

## Analysis of internal barriers toward the growth of start up business in Indonesia

I Gusti Putu Diva Awatara  
Anwar Hamdani  
Siti Fatonah  
Linda Nur Susila  
STIE AUB, Surakarta, Indonesia  
Ardi Gunardi  
Universitas Pasundan, Indonesia

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### Keywords

Internal barriers, start up, SME's, Indonesia

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### Abstract

*This study aims to analyzed internal barriers such as motivation, management capacity, funding and marketing influenced toward the growth of start up Business in Indonesia. This research in SME's Indonesia using samples from 100 respondent with sample technique is purposive sampling. Data collection method used a questionnaire, documentation and interview. The method of analysis used is multiple linier regression. The result showed that the motivation, management capacity, funding and marketing influence on the growth of start up business in Indonesia.*

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Corresponding author: I Gusti Putu Diva Awatara

Email address for corresponding author: [gruppe\\_cemara@yahoo.co.id](mailto:gruppe_cemara@yahoo.co.id)

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### A. Introduction

Given the current economic challenges facing many countries across the globe, the notion of engendering greater entrepreneurial activity has become a prominent goal for many national governments. The relevance of entrepreneurship to economic development has been highlighted by many researchers (e.g. Davidsson *et al*, 2006) and it is now well-recognised that education and training opportunities play a key role in cultivating future entrepreneurs and in developing the abilities of existing entrepreneurs to grow their business to greater levels of success (Henry *et al*, 2003). According to the European Commission (2008), the aim of entrepreneurship education and training should be to 'develop entrepreneurial capacities and mindsets' that benefit economies by fostering creativity, innovation and self-employment.

More globally, governments across the world are increasingly recognising the positive impact that the creation of new businesses can have on employment levels, as well as the competitive advantages that small firms can bring to the marketplace (Scase, 2000). Moreover, while entrepreneurship provides benefits in terms of social and economic growth, it also offers benefits in terms of individual fulfilment, with entrepreneurship now breaking through the barriers of class,

age, gender, sexual orientation, and race. However, because the relationship between entrepreneurship and economic growth is quite complex, many different approaches to encouraging entrepreneurship have been applied by a wide variety of agencies, with enterprise policies varying from country to country.

Hoy *et al* (1992) recorded that a wide variety of growth measures were used ranging from increased market share or enhanced venture capital funding, to growth in revenue, return on investment, or the number of customers of a firm. Within these studies, employment was generally the most accepted method of measuring growth. This occurs because the data is easily gathered, determined and categorised, and because this system is already frequently utilised to ordain firm size. Additionally, employment figures will be unaffected by inflationary adjustments and can be applied equally in cross-cultural studies, although difficulties may arise in determining how one measures part-time or seasonal employees. It is also worth noting that while a firm may increase its level of employment, it does not necessarily follow that it has expanded its market or financial success. However, it is now broadly agreed that if a firm is to achieve sustained expansion, it must satisfy a number of requirements for growth - it must increase its sales, it must have access to additional resources, it must expand its management team, and it must extend its knowledge base. But each set of requirements establishes a different set of obstacles for the entrepreneur.

In addition to resource shortages and capacity limitations, an important set of internal barriers to growth is related to the whole issue of human resource management and the conditions concerning the hiring and firing of labour. A key internal constraint on growth of SMEs is a reluctance or inability of owner managers to diversify control over business functions to professional managers.

Gibb (1987) noted that while the entrepreneurial role can be both culturally and experimentally acquired, it is consistently being influenced by education and training. It has also been argued that the traditional approach to entrepreneurship needs to change and that the relevance of entrepreneurship education and training must be expanded. Indeed it is now widely recognised that there is a requirement to move from traditional 'instruction' towards an experiential learning methodology, utilising an action oriented, mentoring and group-work approach to ensure greater learning effectiveness. Within this approach, critical thinking and problem solving are recognised as key skills, while it is also appreciated that skill development regarding risk-taking, innovation, creativity and collaboration needs to be valued more. A more hands-on approach is also required for the development of project management and budgetary skills. Therefore, increasingly it is being recognised that teaching entrepreneurship skills should be interactive and might include case studies, games, projects, simulations, real-life actions, internships and other hands-on activities (Kutzhanova *et al*, 2009).

## **B. Literature Review**

### **1. Entrepreneurship and Enterprise Growth**

Entrepreneurship is all about the identification of an opportunity, creation of new organization, and pursuing new ventures (Carton *et al.*, 1998). There are many studies done on entrepreneurship like external skills required in entrepreneurs. For example, Wickham (2006) has stated that an entrepreneur needs to be innovative, creative and should be able to take risk. Barringer and Bluedorn (1999) have described entrepreneurs as individuals who can explore the environment, discover the opportunities, and exploit them after proper evaluation. Kuratko (2009) in his book,

distinguishes between entrepreneurs and small business owners. He highlights that these two terms are often used interchangeably, but both have a lot of differences in their reaction under certain situations. An entrepreneur aggressively focuses on innovation profit and growth of the enterprise. On the other hand, a small business owner's objective and focus is mostly on managing stable growth, sales, and profits. An entrepreneurial venture is successful if it is growing.

Gilbert *et al* (2006) suggested how and where questions are important in the context of the growth of the enterprise. It has been highlighted that growth is a function of the decisions an entrepreneur makes, like how to grow internally or externally and where to grow in domestic market or international market. There are many different theories on identifying the main factors underlying the growth of the enterprise. One set of theories addressed the influence of enterprise size and age on growth (Morone and Testa 2008), and the second set deals with the influence of variables such as strategy, organization, and the characteristics of the enterprise's owners (Freel and Robson, 2004) on growth of the enterprise. Mateev and Anastasov (2010) have found that an enterprise's growth is related to size as well as other specific characteristics like financial structure and productivity. They further added that the total assets which is one of the measure of the enterprise size has a direct impact on the sales revenue, but the number of employees, investment in R & D and other intangible assets have not much influence on the enterprise's growth prospects. Lorunka *et al* (2011) have found that the gender of the founder, the amount of capital required at the time of starting the business, and growth strategy of the enterprise are very important factors in predicting growth in a small enterprise. They have further highlighted that apart from human capital resources, the growth of an enterprise can be predicted on the basis of commitment of the person starting a new enterprise.

## 2. Entrepreneurship Skills Required to Overcome Barriers to Growth

Drucker (1985) argued that entrepreneurship is a practice and that *"most of what you hear about entrepreneurship is all wrong. It's not magic; it's not mysterious; and it has nothing to do with genes. It's a discipline and, like any discipline, it can be learned."* If one agrees with Drucker's concept of entrepreneurship, then it follows that education and training can play a key role in its development. In a traditional understanding, entrepreneurship was strongly associated with the creation of a business and therefore it was argued that the skills required to achieve this outcome could be developed through training. More recently entrepreneurship is being viewed as a way of thinking and behaving that is relevant to all parts of society and the economy, and such an understanding of entrepreneurship now requires a different approach to training. The educational methodology needed in today's world is one which helps to develop an individual's mindset, behaviour, skills and capabilities and can be applied to create value in a range of contexts and environments from the public sector, charities, universities and social enterprises to corporate organisations and new venture start-ups. Lichtenstein and Lyons (2001) argued that it is important for service providers to recognise that entrepreneurs come to entrepreneurship with different levels of skills and therefore each entrepreneur requires a different 'game plan' for developing his or her skills. Furthermore, they suggested that skill development is a qualitative, not quantitative, change which demands some level of transformation on the part of the entrepreneur.

Storey (1994) have found that the principal barriers to firm growth through a detailed review of the literature, there was broad agreement that the primary issues involved in growth are (1) motivation, (2) resources and (3) market opportunities. Indeed much of the literature highlights the central role of the business owner in determining future growth and that their attitude to growth

may even influence the chances of firm survival. A study by Orser (1997) found that of the firms studied in her research, those firms whose owners had stated five years previously that they wanted to grow the business were now more successful, while the majority of firms owned by entrepreneurs who did not prioritise growth had either not grown or had failed.

### 3. Significance of growth Start Up in SMEs

SMEs are considered as a major source of employment generation also. It has the advantage of cheap labor and flexibility of operations along with indigenizing technology (Mitra and Pingali, 1999). There are a large number of studies suggesting that small businesses play a major role in job creation (Smallbone and Wyr, 2000). Though there are many arguments on the overall contribution of small businesses in the new employment, it is considered as an important source for employment creation (Curran, 2000; Gibb, 2000; Hamilton and Dana, 2003; Robbins *et al*, 2000). Baumol (2004) suggests that small entrepreneurial organizations and entrepreneurs will always be considered important for growth of developing economies. Hence, it is critical to pay attention on the overall growth of this sector. There are different views on the growth of SMEs.

Chaston and Mangles (1997) suggest that if an enterprise adopts multi-strategy transformation initiatives, the probability of achieving the growth objective increases. They further points that in planning a performance improvement program, different capabilities must be given priority depending upon the development stage of the firm. In their study, Kolvereid and Bullvag (1996) found that almost 40% of the respondents do not want to grow. They concluded that entrepreneurs who want their firm to grow will have higher level of education and will tend to have manufacturing firms rather than service firms. Government has included many promotional policies for the promotion of this sector like product reservation, infrastructure support, direct and concessional credit, tax concession, special assessment in procurement of equipment, facility of duty drawback, quality control, and provision of market network. Small scale companies provide support to large scale companies by supplying goods and services in small quantities, which in turn help them to achieve competitive advantage (Majumdar 2007). Muthaih and Venkatesh (2012) suggest that many factors contribute in the SME growth; similarly, there are many barriers to growth. For small businesses, barriers can be of two types, institutional and financial. An institutional barrier includes the enterprise's interaction with government, issues related to legalization, taxation, and government support. Financial barriers will involve lack of financial resources (Davidsson, 1989). Further, the authors notice that SMEs can also face external and internal barriers along with social barriers which would cover aspects of market position of an enterprise, access to right kind of human resources, and access to network (Bartlett and Bukvic, 2001). Studies have shown that there are many other factors that would contribute to the failure of a small firm/business. Small businesses are dependent on the owner's insight, managerial skills, training, education, and the background of the company's leader. Often, lack of these characteristics is the cause of small business' failure (Gaskill *et al*, 1993).

### C. Research Method

The research is research cross sectional through quantitative survey method. Sekaran (2009) suggested that this research means research conducted in the population large and small, but the data learned is data from samples taken from the population. The population of the research is management of SME's company. The sampling method used was purposive sampling. The number

of respondents as many as 100 respondents. The data collected method used questionnaire, documentation and interview. The data analysis technique used was multiple linear regression.

## D. Result and Discussion

### 1. Result

The results of instruments testing to the test validity of the study indicate that all the variable in the status of valid and reliable, while testing the feasibility of the indicate that the research data in normal status, the data did not have problem multicollinierity, heteroscedastisitas and autocorrelation. Table 1 shows the results of regression analysis:

Table 1. The Result of Multiple Regression Analysis

Variable	Coefficient	t statistic	Prob	Note
Motivation → <i>Start up</i>	.169	2.150	.034	Significant
Management Capacity → <i>Start up</i>	.173	2.328	.022	Significant
Funding → <i>Start up</i>	.331	6.472	.000	Significant
Marketing → <i>Start up</i>	.255	4.802	.000	Significant
F hitung = 511,754				
R <sup>2</sup> = .969				

Note: \*\*p < .05; \*\*\*p < .01

Source: Data analysis, 2017

The results of hypothesis testing indicate that that motivation, management capacity, funding and marketing positive and significant influence on the growth of start up business in Indonesia.

### 2. Discussion

Storey's (1994) finding that real employment growth was created by a small number of high-growth firms has concentrated the minds of researchers and policy-makers alike to seek to identify the key entrepreneurial skills that needed to be developed by growth-orientated entrepreneurs. Following the extensive review of the literature undertaken for this review, the following are the principal entrepreneurial skills that need to be developed amongst growth orientated entrepreneurs:

- Customer-Orientated - Entrepreneurs must be committed to creating customer value through the provision of innovative products / services;
- Strategic Development - Entrepreneurs should learn how to select from a number of market strategies that can influence their chances of success (e.g. Choice of Market, Customer Driven, Constantly Innovate, Differentiation/Focus, Highest Quality, Exporting);
- Financial Management - Entrepreneurs must learn the skills required to access additional venture capital (e.g. how to structure a proposal);
- Human Resource Management - Entrepreneurs need to understand and appreciate the need to enhance the HR practices of the firm and to offer financial incentives to employees (share the rewards).

But the development of these skills is not enough in themselves because the following conditions must exist if any progress is to be achieved:

- The entrepreneur must be motivated to grow the business;
- Peer-to-peer mentoring from successful entrepreneurs is a critical element of any training programme (mentors must also be motivated to work in this role);

- c. Entrepreneurs must be provided with increased access to networks, finance and international markets.

Kutzhanova *et al* (2009) examined an Entrepreneurial Development System located in the Appalachian region of USA and identified four main dimensions of skill:

- a. Technical Skills - which are those skills necessary to produce the business's product or service (e.g. operation specific to industry, communications, design, research and development, environmental observation)
- b. Managerial Skills, which are essential to the day-to-day management and administration of the company (e.g. planning, decision making, motivating, marketing, finance and selling)
- c. Entrepreneurial Skills - which involve recognizing economic opportunities and acting effectively on them (e.g. inner discipline, ability to take risk, innovative, change orientated, persistence)
- d. Personal Maturity Skills - which include self-awareness, accountability, emotional skills, and creative skills.

## E. Conclusion

The most significant barrier to growth was based upon motivational factors. If there is not a strong commitment by the entrepreneur / management team to grow the business, then it is unlikely to happen of its own accord. However, even if the commitment to growth is demonstrated, then issues such as management capability, funding, sales or marketing capacity and poor product or service offering has also been featured as being the internal barriers to firm growth in Indonesia

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