



Institutions and Ethnic Chinese Entrepreneurship in Indonesia

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“The more you sweat in practice, the less you bleed in battle.”
(Chinese proverb)

Abbreviations and Glossary

EO	Entrepreneurial Orientation
FL	Financial Literacy
RBV	Resource-Based View
SME	Small and Medium-sized Enterprise
Chinese <i>peranakan</i>	The descendants of old-established Chinese who are local-born, or born from mixed marriages between Chinese and Indonesians, and who speak Indonesian and the local dialect
Chinese <i>totok</i>	Migrant or foreign-born Chinese, or the immediate descendants of migrant Chinese who still speak some degree of Chinese
Cukong	A Hokkien term for a boss, in the Soeharto era it refers to a Chinese big businessman who collaborates with high-ranked government and military officials
New Order	A term for the regime under President Soeharto (1966-1998)
Old Order	A term for the regime under President Soekarno (1945-1965)
Reformation Era	Post-Soeharto era characterized by stronger democracy and liberal socio-political environment, marked by massive demonstrations against Soeharto's authoritarian regime, and followed by the resignation of Soeharto
Pribumi	A local term for native Indonesians

Preface

Since my childhood, I have been curious to find out why ethnic Chinese Indonesians are distinctive: they seem to have more expertise in business than the other ethnic groups in Indonesia. I saw the proliferation of their business presence in the city where I live (Yogyakarta) and other cities I have visited in Indonesia, in small-and-medium scale as well as big businesses. Being raised in an entrepreneurial environment, as my mother operated a business in food catering and packaged food products, I observed how the Chinese do business while interacting with them. Many times, my mother said that I should copy the Chinese way of doing business if I wanted to continue her business. The Chinese way of doing business, based on her experience with them, included maintaining the quality of products, being honest about the products (e.g. they would tell you not to buy if their products were not fresh anymore), and being flexible (Chinese shop owners tend to be flexible in price negotiation). Of course, these qualities cannot be generalized to all ethnic Chinese sellers, but they gave me some insights into how the ethnic Chinese do business.

During my business-related experiences, I observed and interacted more with the ethnic Chinese. In my part-time work as a seller in three multi-level marketing (MLM) companies, most of the high-level positions were held by ethnic Chinese, including my 'upper lines' and directors. One of my ethnic Chinese upper lines taught me how to do business in a way that differentiates Chinese from Javanese sellers in general. Some of these ways were similar to what my mother had said. However, three additional characteristics I remembered from what my upper line had taught me were thrift, using profits for reinvestment to grow the business, and only taking a small portion of the profit, so as to ensure lower prices and a quick turnover of inventory. I believe that these qualities have a great effect on ethnic Chinese business success, but is it only these qualities? I continued questioning and later on thought that this topic would be a great one to research in my doctoral study.

Ethnic Chinese business success has been a big issue in Indonesia for a long time, having caused anti-Chinese sentiment among many indigenous Indonesians. Several ethnic Chinese riots, such as those in 1963 and 1998, have occurred due to this sentiment. These riots have been greatly traumatic to ethnic Chinese Indonesians, causing many deaths, the destruction of houses and shops, the theft of valuables and commodities, and rapes of Chinese women. This trauma was the

biggest obstacle I faced in collecting data for this research. In addition, during the period of my PhD data collection, there were three big political elections in Indonesia that put the ethnic Chinese in a disadvantaged position. The first was the presidential election in 2014, when Joko Widodo (called Jokowi), formerly the governor of Jakarta, was being nominated as a strong candidate against Prabowo, a former General and son-in-law of Indonesia's former president Soeharto. In this election, anti-Chinese sentiment was used as a political commodity (through the distribution of a hoax stating that Jokowi was of ethnic Chinese descent) to dissuade voters from electing Jokowi. Yet, Jokowi won and was elected as Indonesia's president until 2019. The second political event was the election of the Jakarta governor in 2017. In this election, an ethnic Chinese - a Christian - governor Ahok, who had become the governor of Jakarta in 2014 as a replacement for the former governor Jokowi when he was elected president, was the incumbent. Meanwhile, a Moslem of Arab descent, Anis Baswedan, was the candidate. Again, anti-Chinese and additional religious issues were played out, and turned out to be successful. Not only did they defeat Ahok despite his impressive achievements during his period in office from 2014 to 2017, but some civil yet politically influenced organizations managed to put Ahok in jail for a religion-related statement he had made that was twisted. The third was another presidential election in 2019, with the same candidates as in 2014, and won by the same person. Again, in this event, the anti-Chinese issue was brought up. All of these political events, due to the high anti-Chinese tensions, significantly affected my data collection as they caused the ethnic Chinese to prefer to 'hide'. Especially in the Jakarta governor election in 2017, anti-Chinese tensions became very high, including an assault of an ethnic Chinese person, performed by a group of people on a public bus, which was put on media headlines.

As a Javanese, it was not easy for me to obtain their participation in this research. I spent a lot of time approaching them, although I had been referred to them by acquaintances. Sometimes, it took several visits involving informal conversations and product purchases to win them over, before I could really interview them. For my quantitative survey, it was even more challenging as I had to collect hundreds of informants. Furthermore, neither public data indicating the business success of the ethnic Chinese in Indonesia (i.e. quantitative data/numbers) based on certain indicators (e.g. profits, revenue, number of employees) nor data about firms owned by the ethnic Chinese are available at all. None of the economic/business-related public data available from the regional and national

government are ever based on, or classified by, ethnicity. There is no clue to this at all, even regarding the number of ethnic Chinese entrepreneurs in Indonesia. These two challenges, the ethnic Chinese's reluctance to participate and the unavailability of data on their entrepreneurial presence, represented the biggest challenges I encountered in conducting this PhD project. I had not thought about these obstacles when I decided to study ethnic Chinese entrepreneurship for my PhD. However, I decided to move on. I relied on previous literature and indicators (e.g. Forbes' Richest Indonesians list), to show the magnitude of ethnic Chinese business success in Indonesia.

The three essays included in this thesis all consisted of empirical research: two were based on qualitative data and one used mixed methods but emphasized quantitative data. The first essay discussed institutions that shape ethnic entrepreneurs' characteristics and influence their entrepreneurial endeavors. The second discussed how institutions may shape ethnic entrepreneurs' financial literacy and entrepreneurial orientation, and tested the relationships between financial literacy, entrepreneurial orientation, and firm performance. The third essay discussed institutional pressures faced by ethnic entrepreneurs and how they cope with these pressures. This thesis contributes in clarifying ethnic Chinese business success as well as adding knowledge in the intersecting fields of institutions and ethnic entrepreneurship. Personally, I hope this thesis might help to ease the anti-Chinese tension in Indonesia, as it is the entrepreneurship-supporting traits, cognitive competencies, and institutions that matter to entrepreneurial success, and not merely the quality of being Chinese. Racial hatred will not help other Indonesians to achieve these entrepreneurship-supporting qualities or business success.

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1. Introduction

This study is motivated by the relative economic success in Indonesia of the ethnic Chinese, who have outperformed their indigenous counterparts. Their superior economic performance over other ethnic groups, which is largely based on value creation from entrepreneurship, is typical in Southeast Asian countries including in Indonesia (Chuah, Hoffmann, Ramasamy, & Tan, 2016; Dana, 2001; Mackie, 1992). Despite comprising only 1.2%¹ of the total population (Statistics Indonesia, 2010), as well as facing formal and informal socio-political discrimination (Hoon, 2006; Tong, 2010), their commercial activities contribute significantly to the Indonesian economy (Ahlstrom, Chen, & Yeh, 2010). Several indicators exhibit their prevalent business activities. First, 40 out of the 50 Richest Indonesians in 2018 are ethnic Chinese, compared to 9 indigenous Indonesians and 1 ethnic Indian (Forbes, 2018). Still based on the list, among the 10 Richest Indonesians, 8 are ethnic Chinese while only 1 is an indigenous Indonesian and 1 an ethnic Indian (Forbes, 2018). Second, among the 25 largest business groups in Indonesia with thirty or more member firms, 18 groups belong to ethnic Chinese owners (Kanō, 2008). The rest are mainly run by the family of the former President Soeharto, often in cooperation with Chinese businessmen (Hays, 2015). Third, ethnic Chinese Indonesians control some 80% of Indonesia's corporate assets and their business accounts for 40-60% of total GDP (Yeung and Olds, 2000, as cited in Koning, 2007). Others have argued that ethnic Chinese control 70% of Indonesia's wealth and own 27 out of 35 Indonesia's largest private business (Hays, 2015). Fourth, they control around 60% of Indonesia's wholesale and 75% of its retail businesses (Victor, 2016). These indicators illustrate the magnitude of ethnic Chinese business domination in Indonesia. The relative success of ethnic Chinese entrepreneurs over the indigenous majority (i.e. Javanese) gives rise to the main research question of this study: *What differentiates ethnic Chinese entrepreneurs from their indigenous (Javanese) counterparts that contributes to their business success?*

Entrepreneurial activities of ethnic Chinese in Southeast Asia, as shown by their remarkable business presence in the region, have gained attention in academic discourse (Koning, 2007). Past literature has overly explained overseas Chinese

¹ Some studies have reported 2% to 5% (Mackie, 2005).

entrepreneurship through a socio-cultural approach, underlining Confucian values and emphasizing the *guanxi* networks as factors to which their success can be attributed (Ahlstrom & Wang, 2010; Tan, 2000). Another explanation has been related to the minority status of the ethnic Chinese, who are commonly subjected to discrimination and marginalization by unfriendly host countries and their indigenous majority (Folk & Jomo, 2013). This suggests the institutional environment as a possible explanation for ethnic Chinese business success (Ahlstrom et al., 2010). The various explanations and debates on the factors affecting ethnic Chinese business success suggest that this field still requires considerable study (Ahlstrom & Wang, 2010; Li & Peng, 2008). Therefore, this study is aimed at examining factors that differentiate ethnic Chinese entrepreneurs from their Javanese counterparts, and which contribute to their business success in Indonesia. In particular, this study focuses on the role of institutions in ethnic entrepreneurship in order to address the insufficient research on the link between institutions and entrepreneurship (Zahra & Wright, 2011).

Research on ethnic entrepreneurship has generally been conducted in the setting of developed countries, where the institutional environment is structured (Aliaga-Isla & Rialp, 2013). These mainstream research works examine immigrant entrepreneurs coming from less developed countries, for instance Chinese and Turkish entrepreneurs in the UK (Wang & Altinay, 2012) and Filipino entrepreneurs in the US (Johnson, Muñoz, & Alon, 2007). Less research has been conducted in emerging economies (e.g. Riddle, Hrivnak, & Nielsen, 2010; Xiaohua, 2010). For instance, according to Hapsari, Indarti, and Virgosita (2019), among 183 articles included in a systematic review of ethnic entrepreneurship, 126 studies had been conducted in developed countries, and only 25 in developing countries, while the locations of the rest were unspecified. Research is even more scarce concerning emerging economies' institutional environment and how this affects ethnic entrepreneurship. Thus, by conducting studies in an emerging economy with institutional voids, as in the case of Indonesia, this thesis contributes to the understanding of the role of institutions in ethnic entrepreneurship. Furthermore, this thesis contributes towards extending the theories on ethnic entrepreneurship by providing empirical evidence which may not exist or may be dissimilar to that in developed economies. Particularly concerning the role of institutions in ethnic entrepreneurs' endeavors in emerging economies, institutions significantly shape entrepreneurs'/firms' strategies and performance (Peng, Wang,

& Jiang, 2008). Thus, understanding institutions in relation to entrepreneurship is crucial as it can help entrepreneurs/firms determine 'how to play the game'.

Studies of ethnic entrepreneurship in developing countries are important since ethnic entrepreneurship has been acclaimed as a means to secure the economic state of ethnic group members (Chaganti & Greene, 2002) and, more importantly, contributes to the countries' economic growth. This study takes Indonesia as the research setting due to the ethnic Chinese's domination of the country's fast-growing economy despite their minority status. Indonesia's economy is growing three times faster than that of developed countries (Kiss, Danis, & Cavusgil, 2012). Yet, immature institutions in an emerging economy such as Indonesia, characterized by formal institutional voids, the importance of informal institutions, and frequent institutional change, have substantial influence on the ventures of entrepreneurs, as players in the competition (Peng et al., 2008; Rottig, 2016). Emerging economies have different institutional settings from those of developed countries (Bruton & Ahlstrom, 2003), which means the findings from developed countries should not be applied as they stand to emerging countries (Bruton, Ahlstrom, & Obloj, 2008). Given these circumstances, the context of Indonesia is an interesting one in which to study institutions and ethnic entrepreneurship, as an emerging country exhibiting a rich socio-cultural context and uncertain institutional environment.

1. 1. Research Focus

The objectives of this study are to explore factors that differentiate ethnic Chinese from indigenous Javanese entrepreneurs and discover how these factors influence their entrepreneurial activities. In examining ethnic Chinese business success, I refer to the works of Jain (2011) and Kessler and Frank (2009). In general, they argued that entrepreneurial success is determined by five aspects: (1) entrepreneurs' characteristics and competencies (e.g. risk-taking propensity); (2) resources (e.g. human capital, financial resource); (3) their business process (e.g. decision making); (4) opportunities; and (5) their environment (e.g. situational factors, social network). This research focuses on the personal aspect (i.e. by examining ethnic entrepreneurs' financial literacy and entrepreneurial orientation) and the environmental aspect (i.e. by examining institutions and institutional pressures affecting entrepreneurial activities).

This study focuses on small and medium-sized enterprises (SMEs), based on the rationale that ethnic Chinese business success, particularly in Southeast Asian countries including Indonesia, is largely dependent on the ownership of SMEs (Chuah et al., 2016). SMEs are the backbone of Indonesia's economy, representing 99.99% of all the enterprises in Indonesia (or more than 62.9 million enterprises) and providing 97% of national employment (The Ministry of Cooperatives and Small and Medium Enterprises, 2017). The Chinese entrepreneurs investigated in this study are local-born Chinese, i.e. later generations of the old-established immigrant Chinese. Local-born Chinese represent the current Chinese entrepreneurs in Indonesia (Koning, 2007), who are able to maintain the commercial success of their ancestors (Chuah et al., 2016). They are believed, to some extent, to have the entrepreneurial qualities of their ancestors (Weidenbaum & Hughes, 1996).

1. 2. Introduction to the Three Papers

This study is comprised of three papers that examine the abovementioned phenomenon from different viewpoints. The first paper, entitled *Institutions and Entrepreneurship: A Study of Ethnic Entrepreneurs in Indonesia*, explores institutional differences among ethnic Chinese and Javanese entrepreneurs and how these institutions influence their entrepreneurial efforts. The second paper, *Uncovering the Success of Minority Chinese Entrepreneurs: The Role of Financial Literacy and Entrepreneurial Orientation*, examines the levels of financial literacy (FL) and entrepreneurial orientation (EO) among ethnic Chinese and Javanese entrepreneurs, and whether FL significantly influences EO and ultimately improves firm performance. The third paper, *Entrepreneurs' Coping Strategies in Response to Illegitimate Institutional Pressures: Evidence from Indonesia*, explores illegitimate institutional pressures affecting ethnic Chinese and Javanese entrepreneurial activities and how the entrepreneurs respond to these pressures.

This thesis is organized as follows. The next section discusses an overview of research and theories in the fields of ethnic entrepreneurship and ethnic Chinese entrepreneurship. Then, I present the research context, followed by the conceptual frameworks and research methodology of the three papers. I discuss the three papers and their contributions in the following section. I conclude by discussing the implications and limitations of the studies, and future research avenues. The three papers are provided in the final part of this thesis.

2. Overview of Ethnic Chinese Entrepreneurship

2. 1. Definition

Past literature has proposed a number of definitions of entrepreneurship, yet there is no consensus on the definition of this multidimensional concept (Audretsch, Grilo, & Thurik, 2007). Schumpeter (1934) was the first scholar to highlight innovation in entrepreneurship, which he referred to as the activities of carrying out new combinations of production processes that drove dynamic economic development. In this vein, the “new combinations” depict the innovative part, referring to a new product, production method, market, or organization (Schumpeter, 1934). In his Delphi study, Gartner (1990) found that entrepreneurship was characterized by the involvement of an entrepreneur, innovation, growth, and uniqueness, the aims of which are to create value and profit. This study follows the definition by Shane & Venkataraman (2000, p. 218), who argued that entrepreneurship involved “the process of discovery, evaluation, and exploitation of opportunities and the set of individuals who discover, evaluate, and exploit them”. From this viewpoint, entrepreneurship is the interconnection of rewarding opportunities and enterprising individuals (Shane & Venkataraman, 2000).

The investigation of ethnic Chinese entrepreneurship sets this study in the field of ethnic entrepreneurship, which is often interchangeable with immigrant, overseas, and diaspora entrepreneurship. Ethnic entrepreneurship is loosely defined as business ownership by immigrant and ethnic group members (Valdez, 2008). Ethnic group members are those who are thought, by themselves or others, to have a common origin and share a common culture, and to participate in shared activities rooted in their common origin and culture (Yinger, 1994). Based on Aldrich & Waldinger (1990), ethnic entrepreneurs refer to a group of people sharing a common national background or migration experiences, who are the owners and operators of business enterprises. In relation to this, there may be a debate as to whether local-born Chinese are native or immigrants to a country. Chrysostome (2010, p. 139) argued that, albeit country of birth determines nationality, local-born descendants of immigrants are still considered immigrants - or more precisely later generations of immigrants - as cultural identity is more crucial when it concerns “the country to which an individual is attached”. However, in this study, I use the term ‘ethnic Chinese entrepreneurs’ instead of ‘immigrant Chinese entrepreneurs’ as, according to Yoon (1995), ethnic

entrepreneurship differs from immigrant entrepreneurship in terms of generational continuity. Immigrant entrepreneurship develops into ethnic entrepreneurship when the later generations of immigrant entrepreneurs continue the entrepreneurial activities as performed by their ancestors (Yoon, 1995).

As this study investigates local-born ethnic Chinese entrepreneurs, which in this case are the later generations of Chinese migrants to Indonesia, I incorporate Koning and Verver's (2013) generational view. This view argued that ethnic entrepreneurship not only concerned the first-generation (immigrant) entrepreneurs, but also the second and third (and later) generations. It is important to incorporate this view as, in the Indonesian context, the ethnic Chinese entrepreneurs currently operating are from the second and third generations (Koning, 2007). By incorporating a generational view, the social and historical context of ethnic Chinese in Indonesia is included as essential background in this study. More specifically, this occurs in Paper 2, where socio-historical background is argued to have a role in shaping the FL and EO of ethnic Chinese entrepreneurs.

2. 2. Main Theories on Ethnic Entrepreneurship

The literatures on ethnic/immigrant entrepreneurship have presented several main theories to explain why certain ethnic groups have a higher rate of entrepreneurship and a higher level of entrepreneurial success than others. These theories include the culturalist, middleman minority, ethnic enclave, blocked mobility, class and ethnic resources, neoclassic perspective, human capital approach, institutional perspective, interactive model of ethnic business development, mixed-embeddedness, and evolutionary institutionalist approach. Each theory and its challenges are described below and summarized in Table 1.

The culturalist perspective argues that some ethnic groups are more entrepreneurial than others due to their original cultural values and traditions/norms (Davidsson, 1995; Light, 1980). Scholars examining ethnic Chinese (immigrant) entrepreneurship have mainly emphasized Chinese cultural values and business practices as the key explanation for their entrepreneurial success and contribution to their host countries' economic growth (e.g. Ahlstrom et al., 2010; Ahlstrom, Young, Chan, & Bruton, 2004; Bruton, Ahlstrom, & Wan, 2003; Yeung, 1999). Confucian values are argued to influence ethnic Chinese entrepreneurship and business practices. These values refer to hard work, thrift and self-sacrifice, a harmonious and tolerant Chinese management style, the

importance of family, and reciprocal loyalty to valued employees and suppliers (Ahlstrom et al., 2010). An emphasis is put on social capital and networking (Chand & Ghorbani, 2011; Redding, 1995). However, this perspective has been criticized as defining culture in a static manner, implying that all ethnic entrepreneurs have embedded cultural dispositions regardless of time and place (Ibrahim & Galt, 2011). This ignores the possibility that later generations of immigrant entrepreneurs (i.e. the local-born generations) may have adopted the local culture, potentially shifting them away from the ‘original’ culture held by their ancestors. In addition, this perspective fails to explain the foreign-born entrepreneurs from less entrepreneurial countries who outperform local entrepreneurs in entrepreneurial countries (Light & Rosenstein, 1995).

Taking ethnic Chinese business in Southeast Asia as one of its examples, Bonacich’s (1973) *middleman minority theory* was the first to examine ethnic economy. Bonacich argued that ethnic entrepreneurs in host countries had intermediate status and concentrated on trading/commercial activities and other ‘middleman’ occupations such as rent collecting and brokering. They were sojourners, hence developing solidarity and trust among their co-ethnic fellows as well as establishing their own ethnic economy, while integrating minimally with the natives (e.g. by concentrating on ethnic-based areas such as Chinatown). This type of ethnic economy emphasizes the mobilization of co-ethnic resources to enhance business competitiveness and profitability, through cooperation (vertically and horizontally) with co-ethnic firms as well as the hiring of co-ethnic employees who accept low wages in exchange for paternalistic benefits (Model, 1992). The ethnic entrepreneurs then become settled and are able to develop more competitive and successful businesses than the natives. They develop economic power, which subsequently ignites the host society’s hostility toward them, as the natives feel they are taking over the country. Prohibition of land ownership is an example of legal discriminating rules imposed to weaken the ethnic entrepreneurs’ economic power (Bonacich, 1973). However, this theory cannot be applied to modern immigrants who develop businesses that are not based on a middleman role (Sanders & Nee, 1996).

The ethnic enclave theory continues the examination of the ethnic economy proposed in the middleman minority theory, but emphasizes the spatial concentration in which ethnic entrepreneurs operate in their own ethnic market (Model, 1992). An ethnic enclave is characterized by a considerable presence of

immigrants equipped with business experience from their homeland, usually acquiring capital and labor from their co-ethnic community, and catering exclusively to the co-ethnic market (Portes & Manning, 1986). This theory argues that the enclave economy resembles the wider economy, e.g. offering wages as high as those in the primary sector, due to the vertical and horizontal integration of enclave firms (Waldinger, 1993). However, the spatial concentration aspect has been debated as potentially increasing co-ethnic business competition and reducing wages, and moreover, a vast literature has shown that the ethnic economy can be maintained without spatial proximity (Waldinger, 1993). Furthermore, Sanders and Nee (1987) empirically found that ethnic workers in the primary economy received higher wages than their counterparts in the ethnic enclave economy.

While immigrants may be pulled into entrepreneurship due to opportunities derived from the demand for goods and services in the ethnic market (i.e. the ethnic enclave theory), they may also be pushed into entrepreneurship due to limited job opportunities (i.e. *the blocked mobility theory*) (Price & Chacko, 2009). The latter theory, also known as *the market disadvantages theory*, explains that structural barriers prevent immigrants from competing equally with natives in the job market, forcing them into entrepreneurship as their only alternative (Chrysostome, 2010; Light, 1979). These barriers include those such as racial and legal discrimination, as well as a lack of language proficiency, sufficiently high educational level or professional experience (Chrysostome, 2010). Criticisms are directed toward this theory as it cannot explain differences in entrepreneurship rates between equally disadvantaged ethnic groups (Fairlie & Meyer, 1996). Other researchers have argued that entrepreneurship is more about family or ethnic tradition than a consequence of limited job opportunities (Chrysostome, 2010).

The class and ethnic resources perspective claims that such resources facilitate entrepreneurship (Light & Bonacich, 1988). Class resources include tangible capital such as wealth and property, as well as human capital such as education, skills, work experience, and leadership capabilities; ethnic resources, meanwhile, include intangible capital such as cultural values and social capital such as trust, solidarity, and reciprocal obligations (Sanders & Nee, 1996; Valdez, 2003). Empirical evidence has shown that class and ethnic resources assist business start-ups, success, and longevity, thus explaining why some immigrant minority groups achieve economic success despite societal discrimination and

disadvantages (Sanders & Nee, 1996). However, Valdez (2003) empirically found that ‘non-entrepreneurial’ ethnic entrepreneurs (i.e. the Blacks and Mexicans) who utilized market exchange relationships (i.e. a primary form of economic integration in a market economy) outperformed those who possessed and accessed ethnic resources (i.e. Koreans). Thus, by only focusing on ethnic groups with an above-average entrepreneurial rate, this perspective fails to explain the business success of non-entrepreneurial ethnic groups which, in some cases, exceeds that of entrepreneurial ethnic groups (Valdez, 2003).

The neoclassic perspective argues that ethnic group members prefer to become entrepreneurs as they perceive entrepreneurship as yielding a higher expected present value of earnings than the wages of employment (Ibrahim & Galt, 2003; Parker, 2004). Thus, the decision to become an entrepreneur is based on the consideration of economic needs. Yet, as this perspective limits the factors behind engaging in entrepreneurship to an economic basis only, the analysis tends to rely only on a decision made at a particular point in time, ignoring the ongoing and changing process of entrepreneurship (Ibrahim & Galt, 2011).

The human capital approach argues that business ownership among immigrants/ethnic group members and their success/failure depends on human capital indicators, such as education and other factors determining productivity (Chiswick, 1983; Evans, 1989). In developed countries such as the United States, well-educated immigrants often own businesses as they have the knowledge and skills to organize and operate them, as well as access to financial resources (Sanders & Nee, 1996). However, studies have shown that differences in economic achievement between different ethnic groups still exist, even when controlling for human capital indicators (e.g. Darity Jr, Guilkey, & Winfrey, 1996). In addition, this approach overlooks the ethnic class background, as well as the socio-economic environment in which the ethnic entrepreneurs operate (Ibrahim & Galt, 2011).

The institutional perspective offers an alternative explanation for the different entrepreneurship rates among ethnic groups. This theory contends that ethnic entrepreneurship emerges due to supportive institutional structures in the host country (North, 1990; Scott, 1995). According to this theory, formal support such as government policies, value systems such as culture and norms, and cognitive structures are influential in promoting a greater rate of entrepreneurship among ethnic groups (Busenitz, Gomez, & Spencer, 2000; Kostova, 1997). In addition, within the institutional perspective, new institutional economists have

argued that institutions are crucial determinants of market efficiency for economic performance, particularly in reducing transaction costs (North, 1990). In this vein, institutional arrangements such as co-ethnic transactions provide an efficient, low-cost, yet trustworthy way to enhance ethnic entrepreneurs' business performance (Landa, 1991, as cited in Ibrahim & Galt, 2011). Nevertheless, this perspective overlooks the fact that the formal and informal institutions under which ethnic entrepreneurs operate are constantly changing (Ibrahim & Galt, 2011).

The interactive model of ethnic business development proposes that entrepreneurship rates among ethnic groups can be explained by the interaction of two elements, group characteristics and opportunity structures, which determine ethnic strategy (Waldinger, Aldrich, & Ward, 1990). Group characteristics consist of predisposing factors (e.g. blocked mobility, selective migration) and resource mobilization (e.g. ethnic social capital), while opportunity structures include market conditions (e.g. ethnic market, mainstream market) and access to business ownership (defined by government policies, among others). This model is criticized in four ways (Rath, 2002). First, it assumes the immigrants to be in the lowest position in the economic hierarchy within the population, while they can quickly change their position and hence enlarge their access to the mainstream market. Second, presuming that the ethnic group always exists, this model ignores the possibility that it may fragment or even assimilate. Third and fourth, it neglects the consideration of factors and processes in the political-economic institutions, aspects which are crucial in understanding entrepreneurship. For instance, changes in product demands, as well as regulations regarding economic activities and tight monitoring of these regulations, may shrink or increase market opportunities.

To better explain ethnic entrepreneurship, *the mixed embeddedness perspective* adds the political-institutional environment which was neglected in Waldinger's (1990) interactive model. *Mixed embeddedness* is a framework for understanding ethnic entrepreneurs' embeddedness in the socio-economic and political-institutional environment, which relates that environment to the opportunity structure in the country in which the ethnic entrepreneurs reside (Kloosterman & Rath, 2001; Kloosterman, Van Der Leun, & Rath, 1999). The concept conjoins "the micro-level of the individual entrepreneur and his/her resources" (e.g. cultural traits; human, financial, and social capital) as well as his/her societal context, on the supply side, with "the meso-level of the local opportunity structure linked to the macro-institutional framework" on the demand

side (Kloosterman, 2010, pp. 27-28). Opportunity represents the market in which institutional barriers, such as national and local rules and regulations, play a role in determining ethnic entrepreneurs' entry (Kloosterman & Rath, 2001). However, this perspective has received several criticisms. First, it is said to be too static and to take it for granted that ethnic/immigrant entrepreneurs are different from their indigenous counterparts (Kloosterman & Rath, 2018). Second, it lacks clarity that makes it difficult to operationalize (Razin, 2002). Third, it fails to explain the extensive inter-ethnic variation in entrepreneurial concentration among immigrant groups in host countries, due to its focus on the lower-end market and lack of historical perspective (Peters, 2002). As it was developed to explain the lower-end market, it should not be generalized to other sectors. Furthermore, the lack of historical perspective precludes it from portraying the gradual development of entrepreneurship within an ethnic group.

The evolutionary institutionalist approach is more holistic. It explains that entrepreneurship and the decision-making involved is influenced by habit, custom, and tradition, and is supported or constrained by formal and informal institutions (Assudani, 2009). In particular, this perspective emphasizes the evolutionary process and path-dependence that may cause changes in habits as a consequence of external factors (e.g. institutional environment) as well as internal factors (e.g. individual development) (Ibrahim & Galt, 2011). In this vein, the decision of ethnic group members to engage in entrepreneurship depends on the extent to which they adapt to the host country's institutional environment (Ibrahim & Galt, 2011). Thus, it takes into account, for example, changes in the entrepreneurial behavior of second and third generations of ethnic/immigrant groups. However, although the later generations pursue a different entrepreneurial trajectory, their ancestors' path guides their evolutionary behavior amidst a changing institutional environment (Masurel and Nijkamp, 2004, as cited in Ibrahim & Galt, 2011). By incorporating both endogenous and exogenous factors, this theory argues that examining the interconnection of historical, economic, and cultural factors which underline an ethnic group's socio-economic context is important for understanding the ethnic group's representation in entrepreneurship (Ibrahim & Galt, 2011).

Table 1. Main Theories in Ethnic Entrepreneurship

Theory	Theoretical Argument	Limitations and Challenges
Culturalist (Davidsson, 1995; Light, 1980)	Some ethnic groups are more entrepreneurial than others due to their cultural values and traditions/norms.	(1) Implies that all ethnic entrepreneurs have embedded cultural dispositions regardless of time and place; (2) ignores that later generations of immigrant entrepreneurs may be shifted from the ‘original’ culture; (3) fails to explain foreign-born entrepreneurs from less entrepreneurial countries who outperform local entrepreneurs in entrepreneurial countries.
Middleman minority (Bonacich, 1973)	Ethnic/immigrant entrepreneurs were initially sojourners with middleman roles in host countries, who then established an ethnic economy in an ethnic segregated area, emphasizing co-ethnic resources to develop business competitiveness and success.	Not applicable to modern immigrants who develop businesses that are not based on a middleman role.
Ethnic enclave (Portes & Manning, 1986)	The enclave economy, characterized by a spatial concentration whereby ethnic entrepreneurs operate in their own ethnic	(1) Ethnic economy can be maintained without spatial proximity; (2) empirical study found that ethnic workers in the primary

	market, resembles the wider economy in that it offers as much reward as the primary sector.	economy received higher wages than their counterparts in the ethnic-enclave economy.
Blocked mobility/market disadvantages (Light, 1979)	Structural barriers (e.g. racial and legal discrimination, lack of language proficiency, educational level, etc.) prevent immigrants from participating in the job market, thus forcing them into entrepreneurship.	(1) It cannot explain differences in entrepreneurship rates between equally disadvantaged ethnic groups; (2) entrepreneurship is more about family or ethnic tradition than a consequence of limited job opportunities.
Class and ethnic resources (Light & Bonacich, 1988)	Class and ethnic resources facilitate business start-ups, success, and longevity, thus explaining why some immigrant minority groups achieve economic success despite societal discrimination and disadvantages.	Fails to explain the business success of non-entrepreneurial ethnic groups which in some cases exceeds that of entrepreneurial ethnic groups.
Neoclassic (Ibrahim & Galt, 2003)	Ethnic group members' intentions to become entrepreneurs are based on the consideration of economic needs, i.e. whether entrepreneurship is perceived to provide higher earnings than employment.	Restricts analysis to an economic basis, ignoring the role of the dynamics of internal and external factors in the decision to become an entrepreneur.
Human capital (Chiswick,	Business ownership among immigrants/ethnic group	(1) Studies have shown that differences in economic

1983; Evans, 1989)	members and their success/failure depends on human capital indicators.	achievement between different ethnic groups still exist, even when controlling for human capital indicators; (2) overlooks ethnic class background and the socio-economic environment in which ethnic entrepreneurs operate.
Institutionalist perspective (North, 1990; Scott, 1995)	Institutional structures are crucial for supporting entrepreneurship among ethnic groups and determining market efficiency for ethnic entrepreneurs' business performance.	Overlooks that the formal and informal institutions under which ethnic entrepreneurs operate are constantly changing.
Interactive model of ethnic business development (Waldinger et al., 1990)	Ethnic entrepreneurship is the interaction of two elements: group characteristics (consist of predisposing factors and resource mobilization) and opportunity structures (consist of market conditions and access to business ownership), which determine ethnic strategy.	(1) Ignores the possibility that immigrants can achieve upward mobility and hence improve their access to the mainstream market; (2) ignores that an ethnic group may fragment or assimilate; (3) neglects to consider factors and processes in the political-economic institutions.
Mixed embeddedness (Kloosterman & Rath, 2001;	Ethnic entrepreneurship is an interaction of a supply side (i.e. the entrepreneur with his/her resources and	(1) Too static and takes for granted that ethnic/immigrant entrepreneurs are different from their indigenous

Kloosterman et al., 1999; Kloosterman, 2010)	societal context) and a demand side (i.e. local opportunity structure linked to institutional environment) in the country in which they reside.	counterparts; (2) lack of clarity, hence difficult to operationalize; (3) fails to explain the extensive inter-ethnic variation in entrepreneurial concentration among immigrant groups in host countries.
Evolutionary institutionalist approach (Assudani, 2009; Ibrahim & Galt, 2011)	Entrepreneurship is influenced by habit, custom, and tradition, and supported/constrained by formal and informal institutions, all of which may evolve.	-

2. 3. Studies on Ethnic Chinese Entrepreneurship in Indonesia

Ethnic Chinese business are often argued as bringing significant economic growth in Southeast Asian countries, including Indonesia (e.g. Bruton, Ahlstrom, & Li, 2010; Chuah et al., 2016; Koning, 2007). Ethnic Chinese business success in Southeast Asian countries is largely based on the ownership of SMEs (Chuah et al., 2016), which, for example, contribute 60% of Indonesia’s total GDP (The Ministry of Cooperatives and Small and Medium Enterprises, 2017). Their strong economic presence was originally developed through the creation of family businesses, largely reliant on hard work, entrepreneurship and perseverance as they confronted prejudice, discrimination, and very limited assistance from the governments of the host countries. From there, the businesses later developed into modern private businesses and were further internationalized via family ties (Weidenbaum & Hughes, 1996). Nevertheless, the factors facilitating ethnic Chinese success remain unclear (Chua, 2008). To address this, two streams of explanation, i.e. cultural and structural perspectives, have been provided by scholars examining Chinese business success in Indonesia (Chua, 2008). The culturalists believe that Chinese cultural values, which impact business behavior,

explain ethnic Chinese entrepreneurial success. Empirical evidence has shown that culture significantly affects entrepreneurial behavior (e.g. Hayton, George, & Zahra, 2002; Wennberg, Pathak, & Autio, 2013; Wennekers, Thurik, van Stel, & Noorderhaven, 2010). However, culture alone is not a direct cause of ethnic Chinese business success, though it may mediate business performance through other variables (Ahlstrom et al, 2010). Furthermore, this perspective fails to recognize the divisions in Chinese society in the Indonesian context, e.g. by categorizing both Chinese big businessmen and SME owners as one society, termed ‘minority Chinese’ (Chua, 2008). On the other side, structuralists believe that it is the presence of Chinese conglomerates, building partnerships with politico-bureaucrats and developing corporate families, that has facilitated Chinese business success in Indonesia (Chua, 2008). However, this perspective fails to regard ethnicity and its impact on Chinese vulnerability in socio-political life. That is, it cannot explain why the Chinese are socio-politically weak despite their economic strength.

Despite the distinctive values and behaviors that separate the ethnic Chinese from other ethnic groups in Southeast Asia (Redding, 1990), the cultural perspective is argued to insufficiently explain ethnic Chinese entrepreneurial success (Chan, 2015; Yin, 2003) as is the structural perspective. Contextual factors in the host country, as discussed in the previous sub-section, are important elements to include in the examination of ethnic (Chinese) entrepreneurship, adding to a holistic view of the phenomenon. In line with some studies of the ethnic Chinese in Southeast Asia that have incorporated the institutional aspect in their analysis (e.g. Verver & Dahles, 2013), this study takes institutions as the foci and shows how they influence entrepreneurial cognition, behavior, and strategy.

3. Research Context

3.1. Ethnicity and Entrepreneurship in Indonesia

Indonesia is a multi-ethnic country with more than 633 ethnic categories, comprising 1331 sub-ethnicities speaking different folk languages (Statistics Indonesia, 2010). Among these categories, three ethnicities are of non-indigenous descent, i.e. Chinese, Arab, and Indian, of which the Chinese represent the biggest population share, at 1.2% compared to 0.04% for Arabs and 0.006% for Indians (Ananta, Arifin, & Bakhtiar, 2008). The Indians mainly worked on plantations as

blue-collar workers during the Dutch colonization period, while the Arabs were, similarly to the Chinese, “middlemen minorities” (Ananta et al., 2008). The tiny populations of Indians and Arabs, compared to the Chinese, made them politically insufficient to provoke social sentiment against them as ethnic groups (as happened with the Chinese), although the Arabs shared similar economic roles to the Chinese (Coppel, 2002). Moreover, the Arabs were mainly Moslems (98%) and tended to live in the areas around mosques (primarily on the Java and Madura islands), while the Chinese were mainly Buddhists (54%) and lived in exclusively Chinese areas, such that the Arabs were more easily accepted by the Indonesian Moslem majority (Ananta et al., 2008; Coppel, 2008). As for the Indians, they were classified into three groups: the blue collars (who came during the Dutch colonial era), the traders (who came both before and after the colonial era), and the investors (who came after the colonial era), most of whom were Hindus (40%) and Moslems (29.9%) (Mani, 2008). After the colonial period, they were mainly concentrated in the commercial sector, especially the textile industry, and predominantly lived in North Sumatera (64%) and Jakarta (11%) (Mani, 2008).

In terms of its history, Indonesia was colonized by the Dutch East India Company (*Vereenigde Oost-Indische Compagnie-VOC*) and the Netherlands for 343 years. After that, the Japanese took the lead for three and a half years. Having its independence in 1945, Indonesia was then led by President Soekarno for 22 years (1945-1967) in the *Old Order Era*. In this era, the government implemented the *Benteng* policy, which was an affirmative policy that favored indigenous entrepreneurs. This policy was aimed at protecting and developing indigenous entrepreneurship, while suppressing non-indigenous (especially Chinese) business competitiveness, through import licenses, foreign exchange allocations, and soft loans granted only to indigenous entrepreneurs (Muhaimin, 1991). The import trading license, for example, was only available for firms at least 70% of whose equity was owned by indigenous Indonesians (the so-called “*pribumi*”). However, this policy did not consider the limited entrepreneurial capabilities of indigenous entrepreneurs, which at that time were still lacking (Noertika, 2015). This generated the mushrooming of *Ali-Baba* enterprises, a term that referred to enterprises owned by ethnic Chinese traders (the *Baba*) but using indigenous people (the *Ali*) as front men to obtain the license and respective privileges. Consequently, up to 90% of licenses were sold to non-indigenous traders, who were mainly of ethnic Chinese descent (Lindblad, 2004). This led to stricter

prerequisites being implemented for the privileges, which sharpened the distinction between indigenous and non-indigenous traders. Not only did non-indigenous traders have to make deposits ten times higher than indigenous ones, but all business partners in the enterprise had to be Indonesian citizens and to have been born in Indonesia, as did the applicant's parents (Lindblad, 2004). Although full implementation of these prerequisites was not carried out due to rampant corruption, they do demonstrate the anti-Chinese sentiments that prevailed during the *Old Order Era*. Furthermore, a ban on retail trading in rural areas against the ethnic Chinese, legalized in Presidential Regulation no. 10 in the year 1959, made the discrimination more explicit and contributed to putting the ethnic Chinese at their lowest point in terms of new business formation vis-à-vis the significant growth of Javanese entrepreneurs (Lindblad, 2004). Discrimination towards and marginalization of the ethnic Chinese was expanded further during the 32 years of President Soeharto's *New Order* authoritarian regime (more details of which are provided in the next sub-section). Soeharto's fall in 1998 marked the beginning of the *Reformation Era*, in which democracy was strengthened, as indicated by a direct presidential election, a regional autonomy program, and the revocation of discriminative regulations against the ethnic Chinese.

SMEs constitute 99.9% of all enterprises in Indonesia, with 62.9 million of them, as compared to 5.4 million big enterprises (The Ministry of Cooperatives and Small and Medium Enterprises, 2017). Despite the aforementioned substantial contribution of SMEs to Indonesia's economy in terms of national employment and GDP, entrepreneurs only comprise 0.24% of the country's population (Bellefleur, Murad, & Tangkau, 2012). To deal with this issue, the government has implemented some entrepreneurship development programs, yet the majority of studies have suggested that the effectiveness of these programs is low (Tambunan, 2007). Among the obstacles still in place are difficulties with the business license and taxation systems, as well as corruption, all of which have led to 36.9% of SMEs remaining unregistered (Bellefleur et al., 2012; OECD, 2018). These drawbacks contribute to Indonesia's relatively low rank at 73rd in the World Bank's Ease of Doing Business (World Bank, 2019).

This study was conducted in the cities of Yogyakarta and Solo, located in Central Java province. Central Java is among the three provinces (along with West Java and East Java) in which are situated 50% of all of the enterprises, including SMEs and big enterprises, in Indonesia (Statistics Indonesia, 2016). Yogyakarta

and Solo are among the four economic centers of Central Java province (Lindblad, 2004). Populated with 33 million people, Central Java represents the heart of Javanese culture, with Yogyakarta and Solo representing the centre of the Javanese kingdom that still exists today. In Central Java, the ethnic Javanese represent almost 98%, while the ethnic Chinese represent 0.43%, of the total population (Statistics Indonesia, 2010). Central Java has a vibrant entrepreneurial scene among both the Javanese and Chinese ethnic groups, with the ethnic Chinese (or so-called Chinese Indonesians) representing a significant minority ethnic group compared to others of non-indigenous descent.

3. 2. The Ethnic Chinese in Indonesia

The majority of the ethnic Chinese in Indonesia (93.31% or around 2.6 million of them) reside in urban areas, while the rest live in rural areas (Statistics Indonesia, 2010). The regions with the biggest ethnic Chinese populations in Indonesia are Jakarta (20.17%), West Kalimantan (14.90%), North Sumatra (14.66%), Riau (8.10%), East Java (7.92%), Central Java (6.86%), and West Java (6.77%) (Ananta et al., 2008). The ethnic Chinese in Indonesia are not a homogeneous group. There are four sub-ethnicities of Chinese living in Indonesia: Hokkien, Teochiu, Hakka, and Cantonese. Furthermore, scholars have classified the ethnic Chinese in Indonesia into two groups: the *totoks* (which means ‘pure blood’ in Indonesian) and the *peranakans* (Coppel, 2002; Suryadinata, 2008). *Totok* refers to the migrant/foreign-born Chinese, or the immediate descendants of migrant Chinese, who still speak some degree of Chinese. *Peranakan* refers to the descendants of old-established Chinese who are local-born, or those born from mixed marriages between Chinese and Indonesians, who speak Indonesian and local dialect.

The Chinese have been migrating to Indonesia since the 15th century, long before the Dutch colonization, with trade as the main motivation (Chua, 2008). Their presence did not create any problems, as they were easily assimilated into the local communities and welcomed as intermediaries between indigenous people and foreign markets, until the Dutch came to colonize Indonesia in 1602 (Chua, 2008; Lembong, 2008). The Dutch divided the population into three racial groups: Europeans (mainly Dutch), foreign Orientals (Chinese, Indians, Arabs), and indigenous people, with the indigenous having the lowest status and economic roles among the three groups (Winarta, 2008). The Chinese were given a role in

intermediary trade, while the indigenous were obliged to serve the Dutch as employees, farmers, and small domestic traders (Lembong, 2008). The Dutch also introduced a ‘divide and conquer’ policy that sought to drive a wedge between the Chinese and the indigenous Indonesians by encouraging Chinese exclusivity as well as publicizing the idea that the Chinese supported Dutch colonial rule and resisted Indonesian independence (Chua, 2008; Lembong, 2008; Winarta, 2008). These events provoked hatred among indigenous people against the ethnic Chinese. Moreover, during the Japanese colonization, some Chinese were used in espionage, which augmented the hatred (Winarta, 2008). All of these occurrences triggered formal and informal discrimination regarding socio-politico-cultural aspects of the ethnic Chinese’s lives in Indonesia in later periods.

Following Indonesia’s independence in 1945, the discrimination against the ethnic Chinese started. As the ethnic Chinese were seen as dominating the economic sector (while the indigenous population dominated the political sector), affirmative policies were created to promote the economic representation of indigenous people from President Soekarno’s era onwards. One example was the subsidy on, and distribution of, cloth in the batik² industry, rights to which were exclusively given to indigenous entrepreneurs (Papanek, 2006). With this restriction, the ethnic Chinese had to struggle, in many cases by using bribes or political connections, to obtain clothes. Another discriminating rule was legally stated in Presidential Regulation no. 10 of the year 1959, prohibiting the ethnic Chinese from doing business in rural areas, and requiring them to either transfer their businesses to indigenous Indonesians or relocate to urban areas (Winarta, 2008).

In Soeharto’s New Order Era, the discrimination increased still further. The government officially classified citizens as either “*pribumi*” (indigenous) or “*non-pribumi*” (non-indigenous), the latter primarily referring to the ethnic Chinese. Furthermore, at least 64 discriminating regulations against the Chinese were imposed, some of which were related to the prohibition of Chinese culture and Chinese names, enrollment in state-owned universities, and participation in public employment (Tong, 2010). On the other hand, the ethnic Chinese were given the

² Batik is a traditional cloth-making technique in which wax-resistant dyeing is applied to the whole cloth, that originated in Indonesia. The patterns on the cloth were made by writing, using a *canting* (a pen-like tool), or by stamping using a *cap* (another tool).

opportunity to develop their entrepreneurial efforts. Some ethnic Chinese tycoons even had the privilege of special access to resources, in exchange for bribes and rents paid to Soeharto's family and political circles (Chua, 2008; Turner & Allen, 2007). By focusing on entrepreneurship as a consequence of the legal discrimination, the ethnic Chinese developed economic strength in the country (Tan, 2001), which subsequently sparked jealousy among the indigenous people. This anti-Chinese sentiment led to several anti-Chinese riots, reaching a peak in May 1998, when ethnic Chinese houses and businesses were looted and destroyed (Hoon, 2006). Following this, in the Reformation Era, all discriminating regulations against the ethnic Chinese were abolished. Yet, some discriminatory treatment persists today. For instance, the ethnic Chinese are forbidden to hold property deeds in specific regions of Indonesia as they are regarded as 'non-natives' (Yuniar, 2018). There is also inequality in socio-political and administrative aspects, such as in passport bureaucracy, and as seen in the confrontations towards the Chinese-descended former governor of Jakarta province, Basuki Tjahaja Purnama (or Ahok), which led to his imprisonment (Hutton, 2018).

3. 3. The Ethnic Javanese in Indonesia

The ethnic Javanese constitute the majority of the population in Indonesia, accounting for 40.2% of the total population. The Javanese dominate Indonesian politics, both at the national and regional levels. To illustrate, six out of the seven presidents of Indonesia have been of ethnic Javanese descent. Javanese culture is highly stratified, with society classified into three classes: the *wong cilik* (low-income people), the *priyayi* (officials and intellectuals), and the *ndara* (aristocrats/royal families) (Hitchcock, 2000). The *priyayis* dominate Indonesian bureaucracy and the strategic sectors in Indonesia, thus rendering Javanese cultural values influential in the country's cultural, political, and economic life (Goodfellow, 1997, as cited in Irawanto, Ramsey, & Ryan, 2011, p. 357). With their domination of the population, as well as cultural-political-economic aspects, the Javanese play a major role in setting the business-institutional environment (Hitchcock, 2000).

However, Javanese culture itself is not so supportive of entrepreneurship (Raillon, 1991). Javanese values place emphasis on charity (Woodward, 1988), which may undermine their profit-seeking behavior. Javanese people prefer to

share resources rather than contend for them, and they cherish leisure and social obligations highly (Alexander & Alexander, 1991). Furthermore, the Javanese high-distance culture causes an unwillingness to ask questions and confront others (especially superiors) (Hitchcock, 2000), while being assertive and proactive is necessary in conducting business. These non-entrepreneurial cultural values are, to some extent, rooted in history. In the past, high-level Javanese people (i.e. the *priyayis* and *ndaras*), who were looked up to as role models in Javanese society, did not have a high regard for entrepreneurial activities (Mann, 1994, as cited in Hitchcock, 2000). In addition, during the Dutch colonization era, the Javanese indigenous people were given roles mainly as farmers and employees serving the Dutch, with the exception of the royal families who were given leadership roles in the bureaucracy (e.g. governor, mayor). Their participation in entrepreneurial activities was restricted, as they were prohibited from trading outside of their village area, leaving them with only small-scale trading activities (Alexander & Alexander, 1991). These cultural and historical features have shaped Javanese people's lack of admiration for entrepreneurship, as well as their career preferences for being employees (especially public officials) rather than entrepreneurs (Simandjuntak, 2006). They are also less competitive than the ethnic Chinese, having been pampered by the government's affirmative policies and privileges aimed at promoting their economic roles (Papanek, 2006). All of these factors may contribute toward Javanese entrepreneurial inferiority to the Chinese.

4. Conceptual Frameworks

In order to explain the role of institutions in ethnic Chinese entrepreneurship, this research employs a variety of concepts/perspectives. Scott's (2013) institutional theory is used as the main theory of Paper 1, through the application of regulative, normative, and cultural-cognitive pillars as a framework to analyze the findings. In addition, I use Scott's concept of institutional carriers to explain how institutions are transmitted and maintained in the society (in this case, ethnic Chinese and Javanese society). According to this concept, institutions are transmitted and maintained through symbols, relational systems, and activities.

Informal institutions can be transmitted intergenerationally, such as through cultural values. In the case of the ethnic Chinese, Confucian values have been strongly argued as promoting entrepreneurship (Ahlstrom et al., 2010). These values are upheld and transmitted through generations of overseas Chinese,

regardless of where they live (Bruton et al., 2003). The ethnic Chinese in Indonesia, who were formerly immigrants, came to Indonesia for trading purposes and established lives by means of entrepreneurship. As they were institutionally restricted from working in the public sectors, they were pushed into being entrepreneurs, advancing their entrepreneurial skills even more. These entrepreneurial values and skills were bequeathed over generations to their successors. This argument provides the grounds for the first two hypotheses in Paper 2 (i.e. that the FL and EO of the ethnic Chinese are higher than those of the Javanese). As a foundation of this argument, the intergenerational transmission perspective (Wyrwich, 2015) is employed. Based on this perspective, entrepreneurial values, orientation, and tangible-intangible resources can be transmitted over generations through parenting practices and exposure within the family (Dohmen, Falk, Huffman, & Sunde, 2012; Wyrwich, 2015).

Furthermore, a combination of the cross-cultural cognitive perspective (Busenitz & Lau, 1996) and the resource-based view (RBV) (Barney, 1991; Wiklund & Shepherd, 2003) is employed to provide a basis for the rest of the hypotheses in Paper 2. The other two hypotheses suggest positive relationships between FL (cognitive aspect) and EO (behavioral aspect), as well as between EO and SME performance. As the cross-cultural cognitive perspective only provides a basis for the relationship between FL and EO, RBV was added to explain the link between EO and SME performance.

Finally, the concept of formal and informal institutional voids (Mair & Marti, 2009; Webb, Khoury, & Hitt, 2019) is used in Paper 3 to explain the source of illegitimate institutional pressures. In addition, I review the concepts of corruption and extortion to provide definitions and boundaries of the respective illegitimate pressures. Findings on entrepreneurs' coping strategies are compared with Oliver's (1991) strategic responses to institutional processes in order to identify any new strategies that emerge. However, the use of Oliver's framework is rather limited in this study.

Table 2. Conceptual Frameworks Applied in this Study

Conceptual Framework	Theoretical Argument	Application in this Study
Institutional theory (Scott, 2013)	Institutions consist of regulative, normative, and cultural-cognitive pillars which provide stability and meaning to social life. Institutions are transmitted through four carriers: the symbolic system, relational system, activities, and artifacts.	Paper 1: as a framework for exploring institutions that influence ethnic Chinese and Javanese entrepreneurial activities, and how these institutions are transmitted.
Intergenerational transmission of entrepreneurial values (Dohmen et al., 2012; Sørensen, 2007; Wyrwich, 2015)	Entrepreneurial values, orientation, and tangible-intangible resources can be transmitted over generations through parenting practices and exposure in the family.	Paper 2: to explain that the ethnic Chinese have higher levels of financial literacy (FL) and entrepreneurial orientation (EO) than the Javanese (hypotheses 1 and 2)
Cross-cultural cognitive (Busenitz & Lau, 1996)	Cultural values, social context, and personal characteristics affect individual cognition and subsequently business venture creation.	Paper 2: to explain that different ethnic groups may have different levels of cognition (FL) and venture creation (EO); to explain that FL influences EO.
Resource-based view (Barney, 1991; Kellermanns, Walter, Crook, Kemmerer, & Narayanan, 2016; Wiklund & Shepherd, 2003)	Firms achieve a competitive advantage through a unique, valuable, inimitable bundle of resources (among which are knowledge-based resources). Firms with knowledge-based resources have a higher EO, thus better firm performance.	Paper 2: to explain that EO influences SME performance.

Institutional voids (Mair & Marti, 2009; Webb et al., 2019)	Institutional voids occur when institutional arrangements in a given environment are weak, scanty, or absent, and hence fail to support markets.	Paper 3: to explain the cause of illegitimate institutions.
Strategic responses to institutional processes (Oliver, 1991)	Strategic responses to institutional pressures consist of acquiescence, compromise, avoidance, defiance, and manipulation.	Paper 3: to compare the findings (entrepreneurs' coping strategies) and identify those that have not been found before.

5. Methodology

5. 1. Philosophical Stance

To determine a philosophical perspective, researchers need to define the nature of science, which is classified into subjective (constructivist) and objective (positivist) paradigms (Holden & Lynch, 2004). These paradigms consequently determine the ontological and epistemological assumptions, and finally the methodological approach the researchers use. Ontology refers to the nature of reality, thus concerns the researcher's view of reality. Epistemology refers to "the nature of knowledge, what constitutes valid knowledge, what can be known and who can be a knower" (Ryan, 2006, p. 15). Methodology is the tool, which equips the researcher to investigate the phenomenon.

Between the two poles of positivism and constructivism in the continuum of philosophical paradigms (Guba, 1990), this thesis follows a post-positivism paradigm. Ontologically, post-positivists assume that reality exists but cannot fully be captured. Epistemologically, post-positivists believe that objectivity can only be approximated. In post-positivism, truth is investigated through interpretive discourse with informants, a process that implies the exploratory nature of the paradigm that may subsequently lead to problem discovery (Ryan, 2006). This process is applied in this study, in such a way that the findings of Paper 1 lead to the discovery of the problem investigated in Paper 3. Methodologically, post-positivists demand the use of multiple research methods and data sources (Guba, 1990). The studies included in this thesis employed both qualitative and quantitative methods to seek the 'truth'.

5. 2. Research Design

The general objective of this thesis is to contribute to the knowledge of the link between institutions and ethnic Chinese entrepreneurship in Indonesia. This phenomenon can be investigated using multiple levels of analysis: from the micro- (i.e. individual and firm), to the meso- (e.g. industry), to the macro-level (e.g. society). The articles in this thesis focus on the micro-level of analysis by investigating entrepreneurs and their SMEs as the units of analysis. The first and third papers focus on individual entrepreneurs, in order to explore how institutions influence individuals' entrepreneurial efforts (Papers 1 and 3) and how they respond to institutions (Paper 3). The second paper focuses on the individual entrepreneurs and their firms/SMEs, examining the influence of the individual's FL on the firm's EO, which ultimately leads to the firm's performance. This multi-level analysis was applied under the assumption that an entrepreneur's FL influences his/her orientation towards entrepreneurial decision-making and his/her behavior as exhibited in his/her firm's EO, which ultimately affects the firm's performance. Such analysis is justified based on the argument that "firms' behavior is to some extent the product of its individual members' behavior and orientations" (Rauch et al. in Basso, Fayolle, & Bouchard, 2009, p. 708). In SMEs, firms' behavior and orientation are highly influenced by their owners' behavior and orientation.

Data were collected through purposive sampling and snowball sampling techniques. Informants were identified through a list of business licenses acquired from the regional government office and the membership lists of trade associations. In addition, I leveraged my own entrepreneur networks, as well as research assistants' and informants' networks. Snowball sampling was employed as ethnicity is a very sensitive issue for the ethnic Chinese in Indonesia. They are often reluctant to reveal their Chinese identity and any information related to their businesses due to old-established marginalization and anti-Chinese sentiments. Furthermore, snowball sampling was seen as a necessary way to obtain informants' trust and willingness to participate in the research. Given the business circumstances in Indonesia, lack of trust was an essential issue that needed to be addressed. I had experienced refusals to participate from target informants (especially of ethnic Chinese descent) when I came to them without any references from acquaintances. In this situation, snowball sampling was selected as a more

feasible technique for collecting the data, particularly among the ethnic Chinese informants.

The first study aims to explore the role of institutions in ethnic Chinese and Javanese entrepreneurship, and how these institutions differ among the two ethnic groups. Therefore, a qualitative study using an empirical-transcendental phenomenological approach was employed to get a sense of “what was actually happening”, as this approach emphasizes the description of informants’ experiences rather than the interpretations of the researcher (Creswell, 2007). Semi-structured, face-to-face in-depth interviews with 16 informants, with a balanced proportion of ethnic Chinese and Javanese entrepreneurs (eight from each ethnic group), were conducted to obtain the data. Open-ended questions adapted from Busenitz et al.’s (2000) country institutional profiles and Gnyawali and Fogels’ (1994) framework for an entrepreneurial environment were used to guide the interviews. Contact with the informants was maintained to enable an iterative process during data collection. Secondary data such as archival materials were used to achieve data triangulation. These materials were obtained from informants and online newspapers. The data were then analyzed by clustering the significant statements into themes according to Scott’s institutional pillars (regulative, normative, and cultural-cognitive) and institutional carriers frameworks.

The second study aims to test the levels of FL and EO of ethnic Chinese and Javanese entrepreneurs/SMEs, as well as the relationships between FL, EO, and firm/SME performance. This study employed a mixed-method strategy, with an emphasis on the quantitative method. The qualitative method was used only to clarify the findings in Paper 2. A combination of purposive and snowball sampling techniques was employed, using criteria such as ethnicity (only including those who identified themselves as pure Javanese or pure Chinese), type of firm ownership (only including independently owned SMEs), and firm size (only including those with 2 to 500 employees). Data were collected through face-to-face and online surveys, yielding a total of 328 valid responses, obtained from 166 Javanese and 162 Chinese respondents. It is important to note that data on the number of entrepreneurs based on ethnicity are not available in any public database. Thus, the population of ethnic Chinese entrepreneurs in Indonesia is unknown. However, the population of entrepreneurs in Indonesia is known to be 0.24% of the total population (or 650,400 entrepreneurs).

The response rate of this study (Paper 2) was 89.6%. Research assistants of similar ethnicity (e.g. Chinese assistants for Chinese respondents) were employed to create trust and increase the response rate. A list of SMEs with basic business licenses obtained from the regional government office was used as the starting point for collecting the data. However, this list did not provide any information about the ethnicity of the SME owners (and nor did other entrepreneurship-related data). Thus, it was not particularly efficient for obtaining the targeted respondents (especially the Chinese ones). Therefore, among the other strategies used to find Chinese respondents, the researcher approached a community (i.e. Rotaract club) with a large number of Chinese entrepreneurs as members. Access to this community was obtained through a Chinese person in my network. Some data from Chinese respondents were collected after I presented the research objective at a meeting and got involved in some of the community's activities.

In the second study, three variables were measured: FL, EO, and firm/SME performance. FL was measured using the scale from Lusardi and Mitchell (2014). EO was measured using Coven and Slevin's (1989) scale, which consists of three dimensions: innovativeness, proactiveness, and risk-taking. Firm performance was measured using the scale from Runyan, Droge, and Swinney (2008). Data were then processed by means of an independent t-test using SPSS version 21 (for hypotheses 1 and 2) and Hayes' regression-based approach using PROCESS Macro for SPSS version 3.3 (for hypotheses 3 and 4).

The third study is aimed at exploring the illegitimate institutional pressures that confront ethnic Chinese and Javanese entrepreneurs, and how they are coped with. This study relies on in-depth interviews with 19 informants and an additional four interviews with industry experts as the primary source of data. Of the 19 informants, 15 were also informants for Paper 1. Follow-up interviews were conducted with the informants for factual verification purposes. The interviews with industry experts and articles from the media were used to achieve data triangulation. The data were then analyzed using qualitative content analysis (Schreier, 2012). In this phase, differences in illegitimate institutions and coping strategies between ethnic Chinese and Javanese entrepreneurs were identified. Table 3 provides a summary of the methods used in the three papers.

Table 3. Summary of Research Methods

Study	Variables/Aspects of Study	Method	Dataset	Analytic Method
Paper 1	Regulative, normative, and cultural cognitive institutions	Qualitative, in-depth interviews	16 entrepreneurs (8 Chinese, 8 Javanese)	Content analysis
Paper 2	Financial literacy (independent variable), entrepreneurial orientation (mediating variable), firm performance (dependent variable)	Mixed method, with emphasis on quantitative	328 entrepreneurs/firms (162 Chinese, 166 Javanese)	Independent sample t-test using SPSS (H1 and H2) and Hayes' regression-based approach using PROCESS Macro for SPSS (H3 and H4)
Paper 3	Illegitimate institutions; strategies for coping with illegitimate institutions	Qualitative, in-depth interviews	19 entrepreneurs (9 Chinese, 10 Javanese) + 4 experts (2 Chinese, 2 Javanese)	Content analysis

6. Overview of the Three Papers and Research Contributions

This thesis consists of three papers which uncover some differences between the ethnic Chinese and Javanese in terms of their entrepreneurial endeavors. In this section, each paper is presented, with a focus on the phenomena investigated, methods used, findings, and research contributions. This section concludes with an account of the overall contribution of the thesis and a table summarizing all three papers.

6. 1. Paper 1

This study, entitled *Institutions and Entrepreneurship: A Study of Ethnic Entrepreneurs in Indonesia*, investigates the institutions affecting ethnic Chinese and Javanese entrepreneurship. In particular, this study explores institutional differences between ethnic Chinese and Javanese entrepreneurs and how these elements influence their entrepreneurial efforts. Scott's (2013) institutional theory is used as the framework for analyzing the findings. This is a qualitative study with an empirical-transcendental phenomenological approach used to describe informants' experiences rather than the researcher's interpretation. Data were collected through semi-structured in-depth interviews with 16 informants in Yogyakarta, using a snowball sampling strategy.

Paper 1 reveals institutional differences between the ethnic Chinese and Javanese in the regulative, normative, and cultural-cognitive dimensions. In terms of regulation, discriminating rules and treatments are still imposed on the ethnic Chinese. They are prohibited from having property deeds, for either houses or business sites (offices, shops, plants), thus being required to apply for land-use permits and pay ever-increasing prices to renew them. Other aspects of discrimination relate to the business license tariff (i.e. there are different indigenous and non-indigenous tariffs) and financial loan schemes from state-owned banks, in which the ethnic Chinese are restricted to applying for low-interest loan programs. In the normative dimension, involvement in ethnic associations is considered important for the ethnic Chinese, as these associations work as a system to ensure Chinese people's trustworthiness. Besides this, the Chinese association is also a place for information sharing, problem solving, and opportunity-seeking/joint-venture initiatives. Among the Javanese, meanwhile, ethnic association were not mentioned by any of the informants, which indicates that such associations are not so common for them. Another difference relates to how Chinese and Javanese parents raise their children. Chinese parents generally teach entrepreneurial values and experiences to their children from a very young age, while Javanese parents generally direct their children towards being non-entrepreneurs. In terms of the cultural-cognitive dimension, the Chinese entrepreneurial culture is strongly manifested in family values and teachings. Besides this, in ethnic Chinese communities, schools also work as a means to ingrain entrepreneurial values, through school activities. On the other hand, Javanese values (e.g. an emphasis on charity and living life less ambitiously) seem

to be counterproductive to entrepreneurship. While the Chinese rely on family to obtain entrepreneurial knowledge and experience, the Javanese rely on business/entrepreneurs associations and mentoring programs.

In short, the findings of Paper 1 indicate that institutional differences between ethnic Chinese and Javanese entrepreneurs exist in all pillars of institutions (regulative, normative, and cultural-cognitive). The government, ethnic associations, and family emerge as influential institutional actors for ethnic Chinese entrepreneurs. The next question is how these institutions affect entrepreneurs' efforts. This question leads to the notion of institutional carriers (i.e. symbolic systems, relational systems, and activities), which transmit the institutions to – and thus lead them to have an effect on – entrepreneurs. The findings map the carriers of each institution that affect the ethnic entrepreneurs' efforts (see Paper 1 for details).

Paper 1 offers the contribution of providing empirical evidence on institutional differences between the ethnic Chinese and Javanese, from which we can understand the specific institutions that are influential – and perhaps beneficial – for ethnic Chinese entrepreneurship. To some extent, the findings may explain the source of ethnic Chinese economic success in Indonesia. In addition, Paper 1 adds to the knowledge on the effects of institutions on entrepreneurship among different ethnic groups, as well as the role institutional carriers play in transmitting and maintaining institutions, in the context of an emerging economy. Finally, the findings can contribute to public policy on ethnic entrepreneurship development in Indonesia.

As Paper 1 explores the institutional environment of ethnic Chinese and Javanese entrepreneurs and the findings suggest that some institutional differences do exist, we next need to examine whether these differences lead to different cognition and behavior among the two ethnic groups. Therefore, the research of Paper 2 was conducted to address this concern, by testing the levels of FL (cognitive aspect) and EO (behavioral aspect) of ethnic Chinese and Javanese entrepreneurs.

6. 2. Paper 2

Paper 2 – *Uncovering the Success of Minority Chinese Entrepreneurs: The Role of Financial Literacy and Entrepreneurial Orientation* - examines the FL and EO of ethnic Chinese and Javanese entrepreneurs. It also investigates the

relationship between FL, EO (which consists of innovativeness, proactiveness, and risk-taking dimensions), and SME performance. This study employs a combination of intergenerational transmission values, cross-cultural cognition, and the RBV as the conceptual framework. It is a mixed-method study, but strongly emphasizing the quantitative over the qualitative approach. Data were collected through a survey administered to 328 entrepreneurs/SMEs, comprising 162 ethnic Chinese and 166 Javanese respondents in the cities of Yogyakarta and Solo. A combination of purposive and snowball sampling techniques was employed. Four hypotheses were tested: (1) the FL of the ethnic Chinese is higher than that of the Javanese; (2) the EO of the ethnic Chinese is higher than that of the Javanese; (3) FL has a positive relationship with EO; (4) EO has a positive relationship with SME performance. The first two hypotheses were analyzed using independent sample t-tests and the other two with Hayes' (2013) regression-based approach, using bias-corrected bootstrapping. Qualitative interviews were conducted after the quantitative results were obtained, aimed at clarifying the findings.

The results show that the levels of FL and EO of the ethnic Chinese are significantly higher than those of the Javanese. The qualitative interviews reveal that the ethnic Chinese's higher levels of FL and EO are due to strong exposure to entrepreneurship from their parents/families since childhood. Concerning the last two hypotheses, the results show significantly positive relationships between FL and EO, and between EO and SME performance. Taking all the results together, this study suggests that ethnic Chinese business success compared to that of their indigenous Javanese counterparts is (partly) due to the former's higher levels of FL and EO.

This study provides three major contributions. First, it extends Busenitz and Lau's (1996) cross-cultural cognition perspective by incorporating the RBV to explain the relationship between cognition, behavior, and SME performance among ethnic entrepreneurs. This study also provides insights into the intergenerational transmission of values perspective, by showing that intergenerationally transmitted entrepreneurial values have a role in shaping cognition and behavior that are necessary for entrepreneurship. Second, this study provides empirical evidence on the relationship between FL, EO, and SME performance. To our knowledge, this paper is so far the first empirical study to investigate FL as an antecedent of EO. Our empirical results also support most research on the EO-performance relationship. Third, this study can inform policy

makers and practitioners (i.e. entrepreneurs, mentors) about the roles FL and EO play in enhancing SME performance.

Paper 2 shows that a high level of FL (cognitive aspect) leads to a high level of EO (behavioral aspect), and ultimately a high level of SME performance. How, then, are these cognitive and behavioral aspects manifested in ethnic entrepreneurs' businesses? Paper 3 illustrates how cognition and entrepreneurially oriented behavior influence ethnic entrepreneurs' strategies in response to their institutional environment, in the form of illegitimate institutions.

6. 3. Paper 3

Paper 3 – *Entrepreneurs' Coping Strategies in Response to Illegitimate Institutional Pressures: Evidence from Indonesia* – investigates illegitimate institutions in the Indonesian business environment, which act as pressures on ethnic Chinese and Javanese entrepreneurs, and how these ethnic entrepreneurs cope with the pressures. This is a qualitative study using in-depth interviews to collect the data. Through a content analysis approach, we identified five illegitimate pressures faced by ethnic entrepreneurs: (1) corruption, (2) protection rackets, (3) building-permit rents specifically directed at ethnic Chinese entrepreneurs, (4) extortion, and (5) compulsory donations. Furthermore, we identified formal and informal institutional actors who exert these pressures, such as government officials, police and military officials, political leaders, politically affiliated organizations, societal organizations, racketeers, cultural leaders, local village committees, and local youth groups. Entrepreneurs' coping strategies are classified into four, ranging from passive to active: (1) compliance, (2) lobbying, (3) physical violence, and (4) infiltration. Based on our findings, we observe factors that contribute to firm vulnerability, as well as sources of entrepreneurs' bargaining power, in relation to illegitimate pressures. We find that ethnic Chinese entrepreneurs are more exposed to illegitimate pressures than the Javanese, yet they are more strategic, proactive, and pragmatic in terms of their coping strategies. These strategies contribute to their business survival amidst the pressures.

This study contributes in providing knowledge on the intersection of institutions and entrepreneurship, in an emerging economy context. In particular, it offers empirical evidence on how illegitimate institutional pressures are exerted on ethnic entrepreneurs. This study presents a greater variety of illegitimate

pressures, institutional actors, and coping strategies than has been identified in the prior literature. In addition, it contributes to institutional theory by examining both the ‘top-down’ institutional effects (i.e. how illegal pressures influence entrepreneurs’ endeavors) and ‘bottom-up’ responses (i.e. entrepreneurs’ coping strategies). Finally, this study complements the body of knowledge on illegitimate institutions, which remain insufficiently investigated.

Overall, this thesis provides three major contributions. First, it offers an understanding of institutions, be they formal or informal, that influence ethnic Chinese entrepreneurship in Indonesia (Papers 1 and 3). Second, this thesis partly explains ethnic Chinese business success in Indonesia, by providing empirical evidence on the difference between the ethnic Chinese and their Javanese counterparts in terms of their institutional environment (Papers 1 and 3), as well as cognitive and behavioral aspects of entrepreneurship (Paper 2). Third, this thesis extends the theory (Papers 2 and 3) and complements the existing body of knowledge on institutions and ethnic entrepreneurship. The links between each paper and the overall research objective and contributions are presented in Figure 1.

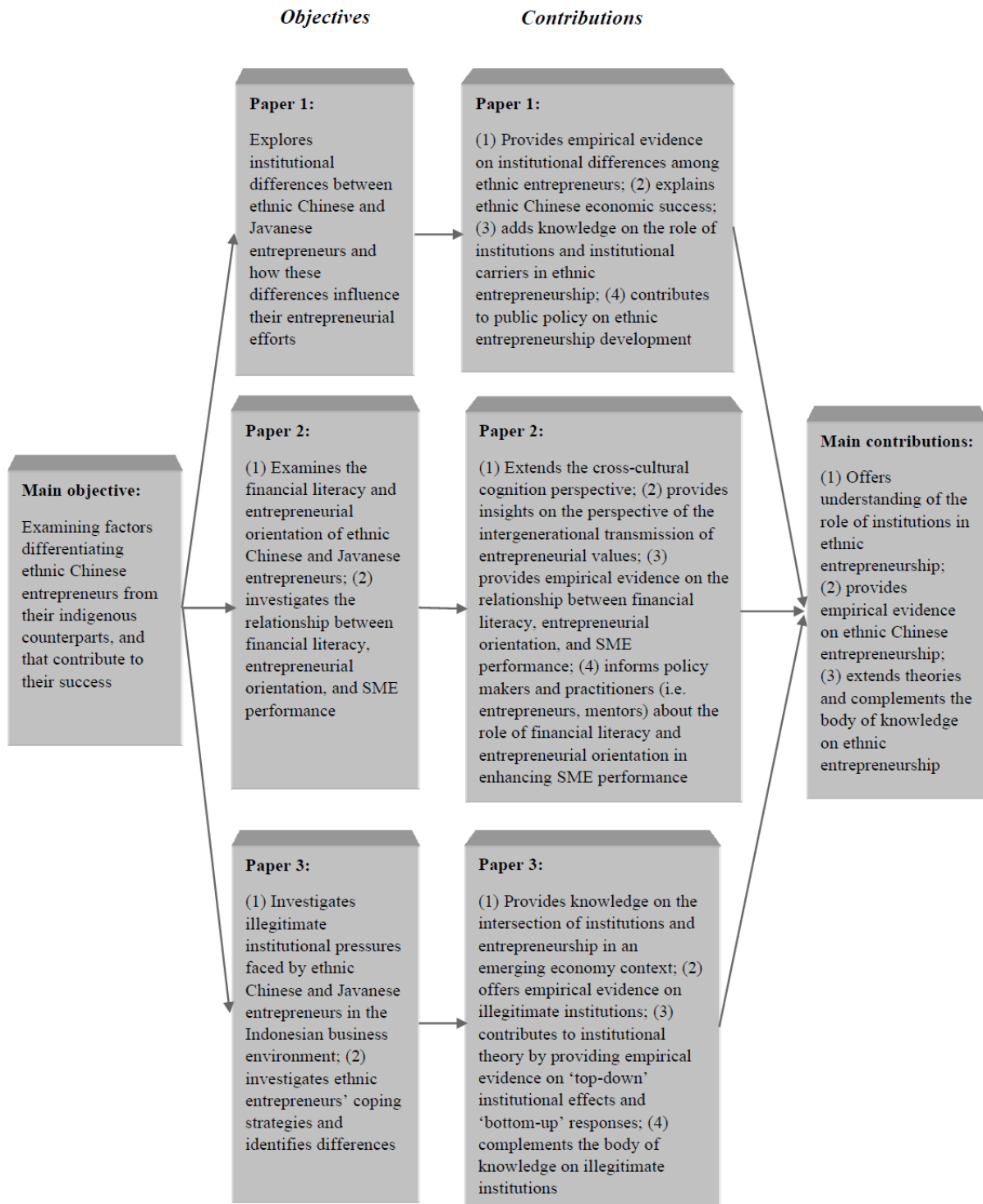


Figure 1. Thesis Objectives and Contributions

7. Conclusion

Motivated by the extensive entrepreneurial presence and success of the ethnic Chinese in Indonesia, who outperform the indigenous majority, this thesis is aimed at examining factors that differentiate ethnic Chinese entrepreneurs from their indigenous Javanese counterparts, and which contribute to their business success. This thesis addresses Ahlstrom and Wang's (2010) call for research clarifying the factors affecting ethnic Chinese business success, which are still triggering debate in the ethnic entrepreneurship field. It also attempts to discover the role of institutions in ethnic entrepreneurship, aiming to fulfill the academic gap on the intersection of institutions and entrepreneurship, especially in the context of emerging economies.

To achieve these objectives, three related studies are conducted. The first examines institutions affecting ethnic entrepreneurs' efforts, how these institutions differ between the ethnic Chinese and the Javanese, and how they are transmitted. As the findings indicate that institutional differences indeed exist, the next study examines whether these institutional differences influence the entrepreneurs' cognition (in this case, FL) and behavior (in this case, EO). In addition, it tests the relationships between FL, EO, and SME performance. The second study finds that (1) the ethnic Chinese have higher levels of FL and EO, and (2) FL significantly improves EO, and EO significantly improves SME performance. Finally, the third study is conducted to uncover the manifestation of these cognitions and behaviors in practice, by examining ethnic entrepreneurs' strategies for coping with illegitimate institutional pressures.

This thesis offers three major contributions. First, it provides empirical evidence that partly explains ethnic Chinese business success in Indonesia, by showing that the ethnic Chinese differ from their indigenous Javanese counterparts in three ways, namely, (1) institutional environment, (2) FL and EO, and (3) strategies, all of which contribute to their success. The institutional environment under which they operate motivates, as well as pushes them towards, entrepreneurship. In addition, their levels of FL and EO, which are found to significantly influence business performance, are higher than those of Javanese entrepreneurs. In terms of strategies used to cope with illegitimate institutional pressures, the ethnic Chinese are more pragmatic and strategic, and have more resources (i.e. financial and network resources) that enhance their bargaining position and broaden their strategy selection.

Second, this thesis also contributes towards the understanding of the role of institutions and how they influence ethnic entrepreneurship. Knowledge of the ‘rules of the game’ is crucial and fundamental in allowing entrepreneurs to ‘play the game’ in a competitive manner, which eventually enables them to ‘win the game’. Third, this thesis extends the theory on institutions and entrepreneurship, particularly on the concept of institutional voids and in the EO field. Overall, this thesis complements the existing body of knowledge in the intersection between institutions and ethnic entrepreneurship.

7. 1. Implications

The findings of each paper included in this thesis generate several implications for policy makers and ethnic entrepreneurs. First, this study finds that institutional discrimination against the ethnic Chinese does not undermine their entrepreneurial spirit. They are even more competitive and strategic than the indigenous entrepreneurs due to this hostile institutional environment they are confronted with. This implies that, if (formal and informal) discrimination towards the ethnic Chinese were fully eliminated, their participation and competitiveness in entrepreneurship could be improved even further, allowing them to contribute even more to the Indonesian economy. It also implies that affirmative policies aimed at protecting indigenous entrepreneurs have been counterproductive, as they have pampered them and consequently made them less competitive. Therefore, policy makers should fully eliminate the discrimination against the ethnic Chinese (and perhaps also the affirmative policies toward indigenous entrepreneurs) and give all ethnic groups an even playing field in the market.

Second, this study found that two types of institutional carriers, i.e. the relational system and activities, have a crucial role in transmitting formal and informal institutions. The relational system (such as the collegial relationships in business associations and power systems such as in parent-child and mentor-entrepreneur relationships) and the activities through which it is manifested (such as the exposure to entrepreneurial values and routines in families and schools, as well as social gatherings) are emphasized as influential methods of distributing institutions in the Indonesian context. Thus, policy makers should pay attention to these two institutional carriers and help them to transmit institutional arrangements that support entrepreneurial development. For instance, related to the relational system, policy makers could utilize business associations, as well as informal

communities, to distribute institutional ideas and practices. In addition, as activities are also important in the diffusion of institutions, policy makers could benefit from using an activity-based approach in their entrepreneurial development programs. This could be accomplished, for instance, by including entrepreneurial activities in the school curriculum to give the students entrepreneurial exposure and experiences.

Third, with regards to the findings of Paper 2 that FL significantly influences EO, policy makers should provide programs to improve entrepreneurship-related competencies. Formal (e.g. curriculum) and informal (e.g. training) educational arrangements for entrepreneurial competencies should be enforced, in order to increase the rate of entrepreneurship as well as to equip entrepreneurs and would-be entrepreneurs with the necessary competencies to improve their business performance. Entrepreneurship has a substantial impact on economic conditions in developing countries (Bhasin & Venkataramany, 2010). By implementing programs which support entrepreneurial competencies, policy makers can pave the way for entrepreneurs to improve not only their own livelihoods but the entire country's economy.

Fourth, this study implies that culture may support or hinder entrepreneurship. Furthermore, it is argued that a culture that supports entrepreneurship will lead to a higher rate of opportunity-based entrepreneurship (Acs, O'Gorman, Szerb, & Terjesen, 2007). Therefore, policy makers should create and ingrain an entrepreneurial culture that promotes entrepreneurship, such that a less entrepreneurial ethnic culture gradually shifts into a more entrepreneurial one. The mechanisms of intergenerational transmission could be employed to achieve this, as well as to maintain the entrepreneurial culture over generations.

Finally, as this study found that various illegitimate informal institutions exist and act as barriers to entrepreneurial activities, they should be reduced if not eliminated. To achieve this, policy makers should improve formal institutions and strengthen law enforcement, thus eliminating voids that can be filled with illegitimate institutions. Among the many potential practices that could be applied, this could be achieved by the design of regulations that support entrepreneurship, the simplification of license procedures, and the creation of systems which enhance transparency.

7. 2. Limitations and Future Research

This thesis undoubtedly has several limitations. First, there is a possibility of researcher bias in this study as it includes a sole-authored paper (Paper 1). In co-authored papers, co-authors may provide different points of view, knowledge, criticisms or feedback, all of which can minimize the potential bias in the research. Unfortunately, this is not the case for sole-authored papers. However, I have relied on other sources, such as feedback from supervisors and conference participants, to help alleviate this potential source of bias in the sole-authored paper.

Second, the institutions investigated in Paper 1 are exemplified in business-related government regulations and procedures (regulative aspect), norms in the community and family (normative aspect), and ethnic cultural values and sources of knowledge (cultural-cognitive aspect). Thus, the scope of institutions included in this study may not represent all of the more complex, wide-ranging institutions that may affect ethnic entrepreneurs' activities.

Third, the data were collected from a specific region in Indonesia (Central Java province) and, despite its combination with purposive sampling, the sample selection (for Paper 2) was partially based on snowball sampling (especially for the ethnic Chinese samples) due to the unavailability of public data on the ethnicity of enterprise ownership, as well as the difficulty in obtaining participation from ethnic Chinese entrepreneurs. These factors limit the generalizability of the findings and the validity of the sample. The latter could be subject to selection bias due to the respondents not having been randomly selected but subjectively chosen by the initial respondents, myself, my entrepreneurial network and the research assistants' networks. Thus, it is possible that the sample obtained represents only a small sub-group of the entire population (limiting the generalizability). These subjective choices also mean there is a high probability of there being similar traits among the referees and the nominees (target respondents), which could have skewed the final results. Yet, the sensitive issue of the ethnic Chinese in the Indonesian context makes it difficult not to rely on snowball sampling, in the case of Chinese respondents. The problem of selection bias in the snowball sampling (particularly in Paper 2 which involved quantitative methods) was reduced through the use of a rather sizeable sample (N=328).

Furthermore, the selection of the indigenous ethnic group (i.e. the Javanese) to contrast with the Chinese in this study was based solely on their majority within the population. They are assumed to be comparable with the ethnic Chinese in

terms of entrepreneurial participation due to their big population. However, this may neglect other indigenous ethnic groups, e.g. Minang (from West Sumatera province), which may have a higher entrepreneurial rate than the Javanese despite their smaller population.

Fourth, apart from additional experts (in Paper 3), interviews were conducted only with entrepreneurs, as a group of people affected by institutions. This one-sided investigation only provides a partial truth about the issues studied. Investigations that additionally included interviews with institutional actors (e.g. government, those imposing institutional pressures on entrepreneurs) might better explain the phenomena by covering both sides of the story. However, due to the sensitivity of the ethnic Chinese issue in the Indonesian context, and the even more sensitive nature of illegitimate institutions (Paper 3), interviews with entrepreneurs were more feasible to carry out. Obtaining willingness to participate and moreover information on sensitive issues from institutional actors in the Indonesian context is so far still a challenging task.

Future research should expand the scope of the institutions and geographical areas of the sample selection to achieve a more comprehensive picture of ethnic entrepreneurship, as well as to improve its generalizability. Regarding the scope of the institutions, as this study found that business-related associations played an important role in entrepreneurship, future research might further investigate whether they affect, as well as how and to what extent they affect, business survival. It would also be interesting to explore the role of associations (be they business-related or not) in transmitting the institutions that facilitate or hinder entrepreneurship. In addition, scrutinizing the influence of formal and informal institutions (or comparing their influence) on ethnic entrepreneurs' behavior and business survival may be a promising avenue. Similarly, further examination of institutional carriers' transmission of institutional ideas would offer a potential field of research.

It is argued that the act of migrating, and not ethnicity, is what influences venture creation (Levie, 2007). Based on this, investigation of whether migration (both within-country and between countries), compared to ethnicity, more strongly affects entrepreneurial rates and success, is important. This could be conducted by including other ethnic groups known to have high entrepreneurial and migration rates (such as Minang in Indonesia) in the investigation of ethnic entrepreneurship. Furthermore, in relation to the findings of Papers 1 and 2, the role of

intergenerational transmission of entrepreneurial values in ethnic entrepreneurship needs to be investigated further. This could be performed by, for instance, exploring parenting practices that may develop entrepreneurial capabilities. It could also involve comparing different ethnic groups with a background of entrepreneurial parents, or by comparing co-ethnic entrepreneurs with non-entrepreneurial parents to those with entrepreneurial parents.

In relation to Paper 3, future research should include the institutional actors' point of view, for instance that of the government or of informal actors such as racketeers. Likewise, data from other sources, such as documents, observations, and press reviews, need to be included to provide greater insight into illegitimate institutions and their impact on ethnic entrepreneurship. In addition, as this study examines SMEs, the investigation of larger firms would be a promising avenue for future research. Large firms may be exposed to different institutional pressures and use different coping strategies. In the same vein, the examination of illegitimate institutions and firms' coping strategies across several emerging countries would be valuable for identifying the similarities and differences among such countries. In this way, the research implications and contributions could be generalized to a wider scope.

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Paper 1
**Institutions and Entrepreneurship: A Study of Ethnic
Entrepreneurs in Indonesia**

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Institutions and Entrepreneurship: A Study of Ethnic Entrepreneurs in Indonesia

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Abstract

An institutional environment that supports entrepreneurship is important for entrepreneurs of all ethnic groups in a given country. Yet, immigrant entrepreneurs or those of immigrant descent are often faced with institutional barriers that do not apply to the indigenous entrepreneur. This study was conducted to examine institutions affecting ethnic entrepreneurs in Indonesia and identify institutional differences between entrepreneurs of different ethnic groups. In addition, this study examines institutional carriers which transmit and maintain the institutions. Qualitative in-depth interviews were conducted with sixteen ethnic Chinese and Javanese entrepreneurs in Yogyakarta, Indonesia. The findings reveal that the government, business and non-business associations, family, and schools play an important role in ethnic entrepreneurs' intentions, decisions, and activities. Using institutional theory as an analytical framework, institutional differences between ethnic Chinese and Javanese entrepreneurs are identified within the regulative, normative, and cultural-cognitive institutional dimensions. The findings also suggest that combinations of institutional carriers transmit and maintain institutions in an effective way. This study contributes towards clarifying ethnic Chinese business success in Indonesia, adds knowledge in the institution and ethnic entrepreneurship fields, and offers policy implications for ethnic entrepreneurship development.

Keywords

Institutions, institutional carriers, ethnic entrepreneurs, entrepreneurship

1. Introduction

Entrepreneurship has been touted as a means to facilitate economic growth in developing countries (Bruton, Ahlstrom, & Obloj, 2008). In particular, ethnic entrepreneurship is having an increasingly important impact on local economies (Johnson, Muñoz, & Alon, 2007), specifically in relation to transnational trades, employment, and ethnic enclaves (Ilhan-Nas, Sahin, & Cilingir, 2011). At the same time, it serves as a means for ethnic groups' social mobility (Chaganti & Greene, 2002). The development of entrepreneurship relies considerably on the institutions in a given environment, as institutions may constrain or stimulate venture creation, performance, and survival (Bruton, Ahlstrom, & Li, 2010; Stenholm, Acs, & Wuebker, 2013). An institutional environment that is conducive to ethnic entrepreneurs' activities is important as it affects individuals'/firms' behavior and decision making (Lau, Tse, & Zhou, 2002; Scott, 2013). Thus, institutional barriers should be kept to a minimum to allow all entrepreneurs, both indigenous and immigrants/immigrant-descended, to enter the market. However, the latter are often faced with legal institutional barriers that do not apply to the former (Kloosterman, 2010). Despite the importance of institutions for entrepreneurial development, the research based on this theme is insufficient compared to that taking a managerial approach (Veciana & Urbano, 2008). Much of this research has focused mainly on culture and left other institutional dimensions understudied, while the research that has focused on other institutional dimensions has tended to ignore intangible elements such as culture (Sambharya & Musteen, 2014). This paper fills the gap by including both tangible and intangible institutional elements, classified into regulative, normative, and cultural-cognitive dimensions.

This paper investigates entrepreneurs from different ethnic groups in Java, Indonesia, representing the local-born immigrant-descended (i.e. Chinese) and the indigenous (i.e. Javanese). It aims to explore the institutional environment in which ethnic entrepreneurs operate and how these institutions affect ethnic entrepreneurs' activities. Hence, it links the macro (institutional environment) with the micro (entrepreneur's activities) level of analysis. Most studies have focused on micro-level analysis, but studies focusing on the macro and meso levels of ethnic entrepreneurship are needed as the institutional context plays a significant role in ethnic entrepreneurship's development (Aliaga-Isla & Rialp, 2013). In addition, this paper examines how institutions are conveyed and maintained among ethnic entrepreneurs. The context of Indonesia, an emerging economy with significant

economic activities carried out by the ethnic Chinese, provides an interesting setting in which to study this phenomenon.

Indonesia's economic growth, along with that of many other East Asian countries, has received considerable contributions from the commercial activities of ethnic Chinese entrepreneurs (Ahlstrom, Young, Chan, & Bruton, 2004; Weidenbaum & Hughes, 1996). The ethnic Chinese make up about 1.2% of the population (Statistics Indonesia, 2010), yet they control 60% of the entire wholesale business and 75% of the retail business in Indonesia, and manage as many as 68% of the largest Indonesian-headquartered businesses (Victor, 2016). Furthermore, their business in Indonesia, as well as that in other countries such as Malaysia, Thailand and the Philippines, accounts for 40% to 60% of total GDP, and they control around 80% of Indonesia's corporate assets (Yeung and Olds, 2000 in Koning, 2007). On the other hand, the Javanese represent the biggest indigenous ethnic group in Indonesia, accounting for 40.2% of the total population (Statistics Indonesia, 2010), yet their business success is far less than that of the ethnic Chinese, despite affirmative policies specifically directed towards them as indigenous entrepreneurs (e.g. Thee, 2011). Given this gap, the following research questions emerge: *What are the institutional differences between ethnic Chinese and Javanese entrepreneurs in Indonesia? How do these differences affect their entrepreneurial endeavors?*

Ethnic Chinese business success has been much attributed to Confucian culture, emphasizing thrift, hard work, trust, reciprocity, and a family enterprise system (e.g. Goxe, 2012; Mackie, 2018; Weidenbaum & Hughes, 1996). However, culture is only one aspect of entrepreneurial activities, and thus insufficient to explain ethnic Chinese business success (Kirby & Fan, 1995). Furthermore, the economic rise of Confucian-influenced countries, such as those in Asia, suggests that culture is not the only cause of ethnic Chinese business success, as Confucian culture has not undergone any major changes that could explain that rise (Ahlstrom, Chen, & Yeh, 2010). Hence, other factors, such as historical background and the country's institutional environment, have a crucial part to play in explaining ethnic Chinese business success (Tipton, 2009). By understanding the institutions governing ethnic entrepreneurs, and how they affect their entrepreneurial activities, this study contributes to the literatures on institutions and ethnic entrepreneurship. In particular, it helps to clarify ethnic Chinese success over and above that of their indigenous counterparts. Besides this, it provides

insights on the influential – and perhaps effective – methods of diffusing and maintaining institutions, specifically in the Indonesian context. This paper also offers policy implications for the support of ethnic entrepreneurship development.

The remainder of this paper firstly discusses the context of the ethnic Chinese in Indonesia and the institutional environment they must confront. Then, I discuss institutional theory and institutional carriers, as the concepts used in this paper, after which I explain the research methods. Next, the findings on institutional differences between ethnic Chinese and Javanese entrepreneurs are elaborated, with a classification into regulative, normative, and cultural-cognitive dimensions. These findings are then discussed in the subsequent section. I conclude with implications, limitations, and future research avenues.

2. Research Context

Indonesia has diverse ethnicities comprising indigenous ethnic groups as well as foreign minorities, i.e. Chinese, Indian, and Arab Indonesians. In contrast to their Chinese counterparts, the Indian and Arab Indonesians account for only 0.006% and 0.04% of the population respectively (Ananta, Arifin, & Bakhtiar, 2008). Although these three ethnicities all migrated to Indonesia for similar economic reasons, the Indian and Arab Indonesians are overshadowed by the dominance of ethnic Chinese economic activities. At least this is shown in Forbes Indonesia's list of the 50 richest people, most of whom (39) are of ethnic Chinese descent, with just one of ethnic Indian and none of Arab descent (Forbes, 2016). Indonesia has the largest ethnic Chinese population among the Southeast Asian countries (Hitchcock, 2000). They come from different sub-ethnic groups based on home region and dialect: Hokkien, Teochew, Hakka, and Cantonese (Ananta et al., 2008). Culturally, the ethnic Chinese in Indonesia are divided into two types: *totok*, which refers to the migrant Chinese or their immediate descendants who still speak some Chinese, and *peranakan*, which refers to the descendants of old-established Chinese who are local-born and speak Indonesian or local dialect in their daily life (Suryadinata, 2008).

The presence of the ethnic Chinese in Java began in the Tang period of 618-907 and increased during the Ming dynasty (1368-1644) due to the intensification of trade (Heidhues, 1974 and Onghokham, 2003 in Chua, 2008). The economic role of the ethnic Chinese in Indonesia was intensified during the period of Dutch

colonization (1596-1949) as the local regents (i.e. the Dutch) preferred the ethnic Chinese to act as intermediaries between themselves, the indigenous people, and the outside markets, including with China which was the largest market in Southeast Asia at the time (Reid, 1992 in Chua, 2008). During this period ruled by the VOC (*Vereenigde Oost-Indische Compagnie* or Dutch East India Company), the Chinese merchants, acting as intermediaries, with their existing networks and infrastructure, perfectly complemented the Dutch in trade (Luiten van Zanden, 2010). Labeled as ‘foreign orientals’ by the Dutch, a racial classification that provided them with a better status and more authority than indigenous people, the ethnic Chinese occupied a vital function in the economic system (Winarta, 2008). This included the aforementioned intermediary role in local and international trade, the authority to collect taxes from indigenous people, and privileges in opium farming (Rush, 2007). On the other hand, indigenous traders were forbidden from trading across the sea, which forced them to act as petty domestic traders, employees serving the Dutch, or to work on agricultural farms providing export commodities for the VOC (Luiten van Zanden, 2010).

Chinese hegemony in trade and administrative systems over indigenous Indonesians in the Dutch colonial era made their position essential in the economic sector, but not in the social and political sectors. Their economic and administrative authority, as part of the Dutch’s ‘*divide and rule*’ policy³, created anti-Chinese sentiment among the indigenous people that continues to this day (Winarta, 2008). In the post-independence era, especially in Soeharto’s regime⁴, the ethnic Chinese were subjected to legal discrimination and were restricted in the socio-cultural-political sectors (Freedman, 2003). The government granted more opportunity to them in economic activities, as the ethnic Chinese were deemed useful in promoting Indonesia’s economic growth, albeit there were rules applied to limit their economic activities, e.g. prohibition against trading in rural areas (Lembong, 2008). The opportunity given in the economic sector led to the rise of

³ The ‘*divide and rule*’ policy was created to prevent the racial unity of the Chinese and indigenous Indonesians, as the Dutch considered that a threat that could put an end to their colonial rule.

⁴ Soeharto was the second president of Indonesia, who held power for 32 years and created at least sixty-four discriminatory regulations against the ethnic Chinese in Indonesia (Winarta, 2008).

ethnic Chinese economic power, which subsequently positioned them as members of the Indonesian middle class (Suryadinata, 2008). However, in socio-cultural life, Soeharto applied a total assimilation policy, by banning Chinese schools, organizations, language, and religion (Aguilar Jr, 2001). Furthermore, they were obliged to adopt Indonesian-sounding names, expected to present special identity cards as proof of abode, and exposed to bureaucratic persecution (Hitchcock, 2000). They also suffered a series of anti-Chinese riots, as they were blamed for the economic hardships that occurred in Indonesia (Hoon, 2006). Anti-Chinese sentiment emerged due to their social status, which prompted jealousy among indigenous Indonesians, exacerbated by the ‘very rich, arrogant, superior, and exclusive’ stereotypes reflected in their preference for living in luxurious real estate areas, reluctance to participate in “neighbourhood mutual help activities”, and priority given to money-oriented activities (Tan, 1991, p. 123). The anti-Chinese riots climaxed in 1998, and were followed by the fall of Soeharto’s regime.

In the post-Soeharto era, the government gradually abrogated the discriminating regulations towards the ethnic Chinese and restored their legal, political, and cultural status, some of which was achieved through the re-establishment of the Chinese media, education, and organizations (Lembong, 2008). In the political field, their participation and representation are now much larger than they were before (Setijadi, 2015). However, discrimination still occurs in practice, due to the improper handling of causes of discrimination and the ineffectiveness of law enforcement (Minghua & Ingketrina, 2016; Winarta, 2008).

3. Ethnic Entrepreneurship and Institutional Theory

I follow Shane and Venkataraman (2000) in defining entrepreneurship as activities that include the discovery, evaluation, and exploitation of opportunities, and the set of individuals who discover, evaluate, and exploit them. In this study, these individuals are ethnic entrepreneurs, who are defined as owners and operators of their own businesses who share a common cultural background or migratory experiences (Aldrich & Waldinger, 1990). Ethnic entrepreneurship refers to business ownership by immigrants, ethnic group members, or both (Valdez, 2008). The entrepreneurs investigated in this study are of ethnic Chinese

and Javanese origin, who associate themselves with the respective ethnic group and operate their own business(es).

Institutions are the humanly devised constraints that shape human interaction, or in short, the “rules of the game” in society (North, 1994, p. 3). Institutions, which include both formal (e.g. rules) and informal constraints (e.g. codes of behavior), serve as guidance in the performing of tasks (North, 1994). Institutions regulate, as well as affect, entrepreneurs’ behavior, and provide paths along which entrepreneurs operate (Busenitz, Gomez, & Spencer, 2000; Lau et al., 2002). Thus, institutions are not merely seen as restrictions and preconditions to which entrepreneurs/firms must adapt, but also provide stimuli, guidelines, and resources for acting and decision making (Scott, 2013). The institutional environment shapes entrepreneurial dynamics as it impacts upon the factors necessary for entrepreneurship, such as access to resources and capital, quality of governance, and entrepreneurs’ perceptions (Acs, Desai, & Hessels, 2008).

For immigrants and minorities in particular, a hostile institutional environment in the form of blocked mobility (e.g. discrimination, socio-cultural barriers) can serve as a push factor for entrepreneurial activities (Ilhan-Nas et al., 2011). Discrimination, limited job opportunities, and social exclusion are common rationales given for the greater tendency among immigrants and minorities to engage in entrepreneurship, as compared to any other groups (Fisher & Lewin, 2018; Kloosterman, 2003). Besides these, pull factors also contribute to their decision to become entrepreneurs. These include aspects such as (1) entrepreneurial talent, which stems from their culture or origin (e.g. countries with a high degree of entrepreneurship), (2) business opportunities to be seized, especially in catering to the co-ethnic market that may not be well-served by the mainstream economy, and (3) positive attitudes towards entrepreneurship, such as it being perceived to offer more returns, independence, and flexibility than the wage sector (Fairlie & Meyer, 1996; Fisher & Lewin, 2018). Institutions could be the cause of both push and pull factors of ethnic entrepreneurship, affecting outcomes at the individual, firm, and country levels, as well as the moderating factors between the two (Ilhan-Nas et al., 2011).

This research is based on Scott’s (2013) institutional framework, which consists of the regulative, normative, and cultural-cognitive pillars. The regulative pillar includes laws, rules, regulations, and government policies (Veciana & Urbano, 2008), as well as industrial agreements and standards (Bruton et al., 2010).

This pillar involves the establishment of rules, inspection of conformity to the rules, and control of compliance by means of rewards and punishments in order to influence behavior (Scott, 2013). Regulations and policies are directly associated with a country's entrepreneurship development, in that insufficient regulation may obscure - yet excessively restrictive regulation may hinder - new venture creation (Bruton et al., 2010; De Soto & Diaz, 2002). Particularly, Sobel (2008) found that government policies significantly correlate to the productivity of entrepreneurship, with states with good political and legal institutions having higher entrepreneurial productivity. Many other studies have shown that government policies and procedures are crucial factors in determining the success or failure of entrepreneurship initiatives (e.g. Audretsch, Grilo, & Thurik, 2007; Minniti, 2008). In terms of regulative institutions, ethnic minorities are faced with more challenges, as control is often in the hands of ethnic majorities (Aldrich & Waldinger, 1990; Teixeira, Lo, & Truelove, 2007).

The normative pillar emphasizes the regulation of social life, which includes social norms, values, beliefs, and assumptions (Scott, 2013; Veciana & Urbano, 2008). Following Busenitz et al. (2000), the normative system in this study concerns the extent to which ethnic cultural values demonstrate admiration for entrepreneurial activity, including the creative and innovative thinking embedded in it. It involves the value systems that affect business activity (Kostova, 1997). Some value systems include admiration for entrepreneurs for their creativity and initiative, while others do not (Casson, 1990 in Busenitz et al., 2000). Specifically, the ethnic cultural values and social context influence the individual's entrepreneurial cognition, intention, and thus behavior, including any decision to create a new venture (Busenitz & Lau, 1996). This premise implies that ethnic cultural values may support or hinder entrepreneurship.

The cultural-cognitive pillar is "the shared conceptions that constitute the nature of social reality and create the frames through which meaning is made" (Scott, 2013, p. 67). It involves the cognitive structures and social knowledge shared by people in a given area (Veciana & Urbano, 2008), comprised of taken-for-grantedness and shared understanding (Meyer & Rowan, 1991; Scott, 2013). Following Busenitz et al. (2000), this dimension includes the knowledge and skills the entrepreneurs use in starting and operating a business.

Institutions are transmitted and maintained through four types of carriers, i.e. symbolic systems, relational systems, activities, and artifacts (Scott, 2013).

Symbolic systems are symbols used to guide behavior, including rules, laws and regulations, values and norms, classifications, representations, frames, schemas, prototypes, and scripts (Scott, 2013). Relational systems are carriers made up of connections among actors, including interpersonal and interorganizational connections (Scott, 2003). Relational systems are also manifested in ‘principal-agent’ relationship hierarchies, with those who hold power over the institution (the ones who create, maintain, and control) as the ‘principals’ and those who have to comply as the ‘agents’ (Scott, 2013). In this study, I use the terms ‘organization’ and ‘actor’ interchangeably to depict the principals. Scott (2013) identified actors behind the institutions, such as individuals, associations of individuals, populations of individuals, organizations, associations of organizations, and populations of organizations. North (1994) made it explicit by classifying organizations into political groups (e.g. city councils, the Senate, regulatory bodies), economic groups (e.g. business associations/trade unions, firms, cooperatives), social groups (e.g. communities, business associations, family), and educational groups (e.g. schools, vocational training centers). Institutional actors, which include individuals and organizations, could be the creators and/or carriers of institutional elements (Scott, 2013).

Activities are the repetitive actions, i.e. habits and routines, which provide the basis for order and continuity of institutions, construction of new ones, or disruption of existing ones (Scott, 2013). Activities represent how institutions are transmitted. These patterned actions reflect tacit knowledge possessed and conveyed by actors (Scott, 2003). Knowledge and ideas embedded in routines are learnt within, and maintained and revamped through relational systems (Scott, 2013). Winter (1990 in Scott, 2013) categorized activities ranging from ‘hard’ (i.e. those encoded in technologies) to ‘soft’ (i.e. organizational routines).

Finally, artifacts are the discrete material objects which are produced or altered by human activity under the influence of physical and/or cultural environments (Suchman, 2003 in Scott, 2013) in order to make institutions explicit. While codified knowledge can be transmitted through artifacts, tacit knowledge has to be transmitted through relational systems and activities/routines (Scott, 2003). Thus, attention should be put on the selection of carriers to ensure the effective transmission of institutions. This study mainly focuses on the first three carriers in discussing how institutions are transmitted and maintained.

4. Research Methodology

This study employs an empirical-transcendental phenomenological approach to examine the institutions affecting entrepreneurial activities among ethnic entrepreneurs in Indonesia. This approach focuses more on the description of the experiences of informants than on the interpretations of the researcher (Creswell, 2007). I applied the procedures of this approach (as explained by Moustaka, 1994 in Creswell, 2007) by conducting the following steps. First, I identified the phenomenon and principal categories of the target data by reviewing literature in two fields: institutions and ethnic entrepreneurship. Second, I collected data through semi-structured, face-to-face in-depth interviews with sixteen individuals, including eight ethnic Chinese entrepreneurs and eight Javanese entrepreneurs. Informants were identified and obtained through snowball sampling (Patton, 1990) using my entrepreneur network as well as informants' networks. This method was selected as the most feasible for accessing informants, given the sensitivity of the issue of ethnicity within the phenomenon under investigation. Some criteria were applied to select informants, involving specific characteristics such as ethnicity, age, and gender. Ethnicity was self-identified and pure ethnic Chinese and Javanese were selected. In this case, 'pure' refers to those whose parents (on both sides) are of ethnic Chinese or Javanese origin, hence excluding those with mixed-ethnicity parents. Age was selected as a criterion because different generations may be subject to different institutional settings, and thus different impacts. Gender was also set as one of the criteria so as to explore any disparity that may occur regarding the perceived institutional environment. The profiles of the informants are presented in Table 1. Each informant is coded with C (Chinese) or J (Javanese) and this code marks every piece of evidence in the findings described in the following section. The interviews lasted from 1.5 to 3 hours. Other forms of data, including observations and archival materials available online and given by informants, were collected to ensure data triangulation (Creswell, 2007; Yin, 2014).

Table 1. Interviewed Entrepreneurs

Code	Ethnic group	Gender	Generation	Education	Business Sector	Establishment Year	# of Employees
C1	Chinese	Male	Younger	Bachelor in Civil Engineering (unfinished)	Manufacturing, distribution, construction	2008	100
C2	Chinese	Male	Younger	Bachelor in English Literature (unfinished)	Property development, construction	2005	70
C3	Chinese	Female	Younger	Master in Business Administration	Retail (time pieces)	2002	25
C4	Chinese	Female	Younger	Master in Business Administration	Travel agent	2008	5
C5	Chinese	Male	Younger	Bachelor in IT	Software solution	2012	11
C6	Chinese	Male	Older	Junior High School	Retail (building materials, bicycles, electricity equipment)	1970	7
C7, C8	Chinese	Females	Older and younger	Senior High School (both)	Retail (photo and video equipment)	1988	5
J1	Javanese	Male	Younger	Bachelor in Electrical Engineering	Property development, construction	2004	10
J2	Javanese	Male	Younger	Bachelor in Machinery Engineering	Wedding invitations, online-marketed spa products	2008	4
J3	Javanese	Male	Younger	Bachelor in IT	Restaurant, online-based food marketplace	2003	12
J4	Javanese	Female	Younger	Bachelor in Business	Application provider	2010	30
J5	Javanese	Male	Older	Bachelor in Business	Furniture, interior design	2002	70
J6	Javanese	Male	Older	Bachelor in Machinery Engineering	Manufacturing, agriculture, oil and gas consultant	2005	63
J7	Javanese	Female	Older	Bachelor in Veterinary Medicine	Restaurant	1978	25
J8	Javanese	Female	Older	Bachelor in Agriculture	Agriculture and agrotourism	2005	20

Open-ended questions regarding informants' experiences of institutions affecting their entrepreneurial activities and individual characteristics were asked. To help clarify the concept of institutions, questions adapted from country institutional profiles (Busenitz et al., 2000) and selected elements of the framework for the entrepreneurial environment (Gnyawali & Fogel, 1994) were used in the interview guideline (see appendix). Throughout the process, I maintained feedback loops in order to further discuss new insights with prior interviewees.

Third, data transcription and analysis was carried out by highlighting significant statements that provided an understanding of informants' experiences of the institutional environment affecting them. These significant statements were clustered into themes and textural and structural descriptions written. A textural description is what the informants experienced and a structural description is how they experienced the phenomenon in terms of situation or context (Creswell, 2007). From these descriptions, I wrote composite descriptions of the quintessence of the phenomenon under investigation, using Scott's framework of institutions (2013). The data are presented under three themes, i.e. regulative, normative, and cognitive dimensions, that highlight the differences in the institutional environments identified by informants.

5. Institutional Differences among Ethnic Entrepreneurs

5.1. Regulative Dimension

Ethnic Chinese entrepreneurs experience discrimination in land ownership, business license procedures, and loan schemes of state banks. In terms of land ownership, the discrimination occurs particularly in Yogyakarta Special Province. In this province, they are not allowed to obtain property deeds⁵ as they are categorized as non-indigenous Indonesian citizens. Only a land-use permit is authorized and this has to be renewed regularly. This regulation was created as an affirmative policy to protect indigenous people from 'the strong economies', which refers to the Chinese. This instruction was actually abrogated in 1984 but

⁵ Based on the Letter of Instruction of the Vice Governor of Yogyakarta number K898/I/A/1975 about Policy of Land Ownership Rights to Non-Indigenous Indonesian Citizens released on March 5, 1975.

then re-activated and legalized by the subsequent governor through three regulations⁶. This practice was argued by the Chief of the National Land Federation of Indonesia as being counter to nine national-level regulations, since it involved discrimination against a certain ethnicity. Despite the dissenting opinion from national government authorities and the 1984 abrogation, the discriminatory regulations are still being applied to the ethnic Chinese in Yogyakarta (C6).

This discriminatory practice works in a deceptive way and puts the ethnic Chinese in a disadvantaged position (C6). The regulations are not pronounced, and hence people only become aware of them when they try to proceed a property deed for lands they have bought. When the National Land Federation officer identifies that an applicant is of ethnic Chinese origin, they inform them of the regulations and ask the applicant to sign an attestation letter stating that they are voluntarily returning the land to the state and are asking the state to grant them a land-use permit (C6). Ethnic identification is assessed through physical appearance (eyes, skin) and personal details such as address, birth certificate, and family card (C6). The permits have to be renewed every twenty to thirty years, with an ever-increasing rent. Price is controlled by the regional government and based on location, implying that Chinese towns, business districts, and other strategic locations incur higher prices than residential areas (C2, C6). After remaining silent for years due to the fear of attracting problems with the authorities, the ethnic Chinese began to protest against this discriminatory rule in 2013⁷ (C6). This discriminatory rule is suspected to have been made and to be retained by the local authorities, not only as an affirmative policy, but also as a rent-seeking strategy shrouded in a legal ruling (C6).

⁶ (1) Letter of Attestation number 430/3703 released on November 15, 2010; (2) Letter number 593/00531/RO I/2012 released by the Regional Government on May 8, 2012; (3) Letter number 287/300-34/BPN/2010 released by the Chief of National Land Federation, Yogyakarta office.

⁷ Since 2013, the ethnic Chinese have formed an organization to protest against this discrimination to higher levels of the government (the President, the National Committee of Human Rights, and The Ministry of Agrarian Affairs and Spatial Planning) but they had not succeeded in changing the rule at the time of writing.

Next, discrimination can be found in the business license process, which is carried out by the lowest level of government representatives, i.e. the neighborhood agencies. In terms of cost, there is a notion of ‘foreign price’ and ‘indigenous price’, the former applying to Chinese Indonesians and Indian Indonesians (C4). In addition, license procedures for ethnic Chinese entrepreneurs are more complicated (in terms of requirements and processing time) than those for indigenous entrepreneurs (C4, C7). Thus, using middlemen to obtain business licenses is considered a solution to this problem for ethnic Chinese entrepreneurs (C4, C6, C7). The middleman could be a notary or a person with close connections to government officers (C7). Due to the severe discrimination the ethnic Chinese faced for a long period of time before the reformation era, Chinese entrepreneurs have learnt that it is wise to avoid direct contact with government officers in order not to become entangled. Hence, the use of a middleman has been a strategic choice, even in recent times (C4, C7). As a consequence, Chinese entrepreneurs apply strategies to maintain good relationships with government officers and not become enmeshed in problems, e.g. by giving gifts at the regular inspections conducted by government officers (C4). However, as some government agencies have started to apply online procedures for business license acquirement, some Chinese entrepreneurs have been to apply for licenses themselves without fear of being persecuted for being Chinese (C4, C1).

Furthermore, discrimination has also taken place regarding the loan schemes from state-owned banks, with ethnic Chinese entrepreneurs not being allowed to apply for certain loan schemes with low interest rates, these being provided exclusively to indigenous entrepreneurs (C6). However, this is no longer considered a problem as private banks owned by ethnic Chinese conglomerates have proliferated in Indonesia, giving more options to ethnic Chinese entrepreneurs in need of financial capital (C6). The institutional differences in the regulative dimension are summarized in Table 2.

Table 2. Institutional Differences in Regulative Pillar

Differentiating Aspect	Sub-themes	Excerpts
Prohibition of land ownership by the Chinese	Discriminatory regulation and how it works	<p>"In Jogja, the Chinese are forbidden to own land. However, the rule has not been socialized and disclosed upfront, thus many of us have bought lands without knowing about this prohibition. We have bought lands and when we have applied for the property deed, the officer has told us that we cannot have it because we are not natives. We are only entitled to a permit to use the land, so we have to sign a letter of attestation that we are voluntarily returning the lands bought to the state and make a plea to the state to rent them to us. It works this way; when the land officer suspects the applicant is a Chinese Indonesian, the letter of attestation is given. They determine that an applicant is Chinese from their facial appearance as well as from answers to a series of questions. If they are still doubtful, they will ask for the applicant's family documents, such as family card, birth certificate and those of his/her parents...surprisingly, while this regulation applies to Chinese and Indian Indonesians, it does not apply to Arab Indonesians." (C6)</p>
	Land use permit fee (rent) as a motive for discrimination	<p>"Discrimination on land ownership is still ongoing as there is a financial motive. We pay rent fees to have the land use permits and the permits have to be extended every 20-30 years. My friend extended his land use permit and paid IDR 750 million for a 20-year period for his shop; it's big money, isn't it?" (C6)</p> <p>"The land use permit is extendable and will not be lost, but the price is always increasing. Higher prices apply to certain locations, such as Chinatown, business districts, and other strategic areas." (C6, C2)</p>
Discrimination in business license procedure	Difference in business license prices	<p>"There is a so-called foreigner price and a local price, and this discrimination applies to non-indigenous entrepreneurs. We, Chinese Indonesians, are included in that group along with Indian Indonesians and western businesspeople. It even occurs with the lowest government agencies, such as <i>RT</i>, <i>RW</i> (neighborhood agencies), village districts, and sub-districts." (C4)</p>

Differentiating Aspect	Sub-themes	Excerpts
	Strategy for avoiding trouble and maintaining relationships with government officers	<p>"We do try to maintain a good relationship with government officers who inspect our office by giving them small gifts like cakes." (C4)</p> <p>"...don't be pretentious and stubborn, be humble. If you are dealing with government officers, you have to win their hearts." (C4)</p>
	Middlemen as a solution	<p>"We use a middleman to obtain the business license. Most of my entrepreneur friends and families use middlemen to obtain their business license. Nowadays, it still works that way. It would be a hassle if you did it yourself....A middleman could be a notary or simply someone with a close connection to the authorities and sells the service to those in need." (C4, C7)</p> <p>"Before the reformation era, it was difficult to get a business license for Chinese Indonesians. They want this and that. So, using middlemen is a wise way to cope with that problem." (C4, C6)</p>
Discrimination in loan scheme of state banks	Indigenous vs non-indigenous interest rate	<p>"I had difficulties in getting loans from state banks. There was a regulation that indigenous and non-indigenous entrepreneurs were subjected to different interest rates and we could not use the low interest rate scheme." (C6)</p>
The consequence of discrimination for the Chinese	Strategy for managing discrimination Discrimination shapes entrepreneurial	<p>"I mingle with local people to maintain good relationships with them. I even contribute to Islamic events to maintain harmony, although I'm a Christian." (C1)</p> <p>"When I need the neighborhood agencies' approval for my business license purposes, I give donations. One time the chief asked me to give cement for the neighborhood's sports ground, which was under construction, so I gave three bags of cement." (C4)</p> <p>"I think it can open our eyes to the fact that those who are pushed and discriminated against will grow into persistent entrepreneurs. Those who are always given facilities will be spoilt and won't grow healthily. We don't have any choice but entrepreneurship, so in the end we become experts." (C6)</p>

Differentiating Aspect	Sub-themes	Excerpts
	<p>characteristics and skills</p>	
	<p>Chinese school closures as a push motivation for the Chinese to perform well in business</p>	<p>"What Soeharto did in the past by closing Chinese schools to make Chinese Indonesians uneducated has instead made them successful in business. They don't need an educational degree to become an entrepreneur." (C6)</p>
	<p>Entrepreneurship is supported in Chinese families due to discrimination in the past</p>	<p>"Entrepreneurship is very much supported in Chinese families because there is an unwritten rule that Chinese is restricted in this country. You cannot be a state officer, nor a soldier, nor a police officer, and if you work for others you will be exploited...I still feel that we are strangers in this country; if we don't work hard, we can't eat." (C4)</p>

The discrimination shown towards the ethnic Chinese has had some consequences. First, ethnic Chinese entrepreneurs have managed the discrimination through certain strategies, e.g. by contributing to local communities and giving gifts (C1, C4). Second, it has worked as a push factor, compelling the ethnic Chinese to strengthen their entrepreneurial characteristics and skills, as entrepreneurship has at times been the only way to earn a living due to the former restrictions on entering the formal employment market (C6). It has also created positive attitudes toward entrepreneurship among ethnic Chinese families (C6). Third, the Chinese school closures that occurred during Soeharto's regime, which left many drop-outs among ethnic Chinese Indonesians, encouraged them to aim for entrepreneurial success instead of weakening them (C6).

5. 2. Normative Dimension

In the normative dimension, differences are present in terms of associations and family institutions. Ethnic Chinese entrepreneurs are active in associations for the ethnic Chinese in Indonesia, which is not the case with their Javanese counterparts (in corresponding associations for the Javanese). Regular meetings in the form of *arisan*⁸ or sports activities are conducted to maintain kinship and share information (C4, C7), as well as to organize occasional business and non-business-related events (C6). The ethnic Chinese associations also work as forums, supervising their members' behaviors, especially trustworthiness, as well as offering a place to find business partners (*guanxi*) and financial assistance (C4, C6, C7). Any news about a fraudulent Chinese businessperson quickly spreads among association members and harms the person's reputation, leading them to be black-listed not only among the association's members, but the entire ethnic Chinese community (C4). Hence, trustworthiness is paramount for ethnic Chinese businesspeople as it influences their business reputation. *Guanxi*, which refers to a reciprocal exchange between two individuals bound by mutual obligations (Fan, 2002), occurs within the ethnic Chinese associations, as the Chinese are more trusting of and feel more comfortable when cooperating with intra-ethnic business partners due to their similar characteristics and business values (C4).

⁸ *Arisan* is a form of microfinance rooted in the Chinese culture, which works by rotating savings and credit by means of regular social gatherings.

Furthermore, the findings reveal that ethnic Chinese families have a strong entrepreneurial mindset compared to their Javanese counterparts as entrepreneurship has been going on in those families for generations (C1 to C7). A mindset oriented towards entrepreneurship is indoctrinated in later generations with the aim of continuing the entrepreneurial legacy, and particularly family businesses (C1, C3, C4, C5, C7). In instilling entrepreneurship, Chinese parents teach entrepreneurial values, knowledge, skills, and hands-on experience by involving their children in daily business operations from an early age (C1, C2, C3, C4, C6, C7). Typical forms of entrepreneurial involvement include shop keeping, factory and store visits, depositing shop takings, and price negotiation (C1, C2, C4, C6, C7). Some ethnic Chinese parents had been even more strict in teaching responsibility and hard work to their teenagers, by only giving them a monthly allowance if they helped them with daily business activities (C4, C7). These early-age introductions to entrepreneurship were conducted to prepare them for a future entrepreneurial life and/or family business succession (C1, C2, C3, C4, C6, C7).

On the other hand, Javanese families tend to be more employee-oriented, as they perceive being an employee as having a higher social status and providing a more stable income than being an entrepreneur (J6, C6). Besides this, many Javanese parents perceive an entrepreneurial life as inconvenient and fear their children may suffer from the downsides of entrepreneurship (J1). Thus, Javanese entrepreneurs rely on themselves (through observation and self-learning) and their networks (e.g. friends, mentors) to obtain entrepreneurial knowledge and skills (J1, J2, J4, J6, J7). The different views of entrepreneurship have consequences in terms of their perspectives on formal education. Chinese parents prioritize money-oriented activities over educational degrees, steering their children toward entrepreneurial activities, and leading unfinished bachelor's degrees to be regarded as normal in ethnic Chinese families (C1, C2, C4, C6, C7). On the other hand, Javanese parents emphasize education (at the minimum, a bachelor's degree) as a way to enable their children to gain employment, even if they themselves were entrepreneurs (J1, J6). The aristocratic culture of the Javanese plays a role in shaping their perception of employment as admirable vis-à-vis entrepreneurship as dishonorable (C6). The institutional differences within the normative dimension are summarized in Table 3.

Table 3. Institutional Differences in Normative Pillar

Differentiating Aspect	Sub-themes	Excerpts
Association activities	<p>Association activities</p>	<p>“The Chinese clan association holds a meeting once every three months, in the form of <i>arisan</i>...running twice a month...karaoke and swimming... Occasional events include business meetings and the annual <i>Koko and Amoy Election</i>.” (C4, C6, C7)</p>
Involvement in ethnic Chinese associations	<p>Chinese clan associations work as an institution which verifies trustworthiness and enables joint ventures and business assistance</p>	<p>"Among Chinese people, being trustworthy is paramount. If there is a fraudulent Chinese person, the news will spread very quickly among Chinese people in the city because we have clan associations, and the person will be black-listed...Chinese clan associations exist to maintain clan relationships, to allow people to get to know their ancestors and cultures. But, because we're Chinese, it often ends up with <i>guanxi</i>...we have more trust in intra-ethnic Chinese people because we have quite similar characteristics and business values. (C4)</p> <p>“I relied purely on friends to provide me with the financial capital I needed at first in my business, since I did not have any collateral with which to apply for a bank loan at that time. I can say that the Chinese Indonesian network is emotionally strong.” (C6)</p> <p>"My parents encouraged entrepreneurship as they were entrepreneurs too. They wanted me to continue their legacy....I also prepare my children for entrepreneurship, either to continue my business or to create their own." (C1, C3, C4, C5, C7)</p>
Family view towards entrepreneurship	<p>Chinese parents are more entrepreneurially oriented</p>	<p>"My family members are entrepreneurs and many of them didn't finish their undergraduate studies. Educational degrees are not so important when you have made money through business...there is no point in having a high educational degree if you are going to work as an employee afterwards; being an entrepreneur is much better." (C1, C2, C4, C6, C7)</p>
	<p>Chinese parents impart</p>	<p>"I was assigned to help with shop keeping in my parents' shop...to go to the bank to deposit money from the daily takings.. They brought me to their factory from</p>

Differentiating Aspect	Sub-themes	Excerpts
	entrepreneurial knowledge and experience	<p>childhood...I had to purchase commodities and negotiate the price with suppliers from being a teenager...Now I'm doing the same to my children." (C1, C2, C4, C6, C7)</p> <p>My parents didn't give me any monthly allowance after I got to junior high. I had to work in my parents' shop to get money...I was in a family who obliged me to work if I wanted to eat." (C4, C7)</p>
	Javanese parents are more employee-oriented	<p>"My parents did not allow me to be an entrepreneur since they wanted at least one of their children to be an employee. It was only me who got a bachelor's degree in technical engineering; all of my siblings graduated in business administration. So, it was only me they wanted to be an employee." (J6)</p> <p>"My father told me not to follow his career as an entrepreneur since it's not easy. He asked me to look for a job. He never taught me entrepreneurship, unlike how Chinese people teach their children. I learnt by myself, by observing my father. I was also involved in an entrepreneurship mentoring group where we were coached by a mentor in learning and practicing entrepreneurship." (J1)</p> <p>"Since the Javanese have a high degree of aristocratic culture, they prefer to be bureaucrats. They perceive that being an entrepreneur is something demeaning." (C6)</p>

5.3. Cultural-Cognitive Dimension

The findings show that culture, initially introduced by family, plays a role in shaping ethnic entrepreneurs' predispositions. The strong Chinese commercial culture supports entrepreneurship as a preferable career path for generations of ethnic Chinese Indonesians, and shapes their entrepreneurial mindsets, characteristics, and behavior (C6). It is even manifested in both daily and new year (*Imlek*) greetings, through the saying '*Gong xi fat choi*' (may wealth/welfare be upon you) instead of 'Happy new year' (C6). Both ethnic Chinese and Javanese informants identified some values instilled in them by their parents, that they had found necessary in entrepreneurship, such as honesty, hard work, and hospitality (C2, C3, C6, C7, J1, J2, J6, J7).

The first difference lay in the values of thrift, persistence, flexibility (in dealing with stakeholders), and *cheng li* (fairness/reciprocity), which had been specifically instilled in the ethnic Chinese informants from an early age and had influenced their business conduct in later years (C1 to C7). In their business conduct, the ethnic Chinese informants also tended to apply relatively small profit margins (C4, C6, C7), prioritize customer satisfaction (C2, C4, C6, C7), and be open to cooperation⁹ with competitors (C6). Credibility, especially concerning financially related matters, is considered important to uphold in ethnic Chinese business conduct as they are a minority, and thus being found to be fraudulent could harm their source of living (C4). In ethnic Chinese families, credibility is taught through the demonstration of on-time payments to suppliers, maintenance of product quality, and provision of loans to the children's start-ups with strict payment deadlines, even with the charging of loan interest (C2, C4, C7). Regarding financial aid provided by their parents, Javanese informants also reported that this was a normal practice, but that their parents tended to be rather flexible in terms of the amount to be repaid and the repayment period, and did not apply any loan interest given that the borrower was their own child (J1, J4). The Javanese cultural values that the Javanese informants had learnt from their parents and the Javanese community included aspects such as *ojo ngoyo* (not being over-ambitious), which is frequently interpreted as 'do not work too much' and regarded as counterproductive to entrepreneurial endeavor (J1). The value of giving is also

⁹ A combination of cooperation and competition.

emphasized among Javanese entrepreneurs, manifested in the allocation of a certain percentage of net profits to charity (J6).

The second difference lay in the role of schools in shaping entrepreneurial attitudes. Among Chinese communities, Chinese schools play a significant role in shaping entrepreneurial values and attitudes, along with families (C6). Chinese schools, starting from the elementary level, instill entrepreneurial values (e.g. thrift) by applying rules to the students' lives, such as expecting them not to leave even a grain of rice uneaten at lunchtime, using only as much water as is needed, not allowing them to wear any accessories, and insisting that a uniform be worn so that rich and poor cannot be distinguished (C6). Most of the Chinese schools' alumnae have become successful entrepreneurs, with enterprises that have survived over generations (C6). However, the original Chinese schools that taught Chinese cultural values and taught in the Chinese language have long been extinct due to the closures that occurred in Soeharto's New Order era from 1965 to 1998 (C6). Nowadays, many ethnic Chinese parents put their children into private schools, most of which have been established by ethnic Chinese owners, and which inculcate entrepreneurial values (C1, C8).

In terms of the sources of entrepreneurial knowledge and skills, the ethnic Chinese informants said that they relied heavily on their families (C1, C2, C3, C4, C6, C7, C8). This is different to their Javanese counterparts who stated that they depended on entrepreneurship-related associations, including business/trade associations (intra- and inter-industry), entrepreneur associations, and entrepreneurship-mentoring groups, to supply the necessary knowledge and skills (J1, J2, J4, J6, J7). Such associations even contribute in terms of initiating entrepreneurial intentions and ultimately venture creation among Javanese entrepreneurs (J1). Other sources of business knowledge for the ethnic Chinese informants included friends, employees, and literature, while skills tended to be learnt through field experience (C1, C2, C3, C5, C6, C7, C8). Field experience was emphasized as the best way to obtain and sharpen entrepreneurial skills and intuition, and hence more valued than formal education (C1, C2, C6, C7, C8). The institutional differences in the cultural-cognitive dimension are summarized in Table 4.

Table 4. Institutional Differences in Cultural-Cognitive Pillar

Differentiating Aspect	Sub-themes	Excerpts
Chinese cultural values	Chinese commercial culture manifested in values and teachings	<p>"Thrift, hard work, diligence, and persistence were ingrained since childhood and deeply rooted in Chinese families...<i>Cheng Li</i>, which means fairness or reciprocity, is one value commonly applied by Chinese entrepreneurs in business." (C1, C2, C3, C4, C5, C6, C7)</p> <p>"I got a loan from my father to establish my business. I had to pay the loan back with interest, on time, and that's how my father taught me credibility...Most of my suppliers help me by allowing me to pay in installments, but when I got money I paid them directly although it was before the payment period. I teach my children to do the same as credibility is linked to our reputation." (C2, C7)</p> <p>"The Chinese culture is to trade...the Chinese have a strong commercial and welfare-oriented culture that is even shown in how we greet people: we say, "May you have a successful business" or "May wealth be upon you", particularly in <i>Imlek</i>". (C6)</p> <p>"The Chinese mindset is different to that of the Javanese. When the Chinese have to work as employees, they will not work forever, but learn, and when they get the chance, they will resign and start their own business." (C4, C6)</p> <p>"Flexibility is common in Chinese business conduct so as to maintain customer retention. Chinese suppliers are also flexible; they allow delayed payment for the products we have taken...My father taught me to grasp every business opportunity, which means providing the items that the customer wants to buy even if we don't currently sell them." (C1, C4, C6, C7)</p>
Javanese cultural values	The value of <i>ojo ngoyo</i> (not to be over-ambitious)	<p>"The Javanese value of <i>ojo ngoyo</i> is still upheld in my family and surrounding people. For instance, when my parents see me not feeling well due to my workload, they will say 'don't work too much'. I think it's not right as it weakens instead of motivating us." (J1)</p>

Differentiating Aspect	Sub-themes	Excerpts
Chinese schools teach entrepreneurial values	The value of giving Values are applied through routines	"My parents taught me the value of giving, so in my business, I give 10 percent of the net profit to charity." (J6) "Chinese schools taught us to be diligent and thrifty. One example was by habituating us not to leave a single grain of rice when eating." (C6)
Source of entrepreneurial knowledge and skills	The Javanese emphasize entrepreneurship associations, while the Chinese emphasize family (see excerpts in family section of normative pillar).	"Being involved in an entrepreneurship association helped me to decide to be an entrepreneur as my career path...it also provides me with necessary entrepreneurial knowledge and skills, ranging from trainings in management, to personal and spiritual development, to entrepreneurial experiences." (J1, J2, J4, J6, J7)

6. Discussion

6.1. Regulative Dimension

The findings showed that ethnic Chinese entrepreneurs face discrimination both in rules and practices, the rules having been created as affirmative policies intended to protect indigenous entrepreneurs. The prohibition of holding property deeds and the restrictions on certain loan schemes are institutionalized by regional and national government through the creation of legal rules as symbolic carriers. These institutional arrangements are maintained through a relational system of coercion, which forces the compliance of the ethnic Chinese. The rules are institutionalized through monitoring routines which involve (unethical) ethnic identification based on physical appearance and personal information, while preliminary notification and the publicity of rules are absent. Notification of rules is performed in the middle of application processes, and the ‘victims’ (i.e. ethnic Chinese) are obliged to comply without any consent being asked for. In the license procedure, the discrimination occurs informally and depends greatly on the person in charge (e.g. chief of the neighborhood, license officer), such that form of discrimination and amount of the service charge vary. This informal institution is also maintained through power systems. However, the relational system could be, to some extent, collegial, as the two parties develop good relationships with each other.

As the findings reveal, entrepreneurs develop strategies, such as giving gifts, to maintain beneficial relationships with the authorities, and thereby ease any potential issue that could require the authorities’ approval. Scott (2013) focused, when looking at the regulative pillar, on the behavior of principals (in this case, government) and the compliance/deviance of agents (in this case, entrepreneurs), including complying with, evade, or disrupting the institutions that are in place. The ethnic Chinese’s responses to these institutional arrangements originally consisted of mere compliance, but then moved on to using middlemen (especially in the license application process) or pacifying the authorities with gifts. In terms of the property deed prohibition, they have tried to disrupt the system by forming an organization to advocate for the resolution of this issue by means of eliminating the discriminatory rules.

6. 2. Normative Dimension

One aspect that differentiates ethnic Chinese entrepreneurs from their Javanese counterparts is their involvement in ethnic Chinese associations. As a type of social network (Thornton and Flynn, 2006 in Jennings, Greenwood, Lounsbury, & Suddaby, 2013), an association maintains social norms among its members by means of a collegial relational system. Norms, e.g. trustworthiness, are maintained through the imposition of social sanctions against those violating them. Norms and codes of conduct necessary in entrepreneurship (e.g. trustworthiness) are maintained through association routines, such as regular meetings and occasional events, which exemplify ‘soft’ activities as indicated by Winter (1990 in Scott, 2013). Besides sharing information through them, ethnic Chinese entrepreneurs utilize co-ethnic associations to find business partnerships and business-related assistance (including capital aid). This is relevant to Chen (2001 in Ahlstrom et al., 2010), who argued that the ethnic Chinese prefer to conduct business with co-ethnic fellows because they have similar cultural values. Therefore, ethnic Chinese associations play an important role among the ethnic Chinese as they provide a higher possibility of meeting their co-ethnic fellows, and hence greater opportunities to obtain business assistance and initiate joint ventures. Although the Javanese also rely on associations (in this case, entrepreneurship-related ones) for information-sharing and business problem-solving purposes, their associations do not emphasize the maintaining and monitoring of values/norms necessary for entrepreneurship, as happens with trustworthiness in the case of ethnic Chinese associations. This indicates a point of difference regarding the functions of the associations participated in by the ethnic Chinese and Javanese respectively.

Compared to their Javanese counterparts, Chinese families have more entrepreneurial mindsets. They inculcate entrepreneurial concepts in their offspring through symbolic systems such as values and an orientation towards entrepreneurship in preference to employment, as well as expectations regarding money-oriented activities as opposed to formal education. These values and expectations are shared and guide their offspring’s behavior towards entrepreneurship. As informal institutions, these values and expectations are maintained through a series of entrepreneurial daily routines, introduced at an early age. Thus, entrepreneurial values and skills can be deeply embedded and eventually enable Chinese offspring to compete in the entrepreneurial field. This

is in direct contrast to Javanese families, which place more value on employment and direct their offspring towards it as the career path that enjoys a higher social status. The historical context has shaped the mindset among indigenous people that being an employee provides better status than being an entrepreneur (Simandjuntak, 2006).

6.3. Cultural-Cognitive Dimension

Culture influences behavior in such a way that action is not only influenced by the objective condition, but also the actor's subjective interpretation of the condition (Weber, 1949 in Scott, 2013). In this case, the commercial culture of the ethnic Chinese that is manifested in many facets, such as values and predispositions, philosophies, and even simple greetings, appears as not merely "subjective beliefs but also as symbolic systems" that influence behavior (Scott, 2013, p. 67). In terms of the relational system, culture is maintained by the principal (e.g. cultural leaders, parents), who demand the compliance of the agent (e.g. ethnic group, family members). Culture is shared from one generation to another, through the role of the parents, who introduce and instill cultural values in their children's minds. The findings show that Chinese parents had taught business-related cultural values to the informants, through exposing and imposing hands-on repetitive patterns of actions, both in daily activities and entrepreneurial routines. These repetitive actions had eventually been habitualized and manifested in the informants' business conduct.

Chinese schools also play a role in instilling the characteristics necessary for entrepreneurship, through mental patterns that conform to Chinese values and are habituated through school routines. The top-down relational system ensures that students comply with this institutional arrangement. Chinese and Javanese entrepreneurs are slightly different in terms of their sources of entrepreneurial knowledge and skills, as well as the schemas that have shaped their perceptions of and orientation towards entrepreneurship. The Chinese rely greatly on family, while the Javanese rely on entrepreneurship-related associations. Both family and entrepreneurship-related associations apply rather similar methods to embed entrepreneurial values, knowledge and skills, i.e. through teachings and hands-on experience of entrepreneurial tasks. However, in families, these entrepreneurial activities can be observed on a daily basis, deeply embedding entrepreneurial skills and knowledge. In associations, meanwhile, as the opportunities to meet are far

less, the entrepreneurial lessons are not as innate as those provided by the family. In other words, the duration of entrepreneurial exposure affects the absorption and comprehension of entrepreneurship teachings.

Across the three institutional pillars, the findings highlight combined institutional carriers that may be effective in transmitting and maintaining institutions. Institutional actors are involved in the selection and execution of the institutional carriers. In this study, the government, associations, and family are identified as institutional actors having a significant influence upon entrepreneurs' efforts. The government provides legitimacy for the entrepreneur's venture. Family, on the other hand, shape an entrepreneur's normative values and cultural-cognitive aspects that enable them to obtain entrepreneurial characteristics, knowledge, and skills. Associations provide both legitimacy, and normative and cognitive aspects. The identification of these influential actors shows that entrepreneurship development efforts should be focused on them and which carriers it is feasible to utilize.

Furthermore, the findings indicate that relational systems and activities are crucial in transmitting institutional ideas. The identification of those carriers that are best combined, and those that can be counterproductive to one another if combined, is also necessary for achieving institutional effectiveness (Scott, 2003). For instance, tacit knowledge, which is frequently embedded in routines, may require a certain type of relational carrier in order for institutional objectives to be achieved. To illustrate, in instilling entrepreneurial values (as an informal institution) to would-be entrepreneurs, tacit knowledge such as price negotiation will be more effectively instilled through routine hands-on exercises (as an activities carrier), in both roleplay and real business transactions, provided by parents, peers, or mentors to the would-be entrepreneurs through parent-child, peer-to-peer, and mentor-learner relationships (as a relational carrier). Choosing the right combination of institutional carriers for achieving institutional effectiveness is important, as it will help to create an institutional environment that supports entrepreneurial development. The carriers of each institutional pillar which distinguish ethnic Chinese entrepreneurs from their Javanese counterparts are presented in Table 5.

Table 5. Institutional Carriers of the Institutional Differences between Ethnic Entrepreneurs

Pillar	Institutional Actors	Institutional Carriers				Activities
		Symbolic Systems		Scope	Relational Systems	
		Symbols	Types of Symbols			
Regulative	Regional Government	<p>Prohibition of land ownership by the Chinese, based on:</p> <ol style="list-style-type: none"> 1. Letter of Instruction no. K898/IIA/1975 about Policy of Land Ownership Rights for Non-Indigenous Indonesian Citizens, released on March 5, 1975 2. Letter of Attestation no. 430/3703, released on November 15, 2010 3. Letter no. 593/00531/ROI/2012, released by Yogyakarta Regional Government on May 8, 2012 4. Letter no. 287/300-34/BPN/2010, released by Chief of Yogyakarta Branch of National Land Federation. 	<p>Formal, but informal in its implementation</p>	<p>Regional (Yogyakarta)</p>	<p>Power systems where government acts as principal and Chinese entrepreneurs act as agents</p>	<ol style="list-style-type: none"> 1. Informal notice, either by an officer in the National Land Federation or a notary, to an individual suspected as being of Chinese descent who has applied for a land ownership certificate. 2. Request for a signed attestation letter stating that the individual voluntarily gives the land back to the state and makes a plea to the state to grant them a land use permit. 3. Extension of land use permit every 20 to 30 years, with the price subject to change and different prices applied based on location.

Institutional Carriers						
Pillar	Institutional Actors	Symbolic Systems			Relational Systems	Activities
		Symbols	Types of Symbols	Scope		
	State banks	Restrictions on certain loan schemes of state banks	Formal	Loan applicants (of ethnic Chinese origin)	Government as principal, state banks as intermediaries, Chinese entrepreneurs as agents	Notice from the loan officer
Regulative	Neighborhood government representatives and regional government	Discrimination in business license procedures	Informal	Neighborhood to regional	Government as principal, Chinese entrepreneurs as agents. Could also be collegial, however, as negotiation on any substantial issue may occur and strong relationships may develop between two parties.	<ol style="list-style-type: none"> 1. Exchange of public service for monetary or non-monetary items (i.e. informal cost) gained for personal or public need. 2. Implementation of license cost discrimination (foreign vs indigenous price) which applies to formal and informal costs and occurs from the neighborhood level up to the regional level of government representatives. 3. More complicated

Pillar	Institutional Carriers					
	Institutional Actors	Symbolic Systems			Relational Systems	Activities
		Symbols	Types of Symbols	Scope		
Normative						requirements and longer processing time (than for indigenous entrepreneurs).
	Associations	Social norms (with a special emphasis on trustworthiness)	Informal	Inter- and intra-Chinese clans	Collegial	<ol style="list-style-type: none"> Regular social gatherings (in the form of <i>arisan</i> and sports activities). Occasional events (business and non-business related). Implementation of social sanctions, especially for those who violate trust.
	Family	<p>Strong positive perception of and orientation towards entrepreneurship vis-à-vis employment among the Chinese (vice versa for the Javanese)</p> <p>High expectations among Chinese parents that their descendants will pursue entrepreneurship or continue</p>	Informal	Familial	Parents as principals and children as agents	<p>Within Chinese families:</p> <ol style="list-style-type: none"> Inculcation of entrepreneurial values (e.g. hard work, responsibility) through imposition of regular entrepreneurial tasks (even by not giving monthly allowance

		Institutional Carriers			
Pillar	Institutional Actors	Symbolic Systems		Relational Systems	Activities
		Symbols	Types of Symbols		
		the family business			unless the children help with performing daily business activities).
		Values and expectations regarding money-making activities vis-à-vis formal education among Chinese families			2. Teaching entrepreneurial knowledge and skills by involving kids in entrepreneurial routines from an early age.
Cultural-cognitive	Ethnic-specific culture (diffused by families)	<p>The entrepreneurial mindset and commercial culture of the ethnic Chinese, manifested in:</p> <ol style="list-style-type: none"> Cultural values specific to the Chinese, i.e. thrift, persistence, flexibility, <i>cheng li</i> (reciprocity), credibility, and prudence, especially in financial matters. Chinese greeting '<i>Gong xi fat choi</i>' (may wealth be upon you). Chinese philosophy of 	Informal	Ethnic group	<ol style="list-style-type: none"> Inculcation of cultural values through family tradition and teachings. Value implementation both in daily routines and business activities.
				Culture as principal, governing the ethnic group members as agents	

		Institutional Carriers			
Pillar	Institutional Actors	Symbolic Systems		Relational Systems	Activities
		Symbols	Types of Symbols		
		'Lok ti sen ken' and dragon as a symbol representing the ability to adapt. Javanese-specific cultural values, i.e. not to be over-ambitious, charity			
	(Chinese) schools	Mental pattern which conforms to cultural values	Formal	Students	Habituation of cultural values (e.g. thrift) through daily routines Power systems, i.e. school as principal governs students as agents
	Family (for Chinese) and business/entrepreneur associations (for Javanese)	Entrepreneurial knowledge and skills Schemas that shape perception, intention, and orientation towards entrepreneurship.	Informal	Familial, association based	Family: through teachings, observable examples in daily routines, and firsthand entrepreneurial experience Associations: through teachings, assignments involving field tasks, firsthand entrepreneurial experiences, sanctions (e.g. advice, warning), and rewards (e.g. levels, facilities)

Pillar	Institutional Actors	Institutional Carriers			
		Symbolic Systems		Relational Systems	Activities
		Symbols	Types of Symbols		

7. Concluding Remarks

Entrepreneurship scholars have indicated that focus must be directed towards how institutions, that vary across circumstances, shape entrepreneurial efforts (Baumol, 2004). Bridging the institutional and ethnic entrepreneurship domains, this paper makes three main contributions. First, it clarifies ethnic Chinese success relative to that of their indigenous counterparts, in a context where an ethnic minority contributes significantly to a country's economy. This is achieved by scrutinizing the differences between the institutions that are present for ethnic Chinese and Javanese entrepreneurs respectively. Second, this paper links the macro and micro levels of analysis by demonstrating how institutions influence entrepreneurial efforts and mindset. Furthermore, it offers insights on how institutions are transmitted and maintained, by explaining possible institutional carriers that can be utilized, in the context of an emerging economy. Therefore, it adds knowledge to the literature in the institution and ethnic entrepreneurship fields. Third, this paper contributes to public policy with regards ethnic entrepreneurship development.

The findings show that the institutional environments experienced by the ethnic Chinese and Javanese in Indonesia differ. Discrimination towards ethnic Chinese entrepreneurs serves as a push motivation for them to struggle for business success. This implies that, if discrimination, both in formal and informal practices, were removed, ethnic Chinese entrepreneurial success may be intensified, which could further contribute to the country's economy. The government should be aware that discrepancies in how formal and informal regulations are applied to indigenous and non-indigenous entrepreneurs could be counterproductive to, instead of facilitating, indigenous entrepreneurial efforts. Affirmative policies in favor of indigenous entrepreneurs may inadvertently reduce their competitive awareness, as they may end up missing out on gaining skills due to not having to cope with the same challenges that are encountered by their ethnic Chinese counterparts.

Based on the findings, consequences for public policies emerge. It is important to eliminate the discriminatory rules in the economic sector in order to create a supportive environment which will allow all ethnic entrepreneurs to compete (and collaborate) effectively. Transparency should be upheld by the regulations' executors, from the central to the lowest level of authority, and supported by well-planned systems (e.g. online license procedures) to eliminate

the potential for corruption and bribery. In terms of the institutionalization process, the relational system is of prime importance in the Indonesian context, where social networks are imperative. This implies that the selection of carriers must be carefully made to ensure the effective transmission of institutions, for instance, by using associations to instill institutional ideas that support entrepreneurship. In addition, as activities also play a significant role in the transmission of institutions, they need to be prudently designed to ensure effective institutionalization process. As an example, entrepreneurship development programs may be more effective if introduced at an early age through routines and the curriculum embedded in formal education. Thus, entrepreneurial characteristics and orientation could be better ingrained in individuals' lives.

Research based on an institutional approach which includes all institutional factors offers both promise and challenges (Veciana and Urbano, 2008). It should be acknowledged that this research has some limitations. First, the scope of the questions was based on three institutional dimensions that may not fully capture the complex institutional setting in real life. Second, as the sample only included two ethnicities (Chinese and Javanese), this research may overlook other types of institutional arrangement that govern other ethnic groups. Third, this research analyzed the differences in institutional environments experienced by ethnic entrepreneurs, yet the effects on entrepreneurs' behavior are not deeply examined. Thus, future research should investigate and quantitatively measure the influence of various institutions (both formal and informal) on entrepreneurial behavior and subsequent performance. It would also be interesting to scrutinize the role of associations in transmitting institutions that encourage and facilitate entrepreneurship. Furthermore, studying entrepreneurs' responses to institutional pressures, particularly in terms of the strategies and mechanisms of response, and how cultural values contribute to these responses, would also be promising. Finally, the examination of institutional carriers, specifically activities and relational systems, which convey institutional ideas that affect entrepreneurship looks to be a potentially interesting field of research.

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Appendix. Interview Guideline

A. Personal and company details

1. Age of informant, highest formal education level.
2. Business sector/industry, product(s)/service(s) provided.
3. Number of business units, sites, and employees.
4. Details of company's establishment (when, where initial financial capital was obtained from, etc).

B. Institutions

1. What factors and who (individual, organization) do you think are influential in your business activities?
2. How important is the role of government in your business? How does the government assist you in performing your business (from initiation to development)?
3. What do you think about the government regulations in the industry? How do the regulations impact your business? Do you experience any obstacles concerning business-related regulations (e.g. business permits, taxes)? Please explain.
4. Do you experience any obstacles in dealing with government officials? Please explain.
5. Is there any obligation outside of the formal rules that you have to fulfill in order to make your business work properly? Please explain.
6. Why did you decide to become an entrepreneur? What or who inspired you?
7. Have you been exposed to entrepreneurial activities before? If so, when, by whom, and how?
8. What values did you observe in your parents and/or people around you? Do these values influence you in managing your business? If so, how?
9. Do your family and friends admire those who start their own businesses?
10. Did your family and friends encourage you to be an entrepreneur? How did they respond when they found out that you had decided to become an entrepreneur?
11. How does your network influence your entrepreneurial activity?

12. Are you involved in an association? If so, what kind of association (ethnically based, business, neighborhood, hobby-related, school alumnae, etc)? Why did you decide to become involved in such association(s)?
13. How important is the role associations play in your entrepreneurial activity? Please explain.
14. Did you have any prior entrepreneurial experience before starting your business? If so, when was it and in what industry? Please explain.
15. Where do you get your business knowledge needed to conduct your entrepreneurial activities?
16. How do you see the role of formal and informal education in your entrepreneurial activities?
17. When you decided to form a business, did you identify the potential risks and how you could manage them?
18. How do you find information about potential markets for your product/service? Where do the sources of information come from?
19. How do you capture business opportunities?
20. Did you have any contact with your stakeholders before you started entrepreneurial activity? If so, how did you obtain this?

Paper 2

Uncovering the Success of Minority Chinese Entrepreneurs: The Role of Financial Literacy and Entrepreneurial Orientation

This paper has been presented at 14th Vaasa International Business Conference, University of Vaasa, Finland, August 23-25, 2017 and at 45th EIBA Annual Conference, University of Leeds, UK, December 13-15, 2019.

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Uncovering the Success of Minority Chinese Entrepreneurs: The Role of Financial Literacy and Entrepreneurial Orientation

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Abstract

This study is motivated by the prevalence of ethnic Chinese entrepreneurs in Indonesia. To uncover the reasons behind their success, we test the relationship between ethnicity, financial literacy, entrepreneurial orientation, and small-and-medium-sized enterprise performance. Our theoretical framework applies cross-cultural cognition, resource-based view, and intergenerational transmission of values. We conduct a survey of 162 Chinese and 166 indigenous Javanese firms/entrepreneurs and find that Chinese entrepreneurs have different cognition and behavior than the indigenous entrepreneurs. This study helps to demystify the entrepreneurial success of ethnic Chinese, by showing that it is systematically associated with higher financial literacy and stronger entrepreneurial orientation.

Keyword

Minority, Chinese, entrepreneurship, financial literacy, entrepreneurial orientation, small and medium enterprise.

1. Introduction

This research is motivated by the observation that minority ethnic Chinese entrepreneurs appear to be more successful than their indigenous counterparts (Ahlstrom et al., 2004; Tsang, 2002; Zhao and Burt, 2018). Ethnic Chinese economic success in relation to other ethnic groups, a common phenomenon in Southeast Asian countries, is visible in terms of a higher level of entrepreneurship and ownership of small and medium-sized enterprises (SMEs) (Chuah et al., 2016). As an indicator of their economic success, 17 out of the Forbes 20 Richest Indonesians in 2018 are of an ethnic Chinese background (Forbes, 2018). Ethnic Chinese comprise only 1.2 percent of the population, but some researchers argue that they control as much as 70 percent of Indonesia's business-related wealth (Hays, 2015).

The underlying reasons for such impressive business success have been extensively explained through a cultural approach, emphasizing Confucian values that influence entrepreneurial behavior (Chunxia, 2010; Kirby and Fan, 1995; Redding, 1995). Confucian values lead ethnic Chinese to adopt distinctive, palpable behaviors that separate them from other ethnic groups in Southeast Asia (Redding 1990). On the other hand, researchers have argued that the cultural approach is not sufficient to explain the success of ethnic Chinese entrepreneurship (Chan, 2015; Yin, 2003). Alternative explanations highlight contextual factors in the host country that trigger entrepreneurship, especially among immigrant groups (Collins, 2003; Li, 1993). Yet, these approaches are not sufficient to explain the success of later generations of Chinese immigrants who are local-born and strongly influenced by the local sociocultural environment.

In order to sustain economic success over generations, ethnic Chinese have maintained entrepreneurship-supporting values and skills through the mechanism of intergenerational transmission (Wyrwich, 2015; Weidenbaum and Hughes, 1996) and strong "connectedness" across ethnic Chinese entrepreneurs (Dieleman and Sachs, 2008). The majority of Chinese in Southeast Asian countries, including in Indonesia, are local-born immigrants who enjoy commercial success (Chuah et al., 2016) and are seen to have distinctive qualities that support entrepreneurship (Mackie, 2018). Yet, despite the dominant economic strength of local-born Chinese in these countries, especially in Indonesia, research on local-born Chinese entrepreneurship is limited. This study fills this research gap by comparing between local-born Chinese entrepreneurs in Indonesia and their indigenous

counterparts in terms of financial literacy (FL), entrepreneurial orientation (EO), and SME performance.

The concept of EO has gained significant attention in entrepreneurship research (Runyan et al., 2012), as it is empirically found to have a positive relationship with firm performance (Rauch et al., 2009). Yet, despite the ample research on EO, knowledge gaps persist (Slevin and Terjesen, 2011; Wales et al., 2011). These gaps include the antecedents of EO, the moderating and mediating variables between EO and its predictor/outcome variables, and the exploration of EO in non-Western contexts (Wales et al., 2011). To fill these gaps, we investigate FL as one antecedent of EO, based on the fact that entrepreneurs need to make multifaceted financial decisions in managing their businesses profitably (Adomako and Danso, 2014). Therefore, we address the following questions: (1) Are Chinese entrepreneurs in Indonesia more financially literate than their indigenous counterparts? (2) Are Chinese-owned SMEs more entrepreneurially oriented than indigenous-owned SMEs? (3) Does better FL lead to better EO and SME performance?

FL has been found to impact firm performance as it is associated with improved financial decisions and behavior (Hilgert et al., 2003) and superior business practices (McKenzie and Woodruff, 2014). EO represents such decisions and practices, as it involves processes underlying opportunity recognition and exploitation (Lumpkin and Dess, 1996). Using Busenitz and Lau's (1996) cross-cultural cognitive model and Barney's (1991) resource-based view (RBV) of the firm, this study investigates FL as a cognitive asset that informs strategic decision-making (manifested in EO) that leads to improved SME performance.

This study makes three major contributions. First, building on the framework of cross-cultural cognition and the resource-based view (RBV) of the firm, we theoretically discuss and provide empirical evidence for the relationship between entrepreneurial cognition, behavior, and performance among various ethnic entrepreneurs. We extend the cross-cultural cognitive framework (Busenitz and Lau, 1996) by adding firm performance as an outcome variable at the aggregate firm (SME) level of analysis. This contributes to entrepreneurial cognition theory. Second, we empirically test the predicted relationships between ethnicity, FL, EO, and SME performance. This sheds light on the relationship between FL and EO, by identifying FL as one of the antecedents of EO. From a practical perspective, this study is of interest to entrepreneurs as well as policy makers engaged in entrepreneurship development efforts. Third, we investigate

how intergenerational transmission of values influences entrepreneurial cognition and behavior. This contributes to the ethnic entrepreneurship literature.

The paper is organized as follows. Section 2 provides a brief overview of Chinese minorities and Javanese majorities in Indonesia. Section 3 presents a theoretical explanation for the relationship between FL, EO, and SME performance and the formulation of our hypotheses on the success of Chinese immigrant entrepreneurs in Indonesia. Section 4 describes the methodology. Section 5 presents the empirical results. Section 6 discusses the implications of the results and Section 7 suggests some future research topics.

2. Chinese Entrepreneurship in Indonesia

The Indonesian government, especially in the post-independence and New Order eras (1945 to 1998), implemented policies that privileged the indigenous population while undermining the commercial interests of the immigrant Chinese population (Chua, 2008). At least 64 discriminatory government regulations were passed against ethnic Chinese in the sociocultural, political, and economic spheres, although significant opportunities were granted to some Chinese tycoons close to the political regime (Chua, 2008; Turner and Allen, 2007). In the New Order era, the Chinese were targeted for rent-seeking practices as well as victimized in anti-Chinese riots (Turner, 2003), which in time caused them to become reluctant to reveal their ethnic identity (Hoon, 2006). Despite the revocation of discriminatory government regulations against the Chinese from the reformation era onwards (Winarta 2008), some of these practices still exist (Hoon, 2006; Sai and Hoon, 2012).

The Chinese represent about 1.2 percent of the population in Indonesia, while the Javanese represent approximately 40 percent and constitute the majority of indigenous Indonesians (Statistics Indonesia, 2010). Nevertheless, the contribution of ethnic Chinese to the Indonesian economy is highly significant (Chua, 2011). Their commercial success has developed despite the legal discrimination and lack of political bargaining power (Gerke and Menkhoff, 2003; Yeung 1999). Simandjuntak (2006) argues that Chinese business success in Indonesia is due to several factors, including migrant status, which encourages risk-taking; limited employment opportunity, which promotes entrepreneurship; and Confucian values, which encourage thrift, hard work, and mutual obligation. By contrast, indigenous Indonesians, particularly the Javanese, are dominant in

politics (Papanek, 2006) and their culture is less favorable toward entrepreneurship (Hitchcock, 2000).

As this overview suggests, the Chinese and Javanese in Indonesia have faced different macro-institutional environments, which may have contributed to systematic differences in the cognition (FL) and behavior (EO) of each ethnic group. Furthermore, we argue that these differences have in turn influenced the SME performance of each ethnic group.

3. Theory and Hypotheses

3.1. Cross-Cultural Cognition and the Resource-Based View of the Firm

This study utilizes the cross-cultural cognitive model developed by Busenitz and Lau (1996) to explain why individuals from different ethnic groups, particularly immigrant ethnic groups, have a different entrepreneurial proclivity. This model assumes that cultural values, social context, and personal characteristics affect individual cognition and consequently business venture creation. First, Busenitz and Lau (1996) argue that cultural values influence the schemas (structures) and heuristics (processing) of an individual's cognition, where schemas are acquired knowledge and heuristics are the way the knowledge is used. Schemas allow an individual to make predictions and assumptions, while heuristics provide intuitive guidelines for problem solving. Cultural values are found to affect the content of schemas and the extent of the use of heuristics (Shaw 1990 in Busenitz and Lau, 1996, p. 30). Mitchell et al. (2000) provide empirical support for this argument. They find that cultural values significantly affect cognitions and cognitions significantly influence venture creation decisions. Second, Busenitz and Lau argue that social context influences an individual's cognition, especially when predisposing factors and resource mobilization factors are present. Predisposing factors (such as discriminatory government policies and blocked mobility) and resource mobilization factors (such as kinship ties and social networks) may dispose an individual's cognition favorably toward entrepreneurship. In our case, members of the ethnic Chinese minority whose upward mobility as civil servants in the Indonesian government is restricted may leverage their kinship ties and social networks for purposes of pursuing entrepreneurship. Third, Busenitz and Lau argue that personal characteristics (such

as risk-taking propensity, internal locus of control, and achievement motivation) influence schema development and the tendency to use heuristics in decision making. Taken together, cultural values, social context, and personal characteristics influence individual cognition (schemas and heuristics) and consequently business venture creation.

Applying Busenitz and Lau's (1996) cross-cultural cognitive model, we predict that the ethnic Chinese minority in Indonesia has cultural values, a social context, and personal characteristics that are distinct from those of the indigenous Javanese majority. Chinese (Confucian) cultural values emphasize a long-term orientation and hence are naturally compatible with entrepreneurial values such as persistence, hard work, and thrift (Kirby and Fan, 1995). Furthermore, the social context of ethnic Chinese, blocked from civil service careers in Indonesia and forced to turn to entrepreneurship as a source of income, are experienced in leveraging kinship ties and social networks. Finally, the personal characteristics of ethnic Chinese, shaped by a history of immigration and discrimination, are typical of risk-takers with a survivor mentality (Kao, 1993).

Using a similar model to Busenitz and Lau's (1996), we let FL denote "cognition" and EO denote "venture creation decision." According to Lumpkin and Dess (1996, p. 136), EO denotes "the processes, practices, and decision making activities that lead to new entry," where new entry is understood as entry into a new (or established) market with new (or established) products and services. In this sense, a new entry represents a venture creation. Analogously, the dimensions of EO, namely, innovativeness, proactiveness, and risk-taking (Covin and Slevin, 1989), represent the dimensions of a venture creation decision. In addition to having FL and EO denote cognition and venture creation decision, respectively, we go one step further by adding SME performance as the outcome of the FL-EO relationship (Busenitz and Lau, 1996; Kreiser et al., 2010; Runyan et al., 2008).

Busenitz and Lau (1996) indicate the possibility of connecting their cross-cultural cognitive model to firm performance, such that different cognitions lead to different strategic decisions and, therefore, different firm performances. They argue that cognition, as a source of sustained competitive advantage, links their cross-cultural cognitive model to the resource-based view of the firm. This argument was supported by Alvarez and Busenitz (2001) who contend that cognition is a resource that facilitates opportunity recognition to enable a firm to compete in the market.

The resource-based view (RBV) of the firm examines the link between firm resources and firm performance, where firms achieve a competitive advantage through a unique, valuable, inimitable bundle of resources (Barney, 1991). Firm resources are conceptualized as both tangible and intangible assets, comprising human, financial, physical, and social capitals (Kellermanns et al., 2016). Knowledge-based resources, embedded in human capital, are of particular importance as they are difficult to imitate and hence can be a source of sustained competitive advantage (Peteraf, 1993). Wiklund and Shepherd (2003) find that firms with knowledge-based resources have better firm performance because they have higher EO, as knowledge-based resources can be applied in strategic decisions, methods, and practices toward better entrepreneurship. Our study provides both anecdotal qualitative and broader quantitative empirical evidence for this link by examining the interaction effect of FL (cognition) and EO (venture creation) on SME performance.

3. 2. Financial Literacy

The conceptual definitions of FL are broad, ranging from the acquisition of knowledge to the ability to use such knowledge in judgment and decision making (Hung et al., 2009). In this study, we follow Lusardi and Mitchell's (2007b, p. 36) definition of FL as an understanding of "the basic economic concepts needed to make sensible savings and investment decisions." FL is comprised of two dimensions: knowledge (the understanding of financially related information) and application (the ability to use financially related information) (Huston, 2010). As mentioned above, Busenitz and Lau (1996) argue that both schemas (the cognitive structures that contain knowledge) and heuristics (the cognitive processes by which knowledge is applied) are crucial in business-related decision-making. According to Busenitz and Lau, these cognitive structures and processes enable firm owners to make sound decisions in their business endeavors even under uncertainty.

Entrepreneurship inevitably requires financially literate decisions (Oseifuah, 2010). The FL literature mainly focuses on ways to increase FL (Bruhn and Zia, 2013) and the relationship of FL with outcome variables, such as venture creation (Dyer et al., 2016; Kotzé and Smit, 2008), youth entrepreneurship (Bruhn and Zia, 2013; Krause et al., 2016; Oseifuah, 2010), entrepreneurship development (Field et al., 2010), entrepreneurship education and policy (Carpena et al., 2011;

Williams, 2007), venture survival (Wise, 2013), and business success (Dahmen and Rodríguez, 2014). These studies underline the importance of FL in various aspects of business. Indeed, Hilgert et al. (2003) find that FL is positively related to such basic financial decisions as cash flow management, credit management, savings, and investment, all of which are required in the day-to-day operation of a business. They also argue that the combining FL with experience, where knowledge is gained from one's own as well as other people's observations, further enhances the quality of financial decisions.

3. 3. Entrepreneurial Orientation

EO refers to the strategy-making processes that provide firms with a basis for decisions and actions (Rauch et al., 2009) and, as such, it is an important concept in entrepreneurship (Runyan et al., 2008). According to Miller (1983), EO is comprised of three essential dimensions: innovativeness, proactiveness, and risk-taking. While most scholars have adopted Miller's definition of EO (Covin and Slevin, 1989; Wiklund, 1999), other scholars, based on Lumpkin and Dess's (1996) work, include autonomy and competitive aggressiveness as two additional dimensions of EO. In this study, we follow Miller's (1983) definition that EO demonstrates the "firm's radical innovation, proactive strategic action, and risk-taking activities" in new venture creation amid uncertain results (Zahra and Neubaum, 1998, p. 124). Innovativeness denotes a firm's willingness to engage in novel ideas, creative practices, and R&D to develop new products and services (Altinay et al., 2016; Lumpkin and Dess, 1996). Proactiveness denotes a firm's willingness to act in anticipation of future problems and to seize emerging opportunities in order to gain the first-mover advantage (Grande et al., 2011; Wiklund and Shepherd, 2003). Risk-taking denotes a firm's willingness to commit resources to projects and activities with a high probability of failure and an uncertain outcome (Wiklund and Shepherd, 2005). In this sense, risk-taking facilitates a firm's willingness to undertake innovative and proactive initiatives aimed at keeping ahead of the competition in the market (Su et al., 2011). To summarize, entrepreneurial firms are those that display innovativeness, proactiveness, and risk-taking in their decisions, processes, and activities.

There is scholarly debate over whether EO is a dispositional or behavioral phenomenon (Basso et al., 2009; Covin and Lumpkin, 2011). Although the most frequently employed measure of EO, namely, Covin and Slevin's (1989) scale,

reflects both aspects, in this study we highlight the behavioral aspect of EO over the dispositional aspect.

3. 4. Ethnicity, FL, EO, and Intergenerational Entrepreneurial Values

Ethnicity is a classification of people based on common origin and shared cultural values, where group members are perceived as having these attributes both by themselves and others (Koning and Verver, 2013; Yinger, 1985). Prior research indicates that culture and entrepreneurship are related, as certain cultural values favor entrepreneurial behavior (Hayton et al., 2002; Mueller and Thomas, 2001). Common Chinese cultural values, such as thrift and persistence, have been widely recognized as supporting entrepreneurship (Ahlstrom et al., 2010; Redding, 1990), as these values emphasize the importance of diligence and hard work for the achievement of long-term benefits (Jaw et al., 2007).

Based on the literature on intergenerational transmission, values can be transmitted from one generation to the next via parenting practices (Dohmen et al., 2012). For example, parents can influence their children's orientation toward entrepreneurship through exposure to a family business (Sørensen, 2007), which in turn influences their actual behavior (Armitage and Conner, 2001). In the transmission process, tangible resources (for example, funds) and intangible resources (for example, business knowledge and experience) are acquired through the parents' teachings and practices, as well as through the children's observations on how their parents conduct business (Wyrwich, 2015). Tangible and intangible resources, including the parents' social capital, equip the children to identify opportunities in the market (Sørensen, 2007; Wyrwich, 2015). By this mechanism of intergenerational transmission, FL and EO, as intangible resources, can be maintained over generations and used to improve SME performance.

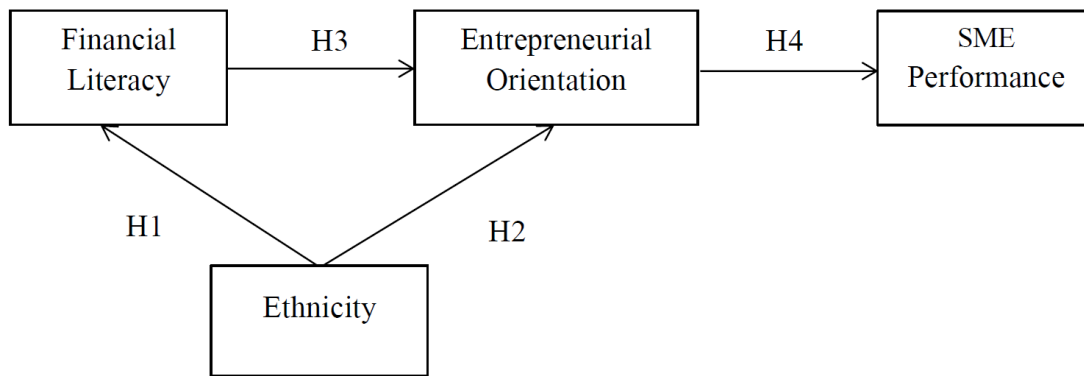


Figure 1. Research Model

In this study, we develop four hypotheses that fit together in a comprehensive model (Figure 1). We argue that ethnicity influences entrepreneurs' FL and EO. We also argue that FL is positively related to EO and EO is positively related to SME performance. We then validate this model using anecdotal evidence from 15 qualitative interviews.

Prior research shows that ethnicity is a predictor of FL (Crossan et al., 2011; Lusardi and Mitchell, 2007a; Lusardi et al., 2010; Mandell, 1998) and that the educational and economic disadvantages of certain ethnic groups are associated with a lower level of FL (Crossan et al., 2011). Prior research also shows that ethnicity is a predictor of EO (Kreiser et al., 2002), and that the venture creation and development of certain ethnic groups is associated with a higher level of EO (Gartner, 1990; Sánchez, 2011; Yamakawa et al., 2008). In line with intergenerational transmission theory, Dohmen et al. (2012) find that the risk-taking attitude of parents is strongly correlated to the risk-taking attitude of their children, as parents tend to raise children with similar traits. Prior research also shows that this strong correlation remains unchanged regardless of the varying environmental characteristics they encounter across generations (Dohmen et al., 2012).

We contend that ethnic Chinese in Indonesia have cultural values that are supportive of entrepreneurship. Ethnic Chinese in Indonesia were exposed to a social context that was different from that of their indigenous Javanese counterparts, and that contributed to their attitudes toward entrepreneurship as well as to their entrepreneurial behavior (Chua, 2008; Winarta, 2008). Specifically, the ethnic Chinese had to be more financially literate than the Javanese because they

were historically forced into entrepreneurship due to the restrictions imposed on them with regard to work as civil servants in the public sector (Raillon, 1991; Soebagjo, 2008). They handed down their entrepreneurial knowledge and skills (including FL) to succeeding generations, often within the framework of family businesses (Weidenbaum and Hughes, 1996).

In contrast to ethnic Chinese, the Javanese uphold cultural values that emphasize charity (Woodward, 1988). Unlike Chinese entrepreneurs, Javanese entrepreneurs have a higher tendency to spend profits on personal consumption than to invest in the business (Brenner, 1998 in Turner, 2005, p. 270). They also enjoy financially related privileges from the government (Efferin and Hopper, 2007; Papanek, 2006) that “spoil” them and make them less competitive than the Chinese (Papanek, 2006). In addition, the Javanese, as an indigenous ethnic group, are exposed to a social context that contributes to their career preference for employment over entrepreneurship (Chua, 2008; Simandjuntak, 2006). In general, Javanese society does not admire entrepreneurial activities and the culture is not entrepreneurially oriented (Hitchcock, 2000; Raillon, 1991).

In short, a combination of cultural values, social context, and personal characteristics have led to ethnic Chinese entrepreneurs being more financially literate, competitive, and entrepreneurial than Javanese entrepreneurs. By an intergenerational transmission mechanism, ethnic Chinese entrepreneurs transmit and maintain FL and EO down through the generations, and these intergenerational entrepreneurial values enable the Chinese to outcompete their Javanese counterparts. Based on the above explanation, we propose the following hypotheses:

H1: Chinese entrepreneurs have higher FL than Javanese entrepreneurs.

H2: Chinese entrepreneurs have higher EO than Javanese entrepreneurs.

3. 5. The Relationship between FL, EO, and SME Performance

FL is closely related to entrepreneurship as entrepreneurs are confronted with many financially related decisions, such as saving and borrowing decisions and investment choices (Lusardi and Mitchell, 2014). Financial knowledge and practices are at the heart of business and hence FL is key to business success (Xu and Zia, 2012). FL is found to significantly improve awareness of and attitudes toward financial decision-making (Carpena et al., 2011). It is thus crucial for

opportunity recognition and exploitation (EO) and leads to improved SME performance.

Previous studies indicate the positive relationship between FL and firm performance (Adomako and Danso, 2014; Bruhn and Zia, 2013; Drexler et al., 2014). In particular, FL is found to be an important factor for success in small businesses (Dahmen and Rodríguez, 2014). Adomako and Danso (2014) empirically test the direct relationship between FL and firm performance, as well as the moderating effects of financial capital availability and resource flexibility on the FL-Performance relationship. They find that FL improves firm performance, and even more so when these moderating variables are in place. The FL-Performance relationship can be explained as FL equips entrepreneurs to make sound financial decisions (Lusardi et al., 2010), which in turn impact firm performance (Hilgert et al., 2003).

Previous studies also show that improving FL through FL training programs improves EO and impacts performance indicators (Bruhn and Zia, 2013; Drexler et al., 2014). Bruhn and Zia (2013) find that FL training programs significantly improved the business practices of young entrepreneurs in Bosnia and Herzegovina. Drexler et al. (2014) find that training programs for FL had a positive effect on the management practices as well as the actual profits of small businesses in the Dominican Republic. The impact of FL on performance through better business practices is also supported by McKenzie and Woodruff (2014). In line with these studies, we contend that FL may indirectly influence SME performance through EO as the mediating variable.

Prior research provides evidence of a positive relationship between FL and EO by analyzing the relationship between FL and the EO dimensions of innovativeness (Van Rooij et al., 2011), proactiveness (Serido et al., 2010), and risk-taking (Almenberg and Dreber, 2015; Halko et al., 2012; Van Rooij et al., 2012). We address the relationship between FL and EO using similar dimensions to measure EO (Miller, 1983). Accordingly, we propose the following hypothesis: H3: FL is positively related to EO.

EO has received considerable scholarly attention due to its empirically demonstrated positive relationship with firm performance (Covin and Slevin, 1991; Lumpkin and Dess, 1996; Wiklund and Shepherd, 2003). In their meta-analysis of EO and business performance, Rauch et al. (2009) find that EO has a statistically significant positive effect on performance. The authors assign equal power to each of the three dimensions of EO in explaining this effect. However,

they show that the effect of EO on performance may vary across cultures, as some dimensions of EO may not be rewarded in some cultures as much as they are in other cultures. In addition, some studies report inconsistent findings in regard to one of the EO dimensions, risk taking (Kreiser et al., 2013; Naldi et al., 2007). Kreiser et al. (2013) find that firms with moderate levels of risk taking experienced low levels of performance and those with low levels of risk taking displayed high levels of performance. Risk taking is argued to have a curvilinear relationship with performance, and this helps explain the varied findings on the EO-Performance relationship (Kreiser and Davis, 2010). Yet, the majority of studies find a positive relationship between EO and performance (Covin et al., 2006; Rauch et al., 2009; Wales et al., 2011; Wiklund and Shepherd, 2003, 2005). Based on these findings, we propose the following hypothesis:

H4: EO is positively related to SME performance.

4. Methods

4.1. Sample

The research design of this study is a quantitative, administered survey, combined with 15 qualitative interviews. The sample is divided into Chinese and Javanese entrepreneurs, both representing SMEs located in one of the two cities of Yogyakarta and Solo. These cities were selected based on the existence of parallel entrepreneurial activities of Chinese and Javanese entrepreneurs, which allowed us to compare these businesses within the same macro-environment in the province of Central Java. The Chinese entrepreneurs surveyed in this study are not first-generation immigrants, but were born in Indonesia and are, to some extent, influenced by local culture. This approach is common in testing the persistence of cultural values, that is, whether these values are intergenerationally transmitted, even in a different social context (Lassmann and Busch, 2015).

Regarding the quantitative survey, we employed a mix of purposive and snowball sampling methods, using several criteria such as (1) ethnicity (comprising only Javanese and Chinese entrepreneurs), (2) independently owned SMEs, and (3) firm size (comprising only SMEs). In this paper, an SME is defined as a formal enterprise that employs between two and 500 employees (not inclusive). Sample firms were selected from various industries: manufacturing, agriculture, service, creative, trade (wholesale and retail), and high technology.

In our first data collection process, we conducted purposive sampling by generating a population list based on business licenses obtained from the regional government office, as well as by accessing membership lists of trade associations. However, we had difficulty attaining the targeted number of respondents, especially of Chinese respondents. We found that lack of trust was the main reason. Ethnicity, especially for Chinese Indonesians, is a very sensitive issue, due to the history of discrimination, rent-seeking practices, and anti-Chinese riots. Trust was therefore crucial in getting respondents to participate in the survey. Hence, snowball sampling was utilized to increase trust. We did this by asking respondents to introduce us to others in their ethnic social network. Firm-specific data on owner's ethnicity was not available in any published list, which also made the use of snowball sampling in this way important.

4. 2. Data Collection and Questionnaire

Data collection was conducted using face-to-face and online surveys, preceded by asking questions regarding the sample criteria. If the target respondents matched the criteria, the survey was conducted. Surveys were targeted at and completed by firm owners who had full or partial decision-making authority, in line with supporting theories that suggest that key decision makers establish the strategic orientation of SMEs (Lumpkin and Dess, 1996). As ethnicity is a very sensitive issue in the Indonesian context, we assigned research assistants of a similar ethnicity to approach the potential respondents. This strategy was conducted to obtain a high participation rate, on the assumption that matching the ethnicity of both sides (respondent and survey administrator) would create trust. Both offline and online respondents had the opportunity to seek an explanation in case of lack of comprehension of survey items.

The questionnaire was developed in English and underwent a back translation and monolingual test (Maneesriwongul and Dixon, 2004). First, the items were translated into Bahasa Indonesia and then they were translated back into English by different translators. Second, face validity was enhanced by asking four experts in the business/entrepreneurship field to look at the questionnaire. Third, a monolingual test was conducted among 10 entrepreneurs to check their understanding of the items and to verify the semantic equivalence between the Bahasa Indonesia and English versions. This process resulted in adjustments being made to two items that were assessed as difficult to comprehend by some of the

participating entrepreneurs. The survey was then distributed to 25 sample participants and tested for validity and reliability, following Cooper and Schindler (2014) who suggest 25 to 50 participants as the ideal range for conducting a pilot test. Once the validity and reliability reached the cut-off standards, the survey was distributed to a larger sample group.

The response rate for this research was high (89.6 percent). Thus, we assumed that nonresponse bias was not a big concern. Among the 385 questionnaires distributed, 345 responses were collected, of which 10 were incomplete; thus, we were left with 335 complete responses. Among these 335 responses, 7 of the respondents identified their ethnicity as a mix of Javanese and Chinese, or Chinese mixed with other ethnicities beyond the study's scope. Hence, these surveys were excluded from the data analysis to keep it consistent with the sample criteria. Ultimately, therefore, we had 328 usable responses, comprised of 162 Chinese entrepreneurs/firms and 166 Javanese entrepreneurs/firms. Among the 328 valid responses, 293 were obtained through face-to-face meetings and the rest (35) were obtained through an online process.

4. 3. Measures

FL was measured by the scale developed by Lusardi and Mitchell (2014). The scale consists of three questions, measuring “(i) numeracy and capacity to do calculations related to interest rates, such as compound interest; (ii) understanding of inflation; and (iii) understanding of risk diversification” (Lusardi and Mitchell, 2014, p. 10). The score was calculated by the number of right answers, with a maximum score of 3 for all correct answers and a minimum score of 0 for all incorrect and “do not know” answers.

EO was measured using a scale developed by Covin and Slevin (1989), which includes three dimensions: innovativeness, proactiveness, and risk taking. This scale was selected over other EO scales as it is a reflective measure (Covin and Wales, 2012) appropriate for theory development and testing purposes (Wilcox et al., 2008 in Covin and Wales, 2012, p. 698), which represent our objective in this study. The three dimensions of EO (innovativeness, proactiveness, and risk taking) are the ones most commonly used to measure EO (Rauch et al., 2009) and have tested positive for their reliability in cross-cultural settings (Runyan et al., 2012). The firm-level EO was investigated through the business owner, as owners are actively involved in the decision-making process in SMEs.

This method is acceptable, conforming with typical EO research that uses top management to measure firm-level EO (Covin and Slevin, 1989; Rauch et al., 2009). There were nine items, measured using a five-point numerical scale with a bipolar situation at both ends, where 1 (on the left-most end) represents the statement showing the lowest EO indicators and 5 (on the right-most end) represents the statement showing the highest EO indicators.

Ethnicity was implemented as a dummy variable measured using a nominal scale, where Javanese = 0 and Chinese = 1. SME performance was measured through three items taken from Runyan et al. (2008), assessing the overall performance of the firm compared to the previous year, to major competitors, and to other similar firms in the industry (see Table 2). These items were measured on a five-point itemized rating scale (1 = poor to 5 = excellent).

We applied a multilevel analysis, under the assumption that an entrepreneur's FL reflects his/her firm's FL, which influences his/her firm's EO and ultimately his/her firm's performance. This multilevel analysis is justified based on the argument that a firm's behavior is a reflection of its individual members' behaviors and orientations (Rauch et al., 2004 in Basso et al., 2009, p. 708). Furthermore, the cross-level unit of analysis was feasible in this case, as owners are the key decision makers who determine the firms' strategic orientation (Covin and Slevin, 1991; Lumpkin and Dess, 1996).

4. 4. Control Variables

Five variables at the industry level, firm level, and individual level were utilized to control for potential effects on the dependent variables. The first variable was type of industry, which has been shown to have an effect on entrepreneurial initiatives (Kreiser et al., 2010; Rauch et al., 2009). The second variable was firm age. Older firms have more established routines, and hence are less positively affected by EO (Rauch et al., 2009). The last three variables were gender, age, and education level of the respondent. Gender, age, and education may affect EO and the overall decision-making process (Lim and Envick, 2013; Robinson and Sexton, 1994). Education may also affect FL (Lusardi et al., 2010), which is hypothesized as having a positive relationship with EO in this paper. Table 1 presents the sample characteristics.

Table 1. Sample Characteristics

Characteristic	Javanese (N=166)		Chinese (N=162)	
	Total	Percentage (%)	Total	Percentage (%)
Gender:				
Male	99	59.6	105	35.2
Female	67	40.4	57	64.8
Age:				
40 or less years	87	52.4	67	41.3
41-50 years	53	31.9	33	20.4
51 years and over	26	15.7	62	38.3
Education:				
Below high school	9	5.4	10	6.2
High school	79	47.6	72	44.4
Diploma	10	6.0	10	6.2
Bachelor	63	38.0	60	37.0
Master	5	3.0	10	6.2
Firm Age:				
≤ 10 years	110	66.3	45	27.8
11-20 years	32	19.3	42	25.9
> 20 years	24	14.4	75	46.3
Industry:				
Low risk/non-dynamic	129	77.7	137	84.6
High risk/dynamic	37	22.3	25	15.4
Family Business	18	10.8	69	42.6
Entrepreneurial Parents	85	51.2	140	86.4
Ownership:				
Fully owned	152	92.2	158	97.5
Joint venture	13	7.8	4	2.5

4. 5. Reliability, Validity, and Data Analysis

Reliability was tested using Cronbach's alpha and the result shows that all items of EO ($\alpha = 0.797$) and Performance ($\alpha = 0.756$) are reliable, as they exceed the recommended level of 0.70 (Nunally, 1978). We conducted a confirmatory factor analysis to check the discriminant validity of measurement items (Anderson and Gerbing, 1988). The result shows that factor loadings of all items are

significant ($p < 0.001$) and exceed the minimum acceptable level of 0.5, except for one item of EO (INNO1), which is therefore omitted (see Table 2). The chi-square test result is significant ($\chi^2 (328) = 196.364, df = 50, p = 0.000$). Table 3 shows that AVEs for EO and Performance constructs are higher than the squared correlations among these constructs, and hence confirm the discriminant validity (Fornell and Larcker, 1981).

Table 2. Measurement Items and Confirmatory Analysis Results

Construct	Measurement Items	Standardized Loadings	Cronbach Alpha
Financial Literacy (Lusardi & Mitchell, 2014)	<p>FL1</p> <p>Suppose you have IDR 100,000 in your savings account and the interest rate was 2 percent per year. After 5 years, how much do you think you would have in the account if you let the interest accrue?</p> <ul style="list-style-type: none"> a. More than IDR 100,000 b. Exactly IDR 100,000 c. Less than IDR 100,000 d. Do not know 	-	-
	<p>FL2</p> <p>Imagine that the interest on your savings account was 1 percent per year and the inflation was 2 percent per year. After 1 year, would you be able to buy:</p> <ul style="list-style-type: none"> a. More than today b. Exactly the same as today c. Less than today d. Do not know 		
	<p>FL3</p> <p>Please answer the following true-or-false statement.</p> <p>Buying a single company stock usually provides a safer return than a mutual fund stock.</p> <ul style="list-style-type: none"> a. True b. False c. Do not know 		
	In general, the managers in my company and I favor:		.797

Construct	Measurement Items		Standardized Loadings	Cronbach Alpha
Entrepreneurial Orientation (Covin & Slevin, 1989)	INNO1	A strong emphasis on the marketing of tried-and-true products or services (1-2-3-4-5) A strong emphasis on R&D, technological leadership, and innovations	.248*** (Deleted)	
	How many new lines of products or services has your firm marketed in the past five years (or since its establishment)?			
	INNO2	No new lines of products or services (1-2-3-4-5) Very many new lines of products or services.	.848***	
	INNO3	Changes in product or service lines have been mostly of a minor nature (1-2-3-4-5) Changes in product or service lines have usually been quite dramatic.	.925***	
	In dealing with competitors, my firm:			
	PRO1	Typically responds to actions that competitors initiate (1-2-3-4-5) Typically initiates actions to which competitors then respond.	.663***	
	PRO2	Is very seldom the first business to introduce new products/services, administrative techniques, operating technologies, etc. (1-2-3-4-5) Is very often the first business to introduce new products/services, administrative techniques, operating technologies, etc.	.627***	
	PRO3	Typically seeks to avoid competitive clashes, preferring to take a “live-and-let-live” approach (1-2-3-4-5) Typically adopts a very competitive, “outdo-the-competitors” approach.	.451***	

Construct	Measurement Items	Standardized Loadings	Cronbach Alpha
RISK1	In general, my firm has: A strong proclivity for low-risk projects (with normal and certain rates of return) (1-2-3-4-5) A strong proclivity for high-risk projects (with chances of very high returns).	.690***	
RISK2	In general, my firm behaves as follows: Owing to the nature of the environment, it is best to explore it gradually via cautious, incremental behavior (1-2-3-4-5) Owing to the nature of the environment, bold, wide-ranging acts are necessary to achieve the firm's objectives.	.783***	
RISK3	When confronted with decision-making situations involving uncertainty, my firm: Typically adopts a cautious, "wait-and-see" approach in order to minimize the probability of making costly decisions (1-2-3-4-5) Typically adopts a bold, aggressive approach in order to maximize the probability of exploiting potential opportunities.	.770***	
Performance (Runyan et al., 2008)	PERF1 How is your company's overall performance compared to last year? PERF2 How is your company's performance compared to major competitors? PERF3 How is your company's performance compared to other similar firms in the industry?	.533*** .858*** .807***	.756

CFA model-fit: χ^2 (328) = 196.364, CFI = .883, TLI = .846, RMSEA = .095, *** $p < .001$

5. Results

A normality test was conducted using a probability plot and the results show that the data of all variables included in this study are normally distributed. Autocorrelation in the residuals from the regression analysis was checked using the Durbin Watson statistic. The result shows a value of 1.630, which is within the recommended level between 1.5 and 2.5 (Karadimitriou and Marshall, 2016). Multicollinearity was checked using the variance inflation factor (VIF) of predictors. The result shows that there is no multicollinearity as the VIFs of all variables are significantly below the threshold value of 10 (Neter et al., 1985). Heteroskedasticity was checked using a scatter plot. The result shows that there is no heteroskedasticity as the data of all variables are normally distributed. An outlier test was conducted by checking the deleted residual of the regression and comparing the Mahalanobis distance with the critical value of the chi square distribution. The results show that there are no multivariate outliers in the data as the deleted residual of -1.82 (minimum) and 1.38 (maximum) does not exceed the threshold value of ± 2.5 (Hair et al., 2010) and the maximum Mahalanobis distance ($D^2 = 8.810$) does not exceed the critical value of the chi-square distribution ($\chi^2 = 16.266$).

The descriptive statistics and correlations for the control and latent variables are presented in Table 3. We applied an independent sample t-test to test Hypotheses 1 and 2. Table 4 reports the result of the independent sample t-test of FL and EO among the Javanese and Chinese entrepreneurs/firms.

Table 3. Descriptive Statistics and Correlations for Total Sample

Variable	Mean	SD	1	2	3	4	5	6	7	8
1. Industry	.19	.39	1.000							
2. Firm age	15.89	13.56	-.137**	1.000						
3. Gender	.62	.48	-.025	-.088	1.000					
4. Age	41.35	13.13	.043	.206***	-.060	1.000				
5. Education	14.17	2.92	-.033	-.027	.071	-.227***	1.000			
6. Financial Literacy	1.43	.88	.031	.038	-.072	.031	.139**	1.000	.038	0.001
7. EO	2.93	.76	-.012	.043	.046	-.175**	.186***	.194***	1.000	.025
8. Performance	3.75	.57	-.086	-.020	.058	-.180**	.024	.039	.158**	1.000
AVE									.447	.557

N = 328; SD = Standard Deviation; AVE: Average Variance Extracted; Squared correlations of construct appear above the diagonal.

p* < .05; *p* < .01; ****p* < .001; two-tailed

Table 4. Summary of t-Test Result

Variables	Ethnicity	N	Mean	t-value	Sig
Financial Literacy (FL)	Javanese	166	1.19	-5.221	p < .001
	Chinese	162	1.67		
Entrepreneurial Orientation (EO)	Javanese	166	2.74	-4.703	p < .001
	Chinese	162	3.12		

In line with Hypothesis 1, we find that Chinese entrepreneurs have significantly higher FL than their Javanese counterparts ($t = -5.221, p < 0.001$). In line with Hypothesis 2, we find that Chinese entrepreneurs have higher EO than their Javanese counterparts ($t = -4.703, p < 0.001$). Thus, H1 and H2 are supported.

To test Hypotheses 3 and 4, which imply the mediating effect of EO on the FL-Performance relationship, we applied Hayes's (2013) regression-based approach using the PROCESS Macro for SPSS version 3.3 (model 4). We conducted the regression analysis using a bias-corrected bootstrapping method with 95 percent confidence intervals and 5000 bootstrap samples (Preacher et al., 2007). Table 5 reports the results from our multiple regression analysis on the influence of FL on EO and of EO on SME performance. We found that two control variables are significant predictors of EO: education ($\beta = 0.122, p < 0.05$) which is positively related to EO, and respondent age ($\beta = -.166, p < .01$) which is negatively related to EO. These results indicate that (1) highly educated entrepreneurs have higher EO than less educated entrepreneurs, and (2) younger entrepreneurs have higher EO than older entrepreneurs.

Table 5. Results of Multiple Regression Analysis

	Outcome	
	EO	SME Performance
Constant	2.537*** (.274)	3.850*** (.237)
Industry	.005 (.104)	-.079 (.080)
Firm age	.079 (.003)	-.001 (.002)
Gender	.048 (.084)	.046 (.064)
Respondent Age	-.166** (.003)	-.163 (.002)
Education	.122* (.014)	-.047 (.011)
FL	.182*** (.047)	.031 (.036)
EO	-	.129* (.043)
Model Fit		
R^2	.093	.059
F -statistics	$F(6, 321) = 5.465$	$F(7, 320) = 2.883$
Mediation	Standardized indirect effect	95 percent bootstrap CI
EO	.024	.001 to .057

$N = 328$; Regression coefficients displayed are standardized; standard error reported in parentheses.

* $p < .05$; ** $p < .01$; *** $p < .001$.

Hypothesis 3 suggests that FL is positively related to EO. As can be seen in Table 5, FL is significantly positively related to EO ($\beta = 0.182$, $t(321) = 3.375$, $p = 0.0008$). Thus, H3 is supported. Hypothesis 4 posits that EO is positively related to SME performance. As can be seen in Table 5, EO is significantly positively related to SME performance ($\beta = 0.129$, $t(320) = 2.27$, $p = 0.024$). Thus, H4 is supported. The result of the mediation analysis shows the mediating role of EO in the FL-Performance relationship as the confidence interval of the indirect effects of FL on SME performance ($\beta = 0.024$; $CI = 0.001$ to 0.057) does not cross zero and the direct effect of FL on SME performance is not significant ($\beta = 0.020$, $t(321) = 0.558$, $p = 0.577$).

6. Discussion

From a cross-cultural cognitive perspective (Busenitz and Lau, 1996), we have shown that ethnicity influences FL and EO. Furthermore, from a resource-based perspective (Barney, 1991; Wiklund and Shepherd, 2003), we have shown that there are positive relationships between FL, EO, and SME performance. Specifically, we find empirical support for all our hypothesized relationships (see Figure 1).

Our first two empirical findings reveal that ethnicity in Indonesia is associated with entrepreneurs' FL and EO. First, ethnic Chinese entrepreneurs in Indonesia have significantly higher FL than indigenous Javanese entrepreneurs. Second, ethnic Chinese entrepreneurs have significantly higher EO than Javanese entrepreneurs.

These two empirical findings might be due to the fact that entrepreneurial knowledge, attitudes, and skills are more deeply embedded in Chinese entrepreneurs. One possible explanation for this difference is the strong exposure of ethnic Chinese to entrepreneurship from childhood. Our qualitative findings support this argument. All eight Chinese entrepreneurs interviewed revealed that they had been exposed to entrepreneurship from childhood in a number of different ways, such as seeing the daily operation of their parents' business, being taken to their parents' business sites (factories, shops), listening to business discussions at the dinner table, and being directly involved in the business. A good illustration of this early-age exposure to entrepreneurship can be seen in the following statement of one Chinese respondent:

“My parents taught me entrepreneurship by force. They stopped giving me an allowance when I was in junior high school; instead, I had to work in their shop to get money in the form of a salary. They forced me to be directly involved in the business, and in this way they taught me a lot of business principles that are beneficial to my current business. I used the same method with my daughter who is currently operating our business, and she also uses this method with her 12-year-old daughter.” (Anita, founder of a photography equipment business).

We find a contradictory situation among the Javanese, where parents generally encourage their children to apply for a job instead of creating their own business venture. This is illustrated in the following statement of one Javanese respondent, an entrepreneur whose parents were also entrepreneurs:

“My father told me not to follow him in his career as a building contractor because it’s not easy. He said that I should find a job in line with my studies in electronic engineering. I didn’t want that because it was not interesting to me. I decided to be a building contractor because I had someone to consult, my own father. My parents never taught me entrepreneurship, like the Chinese do to their children. So, I learned it on my own” (Dimas, founder of a property development business).

Based on these interviews, it is our contention that early-age entrepreneurial exposure equips ethnic Chinese with entrepreneurial cognition (FL) that guides their entrepreneurial behavior (EO) that leads to entrepreneurial success (SME performance). It is also our contention that these entrepreneurial qualities are passed down from one generation to another via parenting practices (Wyrwich, 2015).

We observe more early-age entrepreneurial exposure among Chinese families in Indonesia than among indigenous Javanese families. Such exposure is driven in part by the limited career choices available to ethnic Chinese due to restrictions and discrimination in the labor market (Constant and Zimmermann, 2006). In such a social context, ethnic Chinese often have to embark on the path of entrepreneurship as a source of income. Our findings resonate with Covin and Miller (2014) who argue that a high level of entrepreneurship is typical among minority groups who are economically or socially “excluded” from society.

In addition, higher FL and EO among Chinese may be due to another culturally related aspect: a future-oriented culture. Based on Hofstede and Bond’s (1988) work, the Chinese are found to have a strong future-oriented culture (or

“long-term orientation”) that stems from Confucian values. A long-term orientation is related to a strong proclivity to save for the future, while a short-term orientation is related to a strong proclivity to spend and enjoy leisure in the present (Hofstede, 2001). Thrift and persistence are two values that are associated with a long-term orientation (Hofstede and Bond, 1988) and they are also associated with entrepreneurship (Takyi-Asiedu, 1993). These values are highly evident among ethnic Chinese (Holt, 1997), whereas the Javanese are more inclined to a short-term orientation (Mangundjaya, 2013). In addition, ethnic Chinese are a minority and were formerly immigrants and, as such, they possess personal characteristics that distinguish them from the indigenous majority, including more positive attitudes toward entrepreneurship (Levie, 2007).

Our third empirical finding is that FL is significantly positively related to EO. This suggests that increasing FL increases EO and, in particular, innovativeness (Van Rooij et al., 2011), proactiveness (Serido et al., 2010), and risk taking (Almenberg and Dreber, 2015). Our fourth empirical finding is that EO is significantly positively related to SME performance. This is in line with most of the empirical studies surveyed in Rauch et al. (2009). Taken altogether, our findings may explain why the Chinese minority dominates the Javanese majority where entrepreneurship and commercial success are concerned. The findings indicate that the Chinese have significantly higher FL and EO than their Javanese counterparts and utilize these advantages to achieve better SME performance. Our findings support Morris and Schindehutte (2005) who argue that ethnicity influences entrepreneurs’ values. This, consequently, influences managerial practices and business strategies (Posner and Schmidt, 1992), and ultimately firms’ performance (Kotey and Meredith, 1997).

7. Conclusion

This study is motivated by the apparent success of ethnic Chinese entrepreneurs in Indonesia. In this paper, we build a model (Figure 1) that helps to decompose their success by specifically investigating ethnic entrepreneurs’ FL, which guides their EO, and eventually impacts their SME performance. We compare Chinese as a minority ethnic group with Javanese as a majority indigenous ethnic group in Indonesia. Our findings show that entrepreneurs from different ethnic groups living in one national context (Indonesia) display different cognition and behaviors due to different institutional exposure. The findings

suggest that, even if entrepreneurs of different ethnicities live and operate their businesses in the same country, they are not necessarily exposed to the same institutional forces.

We reveal that ethnicity in Indonesia is associated with entrepreneurs' FL and EO. We also find that FL is positively related to EO, and EO is positively related to SME performance. This study shows the theoretical usefulness of combining a cross-cultural cognitive model and RBV, as these perspectives complement each other in understanding the influence of ethnicity on cognition (FL), behavior (EO), and firm performance relationships. The positive relationship of FL and EO found in our study extends previous studies by showing that FL-EO relationship applies not only in the financial sphere but also in the entrepreneurial sphere. In addition, the positive relationship between EO and performance found in our study empirically supports most research in EO-Performance relationship. Furthermore, our findings suggest that entrepreneurial values and resources can be handed down over generations by intergenerational transmission mechanisms such as parenting practices. This is exhibited by the local-born Chinese who appear to have stronger entrepreneurial qualities (FL and EO) than their indigenous counterparts.

As far as we know, this study is the first to investigate the relationship between FL and EO. The setting of the study in one of Asia's emerging economies, Indonesia, which has a rich, multicultural society as well as a dynamic institutional context, contributes to the literature at the intersection of EO and ethnic entrepreneurship studies. Following Fang (2010), this study provides an Asian perspective that complements the Western approach to cross-cultural management theory and practice. Our finding supports the use of cross-cultural cognition and resource-based perspectives in entrepreneurship research, specifically by incorporating cultural values in cognitive, behavioral, and performance outcomes.

7. 1. Implications and Future Research

This study has several public policy implications. First, governments should strengthen educational systems that are crucial to the development of entrepreneurship-related competencies (Acs and Szerb, 2007). Specifically, governments can initiate training programs to enhance FL for both entrepreneurs and would-be entrepreneurs, which would consequently enhance their EO. Furthermore, as SMEs serve as the backbone of the economy in developing

countries (Bhasin and Venkataramany, 2010), training programs for FL would not only improve the entrepreneurs' livelihood but also support national economic growth (Xu and Zia, 2012).

Second, as we have found that ethnicity influences FL and EO, governments should take into account ethnic cultural values in implementing entrepreneurship development programs, and specifically in improving FL in an effort to enhance EO and performance. As entrepreneurs of different ethnic groups may behave differently, programs should be tailored to accurately focus on areas of improvement for entrepreneurs of different ethnicities. On top of that, a culture that strongly supports entrepreneurship would lead to higher levels of opportunity-based entrepreneurship (Acs et al., 2007). Hence, governments should initiate schemes that shift the culture from one that is less supportive of entrepreneurship to one that is more supportive, in order to promote entrepreneurship development.

Our study has several limitations. First, the sample was obtained from only one specific region of Indonesia (Central Java province), which reduces the generalizability of the findings. Future research should expand the sample selection to include a broader regional scope and thereby enhance its generalizability. Second, the applied snowball sampling may create elements of self-selection bias. However, as ethnicity is a sensitive issue that may constrain respondents' willingness to participate, researchers have to cope with this obstacle by other means, for example, by accessing key persons in trade associations, through whom access to ethnic entrepreneurs might be gained.

Future research should investigate further which factor, ethnic cultural values or intergenerational transmission mechanisms (parenting practices), is more conducive to high levels of FL and EO. This can be achieved by comparing entrepreneurs from different ethnic groups but from similar families, that is, all raised by entrepreneurial parents, or by comparing entrepreneurs from similar ethnic groups but from different families, that is, some raised by entrepreneurial parents and some raised by non-entrepreneurial parents. Future research should also examine the antecedents of FL, as well as how FL enables entrepreneurs in strategic decision-making situations to recognize and exploit entrepreneurial opportunities.

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Paper 3

Entrepreneurs' Coping Strategies in Response to Illegitimate Institutional Pressures: Evidence from Indonesia

This paper is currently under review in Global Strategy Journal.

Entrepreneurs' Coping Strategies in Response to Illegitimate Institutional Pressures: Evidence from Indonesia

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Research Summary:

This paper addresses illegitimate institutional pressures that constrain entrepreneurial activities in an emerging market context. Based on the investigation of nine ethnic Chinese and ten indigenous Javanese entrepreneurs in Indonesia, we develop a theoretical model that conceptualizes the main actors, the illegitimate pressures they exert, and the coping strategies the entrepreneurs rely on. In relation to previous research, we observe a greater variety of entrepreneurial coping strategies. Specifically, we find that ethnic Chinese entrepreneurs were more exposed to illegitimate pressures and discriminatory treatment than their indigenous counterparts, yet they were able to prevail due to pragmatic coping strategies. Our theoretical model helps to explain why some entrepreneurs are more vulnerable to illegitimate pressures than other entrepreneurs and matches illegitimate institutional pressures with suitable coping strategies.

Managerial Summary:

Entrepreneurs in emerging markets such as Indonesia commonly face illegitimate institutional pressures. In this paper, we outline various formal and informal institutional actors who exert illegitimate pressures such as racketeering, extortion, and compulsory donations on ethnic entrepreneurs in Indonesia. We identify compliance, lobbying, physical violence, and infiltration as the main coping strategies that the Chinese and Javanese entrepreneurs we studied relied on. Our findings can guide entrepreneurs in designing actionable and pragmatic coping strategies to deal with illegitimate institutional pressures on the ground. Policy makers in emerging countries can benefit from our findings when stipulating

regulations, improving formal institutions, and strengthening the enforcement of law to promote entrepreneurship.

Keywords

Informal institution, illegitimate pressure, strategy, ethnic entrepreneur, emerging economy

1. Introduction

Formal and informal institutions provide entrepreneurs with the legitimacy needed for their endeavors (Ahlstrom & Bruton, 2001). However, in the case of institutional voids, entrepreneurs are faced with legitimate and illegitimate pressures to cope and comply (Khoury & Prasad, 2016; Sutter, *et al.*, 2013). Entrepreneurs with different backgrounds respond to these pressures differently (Bruton, Ahlstrom, & Li, 2010) and ethnic minorities are typically more vulnerable to them than their indigenous counterparts (Teixeira, Lo, & Truelove, 2007). For example, previous research has shown that in some countries ethnic groups are not allowed into particular markets (e.g., land ownership), have limited access to key resources (e.g., bank financing), or have to pay more for their right to do business than indigenous entrepreneurs (Webb, Khoury, & Hitt, 2019). Minority ethnic entrepreneurs are commonly in a disadvantaged position because the control of critical governmental institutions is in the hands of the indigenous ethnic majorities (Aldrich & Waldinger, 1990). Yet, how these entrepreneurs cope with such hurdles is far from clear.

Previous research has mainly examined formal institutional voids (e.g., Mair & Marti, 2009; Puffer, McCarthy, & Boisot, 2010) and formal institutional arrangements, such as policies adopted by the government and other formal stakeholders (e.g., Okhmatovskiy & David, 2012). Specifically, previous research has addressed the impact of regulative formal pressures on corporate entities (e.g., Dhalla & Oliver, 2013) as well as on entrepreneurs and small and medium-sized enterprises (SMEs) (e.g., Brammer, Hojmosse, & Marchant, 2012). A similar emphasis on formal institutions can also be identified in work on institutional pressures in emerging markets (Cheng & Yu, 2008). Nevertheless, institutional pressures vary across countries (Cui & Jiang, 2012). At the same time, there exist informal institutional pressures, which typically play a more prominent role in emerging economies than in developed economies (Rottig, 2016), but the role of informal institutions in supporting or constraining entrepreneurship has received less attention (Webb *et al.*, 2019). Overall, empirical research on institutional pressures and entrepreneurs' coping strategies is still scanty and only a few studies have included informal illegitimate pressures in their analyses (e.g., Sutter *et al.*, 2013; Volchek, Henttonen, & Edelman, 2013).

The present study aims to broaden the understanding of illegitimate institutional pressures that constrain entrepreneurial activities in an emerging

market context. We selected Indonesia as the research setting because it is known for its complex relationships between political institutions and businesses (Apriliyanti & Randøy, 2019). More specifically, we investigate the coping strategies entrepreneurs adopt in response to illegitimate institutional pressures and pose the following research questions: How do illegitimate institutional pressures affect entrepreneurial activities and by whom are these pressures exerted? How do entrepreneurs cope with these pressures? In answering these research questions, we examine two ethnic groups of entrepreneurs in Indonesia – the Chinese, a minority, immigrant-descent group, and the Javanese, the indigenous majority – to understand whether the pressures exerted on them, and the coping strategies these entrepreneurs choose, are different. Ethnic Chinese in Indonesia have long been vulnerable to discrimination and asset expropriation (Carney & Gedajlovic, 2002). Yet, they enjoy business domination in the country (Fukuoka, 2012).

We contribute to the literature on institutions and entrepreneurship in emerging markets in several ways. First, we provide an understanding of how illegitimate institutional pressures are exerted on entrepreneurial activities in Indonesia. We present a broader set of institutional actors who exert various illegitimate institutional pressures and a greater variety of entrepreneurial coping strategies than those identified in previous literature. We find that Chinese entrepreneurs are more exposed to illegitimate pressures than their indigenous counterparts, as they experience more difficulty in obtaining the resources, legitimacy, and security required to run their ventures. Second, we also explain why some entrepreneurs are more vulnerable to illegitimate pressures than others. In so doing, we develop a theoretical model that matches illegitimate institutional pressures with suitable coping strategies. Third, in contrast to previous research, which is dominated by studies of “top-down” institutional effects (e.g., Pemer & Skjølsvik, 2017), we cover both the “top-down” institutional effects and the “bottom-up” entrepreneurial responses. In addressing these questions, we contribute to the development of institutional theory (Scott, 2005).

The rest of the paper is organized as follows. We first review previous research on institutional voids and illegitimate pressures such as corruption, extortion, and compulsory donations. Thereafter, we introduce the research context of ethnic entrepreneurship and the institutional context of Indonesia, and detail the qualitative methodology that we use. This is followed by our findings on institutional actors, illegitimate institutional pressures, and the ethnic entrepreneurs’ coping strategies. In the concluding section, we discuss our

theoretical model, and discuss theoretical and practical implications as well as directions for future research.

2. Literature Review

A country's regulative regime greatly impacts entrepreneurs. Either the absence of formal institutional policies or the presence of too many rules and procedures can discourage entrepreneurial activities (De Soto & Diaz, 2002). Ideally, government policies should support the creation of new businesses, reduce the risks of starting a new firm, and assist entrepreneurs in securing resources (Busenitz, Gomez, & Spencer, 2000, p. 995). However, this is rarely the case in emerging markets.

Emerging markets are characterized by institutional voids, frequent institutional changes and transitions, strong control by the government, and the prominent role of informal institutions (Rottig, 2016). Institutional voids occur when institutional arrangements in a given environment are weak, scanty, or absent, and hence fail to support markets (Khanna & Palepu, 1997; Mair & Marti, 2009). Formal institutional voids emerge when governments are unsuccessful in establishing and enforcing regulatory systems, laws, and infrastructures for effective and efficient market transactions (Mair & Marti, 2009; Webb *et al.*, 2019). These voids are usually filled by informal institutions (Puffer *et al.*, 2010) based on social ties and local cultural values (Amoako, Akwei, & Damoah, 2018; Yu *et al.*, 2013), or by illegitimate institutional arrangements (Sutter *et al.*, 2013). When these informal institutions fail to enable effective and efficient market transactions, informal institutional voids occur (Webb *et al.*, 2019). They are evident when “the use of relational mechanisms, access to factor and product markets, and means to secure investments are unjustly manipulated or unavailable to individuals” (Webb *et al.*, 2019, p. 2).

Government policies and their actual implementation may be inconsistent and subject to frequent changes, which puts pressure on entrepreneurs (Pemer & Skjølsvik, 2017). Alongside these legitimate institutions, illegitimate institutions may also implement rules and norms in the business environment that are not sanctioned by law; hence, they are called illegitimate (Sutter *et al.*, 2013). Examples of illegitimate pressures include corruption (Vorley & Williams, 2016), extortion (Scandizzo & Ventura, 2015), and compulsory donations (Subedi, 2013). These pressures may be created and maintained by formal actors such as corrupt

government officials (Ufere *et al.*, 2012), politicians (Dong, Wei, & Zhang, 2016), and military officers (Mietzner, 2008), or by informal actors such as organized crime groups (Ramirez & Muñiz, 2018) and racketeer groups (Wilson, 2015). Illegitimate pressures represent a significant burden to entrepreneurs (Luthans, Stajkovic, & Ibrayeva, 2000) and their prevalence in emerging markets is explained by an absence of formal institutions, weak enforcement of laws, socioeconomic gaps, and weak entrepreneurial culture (Sutter *et al.*, 2013; Vorley & Williams, 2016).

Corruption is an illegitimate pressure that is defined as the sale of government benefits by government officials for personal gain (Shleifer & Vishny, 1993). The literature on corruption has discussed its double-edged impact: it may lead to efficiency gains or efficiency costs (Olken & Pande, 2012), meaning that it can be both the “grease” or the “sand” in the wheels of commerce (Mendoza, Lim, & Lopez, 2015, p. 415). On the one hand, corruption helps to reduce bureaucratic hurdles and uncertainty in business activities, as well as accelerate resource allocation (Bertrand, Betschinger, & Laamanen, 2019). On the other hand, it can discourage business activities due to the high transaction costs, resource misallocation, damage of property rights, and market distortions. Either way, corruption is detrimental to entrepreneurship and investment, especially among small and medium enterprises (Bertrand *et al.*, 2019; Mendoza *et al.*, 2015). Corruption works as a norm in situations where formal institutions are absent or ineffective (Bertrand *et al.*, 2019), as is commonly the case in emerging markets (Nielsen, Hannibal, & Larsen, 2018). In such markets, entrepreneurs often have to cope with corrupt state officials, which may lead to unproductive (or even destructive) activities (Dong *et al.*, 2016).

Corruption manifests itself in terms of both rent-seeking and rent extraction (Dong *et al.*, 2016, p. 355). It takes many forms, such as “bribery, extortion, patronage, influence buying, favoritism, nepotism, fraud, and embezzlement, among others” (Ufere *et al.*, 2012, p. 2441). Both state officials and non-state actors may commit these activities. While in rent-seeking perpetrators provide something (e.g., protection of the entrepreneur’s business), in rent extraction perpetrators simply demand money without providing anything in return regardless of their power to do so. Examples of rent extraction are extortion (McChesney, 1997) and racketeering (Scandizzo & Ventura, 2015).

Extortion is a rent-extracting activity with low risk of detection, as victims usually choose to pay rather than report the crime (Scandizzo & Ventura, 2015).

Perpetrators of extortion can be a power syndicate or an enterprise syndicate, where the former is based on territorial control and the latter is based on a business venture for profit maximization (Scandizzo & Ventura, 2015). Another form of rent extraction is compulsory donations. For example, businesspeople in Nepal were pushed to buy security from local gangs and armed militias in order to protect themselves from the collection of compulsory donations to the youth wings of political parties. However, the literature on this type of illegitimate activity is still very limited and in need of further investigation.

Our overview of the existing literature reveals that little research has been done on the role of illegitimate pressures (Sutter *et al.*, 2013) in supporting or constraining entrepreneurship. We aim to contribute to this body of research by undertaking a qualitative study of the illegitimate institutional pressures that are exerted on ethnic entrepreneurs in Indonesia and their coping strategies.

3. Indonesia as the Research Context

3.1. Ethnic Chinese in Indonesia

The Chinese represent only 1.2 percent of Indonesia's total population while the Javanese, as the indigenous majority, account for 40 percent (Statistics Indonesia, 2010). Despite their numbers, the Chinese have made a remarkable economic contribution to the country and control 70 percent of Indonesia's wealth (Hays, 2015). They also dominate wholesale (60 percent) and retail (75 percent) business in Indonesia (Victor, 2016). Furthermore, out of the 25 largest business groups with more than 30 member firms in Indonesia, 18 are of ethnic Chinese ownership (Kanō, 2008) and out of the 20 richest Indonesians in 2018, 17 were ethnic Chinese (Forbes, 2018). The economic success of the Chinese is significantly based on entrepreneurship and ownership of SMEs (Chuah *et al.*, 2016).

The economic success of ethnic Chinese has taken place despite – or perhaps because of – a history of anti-Chinese sentiment that originated during the Dutch colonial era (1800–1945). The Dutch adopted a “divide and rule” policy to prevent any unity between the indigenous Javanese and the ethnic Chinese, by granting the Chinese better status, authority, and economic opportunity (Lembong, 2008). After gaining independence in 1945, the Indonesian government continued the policy of ethnic separation by categorizing the Chinese as foreign “others,” thereby overturning their privileged status from the colonial era (Suryadinata,

2008). The nonindigenous label was strictly maintained by the Soeharto regime (1966–1998) to justify the sociocultural, political, and economic discrimination as well as other unfair practices (Chua, 2008). For example, more than 60 discriminatory regulations were passed against ethnic Chinese, limiting their opportunity to study in state universities and work in government-related sectors (Tong, 2010). Under the Soeharto regime, ethnic Chinese were subjected to rent-seeking practices (Turner, 2003). Nevertheless, they drew economic strength from the discrimination by focusing on entrepreneurial activities (Tan, 2001).

The Chinese domination of Indonesian business triggered discontent among the indigenous majorities, who demanded a chance for economic, not only political, domination (Aguilar, 2001). The Chinese were often the victims of pogroms (Gerke & Menkhoff, 2003) and anti-Chinese riots that left them in fear for their lives (Aguilar, 2001). The 1998 riots marked the fall of the Soeharto's absolutist regime and under the next government the discriminatory regulations were revoked (Freedman, 2003). Yet, despite the fact that Chinese culture has since revived, racial discrimination still remains in place.

3. 2. Institutional Environment in Indonesia

Following the collapse of the Soeharto regime, Indonesia's institutional environment, similar to that in other emerging markets, has been characterized by underdeveloped and frequently changing institutions and weak law enforcement (Meyer & Peng, 2016; Nielsen *et al.*, 2018). More specifically, Indonesia's institutional environment changed from a "hard, authoritarian, corrupt, but growth-oriented state" to a "weakened, democratic, corrupt state" lacking commitment to economic growth (Aswicahyono, Bird, & Hill, 2009, p. 355). Many institutional changes occurred, including decentralization, which shifted power and resources from the central government to regional governments and historically underdeveloped legal institutions that were suddenly tasked with heavy responsibilities after the collapse of the Soeharto regime (Aswicahyono *et al.*, 2009). Amid this historically weak yet changing institutional environment, informal institutions involving illegitimate activities such as corruption (Olken, 2006; Suhardiman & Mollinga, 2017) arose to fill the formal institutional voids.

Corruption and bribes in Indonesia are mainly triggered by regulations, especially licenses and levies, enacted by government officials (Henderson & Kuncoro, 2004). During Soeharto's regime, corruption in Indonesia was centralized (Kuncoro, 2006). The perpetrators were Soeharto's family and circle

of top government and military leaders and the victims were ethnic Chinese tycoons (Bardhan, 1997). Usually, entrepreneurs paid Soeharto's family and circle to reduce uncertainties and protect the business from harassment by lower-level bureaucrats (Kuncoro, 2006). This pattern was mimicked at the regional level, where businessmen paid government and military leaders and their families for protection or ease in doing business (Kuncoro, 2006; Mietzner, 2008). To this day, this pattern of corruption is still practiced, especially among Chinese businessmen (Ikhsan, Ghani, & Ishak, 2017).

In addition to state actors exerting illegitimate pressure through corruption, non-state actors in the Indonesian business environment such as racketeers, gangs, petty criminals, thugs, hit men, and society organizations exert illegitimate pressure through threats and violence (Wilson, 2015). Protection rackets, one of the most widely practiced rent-seeking activities in Indonesia, may even involve alliances between state and non-state actors (Lindsey, 2001). The existence of protection rackets has drawn attention to how power and authority are constructed and exerted in local arenas, how they are utilized to maintain economic and political interests (Wilson, 2015), and how they have become everyday pressures faced by entrepreneurs.

4. Qualitative Study

The main data source of this qualitative study is semi-structured interviews. Personal in-depth interviews were conducted with 19 informants, including 10 Javanese and nine ethnic Chinese entrepreneurs. Ethnic Chinese refers to those who identify themselves and are seen by others as descendants of Chinese ancestors who migrated to Indonesia from China (Chua, 2008). Four additional interviews were conducted with Javanese and ethnic Chinese industry experts to verify the information given by the informants. We sampled only SMEs, to capture institutional pressures at the micro level. Thus, all the SMEs included in this study employ fewer than 500 employees (Ayyagari, Beck, & Demirguc-Kunt, 2007). Table 1 lists the profiles of the informants and industry experts.

Table 1. Informant Profiles

No.	Pseudonym*	Ethnicity	Business Sector	Year of Establishment	Number of employees**
1.	Alphonse	Chinese	Steel framework manufacture, distribution, and construction	2008	10-100
2.	Robbie	Chinese	Property development	2005	10-100
3.	Lenny	Chinese	Time pieces retail	2002	10-100
4.	Maggie	Chinese	Travel agent	2008	Below 10
5.	Jason	Chinese	Software solution	2012	10-100
6.	Salim	Chinese	Building material, bicycle, and electricity equipment retail	1970	Below 10
7.	Anita	Chinese	Photography and video equipment retail	1988	Below 10
8.	Surya	Chinese	Bottled water manufacture, liquid petroleum gas agent	2012 and 1997	10-100
9.	Ellisa	Chinese	Property development, and hotel, restaurants, petrol retailer	1998	101-500
10.	Dimas	Javanese	Property development and construction, sand-mining (early phase)	2004	10-100
11.	Angga	Javanese	Wedding invitation, spa products	2008	Below 10
12.	Bowo	Javanese	Restaurant, food delivery service, food marketplace	2003	10-100
13.	Santi	Javanese	Application provider	2010	10-100

14.	Aji	Javanese	Furniture manufacture	2002	10-100
15.	Joko	Javanese	Machine manufacture, agriculture (organic fertilizer, crops trade), oil and gas consultant	2005	10-100
16.	Indah	Javanese	Restaurant	1978	10-100
17.	Mita	Javanese	Agriculture and agritourism	2005	10-100
18.	Kusno	Javanese	Apparel manufacture	1991	10-100
19.	Harjo	Javanese	Animal husbandry, agriculture, hotel	2009	10-100
<i>Industry Experts</i>					
20.	Maryono	Javanese	Journalist and middleman in the license approval process		
21.	Arjuno	Javanese	Head of journalists association		
22.	Wijaya	Chinese	Financial consultant		
23.	Suteja	Chinese	Strategic consultant, CEO, advisory board member		

Note:

**Pseudonyms are randomly selected and do not represent the informant's family name*

***Number of employees are presented in categorization to maintain informants' confidentiality*

The informants were identified through snowballing (Patton, 1990) due to the sensitivity of illegitimate institutional arrangements as a research topic and the selection of interviewees based on ethnicity. Ethnic Chinese entrepreneurs were reluctant to disclose their ethnic identity due to the ongoing anti-Chinese sentiments in Indonesia. Some informants were anxious that participation in the study might put their business at risk, because it required revealing illegitimate practices as well as identifying actors they had trouble dealing with. Therefore, additional time was allocated to building trust and rapport with informants in order to encourage them to participate in the study. The first author, who interviewed the informants, is of Javanese origin with a family business background, and thus has

personal knowledge of the business-related institutional environment in Indonesia. This also added to her credibility as an interviewer in the eyes of the informants.

Contact with informants was maintained throughout the study to allow for an iterative process of data collection. We did factual verification by conducting follow-up interviews with five informants to clarify and explore details about how the illegitimate pressures work. In these follow-up interviews, informants were more willing to share such information as trust had been built. The anonymity of the informants was maintained by using pseudonyms (see Table 1).

The interviews were conducted in the informants' shops or homes, and lasted between 1.5 to 3 hours. The informants were asked to identify institutional pressures that affect their business and explain how they cope with these pressures (see sample questions in Appendix). The majority of the interviews (18 out of 19) were recorded upon receipt of the informants' permission. Data triangulation (Yin, 2014) was ensured through interviews with industry experts and examination of publicly available material such as news articles in the media. Among the experts, only one out of four interviews was recorded due to the sensitivity of the research topic. For the unrecorded interviews, notes were taken.

Interviews were conducted in the local language (Bahasa Indonesia) and transcribed. Data were translated in English and analyzed using qualitative content analysis (Cho & Lee, 2014; Schreier, 2012) by clustering and categorizing informants' accounts into broader themes, such as formal and informal actors, nature of illegitimate institutional pressures, and entrepreneurs' coping strategies. In addition, similarities and differences between ethnic Chinese and Javanese entrepreneurs were identified. We referred to the literature on corruption and illegitimate institutional pressures to interpret the meaning of our findings and articulate the theoretical contribution. The last step in the analysis involved the development of a causal model of illegitimate pressures and strategic responses.

5. Illegitimate Institutional Pressures and Actors

Our findings reveal a number of illegitimate institutional pressures, such as corruption, protection rackets, building permits (for ethnic Chinese), extortion, and compulsory donations. We classified the institutional actors into seven groups: government officials, police and military officers, political organizations, society organizations, racketeers, cultural leaders, and local village committees. Of these seven groups, society organizations, cultural leaders, and local village committees

have not been previously identified in the literature. Table 2 provides a summary of our findings.

Table 2. Illegitimate Pressures, Actors, and Coping Strategies

Illegitimate Pressures	Institutional Actors	Entrepreneurs' Coping Strategies
Corruption	<ul style="list-style-type: none"> • Government officials • Political leaders • Police and military officers 	<ul style="list-style-type: none"> • Compliance • Lobbying • Infiltration
Protection racket	<ul style="list-style-type: none"> • Government officials • Political leaders (current and former) • Police and military officers • Political organizations • Society organizations • Racketeers • Cultural leaders 	<ul style="list-style-type: none"> • Compliance • Lobbying • Infiltration
Building permits (for ethnic Chinese)	<ul style="list-style-type: none"> • Regional government head, regional land office 	<ul style="list-style-type: none"> • Compliance
Extortion	<ul style="list-style-type: none"> • Police and military officers • Society organizations • Racketeers 	<ul style="list-style-type: none"> • Compliance • Physical violence • Infiltration
Compulsory donation	<ul style="list-style-type: none"> • Police and military officers • Local village committees, local youth groups 	<ul style="list-style-type: none"> • Compliance

5.1. Corruption

Our findings show that rent-seeking activities such as corruption are rampant in Indonesia, especially in government institutions and agencies responsible for issuing licenses and implementing policies. Corruption among bureaucrats responsible for issuing licenses is the norm at the local, regional, and national levels. For instance, two of the entrepreneurs we interviewed, Harjo (Javanese) and Suteja (Chinese), explain that high-rise building permits must be obtained from military organizations, and the illegal costs associated with these permits far exceed the legal costs. As corruption occurs primarily in the approval

of licenses, industries that are highly dependent on licensing (e.g., the supermarket, real-estate, and mining industries) are particularly vulnerable.

Corruption is a systemic problem to the extent that honest behavior leads to difficulties in obtaining a license. Dimas, a Javanese entrepreneur in the sand-mining industry, tells of a case where a license was not approved because the subordinates of an honest government leader were reluctant to do their job due to the absence of extra (illegal) incentives. Dimas believes that the decentralized system, established in the post-Soeharto regime, has contributed to the spread of corruption. According to Dimas, under a decentralized system regional governments are authorized to determine regional-level regulations, thus leaving more room for corruption compared to the centralized system, where only the central government had the authority to determine such regulations. Dimas describes his experience of obtaining a license to operate a sand-mining business as follows.

“To get a license, I had to get approvals from many government agencies. I had to knock on the doors of bottom- to top-level officers from each of these agencies. How much did it cost? Approximately IDR 1 to 2 billion [USD 70,000 to 140,000] for all the agencies, while the most expensive legitimate cost should have been only IDR 500 million [USD 35,000] for the environment-related document. If a sand-mining business owner spends IDR 1 billion [USD 70,000] to get the license, it’s cheap. I have spent IDR 1.6 billion [USD 112,500] but the license still has not been issued.”

Besides one-off payments such as those mentioned above, illegal fees can also be paid as a percentage of the profits. Harjo tells of a friend in the sand-mining industry who pays up to IDR 10 billion (USD 700,000) of his profits per month for total sales of IDR 200 billion (USD 14 million) per month. Furthermore, Alphonse, a Chinese entrepreneur in the manufacturing industry, reports that governors and heads of government agencies were asking him for shares of future profits in exchange for approval of a project through a rigged tender. Robbie, another Chinese entrepreneur, noting that corrupt government officials treat entrepreneurs in the real-estate industry as cash cows, illustrates his point below:

“I’m subjected to all kinds of extortion. The land license, the site plan, and the building permit are all fodder for corruption. The amount depends on the locations and types of documents required. The illegal fees associated

with the land license alone were worth one new Honda CRV, around IDR 400 million [USD 28,000]. The fees were under-the-table payments to every officer involved in the license approval process, because the land license is signed by the mayor but processed by his officers. At least the fees were negotiable.”

In addition, corruption leads to the “torpedoing” of licenses – a form of corruption we have not seen studied in previous literature. This was experienced by Dimas in applying for a business license in the sand-mining industry. His license was on the point of being issued when it was cancelled. The cancellation was due to a letter from the district head saying that village leaders and residents were opposed to the sand-mining operation, which they had previously approved of. Later Dimas found out that another license-seeker who was applying for a license to operate a sand-mining business in the same location was responsible for the cancellation.

Aji, Jason, and Santi note that regulations for issuing licenses in certain industries are unspecific, outdated, or simply lacking. According to Dimas, the time that it takes to obtain a license is unpredictable and may require multiple approvals from multiple government agencies in multiple districts. An additional problem is that these agencies may apply different measures to the same requirement, resulting in long delays and additional work. To mitigate the corruption arising from these inefficiencies, the central government and several regional governments implemented an online application system for certain types of licenses. However, according to Maryono, who serves as a middleman between entrepreneurs and decision makers in government licensing agencies, not all entrepreneurs welcome this initiative, as some are not familiar with the system and are not provided assistance in using it. Furthermore, according to Robbie, a Chinese entrepreneur, this initiative to mitigate corruption is not always perceived as supporting entrepreneurship. In his view, the online system does not succeed in expediting the processing of a license because it does not allow the entrepreneur to physically meet with the officer in charge of the license. Thus, Robbie believes that completely eliminating corruption is not always beneficial for entrepreneurship.

5. 2. Protection rackets

Our findings show that rent-seeking practices also exist in the form of protection rackets. Here actors offer three kinds of protection to the entrepreneur in exchange for money paid on a routine basis: i) protection against thugs who may extort and harm the business; ii) protection against law enforcement due to the business's illicit nature or use of illicit practices; iii) protection against the threats and violence of the racketeers themselves. Based on our findings, these actors include municipal- to national-level police and military officers, political party leaders, political organizations, society organizations, cultural leaders, government agency workers, and racketeers (individuals or groups). Although all types of business can be targets of racketeering, some businesses are more vulnerable to the practice. These include businesses that are illicit in nature (e.g., brothels), employ illicit practices (e.g., mixing petrol with chemical liquids in petrol retailing), operate in hospitality and entertainment industries (e.g., hotels, karaoke bars, and nightclubs), have limited licenses (e.g., restaurants selling alcoholic beverages without a liquor license), or simply businesses whose owners are of ethnic Chinese origin. As Surya, a Chinese entrepreneur, explains:

“The local police and military officers came to offer protection service when our manufacturing business started to operate. We’ve had to pay each of them a monthly fee of IDR 300,000 [USD 21] ever since. However, I experienced the benefit of paying the officers when my truck drivers went on strike for a pay raise: the local police came and gave the drivers some ‘shock therapy.’”

According to Kusno, a Javanese entrepreneur, another method employed by protection rackets is to use anonymous operators as the field perpetrators, as the mastermind of the protection racket is generally a respected public figure. Protection rackets can also take the form of forced-use facilities, e.g., forced-use parking facilities. He illustrated these methods as follows:

“Former political leaders might not have formal power, but they have informal power and they need to maintain their source of income, as well as the protection rackets that collect that income for them. Society organizations, political organizations, racketeers, and forced-use parking managers are all the same animal in different disguises.”

Kusno reported that political party leaders also provide back-up for the rackets. If members of the racket are arrested by the police, the party leaders will negotiate their release. The party leaders have the power to negotiate with the police (or other actors) due to their political clout. The symbiotic relationship between party leaders and rackets is based on rent-sharing in exchange for the racket's support of the party leader in elections, as well as its collection of his illegitimate income.

Besides cash, rents in a protection racket may be paid as a percentage of the profits. Ellisa, a Chinese entrepreneur in the retail petrol industry, told how she would “water down” petrol with other chemical liquids in order to increase profits. When this illegal practice became known to the police and army officers, they asked for a percentage of the profits in exchange for their silence and protection. The police and army officers would be on hand when the mixing was performed, because the mixing machine was loud and might have attracted public attention. In addition, Ellisa paid oil company officers a share of the profits to guarantee the petrol supply, but the police were the most predatory actor:

“All three of these officers had to be bribed, but the police were the most rapacious. I paid one police officer, who then told his colleagues to arrest me, so I had to pay more officers. This made me compensate by watering down the petrol even more: I mixed in more and more liquids. I didn't have any choice but to pay more officers.”

5.3. Building permits for ethnic Chinese

Our findings indicate that ethnic Chinese are treated differently than their indigenous Javanese counterparts in relation to land ownership. In certain regions, ethnic Chinese are forbidden to own land, even though such a prohibition violates the law. Salim, a Chinese entrepreneur, relates that ethnic Chinese are entitled to a building permit that is valid for only twenty to thirty years, with different prices based on the locations. The more strategic the location, the higher the price is. He quoted IDR 750 million (or USD 52,600) for a building permit of 20 years. This right is renewable, yet it comes with a price that increases over time. As Robbie explains:

“The building permit is renewable, it will not be revoked, but the price is always increasing. Currently we have to pay a fee of around one to two percent of the building’s value.”

5. 4. Extortion

Extortion refers to obtaining money from a person by force, intimidation, or undue or illegal power in a single or multiple payments. Based on our findings, the perpetrators include many of the actors in protection rackets, especially police and military officers, society organizations, and local racketeers. Kusno provided an example of extortion at the hands of a society organization. Using ideological justifications, the perpetrators targeted hospitality and entertainment businesses, i.e., hotels and nightclubs. They demanded a considerable lump-sum payment and used coercion by vandalizing the property and expelling the guests. The most common form of extortion, committed by both formal and informal actors, is frequent petty-cash payments. Most of our informants, and notably all of the ethnic Chinese, acquiesced to this demand in order to keep their businesses safe. The payments varied with the size of the business. According to Harjo, Salim, and Alphonse, each payment ranged from IDR 100,000 to 500,000 (or USD 7 to 35) and was paid frequently, mainly to police officers, army officers, or local thugs. For example, entrepreneurs in the hospitality industry must pay two to three times a week.

5. 5. Compulsory Donations

As the oxymoron suggests, a compulsory donation is a demand for money that is expressed as an appeal to charity. It is usually a donation to a village committee in exchange for its approval of a license to open a business in the area. Later, donations have to be given on a routine basis as part of a firm’s social responsibility. In addition to local village committees, other recipients of compulsory donations may include police officers, army officers, and local community groups. According to Harjo, donations may take the form of money, goods (e.g., cement for building a bridge, garbage trucks for village waste management), or services (e.g., construction of public facilities). Compulsory donations are also used to fund special events such as Independence Day celebrations. Harjo recalls compulsory donations ranging from IDR 500,000 to 1 million (or USD 35 to 70) per firm for occasional police and army celebrations.

Another form of compulsory donation is employment of local people. Alphonse reports that he was asked to provide employment to local youths around his plant. He complied with the request in order to maintain good relations with the locals. Most of the entrepreneurs perceived this informal tax as a normal practice; however, some complained of the excessive frequency or amounts of such requests.

6. Entrepreneurs' Coping Strategies

Our findings indicate that the entrepreneurs we interviewed employ various strategies to cope with illegitimate pressures. As visualized in Figure 1, entrepreneurs' coping strategies can be categorized into compliance, lobbying, physical violence, and infiltration. Lobbying is performed through bribery, backing, use of third parties (i.e., middlemen, business associations), and networking. Infiltration is performed by influencing institutional actors in a patron-client system through *ijon* (breeding). Some entrepreneurs use several coping strategies simultaneously depending on the pressures and actors involved.

6.1. Compliance

Compliance as a coping strategy refers to accepting and following the rules determined by the pressure actors and is the most passive response among all the strategies identified in this study. Entrepreneurs apply this strategy when confronted with actors that have more legitimate or illegitimate power than they. Dimas and Robbie state that entrepreneurs would in fact like to change the corrupt system, but are powerless to do so. According to Dimas, following the rules is better than bearing the risks. Aji, a Javanese entrepreneur in the furniture industry, notes that even when entrepreneurs decide to comply, they need to be on their guard against deception. A good understanding of how the system works is necessary, as he explains in the following example:

“We complied with all the required procedures, but it turned out that there was an extra fee. I paid and was supposed to receive three truckloads of wood. The first truck brought all the wood, the second truck brought only half the wood, and the third truck never came. I made the mistake of paying the fee upfront; I should have paid it three times, according to each delivery.”

The extortion amounted to 10 percent of the total price of the wood, or around IDR 20 million [USD 150,000].”

Our findings show that the ethnic Chinese entrepreneurs tend to comply more with the requests of the actors than do their indigenous counterparts. They are very aware of their nonindigenous status due to past experiences and hence accept being discriminated against, which in turn influences their selection of an appropriate coping strategy. A Chinese industry expert, Suteja, explains that Chinese entrepreneurs choose to pay whatever it takes in order to get a license issued. They shift the cost to the consumers. According to Lenny, a Chinese entrepreneur in the retail industry, Chinese entrepreneurs perceive that any effort to confront the actors will be unproductive, even harmful to their business.

“We had an issue with our billboard. Based on careful measurements, the height of our billboard did not exceed the regulation height.. But nevertheless somebody came and fined us. We didn't know who he was or whether he was from a government agency, but he fined us. We didn't want to get into any trouble so we just paid.”

6.2. Lobbying

Lobbying refers to “the process of offering campaign contributions, bribes, or information to policymakers for the purpose of achieving favorable policy outcomes” (Weymouth, 2012, p. 3). Based on this definition, lobbying includes legitimate or illegitimate activities to change existing or forthcoming rules and policies. Our findings show both legitimate (e.g. lobbying via business associations) and illegitimate (e.g. bribery) tactics of lobbying strategy, as presented in the following subsections.

Bribery. Bribery in exchange for a license is a common practice in highly profitable license-dependent industries such as mining and real estate. The timing of applying for a license is important. The worst time to apply for a license is close to an election, as the bribes are demanded in the form of monthly payments to pay for election campaigns. Political party leaders use their authoritative positions to influence the process and even change the regulations governing it. Dimas describes his experience as follows:

“From one year to several months before the election, political party leaders use their cronies to ask entrepreneurs to finance their campaign. Even when the license has already been issued, they still ask for around IDR 5 billion [USD 350,000] on a monthly basis. My friend, one of the party leader’s cronies, said that I have to delay submitting my application for a license, or even withdraw from the industry, so as not to be the target of this practice. We entrepreneurs are victims of their political interests. Their power enables them to grant a license to open a business in locations that are forbidden by law. They told me, “It’s forbidden in this location,” but in fact the recommendation letters from the Directorate General and the Minister are issued to those who pay.”

Bribery is in many cases compulsory, otherwise the license will not be issued. Bribes can be paid to low- and/or high-level officials. However, as Robbie relates, paying low-level officials is important as they are the ones who process the documents. Paying top-level officials directly is only possible if license seekers have been introduced to them by a third party, or if they have bribed the same official previously and hence trust has already been established. Based on his experience, Dimas says that bribes are paid to decision makers and other stakeholders involved in the license approval process. In the mining industry, one step of the license approval process is to conduct an assessment of the project’s feasibility. Documents on environmental impacts are analyzed by professionals from different organizations. Bribes need to be paid to these assessors to ensure that they recommend the project. These bribes are paid a few days before the assessment to a middleman who coordinates the bribery. Dimas says that the assessment of the environmental impact of the project is only a formality as in the end all assessors will approve the document.

According to Dimas, Kusno, and Robbie, entrepreneurs need to understand many issues before deciding whether to bribe an official. First, they need to know the hierarchy and chain of command of the decision makers in order to target the right person(s) in the right way. Sometimes entrepreneurs have to meet low-level officials (e.g., the village head) in order to get a sense of whether bribery is needed and, if so, which method of bribery would be most appropriate in the case at hand. Second, entrepreneurs need to be familiar with the licensing regulations in the relevant region (e.g., the types of documents required). In light of all these factors, bribes can take many forms, some of which may be perceived as legitimate. For example, Alphonse organized a workshop in a tourist destination as an alternative response to a government department’s request for an illegal fee. All officers in

the department, including the director, were invited and all costs were covered by Alphonse. Alphonse says that “clean” entrepreneurs prefer this form of bribing as an alternative to paying illegal fees that involve serious risks.

Backing. Entrepreneurs may seek the backing of an actor or organization that has the formal and/or informal power to ease institutional pressures and protect their business. Our findings show that backing is a prevalent coping strategy. For example, this strategy may be employed to negotiate a quota in a market where the number of suppliers in a given territory is regulated. The wholesale of liquid petroleum gas (LPG) is one such industry where distributors compete for a share of the market. Surya, a Chinese entrepreneur, mentions a case where a new distributor was allowed to operate in the area despite the full quota, because this distributor belonged to an organization with considerable political influence. Surya, Kusno, Ellisa, Harjo, and Suteja state that backing is compulsory in some industries. Harjo notes that industries with socio-environmental impacts, such as hospitality and entertainment, mining, cattle slaughtering, and farming, are among the industries that need back up.

Backing is considered an effective means of intimidating another actor if the backer is more powerful than the other actor. Backing that involves money is similar to a protection racket, because payments are made in exchange for protection. Backing without money is based on relationships. Ellisa provides the following example of backing based on personal connections:

“I operated a business in the petrol retail industry thanks to my friend’s invitation to partner with her. Her father was a political party leader, a powerful one, so it was easy for us to get a license and a supply of petrol. Even when we watered down the petrol with other liquids, no government officials were brave enough to stop us.”

Backing may be provided by various actors, including government officials, political leaders, police and military officers, racketeers, and cultural leaders. Some cultural leaders are powerful as their sermons and related activities have the support of racketeers, recidivists, and ex-prisoners who sometimes blindly execute the leader’s instructions to exert illegitimate pressures. Maryono explains that charisma and pretensions to divine status enable cultural leaders to attract masses of followers, especially those who are strongly attached to Javanese beliefs. The informal power of cultural leaders is often territorial.

Backing is a popular coping strategy among the ethnic Chinese entrepreneurs we studied. Due to their weak position in society, they need backers to protect their businesses from institutional pressures. Arjuno, a Javanese industry expert, tells how Chinese entrepreneurs form alliances with government officials as well as cultural leaders in a given region to smooth their ventures. Chinese entrepreneurs have even succeeded in launching businesses without all the necessary licenses thanks to the backing of their allies. Suteja, a Chinese industry expert, refers to a case where a cultural leader who held the highest authority in the region provided the backing:

“The cultural leader was frequently granted a percentage of the profits in exchange for easing licensing restrictions and even protecting businesses operating without a license. You see that new shopping mall over there? It has no building license, but it was officially inaugurated by the cultural leader himself.”

Third parties. Use of third parties is considered an effective means of facilitating negotiations with actors, lobbying for specific regulations, and ensuring license approval. Third parties include middlemen, business associations, and backers. Middlemen have connections to the decision makers and are thus able to help entrepreneurs obtain a business license by mediating on their behalf with the relevant decision makers. They may also be useful as liaison officers between entrepreneurs and their backers. Middlemen are usually relatives, friends, or close associates of decision makers and thus understand how the license approval process works. Middlemen are needed not only to help entrepreneurs to get license, but also to help decision makers maintain their clean image as befits their respected role in government and society. Anita, Surya, and Dimas relate that entrepreneurs can find middlemen and use their service through notary offices or via friend recommendations. Dimas notes that entrepreneurs need to choose the right middleman and vice versa, because middlemen must not disappoint the decision makers by representing entrepreneurs who cannot afford to pay. Middlemen typically get a one-off payment or a percentage of the profits. They ensure that corruption is organized as safely as possible for all parties involved.

The Chinese entrepreneurs involved in our study commonly used middlemen where discrimination was a factor in the license approval process. This

information was confirmed by Maryono, who works on the side as a middleman. Surya, a Chinese entrepreneur, tells why he used middlemen:

“It’s difficult for us Chinese to get license. I got tired of trying so I hired a middleman. The majority of Chinese do this. Our ancestors taught us a Chinese proverb: tame a horse with a horse, not with a dog.”

Besides middlemen, business associations serve as an effective means of lobbying politicians for specific regulations as many of their members have dual careers as politicians and entrepreneurs. However, Angga, a Javanese entrepreneur who is the regional vice president of a renowned business association in Indonesia, explains that not all business associations have the power to lobby. Only the most powerful business associations have members who are part of the network of political party leaders. Interestingly, the power of a business association causes its members to seek positions of political leadership within the association itself, because as representatives of the association they get to directly communicate with politicians and thus receive first-hand information (e.g., about new government projects, new regulations, etc.) with important implications for their business.

Networks. All of the above-mentioned strategies require a network, and hence networking is crucial for coping with illegitimate institutional pressures. Arjuno states that in Indonesia, informal procedures have unlimited power, thus confirming the importance of relationships. In the case of close ties, privileges (e.g., accelerating a license approval process) may be obtained even without bribes. Yet, frauds may also occur through the use of networks with licensing authorities. For example, Robbie described a scheme where some real-estate entrepreneurs used networks to sell spurious property projects that victimized consumers. To build and maintain good relationships, the entrepreneurs we interviewed use several approaches. Alphonse and Harjo invite key actors to a café for an informal talk to start, as well as maintain, a relationship with government decision makers, future clients, or business associates. Harjo also offers his expertise and personal connections. Maggie and Harjo sustain social relations through *upeti* (gift-giving) by making small presents of cakes, wine, or clothes. Harjo emphasizes that *upeti* is crucial and perceived as a normal practice in Indonesian business. According to our interviewees, honoring Javanese traditions is also considered to be a strategic method for initiating and maintaining relationships with government authorities.

6. 3. Physical violence

Harjo mentions physical violence as a strategy for coping with racketeers. He experienced frequent disturbances by local racketeers, who insisted on being given money and commodities. At first, Harjo tried reasoning with the racketeers and expressed his refusal. He then went to their homes to try to build relationships with them. Yet, when these tactics failed, he resorted to threats and ultimately physical violence.

6. 4. Infiltration

Infiltration is a coping strategy that involves influencing institutional actors through the practice of *ijon* (breeding). Literally, *ijon* means buying crops before they are harvested. By analogy, *ijon* refers to a situation where an individual is “bought” before s/he has reached a senior career position. In this regard, *ijon* is a proactive strategy to ensure future protection against institutional pressures and is used with government officials. Kusno explains a case where an entrepreneur finances the studies of a government official at an academy, paying tuition fees and monthly allowances. When this individual reaches a senior position, s/he has the obligation to protect the entrepreneur’s interests. This strategy is similar to backing but executed in an earlier phase of the individual’s career. Entrepreneurs typically select potential protectors when they are students, based on their background, loyalty, and academic standing. This information is obtained from the institution where the student studies and will later be employed. In addition to the students, entrepreneurs also fund the institution itself, which is in charge of the placement and promotion of the student. After graduation, the students have to be loyal to the entrepreneurs and protect their business, or else they are punished by the institution. This patron-client relationship is upheld until the retirement of one of the parties. According to Dimas and Kusno, entrepreneurs view *ijon* as a long-term investment. However, such investments are mainly undertaken by large businesses or businesses that are prone to become targets of rent-seeking, e.g., mining and entertainment businesses. Local media reports confirm that both regional and national entrepreneurs use *ijon* to breed police and military cadets and law students (JPNN, 2019).

Kusno says that *ijon* is mainly used by *cukongs* (a local term for successful Chinese entrepreneurs), as it takes significant financial resources to maintain all the actors in the patron-client system. Furthermore, he argues that corrupt elites

put more trust in Chinese entrepreneurs and feel safer collaborating with them, as they are perceived as more loyal than the Javanese. The success of *cukongs* in infiltrating institutions is confirmed by Wijaya, a Chinese industry expert, who explains how this system works:

“A cukong in [mentions the name of a city] managed to infiltrate a military institution. His deep infiltration granted him a position as a lecturer in the institution. As such, he had the power to determine the promotion of candidates to the rank of general. A military officer who is a candidate for promotion to a higher rank, for example from a one-star to a two-star general, has to take a class to determine his promotion. It is the cukong who decides whether the candidate deserves a promotion. Candidates who are promoted to a higher rank of general have to be committed to protect the cukong’s business. In exchange, the cukong also gives them what they need.”

The patron-client system, which involves the provision of financial and non-financial support to politicians, among others, is another coping strategy. When these “well-bred” politicians vote on regulations, they will take into account the entrepreneur’s interests. Wijaya states that the biggest *cukongs* can buy not only the protection of their business but also the power to shape the regulations. Entrepreneurs can order specific regulations that support their firms, or, as Dimas puts it, they can buy regulations. Entrepreneurs target political candidates based on the *ijon* principle: if the candidate wins in the election, the candidate has to promote the entrepreneurs’ interests. Wijaya tells of a case where *cukongs* used this method to expropriate a license to manage a business in a district that had initially been granted to a foreign investor. The *cukongs* managed this by nominating a candidate who was fully financed by them and represented their interests. As soon as the candidate won the election, he cancelled the license that had been granted to the foreign investor and transferred it to the *cukongs*. The prevalence of this practice is confirmed by the local media (Wicaksono, 2018). Dimas notes that for additional security, Chinese entrepreneurs may fund several candidates competing in an election. According to Dimas and Maryono, Chinese entrepreneurs may even nominate themselves as candidates in elections. A political position provides entrepreneurs with the power and flexibility to make or change regulations in line with their own interests.

7. The Difference between Chinese and Javanese Entrepreneurs

In general, our findings show that Chinese entrepreneurs are more prone to illegitimate pressures both from formal and from informal actors. Contextual factors such as discrimination and anti-Chinese sentiment, which have existed since the Dutch colonial era and were strengthened during Soeharto regime, may explain these pressures. In addition, the entrepreneurial success of the Chinese, as evidenced by their significant business presence in Indonesia's economy, created fears among indigenous peoples and paved the way for illegitimate actors to target them in rent-seeking activities. Chinese business domination in Indonesia became a pretext for discrimination, be it in the form of regulations or rent-seeking activities, toward ethnic Chinese.

However, the Chinese know how to cope with discrimination, as attested by Chinese and Javanese entrepreneurs alike. The Chinese entrepreneurs included in this study actively build and maintain networks. Maggie points out that not attracting much attention from government authorities is considered an important way not to invite more discriminatory treatment. Arjuno and Suteja note that Chinese entrepreneurs invest in relationships with top-level authorities and always have a polite, elegant, and charming attitude. Suteja adds that Chinese entrepreneurs invite authorities to play golf and dine at fine restaurants where they lobby them on business-related issues. He relates a case of a *cukong* who provided political and military elites with amenities such as luxury cars at their disposal in various cities.

The ability to maintain relationships with various stakeholders differentiates the ethnic Chinese entrepreneurs from their Javanese counterparts. Salim believes that Chinese entrepreneurs are more capable of maintaining good relationships with stakeholders and more adaptive to changing circumstances. Two Chinese industry experts, Wijaya and Suteja, confirm this by saying that Chinese entrepreneurs are more strategic and pragmatic as long as this enables their business to survive.

8. Discussion and Conclusion

In this qualitative study of entrepreneurs in Indonesia we identify a broader set of illegitimate pressures, institutional actors, and coping strategies than what

can be found in previous research. By closely analyzing the impact of illegitimate pressures on entrepreneurial activities, we show how weak institutions in emerging economies (in this case Indonesia) hinder or stimulate entrepreneurship. Paradoxically, we find that discriminatory treatment, by both formal and informal institutional actors, not only does not push minority Chinese entrepreneurs out of the market but – in fact – well entrenches them in it. This is partly due to their pragmatic coping strategies. For example, they use preemptive and assertive moves to get authorities' support (e.g., their infiltration strategy). As entrepreneurial activities are affected by institutions (Hitt, Li, & Xu, 2016), these pragmatic strategies enable Chinese entrepreneurs to obtain the resources, legitimacy, and security required to operate entrepreneurial ventures. This is particularly true in the case where entrepreneurs cannot change institutions (i.e., eliminate corruption).

We find that informal illegitimate pressures are exerted on entrepreneurs through corruption, protection rackets, building permits (for Chinese entrepreneurs), extortion, and compulsory donations. Among these pressures, compulsory donations have not been identified in previous literature. The compulsory donations uncovered in this research are different from the forced donations examined by Subedi (2013), which are intended for election campaigns and collected by the youth wing of the political parties. By contrast, in this paper compulsory donations are earmarked for the construction of public facilities, the funding of special events, and the provision of employment for local people. Although these donations go to charity, some of our interviewees regarded them as an informal tax, as they are *de facto* compulsory.

Corruption creates norms and codes of conduct that are widely shared and become common practices, such as the obligation to provide extra (illegal) fees to accelerate or ensure the issuance of a business license. The dominant practice and common knowledge of these illegitimate acts render them normative and cognitive dimensions of how institutions function (Scott, 2013). Previous research has documented widespread corruption in Indonesia (e.g., Kuncoro, 2006; Robertson-Snape, 1999). These studies show that corruption has been institutionalized in the Indonesian business environment, to the extent that entrepreneurs are unable to evade it. The pervasiveness of corruption in Indonesia enables middlemen such as license intermediaries to maintain a significant role in business, which contributes to the cost of doing business (Giang, Xuan, & Hai, 2016). We extend the understanding of middlemen, in terms of their profiles and roles, which are only

cursorily discussed in previous research (e.g., Giang *et al.*, 2016). In the Indonesian context, the role of middlemen is crucial, especially in the license approval process, due to the high power distance as well as “saving face” culture. Middlemen are needed to arrange under-the-table agreements in a safe way that maintains the entrepreneurs’ interests as well as the decision makers’ image. Thus, despite the government’s effort to fight corruption by establishing new systems (e.g., the online license application process) and introducing anti-corruption authorities (e.g., the Corruption Eradication Commission), the elimination of corruption in the Indonesian business environment is far from easy and requires a long-term perspective.

Our findings are also the first to discuss protection rackets in Indonesia, a modified type of corruption when performed by government officials. This illegitimate institutional pressure has been identified in a number of emerging markets besides Indonesia (Radaev, 2002; Wang, 2014). A protection racket works like a transaction, where entrepreneurs make a routine payment in exchange for protection provided by the pressure actors. Another manifestation of a protection racket discovered by this study involves forced-use facilities, e.g., mandatory parking lots. We also identify the withholding of building permits as a pressure directed specifically to the Chinese, with the aim of reducing their significant entrepreneurial activities. Furthermore, we identify extortion, which works by simply demanding money from entrepreneurs. Extortion is usually performed by non-state actors, such as thugs, racketeers, and organized criminal groups (La Spina *et al.*, 2014; Scandizzo & Ventura, 2015). In our case, surprisingly, it was perpetrated by state officials (i.e. police and army officials) and society organizations. The understanding of illegitimate pressures and how they are exerted on entrepreneurial activities adds to the literature at the intersection of institutions and entrepreneurship. Practically, it provides insights into informal illegitimate institutions that entrepreneurs in Indonesia must face and take into consideration when formulating a strategic plan.

We also extend the literature by adding cultural leaders and local village committees (or local community groups) to the list of actors who have the power to exert pressure on entrepreneurs. Since cultural leaders are public figures who enjoy considerable influence and legitimacy in the Indonesian context, the pervasiveness of the problem becomes evident. We show that some of them issue orders to exert illegitimate pressures, while maintaining their good image by using their followers as the actual perpetrators. We also show that local village

committees are actors of illegitimate pressure as they have the power to determine the “rules of the game” in the business locale. In general, the illegitimate pressures found in our study are exerted by both formal and informal actors. Formal actors include regional to national-level government officials, police and military officers, and political leaders. Informal actors consist of political and society organizations, racketeers, cultural leaders, and local village committees. All of these actors have been discussed in the literature (e.g., Mietzner, 2008; Wilson, 2015), except for cultural leaders and local village committees. By understanding the above-mentioned institutional actors and the pressures associated with them, entrepreneurs can better identify and implement coping strategies.

Various coping strategies are employed by entrepreneurs, ranging from passive to active ones: compliance, lobbying, physical violence, and infiltration. Our findings are mostly in line with the strategies developed by Oliver (1991); however, we identify a grooming tactic (*ijon*) that has not been discussed in previous literature. This tactic exhibits entrepreneurs’ proactiveness in grooming potential decision makers, by giving them financial allowances during their studies and early career, so as to create a sense of moral obligation and get their support when they become decision makers. Our findings show that *ijon* is predominant in police and military academies. In general, our research highlights a range of feasible strategies performed by entrepreneurs in Indonesia in response to illegitimate institutional pressures.

To summarize our findings, we develop a theoretical model (Figure 1) that exhibits the causes of illegitimate pressures exerted by formal and informal actors and the coping strategies adopted in response to these pressures. We also explain why some entrepreneurs are more vulnerable than others to these pressures, as well as other factors determining the selection of a coping strategy such as bargaining power. Understanding these factors will allow entrepreneurs to better align their coping strategy with the set of pressures they are facing.

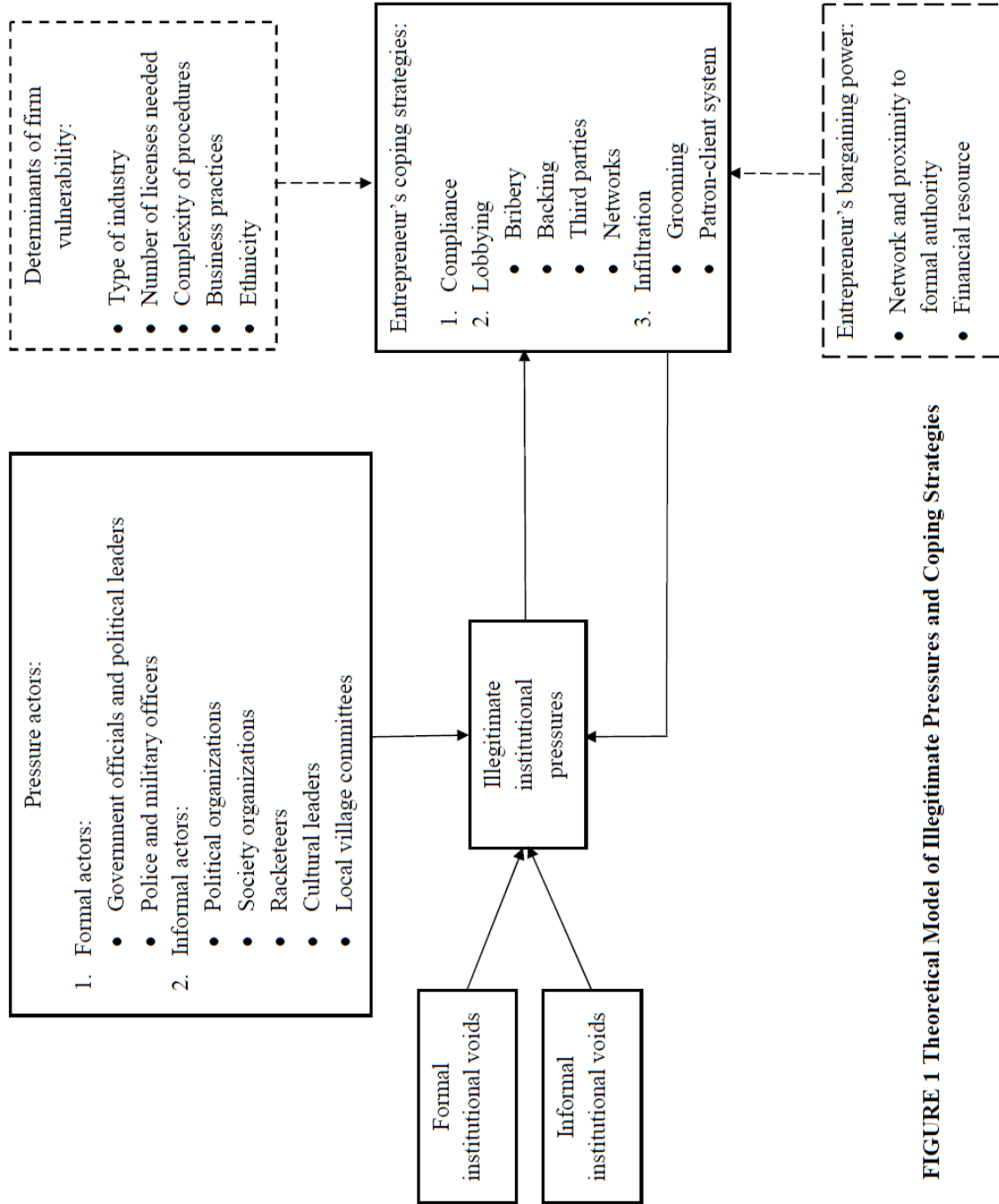


FIGURE 1 Theoretical Model of Illegitimate Pressures and Coping Strategies

As Figure 1 shows, formal and informal institutional voids, which characterize Indonesia's institutions, trigger illegitimate institutional pressures toward entrepreneurs' firms. Specifically, we provide empirical evidence for the influence of formal and informal institutional voids put forth by Webb *et al.* (2019). Formal institutional voids, based on our findings, are due to complicated and time-consuming licensing procedures due to unspecific, outdated, or nonexistent regulations; decentralized government; and weak law enforcement. Informal institutional voids, in this case, exist due to societal norms that marginalize specific ethnic groups (i.e., the Chinese) from market participation (Khoury & Prasad, 2016; Webb *et al.*, 2019). In particular, we observe differences in the institutional pressures put on minority ethnic Chinese entrepreneurs versus majority Javanese entrepreneurs. Our findings support previous research that found that Chinese minority groups are more vulnerable to corruption and extortion (Chong, 2015; Mackie, 2018). Some illegitimate semi-formal rules are systematically discriminatory toward Chinese entrepreneurs, as evidenced by the withholding of building permits from them. Discrimination is also demonstrated by higher (illegal) costs (e.g., in the form of extortion, bribery, and compulsory donations) imposed on Chinese entrepreneurs, compared to indigenous Javanese entrepreneurs. However, this does not hold for wealthy Chinese entrepreneurs, who are able to infiltrate and regulate the institutions with their strong financial resources and networks.

Our findings suggest that firms' exposure to illegitimate pressures depends on five factors (see Figure 1). First, the type of industry (or nature of business), where highly profitable industries (e.g., natural resource-related ones) and "grey" industries (e.g., close to illicit ones, such as nightclubs) are more exposed to illegitimate pressures. Industries highly dependent on licensing are also more vulnerable to these pressures. Second, the number of licenses required, where firms that require more licenses are more exposed to illegitimate pressures. Third, the complexity of the license approval process, where more complicated procedures translates to more illegitimate pressures. Fourth, business practices, where firms that operate an illegal activity (e.g., prostitution) or engage in illegal practices (e.g., watering down petrol with chemical liquids) are more vulnerable to pressures. Fifth, the ethnicity of the entrepreneurs, where Chinese entrepreneurs are more vulnerable to illegitimate pressures, due to the history of anti-Chinese sentiment in Indonesia.

The selection of coping strategies depends on the extent of bargaining power the entrepreneurs have toward the pressure actors. For example, an entrepreneur possessing less power might prefer to implement a compliance strategy, and those who have more bargaining power might choose to infiltrate. Entrepreneurs' bargaining power is determined by networks and proximity to formal power (e.g., personal ties to political leaders, leadership positions in influential business associations) and financial resources. This is illustrated by Chinese entrepreneurs, who are socially marginalized, yet are able to infiltrate institutions using their wealth and ties to formal authorities. However, networks and proximity to formal power are more important than financial resources, as good relationships with formal authorities may waive illegal costs that normally apply. Entrepreneurs benefit from a broad network as it broadens the selection of possible strategies to implement, consistent with previous research on other emerging economies (e.g., Sutter *et al.*, 2013).

Overall, our findings show that institutional requirements in Indonesia are harsh, yet negotiable. We find that illegitimate institutions in Indonesia arise to fill the institutional voids, consistent with previous research on emerging countries (e.g., Gao *et al.*, 2017; Khanna & Palepu, 1997; Puffer *et al.*, 2010). Among all the coping strategies identified in this study, emphasis is put on negotiation efforts, ranging from lobbying to infiltration strategies, aimed at influencing regulations and implementations. In this paper, we provide a comprehensive review of illegitimate institutional pressures and how they work, the pressure actors, as well as the coping strategies adopted in response to the pressures. This contributes to the literature at the intersection of institutions and entrepreneurship, particularly in emerging economies. Furthermore, as this paper explains both illegitimate pressures exerted on entrepreneurs' activities (the "top-down" institutional effect) and the coping strategies (the "bottom-up" entrepreneurial responses), it contributes to the development of institutional theory in the context of emerging markets.

8. 1. Implications, Limitations, and Future Research

This research has several practical implications. It provides insights into the institutional barriers to entrepreneurial growth. It can thus help policy makers stipulate regulations, improve formal institutions, and strengthen the enforcement of laws to promote entrepreneurship development. This research also provides an

understanding of local approaches to managing pressures in the context of an emerging economy. This was achieved by understanding the factors triggering pressures and factors determining entrepreneurs' strategies, which emphasize the importance of networks. This implies that social skills are important for enhancing bargaining power. Our findings support Perkmann and Spicer (2008), who argue that social skills are required in order to perform institutional work, as they involve the ability to persuade others to cooperate, as evidenced by the lobbying and infiltration strategies. Hence, social skills are one qualification entrepreneurs must have in order to expand, and cooperate with, networks.

Previous research has debated whether corruption should be seen as "grease" or "sand" in the wheels of entrepreneurship (Mendoza *et al.*, 2015). We observe that government initiatives to reduce corruption are not effective. For example, an online license application system was launched with the aim of eliminating corrupt practices. Yet, the system is not working effectively as it is only applicable only in certain regions and certain government agencies, and hence is not integrated with other types of licenses that may be needed in a business project. Besides, not all entrepreneurs are familiar with digitalized application procedures and it is difficult to find officials to guide them through these procedures. We also find that not all entrepreneurs appreciate the online license application system as paying extra fees to accelerate license is perceived as necessary for market competitiveness. This shows that corruption, to some extent, is perceived as "grease" in supporting the success of entrepreneurship.

Our research has a number of limitations. First, the interviews included only entrepreneurs owning SMEs and industry experts, but not pressure actors themselves due to the sensitivity of the topic. Second, we primarily relied on interview data, which has its limitations when studying sensitive issues. Future research could include also non-interview data such as documents and observations where possible to shed more light on illegitimate institutional pressures. We also assume that larger firms may be exposed to different pressures and rely on other coping strategies than SMEs, which offers further avenues for future research. In addition, it would be interesting to investigate informal illegitimate pressures and firms' strategies across several emerging countries to understand similarities and differences among them.

This study identifies a number of pressures emerging market entrepreneurs can expect to face, and outlines local approaches to managing such pressures. We believe it is greatly beneficial for entrepreneurs to understand these pressures, and

thus be able to identify feasible coping strategies. Finally, we believe our findings could make emerging market policy makers more aware of the *de facto* pressures exerted on entrepreneurs. We hope this could assist policy makers in designing regulations that preempt corruption and other illegitimate practices as well as support the enforcement of law in order to enable the growth of entrepreneurship.

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Appendix. Examples of Interview Questions

1. What is the role of the government in your business and how important it is?
2. What do you think about the government regulations in the industry and how do they affect your business?
3. Are there any government regulations (or officers) that you consider as illegitimate pressures on your business?
4. Besides government regulations (or officers), are there any external factors or rules that you consider as illegitimate pressures on your business?
5. Are there any informal rules that you have to follow to ensure that your business works properly? If so, could you specify what the rules are, how they influence your business, and who the perpetrators are?
6. How do you cope with these pressures and why?