Entrepreneurial Intention and Small Business Growth: An Empirical Study of Small Food Processing Enterprises in South Sulawesi, Indonesia

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ABSTRACT

Food processed based small and medium sized firms has been recognized as one of the most important contributors for the economic development of many countries, including Indonesia. A small number of the firm growth research not addressed to the food processing small firms and explore how entrepreneurial intention can influence the firm growth.

Data collected from 137 unit of the food processing small firms producing soft cheese (Dangke) in Enrekang District, South Sulawesi Province using stratified random sampling technique and the data analyzed using path analysis with SPSS.

The results of the study that both internal and external factors of entrepreneurial intention influence the growth of small firms directly and positively. Although there is no difference, but it shows that external factor more dominant than internal factor. The study can be utilized in various area. For academic sector, the results contribute to the growing body of literature in entrepreneurship and small firm growth. For the entrepreneurs, the result will help enhancement of their willingness to grow the firms, and for public and private sector, the results can aid policy decision in growing dangke small firm.

Keywords: Entrepreneurial intentions, Dangke Small firm, Firm growth.

Introduction

Food processed based small and medium sized enterprises (SMEs) has been recognized as one of the most important contributors for the economic development of many countries (Austin, 1981; Saragih, 1994). The existence of the food processing SMEs in Indonesia poses a very strategic position for national economic development through employment and value added formation as well as their role in safeguarding the economy during the crises (Director General of Small and Medium Industries, 2012). One type of the food processing SMEs that has long operated (since the early 1900s) in rural of Indonesia are small firms that processing buffalo milk into the soft cheese product (local people called it as a Dangke product). According to Marzoeki et al., (1978) the dangke product was only produced by small firms in Enrekang, a district in South Sulawesi province. In fact, dangke small firms remain small and not pursue a growth even if there is room for profitable expansion, e.g., high demand for products, and support from government policies and programmes (Ridwan, 2005). One of our central interests lies in the following question: How do dangke small firm overcome growth deterrents and become larger size firms? Most studies of firm growth are concentrated on large companies or new venture, rather than on existing and long-lived small firms. In fact, that most new jobs are created by long-live, not new, small firm (Pasanen, 2006). On the other hand, previous studies have not addressed
to the small food processing firms. In this context, Petrin (1994), and Alam, Jani, and Senik (2011) emphasized the need that more research should be directed to the growth of small food processing firm in developing countries in order the theory of the firm’s growth to be more complete.

In recent years, It has been detected that small firms do not grow to be connected to the entrepreneur (also defined as founder-specific) (Storey, 1994; Tan, Menkhoff, and Chay, 2007; Davidsson, Achtenhagen and Naldi; 2010). The empirical studies on entrepreneurs, generally concentrated on motivation of entrepreneurs towards growth (Wiklund, 1999; Massey et al.,2006; Autere and Autio, 2000), the distinction between different forms of entrepreneurial intentions in established small firms are neglected (Liao, Welsch and Pistrui, 1999; Adeyami,2006; Curseu and Vermeulen, 2008; Fini et al, 2009). Yet, the entrepreneurial intention are critical to understanding the process of entrepreneurship in relation to growth of the firms (Kruger, Reilly and Carsrud, 1993; Shaphero and Sokol, 1982). Additionally, existing research of entrepreneurial intention is largely associated with individuals’ intention to start businesses (e.g. Chen, Greene, and Cricet, 1998; Kolvereid, 1996), and most of them have used student samples rather than samples of actual entrepreneurs (e.g. Nasurdin, Ahmad and Lin, 2002; Scholten, Kemp, and Omta, 2004; Kolvereid, Lakovleva and Kickul, 2006; Izquierdo and Buelens, 2008). In the meantime, there are conflicting reports on the influence of entrepreneurial intention factors on small firm growth. Birley and Westhead (1994) found that classifying owner managers based on their reasons for starting the business (e.g. need for approval, need for Independence, need for personal development, and welfare considerations) did not help in predicting subsequent size or growth of the businesses. However, other studies (i.e. Perrent, 2000; Papadaki and Chami, 2002) found that owner’s growth motivation is potentially influenced by intention to start up a business (e.g. desire to succeed; desire to be ‘one’s own boss; and active risk take). What is missing from those research is that they ignore the external factors are also responsible (in addition to internal factors of the individual) for the formation of entrepreneurial intentions (Ajzen and Madden, 1986; Kuratko and Hodgetts, 1995; Shane and Khurana, 2003; Gnyawali and Fogel, 1994; and Vesalainen and Timo, 2000). Another serious missing is that they have not explained the extent to which the internal and external factors of an entrepreneur’s intention influence the firm growt (Adeyami,2006; Wijewardena and Tibbits,1999; Liao, Welsch, and Stoica, 2003). Limitation and contradictions of those studies, therefore, we need a comprehensive research, integrating the influence of internal and external factors of entrepreneurial intention on the growth of small firms that have long live such as the dangke small firms

**Literature Review and Hypothesis**

In order to investigate entrepreneurial intention as a primary factor in small firm growth, it is necessary to provide an overview of the theoretical foundation of the entrepreneurial intention and firm’s growth. Generally, entrepreneurial intentions are a state of mind, which directing a person's attention (and therefore experience and action) towards a specific object (goal) or a path in order to achieve something (means) (Bird, 1988, Nasurdin, Ahmad and Lin, 2009). In other words, entrepreneurial intentions can be viewed as directs and guides the actions of the individual toward the development and the implementation of new business concepts. Further, Kolvereid (1996), Linan, Cohard and Cantuche (2005) reveals that the entrepreneurial intention has been considered as the key element to understand the new-firm creation process and as the antecedent of behaviours. In their review of the entrepreneurship literature, Lìñàn (2004); Izquierdo and Buelens (2008) suggest four model in trying to explain the entrepreneurial intentions. One of these models is the Shapero’s entrepreneurial event model in which entrepreneurial intentions depend on three elements: a) the perception of the desirability; b) the propensity to act; and c) the perception of feasibility (Shapero,1975). Another well recognized model is based on Ajzen’s theory of planned behavior (Ajzen, 1991). According to Ajzen, intentions are explained by: a) subject’s attitudes toward the
behavior; b) subjective norms; and c) the subject’s perception of behavioral control. Another model of intentions was developed by Bird (1988) which considers that entrepreneurial intentions are based on a combination of both personal and contextual factors. Another model was proposed by Davidsson (1995), which suggested that entrepreneurial intentions can be influenced by: a) conviction, defined by general attitudes (change, compete, money, achievement, and autonomy) and domain attitudes (payoff, societal contribution and know how); conviction, in turn, is related to personal variables including age, gender, education, vicarious experience and radical change experience.

Many factors as responsible for the formation of entrepreneurial intentions, some internal to the individual and some external (Ajzen and Madden, 1986). Specifically; Fini et al (2009) show that entrepreneurial intention is formed by demographic (gender, age, ethnicity, personal unemployment, and job insecurity), by psychological characteristics (the need-for-achievement, taking propensity, tolerance of ambiguity, self-efficacy, and goal setting), by individual skills or personal abilities (managerial skills, technical and procedural skills, career experience, patenting, and serial entrepreneurship) and by environmental influences (government policies, characteristics of the local context, competitors and customers, and organizational factors). In line with this view, the theories of entrepreneurial choice mention that a person in decisions to begin a business are determined by two factors intention, that are: internal factor of individuals (the individual has direct control or influence on its outcome) and the external factor (they are beyond the control of the individual). These factors together influence the entrepreneur’s decision to initiate a business (Kuratko and Hodgetts 1995; Lambing dan Kuchl, 2000, Shane and Khurana, 2003; and Sha, 2003).

Although it has been shown that intention are antecedent to entrepeneur’s decision, little research has been done to studies focusing on the linkage between entrepreneurs’ intention and subsequent actions or outcomes of the actions (Shook et al., 2003), e.g. how entrepreneurial intention affect on small firm growth (Fini et al., 2009). In our opinion it is reasonable to expect that entrepreneurial intention to start up a firm are also antecedent to other steps in the process of entrepreneurship, such as the firm growth. The reasoning behind these expectations is consistent with the fact that entrepreneur those who runs a business just for the fun or for adding the familiy income of it, (s)he will have less desire to pursue firm growth than someone who aims at making more money (Verheul and van Mil, 2008; Parren, 2000; Papadaki and Chami, 2002; and Morris et al., 2006) found that an entrepreneurs who are driven by the desire to get welfare or to meet a challenge or desire to be one’s own boss etc and competitive would seem more interested in growth than those motivated by a desire for personal expression. For those reasons, we believe that the both the decision to start a business and the decision to growth a business emanate from similar sources that is from entrepreneurial intention. Stevenson and Jarillo (1986), Shane and Venkataraman (2000) mention that entrepreneurial intentions influence the actions of the establishment of new firms, and the creation of new value in existing ones. In establishment firms, as a result of intentional processes, individuals pursue and exploit opportunities. Consequently, existing firms embody and elaborate intentions that, ultimately, affect a firm’s success.

According to Ahmed et.al. (2011), as a matter of fact there are both internal and external factors that affect the entrepreneurial intention but very few studies have taken a holistic picture of these factors of and its effect on small firm growth. Based on a dynamic approach, Bygrave (2004) presents the entrepreneurial process as a set of stages and events that follow one another. At each stage, there is a critical factors that drive the development of the business. The critical factors shaped by internal and external factor of entrepreneurial intention, and their interect increase the tendency toward opening and developing the business. Additionally, Liao, Welsch, and Pistrui (1999) found that the internal factor (e.g. motives) and external factors (e.g. infrastructure) fit together to jointly influence entrepreneurial growth.
Based on the propositions of the theory and previous studies above, we developed idea of the theoretical framework for this study (see Figure 1).

Figure 1. Theoretical Framework

In Figure 1 above shows that there is a causal relationships between variables in this study, which is the external and internal of entrepreneurial intentions as the independent variable or exogeneous variables (cause) while the dependent variable or endogenous variable (result) is growth of the dangke business/small firm. It also shows that internal and external factors of entrepreneurial intention are supporting each other (interacting) in influencing the growth of the dangke business/small firm. Therefore; we formulate and test the following hypothesis:

H1 : Internal and external factors of entrepreneurial intention (of start up a business) influence directly and positively to the dangke small firm growth
H2 : There is no difference influence between internal and external factors of entrepreneurial intention on the dangke small firm growth.

Research Method

Research Design
According to the context of the purpose of research, this study is an explainative research (explanatory survey research) that seek to explain the influence of internal and external factors of entrepereneurial intention on the growth of Dangke small firm in the Enrekang District.

Variable and Measurements
In this research, dependent variable is firm growth that operationalized as “willingness of founder entrepreneurs to increase the number of employee and sales in five years future”. Willingness to grow was chosen as an indicator for growth of firm for the reason is that willingness to grow reflects the general mindset of the entrepreneurs regarding their desire to grow the firm (Davidsson, 1989; Verheul and van Mil, 2008). Seven item questions adapted from a study of Ylitalo (2010) to reflect the importance of growth in general (their perceptions about how good those firm growth are), however, for the purpose of this study additional questions relevant to the growth opportunities were added. Each item in the questionnaire was accompanied by a Likert-type scale ranged from 1
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Entrepreneurial intention is a strong predictor of entrepreneurial behavior and entrepreneurial activity. In this research, four items of external factors and six items of internal factors were used to measure entrepreneurial intention. Respondents were asked to respond on a five-point scale (1 = strongly disimportant to 5 = strongly important) to questions about the importance of external factors such as government assistance, support services, processing technology, raw materials, and market opportunities. Internal factors include availability of initial capital, desire for independence, support from nearest person, role models of successful entrepreneurship, personal skill, and working experience.

Sampling Methods
The population of this study was small firms Dangke in Enrekang, namely Cendana, Enrekang, Baraka, and Alla. The population target was firms that have been operating for at least 3 years. The sample size was determined using the Cohen formula. A minimum sample size of 137 firm units was obtained. The sampling technique used is Stratified Random Sampling in proportion to the distribution of firms according to age. The selection of sample respondents in each stratum was random, and all respondents were owner-founder of small firms.

Data Collection
Type of data collected in this study includes primary and secondary data. Primary data was collected through direct interviews with entrepreneurs/owners using a list of questions that have been provided. The data collected were based on triangulation methods (interview, questionnaire, and observation) to fulfill the questionnaire. Secondary data was obtained from various sources or local government agencies and the results of previous studies relevant to the study. Path analysis and causal modeling were used to analyze the data.

Data Analysis
Prior to using the questionnaire, validity was tested using the Pearson correlation coefficient to determine the ability of questions to measure variables. Test reliability was determined using the Spearman Brown test to determine the extent of the questionnaire. Path analysis (Dillon and Goldstein, 1984) or causal modeling (Chun Li, 1981) was used to detect relationships between variables.

It is important to note that the data collected are qualitative (data ordinal), and test equipment used is a path model that requires interval data. The ordinal data were transformed into interval data through the method of successive intervals (Al Rashid, 1993). The data were analyzed using SPSS-X Statistical Package for the Social Sciences.
Results and Discussion

Testing the validity of questionnaire data both initial and final questionnaires for each item question, we obtained \( r \) calculate > \( r \) tabel, with the confidence level of 0.95, the initial questionnaire \( r \) tabel = 0.496 and = 0.845 \( r \) tabel for final questionnaire. We then performed reliability tests using the Spearman Brown test with RI value of 0.988 obtained. Given these tests, we believe that all the questions on questionnaire are valid and reliable for the research.

To determine the extent of internal factors of entrepreneurial intention (\( X_1 \)) and external factors of entrepreneurial intention (\( X_2 \)) influence the growth of small firms Dangke (\( X_3 \)), then statistically test using path models as represented as the structural equation follows:

\[
X_4 = P_{X3X1}X_1 + P_{X3X2}X_2 + P_{X3U3}U_3
\]

Where:

- \( P_{X3X1}X_1 \) = path coefficient from internal factors
- \( P_{X3X2}X_2 \) = Path coefficient from external factors
- \( P_{X3U3}U_3 \) = path residu

With the operational hypothesis are:

- \( H_0: P_{X3X_i} \leq 0 \) versus \( H_1: P_{X3X_i} > 0 \); \( i = 1 \) and \( 2 \).

To prove this hypothesis, an analysis of research data and test results obtained are presented in Table 1.

<table>
<thead>
<tr>
<th>Structure of Parameter</th>
<th>Coefficient</th>
<th>Effect (%)</th>
<th>( t ). Value</th>
<th>( t ). Tab.</th>
<th>Decision</th>
</tr>
</thead>
<tbody>
<tr>
<td>( X_3 ) to ( X_1 )</td>
<td>0.251</td>
<td>6,280</td>
<td>2.562*</td>
<td>1.665</td>
<td>( H_0 ) rejected</td>
</tr>
<tr>
<td>( X_3 ) to ( X_2 )</td>
<td>0.440</td>
<td>19,321</td>
<td>4.493*</td>
<td>1.665</td>
<td>( H_0 ) rejected</td>
</tr>
<tr>
<td>( R^2 ) ( X_3 ) (( X_1 ), ( X_2 ))</td>
<td>0.289</td>
<td>28,939</td>
<td>15.475*</td>
<td>3.117</td>
<td>( H_0 ) rejected</td>
</tr>
<tr>
<td>Residu path</td>
<td>0.843</td>
<td>71,061</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
</tbody>
</table>

In Table 1. above, it appears that all path coefficients are significant either simultaneously or individually, so that the path diagram or structural equation has not changed. Furthermore, the analysis in Table 1 above can be translated diagrammatically as shown in figure as follow.

**Figure 2:** Path diagram of relationships between variables \( X_1 \) and \( X_2 \) Cause Effect With Variable \( X_3 \).

In Figure 2 appears, that the path coefficients of both variables causes \( X_1 \) and \( X_2 \) has a positive coefficient and the path leads directly to the variable \( X_3 \). Overall, it was at 71.061 percent of the total variation in the variable \( X_3 \) that can be explained by the variable causes of \( X_1 \) and \( X_2 \). Thus, the hypothesis that the variables \( X_1 \) and \( X_2 \) influence directly and positively to the \( X_3 \) can be accepted. These finding indicate that internal and external factors that has guided and directed founder entrepreneurs when starting a business dangke have a positive contribution in triggering their willingness to grow the firms. Success as an entrepreneur is based in part on being able to perceive an
opportunity based on an individual’s knowledge and having an entrepreneurial propensity (intention to act) (Segal, Borgia, Schoenfeld, 2006). Our finding is in line with theory of entrepreneurial intention, that individual domains (internal factor) together with contextual variables (e.g., markets, and economics), and environmental support (e.g. infrastructural, political, and financial support) are antecedents of entrepreneurial intention that may influence the organizational outcomes such as growth (Mitchel, 1981; and Fini et al., 2009). This our finding supported by previous research, Adeyema (2006) found that entrepreneurs who are driven by a combination of internal and external motivation that enables them to be successful both in relation to profitability and growth. Similarly, Papzan, et al., (2008) found that there was a significant relationship between independent variables, consisted of internal and external factors of entrepreneurial intentions and the dependent variable (growth).

Further, in order to know which variable causes the second among the most influential, we test the influence of differences between variables X₁ and X₂ to X₃, and the test results show that the t-value (1.273) < t-Table (1.665) (nonsignificant). It means that the greatest error of 5% can be stated and there was no difference in effect between the variables X₁ to X₂ to X₃. Thus, the hypothesis that there was no difference in influence between internal and external factors of entrepreneurial intentions on the growth of firms can be accepted. To find out the cause of the variable which contributes the most dominant influence in determining the growth of the X₆, we then performed an analysis of the contribution of the influence (total influence) given by each variable causes. Analytical results obtained are presented in Table 2.

<table>
<thead>
<tr>
<th>Effect Variable</th>
<th>Donations of Effect (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Direct</td>
</tr>
<tr>
<td>X₁</td>
<td>6,280</td>
</tr>
<tr>
<td>X₂</td>
<td>19,321</td>
</tr>
</tbody>
</table>

As shown in Table 2, we can see that X₂ contributes a relatively greater influence (20.9%) than the variable X₁ (7.9%). How can this be explained? It may be that the external factor that has guided and directed entrepreneur when starting a dangke business has a more powerful trigger than the internal factors on the willingness to grow the firms. This is consistent with Fini et al (2009) argue that environmental support has an impact on the enactment of entrepreneurial intentions and behaviors. Also, environmental influence positively affects entrepreneurs’ control over entrepreneurial behavior. More specifically, the existence of external support mechanisms positively influences the control that individuals have over their ability to implement entrepreneurial behaviors. When external support is in place, individuals feel more confident and optimistic about their potential to succeed when implementing entrepreneurial behaviors. Additionally, Messick and Bazerman (1996) point out that entrepreneurs in making decision of the firm growth requires an understanding of the external factors in which that decision will be played out. Without that understanding, it is impossible for entrepreneurs to assess the probable consequences and choose to growth. Thus, our finding is also support the previous research. In Nigeria, Adayemi (2006) found that externally motivated entrepreneurs are more likely to achieve a high level of profitability than internally motivated entrepreneurs. Kader, Bin Mohamad, and Che Ibrahim, (2009) found the external factors are more dominant than the internal factors in contributing to the successful of business of the small rural entrepreneurs under the One-District-One-Industry in Malaysia.

**Research Limitation And Implication**

Limitation of this our research is that generalization ability is limited by the sample and method. We have only focused on dangke small firm in Enrekang District in South Sulawesi Province may not be
representative of food processing small firms in Indonesia and other developing countries. However, we believe that the findings reported here should be replicated in other provinces in Indonesia (and other developing countries), because of the underlying food processing small firm’s growth obstacle should be similar across provinces and countries. Another limitation, this our research cannot detailly identify influence of each antecedent of internal and external factors of entrepreneurial intention, and also it cannot explain direct and indirect influences of entrepreneurial intentions factors on the variations of the firm growth rate. Therefore, we recommend for future research might cover influence of each antecedent of internal and external factors of entrepreneurial intentions on the variation of firm growth rate. For entrepreneurs of Dangke small firm, the research can be helpful for strengthening their intention and willingness to grow the firm. For the public and private sector, the results can aid to select people who are more likely to form the intention of entrepreneurship and then have strong commitment to grow the Dangke small firm.

Conclusions and Recommendation

Based on data analysis and discussion of these results, it can be concluded as follows:

1. Internal and external factors of entrepreneurial intention influence directly and positively to the Dangke small firm growth.
2. Although there is no significant difference between internal and external factors on the growth of Dangke small firms, but external factors contributing to the relatively greater influence. It shows that external factors probably have more powerful trigger than internal factor to grow the Dangke small firm.

For future research, we recommend researchers to investigate influence of each antecedent of internal and external factors of entrepreneurial intentions on the variation of firm growth rate, and for the entrepreneur, this research will helpful for strengthening their intention and willingness to grow their firms. For the public and private sector, the results can aid to select people who are more likely to form the intention of entrepreneurship and then have strong commitment to grow the Dangke small firm.

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