

The Effect of Entrepreneurial Competencies on Business Success : A Study with Special Reference to SMEs at Kanchipuram District

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Abstract

Entrepreneurial venture has become worthwhile business occupation among new generation entrepreneurs in India. The impact of globalization, free market economy, and liberalized zones of manufacturing have paved the way for establishment of new start-ups under the category of Small and Medium Enterprises (SMEs). The proliferation of SMEs in manufacturing and services established the landmark of competitive business environment. However, at the same time successful business promotion and growth of SMEs rely on the competencies of entrepreneurs. This research paper attempts to view the influence of entrepreneurial competencies on the business success of selected SMEs in manufacturing and services sectors. 351 entrepreneurs were surveyed for this and a structured questionnaire was used. A structural model was developed to test the effect of entrepreneurial competency on their business success through AMOS 20.

Keywords: Business success, entrepreneurial competencies, new generation entrepreneur, SME

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The impetus of organizational participation in a competitive environment has become a challenging activity in the present industrial era. Commercial and trade policy of government, participation of global companies in domestic business, and changes in consumerism have evoked changes in the methodology of performing business in the given environmental conditions (Covin & Slevin, 1989). The growth of any nation is reckoned by the development of manufacturing economy in the country along with its service alignment. However, the vertical conglomeration of industry in terms of investment focuses only on profit making and concentration of industry's economic power. The horizontal inclusion of different sizes of industry like large, medium, and small will touch economic development. Therefore, many countries promote small and medium enterprises. The objective of commemorating wider SMEs in any country will generate cost effective manufacturing and employment growth. SMEs make a major contribution to regional income as well as a nation's economy. They create jobs, producing essential goods and services, and promoting the development of rural economies (APEC 2003; Gray 2006). The fuelling of fine tuned policy for the promotion of SMEs could not bring real time changes but can be materialized by motivating an entrepreneurial culture among educated unemployed youth. Entrepreneurship has been considered as a principal driving force for a firms' productivity and growth that leads to substantial benefits for the economy (Aloulou & Fayolle, 2005; van Praag & Versloot, 2007). In very recent decade, the attitude of educated population has been reinvented with venturing entrepreneurship as their occupation. However, the consistency of entrepreneurship and generating profitable venture is feasible only by the creative application of individual knowledge, ability, and attitude collectively known as competency. Entrepreneurial venture always needs core competency viz. creativity, opportunity exploitation, and risk bearing mindset. These aspects need various forms of competencies among venture makers

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which is promulgated from personal, psychological, physical, analytical, and attitudinal. The sum of competencies possessed and learned has their cascading effect on business success. The business success of every individual entrepreneur not only leads to personal accomplishment but it also catalyzes employment growth, market development, proliferates consumerism, and trade-off between socio economic development and regional balances.

Statement of the Problem

The survival of SMEs in a competitive and liberalized market economy requires differentiated way of doing business by assuming risk and employing innovation. In this aspect, entrepreneurial caliber is required among SMEs. Any SME, either owner promoted or manager centric needs specialized entrepreneurial competency. At the same time, entrepreneurial ventures are performed by any individual or group of individuals who differ in their personal, psychological, cognitive, and knowledge background. It cannot be generalized for fixing identified competency which leads to business success. Within the identified and tested competency, the intensity and role of competency differs on business success. In addition to this, the conquerors of competency establishment are also significantly motivated by situational and environmental background. This article attempts to understand the effect of derived competency on business success among SME entrepreneurs.

Objectives of the Study

1. To learn the socio economic profile of entrepreneurs in SMEs at Kanchipuram District.
2. To study the drives for choosing entrepreneurial career by the study group.
3. To understand the influence of entrepreneurial competency on business success.
4. To test the existence of significant difference and its effect on business success on the basis of personal and business profile.

Hypotheses

1. There is an effect of risk management competency on business success among SME entrepreneurs.
2. There is an effect of strategic competency on business success among SME entrepreneurs.
3. There is an effect of opportunity exploitation competency on business success among SME entrepreneurs.
4. There is an effect of organizing competency on business success among SME entrepreneurs.

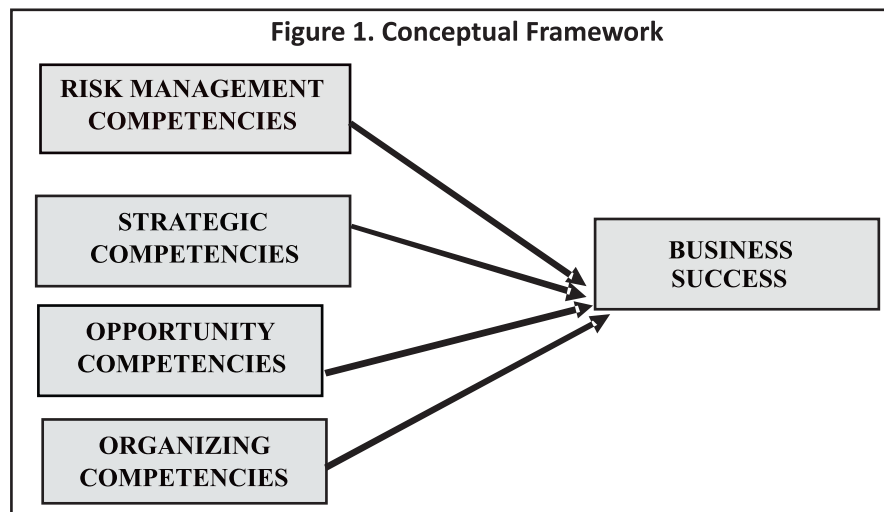
Review of Literature on Entrepreneurial Competency

Saravanabava (2011) had established a model to explain the link between competencies and business success in SME. They identified entrepreneurial competency domains and the behaviours that define business success in these domains. The entrepreneurial competencies construct described by them are initiative, acting on opportunities, customer focused, problem solving, leadership, monitoring and control, risk taking, innovative, knowledge and business skill, personal traits and communication. Anwar (2013) tried to understand the role of competencies in entrepreneurial development. Aspects such as visionary, high powered, leadership, risk taking, innovation, and internal locus of control were viewed by him as important competencies for entrepreneurship development. The study also focused on 'high-powered' and 'risk taking' as important competencies for predicting any business success. The mediating role of entrepreneurial competencies in the relationship between entrepreneurial characteristics and business performance was also understood by Sarwoko, Surachman, Armanu, and Hadiwidjojo (2013). The study outcome proved that there is an influence of entrepreneurial characteristics and competencies on business performance in small and medium enterprises (SMEs). A conceptual framework developed and tested by Vaidya (2014) investigated competencies like risk taking, persistence and hard work, use of feedback, personal responsibility, knowledge ability, persuasive ability, managerial ability, innovativeness, integrity and communication, emotional stability, motivation, decision, and divergent thinking that are very crucial for the success of entrepreneurs irrespective of their business profile. Tehseen and Ramayah (2015) explored the following competencies required for successful business. These competencies are

opportunity, learning, commitment, operational, and personal which are positively associated with entrepreneurial competencies. Komarkova, Conrads, Gagliardi, and Collado (2015) had attempted an in-depth study on various literatures and developed a simple model in which they categorized competencies into three major areas namely, operational, and conceptual competencies with sub competencies. *Resource marshalling/project management* (financial literacy, leadership & delegation, design, production, marketing, customer/user relation, business and economy context, technical/sector-related experience), *entrepreneurial competencies* (innovation, creativity, ideas generation, opportunity perceiving and proactiveness, risk-taking and risk propensity, and initiation action) and *conceptual and relationship competencies* (problem-solving, decision making, communication, collaboration and teamwork, independent work, self-efficacy, self-confidence and perseverance, resilience and determination).

Conceptual Framework

Lazar and Paul (2015) attempted to study entrepreneurial competencies in a business enterprise. Entrepreneurial competencies are linked with some intensified factors such as attitudes, beliefs, personality, mindset, and behavioral tendencies. These entrepreneurial competencies are positively associated with performances of the firm and competitiveness. Opportunity competency, organizing competency, conceptual competency, technical competency, and behavioral competency are the five entrepreneurial competencies which entrepreneurs are required to enrich business environment for sustainable competitive advantage. In addition to this, organizing competencies is the form of managerial competencies which include coordinating, monitoring, and organizing the internal and external resources that have an effective role in the performance of small and medium enterprises. Based on previous literature reviews and the above mentioned studies, the present study aims to test the conceptual model of risk taking, strategic, opportunity, organizing competencies effect on the business success of SMEs. Figure 1 shows the conceptual model.



Methodology

(1) Participants: The study was undertaken as a survey in the period February 2018 to April 2018. The study included 351 respondents belonging to SMEs in Kanchipuram District. The SME participants were chosen from the background of both manufacturing and service sectors. Under manufacturing, entities like processing, operation, packaging's, assembly based organizations which are acting as auxiliary sector were chosen. Under services, retailing, food processing, and others were chosen. Initially, a pilot study was undertaken among academicians and field experts. On the basis of their views, it can be said that the competency aspects are very important for entrepreneurs and their business success. Further, aspects like strategy, opportunity, risk, and organizing competencies were found to be

important among others. A dichotomous questionnaire comprised of questions on importance of competency aspects was given to 50 respondents in which it was observed that 60% of the respondents accepted that entrepreneurial competencies lead to business success and 40% respondents felt that entrepreneurial competencies did not result in business success. Further, the following formula was employed to determine the sample size where the sample size was fixed as 368.

$$n = (Z)^2(p)(q)/(S.E)^2 = 368 \quad (1)$$

The determined sample size was distributed with constructed questionnaire after collecting the data. It was observed that responses of 17 persons were incomplete. After removing these responses, the final sample size of 351 was taken for further analysis.

(2) Instrument : The researcher used five constructs namely, risk management, strategic, opportunity, and organizing competency which converged as entrepreneurial competency. The outcome of these constructs (exogenous) was measured for their impact on business success (endogenous). This is a scale originally developed by Man & Lau (2000), and then reworked by Bendassolli, Borges-Andradea, Gondim, and Makhamed (2017), Man and Lau (2005), and Ahmad (2007). The version used in this study is the result of an adaptation of the instrument from Man (2001), originally composed of 53 items. We pooled for exploratory data reduction, wherein four important competencies namely strategic, risk, opportunity, and organizing were identified with loaded items in addition to the fifth construct namely business success, which was also constructed with five items.

Results and Discussion

Table 1 gives the analysis of demographic background.

Table 1. Demographic Background

S.No.	Attribute	Category	Number of Respondents	%
1	Age (in Years)	Less than 35	30	8.55
2		36-40	156	44.44
3		Above 40	165	47.01
1	Educational Background	Below Metric	24	6.84
2		HSC	26	7.41
3		Degree	170	48.43
4		Post Graduation	60	17.09
5		Others	71	20.23
1	Status of relation with the company	Owner	290	82.62
2		Manager or Business In Charge	61	17.38
1	Professional Experience	Below 5 years	36	10.26
2		6 to 10 years	130	37.04
3		Above 10 years	185	52.71
1	Type of Industry	Manufacturing	230	65.53
2		Service	121	34.47
1	Size of business	Tiny/Cottage	65	18.52
2		Small	45	12.82
3		Medium	241	68.66
1	Location of business operation	Urban	102	29.06
2		Rural	249	70.94
1	Reason to start SME	Capital Adequacy	67	19.09

2		Optimized Risk	43	12.25
3		Government Support	102	29.06
4		Location Advantage	70	19.94
5		Experience in the field	69	19.66
1	Motivation to start SME	Family members	32	9.12
2		Friends and Relatives	45	12.82
3		Trade Reference	189	53.85
4		Personal Desire	85	24.22
1	Type of Ownership	Sole Proprietorship	120	34.19
2		Partnership firm	160	45.58
3		Private Limited	71	20.23
Total			351	100

Source: Computed Data

(1) Confirming the Measurement Model Using CFA : After validation of the measurement instrument, the results of Confirmatory Factor Analysis (CFA) using AMOS 17 were used to evaluate the model fit of the measurement model to confirm the hypothesized structure.

(2) Measurement Model : The measurement model shown in Figure 2 comprises of five factors. Each factor is measured by a minimum of three to a maximum of five observed variables, the reliability of which is influenced by random measurement error, as indicated by the associated error term. Each of these observed variables is regressed into its respective factor. Finally, all the five factors are shown to be inter-correlated.

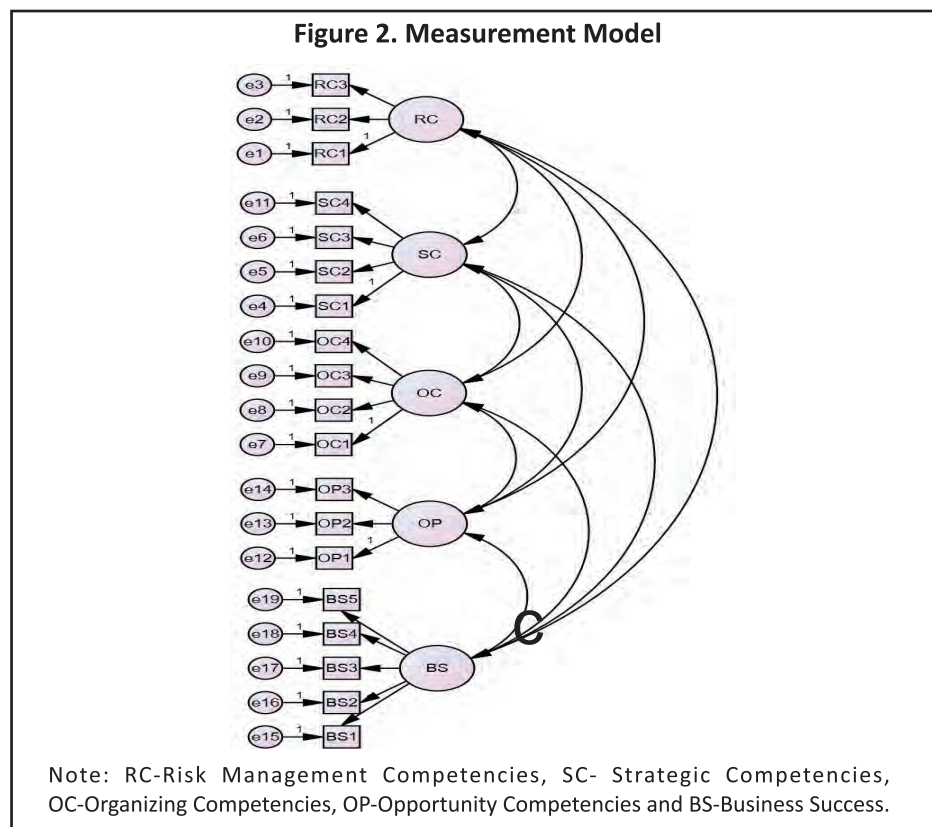


Table 2. Computation of Degrees of Freedom

Number of distinct sample moments	190
Number of distinct parameters to be estimated	48
Degrees of freedom (190-48)	142

The proposed model in this study is an over-identified model with positive degrees of freedom (142) as shown in Table 2 drawn from the AMOS output. In this model there are 190 distinct sample moments (i.e. pieces of information) from which to compute the estimates of the default model, and 48 distinct parameters to be estimated, leaving 142 degrees of freedom, which is positive (greater than zero). Hence the model is an over identified one. Table 3 shows the fit indices of the measurement model.

Table 3. Fit Indices of the Measurement Model

FIT STATISTIC	RECOMMENDED	OBTAINED
χ^2	-	274.159
<i>Df</i>	-	142
χ^2 significance	$p \leq 0.05$	0.000
χ^2 / df	$\leq 2- 5.0$	1.931
GFI	≥ 0.90	0.927
AGFI	>0.80	0.902
CFI	≥ 0.95	0.946
TLI	≥ 0.90	0.935
RMSEA	≤ 0.08	0.052

Source: Byrne (2001, 2010), Ernest et al. (2008), Hair et al. (1998, 2010), and Hu and Bentler (1999).

Goodness of Fit index (GFI) obtained is 0.927 which is higher than the recommended value of atleast 0.90. Adjusted Goodness of Fit index (AGFI) obtained is 0.902 as against the recommended value of above 0.80. The Comparative Fit index (CFI), Tucker Lewis Index (TLI) are 0.946, 0.935 respectively as against the recommended level of above 0.90. RMSEA is 0.052 below the recommended limit of 0.08. Confirmatory factor analysis shows an acceptable overall model fit and hence, the theorized model fits well with the observed data. It can be concluded that the hypothesized five factor CFA model fits the sample data very well.

(3) Convergent Validity and Discriminant Validity

Table 4. Validity

Constructs	CR	AVE	MSV	MaxR(H)	OP	RC	SC	OC	BS
OP	0.789	0.555	0.019	0.797	0.745				
RC	0.734	0.510	0.008	0.747	0.077	0.694			
SC	0.830	0.552	0.034	0.841	0.109	0.091	0.743		
OC	0.829	0.551	0.034	0.847	0.137	0.085	0.185	0.742	
BS	0.867	0.567	0.017	0.872	0.132	-0.052	-0.106	0.002	0.753

Source: Computed Data

According to Table 4, Average Variance Extracted (AVE) for all the constructs is greater than 0.5 and Composite Reliability (CR) exceeds 0.7. This demonstrates convergent validity. Maximum shared variance (MSV) is lesser than Average Variance Extracted (AVE) for all the constructs, thereby demonstrating discriminant validity.

Structural Equation Modeling

In SEM, Exogenous are correlated as shown in Figure 3. There are four exogenous variables namely, risk management competencies, strategic competencies, opportunity competencies, and organizing competencies. The endogenous variable in the path diagram is business success. In SEM, endogenous variable should have error terms. So, there is one error term e_{20} . Endogenous variables are influenced by the exogenous variables in the model, either directly or indirectly.

↳ **Analysis of Structural Models :** The results of the theoretical structural model indicate that the chi-square value of 274.16 with 142 degree of freedom was statistically significant at $p < 0.05$, indicating an inappropriate fit. However, it has been stated that chi square is highly sensitive to sample size and usually suggests a poor fit with large sample sizes (Byrne, 2001). Other fit statistics were within the acceptable values ($\chi^2/df = 1.931$; GFI = 0.927; AGFI = 0.902; TLI = 0.935; IFI = 0.947; RMSEA = 0.052). Overall, the fit statistics indicated a high fit between the data and the theoretical model.

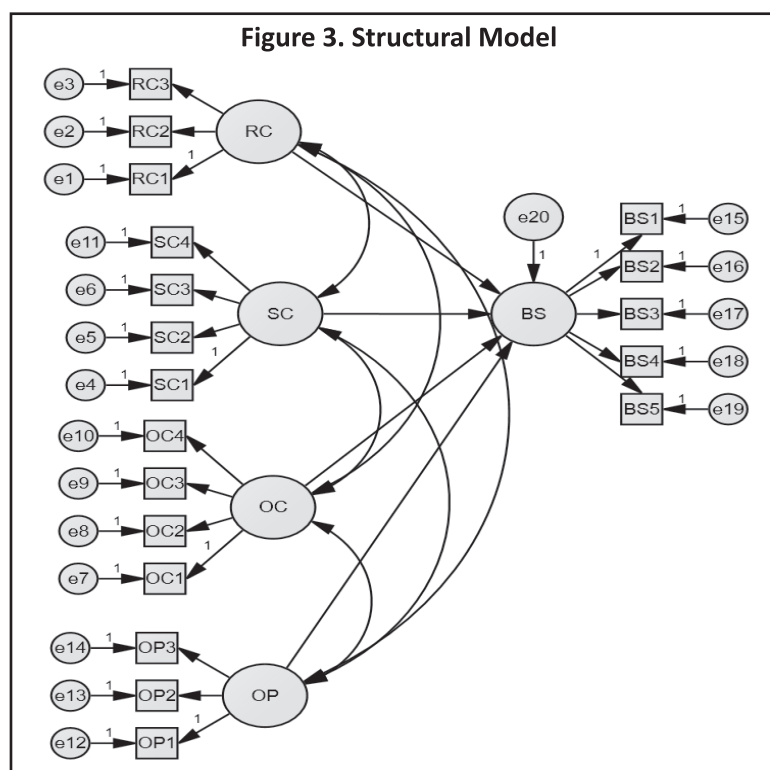


Table 5. Testing of Hypotheses

Hypothesis	Paths	Standardized β	S.E	C.R. (t)	p	Result
H1: There is a significant direct effect of risk management competencies on business success.	RC->BS	-0.068	0.085	0.801	0.423	Not Supported
H2: There is a significant direct effect of strategic competencies on business success.	SC->BS	-0.102	0.055	1.854	0.064	Supported**
H3: There is a significant direct effect of organizing competencies on business success.	OC->BS	0.009	0.071	0.127	0.899	Not Supported
H4: There is a significant direct effect of opportunity competencies on business success.	OP->BS	0.135	0.060	2.248	0.025	Supported***

Source: Computed data; ***- 5% level of significance, **-10% level of significance

Table 5 shows the outcome of hypotheses tested for the influence of competency related aspects on business success. Constructs like risk, strategic, organizing competencies, and opportunity were taken under competencies. The outcome of competency constructs was tested for business success. Among the constructs, like strategic and opportunity have significant impact on business success since the obtained p values for these constructs are less than 0.05 and 0.1, so the constituted hypotheses like there is an impact of strategic and opportunity competencies leads to business success. In addition to this, it is also observed from the table that the risk management and organizing competencies do not have significant impact on business success among SME entrepreneurs, since the obtained p values are more than 0.05, so the constituted hypotheses were not retained.

Limitations

The study focuses only on four constructs, namely, risk, opportunity, strategy, and organization under competency skills. The study is limited to small and medium enterprises (SMEs) belonging to manufacturing and service sectors at Kanchipuram District. The study verified the influence of competency skills on business success. The sampling plan did not employ any scientific process. The study addressed the personal and basic profile of respondents.

Managerial Implications

Competency analysis of entrepreneurs in present day scenario has become inevitable. The emergence of innovative business and startups influence professional and qualified individuals to assume the role of first generation entrepreneurs. Similarly, market attracts the attention of startup entrepreneurs. The support of government and its promotional schemes boost the confidence of existing and emerging entrepreneurs to experiment with a new venture. Therefore, the concept of SMEs has taken space in industrial establishments. At the same time the aim of establishing SMEs has diluted over a period of time due to lack of different competencies. This study is a supplement for the entrepreneurs who invoke their ability to enrich their competencies, especially strategic and opportunity for the success of their business since success of every entrepreneur business has a macro impact on employment, economic development, and production economy.

Scope for Future Research

1. Future studies can be done by considering other competency aspects on business success of SME entrepreneurs.
2. The studies can be undertaken on comparison of entrepreneurial competency on business success among SMEs.
3. Studies can be focused on verifying the mediating role of business engagement on business success via entrepreneurial competency.
4. Future studies can be done for verifying the moderating role of individual personality and ability on business success through entrepreneurial competencies.

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