

# CHAPTER I

## INTRODUCTION

### 1.1 Research Background

The economic challenges brought on by the pandemic Covid-19 and the forthcoming recession in 2023 have made the youth become more challenged to acquire the skills necessary to succeed in highly competitive job markets and as well as skills for them to become an entrepreneur as their employment choice. 8.42 million individuals were jobless in Indonesia in August 2022, according to Biro Pusat Statistik (BPS) or Central Statistics Bureau (2022). Thus, the open unemployment rate in Indonesia was at 5.86%. The recent unemployment data adds challenge to the country's economy and put pressure on people to find jobs. However, choosing entrepreneurship as a career choice has also become an option for many youths because it is found that nearly 70%, or to be precise 69.2% of technology-based start-ups in Indonesia were founded by young entrepreneurs aged 25-38 years (Salim, 2022).

Although unemployment is still an issue in Indonesia, the recent unemployment data has actually decreased compared to last year where in Indonesia, there were 9.1 million jobless persons in August 2021 (Central Agency of Statistics, 2022). This has been supported by the entrepreneurial activity such as the growing MSMEs which has been one of the biggest contributing factors to the increased employment rate in Indonesia. It has been reported that MSMEs account for 96.9% of all national employment, contribute 60.5% of the GDP, and generate

60.5% of all GDP-related income (Limanseto, 2022). Although there is a fair amount of data that reported the increased number of young entrepreneurs in Indonesia, Indonesia's entrepreneurship ratio is just around 3.47 percent of Indonesia's 270 million-plus population, or about 270 million people. However, when compared to fellow ASEAN countries (Association of Southeast Asian Nations) is considered still relatively low, such as Singapore which reached 8.76%, Malaysia and Thailand which already reached above 4% entrepreneurial ratio (Masduki, 2020). Meanwhile in Indonesia, to become a developed country there has to be at least 4% of the population who have become entrepreneurs (Ministry of Industry of the Republic of Indonesia, 2018), which proves that Indonesia is still far behind the neighbouring countries in terms of the entrepreneurial prospects. Statistics on entrepreneur college graduates were collected from multiple universities in Tangerang, such as Multimedia Nusantara University, 9% of the 1,240 graduates produced entrepreneurs in 2019 (UMN CDC, 2021), Prasetya Mulya University produced 27% of entrepreneurs from 851 graduates (CDC Prasmul, 2021). And Bina Nusantara University has produced 12% of entrepreneurs out of 2,381 graduates (Binus Career, 2021). Looking at these data, it shows that there's an indication of low entrepreneurial intentions among university students in Tangerang.

The motive of entrepreneurs in a nation is to spur economic growth and progress the national and state economies, improve people's living standards, help reduce or overcome unemployment, assist in resolving social disputes, promote domestic and foreign commerce, contribute to the country's foreign exchange

growth, and improve management of natural resources, capital resources, and human resources (Cahyani, 2012). The pandemic Covid-19 had a big impact on the MSMEs performance in Indonesia which significantly led to massive layoffs. Common problems faced by the MSMEs are such as financial obligations such as paying workers' salaries, insurance, company's debt and bank loans, and also the decreased revenue by 40-80%). In terms of non-financial obligations, MSMEs also had difficulties in gaining revenue and the surge pricing in commodity or raw materials (Aritonang, 2020).

The Indonesian government has taken efforts to increase entrepreneurial interests such as through implementation of a more lenient financial policy which is the PEN (National Economic Recovery) program in 2020. Moegiarso stated that the program aimed to offer MSMEs a multitude of stimulus through loan-restructuring programs, extra capital assistance, lower power bill payments, and other forms of financial help (Limanseto, 2021). The government's support in providing incentive for MSMEs through the National Economic Recovery (PEN) initiative in 2020 was successful in assisting business owners, particularly those in the unorganized sector and MSMEs, to withstand the pandemic's effects (Limanseto, 2021).

Survey conducted by Mandiri Institute found that 83% of MSMEs in Indonesia perceive the PEN program provided by the government as a successful tool in helping and facilitating their business to survive during difficult economic situations at that time (Laoli, 2020). In addition, BPS or Central Statistics Bureau

(2020) also reported that as of August 2020, there was an increase in job opportunities as 4.55 million were employed as informal workers and 0.76 million people opened their new businesses.

Aside from the aid from the government sector, universities also try to increase entrepreneurial intention and spirit among students through programs such as business incubators. As business incubators involve networking, it is considered an important success factor that accelerates and facilitates potential entrepreneurs and their businesses. Therefore, business incubators can contribute to stimulating more entrepreneurs to pursue their dream of creating their own companies (Darmawan, 2019). However, from a psychological perspective, individuals are actually heavily influenced by its primary socialization, which is the family. As the group with the closest ties to an individual, the family is a crucial source of social support (Grossman et al., 2012). Thus, the family environment must be taken into account as a potential predictor of an individual's potential and capacity to pursue entrepreneurship (Zhu et al., 2020). Entrepreneurial spirit of an individual can be developed through social support from other people who have empathy and concern for them. In terms of physical closeness, family is the closest ones to an individual as they are the primary socialization for an individual and they also shape the degree of how the children have a sense of autonomy.

The generic word "autonomy," encompassing both independence and volitional functioning, are two distinct concepts. Highly independent people may not necessarily behave volitionally, and vice versa (Ryan et al., 2006). For

example, as the children grow older the parents typically encourage their children to be separated and be independent from them, which is known as promotion of independence. On a deeper level, parents might make an effort to pay attention to their child's preferred amount of physical closeness and then provide the children the chance to express their own desires, which is an example of promotion of volitional functioning.

The desire for independence has become a major contributing indicator which influence a person's decision on becoming an entrepreneur (Douglas & Fitzsimmons, 2005). This is because the need to be flexible is a common entrepreneur's characteristics and traits as it allows them to make future plans, have control, and decide things by themselves (Lee & Wong, 2004) argued that students who wants to seek independence and flexibility show a higher rate and chances to be an entrepreneur. This is supported by a research found by Sudrajat (2019) which suggests that autonomy has a favorable relationship with students' entrepreneurial intention in SMK 17 Magelang which indicates that giving students more independence and autonomy increases their desire to become an entrepreneur and vice versa.

The distinction between independence and volitional functioning as a parental support for autonomy is vital because it is found that volitional functioning yields a greater significance for an individual's wellbeing compared to independence when it comes to autonomy (Soenens et al., 2007). For example, when an adolescent decides to be separated from the parents and to live independently because the decision reflects the individual's values and beliefs,

the individual therefore reflect and promote both independent and volitional functioning. However, if an individual chose to be independent from the parents because the parents pushes them to do so and the individual think of it as an obligation, the independence is therefore controlled and non-volitional. It is also found that the strongest predictors of someone's intention to establish a business and subsequent behaviors are most likely factors related to motivation and volitional functioning (Geldereren et al., 2015). This is based on the fact that through encouraging volitional functioning, a person becomes more conscious of their own free will and motivated to pursue what they want in life. Thus, parents give their children more independence and autonomy when they are given more freedom to think independently, creatively, and innovatively to make decisions by themselves which develop the entrepreneurial spirit of the children.

Sorenson (2007) found that parents who are self-employed have more resources and privileges in terms of giving their children financial and social capital support if their children wants to be an entrepreneur. The most important factor in starting and operating a new business is financial support, particularly for young, inexperienced entrepreneurs. An entrepreneur may receive financial help from friends, family, bank loans, venture capital, fundraising, and other sources. Yet, Sieger & Minola (2017) found that informal family investors predominate in business financing. Informal investors refers to investors who commonly happen to be a family member of the entrepreneur. The reason behind family investment in a start-ups or business are usually based on a feeling of responsibility or faith in the entrepreneur's vision and idea (Sieger et al., 2018).

Khayru et al. (2021) have also found that social support provided by family positively correlated to the children's entrepreneurial intention. In entrepreneurial networks, the familial ties function as the strongest ties as parents have the essential role in motivating and encouraging their children to realize their desire to become entrepreneurs by helping them become socially competent, self-assured, and responsible. Social support such as extensive business networks provided by family can also serve as a way to increase an individual's understanding of how to operate a business with the right resources (Sahban et al., 2016). Thus, it is important for young students to receive adequate assistance and information from their peers and family members.

It is found that initial exposure to role models of parents in business-running families influences the attitudes of children to become future self-employed (Carr & Sequeira, 2007). Both external and internal factors have influence to determine the way people's intentions are shaped to become entrepreneurs. As humans are social creatures, they are influenced by the environment around them. Environmental conditions can either encourage or suppress an individual's desire to launch a new venture (Sadeghi et al., 2013). This is supported by the theory of social learning proposed by Bandura (1961) which asserts that a person may learn by paying attention to the behaviour of their surroundings. For example, an individual who grow up surrounded by family or parents who are entrepreneurs can provide a positive and informative environment that can inspire an individual to become an entrepreneur as well.

Hutabarat (2017) found that family background strongly influences the desire to become an entrepreneur, as children growing up watching their parents and grandparents work hard and support their family. This instilled habit motivates them to learn and contribute to their family business, which they may one day inherit.

Based on the background and the phenomenon of the problem, this study will analyze regarding **“The Effects of Promotion of Autonomy, Entrepreneurial Role Model, and Parental Support in Developing Entrepreneurial Intention of Business Students in Tangerang”**

## **1.2 Problem Statement**

As previously mentioned, it is found that Indonesia's entrepreneurship ratio is still lacking in terms of its proportion to the total population in Indonesia. Moreover, compared to other ASEAN countries, the entrepreneurship ratio is also still regarded as low. University graduates from universities in Tangerang also does not show a significant amount of number of majority of the graduates becoming entrepreneur. Government support in terms of financial aid given to potential MSMEs and efforts made by Universities in introducing business incubators to accelerate potential businesses also does not give a significant contribution or impact in increasing student's entrepreneurial intention. This indicates a low entrepreneurial intention which has led to increase the unemployment rate in Indonesia. Hence, it can be said that those external factors might not have the most meaningful effect on increasing entrepreneurial intention among students and the author intends to explore the internal factors which consists five variables namely

the Promotion of Autonomy through Promotion of Independence and Promotion of Autonomy through Promotion of Volitional Functioning, Entrepreneurial Role Model, Parental Financial Capital Support and Parental Social Capital Support and determine which variables have the most significant amount of influence in affecting entrepreneurial intention among business students in Tangerang. The author chooses to take sample population from Tangerang because according to Sasongko and Anantadjaya (2014), Tangerang is considered to have a strategic location because of the government's efforts in investing on the development of the city to accelerate and facilitate potential businesses. Therefore, Tangerang actually has a potential to produce potential entrepreneurs.

### **1.3 Research Questions**

Based on the research background above, the conceptualization of the research problem are as follows:

1. Does parental support for autonomy as promotion of independence affecting Business students' entrepreneurial intention?
2. Does parental support for autonomy as promotion of volitional functioning affecting Business students' entrepreneurial intention?
3. Does having an entrepreneurial role model affecting Business students' entrepreneurial intention?
4. Does family financial support affecting Business students' entrepreneurial intention?
5. Does family social support affecting Business students' entrepreneurial intention?

#### **1.4 Research Objectives**

Based on the research problem, the objectives of the research are as follows:

1. To examine whether the Parental Support for Autonomy as promotion of independence affecting Business students' entrepreneurial intention.
2. To examine whether the Parental Support for Autonomy as promotion of volitional functioning affecting Business students' entrepreneurial intention.
3. To examine whether having an entrepreneurial role model affecting Business students' entrepreneurial intention.
4. To examine whether having family financial support affecting Business students' entrepreneurial intention.
5. To examine whether having family social support affecting Business students' entrepreneurial intention.

#### **1.5 Scope of the Study**

The scope of the study will be the business students' in Tangerang with family entrepreneur backgrounds. This research will examine how factors such as family support and environment can contribute to Tangerang business students' entrepreneurial intentions. The independent variables are promotion of independence, promotion of volitional functioning, entrepreneurial role model, financial capital, and social capital support for entrepreneurship as the independent variable and the entrepreneurial intention as the dependent variable. To gather the data and to achieve the goal of this study, the research will use

questionnaire surveys as the main source data collection to prove whether parental support and family environment can lead to the promotion of young Indonesia's entrepreneurial intention.

## **1.6 Research Contribution**

Based on the research problem, the research contribution in terms of academic and managerial benefits are as follows:

### **1. Theoretical**

This research gives contribution to future academic researchers by identifying and revealing more specific areas at whether the variables; Promotion of Autonomy, Entrepreneurial Role Model, and Parental Support (financial and social capital) can develop the entrepreneurial intention of Business students by providing relevant references or journals for future research on similar topic discussed in this study.

### **2. Managerial**

This research outcome is expected to give suggestions to Business students on the variables that can increase their entrepreneurial intention through promotion of autonomy, entrepreneurial role model, and parental support (financial and social capital) with the hope to increase the number of potential entrepreneurs and reduce unemployment rate in Indonesia.

## **1.7 Research Outline**

The research is divided into five chapters and uses the following writing systematics:

## **Chapter I Introduction**

This chapter will cover the research background, problem statement, research questions, research objectives, scope of the study, research contribution, and research outline.

## **Chapter II Literature Review**

This section will address theoretical background, hypothesis development, and research model.

## **Chapter III Research Methodology**

This chapter will explained further the research objects, research subject, unit of analysis, research type, place and time of research, determining suitable sample population, source of data, conceptual operational definitions, data collection method, data analysis technique, measuring scale, design sample, validity test, reliability test, descriptive statistics, and PLS-SEM.

## **Chapter IV Analysis and Discussion**

The results of data collection are analyzed and discussed in this chapter, along with the validity of each variable. This chapter also covers hypotheses and their impacts.

## **Chapter V Conclusions and Suggestions**

This section provides a discussion of the conclusion, which includes the study's findings and suggestions for future research.