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Title: What Type of Skills Lead to Entrepreneurial Success? Evidence from Non-Farm Household Enterprises in Indonesia



The abundance of small enterprises in developing countries has led to debates on the role of the entrepreneurs' skills on the performance of small business. Analyses of the types of skills and characteristics important for entrepreneurial success is aligned with Sustainable Development Goal (SDG) Target 4.4 which aims to substantially increase the number of youth and adults who have relevant skills for employment, decent jobs, and entrepreneurship. We addressed these issues in the context of Indonesia, a low-middle-income country in which almost half of workers are self-employed and virtually all of those self-employed can be considered as stagnant enterprises. We estimated the effect of two types of general skills, namely fluid and crystallized intelligence, on the performance of non-farm-household businesses using a household longitudinal dataset named Indonesia Family Life Survey (IFLS). We found that fluid intelligence had sizeable and positive returns on business whereas crystallized intelligence had a positive and large effect only in sectors that required intense concentration or computers. Some heterogeneous effects regarding business size were also found. Our results were robust when we controlled for possible selection into non-farm entrepreneurship. Evidence on type of skills that lead to entrepreneurial success in Indonesia is still limited. This study fills the gap by providing evidence on the causal link between cognitive skills and entrepreneurial success in Indonesia. These analyses provide evidence to improve the fitness of programs designed to support entrepreneurs and also provide insights for government in developing national strategies for growth and poverty reduction. Given that fluid intelligence is something that an individual is born with, it appears that training programs would not be an effective tool to support most entrepreneurs in Indonesia. Our findings point to the need for policymakers to invest in improving long-term health outcomes and environmental conditions which have important role in the formation of fluid intelligence. We conjecture that our findings are consistent with the developing country context where rules and regulations on businesses are relatively incomplete, making problem solving skills and ability to adapt quickly to change are generally more important than taught knowledge.