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Does the Environment Impact Entrepreneurial Business Intention?

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Abstract

This study aims to investigate the determinants that influence youth in preparing for entrepreneurship in Indonesia. A quantitative approach was applied, using a cross-sectional survey with 425 young entrepreneur respondents in East Java. Data were analyzed using Structural Equation Modeling-Partial Least Square (SEM-PLS). The findings showed that entrepreneurial intentions can be explained by the institutional environment and can provide motivation to start a business. This study confirmed the strong correlation between motivation to start a business and entrepreneurial intentions in preparing for entrepreneurship programs.

Keywords: Institutional Environment, Motivate to Start a Business, Entrepreneurial Intentions

1. Introduction

The coronavirus 2019 outbreak (COVID-19) has caused considerable economic shocks, in addition to the main impact on public health (Bartik et al., 2020). The company’s profits will decrease due to the impact of the coronavirus, which is the result of a rational assessment by investors of the loss in business value (Ozili & Arun, 2020). The International Monetary Fund (IMF) stated in March that it predicted a global recession that would be as bad as the 2007-8 global financial crisis followed by a recovery in 2021 (Georgieva, 2020).

Indonesia has also exposed the impact of the COVID-19 outbreak. This situation can be seen from the decline in the number of entrepreneurs. On the other hand, the increasing number of unemployed is dominated by young and educated people...
Besides, today’s youth are more of a job seeker than a job creator (Gough et al., 2013; Salami, 2013). Due to the dependence of job seekers on the government in terms of employment. These individuals prefer to work in private or government companies rather than work independently or be self-employed (Martínez et al., 2007; Torp et al., 2020). When business conditions decline, young entrepreneurs must continue to struggle to survive the conditions of the Covid-19 outbreak. In such conditions, it is essential to have the motivation to be independent and successful, to have the strength and the need for persistence in doing business, which is very much needed by young entrepreneurs (Bezzina, 2010; Tong et al., 2011).

Several previous studies found that the environment has a different influence on each cognitive associated with decision making for entrepreneurship (Urban, 2013; Wach & Wojciechowski, 2016). It also confirms that entrepreneurial intentions and also previous factors (underlying factors) are influenced by circumstances outside the individual (Santos et al., 2016; Urban, 2013). According to Barral et al. (2018), an entrepreneur is the result of the time and place of residence. Some literature on entrepreneurship shows that the environment in which a person interacts has a significant influence on the decision to become an entrepreneur. Veciana, Aponte & Urbano (2002) stated in their research article that the importance of culture, but also economic, political, and social factors as determinants of entrepreneurship. This argument proves that the need for an external aspect that supports entrepreneurial intentions.

Meanwhile, the desire to be involved in entrepreneurial activities depends on aspects such as the country’s legal system, the stages of business life, the availability of capital in the economy and industry, and the global economic situation (Shane et al., 2003). Díaz-Casero et al. (2012) stated that the social and cultural environment affects the creation of beliefs, values, and attitudes, which in turn affect individual behavior. This business environment supports individuals to interact daily as a family, community, church, which can influence their desire and survival to become entrepreneurs, as well as entrepreneurial intentions to establish new businesses or not (Dubini, 1989).

Grewal & Dharwadkar (2020) argue that the importance of an institutional environment and comprehensive conceptual development regarding the incorporation of the institutional environment into marketing research and entrepreneurial motivation; in this case, the environment has full support for entrepreneurial intentions. The role of institutional mechanisms in Indonesia and the impact of channel members’ efforts with the primary objective of building legitimacy on channel relationships (Ren et al., 2010). Barral et al. (2018) and Dickson et al. (2004), in their findings that the support of the
right institutional environment will make business entrepreneurs run more smoothly. An excellent institutional environment will lead to reasonable behavior control in doing business (Ayalew & Zeleke, 2018; Barral et al., 2018). Because several institutional policies, including the government, have a profound impact on business continuity (Child et al., 2007).

From several studies conducted by Barral et al. (2018), Urban (2013), and Urban & Kujinga (2017) found that Institutional Environment has a significant effect on Entrepreneurial Intentions. This institutional condition is what makes the entrepreneurial intentions of young entrepreneurs even better (Liñán, Urbano, et al., 2011). Some of the support that has been made by the Indonesian government in advancing SMEs has been carried out (Tambunan, 2008). Support in the form of capital and job training to produce a competent and more competitive workforce (Chan, 2009; Jena, 2020).

The motivation to do business is the most major capital in starting a business (Analoui et al., 2009; Kempster & Cope, 2010). Motivation is part of the success factors of entrepreneurs in completing their tasks (Chigunta, 2002). Motivation to do business is directly proportional to the success achieved. Driving factors are also known as factors that cause satisfaction (Izquierdo, 2008; Purwana & Suhud, 2017). The existence of satisfaction will increase the motivation to do business to carry out activities in doing business (Azam Roomi & Harrison, 2010; Cope, 2005). The business motivation that is owned by individuals will create behavior in doing business (Dalborg & Friedrichs, 2015; Fazio & Williams, 2015; Oumlil & Juiz, 2018).

The motivation to start entrepreneurship from individuals reflects the tendency of people to update their current knowledge, which is regulated continuously, such as cognitive abilities (Alhazmi & Abdulrahman, 2013; Chan, 2009). Meanwhile, entrepreneurial intention to entrepreneurship measures the extent to which people 'like' to work and get joy from investing in activities related to their work (Authors, 2012; Hamrouni Dakoumi & Abdelwahed, 2014; Liñán, Rodríguez-Cohard, et al., 2011). Unlike work orientation, entrepreneurial intention measures the emotional aspects of people's approach to work (Pittaway, L., & Cope, 2007). It can be interpreted that people who have the intention to become entrepreneurial tend to engage in more intensive and systematic knowledge processing when demands are related to their business (Cope, 2005; Stevenson & Jarillo, 2007).
2. Literature Review

2.1. Institutional Environment

Institutional theory related to corporate strategy has been studied by several previous researchers, especially in developing countries (Li & Peng, 2008; Wright et al., 2005). Oxley (1999) argues that the Institutional Environment is a set of political, social, economic, and legal conventions that shape business conditions. The institutional environment can also be considered to consist of three main components, namely, regulative, normative, and cognitive “pillars” (Urban & Kujinga, 2017). Two main aspects of the institutional environment are fundamental to influence business strategy and performance (Wu & Chen, 2014). The institutional climate includes direct action in maintaining a framework for a more conducive business environment for entrepreneurship, establishing social norms and ideas about business as a phenomenon, and providing access to multiple sources of knowledge necessary to start a business (Ivy, 2013; Suchman, 1995). Meanwhile, the institutional environment is an environment that is conducive to entrepreneurship with social norms and ideas about the business by providing access to several sources of knowledge needed to start a business.

2.2. Motivate To Start Up Business

Turner & Pennington (2015) stated that the motivation to start a business refers to the individual’s willingness to act; the opportunity is an environmental situation that shows the intersection of favorable circumstances for possible action; and ability refers to the talent, skill or skill in a particular area related to work. Entrepreneurship is a process by which opportunities to create future goods and services are found, evaluated, and exploited (Shane & Venkataraman, 2000).

Furthermore, this entrepreneurial activity is the result of motivation for human action and external factors as one of its supporters (Shane et al., 2003; Santos et al., 2010). The motivation to start-up business is a strong impetus from within a person to actualizing one’s potential in creative and innovative thinking for made new products and add value for the common interest. Entrepreneurship will emerge when someone dares to develop new businesses and ideas.
2.3. Entrepreneurial Intentions

The intention is an indication of how seriously someone is willing to try, to what extent the effort they plan to make, to make a behavior (Ajzen, 1991). The intention is an indication of how strong a person's willingness to try to do something and how much effort they make to do a specific behavior, up to a particular time and opportunity when the action is carried out (Ajzen, 2005). To create a new business or create new values in an existing business is the primary goal of entrepreneurial intentions (B. Bird, 1988).

In line with these thoughts Fini, et al. (2012) argue that entrepreneurial intentions are a cognitive reflection of the actions taken by a person to build their new business independently and create new value in their business. The manifestation of competence in focusing through vision, the effectiveness of giving meaning to others through communication, through positioning by maintaining trust (honesty, consistent with values and methods), their existence with positive self-esteem (Bennis & Nanus, 1986). As for entrepreneurial intentions, it is a desire that arises from within young people to start entrepreneurship when they graduate because young people have the idea that entrepreneurship can achieve success in the future.

Figure 2 is the research framework. Overall, this study will test four hypotheses as follows:

H1: Institutional environment has a significant effect on entrepreneurial intentions
H2: Institutional environment has a significant effect on motivate to start-up
H3: Motivate to start-up business has a significant effect on entrepreneurial intentions

![Figure 1: The research framework](image-url)
3. Method

3.1. Study Design

This study applied a cross-sectional survey with participating young entrepreneurs in East Java. A total of 425 questionnaires were distributed online. Of these, 404 responses were obtained, and all reactions received could be used. The 95 percent response rate is relatively high. In more detail, the demographics of the respondents showed in table 1.

<table>
<thead>
<tr>
<th>TABLE 1: The demographic of respondents</th>
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<td><strong>S/No.</strong></td>
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Sources: Authors (2020).
3.2. Measurement Development

All construct measurements were adapted from previous studies with slight modifications. The questionnaire includes 32 questions that frame the respondent’s profile and variables, which are investigated. To measure Institutional Environment (IE), we adapted 10 (ten) items from Tung et al. (2020). Motivate To Start-Up Business (MO) was measured by 7 (seven) items from Tung et al. (2020). Finally, we measure Entrepreneurial Intentions (EI) by adapting 6 (six) questions based on Linan et al. (2005). Next, we measured each construct using a Five-point Likert Scale from "strongly disagree" (1) to "strongly agree" (5). The data analysis technique in this study used Structural Equation Modeling Partial Least Squares (SEM-PLS) with SmartPls 3.0 software tools.

4. Results

4.1. Assessment of Outer Model

According to Ghozali (2015), parameter estimation using PLS can be categorized into three, namely: The first stage produces a weight estimate. The second stage generates forecasts for the inner model and outer model. The third stage makes views of means and locations (Ghozali, 2015). Furthermore, in the PLS-SEM, the evaluation of the fit of the model uses: First, the assessment of the outer model or also known as the measurement model, which connects all manifest variables or indicators with their latent variables, and second the assessment of the inner model. According to Ghozali (2015), structural models, where all latent variables are related to one another based on theory (Ghozali, 2015).

The outer model evaluation, also known as the measurement model, aims to assess the model’s validity and reliability. We use the method to test convergent validity, discriminant validity, composite reliability, and construct authenticity. Convergent validity or convergent validity is related to the principle that the manifest variables must be highly correlated (Hair et al., 2013). The convergent validity test for reflexive indicators with the SmartPLS 3.0 program can be seen from the loading factor value for each construct indicator. The rule of thumb used to assess convergent validity is: for confirmatory research, the loading factor value is > 0.70, while for exploratory study, the loading factor value must be > 0.60 (Chin, 1998; Chin, 2010; Hair et al., 2013).

The discriminant validity test relates to the principle that the manifest variables of different constructs should not be highly correlated. The way to measure discriminant
validity is to see the cross-loading value for each variable must be > 0.70. If the construct correlation with the item of measure is more significant than the other constructs’ measure, it will show that the latent construct predicts the size of the block better than the different block sizes. Another way that can be used to test discriminant validity is to compare the square root of Average Variance Extracted (AVE) value of each construct with the correlation between the other constructs in the model. Suppose the AVE root value of each construct is higher than the correlation value between constructs and other constructs in the model. In that case, it can be interpreted that it has good discriminant validity. This measurement can be used to measure the reliability of the latent variable component score.

Furthermore, the PLS-SEM composite reliability test with SmartPLS 3.0 can be done in two ways: First, by looking at the Cronbach’s Alpha (α) value, where for confirmatory research, the value of α is > 0.70. Whereas for exploratory research, the value of α > 0.60 (Chin, 1998; Chin, 2010; Hair et al., 2013). Second, by looking at the value of composite reliability (CR), where for confirmatory research, the CR value is > 0.70, while for exploratory study the CR value is in the range of 0.60-0.70 (Chin, 1998; Chin, 2010; Hair et al., 2013). Table 2 shows the values of convergent validity, discriminant validity, and composite reliability of each variable.

<table>
<thead>
<tr>
<th>Variable and Indicator</th>
<th>Loading</th>
<th>CR</th>
<th>α</th>
<th>AVE</th>
</tr>
</thead>
<tbody>
<tr>
<td>Entrepreneurial Intention</td>
<td>0.879</td>
<td>0.816</td>
<td>0.644</td>
<td></td>
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<tr>
<td>EI1</td>
<td>0.803</td>
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<tr>
<td>EI2</td>
<td>0.811</td>
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<tr>
<td>EI4</td>
<td>0.820</td>
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<tr>
<td>EI5</td>
<td>0.776</td>
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<tr>
<td>Institutional Environment</td>
<td>0.889</td>
<td>0.847</td>
<td>0.617</td>
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<tr>
<td>IE1</td>
<td>0.816</td>
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<tr>
<td>IE2</td>
<td>0.835</td>
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<tr>
<td>IE3</td>
<td>0.814</td>
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<td></td>
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<tr>
<td>IE4</td>
<td>0.742</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>IE6</td>
<td>0.712</td>
<td></td>
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<tr>
<td>Motivate To Start Up Business</td>
<td>0.821</td>
<td>0.789</td>
<td>0.605</td>
<td></td>
</tr>
<tr>
<td>MO1</td>
<td>0.815</td>
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<td></td>
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<tr>
<td>MO3</td>
<td>0.766</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>MO4</td>
<td>0.750</td>
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</table>
Furthermore, in table 2, it is known that the entrepreneurial intention, institutional environment, and motivate to start-up business variables have AVE values of 0.644, 0.617, 0.605 > 0.50 respectively, thus fulfilling discriminant validity (Chin, 1998; Chin, 2010; Hair et al., 2013). Table 2 also shows that the variables entrepreneurial intention, institutional environment, and motivation to start-up business have CR values (0.879, 0.889, and 0.821) and Cronbach Alpha (0.816, 0.847 and 0.789)> 0.70, so that they meet composite reliability (Chin, 1998; Chin, 2010; Hair et al., 2013). The complete measurement results of the model (outer model) can be seen in table 2.

4.2. Assessment of Structural (Inner) Model

After evaluating the measurement model or outer model, the next step is to evaluate the inner model, also known as the structural model evaluation. As described in the previous chapter, Hair et al., (2013) recommend five steps in the structural model test, which include: (1) testing collinearity; 2) Testing the path coefficient, 3) Testing the level of $R^2$; (4) test the effect size of $f^2$ and (5) test the relevant predictions of $Q^2$.

4.2.1. Collinearity Test

A collinearity test is conducted to see whether high collinearity occurs between variables or not. The way this is done is by looking at the Variance Inflation Factor (VIF) coefficient, where the VIF value must be lower than 5.00 (Hair, Hult, et al., 2013). The collinearity test results table shows that all variables have a VIF coefficient value <5.00, so there is no collinearity. Thus, all indicators of the constructs tested are valid.

4.2.2. R-Square Level Test (R2)

The R-Square ($R^2$) level test aims to see whether each endogenous latent variable has predictive power on the model or not. In summary, the $R^2$ value shows the strength of the prediction accuracy (Hair, Hult, et al., 2013). As explained in the previous chapter, the rule of thumb of $R^2$ values 0.75, 0.50, and 0.25 indicates that the model is substantial, moderate, and weak (Hair, Hult, et al., 2014). Meanwhile, according to Chin (1998), the values of 0.67, 0.33, and 0.19 indicate a strong, moderate, and weak model. Researchers use Chin (1998) for the rule of thumb from $R^2$. Our test results get the $R^2$ value of the entrepreneurial intention variable of 0.429, which means that the motivation to start-up business and the institutional environment can explain 42.9% of the variants of
entrepreneurial intention with a moderate predictive level. Furthermore, the R2 value of the motivate to start-up business variable is 0.153, which means that 15.3% of the variance of the motivate to start-up business can be explained by the institutional environment variable with a weak predictive level.

4.2.3. The effect/size effect test (f2)

The effect/size effect test (f2) aims to determine the extent of the influence of the latent predictor variable (exogenous latent variable) on the structural model (Hair et al., 2013). In the size effect/effect test (f2), the rule of the thumb used refers to the opinion of Hair et al. (2013) and Chin (1998), where the values of 0.02, 0.15, and 0.35 indicate the influence of small, medium and large sizes. Our test results show the value of f2 of the IE variable against MO 0.18, which indicates a medium effect size. Furthermore, the value of f2 IE and MO against EI is 0.35, which shows a large effect size.

4.2.4. Relevant Prediction Test

The relevant prediction test (Q2) aims to measure how well the observed value produced by the model and also its parameter estimates. The value of Q2 > 0 (zero) shows that the model has a predictive relevance value. The value of Q2 < 0 (zero) indicates that the model lacks predictive relevance. The formula used is as follows: Q2 = 1 - (1-R2). Based on the results of our model testing, it is known that the Q2 value of each variable is greater than 0, thus showing that the model has a predictive relevance value.

4.2.5. Path Coefficient

Path coefficients are also used to evaluate structural models. Furthermore, in PLS-SEM to get the t-statistic or t-value, a bootstrap resampling procedure is used. The bootstrapping procedure is a non-parametric approach to testing the accuracy/precision of the PLS-SEM testing (Henseler, Ringle, & Sinkovics, 2009). The results of the bootstrapping show the stability of the PLS-SEM test. In this study, data were processed using 500 bootstrapped samples. Table 4 shows that the path coefficient (p-value) of the three relationships are 0.000 < 0.05, so it is significant. The complete path coefficient test results can be seen in Table 3 and Figure 2 below:

Figure 2 is the result of the structural model test in our study, which is fully described in table 3. The structural equation model is used to see whether the hypothesis that has
Table 3: Path Coefficients and Results of Hypotheses Testing

<table>
<thead>
<tr>
<th>Hypotheses</th>
<th>Relationship</th>
<th>Beta</th>
<th>T-value</th>
<th>P-values</th>
<th>Decision</th>
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<tbody>
<tr>
<td>H₁</td>
<td>IE → EI</td>
<td>0.290</td>
<td>7.491</td>
<td>0.000</td>
<td>Accepted</td>
</tr>
<tr>
<td>H₂</td>
<td>IE → MO</td>
<td>0.392</td>
<td>6.849</td>
<td>0.000</td>
<td>Accepted</td>
</tr>
<tr>
<td>H₃</td>
<td>MO → EI</td>
<td>0.485</td>
<td>12.005</td>
<td>0.000</td>
<td>Accepted</td>
</tr>
</tbody>
</table>

Sources: Authors (2020).

Figure 2: The research framework (Sources: Authors (2020)).

The results of this study answered three hypotheses. The first and second hypotheses have confirmed that there is a direct positive impact between institutional environment on motivate to start-up business and entrepreneurial intentions. The results of the

5. Discussion

The results of this study answered three hypotheses. The first and second hypotheses have confirmed that there is a direct positive impact between institutional environment on motivate to start-up business and entrepreneurial intentions. The results of the
study support several studies by Grewal, R., & Dharwadkar (2020) that the institutional environment around young entrepreneurs will affect their motivation to do business. Young entrepreneurs can implement this support in running their business so that it runs well, so it is necessary to support the right business environment with positive synergy (Barral et al., 2018; Dickson et al., 2004). A supportive and kind business environment will form the right business motivation, which will also form greater determination in doing business (Barral et al., 2018; Dickson et al., 2004). Some support has been made by several governments and related business people in the form of capital and job training to produce a competent and more competitive workforce (Chan, 2009; Jena, 2020). As for the conditions that occur in Indonesia where support from the Institutional Environment, in this case, related institutions from the government in charge of MSMEs and several related stakeholders, will be able to increase the Motivate To Start-Up Business and Entrepreneurial Intentions of young people in starting their businesses.

The third hypothesis has confirmed that there is a direct positive impact between Motivate To Start Up Business on Entrepreneurial Intentions. The results of the study support previous research by Ang (2000) and Stevenson & Jarillo (2007). To achieve their business goals, successful young entrepreneurs need strong business motivation because they will find many obstacles and problems in running their business. The need for smart and quality work, in addition to hard work, becomes support in making a strong self-motivation in doing business (Chye Koh, 2006; Kim, 2005; Kriewall & Mekemson, 2010). Motivate To Start Up Business is implemented by a young entrepreneur by being diligent in studying in courses or seminars, both online and offline (Farhangmehr et al., 2016).

The positive linear relationship between the motivation to do business and success is manifested in the form of behavior in business; this is a factor that causes job satisfaction (Izquierdo, 2008; Purwana & Suhud, 2017). Doing business begins with the extent to which they like to do this, and with them like what they do in their work, they will invest in this business (Hamrouni Dakoumi & Abdelwahed, 2014; Liñán, Rodríguez-Cohard, et al., 2011). Motivation to start a reliable business will be a determination in doing business (Cope, 2005; Stevenson & Jarillo, 2007). Currently, in developing countries, especially in Indonesia, you are young people who have the right business motivation and are enthusiastic, so their attitude and behavior are outstanding in doing business so that this will make their entrepreneurial intentions even better, which will eventually achieve success in business.
6. Conclusions

The purpose of the study examines the determinants that influence young people in preparing for their business. The findings show that entrepreneurial intention can be explained by motivate to start-up business and institutional environment. This study confirms the strong correlation between motivate to start-up business, institutional environment, and entrepreneurial intentions.

This study shows that, first, government institutions and universities still need to carry out a lot of education and training programs for young people in the field of entrepreneurship in order to make them capable of being confident and independent in running their businesses. Second, there needs to be the involvement of many stage holders as foster fathers for this young entrepreneur in terms of capital, technical production, and product marketing. Third, support from the business environment that can be created if there is much support from the community, senior entrepreneurs, institutions, and the government as regulators and mediators. Scholars need to consider further other variables such as perceived entrepreneurial self-efficacy and locus of control.

References


