

Do Competencies of Entrepreneurs influence the Performance of Small and Medium Firms: A Study on Small and Medium Size Poultry Firms in Khulna City

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Abstract

Purpose: This study examines the relationship between entrepreneurial competencies (skills that entrepreneurs require to perform their jobs to their full potentials) and firms performance (indicator that includes firms' growth, profitability and market share).

Design/methodology/approach: The theoretical model is drawn based on previous literatures and quantitative approach is applied. Data was collected from the 150 owners of the poultry firms (SMEs) in different areas of Khulna concerning 10 specific types of competencies (independent variable) towards firms' performance (dependent variable).

Findings: There remains a positive relationship between the entrepreneurial competencies and firms performance. Thus, if entrepreneurs give more attention to enhance entrepreneurial competencies, then it will result in better firms' performance.

Implications: The findings of this work is important to the entrepreneurship researchers, the practitioners and policy makers because of its concentration towards the fundamental proposition of entrepreneurial competency approach and to have better understanding of the importance of entrepreneurship for economic growth and new job creation.

Originality/value: This study is conducted both including the female entrepreneurial domain and emerging economies like Bangladesh which is done for the first time and thus has added special value to this paper.

Key words: Entrepreneurial Competencies, Firms performance, SMEs, Poultry Firms, Emerging Economies.

Introduction

For developing nations like Bangladesh the presence of small and medium-sized enterprises (SMEs) is considered as very much crucial since this aids in the achievement of economic development goals which include – increasing the income level, efficiency, productivity and strengthening the economic structure specially in the time of economic downturn (Abdullah and Manan, 2011). Because of the compatible and flexible structures of SMEs, they can be established easily regardless of the business type and often considered by many as the back bone of a country's economy since it ensures increased production level adapting to the changing business environment. It also contributes to the political and social stability through improving the standard of living (Kayadibi et al., 2013). Realizing the relative significance in the economy, Governments and other authorities are giving much attention on their development of SMEs (Khaliq et al., 2011). Along with other interest groups, in the very concurrent time, entrepreneurship researchers have also focused on SMEs as an area of interest while entrepreneurship is often considered as one of the determining factors behind SME performance (O'Farrell and Hitchens, 1988; Shane and Venkataraman, 2000). Different studies have been conducted to find out the affiliations between entrepreneurial competencies and firms' performance (Chandler and Hanks, 1994; Man, 2001) but to examine this area most researchers has focused on family owned businesses where there prevails the involvement of the family members though in case of manufacturing highly skilled labors are also involved. These past studies indicated that, entrepreneurial competencies are associated with the firms' competitiveness (Man et al., 2002), business growth and success (Colombo and Grilli, 2005) which work as stimuli behind the better performance. Hence, obtaining and expanding entrepreneurial competencies is one of the key aspects for achievement oriented entrepreneurs. Despite

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the prevalence of several studies in the field of entrepreneurial competencies (Man et al., 2002; Mitchel and Rowley, 2010), still, there remain scopes to strengthen this knowledge base. Issues relevant to the competency development process include the domain of female entrepreneurs who have usually been neglected. Additionally, many scholars have examined entrepreneurial competencies based on developed economies (Man and Lau, 2000). Thus, there remains a gap to consider entrepreneurial competencies focusing on the nations with emerging economies. The purpose of this study is to analyze how the competitive advantage of the firms can be enhanced by possessing entrepreneurial competencies despite of the resource constraints and unsupportive environments of the nations with emerging economies.

The economic psychological model of entrepreneurship behavior and business performance focuses on handling of scarce economic resources and their relative outcomes in monetary terms. This psychological model is mainly concerned with human experience and behavior. It has explored the behavioral aspects of SMEs managers and how they affect performance of the businesses they manage. Performance is a function of ability, motivation and opportunity (Chandler and Hanks, 1994). It is the ability to identify a business opportunity (e.g. entrepreneurial competence) and exploit it through gathering the scarce resources (e.g. managerial competencies) which are directly related to business performance. In a competitive environment, in the absence of expected performance, business firms would not survive. Numerous factors may influence the business performance while usually attention is paid to financial, nonfinancial and external factors for performance improvement. The recent studies on entrepreneurial competency have shown a significant positive relationship between entrepreneurial competencies and firms' performance. Thus, this work is important to the entrepreneurship researchers, because of its aim to examine the proposition that is fundamental to competency approach. Here, entrepreneurial competencies are defined as individual characteristics which include the attitudes as well as the behaviors that allow entrepreneurs to accomplish and preserve business success. Specifically, entrepreneurial competencies are encompassed of the entrepreneurs' motives, traits, self-image, attitudes, behaviors, skills and knowledge (Boyatzis, 1982; Bird, 1995; Li, 2009).

From operational point of view, Man et al. (2002) categorization of entrepreneurial competencies is used in this study. Namely, there are six competency sub-constructs such as: (1) Opportunity Competencies; (2) Organizing Competencies; (3) Strategic Competencies; (4) Relationship Competencies; (5) Commitment Competencies and (6) Conceptual Competencies. This study is conducted basically on the poultry firm's owners in Khulna. It focuses on the measurement of the impacts of entrepreneurial competencies on firms' performance of small and medium size (SMEs) poultry firms in Khulna. Thus, the measurement of profit, as understood in terms of the residual income of the owner after meeting all the expenses incurred on the utilization of factors of production, is the reward of entrepreneurship. Thus, it is just as salaries or professional fees to men and women in their employments. There remain other issues than the monetary benefits or profit and this leads to the need framework for studying entrepreneurial competencies. This framework serves the important purpose of understanding the competencies that entrepreneurs require. This study tries to develop an assessment tool to identify and measure the competencies of entrepreneurs in SMEs in different sub-sectors of farming and to test and validate the instrument in practice. The assessment tools should provide the entrepreneurs with a detailed picture of his or her competencies as a mirror of his or her competency profile. The study is conducted to interpret the relationships among the associated variables and their respective degree. This profile shows the level of competency and also indicates possible areas for further development. The structure of this paper goes like this – the very next section has compiled the pertinent literatures on entrepreneurial company and firms' performance. Then there is the conceptual framework and hypothesis section which is followed by materials and method where the population and sample, construct and measurement and analytical approach is specified. Finally, the findings of the research are discussed and at last there resides the conclusion.

Literature Review

Different stages of business development require different types of competencies (Chaston, 1997) whereas Man (2002) suggests that entrepreneurial competencies are more important in the start-up phase, while managerial competencies are more significant in growth stage. Most researchers recognized the difference between

entrepreneurial and managerial competencies (Busenitz and Barney, 1997) as different types of competencies are needed to start a new venture than those who manage the growth of an existing business (Man et al., 2002; Chandler and Hanks, 1994; Chandler and Jansen, 1992). The underlying purpose for managerial competency related research is to identify the characteristics of a good and effective manager (Mintzberg, 1973) so that organizations can be successful. Boyatzis (1982) developed a classification of managerial competencies and defined managerial competencies as the underlying characteristics of a person which results in effective or superior performance in a job.

On the other hand, entrepreneurial competencies are related to the performance and competitiveness of the firms (Man et al., 2002) and to the growth and success of the business (Colombo and Grilli, 2005; Begley and Boyd, 1987). Entrepreneurs are the individuals who develop and grow the businesses through creative and innovative activities by introducing new products or services or by improving the existing methods of production or service. Thus, the competencies of entrepreneurs contribute towards a business to a great extent which ensures the sustainable competitive advantage as well. According to many studies, the entrepreneurs' psychological, behavioral, demographic characteristics (Dalla, 2008) and managerial and technical skills are the most important determinants for performance, e.g. success or failure of small and medium sized enterprises (Rasmussen et al., 2011; Man et al., 2008; Man et al., 2002; Chandler and Hanks, 1994; Allinson et al., 2000). Although the term entrepreneurship is often linked with the creation of new ventures and management of small businesses (Gibb, 1996) but all the small businesses are not entrepreneurial, nor are all the owners' entrepreneurs. Entrepreneurial competencies are possessed by persons who are the entrepreneurs. Accordingly, this denotes those who commence organizations and then increase value through resource organization and capitalizing the opportunities. Bird (1995) mentioned entrepreneurial competencies as the core characteristics that include self-images, traits, motives, specific knowledge, social roles and skills that lead to give birth to a new venture and ensure its survival as well as growth. Stuart and Lindsay (1997) referred competencies with a person's characteristics, skills and knowledge. Thus, the main aspect of competency related literature is to search for all those individual characteristics that contribute towards the success of an organization.

Johnson and Winterton (1999) witnessed that small businesses necessitate entrepreneurial competencies that differ from those of the bigger organizations. Though businesses generally are not alert of the important role of competencies in enhancing the performance, researches show that there remains a key relationship between competencies and business performance (Ahmed et al., 2003; Garcia-Zambrano et al., 2014; Short, 2008; Tien et al., 2005). As entrepreneurial competencies remain connected to business performance (Mitchelmore and Rowley, 2010), businesspersons must pay a special attention to this competency development in order to boost performance. Acquiring and nurturing entrepreneurial competencies are of the key importance for those entrepreneurs who are willing to achieve high performance. Roper (1998), Keats and Bracker (1987), argued that the lack of formal structural frameworks has led to uncertainty in the mechanism by which entrepreneurial characteristics affect SME performance. Business environment has diverse impacts on its performance also (Ahmad et al., 2010). One of the most substantial issues in business environment could be called the social norm (Hong and Kacperczyk, 2009). Social norms could vary from region to region and culture to culture. Regarding the fact that different countries may have different social norms, the magnitude that how entrepreneurial competencies are affected by culture might be different as well. Apart from the environmental aspects, Man et al. (2002) relate entrepreneurial competency with the establishing, evaluating and executing the strategies for the firms. Man (2001) explained this strategic zone of competency through measuring the behaviors like: (1) knowing evidently the projected directions and the impact of changes on firms' performance (2) giving priority to work that aligns with the business goals only (3) redesigning the firms to achieve the goal in a better way (4) linking or associating the current actions with strategic goals (5) observing progress towards strategic goals (6) analyzing results against strategic goals (7) establishing strategic actions by assessing cost and benefit (Man, 2001).

Along with the above, Thompson and Richardson (1996) suggested managing change as a component of strategic competence that can be associated with competitive success of all those firms operating in highly competitive environment (Beal, 2000; McClelland, 1973). Cognitive ability is also crucial which incorporates: decision-making

skill, ability to weigh risks, analytical thinking, being innovative, being creative, reasoning capability, and capacity to reduce risks. According to Man et al. (2002), this area also involves different conceptual skills that the entrepreneurs replicate in their entrepreneurial behaviors, such as, innovativeness, risk taking, decision skills, observing and understanding complex information etc. whereas according to Chandler and Jansen (1992) competency reflects the mental capability to coordinate all the activities of the business. Man (2001) elaborated this area of competency by measuring the behaviors like – (1) taking suitable risk related to job, (2) understanding the observations and relevant issues, (3) translating the ideas and observation of business from the context of business, (4) monitoring progress focusing the achievement of objectives in risky actions, (5) exploring new ideas, (6) looking problems in new ways and (7) treating the new problems as opportunities. The area of entrepreneurial competency can be divided into innovative and analytical domains (Man, 2001). In this study these two types of components have been combined into conceptual competency that is alike to the initial model of Man (2001) (e.g. ability to recognize opportunity, ability to capture opportunity, ability to identify customers need and customer wants). According to Man et al. (2002) this competency talks about the capability to diagnose the prospects in the market through different means like, by assessing various behaviors such as – identifying the products or services needed by the customers, perceiving the unmet needs of the customers, looking for the beneficial product and services, and availing the best opportunities. Thus, one of the main characteristics of entrepreneurs is that they can see or identify the chances where others cannot do so (Allinson et al., 2000; Ahmad and Seet, 2009).

In the modern social era the new knowledge is created and disseminated rapidly. Consequently, the entrepreneurs require the learning competency to meet the demands of the changing environment (Deakins and Freel, 1998). Learning is critical for entrepreneurial process because it helps the entrepreneurs to generate the knowledge and reduce risks and uncertainty (Ward, 2004; McClelland, 1987; Mitton, 1989). Ahmad et al. (2010) measured entrepreneurial competency covering the aspects like: strategy, concept, opportunity, relationship, learning, personality, ethics (Brenkert, 2002) and familism (Morrissey and Pittaway, 2006; Char et al., 2013). Ahmad (2007) identified in her study that the behaviors of Malaysian entrepreneurs reflect familism and found that the Malaysian entrepreneurs identified their close associates and family as being critical for their business success. Her findings also showed that the Malaysian entrepreneurs stretch more importance in getting support besides advice from their family members, sharing resources and knowledge with close associates to overcome obstacles in managing their businesses and also identifying and seeking help from their trusted employees (Barney, 1991; Buckley et al., 1988). Thus, familism assists the firms to develop a community of trust within the business network as well as within its internal structure (Wijaya, 2008).

According to Man (2001), competency represents the ability to motivate oneself to perform at an optimum level while maintaining a high level of energy like, responding towards criticism, maintaining a positive attitude, identifying strengths and weaknesses and matching them with the threats and opportunities, and recognizing one's shortcomings and working on improvements. Various aspects of personality and attitude that are included in entrepreneurial competency, for instance, it may include self-belief and determination (Thompson et al., 1997), stress tolerance and self-control (Markman and Baron, 1998). Thus, the business owners' personal strong point is considered as one of the key business resources and the success may depend on the application of this skill (Ahmad, 2007). Ormandy and Ashton (2003) advocated that ethics is an important part of a competency framework and is the backbone of corporate affairs as well. According to Ahmad (2007), competency is about honesty and transparency in business dealings by admitting mistakes and telling the truth. Entrepreneurs with ethical competency offer products or services at fair prices and takes responsibility for his/her own actions (Ormandy and Ashton, 2003). Moreover, ethical practices are linked more in case of modern business approaches because there is a growing awareness about the fact that ethical practices give good return in long run for businesses (Zairi and Peter, 2002). The ethical practice of a company towards the public may affect its reputation and image (Jones, 2001).

Materials and Methods

Population and Sample: Commercial poultry industry is growing rapidly in Bangladesh. Estimate shows that poultry population is increasing in every year in the country. From 1995, a substantial yearly average growth rate of 15% to 20% in commercial poultry has been experienced until the year of 2007 and slowed down later on for outbreak of influenza (Hamid et al., 2017). There remain a total of 8 grandparent stock farms which supply about 80% of the entire demand of parent stock and the rest imported from abroad. In 2011, there remain 82 parent stock farms besides hatcheries which are active in Bangladesh and are generating 5 lac day old layer and 55 to 60 lac day old broiler chicks per week. There are 74 feed mills which are producing concentrated feed for this bird. Poultry contributes largely towards the GDP of Bangladesh and Government has declared poultry as a thrust sector and classified as agro based industry (DLS, 2013; DLS, 2014). Government has also liberalized its policies by introducing easier loan procedure, lower interest rate, tax holiday etc. Free training (Capaldo et al., 2004) with monetary benefit, provided to encourage the mass people towards poultry business. Small loans are given among the people to grow the poultry production. Egg production has been increased during the last 10 years and poultry meat production has been doubled. Consequently, poultry industry is contributing towards poverty reduction, new employment generation and upgrading the nutritional status of people (Raihan and Mahmud, 2008). About 5 million people shifted their professions from cereal to non-crop business. Sources at Khulna district livestock office said 2,495 poultry farms, 36 duck firms and four parent-stock firms are registered across the district. However, an unofficial survey in January of 2014 revealed that there are around 4,952 broiler and layer farms in Khulna counting both the registered and unregistered ones. It also provided the information that, there are 19 private hatcheries in Khulna city and these are owned by big business houses. These private players dictate the market, and their monopoly may lead to the closure of many smaller farms.

The target sample for this study was 150 small and medium size (SMEs) poultry firms in Khulna. Here, firms having less than 10 to 100 full time workers are regarded as small and medium sized enterprises/SMEs (PAU, 2008). Non-probability convenient and judgmental sampling technique is used here. Data collection for this study was done using a structured question Construct and Measures: In the literature review section there are ten sub points discussed which are adopted from the study of Man (2001) and Ahmad et al. (2010). This sub points include: (1) learning competencies which indicate the ability of keeping oneself up to date and applying learned skills and knowledge in actual practices, (2) Ethical competencies which indicate telling the truth, being honest and transparent in business dealings, being committed in offering products at fair price, taking responsibilities and being accountable for mistakes, (3) Familism competencies indicate helping others in business, identifying and seeking help get support and advice from family, sharing knowledge and resources, (4) Opportunity competencies indicate recognizing opportunity, seeking and developing opportunity, (5) Organizing competencies indicate organizing, planning, controlling and leading, (6) Relationship competencies include communicating, relationship building and networking, (7) Strategic competencies include visioning, strategic thinking and goal setting, (8) Commitment competencies include saving commitments, having the drive of taking initiative, (9) Conceptual competencies include analyzing, problem solving, decision making, innovating and risk taking. (10) Personal competencies include considering the shortcomings, criticism, prioritizing tasks, developing career, managing time and also personal strengths and weaknesses. In the questionnaire there remain four types of question regarding personal information, company information, competencies related information and firms performance related information. To collect data and analyze competencies, in total 42 questions were asked and to examine firms' performance, total six questions were asked. Five-point Likert scale was used for collecting the responses in case of both dependent and independent variables. For both independent and dependent variables "Strongly Disagree" is coded as 5 which is the highest disagreement with the statement whereas 1 denotes "Strongly Agree" which refers to the maximum level of agreement with the statement given. The collection of data like, performance data, sales growth, return on sales, cash flow, return on investment, net profit and productivity etc. are done and measured based on the perception of the entrepreneurs.

Analytical Approach: The study employed Structural Equation Modeling (SEM) to evaluate the relationships between constructs and predictive power of the research model (Acedo and Jones 2007; Karim, 2009; Li, 2009). The Smart PLS-2 (Ringle et al., 2005) was used to the study. The PLS technique is more practical to a study when theory is insufficiently grounded and the variables or measures do not conform to a rigorously specified measurement model, or fit a certain distribution (Fornell and Bookstein, 1982). Due to more flexibility in the assumptions, the PLS method recently gained acceptance in the management field (Chin and Gopal, 1995). The analysis and interpretation of a PLS model is divided into two-stage: firstly, the reliability and validity of the measurement model is evaluated and secondly, the structural model itself is assessed (Acedo and Jones, 2007). This two stage sequence ensures that the constructs are measured validly and reliably before drawing any conclusions regarding relationships between the constructs (Barclay et al., 1995).

Table 1: Reliability and Validity of Measurement Model

C	AVE	CR
EC	.536	.817
FP	1.00	1.00
Note: EC-Entrepreneurial Competencies, FP-Firms Performance		

The discriminate validity of the model is given below: For this study, the convergent validity was assessed by average variance extracted (AVE). The AVE value greater than the minimum value of 0.5 was used to assess convergent validity (Fornell and Larcker, 1981) as shown in Table 1. The construct reliability was assessed by using the composite reliability (CR) (Werts et al., 1974) which was more than the cut-off value (e.g. 0.7) proposed by Nunnally (1978).

Table 2: Discriminant Validity

	EC	FP
EC	.732	0
FP	.6278	1.00
Note: EC-Entrepreneurial Competencies, FP-Firms Performance		

The assessment of discriminate validity satisfies the general criteria, i.e. that the constructs analyzed are different—AVE should be greater than the variance shared between the construct and other constructs in the model (the squared correlation between the two constructs) (Acedo and Jones, 2007).

Result and Discussion

Sample Profile: The sample size was 150 which were similar in nature. It contained similar characteristics such as the gender of the respondent, age of the respondent, educational qualification of the respondent and age of the firms. Out of 150 respondents, only five respondents were found to be female. Therefore, the majority of the respondents were male. From this, it can be explained that very few females are interested to become entrepreneurs in field of poultry firms business. Among the respondent 97% are male and about 3% are female (Table 3). Regarding educational level 54% respondents completed primary, 33% secondary and 13% completed higher secondary education (Table 4). Ages of the businesses are like, 7% are less than 3 year, 42% are of 3-6 years, 30% are of 7-10 years, and 20% are more than 10 years (Table 5). Among the respondent only 12% have formal training and the other 88% don't have any training (Table 6). Most of the firms are private enterprises (Table 7). Among the respondent 17% take loan from banks and 83% operate their firms through own finance (Table 9). This study provides better understanding about competencies essential for the owner to operate small and medium size poultry firms business in Khulna. Information was collected from the poultry firms' owner in different rural areas of Khulna where most of the firms are being operated by the family members including some paid workers as well. Number of employees in the firms are 3-10. Most of the firms are operating business for minimum of 2 years or more than 10 years.

Table 3: Male, Female

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Male	146	71.6	97.3	97.3
	Female	4	2.0	2.7	100.0
	Total	150	73.5	100.0	

Table 4: Level of Education

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Primary	81	54	54.0	54.0
	Secondary	49	33	32.7	86.7
	Higher secondary	20	13	13.3	100.0
	Total	150	100	100.0	

Table 5: Age of Business Operation

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Less than 3 years	11	5.4	7.3	7.3
	3-6 years	63	30.9	42.0	49.3
	7-10 years	46	22.5	30.7	80.0
	More than 10 years	30	14.7	20.0	100.0
	Total	150	73.5	100.0	

Table 6: Have any Training

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Yes	18	8.8	12.0	12.0
	No	132	64.7	88.0	100.0
	Total	150	73.5	100.0	

Table 7: Type of Ownership

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Private Enterprise	150	73.5	100.0	100.0

Table 8: Sources of Capital

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Bank Loan	25	12.3	16.7	16.7
	Own finance	125	61.3	83.3	100.0
	Total	150	73.5	100.0	

Table 9: Structural Model Validity

Paths	β	R ²	t	Sig	Hypothesis
EC>FP	.628	.394	10.443	0.001*	Accepted

Note: EC-Entrepreneurial Competencies, FP-Firms Performance

As the result shows ($\beta = .628$, $p = .001$), p-value is lower than 0.05 that indicates there is significant relationship between EC and FP. Thus, null hypothesis is not accepted. In addition, beta is positive which indicates EC is expected to be increased by 0.62819, if there is an increase of 1 unit of FP. R-square (called the coefficient of determination) tells the proportion of the variance in the dependent variable (Entrepreneurial competencies) that can be explained by variation in the independent variables (Firms Performance). Here r-square is 0.394 thus 39.4% of the variation in entrepreneurial competencies can be explained by differences in firms' performance (Chin, 1998). So, is alternative hypothesis accepted and null hypothesis is not supported. This study focuses on 10 competency areas including opportunity, personal, conceptual, strategic, organizing, commitment, relationship, ethical, learning, familism. All these competencies have positive relationship with the firms performance that means all the competencies are required by entrepreneurs to ensure better performance and if the competencies could be enhanced then the firms performance is likely to be increased. The results of the analysis examine the influence of entrepreneurial competencies on business performance. The findings resemble with the previous researches conducted by Lee and Tsang (2001); Balasundaram (2008), all of which demonstrate the owner/manager as a key factor in the business performance. Here, the relationship of entrepreneurial competencies with business performance supports the conclusion drawn by Ahmad et al. (2010) and Man et al. (2002) observation of entrepreneurial competencies that significantly influence the business success. The better the entrepreneurs are in respect of opportunity seeking, organizing, relationship building, and strategy setting, the better a firms' performance. The poultry firm's owners of Khulna also gave positive opinion for most of these variables. That means they give importance on these variables and believe that they have abilities those are needed for setting, evaluating and implementing the strategies of the firms for better performance and they are competent enough in areas like setting long term goal of the business, taking responsibility, organizing resources, planning and assigning tasks to subordinates and so on.

Conclusion

This study delivers a superior understanding of the small and medium size poultry firms owners in terms of their entrepreneurial profiles and the relevant competencies needed in carrying out their business. The outcome of this study has showed that the relevant competencies have affirmative relationship with the firms' performance. Thus, these competencies are essential and if they are improved, then the firms' performances are likely to be improved also. At the same time, the β value is significant concerning the relationship between the entrepreneurial competencies and firms' performance which implies that any alteration of these competencies had great impact on the firms' performance from the context of poultry industry in Khulna. The findings of this work are important to the entrepreneurship researchers as it examines the fundamental proposition towards entrepreneurial competency approach. It is also important to the policy makers to have better understanding that which type of competency entrepreneurs should develop as Bangladesh is moving toward a middle income country and thus she needs more entrepreneurs in coming days.

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