

# Entrepreneurial Behavior: Does Tax Policy and Financial Access Matter? Evidence From University Student in Malang

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**Abstract**—Over the past years, research in entrepreneurial context has growing quite rapidly in Indonesia. The past research has done study related the antecedents of entrepreneurial intention as their primary research purposes. This study expands the Theory of Planned Behavior (TPB) in the context of entrepreneurship that suggesting may be there are some certain potential factors that affect the transformation of intention into behavior. However, few studies have attempted to recognise the position of tax policy and financial access in boosting the entrepreneurial intention and entrepreneurial action. This purpose of this study is to analyze the impact of tax policy and financial access that may arise become factors that affect entrepreneurial intention and entrepreneurial behaviors of university students. In the study, a model was proposed and empirically tested on a sample of 125 university students in Universitas Brawijaya Malang, Indonesia. The results of the analysis explain that tax policy has significant effect on entrepreneurial intention and entrepreneurial behavior of students. Furthermore, entrepreneurial intention also has significant effect on entrepreneurial behavior. However, financial access does not have significant effect on the entrepreneurial intention and entrepreneurial behavior of university students.

**Keywords**—*entrepreneurial intention, entrepreneurial behavior, tax policy, financial access, university students*

## I. INTRODUCTION

From a new perspective, youth is no longer considered as community problem and a passive recipient of adult intervention [1]. However, youth are seen as valuable community resources and as "strong catalysts" in their communities who are able to work with adults as partners in order to make the community safer and more prosperous [2]. This is reinforced by the Community Youth Development approach which provides opportunities for youth to build their competencies and be actively involved as partners in community development [3]. Ginwright & Cammarota [4] states that youth can be powerful agents of change because they have self-awareness, social awareness, and global awareness. Therefore, the development and empowerment of

young people today will determine the prospects for a country's sustainable development.

But in reality, young people face social, economic and political barriers that prevent them from exploiting their full potential. Young people, who represent the majority of the population in most developing countries, face the problem of the lack of accessible employment. Based on OECD data [5], the youth unemployment rate in Indonesia (refer to the share of the labor force ages 15-24 without work but available for and seeking employment) reached 25.83 percent in 2005 and decreased to 15.84 percent in 2018. Despite the decline, the youth unemployment rate in Indonesia is still relatively high when compared to other developing countries in Asia such as Bangladesh (12 percent), Malaysia (11.18 percent), India (10.42 percent), Singapore (8.61 percent), Vietnam (6.95 percent), and Philippines (6.76 percent). In addition, according to a report by the International Labor Organization in 2018, the government was only able to provide poor quality employment which made most workers in Indonesia enter poverty [6]. In other words, many Indonesian workers face lack job security, no written contracts, income instability, minimal access to social protection, and limited workers' rights so they are unable to guarantee a decent living.

In response to the challenges of high youth unemployment and due to the lack of sufficient jobs in the formal economy, encouraging the Indonesian government to promote entrepreneurship among young people in recent years. Youth entrepreneurship is considered to be the key to overcoming the problem of unemployment in Indonesia. Numerous studies show that the transfer from unemployment to self-employment or entrepreneurship is not only a convenient way to reduce unemployment but also to create new jobs by individuals who were previously unemployed for others [7-10]. A comprehensive study to examine the relationship of firm size and firm growth conducted by Geroski [11] and Hart & Oulton [12] shows that very small and newly established firm outperform older and larger firm in terms of job creation. Thus, entrepreneurship is not only the single most important player in

the modern economy but also as an important mechanism in economic development [13,14]. Even, Polok et al. [15] and Welter & Smallbone [16] state that entrepreneurship plays an important role in post-communist economic development because of its potential in creating jobs.

The perspective which shows the negative relationship between entrepreneurship and the unemployment rate is known as the entrepreneurial effect. Some experts claim that the relationship between entrepreneurship and unemployment is a complex puzzle to solve [17]. There is another perspective on the relationship between entrepreneurship and the unemployment rate, known as the unemployment push or refugee effect. This perspective states that there is a positive relationship between the unemployment rate and entrepreneurship [18]. In other words, the higher unemployment rate or the perception of uncertain job prospects in the future will encourage more people to choose to become entrepreneurs.

These two different perspectives give rise to ambiguity in the formulation of public policies by the authorities. Based on the entrepreneurial effect perspective, the government must design public policies that focus on instruments that can induce entrepreneurial growth so that they can achieve their goals in overcoming unemployment. The OECD [19] states that youth entrepreneurship will not always be a panacea for solving youth unemployment problems but that it can be part of the policy response. Diraditsile & Maphula [20] proves that although the development of entrepreneurship has made some modest achievements in addressing youth unemployment in Botswana, there is evidence that youth entrepreneurship fails to directly address employment creation because of the enormous challenges that must be faced. Most young entrepreneurs in Botswana do not thrive beyond incubation period or most fail for less than two years [21]. That is due to lack of relevant and adequate information about business, poor product or service, lack of market, operational challenges, and high loan default rates.

Meanwhile, based on the perspective of the refugee effect, the government must make public policies that attract unemployment to become entrepreneurs and eliminate their fear of failure [22,23]. That is because unemployed individuals are afraid of administrative obstacles and complicated bureaucracy when deciding to become entrepreneurs so the government needs to reduce these obstacles continuously [24]. Schoof [25] argues that there are five major factors that influence youth entrepreneurship, namely: 1) Social or cultural attitude towards youth entrepreneurship, 2) Entrepreneurship education, 3) Access to finance or start-up financing, 4) Administrative and regulatory frameworks, and 5) Business assistance and support.

This research will focus on the perspective of the refugee effect by trying to analyze the effect of tax policy and financial access not only on entrepreneurial intention but also the entrepreneurial behavior of young people. Strabheim & Beck [26] found that people's behavior will change in an effort to

respond to changes in public policy. However, there is no consensus on whether tax policies affect entrepreneurship. A survey conducted by the Kauffman Foundation shows that taxes are the biggest barrier for entrepreneurs when conducting their business. This is supported by a number of research results showing that marginal tax rates [27-29], marginal tax rates for entrepreneurs [30], marginal tax rates for SMEs [31], average tax rate [29], progressivity of taxation [27,28,32], and corporate tax rate [33] has a negative effect on entrepreneurship. High corporate income tax rates reduce profits for incorporated businesses [34,35]. Furthermore, reduced company profits due to high corporate income tax caused less dividends paid to shareholders and reduced opportunities to invest, thus reducing incentives for individuals to become entrepreneurs [36].

Meanwhile, other research results show that the average tax rate [27,37], marginal tax rate [38], marginal tax rate for salaried workers [39], progressivity of corporate taxation [40], progressivity of personal income taxes [41] have a positive effect on entrepreneurship. One argument is that high corporate income tax rates reduce profits for legal business, so they will try to shift their income by entrepreneurship through companies that are not incorporated or informal entrepreneurship. The inconsistency of the effect of tax policy on entrepreneurship is also shown by the absence of the influence of the average tax rate [32], maximum tax rate [32], marginal tax rate [37] on entrepreneurship. Block [42] states that entrepreneurship is basically passion and entrepreneurs start a business out of love, so ideally, entrepreneurs will not make the decision to start a business because of the tax code.

Established companies have several advantages in terms of financial access because they have a history of audited financial statements, greater collateral to secure loans, and potentially the ability to fund some expansion through retained earnings [43]. This condition is different from entrepreneurs from under-represented and disadvantaged groups (e.g. women, youth, immigrants, the unemployed) often face greater challenges in accessing financing, often due to a lack of collateral and credit history. However, entrepreneurs at the stage of developing and growing their business may have different financing needs and seek different types of financing to sustain and grow their ventures, compared with pre start-up and start-up firms. Evans & Leighton [44] and Evans & Jovanovic [45] state that financial constraints are a major obstacle to entrepreneurship. Blanchflower & Oswald's [46] findings are consistent with previous research and show that people who receive gifts and inheritance are more likely to run their own businesses. Therefore, they draw the assumption that if the government wants to increase the level of entrepreneurship, they must provide easier and broader financial access to potential entrepreneurs who are mostly hampered by lack of capital. However, the results of Luc [47] study found that there was no influence between financial access to entrepreneurial interests. Chowdhury et al. [48] found the fact that young people who have an age range of 21 to 40 years have the energy and confidence to take the risk of doing business, so they ignore the risk of limited capital and financial

access. The same thing was stated by Engelschiøn [49] that individuals are more willing to expose themselves to occupational risks such as entrepreneurship when they are young so that the lack of financial access does not affect their decision to become entrepreneurs.

This research is interesting because there is no previous research that examines the direct and indirect effects of tax policy and financial access on entrepreneurial intention and entrepreneurial behavior in the context of Theory of Planned Behavior. In addition, the results of previous studies also have not shown consensus on the influence of tax policies and financial access to entrepreneurship. Furthermore, most previous research of effects of taxes on entrepreneurs has only focused on the effects of differential taxation between self-employment and working for someone else.

Research has found that university graduates between 25 and 34 years have the highest probability of starting a firm [45]. Therefore, this study is interested in analyzing the effect of tax policy and financial access on entrepreneurial interest and entrepreneurial behavior in college students. Brawijaya University was chosen as a research location because it is the only university in Indonesia that has a vision as a world class entrepreneurial university.

## II. RELATED WORKS

There is still a debate on the well-known paradigm that the entrepreneurs are created since they were born or it can be learned [50]. Ajzen in 1991 developed Theory of Planned Behavior (TPB) that explained intentions as a direct determinant of planned behavior. According to TPB, entrepreneurship, which is planned behavior, can be predicted by intention. Entrepreneurial intentions can shape entrepreneurial behavior, where there are several factors that influence entrepreneurial intentions including (1) attitudes or desires towards the proposed behavior; (2) social and subjective norms that take into account the opinions of others (especially the opinions of influential people) about the proposed behavior; and (3) perceived control or feasibility of the proposed behavior. In general, the more favorable the attitude toward behavior, the stronger the individual's intention to do so [51].

Furthermore, it is undeniable the possible effect of personality traits on individual decision to become an entrepreneur. As it is discussed in the following section, many research suggests the impacts of personal characteristics on the entrepreneurial intention and behavior. Nevertheless, it is better to describe the facts with studying the connections of various antecedents, rather than considering just one influential factor. Therefore, even if personality traits might have impacts on entrepreneurial intention, it might be more important to consider the impact of some contextual factors on entrepreneurial intention and action.

Few empirical literatures were conducted the entrepreneurship research related contextual factors in government policy, financial access and entrepreneurship

development. Obaji & Olugu [52] examines that government policy contributes in the development of entrepreneurship and its impact on economic development. The study builds on the relationship of government policy and entrepreneurial practices. There are many aspects in government policy which can be developed such as: education, health, social, and taxation. In according to tax policy, Gordon [53] and Bruce [54] emphasized that a risk-neutral individual will give up to start risky business because of asymmetric treatment policy. For instance, differences in the tax rate or tax base between entrepreneurship and working people can affect individual decision to start a run a business.

Government policy in taxation underlines the institutional environment in which entrepreneurial decisions are made. Thus, tax policy is important for entrepreneurship. In spite of a significant amount of study on this related topics, there is still lack of information about this important relationship. Based on the empirical literature reviewed, this study has considered to test the effects of tax policy on the intention and action to become an entrepreneur.

Furthermore, there are also many literatures depict the effect of financial constraint on entrepreneurship and it proofs that intention to be an entrepreneur can be effected by financial aspect, not only related with the amount of money they are needed but also the access to get the funding. Evans & Leighton [44] describes that financial constraints is a stumbling block to entrepreneurship. They concluded that wealthy people are tend to enter into self-employment.

The further research by Blanchflower & Oswald [46] found that their findings were consistent with the previous research and illustrated that people who accepted grant or received inheritances were more likely to run their own business. Based on their result, they drew the assumption that if the government want to increase the amount of entrepreneur and the level of entrepreneurship, they should be granting more money to the potential entrepreneurs who lack of capital.

Ayyagari, Demirgüç-Kunt & Maksimovic [55] found that financial constraints were the biggest obstacles for firm growth. They suggest the removal of financial constraints to be the most efficient way of promoting firm growth. Previous studies have shown that younger people are less likely to have access to financial capital needed for starting a business. Because of their young age they have had less time to build up the capital needed and end up not starting their own business because of their financial constraints [45].

Research has found that survival rates of businesses will increase if they have bigger start-up capital. Cooper, Gimeno-Gascon, & Woo explained that financial resources could be necessary to overcome problems and for survival in the start-up process [56]. In addition, how point of view the possible partners to entrepreneur can be effected by more assets that entrepreneur had, and it creates more opportunities [57]. Study performed in Norway showed that the size of the establishing capital has a positive correlation with the survival rate of the business [58]. Several empirical studies have found that the

lack of access to capital and constraints in the financial system is seen as the main hindrance among potential entrepreneurs in developing countries [59].

From the former study, it can be seen that there is a lot of research performed on entrepreneurship, what is forgetting is research directly linked to how to increase entrepreneurship levels. Creating good and supportive policies need for more knowledge on what makes people to go into self-employment. The lack of research in this area makes it difficult for governments to make informed policy decisions [60]. Moreover, there are other variables that it is reasonable to believe will affect entrepreneurial intention and behavior. From the previous research, access to financial capital has been pointed out as a very important barrier for new business start-up. Higher access to finance is expected to have a positive influence on entrepreneurial intentions and actions. Based on these previous study, the hypothesis of this research is presented on figure 1 as follows:

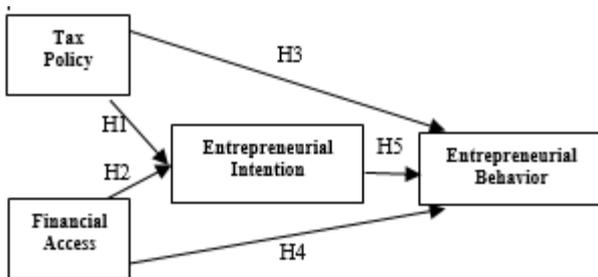


Fig. 1. Hypothesis research.

Thus, it is hypothesized that:

H1: tax policy has significant effect on entrepreneurial intention

H2: financial access has significant effect on entrepreneurial intention

H3: tax policy has significant effect on entrepreneurial behavior

H4: financial access has significant effect on entrepreneurial behavior

H5: entrepreneurial intention has significant effect on entrepreneurial behavior

**A. Problem Statement**

Based on the introduction and previous research, the problem statements of this study are:

- Do tax policy have significant effect on entrepreneurial intention among university students in Malang?
- Do financial access has significant effect on entrepreneurial intention among university students in Malang?
- Do tax policy has significant effect on entrepreneurial behavior among university students in Malang?

- Do financial access has significant effect on entrepreneurial behavior among university students in Malang?
- Do entrepreneurial intention has significant effect on entrepreneurial behavior among university students in Malang?

**B. Objectives**

Based on the problem statement, the problem statements of this study are:

- To analyze the effect of tax policy on entrepreneurial intention among university students in Malang
- To analyze the effect of financial access on entrepreneurial intention among university students in Malang
- To analyze the effect of tax policy on entrepreneurial behavior among university students in Malang
- To analyze the effect of financial access on entrepreneurial behavior among university students in Malang
- To analyze the effect of entrepreneurial intention on entrepreneurial behavior among university students in Malang

**III. METHODOLOGY**

Purposive sampling approach was used in this research to specify the respondent. Purposive Sampling is a sampling based on particular considerations such as population characteristics or pre-known traits [61]. The sample in this study was encompassed university students in the Brawijaya University in Malang. The major reason for using student from Brawijaya University as sample was because it is one of the big university in Malang which has development aim is becoming Entrepreneurial University to establish entrepreneur from graduate. The second reason was because some of them has start their business that are applying entrepreneurship. The questionnaires were distributed to 125 respondents who initiate the business and listed as student in Brawijaya University, Malang. The data was collected in the middle of year 2019.

The variables in this study are measured by Likert Scale with range from 1 to 5 in which 1 equal to “strongly disagree” and 7 equal to “strongly agree”. The dependent variable proposed in this study is entrepreneurial behavior. This study adapted Azjen research regarding Theory of Planned Behaviour measurement of entrepreneurial behavior namely; 1) concrete actions of running a business, 2) entrepreneurial decisions and 3) statement of support for developing existing businesses.

Furthermore, the independent variables in this study are tax policy and financial access. Tax policy is a set of guidelines or basic plans regarding taxation (mandatory levies paid by the people to the government). The tax policy questions were

adopted from [62]. This study does not adopt all the questions in Lim's research and adjusts to tax policy in Indonesia. Whereas, financial access assesses the level of ease of entrepreneurship in accessing capital or credit and the measurement for financial access adaptation from Luc [63]. While the mediating variable in this study is entrepreneurial intentions which are tendencies of desire individuals carry out entrepreneurial actions with creating new products through business opportunities and risk taking. The dependent variable of this study is entrepreneurial behavior, namely individual actions indicated by entrepreneurial decisions. The measurement of entrepreneurial intention and entrepreneurial behavior variables adopted Wijaya [64].

**IV. RESULTS AND DISCUSSION**

The hypothesis model was evaluated with Path Analysis with multiple linear regression which requires classical assumptions test. This test included normality test, heterokedasticity test, and multicollinearity test. Table 1 shows normality test for data distribution employed Kolmogorov-Smirnov as instrument to quantifying. Based on the analysis data in Kolmogorov-Smirnov known that value is 0,066 and has a significance value more than 0.05 [65], namely 0.200. It can be concluded the data were normally distributed.

TABLE I. NORMALITY TEST

		Unstandardized Residual
N		125
Normal Parameters <sup>a,b</sup>	Mean	,0000000
	Std. Deviation	,45861677
Most Extreme Differences	Absolute	,058
	Positive	,051
	Negative	-,058
Test Statistic		,058
Asymp. Sig. (2-tailed)		,200 <sup>c,d</sup>

The regression model to be good if there is not heteroscedasticity [65]. Based on the results in Table 2, it can be seen that the significant result on each variable in this research worth more than 0.05 so that it can be said that there is no heteroscedasticity in the regression model in this study.

TABLE II. HOMOKEDACITY TEST

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
1 (Constant)	,148	,304		,488	,627
Tax Policy	,076	,078	,093	,982	,328
Financial Access	,001	,058	,001	,015	,988
Entrepreneurial Intentions	-,011	,044	-,023	-,250	,803

Multicollinearity test in this study is detected using the value of Tolerance and Variance Inflation Factor (VIF). Multicollinearity demonstrated with a cut-off value of Tolerance value  $\leq 0.10$  or  $\geq 10$  VIF [65]. Result on Table 3

indicated all independent variable which has VIF value less than 10. It represents no correlation between the independent variables in this research that means no multicollinearity.

TABLE III. MULTICOLLINEARITY TEST

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Collinearity Statistics	
	B	Std. Error	Beta			Tolerance	VIF
1 (Constant)	,881	,511		1,724	,087		
Tax Policy	,263	,130	,162	2,018	,046	,923	1,083
Financial Access	,100	,098	,081	1,017	,311	,944	1,059
Entrepreneurial Intentions	,406	,074	,442	5,506	,000	,925	1,081

a. Dependent Variable: Entrepreneurial Behaviour

Path analysis was applied to analyze the proposed hypothesis in this research both direct and indirect effect. Our finding the hypothesis model which was proposed was the coefficient determination (R-squared) was 28%. Furthermore, the result in table 4 is shown tax policy has significant influence on entrepreneurial intention (H1 was supported). It is in line with the research of Obaji & Olugu [66] that government policy in which taxation aspect contribute to develop entrepreneurial intention. Policy in taxation regarding establish new kind of tax, abolition type of tax, changing the rate and tax exemption can make risk and cost in order to consider start the business.

Meanwhile, financial access did not have significant effect on entrepreneurial intention (H2 was not supported). In contrast to previous studies [58], our result is different. Increasing method to find financial access make university student do not find it as obstacle to gain intention for starting business become entrepreneur. We confirmed that policy in taxation has effect with entrepreneurial intention among university student, while financial access did not.

TABLE IV. SUB STRUCTURAL MODEL I

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
1 (Constant)	1,997	,602		3,321	,001
Tax Policy	,367	,157	,208	2,341	,021
Financial Access	,195	,119	,145	1,632	,105

a. Dependent Variable: Entrepreneurial Intentions

As can be seen in Table 5, tax policy had a significant influence toward entrepreneurial behaviour as direct relationship which lend support for H3. In addition, tax policy had significant indirect effect to entrepreneurial behaviour through entrepreneurial intention as we can see in Table 6. The policy of taxation will deliberate to feel having business and it cause the action to make real. The finding unison with extant entrepreneurship and fiscal policy in taxation study [67].

TABLE V. SUB STRUCTURAL MODEL II

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
(Constant)	,881	,511		1,724	,087
Tax Policy	,263	,130	,162	2,018	,046
Financial Access	,100	,098	,081	1,017	,311
Entrepreneurial Intentions	,406	,074	,442	5,506	,000

a. Dependent Variable: Entrepreneurial Behaviour

However, financial access did not have significant effect on entrepreneurial behaviour. Consequently, H4 was not supported. Furthermore, financial access has not indirect relationship with entrepreneurial behaviour as shown in Table 6.

TABLE VI. MEDIATION ANALYSIS

Relationship	Direct effect	Indirect effect (via Entrep. Intention)	Total effect
Tax Policy→Entrep. Intention	0.208*	-	-
Fin. Access→Entrep. Intention	0,145	-	-
Entrep. Intention→Entrep. Behaviour	0.442*	-	-
Tax Policy→Entrep. Behaviour	0.162*	0.092*	0.254*
Fin. Access→Entrep. Behaviour	0.081	0.064	0,145

Moreover, the entrepreneurial intention had role significantly as mediator between tax policy and entrepreneurial behaviour, otherwise it did not between financial access and entrepreneurial behaviour. Nevertheless, entrepreneurial intention had significant influence to entrepreneurial behaviour (H5 was supported). The result was consistent with the empirical studies [51, 63, 68] that intention impact to do action in entrepreneurship field. it can be concluding that people who have intention will eager to realise what their want to create startup.

**V. CONCLUSION**

The results of this study indicates that tax policy is an important factor that must be considered in fostering entrepreneurial interest of young people. In addition, tax policy is also a potential factor that plays a role in the process of transforming entrepreneurial intentions into entrepreneurial behavior. Therefore, the government should develop tax policies that support entrepreneurs and provide opportunities in order to create new business in the market. Financial access seems do not have influence on entrepreneurial intention and entrepreneurial behavior of young people. The absence of effect of financial access variables on entrepreneurial intention and entrepreneurial behavior is mainly because the growing number of angel investors in Indonesia who have been active in supporting the ideas of the young generation and also help them to build the ideas become a real business. Moreover, this research indicates that entrepreneurial intention has a

significant effect on entrepreneurial behavior of students in university and so this result supports Theory of Planned Behavior (TPB). This research has only been conducted in one public university that has full attention on the development of entrepreneurship in Indonesia. Therefore, this study cannot see the phenomenon of entrepreneurial intentions and student entrepreneurial behavior in other universities that do not directly declare themselves as entrepreneurial universities. Further research can be carried out at different locations

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