

# Growth strategy as a mediator of the relationship between entrepreneurial competencies and the performance of SMEs

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## ABSTRACT

Factors affecting the success of SMEs have been widely studied, but generally they only focus on the individual characteristics as a factor affecting the success of SMEs. This study attempts to analyze the role of the growth strategy in mediating the effect of entrepreneurial competencies on SMEs performance. The population consists of the 243 nurturing SMEs in Malang Regency, in which the sample was taken using proportional sampling techniques, and it was totaled 146 SMEs. They were collected by using questionnaires and interviews, whereas analytical techniques using Structural Equation Modeling. The results showed that the growth strategy is influenced by entrepreneurial competencies, so the business growth strategy, as a mediator of the effect of entrepreneurial competencies on SMEs performance, meaning that the increase of the entrepreneurial competencies will lead to a higher capability implementing the growth strategy. This eventually affects the SMEs performance. Entrepreneurial competencies will affect the better business growth strategy. In turn, it can also ultimately improve SMEs performance. Thus, the key factor in the SMEs performance in Malang Regency is the level of competency owned by the owners and the implementation of growth strategy.

## ABSTRAK

Faktor-faktor yang mempengaruhi kesuksesan Usaha Kecil Menengah (UKM) sudah banyak diteliti namun pada umumnya fokus pada karakteristik individu sebagai faktor yang berpengaruh terhadap kinerja UKM. Tujuan penelitian ini untuk menganalisis peran strategi pertumbuhan sebagai mediasi pengaruh kompetensi kewirausahaan terhadap kinerja UKM. Populasinya terdiri dari UKM binaan Pemerintah Kabupaten Malang sebanyak 243 UKM, dengan sampel sebanyak 146 UKM. Data dikumpulkan dengan kuesioner dan wawancara, sedangkan analisis data menggunakan Structural Equation Modeling. Hasilnya menunjukkan bahwa strategi pertumbuhan dipengaruhi oleh kompetensi kewirausahaan, strategi pertumbuhan bertindak sebagai mediasi pengaruh kompetensi kewirausahaan terhadap kinerja UKM. Jadi, peningkatan kompetensi kewirausahaan akan menyebabkan kemampuan lebih tinggi dalam menerapkan strategi pertumbuhan, yang selanjutnya akan meningkatkan kinerja UKM. Faktor kunci kinerja UKM di Kabupaten Malang adalah tingkat kompetensi dari pemilik/manajer dan bagaimana mereka mengimplementasikan strategi pertumbuhan.

## 1. INTRODUCTION

Small and medium enterprises have a great role in Gross Domestic Product (GDP), based on data from Kementerian Koperasi dan Usaha Kecil Menengah, in 2011 accounted for 57.94%. In addition, small and medium enterprises also contribute to reducing unemployment. Given the role of small and medium enterprises (SMEs), it is important to

investigate the factors that affect the success of the business.

SMEs in Malang Regency in 2011 reached 11.779 units with the labor number of 101.808 people. These 0.031%, could penetrate export markets, and only 0.026% of export potential and it has a flagship product (Dinas Koperasi dan UKM Kabupaten Malang 2011). Yet, the numbers are large

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enough and able to absorb the labor force, but its development is still not optimal or a low level of business success. This is a phenomenon encountered in the development of SMEs. Obviously, these problems need to be answered by knowing the factors that affect the success of SMEs.

Previous research found that the performance of SMEs determined by the characteristics of the owner/manager (Lee and Tsang 2001, Blackman 2003; O'Regan et al. 2005; Solichin 2005; Zoysa and Herath 2007; Nimalathasan 2008, Sarwoko et al. 2012). Other studies claim that competence as factors that influence the success of the business (Ahmad et al. 2010; Man and Lau 2005, Sarwoko et al. 2012). Kiggundu (2002) argue that the overall entrepreneurial competencies are attributes of entrepreneurship, which include attitudes, beliefs, knowledge, skills, abilities, personality, and behavior directed to achieve success. Further, it is stated that entrepreneurial competencies could offer unrealistic views about how the owner/managers know the strategy of running a business.

Business performance is related to entrepreneurial strategy, in which environmental factors and the competence of the company as a moderating variable (Li et al. 2005). Entrepreneurial strategy is positively associated with the performance of the business because it can help companies to take advantage of the launch activities in advance and take advantage of existing opportunities (Covin & Slevin 1991; Zahra & Covin 1995).

The strategy is also influenced by the different competencies and unique knowledge of the owner. Strategy and strategic vision make a clear direction for the company and is proving to be an important input to the company's policy and operational decisions (Phippsen and Kemp 2003). This shows the relation between the competences of the owner/manager with the implementation of the strategy business.

The purpose of this study was to 1) analyze the role of entrepreneurial competencies on the performance of small and medium enterprises (SMEs); 2) analyze the role of the strategy on the performance of small and medium enterprises (SMEs); and analyze the role of entrepreneurial competencies in business strategy and its impact on the performance of small and medium enterprises (SMEs).

## 2. THEORETICAL FRAMEWORK AND HYPOTHESES

### Entrepreneurial Competencies

Entrepreneurial competency is defined as specific basic characteristics such as knowledge, nature,

self-image, social roles, and skills that result in the creation of business, survival, and/or growth (Bird 1995). While Baum et al. (1995) defines the entrepreneurial competencies as individual characteristics such as knowledge, skills, and/or ability required to perform a specific job.

Man (2001) recommends five components to measure the competence of entrepreneurship that is conceptual, opportunity, relationships, learning, personal. Ahmad et al. (2010) recommend the measurement of entrepreneurial competencies include strategic competency, conceptual competency, competency opportunity, relationship competency, learning competency, personal competency. Baum et al. (1995) formulated the nine elements of entrepreneurial competencies include knowledge, cognitive abilities, self-management, administration, human resources, decision skills, leadership, opportunity recognition, and opportunity development.

Kiggundu (2002) stated that the core competencies (technical skills, managerial skills, social skills, human relations skills) positively influence the success of an entrepreneur. Baum et al. (1995) finds that the general competence (organizational skills, opportunities, skills) had no significant effect on the growth of the business, but has a positive influence indirectly through competitive strategies for business growth. On the other hand, specific competencies (industrial skills, technical skills) have a positive impact directly on business growth.

Ahmad et al. (2010), conducted research on entrepreneurial competency and business success which is contingent upon the business environment relationship in small and medium enterprises in Malaysia. The results showed that the entrepreneurial competencies as a predictor of the success of small and medium enterprises in Malaysia. Also found that the association between entrepreneurial competencies and business success was more evident in competitive and dynamic environments.

Man et al. (2002), examines: the entrepreneurial competencies and the performance of small and medium enterprises: an investigation through a framework of competitiveness. The results showed an association between entrepreneurial competencies and performance of small and medium enterprises.

H1: Entrepreneurial competencies is related to the performance of SMEs.

### Growth Strategy

Hisrich et al. (2008) used the term entrepreneurial strategy (entrepreneurial strategy) which is defined as the number of decisions, actions, and reactions

were first created, and then exploit an effort to maximize the benefits and minimize the costs of novelty. Entrepreneurial strategy includes a new business strategy and growth strategy. The new business strategy is the creation of a new business opportunity. This new business strategy includes the resource as a source of competitive advantage and entrepreneurial resources. While business growth strategy is a strategy that focuses on where to look for opportunities to develop, in which the company may have had a basis for sustainable competitive advantage. This growth strategy includes:

- a. Penetration Strategy
- b. Market Development Strategy
- c. Product Development Strategy
- d. Diversification Strategy

Entrepreneurial strategy is positively associated with the performance of the business because it can help companies to take advantage of the launch activities in advance and take advantage of existing opportunities (Covin & Slevin 1991). Research Hashim (2000) found that the performance of Malaysian SMEs varies with different options, business strategy adopted.

Gibcus and Kemp (2003) stated that the choice does not affect the performance of small and medium businesses. There are differences between the performance of the strategy in small and medium businesses. However, the chosen strategy does not affect the performance of the performance of small and medium businesses.

Li et al. (2005) examined the entrepreneurial strategy making and performance in China's new technology ventures. The results showed that the direct relationship between strategy and corporate performance is weak and not significant. Business performance related to entrepreneurial strategy, if it is moderated by environmental factors and the competence of the company. Specials entrepreneurial strategy has a positive relationship with performance when the environment is highly uncertain and when the company has a strong marketing competence.

The strategy is influenced by different competencies and unique knowledge of entrepreneurship. Strategy and strategic vision make a clear direction for the company and is proving to be an important input to the company's policy and operational decisions (Philipsen and Kemp 2003). This shows the relation between the competences of the businessman with the implementation of the strategy of doing business. Man et al. (2002) states entrepreneurial competencies plays a key role in determin-

ing the performance of the company. Entrepreneurial competencies will also affect the ability of the organization to which organizational capabilities as determinants of firm performance.

H2: Growth strategy is related to the performance of SMEs.

### **SMEs Performance**

Li et al. (2005) uses 3 indicators for performance measurement of efficiency, growth, and profit. The business performance is the phenomenon of multiple aspects that are difficult to quantify (Aragón-Sánchez and Sánchez-Marín 2005).

A variety of the literature shows that both quantitative and qualitative indicators have limitations and are recommended to be used interchangeably. It measured quantitatively such as ROI, profit, sales, and so on. While the qualitative measurements are often called as performance indicators, performance measurement is by using the approach a certain scale of performance variables such as knowledge and business experience, the ability to offer quality products and services, the capacity to develop new products and processes, the ability to manage and work groups, labor productivity, and corporate responsibility to the environment (Sarwoko 2012).

Lee and Tsang (2001) used performance effort represented by the growth venture consisting of sales growth, the growth of the company's assets, and profit growth. Studies in small and medium enterprises, business performance measurement approach typically uses a mixture of (financial and non financial), but the difficulties encountered when owners/managers of small and medium enterprises are not willing to provide performance data information (Beal 2000).

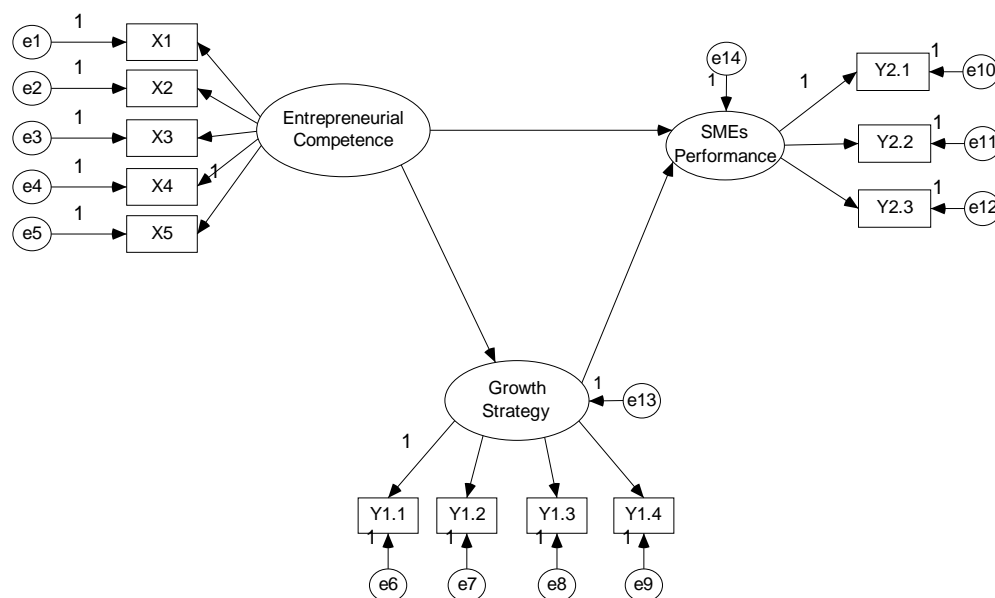
H3: Growth strategy as a mediator of the relationship between entrepreneurial competencies and the performance of SMEs.

The research framework is shown in Figure 1.

### **3. RESEARCH METHOD**

This study was conducted to analyze and explain the influence of entrepreneurial competencies and business growth strategy on business performance. Growth strategy tested as a mediator variable of the relationship between competency and business performance, therefore this study is included in the category of explanatory research

The sampling technique was done using proportionate stratified sampling (Copper and Emory 2006) to each sector of small and medium enterprises. The number of samples is calculated with



**Figure 1**  
**Research Framework**

the formula Slovin the error level of 5%, of the population of 232 SMEs acquired sample number 146 owners/managers.

Measurement of entrepreneurial competencies developed from research Man (2001) by using 5 indicators:

- a. Conceptual competency
- b. Opportunity competency
- c. Relationship competency
- d. Learning competency
- e. Personal competency.

Growth strategy is the implementation of the growth strategy of the owner/manager of SMEs. Indicators of implementation of growth strategy in this study using indicators of Hisrich et al. (2008) which consists of four indicators:

- a. Penetration Strategy
- b. Market Development Strategy
- c. Product Development Strategy
- d. Diversification Strategy.

SMEs performance is the perception of the owner or manager of business performance compared to objectives. Business performance measures adopted from research Lee and Tsang (2001) consists of three indicators, namely sales, profits, and capital. Data were analyzed using structural equation modeling (Structural Equation Modeling).

#### 4. DATA ANALYSIS AND DISCUSSION

##### Entrepreneurial Competencies

The description of entrepreneurial competency variables showed that the owner or managers of small and medium enterprises in Malang Regency today can be categorized as having a high entre-

preneurial competency, indicated by an average value of 3.65, that the owners/managers of SMEs have had a superior entrepreneurial competency that include conceptual competency, opportunity competency, relationship competency (see Table 1). However, the five indicators used to measure entrepreneurial competencies, learning and personal competency had an average score lower than the other, it indicates that the owners do not fully have the competence to learn and personal superior competence. Indicators of the highest competence owned by the owners of SMEs are opportunity competency, meaning the ability to take advantage of business opportunities is an advantage competency of the entrepreneur.

##### Growth Strategy

Growth strategy indicates that the owners of small and medium enterprises in Malang Regency currently have advantages in implementing growth strategy, demonstrated by the average value of 3.95 (see Table 1). Among the four indicators used to measure business growth strategy, it turns diversification strategy and product development strategies are considered a superior strategy implemented over the years.

Diversification strategy is the most powerful strategy demonstrated the ability of small and medium business owners diverse products in order to meet the various segments of buyers. Rated superior product development strategy is shown the ability of small and medium business owners in Malang Regency produce products or services with different characteristics of the competitors, and the

**Table 1**  
**Descriptive Statistics**

Variable	Mean	Std. Deviation
Entrepreneurial Competencies	3.65	0.56
Growth Strategy	3.95	0.59
SMEs Performance	3.55	0.69

utilization of the technology expected to produce goods more effectively and efficiently so as to compete.

The ability of small and medium business owners in Malang Regency in applying the product development and diversification strategy has yet to be coupled with the ability to implement the strategy of market development. The owner has not been fully able to expand the market. In addition, it is still not a high market development strategy, because the owners have not been looking to find ways to market your products or services better than that done during this time, they are generally satisfied marketing has been dominated from the order, there is no concrete steps in order expand the marketing area.

**SMEs Performance**

The description of SMEs performance variables showed that the performance of small and medium enterprises can be quite high, as shown by the average value of 3.55 (see Table 1). Among the three indicators used to measure business performance, it turns out capital growth is an indicator of the highest performance.

Capital as the highest performance indicators show that in recent years the small and medium enterprises in Malang Regency able to achieve capital growth, in addition to the respondents showed that the capital for small and medium enterprises in Malang Regency is still a critical component for business growth.

Small and medium enterprises are also able to achieve earnings growth from year to year, however, it turns out the profit growth has not compared with capital growth, where sales growth of capital is higher than the proportion of earnings growth.

Profit growth experienced by small and medium enterprises in recent years was not fully accompanied by an increase in the number of sales (turnover). In addition, the increase in profit achieved was also not accompanied by an expansion of the market or the development of the market area. Therefore, the indicator of sales into the lowest performance indicators than the other indicators of business performance.

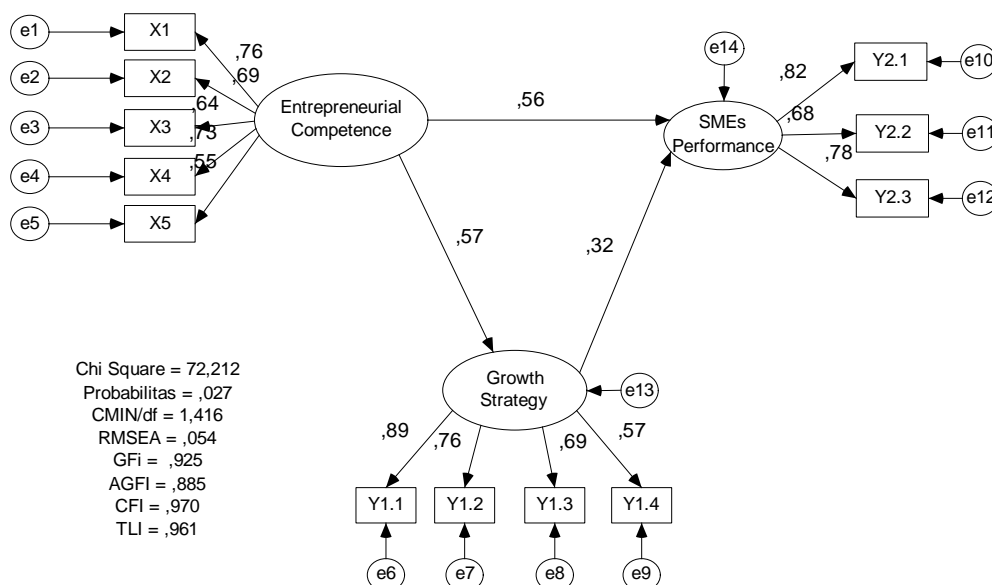
**Data Analysis**

Testing by using structural equation modeling analysis (SEM) was conducted to obtain the results of an analysis of the relationship between exogenous and endogenous variables, both directly and indirectly. The results of the analysis presented in Figure 2.

The test of goodness of fit in Figure 2 shows that the model is acceptable because  $\text{prop} \geq 0.05$ ,  $\text{RMSEA} \leq 0.08$ ,  $\text{CMIN}/\text{df} \leq 2$ ,  $\text{GFI} \geq 0.9$ ,  $\text{AGFI} \geq 0.9$ ,  $\text{CFI} \geq 0.9$ ,  $\text{TLI} \geq 0.9$ ). Based on Table 2, the standardized regression weight coefficient on the relationships of entrepreneurial competencies with business growth strategy is at 0.575 ( $P < 0.05$ ). Furthermore, the standardized regression weight coefficient on the path to growth strategy, relationships with SMEs performance in 0.323 ( $P < 0.05$ ). These test results show empirical evidence that the higher the entrepreneurial competencies, the higher the performance of small and medium enterprise business in Malang Regency is mediated by growth strategy.

Comparison of loading weights indicates that the direct effect of entrepreneurial competencies in business performance was greater (loading value 0.56) compared to the indirect effect through the mediation of growth strategy (loading value 0.18). This indicates that in order to achieve improved performance of SMEs it is necessary to increase the entrepreneurial competencies of the owner. The benefits to be gained by improving the competence of entrepreneurship is the achievement of business performance, and an increase competence in determining growth strategy taken by the owners of small and medium enterprises in Malang Regency, although its role is not as big as entrepreneurial competencies on business performance.

The analysis showed that the entrepreneurial competencies have significant effect on business growth strategy, meaning that the owner’s competence in terms of conceptual competency, competency opportunity, relationship competency, learning competency, and personal competency affect business growth strategy that will be taken in running the business owner. As noted by Philippsen and Kemp (2003) that the strategy is influenced by different competencies and unique knowledge of the owner.



**Figure 2**  
**Result of SEM Analysis**

**Table 2**  
**Standardized Regression Weight Coefficient**

Path	Coefficient	CR	P
Growth Strategy → Entrepreneurial competencies	0.575	4.881	***
SMEs_Performance → Growth Strategy	0.323	3.245	0.001
SMEs_Performance → Entrepreneurial competencies	0.565	4.402	***

It supports Li et al. (2005) the relationship between the preparation of the strategy and the business performance moderated by environmental factors and competence. The preparation of the strategy will positively influence the performance when the environment is very uncertain and the company has marketing competence. It is also in line with the study of Li et al. (2006) that stated the entrepreneurial strategy can have different effects on the performance of new ventures in China. There is no single path to determine the success or failure of self-employment: successful entrepreneurs are those who can adjust their strategies according to their ability.

The results showed that business performance is influenced by growth strategy, and business growth strategy itself will be determined by the entrepreneurial competencies, thus the business growth strategy is a mediating variable entrepreneurial competencies relationship with business performance. As a mediating variable, growth strategy is determined by the level of competency of the owner, if the owner has a conceptual competency, competency opportunity, relationship competency, learning competency, and personal competency, which certainly cause the owner, choose the business growth strategy. This is taken to real-

ize the vision and mission of the business. This is in contrast to some studies as Covin and Slevin (1989) that found no significant direct relationship between the strategies with the performance of small businesses. Gibcus and Kemp (2003) that the choice does not affect the performance of SMEs. There are differences in strategies between groups of SMEs. However, the chosen strategy does not affect the performance of SMEs in the Netherlands. Kemp and Verhoeven (2002) stated that the choice does not affect the growth strategy of the company.

## 5. CONCLUSION, IMPLICATION, SUGGESTION, AND LIMITATIONS

Growth strategy of business is influenced by entrepreneurial competencies, so the business growth strategy has a role as a mediator of the effect of entrepreneurial competencies on SMEs performance. It means that the entrepreneurial competencies will lead to a higher capability of implementing growth strategy that is a further growth strategy that can affect the SMEs performance.

Entrepreneurial competencies can affect the ability of a business growth strategy that will ultimately improve business performance. Thus, the key factor in the business performance of SMEs in Malang Regency is the level of competency of the

owners and implementation of growth strategy.

This study has limitations in which it only examined SMEs in the district of Malang, therefore, future research could be developed for SMEs in another region such in East Java or one of the SMEs sector because each sector of SMEs can have the characteristics of a growth strategy that is different. This might require different competence too. Future research could also be developed to test the effect of the business environment on a growth strategy affecting the performance of SMEs.

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