



Impact of Entrepreneurial Competencies on Venture Performance

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ABSTRACT

The linking of entrepreneurial characteristics with the business success has been the primary area of research in the field of entrepreneurship. The focus of this study is to highlight the importance of the entrepreneurial competencies of the entrepreneur required for the effective performance of the overall firm. The study was conducted on a sample of 350 small businesses operating in the state of Jammu and Kashmir in India. To analyze the effects of independent variables on the dependent variable, structural equation modeling procedure was employed using partial least squares approach. The findings of study revealed that the entrepreneurial competencies exhibit a strong impact on the performance. The current study assumes vital importance in terms of its contribution towards the literature highlighting the importance of the human capital in small businesses.

KEYWORDS : Competency, Small Business, entrepreneur.

Introduction

Small businesses are undoubtedly considered vital for an economy. The growth and development of these businesses is largely dependent on the entrepreneur who is the owner and manager of the enterprise. The research into linking of the entrepreneurial characteristics with the successful entrepreneurship has been going on in full swing across the globe. The earlier researches in this direction began by linking the entrepreneurs traits with the business success (Brockhaus, 1982; Buss, 1989; Begley, 1985). Although several personality traits of the successful entrepreneurs were identified but these are believed to produce inconsistent or very weak results. The more recent approach forward in this direction is the linking of the entrepreneurial competencies as predictors of success (Chandler and Jansen, 1992; Bird, 1995; Mitchelmore and Rowley, 2010). The research into the understanding of the entrepreneurial competencies can be used to instill those competencies in the entrepreneurs hence to accelerate their growth (Churchill and Lewis, 1983). The present study is also based on the concept of entrepreneurial competencies which are believed to affect the venture performance.

Entrepreneurial competencies are defined as underlying characteristics possessed by a person which results in new venture creation, survival, and/or growth (Bird, 1995). These characteristics include generic and specific knowledge, motives, traits, self-images, social roles, and skills that may or may not be known to the person (Boyatzis, 1982). Entrepreneurial competencies are considered as higher level characteristic encompassing personality traits, skills and knowledge, and therefore can be seen as the total ability of the entrepreneur to perform a job role successfully. In assessing competence, the focus is on the individuals involved in launch, survival and growth of new venture (Bird, 1995). Due to the lack of separation between owner and manager in the small businesses the entrepreneur while operating the business is engaged in different roles. Research suggests three different roles played by the entrepreneur i.e. the entrepreneurial role, the managerial role and the technical/functional role (Chandler and Jansen, 1992). One of the main drivers of research and practice relating to entrepreneurial competencies is their supposed association with the business performance and growth and thereby with the economic development (Mitchelmore and Rowley, 2010). The research on entrepreneurial competencies has sharpened over the last few years. Among those is a recent research study conducted by Man (2001) on the SME's operating in Hong Kong's service sector and eight areas of entrepreneurial competencies were identified namely Opportunity, Relationship, Conceptual, Organizing, Strategic, Commitment, Learning and Personal Strength. This model was further used and tested by the scholars in the different economic set ups (Ahmad, 2007; Lans et al., 2005; Sanchez, Jose, 2012).

As it is established that competency of entrepreneur affects the per-

formance of the firm but the competency area of research in entrepreneurship is itself in the earlier stages of development. The concept of entrepreneurial competencies, its measurement and its relation to entrepreneurial performance is in need of further rigorous research and development (Mitchelmore and Rowley, 2010). The present study is a step forward in this direction to test the theory of linking entrepreneurial competencies with the venture performance in the state of Jammu and Kashmir in India.

The following hypothesis is proposed for this study

H: Entrepreneurial Competencies of the entrepreneur significantly affect performance of the enterprise.

Methodology

This study involves the assessment of the competencies needed by entrepreneurs and therefore a survey instrument is used. The questionnaire used for the said purpose was developed by Man (2001) and consisted of eight competency areas namely opportunity, Relationship, Commitment, Strategic, Organizing, Learning, Relationship and Personal. Two more competency areas namely Ethical (Ahmad, 2007) and Technical (Chandler and Jansen, 1992) were added. The competencies were measured on a 7-point likert scale. The brief definition of these competency areas is as follows:

Opportunity Competencies: The ability to spot opportunities, seek new opportunities and develop opportunities

Organizing Competency: The ability to lead, control, monitor, organize and develop the external and internal resources towards the firm capabilities.

Relationship Competency: The ability to maintain and sustain a good relationship with people in and out of the business.

Commitment Competency: The ability to be totally committed, determined, dedicated as well as proactive towards the responsibility and duty.

Strategic Competency: This competency calls an entrepreneur to be a visionary, having a clear frame of mind, capable of formulating and implementing strategies of the firm.

Conceptual Competency: It involves the ability to think innovatively, take risks, explore new ideas, etc.

Learning: It refers to the ability to learn from a variety of means including ones past experiences, from failures and mistakes.

Personal Competency: It refers to the ability to maintain a high

level of energy, self –motivation and self-confidence.

Ethical Competency: It refers to engage in fair, open and honest business practices.

Technical: It refers to the ability to use tools and techniques to deal with the technicalities of the business and having a good knowledge of one’s business area.

The second variable in this study was business performance/success. It was measured by using the Chandler and Hanks (1993) instrument which consisted of four parts: financial performance, non-financial performance, relative performance and business growth. These aspects of the performance give a comprehensive coverage of the performance of the enterprise from every possible aspect. The questionnaire also includes the information on the entrepreneur’s demographic characteristics.

The study was carried on the successful industrial entrepreneurs operating in the state of Jammu and Kashmir. The successful entrepreneur is one who has been there in the business for at least three years and who is actively involved in the operations of the business. The requisite data was collected from the entrepreneurs operating in the various industrial estates of the region which were conveniently selected. The total numbers of usable responses were 350 out of 400 questionnaires administered indicating a satisfactory response rate.

Data Analysis

The data so collected was analysed using SPSS and Smart PLS.

Respondent Profile

The demographic statistics of our show that majority of our respondents lie in the age group of 31-40 (30.1%) and age at start up is 21-30 (59.9%), which is a very healthy sign indicating a substantial portion of them are youth. The educational qualification of majority of them is graduation (53%) and 71% of them have work experience prior to start-up. The SMEs have been the hub of employment generation, 82.5% of our surveyed firms have employment up to 20 and majority of them (77.8%) are sole proprietorships indicating the creation of employment with small investments. Since the survey was restricted to industrial estates only so therefore all of the firms are the manufacturing firms with varied line of activity such as corrugated boxes, PET bottles, PVC pipes, Steel rolling, food processing etc.

Competencies and Business Performance

In order to test the effect of competency on success, structural equation modeling was employed using smart PLS 3. Since the entrepreneurial competency in this study is a multi-dimensional construct therefore a second order construct in which the competency is represented by its various lower order constructs is used the same goes with the business success construct. The main reason for the use of hierarchical component models is to reduce the model complexity and make it more parsimonious and easier to grasp (Hair et al., 2013). The ten competency areas are used as manifest variables for the entrepreneurial competency construct and similarly four areas of the business performance construct receive the same treatment. The structural model for our study is shown in fig 1.

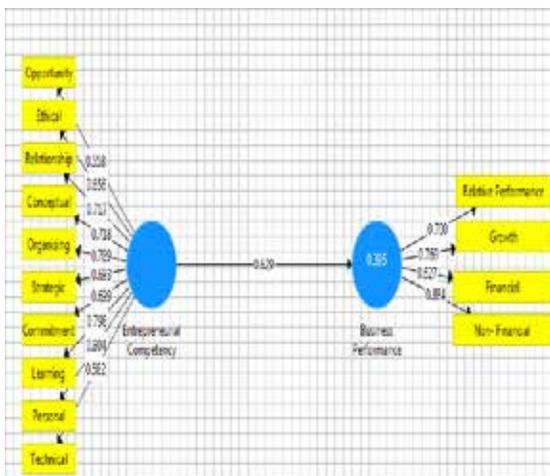


Figure 1: Competence and Business Performance Model
 Source: Primary Data (Smart PLS Output)

The influence of the competency on the business success is positive with a path coefficient of 0.629 and the overall R² of the model is 39.5% which is high and substantial (Cohen, 1988). The statistical significance of all these results was tested by running bootstrapping which indicated the statistical significance of all the path coefficients at p<.05. In addition to R² PLS-SEM also calculates Stone-Geisser’s Q² value which is indicative of predictive relevance of the model. In our case Q² has a value of 0.84. A value more than zero indicates the path models predictive relevance (Hair et al., 2013). Also all the competency areas are significantly loaded on the entrepreneurial competency, which means that the competency consists of these ten competency areas and each competency area contributes a significant portion towards the overall competency construct.

Further, the indirect relationship of the competency construct with the financial performance, non-financial performance, relative performance and business growth was carried out. It was found that the entrepreneurial competency exhibits a stronger effect on non-financial (0.629*0.884=0.55) aspect of the performance followed by business growth (0.629*0.769=0.48 which is the overall growth of the business. Therefore, competencies of the entrepreneur have a strong influence on building the overall competitiveness and also catalyze the growth of the enterprise.

Discussion and Policy Implications

Based on the contention put forth by Chandler and Jansen (1992) that an entrepreneur is involved in multiple roles, i.e. entrepreneurial role, managerial role and technical role and each role assumed by him necessitates him to carry requisite competencies to perform the job role effectively. This study has validated the concept that competencies required for these different roles are strong predictors of venture performance. Therefore a strong message goes out to practitioners and policy makers regarding importance of competencies for training purpose. As it is a well-established fact that competency can be instilled in the entrepreneurs through the training and hence their growth can be accelerated.

The study was carried on in the northern most state of India, therefore it will have the implications for the State of Jammu and Kashmir in Particular and to the whole of India in general. As part of the overall skill development we recommend that the competency building should be given priority while talking about the entrepreneurship development.

Conclusion

This study has empirically tested the involvement of the entrepreneur in the entrepreneurial process by linking his competencies with the performance of the enterprise, which has resulted in a positive association. It was a micro level study bases on a small geographical area so the results should be generalized cautiously. And also on part of the methodology self-perceived reports on the competencies of the entrepreneurs are used, future researches may explore more options to generate data from the entrepreneurs regarding the competencies. And lastly we propose the use of the mediating variables like the environment and the influence of the firm characteristics on the successful entrepreneurship.

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