

The State of Nascent Indonesian Entrepreneurs

Shelvi Shelvi¹, Agus Gunawan^{1,2}, Jol Stoffers^{1,2,3,*}, Urip Santosa¹, Angela Caroline¹

¹Business Administration Department, Faculty of Political and Social Science, Parahyangan Catholic University, Indonesia

²Zuyd University of Applied Sciences, Research Centre for Employability, The Netherlands

³Master of Management Program, Graduate School, Parahyangan Catholic University, Indonesia

*Corresponding author's email: [jol.stoffers \[AT\] zuyd.nl](mailto:jol.stoffers[at]zuyd.nl)

ABSTRACT----- *This study examines whether internal or external factors that influence Nascent Indonesian Entrepreneurs (NIE) require more support. Findings can help the government provide effective policies to support NIE. Data were collected using the Global Entrepreneurship Monitoring (GEM) questionnaire, completed by 1,015 respondents from 23 provinces in Indonesia who are nascent entrepreneurs from the Adult Population Survey (APS). Judgements from 37 Indonesian experts from the National Expert Survey (NES) were also collected. The study was conducted using mixed methods, with quantitative research (i.e., descriptive statistics), qualitative research (i.e., focus-group discussion), and a literature review. Internal factors of NIE show good results, with high perceived opportunities, self-efficacy, and role models, and low fear of failure. However, some external factors, such as government policy and education entrepreneurship, should be improved. Since this study focuses on the big picture of NIE, there were no age, gender, or demographic differences. This study is first to support NIE by researching the entrepreneurial ecosystem.*

Keywords---- Nascent Entrepreneurs, GEM, Indonesia

1. INTRODUCTION

Entrepreneurship is a crucial factor of economic growth in developing countries [12]. When Indonesia experienced a financial crisis during 1998, entrepreneurs, especially SMEs, survived the crisis, and since then, the government has focused more on entrepreneurial matters. In 2016, Joko Widodo, President of The Republic of Indonesia, declared that the country lacks businesspeople, and needs up to 5.8 million more entrepreneurs to reach the ASEAN average of 4% of the population [10]. More entrepreneurs means that more people are expected to start their own businesses, and consequently, there will be an increase in nascent entrepreneurs [24].

The GEM Report of Indonesia 2013–2016 found that only 4% of 5,620 adults who participated in APS are involved in setting up a business, or are categorised as nascent entrepreneurs. Results regarding nascent Indonesian entrepreneurs (NIE) is always below the average of nascent entrepreneurs in ASEAN. The small number of NIE indicates that creating a business is more difficult than it seems. Various challenges—internal and external—hamper prospective NIE when starting a business. This study explains how internal and external factors influence NIE so that policy-makers can contribute valuably and effectively. Internal variables were chosen based on extant research. For example, Wagner [24] examines whether nascent entrepreneurs from 29 countries have typical characteristics, concluding that most nascent entrepreneurs are influenced greatly by internal factors such as opportunities, self-efficacy, and role models. Other researchers argue that determinants of nascent entrepreneurs include opportunities [17], self-efficacy [8, 17], education [7, 20], and role models [12]. Those factors are promising resources for entrepreneurial learning and inspiration [12, 17]. Fear of failure—common when starting a new business—also needs to be considered in research [5].

Besides internal factors, external factors, such as the entrepreneurial ecosystem, influence NIE. The entrepreneurial ecosystem is used to assess external factors that influence NIE. When factors are established and maintained haphazardly, they become entrepreneurial inhibitors [19], suggesting two research questions that should be addressed:

RQ1. Which internal and external factors require more support from the government?

RQ2. How can lacking factors discovered in RQ1 be influenced?

2. LITERATURE REVIEW OF NASCENT ENTREPRENEURS

Nascent entrepreneurs are discussed increasingly in the literature because interest in starting businesses has grown in recent years [21]. The first time the term nascent entrepreneur was used was in a conference paper from 1992 [6]. Since

then, many researchers have tried to define the term. In this paper, the term is defined by GEM [11]:

“A person who is trying to start a new business, expects to be owner or a part owner of the new firm, who tried to start a new firm in the past 12 months and whose start-up did not yet have a positive monthly cash flow that covers expenses and the owner-manager salaries for more than three months.”

2.1 Internal Factors

Internal factors are the characteristics of individuals that allow them to start a business. There are many such factors, but to make it feasible, only several factors were chosen to represent nascent entrepreneurs. Opportunities, self-efficacy, education, role models, and fear of failure are determinants regarding whether people become nascent entrepreneurs. Further explanations of these factors appear below.

2.1.1 Opportunity

Bygrave [4] argues, “An entrepreneur is someone who perceives an opportunity and creates an organization to pursue it.” We argue that it is extremely important to see opportunities, and without the skill, it is difficult for someone to start a business, especially in contemporary markets characterised by high competition.

2.1.2 Self-efficacy

Extant research traditionally defines self-efficacy from a physiological or social viewpoint. For example, self-efficacy is a person’s judgement of their capabilities [25], or self-confidence to perform a particular task [1]. However, GEM [11] defines it regarding entrepreneurs—a person’s belief that he/she has the required skills, knowledge, and experience to start a new business.

2.1.3 Role Model

Role models are familiar to entrepreneurs, and most research finds positive outcomes regarding role models and entrepreneurship. Some research even suggests that the influence of role models on entrepreneurship varies according to age and gender, but it always has a positive influence [12,14]. It also influences individuals to engage with more passion, and therefore plays a role in nascent entrepreneurs [3].

2.1.4 Educational Level

Extant research categorises education as a component that provides skills to entrepreneurs and influences performance, and that greater formal education triggers people to start their own businesses [7, 20]. Although some research suggests a positive outcome, Kvedaraitė [13] found that students at Lithuania University with greater education are uninterested in starting a business, and prefer working as an employee of another business.

2.1.5 Fear of Failure

Fear of failure is common when starting a new business because it is a plunge into uncertainty [5]. Research suggests that fear of failure has severe negative impacts on nascent entrepreneurial behaviours, and increases the chances of discontinuance [2, 5, 15].

2.2 External Factors

Governments worldwide are providing supportive environments to promote entrepreneurship [22]. Supportive conditions for entrepreneurship can be realised if there is more concern for the entrepreneurial ecosystem. As extant research suggests, an entrepreneurial ecosystems approach offers a new, distinctive perspective on the geographical clustering of economic activity [16]. The GEM conceptual model measures the entrepreneurial ecosystem in terms of entrepreneurial framework conditions (EFC), consisting of financial support, government policies, government programs, education and training, research and development transfer, commercial and professional infrastructures, market openness, access to physical infrastructures, and cultural and social norms.

From nine EFCs, two conditions serve as a primary topic—government policies of tax and bureaucracy, and education and training—in basic schools. GEM defines government policies as the extent to which a government supports new and growing firms, divided into entrepreneurship priority and support, and tax and bureaucracy. Educational training means the availability and effectiveness of entrepreneurial education and training in institutes of learning in the country. Education training is divided into primary and secondary schools, and post-secondary education and training.

3. RESEARCH METHOD

RQ1 was addressed using the Indonesian Adult Population Survey (APS) and the National Expert Survey (NES) from GEM 2015–2016. GEM is the world’s foremost research institution regarding entrepreneurship, providing high-quality information and comprehensive reports concerning entrepreneurship [11]. In Indonesia, the most recent Indonesian GEM

dataset is owned by Parahyangan Catholic University, as a representative of GEM in Indonesia.

Table 1: Framework Conditions in the National Expert Survey 2016

No	Framework Condition	Targeted Expert
1	Entrepreneurial Finance	Bankers, public managers of financial programs or grants, venture capitalists, social venture capital, entrepreneurs, business people in general.
2	Government Policy	Public charges related to economics, enterprises, environment, taxes, development agencies and entrepreneurs exposed to these policies.
3	Government Entrepreneurship Program	Public charges related to government programs, public agencies, business associations, development agencies, entrepreneurs and people to whom the programs are addressed.
4	Education and Training	All type of professors (school, college, university, professional or vocational education), civil servants whose job relate to education and entrepreneurs.
5	Research and Development Transfer	Personnel in the industry, innovation, development and growth, public or private agencies, scientific park personnel, university researchers, engineers, entrepreneurs related to this industry such as technological and/or scientific.
6	Commercial and Professional Infrastructure	Lawyers, accountants, consultants, economists, market analysts, survey vendors, entrepreneurs that need these professionals, providers of them in general.
7	Market Openness	Market analysts, researchers at universities or business schools, business associations, commerce chambers, governmental agencies related with economy and its development, entrepreneurs.
8	Physical Infrastructure	All type of businesses and utility providers (gas, water, phone, electrics), engineering, real estate, governmental agencies related with infrastructures, industrial parks, entrepreneurs.
9	Cultural and Social Norms	Business associations, press, media in general, customers, providers, sociologists, entrepreneurs, foundations, researchers, trade unions.
10	Social Entrepreneurship	Civil society organizations including NGOs, trade unions, faith-based organizations, indigenous peoples' movements and foundations.

Source: [19]

Government policy and entrepreneurship have been examined using NES to learn about external factors and entrepreneurial attitudes using APS, and examine NIE internal factors. APS consists of a sample of 5,620 males and

females aged between 18 and 64 years from 34 provinces. Of that sample, 1,015 were nascent entrepreneurs, consisting of 52% male and 48% female. NES was designed to assess all EFCs, revealing rankings from 37 Indonesian experts. The experts were chosen using several criteria in accordance with the GEM provision (Table 1). The experts completed a closed questionnaire consisting of 57 statements about factors related to conditions that comprise the country's entrepreneurial environment.

RQ2 was addressed by conducting a focus-group discussion with 5 experts in the fields of taxes and entrepreneurs. The focus group was directed from preparation until completion. During the preparatory section, the experts were informed about the topic (i.e., the entrepreneurial ecosystem), and focused on government policy regarding tax and bureaucracy. Next, the experts gave statements or responded to questions. Closing the session, there were several points presented from the conclusion in this study. A literature review was also conducted to ground the approach and findings.

4. FINDINGS

Findings from APS were:

Table 2: Internal Factor on NIE

	Opportunity	Self-Efficacy	Role Model	Fear of Failure	Level of Education
Frequency (%)	77.4%	89.0%	85.2%	60.2%	58.5%
Total Sample	1015				

Source: GEM, 2016

Table 2 shows that 77.4% of respondents agreed that there will be good opportunities if entrepreneurs start new businesses. 89% and 85.2% of respondents agreed that they have the knowledge, skills, and experience required to start a new business, and know someone personally who started a business, respectively. Results regarding fear of failure show that 60.2% of respondents are unafraid to start a business, and less than half of respondents are hindered by fear of failure. 58.5% had similar education (i.e., high school graduates). Results from cross-tabulation between education and perceived opportunities, self-efficacy, role models, and fear of failure suggest no relationships. Both low and high education appear to affect perceptions of opportunities, self-efficacy, role models, and low fear of failure.

An overview of Indonesian EFC is:

Table 3: Indonesian EFC 2015

No.	EFC	Score
1	Entrepreneurial Finance	4.9
2	Government Policies: Support and Relevance	5.1
3	Government Policies: Taxes and Bureaucracy	4.4
4	Government Entrepreneurship Programs	4.8
5	Entrepreneurship Education at School Stage	4.4
6	Entrepreneurship Education at Post-Stage	5.9
7	R&D Transfer	4.9
8	Commercial and Legal Infrastructure	4.8
9	Internal Market Dynamic	6.2
10	Internal Market Burdens or Entry Regulation	4.6
11	Physical Infrastructures	5.2
12	Cultural and Social Norms	5.8

Source: [19]

Table 3 shows the average Indonesian EFC obtained from the experts. Score ranges were divided by GEM from 1 (completely false) to 9 (completely true) for 12 EFC. The experts assessed government policies regarding taxes and bureaucracy (4.4) and entrepreneurship education at the school stage (4.4) lowest. Most experts emphasised improving

the lowest score to avoid inhibitors. Tax regulations related to NIE were analysed, and an interesting finding emerged. In 2013, the Indonesian government enacted tax regulations for businesses categorised as SMEs. The regulation stipulates that taxpayers, individuals, and entities that have turnover not exceeding IDR 4.8 billion in 1 tax year are subject to a final tax of 1% of turnover. This implies that the tax has already been paid by the taxpayer and cannot be reckoned or credited at the end of a tax year, regulated in Government Regulation No. 46 of 2013 on Income Tax on Income from Business Received or Obtained by a Taxpayer having Certain Gross Income. During the focus group, it was found regarding this regulation that 1) the 1% tax rate policy neglects the equality principle, and 2) it facilitates the process of paying the tax, but does not support the sustainability of a business, especially for NIE.

5. DISCUSSION

Results concerning internal factors were unexpected. Although education does not factor greatly, respondents possess enough self-confidence, with high perceptions of skills, knowledge and opportunities, and they report having a role model to start a business. Cross-tabulation between education and other internal factors suggest that those who have high or low education have a similar tendency to have perceived opportunities, self-efficacy, and role models. This result accords with extant research, which suggests that these variables increase the probability of entrepreneurship [12,17, 25]. Cacciotti and Hayton [5] argue that fear of failure is an inhibitor of entrepreneurship, but in this study, only some respondents were afraid to start a business because of fear of failure. Most respondents did not consider fear of failure a hindrance to starting a business.

Two conditions should be highlighted concerning external factors. First is the government's policy of tax and bureaucracy. The focus group considered the 1% tax to be small and able to accommodate taxpayers by simplifying tax obligations. However, each taxpayer has a different business with disparate profit margins. If a nascent entrepreneur (e.g., wholesaler, distributor, small trader, etc.) has yearly turnover lower than IDR 4.8 billion, with a small profit margin (e.g. 5% of turnover), then 1% of gross income is paid to taxes. A profit margin of 5% will certainly decrease by 1%, and is reduced by cost of goods sold and other expenses. The remaining net profit therefore becomes smaller if during the year income is unable to cover expenses and the company suffers losses. Nascent entrepreneurs still have to pay 1% tax, even though they already realised a loss. This policy raises the question of the pros and cons to society. 1% might appear insignificant, but a calculation based on turnover might be unfair or inappropriate to supporting entrepreneurs to stimulate economic growth, especially for NIE. Therefore, the Employers' Association of Indonesia or Indonesian Young Entrepreneurs Association should approach the government and discuss the regulation with the Ministry of Trade, and deliver it to the Ministry of Finance, to evaluate the government regulation regarding whether a 1% tax should be paid over an entrepreneur's turnover. One solution would be to give more freedom to NIE to choose the payment of tax. NIE can choose between the 1% rate or use the norm (i.e., net income) during tax calculations. This would support NIE more, especially during difficult circumstances.

5.1 Second, Entrepreneurship Education at School Stage

Many studies discuss the importance of entrepreneurship education and proposed education programs to sustain entrepreneurship from an early stage [23]. Even ASEAN piloted an entrepreneurship curriculum for ASEAN countries. The curriculum consisted of methods and teaching for Bachelor's degrees, targeting newly graduated high school students. Many also provide training programs for nascent entrepreneurs to improve their skills, as practiced by the Philippines. The Philippines provides free education programs for people who did not receive elementary and high school degrees [9]. Extant research suggests that introducing entrepreneurship to primary and/or secondary students exposes the concept of business ownership as an option of employment. It also gives students a clear perception about business and entrepreneurship, comprising its principles, its composition, and the association of business across sectors [9]. Other studies suggest that students who participate in entrepreneurship programs increase the possibility of starting their own businesses [18]. Therefore, provision of entrepreneurship education at the primary and secondary levels is an excellent way to improve the chances of an individual becoming a nascent entrepreneur. The Indonesian government implemented entrepreneurial learning in education curricula in 2013, using the Link and Match program for secondary and tertiary students. Unfortunately, these programs cover only about 25% of secondary students, and were not designed to promote entrepreneurship for secondary students, presenting it only as a subject of local content. Preferably, the government should offer entrepreneurship education as in other countries, such as the Philippines, which offers entrepreneurial learning through its Technology, Livelihood, and Entrepreneurship (TLE) program. The program allows children from grade 4 (primary school) to learn more about entrepreneurship, and promotes entrepreneurship as an option for future careers.

6. CONCLUSION

Regarding RQ1, it was found that NIE need more support of external versus internal factors. For RQ2, the focus group discussion revealed several points, such as government regulations on the 1% tax policy are perceived as less favourable to NIE. The government should give NIE a choice regarding tax payments. The government should also educate NIE about taxes, considering that most NIE have low education. Regarding entrepreneurship education,

Indonesia lacks an entrepreneurship program in basic schools. The government should increase recognition and awareness of entrepreneurship for young potential entrepreneurs, especially in basic schools, so that in the long-term, the number of nascent entrepreneurs increases. The government should also follow the Philippine's program, which focuses on TLE in basic school curricula. Future research should review the impact of implementation of the 1% tax on NIE satisfaction to obtain more accurate and comprehensive results.

7. REFERENCES

- [1] Amatucci, F. M., & Crawley, D.C. (2011). Financial Self-Efficacy Among Women Entrepreneurs. *International Journal of Gender and Entrepreneurship*, 3(1), 23–37.
- [2] Berger, P. K. (2014). *The Role of Fear For Entrepreneurial Venture Creation—Causes of Failure Before and After Foundation* [Dissertation]. Bremen, Germany: University Bremen.
- [3] Bosma, N., Hessels, J., Schutjens, V., Van Praag, M., & Verheul, I. (2011). *Entrepreneurship and Role Models* (Tinbergen Institute Discussion Paper; No. TI2011-61/3). Amsterdam/Rotterdam, the Netherlands: Tinbergen Institute.
- [4] Bygrave, W. D. (2010). *Entrepreneurship* (3rd edition). Hoboken (NJ): John Wiley & Sons.
- [5] Cacciotti, G., & Hayton, J. C. (2014). *Fear of Failure and Entrepreneurship: A Review and Direction for Future Research*. [ERC Research Paper]. Coventry, UK: Warwick Business School & Enterprise Research Centre (ERC).
- [6] Davidsson, P. (2006). Nascent Entrepreneurship: Empirical Studies and Developments. *Foundation and Trends in Entrepreneurship*, 2(1), 1–76.
- [7] Davidsson, P., & Honig, B. (2013). The Role of Social and Human Capital Among Nascent Entrepreneurs. *Journal of Business Venturing*, 18(3), 301–331.
- [8] Dempsey, D., & Jennings, J. (2014). Gender and Entrepreneurial Self-Efficacy: A Learning Perspective. *International Journal of Gender and Entrepreneurship*, 6(1), 28–49.
- [9] Eria & Organisation for Economic Cooperation and Development (OECD) (2014). *Promotion of Entrepreneurial Education*. Jakarta, Indonesia: Economic Research Institute for ASEAN and East Asia
- [10] Feillard, G. N. (2016, October 6). Indonesia's New Entrepreneurs, Free of Old Patronage Circles. Retrieved on 11-16-2017 from <http://www.straitstimes.com/opinion/indonesias-new-entrepreneurs-free-of-old-patronage-circles>
- [11] GEM (2017). About GEM. Retrieved on 11-16-2017 from <http://www.gemconsortium.org/about/news>
- [12] Karimi, S., Biemans, H. J., Lans, T., Chizari, M., & Mulder, M. (2014). Effects of Role Models and Gender on Students' Entrepreneurial Intentions. *European Journal of Training and Development*, 38(8), 694–727.
- [13] Kvedaraite, N. (2014). Reasons and Obstacles to Starting a Business: Experience of Students of Lithuanian Higher Education Institutions. *Journal of Contemporary Management*, 1(19), 1–16.
- [14] Lafuente, E. M. & Vaillant, Y. (2013). Age Driven Influence of Role-Models on Entrepreneurship in a Transition Economy. *Journal of Small Business and Enterprise Development*, 20(1), 181–203.
- [15] Lukeš, M., & Zouhar, J. (2016). The Causes of Early-Stage Entrepreneurial Discontinuance. *Praque Economic Papers*, 25(1), 19-36.
- [16] Mason, C. & Brown, R. (2014). *Entrepreneurial Ecosystems and Growth Oriented Entrepreneurship* [Paper]. The Hague, the Netherlands: OECD & LEED.
- [17] Mateo, J. M., Solves, I. M., & Gómez Gras, J. M. (2013). Influence of the Economic Cycle on the Determinants of Nascent Entrepreneurial Activity. An Empirical Analysis of the Spanish Case. *Investigaciones Reginales*, 26(1), 19-45.
- [18] Matlay, H. (2008). The Impact of Entrepreneurship Education on Entrepreneurial Outcomes. *Journal of Small Business and Enterprise Development*, 15(2), 382–396.
- [19] Nawangpalupi, C. B., Pawitan, G., Gunawan, A., Widyarini, M., Putri, F. E., & Iskandarsjah, T.(2016). *Entrepreneurship in Indonesia: Condition and Opportunities for Growth and Sustainability*. Bandung, Indonesia: Unpar Press.
- [20] Peake, W. O., & Marshall, M. I. (2006). *What Do We Really Know About Entrepreneurs? An Analysis of Nascent Entrepreneurs in Indiana* [Working Paper # 06-14]. West Lafayette (IN): Purdue University: Department of Agricultural Economics.

- [21] Saade, F. P. (2012). *Towards Understanding Nascent Entrepreneurship: A Theory of Planned Behavior Perspective* [Thesis]. Helsinki, Finland: Aalto University, School of Business.
- [22] Shamsudin, S. F., Mamun, A. A., Nawi, N. C., Nasir, N. A., & Zakaria, M. N. (2016). Policies and Practices for Entrepreneurial Education in Malyasia: A Review. *Mediterranean Journal of Social Sciences*, 7(2), 36–41.
- [23] Valerio, A., Parton, B., & Robb, A. (2014). *Entrepreneurship Education and Training Programs Around the World: Dimensions for Success*. Washington, DC: World Bank.
- [24] Wagner, J. (2004). *Nascent Entrepreneurs* [Discussion Paper Series]. Retrieved on 11-16-2017 from <https://pdfs.semanticscholar.org/d5c8/417f5f1c8035abf0a01fd21cc104d72a6f88.pdf>
- [25] Ziemiański, P., & Zięba, K. (2017). Nascent Entrepreneurship and the Role of Self-Efficacy. *Przedsiębiorstwo we współczesnej gospodarce—teoria i praktyka* 1, 27–36.