely important) was used. An example of an item is "Low threat of economic sanctions". Finally, eight items were used to measure "motivation to start a new business". All eight items were adopted from Taormina and Lao (2007). Respondents were asked the extent to which they thought the items described them using a 7-point Likert scale ranging from 1 (strongly disagree) to 7 (strongly agree). An example of one of these items is "I want to be a business owner".

## **RESULTS**

### **Respondent Profile**

Table 1 provides demographic attributes of the respondents from the survey. The findings indicate that most of the respondents are aged between 30 to 39 years

old. Most of the respondents are male (80.2%) and married (54.7%). Over 57.5% of the respondents had less than 10 years working experience. Culturally, men dominate the managerial positions in Iran, as reflected in this study.

Table 1  
*Respondents' profile*

Variable	Frequency	%
<i>Age</i>		
Less than 20 years old	0	0
20 to 29 years old	35	33
30 to 39 years old	44	41.5
40 to 49 years old	19.8	19.8
50 years old and above	6	5.7
<i>Gender</i>		
Male	85	80.2
Female	21	19.8
<i>Marital Status</i>		
Single	48	45.3
Married	58	54.7
<i>Working Experience</i>		
Less than 10 years	61	57.5
10 to 19 years	35	33
20 to 29 years	9	8.5
More than 30 years	1	0.9

### **Goodness of Measures**

Factor analysis was used to understand the underlying factors of variables in the proposed framework (Hair et al., 1998). A Varimax rotation method was applied to all variables. The selected factors were based on eigenvalues equal to or greater than 1.00. In this study, the chosen cut-off point for significance loading was 0.50 (Hair et al., 1998). The factors and selected items were then grouped and renamed accordingly.

Factor analysis was performed on 28 items of the questionnaire. The result is shown in Table 2. The KMO was 0.77 and Bartlett's test of sphericity was significant at less than 1%. The anti-image correlation matrix ranged from 0.75 to 0.74, so there were sufficient correlations among the items. Four factors were extracted with 53.91% of the variance. Factors were labelled as "perceived

importance of business environment", "perceived importance of social status", "perceived importance of external conflicts" and "motivation to start a business (entrepreneurial motivation)". These results suggest that the previously used instruments are also valid in the context of Iran.

Subsequently, the internal consistency of the items was verified by conducting a reliability analysis. The results showed that the perceived importance of the business environment, social status, external conflicts, and motivation to start a business (entrepreneurial motivation) had good internal consistency, with Cronbach's alpha coefficients of 0.85, 0.75, 0.92, and 0.71, respectively.

Table 2  
Results of the factor analysis

Variables	Components			
	1	2	3	4
<i>Perceived importance of business environment</i>				
A strong global economy.	-.059	<b>.680</b>	-.254	.096
The government offering tax reductions to businesses.	-.011	<b>.661</b>	.232	.269
Strong demand in the market.	.113	<b>.739</b>	.041	-.028
Favourable business laws.	.185	<b>.564</b>	.232	.035
Strong purchasing power of the currency.	.058	<b>.518</b>	.348	.186
Government policies that support small businesses.	.235	<b>.598</b>	.109	.097
Banks' willingness to give loans.	.301	<b>.609</b>	.088	.155
Good opportunities for business development.	.120	<b>.737</b>	.008	.082
Government is willing to give loans.	.143	<b>.739</b>	.040	.109

(continued)

Table 2 (continued)

Variables	Components			
	1	2	3	4
<i>Perceived importance of social status</i>				
Social system should admire those who run their own firm.	.180	.152	<b>.639</b>	-.066
Running their own firm should give high social status to entrepreneurs within the social system.	.406	.120	<b>.535</b>	.155
Starting their own business should bring prestige to entrepreneurs.	.456	.008	<b>.666</b>	-.016
Starting a new business should generate respect for entrepreneurs.	.079	.075	<b>.664</b>	.154
<i>Perceived importance of external conflicts</i>				
Low threat of war.	<b>.832</b>	.152	.051	.051
Finding faster solutions for the existing conflict.	<b>.860</b>	.119	.013	.106
Government's willingness to have flexibility in disputes.	<b>.852</b>	.159	.077	-.039
Low risk of international diplomatic pressures.	<b>.803</b>	.207	.103	.063
Low risk of economic sanctions by the Security Council and individual nations.	<b>.850</b>	.130	.151	.075
Low risk of withholding aid from international institutions and organisations.	<b>.776</b>	.010	-.046	.031
<i>Motivation to start a new business (Entrepreneurial Motivation)</i>				
I want to be a business owner.	-.195	.094	.368	<b>.580</b>
I want to profit from my endeavours.	-.172	.224	.058	<b>.561</b>
I like to control my own time at work.	-.015	.217	.286	<b>.521</b>

(continued)

Table 2 (continued)

Variables	Components			
	1	2	3	4
I think that having a business can improve my financial status.	.163	-.065	-.046	<b>.743</b>
I see a good future for myself if I start a business.	.373	.120	.113	<b>.606</b>
I like to make business decisions.	.229	.145	-.076	<b>.618</b>
Eigenvalue	7.135	3.707	2.33	1.915
Variance Explained (%) – Total 53.91	25.48	13.24	8.347	6.840

Note: KMO = 0.77, Varimax Rotation, Principle Component Factoring

### Descriptive Statistics and Correlation

Descriptive statistics and a correlation matrix of all the variables are shown in Table 3. The mean values (standard deviations) for the perceived importance of the business environment, social status, and external conflicts were 5.83, 5.36, and 5.65 (0.53, 0.51, and 0.69), respectively. Motivation to start a business had a mean of 6.10 (SD = 0.49), indicating that entrepreneurial motivation was high among MBA students.

Table 3  
Descriptive statistics and correlations among variables

Variable	Mean	SD	1	2	3	4
Motivation to start a business	6.10	0.49				
Perceived importance of business environment	5.83	0.53	0.61**			
Perceived importance of social status	5.36	0.51	0.24*	0.17		
Perceived importance of external conflicts	5.65	0.69	0.52**	0.42**	0.14**	

Note: \*p < 0.1, \*\*p < 0.05, \*\*\* p < 0.01

As can be seen in Table 3, the perceived importance of business environment and perceived importance of external conflicts were highly and positively correlated

with motivation to start a business ( $p < 0.05$ ). The results also show that motivation to start a business was positively and significantly correlated with the perceived importance of social status ( $r = 0.24$ ) at  $p < 0.10$ .

### **Multicollinearity**

To check multicollinearity, a collinearity diagnostic (tolerance) test was performed. Hair et al., (1998) suggest that a tolerance value of less than 0.10 is problematic. Because none of the tolerance values fell below the 0.10 cut off, multicollinearity was not considered to be a problem in these data (tolerance values for the perceived importance of business environment, perceived importance of social status and perceived importance of external conflicts were 0.80, 0.96, and 0.81, respectively).

### **Multiple Regressions**

Table 4 illustrates the regression results for motivation to start a business. The model tested  $H_1$ ,  $H_2$ , and  $H_3$  by regressing different external environmental variables as independent variables with motivation to start a business as the dependent variable. The model was significant with an adjusted R square = 0.45 ( $p < 0.01$ ).

Two of the independent variables appeared to contribute significantly to the variance in the regression equation — the perceived importance of business environment and perceived importance of external conflicts. Hypotheses 1 (perceived importance of business environment will be positively related to motivation to start a business) was accepted at  $p < 0.01$ . This result clearly demonstrated that the higher perceived importance of the business environment leads to higher motivation to start a business. The model also supports Hypothesis 3, meaning that the perceived importance of government external conflicts had a significant positive association with motivation to start a business ( $p < 0.01$ ). The results do not support Hypothesis 2, meaning that the perceived importance of social status is not significantly associated with motivation to start a business.

Table 4  
Results of regression analysis

	Std. Beta	t-value
<i>Independent Variables</i>		
Perceived importance of business environment	0.45	3.57***
Perceived importance of social status	0.12	1.66
Perceived importance of external conflicts	0.31	3.87***
<i>F Value</i>		30.33***
<i>R<sup>2</sup></i>		0.47
<i>Adjusted R<sup>2</sup></i>		0.45

Note: \*p < 0.1, \*\*p < 0.05, \*\*\* p < 0.01

## DISCUSSION

Consistent with previous research (Taormina & Lao, 2007; Keeton, 1994), the present study found that the business environment (which was measured by the perceived importance of the business environment) has a strong significant relationship with motivation to start a business. In addition, the business environment was the most important factor in predicting entrepreneurial motivation (Beta = 0.45,  $p < 0.01$ ). This finding indicates that circumstances in the business environment are taken seriously by potential entrepreneurs who want to start a business in Iran.

Moreover, the results show that although social status was significantly associated with motivation to start a business in the correlation analysis, it was not related to motivation to start a business in the multiple regression analysis. This finding suggests that while social status for entrepreneurs is important for entrepreneurial motivation, its role is not perceived to be important in the Iranian context. Thus, social status is not a critical factor in determining the level of motivation to start a business. This finding is in disagreement with previous studies (e.g., Shapero & Sokol, 1982; Giannetti & Simonov, 2003) finding that socio-cultural values are a main aspect of the entrepreneurial environment. This finding can be explained by the low perceived status accorded to entrepreneurs in Iranian society. The perception is, however, slowly changing as more young adults continue their education and as more Iranian students study abroad. This statement is consistent with the high average score reported for motivation to become entrepreneurs in the study (see Table 3).



In addition, the results indicate that the importance of external conflicts is positively and significantly associated with entrepreneurial motivation. This finding supports the arguments of Kleintop (2008), Nabli (2006), and Khavand (2009), who claim that international sanctions and the possibility of military strikes by Israel and the US influence an entrepreneur's motivation to start a business in Iran. In addition, the regression revealed that the perceived importance of external conflicts itself accounted for 0.31 ( $p < 0.01$ ) of the total variance in motivation to start a business. The results of the regression clearly suggest that external conflicts should be considered one of the most important factors contributing to entrepreneurial motivation.

## **IMPLICATIONS**

The aim of this study was to advance our understanding of the relationship between external environmental factors and entrepreneurial motivation. Because the results of this study reveal that external environmental variables could explain the variance of motivation to start a business, entrepreneurship researchers — particularly Iranian researchers — need to focus more on various types of external environmental factors to understand entrepreneurial motivation in Iran. These results suggest the need for Iranian policy makers and planners to consider additional methods to improve the business environment (those factors related to government actions such as creating favourable business laws, offering tax reductions to small businesses, supporting small businesses, providing good opportunities for small business development, being willing to give government loans, and reducing the steps for launching a business, among others) to encourage entrepreneurship. In addition, because the study confirms the presence of a positive relationship between the importance of external conflicts (in lower level) and entrepreneurial motivation, policy makers thus need to consider that increasing external conflict (broad economic sanctions against Iran from United Nation, the US, and the European Union in addition to rumours that Israel and the US have decided to strike at Iran's nuclear facilities) can reduce Iranians' motivation to start businesses.

## **LIMITATIONS AND FUTURE RESEARCH**

The results of the study should be considered in light of its limitations, which also point to some issues for future research. First, this study relied on MBA students in only one province of Iran (Tehran). Members of society representing different levels of education and from different provinces may well have unique contributions to make in assessing the motivation to start a business in Iran. Second, this study only considered a few external variables for predicting

entrepreneurial motivation. For future research, it may be useful to examine various types of external environments (e.g., divide the business environment into different categories such as banking, government, operation cost, etc; or examine other political factors such as terrorist attacks and religious tensions) to understand entrepreneurial motivation in Iran and other Middle East countries.

## **CONCLUSION**

This study was designed to investigate the relationship between the external environment and entrepreneurial motivation. This study proposed a simple conceptual model linking the business environment, social status of entrepreneurs, and external conflicts to entrepreneurial motivation and then tested this model in Iran. For the purpose of this study, data were collected from 106 MBA students through questionnaires. The results of this study reveal that business environment and external conflicts may have a significant influence on the varying motivation to start businesses in Iran. Moreover, the results show that the social status of entrepreneurs is not critical in determining the level of motivation to start a business. The findings contribute to the growing body of literature on entrepreneurship and provide some implications for policy makers and planners in Iran.

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