

## CHAPTER 1

### INTRODUCTION

#### 1.1. Background of the Study

##### 1.1.1. Micro and Small Enterprises in Indonesia

It is often assumed that a significant number of Indonesian households rely on their Small and Micro Business Enterprises for income. In 2012, SMEs in Indonesia accounted for around 60% of the entire gross domestic product (GDP) and 97 percent of the total workforce, with a total of 56 million units (Inasius, 2019). To reach out to Small and Micro Business Enterprises in Indonesia, a number of financial and non-financial innovations have been developed over time. Although, the government has undertaken various proactive policies to improve the performance of those businesses to some level, some barriers still exist (Trinugroho et al., 2022). MSMEs are defined in Indonesia under Law Number 20, which was enacted in 2008. Microenterprise (ME) is a productive business independently held by an individual person or a corporate organization that meets the conditions of ME as defined in the Law, according to Article 1 of Chapter I (general provisions) of the Law. A small enterprise (SE) is a stand-alone productive economic operation operated by an individual person or a corporate organization that is neither a subsidiary nor a branch of a corporation owned, controlled, or affiliated with a medium enterprise (ME) or a large enterprise (LE) that fits the Act's SE requirements (Tambunan, 2019).

##### 1.1.2. Micro and Small Enterprises Challenge in Indonesia

MSMEs have a critical role in tackling the barriers of poverty, inequality, and job creation, particularly in rural regions, according to a large body of data from throughout the world, particularly in low-income/poor nations. Entrepreneurship is seen as a key solution to the ever-growing problem of unemployment among graduates in Indonesia and other ASEAN countries, according to researchers, who believe that higher education in general, and entrepreneurship education in particular, can help to promote entrepreneurial activity (Sondari, 2014). For low-skilled women and youth, they are also an essential source of job or entrepreneurial chances. Even in many nations, these businesses constitute a major source of GDP and manufactured products exports. Many (if not all) MSMEs, on the other hand, are struggling to stay afloat or expand owing to a variety of obstacles, including a lack of access to bank financing, marketing challenges, and restricted access to new technology and experienced labor. Data from researches (Sultan, 2020) shows that there are some general issues in the context of micro and small enterprises.

### **1.1.3. Problem Formulation**

Indonesia is the world's fourth most populated country. The country is the world's biggest archipelagic state, with enormous geographic variety in terms of culture and ethnicity, as well as social and economic statistics (Miranti, 2017). This includes large discrepancies in regional poverty rates, with certain provinces, like as East Nusa Tenggara, Papua, and Maluku, consistently ranking among the poorest, while Jakarta, the capital, and consistently ranks among the wealthiest (Miranti, 2017). Since 2010, Papua province still becomes the poorest island in the country which the poverty rate of the province has always been close to the national average (Hanandita & Tampubolon, 2016). Moreover, Avianto (2021) stated that the current economic growth situation in Papua Province shows a critical challenge in which it tends to slow down as noted per 2020. In addition, current situation that is still experiencing COVID 19 pandemic in which it influenced the whole world and causing a significant change in economic (S. Shanmuga Priya, 2021); In Indonesia case, COVID-19 has spread across regions; from the total cases that occurred in the provinces in Indonesia, the province of Papua was ranked eighth with the most total cases (Olivia et al., 2020) which lead to a crisis economic situation in Papua Province.

Many small and micro businesses in Papua have experienced a very rapid decline in buyers because most of them are direct selling businesses. With the COVID-19 disease, this has given rise to government regulations to maintain social distance and limit business activities which refers to the decline in the economic income of the business (Wahyono et al., 2021). Hence, it is important to analyze the factors that may become the effect of this downturn economic situation. This research was intended to analyze the effect of Entrepreneurial Self-Efficacy on Small and Micro Business Success during Covid-19 Pandemic in Papua create This situation supports the study to analyses deeper factors that become the inhibitor of the economic growth from the side of small and micro business sectors.

### **1.2. Problem Statement & Research Questions**

This research surely observes about the effect of education and entrepreneurial experience through entrepreneurial self-efficacy that affecting Small and Micro Business Enterprises in Papua. Previous research from (Saraswati & Abdel, 2020) discussed "Empirical Analysis of the Inhibiting Factors of Micro-Business Growth in Jakarta, Indonesia" which is become the inspiration and adoption for this research. However, this research specifically discusses the business success in Papua from two factors; education and entrepreneurial experience that related with entrepreneurial self-efficacy which is never been research before.

Based on Sultan (2020) identified problems are there is lacking of education experienced by small and micro business and lacking of entrepreneurial experience experienced by small and micro business. Therefore, some research questions follow:

1. Does education effect entrepreneurial self-efficacy towards business success?
2. Does entrepreneurial experience effect entrepreneurial self-efficacy towards business success?
3. Does entrepreneurial self-efficacy effect the business success?

### 1.3. Research Objectives

- To determine how education effect the entrepreneurial self-efficacy towards small and micro business success in Nabire, Papua.
- To determine how entrepreneurial experience effect the entrepreneurial self-efficacy towards small and micro business success in Nabire, Papua.
- To determine how entrepreneurial self-efficacy effect the small and micro business success in Nabire, Papua.

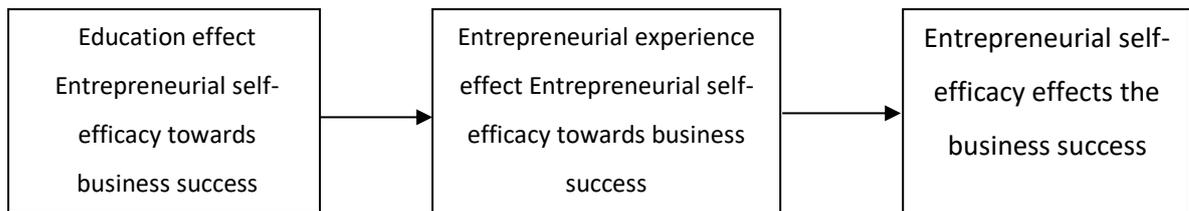


Figure 1 The objectives flowchart

### 1.4. Research Design

Some specialist literatures (Chowdhury et al., 2019; Newman et al., 2018; To et al., 2020) have researched that entrepreneurial efficacy essentially effect the process of business success. Self-efficacy is the belief of a person’s own knowledge and ability to carry out actions. It gives a self-referential source of incentive to deal with life's challenges (To et al., 2020). The evaluation is based on individual characteristics and distinctions (Newman et al., 2018). Entrepreneurial self-efficacy, on the other hand, is situation-specific and results from a combination of human characteristics, goals, and environment. More context-sensitive entrepreneurial self-efficacy can lead to a more accurate prediction of motivating outcomes than just measuring self-efficacy. As a result, measuring entrepreneurial self-efficacy to predict entrepreneurial intention, enactment, and performance is gaining popularity due to business success (To et al., 2020). As well as business people in Papua,

entrepreneurial efficacy is also something that must be considered in running a business there because one of the factors that make a business remain successful and survive is entrepreneurial efficacy (To et al., 2020). Hence, the research was designed to be done in Papua specifically to analyze the entrepreneurial self-efficacy of native Papuan entrepreneurs in achieving business success.

In addition, the success of small and micro businesses in the area is very important in improving the current economic situation. Specifically, according to researchers; entrepreneurial experience is helpful for increasing one's ESE since it acts as a sort of active mastery (Chowdhury et al., 2019) and people with a higher degree of education may have access to a variety of experiences that might help them improve their self-efficacy (Chowdhury et al., 2019). Since, the research will analyze the effect of entrepreneurial self-efficacy on small and micro business, finding out about education and entrepreneurial experience is essentially matter as short and long term period, entrepreneurship activity is considered to be a critical driver of the economic growth (Blennerhassett et al., 2021; Singh & Gaur, 2018).

### **1.5. Significance of the Study**

Several specialist works of literatures consider the entrepreneurial activity as the factors of increasing the economic (Belda & Cabrer-Borrás, 2018; Castaño et al., 2015; Wu et al., 2019) . Hence, it is highly relevant to analyses the factors of entrepreneurial activity in order to decide the policy related to micro-entrepreneurship (Castaño et al., 2015). These elements could be related to the entrepreneurs' environment or their motivations for pursuing this activity rather than taking a paid job (Belda & Cabrer-Borrás, 2018). In addition, the specialist literature addresses overall population, society, and institution aspects and elements related to the future opportunity of entrepreneurial factors that might come from various places (Belda & Cabrer-Borrás, 2018; Wu et al., 2019). Indonesia is the world's fourth most populated country. The country is the world's biggest archipelagic state, with enormous geographic variety in terms of culture and ethnicity, as well as social and economic statistics (Miranti, 2017). This includes large discrepancies in regional poverty rates, with certain provinces, like as East Nusa Tenggara, Papua, and Maluku, consistently ranking among the poorest, while Jakarta, the capital, and consistently ranks among the wealthiest (Miranti, 2017). Since 2010, Papua province still becomes the poorest island in the country which the poverty rate of the province has always been close to the national average (Hanandita & Tampubolon, 2016). Moreover, the current economic growth situation in Papua Province shows a critical challenge in which it tends to slow down as noted per 2020 stated in the researched by Avianto (2022). This situation supports the study to analyses deeper factors that become the inhibitor of the economic growth. Since there is lack of research that discussed about the effect of Small and Micro business in Papua. There may some

research about small and micro business however there is no specific research that discussed about the effect of self-efficacy; therefore, this research is the one that focus on finding the materials and analysis the sample taken from one city in Papua which is Nabire.

### **1.6. Scope of the Study**

The study will specifically target around 150 respondents in Nabire city as the sample of the surveys and the author expect that it would take around one and a half month to get an effective result of the study. The number of targets still can be less as long as the data is considered as reliable data .

### **1.7. Research Methods**

The sample for this research will be collected using the quota sampling approach. Quota sampling is a non-probability sampling strategy in which particular features of population samples are ensured to represent the precise amount that the researcher predicted. The concept of education, entrepreneurial experiences, entrepreneurial self-efficacy, and perceived individual success; perceived individual success will be used in this research method as a hypothesis and also an analytical variable to describe a business success. The concept will be used in this study as the measures. Therefore, more information will be discussed on the chapter 3.