

# CHAPTER 1

## INTRODUCTION

### 1.1 Research Background

Entrepreneurship has always been a precarious matter in most developing nations. Progress or setback of one nation heavily depends on the existence and the role of these particular group of the entrepreneur. There is no single nation in this vast world capable of being a developed country without having a significant amount of entrepreneurs as the foundation. Every ten minutes, new entrepreneurs are born in all developed nations such as Europe and or the United States of America (Saiman, 2009: 22). The aforementioned increment brought staggering economic development for a country. so that the more single country owned entrepreneurs as the more developed its economy.

Nowadays, entrepreneurship development has been generally recognized as an important impulse factor for sustainable economic development in Indonesia. It is often perceived that the lack of entrepreneurship has been the main cause for Indonesia's slow economic development. Realizing this, supporting Small and Medium Enterprises, hereafter called SMEs in Indonesia has been adopted as a strategy to develop entrepreneurship in the country (Tambunan, 2009).

SMEs have played a very important role in the early transition period in all transforming economies. They were able to respond to the opportunities created by the systemic change better than the larger and more established firms. They

also absorbed a significant number of employees laid off by larger firms engaged in the restructuring and privatization processes. In developed market economies, of course, SMEs have also played the additional and important role of being the vehicle for innovation and technology diffusion (Piech, 2004).

Developing countries value SMEs for several reasons, such as their potential to grow into larger, more productive units; their ability to invest and adopt new technologies; and their ability to adapt to new economic circumstances. First, SMEs perform better than microenterprises in generating productive employment. The SMEs sector is perceived as being populated largely by firms that have considerable employment growth potential. Many SMEs may expand significantly, while the great majority of microenterprises tend to grow little and hence do not graduate from that size category (Liedholm and Mead 1999).

Upon the explanatory of how urgent the role of entrepreneurship might take place, this is development potential, but based on the reality in Indonesia about the number of entrepreneurs is still 3.1 percent of the population (Central Bureau Statistics, 2018). This amount is still small and the quality cannot be said great, so the issue of Indonesian entrepreneurship development is an urgent issue for the success of economic development.

West Sumatra is one of the provinces where nascent entrepreneurs have progressed from time to time, The percentage of SMEs growth much bigger than large business. Data from (Statistics of West Sumatra 2011), informed that large business only owns less than 1% of market share in Sumatera Barat business meanwhile, SMEs own more than 99% of the market share. This data shows us

how much SMEs takes over the economic growth in Sumatera Barat. When large businesses have a difficult time in maintaining its business, SMEs still have its power to develop.

Higher market share shown in the data did not always show that SMEs in Sumatera Barat running so well. The quarter and annual report for SMEs show a fluctuating graph. Some small and medium industry has decreased and has a negative trend. This negative trend occurs because of some industry's production decreases, and it affects small and medium industry overall. The growth of Small Medium Industry in West Sumatera for 2017 is -2.58%, means the industry decrease for 2.58% from last year growth (BPS 2017). The following table shows the units of SMEs in West Sumatera.

**Table 1.1**  
**Units of SMEs in West Sumatera**  
**Year 2013-2015 (Unit)**

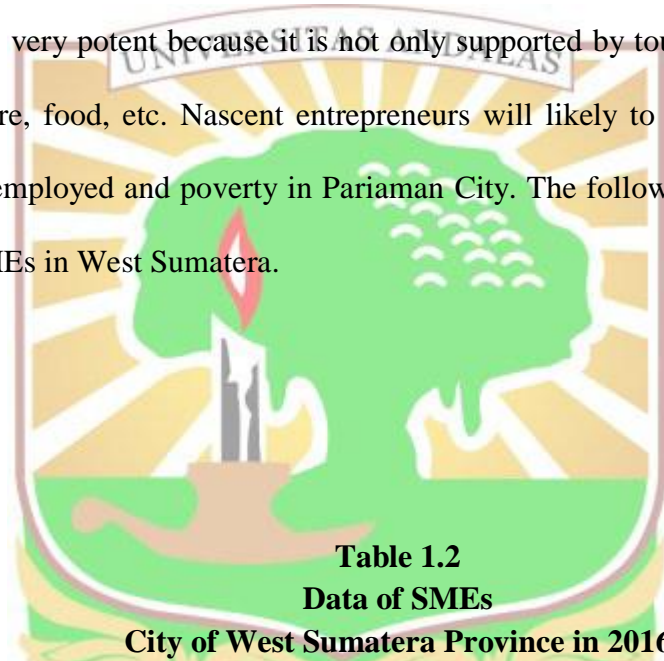
Year	Small	Micro	Total
2013	8007	57987	65994
2014	5107	71413	76520
2015	4288	63409	67697

*Source: BPS West Sumatera, 2018*

From the table above shows that SMEs in West Sumatra did not always increase. In 2015 the number of SMEs decreased compared to 2014. Some entrepreneurs in 2015 did not continue their business or had failed in running their business. The Entrepreneurial failure is the cessation of the desire or effort of the entrepreneur to continue the business he has (Liao et al., 2009). The failure experienced by several SMEs in West Sumatra in 2015 which was marked by the reduction in the number of SMEs in 2015 compared to 2014 showed that the cessation of several entrepreneurs in West Sumatra and no more efforts to

continue or repeat the business.

Pariaman City is one of the cities in West Sumatra, Pariaman City is in accordance with its vision of making Pariaman City with tourism destinations that are based on the trade and service sectors, it is not surprising if Pariaman City is found a variety of various handicrafts or regional food products. Youth in Pariaman City 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 potent because it is not only supported by tourism object but also art, culture, food, etc. Nascent entrepreneurs will likely to bring down the amount of unemployed and poverty in Pariaman City. The following table shows the data of SMEs in West Sumatera.



**Table 1.2**  
**Data of SMEs**  
**City of West Sumatera Province in 2016**

No	City	Business (Unit)	Labor (person)	Investment Value (Rp)	Production (Rp)	Raw Material/ Auxiliary Materials (Rp)
1.	Padang	2.149	10.745	435.849.712	10.268.253.739	2.084.836.188
2.	Solok	423	2.148	29.550.452	124.658.669	31.963.148
3.	Sawahlunto	1.104	1.577	14.086.735	45.462.623	18.293.774
4.	Padang Panjang	1.056	3.831	11.033.398	176.820.504	129.259.686
5.	Bukittinggi	2.146	6.281	49.824.617	284.096.384	178.731.811
6.	Payakumbuh	884	2.384	13.719.225	16.865.180	8.432.590
7.	Pariaman	750	4895	27.084.194	111.619.936	61.776.077

*Source: Secondary Data (The office of Industry and Trade of West Sumatera, 2018)*

Based on Table 1.2 shows that this data is the latest data updated by the office of Industry and Trade of West Sumatera. The conclusion is on the table that in 2016, seen from the table above, Pariaman city is the bottom two in the number of the business unit. However, Pariaman City is the third-ranked in the number of labor after Padang city and Bukittinggi. Researchers argued that the high amount of labor does not guarantee a high amount of entrepreneurs in a city and also increased of the entrepreneurs so the failure rate is also higher. Thus, the Researcher is interested to make this phenomenon as the object of research, especially in Pariaman City.

In many ways the current beliefs and thinking around entrepreneurship seem amazing compared to previous generations. It's no longer uncommon for someone to walk away from employment opportunities, no matter how great, in order to start their own business. Although they may be confident in their decision to forge his or her own, uncharted path to successful business ownership, prosperity is not guaranteed. The risks, roadblocks, and psychological challenges involved are enough to deter even the most confident entrepreneur with the best product offering.

In a study of the anatomy of entrepreneurs, (Wadhwa et al., 2009) found the fact that a successful entrepreneur turned out to be on average to have failed two to three times in various businesses founded. The existence and circumstances of this failure to make an entrepreneur triggered to be tough, resilient, unyielding and most importantly, able to learn from the failure that happened. The occurrence of the failure as an 'event' followed by mental processes, learning processes and the process of drawing on the experience of this business failure formed a concept

in the science of entrepreneurship known as the concept of serial entrepreneurship.

Another finding from the study mentioned above is that the average nascent entrepreneur would achieve success on the business founded after going through 2-3 failures over various previously executed businesses. The concept of serial entrepreneurship (Lafontaine and Shaw, 2014) can further be understood as an entrepreneurial process and the success of a new business establishment that an entrepreneur attains after going through several failure situations, where the following three elements will be encountered: a. a learning process for failure to achieve success, b. there is a process of entrepreneurial behavior change after experiencing problems, and c. experience in running a business. There is no single conclusion that states the number of failures in setting up a new business that must be experienced by an entrepreneur before achieves entrepreneurial success because it is situational and very conditional.

There are factors that influence entrepreneurial success. (Rahman, 2011) and (Rahman and Day, 2012) has stated that psychological factors, environmental factors, and sociological factors are the factors that influence the success of a business. If there are factors that influence the success of an entrepreneur, so there must be factors that also influence entrepreneurial failure. What it can be?

Entrepreneurial failure defined by (Liao et al., 2009) as the discontinuance of venturing efforts by entrepreneurs. (Everet and Watson, 1998) described in their research that a failure in business occurs due to the lack of adequate financial resources. Many other research also pointed out that financial problems in a business are the reason why a business collapse. But, in fact, many

other factors that can affect entrepreneurial failure. It can be divided by internal factors including the company's management, policies, and external factors that include the general and immediate environment of the company (Ooghe and De Prijcker, 2008).

External factors could become from the environment around the business that does not fit well with the business, and the internal factors could become from psychological characteristics of the entrepreneur or either how individuals see an opportunity around them. Both of the factors can lead entrepreneurs to the failure if they do not handle the pressure well. The result that could happen is they learned their mistakes and continue running a business or they stop doing it and looking for another chance of the job. So, it can be concluded that the psychological characteristics of the entrepreneurs play an important role here.

Talking about the psychological characteristics of the entrepreneurs, nascent entrepreneurs in their young age still have unstable psychological state than other older entrepreneurs. That also indicated that psychological factors could affect nascent entrepreneurs more when it comes to entrepreneurial failure.

The relationship between psychologic and entrepreneurship cannot be avoided. (Khelil, 2010) mentioned in his research that entrepreneurial failure how economic factors and psychological factors related to each other. An entrepreneur could do some mistakes in managing their own resource that lead to failure. When they experience some failures, they would felt disappointed with the result and it affects their psychological condition. This condition is what (Khelil, 2010) said as the psycho-economic phenomenon. (Khelil, 2016) also described in his journal about three approaches or factors that can determine entrepreneurial failure; the

determinist approach, voluntarist approach, and emotive approach. The other one is the emotive approach, said that the ventures depend on owner's motivation, commitment, and aspiration. That is why some ventures fail when they have many resources, and some ventures can survive despite having a limited amount of resources.

Other than these three approaches of entrepreneurial failure, (Hammer, 2014) stated in his research another concept of why business/ventures become fail. These concepts become overconfidence or the entrepreneur found a new job that suitable more on them. Become overconfidence with the ventures we own could give negative impact on the future of the ventures. For example, when we so confident with the venture, we have an urge to start a new venture or branch of our current venture even though the venture we have still unstable. Especially for nascent entrepreneurs who just started their ventures and would like to challenge everything ahead of them. Although being able to see and take every opportunity that comes is some key characteristic that entrepreneurs would likely to have (Devece et al., 2016), it does not reduce the possibility of failure they have. Another concept is when entrepreneurs get a job that more suitable or will give more advantages for themselves, they likely start thinking about whether they should continue the business or give up on the business and start the new job. They will choose the option that would give them the biggest advantages for themselves.

The tendency of people (in this case are entrepreneurs) to make decisions that give themselves more advantages could lead entrepreneurs into a failure. Someone that possessed by a hidden interest inside them to make their own



advantage and could harm other peoples can be defined as someone that has opportunistic behavior (Cordes et al., 2010). Opportunistic behavior can harm people because someone with this behavior tends to do everything they can to make their own in an advantageous position.

Therefore, this research seeks to identify and analyze the causes of the entrepreneurship failure into a research topic entitled:

*“The Influence of Emotive Factors and Opportunistic Behavior to the Entrepreneurial Failure (Case on Nascent Entrepreneurs in Pariaman City)”*

## **1.2 Problem Statement**

Failure represents one of the most difficult, complexes and yet valuable learning experiences that entrepreneurs will ever have the misfortune to engage in. Thus, venture failure is an important concept to understand in entrepreneurship, both in terms of its causes and consequences for the individual entrepreneur, organizations and society at large. (Cope, 2011). The researcher believes that it is very important to understand how the emotive Factor and the opportunistic behavior affect the Entrepreneurial Failure

Therefore, the researcher hypothesizes 3 research questions to analyze this phenomenon:

1. How does the emotive factors affect the failure experienced by nascent entrepreneurs?
2. How does the opportunistic behavior affect the failure experienced by nascent entrepreneurs?
3. How do the emotive factors and opportunistic behavior simultaneously affect the failure experienced by nascent entrepreneurs?

### 1.3 Research Objectives

Based on the problem statements that already made and identified, so the objectives of the research are:

1. To analyze the emotive factors affect the failure experienced by nascent entrepreneurs.
2. To analyze the opportunistic behavior affect the failure experienced by nascent entrepreneurs.
3. To analyze the emotive factors and opportunistic behavior simultaneously affect the failure experienced by nascent entrepreneurs.

### 1.4 Significant of study

This research is hopefully will give a significance contribution to

#### 1. Researcher and Academic

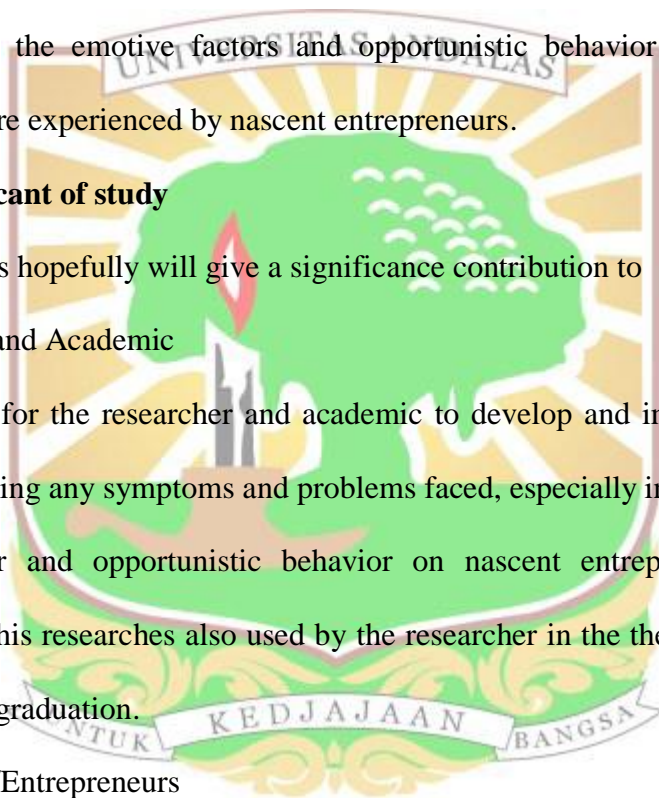
Useful for the researcher and academic to develop and improve thinking skills in analyzing any symptoms and problems faced, especially in the field of the emotive factor and opportunistic behavior on nascent entrepreneurs failure. Furthermore, this researches also used by the researcher in the thesis for the final assignment of graduation.

#### 2. Respondent/Entrepreneurs

The result of this research is expected to help respondent/entrepreneurs to identify and know about the causes and effects that can influence the nascent entrepreneur's failure. Then, Respondent/entrepreneurs can implement theory related to the causes and the effect of the failure in the business.

#### 3. Government

This research could be used as a reference for government to make a new



regulation related SMEs in order to increase the quality of SMEs and also support economic growth, especially in Pariaman City.

#### 4. Literature and Next Study

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

#### 1.5 Research Scope

This research has a limited scope of analysis of the number of variables and object of the research. The researcher limits the research context by focusing on nascent entrepreneurs in Pariaman City, Indonesia.

#### 1.6 Research Outlines

In consideration of moderating the content, this research will be divided into five chapters:

##### Chapter 1– Introduction

This chapter consists of a background of the research, problem statements, research objectives, significant of study, research scope, and research outlines.

##### Chapter 2 – Literature Review

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



### Chapter 3 – Research Methodology

This chapter explains how the research designed, population and sample of the research, types of data and variable measurement, operational definition, the 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.

