



## **ENTREPRENEURIAL COMPETENCIES AS INDICATORS OF SMALL BUSINESS SUCCESS.**

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### **Abstract**

*In the last few decades, importance of entrepreneurial competencies has been increased because of the strategic role employed by entrepreneurs. Consequently, the purpose of this research is to investigate the influence of owner entrepreneurial competencies on business success. This research used quantitative method. The sample involves 44 private sector businesses in Ankara, Turkey. Entrepreneurial competencies were operationalized as strategic, commitment, conceptual, opportunity, organizing and leading competencies. Data were analyzed by using simple regression analysis. Research found that entrepreneurial competencies influence positively satisfaction degree with business' financial and non-financial success of entrepreneurs. Findings of this research would be indispensable for entrepreneurs and policy makers.*

**Key words:** *Entrepreneurial Competencies, Business Performance.*

### **Introduction**

Small and medium sized enterprises (SME) division has a prominent role for most countries' economic development [1]. They make up vast majority proportion of businesses in developed and developing countries. In developed countries, SMEs serves as means to stimulate stagnating industries while in developing countries they are seen as a mechanism to better income distribution, stimulate economic growth [2]. In Germany, Britain, Japan and Indonesia, small and medium sized enterprises consist of 99%, 99.9%, 99.7% and 99% of businesses respectively [3, 4]. Collectively, it is thus known that they contribute profoundly to reaching general economic development [5]. This contribution can bring new jobs, increase in GDP and socio-economic wellbeing, increase efficiency, productivity, diminish poverty and regional imbalance [6]. Also, Abdullah and Beal [7] emphasized numerous contributions of small businesses. Firstly, SMEs are labor-incentive and create employment opportunities. Secondly, they play a crucial complementary role for larger firms. Thirdly, they improve regional development and generate more equitable income distribution because of their location and continuing expansion through wider community. Fourthly, the existence of them represses the monopoly power of bigger businesses and delivers the structure of the economy with greater flexibility. Finally, they help as a training ground for developing skills of entrepreneurs and workers. Consequently, due to these realities, any economy should maximize the value offered by small businesses.

Ba ı and Durucan [8] signify that the first recognition of the significance of SMEs on economic growth of countries was during the 1930 crisis, though, after the 1970 petroleum crisis there was a real rise in the number of SMEs, that had a positive influence especially on regional development. Conversely, for Turkey, researches realizing the significance of SMEs for the economy began to appear after the 2000s. Since then the Turkish authorities have recognized that a long-term strategy for small business calls for actions across a wide range of policy domains, involving R&D, education, labor market and social policies and government regulations. Harmonizing the many policy elements with EU rules which are resulting in a better environment and a healthy, competitive sector [9]. Today SMEs play a considerable role in the economy of Turkey. SMEs consist of 91.9% of all enterprises, deliver 78 percent of total employment and represent 55 percent of GDP and 50 percent of entire investment [8]. Though, in a given situation, not every entrepreneurial venture is successful but some of them fail. Consequently, since decades scholars have been making research on factors which help entrepreneurs to act proactively in the complex environment in order to reduce negative effects of challenging business environment and to be successful [10, 5]. Studies on the factors which influence the business performance of SMEs can be grouped in two categories: personal aspect and organizational aspect. Research on the personal aspects focuses on the entrepreneurial



individual factors like competencies, individual characteristics and demographic factors. Whereas research on organizational aspects involves businesses' competences, organization's resources, organizational structure and culture [11]. Li [12] and Kyndt, Baert[13] states that when investigating personal factors which affect success of small and medium sized enterprises, two study approaches can be recognized: the personality and competency approaches. The study in entrepreneur started with the personality trait approach which concentrates on mostly inflexible traits of the individuals[14]. Then scholars came up with competency approach that focuses on the entrepreneurship aspects which are possible to change [10]. This research used competency approach because most scholars are in consensus that competencies are not fixed traits, they can be improved and learned via training and experiencing [13]. Also, this research attempts to test empirically effect of entrepreneurial competencies on business performance. In the following section we begin with problem statement, literature review, methodology and empirical examination of our hypothesis.

### **Problem statement**

Scholars are in consensus on the relationship between entrepreneurship and job creation, economic growth but studies demonstrate that considerable number of businesses enter and exit every year irrespective to location and government supports. According to Ahmad [5] turnover rate for small businesses is 20% and failure rate is more than 50% in the first five years. However, Turkish statistical institute [15] states that failure rate was 11.3% in 2012. It dramatically increased to 31.2% in 2015. High failure rate has reverberation to economy. High death rate affects the national income and employment rate of a country. They create faster jobs than larger businesses, but they remove faster due to higher failure rate [5]. Consequently, factors that influence business success are hot topics in recent years. For example, Ibrahim and Goodwin [16] found that the factors which contributed most to business success were related to the abilities and skills of entrepreneurs. Consistently, Beaver and Jennings [17] in their study among small businesses in UK uncovered that small firms failed due to the owner's "ineffective" behaviors like lack of professional management action, inability to manage the spending, absence of clear vision and failure of control system. So, this study attempts to investigate relationship between entrepreneurial competencies and business performance.

### **Literature review**

The personality-based research on entrepreneurship started with McClelland's work on "need for achievement" and his following work which investigated other personality traits like efficiency orientation, assertiveness, commitment to work contact and systematic planning. This approach believes that there are certain traits which differentiate entrepreneurs from non-entrepreneurs and successful entrepreneurs from unsuccessful entrepreneurs [18, 5]. Traits are inborn natural capabilities or innate which are acquired in the early years of individual's life and they are hard to change by training [19, 20] and cannot be developed and learned through education [21]. Since then many authors found several traits which were argued to be possessed by entrepreneurs to be successful [14, 22, 23]. However, numerous scholars criticized personality trait approach due to lack of reliability for differentiating successful entrepreneurs from unsuccessful entrepreneurs [24, 14, 25]. Entrialgo et al[26] examined the influences of need for achievement, internal locus of control and risk taking on business success by sampling 233 business in Spain and achieved non-significant correlation among personality trait and business success. As a result, Scholars believe that a strict trait approach to describing the entrepreneurs likely to be unprofitable in building a common body of knowledge[27] and the utilization of a behavioral approach is more productive perspective in studying issues related to entrepreneurship, especially in connecting individual behavior to business success [25].

In supporting competency approach, initially, it is indispensable to have a clear understanding of the concept of a competency. In literature there are many definitions of "competency" and leading to substantial confusion around what exactly is meant by the notion [5]. The most primary argument belongs to the distinctions between competence and competency in literature [28, 29]. Some dictionaries combine them together and introduce them as interchangeable [30].



Competency derived from the Latin word “competentia” that means “is authorized to judge” as well as “has the right to speak”. The English dictionary explains the word “competence” as a condition of being properly sufficient or “sufficiency of skill, sufficiency of ability” [29]. Rowe [30] recommends using “competence” to mean a skill and standard of performance whereas “competency” indicate the behavior by which it is achieved. More simply, former explains “what” people can do whereas latter concentrate on “how” they do it. For competence there is no grading involved; people are judged either competent or incompetent while grading system (e.g. 1 to 5) is widely used with competency. Plurality of competences signifies to the range of skills that are satisfactorily performed; while competencies signify the behaviors adopted in competent performance [30].

During previous few decades importance of entrepreneurial competencies has been risen because of the strategic role taken by the entrepreneur of a business venture. Entrepreneurs are necessitated to be competent in various areas like intellectual, attitudinal, managerial and behavioral since the business process is observed to be complex today. Thus, entrepreneur’s role in business is believed as important and studied through competency approach [10]. Consequently, competency approach became popular since 1990s [12]. Entrepreneurial competencies are described as individual characteristics which involve behaviors and attitudes of entrepreneurs (motives, traits, attitudes, self-image, skills knowledge behaviors) that allow entrepreneurs to attain and preserve business success. In practically, various levels of entrepreneurial competencies are displayed by entrepreneurs that initiate the business or generate value through their effort [31]. Furthermore, many scholars have tried to classify entrepreneurial characteristics into competency areas. Rahman et al. [32] investigated how entrepreneurial behaviors influence financial and non-financial performance of business by using a sample of 213 small businesses in 18 cities of Bangladesh. Four competencies, opportunity, commitment, relationship and innovative competencies are associated significantly with business’s financial and non-financial performance. Huck and McEwen [33] found management, planning/budgeting, and marketing/selling as the three most prominent competency areas, respectively for Jamaican entrepreneurs. While studying entrepreneurs in two countries Malaysia and Australia, Ahmad [5] discovered twelve competency areas as: Strategic, commitment, opportunity, conceptual, organizing and leading, relationship, technical, personal, learning, ethical and social responsibility competency areas. For this study, we exploit strategic, opportunity, conceptual, commitment and organizing and leading competencies which were utilized by Ahmad [5].

Brief definition of these competencies are as follows; Strategic competency indicates “setting, evaluating, and implementing the strategies of the business” [5]. Being the owner/manager of the business, the entrepreneur must set direction for the whole company. This competency necessitates the entrepreneur to acquire a vision or big picture on their mind for their business, to get clear goals to accomplish or to devise and implement strategies to attain these vision and goals [34].

Opportunity competency involves behaviors related to “recognizing market opportunities through various means” that encompass perceiving unmet customer needs, identifying services and products that clients want, seizing high quality opportunities and exploring services and products which deliver benefit to client [5]. According to Man [34] one of the most differentiating competencies for the entrepreneurs are opportunity related competencies. Seeing and acting on opportunities and opportunistic thinking are important competency and critical characteristics of successful entrepreneurs.

Conceptual competency refers to “different conceptual abilities which are reflected in the behaviors of entrepreneurs, such as decision skills, absorbing and understanding complex information, risk taking, and innovativeness” [5]. Conceptual competencies depict a group of competencies that is not identifiable behaviors easily but are usually cogitated to be significant for entrepreneurial success.



They are not easily identifiable behaviors because they have stronger linkage with entrepreneurial traits and are less directly observable. They encompass high level of conceptual or cognitive activities such as learning, decision making, analytical thinking problem solving and innovating and coping with uncertainty which are reflected in in the entrepreneur`s behaviors when they conduct analysis, make decision, learn and solve problems [34].

Commitment competency signifies to behaviors “drive entrepreneurs to move ahead with the business” [5]. Successful entrepreneurs are usually portrayed as assiduous people with a restless attitude in their work. More simply, entrepreneurs have got a sturdy competency in totally committing, determining and dedicating, as well as taking proactive actions towards their duties and responsibilities. Entrepreneurs having commitment competency will have a strong sense of mission and persist with a sense of urgency and drive that borders on the obsessive and be proactive orientation or initiative that drive entrepreneurs to act before being forced or asked by events [34]

Organizing and Leading indicates to “the organization of different internal and external human, physical, financial, and technological resources, including team building, leading employees, training and controlling” [5].The organizing and leading group of competencies are similar to the managerial competencies.According to Chandler and Jansen [35] managerial role necessitates the ability to develop program, budget, procedures, evaluate performance, perform other tasks necessary to implement strategy. Beside those, management of people is a peculiar area of organizing activities for small businesses and necessitates competencies in leading, delegating, coaching, training and abilities to work with others [34].

### **Business performance**

Performance is something which people actually do, can be observed and by definition it involves only those behaviors or actions which are relevant to business’ goals and can be scaled [36]. Behavior is a specific observable action or set of actions on the part of an individual, performance or outcome is the assessment of the results of that behavior within the specific context [37] and evaluation of all the efforts devoted to achieving the business goals [38].Performance is composed of goal-relevant actions which are under the control of the individual, regardless of whether they are motor, cognitive, psychomotor and interpersonal. Previous studies researching the entrepreneurial competency used business performance as the meter of performance[12].However, literature evidently demonstrates that researchers are not in consensus about what compose the best measure of performance. One group of scholars support the utilization of financial indicators while another group of scholars support non-financial measures [5]. Venkatraman and Ramanujam[39] demonstrated that there is high correlation between financial and non-financial measurements and utilizing the both methods simultaneously is harmonized to performance measurement. For this study both financial and non-financial performance measures will be used namely: return on investment, customer satisfaction.

Based on the above literature, we argue that entrepreneurial competencies predict business’ financial and non-financial performance. Operationally, classification of competencies by Ahmad [5] is used in this study. Namely: strategic, opportunity, conceptual, commitment and organizing and leading competencies.

H: Entrepreneurial competencies predict business’ financial and non-financial success.

### **Methodology**

#### **Sample**

In the scope of literature review, entrepreneur is defined as an individual who is the founder or co-founder of a business [27] where there is none before and owner whose principal aim is growth [23]. The sample of the research is formed with the entrepreneurs whose businesses are located in Ankara. The survey concentrates on 44 business owners. For the purpose of assessing the association between entrepreneurial competency and business performance, a survey method of quantitative research method was utilized to gather primary data.



**Data collection method**

The variables chosen in this research are entrepreneurial competencies and business performance. Data was gathered using questionnaires. The questionnaire was adopted from past sources. Items chosen to scale the variables were adopted from past researches. Whole variables were scaled using five-point Likert scale with level 1=very unimportant and 5=very important.

**Method of data analysis**

As a meter of reliability and internal consistency of scales, coefficient alpha was computed. It was disclosed that all scales had coefficient alpha greater than 0.70 levels which is acceptable and recommended by Nunnally [40]. Based on the outcome of Pearson correlation analysis, significant relationships between variables were founded. Proposed hypotheses were assessed by utilizing simple regression analysis.

**Table 1. Reliability analysis**

Entrepreneurial competency	0.885
Business performance	0.849

**Table 2. Inter-Item Correlation Matrix**

	Strategic	Opportunity	Commitment	Conceptual	Org_Leading
Strategic	1.000	.678	.597	.797	.760
Opportunity	.678	1.000	.689	.457	.622
Commitment	.597	.689	1.000	.413	.583
Conceptual	.797	.457	.413	1.000	.625
Organizing_Leading	.760	.622	.583	.625	1.000

**Table 3. Inter-Item Correlation Matrix**

	Return on investment	customer satisfaction
Return on investment	1.000	.753
Customer satisfaction	.753	1.000

**Results and discussion**

Majority of 44 business owners that investigated consist of 90.9 percent of men and 9.1 percent of women. Based on the age 47.7 percent of business owners were below 35 years and 52.3 percent of business owners were above 34 years old.

**Table 4. Regression coefficients**

	ROI R <sup>2</sup>	CS Sig	ROI Sig	CS Sig
Strategic competency	.326	.359	.000	.000
Opportunity competency	.389	.300	.000	.000
Conceptual competency	.220	.270	.001	.000
Commitment competency	.292	.519	.000	.000
Organizing leading competency	.275	.233	.000	.001

ROI indicates return on investment, CS indicates customer satisfaction.

Hypothesis 1 was tested by using simple linear regression method to identify competencies which predict the financial and non-financial success of business. The result revealed that strategic, opportunity, conceptual, commitment and organizing and leading competencies predict and influence positively and significantly business' return on investment and customer satisfaction success. This shows that the competencies have direct positive relationship with return on investment and customer satisfaction. The results of this study are consistent with Ahmad' [5] findings. According to Ahmad [5] entrepreneurial competencies are strong predictors of business



success. This study also gives evidence to back Man's [34] findings which state that entrepreneurial competencies were linked positively and significantly with firm success.

### Conclusion

This research addressed that entrepreneurial competencies and business performance of small businesses in Turkey. The findings showed that entrepreneurial competencies of business owner are positively associated with business success. By these results, proposed hypothesis in this research are proven.

Although study has organized to test the proposed model empirically, there are some limitations which should be cogitated. Firstly, the study concentrates only on small business in the region Ankara Turkey. Thus, further study may develop a research in different regions to have more wide results. Secondly, this study did not analyze the effect of demographic factor of entrepreneurs on entrepreneurial competencies. Hence, further study can be developed based on the effect of gender distinction, education level and experience on business performance.

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