

2004

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## Recommended Citation

Riyanti, B. P. D. (2004). Factors influencing the success of small-scale entrepreneurs in in Indonesia. In B. N. Setiadi, A. Supratiknya, W. J. Lonner, & Y. H. Poortinga (Eds.), *Ongoing themes in psychology and culture: Proceedings from the 16th International Congress of the International Association for Cross-Cultural Psychology*. [https://scholarworks.gvsu.edu/iaccp\\_papers/236](https://scholarworks.gvsu.edu/iaccp_papers/236)

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## FACTORS INFLUENCING THE SUCCESS OF SMALL-SCALE ENTREPRENEURS IN INDONESIA

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Approximately 99% of all enterprises in Indonesia operate in small-scale sectors, absorbing 88.66% of the workforce (Urata, 2000). Those small-scale and household industries use only 10% of the total circulating money, but they contribute 49% to the Gross Domestic Product. Small-scale businesses also contribute 15% of non-oil and gas exports (Urata, 2000).

Because most entrepreneurs in Indonesia are in the small-scale category, it was considered important to conduct an exploratory study in order to identify factors affecting the success of the entrepreneurs in this category. The results of such a study could be used to help increase the role and success of small-scale entrepreneurs in boosting the Indonesian economy.

Research conducted by Cunningham (in Meng & Liang, 1996) on 178 entrepreneurs and professional managers in Singapore showed that success is closely connected with individual traits (49%), education level (Bowen & Robert in Staw, 1991; Kim in Meng & Liang, 1997), as well as experience (Duchesneau et al. in Staw, 1991; Hasweel et al., Wood in Zimmerer & Scarborough, 1998). But Kim (in Meng & Liang, 1997) found that experience had no effect on business success. Also, according to Staw (1991) age is not closely related to success in business. However, if age implies *entrepreneurial* age (the length of time someone conducts business), there is a relationship between age and entrepreneurial success in Indonesia.

The aforementioned individual traits are creativity and innovation. Holt (1992) underlines both traits as necessary conditions to become a successful entrepreneur. Because innovation is a special means for entrepreneurs to reach success, Drucker (1985) considers it necessary for an entrepreneur to innovate systematically or habitually. Creativity and innovation are not identical, however. Creativity is antecedent to innovation

(Holt, 1992, p.32). According to Amabile (1989) creativity means the emergence of new ideas, while innovation means the application of these ideas.

The novelty aspect of entrepreneurial innovation leads us to the Adaptation-Innovation theory of Kirton (1976, 1989). Kirton (1989) maintains that individuals are systematically different from each other in creative style, decision-making, and problem solving. Differences in creative style are influenced by originality, efficiency, and group-conformity. A low standing on originality but a high standing on efficiency and group conformity makes a person an adaptor; on the contrary, a high standing on originality but low on the other two aspects makes a person an innovator.

Entrepreneurship experts insist that personality traits are important factors in determining entrepreneurial success. Theoretical analysis of the traits of entrepreneurs conducted by Sukardi (1991) identifies nine excellent traits in entrepreneurs: namely instrumental, prestativa (a word based on the Indonesian concept of achievement), flexibility in friendship, working hard, self-confident, risk taking, self-controlled, innovative, and autonomous. In his dissertation, Sukardi showed that planned intervention can promote these major traits. In planned intervention, three of nine major traits were significantly enhanced in participants through a training program. These were achievement orientation, risk-taking, and self-control. In the present study the nine traits of Sukardi will be re-examined with entrepreneurs from Indonesia in particular in relation to innovative attitudes and business success.

Researchers have also shown that cognitive style used in thinking is related to other measured dimensions of personality (Kirton, 1989). Thus, adaptive-innovative behavior is related to entrepreneurial traits and personality types identified by Miner (1996), as well as the adversity personality type of Stoltz (1997).

The purpose of this exploratory study is to help determine factors affecting business success of small-scale entrepreneurs, using variables selected from the literature. There are three categories of variables: Demographic indices (age, experience, education), Innovative Behavior (traits, personality types), and Organizational Innovation (learning organization, organizational relation).

## Theoretical Considerations

### *Business Success of Entrepreneur*

One way to measure business success is to assess the performance of individuals, which in turn could serve as an input to estimate an organization's current overall performance as well as future performance.

A study involving small-scale entrepreneurs in Singapore by Ghost et al. (cited in Meng & Liang, 1996) disclosed that as many as 70% of respondents use net profit growth to measure business success, followed by sales revenue growth (61%), return on investment (50%), and market share (48%). The study showed further that 38% of entrepreneurs using the net profit growth criterion acknowledged that a growth of 6%-10% per annum is an indicator of business success.

Business success is examined from three perspectives, namely learning and growth, financial, and internal business process. Learning and growth is measured by employees' satisfaction, the financial aspect is measured by increases in company assets, and the internal business process is measured by increase of production volumes, improvement of physical working condition, and business expansion.

The criterion for business success in this study is a 25% increase of business from the time of its establishment. While 25% may seem to be a low figure, it is rather significant as a criterion for business success because the research stresses a variety of indicators.

### *Keys to Entrepreneurial Success*

As recent studies show, there are three important keys to entrepreneur success: age, experience, and education.

**Age.** Although Zimmerer and Scarborough (1998) point out that most of entrepreneurs in the United States start business during their 30s and 40s, many researchers found that there is no limit of age for their entrepreneurial aspirations. Age variation at the start of business seems to have no direct relation to business success. According to Staw (1991), at the start of any business age is not a decisive factor, but with enough training and preparation, the earlier someone starts business the better. Staw (1991) also notes that age is related to business success if it includes both chronological age and entrepreneurial age. This means that the older an entrepreneur is, the more experiences in business he has. Age thus implies extensive experience.

**Experience.** Staw (1991) asserts that experience is the best predictor of business success, especially when the new business is related to earlier business experiences. Entrepreneurs with vast experiences in managing business are more capable of finding ways to open new business compared to employees with different career pathways.

The importance of experience for small-scale business success is also underscored by other experts. Haswell et al. (in Zimmerer & Scarborough, 1998) note that prominent reasons behind business failures are managerial and experiential incapacities. Wood (in Zimmerer & Scarborough, 1998) confirms this. Kim (in Meng & Liang, 1996) found that 30% of successful entrepreneurs have no work experiences, compared to just 3% of unsuccessful entrepreneurs (significant at  $p = 0.01$ ). This means that experience is not critically important for business success.

**Education.** A study conducted by Kim (in Meng & Liang, 1996) involving entrepreneurs in Singapore disclosed that successful entrepreneurs have higher education levels compared to that of unsuccessful entrepreneurs ( $p = 0.01$ ). Seventy percent of successful entrepreneurs are university graduated, while 23% are not.

According to Kim (in Meng & Liang, 1996), Staw (1991), and Katz (in Holt, 1992), after entering the entrepreneurial world, those with higher levels of education are more successful because university education provides them with knowledge and modern managerial skills, making them more conscious of the reality of the business world and thus in a position to use their learning capability to manage business.

## **Entrepreneurs' Innovative Behavior and Business Success**

### ***Innovative Behavior as Viewed by Kirton***

According to Kirton (1976), there is a continuum beginning with the capability to "do something better," going to capability, and finally to "do something differently." As mentioned, one end of this continuum is called adaptive innovative behavior, while the other end is called creative innovative behavior.

Mudd (1996) has shown that Kirton's theory parallels Koestler's on associative-bisociative creative behavior. According to Mudd (1996), creative action (Koestler) is similar to creative style (Kirton). The continuum A-I (Adaptation-Innovation) explains Koestler's theory on the main char-

acteristics of associative thought (adaptor) and bisociative thought (innovator) (Koestler, in Mudd, 1996).

### ***Entrepreneurs' Innovative Behavior***

In this study innovative behavior will be predicted from entrepreneur traits as formulated by Sukardi (1991), entrepreneur personality type from Miner (1996), and personality type from Stoltz (1997).

***Entrepreneurial personality: Traits of entrepreneurs.*** Sukardi (1991) discussed nine major traits that are characteristic of entrepreneurs: instrumental, prestative, flexibility in friendships, hard working, self-confidence, risk-taking, self-controlled, innovative, and autonomous. Of these nine traits, Sukardi found three that were prominent among 79 respondent entrepreneurs who graduated from the Akademi Wiraswasta Dewantara (Dewantara Entrepreneur Academy). Analysis suggests there are many traits matching entrepreneurial traits. For example, Kirton says that adaptive-innovative behavior is related to the traits of sensation-seeking and assertiveness. Thus this study aims to make determine the extent to which certain traits of entrepreneurs, especially those identified by Sukardi, have direct influences on one's innovative behaviour.

***Entrepreneurial personality: Types according to Miner.*** Miner (1996) mentions the following four entrepreneurial personality types: (a) personal achiever, (b) super salesperson, (c) real manager, and (d) expert idea generator. These personality types, he said, can predict success in any field of business. His study spanning 20 years shows that any entrepreneur will succeed if he follows a business pathway congruent with his personality traits (Miner, 1996).

- (a) The *personal achiever* will garner success if he continuously overcomes challenges and crises, and behaves positively in facing them.
- (b) The *super salesperson* will experience success if he uses a lot of time to sell and invite others to manage his business.
- (c) The *real manager* will succeed if he starts a new business and manages the business himself.
- (d) The *expert idea generator* will succeed by entering the high tech business area.

A successful entrepreneur tends to have a "real manager" personality type. This is so because, according to Miner, the real managers will succeed if they start a new business and lead the business themselves. However, a survey conducted by Urata (2000), where managerial incapability is a factor hampering small-scale business, showed that the aforementioned assumption should be further scrutinized. Further studies are needed to validate this assertion.

**Adversity personality type.** The "Adversity Quotient" is the score on the adversity instrument; it reflects one's capabilities in facing obstacles (Stolz, 1997). According to Stolz, IQ and EQ are not sufficient to predict success, especially in the workplace. One has to possess a determined elasticity toward obstacles. Stolz classifies people into three types of mastering the "success mountain", namely quitters, campers, and climbers. Quitters are those who surrender at the first blow as well as those who are reluctant to make use of opportunity. Campers are those who are content with their first success and choose not go higher for more success. Climbers are those who, despite obstacles, continue to climb the success ladder with hopes of reaching the highest place. They may stop for a while to reconsider strategy and collect energy, but they eventually climb higher.

Elasticity towards numerous obstacles consists of four components: reach, ownership and originality, control, and endurance. Empirical evidence supporting of the validity of Stolz's views appears not to exist. However, if his theory is valid the adversity quotient should be able to predict someone's resilience in the face of obstacles. This characteristic generally describes creative individuals and successful entrepreneurs.

Figure 1 shows that demographic variables are directly connected to small-scale business success. In this study the demographic factor is not related to innovative behavior because the perspective used in analyzing innovative behavior is creative personality theory. According to personality theory, the constellation of creative personalities is not correlated with capacity factors such as education level or IQ (Kirton, 1989). The creative personality is related to certain traits (Corninger in Kirton, 1989; Goldsmith in Kirton, 1989; Kirton in Kirton, 1989). Thus, entrepreneurial traits, personality factors described by Miner, and the components of adversity personality are variables that affect innovative behavior.

### The Research Model

The variables included in the study are shown in Figure 1.

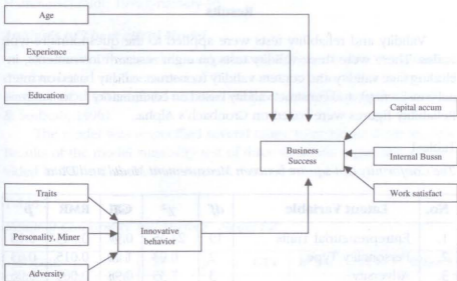


Figure 1. Model of research.

### Methods

#### Samples

An "accidental" sampling technique was used to get 140 small-scale businesses located in the Greater Jakarta Area and 60 units in the Special Region of Yogyakarta Province. However, only 111 completed questionnaires from the Greater Jakarta Province and 50 from the Special Region of Yogyakarta Province are analyzed.

#### Instruments

There are two parts in the questionnaires. The first part is a list of items concerning the respondent's age, educational level, and experience in business management as well as information about capital accumulation and internal business processes. The second part consists of five inventories measuring work satisfaction (Munandar, 1991), entrepreneurial



traits (Sukardi, 1991), personality type (Miner, 1997), adversity personality type (Stoltz, 1994), and innovative behavior (Kirton, 1973).

## Results

Validity and reliability tests were applied to the questionnaire-type scales. There were three validity tests on eight research instruments, including face validity and content validity (construct validity based on internal consistency), and construct validity based on confirmatory factor analysis. Reliability figures were based on Cronbach's Alpha.

Table 1

*The Conformity Chi-square between Measurement Model and Data*

No.	Latent Variable	df	$\chi^2$	GFI	RMR	p
1.	Entrepreneurial Traits	19	24.45	0.97	0.043	0.18
2.	Personality Type	2	0.93	1.00	0.015	0.63
3.	Adversity	3	7.35	0.98	0.065	0.06
4.	Entrepreneurial Innovation	1	0.35	1.00	0.017	0.55
5.	Business Success	1	0.35	1.00	0.017	0.55

df = degrees of freedom

$\chi^2$  = chi-square

GFI = Goodness of Fit Index

RMR = Root Mean Residual

p = Probability

### Overview of Scores

This research reported in this chapter focused on the characteristics of entrepreneurs in terms of age, involvement in similar type of business, and level of education. The average age is 40 years, and of 161 respondents, 53 had entrepreneurial experience, 55 were former employees of similar businesses, and 53 were newcomers in entrepreneurial activities. In Indonesia, entrepreneurs on the whole are of SLTA education level (high school), with an "entrepreneurial age" of 13 years. Most of them reported an income of between Rp50 million to Rp200 million per year.

Their behavior is of an adaptive innovative nature, as shown by the average score of innovative behavior, which was 86.22. This score is below that of respondents in Western countries as reported by Kirton (in Hammerschmidt, 1996), namely 95.

### *Analysis of Theoretical Model*

To determine interrelationships between theoretical model variables, the theoretical representation of Fig.1 was reconstructed in a structural equation model. The model was then analyzed by LISREL program (Jöreskog & Sorbom, 1996).

The model was respecified several times, to construct three models. Results of the model suitability test of three structural equations are provided in Table 2.

Table 2

#### *Result of Conformity Test Model I - Model I-2*

MODEL	$\chi^2$	df	p	GFI	R <sup>2</sup> Eta 1	R <sup>2</sup> Eta 2	R <sup>2</sup> Eta 3
Model I	547.43	497	0.058	0.85	0.59	0.47	0.09
Model I-1	471.42	425	0.059	0.85	0.58	0.42	0.09
Model I-2	179.13	151	0.059	0.91	0.58	—	0.09

From among three structural equation models that were analyzed, Model I-2 is the best in explaining factors influencing business success because the relation between all existing parameters is significant. The structural relations of Model I-2 are graphically represented in Innov Beh. (Figure 2, boxes indicating observed variables and circles indicating latent variables). As indicated in Figure 2, the variables reaching statistically significant levels are as follows:

- Age exerts a positive and significant influence on business success.
- The entrepreneurial traits variable shows a positive and significant influence on innovative behavior.
- The entrepreneurial traits variable has no direct and significant influence on business achievement, but through innovative behavior it has an indirect and significant influence on business success.

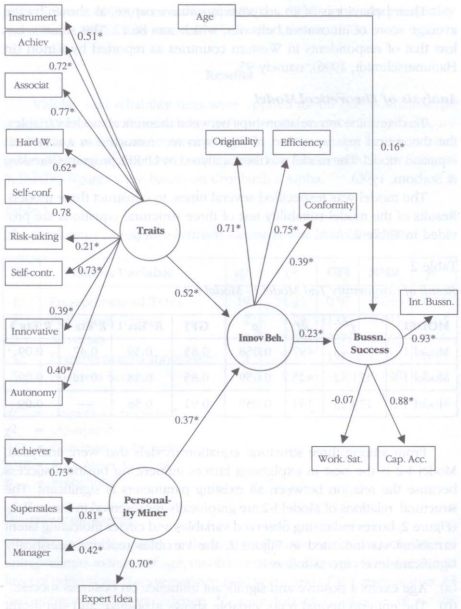


Figure 2. The structural relationship and loading factor of each indicator of Model I-2

- (d) The Miner personality typology variable has a direct and significant influence on the formation of innovative behavior.
- (e) The Miner personality typology variable has no direct and significant influence on business success. However, through innovative behavior it has indirect and significant influences on business achievement.
- (f) The entrepreneur's innovative behavior variable has a direct and significant influence on business achievement.

### Discussion

Of the three demographic variables, namely entrepreneur's age, education level, and involvement in similar type business, only the age variable was significantly related to business success. Age significantly influences business achievement. The result, however, has to be interpreted carefully. In this case, age must not be understood only as chronological in nature, but as entrepreneurial age, i.e., the length of time someone manages his or her business. The longer someone is involved in a business, the richer his or her accumulated experiences are, thereby making him or her more capable of managing a business successfully.

The absence of direct significant influences of the education variable may have been the result of an uneven distribution on this variable. Most of the respondents in this study had SLTA education level or less (68.94%); randomly, 31.05% were educated beyond the SLTA level. The irrelevance of education level for business achievement may have to be explained by the fact that some of the respondents merely inherit a successful company from their parents.

For the absence of effects of experience on business success we do not have a good explanation. One possibility is because the classification used in this study — namely, direct involvement as employee at similar enterprise, indirect involvement, and no involvement — cannot capture the difference between the length and the quality of the business experience. Together the nine traits associated with "entrepreneur" exert direct significant influences on the formation of innovative behaviour, and significant indirect influence on business success. The results confirm the finding of several previous researchers (for example Cunningham in Meng & Liang, 1996; Plotkin in Meng & Liang, 1996) arguing that certain traits possessed by entrepreneurs contribute to business success. Also, Miner's

personality-typology variables show significant influences on innovative behavior. The Miner personality variables also, appear to have an indirect significant influence on business success through innovative behavior. This result shows that Miner personality variables do have a significant influence on business success, especially if there is innovative behavior.

The adversity personality type variable had no significant influences (directly or indirectly) on innovative behavior of entrepreneurial and business success. Thus, the assertion by Stoltz that achievement can be predicted from adversity level could not be confirmed. His view that the Adversity Quotient is more effective in predicting achievement compared to IQ and emotional intelligence may deserve attention, but in this study, the adversity instrument was invalid.

In summary, the results of the study indicate that some variables could be used to accelerate the development of successful small-scale businesses, in line with government efforts to empower small and medium scale businesses. Such variables are: *Age* - chronological as well as entrepreneurial - and experience of the entrepreneur. This study shows that entrepreneurial age has a significant effect on business success. Experienced entrepreneurs who are successful in managing business could be exploited as valuable sources for the development of the business world, especially small-scale business. *Personality traits* contribute to the formation of innovative behaviour. Training programs as designed by Sukardi could be included with creativity training, in order to help shape the behavior needed to be a successful entrepreneur. Achieving personality type, the most prominent in Miner's personality typology, contributes to innovative behavior. Therefore, the training of motivation to achieve that has long been organized by the ministry of industry and trade needs to be continued. *Innovative behaviour* contributes to business success. Ultimately this has to be stimulated by parents in their children or through the school curriculum. Finally, the involvement in managing a business can be the origin of the emergence of new entrepreneurs. Thus the implementation of a balanced entrepreneurship education with both theory and practice could contribute to the emergence of new entrepreneurs in Indonesia.

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