

## SOCIAL PREFERENCE OF YOUNG ENTREPRENEURS AND THE IMPACT TO THE SOCIETY

Evi Thelia Sari<sup>1</sup>, Parwita Setya Wardhani<sup>2</sup>, Rika Yuliastanti<sup>3</sup>

<sup>1,2,3</sup> STIE Mahardhika, Surabaya  
INDONESIA

Email: [evi.mahardhika@gmail.com](mailto:evi.mahardhika@gmail.com)

### ABSTRACT

*This study is to describe and explain how the social preference types among the young entrepreneurs influence their impact to society. This study is conducted using regression analysis and the interpretation is based on the regression model. The respondents used only 31. The respondents are the young entrepreneurs in small scale businesses in Surabaya. The variables used are their perceptions towards the three types of social preferences (reciprocity, inequity aversion, and pure altruism) as the independent variables. The dependent variable used here is the intention to give impact to the society. The results of the study show that reciprocity, inequity aversion and altruism of young entrepreneurs in Surabaya influence simultaneously to the intention to give impact to the society. Partially, pure altruism is the strongest influence to the intention. Inequity aversion is not significant to influence the intention to give impact to the society, so shortly, the social preferences of young entrepreneurs in Surabaya influence the impact of the society.*

**Keywords:** reciprocity, inequity aversion, pure altruism, young entrepreneurs

### INTRODUCTION

Entrepreneurship itself is promoted as a policy to reduce economic and social inequities (Gunawan & Fraser, 2016) and this term refers to the process of bringing new ideas into market or it causes economic change due to the innovation, job creation, and opportunities (Keith et al., 2008 in Islam & Mahmud, 2016). So it is very important for a nation to have more entrepreneurs in the country to enhance the economy and welfare of the society.

The other fact is composition of Indonesia population consists of 25% young adults with unemployment rate is higher than adult unemployment (Gunawan & Fraser, 2016) and the youth entrepreneurship is then promoted as one of economic development strategies in developing countries (ILO, 2012 in Gunawan & Fraser, 2016).

The phenomenon of young entrepreneur attracts many researchers to study on various interesting issues. They studied about what makes the young people to be entrepreneurs instead of working in big companies as staffs or even managers. The other studies are mainly about who influenced the young people to be entrepreneurs and when they started to think of being entrepreneurs.

However, not many studies focus on the social preference among young entrepreneur that influence them to give impact to society. Preferences as the building blocks of any economic model and its outcomes are associated with the aversion, altruism, reciprocity, trust and time. Levitt & List (2007) assumed that although individuals have social preferences, but moral costs can be influenced by a concern for others as well as a concern for someone's own appearance.

Bellemare, et al. (2008) in their study found that inequity aversion will be lower among the young and highly educated participants because they represented the selfish subgroup of the population. So, this

study will elaborate the characteristic, whether the young entrepreneurs have high inequity aversion or not and how the aversion for the inequity will influence their intention to give impact to the society. This study tries to examine whether among the young entrepreneurs in Surabaya, the perception of social preferences (indicated by reciprocity, inequity aversion and pure altruism) influence their intention to give impact to their society or not. This study has the purposes to examine the social preferences of the young entrepreneurs to give impact to the society.

## **LITERATURE REVIEW**

### **Young Entrepreneur**

As the definition of young entrepreneur is very limited and even hard to find the best one however, Dash & Kaur (2012) underlined the statement of Greene (2005) that young people works for themselves and it is a kind of option because it offers the youth an interesting job and freedom that cannot be found in other working place. Thus, in Dash & Kaur (2012), the age group used to identify the word “young” is 18-35 years old.

### **Social Preferences**

Social preferences is a branch of behavioral economics that describes how economic agents maximizing utility and assuming the self-interest. Some people predominantly care about their own results while others have more pro-social motivation by seeking social goals and equality at their own cost (Artinger, et al., 2014).

In many previous studies, research on social preferences were used experimental games to measure it among the participants, but in this study, the social preferences will be measured from three components that usually exist in preference such as reciprocity, inequity aversion, and pure altruism in a quantitative way using survey.

Economist recognize that preferences, including altruism and reciprocity are used to understand economic behavior, such as public goods contributions, employee relations, and consumption of products, so it is important to know the role of social preferences in the choices people make (Golman, 2015).

### **Reciprocity**

Reciprocity is defined as two-way behavioral relationship, means that when someone has helped others, there will be an expectation to be helped as well by others (Harpham (2008) in Pope et al., 2013) or in other words, it is about how an individual want to show reciprocal behavior.

The result of generosity from pure altruism can create the reciprocity as the good things have done and inspired positive regard in return, especially when it earns social approval (Golman, 2015).

### **Inequity aversion**

In some studies, the inequity or inequality aversion captures the preference for fairness and defiance to inequity (Chowdhury & Jeon, 2014). Their study was about how the people will tend to give if there is an effect of the pure income consequences on giving and found that there was no effect predicted by this study. Fehr & Schmidt (1999) assumed that inequity aversion is about a person that wants to achieve an equitable distribution of material resources so they are altruistic to others.

The concept is almost similar to the reciprocity but reciprocity is more important motive quantitatively and still needs the notion of a fair payoff (Fehr & Fischbacher, 2002).

### **Pure altruism**

Altruism is interpreted as fairness preferences (Levitt & List, 2007) using a dictator game and public goods game, to generalize the players' decision in given situation and it is such an extension of the prisoner's dilemma game. The study of Chowdhury & Jeon (2014) showed the term impure altruism had effect to the giving and seemingly non rational behavior of a person and assumed that in pure altruism the person will get purely from the well-being who receive their giving.

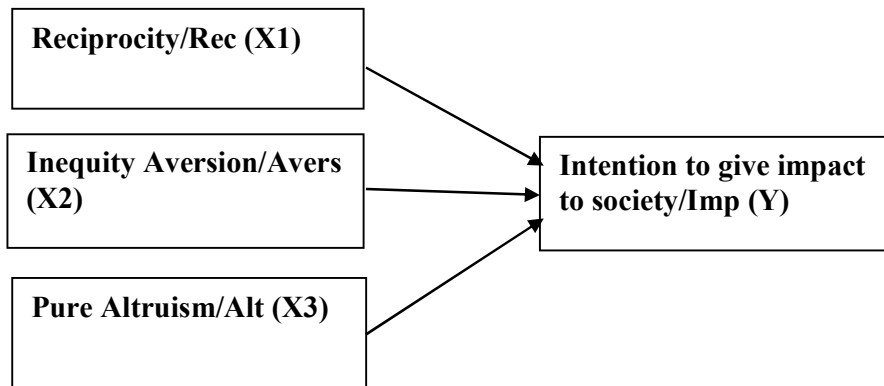
In the choices to create welfare for individuals or others in the economy, some people will be motivated not only by welfare itself but also by the act in contribution to their welfare and often more sensitive to their roles in helping others than to their own need to that help (Golman, 2015). Thus, pure altruism can be known from the act of giving or helping.

## RESEARCH METHODS

The research is conducted in quantitative research methodology. As planned, the respondents are counted by the formula  $10 \times n$ , which is  $n$  refers to the numbers of variables used in the study so the authors planned to distribute the questionnaire for 40 samples among the young entrepreneurs in Surabaya City as respondents. The criteria of young entrepreneurs used here is within age group 18 to 35 years old, the samples are taken by non-probability sampling method. Multiple linear regression is used to test the hypothesis as below:

- H1 : Reciprocity of young entrepreneurs influences their intention to give impact to the society.
- H2 : Inequity aversion of young entrepreneurs influences their intention to give impact to the society.
- H3 : Pure altruism of young entrepreneurs influences their intention to give impact to the society.

The hypothesis statements can be drawn into the conceptual framework of the research as below:



**Figure 1. Conceptual Framework**

Source: Authors

The independent variables are reciprocity, inequity aversion and pure altruism. The dependent variable used in this article is intention to give impact to the society and formed in 20 statements. All the statements used in the questionnaires were gathered from many theories and references used in this paper. Pure altruism in this research is measured using accommodated self-report altruism scale (Rushton, et al., 1981), social responsibility, emotional empathy, and social interest.

The indicators of the variables are based on many previous studies and the relevance to the research object. Reciprocity's indicators are: 1) the willingness to help others in knowledge, financial, spiritual, and job; 2) the hope that others will help in the knowledge and spiritual. Because the respondents are young entrepreneurs, so when asking to them for hope of being help, they did not hope for being help in financial and job.

The inequity aversion also has two indicators, 1) the awareness to do the good things as others had done before; 2) the motive of doing good things to others. Pure altruism consists of 3 indicators, 1) the sense of responsibility to help; 2) the eagerness to do things to help others; 3) the feelings that motivate to help others. While the dependent variable (intention to give impact to society) is explained by all motives that strengthen their intention to give impact for society, those are 1) the reasons of doing business and 2) the principles of doing business.

## DISCUSSION

The respondents were asked to fill the questionnaire forms and based on the plan, the number of sample should be 40 respondents, however, after some time used to gather the responses the questionnaires that are valid to process are only 31 young entrepreneurs in Surabaya.

The results of the data analysis gathered from 31 respondents consist of 18-25 years old (19 respondents), 26-30 years old (10 respondents) and 31-35 years old (2 respondents). Most of the

respondents are males (18 respondents) and the rest (13%) are females. The fields of business among the respondents vary from online business, product, service and trade. Most of respondents work in service businesses (12 respondents), product (10 respondents), online business (7 respondents) and 2 respondents works in trade business.

The monthly gross income of their business is less than 5 million rupiahs (19 respondents), less than 10 million rupiahs (5 respondents) and there are 7 respondents get gross income more than 10 million rupiahs in a month. As the business studied here is small business, thus the number of employees owned by the respondents mostly less than 5 workers (24 respondents), less than 10 workers owned by 5 respondents, and only 2 respondents have more than 10 workers.

There are 20 statements used in questionnaires to indicate reciprocity (Rec), aversion (Avers), pure altruism (Alt) and the intention to give impact (Imp). The respondents were asked to choose the alternative of responses, from strongly disagree (1), disagree (2), agree (3) and strongly agree (4).

The data gathered from 31 respondents were measured for validity and reliability, and the results of validity are valid. All the items in questionnaires, seen in Pearson correlation should show the sig. value more than 0.355 (based on Table r) or the sig. value less than 0.05. The reliability test based on Cronbach's alpha test is 0.927 for 20 items in questionnaires, more than 0.6 thus it can be said, the reliability is very strong for the questionnaire.

**Table 1. Summary of Validity Test**

Item	Sig.	Validity
Rec1	0.009	valid
Rec2	0.009	valid
Rec3	0.006	valid
Rec4	0.005	valid
Rec5	0.000	valid
Rec7	0.000	valid
Avers4	0.000	valid
Avers5	0.000	valid
Avers6	0.005	valid
Avers7	0.000	valid
AltB1	0.000	valid
AltB2	0.000	valid
AltB3	0.000	valid
AltB4	0.000	valid
Imp1	0.000	valid
Imp2	0.000	valid
Imp3	0.000	valid
Imp4	0.000	valid
Imp5	0.000	valid
Imp6	0.003	valid

Source: primary data, processed

**Table 2. Model Summary**

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.860(a)	.740	.711	1.948	2.141

a Predictors: (Constant), ALT, REC, AVERS

b Dependent Variable: IMP

Source: primary data, processed

Table 2 shows that the R<sup>2</sup> value is high enough (0.740) so it can be said that the independent variables are good to predict the dependent variable. Thus, in this study, the reciprocity, inequity aversion and pure altruism can predict the intention to give impact to the society among the young entrepreneurs. The other 26% of the dependent variable can be explained by other variables which are not used in this study, such as personal values, cultures, social issues and religion.

**Table 3. Anova**

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	291.434	3	97.145	25.589	.000(a)
	Residual	102.502	27	3.796		
	Total	393.935	30			

a Predictors: (Constant), ALT, REC, AVERS

b Dependent Variable: IMP

Source: primary data, processed

The simultaneous influence of the independent variables is significant and it shows that the three independent variables will influence the dependent variable altogether. The intention to give impact to the society is influenced by their reciprocity, inequity aversion and the altruism.

**Table 4. Regression Coefficient**

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Collinearity Statistics	
		B	Std. Error	Beta			Tolerance	VIF
1	(Constant)	-10.493	3.671		-2.859	.008		
	REC	.770	.283	.425	2.719	.011	.395	2.531
	AVERS	.202	.287	.112	.702	.489	.378	2.643
	ALT	.900	.250	.448	3.601	.001	.623	1.606

a Dependent Variable: IMP

Source: primary data, processed

The regression model of the study is  $IMP = -10.493 + 0.770REC + 0.202AVERS + 0.900ALT$ . The strongest influence to IMP belongs to ALT and AVERS is not significant to influence the dependent variable because the sig. value is more than 0.05. REC and ALT are significant to influence dependent variable with the values of sig. are 0.011 and 0.001, less than 0.05.

The regression model has no multicollinearity because VIF has value less than 5 for all independent variables, Rec (2.531 < 5), Avers (2.643 < 5), and Alt (1.606 < 5). The regression model is free from the autocorrelation because the Durbin Watson value (Table 1) lies between du and (4-du). The value of du and (4-du) are based on the Durbin Watson table, which shows du = 1.650. Table 1 shows DW = 2.141 and it is between the value 1.650 (du) and 2.350 (4-du).

Reciprocity is significant to influence the intention to give impact to the society because the respondents things that there will something good in return if they do good things. Supported by the

definition of reciprocity as two-way behavioral relationship, means that when someone has helped others, there will be an expectation to be helped as well by others (Harpham (2008) in Pope et al., 2013), the result of the study shows that the respondents agree to help others in knowledge, financial, spiritual, and job vacancy/opportunity, but in return, they mostly need people will help in return in case of knowledge and spiritual, because knowledge, financial and job vacancy can be provided by themselves already, as the entrepreneurs.

As the study of Bellemare, et al. (2008) found that inequity aversion was lower among the young and highly educated participants as the representation of selfish subgroup in the population, this study shows inequity aversion variable does not influence the young entrepreneurs' intention to give impact to the society. This result cannot be judged as the young people with high income are more selfish, but the indicators for the variable used here are about the awareness to do the good things as others had done before and the motive of doing good things to others.

This study indicates that young entrepreneurs will give impact to the society not because they are generous, but they have the other reasons such as reciprocity and altruism as other variables used in this study. They may not be selfish, but they miss some attention to the details of society needs and situations to which they have to pay. As most of the respondents' ages are 26-30 years old, they may still fight against their own circumstances to make their businesses settled rather than focus on the detail of social problem and take into account in their daily business life and decisions.

Pure altruism here can be the strongest influence to the intention of giving impact to the society because the other factors which are not explained and discussed in this study, such as culture, social, religions and life values which may teach or approve the gift as a must and obligation because of the blessings they get from God and those blessings should be given back to whom in needs and it is supported by the statement of Golman (2015) that some people will be motivated also by the act in contribution and often more sensitive to their roles in helping others than to their own need.

## **CONCLUSIONS**

The study is concluded that the reciprocity, inequity aversion and altruism of young entrepreneurs in Surabaya influence the intention to give impact to the society. Partially, altruism has the strongest influence to the intention compare to reciprocity and inequity aversion. However, inequity aversion is not significant to influence the intention to give impact to the society.

Having analyzed by using the respondents perception towards the elements found in social preferences, such as reciprocity, inequity aversion and pure altruism, the social preferences among the young entrepreneurs in Surabaya influence their intention to give impact to the society through their businesses.

The limitation of the study comes from small number of respondents used but in the future, this study can be explored by using other analysis techniques apart of linear regression.

## **REFERENCES**

- Artinger F, Exadaktylos F, Koppel H, Saˆaˆksvuori L. (2014) In Others' Shoes: Do Individual Differences in Empathy and Theory of Mind Shape Social Preferences? PLoS ONE 9(4): e92844. doi:10.1371/journal.pone.0092844
- Bellemare, Charles, Kroger Sabine, Soest, Arthur. (2008). Measuring Inequity Aversion in a Heterogeneous Population using Experimental Decisions and Subjective Probabilities. *Econometrica*, Vol. 76, No. 4 (July, 2008), 815-839
- Chowdhury, S. M. and Jeon, J. Y. (2014) Impure altruism or inequality aversion? An experimental investigation based on income effects. *Journal of Public Economics*, 118. pp. 143150. ISSN 0047272. doi: <https://doi.org/10.1016/j.jpubeco.2014.07.003> Available at <http://centaur.reading.ac.uk/72972/>
- Dash, Manjusmita & Kaur, Kulveen. (2012). Youth Entrepreneurship as a Way of Boosting Indian Economic Competitiveness: A Study of Orissa. *International Review of Management and Marketing*, Vol. 2, No.1, 2012, pp.10-21
- Fehr, Ernst, & Schmidt, Klaus M. (1999). "A Theory of Fairness, Competition and Co-operation" *Quarterly Journal of Economics* 114, 817-868.

- 
- & Fischbacher, Urs (2002). Why Social Preferences Matter- The Impact of Non-Selfish Motives on Competition, Cooperation and Incentives. *Working Paper No. 84, Institute of Empirical Research in Economics University of Zurich*,
- Golman, Russell. (2015). Good manners: signaling social preferences. *Theory Dec. Springer Science+Business Media New York 2015*
- Gunawan, Janti & Fraser, Kym. (2016). Exploring Young and Green Entrepreneurship in Indonesia: an Introduction. *Journal of Asian Business Strategy, Volume 6, Issue 9, 2016, pp.185-194*
- Islam, Nurnobi. Md & Mahmud, Appel. (2016). Influence of Social, Economic and Individual Factors on Entrepreneurship development in Rangpur. *Journal of Business Research, Vol. 1, No. 2, June 2015-2016*
- Levitt, Steven D. & List, John. A (2007). What Do Laboratory Experiments Measuring Social Preferences Reveal About the Real World?. *Journal of Economic Perspectives—Volume 21, Number 2—Spring 2007—Pages 153–174*
- Pope, Holly C, Miller Margaret C, Wolfer Terry A., Mann, Joshua R., McKeown Robert E. (2013). Psychometric Analysis of a Scale to Assess Norms of Reciprocity of Social Support in Community-Based and Congregation-Based Groups. *SAGE Open, October-December 2013:1-12*
- Rushton, J. Philippe, Chrisjohn, Roland D, Fekken G. Cynthia. (1981). The Altruistic Personality and the Self-Report Altruism Scale. *Person individ. Diff.Vol. 2, pp. 293 to 302*