

EDITED BY BRUNO S. SERGI
DEDHY SULISTIAWAN

ENTREPRENEURSHIP
AND GLOBAL
ECONOMIC GROWTH

MODELING
ECONOMIC
GROWTH IN
CONTEMPORARY
INDONESIA

Modeling Economic Growth in Contemporary Indonesia

Entrepreneurship and Global Economic Growth

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Modeling Economic Growth in Contemporary Indonesia

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Preface

Dear Readers,

I am proud to be Indonesian – a great country with more than 17,000 islands, 700 living languages, and 1,300 recognized ethnic groups. That richness and diversity pose a challenge to managing a country. After the Asian monetary crisis, the economic growth is substantial. Now, Indonesia has become the largest economy in Southeast Asia. A projection from the international organization also predicts that in 2030 Indonesia will become the fifth-largest economy in the world. Those are great projections.

As Vice Chairman of the People’s Consultative Assembly of The Republic of Indonesia, I believe contemporary Indonesia still faces many challenges related to education, religiosity, regulation, technology, financial market, and poverty. This book academically provides some answers to the challenges. The topics raised in the chapters in this book are multiperspective and multidisciplinary issues. A summary of contemporary Indonesian economic growth events is presented in data, facts, and analyses written by researchers. It provides added value to the discussion of the topics raised in this book because the authors are not only researchers who examine the phenomenon of Indonesia’s economic growth sharply, but they are also the actors and witness how the growth takes place.

The role of entrepreneurship education in developing countries has become so prominent today. *Modeling Economic Growth in Contemporary Indonesia* describes how entrepreneurship education and curriculum encourage students to be entrepreneurs. The fundings and innovations inherent in entrepreneurs in dealing with various problems in developing countries are described in the book chapters.

Education is the spearhead of a nation’s progress and civilization. The discussion on the relationship between education, government policy, and entrepreneurship is an important discussion in this book. Using national scope in analyzing Indonesian phenomena, the chapters view situations from several regions in Indonesia.

Business, funding, lending, and stock market activities are also analyzed to give readers more information about some specific cases in Indonesia. Fishery and agribusiness topics were also explored to get more information about other economic activities. These studies should be useful to be discussed in the class and seminars to stimulate how to make Indonesia better.

In a broader context, *Modeling Economic Growth in Contemporary Indonesia* can help provide helpful information for national policymaking. This book can also become a reference for other countries with similarities with Indonesia.

Prof. Dr. Ir Fadel Muhammad
Vice Chairman of People's Consultative Assembly of the Republic of Indonesia
and Professor at Universitas Brawijaya

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Chapter 1

The Small Firm Performance and Entrepreneurial Competence Revealed Through Competitiveness Framework: A Case Study of MSMEs in Indonesia

Puteri Andika Sari and Wiendy Puspita Sari

Abstract

The number of MSMEs is very influential in economic growth, especially in developing countries. What is of concern to developing countries, although the number of MSMEs is increasing every year, they cannot develop in an increasingly competitive business environment. In this case, good business performance is needed to survive in this intense competition. This study tries to make a performance model of small-scale enterprises by finding out the effect of entrepreneurial competency variables and moderated by the variable competitive sphere and capability of organization. We use the partial least squares to confirm the theory and get answers about the influence between variables. Respondents of this study were 100 MSME owners in Bandung, Indonesia. The study's findings revealed that entrepreneurial competence had a significant influence both directly and indirectly on small firm performance. The variable of entrepreneurial competence provides the most powerful influence on the competitive sphere than organizational capability's moderating variable. Although the moderating variable of organizational capability is not as strong as the competitive sphere in influencing firm performance, it has a strong predictor (quality and flexibility).

Keywords: Entrepreneurial competence; competitive sphere; capability of organization; small firm performance; MSME's competitive framework; Indonesian MSMEs

JEL Classification: O15; Human Resources; Human Development; Income Distribution; Migration

1. Introduction

The number of entrepreneurs is considered a driving factor in financial development, employment and advancement; and has a broad meaning as an important key in monetary dynamics in a country (Ali, Khan, & Asrar-Ul-Haq, 2019). A small middle enterprise is the first step in developing a business into a large/professional company that will influence economic contribution and employment. Furthermore, as Abubakar, Zainol, and Binti Wan Daud (2018) stated, SMEs are an important sector in the global economy and play an important role in the world economy and make a large contribution to income, output, and employment. Moreover, as Harrison was cited by Sedej (2019), the importance of SMEs in the global economy is that SMEs are influenced by the international environment and influence the environment.

As an archipelagic country with many potentials (natural resources and culture), Indonesia has the power to attract tourists, which can ultimately bring foreign exchange to the country. This opportunity is exploited by the majority of Indonesia's population in doing business. Several small and medium enterprises began to grow in support of the Indonesian economy and even survived when the economic crisis hit this country (Ardiana & Brahmayanti, 2010). The existence of entrepreneurship is seen as important in the economic development of a country. This entrepreneurship is closely related to small and medium enterprises (Hutahayan, 2019).

Bandung, the capital of West Java Province, is the third-most populous city after Jakarta and Surabaya on Java. Thus, Bandung became the center of economic, cultural, and political growth. Bandung City is a local tourist destination that is quite popular with local and international tourists (Tarigan et al., 2016). Besides that, UNESCO crowned Bandung as a creative city, where the city's economy will grow with this potential (Raharja, 2018; Rosavina, Rahadi, Kitri, Nuraeni, & Mayangsari, 2019). This condition is an opportunity for entrepreneurs to emerge in the city of Bandung. The city of Bandung's economic profile is also exciting. For example, being the city with the largest economic growth in West Java Province, the rapid growth of trade and industry has become the main contribution to the total GDP of Bandung City (Tarigan et al., 2016).

As stated by Sari and Sari (2018), the number of micro, small and medium enterprises (MSMEs) in Bandung City in 2012 reached 3,000 units consisting of various fields such as food and beverage, arts, fashion, handicrafts, and others. Based on data from the Department of Culture and Tourism of the City of Bandung in 2014, the fashion sector has the largest contributor to the total GDP of Bandung City (7.361%) and then followed by the second position by the culinary sector (2.783%) and the third in the craft sector (2.505%) (Raharja, 2018). According to the Bandung Chamber of Commerce and Industry interviews, the number of MSME members of the Bandung City Chamber of

Commerce in the field of fashion has fluctuated and even experienced a downward trend from 2017 to 2019.

This occurrence suggests that small enterprises in the fashion industry are unable to adapt and survive. This can be caused by both external and internal issues that MSME owners confront. [Hutahayan \(2019\)](#) stated in his research that the external problems faced by most SME entrepreneurs in Indonesia include these: (1) Related to the legal aspects of business entities and licensing procedures, the implementation of fair business competition and regional autonomy, particularly the willingness of regions to empower small businesses; (2) Macroeconomic conditions in Indonesia greatly affect SMEs' condition; for example, an increase in fuel prices directly affects an increase in raw material prices; (3) Limited access to financial service providers, especially in terms of investment credit; (4) Limited availability and quality of business development services for small businesses. This external condition is very dynamic, where environmental turbulence can occur. Environmental turbulence represents the extent of unexpected changes in the organizational environment. This environmental uncertainty refers to an organization's inability to predict rapid changes in a country's economic conditions ([Sajilan, 2015](#)).

The internal factors are more toward the management of resources and competencies possessed by SME's owners. As summarized by [Sari and Sari \(2018\)](#) in their research, several factors caused the failure of MSMEs in Indonesia, among others: (1) business management capability, (2) limited human resource quality, (3) weak access to financial institutions, (4) poor decision-making, (5) inability of management (management incompetence), (6) lack of experience and poor financial control, (7) demographics, (8) psychological, (9) behavioral, and (10) technical abilities.

If we look closely, MSME owners' ability to adapt to external problems and control these internal conditions will impact company performance (MSMEs). Several studies link organizational success through the implementation of strategy formulation with an entrepreneurial theory approach. [Dess, Lumpkin, and Covin \(1997\)](#) cited several previous studies using the term "the process of making entrepreneurial strategies." This construct was referenced from [Covin and Slevin \(1989\)](#) research, namely "strategic entrepreneurial posture," and "entrepreneurial orientation" ([Grande, Madsen, & Borch, 2011](#); [Kreiser & Davis, 2010](#); [Lumpkin & Dess, 1996](#); [Otache & Mahmood, 2015](#); [Real, Roldán, & Leal, 2014](#)). Using an entrepreneurial theory approach, this can be concluded that leads to the company's success, having a good performance.

Next, the development of performance research on small businesses was carried out by [Sadler-Smith, Hampson, Chaston, and Badger \(2003\)](#), influenced by the entrepreneurial style, where this construct adopts the Covin and Slevin theory. Entrepreneurial style is positively associated with the likelihood that the company will be in a high growth type. Then the research conducted by [Georgellis, Joyce, and Woods \(2000\)](#) revealed that entrepreneurial behavior affects business performance. In other words, a business owner's quality can make his business survive, even progress, and develop in his industry. This is in line with previous researchers investigating the role of the business owner's competence. Previous

research conducted by [Chandler and Hanks \(1994\)](#) revealed that individual-level competencies moderate the relationship between opportunity quality and firm performance and access to resource-based capabilities and firm performance. The findings of [Singh, Garg, and Deshmukh \(2008\)](#) imply that SMEs must “behave” like large companies in making changes in various processes, such as competency building, human resources, technology improvement, and awareness of market changes.

However, some literature that discusses the relationship between the entrepreneurial characteristics of small firms’ performance provides mixed and inconsistent results as stated by [Sánchez \(2012\)](#) that traditionally, a company’s performance is influenced by its work, in the sense of evaluating the competence of a person’s success in his/her work career. To criticize this matter, [Man, Lau, and Snape \(2008\)](#) and [Sánchez \(2012\)](#) argue the following entrepreneurship characteristics: (1) development of a deeper theoretical framework; (2) contingency relationships that occur in different conditions and interactions; (3) conformity of characteristics that may not be easy to implement; (4) selection of performance measures.

Then some researchers use the entrepreneurial competency construct to test its effect on business performance. The theoretical framework regarding entrepreneurial competence was initiated by [Man, Lau, and Chan \(2002\)](#). The concept links the characteristics of manager-owners of small and medium enterprises (SMEs) and their firm performance divided into three constructs (competitive sphere, organizational capability, and firm performance). Further study on the causality test between entrepreneurial competence and the performance of small businesses by adding other constructs, is conducted by [Priyanto and Sandjojo \(2005\)](#). The results of their research on small businesses in West Java, Indonesia, revealed that entrepreneurial learning has a direct influence on entrepreneurial competence and has an indirect effect on business growth. Another result is business growth becomes a learning medium for entrepreneurs to achieve competence. In Malaysia, [Sajilan \(2015\)](#) conducted his research on small business performance, and the results reveal that environmental fluctuation and network competence increase the relationship between entrepreneurial competence and SME business success. SMEs can achieve a competitive advantage by utilizing entrepreneurial competence and network competence in the modern global era’s fluctuation. The results by [Gerli and Gubitta’s \(2011\)](#) research revealed that the individual competencies possessed by small business owners in Italy have an impact on their business performance. These competencies include efficiency orientation, planning, persuasiveness, self-confidence, organizational awareness, directing others, teamwork, leadership, and benchmarking related to high performance. Later, [Sánchez \(2012\)](#) conducted his research on the performance of small businesses in Spain; the results showed that entrepreneurial competence plays an important role in organizational capabilities and competition and directly influences company performance.

This study adopts the competencies and firm performance models by [Sánchez \(2012\)](#), a development model of entrepreneurial competencies conducted by [Man et al. \(2002\)](#). Next, [Man et al. \(2008\)](#) research the competitiveness and the

competency approach to small businesses in Hong Kong. This study's difference is that respondents use a smaller company scale category than previous research (micro, small and medium enterprises) and are also devoted to the fashion industry in Bandung, Indonesia. Also, there are modifications to the dimensions of entrepreneurial competencies and firm performance. Furthermore, this research was conducted in developing countries, not in developed countries, such as the research investigating the small companies' performance reviewed above.

2. Literature Review

In business management, the owner's ability is required to survive and even develop. Behavioral, psychological, and demographic characteristics in literacy and studies on entrepreneurship influence SMEs' performance (Sánchez, 2012). This concept is also supported by the research conducted previously by Chandler and Hanks (1994), and the results reveal that individual-level competencies moderate the relationship between opportunity quality and firm performance and access to resource-based capabilities and firm performance.

Entrepreneurial competence is related to managerial competence (Man et al., 2002; Sánchez, 2012; Sari & Sari, 2018). To achieve excellence in performance and get sustainable growth in a competitive business environment, entrepreneurial competencies are needed by company executives (Jena & Sahoo, 2014). Entrepreneurial competence is considered a superior characteristic possessed by a person including personality traits, skills, and knowledge. Therefore, it can be concluded as entrepreneurs' overall ability to carry out their roles successfully (Man et al., 2002). This entrepreneurial competence consists of the characteristics and skills that can make them a successful businessman (Ismail, 2014).

2.1 Conceptual Framework: Entrepreneurial Competence and Small Firm Performance

Recently, many researchers have tried to prove in their research the effect of entrepreneurial competence on the performance of small companies (Al Mamun, Fazal, & Muniady, 2019; Barazandeh, Parviziyan, Alizadeh, & Khosravi, 2015; Gerli & Gubitta, 2011; Man et al., 2002; Priyanto & Sandjojo, 2005; Sánchez, 2012; Sari & Sari, 2018; Tahir, Pasda, & Widhi, 2018; Tehseen, Qureshi, Johara, & Ramayah, 2020). In this chapter, the concept of entrepreneurial competencies refers to the dimensions previously carried out in research conducted by Sari and Sari (2018) including personal strength competencies, organizational skills, leadership, self-management, opportunity recognition, analytical and strategic thinking, and learning for continuous. As for small firm performance, this chapter uses the measurement from Antony and Bhattacharyya's (2010) results, and the dimensions include innovativeness, creativeness, competitiveness, effectiveness, productiveness, efficiency, and profitability. The measurement of small companies' performance uses a scale because it is the best alternative to using real

numbers, which are considered quite sensitive. This is because the owner is reluctant to reveal these sensitive numbers. Thus, a hypothesis can be made:

H1: There is a significant and positive influence between entrepreneurial competences on the small firm performance

2.2 Entrepreneurial Competence, Capability of Organization, and Small Firm Performance

Previously, the concept of resource-based view explaining that valuable, rare, organizational resources that cannot be easily imitated or substituted are the company's competitive advantage (Otache & Mahmood, 2015). However, resources will not be a competitive advantage if they do not have the ability to manage them. Referring to Sánchez (2012), the concept of organizational capability is focused on the company's efforts to carry out actions, processes, systems, and relationships with its own resources. Organizational capabilities also represent a potential dimension of competitiveness from an internal company perspective.

The organizational capability approach made by Man et al. (2002) which is also quoted by Sánchez (2012) includes *innovative ability* – the ability to make updates to the products produced; *quality ability* – the ability to maintain and even achieve high quality in the products produced; *cost-effectiveness* – the ability to achieve cost efficiency to produce competitive product prices; *organic* – the ability to maintain the flexibility of an organization's structure to achieve production speed and responsiveness. Thus, the owner of the company is required to have this ability. This study uses dimensions for organizational capability, including innovative ability, quality, cost-effectiveness, and flexibility. So the following hypothesis can be made:

H2: Entrepreneurial Competence has a significant and positive effect on Capability of Organization

H4: Capability of Organization has a significant and positive effect on Small Firm Performance

2.3 Entrepreneurial Competence, Competitive Sphere, and Small Firm Performance

Covin and Miles (1999) argue that company managers who have a high level of entrepreneurial competence can scan the business environment they are facing to seize business opportunities and synergize all their resources, leading to competitive advantages in their business. This is caused by the business world faces challenges from the external environment and high competition. In line with this statement, Man et al. (2002) conceptualize competitiveness and competency approaches to develop conceptual models regarding business owners' characteristics with long-term business performance. According to Man et al. (2002), the competitiveness of small firms includes four characteristics:

- (1) Competitiveness is long-term oriented so that it focuses on long-term performance.
- (2) Competitiveness can be controlled because it relates to various company resources and capabilities.
- (3) Competitiveness is a relative concept.
- (4) Competitiveness is related to its dynamic nature, which involves the dynamic change from competitive potential through the competitive process to results.

Furthermore, Horne (cited by [Man et al., 2002](#)) states that the concept of the competitiveness of small firms should be an interaction between the sphere of action or growth in the business environment, access to capital resources, and the company’s internal capabilities. Quoting from the statement of [Sánchez \(2012\)](#) the concept of the sphere of competitiveness refers to the decisions made by company owners about their competitiveness. This relates to the availability of companies’ opportunities in competitive markets and is influenced by the entrepreneur’s perspective on these factors. Therefore, the following hypotheses can be made (see [Fig. 1](#)):

H3: Entrepreneurial Competence has a significant effect on the Competitive Sphere

H5: Competitive Sphere has a significant and positive effect on Small Firm Performance

3. Data and Methodology

This study uses a quantitative and survey method approach to get the data. As a data collection tool, the questionnaire was given to MSMEs in the fashion sector in Bandung City, West Java Province, Indonesia. In the questionnaire using a Likert scale, ranging from strongly disagrees with agreeing strongly. This study examines the effect of entrepreneurial competence on small firms’ performance, moderated by variable organizational capability and competitive scope.

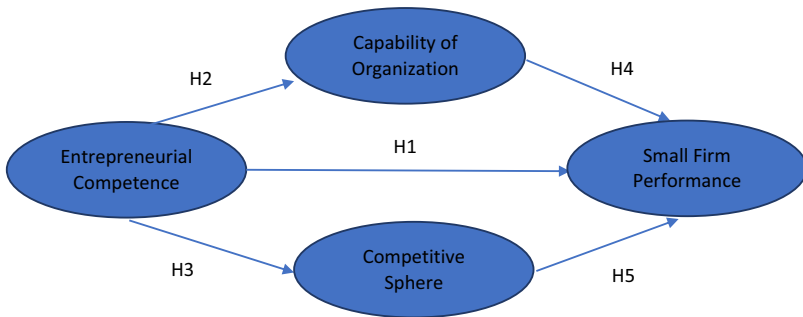


Fig. 1. Research Model Framework. *Source*: Processed by Authors (2019).

Due to limited funds and time, this study took a sample size of 100 MSMEs owners – model testing using partial least squares (PLS). One of the reasons for using PLS in this study is the small number of samples. PLS-SEM is a causal-prediction approach to SEM that emphasizes prediction in estimating statistical models, whose structures are designed to provide a causal explanation (Hair, Risher, Sarstedt, & Ringle, 2019). PLS-SEM overcomes the clear dichotomy between explanation and prediction. Simultaneously, the method of maximizing the amount of variance described from the endogenous constructs embedded in the path model is based on a causal explanation (Shmueli et al., 2019). This study examines a model that is an adaptation of the competencies, and firm performance models. Sánchez (2012) modified dimensions by approaching the findings of other studies conducted in developing countries (entrepreneurial competencies and firm performance).

4. Findings and Discussion

4.1 Respondents' Profile

From Table 1, we can see the data of the respondents involved in this research.

Table 1. Respondents' Profile.

Demographic Variables	Category	(n = 100) Frequency
Gender	Female	72
	Male	28
Age	Under 20	1
	20–30	30
	31–40	41
	41–50	22
	Above 50	6
Educational background	Master degree	3
	Bachelor degree	50
	Senior high school	33
	Junior high school	9
Sales turnover per year	Elementary school	5
	Under 10 million rupiah	24
	10–50 million rupiah	24
	51–100 million rupiah	25
	Above 100 million rupiah	27

Source: Processed by Authors (2019).