

Improving Competitive Advantage and Business Performance of SMEs by Creating Entrepreneurial Social Competence

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Abstract:

The present study is an attempt to investigate the role of entrepreneurship competence in building business network and promoting competitive advantage and performance of small and medium sized enterprises (SME). Entrepreneurship competence and social competence are considered together in this study in order to develop new notion that is related to entrepreneurship social competence. Samples were selected from the owners and entrepreneurs of Drawing on pottery industry in Iran. Number of respondents was 197 and the data analysis tool was Structural Equation Modeling (SME) along with AMOS 16.0. Results of this study showed the strong influence of entrepreneurship social competence on the business network, competitive advantage, and business performance of Small Medium Sized Enterprises (SME).

Keywords: Entrepreneurial Social Competence, Competitive Advantage, Business Performance, Small Medium Sized Enterprises (SME)

1. Introduction

SME plays vital role in the economic development and growth in both developed and developing countries. Due to its high potential in absorbing the larger sales force in comparison with other industries, SME is an eminent industry that has great share in domestic production (PDB) (Tambunan, 2009). Drawing on pottery is an ancient Iranian art which is praised in many countries throughout the world. This art has transformed Iran to one of the best producers of traditional silky fabrics in the world. This rich and creative artistic tradition of Iran is recognized by UNESCO as "Intangible World Heritage". Development of Drawing on pottery occurred through combination of art and technology that originates from the cultural heritage used in the old palaces.

Drawing on pottery has evolved over the time as a home industry by Drawing on pottery artists. Due to the nature of Drawing on pottery industry which is based on entrepreneurship of artists not markets, this industry had survived amidst changes of external conditions. As such, entrepreneur has competence, familiarity, and social value as intangible assets. Drawing on

pottery industry had been heavily influenced by these assets (Meutia, 2012).

Numerous research have dealt with and explored factors which have influence on the success of SME business. According to Man et.al (2005) entrepreneurs have significant role in decision-making about successful business due to their ownership. However, O'Regan et.al (2004) argued that external factors or those factors that originate from external environment have influences on the SME achievement (for example economic condition, government policy, the availability of financial support and nature and infrastructure support). McClelland (1987) stated that locus of control and risk-taking behavior of entrepreneur influence the business success. Also Entrialgo et.al (2000) believed that factors like locus of control, desire for achievement and risk-taking behavior have not significant effect on the business success.

Those companies that have widespread access to opportunities and resources will be supported by the social capital and network which have influences on the businesses (Hoanisson, 1996). Using social capital provides greater access to available data and consequently, it will increase cooperation and trust (Fukuyama, 1995). Other

studies have shown that in the business performane and growth, the skill of entrepreneurship has crucial role (Lerner, 2002). Benefit and sustainability of a company depends on the skill of entrepreneurship (Chadler et.al, 1992). Findings of a study showed that entrepreneurial competence is a robust tool in the business success compared with environmental factor (Covin, et.al, 1999). The focus of this study is developing the competence of entrepreneur originated from internal and external factors and it transforms to a new variable which is called entrepreneurial social competence. This variable is defined as the ability of the entrepreneurs for creating social relationship through relational competence development and familiarity with social interaction.

Review of Literature and Hypothesis

- Notion of entrepreneurial social competence

One of the important factors in developing and success of a company is entrepreneurial social competence. Man et.al (2002) has defined effort competence as adequate knowledge, skill and ability to meet the desire of a work, including effective performance of task. Baum et.al (2002) elaborated variables which explain effort competence including knowledge, cognitive ability, self-management, administration, human resources, decision skill, leadership, opportunity recognition and opportunity development. Competence is composed of features, attitude, self-image and social role; on the other hand, unnatural and learned competence is required competence for doing work through practical and theoretical learning. Natural competence is known as internalized element (Bartlett et.al, 1997).

Entrepreneurial social competence is defined as the ability of an entrepreneur in creating social relationship via establishing relational competence which consists of familiarism spirit for creating business network. Some of the factors that form this construct are ability to create a relationship with employee, developing social closeness with customer, developing social closeness with funding organization, social closeness with the government and

developing social closeness with professional organization (Meutia, 2012).

Using previous research, we will examine the relationship between internal competence and external competence of an entrepreneur which will be studied with a new variable. This new variable is known as entrepreneurial social competence and determines the achievement of Drawing on pottery SME in Iran.

- Business Network

Anderson et.al (1994) has defined the business network as a business relationship consisting from one or more networks. Business network has three elements: the performer, activity and source in network (Hakasson et.al, 1992); therefore, individual network, performance network and source network are covered by it. Firm, department, group and individual can be identified as business network. Social network relies on the social interaction, information and business, while family, colleague, peer and employee form social network.

Entrepreneurial competence is an ability consists of personality characteristics, skill and knowledge which are the main elements of entrepreneur competence for performing the task and success. This approach offers a new way to study the characteristics of entrepreneurs that can improve competitive advantage because of long term effects. Entrepreneurial social competence provides the easy communication between internal and external part through social interaction. Cunningham et.al (1991) showed that successful entrepreneurs are self-assertive individuals who have high self-confidence, are active, easily develop social relationship with others, self-oriented, diplomatic and courage of decision making. It seems that the entrepreneur with high social capital (based on extensive social network, status, personal relationship and other reference) is more willing to accept funds from investor compared with those with low social capital (Shane et.al, 1998). Social competence of entrepreneur has significant role in final decision making (accepting financial support, getting an order, attracting business colleague and employee). Indicators of business network are network of firm with production sector, supplier and distribution

channel (Bengstone et al., 2000). We propose three hypothesis based on the above explanations:

H1: Entrepreneurial social competence has positive influence on the business network.

H2: Entrepreneurial social competence has positive influence on the competitive advantage.

H3: Business network has positive influence on the competitive advantage.

- **Competitive advantage and SME's business performance**

Competitive advantage is the result of the value which is created by the firm for customers. The customer will pay the cost of this value or benefit and superior value is caused by setting lower price than the price of competitor (Porter, 1985). Respatya (2001) stated that the concept of competitive advantage should be considered by the firm or organization that produces goods and services for its survival and profit. Hall (1990) argued that competitive advantage has three dimensions: long endurance, hard to imitate and being identical.

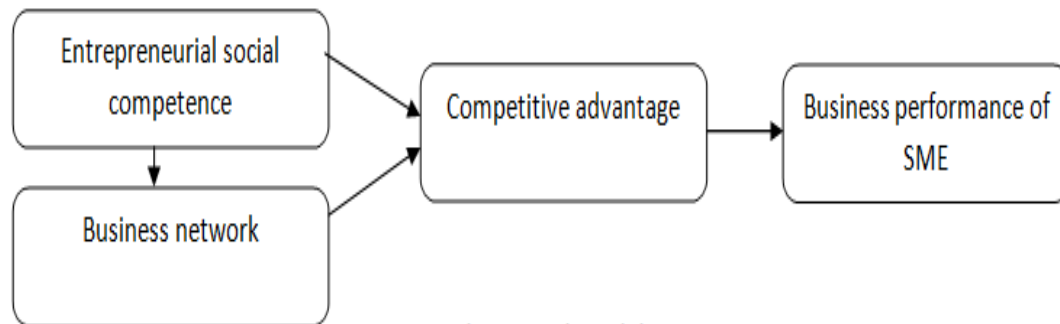


Figure 1: Theoretical model

Research Methodology

Sample of the present study was owners and managers of Iranian Small to Medium Sized Enterprises of Drawing on pottery industry. Data were gathered by mail survey during 2012. Sample size was determined by Structural Equation Modeling analysis and AMOS 16.0 program as 100. This study had 197 respondents. Purposive sampling was used i.e. samples are selected following these criteria: 1) 3 years working experience, 2) permanent workers in the firm, 3) firm has distribution and production activities, 4) national marketing range.

SME's business performance will be improved by competitive advantage through profit growth, sale growth and customer growth. According to the results (Chan et al., 2004), competitive advantage has positive effect on the performance of the firm. Some indicators should be created to measure the advantage (Coyne, 1997) including loyalty of customer, development of technology and development of product. Measurement of sale development, customer development, profit development and working capital development are indicators of SME business performance. Following hypothesis was derived from the above explanations:

H4: Competitive advantage affects the business performance of SME.

Figure 1 shows the relationship between four variables. Entrepreneurial social competence has positive influence on the network business and competitive advantage. On the other hand, network business has positive influence on the competitive advantage and this competitive will in turn influence the business performance of SME.

Data analysis was done using Structural equation Modelling and AMOS 16.0 software program. Path diagram was used along with the stratified analysis level in order to analyze the relationship and sequence of variables. In order to determine the antecedent and precedent role of variables and direct and indirect effects of variables, path analysis was used. Sample size was 197, higher than 100 that is required by the criteria. Normality value was 2.46, lower than required criteria 2.85. there was no outlier or multicollinearity in this study. Reliability construct value of entrepreneurial competence, business network, competitive advantage and

business performance were 0.72, 0.86, 0.62 and 0.75, respectively.

Results of model sufficiency showed goodness of fit of all criteria in table one with Chi-Square 53.741, probability 0.072 > 0.05 <

RMSEA=0.042 < 0.08, GFI=0.953 > 0.90, AFGI=0.923 > 0.90, TLI=0.972 > 0.95, CFI=0.979 > 0.95. All indicators used in this method are enough to test the hypothesis.

Table 1: Regression Weights

		Estimate	S.E	C.R	P	Label
BN	ESC	.334	.122	2,731	.006	Par_11
CA	ESC	.429	.115	3,727	***	Par_5
CA	BN	.218	.070	3,119	.002	Par_6
BP	CA	1,139	.191	5,965	***	Par_7

t-statistic value was used to test all hypothesis with $CR \pm 1.96$. results showed the positive effect of business network and competitive advantage with CR value 2.731 and 3.727, respectively. Therefore, there is no logic for rejecting hypothesis. According to the obtained results, business network has positive influence on the competitive advantage with CR value 3.119 at 0.05 significance level and competitive advantage has positive effect on the SME's business performance with CR value 5.965 in significance level 0.05; therefore, hypothesis H3 and H4 are not rejected.

The present study has contribution in the resource based view theory (RBV). This theory indicates that intangible asset has influence on the competitive advantage and business network. According to the resource based view (RBV) theory, organizations should renew and maintain their competitive advantage through superior and valuable resource which makes it hard to imitate for competitor (Barney, 1991). Tangible and intangible assets play the role of resource of organization and they are the vital sources of improving competition ability and advantage in organization.

Conclusion

Results of testing hypothesis 1 and 2 showed the positive and significant effect of entrepreneurial social competence on the business network and competitive advantage. Besides, results of testing H3 and H4 indicated that business network has positive effect on the competitive advantage and in turn, competitive advantage has significant

and positive influence on the business performance (Barney, 1991).

External factors such as changing business environment are not considered in the empirical model. Further research should focus on the business change variable in moderating the relationship between competitive advantage and SME's business performance.

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