

Young Indonesian Businesses to Established Businesses: What Matters

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ABSTRACT--- *This study analyses drivers of the establishment of young businesses in Indonesia. This study uses data from the Global Entrepreneurship Monitoring (GEM) dataset, analysed using cross-tabulation. Results suggest that in Indonesia, young entrepreneurs have less uniqueness in the products they sell, and have low growth expectations. Little support from the external environment, such as social networks, is also an issue in Indonesia, which results in challenges regarding resources and financing. Despite this, persistence in running a business is a characteristic of young businesses. This study focuses only on young businesses and how they sustain to reach the next business phase. Future research should assess how entrepreneurs can reach the nascent or intention phase of entrepreneurship, analysing factors that support young Indonesian business people to become established entrepreneurs, which will bring greater stability to Indonesia's economic growth.*

Keywords--- Young Business, Established Business, GEM, Indonesia

1. INTRODUCTION

Entrepreneurship is a driver of economic growth, innovation, and job creation [14]. Especially in a modern open economy, the role of entrepreneurship has become important to economic growth and development [20]. Many countries, especially developing ones, view entrepreneurship as a potential solution to solve various problems, and thus entrepreneurship is an important factor for countries to pay attention to.

Being a successful, established entrepreneur is intensive, time-consuming, and challenging. Based on Global Entrepreneurship Monitor (GEM) classifications, entrepreneurship can be divided into 3 phases—nascent, young, and established businesses. Entrepreneurs in the nascent phase are defined as people who started a business fewer than 3 months ago. Entrepreneurs in the young business phase have run businesses for up to 3.5 years, and established businesses for more than 3.5 years. Every entrepreneur should have the vision to be an established, successful business. However, many start-ups never reach the establishment phase. Most businesses close within one year after reaching the established phase [10]. Fatoki [11] found failure factors of start-up businesses, which can be categorized into internal and external factors. Internal factors include lack of management experience, lack of functional skills, poor staff training and development, and poor attitudes toward customers. External factors include non-availability of a logistics chain and high distribution costs, competition, increasing costs of doing business, and lack of financing.

Young entrepreneurs need to face the challenges that prevent them from reaching the establishment phase. Some research analyses factors that increase start-up business success. Chittithaworn et al. [6] found that the success of a business is determined by 5 factors—business characteristics, customers and markets, the way of doing business, resources and financing, and external environments. The size of a business is also a success factor of an established business [4]. Business size demonstrates a relationship with the growth expectations of young entrepreneurs. According to the Stages of Entrepreneurship Model in Indonesia GEM Report 2015, a lack of persistence also prevents young businesses from becoming established businesses.

As a developing country, Indonesia needs to support young businesses with reaching the establishment phase. Based on Indonesia GEM data 2015, most businesses fail during the young business phase. It is important to enhance the sustainability of young businesses because established businesses have greater impacts on Indonesia's economic growth,

and have the potential to create more jobs. Successful, established businesses also bring more stability to Indonesia's economy.

Government is one of the most important actors that supports young entrepreneurs to develop established businesses, and the country's economic development. Government policy has a strong relationship with the success of business [21], and the right policies create a positive impact, boosting established businesses in Indonesia. However, it is important to know what factors characterize young businesses and what can be done to drive young businesses into the established phase. This study offers recommendations on what the Indonesian government can do to increase the success of young businesses to become established businesses.

2. LITERATURE REVIEW

2.1 Young Entrepreneurs

Entrepreneurship is a multidimensional term that is difficult to define [5]. Lazear [16] defines an entrepreneur as a person specialized in taking decisions over coordination of limited resources. In this study, young entrepreneurs are defined by GEM's definition—people who become an owner of a business that is older than 3 and younger than 42 months [15]. Characteristics of young entrepreneurs are different from those who own established businesses. Pickernell et al. [18] found that young businesses are able to obtain more financial resources and advice from several sources. Young businesses are also able to access governmental and external financing easily, but have less access to public procurement. Therefore, younger businesses tend to access different types of advice and financial resources from different sources [3]. García-Quevedo et al. [12] found that the innovative behaviours of young businesses tend to be less persistent and more erratic than in established businesses. However, the innovative behaviours of businesses in different phases are affected by firm and market characteristics.

2.2 Failure and Key Success Factors of Young Business

Ghazali [13] found that many young entrepreneurs survive for only a short period not only because of their young age and ability to manage business resources, but because of their small network and little industrial cooperation with experienced people. Rahmawati, Hasyati, and Yusran [19] identify six barriers of young entrepreneurship—insufficient knowledge and education, an environment that does not enable young entrepreneurship, economic and financial barriers, regulatory barriers, lack of a relevant network, and lack of entrepreneurship role models. Every young business must know the success factors that support them in reaching the establishment phase. Implementing these success factors increases the probability of achieving the next business phase. Chittithaworn et al. [6] found success factors of small and medium enterprises in Thailand, including business characteristics, customers and markets, the way of conducting business, resources and financing, and external environments. Another factor is innovative products adding value to customers and markets. Innovative products also increase the balance between product quality and cost. Regarding the way of doing business, Chittithaworn et al. [6] suggest that business owners should be personally involved, define the market, and be persistent in their business. External environments also play a role in the success of young businesses. Social networks, government support, and legality are external factors that Chittithaworn et al. [6] discuss that hold essential dimensions in business success. Networks bring more opportunities for a business to access ideas, knowledge, and capital. Hence, social networks support resources and financing. Calvo and Garcia [4] found another success factor—the size of a business. Their findings suggest that size moderates established business success, and the variables in which this effect is most evident is education and resilience.

2.3 Government Policies and Entrepreneurship

Van Stel et al. [21] found that government policies have a strong relationship with entrepreneurship. Bailey and Thomas [2] argue that regulators need to understand that there is a trade-off between benefits of regulation and negative effects on business creation and economic growth. Government can take actions through policies to create supportive conditions for young businesses or established businesses. Denis [7] introduces the concept of how government policy can boost entrepreneurship in a country. There are three policy options that a government can take. The first is lowering entry barriers for new potential entrepreneurs. The second is reducing burdens for existing entrepreneurs, and using public funds to support financial aspects of businesses both directly and indirectly. The third is providing soft aspects, such as information, training, and advice, to both potential and existing businesses.

3. RESEARCH METHOD

In this study, characteristics of young businesses in Indonesia are examined qualitatively. Data were taken from the Global Entrepreneurship Monitoring (GEM) dataset. The most recent Indonesia GEM dataset is owned by Parahyangan Catholic University, as the representative of GEM in Indonesia. However, it has not yet been published. The GEM Conceptual Model (Figure 1) was used as the foundation for annual surveys conducted by GEM. The model identifies elements of the relationship between entrepreneurship and economic growth, and how these elements interact [1].

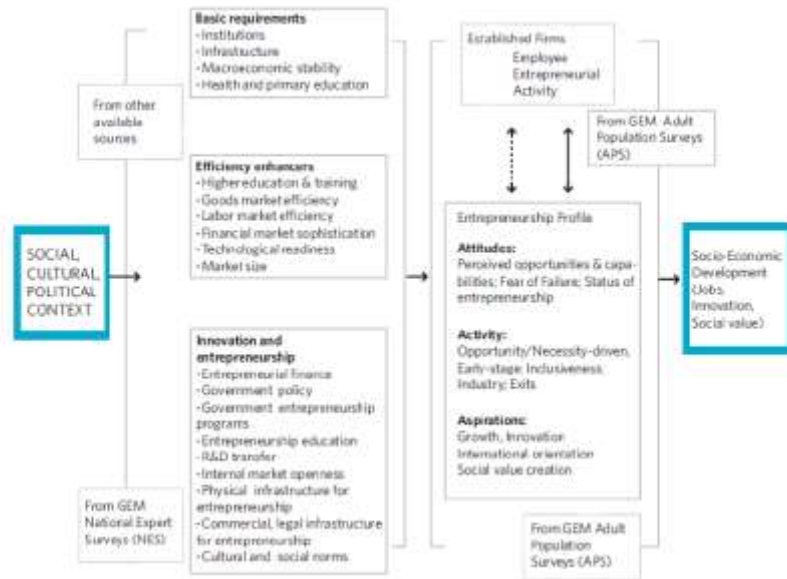


Figure 1: GEM Conceptual Model

Source: GEM, 2015

The Indonesian GEM dataset was collected using the Adult Population Survey (APS). This survey consisted of questions with topics to learn about the characteristic of entrepreneurs in Indonesia. The survey is spread in Indonesia selecting respondents that provide a profile of a representative cross section of the Indonesian adult population, balanced for age and gender distribution. Weights also are applied to each stratum (at the province level) for age and gender based on Indonesian BPS demographic data. In this research, certain topics of the APS were selected on Indonesian young business entrepreneurs. Those topics are the competition and product uniqueness among Indonesian young business entrepreneurs, the growth expectation of Indonesian young business entrepreneurs, and the persistence of Indonesian young business entrepreneurs running their business in order to achieve the established phase. Data from APS used in this research is ordinal and was analysed using the crosstab method.

The sample consisted of 5,620 males and females aged between 18 and 64 years from 34 provinces in Indonesia. Sampling followed several stages. 1) The country was divided into 34 provinces. 2) Each province was then divided into regions (i.e., urban and rural) at the city level. 3) Each stratum at the city level was divided into district levels. Strata (i.e., urban/rural) at the sub-district level were selected by the team randomly. 4) Each district was divided into RT (Rukun Tetangga), the smallest community group, and the team selected the sample randomly. 5) During the final stage, respondents within each household at the RT level were selected. This study focuses on young entrepreneurs among 5,620 respondents, resulting in 442 respondents. This group consisted of both men and women who came from multiple regions in Indonesia in the 34 provinces. The education of the respondents ranged from a low to high.

Using the crosstab method, the frequency distribution shows the characteristics of young businesses from Indonesia. The crosstab method was also used to find relationships between control variables and characteristics of Indonesian young business entrepreneurs. This gives the possibility to look for reasons behind the patterns found in the data and to see which factors drive the young Indonesian business entrepreneurs into the established phase. The results are used to provide recommendations.

4. FINDINGS

This study is based on Chittitaworn et al. [6] success factors of SMEs in Thailand. The study is fundamental because Thailand has similar characteristics as Indonesia, and is also categorized as a developing country. This study examines whether success factors found by Chittitaworn et al. [6] apply in Indonesia. This study also includes the size of a business and persistence as success factors of young businesses in Indonesia, based on Calvo and Garcia [4] and Indonesia GEM Report 2015. Size of business and persistence are sustainable growth factors that are necessary to transform young businesses into established businesses.

Table 1: Research data

Questions	All	Some	None
How many (potential) customers consider product new/unfamiliar?	19.2%	21.3%	59.5%
	Many	Few	None
How many businesses offer the same products?	70.4%	23.1%	6.6%
	No	Yes	
Expected job growth ≥ 10 persons and $\geq 50\%$	99.5%	0.5%	
In the six months, will there be good opportunities for starting a business in the area where you live?	36.4%	63.6%	
Do you have the knowledge, skill and experience required to start a new business?	17.0%	83.0%	

Source: GEM Data

Characteristics and demographics of young entrepreneurs in Indonesia are presented. Based on Indonesia GEM data 2015, the composition between young and old entrepreneurs who are in the young business phase is similar. Young entrepreneurs are defined as entrepreneurs who are 18 to 34, and old entrepreneurs are 35 to 64. The composition between men and women young entrepreneurs is also similar. The education of young entrepreneurs is dominated by low education. 90% of young entrepreneurs have low education, defined as education up to senior high school.

Indonesian entrepreneurs in the young business phase tend to have role models, sufficient self-efficacy, and no fear of failure. About 80.5% of respondents had a role model when they opened their businesses. 82.6% perceive that they have the knowledge, skills, experience, and self-efficacy to start a new business. About 61.5% reported that they have no fear of failure when opening their business. Most young Indonesian entrepreneurs are opportunity-driven (83%), meaning that most people become young entrepreneurs in Indonesia because they see opportunities ahead, not because of financial necessity.

Based on cross-tabulation analysis, it appears that young entrepreneurs in Indonesia do not produce unique or innovative products. Only 40% of respondents reported that potential customers consider their products new or unfamiliar. This means that young businesses in Indonesia have little uniqueness in their product. Indonesian entrepreneurs who offer familiar products to potential customers also tended to have low education. Lack of product uniqueness and differentiation influences competition among businesses in Indonesia. 70.4% of respondents reported that many other businesses sell the same products as they do; the less the product uniqueness and innovation, the greater the competition that entrepreneurs must face. They compete and sell products to the same groups of potential customers.

Besides lack of product uniqueness and innovation, young Indonesian entrepreneurs also do not have high growth expectations. Both women and men in this phase demonstrate low growth expectations. Only 0.5% of respondents have expectations to grow to 10 or more employees in the future. Low growth expectation derives from lack of resources and financial difficulties. Most young Indonesian businesses received money from financial institutions to start their businesses, which might indicate that external environments, including social networks of young Indonesian businesses, remain limited. This results in difficulties with resources and financing.

Persistence of young entrepreneurs consists of several factors, such as self-efficacy and the opportunities entrepreneurs see for the future. 82% of respondents reported that they have self-efficacy opening their businesses, and about 60% see opportunities for the next six months. Hence, young entrepreneurs in Indonesia have persistence in running their business. As Chittitaworn et al. [6] argue, persistence is a success factors regarding the way of doing business. Persistence suggests that entrepreneurs who stick with their businesses have greater chances of reaching the established phase.

5. DISCUSSION

Findings suggest that most young Indonesian entrepreneurs do not sell unique products to customers, and do not differentiate. However, young businesses should create unique products to increase their chances of reaching the established business phase [6]. Research suggests that Indonesian entrepreneurs who produce familiar products for potential customers tend to have low education, which might indicate that formal education is a driving factor of producing unique products.

Vilalba [22] finds a similar situation; countries with a higher percentage of early school leavers tend to have lower innovation. In response, the government should boost education in the country to encourage young businesses to produce unique and innovative products. The compulsory education program and scholarship program for higher education can be used to increase educational. The curriculum of education should provide a synergy of knowledge, skills, and creativity. As the EU Council [9] reports, creativity contributes to innovativeness in society, and therefore should be an objective in education. Unfortunately, higher formal education policies do not fit with older entrepreneurs. Young entrepreneurs that are older unfortunately have difficulties with following formal higher education. For older entrepreneurs managing young business training programs, coaching and seminars can improve innovativeness and willingness to produce unique

products. Training programs, coaching, and seminars provide education informally, consisting of material that young entrepreneurs receive in formal higher education. Such programs not only teach theories, but also share the experiences of successful business owners. Sharing ideas boosts the innovativeness and uniqueness of products sold by older entrepreneurs who manage young businesses.

These types of training, coaching, and seminars accord with research from Vilalba [22], who argues for improving innovativeness among entrepreneurs. Vilalba [22] defines such training as lifelong learning, finding that lifelong learning participation correlates with the highest innovation index. Based on research from the EU Council [9], lifelong learning can be a solution for demand of soft skills and competencies in entrepreneurs. Recommendations include offering essential competencies in education, including critical thinking, creativity, initiative, problem-solving, risk assessment, decision-making, and constructive management of feelings. Indonesia should support and encourage lifelong learning to enhance product uniqueness and innovation among young businesses.

Indonesia recently constructed a competency-based curriculum that supports the readiness of graduates to face real business environments. By the direction of the president, the Ministry of Industry declared the Regulation of the Minister of Industry No. 3 Year 2017 concerning Guidance on Coaching and Development of Competency-Based Competitive Vocational School with a Link and Match with the Industry. By this regulation, the Minister of Industry adopted a competency-based curriculum with an international focus to create more competent graduates. Many senior high schools and universities in Indonesia provide internships in large companies that offer students greater experiences and development of competencies for both working as employees and running businesses in real business environments after graduation.

Although young Indonesian businesses still offer low-level products, young entrepreneurs have low growth expectations when running their businesses. Based on Chittithaworn et al. [6], growth expectation is a success factor in business during the established phase. Such expectations relate to the size of the business; the higher the growth expectations, the bigger the business. Calvo and Garcia [4] argue that the size of a business is a success factor. Therefore, growth expectations should be boosted among Indonesian entrepreneurs so that young entrepreneurs can sustain their businesses into established ones. Low growth expectations are usually caused by low self-efficacy, greater fear of failure, and lack of role models [8, 17]. However, this situation does not occur in Indonesia. Results suggest that young Indonesian entrepreneurs have self-efficacy, no fear of failure, and role models. This situation shows that the growth expectations of Indonesian entrepreneurs might be affected strongly by external issues. Although the internal characteristics of entrepreneurs are positive, external issues, such as financial and social influences, might be creating low growth expectations during this phase of business.

The greatest challenge of low growth expectations comes from financial difficulties. Resources and financing are success factors of a young business. Young businesses without strong financial support experience difficulties scaling up because the size of a business is limited by its financing. Other difficulties from external environments include small social networks and minimal government support. Small social networks derive from the fact that most young Indonesian businesses start with bank loans. Few young entrepreneurs receive financial support from colleagues and other investors. Success factors, such as having a supportive external environment and sufficient resources and finances, need to be evaluated critically for young Indonesian businesses.

To address this problem, the government should support this category of entrepreneurs. Based on the GEM Report 2015, conditions that hinder entrepreneurship relate to government policies concerning taxes and entrepreneurial education. Hence, loans for young businesses that have innovative ideas is an option that the government should implement. The government should also create policies that lower taxes for entrepreneurs in the young business phase. Regarding social networks, the government should support networking by creating organizations that consist of entrepreneurs and investors that increase the possibility of young businesses obtaining financial aid and advice from members.

When the growth expectations of young Indonesian entrepreneurs are boosted, more young entrepreneurs can sustain their businesses to reach the establishment phase. Growth expectations also increase job creation from the existence and growth of businesses and entrepreneurship. So, high growth expectations among young entrepreneurs represent a solution to minimizing high unemployment Indonesia. Despite little uniqueness of products and low growth expectations, this study suggests that young entrepreneurs in Indonesia have the persistence to operate their businesses. The entrepreneurs have self-efficacy and see opportunities as young entrepreneurs, and they believe that they have the ability to capture those opportunities. Thus, this category of entrepreneurs persists with running their businesses. By having persistence and other internal factors, external factors become essential that support young businesses into the establishment phase.

6. CONCLUSION

Young businesses in Indonesia have the opportunity to become established. However, there is little uniqueness and differentiation in the products they offer, which increases competition and results in fewer young businesses reaching the establishment phase. Another factor that prevents young businesses from achieving establishment is low growth expectations, caused primarily by external issues, such as lack of resources, limited financing, and minimal social networks. However, the internal characteristics of young entrepreneurs support high growth expectations. Persistence determines the success of a business, and young Indonesian entrepreneurs possess it, demonstrated in high self-efficacy and business opportunities recognized over the next 6 months. These two factors drive the persistence of an entrepreneur.

7. RECOMMENDATIONS

Based on findings from GEM data, this study offers recommendations that might help young businesses reach the establishment phase. The government should boost education and develop coaching and mentoring programs for young entrepreneurs to create unique and innovative products. Regarding low growth expectations, the government should support this category of entrepreneurs by providing financing, considering lower tax policies for young entrepreneurs, and creating and facilitating social networks for entrepreneurs.

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