

## THE INFLUENCE OF MANAGER'S ENTREPRENEURIAL ATTITUDE AND MANAGER'S ENTREPRENEURIAL COMPETENCE ON ORGANIZATIONAL PERFORMANCE OF SMALL AND MEDIUM ENTERPRISES (SMES)

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**Abstract:** This study aims to test the influence of manager's entrepreneurial attitude and manager's entrepreneurial competence on organizational performance of Small and Medium Enterprises (SMEs). SMEs are highlighted for their fame in creating jobs in the society and for their ability in increasing the rate of economic growth and in ensuring economic stability. However, there are some doubts on the influence of Manager's Entrepreneurial Attitude and Manager's Entrepreneurial Competence on Organizational Performance, which the study attempts to clarify. In this study, questionnaires were distributed to the managers of SMEs or their representatives, or other parties that understand the operation and the management of those SMEs. The sample size consisted of 35 respondents, and the acquired data were analyzed using multiple regression analysis. The result showed that manager's entrepreneurial attitude affects organizational performance, while manager's entrepreneurial competence does not.

**Keywords:** entrepreneurial attitude, entrepreneurial competence, organizational performance

**B**usiness competition in the global era grows rapidly, and within the nation, we can feel the impact. Enterprises, including small and medium enterprises, will compete over the market. One of the causes of the competition is that too many foreign products are entering the country, creating competition between enterprises that produce similar products. This increases population's selectivity of using products and forces SMEs to change their company orientation to be based on competence in order to be able to compete in the global era.

SMEs sector is one of many sectors that become the main concern in increasing economic growth and ensuring economic stability. SMEs have thrived since the monetary crisis

that afflicted Indonesia in 1997. This form of industry often becomes a choice for many people to create their own jobs, generating a misconception that entrepreneurship is affiliated with small scale/micro scale enterprise. Since the scale of this type of enterprise, including the employment capacity and the production capacity, is relatively small, the capital required to start an enterprise is also small, making an impression that SMEs are flexible and easy to manage. According to Isyanto, Puji, and Hasbullah (2003), the contribution of large SMEs includes their capability to create jobs, reduce poverty and increase income and prosperity.

In 2010, smale scale enterprises attracted many people to take part, especially for females who can act as the second source of income to enhance the economy of their families. According to Chotimah (2010), according to a survey,

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the number of enterprises reaches 362,000 units, in which 98,5 percent of them are micro and small enterprises. There is a need for the utilization of SMEs entrepreneurs through a program named 'Heroes of the Economy' to ensure high quality economic growth in Surabaya. SMEs entrepreneurs are the heroes of the economy, and they are expected to be able to call Surabaya as the home of their enterprises. This is necessary, since there are still many families in Surabaya (identified by their identity card) living in poverty with low income.

One determining factor in ensuring the success of the SMEs reaching the modern market is the entrepreneurs' entrepreneurial attitude, in which the attitude is able to show entrepreneurs' existence in order to reach the market, maintain their finance, utilize the quantity and the quality of their employees, increase the productivity and gain the optimal result. For example, there are some SMEs that can grow without capital supply. Another factor is the ability of entrepreneurs to manage the enterprise well. According to Hitt *et al.* (2001, 107), ability is a collection of resources that interactively conduct an activity to reach superiority in a competition. This ability is highly needed especially when facing the global era that has unpredictable environmental situation and condition. The success in a competitive business environment depends on entrepreneurship spirit. Entrepreneurship spirit, according to Suseno (2003, 66), is essentially to give additional values to the society and to enhance regional or national economic growth.

This study is based on many previous studies related to the influence of manager's entrepreneurial attitude and manager's entrepreneurial competence on organizational performance of Small and Medium Enterprises. One of the

studies were done by Amins (2010), who conducted a study to test and to find empirical evidence of the influence of members' participation and entrepreneurship and government's role on work motivation. The study was aimed to find whether the influence affects all-purpose cooperatives in the Province of East Borneo directly or not. According to Amins (2010), managers with entrepreneurial trait are likely to be motivated to increase the performance of the enterprise to the level that the enterprise operates well and efficiently.

Another study was conducted by Tengtarto (2006) in Surabaya to test and find empirical evidences of direct and indirect influences of entrepreneurial attitude on entrepreneurial competence in leather shoes industry in East Java. Similarly, another study was conducted by Man, Lau, and Chan (2002) to guide this study in testing and finding direct and indirect empirical evidences of Entrepreneurial Competencies on Competitive Scope and Organizational Capabilities. The study was aimed to find whether the influence affects the Firm Performance of Small and Medium Enterprises. Moreover, Covin and Slevin (1989), who conducted a study on hostile and benign environments of small firms, stated that there is no relationship between entrepreneurship on the firm's performance.

Based on previous studies that are mentioned previously, a decision was made to focus this study on the influence of manager's entrepreneurial attitude and manager's entrepreneurial competence on organizational performance of small and medium enterprises, with the following considerations:

1. There is a study on the influence of entrepreneurial attitude and entrepreneurial competence on the success rate of the enterprise. However, the study only covers small

leather shoes industry in the Province of East Java.

2. There is another study on the organizational performance of SMEs. However, the study only covers independent variables of Entrepreneurial Competencies on Competitive Scope and Organizational Capabilities.
3. There is also a study on the influence of entrepreneurship on enterprise's performance. However, the study only covers areas in the Province of East Borneo.

There are two contradicting ideas related to the relationship between entrepreneurship and work performance. One idea states that there is a significant and positive relationship between entrepreneurial attitude and work performance, with the support of a study conducted in cooperatives in the Province of East Borneo. (Amins, 2010). On the other hand, the other idea states empirical evidences that prove that there is no relationship between entrepreneurial attitude and work performance, with the support of a study focused on small firms hostile and benign environments (Covin and Slevin, 1989). Spain and the United States, for instance, have cultural and legal differences with Indonesia. Similar situation happens in cultural differences within Indonesia, between the Province of East Borneo, and provinces in Java.

An Analysis on Gap Research (two contradicting ideas) was conducted for the intention of discovering the relationship between entrepreneurial attitude and work performance. This study attempts to develop the theories related to the relationship between entrepreneurial attitude and entrepreneurial competency, and work performance.

According to the description in the background of the study and to the reality that work

opportunities are limited and the reality of high unemployment rate caused by job losses, there is a need for a study to address the issue, in which the study is titled: The Influence of Manager's Entrepreneurial Attitude and Manager's Entrepreneurial Competence on Organizational Performance of Small and Medium Enterprises (SMEs).

The population of the study is small and medium enterprises or organizations in Surabaya which have similar characteristics from one another. Multiple Regression Analysis is used as the technic for the analysis in this study. This technic of analysis enables the researchers to analyze the influence of each indicator in forming a variable more deeply.

Based on the background of the study, the authors attempt to find further evidences of the influence of Manager's Entrepreneurial Attitude and Manager's Entrepreneurial Competence on Organizational Performance of Small and Medium Enterprises (SMEs).

Based on the previously mentioned background of the study, the research questions can be formulized as follows:

1. Is manager's entrepreneurial attitude affects organizational performance of SMEs?
2. Is manager's entrepreneurial competence affects organizational performance of SMEs?

According to the background of the study, the aims of the study are detailed as follows:

1. To analyze and prove the influence of manager's entrepreneurial attitude on organizational performance of SMEs.
2. To analyze and prove the influence of manager's entrepreneurial competence on organizational performance of SMEs.

The Internal Research Grant is to acquire a scientific concept that gives practical and economic values, especially in entrepreneurship.

## RESEARCH METHOD

This research is an explanatory research, whose aim is to understand the influence of manager's entrepreneurial attitude and manager's entrepreneurial competence on organizational performance of small and medium en-

terprises (SMEs) in Surabaya. In addition, this research is a correlational research. The independent variables for this research are the Manager's Entrepreneurial Attitude ( $X_1$ ) and Manager's Entrepreneurial Competence ( $X_2$ ), while the dependent variable is SMEs' Organizational Performance ( $Y_1$ ).

### Research Instrument Details

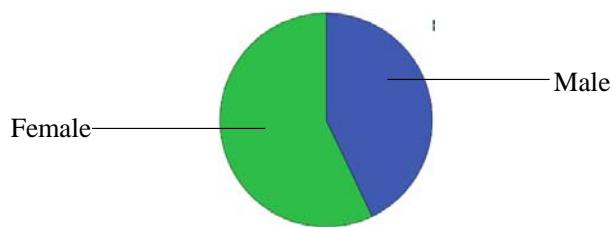
Theoretical Framework	Variables	Dimensions /Sub-variables	Indicators	Measurement Scales
According to Thomas, Zimmerer, Scarborough, & Wilson (2008), an entrepreneur is someone that creates a new enterprise by taking risk and uncertainty, in order to gain profit and growth by identifying opportunities and combining available resources that the entrepreneur owns.	Entrepreneurial Attitude	N. A.	Innovation, Risk Taking, Vision, Planning, Motivation, Opportunity, Confidence, Adaptation.	The Likert scale used in measuring every respondent's answer are from number 1 to 5.
The following are eight indicators of entrepreneurship: vision, planning, motivation, innovation, opportunity, confidence, risk taking, and adaptation (Thomas, Zimmerer, Scarborough, & Wilson, 2008).	Entrepreneurial Competence	N. A.	Materials, Workforce, Technology, Product Quality, Capital Availability, Credit Circulation, Price, Product Variety, Market Range, and Easiness in Buying.	The Likert scale used in measuring every respondent's answer are from number 1 to 5.
Entrepreneurial competence has a big role in creating a good organizational performance. Although an organization has valuable and unique resources, it must have the competence to utilize the resources effectively in order to maintain its success (Moeljadi, 1999). There are at least ten indicators of entrepreneurial competence that an entrepreneur of a small scale industry must have (Kotler, 2001): materials, workforce, technology, product quality, capital availability, credit circulation, price, product variety, market range, and easiness in buying.	Organizational Performance	N. A.	Rentability of Owned Capital, Return on Asset (ROA), Asset Turn Over (ATO), Profitability, Liquidity, Solvability, and the effect of Capital on Credit.	The Likert scale used in measuring every respondent's answer are from number 1 to 5.

## RESULTS

### The Analysis on Respondents' Characteristics

The research questionnaires were distributed to 35 owners of SMEs in the Province of East Java, especially in its capital, the City of Surabaya. By using SPSS version 20, a data-processing software for statistics, descriptive results were gained. The results give explanation on general characteristics of the respondents.

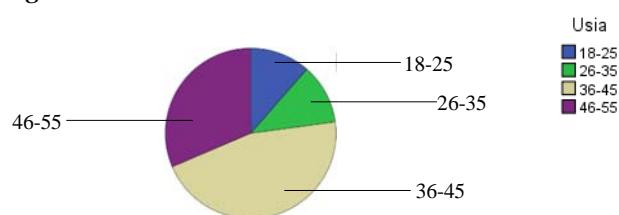
#### Gender



**Picture 4.1. Characteristics of SMEs owners based on gender**

Source: Results from processed data (2015)

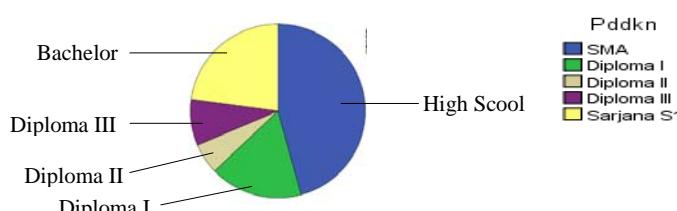
#### Age



**Picture 4.2. Characteristics of SMEs owners based on age**

Source: Results from processed data (2015)

#### Education Level



**Picture 4.3 Characteristics of SMEs owners based on education level**

Source: Results from processed data (2015)

### Entrepreneurial Quality

**Table 4.1 Respondents' Answer on Entrepreneurial Quality**

One-Sample Statistics				
	N	Mean	Std. Deviation	Std. Error Mean
Innovations	35	3.57	1.037	.175
X12	35	2.74	1.197	.202
X13	35	3.14	1.115	.189
X14	35	3.37	1.003	.169
X15	35	3.03	.954	.161
X16	35	3.29	.957	.162
X17	35	3.60	1.193	.202
X18	35	3.29	.893	.151

Source: Results from processed data (2015)

### Entrepreneurial Competence

**Table 4.2 Respondents' Answer on Entrepreneurial Competence**

One-Sample Statistics				
	N	Mean	Std. Deviation	Std. Error Mean
X21	35	3.34	1.027	.174
X22	35	3.26	.886	.150
X23	35	3.51	1.011	.171
X24	35	2.63	.731	.124
X25	35	2.71	1.017	.172
X26	35	2.57	1.145	.194
X27	35	3.60	1.117	.189
X28	35	3.06	1.211	.205

Source: Results from processed data (2015)

### Organizational Performance

**Table 4.3 Respondents' Answer on Organizational Performance**

One-Sample Statistics				
	N	Mean	Std. Deviation	Std. Error Mean
Y11	35	2.74	1.146	.194
Y12	35	2.74	1.221	.206
Y13	35	3.34	1.056	.178
Y14	35	2.97	1.150	.194

Source: Results from processed data (2015)

## The Equation of Multiple Linear Regression

**Table 4.4 Regression Coefficient of Entrepreneurial Attitude (X<sub>1</sub>) and Entrepreneurial Competence (X<sub>2</sub>) on Organizational Performance**

Model	Coefficients <sup>a</sup>				
	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
1 (Constant)	.910	.876		1.039	.307
Entrepreneurial Attitude	.666	.247	.471	2.700	.011
Entrepreneurial Competence	-.028	.258	-.019	-.110	.913

a. Dependent Variable: Organizational Performance

Source: Results from processed data (2015)

**Table 4.5 Correlation Coefficient (R) and Coefficient of Determination (R<sup>2</sup>) Model Summary**

Model Summary				
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.463 <sup>a</sup>	.215	.166	.71350

a. Predictors: (Constant), Entrepreneurial Competence, Entrepreneurial Attitude

Source: Results from processed data (2015)

## DISCUSSION

SMEs play important roles in driving the economy of East Java, especially in Surabaya. Constructive efforts are required to enhance the performance of entrepreneurs and local enterprises in Indonesia, in order to make SMEs in Indonesia to gain progress and be able to compete with other SMEs from other ASEAN countries.

ASEAN Economic Community (AEC) agreement in 2015 requires local entrepreneurs of Indonesia to make preparations and to possess competitiveness, so that they can compete with other enterprises and entrepreneurs from other ASEAN countries. Local entrepreneurs must stay optimistic to improve their products to the level that the products can be exported and match other products within ASEAN. Real efforts to improve the quality of Indonesian

goods and services are highly expected in the attempt to compete with similar goods and services from other ASEAN countries.

In recent years, the number of small and medium enterprises in Indonesia has flourished, and that number helps to advance the economy of Indonesia. Most enterprises in Indonesia are small and medium enterprises (SMEs), and by giving them a special attention and constantly improving them, a significant economic growth in Indonesia will likely to happen. SMEs have proved to be the creators of many jobs, thus reducing unemployment rate, alleviating poverty, increasing household income, and improving the quality of life.

Entrepreneurial attitude and entrepreneurial competence are believed to have the ability to enhance organizational performance. Compared to big enterprises, SMEs have their own distinctive characteristics and values. However, if the management does not have entrepreneurial values, the enterprises will not be able to compete and grow. Entrepreneurship is not only about starting a business, but also having the required knowledge and skills in managing the business in the dynamic socio-political environment. Entrepreneurship is a changing element in the middle of economic difficulties. To gain profit, an entrepreneur always thinks in a positive way in making changes in every economic environment. For that reason, a study to measure the influence of manager's entrepreneurial attitude and manager's entrepreneurial competence on organizational performance of SMEs is needed. SMEs require help in order to face competitors in today's global era.

According to the result of data processing, shown in Table 4.4, the model of multiple linear regression, formed in this research is as follows:

$$Y = 0,910 + 0,666X_1 - 0,028X_2$$

Where:

$Y$  = Organizational Performance

$X_1$  = Entrepreneurial Attitude

$X_2$  = Entrepreneurial Competence

The sig value on Table 4.4 states the results of the following hypothesis: (1) The value of sig  $X_1$  is  $0,01 < 0,05$  which shows that in this study, the first hypothesis, which is entrepreneurial attitude affects organizational performance, is proven to be right. (2) The value of sig  $X_2$  is  $0,913 > 0,05$  which shows that in this study, the second hypothesis, which is entrepreneurial competence affects organizational performance, is not proven to be right.

According to that equation, if entrepreneurial attitude ( $X_1$ ) increases by 1 unit, organizational performance will increase by 0,666 units. In other words, higher manager's entrepreneurial attitude will significantly affect organizational performance. According to this study, at this time, SMEs manager's entrepreneurial competence ( $X_2$ ) has not significantly affect organizational performance.

### Correlation Coefficient (R) and Coefficient of Determination ( $R^2$ )

Correlation coefficient (R) aims to determine the strength of the relationship between independent variables, which are entrepreneurial attitude ( $X_1$ ) and entrepreneurial competence ( $X_2$ ), and organizational performance (Y). If R score is closer to +1, the relationship between independent variables is stronger. On the contrary, if R score is closer to -1, the relationship between independent variables is weaker. Based on table 4.5, the correlation coefficient score in this study is 0,463, which means having a positive relationship but not very strong.

Coefficient of Determination ( $R^2$ ) shows the size of the influence of entrepreneurial attitude ( $X_1$ ) and entrepreneurial competence ( $X_2$ ) on organizational performance (Y). If the score of Coefficient of Determination ( $R^2$ ) is very strong and closer to 100%, we can conclude that the information on entrepreneurial attitude and entrepreneurial competence can explain the factors of increasing organizational performance.

Based on table 4.5, the score of Coefficient of Determination ( $R^2$ ) in this study is 0,215, which means that the organizational performance of SMEs in the Province of East Java is currently at 21,5%. The percentage is influenced by SMEs managers' entrepreneurial attitude and SMEs managers' entrepreneurial competence. There is another percentage, which is 78,5%, that is influenced by other factors.

## CONCLUSION AND SUGGESTIONS

### Conclusion

Based on the processed data in this study (the answer to the questionnaire by 35 SMEs owners in the Province of East Java), the variable of entrepreneurial attitude ( $X_1$ ) influences organizational performance of SMEs, while the variable of manager's entrepreneurial competence ( $X_2$ ) currently does not influence organizational performance (Y).

### Suggestions

Based on the result of this study, there are some suggestions for the SMEs owners in the Province of East Java: (1) Managers must improve their entrepreneurial attitude by attending a variety of seminars and trainings on entrepreneurship in order to improve the performance of SMEs that they lead, (2) Managers

must improve their entrepreneurial competence through formal and informal education because they still have low entrepreneurial competence, (3) Managers, in managing the SMEs, must have more courage to make decisions and to take calculated risks in order to make the SMEs progress and have better organizational performance, (4) SMEs must utilize every support from the government in order to gain mutual benefits.

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