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# Does Owner's Competence and Skill Drive Small Business Performance

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ABSTRACT

Competence is needed in every scope of the company, including micro and small, and medium enterprises. Competence to manage a business is needed to improve performance. In determining whether or not a business is booming, one of the supporting factors is competency. This study uses quantitative methods by distributing questionnaires purposively to MSME employees in various regions in Indonesia. 300 questionnaires were distributed and 150 were returned. This research was conducted for about 6 months. The data processing method used is using the SEM -PLS method. This questionnaire's dissemination was distributed in various places in Indonesia, namely in Tana Toraja, Purwokerto, and Ajibarang. The questionnaires distributed were around 300. The return was 131. The research method was quantitative using a simple regression method. The results showed that the relationship between Knowledge Competence and MSME Performance was significant, with a T-statistic of 3.479 (> 1.96). The original sample estimate value is positive, which is 0.253, which shows that the relationship between Knowledge Competence and MSME Performance is positive. Thus, the H1 hypothesis is accepted, Showing that the relationship between Attitude Competence and MSME Performance is significant, with a T-statistic of 4.316 (> 1.96). The original sample estimate value is positive, which is 0.323, which indicates that the direction of the relationship between Attitude Competency and MSME Performance is positive. Thus, the H2 hypothesis is accepted.

*Keywords: Competence, performance, small enterprise business*

## Introduction

### *Competence*

Small and medium-sized enterprises are unique industries that are somewhat different from corporate businesses. Small and medium-sized enterprises are operated independently, and decision-making is commonly carried out informally. In general, small and medium-sized enterprises in each country have different and unique characteristics. Competency is expected from the owner of the SME for the development of small and medium-sized enterprises. The SME's owner is entirely responsible for the success of the business. The owners of SMEs must have the ability to operate the company. Competence will add value and articulate what people need to know to support an organization. Competence is essential as long as there is competition among companies. Competence is knowledge and skills and other behaviors exhibited by excellent individuals, expressing motivation, values, and self-image (Hofrichter et al., 2001).

Competence is often used as a more comprehensive description of the organization's human resource specifications. In the scope of small and medium enterprises, competence describes skills, knowledge, behavior, personal characteristics, which have been linked to success in organizations even on a small scale (Dharmanegara et al., 2016). Several competencies are

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considered to contribute directly to productivity, and in several other ways, and are expected to assist individuals in transferring specific competencies and acquiring new specific competencies required under new working conditions. General competence is suitable for comparison in various contexts but is also somewhat abstract, vague, and difficult to quantify (Allen et al., 2005). Entrepreneurship competence can be distinguished in terms of characteristics, abilities, and knowledge. Individuals demonstrate entrepreneurial competence, entrepreneurs who create or change organizations and add value through the organization of their resources and opportunities. Entrepreneurial competence is related to the approval of the entrepreneurial objectives of creating the vision, trust, and top management values to structure relationships between companies.

As managers plan to develop partnerships between businesses, they predict potential challenges, needs, and improvements and try to be innovative about new opportunities (Khalid & Bhatti, 2015). Entrepreneurial competence is seen as essential to growth and success (Sánchez, 2011). Competence is seen as a general description of particular intellectual and manual abilities. Entrepreneurship is practiced by individuals-entrepreneurs who establish or change organizations and add value through their resources and opportunities. Competence in terms of possession of traits, abilities, expertise, and characteristics are core competencies in entrepreneurship and SME research.

Entrepreneurial demographic competence, psychological and behavioral traits, and their technical skills and knowledge are often cited as factors that have the most substantial influence on performance. General competence is appropriate for comparison in different contexts but is typically rather abstract, subjective, and challenging to measure (Allen et al., 2005).

Competence is a competitive advantage source and is above average when it enables a business to deliver a specific (and valued) product or service or to achieve better performance on general criteria such as quality, cost, or timeliness. Entrepreneurship is the company leaders' managerial capacity to establish and convey strategic visions for corporate partnerships (Lado et al., 1997). Entrepreneurial competence is adequately linked to the acceptance of the entrepreneurial objectives of establishing the vision, trust, and top management values to structure relationships between companies. When managers deliberately intend to develop partnerships between companies, they foresee potential challenges, needs, and changes and aim to be creative in new opportunities (Khalid & Bhatti, 2015). Entrepreneurship includes the ability to identify profitable social enterprises to increase the required financial needs and to be able to run business opportunities (Smith et al., 2012).

### *Research model*

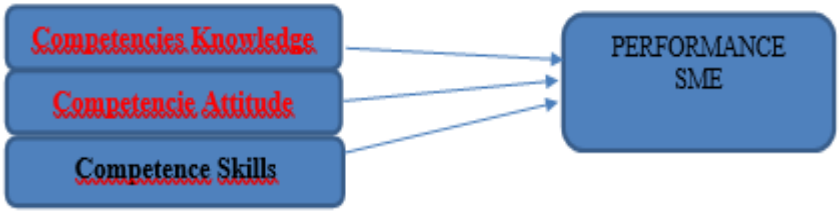


Figure 1. Research model

### *Research model*

*Relationship between competencies and performance*

If the competence of a company can be maximized, the output of a job will be effectual. The results of the research conducted by Hsu and Fang (2009) showed a significant relationship between competence and performance. The performance of the organization depends on the ability of the people in the organization. Competence as a characteristic of people can be

illustrated, including knowledge, abilities, and behaviors that can affect performance (Ledford, 1995).

Several studies pointed out that competence can influence performance. First, more knowledgeable entrepreneurs prefer to take advantage of better business opportunities, quality opportunities, and compatibility problems equally. Second, management competence is related to strategy; more competent entrepreneurs can develop an advanced strategy to suit their business. Resource-based theorists have noted that entrepreneurs and their abilities are essential and valuable resources for the company (Mitchelmore & Rowley, 2010).

Allen et al. (2005) developed a conceptual model for assessing general competencies, consisting of nine categories of job-related efficient activities: the management of others' jobs, planning, communication, control, creativity, knowledge management, and the maintenance of staff, and client relationships. The theory of competency is centered on capable leaders transforming habits, attitudes, and abilities into observable aspects and searching for ways to put them together to develop individuals that show superior performance (Mitchelmore & Rowley, 2010).

## Material and Methods

This study uses quantitative methods by distributing questionnaires purposively to MSME employees in various regions in Indonesia. 300 questionnaires were distributed and 150 were returned. This research was conducted for about 6 months. The data processing method used is the SEM method. The outer model analysis shall be carried out to ensure that the measurements used are accurate and reliable. There are two criteria to evaluate the outer model analysis, namely:

### *Convergent validity*

Table 1. Initial loading factor

| | Competency Knowledge | Competence Attitude | Competence Skills | Performance SMEs |
|---|---|---|---|---|
| **X1.1** | **0,710** | | | |
| **X1.2** | **0,699** | | | |
| **X1.3** | **0,536** | | | |
| **X1.4** | **0,264** | | | |
| **X1.5** | **0,720** | | | |
| **X1.6** | **0,595** | | | |
| **X2.1** | | **0,579** | | |
| **X2.2** | | **0,655** | | |
| **X2.3** | | **0,511** | | |
| **X2.4** | | **0,666** | | |
| **X2.5** | | **0,625** | | |
| **X2.6** | | **0,641** | | |
| **X2.7** | | **0,564** | | |
| **X3.1** | | | **0,581** | |
| **X3.2** | | | **0,582** | |
| **X3.3** | | | **0,671** | |
| **X3.4** | | | **0,832** | |
| **X3.5** | | | **0,792** | |

*To be continued*

| | |
|---|---|
| **Y.1** | **0,652** |
| **Y.2** | **0,670** |
| **Y.3** | **0,738** |
| **Y.4** | **0,783** |
| **Y.5** | **0,651** |

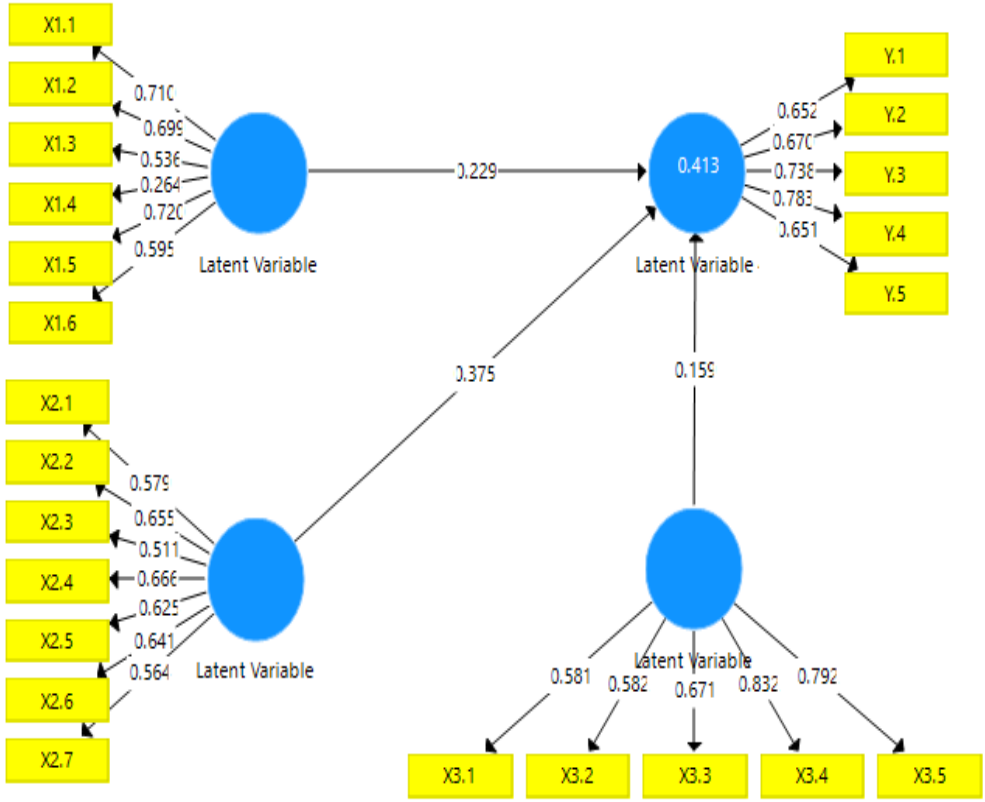


Figure 2. Convergent validity

***Unidimensionality***

Meanwhile, an internal model analysis / structural model analysis is carried out to ensure that the structural model is robust and accurate. The evaluation of the internal model can be seen from three indicators:

1. The Coefficient of Determination ($R^2$)
2. Predictive Relevance
3. The goodness of Fit Index (GOF)

For hypothesis testing, it is conducted by considering the probability values and t-statistics. The probability value of a 5% alpha is less than 0,05.

***Outer model analysis***

The outer Model analysis describes the relationship between latent variables and indicators. Alternatively, it can be stated that the outer model determines how each indicator relates to its latent variable. The examinations carried out on the outer model are as follows:

1. Convergent Validity

   Convergent validity is used to verify indicators against variables in terms of a loading factor value. This value will be approved if the load factor value is above 0.7. However,

loading factor values would be eliminated if they range from 0.4 to 0.7 and if the AVE value increases, which must be above 0.5. Indicators whose values are invalid from the model will be excluded from the model indicator, and then the PLS algorithm will be repeated. The last verification of convergent validity is to look at the value of the AVE. The indicator is considered excellent convergent validity if it has an AVE value of more than 0.5. The final value of the AVE is shown in the table. It is shown that the value of AVE in the figure for all variables is over 0.5

Table 2. The analysis of convergent validity

| | Competence Knowledge | Competence Attitude | Competence Skills | Performance SMEs |
|---|---|---|---|---|
| **X1.1** | **0,782** | | | |
| **X1.2** | **0,734** | | | |
| **X1.3** | **0,598** | | | |
| **X1.5** | **0,72** | | | |
| **X2.2** | | **0,581** | | |
| **X2.4** | | **0,763** | | |
| **X2.6** | | **0,77** | | |
| **X3.2** | | | **0,572** | |
| **X3.3** | | | **0,713** | |
| **X3.4** | | | **0,848** | |
| **X3.5** | | | **0,821** | |
| **Y.2** | | | | **0,643** |
| **Y.3** | | | | **0,771** |
| **Y.4** | | | | **0,824** |
| **Y.5** | | | | **0,658** |

The last analysis of convergent validity is to look at the value of the AVE. The indicator is considered to have a robust convergent value if it has an AVE value of more than 0.5.

2. Discriminant Validity

Testing the discriminant validity is conducted by checking the cross-loading value of the indicator. Discriminant validity is declared good if the indicator has a higher correlation to the variable than other variables. From the cross-loading table below, it can be inferred that the discriminant validity is acceptable.

Table 3. The analysis of discriminant validity

| | Competency Knowledge | Competence Attitude | Competence Skills | Performance SMEs |
|---|---|---|---|---|
| **X1.1** | 0,782 | 0,322 | 0,319 | 0,386 |
| **X1.2** | 0,734 | 0,309 | 0,361 | 0,300 |
| **X1.3** | 0,598 | 0,147 | 0,247 | 0,116 |
| **X1.4** | 0,720 | 0,300 | 0,141 | 0,397 |
| **X1.5** | 0,213 | 0,581 | 0,149 | 0,257 |
| **X1.6** | 0,335 | 0,763 | 0,319 | 0,390 |
| **X2.1** | 0,298 | 0,770 | 0,440 | 0,453 |
| **X2.2** | 0,259 | 0,257 | 0,572 | 0,292 |
| **X2.3** | 0,280 | 0,378 | 0,713 | 0,289 |

*To be continued*

| | | | | |
|---|---|---|---|---|
| **X2.4** | 0,256 | 0,393 | 0,848 | 0,419 |
| **X2.5** | 0,292 | 0,330 | 0,821 | 0,388 |
| **X2.6** | 0,214 | 0,341 | 0,263 | 0,643 |
| **X2.7** | 0,425 | 0,388 | 0,397 | 0,771 |
| **X3.1** | 0,456 | 0,424 | 0,466 | 0,824 |
| **X3.2** | 0,187 | 0,408 | 0,182 | 0,658 |
| **X3.3** | 0,782 | 0,322 | 0,319 | 0,386 |
| **X3.4** | 0,734 | 0,309 | 0,361 | 0,300 |
| **X3.5** | 0,598 | 0,147 | 0,247 | 0,116 |
| **Y.1** | 0,720 | 0,300 | 0,141 | 0,397 |
| **Y.2** | 0,213 | 0,581 | 0,149 | 0,257 |
| **Y.3** | 0,335 | 0,763 | 0,319 | 0,390 |
| **Y.4** | 0,298 | 0,770 | 0,440 | 0,453 |
| **Y.5** | 0,259 | 0,257 | 0,572 | 0,292 |

***Composite reliability***

Data is considered to have high reliability if the composite reliability is greater than 0.7. Construct reliability testing is conducted by measuring two criteria, namely composite reliability and Cronbach alpha. The construct is deemed reliable if the values of composite reliability and Cronbach alpha are above 0.7. The results of the composite reliability and Cronbach alpha test can be found in the table. From the tables presented, it can be seen that all variables have composite reliability above 0.7. Cronbach Alpha strengthens the reliability test, which expects that all the constructs value > 0.6.

Average Variance Extracted (AVE). The AVE value is expected to be >0.5.

Table 4. The analysis of Composite Reliability

| | **Composite Reliability** |
|---|---|
| **Competence Knowledge** | **0,803** |
| **Competence Attitude** | **0,750** |
| **Competence Skills** | **0,831** |
| **Performance SMEs** | **0,817** |

Table 5. The analysis of Cronbach's Alpha

| | **Cronbach's Alpha** |
|---|---|
| Competence Knowledge | **0,733** |
| Competence Attitude | **0,743** |
| Competence Skills | **0,727** |
| Competence Knowledge | **0,707** |

***Multicollinearity***

A Multicollinearity Test is performed to assess the relationship between indicators. To find out if the formative indicators undergo multicollinearity by knowing the value of the VIF. The VIF value between 5 to 10 can be indicated that the indicator has multicollinearity.

Table 6. Test Average Variance Extracted (AVE)

| | Average Variance Extracted (AVE) |
|---|---|
| **Competency Knowledge** | **0,507** |
| **Attitude Competence** | **0,504** |
| **Competence Skills** | **0,557** |
| **Performance SMEs** | **0,530** |

Table 7. Test Performance SMEs

| | Competency Knowledge | Competence Attitude | Competence Skill | Performance SMEs |
|---|---|---|---|---|
| Competency Knowledge | | | | **1,464** |
| Competence Attitude | | | | **1,861** |
| Competence Skills | | | | **1,545** |
| Performance SMEs | | | | |

Table 8. Construct reliability and validity

| | Cronbach's Alpha | rho_A | Composite Reliability | Average Variance Extracted (AVE) |
|---|---|---|---|---|
| Competency Knowledge | **0,733** | **0,696** | **0,803** | **0,507** |
| Competence Attitude | **0,743** | **0,541** | **0,750** | **0,504** |
| Competence Skills | **0,727** | **0,758** | **0,831** | **0,557** |
| Performance SMEs | **0,707** | **0,740** | **0,817** | **0,530** |

*Inner model analysis*

The inner model analysis can be performed by considering the values of R2, Q2, and GoF

Table 9. Inner model analysis

**R Square**

| | R Square | R Square Adjusted |
|---|---|---|
| **MSME Performance** | 0,413 | 0,400 |

The table above provides a value of 0.400 for the SME Performance, which indicates that the SME Performance can explain 40% of the variance.

***The goodness of Fit (GoF)***

The GoF test results are obtained by multiplying the commonalities' average root value with the average root value of the r-square. From the results of the GoF estimation, the value obtained is 0,5828. Therefore, it can be assumed that the model has a high GoF value and that the higher the GoF value, the more relevant it is in describing the research sample. The Inner Model analysis is conducted by looking at the value of Q^2 (predictive relevance). For the measurement of Q ^ 2, the following formula can evaluate the Inner model by looking at the value of Q ^ 2 (predictive relevance).

$$Q^2 = 1 - (1 - R^2)$$

$Q^2$ = 1 – (1-0,413) (1-0,400)

$Q^2$ = 0,6478

The last one is to find the value of the Goodness of Fit (GoF). In comparison to CB-SEM, the GoF value of the PLS-SEM must be examined manually.

GoF = $\sqrt{AVEx R^2}$ .....

GoF = $\sqrt{0.5245\ x0.6478}$

GoF = 0.5828

The preceding formula is used to validate the combined performance of the measurement model (outer model) and the structural model (inner model) with values ranging from 0 to 1 with interpretations of 0-0.25 (Small GoF), 0.25-0, 36 (moderate GoF), and above 0.36 (large GoF).

### *Structural model analysis (Inner model)*

Table 10. Structural model analysis (Inner model)

**Path Coefficients**

Mean, STDEV, T-Values, P-Value

| | Original Sample (O) | Sample Mean (M) | Standard Deviation (STDEV) | T Statistics (\|O/STDEV\|) | P Values |
|---|---|---|---|---|---|
| **Knowledge Competence -> MSME Performance** | 0,253 | 0,255 | 0,073 | 3,479 | **0,001** |
| **Attitude Competence -> MSME Performance** | 0,323 | 0,330 | 0,075 | 4,316 | **0,000** |
| **Skill Competence -> MSME Performance** | 0,235 | 0,241 | 0,070 | 3,342 | **0,001** |

After testing the measurement model (outer model), the next step is testing the structural model (inner model) to determine whether the hypothesis can be accepted or rejected. This study will use a significant value (α) of 0.05 or 5%. The relationship between variables can be considered significant if: P-value is less than the predetermined significant value (P <0.05).

**Results and Discussion**

Competence and SME Performance are positive. Thus, the hypothesis of H2 is accepted. The above table showed a significant relationship between Skill Competence and SME Performance, with a T-Statistic of 3.342 (> 1.96). The original sample estimate value is positive, which is 0.235, inferring that the relationship between Skill Competence and SME Performance is positive. Thus, the H3 hypothesis is accepted. The results analysis was performed based on the structural model analysis results derived from the significant value of the relationship between variables to determine the null hypothesis (Ho), whether accepted or rejected. If the p-value is less than 0.05, Ho is rejected, and the alternative hypothesis (Ha) is accepted, while Ho is accepted if it is more than 0.05

**Conclusion**

Competence and MSME Performance are significant, with a T-statistic of 4.316 (> 1.96). The original sample estimate value is positive, which is 0.323, which indicates that the direction of the relationship between Attitude Competency and MSME Performance is positive. Competence and SME Performance are positive. Thus, the hypothesis of H2 is accepted. The above table showed a significant relationship between Skill Competence and SME Performance, with a T-Statistic of 3.342 (> 1.96). The original sample estimate value is positive, which is 0.235, inferring that the relationship between Skill Competence and SME Performance is positive. Thus, the H3 hypothesis is accepted. The results analysis was performed based on the structural model analysis results derived from the significant value of the relationship between variables to determine the null hypothesis (Ho), whether accepted or rejected. If the p-value is less than 0.05, Ho is rejected, and the alternative hypothesis (Ha) is accepted, while Ho is accepted if it is more than 0.05**.** Competence Knowledge, Competence skill Competence attitude has a significant effect on the

performance of SMEs This is following the results of the researchers Hsu and Fang (2009) showed a significant relationship between competence and performance.

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