Factors influencing small business start-ups
A comparison with previous research
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**Abstract** Sheds light on the process leading to new enterprise formation and identifies the impact of some selected demographic variables on business start-ups. In contrast to traditional research methodologies, this study used a new and more comprehensive approach to survey entrepreneurial intention. It studied both those who actually set up a new business and those “nascent entrepreneurs” who abandoned their idea prior to trading. The findings of an empirical analysis of 93 such entrepreneurs are presented. Using multivariate techniques to analyse the data, the importance of three demographic variables – gender, previous government employment and recent redundancy – was identified as having potential negative influences on small business formation, and comparisons are made with past studies.

**Introduction**
The driving force in the modern economy for the past ten years, and the foreseeable future, is entrepreneurship. Entrepreneurs are meeting our economic needs through the creation of thousands of new businesses each year. While larger corporations have instituted extensive “downsizing” or “rightsizing” programs, job creation and economic growth have become the domain of the new ventures and the entrepreneurs who create them.

A great deal is known about the characteristics of entrepreneurs and the motives that have urged them to set up a business venture. Previous research has examined the importance of various demographic variables such as personality, human capital and ethnic origin. Marital status, education levels, family size, employment status and experience, age, ethnicity, gender, socio-economic status, religion and personality traits have all been considered to varying degrees. However, the picture which emerges from this research is somewhat “fuzzy” due to differences in testing procedures, sampling and country-specific factors. Furthermore, virtually all previous studies focused on entrepreneurs actually working in a new business, and has ignored persons who still are in the process of starting a new business. This is a serious omission. In order to gain a comprehensive picture of entrepreneurship (and of the barriers and triggers affecting start-ups), both groups must be studied. It is not sufficient enough to approach only those who have fulfilled their objectives.

This study brings forth a new approach, by focusing on this other group as well. The goal of this research was to identify the demographic characteristics
of selected demographic variables likely to affect small ventures formation. As considerable research has already been undertaken about the start-up process, the next section of the report presents a review of the literature and a theoretical framework of start-up. In section three, the methodology used to carry out the project is presented. The results are detailed in section four, while the goodness of fit of the model is explained in section five, followed by a discussion of the results in section six. Finally, the implications for managerial and research issues are outlined in section seven.

Review of the literature
Not surprisingly, most of the literature on start-up relates to entrepreneurship defined by Low and McMillan (1988, p. 141) as the “creation of new enterprise”. This definition reflects a growing awareness that entrepreneurship is a “process of becoming rather than state of being” (Bygrave, 1989, p. 21). Starting a business is not an event, but a process which may take many years to evolve and come to fruition. Entrepreneurial research has developed along two main lines:

1. the personal characteristics or traits of the entrepreneur; and
2. the influence of social, cultural, political and economic contextual factors.

These two perspectives are discussed in the next two subsections.

The models and studies focusing on the entrepreneur
Before organisations there are preorganisations (Katz and Gartner, 1988; Van de Ven et al., 1984). Initially they exist only as the thoughts, ideas, or dreams of an individual. Through the start-up process, the founder’s thoughts are sometimes (but not always) translated into a preorganisation (an attempt to found), and then sometimes (but not always), an organisation. Central to the process is the founding individual – the entrepreneur – in whose mind all the possibilities come together, who believes that innovation is possible, and who has the motivation to persist until the job is done.

Early research in entrepreneurship focused therefore on the entrepreneur. It sought to determine what personality characteristics distinguished entrepreneurs from non-entrepreneurs, and examined the influence of these characteristics on organisation formation rates. For example, such factors as the need for achievement (McClelland, 1961), risk-taking propensity (Brockhaus, 1980), locus of control (Brockhaus, 1982), tolerance of ambiguity (Schere, 1982), and desire for personal control (Greenberger and Sexton, 1988) have been identified and examined as possible traits associated with entrepreneurial behaviour. Numerous other background factors related to individual personality, such as previous employment (Storey, 1982; Ronstadt, 1988), family background (Scott and Twomey, 1988; Matthews and Moser, 1995), gender (Buttner and Rosen, 1989; Kolvereid et al., 1993), education (Storey, 1982), ethnic membership (Aldrich, 1980), and religion (Weber, 1930) have also been discussed. Altogether, the combination of psychological traits
interacting with background factors makes some individuals more likely entrepreneurial candidates than others.

The models and studies focusing on the environment theory development and research into the relationship between the environment and organisation formation is a more recent event. Advocates of this approach believe that the entrepreneurial trait perspective has reached a dead end (Aldrich, 1990) and has partially contributed to the understanding of new firm formation. The study of the role of the environment, the so-called rates of demand perspective (Peterson, 1980), is seen as a more viable approach. While not denying the role played by the founders’ characteristics, the demand perspective proposes that the environment is more important in understanding organisation formation.

Before detailing the environmental (or contextual) approach, it should be acknowledged that this approach certainly has a link with economics. Indeed, the new firm has a central place in economics, and it represents a real or imagined threat to firms currently producing goods and services within a given industry. According to economic theory, perfect and imperfect competitive markets have substantial numbers of potential producers patiently waiting for prices in that industry to exceed long run average costs. Once this happens new firms will enter the market and produce output as efficiently as existing firms. Baumol (1968), for example, noticed that the firm is assumed to perform a mathematical calculation which yields optimal (i.e. profit maximising) values for all its decision variables. These matters remain forever or until exogenous forces lead to an autonomous change in the environment.

Beyond this theoretical perspective, most of the models and studies rely on environmental characteristics to explain start-ups. Drawing on dependence theory, this approach proposes that the new firm needs some external resources and information to emerge. The environment is seen as a pool of resources; the degree of resource abundance is called environmental munificence (Dess and Beard, 1984; Castrogiovanni, 1991), and will significantly influence the start-up process. In her literature review, Specht (1993) distinguishes five main environmental factors affecting organisation formation:

1. social;
2. economic;
3. political;
4. infrastructure development; and
5. market emergence factors.

Within the social environment, the impact of networks (Marett, 1980; Gartner, 1985; Aldrich and Zimmer, 1986; Johannisson, 1988) and the support of sociopolitical élites along with cultural acceptance (Gartner, 1985; Bull and Winter, 1991) are of particular importance. The economic environment studies focus on capital availability (Cross, 1981; Storey, 1982; Gartner, 1985), aggregate

Infrastructure development encompasses numerous variables such as the education system (Gartner, 1985; Romanelli, 1989; Bull and Winter, 1991), the nature of the local labour market (Pennings, 1982; Gartner, 1985; Mason, 1989), incubator organisations (Gartner, 1985, Young and Francis, 1989), information accessibility (Romanelli, 1989) and availability of premises (Cross, 1981; Storey, 1982; Gould and Keeble, Mason, 1989). Finally, market emergence theory integrates both concepts of niche emergence (Boeker, 1988; Delacroix and Solt, 1988) and technological innovation (Cross, 1981; Gould and Keeble; 1984; Mason, 1989).

Two visions reunified

The two previous subsections showed that both personal characteristics and environmental influence play a central role in the start-up process. Gartner (1985) proposes a conceptual framework of new venture creation that portrays the process as an interaction of the environment, the individual, the organisation, and entrepreneurial behaviour. In the same vein, Greenberger and Sexton (1988) present new venture creation as an interactive process in which personal characteristics, including personality, interact with an interpretation of salient events in the environment to influence decisions concerning new venture creation.

Bird (1988) notices also that both personal characteristics and environmental factors define entrepreneurial intentionality. She describes intention as a state of mind that focuses a person’s attention, experience, and behaviour toward a specific object or method of behaving. Figure 1 illustrates a modified version of Bird’s (1988) conception of the contexts of entrepreneurial intentionality. The direction of the relationship between the variables discussed in this review and the start-up is also indicated.

Bird (1988) further suggests that entrepreneurial intention directs critical strategic thinking and decisions, and operates as a perceptual screen for viewing relationship, resources, and exchanges. According to this framework, individuals are predisposed to entrepreneurial intention based on a combination of both personal and contextual factors.

However, all of these studies have confined themselves to an examination of existing entrepreneurs. While often quite rigorous and wide-ranging in their methodology, they have ignored the very large pool of prospective entrepreneurs who never actually go on to form a business. This omission is more than just a curious anomaly; it is critical to an effective understanding of who, how and why entrepreneurs begin.
Methodology

In order to examine the factors likely to motivate an individual to establish a small business, a study was undertaken with entrepreneurs in Western Australia. The purpose of this study was to identify the factors important in serving as either barriers or triggers to small business start-up. A joint venture between the Institute for Small Business Research and the Institute for Research into International Competitiveness of the Curtin Business School, the study drew a sample of 93 respondents. Forty-eight of these entrepreneurs had successfully established a small business within the previous two years prior to interview. The remaining 45 individuals had given serious consideration to establishing a business (e.g. they had attended a small business training program or demonstrated a strong desire to found a business) within the previous two years, but had not proceeded for some reason.

The sample was drawn from a range of sources including the Small Business Development Corporation, business enterprise centres, the Women's Economic Development Organisation and Dun & Bradstreet databases. Following prequalification all respondents were interviewed face-to-face with an initial semi-structured approach using open-ended questions which focused on reasons motivating their intentions to found a business. Following this, a series of closed ended questions were asked which explored potential barriers and triggers for small business establishment drawn from the literature.

Of the respondents, 54 were male and 48 female. Just over half (54 percent) had parents who were previously self-employed or in small business, and 58
percent had relatives who were. Of the respondents 42 percent had been born overseas and 55 percent had at least one parent who was born overseas. Forty-two percent had been educated to university degree level, 17 percent held diploma level qualifications from other post-secondary institutions, a further 17 percent held trade qualifications and the remaining 23 percent had school education with 7 percent having completed only ten years of education. The average age of the respondents was 38 years.

Of the respondents, 29 percent had no previous experience in the field of business in which they had either founded the business or sought to do so. The average length of experience in the chosen field of business was eight years prior to business start-up. About half the respondents (51 percent) had held permanent employment before commencing or considering to commence their business ventures. A further 26 percent had been unemployed, 3 percent were students and the remainder had either casual or some other form of employment (e.g. homemakers). Fourteen percent of the sample had been made redundant within the previous two to three years before either commencing or considering the commencement of the business.

Of the respondents, 65 percent had had previous experience of employment in small business, about half (49.5 percent) had experience of employment in large business organisations, and 41 percent had previous employment experience in government agencies.

Franchise businesses were not included in the scope of the study because of obvious independence problems in the franchiser-franchisee relationship. However, owners who bought an existing business and changed some of its activities were included in the research. This study considered that a new business has effectively started if the first sales have occurred.

To determine the influence of demographic variables on the decision to establish a small business, a logistic regression analysis was undertaken. Logistic regression is suitable when a categorical variable is regressed against any combination of discrete and continuous variables (Hosmer and Lemeshow, 1989, p. 1). The sample was clearly divided into two groups:

1. those respondents who had established their business; and
2. those who had not proceeded to foundation.

The presence of a dichotomous dependent variable precluded the use of linear regression. The chosen form of analysis for the study was therefore logistic regression.

**Result of the logistic regression**

Sixteen independent variables relating to demographic issues were regressed on the dichotomous dependent variable. These variables measured such characteristics as:

- age;
- education level;
- ethnicity;
- gender;
• previous employment experience;
• unemployment;
• rural versus urban location; and
• family experience with small business or self employment.

The equation used to estimate the model was the following:

\[ P(\text{y} = 1) = \frac{1}{1 + e^{-z}} \]

where:

\[ z = \beta_0 + \beta_1 x_1 + \beta_2 x_2 + \ldots + \beta_n x_n \]

- \( x_n \) = a set of independent variables
- \( \beta_0 \) = an intercept term
- \( \beta_n \) = a set of parameters for the independent variables
- \( e \) = the quantity 2.71828+, the base of natural logarithms
- \( y \) = the dichotomous dependent variable, business success
- \( P(\text{y} = 1) \) = the probability of a firm being classified as a high performer

The logistic regression procedure was used to develop the model. A total of 88 of the 93 cases were used to estimate the model. Five cases were not included because they were missing data for one or more of the variables. The final model, which contained three significant terms, is shown in Table I. All three variables were significant at the 0.05 level.

The first variable in the model was gender. The positive coefficient for this term indicates that this term is negative for females who were generally less likely to be founders than their male counterparts. A chi-square analysis of the relationship between gender and business start-up confirmed this. While 75 percent of male respondents had established small businesses, only 25 percent of females did so.

The second term selected for inclusion in the model was the variable which measured whether the respondent had previously worked within a government agency or department. The negative sign for this term’s coefficient indicated that those respondents who had such previous employment experience were less likely to be successful founders of small businesses. A subsequent

<table>
<thead>
<tr>
<th>Model term</th>
<th>Coefficient</th>
<th>Significance level</th>
</tr>
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<tbody>
<tr>
<td>Gender</td>
<td>1.86</td>
<td>0.0004</td>
</tr>
<tr>
<td>Previous experience in government employment</td>
<td>-1.01</td>
<td>0.0468</td>
</tr>
<tr>
<td>Made redundant within previous two-three years</td>
<td>-1.49</td>
<td>0.0407</td>
</tr>
<tr>
<td>Constant</td>
<td>1.66</td>
<td></td>
</tr>
</tbody>
</table>

Notes: -2 log likelihood for model with constant only = 100.07; -2 log likelihood for full model = 85.98
chi-square analysis confirmed this. Of the respondents who had previously worked in government jobs, only 37 percent had founded a small business while 63 percent had not.

The third term in the model was a measure of whether the respondent had been made redundant within the previous two to three years. As with the previous term, this term also possessed a negative coefficient. The interpretation was that those respondents which reported recent redundancy were less likely to be successful founders of their business. Of those who had been made redundant, 69 percent did not proceed to start up while 55 percent of those who had not been made redundant had successfully founded a business.

**Goodness of fit of the model**

One method of assessing the goodness of fit of logistic models is to examine the –2LL measure. This measure is calculated by the SPSS logistic regression procedure each time a model is developed. If a model fits perfectly, then the value for –2LL will be 0. The –2LL is also calculated for the model which contains the constant only. This enables an estimation of the level of improvement gained by adding the model terms (Norusis, 1993, p. 10). These two values for –2LL are shown in Table I. –2LL for the model with the constant was found to be 100.07, while that for the full model was 85.98.

Seeing how well the model classifies the data is another way of determining how well a logistic model performs. This involves a comparison of the observed number of cases for each state of the dependent variable with the predicted number of each state as derived from the model (Wrigley, 1985, p. 50). Table II illustrates the classification performance of the model.

The prior probabilities indicate the probability of a case being correctly classified into one of the two groups before the model is applied to the data (Afifi and Clark, 1984, pp. 263-4). The relative sizes of the two populations in the current model determined the value of 50.63 percent for the prior probabilities. The posterior probabilities express the probability for each case of belonging to a particular group as determined by the chosen model (Afifi and Clark, 1984, pp. 429-30).

<table>
<thead>
<tr>
<th>Actual</th>
<th>Predicted Starters</th>
<th>Predicted Non-starters</th>
<th>Total (%)</th>
</tr>
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<tbody>
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<td>Prior probabilities</td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>Starters</td>
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<td>0</td>
<td>100.0</td>
</tr>
<tr>
<td>Non-starters</td>
<td>41</td>
<td>0</td>
<td>0.0</td>
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</table>

Classification accuracy of prior probabilities 53.41

<table>
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<tr>
<th>Posterior probabilities</th>
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</thead>
<tbody>
<tr>
<td>Starters</td>
</tr>
<tr>
<td>Non-starters</td>
</tr>
</tbody>
</table>

Classification accuracy of posterior probabilities 69.32

Table II. Classification table for the logistic model
The results of applying the model to the data are shown in the bottom half of Table II. This shows that the model correctly classified 69.32 percent of the 88 cases. This may be seen as a reasonable goodness of fit of the model.

**Discussion of the results**

The findings suggest that there are three key demographic variables distinguishing small business start-up:

1. gender;
2. previous government employment; and
3. recent redundancy.

Each of these three variables is essentially a measure of the barriers to small business establishment rather than a trigger or incentive. Each is strongly linked to the groups who did not form a business. Females, previous government employees and those experiencing redundancy were all less likely to form businesses than those other respondents.

Why do these characteristics appear to be a barrier to entrepreneurial activity? There are a number of possible reasons for this. It is worth noting that other studies have previously found a similar barrier among their sample respondents. For example, Blanchflower and Oswald (1990) and Blanchflower and Meyer (1991) have examined the personality characteristics of those who established small businesses. According to this view the level of “entrepreneurial vision” possessed by the founder of the firm was a critical factor in their decision process. This psychological view of the foundation of small businesses is shared by others (Chell *et al.*, 1991). According to Kazumi (1995) the entrepreneur is characterised by a combination of abilities and personal characteristics. Among the key abilities are such things as imagination, the ability to create and execute plans, negotiation, leadership and managerial skills. The personal characteristics are determination, optimism, independence and a willingness to take risks and rise to challenges.

The research by Blanchflower and Oswald (1990) in an empirical study of UK entrepreneurs found a significant and positive association between unemployment and a desire to seek self-employment through small business establishment. It also found a similar association between personality and the possession of financial inheritance or liquidity and small business foundation. The present study also found a positive link between these two items. In the interviews several respondents who were unemployed complained of being “sick and tired” of long-term unemployment. Their business ideas were born out of a desire to find a way out of that “gloom”. Frequently, hobbies and special talents were turned into commercial ventures. In a study of Australian small business founders Blanchflower and Meyer (1991) found that education, previous small business experience and geographic location (e.g. regional versus urban) were significant influences on the establishment of small businesses.
Dolton and Makepeace (1990) in their study of small business formation among graduates in the UK found that age, gender and social class were all significant motivators to business foundation. A study of small business foundation in the USA (Evans and Leighton, 1990) found that marital status, education and financial support were all positive and significant influences on small business establishment among both employed and unemployed workers.

Table III shows the key findings from these previous studies as well as a summary of the key findings from this study. The results shown in Table I highlight the inconclusiveness of these five studies regarding the impact of demographic variables. It should be noted that all these studies were drawing on somewhat different samples. Three different countries were examined and different levels of age and educational background were included. However, as Storey (1994, p. 66) observes:

Several conclusions may be drawn from this table. The first is that although all four [previous] studies are addressing a broadly similar issue, there must be some risk of omitted variable bias, since none appeared to include all variables, or even all variables which had been shown to be significant in other studies. Only four variables appear in all the studies – ethnic, sex, age and education – and only three variables appear with a significant coefficient in more than one of the studies. Thus unemployment appears to be positively associated with higher levels of self-employment in two studies, as does higher levels of education and being in receipt of some form of inheritance, enabling a liquidity constraint to be overcome.

<table>
<thead>
<tr>
<th>Factors</th>
<th>Evans and Leighton (USA)</th>
<th>Dolton and Makepeace (UK)</th>
<th>Blanchflower and Oswald (UK)</th>
<th>Blanchflower and Meyer (Australia)</th>
<th>Present study (Australia)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Married</td>
<td>+</td>
<td>x</td>
<td>o</td>
<td>x</td>
<td>o</td>
</tr>
<tr>
<td>Divorced</td>
<td>+</td>
<td>0</td>
<td>o</td>
<td>0</td>
<td>o</td>
</tr>
<tr>
<td>Education</td>
<td>+</td>
<td>0</td>
<td>x</td>
<td>+</td>
<td>x</td>
</tr>
<tr>
<td>Children</td>
<td>x</td>
<td>x</td>
<td>x</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Unemployed</td>
<td>+</td>
<td>x</td>
<td>+</td>
<td>o</td>
<td>+</td>
</tr>
<tr>
<td>Previous wage</td>
<td>-</td>
<td>x</td>
<td>0</td>
<td>o</td>
<td>+</td>
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<tr>
<td>Experience</td>
<td>x</td>
<td>0</td>
<td>0</td>
<td>+</td>
<td>x</td>
</tr>
<tr>
<td>Age</td>
<td>x</td>
<td>+</td>
<td>x</td>
<td>x</td>
<td>x</td>
</tr>
<tr>
<td>Ethnicity</td>
<td>x</td>
<td>x</td>
<td>x</td>
<td>x</td>
<td>x</td>
</tr>
<tr>
<td>Gender</td>
<td>x</td>
<td>+</td>
<td>x</td>
<td>x</td>
<td>+</td>
</tr>
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<td>Social class</td>
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<td>+</td>
<td>0</td>
<td>0</td>
<td>0</td>
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<tr>
<td>School type</td>
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<td>+</td>
<td>0</td>
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<tr>
<td>Region/urban</td>
<td>x</td>
<td>0</td>
<td>x</td>
<td>+</td>
<td>x</td>
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<tr>
<td>Inheritance/liquidity</td>
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<td>+</td>
<td>0</td>
<td>0</td>
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<tr>
<td>Personality</td>
<td>0</td>
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<td>+</td>
<td>0</td>
<td>0</td>
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<tr>
<td>Manager</td>
<td>0</td>
<td>0</td>
<td>x</td>
<td>x</td>
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<tr>
<td>Family in business</td>
<td>0</td>
<td>0</td>
<td>x</td>
<td>0</td>
<td>x</td>
</tr>
</tbody>
</table>

Key: + = variable is statistically positively significant in the study; - = variable is statistically negatively significant in the study; x = variable included in the equation, but not shown to be significant; o = variable not included in the equation

Source: Storey (1994)
Forty-two percent of the sample reported having been born overseas and 55 percent reported having at least one parent who was a migrant. Forty-one percent reported having parents who had family members who were self-employed. Despite this, family background and ethnicity were not strongly associated with small business foundation which is in contrast to other studies using empirical analysis (Curran and Burrows, 1988a; Meager, 1991). The variety of testing procedures employed in these studies, the variations in their samples and the characteristics of their countries are all likely to contribute to the differences which are found in their findings. Such differences create a somewhat “fuzzy” picture of what factors are important to motivating small business foundation (Storey, 1994).

Managerial and research implications

Gender issues

The issue of gender has been examined in previous research studies although it has only become a topic of strong interest in recent years. Much of the literature relating to small business issues has tended to ignore gender differences (Allen and Truman, 1991). A major problem has been a relatively low participation rate among women in small business as owner-managers (Curran and Burrows, 1988b), although this gap is rapidly closing.

Women’s entry into small business may also be influenced in a negative way by a “sectoral segregation” process whereby occupations are separated into “male” and “female” industries (Hakim, 1979). Women have traditionally found greater employment within the services sector and this appears to be a continuing pattern within self-employment. The business interests of female respondents in the present study ranged from beauty therapy treatment, aged care, recycling to bar management. An examination of the Business Longitudinal Survey data of near 9,000 Australian small firms highlights the concentration of women in “traditional” female industry categories (IC/DIST, 1996).

Other issues facing women in the establishment and operation of small business are their dual responsibilities of household and family versus employment. Women tend to spend fewer hours working in their businesses than men, due to home and family commitments (Allen and Truman, 1991). Further, the “traditional” female occupations are often remunerated at a lower level than their male counterparts (Curran and Burrows, 1988b).

While the majority of the female respondents viewed their family responsibilities and child-rearing as a barrier to self-employment, there were several cases where owning a small business offered a favourable alternative to having a “9 to 5” occupation. For example, several young mothers said that they were attracted to the flexible hours and mobility of running their own business. Some worked out of home and could combine child care with work.

According to Allen and Truman (1991) there is a need for successful female entrepreneurs to become more “visible” so as to serve as role models for other women. Banks and other sources of finance may also need to adopt a greater
willingness to lend to women for business purposes. The level of business advisory services specifically available to women may also be an area requiring attention.

More research is required to identify how female entrepreneurs differ from males and what specific difficulties (if any) they may face. The expansion of the services sector in most developed economies may assist women to achieve greater self-employment over the longer term.

Previous work history and redundancy
The findings of this study that previous employment in the government sector and recent redundancy may serve as negative influences on small business formation is of interest. Little research has so far specifically addressed this issue. Keeble et al. (1992) found that individuals who had previous employment experience within large organisations were significantly more likely to establish their own businesses. However, the opposite was found by earlier research undertaken within the manufacturing industries (Cross, 1981; Gudgin et al., 1979). Other research suggests that previous managerial experience may be the key to whether an individual establishes a small business (Bates, 1990). What none of these earlier studies examines however, is the perceptions of nascent, as well as actual, entrepreneurs.

Many of those interviewed for the present study who did not found their own business were in employment and were reluctant to leave the “security” of their current job. Some of the younger respondents felt that they had to first build a career before venturing out on their own. One young couple who were paying off a large mortgage wished to first become more financially independent before taking on the risks of self-employment.

The present study did not specifically examine whether the respondents had managerial experience. Education was measured by the study and possession of a university degree may indicate a likelihood for more managerial experience (although there is no causal link suggested here). An examination of the relationship between recent redundancy and education level did not find any significant association. A similar examination of the relationship between previous government employment and education did find that higher education levels were significantly associated with this type of employment. Chi-square tests found these two variables to be significantly related at the 5 percent level. However, a partial chi-square test of education and business start-up controlling for previous government employment did not find a significant relationship. These additional findings may indicate that something other than education is responsible for the relatively poor start-up rate among former government employees and the recently redundant.

One middle-aged male respondent who was a government employee and successful business founder said that his decision to enter self-employment was motivated by a realisation that he could progress “no further in his current job” and that he “did not feel that he was contributing anymore”. He also wished to control his own destiny financially and felt that by establishing his own
business he would be contributing to the economy. Another government employee who successfully established her own business was an experienced public servant who felt that she “was getting old” and “had to do something she always wanted to do” in setting up her own business.

To fully explain these issues is likely to require additional research. The “cultural” background of the former government employee may be an important influence. Does the work environment and organisational culture commonly associated with public sector employment adequately prepare an employee for the rigours of small business self-employment? Further, does recent redundancy leave a former employee adequately prepared in a psychological sense for self-employment? Redundancy tends to harm the recipient’s self-image which is likely to serve as a detrimental influence on small business formation. These are important issues for public policy. The large-scale public sector redundancies which have been a feature of the “efficiency drives” of both Australian governments both state and federal over recent years may do potential harm to the unemployment levels within the economy. If retrenched workers, particularly former government ones, are unable to find suitable employment they may choose to remain unemployed rather than found small businesses.

Conclusion
This research study has highlighted the potential importance of three demographic variables:

(1) gender;
(2) previous government employment; and
(3) recent redundancy

as potential negative influences on small business formation.

As discussed, the overall picture of the effect of demographic factors on small business start-up is “fuzzy” and requires additional research. The findings of this study suggest that women, the retrenched and the public sector employees may require special attention by both academic researchers and public policy makers in the future if high rates of small business formation are to be achieved.

Three main policy implications stem from this research. First, there is a need for government authorities to consider specialist outplacement services or their equivalent when retrenching public servants. Such services need to devote attention to the mental preparation of retrenched employees to orient them towards self employment. Second, this same issue is likely to be as relevant for large private firms, e.g. BHP, when it retrenches workers en masse at its steelworks in Newcastle, Australia. These workers are not psychologically prepared for self-employment, and a period of adjustment is required to get them ready. Finally women also may need special assistance, more specifically in the development of role models and specific business advisors. Networking groups for existing (and potential) women entrepreneurs is another option.
References and further reading


Small business start-ups


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