

Factors that Influence Small Business Start-up

The purpose of this research was to understand the antecedents of small business start-up and ownership. Using the theory of planned behavior as a framework, relationships between attitude, subjective norms, and perceived behavior control and ownership were examined. An online survey was used to collect data from clients of the Indiana Small Business Development Center.

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Introduction

For the past decade, entrepreneurship has been one of the driving forces strengthening the economy of the United States. Small businesses have accounted for 60 to 80 percent of new jobs in recent years (Small Business Administration, 2006). Although research has been conducted on the characteristics of small business owners, resources, start-up activities, and external factors, there is a gap in understanding the gestation phase of new entrepreneurship. This research used a mixed methods approach but only the quantitative part is reported here.

Review of Literature

Entrepreneurial Intention

Behavioral intention is “a person’s subjective probability that he will perform some behavior” (Fishbein & Ajzen, 1975). With both the theory of reasoned action and the theory of planned behavior, Ajzen and Fishbein made a link between attitude, behavior, and intention. Although many factors could affect behavioral intention, research suggests the most promising are attitude, education and training, gender, and ethnicity (Chrisman et al., 1998; Cliff, 1998; Delmar & Davidsson, 2000; Krueger et al., 2000). By themselves, these factors could positively or negatively affect the intention leading to a new venture. However, those who decide to become self-employed make this decision with the influence of attitude, subjective norms, and perceived behavior control.

Attitude

Fishbein and Ajzen (1975) posited that an attitude is a reliable predictor of a future behavior. Kolvereid and Isaksen (2006) cited Douglas and Shepherd who found the intention to be an entrepreneur was stronger for those with positive attitudes toward risk or independence. Shook et al. (2003) suggested that the role of psychological variables, one of them being attitude, had been established by models from Bird, Shapero, and Ajzen’s theory of planned behavior.

Subjective Norms

Gender. Although several studies have included a gender variable, results have not shown a consistent influence between gender and intention. Delmar and Davidsson (2000) concluded that maneuvering from nascent to start-up entrepreneur was not related to gender. Cliff (1998) argued that female entrepreneurs tend to have smaller business thresholds so they can balance personal life and business life. Some women view the responsibilities of raising a family as a barrier for self-employment (Mazzarol et al., 1999).

Ethnicity. In the past, the United States has been a place where immigrants can start over or have better opportunities than in their home country. Butler and Herring (1991) posited that there is a strong relationship between ethnicity and entrepreneurship. People of Jewish descent appear to be more likely than others to be self-employed. African, Hispanic, and Polish individuals appear to be less likely than others to be self-employed. Rajzman (2001) found that entrepreneurial activity was high among Mexican immigrants. According to the Small Business Administration (2007a), minorities continue to increase their share of the economy and they have exhibited higher growth rates over the last few years.

Parents and Friends with Self-employment Experience. Mueller (2006) concluded that work and previous self-employment experience is more important than education when predicting small business ownership. Greve and

Salaff (2003) posited that entrepreneurs are more likely to have parents that ran businesses of their own when compared to the population.

Behavioral Control

Education and Training. Birch argued that experience teaches a person how to be a business owner, and training teaches a person how to work for an entrepreneur (Aronsson, 2004). Hynes and Richard (2007) posited that education extends beyond the classroom. Robinson and Sexton (1994) argued that work experience impacted the probability of small business ownership, but not as strongly as education. Rotefoss and Kolvereid (2005) concluded that a high level of education applied only to becoming a nascent entrepreneur.

Experience. Alsos and Kolvereid (1998) concluded that serial founders have a higher level of commitment to the business than novice or parallel founders. In a study of self-employed Japanese men, Cheng (1997) found previous self-employment experience significantly influenced future self-employment. One of the most over-represented groups of small business owners is people with previous ownership experience (Delmar & Davidsson, 2000).

Hypotheses and Control Variables

Based on previous research, it was hypothesized that individuals with a more positive attitude toward small business ownership, those with a more positive impression of small business ownership, those who are White, those who have family or friends who are small business owners, those with more education, and those who had taken a business training course would be more likely to become small business owners than their counterparts. It was hypothesized that the likelihood of starting a business would not differ between men and women. Age, marital status, children under the age of 18 and at home, and household income were included as control variables.

Methodology

After developing the instrument and obtaining permission from the Institutional Review Board of the university, the researchers collected data using an online survey. The sample consisted of all of the clients of the Small Business Development Centers (SBDC) in Indiana. In all, 20,288 individuals were invited to complete the survey which was available online for a period of 10 days in April 2008. A total of 457 surveys were completed. Two surveys had incomplete data and they were deleted leaving 455 surveys for analysis.

The dependent variable, behavioral intention was measured by “current ownership of a small business.” The independent variables included measures of attitude, subjective norms, and perceived behavioral control variables. Attitude was measured by: 1) six 5-point Likert type items that assessed attitude toward small business ownership, and 2) asking respondents to rate their impression of small business ownership on a 5-point Likert scale. Subjective norms were measured by race, ethnicity, and gender. Perceived behavioral control was measured by education, small business training, and previous experience. Respondents were asked about their experience with small business ownership, including if their parents/relative or close friends were/are small business owners.

Results

The descriptive statistics showed that 96.2% of the respondents were White, 54.7% were male, and 54.8% had earned a Bachelor's or an advanced degree. Overall, the descriptive statistics were comparable to national data. The 2003 Survey of Small Business Development showed that 91% of primary business owners were White, 65% were male, and 54% had a Bachelor's degree or an advanced degree (Mach & Wolken, 2006).

The six items measuring attitude were scaled to one item ($\alpha = 0.760$). Reliability was assessed using the Cronbach alpha coefficient (Cronbach, 1951). The results of logistic regression provided support for the hypotheses related to attitude, education, business training course, previous business experience, and gender. The results did not support the hypothesis related to race.

Individuals who had a positive or neutral attitude towards small business ownership were 3.654 times and 7.463 times, respectively, more likely to be small business owners than those who had a negative attitude towards small business ownership. Individuals who had obtained some college, an associate's degree, or a bachelor's degree were more likely to be small business owners compared to those who had obtained a high school diploma or less

education. There was no significant difference between those who had obtained a graduate degree and those with a high school diploma or less education.

Individuals who had taken a class or workshop that was specifically related to small business ownership were 1.979 times more likely to be a small business owner than individuals who had not taken a class or workshop. Individuals with previous small business ownership experience were 1.348 times more likely to be small business owners than those with no previous ownership experience. Having parents or other close family members or friends who were small business owners or self-employed was marginally significant.

There was no difference between men and women with respect to ownership. Individuals who were non-White are less likely to be small business owners than those who were White. Individuals who were married or living with a partner were 1.924 times more likely to be small business owners than others. There was no significant relationship between level of household income and small business ownership.

Implications

The results supported the theory of planned behavior as a theoretical framework for examining small business ownership. Measures of attitude, subject norms, and perceived behavioral control were significant predictors of small business ownership. Attitude towards small business ownership contributed significantly toward individuals becoming small business owners. However, it was surprising that having a favorable impression of business ownership did not significantly influence the likelihood of ownership.

The findings showed that there was no difference between men and women in the likelihood of being a small business owner. It is possible that the differences were undetectable in a sample of this size. Data from the SBA (2007b) showed that in Indiana, business ownership by women has increased 33.6% since 2006. Although previous research indicated that minorities are highly likely to become small business owners, this research did not support this hypothesis. However, the use of an online survey might have been a barrier for some minorities.

The education hypothesis was partly supported. The majority of the respondents who were in the lowest education group were 45 years of age or older. Many studies indicate that people become self-employed at midlife after they have developed skills and/or expertise in a particular field. The owners who were older might not have had as much education as younger owners.

Individuals who had business training were more likely to be small business owners. This result is especially important for small business development organizations and the Chamber of Commerce. Obviously, the appropriate training courses help individuals to start their business. Previous experience in a small business was significant in predicting small business ownership. The influence of family and/or friends was marginally significant. Future research could explore the influence of family and friends in more depth.

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Endnotes

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