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# **Migrants Entrepreneurs in East Indonesia**

*C. Gorter*

**Tinbergen Institute**

The Tinbergen Institute is the institute for economic research of the Erasmus Universiteit Rotterdam, Universiteit van Amsterdam and Vrije Universiteit Amsterdam.

**Tinbergen Institute Amsterdam**

Keizersgracht 482  
1017 EG Amsterdam  
The Netherlands  
Tel.: +31.(0)20.5513500  
Fax: +31.(0)20.5513555

**Tinbergen Institute Rotterdam**

Burg. Oudlaan 50  
3062 PA Rotterdam  
The Netherlands  
Tel.: +31.(0)10.4088900  
Fax: +31.(0)10.4089031

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# **Migrant Entrepreneurs in East Indonesia: A Schumpeterian Perspective**

## **Introduction**

Economic growth is not emerging automatically, as a free good that is distributed all over the earth. It is a dedicated effort of public policy and private strategies with the aim to maximize the opportunities in a dynamic and complex economic environment. To exploit such new opportunities, a combination of risk-taking, innovativeness and knowledge is needed. These are the features of a modern entrepreneur. Entrepreneurship has always been the backbone of a market economy, as this is the driving force of progress (i.e. a more efficient handling of scarce resources under a regime of competitive behaviour).

In recent years we have witnessed an increasing interest in the role of the entrepreneur as an endogenous change agent. Risk, innovation and knowledge are not seen as external phenomena, but as conditions which can deliberately be influenced or controlled. We may refer here to Romer (1994), but in particular to Dixit and Stiglitz (1977) who have set out to model economic growth in the context of monopolistic competition. In the new economic growth it is especially investment in human capital which is the driving force of continued progress. And again, the efficient use of ever increasing productivity (the increasing returns to scale concept) is a major challenge for modern entrepreneurship. Although this ideas is not entirely novel (we find the basis for this concept already in Hayek 1945), it gets a new perspective in a network society driven by interactive forces of cooperation and competition. This network economy does not only lead to a rapid creation of new goods and services, but also to a rapid dissemination. Thus, modern entrepreneurship is at the centre of the awareness of new opportunities regarding the discovery, production and exploitation of new market goods with due insight into the causes and consequences (Shane and Venkataraman 2000). This view is essentially based on the Schumpeterian search for new combinations and opportunities.

The experience of developed countries dealing with economic change has led to the recognition of the core position of entrepreneurs in the economy. They have played

an important role in the process of economic growth. Several countries in Western Europe, America and Japan have attempted to incorporate entrepreneurs at the initial stage of development programmes (Kilby, 1971). In Asia, the success of the East Asian Tiger economies was attributed to government policies to encourage private initiative in the economy (Yoshihara, 1988; McVey, 1992). The joint commitment of the government and private sectors (the entrepreneurs) has brought about the growth of the economy of these countries.

The Asian experience cannot be used as a yardstick for other regions, because government intervention can lead to economic stagnation. Some African countries have suffered after the government has intervened in the economy (Goedhuys and Van den Bulcke, 1996). One reason is that these countries face a shortage of entrepreneurial skill due to the lack of entrepreneurs. Government intervention in the economy has discouraged the development of entrepreneurial expertise. Such an experience has also prevailed in Eastern European countries, where the inefficiency of the bureaucracy accounted for the collapse of the economy, which in turn led to the collapse of the Eastern Bloc (Blejer et al. 1993). In the process of economic recuperation these countries tried to correct their past mistakes by establishing Business Schools which imitate their counterparts in America. These business schools are aimed at promoting entrepreneurial skills in the region.

### **Different Roles of Entrepreneurs**

Several authors have given their attention to the role of entrepreneurs in economic development. Each of them has described the many distinct roles of the entrepreneurs. Let us begin with Jean Baptiste Say who pointed to the coordinating role of the entrepreneur in the economy. Jean-Baptiste Say (1845), a well-known French political economist from the early nineteenth century, was probably the only one, among the scholars of his time, who gave much attention to the role of entrepreneur in economic activities. He viewed the entrepreneur as an agent whose main task is to coordinate and to supervise the process of production. The entrepreneur is an agent who combines the

necessary factors of production into a new product. Say saw no possibility for change in the quality of factors of production in the absence of entrepreneurs.

The role of entrepreneurs in the production process, according to Say, is to combine different factors of production into a final product for immediate use. For that, the entrepreneurs must have certain personal qualities like coordination, supervision and decision making. Part of their tasks, the entrepreneurs have to accumulate and make use of knowledge into practical units; they also have to recruit workers and assign to each of them their respective tasks. There is also another important aspect, the control over the necessary resources in order to organise the production process. For that, the entrepreneurs must have the ability to set up connections with credit institution in order to obtain loans. What has been discussed so far reflects the coordination function of entrepreneur in the whole production process. It is clear that the entrepreneurs are required to possess the art of supervising and leadership. Coordination is an integral part of supervising and leadership.

Israel Kirzner emphasised the arbitrageur role, and focused on the commercial activities of the entrepreneur. Kirzner (1973) believed that an entrepreneur is someone who has the ability to see profit opportunity and act upon it swiftly. He perceived the information as playing a key role in seizing the opportunities. On the basis of the information a plan is made to capture the opportunities, since, on many occasions, these opportunities are born out of an unprecedented market. The entrepreneurs in his view are in a better position compared with consumers in general because the former have a better grip on the information compared with the latter. The gain for the entrepreneur originates from his central position which enables him to tap information from both the consumers and suppliers; the entrepreneur has better information on the prices which the consumers are willing to pay and at which the suppliers are willing to sell. This situation of unequal acquisition of information, according to Kirzner, will lead to disequilibrium. In this respect Kirzner is on the other end of the road compared with the neoclassical who believe in equilibrium.

Moreover, according to Kirzner information acquisition alone is not enough, but entrepreneurs' alertness is very important. Some ordinary people may be able to acquire more information than an entrepreneur, but since their alertness is very low, some

opportunities might fly away without anyone acting upon them. Entrepreneurs sometimes do not need capital to begin their activities because they are able to secure an advanced delivery and pay later after the goods have been sold. The income of the entrepreneur comes from the excess of total revenue over total costs and it is brought in as a reward for the alertness that enabled him to exploit the opportunities. It is not a return from productive activities but from arbitrageur service. Thus, Kirzner perceived the entrepreneurs as actors who engage in trading activities. However, by reducing the role of an entrepreneur to an arbitrageur, Kirzner placed an entrepreneur as no more than a night watchman waiting for a windfall. His job is to monitor the price and act when it gives him profit. In fact, in some developing countries an arbitrageur is sometimes able to actively dictate the market. In most cases an arbitrageur attempts to establish himself as a single player in the market process by driving out his competitors through competition or by winning licences from the government. Kirzner has been criticised for neglecting the other role of the entrepreneur as uncertainty-bearer (Barreto, 1989).

Richard Cantillon perceived entrepreneurs as uncertainty-bearers. In his view, an entrepreneur conducts all exchange activities in the market, such as performing buying and selling. He also saw a risk in the activities of buying and selling because they involve future uncertainties (Cantillon, 1931). That is why those who engage in this activity must arm themselves with certain skills. The entrepreneurs may have control over the buying price but they have no control over the selling price because the price is determined by supply and demand. Therefore, according to Cantillon, those who engage in such activities are better treated as speculators (Barreto, 1989). In Cantillon's view, the entrepreneurs' position as speculator assists the market mechanism to work: without them, the market mechanism would not exist.

As regards income, Cantillon asserted that those who receive their income from uncertain situations can be considered as entrepreneurs. And those with a fixed salary are excluded even if they perform entrepreneurial activities. This is rather confusing because there are certain types of people, like casual workers, who sometimes earn their living in uncertain conditions. Those who engage in professions in the informal sector are in general in a volatile situation due to the uncertainties of their income. Are these people also to be included as entrepreneurs, although their income does not come from market

speculation? For Cantillon, by virtue of the uncertainty of their income, even casual workers could be regarded as entrepreneurs.

Frederick Barnard Hawley, an American economist (1927), introduced the notion of entrepreneur as owner. As with other classical economist, he believed that land, labour and capital are the means of production, but he recognised that what is missing from the classical analysis is the role of the enterprise as an organisational force for production. Without enterprises, factors of production, like land, labour and capital, would not give any value added. These means of production would only contribute the value added if they are combined in the production process within an enterprise. According to him, the landowner, labourer, and capitalist need the entrepreneur to arrive at a new product. In consequence, the enterprise itself is the source of all economic activities.

Hawley resisted the idea of the role of entrepreneur as merely a coordinator in the production process. The entrepreneurs were converted into the *owner* when they took over the means of production from the owners of capital, labour and land. As the previous owner releases his claim over the ownership of the means of production, the entrepreneur as the new owner will take over the responsibility to pay the rent, the wages and the interest. He has the right and freedom to use the means of production at his will. The product that the previous owner created becomes the new owner's property and he can then proceed to sell that product himself. But he now has to bear the risk of uncertainty if something happens to the enterprise.

Moreover, according to Hawley, as owners of the means of production, the entrepreneurs also carry out a distributive function. The entrepreneurs in their operation act as agents who pay the cost of the means of production. By doing that they earn profit, as their income is mainly a residual after the cost of land, labour and capital have been paid. Profit to a certain extent represents the return to ownership function, it is an income born from the entrepreneurs' willingness to bear the risk of future uncertainty. As owner of the means of production, an entrepreneur is responsible not only for the current state of the enterprise but its future as well. This is because the entrepreneur himself as owner depends on the survival of his enterprise. Merely, as coordinator, the entrepreneur does not have a strong self-attachment to the enterprise: he would be forced to leave the enterprise if he failed to generate profit. The profit made by the entrepreneur as owner is

under his control, but as coordinator, he has to hand it over to the owner of the means of production. The coordinator only receives a salary and bonuses.

Frank H. Knight (1921) introduced another function of entrepreneurs as decision makers in uncertain conditions. Knight gave special attention to the role of the entrepreneurs in production and distribution in a situation of uncertainty. According to Knight uncertainty is originated from imperfect information or knowledge. Access to information and knowledge regarding the market is unequally distributed. A number of people obtain more benefit than others because they have more information about the market. Under the condition of uncertainty, risk always follows every economic activity. Not everyone can deal with risk and uncertainties, only a small number of people have the courage and knowledge to deal with such a situation. Knight then argued that the risk can be estimated, so the entrepreneur could minimise it by taking out insurance, but this cannot be done for uncertainty, as its occurrence is hardly predictable. This circumstance requires the ability of the entrepreneurs to make an assessment and calculations in order to minimise the impact of risk and uncertainty. For that reason, the role of the entrepreneurs as decision makers is very essential.

Since the market is tormented by uncertainty and does not function mechanically, the task of the entrepreneurs is to make plans and decisions about the type of product or to forecast and redirect the consumer's wants (Barreto, 1989). Knight, however, underestimated the chance of failure in entrepreneurial decision making. He paid little attention to the end-result because in his view, whatever the result from any decision, the entrepreneurs must be responsible for that. Knight refused to recognise the task of the entrepreneurs as coordinators. Coordinating is more appropriately the task of a manager who only directs the production process, but the entrepreneurs do more than that - they have to make an educated guess about what is going to happen in the future.

According to Knight, the entrepreneurs receive profit for their work after paying the cost of other factors of production for their service. The income from profit reflects the entrepreneurs' success in coping with uncertainties. In other words, uncertainty is a necessary condition for an entrepreneurs' income. The entrepreneurs are not paid for the service they contribute in the production process, because for that they must receive fixed salaries. In fact, profit received by the entrepreneurs depends on different factors, like



competition and factors outside the enterprises. The decision made by the entrepreneurs is based on the chances that are open to them. They will participate in the production process if the chance of making profit is open, otherwise they will stay out the market if the conditions are impossible for making a profit. The decision made is born from their careful judgement about uncertainty conditions.

### **Schumpeter and Entrepreneurship**

Joseph A. Schumpeter (1934) was known for his concerns with entrepreneurship and economic development. He sees entrepreneurs as innovators and the engines of the capitalist economy. Since the market mechanism has a tendency towards change, the entrepreneurs are the major players in realising these changes. The capitalist economy for Schumpeter is considered as a type of social production, which is organised and decided by a number of entrepreneurs (De Vecchi, 1995). The entrepreneurs have a wide range of tasks which include deciding the type of product to be produced, assessing the nature of investment and assigning the work to other people. Overall, the entrepreneurs have to perform all kinds of work, like coordinating, risk taking and signing all firm contracts (Van Praag, 1996).

An entrepreneur is required to introduce new combinations of factors of production with two things in mind, first, to reduce the real unit cost of the product; and, second, to achieve surplus value. In that sense, the entrepreneurs make profit out of innovation by transforming the cheap raw material into a valuable ready-to-use product. In performing new combinations, the entrepreneurs must be creative by combining different factors of production in different ways to obtain an efficient product from the cost point of view. When the entrepreneurs succeed in introducing a new product, it is a proof of their innovation skill. The profit they earn from innovative activities is not an end in itself but an intermediate factor in achieving social prestige.

The entrepreneurs make their reputation through innovation, obtaining recognition and respect from their peers, and thus have access to a higher social class. They earn their reputation as agents of change. It would seem that Schumpeter gave much credit to the entrepreneurs. He furthermore asserted that the entrepreneurs have a

special position within society: they are required to keep on inventing new products or new ways of doing things, if not, the economy will stagnate (Schumpeter, 1971). They become the engines for per-capita growth. Innovation is carried out through a rational calculation, it is not a routine activity that can be done by everyone. The entrepreneurs are more like managers who indirectly direct the innovation process.

Moreover, Schumpeter realised that innovation processes can be carried out only if the entrepreneurs have additional institutional support (Schumpeter, 1934). When the entrepreneurs need to execute their innovation, credit institution like banks must be ready to provide the funding or else they will withdraw from the system. According to Schumpeter, the entrepreneurs are not required to have their own money; they can borrow the public's money from the banks. The banks serve as the mediator between the entrepreneurs and the public. The role of the banks is very essential because the entrepreneurs have the ideas but lack the financial backing, without which, ideas are merely ideas that are never put into practice. But Schumpeter also asserted that there is a price to be paid by the entrepreneurs when they take a loan from the banks. They are no longer free agents because they are under the indirect control of the banks. The banks are responsible for the public money and that is why they want to have control over the activities of the entrepreneurs. Those entrepreneurs who want to maintain their autonomy prefer other sources of funding like the family.

Schumpeter pointed out that loan institutions also need the entrepreneurs in order to make profits. They need the entrepreneurs to reduce future uncertainties. In their activities, the entrepreneurs deal with a world of uncertainty, a situation in which the result is unpredictable. In such a situation, the entrepreneurs have to arm themselves with different tools of analysis to avoid future losses. Since only a limited number of people have the talent to do this, that is why entrepreneurs belong to special class.

### **A Schumpeterian View on Entrepreneurial Migration**

Most migration literature portrays the migrants as a class of society who move as job-seekers. This phenomenon can be found in many developing countries, where the population growth has given rise to problems of unemployment. Job creation in these

countries is lagging behind the growth of labour force. Due to the restricted funding, most of the development programmes are centred in urban areas, which in effect attract many people to these regions. The presence of these migrants brings in various problems to the urban areas, like the emerging of squatters and the rise of criminality.

Among these migrants, there are those people who decline to compete in the job market, but set up and operate their own business. They are dynamic and risk-takers. The migrants' drive to move to new regions is facilitated by the drive to earn profit. Migration takes place after the household involve in collective decision about who should go and if so, where to go. This decision is made to maximise household earnings and to minimise the risks. In that sense the decision to move is an entrepreneurial decision.

These migrants can be considered as entrepreneurs in a Schumpeterian perspective. Schumpeter's view on innovation focuses on technological innovation. The entrepreneur in his innovative action combines different factors of production in order to be sold in the market. Migrant entrepreneurs in this sense may not deal with technological innovation, but they find new markets for the product they produce compared with other entrepreneurs. Migrants' innovative action can be seen by their effort to seek new regions for entrepreneurial activities. As entrepreneurs, the migrants are looking for places which offer them the best opportunity to do business. The new place must be considered in a long term perspective for entrepreneurial activities culturally and economically. Migrants are thought to move if they are less successful in a particular destination (Speare, 1983), or they think of moving to other places as they are confronted with diminished opportunities in a particular destination (Light et al. 1993). In such circumstances, the migrants are seeking places where they have opportunities to earn a satisfactory income through entrepreneurial activities. They are not going to move if the economic returns in the future place are less than those of the current place, or will restrain from moving if the prospects for self-employment are very small.

There are also reasons to move due to *non-economic factors*, particularly when the migrants fail to assimilate with the local people (Waldorf, 1994). It is believed that the migrants will look for another place if they feel culturally incompatible with the local people. In some cases, religious considerations are also part of the reasons why the migrants feel uneasy with the local people. Some migrants might also move due to

economic crisis. The recent economic crisis (1998) in Indonesia had forced many people out of work in Java. Some of these people are roaming the outer islands to find jobs or opportunities in self-employment activities (Hugo, 2000).

From the social point of view, migration of entrepreneurs will take place if the current place is perceived to be insecure for business activities. As long as the current situation offers a better condition for business, the migrants will not consider moving to another place. Regarding social safety in their current place, the migrants are usually concerned about their relationship with the local people in their neighbourhood (Lee, Oropesa and Kanan, 1994). When the migrants in general are well accepted, the new migrants have more possibilities to stay for a longer period or even permanently, otherwise they will look for a new place.

These migrants are also entrepreneurs in the sense that they perform an allocative function through trading. Besides bringing final products to the consumer in various regions, the migrants also bring the raw materials from different regions to the producers. The producers can take advantage of this particular position of the migrants, because if the producers do all the task of finding the market and finding the source of the raw materials, it would cost them more money and time. By leaving it to the migrants entrepreneurs, the actual producers can concentrate on the improvements of the product to foster a continuous change.

As entrepreneurs, the migrants want to know about what business opportunities are available in a prospective destination. The entrepreneurs must equip themselves with all sorts of information about the prospective destination. The degree of migrants' interest in moving to another place depends on their perception that the gain they expect to make in the new place must be larger than what they make in the current place. Migrants need information about economic conditions in which special attention must be given to factors such as competition, access to the market, and access to capital, and information about social conditions like the degree of local tolerance, supporting network, and niche concentration (Mulligan and Reeves, 1983; Gouch, 1984; Timmermans, 1986). This social-economic framework of entrepreneurial migration will be applied in the sequence of this paper to the case of a peripheral region in East Indonesia.

## **Data and Methods**

The case study was conducted in East Nusa Tenggara, a peripheral province in East Indonesia. The migrants in this region reside in most of the towns across the province of east Nusa Tenggara, but for the purpose of this study, the survey is done in the regency of Kupang, one among 12 regencies in this province. The decision to concentrate on this region is for two reasons. First, most of the entrepreneurs interviewed in the field research are traders who share almost identical characteristics from one region to another. Except for local particularities, the migrants in this region almost face similar socio-economic challenges in various destination areas. The second reason deal with red tape for research permission. As it has been common practice in Indonesia that permission is required by local authorities before one leaves for field research, it is easier to obtain permission in this regency due to connections with local authorities in this region.

For this study 334 respondents have been interviewed from three different places of origin, South Sulawesi (184 migrants), Java (110 migrants) and West Sumatra (40 migrants). The selection of these groups is based on the fact that they have played a major role of entrepreneurial activities in the whole province, and other regions in East Indonesia. The majority of migrants from South Sulawesi engage in the retailing and fish sector, the majority of migrants from Java in food stalls and a small number in retailing and the majority of those from West Sumatra engage in garment trading.

In constructing a sosio-economic model of propensity to move, the purpose is to include a wide range of socio-economic variables, so all the reasons to move to from the current place to a better hypothetical place can be taken into account. The variables utilised in this research to describe the hypothetical place roughly can be divided into two categories: First, social factors, like, local tolerance, niche concentration, and supporting network; and second, economic factors, like, competition, market accessibility and capital accessibility. In addition indicators of personal characteristics were included, like, age, education, duration of stay, migration experience, business experience and place of origin. The social and economic factors relate to the situation at the region of origin

and/or destination. A dummy variable is used in this model to indicate the place of origin group.

## The Model

The equation for the propensity to move is of the form:

$$Y_i = \mathbf{a} + \sum_{k=1}^{12} \mathbf{b}_k X_{ik} + \mathbf{e}_i$$

Y = Propensity to move; X1= Competition; X2 = Local Tolerance; X3 = Market Accessibility; X4 = Niche Concentration; X5 = Capital Accessibility; X6 = Supporting Network; X7 = Duration of Residence; X8 = Age; X9 = Education; X10 Migration Experience; X11 = Business Experience; X12 = Place of Origin;  $\epsilon$  = Error Term.

## Empirical Findings

Before we move to the analytical part, the subsequent section deals with a description of each prospective variable used in this analysis. In the survey, the migrants were asked to give their opinion on socio-economic factors in the current situation and their judgement on the socio-economic factors in the hypothetical situation if they decide to move. as mentioned above, we have three *economic* variables, weak competition greater market accessibility, and greater capital accessibility, and three *social* variables: higher local tolerance, higher niche concentration, and better supporting network. For each variable the migrants have to answer questions regarding socio-economic factors in the current and hypothetical place.

The following six variables describe perceptions of the respondents on the current location.

*Weak competition* is defined as the migrants' perception about the market situation where there are a few sellers for a given line of business. *Market accessibility* is defined as the migrants' perception about the market situation that allows the migrants to

gain access to the local market. *Capital accessibility* is defined as the migrants' perception about their opportunity to gain access to formal banks and other institutions in the host region. *Local tolerance* is defined as migrants' perception concerning the local people's degree of tolerance towards the migrants. *Niche concentration* refers to the migrants' perception about the concentration of a particular line of business in the hands of particular ethnic groups. *Supporting network* is defined as the migrants' perception about the opportunities for migrants to receive help or other kinds of assistance from relatives or fellow migrants in the host region. Migrants with restricted experience and little starting capital find that network ties reduce their costs of migration. Early migrants will provide shelter and information to the next wave of migrants, which assistance serves to reinforce the network itself. The need for a supporting network is intensified in a multicultural society in which ethnicity denotes one's location in the host society. In this research, information about the variable supporting network was acquired by collecting information on migrants' experience and opinion about support from relatives and fellow migrants in the host society.

Besides these 6 social-economic environment variables, we have also included in our analysis 6 control variables related to personal features, viz. duration of residence, age, education, place of origin, business experience and migration experience. *Duration of residence* is defined as the number of years the migrant has stayed in the current region at the time the research was conducted. *Age* is the migrants' years of age when this research was conducted. *Education* is the number of years of formal education the migrant has gone through. *Origin* is the migrants' place of origin. *Business experience* refers to the number of years that migrants have engaged in business activities in their whole life. Finally, *migration experience* is defined as the number of years the migrants have lived outside their region of origin after they are 18 years old.

The dependent variable *propensity to move* is defined as migrants' inclination to move from the current region to a hypothetical place.

Moreover, there are 6 additional similar variables which are included to describe the migrants perception on *prospective future place*. This group of questions focuses on migrants' propensity to move from the current place to a hypothetical future place if they are offered a better situation than the current place. As entrepreneurs, it is expected that

the migrants will take any chance to move if conditions in other place are better than their current situation. All the perception variables are measured on a scale of 1 to 10, in which 1 refers to the lowest 10 refers to the highest possible value. The value of each variable is assessed based on the average score of three questions related to each of the factors. Detailed information on the measurement can be found in Ndoen (2000).

### Description of inclination to move

Basic descriptive data on the inclination to move to a hypothetical destination by migrants from three selected places of origin (South Sulawesi, Java and West Sumatra) are reported in Table 1. The respondents appear to be most responsive to the ‘market accessibility’ variable (average score 7.13 on a range between 1 and 10). This appears to

**Table 1**

Mean Value of the Inclination to Move to a Hypothetical Destination with a Favourable Performance for Six Location Variables  
(Standard errors are in parentheses)

N=334

	South Sulawesi	Java	West Sumatra	Total
Lower Level of Competition	5.16 (3.03)	5.65 (2.57)	5.93 (1.91)	5.42 (2.78)
Higher Local Tolerance	6.64 (2.04)	6.94 (1.78)	7.18 (1.57)	6.80 (1.91)
Greater Market Accessibility	7.01 (2.12)	7.35 (1.58)	7.13 (1.52)	7.13 (1.89)
Higher Niche Concentration	3.09 (2.24)	3.28 (2.01)	4.33 (1.98)	3.30 (2.16)
Greater Capital Accessibility	5.08 (2.57)	4.62 (2.23)	5.10 (2.48)	4.93 (2.46)
Better Network Support	6.27 (2.60)	6.16 (2.35)	6.83 (2.42)	6.30 (2.50)

Source: Primary data.

be prime factors inducing these entrepreneurs to move to another region. Other location factors with a strong impact on the inclination to move are the regional tolerance level



(score 6.80) and supporting network (score 6.30). Lower scores are found for level of competition, capital accessibility and niche concentration. The highest score for “market accessibility” underlines the entrepreneurial attitude of these migrants.

The differences between the three ethnical groups are rather small. Except for market accessibility, the migrants from West Sumatra have the highest inclination to move in all the other variables. The mean value of each variable is the highest for migrants from West Sumatra, except for the variable market accessibility in which they come second after migrants from Java. In this perspective, the migrants from South Sulawesi are the least inclined to move to another destination. The mean value of most variables for this group is the lowest, except for the variables higher capital accessibility and network support. The migrants from Java come in the middle between those of West Sumatra and South Sulawesi. The only measure on which the migrants from Java come out on top is for the variable higher market accessibility, but for the other two variables, higher capital accessibility and higher network support, they trail behind the migrants from South Sulawesi. The scores for West Sumatra are slightly higher than for the two other groups. We conclude that the findings in Table 1 indicate a higher level of potential migration for migrants from West Sumatra compared with other groups. Attention has been drawn to the position of migrants from West Sumatra by Naim (1971).

### **Correlation among inclination to move to various hypothetical destinations**

When we look at the upper part of Table 2, it is obvious that the correlation among the inclination to move to various hypothetical destinations are all positive. This means that those respondents with an above (below) average inclination to move to one type of hypothetical destination also have an above (below) average inclination to move to another type of hypothetical place. In other words, this group of migrants favour any place that offers them at least one of the conditions like a lower level of competition, high tolerance, high accessibility to the market, high niche concentration, high access to formal capital and strong supporting network.

## The relation between the hypothetical and the current situation

We next look at the correlation between the inclination to move to a hypothetical destination and the perception of the current situation. From Table 2, we can see that, overall, the correlation coefficients are negative. This means that respondents with a

**Table 2**

Correlation of Evaluation of Current Situation and Inclination to Move to Hypothetical Destination

	V1	V2	V3	V4	V5	V6
V1	1.00					
V2	0.26**	1.00				
V3	0.30**	0.47**	1.00			
V4	0.36**	0.11*	0.27**	1.00		
V5	0.30**	0.08	0.17**	0.43**	1.00	
V6	0.27**	0.11*	0.13*	0.26**	0.63**	1.00
X1	-0.11.*	-0.02	-0.05	-0.21**	-0.09	-0.12*
X2	-0.06	0.03	-0.05	-0.04	0.02	-0.01
X3	-0.30**	-0.14*	-0.26**	-0.25**	-0.16**	-0.23**
X4	-0.15**	-0.12*	-0.24**	-0.09	-0.10	-0.16**
X5	-0.10	-0.09	-0.12*	-0.06	-0.00	-0.05
X6	-0.21**	-0.17**	-0.18**	-0.10	-0.03	-0.17**

\*\* Correlation is significant at the 0.01 level (2-tailed).

\* Correlation is significant at the 0.05 level (2-tailed).

Inclination to move to hypothetical situation: V1= Lower level of Competition; V2 = Higher Tolerance; V3 = Greater Market Accessibility; V4 = Higher Niche Concentration; V5 = Greater Capital Accessibility; V6 = Better Supporting Network. Evaluations of current situation: X1 = Weak competition; X2 = Local Tolerance; X3 = Market Accessibility; X4 = Niche Concentration; X5 = Capital Accessibility; X6 = Supporting Network.

positive perception of the current situation tend to report lower values on average for inclination to move to a hypothetical destination. This implies that the inclination to move does not only depend on the features of the hypothetical destination but also on the perceived quality of the present situation. In other words, the negative sign indicates that the migrants' decision to move or to stay depends on how they perceive the benefits of

both locations. Note that the third feature of the current situation (market accessibility) tends to have the highest negative correlation with the inclination to move. This result indicates that access to the market plays a key role in the location decision of the migrant entrepreneur. The greater the opportunity for access to the market in other places, the higher the inclination to move. In contrast, local tolerance shows a lower negative correlation, indicating that this variable plays a less important role in the migrants' decision to move to a hypothetical place or to stay in their current place.

### **Degree of Interest in Moving to a Future Place**

The preceding section described the correlation among the inclination to move to various future hypothetical variables. In this section a regression equation is employed with the intention of providing a more rigorous statistical assessment of the impact of the socio-economic factors in the current situation on the migrants' inclination to move to a new destination, with respect to their evaluation of the six hypothetical location variables. The independent variables all relate to the current situation. The dependent variable is the inclination to move to a hypothetical place. This variable is obtained by computing the average value for all six prospective factors. This variable is regressed on the variables in the current situation in order to determine which variable has played an important role in making the migrants want to stay or in pushing the migrants to prefer to move to another place.<sup>1</sup>

Table 3 presents the results of the regression. We found that there are three variables, market accessibility, weak competition and region of origin which have a significant effect on the migrants' inclination to move. The main effect of the market accessibility variable is negative and significant at the 0.01 level. This means that as access to the market in the current situation increases by 1 point, the inclination to move to a hypothetical place decreases by 0.17 of a point, with both variables measured on a scale of 1 to 10. In other words, the migrants would not easily leave the current market,

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<sup>1</sup> Separate regression models for each factor give similar result (see for more details, Ndoen, 2000).

even though the future place offers them better opportunity. This result gives us a picture of the strength of access to the market, which keeps the migrants in the current place.

**Table 3**

Regression Result for Migrants' Propensity to Move to a Hypothetical Place as a Function of Socio-economic Factors (related to the current Conditions)

Variable	$\beta$	t-value
Constant	7.183	9.933
Weak competition (X1)	-0.07*	-1.73
Local Tolerance (X2)	0.07	1.03
Market Accessibility (X3)	-0.17**	-4.99
Niche Concentration (X4)	-0.06	-1.59
Capital Accessibility (X5)	-0.02	-0.48
Supporting Network (X6)	-0.04	-1.06
Duration of Residence (X7)	-0.00	-0.14
Age (X8)	-0.00	-0.19
Education (X9)	-0.00	-0.22
Migration Experience (X10)	0.02	0.82
Business Experience (X11)	0.00	0.08
Region of Origin (South Sulawesi=1) (X12)	-0.32*	-1.86
Business Experience Squared	-0.00	-0.55
R-Squared	0.16	
Number of cases	334	

\*\* Significant at 0.01 level

\* Significant at 0.10 level

The explanation for this reluctance to move on is that migrants give more weight to the known features of the current situation vis á vis the possible uncertainties of future apparently more attractive locations. For example, some migrants have an established market with a permanent store. To move to a new region means finding a new space for trading, which might lead to the loss of the current market. Instead of losing the current market, some migrants prefer to expand their business by sending their relatives to open a new branch in another place. In effect, these migrants who prefer to stay are generating other migrants – a form of chain migration. This strategy offers more security for the continuation of migrants' business, because if the investment in the new place fails, they can still survive with their current business.

Table 3 also shows that a weak level of competition in the present location has a negative relation to inclination to move (-0.07) and is significant at the 0.10 level. This indicates that with the favourably lower level of current competition the migrants are not willing to move to any new place. The migrants' concern with competition reflects their entrepreneurial behaviour. It is likely that some of the migrants want to avoid having to face competition in the new region. Besides that, the majority of the migrants still find that the level of competition in the current place is still low, therefore they are not interested in going to other places. Competition has to be avoided if possible for small traders. One possible explanation is that the entrepreneurs only enjoy a small profit margin from their current business. Competition would remove the margin from the hands of petty entrepreneurs, which might result in bankruptcy.

It is also shown that region of origin has a negative relation with inclination to move (-0.32) significant at the 0.10 level, indicating that migrants from South Sulawesi are 0.32 points (on a scale of 1 to 10) less inclined to move than migrants from Java and West Sumatra. This finding is interesting because we would have expected that migrants from West Sumatra in particular would have a greater preference to stay since they have control over garment trading in the region. One possible explanation for this result is that the majority of the migrants from South Sulawesi have established an enclave settlement in the current place. In this enclave they have built luxury houses and the mosque for the whole community. Yang (1994) also found a negative relation between home ownership and repeat or multi-stage migration. Migrants with a higher percentage of home ownership in Bangkok are more reluctant to move to other places, especially long-term migrants.

## **Conclusion**

This paper has addressed the role of entrepreneurs in economic development by investigating the phenomenon of entrepreneurial migration in developing countries from a Schumpeterian perspective. In this view, migrant's decisions to move to new regions to become self-employed are regarded as an entrepreneurial decision. In a broad Schumpeterian sense, it is also the introduction of a new combination of production

factors since the migrants will perform an allocative function through trading at a new location. This decision to move to other places for entrepreneurial activities is motivated both by economic and social factors. The economic prospects of self-employment (that is, the business opportunities to earn profits) are compared with those at the current place. In addition, the (lack of) social integration with the local population at the current place is judged upon relative to the expected social-cultural environment in new places. Consequently, migrants need information on the social and economic conditions of potential new location at which they could start entrepreneurial activities.

This social-economic framework of entrepreneurial migration has been applied to the case of a peripheral region in East-Indonesia. East Nusa Tenggara. In this particular region, migrants who perform major entrepreneurial activities at the current region (but originate from different regions, namely South Sulawesi, Java and West Sumatra) have been interviewed to find out their propensity to move to a new location. Most of the local entrepreneurs that are queried (334 in total) appeared to be traders, predominantly specialised in retailing and fish (for those coming from South Sulawesi), food stalls (in case of Javanese migrants) and garment trading (for migrants from West Sumatra).

The empirical work in this paper has employed regression analysis to determine the migrants' propensity to leave East Nusa Tenggara for other, hypothetical places that were assumed to be better in terms of the social-economic conditions. These conditions were reflected by economic factors as competition, market accessibility and capital accessibility, and social factors as local tolerance, niche concentration and supporting networks. The empirical results revealed that in normal conditions the entrepreneurial migrants are quite reluctant to carry out second-step migration, even though the new place might offer them better socio-economic conditions. In general, the migrants appeared to be satisfied with the entrepreneurial environment in the current place. However, the results did indicate that they might consider moving to other places if they are confronted with better access to markets. This finding provides some support for the assertion that the migrants try to make use of whatever opportunities they encounter in a destination. This kind of spatial opportunity seeking behaviour of the migrants is in line with a Schumpeterian view on entrepreneurial migration in which migrants will move on

to a new location if it offers better conditions for business in general, and trading in particular.

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