



# Entrepreneurial Self Efficacy and Institutional Forces on New Business Creation in Kuwait

Hanas Cader<sup>a</sup>

<sup>a</sup>American University of Kuwait, Salmiya and Kuwait. mcader@auk.edu.kw

## Abstract

Previous studies indicate that entrepreneurs create businesses primarily for economic reasons. Socioeconomic, cultural and other environmental factors considerably influence the entrepreneurial process and outcomes. Kuwait appears to have highest prevalence of entrepreneurship in any economy as there is one private business for every two Kuwaiti. The objective of this study is to examine how the institutional and cultural makeup of the local/indigenous Kuwaiti society shapes the entrepreneurial outcomes in Kuwait. A survey was conducted among 115 new entrepreneurs in Kuwait who have started a business within last 3 years to collect the data to assess the entrepreneur's personal background, personal aspiration to start a business, and ownership structures. Financial motives are the strongest motive for the entrepreneurs start a new business followed by to be independent or to be own boss.

**Keywords:** *entrepreneurs; fulltime job; partnership business; self efficacy*

## 1. Introduction

Entrepreneurs are either value creators or non pecuniary benefits gainers. Previous studies indicate that entrepreneurs create businesses primarily for economic reasons. The level of entrepreneurship varies across the countries (Stel, 2005). Socio-economic and other environmental factors considerably influence the entrepreneurial process and outcome. Some of the known factors that determine the level of entrepreneurship are demographic, cultural and institutional characteristics (Blanchflower, 2000; Wennekers, 2006; Verhuel et al, 2002). These institutional characteristics can be formal or informal and provides norms within which the economy could function. The local/indigenous entrepreneurship tends to provide some sense of economic independence, self determination and cultural preservation (Buttler and Hinch, 1996). According to 1989 International Labour Organisation (ILO) Convention (C169) on indigenous/local people do have "...irrespective of their legal status, retain some or all of their own social, economic, cultural and political institutions" (p.2). The Kuwaiti law permits only the locals can start new businesses or requires a local partner who holds majority of the stake in the new company.

Kuwaiti demographic composition is highly skewed towards the expatriate population where, the expatriate population constitutes about 84% of the labor force in 2008 (Kuwait Ministry of Planning, 2008). Most interestingly, there are about 25,000 private business establishments in the economy (Al-Saif, 2009) and the total number of locals employed in the private sector is 55,637 (Kuwait Ministry of Planning, 2008). It means that in Kuwait, there is one private business for every two Kuwaiti. This could be one of the highest prevalence of entrepreneurship in any economy. The new business startup or pursuit of an entrepreneurial activity reflects a series of steps that an entrepreneur has to take in order to start a successful business (Shaver & Scott, 1991). Finding the reasons and historical backgrounds to start a business will provide some insight into differences in persistence and kind of entrepreneurial activity among the entrepreneurs (Gate-wood et al., 1995). The objective of this study is to examine how the institutional and cultural makeup of the local/

indigenous Kuwaiti society shapes the entrepreneurial outcomes in the Kuwait economy.

## 2. Data and Methodology

A survey was conducted among 115 new entrepreneurs who have started a business within last 3 years to collect the data to assess the entrepreneur's personal background, personal aspiration to start a business, and ownership structures. The study sample consist of the business within last 3 years to improve the reliability of knowing the reasons that lead the business start-up and if the new business is more than 3 years the entrepreneurs may have forgotten the real reason to start the business. The survey was designed to collect information on ownership, mode of operation of the business, underlying motivation to start the business, number of Kuwaiti and non-Kuwaiti employees, whether the entrepreneur had a full time job etc. This study was undertaken during 2010 spring semester over a period of 3 months at the American University of Kuwait. Part of the objective of the survey was to examine the new trend in labor force as Council of Ministers issued the proportions of the national labor required by the relevant non-governmental organizations, as economic activity in individual firms. In this regard, the entrepreneurs are supposed to hire and maintain certain percentage of Kuwaiti's in their firms. The survey questionnaire was prepared in English and a total of 115 questionnaires were returned and 11 of them were dropped due to incomplete information.

The study also focused on mode of operation of the business. Since the Kuwaiti law permits only to Kuwaiti's can own or register businesses, there is a tendency to create businesses and transfer the operation to non-Kuwaiti person. This process is commonly known as "absente business ownership." The absente ownership potentially can differentiate the real entrepreneurs from commission business owners. Heider (1958) used the "attribution theory" to explained performance of individual's activities. According to Heider (1958) four explanatory factors can be used to explain an individual's performance: the individual's ability, effort, the difficulty of the task, and the presence of luck. Based on Heider's attribution theory in individual can be considered as an entrepreneur, if the business owner has the ability and exert an effort to run the business successfully.

The survey data were analyzed using the SAS statistical software PROC FREQ procedure. The PROC FREQ procedure was specified with more than two rows and columns of categorical variables that were considered to be important for entrepreneurial outcomes. The CHISQ option of the procedure estimated Chi-square test and the level of significance for the null hypothesis being that there is no difference in the column variables across the row variables.

## 3. Results

Of the surveyed responses, about 58 percent of the businesses were sole proprietary businesses, while the remaining were partnerships. Of the mode of operation, the majority of them were owner operated (62%) and about 15 percent of the businesses were operated by hired managers. A same percentage (about 14%) of sole proprietors and partnership own businesses were operated using the hired managers,  $c2(4, N = 103) = 3.02, p = .55$ . About 20 percent of the businesses were started within first year, another 25 percent within last 1- 2 years and 56 percent within last 2- 3 years  $c2(2, N = 103) = 0.23, p = .89$ . Interestingly, the majority of the sole proprietary businesses were started within the last one year and as the firms became older, more businesses had become partnership businesses. Some of the previous research indicates that there is little overlap between the entrepreneur and manager/operator in terms of successfully running the business (Churchill, 1983; Shaver & Scott, 1991). In such cases, we would expect more non-owner operated (hired or other type of management) businesses with the age of the business. To our surprise, we found that among the businesses that were started within least one year only 6 out of 21 businesses were non-owner operated while 24 of 57 businesses that were started within last 2-3 years were non-owner operated  $c2(8, N = 103) = 8.48, p = .39$ . Our result is consistent with some previous studies. Holmes and Schmitz (1990) found that as the time passes the skills required to directed resources changes and which often reflects changes in personnel or organizational emphasis or both.

Interestingly, over all about 72 percent of the entrepreneurs had a full time job before starting their business. This ratio was equal in sole proprietor businesses and partnership businesses. This phenomenon is commonly known as “Hybrid Entrepreneurs” where the entrepreneurs run their own business while retaining their full time job elsewhere. A recent study by Folta et al., (2010) found that the hybrid entrepreneurship represents a significant share of total entrepreneurship activity. This process also could be an indication of risk minimization from the part of entrepreneurs. About 65 percent of those who have a full time job are also operates or run the businesses. Surprisingly, about 58% of those who had the job had it in the government sector. Kuwait labor market is a very complex market, where the private sectors function in a different daily routine to a public sector. Further, the public sector labor is commonly known for its unproductiveness. As Al-Enzi (2002, P. 889) suggested that “the concentration of national labor in the government sector had lead to lowering the productivity in the public sector and underutilization of human resources in this sector constitutes a waste of workforce which could be deployed in a more productive manner elsewhere in the Kuwaiti economy.”

About 10 percent of the entrepreneurs who did not own a business prior to starting the new business, received support from the government to start the business, while 7 percent of those who already owned the business received government support. The entrepreneurs were asked “you decided to start the business/ take over the business because of” and about 7 reasons/options were stated having eight for any other reasons. These seven stated reasons were chosen based on previous research. These reasons were ranged from to be independent/own boss to benefit the community (social entrepreneurship). About 17% of them have more than one reason to start a business. The reason to start the business and respective percentage of the responses are stated in table 1 below,

Table 1: Reason for Starting a Business

<b>Criteria</b>	<b>Percentage</b>
Independence and to be own boss	28.23
Financial reasons, make money	33.87
Difficulty finding suitable employment in the private sector	0.81
Difficulty finding suitable employment in the public sector	1.61
Develop idea, hobby or skill	19.35
Continue family tradition	8.06
Social enterprise, benefit of community, not just make money	8.06

The majority of the entrepreneurs start their businesses for financial reason or to make money, while a significant number would like to be independent. Although, we expected that a considerable number of entrepreneurs would step-into the business to continue family tradition, we found them to be insignificant. Interestingly, about 17 percent of the sole proprietors started their business, because they wanted to be independent or to be own boss, while about 22 percent of the sole proprietors start their business for financial reasons or to make money. Only about 15 percent of the sole proprietors who also operate the business start their businesses to be independent or to be their own boss, while 11 percent of them started their business for financial reasons. About 33 percent of those who already had a business prior to the start-up of the current business stated that the new business start-up is either for financial or to be their own boss.

#### **4. Conclusion**

In this paper, that are likely to have an impact on entrepreneurs’ decision to start a business in Kuwait is examined. The entrepreneurs’ economic background was used to explain the different motives for the entrepreneurs to start a new business. The majority of the entrepreneurs starts their businesses either for financial

reasons or need to be independent. More than two third of entrepreneurs have a full-time job as they venture their enterprise. This result is very much contrast to other studies, where as the entrepreneurs with full-time job only account about 50% of the nascent entrepreneurs (Reynolds et al., 2004). The majority of the hybrid entrepreneurs have a public sector job, yet other studies indicate public sector employees are not entrepreneurial (Özcan & Reichstein, 2009). However, the prevailing public sector labour market condition indicates surplus employment and a spillover effect of crowding-out to entrepreneurial opportunities.

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