

# CHAPTER I

## INTRODUCTION

### 1.1 Background of the Research

One of the economic problems facing Indonesia today is unemployment. The problem of unemployment is something that cannot be underestimated. Unemployment is often a problem in the economy. Due to unemployment, the productivity and income of the community will be reduced so that it can cause poverty and other social problems. Entrepreneurship is one alternative to reduce unemployment. Interest in entrepreneurship among youth is very low. The mindset and environment that is oriented to be employees should be changed to be oriented to find employees (entrepreneurs). However, to change the mindset that has been so inherent in every youth people in Indonesia, this is not an easy job. At least, mentally owned is a very important capital to start a business. The existence of a strong motivation from yourself the environment and family is also an initial capital to become a reliable entrepreneur.

In the 21st century everyone will spend their lives to work, whether they work for themselves or for others. It means being a business owner or helping others run and raise their business. Thus the growth of Indonesia today the government began to use various ways for youth Indonesians to become entrepreneurs for helping to increase the growth of the country's economy. Entrepreneurship is a process of applying creativity and innovation in solving problems and finding opportunities to improve lives (Zimmerer, 1996).

There are many factors that must be considered since how to start a business, how to manage and develop it into a productive and competitive business, and other important things. Entrepreneurship is the process whereby an individual or a group of individuals uses organized efforts and means to pursue opportunities to create value and grow by fulfilling wants and need through innovation and uniqueness, no matter what resources are currently controlled (Robbin & Coulter, 2014). Many people who want to become entrepreneurs are not ready to become entrepreneurs, so this makes them fail. Entrepreneurial failure occurs when a business reaches a point of insolvency, At this point, the business has approached total failure and the owner needs to accept that the business will be faced with ever increasing financial and legal problems, even if he/she should try to salvage the business (Burns, 2001).

The challenge of managing a successful business is more complex and difficult than any other time in the recent history. Sometimes difficult to success for several reasons so that entrepreneurial failure becomes unavoidable. Wadhwa *et al.*, (2009) found the fact that a successful entrepreneur experienced an average failure of two to three times in various businesses he founded. Failure can be caused by fear of failure and self-confidence arising from within and from the influence of the environment. Family condition, environmental culture, or certain events can cause fear of failure. In entrepreneurship research, fear of failure is predominantly investigated as a psychological factor that inhibits entrepreneurial behavior and acts as a barrier to entrepreneurship (Bosma 2007; Hatala, 2005; Henderson and Robertson, 1999). Even several studies confirm that the fear of failure exerts a negative impact on entrepreneurial activity (Arenius and Minniti, 2005; Li, 2011; Minniti and Nardone,

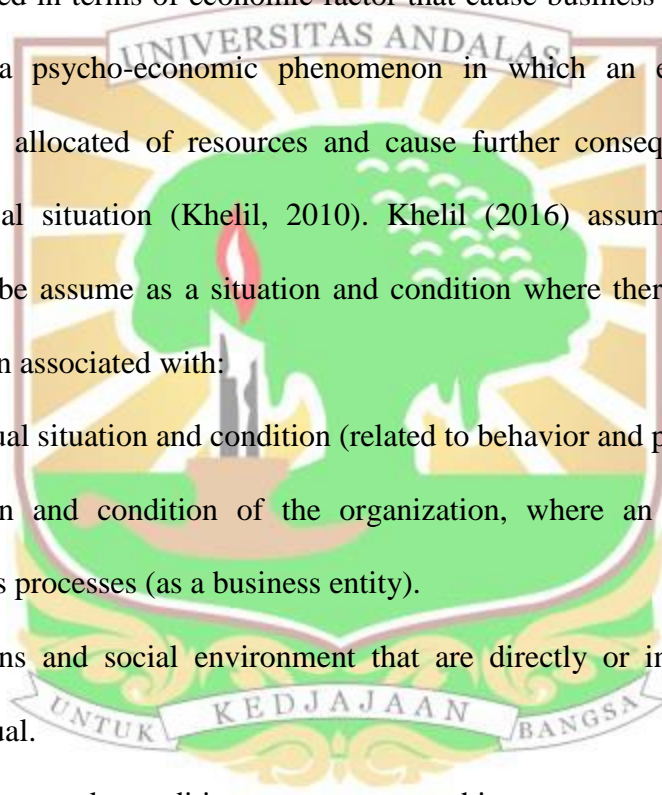
2007; Langowitz and Minniti, 2007; Wagner, 2007). Business failures can also occur because of obstacles. Obstacles are coming simultaneously, sequentially, coincidentally, and unpredictably (Oparanma *et al.*, 2010).

Ooghe and Waeyaert in 2004 expounding the causes of failure and mutual relations between the general and immediate environment of the company as external causes, and the company's management and policy as internal causes of failure (Ooghe and De Prijcker, 2008). The causes of failure can be grouped into five interactive aspects. These include general environment (economics, technology, foreign countries, politics, and social factors), immediate environment (customers, suppliers, competitors, banks and credit institutions, stockholders, and misadventure), management/entrepreneur characteristics (motivation, qualities, skills, and personal characteristics), corporate policy (strategy and investments, commercial, operational, personnel, finance and administration, corporate governance), and company characteristics (size, maturity, industry, and flexibility) (Ooghe and Waeyaert, 2004).

From research conducted Wadhwa *et al.* (2009) found that the average new entrepreneur will achieve success on the business he founded after going through 2-3 times the failure of various businesses previously run. Entrepreneurial failure is situational and conditional so it cannot be stated how many times an entrepreneur experienced it before achieving success. However, in entrepreneurship research agree that it is rare for an entrepreneur in establishing a new business to achieve success in just one business start-up. Before feeling the success, the majority of entrepreneurs must have failed. Of course not an easy thing to be able to rise from failure, because there must be hard work and struggle to achieve success.

In contrast to failure, the success factor of the entrepreneur is: [a] psychological factors, [b] environmental factors and [c] sociological factors, (Rahman, 2011; Rahman and Day, 2012). But can failure also be caused by this factor? Entrepreneurial failure factor can be occurs in the preparation, execution and management of the business. The biggest factor in entrepreneurial failure, where individual psychological factors lead entrepreneurs to take decisions and actions which have consequences of failure related in terms of economic factor that cause business failure. Entrepreneurial Failure is a psycho-economic phenomenon in which an entrepreneurial making mistakes in allocated of resources and cause further consequences in the form of psychological situation (Khelil, 2010). Khelil (2016) assumed the entrepreneurial failure can be assume as a situation and condition where there are psycho-economic phenomenon associated with:

1. Individual situation and condition (related to behavior and personality).
2. Situation and condition of the organization, where an entrepreneur conducts business processes (as a business entity).
3. Situations and social environment that are directly or indirectly related to the individual.
4. Situations and conditions, entrepreneurship process experienced of having personally.



The total population in Indonesia of 261.1 million, the non-agricultural entrepreneurs reached 7.8 million people or 3.1 percent (Central Bureau of Statistics, 2018). Thus, the level of entrepreneurship Indonesia has exceeded 2 percent of the population, so as to reduce the economic gap. The solution to overcome the economic gap in Indonesia is increased entrepreneurship, especially for the youth. West Sumatra is one of the provinces where nascent entrepreneurs have progress from time to time. This can be seen from the total of medium and large companies survive in West Sumatra only 0.74% of the total of companies in West Sumatera, while the total of Small Medium Enterprises reached 99.26% (Central Bureau of Statistics West Sumatera, 2011).

Tanah Datar is one of regional in West Sumatra. Youth in Tanah Datar expected to become local entrepreneurs, in the field of handicraft, industry, and other fields to support tourism and improve regional economic equity. This is very potential, because it is not only supported by tourism object but also art, culture, food, etc. Nascent entrepreneurs can reduce the total of unemployed and poverty in Tanah Datar. If entrepreneurship is strong, it will reduce the failure of the entrepreneur to create a fair economic growth, in which the economic gap will slowly disappear.

The decrease in unemployment rates is caused by increased employment. Small medium enterprises participate in increasing employment and impact on the increasing total of business units. Based on the data the researchers obtained, Tanah Datar showed the largest total of business units than other region in West Sumatra.

**Table 1.1**  
**Data of Small Medium Enterprises**  
**Regional of West Sumatera Province in 2014**

No	Regional	Business (Unit)	Labor (person)	Investment Value (Rp)	Production (Rp)	Raw Material/ Auxiliary Materials (Rp)
1.	Pesisir Selatan	1.177	5.267	50.108.807	143.771.693	105.392.992
2.	Solok	510	2.338	25.917.631	117.002.145	70.162.677
3.	Sijunjung	915	3.687	125.900.757	202.525.068	85.740.117
<b>4.</b>	<b>Tanah Datar</b>	<b>1.835</b>	<b>5.034</b>	<b>88.563.382</b>	<b>351.331.643</b>	<b>67.330.920</b>
5.	Padang Pariaman	1.043	3.560	10.160.897	140.083.880	81.263.735
6.	Agam	149	1.031	7.193.400	61.959.000	42.907.300
7.	50 kota	499	3.843	31.731.530	210.465.435	76.522.990
8.	Pasaman	828	2.407	16.717.198	65.783.692	46.739.917
9.	Kep. Mentawai	148	430	1.414.825	26.762.580	11.153.044
10.	Pasaman Barat	1.258	3.665	34.380.000	654.642.442	365.781.538
11.	Solok Selatan	518	1.654	17.433.276	49.772.802	27.007.634
12.	Dharmasraya	576	1.870	12.060.860	174.316.812	157.446.555

*Source: Secondary Data (Dinas Koperasi dan UMKM West Sumatera, 2018)*

Based on Table 1.1.1 shows that this data is the latest data updated by Dinas Koperasi dan UMKM West Sumatera. The conclusion is on table that in 2014, Tanah Datar has the highest total of business units than any other regional in West Sumatra. Researchers argued that increased entrepreneurs so the failure rate is also higher. Researchers are interested to make this phenomenon as the object of research, especially in Tanah Datar which has a high total of business units. Other background researchers do this research, because increases employers in Tanah Datar impact on the better the economy in this area. This can be seen in the data below:

**Table 1.2**  
**Number of Working Populations by Age Group in Tanah Datar, 2014-2015**

Working by Age	Population Working by Age (Person)	
	2014	2015
15 - 19	8.537	4.212
20 - 24	8.773	10.963
25 - 29	14.923	14.567
30 - 34	17.827	17.567
<b>TOTAL</b>	<b>50.060</b>	<b>47.309</b>

Source: Secondary Data (Central Bureau of Statistics Tanah Datar, 2018)

In table 1.2 based on number of working population by age group in Tanah Datar, 2014-2015, researchers analyze that in 2014 total population working by age as much 50.060 while in 2015 with total population working by age as much 47.309.

**Table 1.3**  
**The Rate of Economic Growth in Tanah Datar, 2013-2015**

Years (%)		
2013	2014	2015
5.85	5.78	5.31

Source: Secondary Data (Central Bureau of Statistics Tanah Datar, 2018)

In table 1.3 based on economic growths in Tanah Datar, 2013-2015, researchers analyze that in 2014 the rate of economic growth in Tanah Datar is 5.85% and in 2015 the rate of economic growth in Tanah Datar 5.31%.

So, researchers conclude based on total number of working populations by age group in Tanah Datar in 2014 has a high number while in 2015 has a lowest number, so it can influenced of economic growth in Tanah Datar. Because in 2014 the rate of economic growth in Tanah Datar is 5.78% while in 2015 decrease to be 5.31%. Researchers conclude that based on table 1.2 and 1.3 that increase of employers will be affect to increase economic growth.

For this reason, researchers argue that it is necessary how entrepreneurs should not fail too often. Researchers also interested to examine how the psycho-economic phenomenon influence of nascent entrepreneurial failure, for this case psycho-economic through three factors such as deterministic, voluntaristic and emotive (Khelil, 2016).. Based on this background, researchers will analyze through the title ***"The Influence of Psycho-Economic Phenomenon of Entrepreneurial Failure (Case on Nascent Entrepreneurs in Tanah Datar)"***.





## 1.2 Problem Statement

The researcher believes that it is very important to understand how influence of psycho economic phenomenon on nascent entrepreneurial failure, which is includes deterministic, voluntaristic and emotive factors. Therefore, the researcher hypothesizes 3 research questions to analyze this phenomenon:

1. How does deterministic factor influence the nascent entrepreneurial failure?
2. How does voluntaristic factor influence the nascent entrepreneurial failure?
3. How does emotive factor influence the nascent entrepreneurial failure?
4. How do deterministic factor, voluntaristic factor and emotive factor simultaneously influence of the nascent entrepreneurial failure?

## 1.3 Research Objectives

This research intended to analyze the influence of psycho-economic phenomenon of the nascent entrepreneurial failure.

1. To analyze deterministic factor influence the nascent entrepreneurial failure.
2. To analyze voluntaristic factor influence the nascent entrepreneurial failure.
3. To analyze emotive factor influence the nascent entrepreneurial failure.
4. To analyze deterministic factor, voluntaristic factor and emotive factor simultaneous influence of the nascent entrepreneurial failure.

#### **1.4 Research Contribution**

This research is hopefully will give a significance contribution to:

##### **1. Organization/Government**

It is could be used to make the organization/government improve the economy and lower the existing unemployment rate, and to do to assist policy makers in formulating relevant policies to reduce of nascent entrepreneurial failure. Suggestions from these results can be the size and reference.

##### **2. For Literature and Next Study**

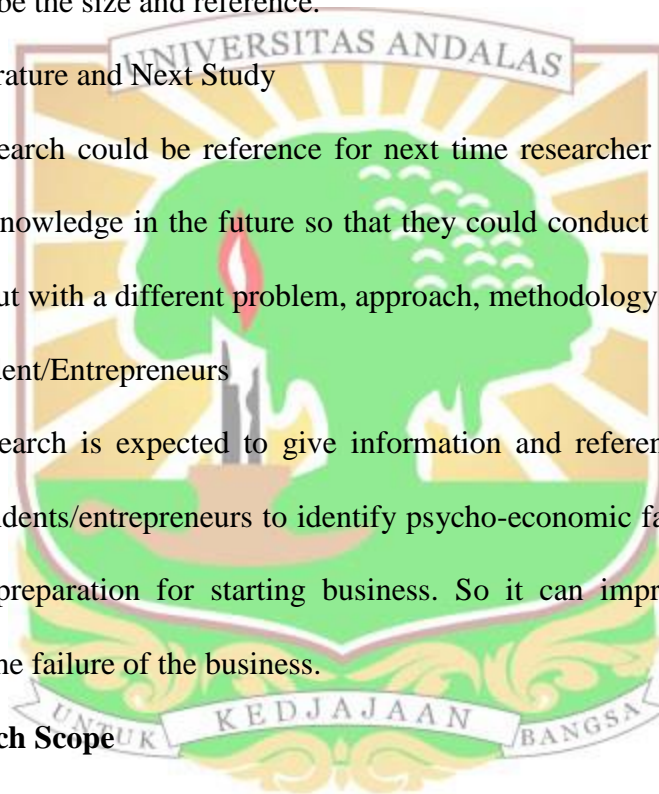
This research could be reference for next time researcher and information on the advanced knowledge in the future so that they could conduct a further research about this topic but with a different problem, approach, methodology, and analysis.

##### **3. Respondent/Entrepreneurs**

This research is expected to give information and reference to entrepreneur and help respondents/entrepreneurs to identify psycho-economic factors of entrepreneurial failure as preparation for starting business. So it can improve their business and anticipate the failure of the business.

#### **1.5 Research Scope**

During doing this research, there are some limitation that should be taken into a notice in terms of variable and object of the research. The researcher limits the research context by focusing on nascent entrepreneurial failure in Tanah Datar.



## **1.6 Outline of the Research**

To help to analyze the problem, this research divided into 5 chapters as follow:

### **Chapter 1 – Introduction**

This chapter will analyze the background of the research, the statement of problem, the aim of this research, the contribution of the research, the research scope, and the research outline.

### **Chapter 2 – Literature Review**

This chapter will review the theory or view from previous research would be use as a basic information and knowledge on conducting this research. This chapter also contains the theoretical framework of this research.

### **Chapter 3 – Research Methodology**

This chapter explain how the research designed, population and sample of the research, types of data and variable measurement, operational definition, method used in analyzing the data and test of instrumental, structural model test, and hypothesis testing.

### **Chapter 4 – Analysis and Discussion**

This chapter explanation of the general description of the study, the characteristics of the respondent, the characteristics of entity business, the descriptive analysis, the research instrument testing, the classical assumption testing, hypothesis testing, and the discussion and implications.

### **Chapter 5 – Conclusion and Suggestion**

This chapter contains an explanation of conclusions, limitations, suggestions, and implications.