

Socio-Cultural Factors and Entrepreneurial Activities: an Overview

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Abstract

This paper examines the effect of Socio-cultural factors on entrepreneurial activities. The paper sets out to ascertain the influence of Education, Values and Family background on entrepreneurs. The study reviewed related literature and revealed that socio-cultural factors are very important factors in breeding new entrepreneurs, creating new businesses and thus, how societies and economies grow and prosper. Suggestions showed how great benefits accrue to policy makers and firms by explicitly describing how much Socio-cultural factors could be relied upon to help boost supply of entrepreneurs, which would in turn translate into reducing the level of unemployment and poverty in Nigeria.

Keywords: *Education, Family background, Values, Entrepreneurial activities*

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Background to the Study

Entrepreneurship is germane to the economic growth and development of any nation. Gree & Thurnik (2003) and Abubakar (2010) consider entrepreneurship to be a relevant factor of economic and human development. Developing countries like Nigeria continue to struggle with limited fiscal capacity to create jobs and absorb new entrants into the labour market and this has led to a mix up on the understanding of entrepreneurship and other businesses and also viewing entrepreneurship as a job creation weapon. Entrepreneurial activity is seen as a vital source of innovation, employment and economic growth (Carree & Thurik, 2003; Parker, 2004; Thornton, Ribeiro-Soriano, & Urbano, 2011; van Stel, Carree, & Thurik, 2005). According to Adeyemo (2000) & Durowoju (2014), entrepreneurial activities have a strong influence on the entire economy through job creation and building of the economic base, combined with new firm formation, they are conclusively considered engines of economic growth and innovation. Entrepreneurial activity in every economy is a positive activity that creates jobs, thus, reducing unemployment in the longterm, which eventually increases the quality of the populace through value addition and organizing resources efficiently and effectively (Momani, 2017). To Mueller and Thomas (2003), these activities serve to reposition dying industries, provide new jobs to compensate for employment problems created by corporate organizations restructuring and downsizing; and generally to enhance economic flexibility and growth in advanced industrialized nations. Some of the challenges identified that is hindering entrepreneurial activities in the economy are inadequate capital, lack of competent and skilled management, misunderstanding of entrepreneurship as just another business venture, that is, being self-engaged, gross unemployment and poverty. Entrepreneurship has gained greater interest in the face of persistent technological change, liberalization, outsourcing and restructuring the rule of business enterprises (Durowoju, 2014).

The socio-cultural business environment is seen as a set of common values that contributes to molding the behaviour pattern of people (Boggs, 2004; Abdullahi, & Zainol, 2016). The socio-cultural environment comprises of all elements, conditions, and influences which shape the personality of an individual and potentially affect his attitude, disposition, behaviour, decisions and activities. Some of these elements include beliefs, values, attitudes, habits, family background, education and social conditioning (Adeleke, Oyenuga, & Ogundele, 2003). In spite of this growth in the literature and the salience of entrepreneurship in public policy, the influence of social and cultural factors on enterprise development remains understudied. This paper is dedicated to examining the social and cultural factors involved in entrepreneurial activity. Scholars have long pointed out the importance of socio-cultural factors in the decision to create new businesses, arguing that entrepreneurship is embedded in a social context (Aldrich & Zimmer, 1986). Having a deep and thorough understanding of the socio-cultural business environment in which the business is operating is very important for running the business venture successfully at any time. For the purpose of this study education, values and family background are considered.

Review of Literature

Conceptual Review

No research can be carried out in a vacuum. Each research has to rely on the previous achievements based on which it at least has a new word to say, and it utilizes more accurate methods for knowing the phenomenon (Sarokhani, 1373/1994:146). The 'entrepreneurship' word entered economics theory first by Cantillon (1775). Entrepreneurial activity is a concept that defines the dynamic process of entrepreneurship development and this process must be viewed in its dynamism. An entrepreneur being a person who always looks and long for change, responds to change and exploits it as an opportunity (Ijaz, Yasin & Zad, 2012). With the entrepreneurial turn of the 1990s, during which universities invested in building high-quality faculties to teach and research entrepreneurship and governments increasingly viewed entrepreneurship as a solution to many social and economic problems, there has been considerable growth in new research from psychological and economic points of view.

Scholars who study entrepreneurship have lent great value by continuing to explore the factors that explain how entrepreneurs' best create new business and thus, how societies and economies grow and prosper. Being entrepreneurially minded requires relations between key components of the process. Business owners must also establish connections to resources and niches in an opportunity structure, and at some point they must have been affected by relations with socializing agents who motivated them. Managers are driven most by this desire to invest the resources they manage, treating resources as an end in themselves rather than as a means to an end which entrepreneurial minded people do. Opportunity-seeking behaviour drives entrepreneurs more than just a desire to invest resources. Both entrepreneurship practitioners and public policy-makers have shown a growing interest in the contextual factors in which entrepreneurial activities take place. For example, international organizations such as the Organization for Economic Co-operation and Development (OECD) and European Union (EU) are focusing on the environmental drivers of entrepreneurship, especially the social and cultural factors that influence the individual career choice to be an entrepreneur and to create a new business (European Commission, 2004, 2006; OECD, 1998, 2000). Nonetheless, scholars continue to argue that entrepreneurial variations are better understood by considering the social environment in which the firm is created, because, in addition to economic activity, entrepreneurship is a social phenomenon (Berger, 1991; Shapero and Sokol, 1982; Steyaert, 2007). While the economic conditions may explain some of the variation, any convincing explanation must take account of the social and cultural aspects of entrepreneurial activity (Drakopoulou Dodd and Anderson, 2007).

The socio-cultural business environment is germane to entrepreneurship as new ventures come into existence as a result of inter-play between environmental conditions and entrepreneurial activities. According to Alwis & Senathiraja (2003), education is a socio-cultural and personal factor that has influence on business value formation. Education is seen as one of the factors that influence the speed of economic progress and growth of any nation. Anggadwita *et al.* (2017), sees socio-cultural environment as the social system and culture of a nation. While Weatherly and Otter (2011) and Johnson, George and Adegboye (2013) also sees socio-cultural environment as everything not contained in a typical economic or political system. In

these studies, the elements of the socio-cultural environment include beliefs, values, attitudes, habits and lifestyle behaviours as a progression of cultural, religious, educational and social conditions (Adeleke *et al.*, 2003). The family as a social unit is present in our environment today and the role of family in venture creation decisions is seen in three perspective; the classical perspective, the cognitive perspective, and the social embeddedness stance (Aldrich & Cliff, 2003).

Values

Value is perceived as the most important part of economic, social, and political theories in the societies that operate in rapid change and development processes. To Feather (1994, p. 35), values have been described as “the beliefs about how to behave and what goals are important to achieve”. Schwartz (1995, p. 93) on the other hand, sees values as concepts or beliefs, pertaining to desirable ends, transcending specific situations, guiding selection and evaluation of behavior and events and ordered by relative importance. Values to Rokeach (1973) is a standard that guides and determines actions, attitudes in the direction of objects and states, ideology, presentations of self to others, assessments, decisions, justifications, comparisons of self with others, and attempts to influence others. Values are also seen as guiding principles that influence people's decision making, they are stable trans-situational goals that motivate behaviours that are similar to them (De Dreu & Nauta, 2009; Schwartz, 2005). The value theory adopts six main features of values which are values seen as beliefs, desirable goals, transcend specific actions and situations, serves as standards or criteria, ordered by importance and relative importance of multiple values guides action (Schwartz, 2006b).

More generally, the idea that individuals and organizations affect and are affected by their social context is not new. It is a seminal argument in both classic and contemporary sociology, and the argument has been applied to the study of entrepreneurship at different levels of analysis (Thornton, 1999). Let us not forget that Weber's (1930) classic thesis was multi-level and he proposed culture legitimated individualism, which led to economic development. Since it was first stated, Weber's argument continues to be tested, using various operationalization of culture, by psychologists (McClelland, 1961), sociologists (Collins, 1997; Delacroix & Nielsen, 2001) and, more recently, by economists (Becker & Woessmann, 2007).

Theoretical Foundations

Family Orientation/Systems theory

The earliest and still more broadly adopted structural definition of family orientation was developed by London Business School (Stoy & Hayward, 1989). According to this definition, a firm is classified as a family business if more than 50% of shares are owned by one family, or at least 50% management are from one family, or/and a significant number of members of the board are from a single family. However, it is problematic that most of the small firms are classified as family firms by this definition (Klein, 2000). Due to such limitations, most recently developed definitions of family business reflect the acceptance of multiple dimensions as well as the notion that rather than creating a dichotomy, different firms may vary in the extent and manner in which family is involved with the firm. For instance, Astrachan *et al.* (2002) proposed the F-PEC scale composed of three dimensions, including Power, Experience and

Culture. In this study, a multifaceted approach is applied which combines different dimensions into one scale. This approach is suggested by a more recent study by Uhlaner (2005), using Guttman scaling techniques, these multiple facets are referred to as family orientation. Past researchers have drawn upon a wide variety of theories to explain the differences in professionalism of management between family oriented and non-family oriented firms, including agency theory and the resource-based view that the original proponent was Edith Penrose. Congruent with the family systems theory is a theory introduced by Dr. Murray Bowen that suggests that individuals cannot be understood in isolation from one another, but rather as a part of their family, as the family is an emotional unit. Families are systems of interconnected and interdependent individuals, none of whom can be understood in isolation from the system.

Agency theory

Agency theory is used to study family orientated firms. Whenever the owner and manager are part of the same family, the coordination between the two (e.g. through contracts and monitoring) should be more efficient and thus less expensive (Steier, 2013). If the owner and manager are one and the same, monitoring is not even necessary, saving even more on agency costs. With family-owned firms, agency theory predictions have been debated, but it is plausible that this may provide one explanation for the informality often seen within family-owned as compared with non-family owned firms (De Kok, Uhlaner, and Thurik, 2006). For instance, more family-oriented firms may use informal means to pass knowledge and experience from generation to generation (Donckels, 2004). Therefore, for employees who belong to the same family as the owner and managers, less formal KM practices are required to align the interests of managers and employees. This may also hold for employees who are not related to the owner and/or managers, if family-oriented firms are able to create an organizational culture where all employees feel they belong to the same family (Pollack, 1985).

Resource-based Theory

The resource-based view is based on the assumption that differences in physical, organizational and human resources between firms cause a fundamental heterogeneity in their productive potential (Priem and Butler, 2001). On the other hand, Reid and Adams (2001) found that many family-oriented firms use less formal HRM practices, and explain this by suggesting such firms have more limited organizational capabilities. This finding can also be applied to Knowledge Management (KM) practices. Family oriented firms have limitations due to their comparatively smaller size and reduced complexity compared to non-family oriented firms (Daily & Dollinger, 1993; Cromie *et al.*, 1995). Most of the family oriented firms are small, they have limited supply of financial resources and lack specific knowledge (particularly the recognition of the importance of KM issues) which leads to less use of formal KM practices in the family-oriented firms. Family oriented firms are also less complex in structure, it is not necessary for them to build formalized and/or systematized procedures and policies in order to process information more effectively within the firm. Nooteboom (2001) states that entrepreneurs who emerged from a traditional craft environment are more conservative with their own family traditions, which makes them most unlikely to engage into formal knowledge management practices, compared to a university graduate (manager) who

finds a company after resigning from a large firm. From a behavioural perspective, managers usually concentrate more on every aspect of management than entrepreneurs/owners and therefore managers should be expected to focus more on knowledge management.

Educational Incubation Theory

Incubation is defined as a process of unconscious recombination of thought elements that were stimulated through conscious work at one point in time, resulting in novel ideas at some later point in time. Consistent with Wallas's (1926) classic theory, this theory assumes that incubation is related to intuition and insight in that it is the unconscious part of a process whereby an intuition may become validated as an insight. Incubation substantially increases the odds of solving a problem, and benefits from long incubation periods with low cognitive workloads. The experience of leaving a problem for a period of time and then finding that the difficulty evaporates on returning to the problem, or, even more striking, that the solution "comes out of the blue" when thinking about something else, is widespread. Many guides to effective thinking and problem solving advise the reader to set problems aside for a time.

Social-Cultural Factors and Entrepreneurial Activity

The social aspect focuses on the forces within the society that has a potential ability to affect the business. Examples of social factors include family, friends, colleagues, neighbours and the media. These factors can affect our attitudes, opinions, interest, shape who we are as a people and how we behave and what we buy. To this, societies are endowed by nature with different physical environments, members of society must adopt environmentally relevant patterns of behaviour to achieve success. These environmentally relevant patterns of behaviour lead to the formation of different cultural values in different societies, some of which influence the decision to create new businesses. Thus, culture, as distinct from political, social, technological or economic contexts, has relevance for economic behaviour and entrepreneurship (Shane, 1993; Shapero & Sokol, 1982). One of the difficulties in examining the cultural affects and effects in relation to entrepreneurial activity especially as it relates to Nigeria is the lack of a precise and commonly understood definition of culture (McGrath *et al.*, 1992). Anthropologists suggest that culture is related to the ways in which societies' organize social behaviour and knowledge (Hall, 1973; Kroeber & Parsons, 1958). Cultural values are defined as the collective programming of the mind which distinguishes the members of one human group from another and their respective responses to their environments (Hofstede, 1980). Using Hofstede's (2001) concept of culture, researchers have in general hypothesized that entrepreneurship is facilitated by cultures that are high in individualism, low in uncertainty avoidance, low in power-distance and high in masculinity.

Several studies have also stressed the influence of cultural factors on entrepreneurship from different perspectives. Hayton *et al.* (2002), in their literature review, link culture and entrepreneurship to three broad streams of research. The first focuses on the impact of national culture on aggregate measures of entrepreneurship such as national innovative output or new businesses created. The second stream addresses the association between national culture and the characteristics of individual entrepreneurs. The third explores the impact of national culture on corporate entrepreneurship. Accordingly, when an individual creates a business in a specific cultural environment, this business reflects that cultural environment, for example characteristics such as strategic orientation and growth expectations for the business.

Empirical Review

Minaev (2016) identified the factors that influence the level of entrepreneurial activity in developing countries. The Global Entrepreneurship Monitor data for 52 developing economies was used in order to assess the effects of individual characteristics, as well as indicators of regulatory costs and certain macroeconomic indicators. Regression analysis of panel data for the cross-country analysis of factors was employed in these 52 developing countries. The findings revealed that, taking into account individual effects, all control variables, which are gender and age (except education), indicators of respondents' self-evaluation and assessment of the environment, in which they are located have a significant impact on the level of entrepreneurial activity in developing countries.

Rahma and Farhana (2014) examined the social cultural factors which create barriers, influence or inspire individuals in becoming entrepreneurs. The findings primarily showed that socio-cultural factors can influence both positively and negatively entrepreneurial emergence in a society. This confirms opinions in the theories of entrepreneurial emergence which are rooted in the theory of social behavior which focus on values and occurrences that the behavior and the individual decision process is being influenced and motivated by socio cultural aspects. Whereas, Hayton *et al.* (2002) review, linked culture and entrepreneurship to three broad streams of research. The first focused on the impact of national culture on aggregate measures of entrepreneurship such as national innovative output or new businesses created. The second stream addressed the association between national culture and the characteristics of individual entrepreneurs. The third explored the impact of national culture on corporate entrepreneurship.

Onodugo & Onodugo (2015) empirically investigated the connection between entrepreneurship and socio-cultural factors in Nigeria; assessing the direction these factors had impacted on entrepreneurship development in Nigeria whether positively or negatively. The study also examined the major problems of entrepreneurship and thus proposed some plausible strategies that can promote effective entrepreneurship development in Nigerian. The study revealed that some socio- cultural factors like Marriage, Age Grade and Religion have impacted positively on entrepreneurial development, while some socio-cultural factors like Omenani, Ozor/ Chieftancy Title taking have negative impact on entrepreneurial development. It also revealed that Security was observed as a significant factor for entrepreneurial development and factor that accounts for this high acceleration of entrepreneurial activities is because of unemployment of our graduates and school leavers.

Conclusion and Suggestions

Entrepreneurs are widely seen as successful business tycoons, however, these entrepreneurs are embedded in a structural network that is within a specific cultural context. It is therefore useful to consider cultural and social factors as a framework for analysing the business decisions that influence an entrepreneurial mind set. Also, the Nigerian government need to formulate policies for the educational sector that does not only target the classrooms and the educated, but also considers the less educated and rural dwellers. This policy should be designed to educate the citizenry on the sociocultural factors that are found to be anti-entrepreneurial and

the need to imbibe entrepreneurial-compatible culture. This policy should also consider raising the awareness level of the citizens on the various programmes instituted to stimulate and encourage entrepreneurship in the country.

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