Business Environment Challenges And Their Impact On Business Performance: A Study Of Msmes In J&K

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Abstract

Environmental challenges have been a significant concern for entrepreneurs due to their impact on assignment implementation, organization, performance, and a region's or country's overall socio-economic progress. There is a limited understanding of how entrepreneurs manage their operations under a similar climate structure with varying levels of uncertainty. Building upon existing literature, this study conceptualizes environmental challenges, including both macro and micro challenges, and investigates how these vulnerabilities affect the business performance of MSMEs.. Using convenience sampling, a questionnaire was used to collect primary data from 475 owners and managers of MSMEs registered in Industrial Estates in Jammu and Srinagar. The study findings indicated a significant influence of both macro and micro challenges on the MSMEs' market direction and business performance. The study suggests that MSMEs should be motivated to create a competitive environment by expanding their markets, introducing new products, and meeting the needs of customer preferences. Overall, the findings highlight that both macro and micro challenges have a combined effect on the growth and sustainability of MSMEs. This research significantly contributes to the development of advanced literature and guides managers and researchers to encourage creativity in their affiliations.

Keywords: Business Environment, MSMEs, Micro Environment, Macro Environment, J&K.

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 influencing capital formation for utilization in generating income and employment (Cherunilam, 2021). As such, 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 is contingent upon the appropriate utilization of entrepreneurial skills (Singh et al., 2021). Nonetheless, entrepreneurs may not always come from an industrial background with established institutions to support and encourage them. They are the ones who transform ideas into economic prospects through innovation, which is recognized as a critical driver of competitiveness in today's globalizing

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)" as cited by Navarathne (2015). 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 and outside, the entrepreneur faces multiple uncertainties in 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 vital since they confines the business people from making pioneering moves like a passage into a novel market, creating a new product, and so forth (McMullen & Shepherd, 2006) and interferes with the development of an enterprise.

According to Rizal et al. (2017), micro, small, and medium enterprises (MSMEs) have become a thriving and dynamic sector of the economy globally. They are significant contributors to the economy in terms of manufacturing output, employment opportunities, and exports, as highlighted by Semegn and Bishnoi (2021). MSMEs concentrate on smaller markets, have lower investment requirements, and promote efficient resource mobilization and equitable distribution of national income. MSMEs not only contribute, but they also have a significant impact on providing extensive employment opportunities at lower capital costs than larger industries, and they promote industrialization in rural and underdeveloped regions, as noted by Lahiri et al. (2012). This helps reduce regional imbalances, ensuring a more equitable distribution of national income and wealth, as Singh et al. (2021) pointed out. MSMEs have held a crucial place in the Indian planning framework from the start, for both economic and ideological reasons, according to Mukherjee (2018). The Micro, Small and Medium Enterprises Development Act (2006) brought about policy reforms for small-scale industries. 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.

Various factors characterize the current business landscape, such as global challenges, technological advancements, a revolution in quality services, and a commitment to corporate social responsibility. These factors are compelling leaders to reconsider and revise their

approaches to managing their various business obligations. 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 (Hassan et al., 2021, 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 scholar's best learning, only a single attempt has been undertaken as far as the union territory of J&K is concerned. The current study aims to fill the gaps in the existing literature and overcome the limitations of previous research. Furthermore, the study seeks to evaluate how both macro and micro environmental factors affect the performance of MSMEs.

Review of the Literature

All the affiliations of diverse nature appreciate various kinds of activities; some are involved in producing goods while some render services and the conditions inside which they work are not quite the same. Fundamentally every association, whether large or small in size, operating within the country or globally, is worried about converting 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. Contrary to expectations, the framework operates in a unique context and interacts with factors in this context in distinctive ways, continuously influencing and being influenced by them (Guo et al., 2017). In recent years, India's industrial situation 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 and 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 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, social, political, genuine, mechanical components, etc.

Business environment challenges and Entrepreneurial performance

The environment has been regarded as a contingency factor in organizational and management studies. Traditionally, the environment is perceived as the same as the organizational environment, which is conceptual and independent of time, and has limited connection with the natural environment, as per Shrivastava (1994). The theories of organizations during the 1960s centered more on the challenges that the external environment presented for the survival of organizations than the environmental issues that these organizations created. 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 and external environment, it generally 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). According to Amit and Schoemaker (1993), resources refer to the assets that a company owns and controls, consisting of tangible components such as financial and physical resources and intangible components such as knowledge and skills. Inside the RBV structure, the internationalization choices rely upon the abundant resources of the firm to enter another market (Kamakura et al., 2012). While as the contingency theory suggests that there is no universal best way for companies to operate, as the specific environmental circumstances will dictate unique requirements for business owners/managers.

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.

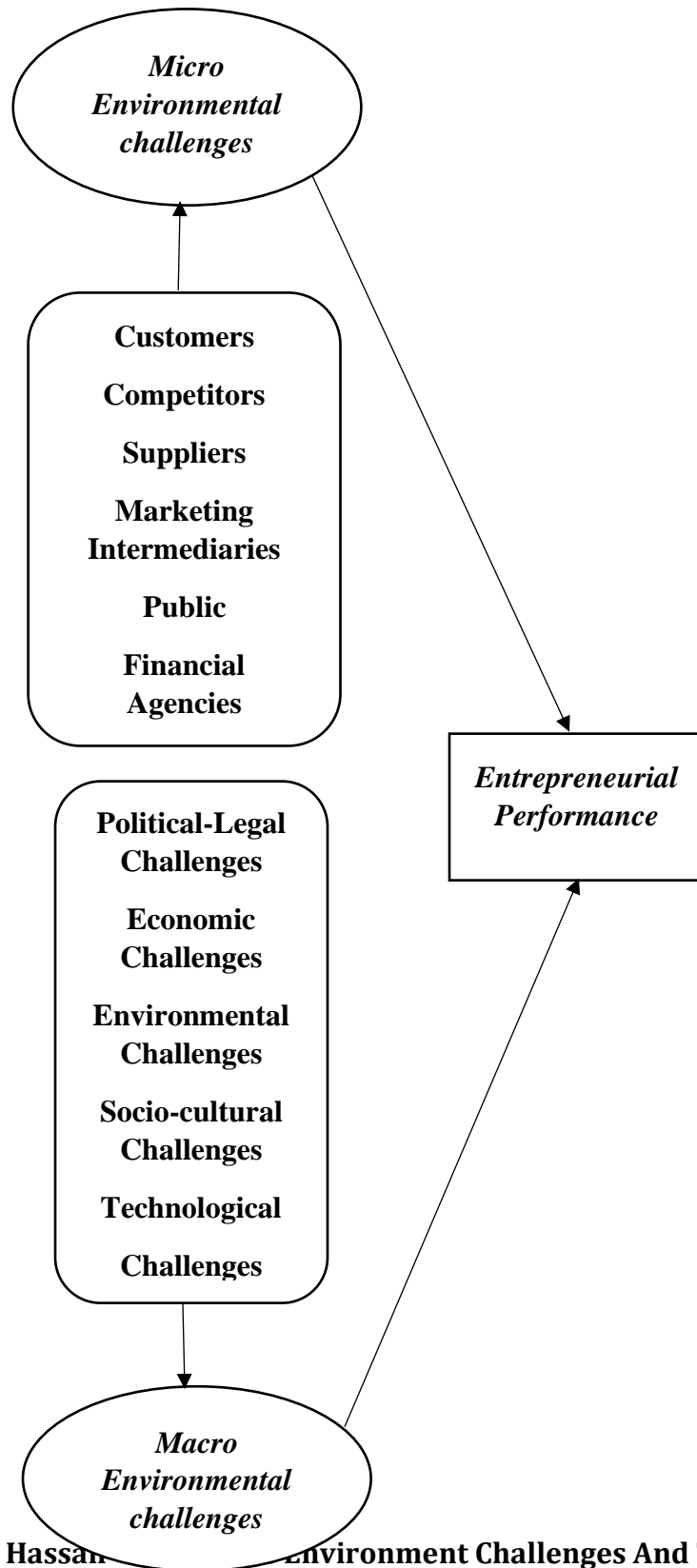**H$_{01}$-2, 3:** There is no significant impact of Socio-Cultural Challenges on the Performance of the MSMEs.

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 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)

Micro Environmental challenges

Customers

Competitors

Suppliers

Marketing Intermediaries

Public

Financial Agencies

Political-Legal Challenges

Economic Challenges

Environmental Challenges

Socio-cultural Challenges

Technological Challenges

Macro Environmental challenges

Entrepreneurial Performance

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 enterprises from both divisions of the UT of J&K, i.e. Kashmir division as well as the Jammu divisions. It is worth mentioning over here that the investigator reached the respondents physically. Respondents were first illuminated about this investigation's purpose and were asked whether they are registered with the directorate of industries of commerce Jammu/ Kashmir. 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 research carried by diverse researchers representing eleven independent factors (Andotra & Gupta (2016), Bodlaj, & Čater, (2019), Basu and Adak (2019), Engelen, Kube, Schmidt, & Flatten, (2014), an 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 entrepreneurship and strategic management, and their opinion was sought (Tull & Hawkins, 1994). 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 honoured, only 475 were deemed 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.

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**
Upto 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. A value of 0.50 is considered an acknowledgement 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 of 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 modelling (SEM). The parameters of the model exhibited the best fit between the theoretical model and the data of the study. Before proceeding with the final analysis, we assessed the discriminant validity using Fornell & Larcker criteria (Fornell & Larcker, 1981). Our results meet the criteria in the sense that the square root of the 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 modelling. The structural model test (See Table 3) 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)
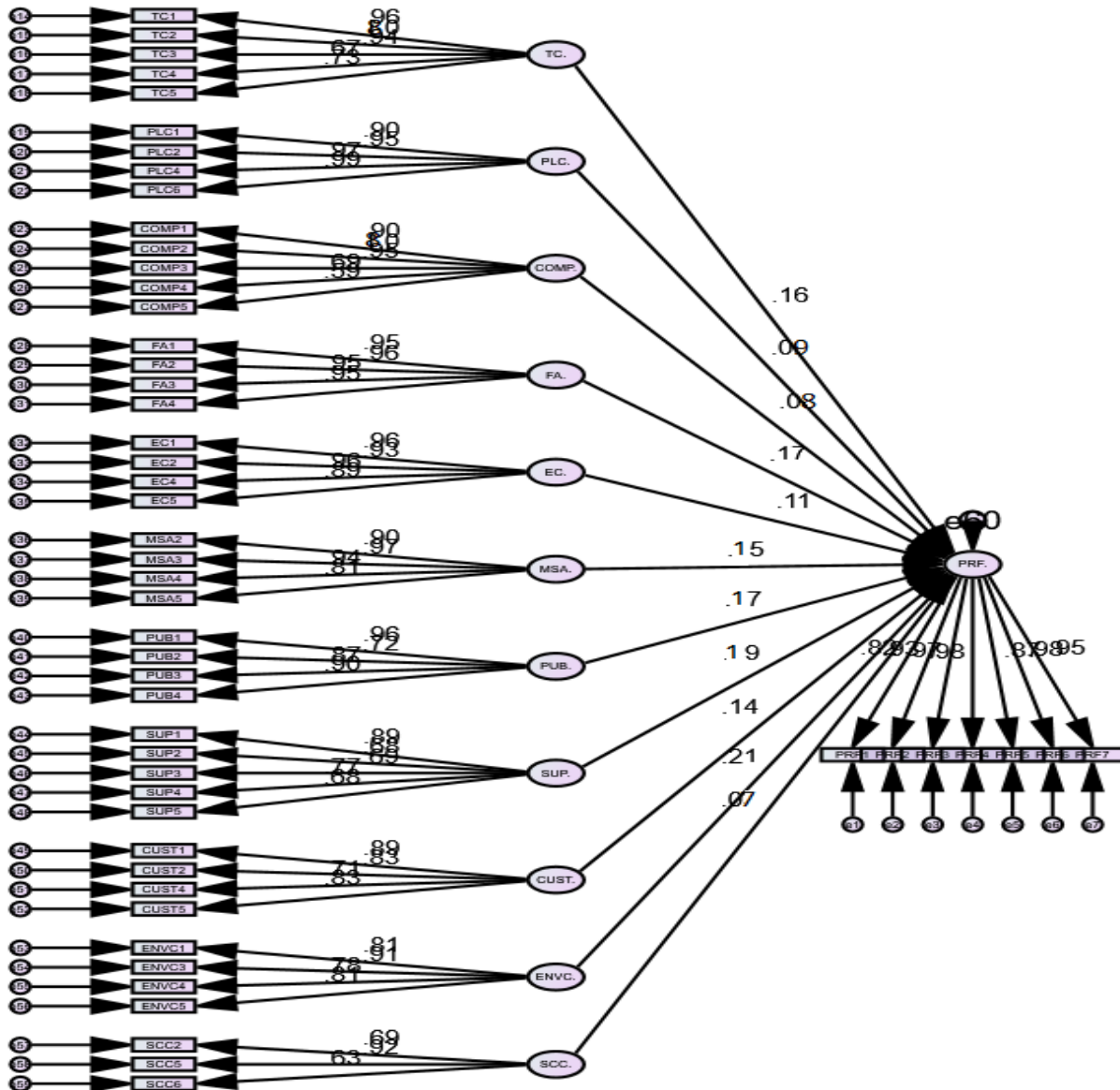
Fig 2. Structural model

Table 4: Model paths

Hypotheses	From	To	Standardized Coefficient(β)	Result
H_{01}-1, 1	CUST.	Entrepreneurial Performance	0.14	**Not Supported**
H_{01}-1, 2	COMPT	Entrepreneurial Performance	0.08	**Not Supported**
H_{01}-1, 3	SUP	Entrepreneurial Performance	0.19	**Not Supported**
H_{01}-1, 4	MSA	Entrepreneurial Performance	0.15	**Not Supported**
H_{01}-1, 5	PUB	Entrepreneurial Performance	0.17	**Not Supported**
H_{01}-1, 6	FA	Entrepreneurial Performance	0.17	**Not Supported**
H_{01}-2, 1	PLC	Entrepreneurial Performance	0.09	**Not Supported**
H_{01}-2, 2	EC	Entrepreneurial Performance	0.11	**Not Supported**
H_{01}-2, 3	SCC	Entrepreneurial Performance	0.07	**Not Supported**
H_{01}-2, 4	TC	Entrepreneurial Performance	0.16	**Not Supported**
H_{01}-2, 5	ENVC	Entrepreneurial Performance	0.21	**Not Supported**

The structural model revealed that all the identified variables significantly and positively influence the performance of the MSMEs. 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.

This study aimed 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 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 of MSMEs. The empirical results identified that all 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 entrepreneurs must scan their macro environment constantly and develop their strategies from time to time to overcome the effect of the macro environment factors. The study also recommends that MSMEs be actuated to establish a severe climate by broadening their markets, adding new items and obliging the necessities of arrangements of clients.

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