

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 adressed 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 Erekang District, South Sulawesi Province using stratified random sampling technique and the datas 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 safe guarding 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 adressed

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 growth (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 Hypotesis

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, Liñán (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.

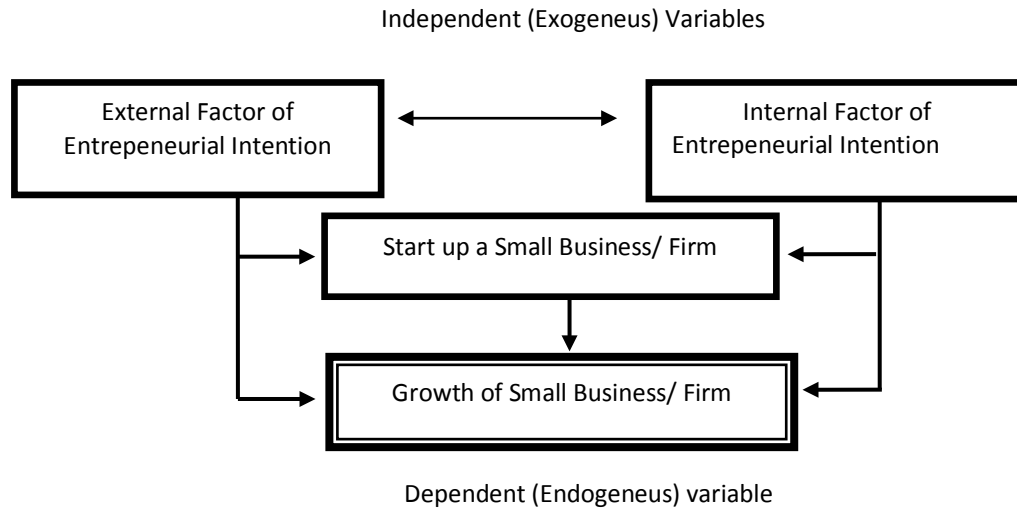
Many factors as responsible for the formation of entrepreneurial intention., some internal to the individual and some external (Ajzen and Madden, 1986). Specifically; Fini et al (2009) show that entrepreneurial intention is formed by demografic (gender, age, ethnicity, personal unemployment, and job 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 enreperenueur;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 familily 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 walfare 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 explanative research (explanatory survey research) that seek to explain the influence of internal and external factors of entrepreneurial 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 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 opprtunities were added. Each item in the questionnaire was accompanied by a Likert-type scale ranged from 1

(to a strongly diswillingnes) to 5 (to a = strongly willingnes). While, independent or exogeneous variabel is entrepreneurial intention factors, namely internal and external factors of individuals entrepreneur that initiate her/him to start up a dangke business. The entrepreneurial intention was said to be a reliable predictor or measure of entrepreneurial behavior and entrepreneurial activity (Krueger, Reilly and Carsrud, 2000). Specifically, in this research four items of external factor and six items of internal factor were used to measure an intention to become an entrepreneur. Then the respondents were asked to respond to the items of external factor or internal factor. The responses on the question "if he or she believed: external factors (the availability of government's assistance and support service, processing technology, raw materials, and market opportunities) or internal factors (the availability of initial capital, desire for independence, support from nearest person, the role models of successful entrepreneurship, personal skill, and working experience) are important to guide and direct me when begining a dangke business" were on a five-point Likert like scale (1 = strongly disimportant to 5 = strongly important).

Sampling Methods

The population of this study was small firms Dangke in in four sub-districts in Enrekang, namely Cendana, Enrekang, Baraka, and Alla. While the population target was small firms that have been operating for at least 3 years The sample size is determined iteratively using the Cohen formula (Al Rashid, 1994). By taking the value of confidence level (one-way test), test power, and the value of $P_{\text{XIXI}} (\rho) = 0.36$; obtained a minimum sample size in the third and the fourth iterative by 137 firm units. The sampling technique used is Stratified Random Sampling in proportion to the distribution of samples according to age of the firms .The selection of the sample respondents in each stratum performed randomly and all respondents were owner- founder of the small firms at once so that autonomy as a decisive factor for growing their firms, male and females, and aged between 22-58 years with an average of 40 years.

Data Collection

Type of data collected in this study was the primary and secondary data. Primary data was collected by direct interviews with the entrepreneurs/owners of the firms selected as a sample by using a list of questions that have been provided. The data collected based on a triangulation method (interview, questionnaire, and observation), so it is possible to fullfil the list of questions in the questionnaire completely and available data/information that is obtained from the questionnaires. In addition, it can collect more valid information and sharpen the overall analysis. Secondary data obtained from various sources or local government agencies and report the results of several previous studies relevant to the study to be conducted.

Data Analysis

Prior to the questionnaire used, we tested the validity using the correlation of product moment correlation to determine the ability of the questions in the questionnaire items able to measure the variables under study, and test reliability using the Spearman Brown test to determine the extent of the questionnaire can be trusted (Singarimbun and Effendi, 1989). Since the variable is a causal relationship, then to detect a clear effect relationship between variables we then used path analysis (Dillon and Goldstein, 1984). or *causal modelling* (Chun Li, 1981).

It is important to note that data collected are qualitative (data ordinal), and test equipment used is a path model that requires interval minimal data, then the ordinal research measurement are 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 questionsmon questionnaire are valid and reliable for the research. To determine the extent of internal factors of entrepreneurial intention (X₁) and external factors of entrepreneurial intention (X₂) influence the growth of small firms Dangke (X₃), then staticallyly test using path models as represented as the structural equation follows:

$$X_4 = P_{X_3X_1}X_1 + P_{X_3X_2}X_2 + P_{X_3U_3}U_3$$

Where :

P_{X₃X₁}X₁ = path coeficiente from internal factors

P_{X₃X₂}X₂ = Path coeficiente from external factors

P_{X₃U₃}U₃ = path residu

With the operational hipótesis are :

$$H_0: P_{X_3X_i} \leq 0 \text{ versus } H_1: P_{X_3X_i} > 0; i = 1 \text{ and } 2.$$

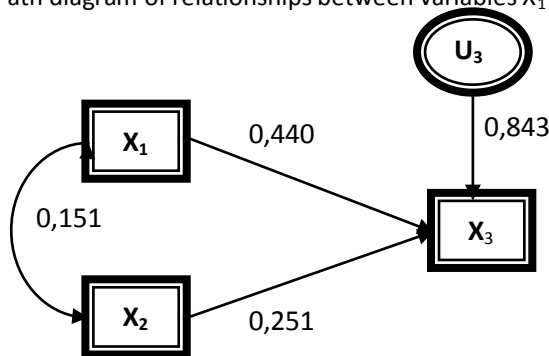
To prove this hypothesis, an analysis of research data and test results obtained are presented in Table 1 .

Table 1. Statistical Test Results of Path Analysis Effect of Variables X₁ and X₂ On Variable X₃

Structure of Parameter	Coeficiente	Effect (%)	t. Value	t. Tab.	Decision
X ₃ to X ₁	0,251	6,280	2,562*	1,665	H ₀ rejected
X ₃ to X ₂	0,440	19,321	4,493*	1,665	H ₀ rejected
R ² X ₃ (X ₁ , X ₂)	0,289	28,939	F. Value	F. Tab.	H ₀ rejected
Residu path	0,843	71,061	-	-	-

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.

Figure2: Path diagram of relationships between variables X₁ and X₂ Cause Effect With Variable X₃.



In Figure 2 appears, that the path coefficients of both variables causes X₁ and X₂ has a positive coefficient and the path leads directly to the variable X₃. Overall, it was at 71.061 percent of the total variation in the variable X₃ that can be explained by the variable causes of X₁ and X₂. Thus, the hypothesis that the variables X₁ and X₂ influence directly and positively to the X₃ 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 the 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 X_1 and X_2 to X_3 , 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 X_1 to X_2 to X_3 . 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 X_6 , 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

Tabel 2. Contribution Effect of Causes Variable (X_1 and X_2) on Variable Result (X_3)

Effect Variable	Donations of Effect (%)			
	Direct	By X_1	By X_2	Total
X_1	6,280	-	1,669	7,949
X_2	19,321	1,699	-	20,990

As shown in Table 2, we can see that X_2 contributes a relatively greater influence (20.9%) than the variable X_1 (7.9%). How can this be explained? It may be that the external factor that has guided and directed founder entrepreneurs 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 entrepreneurus 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 has 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 be 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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