



# New business start-up and subsequent entry into self-employment

Lars Kolvereid <sup>\*</sup>, Espen Isaksen <sup>1</sup>

*Bodø Graduate School of Business, N-8049 Bodø, Norway*

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## Abstract

The present research focuses upon new businesses which are started from scratch. The theories of reasoned action and planned behavior are used to formulate hypotheses concerning self-employment intentions and subsequent entry into self-employment. The hypotheses are tested using longitudinal data from 297 Norwegian business founders. The results suggest that salient beliefs concerning self-employment determine attitudes toward self-employment, that attitude and subjective norm determine intentions to become self-employed, and that intentions to become self-employed determine actual entry into self-employment. The findings strongly support the theory of reasoned action, but provide no support for the extension of the theory represented by the theory of planned behavior.

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## 1. Executive summary

This study draws upon the theory of reasoned action (TRA) and the theory of planned behavior (TPB) to develop hypotheses concerning the antecedents of attitudes toward self-employment, intentions to become self-employed and actual entry into self-employment.

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<sup>\*</sup> Corresponding author. Tel.: +47 75517200; fax: +47 75517268.

*E-mail addresses:* [lars.kolvereid@hibo.no](mailto:lars.kolvereid@hibo.no) (L. Kolvereid), [espen.john.isaksen@hibo.no](mailto:espen.john.isaksen@hibo.no) (E. Isaksen).

<sup>1</sup> Tel.: +47 75517200; fax: +47 75517268.

Self-employment is defined as a continuous construct, measured by the number of average weekly hours spent working for the business. This is likely to be a more accurate indicator of self-employment than, for example, a simple self-reported yes/no answer.

Kolvereid (1996a) identified several reasons for preferring a career as self-employed to a career as organizationally employed. According to the TRA and the TPB, these reasons are salient beliefs concerning self-employment that determine individuals' attitude toward self-employment (Hypothesis H1). According to the TRA, intentions to become self-employed are determined by attitude and subjective norm (Hypothesis H2a). The TPB is essentially an extension of the TRA that include perceived behavioral control (PBC) as a third antecedent of intentions and behavior. Perceived behavioral control is similar to self-efficacy. However, self-efficacy may be the preferable construct, because it is more clearly defined. It has also been found to accurately predict behavioral intentions (Armitage and Conner, 2001). Four different entrepreneurial self-efficacy factors were identified and expected to be positively associated with self-employment intentions (Hypothesis H2b): (1) opportunity recognition, (2) investor relationships, (3) risk-taking and (4) economic management. Both theories state that intention to become self-employed is related to entry into self-employment (Hypothesis H3a). According to the TPB, behavior is not only determined by intentions, but also by self-efficacy (PBC) (Hypothesis H3b).

Data was collected in a mail survey from 1048 businesses that in May–June 2002 recently had been registered in the Norwegian Central Coordinating Register for Legal Entities. The register was opened in 1995 and is continuously updated with new business registrations. Virtually, every new business in the country has to register before it is allowed to start trading or hiring. Legal registration can be used as an indicator of new business birth since there is a very high correlation between self-reported start-up among nascent entrepreneurs and legal registration in Norway (Magnussen, 1997). Follow-up data was collected from 651 respondents using telephone interviews about 19 months after the initial mailing. Removing businesses that were no longer in operation, businesses that were not started and owned by the respondent, businesses that were not started from scratch, businesses started by portfolio entrepreneurs and respondents who failed to submit complete data reduced the final sample to 297. Sample and response bias checks were carried out, and no significant differences between participants and non-participants were found.

The hypotheses were tested using hierarchical regression. All the three hypotheses derived from the theory of reasoned action received strong support. However, no support was found for the extension of the theory represented by the theory of planned behavior. The entrepreneurial self-efficacy factors did not contribute significantly to the explanation of the variance in intentions to become self-employed or entry into self-employment. Two different explanations of these findings are suggested. First, according to the theory of planned behavior, if the behavior is under complete volitional control, entrepreneurial self-efficacy should not be expected to be strongly associated with intention and behavior. It is possible that entrepreneurs in Norway face a more munificent environment than entrepreneurs in other nations. In other countries, where resources are scarce and competition more hostile, becoming self-employed may be under less volitional control and entrepreneurial self-efficacy more important. Another possible explanation of the findings is found in the measures applied. While the measures of salient beliefs, attitude and subjective norm concern self-employed specifically, the self-efficacy measures are

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