Institutional Environment, Entrepreneurial Self-Efficacy and Entrepreneurial Intention of Company Employees

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Abstract

From the intentionality-based view, individuals' actual behaviors to initiate a new venture is driven by their entrepreneurial intentions. Company employees have accumulated professionalism and practical experience, which both enable them to discover some unmet market demand and industrial gaps. However, in establishing a new business, not everyone with certain knowledge or expertise has the desire to become an entrepreneur. Prior research has shown that entrepreneurial intentions are under the profound influences of intrinsic factors and extrinsic factors. On the one hand, entrepreneurial self-efficacy is one of the key psychological states that makes someone dare to initiate entrepreneurial activities. Institutional environment, on the other hand, can either enhance and hinder an individuals' entrepreneurial motivation by offering incentives or causing barriers. Little work has been done to understand how the institutional environment and entrepreneurial self-efficacy jointly affect company employees' intention to quit their job and start an enterprising career. By using hierarchical regression on a sample of 325 Indonesian company employees, this paper shows that the entrepreneurial cognition and entrepreneurial self-efficacy are positively related to employees' entrepreneurial intentions. Also, entrepreneurial self-efficacy strengthens the effect of normative Approval on entrepreneurial intention, whereas the regulatory Support from Government is detrimental to company employees' intention to start a new venture regardless the entrepreneurial self-efficacy is high or low.

Keywords: regulatory support, normative approval, entrepreneurial cognition, entrepreneurial self-efficacy, entrepreneurial intention
1. Introduction

What drives an individual to become an entrepreneur has always been an interesting topic for scholars, because not all the intention to become an entrepreneur may transfer into start-up behavior (Hsu, Lamp, Simmons, Foo, & Pipes, 2019). A process is needed before an individual will decide to start a new venture. To perform the behavior, the intention will indicate the willingness to try harder and to show how much of an effort on planning to exert. The stronger the intention to engage in the behavior, the more likely the behavior will be performed (Ajzen, 1991).

Like plants that need fertile soil and a supportive environment to grow and flourish, the entrepreneurial intention needs favorable institutional conditions as well. Entrepreneurial activity cannot be separated from environmental influences that can support or hinder entrepreneurship-driven economic development (Stenholm, Acs, & Wuebker, 2013). The country's institutional profile, which is government policies, widely shared social knowledge, and value system, will affect domestic business activity (Kostova, 1997), which including entrepreneurial intention.

Establishing a business based on self-motivation, known as entrepreneurial self-efficacy, is one of the main drivers that can make someone dare to start an entrepreneurial activity (Chen, Greene, & Crick, 1998; Tsai, Chang, & Peng, 2014). In the general entrepreneurial context, Boyd and Vozikis (1994) found the existence of a direct relationship effect between entrepreneurial self-efficacy and the action on developing entrepreneurial activities.

Many works literature discuss the intention among university students, especially on business students for entrepreneurship (Zhang, Li, Liu, & Ruan, 2020; Esfandiara, Tehranib, Prattc, & Altinayd, 2017), on the contrary, there is still very little research conducted on company employees to see the desire to start a new business. Company employees have accumulated professionalism and practical experience, which both enable them to discover some unmet market demand and industrial gaps. A person's work experience can be the advantage of starting a new venture, but also it can hinder back (Miralles, Giones, & Riverola, 2016). This study aims to provide a new perspective, how the intentions of company employees in starting a new business, how institutional factors affect these intentions, and how entrepreneurial self-efficacy influences the desire to start a new business.

2. Literature Review

As the pioneer of entrepreneurial intention research, Bird (1988) proposes that intentions develop from both rational and intuitive thinking, which influenced by the context of entrepreneurs' social, political, and economical, and also the perceived history, current personality, and abilities. Based on the Shapero-Krueger model and Ajzen's theory of planned behavior, institutional environment, and entrepreneurial self-efficacy were equally effective in predicting entrepreneurial intention (Krueger, Reilly, & Carsrud, 2000). As a result, most entrepreneurial intention studies include entrepreneurial self-efficacy as either a predictor or a control variable.

Institutions can be described as practices, rules, or technologies of social interaction that become entrenched in the sense that it is costly to choose alternative practices, rules, or
Institutional contingencies entail three key dimensions of a social environment, which are regulatory, normative, and cognitive (Scott, 2007).

Intending to perform an activity legitimately in a socially agreed way, individuals tend to conform to the rules and norms of the institutional environment. The entrepreneurial effort is impacted by institutional factors, including direct action in constructing and maintaining a supportive environment for entrepreneurship. The development of entrepreneurship in a society is directly related to the regulations and policies in the society which governing the allocation of rewards (Baumol, Litan, & Schramm, 2009). The pillar of the regulatory environment has defined as a formal system of rules and regulation that constrains or promote certain behavior (Bruton, Ahlstrom, & Han, 2010). The research on social entrepreneurship shows that regulatory Support has an association with entrepreneurial intention (Urban & Kujinga, 2017).

The extent to which a country's residents appreciate and perceive entrepreneurial thinking and innovative activities as important is the normative environment (Busenitz, Gomez, & Spencer, 2000). It entails social norms, beliefs, values, and assumptions that carried by an individual connected to their behavior and socially shared (Scott, 2007). The dimension of the normative environment measures the degree to which a country's residents admire the entrepreneurial activity, innovative thinking, and how they value creativity (Bruton, Ahlstrom, & Li, 2010). If a person values entrepreneurial activity and considers it a decent job, then the desire to become an entrepreneur will also increase.

The cognitive pillar relates to culturally constructed rules, and meanings that shape human behavior (Bruton, Ahlstrom, & Li, 2010) and new venture success and the dynamics around business performance are often associated with self-efficacy (Chen, Greene, & Crick, 1998; Hmieleski & Baron, 2008). Cognitive self-regulation plays an important part in predicting behavior based on the theory of planned behavior (Ajzen, 1991).

The entrepreneurship researchers have adopted self-efficacy to understand the prospective entrepreneurs' mental readiness for tackling the complicated processes of new venture creation, which are characterized by high levels of volatility, uncertainty, and ambiguity (McGee & Peterson, 2017). Self-efficacy is based on tenets of social cognitive theory where personal factors, behavior, and environmental influences all as determinants of each other interactively (Bandura, 1997; 2001). According to Barbosa et al. (2007), entrepreneurial self-efficacy is the belief of their capabilities, abilities, and skills to pursuits of goals for creating a new venture (Barbosa, Gerhardt, & Richard, 2007). Self-efficacy is an integral part of the entrepreneurial motivation for start-up founders. Individuals who had a lot of experiences will recognize their capabilities and hold beliefs about their ability to create and guide the organization for growing (Baum & Locke, 2004). According to research from Chen, Greene, & Crick (1998), there is a positive link between entrepreneurial self-efficacy and entrepreneurial intention. Following this line of reasoning, it is predicted that:

Hypothesis 1: The perception of regulatory support is positively related to entrepreneurial intention.
Hypothesis 2: Perception of normative approval is positively related to entrepreneurial intention.
Hypothesis 3: Perception of entrepreneurial cognition is positively related to entrepreneurial intention
Hypothesis 4: Entrepreneurial self-efficacy strengthens the relationship between regulatory Support and entrepreneurial intention
Hypothesis 5: Entrepreneurial self-efficacy strengthens the relationship between normative Approval and entrepreneurial intention
Hypothesis 6: Entrepreneurial self-efficacy strengthens the relationship between entrepreneurial cognition and entrepreneurial intention

3. Research Methodology

The research model presented in figure 1. The context of this study is the entrepreneurial intention of the employment company in Indonesia. Primary data was collected through a questionnaire given to employees in Jakarta, the capital city of Indonesia.

Figure 1. Research Model

Through various sources, 368 respondents were collected, but only 335 questionnaires were declared valid and ready to be processed. Most of the respondents were male (51.6%) aged 41-45 years (25.1%), with the latest bachelor's education (66.6%), and most of them have no experience starting a business (53.4%). The job experience for the respondent under 5 years (28.4%) and between 6 to 10 years (22.4%) with most of the respondents have high dependencies on salaries of their living (61.1%).

The operationalization of variables is adapted from multiple sources. Slightly modification was made, though, for maintaining the consistency of the objective and the group of samples, as well as to resolve the discrepancies in the translations. The questioner has been translated into the Indonesian language, but it is ensured equivalence to the original English version.

The final survey instrument consists of two parts. The first part includes 16 questions to measure the model's 5 variables. These variables are all based on reflective multi-item scales anchored on a four-point Likert scale from 1 representing "completely disagree" to 4
representing "completely agree." Items were averaged into an overall scale score, and the questioners were completed by employees.

The second part contains the demographic information. To be consistent with the objectives and the research context, the items have been modified slightly. The scale for measuring the institutional environment was adapted from Urban and Kujinga (2017).

Entrepreneurial self-efficacy and entrepreneurial intention scale were adapted from Shook and Bratinu (2010).

The hierarchical moderated regression analysis was used to test our hypotheses because it allows a researcher to base variables' order of entry on their causal priority and compares between alternative models with and without interaction terms (Jaccar & Turrisi, 2003). To avoid the bias resulting from multicollinearity, we followed the suggestions of Aiken and West (1991) and mean-centered the independent variables and moderators before the formation of interaction terms. Several regression diagnostics for all models have been used to assess whether modeling assumptions were satisfied. We examined the normality of our variable measures by conducting a Kolmogorov Smirnov Test, which supported the univariate normality assumption. Besides, the variance inflation factor (VIF) values were assessed and found no significant multicollinearity problems (VIF < 2.59). The demographic characteristics have been analyzed using descriptive analysis.

To tested the validity of the model, confirmatory factor analysis (CFA) was conducted. For evaluating how well the proposed models fitted the data, the goodness of fit of each model was used and to evaluate the overall model fit between the sample covariance and fitted covariance matrices using Chi-square ($\chi^2$). The fit model will be assessed based on as follows a range of statistic $\chi^2$/df ratio <3 indicated a good fit. The indicator of Goodness of Fit Index (GFI), Adjusted Goodness of Fit Index (AGFI), Comparative Fit Index (CFI), and Tucker-Lewis index (TLI) is also used to assess the model. The reliability test used SPSS with Cronbach alpha more than 0.5, and the result showed all the variables are reliable.

Age and a person's work experience can be the advantage of starting a new venture, but also it can hinder back (Miralles, Giones, & Riverola, 2016). However, the instability of income after they are starting a new venture can also prevent someone from starting entrepreneurial activities. Because our respondents are company employees, we controlled the dependent of the salary for subsistence, which was calculated by reflective multi-item scales anchored on a four-point Likert scale from 1 representing "not at all" to 4 representing "completely dependent." Wilson, Kickul, and Marlino (2007) found a significant effect of entrepreneurship education level on the development of self-efficacy belief; therefore, we controlled the highest academic degree.
4. Results

To validate the construct validity and reliability, we performed confirmatory factor analysis, as shown in Table 1.

Table 1. Results of Confirmatory Factor Analysis

<table>
<thead>
<tr>
<th>Construct</th>
<th>Item</th>
<th>Factor loading</th>
<th>AVE</th>
<th>CR</th>
</tr>
</thead>
<tbody>
<tr>
<td>Regulatory Support</td>
<td>1. Government organizations assist me in starting my ventures</td>
<td>.72</td>
<td>.7401</td>
<td>.9338</td>
</tr>
<tr>
<td></td>
<td>2. The Government sets aside government contracts for new and small ventures</td>
<td>.86</td>
<td>.83</td>
<td></td>
</tr>
<tr>
<td></td>
<td>3. Local and national governments have support for individuals starting a venture</td>
<td>.96</td>
<td>.93</td>
<td></td>
</tr>
<tr>
<td></td>
<td>4. Government sponsors organizations that help new ventures develop</td>
<td>.93</td>
<td>.97</td>
<td></td>
</tr>
<tr>
<td></td>
<td>5. Even after failing, the Government assists social entrepreneurs starting again</td>
<td>.81</td>
<td>.87</td>
<td></td>
</tr>
<tr>
<td>Normative Approval</td>
<td>1. Turning new ideas into new ventures is admired in this country</td>
<td>.65</td>
<td>.573</td>
<td>.7995</td>
</tr>
<tr>
<td></td>
<td>2. In this country, innovative and creative thinking is viewed as a route to success</td>
<td>.82</td>
<td>.83</td>
<td></td>
</tr>
<tr>
<td></td>
<td>3. People in this country greatly admire those who start their own ventures</td>
<td>.79</td>
<td>.85</td>
<td></td>
</tr>
<tr>
<td>Entrepreneurial Cognition</td>
<td>1. Individuals know how to protect a new venture legally</td>
<td>.57</td>
<td>.3443</td>
<td>.6116</td>
</tr>
<tr>
<td></td>
<td>2. Those who start new ventures know how to deal with risk</td>
<td>.60</td>
<td>.6575</td>
<td>.8518</td>
</tr>
<tr>
<td></td>
<td>3. Most people know where to find info about markets for their services</td>
<td>.59</td>
<td>.86</td>
<td></td>
</tr>
<tr>
<td>Entrepreneurial Self-Efficacy</td>
<td>1. I can react quickly to take advantage of business opportunities.</td>
<td>.80</td>
<td>.6575</td>
<td>.8518</td>
</tr>
<tr>
<td></td>
<td>2. I can create products that fulfill customers' unmet needs.</td>
<td>.86</td>
<td>.86</td>
<td></td>
</tr>
<tr>
<td></td>
<td>3. I can originate new business ideas and products.</td>
<td>.77</td>
<td>.86</td>
<td></td>
</tr>
<tr>
<td>Entrepreneurial Intention</td>
<td>1. How likely is it that you will start your own business sometime in your life?</td>
<td>.81</td>
<td>.7028</td>
<td>.876</td>
</tr>
<tr>
<td></td>
<td>2. How likely is it that you will start a firm on a full-time basis sometime in your life?</td>
<td>.81</td>
<td>.7078</td>
<td>.876</td>
</tr>
</tbody>
</table>

The result in Table 1 showed the composite reliability values (CR) from the five constructs are above the threshold of 0.6, and the average variances extracted (AVE) value, mostly from the five constructs, are above the threshold of 0.5. The result indicates the requirement of convergent validity is almost satisfied.

For verifying discriminant validity, according to Hair et al. (2010), the value of the average variance extracted should be greater than the squared correlation coefficient for adequate discriminant validity. The average variances extracted from each construct ranging from 0.65 to 0.88. Since all AVE values are above the corresponding squared correlation coefficients, the criterion is met. The results of the confirmatory factor analysis show that the model fit indexes for the measurement model satisfy the standards suggested in the prior literature (GFI=0.905, RMSEA=0.08, CFI=0.936, and TLI=0.886).

Table 2. Means, Standard Deviations, Correlations

<table>
<thead>
<tr>
<th>Variable</th>
<th>Mean</th>
<th>s.d.</th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Regulatory Support</td>
<td>4.2812</td>
<td>1.23</td>
<td>-</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2. Normative Approval</td>
<td>5.2517</td>
<td>.98</td>
<td>.479**</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>3. Entrepreneurial Cognition</td>
<td>4.4905</td>
<td>.99</td>
<td>.378**</td>
<td>.378**</td>
<td></td>
<td></td>
</tr>
<tr>
<td>4. Entrepreneurial Self-Efficacy</td>
<td>4.9600</td>
<td>.92</td>
<td>.309**</td>
<td>.251**</td>
<td>.495**</td>
<td></td>
</tr>
<tr>
<td>5. Entrepreneurial Intention</td>
<td>5.2045</td>
<td>1.24</td>
<td>.184**</td>
<td>.242**</td>
<td>.385**</td>
<td>.562**</td>
</tr>
</tbody>
</table>

N = 335 ** P < 0.01 (Two Tailed Test)
Table 2 shows the values of the significant correlation, which show the significant correlation, and because the variance inflation factor (VIF) results below 10, then there is no multicollinearity problem.

Table 3 showed the result of the three steps of the hierarchical regression analysis. Three control variables were entered on the first step, which is age, highest academic degree, and dependent on the salary for subsistence.

The result for control variables showed that only age showed a negative result for the correlation between age and entrepreneurial intention. In the second step, the independent variable, which is regulatory support, normative support, entrepreneurial cognition, and entrepreneurial self-efficacy, was entered as the main effect. The result showed the all variables explained a significant share of the variance in the entrepreneurial self-efficacy ($R^2 = .374$, $p<0.01$). The results showed only entrepreneurial cognition and entrepreneurial self-efficacy have a significant result on the relation with the entrepreneurial intention (hypothesis 3). For the third step, the interaction between the institutional environment and entrepreneurial self-efficacy showed an interesting result. Before the interaction, regulatory Support and normative Approval do no effect on entrepreneurial intention. But when entrepreneurial self-efficacy become a moderator in between, this variable has a significant effect on the entrepreneurial self-efficacy ($R^2 = .390$, $p<0.01$) and the interaction between regulatory Support and entrepreneurial self-efficacy is negative (hypothesis 4 and hypothesis 5). For
advance further interpretations, we plotted the supported interaction effect as well as conducting a simple slope test to advance further interpretations.

Figure 1. Moderating Effect Entrepreneurial Self-Efficacy on the relationship between Regulatory Support and Entrepreneurial Intention

According to Figure 1, Entrepreneurial intention will be high, even though the entrepreneurial self-efficacy is high or low, when they were in the low regulatory support environment ($\beta= -0.440$, $t= -2.621$, and $p<0.05$).

Figure 2. Moderating Effect Entrepreneurial Self-Efficacy on the relationship between Normative Approval and Entrepreneurial Intention

The result in figure 2 showed when the respondents have a low or high entrepreneurial self-efficacy, the entrepreneurial intention will be high in the high normative Approval ($\beta= .427$, $t= 2.544$, and $p<0.05$).

5. Conclusions

Drawing upon the institutional perspective, this study reveals that the institutional environment plays a key role in affecting company employees' entrepreneurial intentions. Specifically, our findings suggest that the cognition for the entrepreneurial process and entrepreneurial self-efficacy are the determinants of company employees' entrepreneurial intentions. With understanding about the entrepreneurial processes, company employees are more likely to develop their enterprising spirit due to the lower level of uncertainty and an unpleasant feeling of ignorance. In contrast, our results, to some extent, contradict the work of Urban and Kujinga (2017), which found that regulatory support is an integral part of individuals' entrepreneurial intentions. Moreover, prior work suggests that normative Approval
has a positive influence on entrepreneurial intention (Busenitz, Gomez, & Spencer, 2000). The paid job of company employees gives them a sense of stability, reducing their intention to become an entrepreneur despite the policy incentives and favorable social norms for an enterprising career. Even though lots of support given by the Government to start new ventures, the risk of losing their permanent job will be too big. The financial income is a necessity of living, and our findings suggest that neither regulatory Support nor social norm can stimulate company employees’ entrepreneurial intentions.

The interesting result comes from the moderator of entrepreneurial self-efficacy in explaining the relation between institutional environment and entrepreneurial intention. As a mediator, entrepreneurial self-efficacy regulates the effects of regulatory support and normative approval on entrepreneurial intention. This result supporting the Shapero-Krueger model and Ajzen's theory of planned behavior, institutional environment, and entrepreneurial self-efficacy were equally effective in predicting entrepreneurial intention (Krueger, Reilly, & Carsrud, 2000). Regardless the respondent has a high or low entrepreneurial self-efficacy, the entrepreneurial intention will be high in the low regulatory environment. When the respondent has a high normative environment, the entrepreneurial intention will be high, no matter the entrepreneurial self-efficacy is high or low.

As a policymaker, to support the new environment, it would be better if the Government does not regulate entrepreneurial activities, especially for new entrepreneurs who are already working in the company. It will make the employees have more independencies on developing their entrepreneurial activities. Also, the Government can always promote the positive side of entrepreneurial activities and make the entrepreneurial act as good Support for higher economic development.

References


