

SCALE DEVELOPMENT OF ENTREPRENEURIAL COMPETENCY OF SME OWNER IN INDONESIA

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ABSTRACT

This study aims at developing the scale of entrepreneurial competence of SME owners in Indonesia. In this study, competency indicators are made from three stages of development, namely exploratory competency items, expert judgment, and scale validation. The result of the study shows that 5 competency dimensions are covering 26 indicators. The dimensions of entrepreneurial competence are managerial (9 indicators), strategic (4 indicators), service quality (6 indicators), development (4 indicators), and performance competencies (3 indicators).

Keywords: Entrepreneurial Competency, SME Owner, Scale Development, Indonesia.

INTRODUCTION

Business in Indonesia is currently very much dominated by SMEs (Asia Pacific Foundation of Canada, 2018; OECD/ERIA, 2018) hence SME is an important factor for economic growth in Indonesia (“Indonesia SMEs: Increased Government Support to Overcome Challenges,” n.d.; “SMEs Powering Indonesia’s Growth,” 2019). However, the contribution of SMEs to Indonesia’s GDP is still relatively not high (Asia Pacific Foundation of Canada, 2018; OECD/ERIA, 2018). Factors of SMEs such as managerial ability and leadership are important factors for the success of SMEs (Garavan et al., 2016). Whereas in general, the quality of human capital in Indonesia must still be improved in relation to the level of education and competence (Dwinanda, 2016; Rakhmat & Tarahita, 2018). In addition, management capability is one of the obstacles to the progress of SMEs in Indonesia (Irjayanti & Azis, 2012). Indeed, the Indonesian government has also made various efforts to improve the education and competence of these SMEs by providing various training related to products and businesses (OECD/ERIA, 2018). But for the competency improvement program to be effective, of course, topics related to training materials must be relevant to the needs of SME practitioners.

Empirically, the competence of SMEs and its influence on business performance is now starting to get much attention from researchers. These researchers tend to use the scale from Man (2001) such as Rahman et al. (2015); Sánchez (2012); Sarwoko et al. (2013). However, it is possible that SMEs in Indonesia need to have special competencies by considering Indonesian contextual factors. This refers to the behavioral approach, that individual behavior is the result of individual factors themselves and their environment (Pinder, 1998). Entrepreneur competency is a combination of the individual internal characteristics and external factors, so there is no single character set that could apply to in all situations (Jain, 2011). Socio-cultural factors can determine entrepreneurial competency characteristics (Ahmad et al., 2011; Man & Lau, 2005; Man et al., 2008) and competency need to fit to the business context (Rasmussen et al., 2011;

Huck & McEwen, 1991; Kyndt & Baert, 2015). Furthermore, entrepreneurial characteristics may exist universally but some other characters are bound to certain cultures as well (Ahmad, 2007; Sajilan, 2015). Entrepreneur competence is an important factor determining the competitiveness of an SME and the owner must face different competitive contexts with large companies (Man, Lau, & Chan, 2002), so that the competency needs may differ across the context of business level (Mitchelmore & Rowley, 2010). In the small business context, there are little managerial demands that require simpler management (Man & Lau, 2005), and tend to focus more on routine activities (Volery et al., 2015). In other words, the business and socio-cultural context in which the business exists requires appropriate entrepreneurial competence. Therefore, a competency scale is needed the one that takes into account the Indonesia contextual factors to capture the relevant competencies. This competency scale will also consider managerial and leadership skills for SME owners. This study identifies a list of competencies needed by SME businesses to succeed in improving their business and to be able to adapt to the challenges of the current and future business environment.

THEORETICAL BACKGROUND

In a business organization, a leader's competence will greatly affect the performance of his/her business. Referring to the theory of resource-based view (RBV) that valuable, scarce, hard to imitate, and irreplaceable company resources can be a competitive advantage for the company (Barney et al., 2001). Based on this perspective, entrepreneurial competence is a key valuable resource for companies (Tehseen & Ramayah, 2015). This competency will be a competitive advantage for entrepreneurs and provide business success (Tehseen & Ramayah, 2015). Competence is a skill, ability, experience, attitude, and other traits that can influence the management of SMEs (Taipale et al., 2015). Entrepreneur competence is a combination of individual characteristics and external factors, including socio-cultural understanding (Jain, 2011), individual ability to do his/her job successfully - it can be personality traits, knowledge, skills, experience (Man et al., 2002), and is needed for successful business performance (Mitchelmore & Rowley, 2010). Empirical results from various studies reviewed by Jain (2011) show that entrepreneurial competencies include a number of competencies, such as self-efficacy, creativity, risk-taking propensity, and proactiveness, commitment, focus on quality, trust in employees, and using feedback. Studies (Chandler & Jansen, 1992) at medium companies find that entrepreneurial competencies covering dimensions of human, ability to recognize opportunity, technical, political, and drive to see venture through fruition. While Ahmad's study (2007) on small and medium level SMEs in Malaysia and Australia found universal competency dimensions that are ethical, conceptual, learning, and opportunity; and special dimensions of competence, which are likely to be the effects of cultural factors, namely familism, social responsibility, and relationship.

The entrepreneurial competency scale developed by Man (2001) is one of the scales that is often used by researchers to measure entrepreneurial competencies. This scale contains 53 indicators spread over 8 dimensions, showing various competencies:

1. Opportunity -the ability of individuals to identify, assesses, and looks for new opportunities.
2. Relationship -the ability of individuals to build and maintain and use the network of relationships that they build.
3. Conceptual -the ability of individuals to think intuitively, be innovative and assess risk.
4. Organizing -the ability of individuals to perform management functions, namely planning, organizing, directing, and controlling.

5. Strategic -the ability of individuals to have a vision, plan, and implement their business strategies.
6. Commitment -the ability of individuals to mobilize and maintain the business and its values in the business.
7. Learning -the ability of individuals to actively learn continuously and adapt.
8. Personal-the ability of individuals to manage time, overcome problems, and motivates themselves for high performance.

Nevertheless, concerning the current business environment, Morgan (2014) suggests that there are rapid changes in technological sophistication and abundant data. Facing changes in the business environment, managers must be able to be leaders who inspire, and think out of the box, help and empower followers by removing barriers, mastering technology, setting examples, working collectively, sharing information, and providing recognition and feedback immediately. Businesses must also have management skills and the ability to manage change (*Business & entrepreneurship skills and experience,* 2017). Network, and communication skill internally and externally (Jain, 2011). Thus, the competence of entrepreneurs may be different across contextual phenomena (Jain, 2011).

METHODOLOGY

This study uses a comprehensive scale development process including exploring competency indicators through interviews with SME owners, conducting a literature study to capture the abilities that must be owned by individual SMEs in the future, confirming the list of interview results and literature study by requesting the assessment of experts to validate the list of indicators, and analyzing its dimensionality, reliability and validity. This study uses Exploratory Factor Analysis (EFA) with SPSS tools to identify the dimensionality or factors/dimensions that occur based on the list of indicators, Cronbach Alpha for reliability testing, and Confirmatory factor analysis (CFA) for validity assessment.

DATA ANALYSIS

Item Generation

The initial phase of this study uses the interview result done by Wulani et al. (2019) that finds a set of behavioral and skills items carried out by way of SME owners in Indonesia. Their exploration study was carried out by interviews with 10 micro-level SME owners successful in sales in the past year and 10 SME owners whose sales being static in the creative industry in Surabaya, the second largest business city in Indonesia. Their survey uses a list of questions covering the managerial and leadership behaviors of SME owners. The successful SME owners are given 48 lists and static SME owners are given 45 lists of their managerial and leadership behaviors. From the list, there are 21 lists of behaviors that are both carried out by the two groups of SME owners. In the next phase, the study uses a list of 48 behaviors of successful SME owners. Table 1 shows the list of competencies items as a result of the in-depth interview with SME owners.

To confirm the 48 lists of competency behavior, a focused group discussion was conducted 15 SME with. The result shows that the competency behaviors are confirmed. But there is one additional behavior that has not yet emerged during the interview, namely "*Business environment scanning*". The researchers then conducted a literature study to identify the existence of competency behaviors needed by SMEs in the current and future business context.

The study resulted in an additional 10 behaviors, bringing about a total of 59 competency behaviors (Table 1).

Item Review

In the next stage, this competency list is analyzed using the content validity test, which adopts the Lawshe procedure (1975; in Templeton, Lewis, & Snyder, 2002). This test was carried out using an evaluation panel by 6 experts. The experts were given a competency list document and were asked to respond to the relevance of each form of competency on a 3 point scale namely 1=irrelevant, 2=important (but not essential/main), and 3=essential/main. The response results were calculated based on the CVR formula (i.e. $CVR = (nN / 2) / (N / 2)$), i.e. n is the frequency of the number of experts giving ratings on competency indicators as important and essential, N is the total number of experts (Templeton et al., 2002). The level of significance of the CVR is 0.05. Indicators with insignificant CVR value will be dropped. These six experts include two lecturers with a business management background who have knowledge of competency and experience in serving the community whose object is SME, one staff member of the Surabaya City Cooperative and SME Office who has the task of managing the SMEs, and 1 person who is a consultant for small business companies in Surabaya, one manufacturing manager, and one successful business owner who started from a small business. Researchers explain to the expert team about the definition of competence and how to fill and assess indicators.

The assessment result shows that of the 59 items of competency behavior, there are 19 items of competency that are considered important and essential by less than 6 experts. For example, adding items to product variations, provide work rules, and have caution in doing business. These indicators are dropped and not used in further validation tests. However, there are 3 indicators considered for inclusion in further validation testing. These indicators are to follow a particular community, collaborate with other SMEs, and desire to learn business independently from various media. Referring to the results of the literature study, two important factors that need to be done by business people are to follow certain communities (*HBR guide to performance management*, 2017) and collaborate with other SMEs (Morgan, 2014). Thus there are 43 items of behavior that will be further identified in the validation process.

1	Following the various types of business training	31	Enthusiastic in running a business
2	Giving recognition for employee work	32	Focus on running a business
3	Looking for product development ideas	33	Performing performance evaluation
4	Adding product variations	34	Carrying out the production process every day
5	Taking credit offered by financial institutions	35	Promoting products by distributing a tester
6	Following certain communities	36	Bringing lots of products during the exhibition
7	Conducting regular visits to outlets for inventory checking and product conditions	37	Meeting employee needs
8	Giving a unique characteristic to the product	38	Having employees with special expertise
9	Managing product inventory	39	Having performance targets
10	Managing consumer payment transactions	40	Having a vision
11	Managing product delivery to consumers	41	Implementing an open financial system for employees
12	Maintaining good relations with employees	42	Inviting employees to participate in decision making

13	Having persistence in running a business	43	Setting product prices
14	Managing sales revenue	44	Developing networks
15	Willingness to learn business independently from various media	45	Developing product distribution channels
16	Sharing information with successful SMEs	46	Recognizing the right moment to promote the product
17	Providing quality products to consumers	47	Become a trainer
18	Repairing the work of employees that are not appropriate	48	Selecting products based on market potential
19	Promoting products by using products	49	Scanning business environment
20	Establishing good relationships with consumers	50	Having the ability to assess the business environment
21	Doing Innovation	51	Have a strong will to move forward
22	Regularly promoting products via social media	52	Have a business knowledge and information
23	Taking part in the exhibition	53	Confidently running a business
24	Providing work rules to employees	54	Able to adapt to the business environment
25	Collaborating with other SMEs	55	Able to communicate to get the attention of other parties
26	Developing employee skills	56	Can be trusted
27	Understanding consumer desires	57	Having the ability to convince other parties
28	Having caution in running a business	58	Having the ability to adapt to the cultural values of the community
29	Having basic knowledge about the production process	59	Having an understanding of technology and its development, especially relating to business management
30	Taking part in the SME's contest		

Note: *Statements / indicators number 1-48 are taken from Wulani et al. (2019)'s study. Statements / indicators number 49-59 Statement are the result of the literature study and FGD conducted in this study. Statements / indicators in bold are dropped indicators as a result of panelist review in this present study.*

Scale Validation

As an initial step in the process of validating a list of 43 items of competency generated in the assessment process by 6 experts, the researchers then collected data using questionnaires distributed to SME owners in various industries in East Java. The distribution of questionnaires was done in training activities or regular meetings of SME owners in East Java or privately directly to SME owners in their workplaces. 376 respondents filled out the questionnaires. 339 questionnaires were completely filled out (response rate of 90.15%) and valid for further analysis. Most respondents were women (75.5%), aged between 35- <45 years (33.6%), had high school / vocational education (46.9%), were married (86.4%), had SMEs between 1-<5 years (41.3) %), having less than 3 employees (58.1%), its SME products are food (36.9%).

In this survey, respondents were asked to respond to 43 items of competency on a 5-point scale (1=strongly disagree, 5=strongly agree). Respondents were also asked to give their responses to 53 competency indicators developed Man (2001).

Dimensionality testing: The first stage of instrument validation testing is to perform dimensionality testing using Exploratory Factor Analysis (EFA) to identify correlations between indicators on the same dimension/factor and Confirmatory Factor Analysis (CFA) to identify the fit of the dimension measurement model/factors as a result of EFA testing. Table 2 shows the results of EFA testing using principal component analysis and varimax rotation. This test shows that the 43 indicators spread across 7 dimensions (or factors). Identification is done based on the cut-off value of factor loading of 0.4 and identification of factor loading which only has a high value above the cut-off value only on one factor. The identification results showed that factor 7 must be dropped because it only contains 1 indicator (COMP5) which has a factor loading value

above 0.4. In addition, 8 indicators must be dropped (COMP 12, COMP 13, COMP 16, COMP 18, COMP 35, COMP 36, COMP 39, COMP 41) because they have a factor loading value of more than 0.4 on more than 1 dimension/factor. As a result, there are 34 indicators that spread in 6 dimensions/factors.

Items code	Items	Factor Loading						
		1	2	3	4	5	6	7
COMP1	<i>Following the various types of business training is</i>						0.582	
COMP 2	<i>Giving recognition for employee work</i>					0.558		
COMP 3	<i>Taking part in the exhibition</i>						0.627	
COMP 4	<i>Looking for product development ideas</i>						0.518	
COMP 5	Following certain communities							0.718
COMP 6	Doing Innovation			0.525				
COMP 7	Giving a unique characteristic to the product			0.748				
COMP 8	Managing product inventory			0.707				
COMP 9	Managing consumer payment transactions			0.555				
COMP 10	Managing product delivery to consumers			0.600				
COMP 11	Maintaining good relations with employees	0.441						
COMP 12	Collaborating with other SMEs						0.415	0.580
COMP 13	Developing employee skills					0.430		0.458
COMP 14	Understanding consumer desires	0.536						
COMP 15	Having persistence in running a business	0.628						
COMP 16	Having basic knowledge about the production process	0.446			0.431			
COMP 17	Managing sales revenue	0.473						
COMP 18	Willingness to learn business independently from various media	0.422			0.409			
COMP 19	Enthusiastic in running a business	0.735						
COMP 20	<i>Focus on running a business</i>	0.678						
COMP 21	Performing performance evaluation	0.489						
COMP 22	Sharing information with successful SMEs		0.441					
COMP 23	Providing quality products to consumers			0.429				
COMP 24	Having employees with special expertise					0.683		
COMP 25	Having performance targets					0.671		
COMP 26	Having a vision					0.553		

Items code	Items	Factor Loading						
		1	2	3	4	5	6	7
COMP 27	Setting product prices				0.679			
COMP 28	Developing networks				0.562			
COMP 29	Developing product distribution channels				0.568			
COMP 30	Recognizing the right moment to promote the product				0.482			
COMP 31	Establishing good relationships with consumers	0.594						
<i>COMP 32</i>	<i>Selecting products based on market potential</i>		0.661					
COMP 33	Scanning business environment		0.740					
<i>COMP 34</i>	<i>Having the ability to assess the business environment</i>		0.705					
COMP 35	Have a strong will to move forward	0.600	0.457					
COMP 36	Have a business knowledge and information	0.476	0.489					
COMP 37	Confidently running a business	0.603						
<i>COMP 38</i>	<i>Able to adapt to the business environment</i>		0.604					
COMP 39	Able to communicate to get the attention of other parties		0.438		0.402			
COMP 40	Can be trusted	0.586						
COMP 41	Having the ability to convince other parties	0.398	0.401					
COMP 42	Having the ability to adapt to the cultural values of the community		0.575					
COMP 43	Having an understanding of technology and its development, especially relating to business management		0.488					

Notes: Statements / indicators in bold are dropped indicators as a result of EFA test, statements/indicators in italic are dropped indicators as a result of CFA test.

Based on the identification of a standardized regression weight and the modification index on CFA result, there are 8 indicators (COMP1, COMP2, COMP3, COMP4, COMP20, COMP32, COMP34, COMP38, and 1 factor that must be dropped (factor 6). This identification results 26 indicators that spread on 5 dimensions/factors. The measurement model that includes 5 dimensions/factors showed the fit model on these 5 factors with χ^2 (df = 289, 5%) = 580.843, CMIN/df = 2.010, RMSEA = 0.055, CFI = 0.936, and TLI = 0.928. In addition, this 5-factor model was compared a 1-factor model where all indicators enter into one single factor. The result showed that the 5 factor model has a better fit model than the 1 factor mode (χ^2 (df = 299, 5%) = 1014.762, CMIN/df = 3.394, RMSEA = 0.084, CFI = 0.844, and TLI = 0.830). The five factors formed are called managerial competencies (factor1), strategic competencies (factor2), service

quality competencies (factor3), development competencies (factor4), and performance competencies (factor5).

Reliability and inter-correlation: The next test is a reliability analysis using Cronbach Alpha. The results showed that the five dimensions/factors formed have high Cronbach Alpha values. Table 3 showed that all variables are reliable. Table 3 also showed that there are moderate and significant correlations between competency dimensions/factors. There were no indications of multicollinearity between dimensions/factors (correlation value $r^2 < 0.8$).

	Factor1	Factor2	Factor3	Factor4	Factor5
Managerial competencies (factor1)	0.895				
Strategic competencies (factor2)	0.689**	0.788			
Service quality competencies (factor3)	0.713**	0.610**	0.854		
Development competencies (factor4)	0.703**	0.662**	0.688**	0.861	
Performance competencies (factor5)	0.645**	0.599**	0.564**	0.552**	0.781

Notes: ** p < .01, n = 339, Cronbach's alpha in parentheses along the diagonal

Convergent validity: Furthermore, at the end of the test, a convergent validity test was conducted to identify the correlation between the scale/competency instrument which is produced in this study with the scale from Man (2001). This instrument has 8 competencies dimensions: *opportunity (comop)*, *relationship (comrel)*, *conceptual (comcon)*, *organizing (comorg)*, *strategic (comstra)*, *commitment (comco)*, *learning (comler)*, and *personal strength (comper)*. Table 4 showed that there is a moderate correlation between the dimensions of the competency instrument from this study and the competency instrument from Man (2001). The five competency dimensions as a result of this study have moderate interrelationships with the competency dimensions of Man (2001). The managerial competencies have the highest correlation with personal competencies and the strategic competency dimension has the highest correlation with opportunities and relationship competencies. Furthermore service quality, development, and performance competencies have the highest correlation with organizing competencies.

	comop	comrel	comcon	comorg	comstra	omco	comler	comper
Managerial competencies	0.630**	0.658**	0.540**	0.621**	0.580**	0.566**	0.653**	0.677**
Strategic competencies	0.684**	0.684**	0.651**	0.681**	0.641**	0.588**	0.647**	0.599**
Service quality competencies	0.517**	0.526**	0.492**	0.556**	0.501**	0.432**	0.485**	0.549**
Development competencies	0.573**	0.644**	0.561**	0.645**	0.608**	0.556**	0.569**	0.610**
Performance competencies	0.471**	0.549**	0.512**	0.572**	0.522**	0.474**	0.468**	0.522**

Note: ** p < 0.01

DISCUSSION

This study found that the competency instrument of SME owners includes 5 dimensions, namely managerial, strategic, service quality, development, and performance. The managerial competency dimension is the individual personality characteristics that are needed to carry out the role of the manager of a business. This competency includes 9 indicators such as maintaining good relations with employees and consumers, being persistent, and enthusiastic about doing business. The strategic competency dimension individual's abilities to understand factors in the

external environment of his business. This dimension includes 4 indicators such as sharing information with successful SMEs and adapting to the cultural values of the community. The dimension of service quality is an individual's ability to provide added value to consumers relating to their products and services. This dimension includes 6 indicators such as managing product shipping and payment and giving uniqueness to the product. The development dimension is an individual's ability to develop themselves and their businesses. This dimension includes 4 indicators such as developing network and distribution channels. The performance dimension is an individual's abilities to obtain high performance. This dimension includes 3 indicators such as having performance targets and employees with expertise.

This study indicated that there are differences in the number of dimensions and competency indicators with the scale of Man (2001), which has 8 dimensions with 53 indicators. However, this study found that 4 indicators are the same as the indicators on the competency scale (Man, 2001), namely understanding the needs of consumers, evaluating work, developing networks, and conducting business with confidence. This difference is possible to occur as a consequence of differences in the characteristics of the object of research, the cultural context of the community, and consideration of the needs of competence in current and future business situations. The study Man (2001) used a qualitative design by interviewing a number of SMEs in Hong Kong by not limiting the number of employees the SME had. Furthermore Man (2001) conducted a quantitative study with a survey through the distribution of questionnaires in general SME. In both quantitative and quantitative studies, the sample, in general is SMEs in service industries. This instrument development tends to focus on micro-level SMEs and engaged in the industry most of which produce goods. In the context of micro-level SMEs, business people face several challenges such as marketing products, limited labor capacity, competition, and limited costs (Tambunan, 2019). The competition faced is not only from fellow SMEs in Indonesia which are very large in number (Rahadi, 2016), but also from other countries such as China that are able to sell products at low prices (Tambunan, 2019).

The business context that is faced by SME in Indonesia requires a number of important competencies that are more referring to the ability to compete to provide satisfaction to consumers and high motivation to survive and develop. This is seen in the competencies generated in this study. Business people seem to need competence related to carrying out management functions and key functional areas such as improving product quality, managing payments, inventory, and shipping products, determining prices, and understanding consumer needs. As an effort by the Indonesian government to improve the ability of SME owners in terms of business management, the department of cooperatives and MSMEs, as well as the private sector, has conducted various training for them (*"Indonesia SMEs: Increased Government Support to Overcome Challenges,"* 2016). The SME owners who were interviewees and survey respondents also participated in the training activities. One of the important things in these training activities is that SME owners can share information about their keys to success and promotional events conducted by the government.

Another interesting thing is the importance of the ability of business owners to establish good relations with their employees. Based on interviews with SME owners, most of them employ their families and neighbors as employees (Wulani et al., 2019). This presents a challenge for them. By considering the cultural factors of Hofstede, Indonesian people tend to have high collectivity (Hofstede, 1983; Hofstede, 2007). Communities with high collectivity values expect that there is harmony between members in the group and relationships between members (Hofstede, 2007). In the work context, the relationship between superiors and

subordinates is based on morals and that the relationship between members/superiors is more important than assignments. As a consequence, superiors' direct feedback to their subordinates can damage their relationships (Hofstede, 1998). Based on interviews with SME owners at the stage of developing competency items, they generally try to maintain good relations with their employees by not giving loud reprimand to their low performance (Wulani et al., 2019). This cultural context appears on two competency indicators found in this study, namely the ability to maintain good relations with subordinates and the ability to adapt to cultural values.

CONCLUSION

This study found that there are 5 dimensions of the competence of SME owners, namely managerial, strategic, service quality, development, and performance. The current scale which resulted from this study only has 26 competency indicators compared to the number of indicators from other competency scales such as the Man (2001)' scale which has 53 indicators. With this smaller number of indicators, it is possible to increase the response rate (Lassk et al., 2001). The SME owner's competency scale provides indicators that can capture competency needs that are relevant to the micro SME and cultural context as well as take into account future competency needs. The list of indicators on the competency scale can be a reference in creating training programs for SMEs at the micro-level. However, this scale still needs more validation testing in different cultural contexts so that it can be more generalized.

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