

The Effect of Entrepreneurship Competency on the Sustainability of Small and Medium Enterprises (SMEs)

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Abstract

Competence is a characteristic that underlies a person to produce effective and/or superior performance in a job. SMEs, face many situations that require to make quick decisions, therefore having the ability to perform high-level conceptual activities is important for business survival and success. A competency model can explain several ways to increase the possibility of survival. The purpose of this study is to determine the determinants of entrepreneurial competencies consisting of innovation competencies, leadership competencies and network competencies, their influence on business success in small and medium enterprises (SMEs) with various types of businesses. . The study was conducted on 100 SMEs located in Tangerang City. The sampling technique used was purposive sampling. Data was collected by distributing questionnaires to respondents who were selected as research samples. The analysis technique uses SEM with Smart PLS devices. The results of the study show that innovation competence has a positive and significant impact on the survival of SMEs; leadership competence has a positive and significant influence on the survival of SMEs; network competence has a positive but not significant effect on the survival of SMEs. This research is expected to provide benefits for SMEs in using entrepreneurial competencies in order to maintain business continuity in the future. The analysis technique uses SEM with Smart PLS devices. The results of the study show that innovation competence has a positive and significant impact on the survival of SMEs; leadership competence has a positive and significant influence on the survival of SMEs; network competence has a positive but not significant effect on the survival of SMEs. This research is expected to provide benefits for SMEs in using entrepreneurial competencies in order to maintain business continuity in the future. The analysis technique uses SEM with Smart PLS devices. The results of the study show that innovation competence has a positive and significant impact on the survival of SMEs; leadership competence has a positive and significant influence on the survival of SMEs; network competence has a positive but not significant effect on the survival of SMEs. This research is expected to provide benefits for SMEs in using entrepreneurial competencies in order to maintain business continuity in the future network.

Keywords

Entrepreneurial competence;
innovation; leadership;
networking; business success;
SMEs



I. Introduction

Entrepreneurship is an ability to create added value in the market through the process of managing resources in new and different ways. One of the most common entrepreneurial activities carried out in various countries, especially developing countries, is Small and Medium Enterprises (SMEs). One of the most important roles of SMEs in the context of poverty alleviation is through job creation (Jasraet al., 2011). Especially in Indonesia, SMEs are considered as one of the most important pillars. Socio-economic

development as these businesses serve as the basis for increasing production capacity as well as contributing to poverty reduction and unemployment problems. SMEs are considered as engines of growth and development of countries because of their great contribution to the manufacturing sub-sector, diversification of output, and reduction of unemployment (Adeoye 2015).

In Indonesia, SMEs can be regarded as a driver of economic growth. Every region in Indonesia has many SMEs, but in the course of their business they have quite sharp competition, especially facing attacks from big businesses. Small firms compete with large business firms in new ways (Mele, 2015) who has the mindset and act globally. In addition, big business people have technology investments that make them more aggressive in improving operations and making their business more advanced (Oxford Economics, 2013). The bankruptcy rate of SMEs can be said to be quite high in the first three years of operation. Efforts directed at increasing survival and growth ultimately need the attention of researchers, policy makers and governments. Many SMEs have problems in maintaining the viability of their business. Ng and Kee (2013) argue that in order to survive and be successful in a competitive and rapidly changing market environment SMEs need to continuously acquire and improve their entrepreneurial competencies.

The success, performance, survival and growth of SMEs are highly dependent on the competence of entrepreneurs (Mitchelmore & Rowley, 2013). Mitchelmore and Rowley (2010) show that there is an overall consensus on the discussion that individuals starting to change businesses to have entrepreneurial competencies. The authors state that these entrepreneurial competencies can be described as a specific group of competencies that relevant to successful entrepreneurial performance. Entrepreneurial competence is related to business survival and success. In their study, the researchers summarized that entrepreneurial competence can be defined as a higher level characteristic that represents the total ability of an entrepreneur to succeed, perform job roles and consists of knowledge, skills, and personality traits that are influenced by education, training, family background, experience and other demographic aspects of entrepreneurs. Training has the ultimate effect of shaping competence or entrepreneurial orientation and therefore contributes to entrepreneurial survival and performance (Mukulu, 2012). According to Vijay and Ajay (2011), competence is a characteristic that underlies people that results in effective and/or superior performance in a job. SMEs, facing many situations that require entrepreneurs to make quick decisions, therefore need to have the ability to carry out high-level conceptual activities, this is important for business survival and success. Some argue that the competency model can explain ways to increase the likelihood of survival.

Complexity in business operations in a constantly changing competitive business environment resulting from rapid technological advances requires corrective action (Otieno, Bwisa & Kihoro, 2012). An entrepreneur is expected to interact with environmental forces that require him to be highly competent in various dimensions such as intellectual, attitude, behavioral, technical and managerial aspects (Penchev & Salopaju, 2011). Entrepreneurs are challenged to apply a set of competencies to succeed in their entrepreneurial ventures. In fact Competence is a broader concept that includes knowledge, attitudes, behaviors and skills that help a person to be able to turn his ideas into reality with excellence in his performance in a certain context. It does not refer to that behavior which does not perform very well. Finally, competencies do not function motives, but include observable behaviors related to motives (Mitchelmore & Rowley, 2010) found that the entrepreneurial competencies of innovation, leadership and social networking drive business sustainability, the higher the competencies described by SME owners, the more lasting the business is likely to survive. Entrepreneurial competence has a positive impact

on the viability of entrepreneurship. Entrepreneurship Competence the higher the competence described by the SME owner the more lasting the business's possibility to survive. Entrepreneurial competence has a positive impact on the viability of entrepreneurship. Entrepreneurship Competence the higher the competence described by the SME owner the more lasting the business's possibility to survive. Entrepreneurial competence has a positive impact on the viability of entrepreneurship. Entrepreneurship Competence is a predictor of SME business continuity and success (Ahmad, Ramayah, Wilson & Kummerow, 2010; Gerli, Gubitta & Tognazo, 2011; Griffin, 2012; Ropega, 2011)

This study focuses on entrepreneurial competence, because competence is a driver of the survival rate of a business. Previous research (Ahmad, 2007; Ahmad, Halim & Zainal, 2010; Madata, 2011; Kochadai, 2012; Ng & Kee, 2013; Sanchez, 2012) conducted in other countries has found a positive relationship between existence and found a positive relationship between the presence of competence and survival of SMEs. Sanchez, (2012), shows that in Spain entrepreneurial competence not only has a direct impact, but also has an indirect impact on the performance of SME companies through the mediating effect of organizational capability. Madatta (2011) found that in Tanzania entrepreneurial competence is directly related to business success. Since each market and economy has its own features that provide a unique environment, for SMEs to thrive and operate, requires their own analysis. Ochanda, (2014); Ong'olo & Awino, (2013), in finding the determinants of entrepreneurial competence, it is necessary to explore the prospects for survival and more specifically examine the effects of competence and viability of SMEs. For this reason, the research aims to determinethe influence of innovation competence on the survival of SMEs, the influence of leadership competence on the survival of SMEs and knowing the effect of network competence on the survival of SMEs.

II. Review of Literature

SME growth is highly dependent on the competence of entrepreneurs (Mitchelmore & Rowley, 2013). Entrepreneurial competence can be described as a group of entrepreneurs related to their survival and success. According to Vijay and Ajay (2011), competence is the underlying characteristic of people, which results in effective and/or superior performance in a job. A job competency is a person's underlying characteristics, which may be a person's motives, traits, skills, aspects of one's self-image, a collection of knowledge, a set of skills, and a collection of motives/appropriate traits that a person possesses to perform a particular task. Tehseen, (2015) found that entrepreneurial competence consists of innovation competence, leadership competence, Social network competence will encourage the survival of a business, the higher the competence described by the SME owner, the higher the possibility of a better business survival. Competence has a positive impact on entrepreneurial viabilityis a predictor of SME business continuity and success (Gerli, 2011; Griffin, 2012). Ahmad (2010) proposes a direct relationship between entrepreneurial competence and business success in SMEs by considering the various roles that entrepreneurs have in managing their own businesses. In other words, it is important for entrepreneurs to equip themselves with relevant competencies that will ultimately improve their business viability and performance (Ahmad et al2010)

2.1 Innovation Competence and Survival of SMEs

Innovation is the only solution as the main driver of company growth and productivity (Ganotakis, 2012). The prevailing view in the empirical literature shows that there is a positive relationship between firm innovation and subsequent viability (Wagner & Cockburn, 2010). Firms innovating will lead to better economic performance, higher growth, more jobs and higher wages (Duran, 2016).

Then the research hypothesis:

H1. There is a positive influence of innovation competence on the survival of SMEs

2.2 Leadership Competence and SME Survival

Effective leadership is seen as a strong source for management development and sustainable competitive advantage for improving organizational performance (Edoka, 2015). Kehinde et al. (2014) argues that leadership is very important for the survival and effectiveness of organizational performance. As organizations grow, expectations about their performance increase and the demand for good leadership tends to multiply. Leadership ability is a valuable skill and those who possess it reap high rewards. They argue that, from every indication, there is a strong relationship between leadership strategy and organizational survival (Roomi & Harrison, 2011), hence the research hypothesis:

H2: There is a positive influence of leadership competence on survival SMEs

2.3 Network Competence and SME Survival

Business networks play an important role in enhancing the competitiveness of SMEs.. Turyakira & Mbidde, (2015) networks are significantly positively related to business viability. Kalm (2012) argues that network relationships can provide emotional support for entrepreneurs who bear risks and thereby improve business viability. the desire of entrepreneurs to continue to run the business. Networking is essential for opportunity discovery, for testing ideas and for gathering resources for the formation of new organizations (Klyver & Schott, 2011).Kozan and Akdeniz (2014) found that entrepreneurial networking is positively related to viability life of a business, then the research hypothesis:

H3: There is a positive influence of network competence on the survival of SMEs

III. Research Methods

The population in this study are all business people who have a minimum of five years of business. Domiciled in Tangerang City. This study used a sample with purposive sampling technique. The sample size is 100 scattered in the Tangerang City area. In measuring innovation competence, 4 items are used as indicators. To measure leadership competence as many as 6 items, social networks, as many as 8 items, business survival as many as 4 items. Data collection techniques by distributing questionnaires via google form. SEM analysis technique using Smart PLS. The analysis technique used is SEM with PLS software. PLS model specifications to be estimated in this study are as follows:

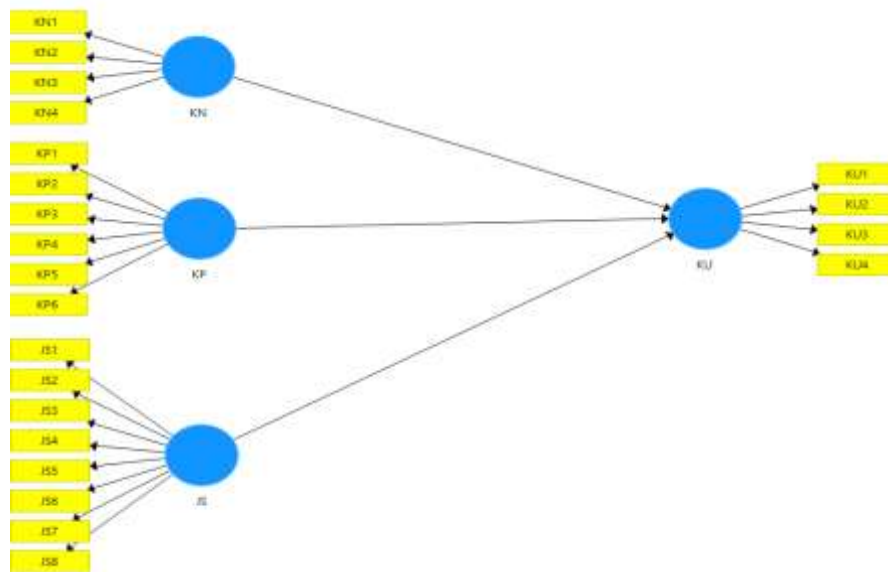


Figure 1. PLS Model Specifications

IV. Results and Discussion

4.1 Respondent Profile

This study used 100 respondents, who were selected by sample. Of the 100 respondents used, the majority of respondents are female as much as 62%. Respondents who gave the most assessments were at the age of 35 to 45 years, the highest level of education was in education less than and equal to high school, the most years of running a business for 5 to 10 years. Respondents who gave an assessment based on the type of business, the most were the types of culinary businesses, namely 65 respondents.

4.2 Analysis

Processing research data using PLS-SEM software which consists of two analyzes, namely the outer model and the inner model.

4.3 Outer Model

Based on the analysis of the results of the measurement model (Outer Model Analysis) it was found that all the indicators used to measure the research variables were valid and reliable so that they could represent the research variables and were trustworthy and reliable.

a. Convergent Validity

Table 1. AVE Value Results

	Average Variance Extracted
Innovation Competence	0.729
Leadership	0.861
Social network	0.625
Business Continuity	0.615

Based on the results of the analysis above, the AVE value of each variable in the table has a value above 0.5 so it can be concluded that the above variable has met the analysis of convergent validity which can be measured by the AVE value.

b. Discriminant Validity:

Table 2. Discriminant Validity

	Social network	Innovation Competence	Leadership	Business Continuity
Social network	0.791			
Innovation Competence	0.608	0.854		
Leadership	0.655	0.380	0.928	
Business Continuity	0.820	0.618	0.553	0.784

From the results of the discriminant validity analysis in the table it shows that the value of the Heteroit-Monotrait Ratio on each indicator variable has a value less than 0.90 (<0.90) so that all indicators of each variable can be accepted.

c. Composite Reliability Test

Sekaran and Bougie (2013) stated that the reliability of a measurement indicates that the indicator is consistent to be used from time to time. Testing reliability by looking at the value of composite reliability and Cronbach's Alpha. If each item used in measuring the variable has a composite reliability value > 0.60 then the variable is declared reliable, if each item used in measuring the variable has a Cronbach's Alpha value > 0.60 then the indicator or item to measure the variable is declared reliable. (Malhotra, 2020).

Table 3. Cronbach's Alpha and Composite Reliability

	Cronbach's Alpha	Composite Reliability
Innovation Competence	0.628	0.843
Leadership	0.839	0.925
Social network	0.881	0.909
Business Continuity	0.793	0.865

From the results of the reliability analysis, it shows that the value of Cronbach's Alpha and Composite Reliability on each variable indicator has a value greater than 0.60 (> 0.60) so that all indicators of each variable have met the requirements and are declared reliable.

4.4 Inner Model

a. Coefficient of Determination Test (R2)

1. The Result of the Coefficient of Determination

The value of R-Square (R2) is used to determine the coefficient of determination and measure the level of variation of changes in the independent variable to the dependent variable. The R-Square value has 3 criteria, namely as follows: a value of 0.75 – 1 indicates (the influence is strong), a value of 0.5 – 0.74 indicates (the influence is moderate), then a value of 0.25 – 0, 49 indicates (the influence is weak).

Table 4. Coefficient of Determination R-Square

	R Square
Business Continuity	0.695

Based on the results of testing the coefficient of determination (R²), it can be explained that the R-square value of business survival is 0.695, which means that 69.5% of the dependent variable can be explained by the variables in this study, the remaining 30.5% is explained by other variables. which were not investigated in this study.

b. Inner Model Test

1. Results from bootstrapping

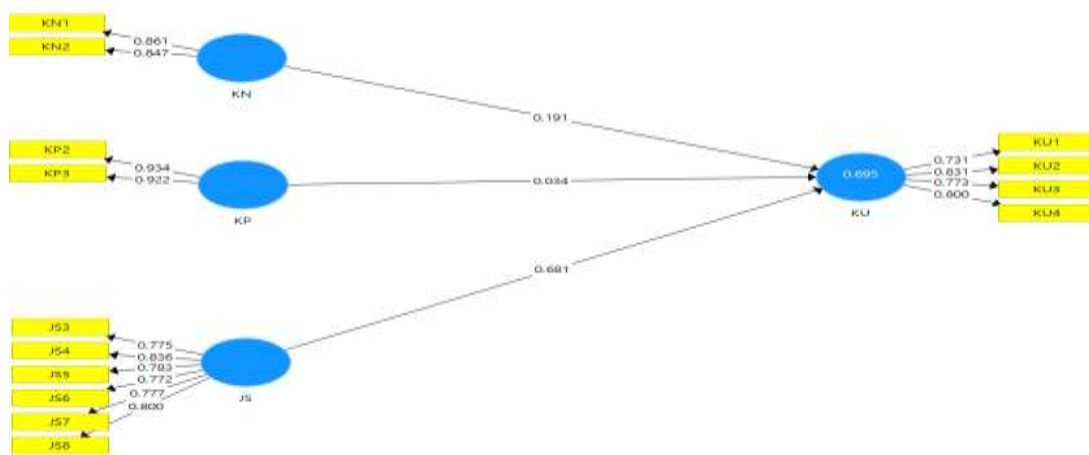


Figure 2. Bootstrapping Test Results

Based on the results of the bootstrapping test which can be seen in Figure 2, the complete significance test results can be seen in table 5 below:

Table 5. Test Results

	Original Sample	Sample Mean	Standard Deviation	T Statistics	P Values
Innovation Competence -> Business Continuity	0.191	0.193	0.089	2,148	0.032
Leadership -> Business Continuity	0.034	0.038	0.096	0.351	0.726
Social Networks -> Business Continuity	0.681	0.681	0.103	6,620	0.000

Based on the test results in table 5 and from the research hypothesis, it can be explained:

1. On the path that shows the influence of innovation competence on business continuity, The p value obtained is 0.032 with a T statistic of 2.148 and a positive path coefficient of 0.191. Because the path p value <0.05, T statistic > 1.96. This shows that supporting H1, which says "There is a positive influence of innovation competence on the survival of SMEs," is accepted.

2. In the path that shows the influence of leadership on business survival, the p value obtained is 0.727 with a T statistic of 3,390,351 and a positive path coefficient of 0.034. Since the path value p value > 0.05, T statistic < 1.96. This shows that it does not support H2 which says "There is a positive influence of leadership competence on the survival of SMEs", is not accepted
3. In the path that shows the effect of social networks on business survival, the p value obtained is 0.000 with a T statistic of 6.620 and a positive path coefficient of 0.681. Therefore the path p value < 0.05, T statistic > 1.96. This shows that supporting H3 which says "There is a positive influence of network competence on the survival of SMEs," is accepted.

4.5 Discussion

The results of the research on the effect of innovation competence on business continuity, showing that there is a positive and significant effect, the results of this study support previous findings which say, that to survive and thrive in an increasingly hypercompetitive market, innovation is the only solution because it has been recognized as the main driver. company growth and productivity. Innovating companies will lead to a better economy, higher performance growth, more jobs and higher wages (Duran, , 2016). Aghion and Jaravel (2015) argue that there is a positive impact of innovation competence on profitability.

On the results of leadership research on business survival, shows the results that there is a positive but not significant effect of leadership competence on the survival of SMEs. This study is not in line with previous studies, such as Kehinde et al. (2014) argues that leadership is very important for the survival and effectiveness of organizational performance. As organizations grow, expectations about their performance increase and the demand for good leadership tends to multiply. Leadership ability is a valuable skill and those who possess it reap high rewards. They argue that, from every indication, there is a strong relationship between leadership strategy and organizational survival (Roomi & Harrison, 2011).

Research results on social networks on business survival, showing that there is a positive influence of network competence on the survival of SMEs," the results of this study are in line with previous research, . Turyakira & Mbidde, (2015) networking is significantly positively related to business viability. Kalm (2012) argues that network relationships can provide emotional support for entrepreneurs who take risks and thereby increase the entrepreneur's desire to continue running the business. Networks are essential for opportunity discovery. , for testing ideas and for gathering resources for the formation of new organizations (Klyver & Schott, 2011) Kozan and Akdeniz (2014) found that entrepreneurial networking is positively related to the viability of a venture.

V. Conclusion

Based on the results of the analysis that has been done, it can be concluded that:

1. Innovation competence has a positive and significant impact on the survival of SMEs.
2. Leadership competence has a positive but not significant effect on the survival of SMEs
3. Network competence has a positive and significant impact on the survival of SMEs.

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