

THE EFFECT OF ENTREPRENEURIAL COMPETENCE ON THE GROWTH OF SME: THE MEDIATING ROLE OF NETWORK COMPETENCE

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ABSTRACT

This study aims to investigate the influence of entrepreneurial competencies, with a focus on strategic and ethical competencies, on business growth. It also explores the mediating role of network competencies in this context. The sample consisted of 134 respondents from Tanjung Duren, West Jakarta, selected through purposive sampling. The findings indicate a positive and significant relationship between strategic competencies and business growth, while ethical competencies had no significant impact on business growth. Additionally, both strategic and ethical competencies were found to positively and significantly influence network competencies, which, in turn, had a positive and significant effect on business growth.

Keywords: Strategic Competence, Ethic Competence, Network Competence, SME Growth

1. INTRODUCTION

The primary objective of this study is to investigate the impact of entrepreneurial competence on the growth of Small and Medium Enterprises (SMEs) in Indonesia. It seeks to achieve this by considering the mediating role of network competence. Drawing from theoretical underpinnings, prior research findings, and the real-world dynamics of SMEs in Indonesia, this study aims to provide fresh insights into the factors influencing SME growth.

First of all, SMEs have a significant influence on the economic growth of the surrounding community and contribute to the country's foreign exchange. In the context of Jakarta, the number of SMEs will reach 660,000 business units in 2022, with the food & beverage sector being the largest and fastest-growing sector in the Tanjung Duren region which is a culinary destination. Previous research has shown that entrepreneurial competence plays an important role in the growth of SMEs. Lack of entrepreneurial competence can hinder business growth. Entrepreneurial competencies include conceptual competence, opportunity competence, personal competence, learning competence, network competence, strategic competence, and ethical competence (Man, et al., 2002).[1].

In the context of this study, researchers will focus on strategic competence and ethical competence. Strategic competence involves the use of appropriate strategies in achieving business growth goals, such as increasing sales, attracting buying interest, obtaining resources, and expanding the business (Tehseen, et al., 2019) [2]. Meanwhile, ethical competence is related to honesty, business ethics, and adhering to sound financial principles. Customer trust in business is highly dependent on entrepreneurial ability in carrying out honesty and business ethics (Huang, et al., 2022) [3].

Previous research has also shown that network competence can influence SME growth. Network competence helps in finding suppliers and buyers, marketing products/services, establishing cooperation, and maintaining good relations with external parties such as customers, suppliers, and other related parties. Network competence is an important factor in the expansion of SME business.

In this study, network competence will be used as a mediating variable to understand the relationship between entrepreneurial competence and SME growth. Strategic competence, ethical competence, and network competence are interrelated and play an important role in achieving business growth goals.

By taking into account the theory, previous research results, and field conditions that have been described, this study wants to explore and analyze the influence of entrepreneurial competence on the growth of SMEs in Indonesia, taking into account the role of network competence as a mediation variable. This research is expected to provide a better understanding of the factors that influence the growth of SMEs and contribute to the development of small and medium enterprises in Indonesia.

According to Tehseen et al [2], Strategic competency affect growth of SME. Because sme needed strategic to develop sales, attracting customer and obtaining resource (Candra & Soelaiman, 2022).[4] , found ethical competency affect growth of SME. Also according to Tehseen et al [2] strategic competency and ethical competency not yet conclusive. Another variable such as network competency be a medating effect of strategy competence and ethical competence on the growth of SME.

The researchers anticipate that their study on the impact of Entrepreneurial Competence on the Growth of Food and Beverage SMEs in Tanjung Duren, with a particular focus on the Mediating Role of Network Competence, will yield valuable insights and contribute to the field.

Section 2 introduces the theoretical framework of this paper, encompassing strategic competence, ethical competence, SME growth, and the mediating role of network competence. Section 3 delineates the interplay among these variables. Section 4 presents the analyzed results of this study employing Smart PLS 4.0. Section 5 explores the managerial implications stemming from the research findings, and Section 6 offers the research's conclusions and outlines potential avenues for future investigation.

Strategy Competence is an instrument tasked with dealing with unpredictable market fluctuations in terms of market demand and expectations, resulting in strategic advantages (Tehseen, et al., 2019) [2]. Strategy competence also helps in efficient allocation and exploitation of profits with limited resources. This competency also provides entrepreneurs with a path between their ongoing venture and the achievement of their business later in life. Strategy competence can also be interpreted as the Company using its strategy to increase sales, attract buyers, get resources, and expand its business [4]. This strategic competence often assists entrepreneurs in dealing with market turbulence that is characterized by unpredictable buyer wants, market demands and expectations, which often creates a competitive advantage for the company (Simon , et al., 2017) [5].

Ethical competence has a direct relationship with the nature of the company in dealing with relationships with various parties that have relationships with business defense interests such as

customers, suppliers and business stakeholders. Ethical competence itself is an attitude and behavior that shows a person's conscious ability to obey the rules and norms that apply in an organization (In & Asyik, 2019) [6]. In this context, the business's ability to survive and thrive is closely tied to ethical competence, which revolves around the company's honesty and transparency in its dealings. This ethical conduct fosters customer trust, ultimately leading to business growth. (Candra & Soelaiman, 2022) [4]. Customer trust in the business that is run depends on the ability of entrepreneurs to carry out honesty, business ethics and also comply with sound financial principles. Entrepreneurs who have this competence usually provide prices for products and services that have been provided at reasonable prices by considering the actions that have been taken. In addition, ethical behavior is a reflection of the company towards customers which can affect the image and reputation of the company itself (Huang, et al., 2022) [3].

Business networks are needed by a company to improve its business capabilities. Network competence refers to the ability to collaborate both formally and informally among entrepreneurs or business owners in social, business and resource-related institutions (Pulka, et al., 2021) [7]. This ability regulates the way the company works in maintaining good relations with business partners so as to get resources. Network competence is the ability of entrepreneurs to manage good relationships with customers, suppliers and stakeholders in the business by interacting using a good attitude (Sanyal, et al., 2020) [8]. Another study states that business networking is an ability to connect business actors such as colleagues, friends, agents, mentors to get the resources needed in the business such as information about the business being run, business investment, material and moral support for entrepreneurs (Hendrawan & Wijaya, 2020) [9].

Business growth is an indicator of entrepreneurial achievement in doing business on the success of a business or not a business. Business growth can be interpreted as entrepreneurial performance in increasing sales, profitability, and market share obtained from its activities (Eunike & Utama, 2021) [10]. Another study states that business growth is a measure of the success of a business resulting from the ability of entrepreneurs to manage company operations (Yusuf & Soelaiman, 2022) [11]. Business growth can also include the expansion of the business carried out so that the growth of new branches in new areas that can expand the business market itself. This business growth is not only in market expansion, this business branch increase can also include the entry of new clients, an increase in the number of products and services produced (Zulki & Putra, 2020) [12].

According to research by Tehseen et al. [2], their findings indicate a positive relationship between strategic competence and business growth. Strategic competence serves as a vital tool for managing unpredictable market fluctuations, encompassing market demand and expectations, thereby conferring strategic advantages (Tehseen, et al., 2019) [2]. Additionally, research by Tamyas et al. [13] underscores the significance of strategic competence in relation to the evaluation, implementation, and formulation of company policies, which are pivotal attributes for achieving entrepreneurial success.

According to research conducted by Tamyas et al. [13], competence has a positive correlation with business growth. This finding is further supported by the idea that customer trust in a business is contingent upon the entrepreneurial capacity to uphold honesty, ethical business practices, and adherence to sound financial principles (Huang, et al., 2022) [3]. Therefore, the ethical dimension of entrepreneurial competence plays a crucial role in fostering business growth by instilling customer trust. By embracing ethical values, companies can consistently provide high-quality products and services to their customers, thus ensuring their long-term loyalty. Ethics, in this

context, pertains to the honesty and transparency of a company in its business dealings, ultimately resulting in business growth (Candra & Soelaiman, 2022) [4].

According to the research conducted by Candra et al. [4], there is a positive correlation between strategic competence and network competence. Companies are actively involved in strategic competencies as well as network competencies that directly perform environmental scans and create strategies to deal with the uncertainty caused by those environments (Barringer & Ireland, 2019) [14]. Because business growth is very dependent with business networks from outside parties. Strategy competence is needed to assist entrepreneurs in getting help from outside parties and getting the resources and information needed, this is obtained from good relationships (Candra & Soelaiman, 2022) [4]. Entrepreneurs can obtain market information when they have a strong business network with their customers, suppliers and competitors (Tehseen, et al., 2019) [2].

According to research conducted by Hasoloan [15] states that there is a positive relationship between the relationship between ethical competence and network competence. This is reinforced by a statement Candra et al [4] argued, ethical competence is one way to get closer and maintain good relationships in the long term with customers, suppliers, and various parties who have influence on the business. Therefore, SMEs need to maintain good relationships with customers, suppliers, and other stakeholders that are useful for maintaining the sustainability of their business. Customer trust in the business carried out depends on the ability of entrepreneurs to carry out honesty, business ethics and also comply with sound financial principles s (Huang, et al., 2022) [3]. Successful entrepreneurs have an alignment of values, needs and beliefs compared to less successful entrepreneurs (Bird, 2019) [15].

Achieving success in the business world, particularly in terms of business growth, is closely linked to the formulation of strategies that address the uncertainties arising from the business environment. To accomplish this, it's imperative to establish relationships with external entities to gather essential information. Research conducted by Tehseen et al. [2] underscores a strong and significant correlation between competence in strategic planning and the expansion of businesses, with network competence serving as a mediator. Business accomplishments are shaped by several factors, and one of these factors is the development of effective strategies, supported by collaboration with external partners to ensure their successful execution. Implementing a well-crafted strategy directly influences business growth as it enhances sales, attracts customers, secures resources, and facilitates business expansion (Candra & Soelaiman, 2022) [4]. Furthermore, the presence of network competencies allows entrepreneurs to manage relationships with customers, suppliers, and other stakeholders, ensuring the acquisition of necessary resources for business development. When a well-designed business strategy is properly executed, it positions the company for growth, leading to increased sales, enhanced profitability, and a broader market presence. In essence, this signifies that the business has the capacity to thrive (Barringer & Ireland, 2019) [14].

In a similar vein, we contend that ethical competence is closely associated with network competence. This connection arises from the fact that when ethical standards, such as fairness and transparency in business transactions, become the standard practice within a company, building and sustaining the trust of key stakeholders, including financial institutions, customers, suppliers, and distributors, becomes a less challenging endeavor (Tehseen, et al., 2019) [2]. Through the implementation of transparent, honest, and robust systems, businesses instill trust in various parties, including customers, suppliers, and other associates, facilitating the establishment of more intimate and meaningful relationships with these stakeholders. This, in turn, simplifies the process

of developing businesses that lead to growth (Candra & Soelaiman, 2022) [4]. The entrepreneurial capacity to operate a business that is transparent, honest, and fair empowers entrepreneurs to enhance their business management and performance (Yani, et al., 2020) [17]. The trust of customers in a business is contingent on the entrepreneur's ability to uphold honesty, adhere to ethical business principles, and follow sound financial practices (Huang, et al., 2022) [3]. Customer trust stands as a foundational element for business growth, as it has the potential to convert these customers into loyal patrons of the business.

Tehseen et al. [2] found a positive relationship between network competence and business growth. Business networks provide access to essential resources from external parties like customers and suppliers, which is particularly beneficial for SMEs. Competence in managing these networks plays a crucial role in influencing business growth, giving entrepreneurs a competitive advantage.

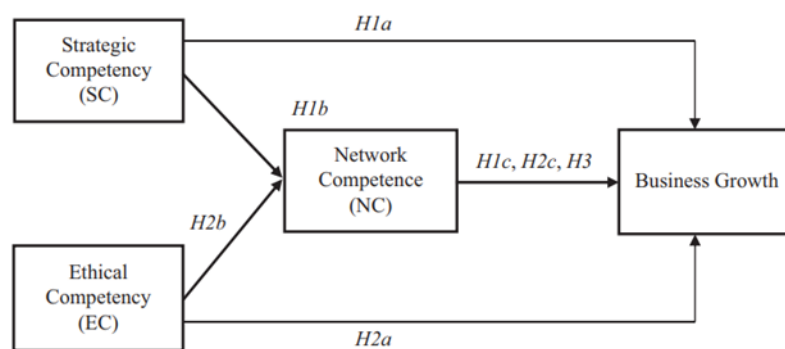


Figure 1 Research Framework

3. RESULTS AND DISCUSSIONS

Data analysis in this study consists of validity test, reliability test, path-coefficient and mediation analysis. The results of the validity test indicate that the indicators used in this study have met the requirements, From the results of data on outer loadings, the value that is said to be good and research that can be continued is between 0.5 - 0.6, which means that all data used in this study are considered valid. The results of reliability test show that all indicators used in this study have also met the research requirements, namely Cronbach's alpha value is more than 0.6. Meanwhile, based on the cross-loading test, the data is declared valid, because the indicator value of each variable owned is greater than the relationship between indicators from other variables.

Table 1 Cronbarch Aplha Test
 Source: SmartPLS version 4.00. data processing results

Variable	Cronbach's Alpha	Critical Value	Description
Strategic Competence	0.775	> 0.6	Reliable
Ethical Competence	0.793	> 0.6	Reliable
Business Growth	0.797	> 0.6	Reliable
Network Competence	0.820	> 0.6	Reliable

The results of hypothesis testing are as follows:

Table 2 The Results of Hypothesis Testing

Variabel	<i>t-statistics</i>	<i>p-values</i>
Ethical competence → Network Competence	2.182	0.029
Ethical Competency → Business Growth	0.054	0.957
Network Competency → Business Growth	17.585	0.000
Strategy Competency → Network Competency	4.906	0.000
Strategy Competency → Business Growth	4.187	0.000
Ethical Competency -> Network Competency -> Business Growth	2.225	0.026
Strategy Competency -> Network Competency -> Business Growth	4.471	0.000

The research suggests that in Tanjung Duren, strategic competence has a favorable impact on the development of small and medium-sized businesses in the food and beverage industry. This differs from Tehseen et al.'s conclusions during a market crisis but is consistent with the findings of Utama et al. and Rehman. Additionally, the study reveals that strategic competence positively influences network competence in these SMEs, in line with Tehseen et al. and Candra and Soelaiman's research.

Furthermore, the research results indicate that network competence plays a mediating role in the connection between ethical competence and business growth. This result is in agreement with the work done by Tehseen et al [2], which also found that network competence acts as a mediator between ethical competence and business growth. This implies that ethical competence leads to effective networking through ethical business practices, transparent operations, and fair pricing for goods and services. These activities can foster strong and enduring business relationships with external parties like customers, suppliers, distributors, and other key stakeholders, ultimately supporting business growth.

Lastly, the research findings demonstrate that network competence significantly and positively impacts the growth of food and beverage SMEs in Tanjung Duren. This means that the higher the network competence these SMEs possess, the greater their business growth will be, and vice versa. These findings are in line with Tehseen et al's [2] research, which also identified a positive and significant relationship between network competence and business growth. In conclusion, the research asserts a positive correlation between network competence and business growth, suggesting that a robust business network can enhance SMEs' growth prospects. This conclusion is further reinforced by Venia and Slamet's 2020 research [20], which also documented a positive association between network competence and business growth.

4. CONCLUSIONS AND SUGGESTIONS

Based on the results of data analysis that have been carried-out in this study, it can be concluded as follows:

- a. Strategic Competence has a positive and significant influence on Business Growth of SME.
- b. Ethical Competence has a negative and not significant influence on Business Growth of SME.
- c. Strategic Competence has a positive and significant influence on Network Competence.
- d. Ethical Competence has a positive and significant influence on Network Competence.
- e. Network Competence has a positive and significant influence on Business Growth of SME.

- f. Network Competence mediates the relationship between Strategic Competence and Business Growth of SME.
- g. Network Competence mediates the relationship between Ethical Competence and Business Growth of SME

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