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Business Environment Challenges and their Impact on Business Performance: A Study of MSMEs in J&K

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Abstract

The impression of Environmental challenges has for a long while been viewed as a central issue of entrepreneurs as it impacts the procedure, structure, and execution of undertakings as well as the socio-economic development of a region or a nation. Little is understood about how entrepreneurs under a similar climate structure with diverse uncertainties perform their operations. Given the existing literature approaches, this examination conceptualizes environmental challenges involves; both macro and micro challenges and explores how these vulnerabilities influence MSMEs' business execution. Using the convenience sampling, the primary information was gathered utilizing a questionnaire from 475 proprietors and Managers of MSMEs enrolled in Industrial Estates in both divisions including Jammu and Srinagar. The study results revealed a substantial impact of both macro and micro challenges on market direction and business execution affiliation. The study recommends that MSMEs be actuated to establish a severe climate by broadening their markets, adding new items and obliging the necessities of client arrangements of clients. By and large, these discoveries feature that both micro and macro challenges mutually impact the evolvement and strength of the MSMEs. This examination makes a significant commitment to creating an assemblage of advancement literature and offers guidelines to administrators and researchers in prompting firms' inventiveness.

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Introduction

In any society, entrepreneurship is the single most important productive factor and the chief instrument of economic growth and progress. The entrepreneur is central to all economic activities, for he organizes human and material resources for the production of goods and services besides, influences capital formation for utilization in generating income and employment (Cherunilam, 2021). As such, the entrepreneurs act as the catalysts of economic development optimizing all economic functions in the direction of welfare. Therefore, we can say that the development of a state or a region, therefore, is contingent upon the appropriate utilization of entrepreneurial skills (Singh et al., 2021). However, an entrepreneur does not always emerge out of the industrial background with all developed institutions to support and encourage them. He is the one who converts the ideas into economic opportunities through innovation which is considered to be a major source of competitiveness in an increasingly globalizing world economy (Nudurupati et al., 2021). "An entrepreneur is one who creates something different with value by devoting the necessary time and effort, assuming the accompanying financial, psychic, and social risks, and receiving the resulting rewards of monetary and personal satisfaction" (Hisrich & Peters, 2002). However, once an entrepreneur enters into the parapets of entrepreneurship, he has to confront the business environment both the internal as well as external environment in which he operates. As per Adebayo et al., (2005), Singh et al., 2021 and Wheelen and Hunger, (2012), the business environment can be comprehensively grouped into; 1) Internal and 2) External environment, with the previous involving elements or factors inside the organization's control and control to accomplish the put forth objective including customers, competitors, suppliers, government, and the social, political, genuine, and mechanical components etc. (Dut, 2015), while the latter refers to the factors that are past the organization's control including technological, economical, legal, social, cultural, and political elements (Singh et al., 2015). Since the business environment involves numerous volatile factors inside as well as outside, the entrepreneur faces multiple uncertainties in terms of decisions, information, and environmental changes. Therefore, entrepreneurial judgments are regularly revisited, renewed, and revised (Ngutiku et al., 2021). Among the vibrant qualms, environmental challenges are the vital elements since they confine the business people from making pioneering moves like a passage into a novel market, creation of a new product, and so forth (McMullen & Shepherd, 2006) and interferes with the development of an enterprise.

Micro, small and medium enterprises (MSMEs) have emerged as a vibrant and dynamic sector of the economy all over the world (Rizal et al., 2017). They play an important role in the economy in terms of manufacturing output, employment generation and exports (Semegn & Bishnoi, 2021). They focus on smaller markets, have lower investments and lead to effective mobilization of resources and equitable distribution of national income. MSMEs not only participates but also play crucial role in providing large employment

opportunities at comparatively lower capital cost than large industries but also help in industrialization of rural & backward areas (Lahiri et al., 2012), thereby, reducing regional imbalances, assuring more equitable distribution of national income and wealth (Singh et al., 2021). MSMEs have been given an important place in the framework of Indian planning since beginning, for both economic and ideological reasons (Mukherjee, 2018). Small-scale industries were subject to policy reforms in the year 2006 through the passing of the Micro Small and Medium Enterprises Development Act, 2006. From this year, micro small and medium enterprises were brought under one head (Khan & Abdulla, 2019). MSMEs have been contributing nearly 29% towards the GDP of India.

The business environment of current times is separated by diverse amazing features like the challenge across the globe, information advancement, quality service revolution, CSR commitment etc. which are persuading the leaders to rethink and reform their method for managing their diverse activity commitments. Due to this adjustment of standpoint, new firms are emerging that are more open to both their internal and external conditions (Luthans et al. 2006). The inner elements exist inside the functional base of an association and straightforwardly influence the distinctive part of the business. As such the researchers have been calling for the continuous assessment of the business environment (Hans, 2018; Singh et al., 2021). The previous studies have empirically validated that the specific environment where a firm is operating significantly contributes to the performance of that firm (Singh et al.,

2021; Ebabu Engidaw, 2021; Nudurupati et al., 2021: Chittithaworn et al., 2011; Mashavira, 2020), However, few studies have opposed this finding (Akinruwa, Awolusi, and Ibojo's 2013; Chittithaworn et al., 2011; De-Jong, Phan, & Van-Ees, 2012). While most of these studies have been conducted in developed economies, (Adeola, 2016; Ebabu Engidaw, 2021, Garba, 2019; Guo et al., 2017; Kamali et al., 2021; Kinyua, 2013; Miller & Dess, 1996; Ngutiku et al., 2021) very few studies have been undertaken in developing economies, particularly in India (Singh et al., 2021). Besides, to the best learning of the scholar only a single attempt has been undertaken as far as the union territory of J&K is concerned. In order to bridge the gap in the extant literature and to address shortcomings of current literature, the present study is undertaken. Besides, the present study attempts to assess the impact of the macro and micro environment factors on the performance of the MSMEs.

Review of the Literature

All the affiliations of diverse nature appreciate various kinds of activities; some are involved in the production of goods while some render services and the conditions inside which they work are not quite the same as each other. Fundamentally every association whether large or small in size, operating within the country or globally is worried about the conversion of efforts into desirable output. The structure for transforming obligations to yields doesn't exist in a vacuum and isn't detached from the environment where it works. Despite what is generally expected, the framework exists in a novel setting and it interfaces with factors in this setting in a unique way; continually impacting and

being affected by them (Guo et al., 2017). Throughout recent years, the industrial situation of India has transformed significantly and the justification for this can be ascribed to the business climate dynamism. The business climate assumes a crucial part in the turn of events or failure of ventures. The climate is viewed as the total sum of conditions that encompass a unit at a given existence point (Singh et al., 2021). It comprises a cultural component, biological and interactive physical systems that are both independently and altogether interlinked. The business environment has been stated as the blend of inward and outside factors that impact an organization's working conditions (Chao et al., 2012). It comprises of elements including customers and dealers; competitors, proprietors; enhancement in technology' laws and government activities; markets, social and economic trends. Dut (2015) considers the business environment to be peripheral powers, components, and associations that are past the control of the business and they impact the working of a business enterprise. These consolidate customers, competitors, suppliers, government, and the social, political, genuine, and mechanical components, etc.

Business environment challenges and Entrepreneurial Performance

The environment has traditionally been considered an organizational contingency in organizational and management studies. It is assumed that the environment is synonymous with the organizational environment, which is abstract and a-temporal, having little to do with the natural environment (Shrivastava, 1994). During the 1960s, theories of organizations focused more on the difficulties external environments imposed on the survival of organizations than the environmental burdens these organizations constituted. However, the effect of the environment in which organizations operate on their performance is still a matter of debate within the academic community. Multiple studies demonstrate that the relationship between organizational performance and the environment has been explored in the literature but the outcomes of those studies are somewhat mixed. Many studies have found a positive relationship between the factors (Ebabu Engidaw, 2021; Njoroge et al., 2016); while some (Machuki & Aosa, 2011; Shane & Spicer, 1983) showed a negative relationship, and yet some studies reported no link (Hull & Rothenberg, 2008). Thus, opinions about the influence of the business environment on organizational performance continue to be diverse. Although the business environment includes both the internal environment and external environment generally it connotes the external environment.

The external environment of a business alludes to a bunch of circumstances and stimuli outside the business however they shape the existence of a business (Sahu & Yadav 2017). In other words, "the external environment refers to the group of external factors that exist around the organization which are formed by economic, political, legal, social and technological factors (Barkauskasa et al., 2015). The extant literature reveals that a considerable number of micro factors impact the performance of a business. Worthington and Britton (2006) have recognized three important micro environmental factors namely suppliers, competitors, and

customers. While as Cherunilam (2006) has also identified two vital micro environmental factors which are marketing intermediaries and public. Besides some researchers (Cherunilam, 2006; Eruemegbe, 2015; Ebabu Engidaw, 2021; Akpoviroro & Owotutu, 2018) have acknowledged all the components identified by Worthington and Britton (2006) and Cherunilam (2006, 2021). This study embraces all the components as perceived by Worthington and Britton (2006) and Cherunilam (2021) as a justification for the external environment (Micro) factors because, for the most part, they are not inside the control of the organization.

Underpinning Theory

In academic literature, the Resource-Based View (RBV) of the firm has been established as a means of describing competitive advantage and, consequently, superior performance among firms. In this study, the "resource-based view (RBV) theory" established by Barney (1991) sheds light on the relationship between independent variables (business factors) and dependent variables (business performance) (Abdullah & Mansor, 2018). As outlined by Barney (1991), "a firm is said to have a competitive advantage when it is implementing a value-creating strategy not simultaneously being implemented by any current or potential competitors" (as cited by Mwangi & Wekesa, 2017). The model stresses the firm as a novel assortment of assets and capacities some of which possess the particular characteristics of value, barriers to duplication, and appropriability. The Resource-Based View (RBV) proposed by Barney in the year 1991 describes a firm as a collection of competencies and resources. These assets empower firms to accomplish the upper hand and predominant long-haul execution (Barney, 2002). As characterized by Amit and Schoemaker, (1993), Resources are an organization's stock that is possessed and constrained by a firm and incorporate tangible components like monetary and somatic resources and immaterial parts like skill, perspective proficiencies. Inside the RBV structure, the internationalization choices rely upon abundant resources of the firm to enter another market (Kamakura et al., 2012). While as the contingency theory postulates that there is no best way for companies to perform. Conditions will create a one-of-a-kind environmental requirement for proprietors/managers of a business.

Research Objectives

1) To determine the impact of macro environmental challenges on the performance of the MSMEs.
2) To determine the impact of micro environmental challenges on the performance of the MSMEs.

Research Hypotheses

Based on the aforementioned research objectives, the research hypotheses postulated in this study are as follows:

H_{01}-1, 1: There is no significant impact of Customers on the Performance of the MSMEs.

H_{01}-1, 2: There is no significant impact of Competitors on the Performance of the MSMEs.

H_{01}-1, 3: There is no significant impact of Suppliers on the Performance of the MSMEs.

H_{01}-1, 4: There is no significant impact of Marketing Intermediaries on the Performance of the MSMEs.

H$_{01}$-1, 5: There is no significant impact of the Public on the Performance of the MSMEs.

H$_{01}$-1, 6: There is no significant impact of Financial Agencies on the Performance of the MSMEs.

H$_{01}$-2, 1: There is no significant impact of Political-Legal Challenges on the Performance of the MSMEs.

H$_{01}$-2, 2: There is no significant impact of Economic Challenges on the Performance of the MSMEs.

H$_{01}$-2, 3: There is no significant impact of Socio-Cultural Challenges on the Performance of the MSMEs.

H$_{01}$-2, 4: There is no significant impact of Technological Challenges on the Performance of the MSMEs.

H$_{01}$-2, 5: There is no significant impact of Environmental Challenges on the Performance of the MSMEs.

Conceptual Framework

The proposed conceptual framework for the present study posits that entrepreneurial performance is largely dependent on the environment in which an enterprise operates (See Fig. 1). If the performance of an enterprise is momentous, it not only helps a firm to generate profits but it also adds to the socio-economic development of that region. The current study includes two main research variables i.e., Business environment challenges (Macro and Micro) and entrepreneurial performance. A review of related studies suggests that business environment challenges impact the performance of the entrepreneurs. As a result of this assertion and the objectives specified, the hypothetical relationship has been formulated. Besides, the conceptual framework for the study was outlined.

**Fig 1 Conceptual Framework (*Source: Author's Own)*
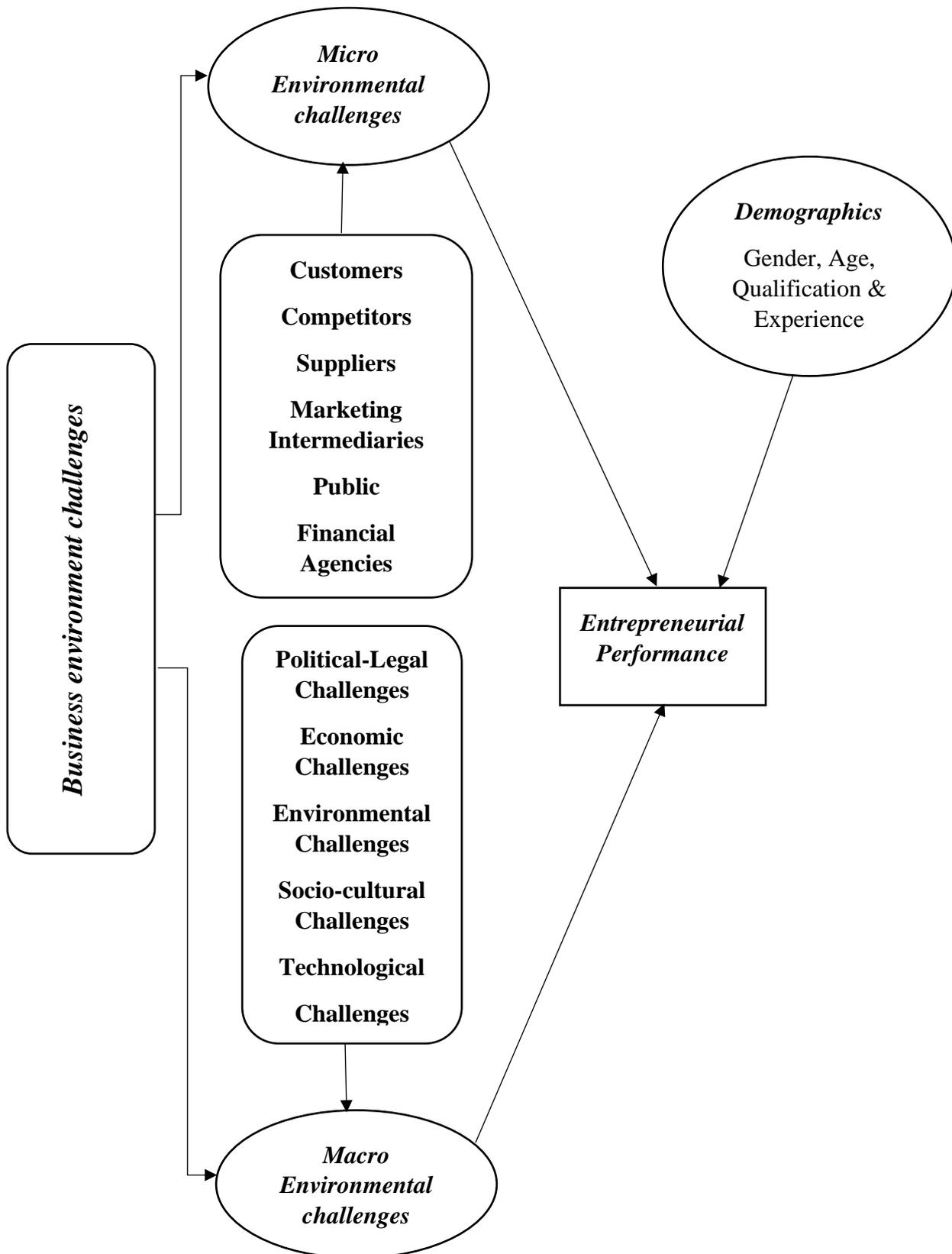
Research Design

For this study, a quantitative research design was used. Besides, a structured questionnaire was also used. The responses were accumulated from owners/managers of Micro, Small or Medium enterprise from both divisions of the UT of J&K i.e., Kashmir division as well as Jammu divisions. It is worth to mention over here that the respondents were reached physically by the investigator. Respondents were first illuminated about this investigation's purpose and were inquired whether they are registered with the directorate of industries of commerce Jammu/ Kashmir or not. Questionnaires were distributed to those entrepreneurs only who were registered with the directorate of industries of commerce Jammu/ Kashmir

Questionnaire Design

For the development of the questionnaire for this study, items were adopted from the researches carried by diverse researchers representing eleven independent factors (Andotra & Gupta (2016), Bodlaj, & Čater, (2019), Basu and Adak (2019), Engelen, Kube, Schmidt, & Flatten, (2014), a Singh et al., 2021 and one dependent variable. Initially, the endogenous and exogenous factors were computed with the help of 59 items. After running the factor analysis, six items were removed since their values did not load on the expected component for this sample. The questionnaire was also evaluated by two professors having expertise in marketing, and their opinion was sought (Tull & Hawkins, 1994) and by some scholars. On their suggestions, some of the questions were modified to suit the present examination structure. Moreover, in the development of the instrument, a five-point Likert scale was utilized.

Data

Using the Krejcie and Morgan, (1970) formula a sample size of 384 was determined. However, considering the likelihood of any nonresponse, unengaged responses, and outliers, the questionnaire was disseminated to 550 respondents but only 497 questionnaires were returned, indicating a response rate of 90.36 percent. However, out of those 497 questionnaires honored, only 475 questionnaires were deemed to be fit for analysis.

Data Analysis

The demographic distinctiveness of the 475 respondents was scrutinized (see table 1). Out of the 475 respondents, 72.22 percent constituted the male population, and 27.78 percent were females. In terms of age 35.578 percent belonged to the age gathering of 19-29, 2.526 % in the age gathering of upto12, 40.631% in the age gathering of 30-39, 18.526% in the age gathering of 40-49, and 2.736% in the age gathering of 50 & above. The greater part of respondents were employees (49.57), followed by businessmen (20.84), students (15.63), professionals (12.15), and others (1.4).

Demographic traits of the respondents **Table (1)**

Gender	Frequency	Percentage	Valid Percentage	Cumulative Percentage
Male	343	72.22	72.22	72.22
Female	132	27.78	27.78	100.00
Total	475	100.00	100.00	
Age	Frequency	Percentage	Valid Percentage	Cumulative Percentage
Up to 18	12	2.526	2.526	2.526
19-29	169	35.578	35.578	38.104
30-39	193	40.631	40.631	78.735
40-49	88	18.526	18.526	97.264
50 & above	13	2.736	2.736	100.00
Total	475	100.00	100.00	

4.2) Analysis & Results

The data analysis was done at three stages: First, the study constructs were extracted through EFA; second, confirmatory factor analysis was conducted to check whether the dimensions explored through EFA analysis offered a good fit to the data of the study; lastly, the hypothesized relationships were tested through a structural equation modeling (SEM) procedure.

4.2.1) Exploratory Factor Analysis

Using SPSS 20.0, the data collected was examined. In order to explore the fundamental data structure, "Exploratory Factor Analysis" was performed (Hair et al., 2006) and to ensure the dimensionality, exploratory factor analysis was run separately for each construct initially. "Principal Component Analysis" with "Varimax rotation and Kaiser Normalization" (Nunnally, 1978) was used to demonstrate the structure of factors and characterize the items according to their respective dimensions. Responses obtained for the items which were worded negatively were reverse coded using the "transform compute variables" option in SPSS. The value of 0.50 is considered as an acknowledgment level for Factor loading (Hair et al., 2006), which was used as a cutoff score for the present study. Using "Kaiser-Meyer-Olkin (KMO) Measure of Sampling Adequacy", sample sufficiency was measured which shows whether there are enough correlations in the data set to carry out EFA or not and the KMO for the data set was notably high (0.829), which is above the acceptable level of 0.50. The value for Bartlett's test of Sphericity was recorded 2813.533 at .000 level of significance with degrees of freedom 861, inferring that variables are related to each other. The questionnaire included 53 items representing independent & dependent variables and EFA was run with Varimax rotation on these items. The criterion to select the items for the main study was laid down (Hair, Celsi, Ortinau & Bush, 2008); only those items with factor loading greater than or equal to 0.50 and Eigenvalue greater than 1 were selected. As such the EFA brought about the extraction of 11

independent factors and 1 dependent factor (Refer Table 3).

Measurement Model

Confirmatory Factor Analysis was utilized to assure the passable level of model fitness as well as construct validity, reliability and the outcomes specified an acceptable data fit for the model. The results showed that: Chi-square =1009.449/295= 3.42, with degree of freedom at probability level = .000(P < 0.05), GFI = .823, AGFI = 0.817, NFI = 0.851 (Joreskog & Sorborm, 1989), CFI = 0.898 (Hu & Bentler, 1999), RMSEA = 0.598, and RMR = 0.032 (Browne & Cudeck, 1993). In addition, validity and composite reliability (C.R.) were also assessed. The values of C.R. for all

constructs are above the minimum acceptance level of 0.60 (Bagozzi & Yi, 1988) (See Table 2). The estimations of composite reliability for all develops are over the base acknowledgment level of 0.60 which thereby signifies the C.R. of the scale. In order to determine the validity of the scale, the Values of AVE (average variance extracted) were used. All the estimations of AVE were over the base limit level of 0.50 which affirms convergent validity for the constructs (Fornell & Larcker, 1981) (Refer Table 2).

Table *2. Fornell and Larcker Criteria*

	CR	AVE	CUST.	COMP.	SUP.	MSA.	PUB.	FA.	PLC.	EC.	SCC.	TC.	ENVFC.	PRF.	PSED.
CUST.	0.799	0.580	**0.762**												
COMP.	0.977	0.861	-0.007	**0.928**											
SUP.	0.926	0.685	0.105	0.130	**0.827**										
MSA.	0.938	0.755	0.000	0.153	-0.054	**0.869**									
PUB.	0.978	0.916	-0.082	0.070	-0.004	-0.001	**0.957**								
FA.	0.921	0.707	0.025	0.067	0.091	0.027	0.175	**0.841**							
PLC.	0.975	0.907	-0.012	0.147	-0.129	-0.099	0.246	0.039	**0.953**						
EC.	0.967	0.879	0.316	-0.102	-0.078	-0.228	0.120	-0.019	0.033	**0.937**					
SCC.	0.948	0.822	0.157	-0.016	0.245	-0.057	-0.015	0.071	-0.034	0.025	**0.907**				
TC.	0.923	0.752	-0.103	-0.008	-0.500	-0.043	-0.137	-0.116	0.071	0.048	-0.377	**0.867**			
ENVFC.	0.860	0.556	-0.164	0.001	-0.076	0.306	0.074	-0.014	0.078	0.008	-0.356	0.034	**0.746**		
PRF.	0.889	0.669	0.276	0.192	-0.115	-0.016	0.097	0.222	0.084	0.134	0.072	0.144	-0.004	**0.818**	
PSED.	0.896	0.684	0.003	0.229	-0.188	0.044	0.118	0.179	-0.057	0.166	-0.023	0.146	0.046	0.376	**0.827**

After confirmatory factor analysis, we tested the relationship between the study variables using structural equation modeling (SEM). The parameters of the model exhibited the best fit between the theoretical model and the data of the study.

Before proceeding for final analysis, we assessed the discriminant validity using Fornell & Larcker criteria (Fornell & Larcker, 1981). Our results meet the criteria in a sense that the square root of average variance extracted for all the constructs is

greater than the corresponding row and column correlation values.

Test of hypotheses

The hypotheses testing was done through structural equation modeling. The structural model test (See Table3) exhibited a good fit (Carmines & McIver, 1981; Hu & Bentler, 1999). Also, the goodness and badness measures of fit indicated a good fit. The TLI and CFI estimates were greater than the threshold of 0.95 (See Table3) signifying a good fit (Bentler, 1990Other indices like RMSEA and RMR values 0.051 and 0.042, respectively, also supported the fit between the hypothesized model and the data of the study (Byrne, 2013). Thus, the structural model reveals desirable psychometric properties.

Table 3: Results of structural model test

Model	CMIN/df	p	RMSEA	SRMR	TLI	CFI
Overall Structural Model	3.74	.000	0.067	0.043	0.886	0.864
Note: RMSEA - Root mean square of approximation; SRMR - standardized root mean residual; TLI - Tucker–Lewis index; CFI - comparative fit index. P < 0.001						

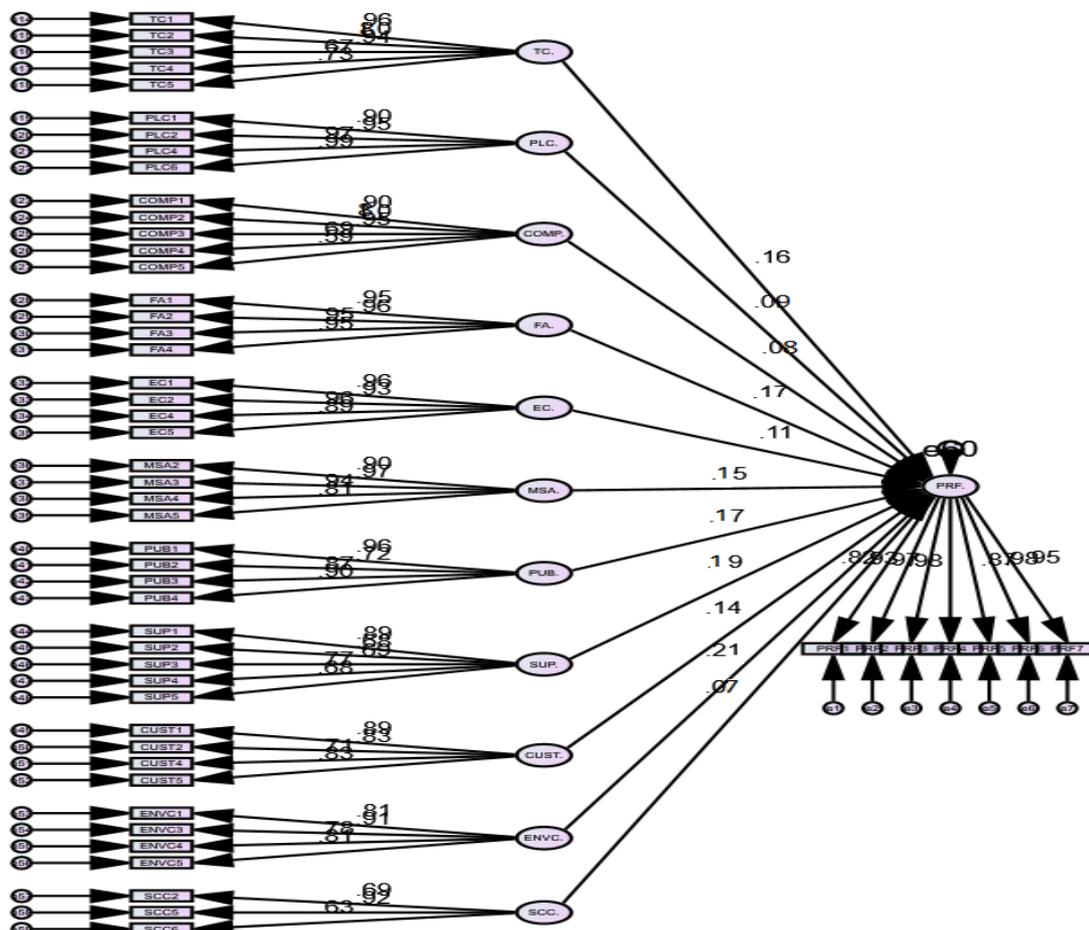The results exhibited support for all the hypotheses (See Table 4)

Fig 2. Structural model

Table 4: Model paths

Hypotheses	From	To	Standardized Coefficient(β)	Result
H01-1, 1	CUST.	Entrepreneurial Performance	0.14	Not Supported
H01-1, 2	COMPT	Entrepreneurial Performance	0.08	Not Supported
H01-1, 3	SUP	Entrepreneurial Performance	0.19	Not Supported
H01-1, 4	MSA	Entrepreneurial Performance	0.15	Not Supported
H01-1, 5	PUB	Entrepreneurial Performance	0.17	Not Supported
H01-1, 6	FA	Entrepreneurial Performance	0.17	Not Supported
H01-2, 1	PLC	Entrepreneurial Performance	0.09	Not Supported
H01-2, 2	EC	Entrepreneurial Performance	0.11	Not Supported
H01-2, 3	SCC	Entrepreneurial Performance	0.07	Not Supported
H01-2, 4	TC	Entrepreneurial Performance	0.16	Not Supported
H01-2, 5	ENVC	Entrepreneurial Performance	0.21	Not Supported

The structural model revealed that all the identified variables have significant and positive influence on the performance of the MSMSEs. Therefore, all the null hypotheses stand rejected.

Conclusion

A number of canny outcomes can be abridged from every hypothesis tested in this study. In the proposed model, eleven "independent variables" and one "Dependent variable" were used to test the proposed hypotheses relationship. The subsequent section presents a comprehensive argument on these outcomes.

The aim of this study was to determine the impact of various business environment challenges on the performance of the MSMEs in the J&K. For evaluation of the proposed theoretical model, a total of 11 broad hypotheses were formulated in order to analyze the relationship between the constructs of the proposed theoretical model. All the assumptions have been proven empirically.

To address the objectives of the study, eleven factors were used in the empirical analysis to determine their impact on the performance of the MSMEs operating in the UT of J&K. The study results showed that both micro and macro environmental factors significantly influence the performance MSMEs. The study results indicate that the MSMEs cannot afford to ignore their customers and competitors. The empirical results identified that all the eleven factors influence the performance of the MSMEs to a greater extent: Customers, Competitors, Suppliers, Marketing intermediaries, Public, Financial Agencies, Political-Legal Challenges, Economic Challenges, Environmental Challenges, Socio-Cultural Challenges, and Technological Challenges were found to have a positive and significant impact on the performance of the MSMEs. Therefore, it is recommended that the entrepreneurs scan their macro environment constantly and develop their strategies from time to time in order to come over the effect of the macro environment factors.

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