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Environmental and Psychological Challenges Facing Entrepreneurial Development in Transitional Economies

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Abstract
In the former planned economies, a major result of the economic reform programs has been the resurgence of private entrepreneurship. As these countries have struggled to make the transition to a market-based economy over the past decade, the environment has played an important structural role in entrepreneurial development. However, from a psychological perspective, the environmental structural context affects human action through cognitive processes such as self-regulation. Thus, we first identify and analyze the effect of the political, economic, legal, and cultural environment on the development of entrepreneurship in transitional economies, mainly using the former Soviet Union and particularly the Republic of Kazakhstan as an example. We then examine the role that social cognitive variables such as self-efficacy may play in the relationship between this external environment and entrepreneurial development.

The Eastern European countries in general and the former Soviet Union republics of Central Asia in particular have experienced drastic political, economic, and social changes in the transition from a planned to a market economy. However, few former Soviet republics have carried out such far-reaching change in so short a time as Kazakhstan, which has attracted substantial amounts of international investment because of its rich natural resources. As a result, Kazakhstan has gone further than most of the countries in that region in introducing reforms to try to stabilize its economy (Beddoes, 1998; Safari, 1997; Taylor, 1997). A by-product of these initiatives, is a new, but struggling, entrepreneurial sector.

Johnson and Loveman (1995) found that the formation of entrepreneurial startup ventures is the most effective way to relocate labor and capital in a transitionary economy. However, these researchers also found difficulties with increasing efficiency of privatized former state assets and demonopolization. This is because, in most transformational economies, the capital stock of the old state enterprises often turned out to be worth less than anticipated. Even the sheer number of state firms that have to be privatized poses too great a challenge for the vulnerable institutional infrastructure of these countries (Peng & Heath, 1996).

At the same time, entrepreneurial development in transitional economies, with the exception of the Central European countries and of course China, has been held back by a combination of factors such as resistance to change in the prevailing bureaucratic-administrative business culture, underdeveloped legal and financial infrastructure, considerable administrative discretion and corruption in different government offices, restrictive taxation, high interest rates, inflation, and lack of management expertise and skills (Connor, 1991; Kaser, 1995; Kornai, 1995). Thus, the success of former Soviet and especially Central Asian entrepreneurs have been and are continuing to be shaped by these environmental factors.

There are only a few empirical studies on the history of the entrepreneurship in imperial and Soviet Russia that have relevance to the entrepreneurial development in transformational economies (Guroff & Castensen, 1983; Wilken, 1979). This is important background information because the traditional Russian culture was one of the key factors shaping the business culture in the rest of the former Soviet Union. In fact, Armstrong (1983) noted that the values and perceptions of the dominant Russian ethnic elite considering the dynamics of entrepreneurial activity generalized among non-Russians in the Soviet Union. There have been a number of studies that have examined recent changes in Russian business culture and management (Lawrence & Vlachoutsicos, 1990; Luthans, Welsh, & Rosenkrantz, 1993; Puffer, 1994; Welsh, Luthans, & Sommer, 1993), but, to date, there have been only a very few studies examining Russian entrepreneurship (Caveman, Welsh, & Bushmarin, 1995; Connor, 1991; McCarthy, Puffer, & Shekshin, 1993). Moreover, except one study comparing entrepreneurship in Russia with the West (Caveman, Welsh, & Bushmarin, 1995), there are no published studies we are aware of that examine entrepreneurship in other former Soviet Union countries such as in Central Asia. Thus, there is clearly a growing need for comprehensive analysis of entrepreneurship in Central Asia.

This article has two main purposes. First, we identify and describe the environmental factors that have major impact on the development of entrepreneurial new ventures in transitional economies, with emphasis on Central Asia and in particular Kazakhstan. We recognize that these countries are not the same as other transitional economies, but believe that they can represent an example for the analysis of the role that environment can play in entrepreneurial development.

Second, we analyze the social cognitive variables that may mediate the impact of the environmental forces on entrepreneurial development and suggest new directions for future research and practice.

Environment and Entrepreneurial Development

The environment is an important initial factor in influencing the strategy, structure, and processes of any organized endeavor, including entrepreneurial startups. Given its immediate and salient influence, it follows that the study of entrepreneurship should logically start with the analysis of the external environment. In particular, Aldrich & Wiedenmayer (1993) suggest that the sociopolitical environment may be so powerful to create or destroy entrepreneurship in a country. This importance of the environment is explained by successful entrepreneurial ventures better "fit" their environments, maximizing the benefits of exchange with them (Naman & Slevin, 1993).

Covin & Slevin (1989) also consider environmental factors to be a reasonable starting point for any analysis of entrepreneurship. They argue that external variables moderate the relationship between entrepreneurial posture and firm performance. They also point out some major limitations of the environmental variables in entrepreneurship models. Covin & Slevin (1989) state that the external environment can be operationally defined in terms of forces or elements that are too numerous to incorporate in a specific sense into a single model. The result is an entrepreneurial model that is not as prescriptive as it may be.

Bloodgood, Sapienza, & Carsrud (1995) specifically identify some of the environmental factors potentially affecting entrepreneurial behavior (family and support systems, financing sources, employees, customers, suppliers, local communities, government agencies, and the cultural, political, and economic environment). According to Stinchcombe (1965), environmental forces probably have their greatest effect when a new form of organization is emerging (i.e., an entrepreneurial start-up) constraining and imprinting the new form in distinctive ways. Certain types of infrastructure such as those found in centrally planned economies might actually inhibit entrepreneurship or even render it an illegal activity. Interestingly, some forms of entrepreneurial activities, despite all the obstacles, have developed in some sectors of formerly planned economies where the government had fewer restrictions (e.g., small-scale farming).

Recent changes in the environmental conditions of transforming countries have made entrepreneurial behaviors legitimate and thus promoted the founding of new ventures. While the transition from a planned economy to a market -based economy represents a major paradigm shift, the formal constraints embodied in the old political, legal, and administrative environment unfortunately still dominate the current environment for entrepreneurial development.

Social Context for Entrepreneurship in Central Asia

Political and Economic Environment

The major feature of planned economies is the comprehensive use of central economic planning and top-down bureaucratic control. In other words, the key characteristics of the Russian communist system were the dominant position of the state (the party) and the preponderance of bureaucratic coordination. This structure in essence represented a vertical state (party) control over enterprises and their resources. As Gerschenkron (1962) has shown many years ago, the lower the economic development of a country relative to the more advanced nations, the greater the tendency for the state to dominate the economy. As stated above, the state's control was of major importance in shaping the nature of business in the former Soviet Union. However, after the break-up of the Soviet Union, the move to a market economy has changed the political and economic landscape in terms of the void in established and stable political power and authority.

Conflict and Carryover

The reminiscing practices of the past such as the dominance of personal over institutional control in politics and the lack of organized democratic forces, made the reconstruction of the political and economic environment at best contradictory and inconsistent, and at worst chaotic and destructive. Clearly, the nature of the reforms in former communist countries have not yet managed to address the fundamental conflict between the traditional administrative, bureaucratic structures and private ownership. The structural heritage of socialism is in many ways fundamentally incompatible with new market changes, which makes reform become a partial and lengthy process. For example, despite new forms of economic activities now allowed by state authorities, the postcommunist governments (many of which consists of the same people and same thinking, only with changed rhetoric) still have countless administrative and ideological instruments to control not only the state, but also the private sector. In general, methods of control have not really weakened since the communist period (Kornai, 1995). Under Russian communism, all types of private economic activity were considered to be illegal, whereas in the postcommunist period the absence of well-designed policies and infrastructure to support the private sector often forces fledgling entrepreneurs to quit their business early on.

The experiences of former Soviet countries demonstrate that during the initial stages of the transition to a market economy, entrepreneurship as source of economic growth is not only unsupported, but it is largely neglected and even suppressed. Bureaucratic structures and regional and sectoral interest groups unfortunately remain intact from the old days. This is making it even more difficult to restructure the economy and transform the economic system. The idea of controlled distribution and redistribution of state resources still dominates the governments in former Soviet countries, with little attention paid to the private sector in general and entrepreneurship in particular.

Stifling Entrepreneurial Development

Entrepreneurial activity in general carries a high risk of failure, and existing transitionary government bureaucracies are not providing the necessary incentives for people to take such risks. Specifically, the transitionary governments are directly or indirectly responsible for: (1) the absence of a competitive environment and a coherent strategy to benefit the entrepreneurial sector, (2) contradictory laws and regulations and numerous licensing requirements, (3) administrative discretion, (4) the repressive state of taxation, and (5) the prohibitive high-interest, short-term loans. For example, early on in the transformation, a survey of 149 new ventures in Kazakhstan found that the primary problems entrepreneurs indicated were all government-related: taxation, lack of legal guarantees, red tape, the nonconvertible currency, the breakup of CIS, and lack of clarity in government policy (Kazakhstanskaya Pravda, 1993). This inherent conflict and carryover from the old regime inhibits a political and economic environment necessary for successful entrepreneurial development.

Legal Environment

The very essence of entrepreneurship under a market economy is the autonomy or freedom to conduct business. Entrepreneurs need to have discretion over resources for the purpose of introducing new ideas that are limited only by the ability to convince holders of capital that by investing in a venture they can expect a higher return than elsewhere. Central to this entrepreneurial process is wide dispersion of the ownership of capital by investors seeking to put it to the most profitable use. However, if the ownership of the society's capital is centralized, the ensuing bureaucratization saps entrepreneurship of all of its vitality. The need to reform these bureaucratic controls and encourage private ownership and entrepreneurship in the new market economies requires fundamental changes in the institutional legal framework.

Commercial Laws

An adequate and efficient system of commercial laws has yet to be developed in transitional economies. The necessary legal framework of a market economy such as a well-defined property rights are still lacking in these economies (Peng & Heath, 1996). For example, the World Bank has reported four major problems of Kazakh business law: (1) significant gaps in the development of contract law, secured transactions, and intellectual property law, (2) a number of new laws fall short of the requirements of a market economy, (3) laws are not mutually consistent, (4) the dichotomy between the law and its implementation where judicial and enforcement reforms have not yet been agreed on. Without a legal regulatory framework, both efficiency and equity are adversely affected and crime and corruption are encouraged. Under these circumstances, potential entrepreneurs may believe that the new system is not on their side because entrepreneurs are not protected form the powerful old party holdovers and new criminal outfits. Not surprisingly, international investors do not believe that they have a sufficient degree of protection and legal stability to warrant their involvement and risk their capital. *Property Rights* Difficulties with property rights lead to high costs of conducting business. For example, laws on ownership adopted in the former Soviet countries do not specifically address property rights. This creates a risk of property loss that is a substantial entry barrier for prospective entrepreneurs and potential outside investors in new ventures. The major stumbling blocks are uncertainty as to the actual owners of property and what transactions are legal. There are a wide variety of restrictions that render much private activity clearly illegal, and little hope of state enforcement of private contracts. Together, these obstacles make it difficult, if not impossible, to enter enforceable, legally binding business agreements.

Personal Discretion

Another barrier for entrepreneurial development is the vast amount of discretion ("rule by man" rather than "rule by law") that is still available to political leaders and bureaucratic administrators (Olson, 1992). Arbitrary enforcement and erratic administration of laws inherited from the past act as barriers to new venture investment and entrepreneurial activity because government departments are poorly coordinated. Very often unclear legal statements are used by bureaucrats at every level to extort a payment by a potential entrepreneur. Each one tries to collect their own fees, which have become a significant source of income for very poorly paid government employees. The more complex the procedure of registration or licensing new ventures, the easier it is for numerous governmental bureaucrats to abuse their power and impose their own discretion and complications for a new entrepreneurial venture.

The political and administrative discretion not only invites corruption, but also generates needless uncertainty, makes individual planning by potential entrepreneurs more difficult, and leaves individual and property rights less secure. According to a Russian study, in the spring of 1994 all levels of taxation, from local to federal, accounted for 80 to 90% of reported profits from private businesses (Nelson & Kuzes, 1995). Taxation bodies follow mainly not a law, but self-serving interpretations of instructions, keeping in mind maximum profit for the budget. The tax police in Kazakhstan, aware of what is happening in Russia, is interested in maximizing "the extortion" of profits and imposing penalties, because the rewards of tax officers depend on the amount "returned" to the state fund. As reported in the Central Asia Monitor, (1995, p. 15), "The arbitrariness of officials is aggravated by an inefficient court system, which is corrupt and depends on local executives. It is useless to put a state body on trial (government, custom, tax inspection) because, typically, the court decision would be to maintain the status quo."

Fast Pace of Change

Government regulations concerning private economic activity are changing at a dizzying pace. Legal agreements today may be illegal or heavily taxed tomorrow. It is nearly impossible to even discern today's laws, regulations, and taxes, for they are often contradictory. All of this uncertainty over ownership and what transactions are legal exacts a heavy toll on entrepreneurial development.

The International Tax and Investment Center, a Washington-based, nonprofit organization conducted a survey at the request of the Kazakh government to research and advise how Kazakhstan could attract private investment. The organization surveyed major Western companies to determine reforms the Kazakh government could make in order to create an investor-friendly situation. Although in July 1995 Kazakhstan enacted its first tax code, which was called very "pro-investment," international investors noted that the investment climate, although promising, is also highly volatile. Companies listed various barriers to investment such as (1) bureaucracy, (2) financial risk, (3) the tax and fiscal regime of the country, (4) the legal infrastructure and pace of legal change, and (5) exchange controls (BNA International Business & Finance Daily, 1996).

An Old Elite as a New Entrepreneurial Class

Networking in the organizational behavior field means knowing the right people, making connections to get something accomplished, and working together with people from within a system to reach common objectives. In the strategy literature, networking is defined as a firm's effort to establish long-term relationships with other firms to obtain and sustain a competitive advantage. Firms form loosely structured networks without clear governance mechanisms to coordinate activities, pool resources, and pursue joint growth (Jarillo, 1989).

In the absence of an adequate legal framework, financial markets, and political stability, informal constraints play a larger role in regulating economic exchanges in transitionary economies (North, 1990). Networking and personal trust become more important during the transition because they offer some consistency and predictability in times of fundamental change in the formal institutional frameworks. Engaging in extensive networking activities based on personal contacts and informal agreements through a great deal of trust building, gift giving, and/or bribery "stabilizes" economic activities in a volatile and uncertain environment.

The analyses of contemporary former Soviet societies have led many Western Sovietologists to see them all as being essentially divided into two quite separate social groups: the privileged bureaucracy (the ruling class or the *nomenklatura*) and the people (civil society) (Dembinski, 1991). In the former Soviet Union, the old party elite, the nomenklatura, was extraordinarily strong, whereas civil society was weak and rules of law were all but absent. Today, because of a strong bureaucratic governance process, competition and the right for free entry is very difficult for nonmembers of the former ruling elite.

The nomenklatura made up of former high ranking party bosses, directors of former state enterprises, and high-ranking members of the government and its ministries still have considerable power. In the struggle for profit opportunities, in-group members with efficient social structures for the enforcement of certain norms of behavior have a distinct competitive advantage over out-group members in appropriating and maintaining entrepreneurial roles. Thus, nomenklatura networks became a substitute for an adequate legal system and helped facilitate the old ruling class into a powerful position in entrepreneurial development. In fact, Johnson and Loveman (1995) have found that about a third of Polish entrepreneurs formerly held a high-level position in the state sector. The number seems to be higher in Central Asia.

Financial Infrastructure and Criminalization of the Economy

An unstable political structure and the absence of an adequate legal framework have resulted in the underdevelopment of financial markets, which are recognized as a necessary precondition for successful privatization and entrepreneurial development. New small private businesses lack the legitimacy and necessary political backing to enjoy reliable access to capital. They must depend on private - and often informal or criminal - sources of credit, which are limited and are only available at substantially higher interest rates. The lender has almost no legal protection or legal means of enforcing repayment of a loan. The results of a 1996 survey of 1628 small businesses in Russia showed that more than 70% had experienced financial problems in the start-up, but only half of the businesses were able to obtain bank loans (Veubas & Marzeeva, 1996). Russian banks ask 100–150% interest for ruble loans and 30% for hard currency (mainly U.S. dollars) loans, which is prohibitive for most entrepreneurs. Thus, according to the survey about one-fifth of small businesses in Moscow use private nonbank loans (Veubas & Marzeeva, 1996). The creation of a legal framework for private lending would help to effectively use available savings of the population and substantially curb the “black market” financial transactions.

In just about any economic system, funds to support new businesses typically require financing from outside sources as well as the use of personal funds. In former Soviet countries, the number of people capable of providing even partial funding for new ventures from their own savings is limited to the members of the ruling elite of these countries. In Kazakhstan, for example, in 1991 an average family had savings of an equivalent to $50 at the “black market” rate. These unpretentious savings were almost completely lost in 1991–1993, as a result of hyperinflation that occurred in all the former Soviet republics.

In a socialist redistributed economy, state banks and official sources of credit generally offer loans more on the basis of political rather than economic considerations. The legitimacy and legality of entrepreneurial development becomes a privilege that must be bought by illegal bribes and expensive forms of compliance (Merrifield, 1991). Corruption and organized crime as alternative systems of protection to contractual agreements became more explicit during the period of transition to a market economy. Very often a new business has to pay to both the government bureaucracy and the "underground forces" for permission to enter the market and to stay in business. There are estimates that 70 to 80% of private businesses and commercial banks in Russia make payoffs of 10 to 20% of their turnover to organized crime (Nelson & Kuzes, 1995; Anderson, 1995). Therefore, economic costs of doing business are so high that it is almost impossible to hope for entrepreneurial development without a change in government policy and enforcement of curbing crime and corruption.

The Institute of Strategic Analysis and Development of Entrepreneurship in Russia and recent issues of *The Economist* report that a substantial percentage of GDP is being produced by the underground economy. Because bank financing is not available for this sector of the economy, entrepreneurs use underground banks that charge 10% per month interest and 30–40% per month for hard currency loans. The role of transactions without payment of taxes is increasing. In 1994, in Russia 32.6% of transactions were hidden from taxation, whereas in 1996, 40.6% were (Veubas & Marzeeva, 1996). In Kazakhstan some estimates indicate that 500 thousand to one million people are involved in the illegal operations of the "shadow economy." These transactions are mostly found in cash trade sectors such as retail stores, restaurants, and various services. According to the Ministry of the Interior of Kyrgyzstan, black market turnover increased from 21.5 million some (the Kyrgyz currency) in 1993 to 750 million some in 1995. The President of the country declared in July 1995 that "merging of criminal structures with state power has occurred. The Mafia influences all decisions, including governmental ones, through the corrupt civil service" (Central Asia Monitor, 1996, p. 77).

In Kazakhstan, out of 31 billion, only 10 billion of Kazakh currency transactions goes through the banking system. The balance is in "shadow" businesses and in the hands of the population (Central Asia Monitor, 1995, p. 16).

Cultural Environment

Entrepreneurship did not enjoy a high standing in the social values of the Russian empire (Armstrong, 1983). The Russian imperial system placed a particularly strong emphasis on officially recognized rank, where the access to higher ranks was traditionally achieved by successful Russian Orthodox families. According to Armstrong (1983), only the upper guild of merchants had status in some ways comparable with that of noble landowners (as in most of Europe of that time). In popular culture, persons involved in commerce were held in low esteem. In addition, toward the end of the nineteenth century, there was considerable disdain among the Russian intellectuals for narrow-minded, mostly war, profiteers. During the socialist regime, the antientrepreneurial climate was formed by the excision of peasant entrepreneurship in the 1930s ("dekulakization"), the hierarchical division of labor and of centralized supply and procurement outside it, and the prohibition of almost all private economic activities.

For almost 50 years, the Soviet government provided its citizens with a comprehensive social safety net with universal access to health care, education, and employment. A whole array of goods and services (including housing and utilities) were provided either free of charge or at subsidized prices. The population has come to accept many features of this system as granted rights. Specific work culture was formed that linked expected employment security with a low level of effort, along with modest material expectations. One of the most distinctive features of Soviet culture was the emphasis on a nonsaving mentality. This is partly a result of a wasteful economy, soft budget constraints, and guaranteed employment and salary. What also did not help was the chronic inflation in the former Soviet Union, where people became conditioned to buy things (also because of constant shortages) rather than to save money. Current hyperinflation just amplifies these problems. In other words, like the political, economic, and legal environments, the cultural values of transitional economies are not necessarily supporting entrepreneurial development.

Social Cognition and Entrepreneurial Development

The difficult political, economic, legal, financial, criminal, and cultural environments facing entrepreneurs in transitional economies are fairly visible and relatively easy to recognize.

However, what is not as obvious, and what has not been given much attention in research or practice, is the psychological effect that can affect the relationship between the hostile environment and entrepreneurial development. We believe that social cognitive theory can provide needed psychological understanding of this relationship. The external environment facing entrepreneurs in transitional economies is a given and will continue to take a long time to improve. Instead of lamenting on the difficult challenges imposed by the environment, the time has come to determine and analyze what and how entrepreneurs can deal psychologically with this environment and turn threats into opportunities.

Social cognitive theory would state that, even though much of human action is rooted in a social context (Bandura, 1997; Stajkovic & Luthans, 1998a), the environment does not exert direct influence on human action (Stajkovic & Sommer, 2000). This environment–behavior relationship is mediated by the social cognitive variables which determine what parts of the environment will be perceptually selected, processed, and subsequently attended to in behavioral terms (Bandura, 1986). Thus, we propose that social cognitive theory can help explain and provide insights as to how cognitive processes can help cope with the hostile environment in entrepreneurial development. Specifically, social cognitive theory would postulate that entrepreneurial action is determined by the triadic process-oriented relationships between the environment, cognitive variables, and previous successful or unsuccessful entrepreneurial behaviors. Fig. 1 shows our model.

Major Premises

Social Cognition

The social part in social cognitive interpretations postulates that the transitionary entrepreneur's behavior is originated in and based on the environment (because no behavior exists in a vacuum) described in the first part of the article. However, the cognitive part specifies that

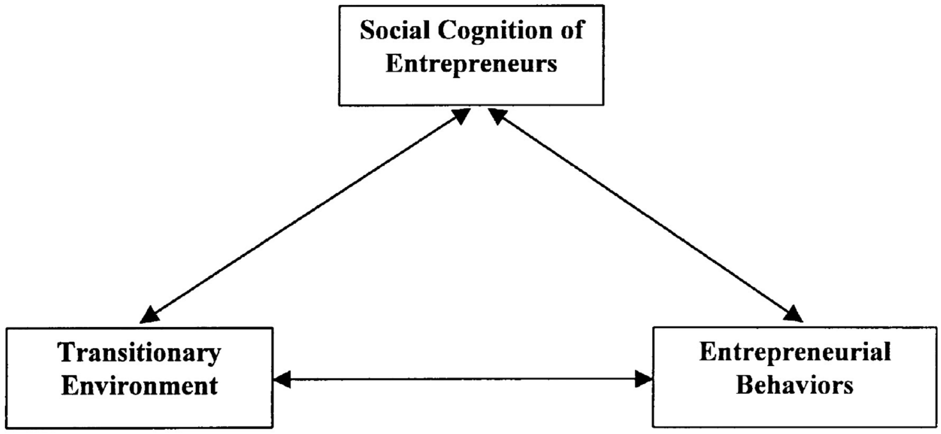

Fig. 1. Triadic Influences in Social Cognitive Theory Applied to Entrepreneurial Development in Transitional Economies.

although entrepreneurial action finds its roots in the external environment, each entrepreneur also cognitively processes what environmental variables to select, analyze, and pursue. Social cognitive theory would specify that each individual entrepreneur, no matter the circumstances, has unique ways of perceptual selection of environmental variables based on personal cognitive facilities. In other words, there will always be individual differences among entrepreneurs as to how they process and subsequently react to a hostile environment.

Triadic Relationship

The triadic relationships shown in Fig. 1 among the environment, social cognition, and previous successful or unsuccessful entrepreneurial behavior is based on the premise that all three factors influence each other simultaneously (Bandura, 1986; Stajkovic & Luthans, 1998b). However, this three way interaction is conceptualized as three two-way influences between any two factors (e.g., environment and social cognition) that affect each other bidirectionally. It should also be noted that the magnitude of the influences operates in an asymmetric manner whereby any one combination of the bidirectional influences may be stronger or weaker than the other two depending on different circumstances, entrepreneurs, and business ventures in question.

Cognitive Processes

For explanatory purposes, the theory proposed here also specifies the cognitive processes through which the triadic relationship is operationalized. Social cognitive theory states that cognitive interaction with an environment is achieved through the five processes of symbolic selectivity, vicarious learning, forethought, self-regulation, and self-reflection (Bandura, 1986; Stajkovic & Luthans, 1998b). These processes lead in a cognitive way to subsequent entrepreneurial self-regulation. In other words, entrepreneurs in transitionary economies are not just reacting automatically to their hostile environments. Instead, depending on their cognitive processing of their environment, they may act independent of the perceived environment in an autonomous, self-regulatory manner.

Symbolic selectivity refers to cognitive processes where the entrepreneur would internalize visual experiences (symbols) into cognitive models that serves as guides or motivators of future actions. Through forethought, entrepreneurs would cognitively examine the likely consequences of their future actions, plan courses of actions for the future, and set goals for themselves. Importantly, this human capacity to learn by observation would enable entrepreneurs to learn from other model entrepreneurs (e.g., in the West) without having to acquire model behaviors by risky trial and error.

The self-regulatory capability of transitionary entrepreneurs is based on the premise that entrepreneurial behavior is initiated and regulated by evaluative reactions to the discrepancy between self-set standards and entrepreneurial action. Finally, the transitionary entrepreneurs would use the self-reflective capability to think about and analyze their past experiences, through which they may generate new knowledge for the future. Perhaps the most important knowledge these entrepreneurs can derive from self-reflection is the personal judgment of their capabilities to deal effectively with the realities of their hostile environment they are currently faced with.

Self-efficacy

The Nature of the Construct

The above noted expectations of successfully coping with the environment, in spite of potential difficulties, and about being able to establish new ventures are referred to in social cognitive theory as self-efficacy beliefs. Such self-efficacy represents a personal judgment as to how strongly entrepreneurs believe that they can master the necessary cognitive, memory processing, and behavioral facilities to deal effectively with the environment and the specific entrepreneurial venture. We propose that self-efficacy is a major cognitive variable in the functioning of any entrepreneur (see also Boyd & Vozikis, 1994; Chandler & Jansen, 1992; Gartner, 1992; Krueger & Brazeal, 1994), but is especially relevant and important in transitionary economies. This is because self-efficacy is a key variable in determining if and how much effort the transitionary entrepreneur will extend on the venture, and how long that effort will be sustained in terms of cognitive and behavioral persistence, especially in light of the severe environmental obstacles.

Needed Social and Educational Support

Besides predicting entrepreneurial performance, self-efficacy can also be used to determine entrepreneurial avoidance (Chen, Greene, & Crick, 1998). In particular, many individuals in transitional economies may have a desire to pursue new ventures, but are not engaging in necessary entrepreneurial activities not because they do not have the requisite ability, knowledge, and skills but because they do not believe they do. This aspect of self-efficacy in entrepreneurship can also have social implications where training efforts would be directed not only to improving the actual knowledge base and behavioral facilities but also to increasing the beliefs of potential entrepreneurs as to what they can do with what they already have. This line of social support for entrepreneurial development can especially be useful for women and older people in transitional economies who have traditionally been perceived as not having had the necessary entrepreneurial background (Chen et al. 1998).

Removal of entrepreneurial self-doubt and increase in self-efficacy, especially under the constant environmental frustrations in transitional economies, will not necessarily happen on its own and over night. Social support, in terms of government and community efforts, should be organized and geared toward designing an effective entrepreneurial educational system. Specifically, the system should be set up in place where both aspiring and less confident potential entrepreneurs would be provided with classes focusing on both necessary skills and self-efficacy building. These programs would thus have a dual purpose: (1) to address the necessary behavioral facilities for entrepreneurship, and subsequently determine potential entrepreneurs, and (2) to focus on creating a self-efficacy enhancing entrepreneurial environment, and, as a result, foster entrepreneurial potential. In other words, we suggest that emergence of potential entrepreneurs in transitional economies depends on the entrepreneurial potential of the society, which is, in turn, largely a function of systematic effort on developing entrepreneurial self-efficacy. This is because, as Bandura (1986) puts it, nothing is as debilitating to successful human functioning as persistent self-doubt.

The Need for Formal Entrepreneurial Programs

We recommend the establishment of *formal* entrepreneurial training and educational opportunities in transitional economies. This proactive stance is necessary because we believe there is a distinction between intentional and nonintentional entrepreneurial experiences. The intentional experience gained through formal programs involves purposive and volitional goal-bound activities toward entrepreneurial development, which, if executed successfully, would, importantly, lead to an increase in entrepreneurial self-efficacy. The currently most common non-intentional activities represent random occurrences of scattered entrepreneurial actions, whose outcomes are likely to be attributed to external influences (e.g., luck, good fortune, or especially in transitional economies having the "right," usually criminal, connections). According to social cognitive theory, these external attributions do not necessary translate into higher self-efficacy (Stajkovic & Sommer, 2000). Thus, there would seem to be a high return in transitional countries from investing in formal entrepreneurial programs that build the efficacy of participants.

Conclusion

Theories of entrepreneurship offered in the growing literature have mainly focused on one-sided determinism, where either environmental or personality variables have been specified as unique predictors of entrepreneurial action. Taken separately, both approaches have generally failed to capture the complexity of human action that encompasses the interaction of environmental, cognitive, and behavioral variables (Bandura, 1986, 1997; Stajkovic & Luthans, 1998a, 1998b). By applying social cognitive theory to entrepreneurship, we believe that a much better understanding of the relationship between the environment and entrepreneurial development in transitional economies can be achieved. Too often the harsh reality of the environment in these countries simply dismisses the possibility of successful entrepreneurial development. We would suggest and have demonstrated that a psychological perspective through social cognitive theory in general and self-efficacy in particular can lead to not only better understanding, but also more effective development and practice of entrepreneurship in transitional economies, such as in Central Asia.

Because entrepreneurial development in postcommunist countries is still at an early stage, the profile of the environment facing entrepreneurs in Central Asia, and doing something about it for more rapid and successful entrepreneurial development, remains important. Unfortunately, the entrepreneurial development activities that are taking shape at the grass roots throughout the former Soviet countries is characterized by a short-term perspective. There is a preference for trading activities over production, and is often associated with the rise of crime and corruption. Entrepreneurs face great uncertainties due to the continuing instability of fundamental rules of the market economy paradigm.

Yet, despite this definite impact of the environment, we would suggest that social cognitive theory variables such as self-efficacy may predict that individual entrepreneurs may be able to overcome environmental threats and turn them into opportunities. Unlike personality traits, self-efficacy can be developed through training and modeling (Gist, 1989; Gist, Schwoerer, & Rosen, 1989). Instead of hoping for a massive capital infusion to improve the environment, transitional economies may be well advised into doing things like implementing formal self-efficacy programs to foster individual initiative for entrepreneurial development.

For the future, the content of such programs needs to be developed and tested.

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