Entrepreneurial Competencies Impact on Business Success: The Moderating Role of Business Environment Factors

V Ramanujam¹, T Viswanathan², K Ammani Ammal³

¹Associate Professor, Bharathiar School of Management and Entrepreneurs Development, Bharathiar University, Coimbatore – 641 046 Tamil Nadu, India.
²Assistant Professor Symbiosis Institute of Management StudiesBangalore, Karanataka, India
³Research Scholar, Bharathiar School of Management and Entrepreneurs Development, Bharathair University, Coimbatore – 641 046 Tamil Nadu, India.

Abstract- The present study conducted to examine the direct effects of entrepreneurial competencies, business environment factors on business success as well as the indirect (Moderating) effect of business environment factors on the relationship between entrepreneurial competencies and business success in MSMEs in Tamilnadu, India. Data were collected through a questionnaire completed by a sample of 375 (MSMEs) entrepreneurs in coimbatore district, Tamilnadu, India. The study applied Factor analysis and Structural Equation Modelling to examine the direct effects of entrepreneurial competencies, business environment factors on business success as well as the indirect (Moderating) effect of business environment factors on the relationship between entrepreneurial competencies and business success in MSMEs in Tamilnadu. It was found that entrepreneurial competencies have a positive influence on business success. The study also discovered that business environment factors moderates the relationship between entrepreneurial competencies and business success in micro, small and medium enterprises.

Keywords: Competencies, Entrepreneurial competencies, Business Environment factors and Business Success

I. INTRODUCTION

The MSMEs sector is an important pillar of India’s economy in terms of its contribution towards economic growth, employment generation and exports. The Indian MSME sector is the second largest sector contributes employment after agriculture, with more than 51 million enterprises providing employment for more than 117 million. Today, it accounts for nearly 45% of the gross value of output in the Manufacturing Sector, over 40% of the total exports from the country; it shows the capacity of Indian MSME products to compete in the international market. The share of MSMEs in the country’s Gross Value Added (GVA) stood at around 33% in FY 2014-15. In case of items like readymade garments, leather goods, processed foods, engineering items, the performance has been commendable in terms of both value and their share within the MSME sector. Tamil Nadu is one of the most economically developed states in India. Tamil Nadu is ranked, first in the number of factories and number of workers employed in the factories sector, Third in Gross Industrial Outputs and in Net Value Addition. The question as to what makes a business a successful business has received a lot of attention in prior research (e.g., Man et al., 2002; Markman and Baron, 2003; Rauch and Frese, 2007). Multiple authors have stated that the entrepreneur is central to the success of small and medium sized business (Man, Lau, & Snape, 2008; Mulder et al., 2007). Markman and Baron (2003) boldly stated “even economists suggest that firm performance and personal success are determined — to an important extent — by human variability rather than mere exogenous factors such as product differentiation, barriers to entry, or economies of scale“. When investigating entrepreneurs’ roles in the start-up or success of small and medium size businesses, two research approaches can be distinguished: the personality and competency approach (Wagener et al., 2010). Where research starting from the personality approach focuses on mostly inflexible traits and fixed dispositions of the individual, studies adopting a competency approach concentrate on aspects of entrepreneurship that can be developed. The current study starts from the competency approach because it has been argued that developing entrepreneurial competencies is a more important issue than directly providing more resources and a positive environment (Man et al., 2002). These claims offer a positive perspective for supporting (aspiring) entrepreneurs as most authors are in agreement that competencies are not fixed traits but can be developed and learned through experience and training (Man et al., 2002; Mulder et al., 2007; Wagener et al., 2010). Therefore, the role of an entrepreneur’s competency is highly a critical factor in achieving excellence in performance to ensure a sustainable growth and success of a venture amidst a competitive business environment. Therefore, the importance of entrepreneurial competency has been increased during the past few decades due to the strategic role played by the human factor particularly the entrepreneur of a business enterprise. Keeping in mind the critical role of an entrepreneur in the venture performance, the present research focuses on the concept of
entrepreneurial competency without denying the importance of other factors which contribute to the successful performance of an enterprise.

II. REVIEW OF LITERATURE

Business success will be influenced by the skill and the ability (competence) of the owner/manager. Understanding the role of entrepreneur gives a better insight about what competencies needed by entrepreneurs to ensure the survival of the business as well as business success. The role of decision makers is focusing on the development of entrepreneurial competencies (Ahmad et al. 2010). Kiggundu (2002) conceptualizes entrepreneurial competencies as the total sum of entrepreneurs attributes such as attitudes, beliefs, knowledge, skills, abilities, personality, expertise and behavioural tendencies needed for success and sustaining entrepreneurship. Entrepreneurial competencies influence significantly business success (Man, Lau and Chan, 2002); Ahmad et al. (2010) argued that entrepreneurial competencies as a predictor of business success SMEs, even its influence more strongly for stable environmental conditions as well as dynamically. The capabilities and characteristics of the personality of those who manage companies universally regarded as one of the most powerful factors have a positive or negative impact on performance (Zoysa and Herath, 2007). Several previous studies in both developed and developing countries have identified a range of external performance factors that relate to the general as well as the competitive environment of the firm (Yusuf, 1995; Jasra et al., 2011). Davidsson et al. (1995) argued that growth to a considerable extent is a matter of aspirations and skill, but the fundamental facilitators and obstacles in the environment cannot be disregarded. Guzman & Santos (2001) listed external factors to include socio-demographics, markets (local, international, emerging and established markets), cultural, economic, political, institutional, legal, productive, technological, infrastructure and other physical factors of that particular environment. Mazzarol et al. (1999) pointed out that these macro-environmental factors are not controllable and the success of the SME often depends on management’s ability to deal with them. Miller and Dess (1996) stated that the external environment of the enterprise can be classified into two, namely, general and competitive environments. The general environment consists of the political-legal, macroeconomic, socio-cultural, technological, demographic and global factors that might affect the organization’s activities. On the other hand, the competitive environment consists of other specific organizations that are likely to influence the profitability of the enterprise, such as customers, suppliers and competitors. In the light of this, this study covers the macro and the micro-environmental factors direct and moderating relationship with MSMEs business success.

III. RESEARCH QUESTIONS

The present research addressed to find out,
1. What are the competencies perceived to be important by MSMEs entrepreneurs in Coimbatore District?
2. What are the entrepreneurial competencies influence the MSMEs business success in Coimbatore District?
3. What is the direct and moderating influence of business environment factors in the MSMEs business success?

IV. OBJECTIVES OF THE STUDY

Based on the proposed research Model, The present study designed to address the following objectives:
1. To identify the entrepreneurial competencies required by MSMEs entrepreneurs in Coimbatore District.
2. To examine the extent to which entrepreneurial competencies influence MSMEs business success in Coimbatore District.
3. To examine the direct and moderating effects of business environment in MSMEs business success.

V. HYPOTHESIS OF THE STUDY

Based on the Review of Literature, a number of hypotheses are enunciated that describe the casual links between Entrepreneurial Competencies, Business Environment factors and MSMEs business success. The following hypotheses developed for this study,
Ho1 – There is no significant association between the higher level of entrepreneurial competencies and MSMEs business success
Ho2 – There is no significant association between the business environment factors and MSMEs business success.
Ho3 – The Business Environment factors not significantly moderates the relationship between Entrepreneurial competencies and MSMEs business success.
VI. PROPOSED CONCEPTUAL FRAMEWORK

The proposed conceptual framework supported by earlier studies on the relationship of entrepreneurial competencies, business environment factors and business success (Ahmad, 2007; Man, 2001). The proposed model was drawn to fill up the research gap identified after the review of literature.

Figure 1: Proposed Conceptual framework

VII. METHODOLOGY

Probability sampling method adopted in this study. The respondents for this study were heterogeneous therefore, the stratified random sampling is more appropriate for the study. As per the MSMEs Annual Reports 2014-15, Total Number of MSMEs registered in the district as on 2015 were 75220, whereas MSMEs in Electrical and Electronic Industry were registered 4391 units out of 75220 as on 2015. The primary data for the study have been

VIII. RESULTS AND DISCUSSIONS

Stage 1: Reliability and Validity Measurement between Entrepreneurial Competencies and Business Environment factors On MSMEs Business Success Measurement model evaluation is aimed to evaluate the consistency and validity of the dimensions. Consistency evaluations are through individual indicators and construct reliability tests. While validity of the variables is tested based on convergent and discriminant validity, individual statements reliability explains the variance of individual statements relative to latent variable by calculating standardised outer loadings of the latent variables. Latent variables with outer loading 0.7 or higher are considered highly satisfactory. While loading value of 0.5 is regarded as acceptable, the latent variables with loading value of less than 0.5 should be dropped.

The consistency evaluation is constructed reliability where it is evaluated by two measures, that is, Cronbach’s alpha and Composite Reliability (CR). Cronbach’s alpha and CR indicate how well a set of latent variables appraises a single latent construct. However, compared to Cronbach alpha, composite reliability is considered a better measure of internal consistency because it employs the standardised loadings of the latent variables. Litwin suggested that value of Cronbach alpha should be higher than 0.7 and for composite reliability the value of 0.7 is suggested as “acceptable”.

8.1 Convergent Validity of Measurement Model

The computed AVE values of each construct are shown in the seventh column of Table 1 are entrepreneurial competencies (AVE = 0.723) business environment factors (AVE 0.876), business success (AVE = 0.671). As the computed AVE values are greater than 0.5, the convergent validity of the constructs in the measurement model is confirmed.
8.2 Discriminant Validity of Measurement Model

Table 2: AVE Values and Discriminant Validity among Variables

<table>
<thead>
<tr>
<th>Factors</th>
<th>AVE</th>
<th>Business Environment</th>
<th>Business Success</th>
<th>Entrepreneurial Competencies</th>
</tr>
</thead>
<tbody>
<tr>
<td>Business Environment</td>
<td>0.876</td>
<td>0.742</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Business Success</td>
<td>0.671</td>
<td>0.345</td>
<td>0.811</td>
<td></td>
</tr>
<tr>
<td>Entrepreneurial Competencies</td>
<td>0.723</td>
<td>0.567</td>
<td>0.531</td>
<td>0.671</td>
</tr>
</tbody>
</table>

*Square root of AVE values are shown in bold diagonally **values shown in the other boxes are correlation matrix value

The discriminant validity is estimated by taking the square root values of AVE for each constructs of entrepreneurial competencies, business environment factors and business success. All the correlation values between the constructs are shown in Table 2. The corresponding square root of AVE value of each construct viz., Business environment factors 0.742, business success 0.811, entrepreneurial competencies 0.671. The square root of the AVE values, shown on the diagonal for each construct Business environment, Business success and entrepreneurial competencies in Table 2 are higher than the correlated values between the two constructs of interest. To strengthen further the discriminant validity for the constructs of measurement model it is proved based on the Cross loading values. Hence it is inferred that discriminant validity of the constructs of the measurement model is confirmed. This implies that the measurement model for all the factors are reliable and valid.

Model-1 Analysis of Entrepreneurial Competencies on Business Success Before Introducing Moderator

![Figure 2: Analysis of entrepreneurial competencies on business success before introducing moderator](image1)

The coefficient of determination (R2) is a measure of the proportion of an endogenous (dependent) constructs variance that is explained by its predictors (independent) constructs. It also measures the predictive accuracy of the model. The R2 in the figure 2 explains that 77.6% of impact in Business success is explained by entrepreneurial competencies. The R-value 0.881 indicates the correlation between entrepreneurial competencies and the business success is explained in the figure 2.

Model -2 Analysis of Entrepreneurial Competencies on Business Success after Introducing Moderator

![Figure 3: Analysis of entrepreneurial competencies on business success after introducing moderator](image2)
Table 3: Path Coefficient and T-Statistics for Hypotheses Testing

<table>
<thead>
<tr>
<th>S.No</th>
<th>Null Hypotheses</th>
<th>Paths</th>
<th>Path coefficient</th>
<th>T Statistics</th>
<th>Results of Hypotheses</th>
</tr>
</thead>
<tbody>
<tr>
<td>H01</td>
<td>Entrepreneurial competencies does not have effect on Business success.</td>
<td>Entrepreneurial competency -&gt; Business success</td>
<td>0.881</td>
<td>2.009</td>
<td>Significant</td>
</tr>
<tr>
<td>H02</td>
<td>Business environment does not have direct effect on Business success.</td>
<td>Business environment -&gt; Business success</td>
<td>0.651</td>
<td>1.095</td>
<td>Not Significant</td>
</tr>
<tr>
<td>H03</td>
<td>Business environment does not have moderating effect on Entrepreneurial competency and Business success.</td>
<td>Business environment -&gt; Entrepreneurial competency and Business success.</td>
<td>0.721</td>
<td>2.781</td>
<td>Significant</td>
</tr>
</tbody>
</table>

Significant at the p<0.05 level

Table 3 shows the result of the specific hypotheses applied in this study. By performing the bootstrapping procedure in Smart PLS, t-values are generated for the model. The setting for the complete bootstrapping procedure included 500 subsamples, and a two-tailed t test is conducted at $\alpha = 0.05$ significant level. The evaluation criteria for confirming each hypothesis is the use of t values for each path loading. Significant t-values for path loadings signify support for the proposed Path Mean Standard Deviation T-Statistic hypothesis. The cut-off criteria according to hair et al. were a t-value greater or equal to 1.96 for an alpha level of 0.05 (Hair et al. 2006). Finally, the entrepreneurial competencies have a positive impact on business success. The Structural path coefficient value between the business environment factors and business success is 1.095 statistically not significant; therefore, business environment factors do not affect directly on MSMEs business success. The Structural path coefficient value between the
entrepreneurial competencies and MSMEs business success and moderating effect of business environment factors is statistically significant, business environment factors have moderating effect on the relationship between the entrepreneurial competencies and MSMEs success.

IX. CONCLUSION

In conclusion, our study contributes to research on entrepreneurship by revealing that entrepreneurial competencies play an important role in MSMEs business success, business environmental factors are having both direct and moderating effects on MSMEs business success. These findings contribute to a better understanding of entrepreneurial competencies and their impact on MSMEs business success. The relationship of entrepreneurial competencies with business success supports research of Man et al. (2002), entrepreneurial competencies that impact significantly to MSMEs business success, as well as supports study of Ahmad et al. (2010). This study also suggests that entrepreneurs are capable of minimising the negative impact of business environment if they are willing to equip themselves with the competencies that are important for business success.

X. REFERENCES

[18] Educational and psychological measurement, 30(3), 607-610.
[21] Li, X. (2009). Entrepreneurial competencies as an entrepreneurial distinctive: An examination of the competency approach in defining entrepreneurs (Doctoral dissertation, Singapore Management University (Singapore)).


[48] https://msme.gov.in/sites/default/files/MEIME%20ANNUAL%20REPORT%202015-16%2OENG.pdf


