

Examining and evaluating Entrepreneurship Development and Business Climate in Northern Iraq

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ABSTRACT

The study is an examination of the entrepreneurship development and business climate of the Northern part of Iraq. The undertaking of the study stems from insights which exhibit that efforts to foster economic growth and development and other social aspects are influenced by entrepreneurship development. But the major challenge is that such ability and effectiveness rely significantly on an economy's business climate. This study examines the nature of business climate in North Iraq and how it is influencing entrepreneurship development. The study also examined challenges undermining entrepreneurship development. Opportunity-based and resources-based theoretical insights on entrepreneurship development were used to shed more light on the aspect of and related entrepreneurship development initiatives. This was reinforced by a combination of empirical studies on entrepreneurship development and business climate. Statistical data was also used to support the established arguments and the findings showed that efforts to develop effective entrepreneurship development activities rely on the need to harness between political, economic, social and technological aspects. The findings also showed that political instabilities, lack of capital funding, lack of infrastructure, barriers to entry and the red tap are key determinants of North Iraq's business climate. The results further led to the conclusion that the business climate in North Iraq is imposing severe limitations on entrepreneurship development.

Keywords: Business climate, economic growth and development, entrepreneurship development

INTRODUCTION

It is apparent that most economies around the world such as North Iraq are facing a series of severe and widespread economic challenges. Among the notable challenges that have been undermining economic progress is the prevalence of the financial crisis which has crippled many financial systems and economies. Apart from these challenges, economies are always in need of instruments, mechanisms and activities that will stir economic growth and development. One of the strategies that can be used to support economic growth and development is attracting foreign direct investment (FDI). The importance of FDI in an economy is attached towards increasing the exploitation of resources and the injection of capital to finance production activities (Bende-Nabende, 2018). However, attracting FDI has not always been an easy pursuit and is associated with a lot of challenges, undesirable conditions and limitations. For instance, Tanna, Topaiboul and Li (2018) argue that it is now a difficult task to attract and rely on FDI inflows. This suggests that there is greater need to seek other ways of promoting economic growth and development.

One of the increasingly advocated strategy is entrepreneurship development (Cooney, 2012; Tolmachev, Ulianova & Pleaner, 2015). This is because entrepreneurship development is considered to be in a position to positively influence a number of economic and social aspects. Auezkanov (2009) linked the effects of entrepreneurship development to employment, Weaver, Liguori and Vozikis (2011) posit that it stirs an increase in economic growth, Burke, Trahant and Koonce (2012) contend that it is an instrument of social empowerment.

Meanwhile, the most under researched and significant determinant of entrepreneurship development is the business climate which also includes efforts to examine its determinants and how they influence entrepreneurship development.

This study therefore seeks to examine the nature of business climate in North Iraq and how it is influencing entrepreneurship development in an attempt to unravel some of the challenges undermining entrepreneurship development. This will also include determining the type of support the state should provide to stir up entrepreneurship development.

LITERATURE REVIEW

A sound examination of the influence of the business climate on entrepreneurship development can best be done by looking at opportunity-based and the resource-based theories of entrepreneurship development. This also includes reviewing related literature on entrepreneurship development aspects, drivers of entrepreneurship development, the notion of a business climate and business climate conditions as a determinant of entrepreneurship development.

The opportunity-based theory of entrepreneurship development

This theory is based on ideas put forward by Peter Drucker who contends that cultural, technological and social changes present opportunities to entrepreneurs to take advantage of (Ardichvili, Cardozo & Ray, 2003). This theory is important in the sense that it provides insights on possible governmental strategies to use in order to foster entrepreneurship development. Thus, according to the resource-based theory, focusing on measures that enhance positive cultural, technological and social changes will aid in presenting entrepreneurial opportunities. This can be relatively true with regards to North Iraq especially when considering that cultural, technological and social developments have remained constricted over the past few years.

The resource-based theory of entrepreneurship development

This theory mainly focuses on how economic resources are used to kick start and stir up entrepreneurship activities (Alvarez & Busenitz, 2001). That is, it contends that it is essential to provide resources to entrepreneurs so that they can initiate and boost entrepreneurship activities. This implies that without resources it is impossible to engage in entrepreneurship activities. One of the notable resources that significantly influence and shape entrepreneurship activities is capital. Entrepreneurs often struggle to acquire the necessary funding especially in economies that are financially challenged and have no or little incentives that support entrepreneurship activities (Barney, Ketchen & Wright, 2011). With regards to North Iraq, one can thus contend that failure by the government to make available of the necessary financial support to entrepreneurs will undermine entrepreneurship development. In addition, this theory highlights the importance and the need to have sound a financial system through which funds are disbursed to entrepreneurs (Alvarez & Busenitz, 2001). Further implications can be made that irregularities and obstacles in the provision of financial support by both the government and financial institutions will seriously hamper entrepreneurship development. The resource-based theory is not restricted to the availability of financial resources but also

includes quality leadership, the availability of education and training programs, and information (Alvarez & Busenitz, 2017). This denotes the importance of the need to provide information to entrepreneurs, foster skills development through training and promote the diffusion of innovation.

Entrepreneurship development aspects and its drivers

Entrepreneurship development refers to act of empowering entrepreneurs by providing them with the necessary training programmes and skills (Cooney, 2012). The importance of entrepreneurship development is attached to its ability to increase the number of entrepreneurs in an economy. This is important in economies such as North Iraq where unemployment figures have remained relatively high and stood at 11% for all the regions across North Iraq (Edwards & Rwanduzy, 2018, May 05). The importance of the need to support entrepreneurship development in North Iraq can also be traced to North Iraq's poor economic performance levels. This can be evidenced by figures released by the World Bank (2018) which showed that the country's growth rate shrank by 0.8% in 2017. This implies that unemployment and possible recession problems can be addressed by promoting entrepreneurship development. However, the ability and effectiveness of entrepreneurship development to stir up growth, combat unemployment, inflation and a number of economic and social challenges hinges on quite a number of factors. All these factors must be given due and proper attention and if not, then efforts to promote entrepreneurship development might prove to be futile.

Meanwhile, entrepreneurship development relies on the extent to which the government is able to identify potential entrepreneurial targets who are willing to improve their entrepreneurial skills. This is because some entrepreneurs are already skilled and trained and might not need such training (Cooney, 2012). In most cases, entrepreneurship development programs are effective when the government focuses on local markets and talent that can quickly absorb new information and training programs.

Tolmachev, Ulianova and Pleaner (2015) contends that entrepreneurship development relies also on the ability to identify the right location to engage in such programs. More often, there are places with a high number of potential entrepreneurs where people are in a position to utilise entrepreneurship development programs.

Auezkanov (2009) also noted that corporation with other institutions is another key aspect that shape the effectiveness of entrepreneurship development programs. This includes the role that is played by financial institutions and non-governmental organisations. That all play an important role in the dissemination of information and provision of train in g programs.

Weaver, Liguori and Vozikis (2011) hinted that entrepreneurship development initiatives must be developed as needed. Meaning that skills change in effectiveness over time and must be constantly improved as well. In most cases, entrepreneurship development programs will work towards minimising their weaknesses and maximises their strengths.

Cooney (2012) hinted on the need to realign entrepreneurship development with of an economy's future development. This implies that were the government sees that it needs to promote economic growth, lower unemployment and inflation etc., must tailor such efforts towards realigning entrepreneurship programs with those needs.

With all these aspects in mind, it can thus be noted that entrepreneurship development is an umbrella of terms that relies on a combination of factors. Meaning that there are a lot of things

that need to be put in place before the government engages in efforts to develop and promote entrepreneurship development.

The notion of a business climate

A business climate is basically a reflection of the economic conditions in a country and how financial institutions, labour and political organisations, and the government behave towards business institutions (Pinkse & Kolk, 2009). Of paramount importance is that these institutions or organisations must act in a manner that will support business operations. That is, their interaction can either create a conducive business environment or create harsh economic business conditions for entrepreneurs.

Having a clearer perspective of how business climates influence entrepreneurship development relies on the factors that influence the business environment. This study also provides an insight of these factors and how they possibly interact to influence changes in entrepreneurship development.

Business climate conditions as determinants of entrepreneurship development

It is undoubtable that political events in a country have widespread effects on business activities. Burke, Trahan and Koonce (2012) concurred with the same insights and outlined that bad political events tend to portray a negative image of a country and thereby reducing confidence in its business activities. This can be said to be true as evidenced by the political situation in North Iraq which have been characterised by a more than decade of war against insurgents and its plea for independence from Baghdad. In most cases, political events and governmental political policies can restrict business activities especially that of multinational activities. Governmental policies on globalisation can also help to shape entrepreneurship development especially when the government wants to internationalise domestic activities (Kotler & Armstrong, 2004).

On the other, Burberry (2012) hinted that the influence of economic issues on the business environment are collective. Meaning that all economic aspects work together to either positively shape and mould a conducive business environment or undermine entrepreneurship activities. In most cases, economic situations characterised by high inflation, unemployment, recessions, low FDI investment levels etc., are more likely to make it expensive to fund operational activities. This is because entrepreneurs will be faced with high or possibly rising costs which can cut down on their profit margins. Economic factors also include the role that is played by financial institutions. Orekeke, Wittneben and Bowen (2012) contend that financial institutions must be in a position to provide funding to entrepreneurs at a relatively low cost.

Shaikh (2010) established that sociological changes such as work groups, labour mobility and culture have important bearing on business operations notably that of entrepreneurs. In most cases, social factors tend to influence how the society perceive and respond to business activities. This is relatively true in North Iraq which is highly dominated by Islamic values which shape how people conduct with business institutions.

Mühlbacher, Dahringer and Leih (2006) highlighted that the business environment is also shaped by the rate of technological developments taking within and outside the country. Meaning that technological developments and innovation help to ease business operation, reduce costs, improve service quality, increase revenue inflow and improve competitiveness. This is what entrepreneurship needs and promoting technological innovation and development can thus help to promote entrepreneurship development.

Meanwhile, the legal environment helps businesses to adapt and make their operations flexible. According to Burke, Trahant and Koonce (2012), a good legal framework makes it viable for businesses to operate and creates a structure that is needed to foster better interaction with customers. Such structures are also needed to promote entrepreneurship development.

In light of all these factors, it is therefore important to note that positive changes in political, economic, social and technological events will help in supporting entrepreneurship development. That is to say that there is a positive relationship that exists between a business climate and improvements in political, economic, social and technological events. Thus, if the business climate in North Iraq is to foster entrepreneurship development, then the government of North Iraq must ensure that it introduces policies that effectively target political, economic, social and technological activities.

RESEARCH METHODOLOGY

The study applies qualitative approach that relies on theoretical ideas to establish insights about the possible influence of a business climate on entrepreneurship development. The study also used related empirical insights and secondary data to offer support on the established ideas. Inferences were then made out of the established arguments and these includes the prescription of good number of recommendations.

FINDINGS

Efforts to examine how North Iraq's business climate influences entrepreneurship development can be made possible by first outlining why it is important to promote entrepreneurship development in the first place. This also includes looking at incidences and issues that have been shaping the business climate and imposing effects on both entrepreneurship development. However, efforts to promote entrepreneurship development are greatly determined by a series of activities and events that having been taking in North Iraq. These factors are what shape North Iraq's business climate and are herein discussed as follows;

Political instabilities

The ongoing war against political insurgents which has been taking place for more than a decade imposes huge effects on entrepreneurship development initiatives. This is because the political environment makes it risky to set up and support entrepreneurship activities. This is because there is a negative relationship that exists between political risks and investment (Medvedeva, 2015). The level of uncertainty tends to increase especially in an economy such as North Iraq where the government is fighting insurgents and has issues with the Baghdad government.

Regulatory uncertainty

According to Council of Ministers (2014) sound regulatory frameworks are essential for creating a good operational structure in which entrepreneurs operate and transact with customers. As a result, the inability to create an effective regulatory framework causes a lot of uncertainties which undermine economic growth. in North Iraq, existing governmental laws do not offer the required support needed by new business models such as e-commerce. Bartnick (2017) noted that notable regulatory issues pertaining to the import regulations which restrict the importation of certain commodities.

Poor infrastructure

A majority of the problems that are affecting entrepreneurship development in North Iraq are linked to poor infrastructure. For instance, the Middle East Institute (2016) noted that North Iraq and Iraq as a whole do not have the necessary e-commerce infrastructure. This can further be compounded by the fact that North Iraq remains underbanked with 90% of the SMEs being presumed not to be using e-banking services (Bartnick, 2017). There is also lack of protection for intellectual property (IP) development and entrepreneurs lack an incentive to engage in more IP development activities.

Lack of capital funding

It is undeniable that the financial crisis witnessed in North Iraq has undermined a lot of economic activities and sectors of the economy. As a result, there is insufficient capital funding to support entrepreneurship development activities. This issue is also being necessitated by the reduction in foreign investments to below US\$3.5 billion in 2015 from US\$5.13 billion (Meri Economic Report, 2016). North Iraq's entrepreneurial ecosystem is further being affected by the lack of private equity investments and the absence of interest-bearing loans. However, these problems were eased following the introduction of *TAMWIL* which proposed to inject (US\$5 billion) 5.9 trillion IQD to stir job creation (Saleheddin, 2017). In addition, this was also reinforced by the injection of US\$170.5 million (200 billion IQD) through the Council of Ministers' Private Sector Development Strategy (Council of Ministers, 2014).

Barriers to entry and the Red Tape

Engaging in entrepreneurship activities in North Iraq itself is a challenge. This is because setting up a business in North Iraq is a difficult thing and takes more than one month. This is evidenced by the fact that the setting up of a business takes time and the process requires US\$2 500 (3 million IQD), (Bartnick, 2017). Bartnick further contends that this requires an Iraqi lawyer and the payment of a US\$860 (1 million IQD) fee.

DISCUSSIONS

From the well-established findings, it can be noted that the existence of resources and opportunities are the key to entrepreneurship development. Based on the resource-based and opportunity-based theories, it is apparent to note there is a greater need to create more opportunities and provide more resources to support entrepreneurs. It is important to point out that a business climate is composed of a combination of political, economic, social, legal and technological factors. Such factors can either make it conducive or harsh for entrepreneurs to thrive. Due to a series of political instabilities, lack of capital funding, lack of infrastructure, barriers to entry and the red tape, it can thus be said that the business climate in North Iraq is not that good. These issues are hindering entrepreneurship activities thereby making it risky and uncertain to invest in entrepreneurship activities.

CONCLUSIONS

The business climate in North Iraq is not creating a conducive atmosphere for entrepreneurs to thrive and can be said to be hampering entrepreneurship development. Efforts to develop effective entrepreneurship development activities rely on the need to harness between political, economic, social and technological aspects. The notable determinants of North Iraq's business climate are political instabilities, lack of capital funding, lack of infrastructural facilities, barriers to entry and the bureaucratic red tape. Hence, it can be ultimately concluded that the business climate in North Iraq imposes severe limitations on entrepreneurship development.

RECOMMENDATIONS

In the light of the analysis and findings, the following recommendations can be made;

- The government should provide direct support to entrepreneurs so as to encourage resilience, risk taking and innovation.
- More entrepreneurship development training programs must be availed by the government to promote entrepreneurship skills development.
- There is a greater need to facilitate a swift acquisition of funding from financial institutions by entrepreneurs by eliminating unnecessary obstacles.
- More effort should be devoted towards developing infrastructure that fosters entrepreneurship development such as e-commerce.
- More and better regulatory infrastructure should be put in place to help ease the hostile political situation and create a conducive operational environment in which entrepreneurs can strive and flourish.

SUGGESTIONS

The study provides a sound insight about the business climate situation in North Iraq, prevailing challenges undermining entrepreneurship development and the necessary measures required to foster entrepreneurship growth and development. However, more must be done to gather detailed information from entrepreneurs through surveys. Hence, future studies are recommended using a quantitative approach to the examination of the influence of the business climate on entrepreneurship development.

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