



**RESEARCH PAPER**

**Public Policy and Startup Financing as Triggers of Entrepreneurial Intentions**

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**ABSTRACT**

Public policy backing is essential for economic growth. Both developed and developing nations are urging academic institutions to bring their innovations to the market, launch new enterprises, and actively contribute to development. The objective of this study is to examine the factors that students in a developing country, such as Pakistan, consider before deciding to pursue entrepreneurship. There is a gap to foster the public policy and startup financing avenues formulation in the literature. A survey was conducted at five universities in Pakistan. The findings reveal that startup financing has a significant impact on entrepreneurial intentions in Pakistan. Public policy found it to have no impact on entrepreneurial intentions. It depicts that graduates do not perceive any support from the public policy as whole. There is a greater need to build trust in public policy and support the creation of ventures. Similarly, providing them with more support from financing also results in a positive outcome. It is recommended to have a national entrepreneurship support system backed by public policy and funding.

**Keywords:** Public Policy, Student Entrepreneurship, Entrepreneurial Determinants, Entrepreneurial Financing

**Introduction**

Entrepreneurship is conceptualized as a cognitive instrument employed in situations where resources are not readily available by utilizing specific means to achieve predetermined objectives (Kirzner, 1973). It is defined as an entity, whether newly established or pre-existing, that introduces a novel product or service, or that innovates and implements new methods to produce or deliver existing goods and services at a reduced cost" (Baumol, Litan, & Schramm, 2007). The increasing global youth employment crisis has resulted in 64 million young people not being able to secure employment (Curtain, 2000; Macaulay, 2007) which is a vigorous subject, "is a dynamic process of vision, change, and creation (Kuratko, 2004).

Providing infrastructure and services for emerging businesses is crucial. Initiatives such as business plan competitions, entrepreneurship education centers, and leadership roles are frequently pursued by students aspiring to become entrepreneurs. Furthermore, students in scientific disciplines are more inclined to contribute to reducing unemployment and establishing businesses, thereby enhancing economic growth. Government-supported education and support initiatives, the formulation of public policy, the development of human capital, technological infrastructure, and financial reforms serve as more effective indicators (Z. Acs & Szerb, 2007; Roberts, 1991).

While an entrepreneur primarily concentrates on profit generation and outcomes, a social entrepreneur seeks to achieve results that can rapidly and effectively transform individuals' lives, with a focus on fostering sustainable human and economic development (Oregon Public Broadcasting & Inc., 2005), both of which contribute to the nation's good. Start-ups serve as engines through which new knowledge from high-tech scientific

disciplines can be transformed into economic benefits. By evaluating policy learning, policies for developing entrepreneurship can be refined to use the most effective elements and omit low performers, thereby enhancing the outcomes. Recent research increasingly underscores the informal integration of entrepreneurship with economic prosperity, drawing significant attention from policymakers at both national and international levels (Z. Acs & Audretsch, 2005; Ács, Audretsch, & Strom, 2009).

Unemployment often results in a push that drives people to become necessity entrepreneurs (Maria Minniti, Bygrave, & Autio, 2005). Many socio-economic scholars assert that entrepreneurship constitutes a dynamic process rather than a static phenomenon. It transcends the role of a mere mechanical economic component (Pirich, 2001). Founding enterprises are attractive and fascinating alternatives to being employed by corporations for college graduates (Kolvereid, 1996). If we increase the number and quality of future entrepreneurs, we will also enhance the credibility of business activities in the country. The entire spectrum of society will find entrepreneurial activity both desirable and feasible (Shapero, 1982). According to (Luthje & Franke, 2003), environmental factors can either facilitate or impede entrepreneurial activities and are crucial in shaping the intention to establish new ventures. Although numerous elements constitute the prevailing environment, the process of new venture creation is inherently multidimensional (Gartner, 1985). These factors can be classified into two categories: affective and rational. Given that an individual is a product of their beliefs about the social environment (Grundstén, 2004), it is posited that affective environmental factors exert a more significant influence on a person's decision to pursue self-employment. Consequently, this study considered the perceived affective factors.

## **Literature Review**

### **Public Policy**

The dawn of 19 century was marked by vital contrivances of economic development entrepreneurship. Regulatory reforms respond to social problems, either in the case of an inefficient education system or unemployment (Z. J. Acs & Stough, 2007). According to the Global Entrepreneurship Monitor (GEM), policy interventions can exert influence over several years by affecting "intermediate conditions," rather than exclusively impacting background conditions over a decade or more. These macroeconomic and related policies also shape "short-term conditions" on a monthly basis. (Reynolds P. D., S. M. Camp, W. D. Bygrave, E. Autio, & Hay., 2001), entrepreneurship policy not only bears actual entrepreneurs but also nascent (Reynolds, 2000) Entrepreneurship is now an uppermost primacy of the public policy. Technological and innovative developments have increased the apprehension of entrepreneurship to use entrepreneurial activities as a dynamic vigor reinforced with the policies and practices they lessen the impendent by providing proper tools for this craft (Drucker, 2009). Policies shape the environment and make decision-making easier for entrepreneurs (M. Minniti, 2008).

More people in the US start businesses than get married or give birth; approximately 40% will start a business at some point in their lives. There is a significant time lag in the decision to start a new venture (S. A. Shane, 2008). The era of reform and change started in the US in 1970, when anti-statist traditions maintained substantial economic control. The driving force behind rethinking and positioning for change was the growing international competition to stay in the global marketplace. This ascertained the milestone for the present state of entrepreneurship in an entrepreneurial society (David B. Audretsch, 2002). Policies are vital to entrepreneurship development. Many states in the US have added programs with entrepreneurial attributes to their economies; instead of subsidizing existing firms, it will benefit the economy from starting new ventures (Hart, 2003, 2008).

Unemployment is a major issue for policymakers in transitional economies. By 2012, the country reported an unemployment rate of 5.95 %. From 1990 to 2009, the rate was 5.88 present, with a historical high of 8.27% in 2002 and a low of 3.13% in 1990 (FBS, 2011). Policymakers can only be successful in the way government initiatives affect business formation if the policies are perceived to influence attitudes and intentions. The national level of entrepreneurial activity is significantly correlated with economic development (Niels Bosma, Sander Wennekers, & Amorós, 2011). "Develop the strategies that give young people everywhere a real chance to find decent and productive work that will allow them to become independent and responsible global citizens" (Annan, 2003). In Pakistan the Nationalization of institutions during the 1970s led to a reduction in the trust of investors and entrepreneurial activities in the country, with a high unemployment rate of 5.6% (Economic Adviser's Wing, 2010-11 ).

Continual youth unemployment wastes human resources that could contribute to economic growth, influence widespread unhappiness, and lead to an increase in the number of suicides (Blokker & Dallago, 2008), which also increases the number of suicides in the country. Suicides due to economic problems account for 50% of all suicides, and the majority of these individuals are young and unmarried men below the age of 30 who indulge in this condemned act of Islam (Khan & Reza, 2000). Public and private bodies are largely involved in shaping innovation at local, national, and international levels. Environmental factors refer to the environmental attributes of an individual. The development of entrepreneurial intentions is multiphase, in which different factors affect different phases (Grundstén, 2004). At the onset of the twenty-first century, the structure of higher education in numerous countries underwent significant transformations, prompted by contemporary societal demands for increased accessibility, technological advancements, and global economic influences. In the midst of these changes, traditional concerns regarding accessibility and cost were accompanied by a renewed emphasis among policymakers on preserving academic quality (Brennan & Shah, 2000).

### **Start-Ups Financing**

Entrepreneurial undertakings and access to finance are significantly linked. The government has made many attempts to overcome (Harrison, Mason, & Girling, 2004) the constraints faced by entrepreneurs by adding financing instruments, mutual credit guarantees, and microfinance schemes to ordinary bank loans. The elimination or minimization of intermediaries between SMEs and financing institutions can be an icebreaker to eliminate stagnation. Mutual credit guarantees have the advantage of decreasing information symmetry, thereby reducing transaction costs. On the other hand, microfinancing circumvents financial risks by meeting collateral requirements that are satisfied by non-monetary accountability (Khoja & Lutafali, 2008). Microfinance patterns are usually positively assessed (W.D. Bygrave & Quill, 2007; Li, 2002). Taxes have a significant effect on entrepreneurship (Bruce & Mohsin, 2006). Manipulation of the tax system is favorable to entrepreneurs and may encourage more people to start businesses (Gentry & Hubbard, 2000). Fiscal policy influences private consumption, and entrepreneurship is downcast when taxes are high (Takii, 2008). As international competition grows, governments try to restrict and regulate international transactions (Djankov, La Porta, Lopez-de-Silanes, & Shleifer, 2002). To smoothen international trade, nations are repositioning tariffs to achieve a favourable balance of payments by increasing business activity (Tinbergen, 1954). Wiklund 1998. The investment made by entrepreneurs immediately becomes part of the nation's GDP in the form of payment for pay, wages, and buying goods and services for their business (William D. Bygrave & Quill, 2006 ).

### **Entrepreneurial Intentions**

Intentions are known as key mover in the formulation of behaviour and exercise of perceived action (Ajzen, 1985). The intentions are known as superseding the traditional

economic thought of will and power, it advocated that intent could compensate the perspective of power (Ali, Lu, & Wang, 2013). Opportunist entrepreneurs have more influence on their earnings than others do; therefore, there is a greater need to focus on them to enhance economic growth. This finding may not fully comply because there may be less homogeneity in the group (Block & Wagner, 2006). It is essential to develop innovative products and services to bring the prerequisite resource mix together; furthermore, it involves opportunity detection (S. Shane & Venkataraman, 2000). Technological and small firms reduce the importance of scale by reducing the minimum efficient scale and facilitating competition from smaller firms (Wennekers & Thurik, 1999). Entrepreneurial intentions are being widely studied in broad scopes and data sets. But there is greater need to study from regional and national perspective.

### Conceptual framework

The conceptual framework aims to illustrate relationships between public policy, startup financing and entrepreneurial intentions (Figure 1). It serves to guide the research objectives, which focus on examining how public policy and startup financing mechanisms influence the entrepreneurial intentions of individuals to engage in entrepreneurial activities and ventures.

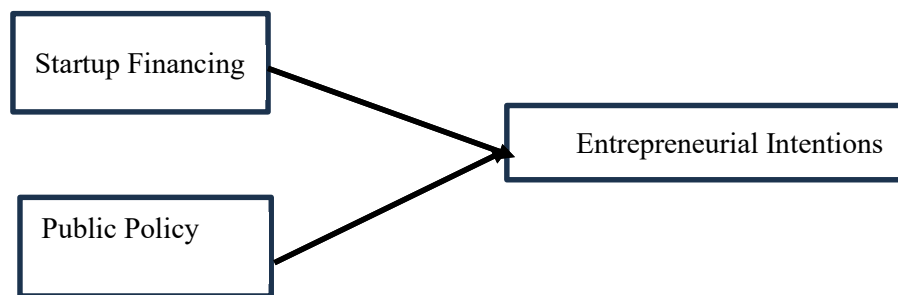


Figure 1. Conceptual Framework

### Material and Methods

This study investigates the entrepreneurial intentions of college students in Pakistan through a questionnaire survey. It comprised six sections: Personal Information, Personality Traits, Personal Experience, Recognition and Understanding of Starting a Business, Entrepreneurial Preparations, and Entrepreneurial Difficulties. The questionnaire employed partially closed-ended questions utilizing a 5-point Likert scale.

### Results and Discussion

**Table 1**  
**Correlation**

| Correlations               | 1     | 2      | 3      |
|----------------------------|-------|--------|--------|
|                            | 1     | .090   | .128*  |
| Entrepreneurial Intentions |       | .160   | .046   |
|                            | 244   | 244    | 244    |
|                            | .090  | 1      | .338** |
| Startup Financing          |       | .160   | .000   |
|                            | 244   | 244    | 244    |
|                            | .128* | .338** | 1      |
| Public Policy              |       | .046   | .000   |

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The EI are positively and significantly correlated with public policy (Table 1). But results indicate weak and insignificant relations with startup financing. The data also revealed that there is significant correlation between public policy and startup financing

**Table 2**  
**Regression**

| Model | Unstandardized Coefficients |            | Standardized Coefficients | t     | Sig. |
|-------|-----------------------------|------------|---------------------------|-------|------|
|       | B                           | Std. Error | Beta                      |       |      |
| 1     |                             |            |                           |       |      |
|       | (Constant)                  | 2.780      | .315                      | 8.817 | .000 |
|       | Startup Financing           | .147       | .070                      | .142  | .037 |
|       | Public Policy               | -.080      | .065                      | -.083 | .220 |

a. Dependent Variable: Entrepreneurial Intentions

As results of regression analysis (Table 2) indicate startup financing and entrepreneurial intentions positively and significantly effect as ( $B=0.147$ ,  $p=.037$ ) though it indicates a small effect size. The public policy support has insignificant direct effect on EI. So hereby the results indicate startup financing more matters influences the EI.

## Discussion

Countries such as the United States express significant concern regarding global technological innovation and revitalization. Initiatives by state and local governments to foster technology-driven economic development are well-aligned with existing policies concerning the efficacy and sustainability of the Small Business Innovation Research (SBIR) program. The Bayh-Dole Act, which permits universities to patent inventions derived from federally funded research, plays a crucial role in shaping the interactions between universities and corporations. Furthermore, the SBIR is recognized as a pivotal governmental initiative aimed at promoting technology-based entrepreneurship, having been established by the Small Business Innovation Development Act of (D.B. Audretsch, 2002; Cooper, 2003; Tibbestts, 1999). Students are willing to start a business by perceiving fund availability as an essential component and determinant of the business start-up mix. The only constraint that is not easy for students to deal with is financial assistance, which can only be done with the strong support of public policy, as is done in other nations where entrepreneurs have achieved ease of enterprise creation through the availability of financial assistance.

## Conclusion

The analytical conceptual framework was used to intricate the relationship between public policy and startup financing, which is known as a critical component of the entrepreneurial ecosystem. This research advocates policymakers to incorporate the role of public policy in national development by boosting the number of business start-ups. The government can utilize these pieces of information to develop a sound national policy to support the entrepreneurial ecosystem.

By having startup financing opportunities and shaping more supporting public policy, the government can have a prosperous society. It can induce innovation, job creation, and economic development. Understanding the complexity and interplay between these factors will make it easier for policymakers and national leaders. These insights will evolve the environment for corporate well-being and design to have corporate progress and entrepreneurial sprits in action. In the case of Pakistani students, inferential analysis revealed that startup financing had a significant impact on entrepreneurial intentions. This indicates the need to create more financing avenues for students.

**Recommendations**

- There base on the key finding from this research following recommendations are made to enhance the situation for the startups and new ventures.
- There is need to have a united national startup policy framework, as at present no unified framwrok is in practice.
- As the funding is the key elemet in fostering entrepreneurship. There is greater need to have a public private partnership co-funding model. It will reduce the risk an encourage the private capital inflow for innovation.
- Expansion of exisinting incoubation programs and scale the funding for HEI in for supporting the innovation driven events.
- There is greater need to simplify the business incorporation and IP practices in the domain of Law.
- Launch a national startup fund for the graduates ans students currently in erolled to supprong their ventures an creations.

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