

## **THE INFLUENCE OF ENTREPRENEURIAL COMPETENCY ON BUSINESS SUCCESS MODERATED BY PERCEIVED BUSINESS ENVIRONMENT IN KAMPUNG TAS GADUKAN**

**Ida Bagus Gede Adi Permana<sup>1</sup>, Bambang Apriyanto<sup>2</sup>**

University of Airlangga Surabaya  
INDONESIA

**Emails:** <sup>1</sup>[ibg.adipermana@gmail.com](mailto:ibg.adipermana@gmail.com), <sup>2</sup>[bambangsemangat1@gmail.com](mailto:bambangsemangat1@gmail.com)

### **ABSTRACT**

*This research aims to understand the relationship between entrepreneurial competency on business success which moderated by perceived business environment. Business success construct were measured with non-financial aspect. This research encompasses 70 bag business' owners in Gadukan. The sampling method is purposive sampling. The result of this research implies that entrepreneurial competency were significantly and positively influences business success. This result further indicates that an individual behavior which is related to one's competency is highly determined the achieved result . There are several potential causes for this results, such as the unchanging standards which are created by business owners in Gadukan. Entrepreneurial competency is proven to be positively and significantly influence business success. Meanwhile, perceived business environment is extremely subjective, yet it is important and influential when it is considered as such. It is time for UMKM to be structured organizations; thus, a neat documentation system for its operational archieve is extremely essential in order to illustrate the business' condition.*

**Keywords:** Entrepreneurial Competency, Business Success, Perceived Business Environment, Kampung Tas Gadukan, UMKM

### **INTRODUCTION**

UMKM (*Usaha Mikro Kecil Menengah* – Small and Medium Enterprises) is a strategic sector for East Java's economy, as well as the biggest provider of employment. The UMKM sector in East Java contributes 14.85% of National Gross Domestic Product and 53.4% of Regional Gross Domestic Product. According to the National Statistical Bureau, there were 4,211,562 UMKM units in East Java in 2008. In 2010, the number increased to 5,095,989 units and further escalated to 6,166,145 units in 2012. UMKM also develops swiftly in Surabaya, the capital city of East Java. According to National Statistical Bureau's data, there were 4835 UMKM units in 2012 in Surabaya. Therefore, based on their overwhelming role in economy in this AEC (ASEAN Economic Community) era, UMKM units are encouraged to be more successful and competitive.

In an attempt to encourage UMKM's success, an important factor to be paid attention to is entrepreneur behavior (Masurel et al., 2003). An approach which is employed to understand entrepreneur behavior is competency (Man and Lau, 2005). In a small enterprise, the owner's behavior reflects the whole organization; thus, the failure of most UMKM is derived from the lack of competence from its owner (Kiggundu, 2002). Developing a relevant competency for the UMKM's owners have become a necessity (Gibb, 2005; Sadler-Smith, Hampson, Chaston, and Badger, 2003). Sadler-Smith et al. (2003) stated that the owner of a small enterprise shall possess various competencies. Baum et al. (2001) interpreted competency as the part of individual's characteristic; such as knowledge, skill, and capability in conducting a certain work. According to Bird (1995), entrepreneur competency refers to the underlying character, such as knowledge, motive, social role and the capability to create and/or maintain the business. A thorough competency is a necessity for a business owner if they intend to achieve success. Meanwhile, Kampung Tas Gadukan is one of the biggest UMKM centers in Surabaya. In 2014, there were 70 business owners within it. Kampung Tas itself has been running businesses for 20 years. The long journey has proven that bag business has the capability to survive amidst the tight competition. During the economy crisis in 1998, the shock caused some small business owners to declare bankruptcy. After the crisis passed, Kampung Tas regained its stability and accumulated more business owners. The phenomenon of this Kampung Tas is intriguing and deserves to serve as the research object; further, it can be either a comparison or a complementary of the previous research. It encourages the idea to conduct a research on the influence of entrepreneur competency on business success which is moderated by perceived business environment in Kampung Tas Gadukan.

## **LITERATURE REVIEW**

### **Entrepreneurial Competency**

Entrepreneurial competency refers to one's fundamental characteristics, such as knowledge, motivation, self-image, social roles, and the capability to create, maintain, and grow a certain organization (Bird, 1995). Baum et al. (2001) defined it as the individual characteristics or the necessary capabilities to conduct a certain job. Kinggundu (2002) further cemented the concept as the accumulation of an entrepreneur's capabilities: attitude, belief, knowledge, skill, capability, personality, expertise, and required behaviors.

According to the literature, there are three roles for UMKM's owners to play: entrepreneurial role, managerial role, and technical role (Baum & Locke, 2004; Beaver & Jennings, 2005; Chandler & Jansen, 1992).

Entrepreneurial role is related to strategic things in a business, such as seeking necessary products for consumers; composing business strategy; securing high quality opportunity; and providing outstanding service to the consumers (Chandler & Hanks, 1994; Chandler & Jansen, 1992; J.L. Thompson, 1999; C.K. Wang & Ang, 2004).

The second function is managerial role. It refers to the capability of planning, organizing, directing, and controlling organizational resources (Chandler & Jansen, 1992). Planning itself refers to the systematic processes to obtain organizational goals; while organizing is related to arranging and composing organizational resources (Chandler & Hanks, 1994). Meanwhile, directing involves the activity to lead and motivate the employees to obtain organizational goals. The third function is technical role. It is related to the capability to apply certain tools, technical knowledge, and specific business-related things (J.R. Baum, 1995; Chandler & Jansen, 1992; Martin & Staines, 1994; Winterton, 2002). It is essential as it is tightly related to the operational process of an organization or a company.

This research employs seven dimensions of entrepreneurial competency: strategic, conceptual, opportunity, relationship, learning, personal, and ethical.

**a. *Strategic Competency***

Strategic competency is a competency which is related to the construction, evaluation, and implementation of company's strategies (Man, Lau, & Chan, 2002). Man (2001) operationalized this dimension in several attitudes and behaviors. First, the awareness of company goals and how to make changes in order to obtain the said goals. Second, prioritizing tasks which are suitable with long-term goals. Third, the willingness to re-create some business activities to correspond it with the company's goals (Man, 2001).

**b. *Conceptual Competency***

Conceptual dimension is related to the bravery in taking risks, absorbing, and understanding complex information, as well as innovation capability (Man et al., 2002). According to Chandler and Jansen (1992), conceptual competency refers to the competence in coordinating every organizational activity. Michalko (2000) stated that it reflects the ability to create something new. Meanwhile, Man (2001) operationalized this dimension in several attitudes. First, it is related to the understanding of the implication of the news and observation which are conducted for company's benefits. Second, it refers to the ability to connect the information and observation with the running business.

**c. *Opportunity Competency***

Opportunity dimension is the aptitude to gain market opportunity in every way possible (Man et al., 2002). It is in line with de Koning's (2003) definition which stated that it is tightly related to the activities of seeking, developing, and assessing high quality opportunity.

**d. *Relationship Competency***

Relationship competency is defined as the competency to organize the difference between internal and external parties in the company; such as human resource, physical attributes of the company, work system, training system, and control system (Man et al., 2002). It is also connected with the skill to build trust, negotiate, interact, communicate, and maintain the existing business relationship with the other parties (Man, 2001). It can be denied that during the organizational operation, a business owner is demanded to interact with the consumers, suppliers, employees, government, competitors, and others (Hansen, 2001; Jensen, 2001).

**e. *Learning Competency***

Learning competency is the capability to learn from various sources proactively, update the knowledge, as well as to apply the ability and knowledge which are obtained from the learning process (Man, 2001). In the changing era, an entrepreneur needs to adapt with his/her surroundings; thus, the learning competency is highly required (Deakin dan Freel, 1998).

**f. *Personal Competency***

Personal competency refers to the ability to maintain the energy within oneself; motivate oneself to achieve the best performance; respond the critics positively; maintain good behavior; prioritize work; identify strength and weakness within oneself to match the opportunity and threat; and admit one's own weaknesses (Man, 2001). Personal competency also encompasses determination and conviction (J.L.Thompson et al., 1997), self-awareness (Goleman, 1998), self-control and stress-control (Mark & Baron, 1998), as well as self-management (Winterton, 2002).

**g. Ethical competency**

Ethical competency is the ability to admit his/her own mistake, explain the truth honestly, and take responsibility for his/her own actions (Man, 2001).

**Business Success**

A growth indicates a long-time achievement; while profitability illustrates a short-term one. For those who emphasize on non-financial aspects, according to Jennings and Beaver's study (1997), personal values, responsibility, and life style (aside from money) must be achieved by an entrepreneur. Beaver (2002) also added that for most entrepreneurs, money is not their main motivation. Non-financial aspects indicate the satisfaction in obtaining one's goal. These aspects are relevant because for small enterprises, an individual role (or the entrepreneur) is extremely dominant; thus, achieving goals rank first in terms of importance (Walker dan Brown, 2004).

This study employs two aspects to measure success, financial and non-financial. Both aspects are two complementary measurement to provide a wider illustration about the real circumstance (Wiklund, 1999). Financial measurement encompasses profitability, sales turnover, capital return, and market control (Chandler & Hanks, 1993). Meanwhile, non-financial aspects include several indicators; such as customer satisfaction, customer loyalty, owner satisfaction, and good working relationship.

Customer satisfaction plays a major role in both manufacture and service industries (Haber & Reichel, 2005). It is tightly related to the repurchase which might be conducted by the customer, as well as the word-of-mouth which might be spread by him/her (Adams & Sykes, 2003). It illustrates the trust level of the customers which—in turn—affect the profit increase and market expansion (Haber & Reichel, 2005). Non-financial aspects might be useful in building the company's long-term reputation (Anderson & Fornell, 2000). In term of measurement, there are two contradicting views. Naman and Slevin (1993) argued that company performance can be measured objectively and subjectively; though it is difficult to measure it objectively. It is because most small enterprises do not keep a good documentation on company's situation. Therefore, subjective measurement is considered flexible and useful (Covin & Slevin, 1989). Subjective measurement shows the owner satisfaction to the financial aspect, sales growth, and the satisfaction regarding non-financial aspects; such as career development, customer satisfaction, employee loyalty, owner satisfaction, as well as work-career balance (Frese et al., 2002; Hoque, 2004; O'Regan & Ghobadian, 2004). For this research, owner report shall be utilized in data analysis due to the unavailability of the financial report (Chandler & Hanks, 1993).

**Perceived Business Environment**

Herron and Robinson (1993) stated that the decision and action which are taken by an entrepreneur is determined on how he/she responds to his/her business environment. It illustrates that either small or big organization is always influenced by its surroundings (J.R.Baum *et al.*, 2001; Bull & Willard, 1993). The surrounding affects organizations either positively or negatively. Small- and medium-sized enterprises are often influenced by the negative impact from a hostile environment; such as high level of competition, limited resources, fierce price war, and low customer loyalty (Shane & Kolvereid, 1995). In many cases, the environmental effects mostly affect big-sized enterprises; in another word, SMEs are rarely affected by environmental changes. Therefore, SMEs are considered better in responding to their surroundings (Rice, 2000).

As an attempt to prevent the negative effect, UMKM must always consider environmental aspects. Porter (1991) stated that organizations need to conduct a strategic activities accurately in order to prevent environmental threat. This study employs two environment dimensions: *benign versus hostile* and *stable versus dynamic*.

**a. *Hostile versus Benign Environment***

Hostile environment refers to an environment which threaten the company's operational and strategic activities. It also increases the competition surrounding the company (Zahra, 1993). Within a hostile environment, a company may struggle against the limited resources (Miller and Friesen, 1983). Customer loyalty is low and the price war is fierce (Covin et al., 1999); thus, one inaccurate decision may impact the business greatly. As a result, the chance of failure for a company in a hostile environment is relatively high (Covin and Slevin, 1989).

Meanwhile, benign environment refers to a relatively secure environment for business, market opportunity, and abundant investment (Covin and Slevin, 1989). Covin et al. (1999) posited that benign environment is characterized with high levels of profit margins and customer loyalty, low competition intensity, low failure level, and higher chance of success. However, there is no definite guarantee for a business' success despite being conducted in a benign environment (Covin and Slevin, 1989).

**b. *Dynamic versus Stable Environment***

Dynamic environment is depicted with the unpredictable environmental changes (Goll and Rasheed, 2004). According to Sohi (1996), technological changes, customer preference, and competitors' action are the examples of dynamic environment. According to Lindelof and Lofsten (2006), the unpredictable environment requires the UMKM's owners to possess certain competencies.

**The Relationship between Variables**

**The Relationship between Entrepreneurial Competencies and Business Success**

Every entrepreneur's action, either motionless or mobile, is considered important (Masurel, Montfort, & Lentink, 2003). Individual behavior which is related to competencies highly determine the achieved results (Baum et al., 2001; Man, 2001). Drago and Clements (1999) argued that each action and decision from an entrepreneur highly determine the company's direction. Sadler-Smith et al. (2003) also posited that an entrepreneur must be ready to play a cross-competencies role (or the so-called generalist). In the traditional view, the entrepreneur possesses 3 main tasks: seizing opportunities, taking risks, and innovating (Chandler and Hanks, 1994). It is supported by various new research which concluded that seizing opportunities and development are the heart of entrepreneurial activities (de Koning, 2003). In responding risks, the entrepreneur shall not blindly take actions; instead, she/he shall learn from his/her surroundings, as well as the previous mistakes (Cope and Watts, 2000). Once a decision is made, she/he shall be committed to take it into action. A strong commitment is the key to face two possible outcomes: success or failure (Chandle & Jansen, 1992; J.L. Thompson et al., 1997).

Meanwhile, personal strength is the determining competency which decide the whole roles played by an entrepreneur (Man, 2001). His/her success is often determined by a strong conviction. A successful entrepreneur is illustrated by someone with the high level of personal energy and capability to work long-term (Timmons, 1978). J.L. Thompson et al. (1997) argued that a successful entrepreneur always possesses a strong willpower; thus, it is clear that personal strength is a strong driving factor in entrepreneur's performance effectivity.

### **The Relationship between Entrepreneurial Competencies, Business Success, and Perceived Business Environment**

Based on the research conducted by Tsai et al. (1991), it was found out that hostile environment significantly influences company performance.

Business environment is depicted from the changes which surround it. Stable environment is characterized with a low level of change (Duncan, 1972). Baum et al. (2001) stated that it is easier to predict business condition in such environment and it is also related to business success. It contradicts the highly competitive nature of dynamic environment. A decision which is taken by a manager is always derived from the information from the surrounding area (Entrialgo et al., 2001); thus, in order to face the challenges, a manager needs certain competencies (Gibb, 2005). Thompson (1999) argued that in an inconducive environment (such as hostile and dynamic environment), an entrepreneur shall act and grab the opportunities swiftly. Covin and Slevin (1989) stated that in a hostile environment, strategic actions (such as risk taking, innovativeness, and proactiveness) positively influence company performance.

### **RESEARCH METHODS**

In this research, primary data are obtained from the questionnaires and interviews which are conducted to the owner of bag business in Gadukan. While the secondary data sources include books, journals, previous research, various literatures, printed media (newspapers and magazines), and online articles.

The population in this research encompasses 70 bag business' owners in Gadukan. The sampling method is purposive sampling. It refers to a deliberate sampling method which is based on certain criteria. After the analysis, out of 70 population, only 41 fulfils the criteria.

Meanwhile, moderating analysis is employed to see Y value based on X value multiplies by Z; as well as the change in variable Y for every change of variable X which is multiplied by Z. Moderated Regression Analysis is stated by multiple regression analysis (similar to polynomial regression) which is expressed in a non-linear equation.

### **FINDINGS**

The influence of entrepreneurial competency on business success is known through a simple regression analysis.  $H_0$  (no influence of X on Y) is supported and  $H_1$  (positive influence of X on Y) is rejected if the significant value is less than 0.5; and vice versa. From the regression analysis, the significant value obtained for variable X (entrepreneurial competency) is 0.174; it implies that entrepreneurial competency significantly and positively influences business success. Therefore,  $H_1$  is supported. This result further indicates that an individual behavior which is related to one's competency is highly determined the achieved result (Baum et al., 2001; Man, 2001). With the importance of competency, every action and decision from an entrepreneur influences the company's direction greatly (Drago & Clements, 1999). Based on this result, the business owners in Gadukan possess a high level of entrepreneur competency, thus, their business success level is high. A thorough competency is necessary for business owners who wish for a successful business.

### **DISCUSSION AND CONCLUSION**

The moderating influence by perceived business environment is obtained from the moderated regression analysis (MRA). The MRA analysis shows that the significant value of the multiplication of X (entrepreneurial competency) to Z (perceived business environment) is 0.996. It also illustrates that the interaction between both variables is not significant; the coefficient of variables' interaction is 0.000. The result shows that there is no influence which is

created by the interaction between entrepreneurial competency and perceived business environment; thus, H<sub>2</sub> is unsupported. It indicates that bag business is not influenced by its surroundings and supports Rice's (2000) study that SMEs possess better respond to their surroundings. More specifically, it shows that either dynamic or stable environment affects business success among Gadukan's entrepreneurs. There are several potential causes for this results, such as the unchanging standards which are created by business owners in Gadukan. These standards refer to quality and price, implying that the determined price is not influenced by the current economy climate. However, these standards also cause some dilemmas; for instance, during inconducive economy climate (such as high inflation rate), it may also influence the raw material price and labor fees. In such condition, the business owners cannot help but suffering from loss. On the contrary, during a conducive climate, they can obtain big bonus and profit. Based on these phenomena, external factors also influence the business, such as work motives and principles. The business owners mostly conduct their business out of obligation, because the business is the family inheritance. Therefore, spirituality aspect also plays an important role in the business.

Entrepreneurial competency is proven to positively and significantly influence business success. Meanwhile, perceived business environment is extremely subjective, yet it is important and influential when it is considered as such. It is proved in this study, as the findings show that environment is not really significant due to a more influential business motive.

Furthermore, in order to obtain more success in business, completing one's competency is essential. It can be achieved by enhancing self-awareness and self-improvement. There are various method to do so, such as holding a training which invites a business expert. Utilizing an accessible internet is another method through which a business owner can learn while look for strategic opportunities.

It is time for UMKM to be structured organizations; thus, a neat documentation system for its operational achieve is extremely essential in order to illustrate the business' condition. The documentation system encompasses financial report, work timeline, and work notes.

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