

# The Influence of Personal and Environmental Factors on Business Start-Ups: A Case Study in the District of Dili and Oecusse, Timor-Leste

by

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## ***Abstract***

*Small enterprise has been playing important role in economic development of every country. Small enterprises participation in economic development gave direct impact on creating jobs, creating competitive advantage, and an important career option. This paper aims to investigate the influence of personal (demographics and personal traits) and environmental factors on business start-ups in Dili and Oecusse Districts, Timor-Leste. Sample of this population came from small enterprises in both districts, 178 small enterprises have been identified as target population, only 134 sample size used for this study. Linear structural relationship statistics provide a systematic understand of the effect of personal and environmental factor on business start-ups. Under significant analysis, the result pointed that variables of demographics, personal traits, and environmental factors have influenced business start-ups. The most important is government and business and professional service providers should create appropriate facilities and professional assistance for entrepreneurial development.*

**Keywords** *Entrepreneurship, Small businesses, Entrepreneur, business start-ups, Economics, start-up motivation, demographics, personal traits, environmental determinants.*

## **1. Introduction**

The focus of this study is about the influencing of personal and environmental factors on business start-ups. New business play important role in creating new job. Based on national report in many counties, include Thailand national report, shown that in some specific

number of jobs came from small enterprise and medium enterprise. Second, new business also creates competitive advantage. New firms often come up with new ideas or new model of quality of product and services. By new firm's presence, it is also challenging existing enterprise to improve their product and service quality. Third, starting a business is an important career option. In this term, starting a business is one way how to maximize freedom of economic opportunity

Previous researchers have found the important variable such demographics (gender, age, education level, and working experience), personality traits (desire for independence, need for achievement, locus of control, risk taking propensity, and recognition of opportunity), and environmental factors (financial support, government support, education and training, business and professional infrastructure, access to physical infrastructure, and cultural and social norms), all these variables have been identified as factors influencing entrepreneurial activity. However, this study has been developed in different testing procedures, sampling and country specific factors. Furthermore, this is the first research related business start-ups in Timor-Leste, which enterprises development target has been part of The Strategic Development Plan after restoration independence in 2000.

## **2. Review of the literature**

Apart from economic development, the entrepreneur has been approached under of different perspectives. Since the beginning of the century, the entrepreneurs and entrepreneurship became enthusiasm of many aspects. This interest has related in the academic activities, which are an impressive increased in the number of study that relate this subject. Researchers have identified that new firm creation is an important factor for economic growth, creating many new jobs (Birley, 1987; Reynolds, 1987; Dyck and Ovaska, 2011), and creating competitive advantage.

Previous studies have identified the entrepreneur's personal and environmental play critical role in entrepreneurial formation. Not surprisingly, many researchers concept of entrepreneurship based on the definition of Low and McMillan (1988) as the "creation of new enterprise" (p. 141). This concept came from a growing awareness that entrepreneurship is a "process of becoming rather than state of being" (Bygrave, 1989, p. 21). Surely that starting a business is a process that takes many years to develop gradually and come to successfully.

The process of starting a business is the focus of this research. This process related to two perspectives:

- (1) The influence of the personal factors on business start-ups;
- (2) The influence of the environment factors on business start-ups.

#### *Some definitions of entrepreneurship*

Low and McMillan (1988) stated good science has to begin with good definitions. However, some empiricists believe they can go forward (function) without appropriate definitions, but many researchers are questioning it. The problem is how can empiricists know what phenomenon they are studying if they cannot define what they have observed? Some researchers believed only theorists function if define with exact definitions. After all, both models and theories can predict the result of operations. As Bygrave and Hofer (1991) stated it is impossible to operationalize a concept if it cannot be defined. Bridgman (1927) and Dewey (1929) wrote: "the concept is synonymous with the corresponding set of operations."

As Low and MacMillan (1988) that the phenomenon of entrepreneurship is interrelation with complex issues such as management of change, innovation, technological and environmental turbulence, new product development, small business management, individualism and industry evolution. Furthermore, the phenomenon can be investigated from varied disciplines such as economics, sociology, finance, history, psychology, and anthropology, each of this discipline uses its own concepts and operates within its own terms of reference.

The definition of entrepreneurship for this study related with statement of Low and MacMillan (1988) that entrepreneurship as the "creation of new enterprise", it mean that entrepreneurship seeks to explain and simplify the role of new enterprise in bring forward economic progress. "Explanation" it pushes researchers not only staying in descriptive studies, but also to follow causal inference. Through "facilitation" it pushes researchers to maintain relevance factor for practice and to consider both micro and macro perspectives. Entrepreneurship is a process that evolves with time, which is changing over time, and only can understands within observe what happening in the field.

#### *The model and studies related demographic*

Under personal factors, numerous factors have identified relation with demographic, such as gender, age, education level, working experience.

According to studies in different countries, it has found that there are determining the links between demographic and entrepreneurship. Previous researchers have found the gender differences are not significant with business start-ups (Bergmann and Sternberg, 2007; Rosti and Chelli, 2005; Williams, 2004; Remeikiene and Startiene, 2008).

Some specific age can be representative of person maturity in making decision to become an entrepreneur (Blanchflower and Meyer, 1994; Bergmann and Sternberg, 2007). As Ritsilä (2002) stated that the age of 26 to 40 can be considered a period of readiness the choice of occupation. People at these ages are possibilities to come success. However, as Parker (2004) stated age can positive correlation if its connected with the professional experience, self-reliance, availability of capital increase.

Enter business activities with sufficient knowledge are needed. Researchers have found that knowledge and information are basic elements for initial self-confidence of individuals in an entrepreneur venture (Minniti and Bygrave, 1999; Aldrich and Martinez, 2001). With sufficient knowledge, transferring idea into an organization can make entrepreneur obtain resources.

Attitudes are usually formed by previous experience, it was logical that entrepreneur who direct experienced with entrepreneurial activities in the past would have stronger entrepreneurial attitudes (Harris and Gibson, 2008). Moreover, Harris and Gibson found students who have experience with family business are possible to be an entrepreneur. Students whose family owned a business had a greater sense of achievement, innovation, and personal control as a result of interacting and working within the business.

#### *The model and studies a related personal traits*

Trait theory argues that individual always have the personality traits to determine which action should be taking. Under the content of entrepreneurship, personal characteristics or traits became focused of many researchers that make distinguish entrepreneurs from the general population (Low & MacMillan, 1988). Five factors were decided to be part of this study:

- (1) Desire for independence
- (2) Need for achievement
- (3) Locus of control
- (4) Risk taking propensity; and
- (5) Recognition of opportunity.

Some researchers found person decides to become an entrepreneur is because they want to be independence and not to work for other (Kirkwood and Walton, 2010; Lee, 1997). These studies showed the basic difference between the role of a person become entrepreneur and a person working for others.

McClelland (1967) pointed achievement motivation is an important factor provide some light to the entrepreneurship mindset and challenges, especially for the motivational disposition of the entrepreneurs. A person have characteristics of high need for achievement that appreciates and willing to take responsibility, prefers solving problem without any assistance, taking risk, and respect all outcomes of their own decision (McClelland, 1967; Sesen, 2013).

Under the personal characteristic theory, locus of control has been one of the focus studies. Locus of control is a complex individual phenomenon which has concerned with determining the effects of the perception of an individual to control all events that implies to their lives.

Risk-taking propensity is another psychological characteristic often related to entrepreneur intention of starting a new business venture. Ability for risk-taking also a significant dimension under content of entrepreneurship. In responding to the risks, entrepreneurs always learn how to handle it from their previous mistake attitude, environment, and from other experience (Stokes and Blackburn, 2002; Harrison and Leitch, 2005).

Shane and Venkataraman (2000) in their study suggest two factors implies a person to recognize particular opportunities: 1) congruent information from previous and current can affect a person on recognizing a business opportunity, 2) the cognitive characteristics are needed to evaluate these opportunities and later make a decision to exploit them. Every person has different abilities to recognize specific opportunities, it's depend on availability of information. Availability of information defines mental structure, which provides process of recognizing new information. To recognize an opportunity, every entrepreneur should congruent with previous information and new information. Under cognitive science, Researchers pointed people always combine existing concept and information into new ideas based on their ability.

#### *The model and studies related environmental factors*

Personal decision to become an entrepreneur is not only personal factor issues, but also environment factor issues as well (Bird, 1988). As Stevenson and Jarill (1990) stated that environmental factors are also relevant because environments conducive can direct influence to new business success.

Studies about environmental factors influencing business start-ups come from difference macro economics, institution and cultural characterizing the country or from macro or regional in time period, or specific issue of industries. Even though, a topic related to environmental factors are very abroad and diverse to integrate effectively. As Gnyawali and Fogel (1994) stated there is no integrated scheme to identifying environmental conditions conducive for business activities. Based on literatures, there was many research highlighted different environmental factors on business start-ups, but for needs of this study only six factors considerable.

- (1) Financial support
- (2) Government (policy and programs),
- (3) Education and training,
- (4) Business and professional infrastructure,
- (5) Access to physical infrastructure; and
- (6) Cultural and social norms.

Formation of new organization requires resources include financial resources. When an entrepreneur transforms their idea into a firm, financial resources are important factors to be considered such as financial institution, investors and others. This financial resource use for financing operation such as security deposits, transaction, and others, or for investment such as loans (Evans and Jovanovic, 1989). However, Kim *et al.* (2006) stated that for many reasons, get money from bank loan or investors can be difficult because they just start and it might faced high risk, lenders are usually do not want to provide capital and some compensate through cost of borrowing.

Under the social development theory, government policy and programmes play an important role to ensure quality change in the structure and framework of society that helps the society to realize aim and objectives of life. As previous studies pointed that government policy, institutions, and programmes can influence business start-up in many ways (Reynolds *et al.*, 1994; Yusuf, 1995).

Through cognitive test with student samples (who have studied at a university), Peterman and Kennedy (2003) pointed education is an important factor influencing students cognitive to be an entrepreneur. Feasibility and desirability perceptions also consider as factor influence individual intention to make the decision to be an entrepreneur, especially when they finished their study at university or any education level (Krueger, 1993; Shapero and Sokol, 1982). As

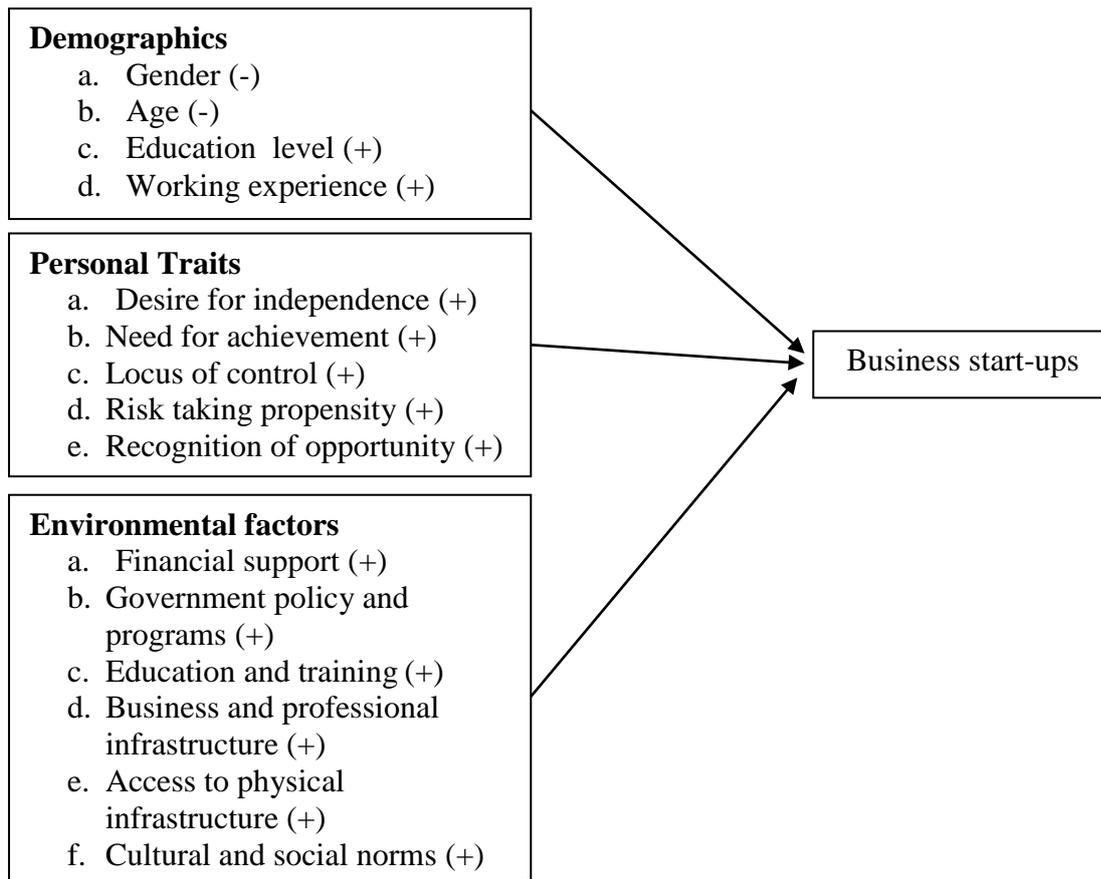
Greene and Brown (1997) noted, a certain amount of knowledge that a person obtains from formal education, working experience or additional training is measurement for a new business venture.

Business and professional services defined as technical and/or unique functions performed by independent contractors/consultants provide professional assistance on business success. Grimaldi and Grandi (2005) stated that Business and Professional infrastructure play important role in providing support services and assistance in business activities.

Infrastructure influencing economic development has been well recorded in the academic studies and in the policy debate (Aschauer, 1989; Munnell, 1990; World Economics Forum, 2013). Moreover, the World Economics Forum reported that good infrastructure plays an important role in macro and micro level enhance effective functioning of economic growth. If at macro level physical infrastructure is an important factor, then at micro level also consider as an important factor. Sahoo *et al.* (2010) stated that good physical infrastructure has been effected on (i) production facilities; (ii) minimizing cost of the transaction and cost of trade can create and improve the competitive; and (iii) provides employment opportunities.

There also appears in society that people often respect for those who have hard work and success started their own business. Through environmental where persons success, potential entrepreneurs and entrepreneurs, where both can discuss ideas, challenges and solutions, new business will be produced (Gomezelj and Kušce, 2013; Ajzen, 1991).

Previous subsections were identified that personal and environmental factors influencing business start-ups. Researchers have proposed conceptual framework of creating new venture which both factors are considerable. Bird (1988) stated that in business creation both personal and environmental define entrepreneurial intentions. Greenberger and Sexton (1988) stated that personal characteristics collaborate with environmental factors determining new venture creation. Thus this study proposed a specific model of the personal and environmental factors influencing business start-ups.



### 3. Methodology

#### *Research design*

The sample has selected based on the enterprises information in the district of Dili and the district of Oecusse. The enterprise information has been collected based on enterprises categorized such as company registration year, number of employment, and type of industry/business. The result showed there are 178 small enterprises became the target of studies, however, only 134 used for the analysis.

#### *Research tool: quantitative research*

This exploratory research will choose quantitatively. The study has investigated the personal and environmental factors on business start-ups.

Part one, the questionnaire form has started with personal information, such as age, gender, education level, and working experience. This information has been considered as factors affecting a person to create a business venture.

Part two, this part related assessment of the important factors were effected a person's decision to start their own business such as personal traits with variable desire for independence; need for achievement; locus of control; risk taking propensity; and recognition

of opportunity. This questionnaire also relation to characteristics of the business environment such as financial support, government support, education and training, business and professional infrastructure, access to physical infrastructure; and cultural and social norms.

Part three, this part related company information, such as type of industry or business, year of establishment, and number of employees. This part has related to small enterprises categorized.

#### *Data measurement and analysis*

This study sets a different statement for each of those dimensions using Likert scale. Each question has a statement followed by a five-point Likert scale ranging from 'strongly disagree' to 'strongly agree'

This study also used two procedure model to analyze the correlation between personal information with factors and also correlation independent factors and dependant factors. For first model, A chi-square analysis of the relationship between demographics and business start-ups. For the second model, the ANOVA procedure will use to analyze the significant level among independent variable and dependent variable.

### **4. Analysis**

#### *Demography characteristics*

The sample represented a diversity of gender, age group, education level, and working experience group. In the category of gender participation, there are male participated in the survey by 90.3% than female participated by 9.7%. Under age category, there are 47.8% of respondent from age 25 to 40 years old, by 41 % of respondents in the range 41 to 50 years old, 6.7% of the respondents from age 51 and above years old, and 4.5% in the range 15 to 24 years old.

In terms of education level, the most responded sample came from participants who finished their Senior High School by 40.3%, following by 37.3% of Junior High School, by 19.4% of Bachelors Degree, by 3.0% of Primary School, Masters Degree and PH.D., was not participating in this study. Most of entrepreneurs who had started their own business has working experience with humanitarian organizations (local or international NGOs) by 32.1%, by 31.3% of profit organization (local or international companies) and unemployed, and by 5.2% with government.

Respondent in the sample came from different business activities, restaurant companies were dominated with 27.6%, by 19.4% of agriculture, by 10.4% of electronic companies, by 9.7% of construction and furniture companies, by 9.0% of health care companies, by 3.7% of hotels, by 5.3 of music, by 3.0% night clubs, by 1.5 of education, and 2.2% have considered as missing date.

*Analysis of level of agreement*

Each question has a statement followed by a five-point Likert scale ranging from 1= strongly disagree, 2=somewhat disagree, 3=neither agree or disagree, 4=somewhat agree, and 5=strongly agree. The levels of the important value are calculated as follows:

$$\frac{5 - 1}{5} = 0.80$$

The mean of each score as following explanation:

4.21 – 5.00 are considered as strongly agree

3.41 – 4.20 are considered as agree

2.61 – 3.40 are considered as neutral

2.81 – 2.60 are considered as disagree

1.00 – 1.80 are considered as strongly disagree

Table 1 Analysis of level of agreement

	DI	NA	LC	RTP	RO	FS	GS	ET	BPI	API	CSN
Mean	4.197	3.609	3.597	3.689	4.244	4.241	4.299	4.343	4.259	4.246	3.264

The mean value of the desire for independence (DI) showed the apparently turned out to be approximately 4. 197 which shows the agree level of agreement, the mean value of the need for achievement (NA) apparently turns out to be about 3.609 which shows the agree level of agreement, the mean value of the locus of control (LC) which the apparently turned out to be about 3. 597 which shows the agree level of agreement, the mean value of the risk taking propensity (RTP) which the apparently turned out to be approximately 3.689 which shows the agree level of agreement, the mean value of the recognition of opportunity (RO) which the apparently turned out to be approximately 4. 244 which shows the agree level of agreement, the mean value of the financial support (FS) which the apparently turned out to be approximately 4.241 which shows the strongly agree level of

agreement, the mean value of the government support (FS) which the apparently turned out to be approximately 4. 299 which shows the strongly agree level of agreement, the mean value of the education and training (ET) which the apparently turned out to be approximately 4.343 which shows the strongly agree level of agreement, the mean value of the Business and professional infrastructure (BPI) which the apparently turned out to be approximately 4. 259 which shows the strongly agree level of agreement, the mean value of access to professional infrastructure (API) which the apparently turned out to be approximately 4. 246 which shows the strongly agree level of agreement, the mean value of the cultural and social norms (CSN) which the apparently turned out to be approximately 3.264 which shows the strongly agree level of agreement.

### *Correlation analysis*

Correlation analysis also statistic tool used to analyze the strength and direction of a linear relationship between two variables. There are a number of different statistical that available, depending on level of measurement. For this study, analysis had focused on a bivariate Pearson product-moment correlation coefficient. A value of the correlation coefficient  $r$  is used to describe the magnitude of the relationship of two variables.

**Table 2** Correlation analysis

	DI	NA	LC	RTP	RO	FS	GS	ET	BPI	API	CSN	BSU
DI	1											
NA	.430**	1										
LC	.493**	.684**	1									
RTP	.354**	.305**	.554**	1								
RO	.650**	.376**	.480**	.388**	1							
FS	.707**	.330**	.324**	.367**	.595**	1						
GS	.814**	.408**	.462**	.334**	.588**	.728**	1					
ET	.806**	.210*	.274**	.275**	.541**	.707**	.766**	1				
BPI	.860**	.295**	.358**	.260**	.531**	.683**	.793**	.825**	1			
API	.791**	.390**	.427**	.351**	.613**	.710**	.818**	.763**	.798**	1		
CSN	.372**	.214*	.213*	.178*	.222**	.288**	.466**	.355**	.371**	.337**	1	
BSU	.733**	.626**	.612**	.354**	.570**	.424**	.516**	.438**	.455**	.550**	.213**	1

The correlation matrix analysis showed that all the variables specified above were related and significant with each other such as desire for independence, need for achievement, locus of control, risk taking propensity; recognition of opportunity, financial support, government support, education and training, business and professional infrastructure, access to physical infrastructure; and cultural and social norms. Moreover, factors under personal and environmental have positive correlation with business start-ups.

*Hypothesis Testing*

Since measurement relationship was consistent with the data, the structure model has evaluated. An examination of the structure model involves significant model to estimate coefficient, which give as basic decision to accept or reject the proposed relationship between latent structure.

Table 2 pointed the result of the model estimate with parameter estimate of the hypothesized chi-square. The results of the model testing with chi-square has showed  $\chi^2$  statistic, degrees of freedom, significant level has been pointed and it has given a basic decision. Based on result, education level and working experience was significant level at 0.05. Two other factors, gender and age, was negative influence on business start-ups.

	Gender	Age	Education level	Working experience
Pearson Chi-Square	5.839 <sup>a</sup>	16.151 <sup>b</sup>	30.271 <sup>b</sup>	30.180 <sup>a</sup>
Df	6	18	18	18
Asymp. Sig.	.441	.582	.035	.036

a. 0 cells (0.0%) have expected frequencies less than 5. The minimum expected cell frequency is 67.0.

b. 0 cells (0.0%) have expected frequencies less than 5. The minimum expected cell frequency is 33.5.

Hypothesis1 demographics were significant relation with business start-up in different way.

Analysis of variance test in table 4 provides the degree of freedom and the significance level of the population; *df1* is one less than the number of sample each of variable, and *df2* is the difference between the total sample size and the number of sample each variable, F statistical and also highlighted significant level at 0.01 and 0.05.

**Table 4** ANOVA Tests of personal traits and environmental factors on business start-up

		Sum of Squares	df	Mean Square	F	Sig.
DI	Between Groups	21.058	4	5.265	54.861	.000

	Within Groups	12.379	129	.096		
	Total	33.437	133			
NA	Between Groups	13.910	5	2.782	18.235	.000
	Within Groups	19.527	128	.153		
	Total	33.437	133			
LC	Between Groups	15.895	6	2.649	19.178	.000
	Within Groups	17.542	127	.138		
	Total	33.437	133			
RTP	Between Groups	4.519	5	.904	4.001	.002
	Within Groups	28.918	128	.226		
	Total	33.437	133			
RO	Between Groups	12.307	6	2.051	12.328	.000
	Within Groups	21.130	127	.166		
	Total	33.437	133			
FS	Between Groups	6.456	4	1.614	7.717	.000
	Within Groups	26.981	129	.209		
	Total	33.437	133			
GS	Between Groups	9.154	4	2.289	12.158	.000
	Within Groups	24.283	129	.188		
	Total	33.437	133			
ET	Between Groups	7.518	3	2.506	12.569	.000
	Within Groups	25.919	130	.199		
	Total	33.437	133			
BPI	Between Groups	7.946	4	1.987	10.053	.000
	Within Groups	25.491	129	.198		
	Total	33.437	133			
API	Between Groups	10.815	4	2.704	15.419	.000
	Within Groups	22.622	129	.175		
	Total	33.437	133			
CSN	Between Groups	3.214	5	.643	2.722	.023
	Within Groups	30.223	128	.236		
	Total	33.437	133			

Based on the result analysis of variance in table 4, the decision has been made as follows:

Hypothesis 2 Personal traits were positive relation with business start-up.

Hypothesis 3 Environmental factors were positive relation with business start-up

## **5. Conclusion**

### *Conclusion*

Small enterprise has been playing an important role in the economic development of every country. Small enterprises participation in economic development provided direct impact on creating jobs, creating competitive advantage, and an important career option. However, there are different characteristics of entrepreneurs and the reasons behind them to build an enterprise.

1. In four factors of demographic, there are only two factors affecting on business start-ups. If the education level and working experience are not part of the initial process (preparation), self confidence for business start-ups will change with different direction. Two other factors of demographics are gender and age are no statistical significant, so no conclusion can draw with this relationship with business start-ups.
2. Personal traits have positive relation with business start-ups. Individuals with personal traits will adapt every challenge and find a way to do the right things. Strong characteristics are needed to start a business venture.
3. Environmental factors have positive relation with business start-ups. environmental factor play important role to protect and facilitate economic moviment through institution and regulation. Lack of facilities, professional services and regulation can change with different direction.

### *Implication of the study*

The outcomes of this study pointed a successful utility the concept of personal and environmental factors as a conceptual framework to identify how a person creates their own business.

Previous researches were pointed that demographics, personal traits, and environmental factors are important factors for business start-ups. Related studies were held in many countries, but all these researchers focused on existing entrepreneurs and potential entrepreneurs. Measurement for potential entrepreneurs are somewhat “fuzzy” due there is no available information related potential entrepreneurs. Therefore, this study focused on existing entrepreneurs.

This study is the first study related with Timor-Leste context. The contribution of this study is to provide and initiate information for next interest study. Based on behavioral theory, personal interest comes because there was available and comprehensive information, and this

study can contribute in this content. Moreover, this study also contributes to potential entrepreneurs to aware personal and environmental factors, education institutions as service institutions should aware of these factors and design learning curriculum based on practical issues, financial service providers are needed to improve their quality and accessibility services, government as a public servant should develop regulation, provide capacity building to potential entrepreneurs to participate in economic activities.

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