CHAPTER 2
LITERATURE REVIEW

2.1 Definition of Entrepreneur
There are lots of different concepts when talking about entrepreneurs. People may assume that whoever owns a business is called an entrepreneur. But in fact Entrepreneurs have several different meanings. According to Drucker (in Agustiyani, 2014), entrepreneur is people who have the ability to create something new and different. Entrepreneur is people who have the enthusiasm, attitude, behavior and ability of a person to handle businesses and activities that lead to efforts to find, create, implement new ways of working, technology and production by increasing efficiency in order to provide better services and or obtain greater profits (Suherman, 2008).

Cuervo, Ribeiro & Roig (2007) stated that most entrepreneurs start by creating business opportunities which are then developed into small and medium-sized companies. Entrepreneurs means people who create new innovations in order to survive in the market, dare to take big risks in making decisions and always identify opportunities. This is also supported by Reynold (2005) which states that entrepreneurs are people who create new economic activities and create new organizations.

2.2 Entrepreneur’s Perceptions towards Failure
Perception is getting a sensation from the environment through the senses of organs and then makes humans think about certain phonemes. For example, group A goes to school and group B does not go to school. must think that groups who go to school are far smarter than those who do not go to school. That is what is then called perception (Apriyanto, 2017).

According to Politis and Gabrielsson (2009), an entrepreneur's perception of failure is influenced by how the entrepreneur responds to failure. In their research, they found that an entrepreneur who had experience in entrepreneurship and had failed, responded more positively. They think to make it as a learning so that the trigger of failure must be fixed when starting a business again. Conversely with people who just start their business in a short time and fail, their perceptions tend to be more negative towards failure. Their perception of failure tends to be more negative and afraid to try again.
In addition, an entrepreneur who closes his business for personal reasons has no effect on the entrepreneur's failure attitude. They tend not to have negative or positive perceptions.

2.3 Entrepreneur’s Background
Every entrepreneur has a different background. In this research the entrepreneur's background will be distinguished based on four categories: Education, Business Scale, Industry and Gender.

2.3.1 Gender
Gender is a set of characteristics or something that people do that can distinguish between men and women (Eckert & McConnell-Ginet, 2018). Entrepreneurial decision making and activities involving gender entrepreneurs can be called gender-based entrepreneurship (Mukhtar, 2002). Previous researchers stated that there are differences between men and women in entrepreneurial activities, especially the findings which state that women tend to be more sensitive in non-monetary matters (Greene, 2000). According to Mukhtar (2002), there are differences in attitudes between men and women in decision making and how to deal with a problem. Therefore, In this study, researchers will see whether there are differences or similarities in gender perceptions of the causes of failure.

2.3.2 Educational Background
In this research, education is categorized into two, namely graduates (bachelor) and non-graduate (senior high school, junior high school, etc.). Researchers believe that there are differences between the two categories in conducting business, this is also supported by Pickernell et al. (2011) who found that non-graduate business owners usually have minimum knowledge. Most of them do not understand the importance of maximizing the use of technology to improve their business. Non-graduates also do not have many connections compared to graduates. It is inversely to graduates owners who have sufficient knowledge and have many connections that can help them grow their business by accessing government business services, asking for advice from universities and advice from trade associations (Pickernell et al., 2011).
2.3.3 Business Industry

Industry is a collection of companies that produce similar products in which there are similarities in the raw materials used, processes, forms of final products, and final concessions. In a broader sense, industry can be defined as a collection of companies that produce goods and services with positive and high cross elasticity (Kuncoro, 2007).

2.3.3.1 Trade Industry

The Retail and Wholesale Industry which is part of the trade industry is one of the most important industries. The role as an intermediary in selling goods from producers to consumers makes this industry foster economic development. There is a difference between Wholesalers and Retailers. There are two kinds of retailers, namely: shop and non-shop. What is meant by a shop is a place where goods are sold and can be visited for transactions directly. Whereas non-shops are online shops (there are no physical stores). Retailers also sell small quantities of goods and sell goods directly to end users (e.g. personal use, not for resale). In contrast with retailers, Wholesalers actually sell large quantities of products to retailers and other sellers to sell again (Eurostat-OECD methodological guide for developing producer price indices for services, 2014).

2.3.3.2 Agribusiness Industry

Agribusiness is an industry that includes businesses engaged in agriculture. In agriculture there are various types of businesses such as small farms (e.g. chicken farms, pigs, fish seeds, etc.), crops, agriculture, biofuels, forest products, fiber, and others (Van Fleet, 2016). Therefore the role of the agribusiness industry is also important for the economy because it provides daily needs and consumption. In addition, Bečvářová (2012) states that the agricultural sector in developed countries is a relatively small part of the economy, but the agribusiness sector helps to increase economic activity which is quite significant.

2.3.3.3 Service Industry

According to Kotler and Keller (2009), “service is an activity or performance that is provided by one party to another party, that is intangible and does not result in ownership of something.” Service industry is defined by Ammer and Ammer as an industry that has service as an outcome rather than goods (Sampson & Froedle, 2006). According to Fitzsimmons and Fitzsimmons (2008), service can be divided into two dimensions,
namely nature of the service and recipients of the service. Those two dimensions form a table that creates four quadrants as shown in table 2.1 below.

Table 2.1 Nature of the Service Act

<table>
<thead>
<tr>
<th>Nature of the Service</th>
<th>Recipients of the Service</th>
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<tbody>
<tr>
<td><strong>People's Bodies</strong></td>
<td><strong>People</strong></td>
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<tr>
<td>- People's healthcare</td>
<td>- People's Minds</td>
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<td>- Passenger transportation</td>
<td>- Broadcasting</td>
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<td>- Beauty salon</td>
<td>- Information services</td>
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<td>- Exercise clinics</td>
<td>- Theater</td>
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<td>- Restaurant</td>
<td>- Museums</td>
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<tr>
<th><strong>Physical Possessions</strong></th>
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<tbody>
<tr>
<td>- Freight transportation</td>
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<td>- Repair &amp; maintenance</td>
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<tr>
<td>- Veterinary care</td>
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<td>- Janitorial service</td>
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<td>- Laundry &amp; dry cleaning</td>
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<th><strong>Intangible Assets</strong></th>
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<td>- Banking</td>
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<td>- Legal service</td>
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<td>- Accounting</td>
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<td>- Securities</td>
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<td>- Insurance</td>
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Source: Fitzsimmons & Fitzsimmons, 2008

2.3.4 Business Scale

According to the data released by the Indonesian Ministry of Cooperatives and SMEs, SMEs with 57.12% of GDP in 2012 were one of Indonesia's highest GDP contributors and Indonesia's biggest SMEs are home industries and small businesses. BPS claims that small businesses are similar to small industries. BPS classifies business scale categories depending on the total of employees and total of revenue. Regarding the small businesses, about 5 to 19 employees with total revenues around 1 billion rupiah. The medium-sized industry has about 20 to 99 employees and revenues of 1 to 100 billion a year. A Big Large industry with a total of 100 employees and revenues of 100 billion rupiah a year (Handayani, Hidayanto & Budi, 2013). Business failures experienced by medium businesses usually involve financial problems while small businesses are caused by lack of knowledge in managing a business, lack of innovation, lack of knowledge in
business management and lack of knowledge about technology that makes a business unable to develop optimally and is lower than large (Franco & Haase, 2009).

2.4 Entrepreneurial Failure
Sometimes entrepreneurs are in positions that require them to close their businesses regarding the difficult process of entrepreneurship. Many entrepreneurs fail before 5 years. Bowler, Dawood & Page (2006) revealed that in the first year, 40% of new entrepreneurs failed while in the second year the number of entrepreneur failures was 60% due to various challenges in running entrepreneurship. However, many people interpret business closure as a result of failures. Boden & Nucci (2000) stated that business closure is caused by poor performance results. In other words, entrepreneurial success is measured by the survival of the company being managed. Therefore, if the company that is managed by an entrepreneur closes, it can be concluded that the entrepreneur is not successful or fails.

According to Ucbasaran & Shepherd (2012), there are several definitions about business failure, ranging from broad definitions such as Discontinuity of Ownership, Discontinuity of the Ownership due to Insolvency and Bankruptcy. Discontinuity of ownership means the entrepreneur exits the business or does not continue their ownership of the business. The exit of an entrepreneur is not always because they close their business, but it could be because they sell for profit, inadequate health or age or they have plans to start another business (Singh, Corner, & Pavlovich, 2007)

Another definition stated by Shepherd (2003: 318) and Coelho & McClure (2005) who have similar definitions about discontinuity of ownership due to insolvency. Both agree that business failure is when profits decrease & costs increase so as a consequence the business cannot continue to operate and cannot obtain additional loans or funds, which means the owner cannot continue the business.

In the end, business failure is often described as the result of poor economic performance and bankruptcy. This is because bankruptcy has been identified as a last resort for a failed business (Shepherd & Haynie, 2011). A business failure or bankruptcy is when a company does not function as expected by the business owner so that it can be said that the business has failed (Bradley & Rubach, 2002).
However, previous research has shown that the reason entrepreneurs close their businesses is not always due to failure/bankruptcy. Many other factors allow entrepreneurs to choose to close their business. One of them, entrepreneurs choose the decision to close their business or leave their company because of better choices or alternatives (DeTienne and Cardon, 2012; McGrath, 2006; Sarasvathy et al., 2013).

From the results of previous studies, it can be concluded that the reasons for business closure can be categorized into two types, namely: 1) Failure and 2) Other alternatives. Therefore, researcher will focus on discussing thoroughly about business closure due to failure experienced by entrepreneurs.

2.5 The Impact of Entrepreneurial Failure

The consequences of the company failure do not only affect the individual. The economy in which these entrepreneurs operate can also be disrupted. This is because entrepreneurs have a very important role in driving economic growth. This happens because entrepreneurs who continue to innovate will create new products, new markets and provide jobs and competition in the market (Schumpter, 1934). Failure experienced by entrepreneurs will reduce the amount of entrepreneurial activity, where it makes productivity in a region decrease (Holtz-Eakin & Kao, 2003).

Talking more about the impact of failure on the economy, Mouhammed (2010) explains that the impact of bankruptcy from entrepreneurs can have an impact on Gross Domestic Product (GDP). When companies fail, the unemployment rate will increase and can cause GDP to decline. Research conducted by Okun (1962) has shown that when there is a decrease of 1% in the unemployment rate, it will have a positive impact on increasing output by 3%. This clearly proves that there is a negative impact from the failure of entrepreneurs to the economy.

2.6 The Factors of Entrepreneurial Failure

As explained in the problem statement, instead of thinking there is an error in management within the company, some entrepreneurs think that their failures are caused by misfortune. According to Cardon et al. (2011), Misfortune is one of the failure factors that occur outside the control of the entrepreneur. It was explained in the study that things
that could not be avoided are natural disasters, economic crises and other external factors. Ooghe and De Prijcker (2006) also add that external factors that cannot be controlled include: politics, technology, government policies and other unexpected events.

Talking about failures caused by internal factors, Gaskill, van Auken, & Manning (1993) conducted a study with a total of 182 people consisting of entrepreneurs who had experienced failures. In the study, two methods were carried out by sending questionnaires with open questions, closed questions & forced choice items and conducting telephone interviews. Researchers say that there are four factors that greatly influence failure. These factors are: Poor managerial functions, Working capital management, Competitive environment and Growth & Overexpansion.

Of the four factors, researchers found that many previous studies stated that the most influential failure factor was poor managerial function. By making the right business plan before starting a business can help entrepreneurs reduce the number of problems that might occur. Most entrepreneurs sometimes overlook how important it is to determine profits, promotion strategies, finance. Even some of them do not have a business plan, where all the keys are part of the management function (Priyanath, 2006).

Another researcher, Peterson, Kozmetsky and Ridgway (1983) conducted a study aimed at finding factors of business failure by contacting 1,002 small business owners and managers to collect data by conducting telephone interviews. The question raised by researchers was "What do you think is the main cause of failure of small businesses in this country?" 50% of their respondents say that poor management functions are the main cause of failure. In addition, some of the respondents said there was a lack of management expertise. This is supported by a statement from Priyanath (2006) which says that almost all the business owners also play a role as managers and hold all responsibilities in the company without the help of people who are experts in the field so that makes the company's structure become weak and does not function efficiently.

2.7 Managerial Function
Managerial function is believed to be the main key of a business. Managerial functions consist of many keys, but the most important are promotion strategy, managerial skills, business planning and pricing (Larson & Clute, 1979; Peterson, Kozmetsky & Ridgway,
Further, researcher will explain in more detail about the impact of these keys towards failure.

### 2.7.1 The Effect of Inadequate Business Plan Towards Failure

Ideally, every entrepreneur who starts a business should have a business plan to help see the progress and keep them focused on the right path in achieving goals. The good business plan always contains the vision and mission of the company. The function of a business plan is to assist management processes such as future plans, making decisions, set targets, strategies, managing risk and generating profits (Peterson, Jaret & Schenck, 2010; Ashe-Edmunds 2016; Gleeson 2016). From the statement, it can be concluded that a business plan is the main aspect in supporting business activities as a guidance when the business operates.

Doing business without planning is a major problem that makes entrepreneurs unprepared in facing uncertainty about the situation to come. Bradley and Cowdery (2004) stated that clear business planning can minimize bankruptcy. He agrees that a business plan is the main key because in business plan; capital calculations, site selection, market research and other important matters are clearly attached. Thus, the entrepreneur is prepared with all the uncertainties that might happen. In their research, Weitzel and Jonsson (1991) also stated that lack of planning is the most influential thing to failure. As a result, the company does not have the ability to compete because it does not have a clear strategy. It will also cause entrepreneurs to not have any clear targets and clear promotional strategies.

### 2.7.2 The Effect of Inadequate Pricing Strategy Towards Failure

According to Kotler & Zaltman (1971), price is the willingness of consumers to pay for goods or services offered by sellers. In determining prices, entrepreneurs must first understand and determine who their targets are. The price that has been determined must be calculated by the costs that are issued such as operational costs, employee salaries and also the profits that want to be gained. The most important thing is to consider competitors in the market so that the price determined can generate profits and can make a return on investment (Sammut & Channon, 2015).
Most entrepreneurs do not have enough knowledge in setting prices for their products. Some of them use intuition, where they just follow their thoughts in setting prices without exact calculations. Some entrepreneurs also sell products that previously existed in their area, following the prices of competitors in the place where their business operates. Then, ask for advice and input from others who are not experts in the field (Larson & Clute, 1979). This should be avoided because entrepreneurs do not have a precise calculation of whether the price they are applying on the market is unprofitable or profitable and they also do not know for sure whether the customer is willing to pay the price applied to the product being sold.

2.7.3 The Effect of Inadequate Marketing Strategy Towards Failure
Marketing can be a determinant of whether a business will fail or succeed. Without marketing, potential customers will not know the existence of a business. Products or services offered without marketing will also not be heard by customers who might need it (Van Scheers, 2011). A research conducted by Van Scheers (2011) in South Africa took a sample of 1000 randomly selected small business owners. The result was found that the lack of marketing skills has a correlation with business failure. The respondents (business owners / managers) realize that the right marketing strategy can increase profits, but most of the respondents ignore it due to the limited knowledge in marketing strategies.

Most problems arise when business owners are familiar with the products and services offered but do not understand how to make the maximum marketing strategy (Day, 2000; Kotler, 2004). According to Kotler (2004), there are some fatal mistakes in marketing that trigger business failure. Entrepreneurs don't have a marketing plan and don't understand who their target market is because they don't do research. In addition, the lack of brand promotion makes potential customers unaware of its existence. Another thing is the inability to keep up with technological developments such as adapting to all technological developments related to marketing.

2.7.4 The Effect of Inadequate Financial Management Towards Failure
In every business, financial management is an important factor that becomes a necessity. According to Liu (2010), financial management is the ability to manage finances (e.g. capital) in business in the most appropriate way with reasonable distribution of profits. The advantage of having good financial management is to help entrepreneurs manage
Inadequate financial management puts many entrepreneurs at risk of failure. Managing finance especially in managing working capital and managing cash flow must be prioritized (Mazzarol, 2014). Working capital management is important because when a business has too much working capital, then the entrepreneur must pay a fee to pay interest. However, having a little working capital is also not good for business. For example: not having a stock of raw materials can stop the production and cause losses. The main components of working capital are: Inventory, Receivables and Cash (Jindrichovska, 2013). Furthermore, most failures experienced by entrepreneurs are caused by the use of company money for personal needs without any calculation of profit and loss. This happens because the business they run is the main source of income to meet their daily needs (Priyanath, 2006).

2.7.5 The Effect of Inadequate Managerial Skill & Experience Towards Failure
It is important for entrepreneurs to understand basic managerial knowledge to improve management performance and make it easier to achieve goals (Peterson, 2004). Entrepreneurs must have managerial skills which include: marketing (e.g. detecting changes in the market), public relations (e.g. maintaining good relations with customers and suppliers), accounting (e.g. recording cash flow) and finance (e.g. budget planning) because it is very helpful in entrepreneurship (Agbim, 2013). According to Papulová & Mokroš (2007), almost all entrepreneurs start their own business and manage all activities in their business without expert assistance. This is because most entrepreneurs want to devote themselves to their business even though they do not have enough skills to cover all fields in their business, thus making the business undeveloped (Papulová & Mokroš, 2007). That is an indication that actually managerial skills are vital for an entrepreneur.
because they can be a determinant of failure or success of a business (Osamwonyi & Tafamel, 2010). According to Baldwin's research (in Papulová, 2007), 71% of respondents stated that internal factors that cause bankruptcy are poor managerial skills. Lack of experience and sufficient knowledge in running a company is a major factor.

2.8 Theoretical Framework

Figure 2.1 Theoretical Framework

- Gender: Male, Female
- Education Background: Non Graduate, Graduate
- Business Scale: Medium, Small
- Industry: Agribusiness, Retail, Service, Others

Source: Constructed by Researcher
2.9 Hypothesis

H1 : There are differences in entrepreneurs perception about poor managerial functions towards business failure based on different gender.

H2 : There are differences in entrepreneurs perception about poor managerial functions towards business failure based on different educational background.

H3 : There are differences in entrepreneurs perception about poor managerial functions towards business failure based on different business industry.

H4 : There are differences in entrepreneurs perception about poor managerial functions towards business failure based on different business scale.