

Analysis of the Selection of Starting a Business Method for Small and Medium Business Actors Associated with the Profitability of New Businesses for the Period of 2020

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ABSTRACT

This study aims to determine the preferences of entrepreneurs in starting new businesses, namely whether to use the causation approach or the effectuation approach that occurs in 2020 and henceforth the choice of the method of starting a business is associated with business profitability. The research method used in this study is a survey research method of 250 SME's respondents who obtained People's Business Credit (KUR) from State's own Bank (Bank BUMN). The variables examined in this study are the method of starting a business approach, business motivation (necessity entrepreneur and opportunity entrepreneur), capital adequacy, business opportunity analysis, market potential analysis, management team, business profitability. The results show: First, small and medium business, which became the research sample, preferred the effectuation approach when starting a new business in the era of the Covid pandemic. approach when starting a new business. Third, better business profitability in the group using the causation approach is thought to be caused by capital adequacy, a more in-depth analysis of business opportunities and market potential analysis, and having a management team to run the business.

Keywords

Causation approach, effectuation approach, necessity entrepreneur, opportunity entrepreneur, profitability

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Introduction

Global Entrepreneurship Monitoring (GEM) (2001) - an international entrepreneurship research effort involving various universities in the world initiated by Babson College and London Business School - introduces the concept of Total Early Stage Entrepreneurial Activity (TEA) which is defined by GEM as:

“Proportion of individuals aged between 18 and 64 that are either in the process of starting a nascent business or are the owner-managers of a new operating business that is less than 42 months old”.

The results of the GEM study show that there has been a decrease in TEA in Indonesia, from 25.5% in 2013 to 11.3% in 2019. The TEA figure is expected to decline further in 2020. The decline in the TEA figure indicates that there has been an increase in new business discontinuity over the last 7 years. Various factors are suspected to be the cause of the decline in Indonesia's TEA, especially the decline in global economic growth and the Covid 19 pandemic which has an impact on reducing Indonesia's economic growth.

The 2013-2020 period also recorded that the unemployment rate in Indonesia was still above 5% (BPS, 2019) of the entire workforce as well as an increase in the number of layoffs so that even though the number of businesses experiencing discontinuity increased, at the same time there was an increase in new business formation.

This study aims to determine the preferences of entrepreneurs in starting a new business, namely whether to use the causation approach or the effectuation approach that occurs in 2020. Furthermore, the choice of methods to start a new business is related to the business profitability of the necessity entrepreneur and opportunity entrepreneur groups where profitability is considered as one of the factors which will determine business continuity so as to prevent business discontinuity.

Literature Review

Necessity versus Opportunity Entrepreneur

A study conducted by the Global Entrepreneurship Monitor (GEM) (2009) differentiates the motives of entrepreneurs in carrying out entrepreneurial activities into two categories. In the first category, entrepreneurs carry out entrepreneurial activities because there is no other choice to earn income other than self-employment, for example by trading or running other businesses. The absence of this choice can be caused by various factors, such as the high level of unemployment in a country so that a large number of the workforce is not absorbed to work in companies or due to a change in the political climate which is very fundamental which affects the economy of a country. For example, after the fall of the Berlin Wall which was the impact of very fundamental political changes in East Germany - a lot of inefficient factories in the East German region stopped operating and left millions of unemployed, even though previously they were the productive working class. After the factories stopped operating, most of the unemployed found themselves having no other choice to support themselves and their families except by doing business activities. The same conditions hit Indonesia during the economic crisis in the 1990s following the collapse of the New Order regime. Based on the phenomena that occur in East Germany and Indonesia as well as various other countries, it can be understood that self-employment will increase in developing countries and will decrease if there has been an increase in employment opportunities in these countries (Shrivastava & Shrivastava, 2013). Entrepreneurs in this category are called necessity entrepreneurs.

The second category is entrepreneurs who carry out business activities based solely on the perceived business opportunities that can be exploited to generate profits. Some of the entrepreneurs in this second category come from professionals who have the motivation to earn more and take advantage of various business opportunities by using the income or savings they have accumulated so far to run a business (Shane, 2008; Saudi, 2018). These entrepreneurs are hereinafter referred to as opportunity entrepreneurs. Also included in the opportunity entrepreneur category are entrepreneurs who are currently running a business and making new businesses because of business opportunities that

have the potential to increase their wealth through business diversification activities.

Business Opportunities

Business opportunities are objective realities that exist in a business environment. However, the perception of business opportunities is very subjective and is influenced by the entrepreneurs' assessment of the business opportunities in question (Braunerhjelm, 2010). The existence of subjectivity in assessing a business opportunity results in one entrepreneur deciding to start a business while other entrepreneurs perceive the same business opportunity as unfit to be exploited into a business.

In the study of entrepreneurship studies, there are two theories related to the motivation of entrepreneurs in seeking business opportunities (Giacomin et al., 2011). The first category of theory is what is called push theory. This theory explains the motivation of a person to look for business opportunities because of a situation that forces him to seek such business opportunities such as unavailability of employment or because someone is about to enter retirement age and he intends to start a new business or employees who are affected by Termination of Employment (PHK) and can no longer find new jobs - they will be motivated to look for business opportunities. The Global Entrepreneurship Monitor (GEM) uses the term necessity entrepreneurs for entrepreneurs who decide to run a business because there is no better choice than to become entrepreneurs.

The second category of theory is pull theory. This theory explains the motivation that drives a person to become an entrepreneur because of the possibility of obtaining a profit from the business that will be run. GEM uses the term opportunity entrepreneurs to describe the phenomenon of many professionals in the United States and various other countries in the world who quit their jobs to become entrepreneurs by capitalizing on the savings they collected while working in companies, with the hope of earning a bigger income than when they worked.

Business opportunities are opportunities that entrepreneurs have to get profits due to unmet needs of consumers and un-optimal resources

(Ardichvili et al., 2003). Business opportunities can also be defined as opportunities to make a profit through the sale of goods or services that have value in the eyes of consumers. Business opportunities in this case will relate to opportunities for entrepreneurs to carry out investment activities (Austin et al., 2012).

Unmet consumer needs are one of the main sources of business opportunities. For example, the development of the Federal Express (FedEx) business was initially inseparable from the need for consumers to be able to send short packages, while package companies in the United States at that time generally had a longer package delivery period. Likewise, the development of the Lion Air airline business in Indonesia cannot be separated from the need for air transportation at low rates.

Identification of Business Opportunities

How can an entrepreneur identify business opportunities? This question has been debated by entrepreneurial experts for a very long time and has led to at least two schools of thought. The first school is the school of economics which considers that business opportunities already exist around the entrepreneur's environment, the role of entrepreneurs is only to find these business opportunities. Schools of economics are often called schools that embrace the opportunity discovery approach. Kizner calls the ability of entrepreneurs to find business opportunities around them with the term alertness (Klein & Foss, 2009; Gaglio & Katz, 2001). This shows the ability of an entrepreneur to find opportunities that are born because of the dynamics in the market process.

Kizner (1997) considers that the market is always in an unbalanced state which results in opportunities for entrepreneurs to take advantage of market opportunities either due to the potential for price differences or those born due to gaps in the quantity and quality of products offered by entrepreneurs with consumer demand.

The second school that deals with identifying business opportunities is called the cognitive-social process school. According to adherents of this school of thought, business opportunities are not objectively located within the entrepreneur's

circle but rather these business opportunities arise in the minds of entrepreneurs. For example, Thomas Alva Edison was an inventor who held 1,093 patents to his name. Edison succeeded in making his various inventions into products that were useful for human life through his creative power. Songwriters, painters, novelists, designers, scientists are a few people who can find and run a business based on their ideas and introduce novelties that have never been known before.

Business Development Based on Business Opportunity

Whether a business opportunity is found through the alertness of entrepreneurs or through the creativity of entrepreneurs, is actually not too basic. The next important thing is how the entrepreneurs are moved to develop business opportunities based on business opportunities that they have found or perceived (Venkataraman, 1997). Business development activities based on certain opportunities that are perceived by an entrepreneur generally go through the following stages:

1. The stage of forming a business idea

Any business that will be developed by an entrepreneur, initially comes from a business idea. The business idea of an entrepreneur is related to the perceived business opportunity and can come from various sources.

2. Business Concept

A business idea is still a rough picture of the business an entrepreneur will develop. In the next stage, the entrepreneur will translate the business idea into a business concept which is a further translation of the business idea into more specific business dimensions.

In making a business concept, entrepreneurs will clarify their business ideas by describing the business idea into relevant dimensions such as: Who is the target market for the product or service produced? The target market chosen will determine what product to make? In what range will the product be sold? How do you reach the target market so that they are interested in buying products offered by an entrepreneur? In addition, the business concept will also describe where the business will be run? Who is involved in the

business management team and involved human resources?

3. Calculating Investment Needs

The business concept that has been created by an entrepreneur requires various resources in the form of money and other resources that together form investment needs. Investment is the activity of purchasing capital goods (fixed assets) to generate revenue. Thus, in essence, business activity is an activity of "fishing for money with an amount of money". How much investment value is needed will largely be determined by the business concept that an entrepreneur will run? For example, an entrepreneur who will sell fried rice has several alternative business concepts, namely whether he will only sell ordinary fried rice or serve several fried rice menus such as goat fried rice, Jambal fish fried rice etc. Each alternative chosen will have a consequence of the amount of investment required that is different from the investment allocation for the purchase of fixed assets and working capital.

4. Business Feasibility Study

Before an investment activity is carried out, entrepreneurs are strongly advised to carry out a business feasibility study on a business concept to be carried out. A business feasibility study must be able to reveal a number of important things that will determine whether a business can run well in the sense of generating expected profits or not. Important things, for example: Are the raw materials for production activities available in sufficient quantities at economical prices? Do human resources currently have sufficient skills to run a business? Will the products produced by the company be able to compete with products produced by competitors? Is the cash flow value that can be realized from business activities greater than the value of the investment made, etc.?

5. Development of a Business Plan

A business plan is a written document that contains the final results desired by an entrepreneur, such as profit targets and business growth targets, as well as various strategic steps that an entrepreneur will take to achieve these desired end results.

Business plans can be used by entrepreneurs as a guide for running a business and can be used as a tool to communicate various entrepreneurial desires to internal and external parties. Business plans can be used by entrepreneurs as a means of seeking business funding from investors and creditors. The business plan can also be used to share the company's vision and mission with key company employees regarding the direction of the company in the next few years.

In preparing a business plan, it must be added immediately that entrepreneurs have a marked difference in the detailed business plans. There are entrepreneurs who make business plans as detailed as possible by collecting various relevant information about various business scenarios that will occur in the future. However, there are also entrepreneurs who only make a simple business plan by only paying attention to the current market trends.

6. Implementation of Business Plans and Business Controls

The business plan that has been made, both in detail and globally, will then be implemented in the implementation of the business in the form of various business activities. The business plan will serve as a guide for the conduct of an entrepreneur's business.

In implementing a business plan, an entrepreneur will mobilize the necessary resources such as capital, materials and labor to carry out business activities.

Based on the evaluation process by comparing the results of business implementation with the business targets that have been made in business planning, an entrepreneur can find out whether the business he is running can achieve the desired target or not?

Is the business being run getting more advanced, stagnant or even experiencing a decline? Through the implementation of business activities, an entrepreneur will also receive feedback that can be used to make various improvements in the implementation of business activities, establish new business goals and strategies or take various corrective actions.

How Entrepreneurs Start New Businesses: Causation vs Effectuation Approach

Sharasvati (2001) provides an illustration of how an entrepreneur runs a new business, like a professional chef in providing food. In this case, there are two options for a professional chef in providing food. First, he cooks according to the menu requested by the customer. Second, he cooks according to the ingredients in his kitchen.

Like a professional chef in providing food, entrepreneurs start their business activities through two approaches, namely the causation approach and the effectuation approach. The first approach is called by Sharasvati as the causation approach. According to this approach, an entrepreneur develops his business based on identifying business opportunities, measuring market potential through segmenting, targeting and positioning activities, developing products according to consumer demand, etc. After the target market and market potential based on a business opportunity can be identified, the entrepreneur will develop a product that suits market needs.

The second approach is called by Sharasvati as the effectuation approach. Based on this approach, entrepreneurs start businesses based on the resources they have which they then offer to consumers. Songwriters, novelists, painters, sculptors, dancers and other artists use an effectuation approach in offering their artworks to potential buyers, so that many of them are considered not too concerned with market demands and produce works of art only for art. The effects approach is also used by consumer product entrepreneurs, when they sell products that they think are suitable for sale to potential buyers.

Methodology

The research method used in this research is the survey method (Singarimbun & Effendi, 1995), while the samples in this study are new micro and medium scale business actors who are taken randomly from the recipients of People's Business Credit (KUR) distributed by state's own bank (Bank BUMN) in 2020. The sample size is 250 samples

In this research, what is meant by new business is a business run by micro and medium enterprises that have an operational life of less than 4 years. Meanwhile, what is meant by necessity entrepreneur is micro and medium business actors who choose to run a business because they do not have a job or are affected by layoffs. Meanwhile, opportunity entrepreneur is defined as a small and medium business actor who runs a business because he sees an opportunity to increase wealth by doing new business activities and is currently working or running a business.

The variables analyzed in this study include:

1. How to start a business? In this case, the respondents were asked how they started a business, whether they preferred the causation approach or the effectuation approach.
2. Motivation to start a business. In this section the respondents were asked what underlies entrepreneurship starting a business, namely whether they started a business because they did not have a job or did they start a business because they saw an opportunity to increase their wealth through a new business. Respondents who started a business because they were pressed by the need to earn income because they did not have a job were categorized as necessity entrepreneurs. Meanwhile, respondents who started a business because they saw an opportunity to increase their wealth by running a new business were categorized as opportunity entrepreneurs.
3. Adequacy of capital to start a business. In this case, the respondents were asked about the readiness of capital to run a new business, which includes capital to purchase fixed assets and working capital. Respondents' answers were divided into 2 categories. First, respondents who stated that they had sufficient working capital. Second, respondents who stated that they did not have sufficient working capital.
4. Business opportunity analysis. In this case, the respondents were asked whether they first felt the importance of having a business to support themselves and then looking for business opportunities or did they first look at business opportunities and then start a new business. Respondents' answers were divided into 2

categories: first, respondents who had business needs and then looked for business opportunities. Second, respondents who identify business opportunities first then run the business.

5. Analysis of market potential. In this section, respondents are asked whether they are analyzing the target market that will be targeted and estimating how much is the market potential of the product to be marketed. Respondents' answers were divided into 2 categories. First, respondents who conducted market potential analysis. Second, respondents who did not conduct market potential analysis.
6. Business organization. In this section the respondents were asked whether they have an organizational structure / management team in running a business or not. Respondents' answers were divided into 2 categories. First, respondents who have a business organizational structure. Second, respondents who do not have a business structure.
7. Business profitability. In this section the respondents are asked whether the business they are running has recorded a profit or loss.

Results and Discussion

The survey results showed that 158 respondents who were members of the sample chose the effectuation approach when starting a business. Of these 158 respondents, 106 of them were categorized as necessity entrepreneurs and 52 others were categorized as opportunity entrepreneurs.

Respondents who chose the causation approach were 92 people. Of the 92 respondents, 34 of them were categorized as necessity entrepreneurs, while 58 other respondents were categorized as opportunity entrepreneurs.

Of the 158 respondents who chose the effectuation approach, 92 of them stated that they did not have sufficient capital when starting a business. Meanwhile, 66 other respondents stated that they had sufficient capital to start a business. On the other hand, of the 92 respondents who chose the causation approach, 14 respondents stated that

they did not have sufficient capital when starting a business, while 78 other respondents stated that they had sufficient capital when starting a business.

The majority of respondents who chose the effectuation approach sought business opportunities because they did not have a job so they chose to become entrepreneurs (115 out of 158 respondents). Meanwhile, the remaining 43 respondents stated that they had identified business opportunities before they lost their jobs. Meanwhile, the majority of respondents who chose the causation approach conducted a business opportunity analysis before they started a new business (83 out of 92 respondents).

The survey results showed that out of 92 respondents who chose the causation approach, 76 of them conducted in-depth market analysis and measured market potential and only 16 of them did not do market analysis. Meanwhile, of the 158 respondents who chose the effectuation approach, 112 of them did not conduct market analysis and market potential measurements, while 46 other respondents conducted market analysis and market potential measurement.

The small and medium business actors who were the research sample and chose the causation approach, the majority of whom had a management team in running the business (86 out of 92 respondents). Meanwhile, the small and medium enterprises who were the research sample and chose the effectuation approach generally stated that they did not have a management team to run the business (122 out of 158 respondents).

When viewed from the business profitability variable, 54 respondents who chose the causation approach stated that their business made a profit, while 38 others experienced a loss. While business actors who chose the effectuation approach, 125 respondents said that their business had suffered a loss and only 33 of them stated that they had received a profit.

Table 1 summarizes the results of a survey conducted of 250 small and medium enterprises that applied for People's Business Credit (KUR).

Table 1. Results of a survey on how to start a business, business motivation, business capital adequacy, implementation of business opportunity analysis, implementation of market potential analysis, existence of management teams, and profitability for 250 small and medium enterprises that apply for people's business credit from state-owned banks in 2020

How to Start a New Business	Causation Approach 92		Effectuation Approach 158	
	Business motivation	Necessity 34	Opportunity 58	Necessity 106
Capital adequacy	Adequate 78	Not adequate 14	Adequate 66	Not adequate 92
Business opportunity analysis	Doing business opportunity analysis because you have to be entrepreneurial 9	Conduct a business opportunity analysis for planning to run a business 83	Doing business opportunity analysis because you have to be entrepreneurial 115	Conduct a business opportunity analysis for planning to run a business 43
Market potential analysis	Perform market potential analysis 76	Do not conduct market potential analysis 16	Perform market potential analysis 46	Do not conduct market potential analysis 112
The existence of the Management Team	There is a management team 86	No management team 6	There is a management team 36	No management team 122
Business Profitability	Profit 58	Loss 34	Profit 33	Loss 125

Source: Primary data that has been reprocessed

Conclusion

1. Small and medium business actors who were the research samples preferred the effectuation approach when starting a new business during the Covid 19 pandemic era.
2. Small and medium business actors who choose the causation approach have better profitability than small and medium business actors who choose the effectuation approach when starting a new business.
3. Better business profitability in the group using the causation approach is thought to be caused by capital adequacy, a more in-depth analysis of business opportunities and market potential analysis, and having a management team to run the business.

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