

CHAPTER 1

INTRODUCTION

1.1. Background of the Study

The increasing of globalization and the overloaded job market due to the recent downturns in various economies of the world have brought Human Capital into getting wider attention. This comes to the sense that the emphases on Human Capital development has become one of the keys to accelerate economic growth of a country due to its great influence on a business or firm performance (Marimuthu, Arokiasamy, & Ismail, 2009). As a result, many people have been flocking to start a new business or in other words becoming entrepreneurs. According to Gaglio (1997) as cited in Matricano, (2016), the relevance of Human Capital to entrepreneurship has been emphasized by several scholars as the attributes of human capital are able to differentiate the significance criteria of entrepreneurs and non-entrepreneurs. Therefore, this research study aims to investigate the significant factors of Human Capital that lead to Entrepreneurial Success.

Busenitz and his colleagues (2003) as cited in Hormiga, Batista-Canino, & Sanchez-Medina (2010) explained that the field of entrepreneurship was indeed one of the research areas that had demonstrated the greatest growth in recent decades due to the notion that entrepreneurship could drive an economic growth of a region or country. Especially in developing countries, Mohar, Singh, and Kamal (2007) as cited in Ali, Topping, & Tariq (2011) indicated that entrepreneurship was seen as an engine to have an economic progress, job creations, and social adjustment. In Indonesia, the percentage of entrepreneurs from the total population had apparently shown a

significant increase along with the growth in Gross National Income per capita from 2013 to 2016, i.e. USD 9,680 to USD 11,220 respectively according to the World Bank. The Minister of Cooperatives and Small and Medium Enterprises of Indonesia, Puspayoga claimed that “The ratio of Indonesian entrepreneurs in 2013 to 2014 was still 1.67 percent, but now based on the data of BPS (Central Statistics Bureau) in 2016 the number has gone up to 3.1 percent” (Public Relations of Ministry of Cooperatives and SMEs, par. 2). The three percent of population, which represented the growth of non-agricultural entrepreneurs in Indonesia, had resulted in the fulfillment of the minimum requirement for a society to be prosperous.¹

In spite of the increased growth of Indonesian entrepreneurs ratio, the Global Entrepreneurship and Development Institute (GEDI) reported that Indonesia was one of the countries that experienced the biggest declines in terms of Global Entrepreneurship Index (GEI) score from 2017 to 2018 (Acs, Szerb, Autio, & Lloyd, 2018). Indonesia is currently ranked 94 out of 137 countries in which previously was ranked 90 in 2017 (Acs et al., 2018). Furinto (2015) suggested that one of the GEI components that Indonesia still had to strive for to have a sustainable high growth venture was Human Capital. Referring to the report of GEDI in 2018, Indonesian Human Capital score is still low as it is included in the bottom 5 out of 14 GEI components of the country.²

The fact that Indonesia is low in terms of Human Capital has triggered the researcher to focus the research study on this factor. In addition, the researcher emphasizes this research study on entrepreneurs in the creative industry as they gave

¹ The minimum entrepreneurs ratio of the population to be prosperous is 2 percent referring to the Public Relations of Ministry of Cooperatives and SMEs (2017).

² See thegedi.org website for more information about Global Entrepreneurship Index components and scores

significant contribution to the national economy growth. Badan Pengawas Statistik (Central Statistics Bureau) claimed that the gross domestic product (GDP) of Indonesia creative economy grew by 62.07 percent in five years from 2010 to 2015 (Hermansyah, 2016). Wawan Rusiawan, the BPS creative economy research and development director, indicated that the rate of increase for creative economy's contribution to the overall economy was around 7.38 to 7.66 percent per year and had been dominated by three main industries: culinary, fashion, and craft (Hermansyah, 2016). Moreover, according to an IOP conference series, creative industry has opened new jobs to about 12 million people in 2013 working in the industry of craft, fashion, design, and architecture (Hidayat, 2017).

Since creative industry is mainly encouraged by intangible assets of the business player (Hidayat, 2017), the focus of this research in Human Capital is related to the idea that Human Capital is the most important intangible resources for Entrepreneurial Success (Hormiga et al., 2010). The criteria of Human Capital emerge to be significantly useful for predicting success of businesses that are especially still young (Unger, Rauch, Frese, Rosenbusch, 2011).

1.2. Problem Statement

According to Bosma and his colleagues (2004) as cited in Unger et al. (2011), the notion that Human Capital is related to success has been concluded by most previous studies. However, the relationship between Human Capital and success seems to vary considerably across studies due to the variances of Human Capital conceptualizations, choices of success indicators, and the background of the studies itself such as industry, country, and age of the business (Unger et al., 2011). Therefore, this research study focuses on several Human Capital dimensions and the indicators of

Entrepreneurial Success in order to provide more valid insights on how Human Capital indicators relate to Entrepreneurial Success.

1.3. Scope and Limitation

There are a lot of definitions and dimensions of Human Capital related to Entrepreneurial Success. However, this research study uses the Human Capital dimensions of Competence, Attitudes, and Intellectual Agility (Hormiga et al., 2010; Khalique, Shaari, & Isa, 2011; Matricano, 2016) because these dimensions are believed in allowing the person to think critically and systematically in the changing and uncertain environment that is confronted (Hormiga et al., 2010). Meanwhile, for the success indicators this research study uses the concept of Gorgievski, Ascalon, and Stephen (2011) which states that the Entrepreneurial Success criteria include profitability, innovation, social contribution, personal satisfaction, satisfied stakeholders, work life balance, public recognition, and usefulness.

In addition, the scope of this research study is limited to the entrepreneurs from creative industry who have the main business locations in the JABODETABEK area and Bandung.

1.4. Purpose of the Study

Based on previous studies, this research study aims to investigate the relationship between Human Capital and Entrepreneurial Success. This was done by identifying the three dimensions of Human Capital that were believed to be a critical resource for success in entrepreneurial firms. These dimensions were used in a regression model to provide a better understanding of which Human Capital dimensions indicated the strongest relationship with Entrepreneurial Success.

The research questions are

1. Is there any relationship between the demographic factors and Entrepreneurial Success?
2. How do the dimensions of Human Capital such as Competence, Attitudes, and Intellectual Agility relate to Entrepreneurial Success, with or without controlling for demographic variables?
 - 2a. How does Competence relate to Entrepreneurial Success?
 - 2b. How does Attitude relate to Entrepreneurial Success?
 - 2c. How does Intellectual Agility relate to Entrepreneurial Success?

1.5. Structure

This study consists of five chapters as follows:

Chapter 1 – Introduction

This chapter is divided in regards to the background of the study, problem statement, scope and limitations, purpose of the study, and the structure of the study.

Chapter 2 – Theoretical Foundation

This chapter discusses the theoretical foundation and the theoretical framework relates to the thesis topic

Chapter 3 – Research Methodology

This chapter explains the methodology for doing the research and how it is analyzed

Chapter 4 – Research Findings

This chapter discusses and analyze the result of the study with the statistical methodology that is explained in chapter 3.

Chapter 5 – Conclusions and Recommendation

This chapter summarizes the findings of the research study and provide recommendation for future study.