

The Role of Entrepreneurial Orientation toward Entrepreneurial Competencies and Small and Medium Enterprises (SMEs) Performance

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Abstract: Small and medium enterprises (SMEs) proved able to contribute to the economy that is the ability to absorb labor and contribution to Gross Domestic Product (GDP). But the growth of SMEs still faces problems, including market access, market information, market expansion, diversification, and innovation. To overcome the problems of SMEs, need to be studied the role of individual factors as business actors include the competence and entrepreneurship orientation. The purpose of this research is to analyze the role of individual factors, namely entrepreneurship competence and entrepreneurship orientation toward SMEs performance. This advanced research is developed with a focus on entrepreneurial competence as an antecedent of the entrepreneurial orientation and its effect on the performance of SMEs. Using explanatory research approach, the study was conducted on 80 SMEs in Malang City, Indonesia. The analysis is done with Path Analysis to test the direct and indirect influence between the variables on the performance of SMEs. The results showed entrepreneurial competence as a mediating variable of influence of entrepreneurial orientation on the performance of SMEs. The results of this study indicate that the entrepreneurial orientation can be achieved if the entrepreneur has entrepreneurial competence.

1 INTRODUCTION

East Java province ranked first the largest number of Small Medium Enterprises (SMEs) in Indonesia amounting to 4,608,754 business units or 17.5% of total national SMEs. The number of workers in the SMEs sector, East Java is the highest province of absorbing employment in the SME sector is 11,042,066 people or 20.6% of the SME sector workforce compared to the provinces in Indonesia (Indonesian Central Bureau of Statistics, 2017).

In Malang City from 11,779 units SMEs it turns out that only 27 business units are able to penetrate export markets and 25 businesses that have the potential to export and have a mainstay product. Surely this problem needs to be answered by knowing the determinants of growth of SMEs. So the results of this study are expected to contribute to the government in this case the Department of

Cooperatives and SMEs in formulating policy development of SMEs.

Research on the determinants of the growth of SMEs can be classified into three factors, namely individual factors (individual characteristics, competencies), organizational factors (strategy, organizational characteristics), and environment (Zhou and Wit, 2009). While the classic problems faced by SMEs are marketing issues, including market access, market information, market expansion, diversification, and innovation, it is necessary to improve the entrepreneurial orientation of SME owners/managers. The entrepreneurial orientation deals with the psychometric aspects seen from its innovation, its proactive nature and the courage to take risks

The performance of SMEs is determined by the characteristics of entrepreneurship and entrepreneurial competence (Sarwoko, 2013). Further research proves that entrepreneurial competence will determine the business strategy that

ultimately affect the performance of SMEs (Sarwoko, 2014). These findings indicate the importance of individual factors as a determinant of the SMEs performance. Limitations of the study have not considered the entrepreneurial orientation, that is innovative, proactive and courage to take risks in running the business as a factor that also contribute to the performance of SMEs.

Previous research has shown that small business growth is determined by several factors. The determinants of small-business growth can be classified into 3 dimensions: individual, organization, and environment (Zhou and Wit, 2009), organizational resource factors, corporate competence, organizational culture, and structure (Covin & Slevin, 1991), competency factors for individuals in entrepreneurial processes (Li, 2009), owner/manager characteristic factors and strategies (Nimalathasam, 2008; Sarwoko, 2013).

Research on the determinants of the SMEs performance can be classified into three factors, namely individual factors (individual characteristics, competencies), organizational factors (strategy, organizational characteristics), and environment (Zhou and Wit, 2009). While the classic problems faced by SMEs are marketing issues, including market access, market information, market expansion, diversification, and innovation, it is necessary to improve the entrepreneurial orientation of SME owners/managers.

2 LITERATURE REVIEW

a. Entrepreneurial competency and SMEs performance

Baum (2001) defines entrepreneurial competence as an individual characteristic such as the knowledge, skills, and/or abilities required to perform a particular job. Kiggundu (2002) expresses entrepreneurial competence as a whole of entrepreneurial attributes such as attitudes, beliefs, knowledge, skills, abilities, personality, skills and behavioral trends necessary to sustain and succeed the business.

Wasilezuk (2000) suggests that the ability (competence) owned by owner/managers affects the growth of the company. This competency is divided into two:

1) Personal competency

It is a combination of educational background from the owner/manager, experience, personal character, and motivation.

2) Operational competency

Is an activity carried out by the owner / manager in leading and running his business.

Core competencies (technical skills, managerial skills, social skills, human relations skills) positively affect an entrepreneur's success (Kiggundu, 2002). Baum et al. (2001) found that general competence (organizational skills, opportunities skills) had no significant effect on business growth, but had an indirect positive impact through competitive strategies on business growth.

The success of the business is influenced by the skill and ability/competence of the owner/manager. Understanding the role of entrepreneurs provides a better insight into what competencies are required by employers to ensure business survival and business success (Akhmad, 2010).

H1: the stronger the competence of entrepreneurship, the more the performance of SMEs

b. Entrepreneurial orientation and SMEs performance

The entrepreneurial orientation involves the willingness to innovate, take risks, take independent action, and be more proactive and aggressive than competitors against new market opportunities (Lumpkin & Dess, 1996; Wiklund & Shepherd, 2005). There are five dimensions of entrepreneurial orientation, including innovation, risk-taking, proactive, aggressiveness, and autonomy as suggested by Lumpkin and Dess (1996). Given the importance of entrepreneurship to corporate performance, entrepreneurship orientation can be an important measure of how companies are managing to find and exploit market opportunities (Wiklund & Shepherd, 2005).

The typical conceptualization of entrepreneurship orientation includes three dimensions: proactive, risk-taking, and innovation (Covin and Slevin, 1990; Zahra, 1995).

H2: the stronger the entrepreneurship orientation, the more performance SMEs

c. Entrepreneurial competency and entrepreneurial orientation

Entrepreneurial competencies of the owner/manager are positively related to the entrepreneurial orientation and its dimensions (Wickramaratne et al., 2014). Critical factors of achieving the entrepreneurial success outward look toward future, strategic focus and intentional postures. Entrepreneurs make decisions about their

entrepreneurial action depend on the judgments of their competencies (Bird, 1995).

H3: orientation of entrepreneurship as a mediation of the influence of entrepreneurial competence in the performance of SMEs

3 METHOD

The study was conducted on SMEs in Malang City, Indonesia, by taking samples of 80 owners/managers.

The variables in the study are entrepreneurial competence, entrepreneurship orientation and SME performance

- Entrepreneurial competency
Entrepreneurship competence is measured using conceptual competency indicators, opportunity, relationship, learning, and personal.
- Entrepreneurial orientation
Entrepreneurial orientation is measured by innovation, proactive, and risk-taking indicators.
- SMEs performance
Measurement of SMEs performance using 3 indicators namely sales growth, profit, and capital.

Methods of data collection using questionnaires, designed in the form of a closed questionnaire using a Likert Scale 5-point. A data analysis technique used to answer the problem formulation in this research is Path Analysis.

4 RESULT AND DISCUSSION

The study was conducted on the owners / managers of SMEs with the following characteristics:

Table 1. Descriptive statistics

Characteristics	Number	%
Age		
< 30	9	11.3%
30 – 40	46	57.5%
> 40	25	31.3%
Experience		
< 5	8	10%
5 – 10	40	50%
> 10	32	40%

Table 1 shows that SME owners / managers are over 30 years of age, and have been in business for more than 5 years, reflecting owners / managers who have chosen the profession as an entrepreneur and have sufficient experience as an entrepreneur.

3.1 Regression result

The result of regression analysis between entrepreneurship competence and entrepreneurship orientation with SME performance is as follows:

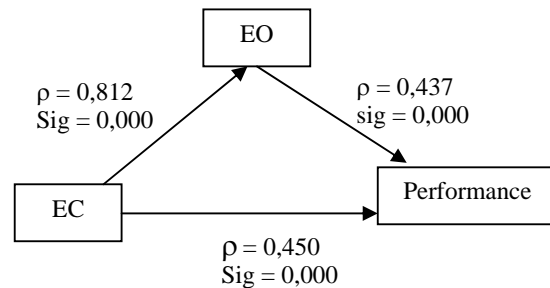
Table 2. Regression result

Variable	Performance (Model 1)	Entrepreneurial Orientation (Model 2)
Entrepreneurial competency	0.450*** (0.000)	0.812*** (0.000)
Entrepreneurial orientation	0.437*** (0.000)	

Note: *** Significance level $p < 0.01$

Based on the analysis results in table 2, we can describe the path analysis model as follows:

Figure 1. Path Analysis Model



The model of path analysis shows that each direct causal path that is entrepreneurial competence to business performance, as well as an indirect causal path that is entrepreneurial competence in business performance through entrepreneurship orientation significant relationship.

3.2 Entrepreneurial competency and SMEs performance

The results show that entrepreneurial competency has a significant effect on performance, hence the hypothesis (H1) which states that the higher the competence of entrepreneur then the higher the performance of SMEs is proven. This finding is in line with Akhmad (2010), Kiggundu (2002), and Sarwoko (2013) that entrepreneurial competence influences SMEs performance.

The performance of SMEs can be enhanced through enhancing entrepreneurial competence, including conceptual, opportunity, relationship

learning, and personal competencies. An entrepreneur must have the ability of the concept and ability to read market opportunities to be able to compete. In addition, it needs to be increased also the ability to build a good network with suppliers and customers.

3.3 Entrepreneurial orientation and SMEs performance

The orientation of entrepreneurship has a significant effect on performance, this hypothesis (H1) which states that the higher the entrepreneurship orientation, the higher the performance of SMEs is proven. This finding is in line with Wiklund & Shepherd (2005), Wickramaratne et al. (2014) that the orientation of entrepreneurship affects business performance.

An entrepreneur in order to succeed then must innovate in every aspect because of increasingly fierce business competition, in addition must dare to take the business risk to get biggest profit opportunities.

3.4 Entrepreneurial competency and SMEs performance mediated entrepreneurial orientation

Analysis of the indirect effect of entrepreneurial competence in the performance of SMEs shows that entrepreneurship orientation is a mediating variable of influence of entrepreneurial competence in the performance of SMEs, thus the hypothesis (H3) are proven.

The result of the research shows that entrepreneurial competence has an effect on the performance of SMEs that are mediated by entrepreneurship orientation, meaning that the stronger entrepreneurial competence will lead to the improvement of entrepreneurship orientation, then the high entrepreneurship orientation will cause the higher performance of SMEs. So entrepreneurship orientation is a mediation of the relationship between competence of entrepreneurship with the performance of SMEs.

4 CONCLUSIONS

The result of the research shows that the improvement of entrepreneurship competence will have a direct impact to the improvement of SME's performance, besides the improvement of entrepreneurship competence also able to increase entrepreneurship orientation, and further improvement of entrepreneurship orientation will determine the performance of SMEs. This means to improve the performance of SMEs then the key

factor is the need to increase the entrepreneurial competence of the owners / managers of SMEs. Subsequent research can develop research by exploring factors affecting entrepreneurial competence, e.g. individual characteristics including education and business experience.

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