

Competitive Advantage as a Mediation of Competence and Entrepreneurial Orientation in Business Success: An Empirical Evidence from Indonesia

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ABSTRACT— *Small entrepreneurs must consider several aspects in achieving business success, including entrepreneurial competence, entrepreneurial orientation, and competitive advantage. This study aims to predict the effect of competence and entrepreneurial orientation on competitive advantage and its impact on small business success. This research is survey research with a quantitative approach. Data were collected using a questionnaire to 134 small entrepreneurs Emping Melinjo in the Selayar Islands Regency, South Sulawesi, Indonesia. The study results show that competence and entrepreneurial orientation have a positive and significant impact on business success. In addition, the competitive advantage variable mediates the influence between competence and entrepreneurial orientation with business success. This study contributes significantly to the existing literature on entrepreneurial competence, entrepreneurial orientation, competitive advantage, and business success, especially in explaining the performance of small businesses in Indonesia.*

Keywords— Business Success, Entrepreneurial Competence, Entrepreneurial Orientation, Competitive Advantage.

1. INTRODUCTION

Small business is one of the supporting factors for the economic development of a country. This type of business contributes significantly to regional economic development because it can create jobs, provide investment opportunities, and form the economic capital needed for sustainable economic growth (Belas et al., 2015; Simionescu et al., 2017). With the many contributions from these small businesses, there should be innovative policies to encourage this type of business (Barkhatov et al., 2016; Ruchkina et al., 2017; Varanavicius et al., 2017).

Small businesses are part of the Micro, Small and Medium Enterprises (MSME) segment, an individual business entity and does not include foreign-owned companies. Small businesses consist of 9 to 15 workers and have 50 to 500 million rupiahs (Maksum et al., 2020). Small businesses incorporated into micro and medium enterprises are considered the engine of the Indonesian economy because their numbers are far higher than those of large companies (Tambunan, 2006).

Every business entity, of course, aims to achieve business success. Although various literature defines business success differently and tends to be inconsistent, some experts mention financial and non-financial performance indicators as a benchmark in measuring it (Shehnaz Tehseen & Ramayah, 2015). Another reference states that the measure of success is determined by the organization's success in achieving its goals and sets several specs as a measure, such as sales turnover, profit, and return on investment (Bruderl & Preisendorfer, 1998; Perren, 2000).

The success of small businesses is influenced by various factors: the determining variables, namely the entrepreneurial competence variable and entrepreneurial orientation. Lumpkin & Dess (1996) stated that entrepreneurial orientation is the primary key to business success. The importance of entrepreneurial orientation and entrepreneurial competence in entrepreneurial strategy management has been widely recognized in various literature. Eggers (2013) concludes from his research that entrepreneurial orientation is positively related to the growth of small businesses.

Entrepreneurial orientation is a process, practice, and a series of decision-making activities to produce breakthroughs

(Andiningtyas & Nugroho, 2014). So action and competence from crucial players are needed in a dynamic process to create new businesses (Kilenthong et al., 2016). In addition, entrepreneurial orientation is an essential element for business development and success. That is, an entrepreneur (business actor) who has the correct orientation can find and create various ideas, choices, and scope of entrepreneurial orientation in managing his business unit (Hidayat et al., 2021).

Another factor that can affect competitive advantage is entrepreneurial competence. Tehseen & Ramayah (2015) state that entrepreneurial competence is related to business performance and largely determines sustainable competitive advantage. Entrepreneurial competence combines general characteristics and categorization of entrepreneurial competencies (Pepple & Enuoh, 2020). The general characteristic of entrepreneurial competencies includes several aspects, namely: (1) general and specific knowledge, (2) motivation, (3) attitudes, (4) self-image, (5) social roles, and (6) skills (Mitchelmore & Rowley, 2013). In addition, an entrepreneur must also have a categorization of entrepreneurial competencies that include: (1) opportunities, (2) relationships, (3) strategies, (4) conceptual, (5) organizing, and (6) commitment (Kaur & Bains, 2013).

Several previous studies examine entrepreneurial competence, entrepreneurial orientation, and competitive advantage. The study conducted by Aidara et al. (2021) shows empirical evidence that entrepreneurial competencies such as commitment, relationships, opportunities, and organization have a significant positive effect on the economic performance of informal entrepreneurship. Other research shows that entrepreneurial competence has a positive and significant effect on competitive advantage, but entrepreneurial competence also has an insignificant impact on marketing performance (Akmal, 2017). A similar finding was also stated by Fazal et al. (2019), which found evidence of a positive influence of organizational competence and commitment to competitive advantage.

Another study states that competitive advantage has a positive and significant effect on the performance of micro-enterprises managed by female micro-entrepreneurs in Kelantan Malaysia (Zainol & Al Mamun, 2018). Other research states that entrepreneurial competence affects business performance and competitive advantage while competitive advantage also has a positive and significant effect on business performance (Wirda et al., 2019). Finally, a study using the path analysis method found that entrepreneurial orientation positively impacts competitive advantage and business performance (Utami & Wilopo, 2018). From these several studies to the best of the author's knowledge, no research has tested and analyzed the effect of competence and entrepreneurial orientation on competitive advantage and its impact on business success. For this reason, the authors are interested in investigating these four essential variables in the small business of Emping Melinjo in the Selayar Islands Regency, South Sulawesi, Indonesia.

CONCEPTUAL BACKGROUND & HYPOTHESIS

1. Business Success

The word “success” is associated with the business field, which means achieving a business within a certain period. At the same time, business success is the primary goal of a company or entrepreneur that includes all existing activities and aims to achieve success (Pinho & Sa', 2014). Business success results from maximum achievement of business activities that have been carried out and shows a better condition than previous conditions (Aqeel et al., 2011).

The success of a business can be measured from various aspects, one of which is the operating profit achieved by entrepreneurs within a certain period (Lee et al., 2013). Zhu et al. (2016) include including aspects in measuring the success of certain businesses, namely the level of profit earned by the company. Business success can also be seen from other indicators, such as efficiency, organizational goals, and business effectiveness (Munisi & Randoy, 2013). Other indicators used are (1) profit growth, (2) venture capital growth, (3) market share achievement & expansion, (4) customer base, (5) sales turnover growth, and (6) personal income or wealth (Butler, 2006; Carcamo-Solis et al., 2017).

2. Entrepreneurial Competence

In general, the word competence is defined as a skill, ability, and authority. Competence is a behavioural dimension of expertise or excellence of a leader or staff who has good skills, knowledge, and behaviour (Soegoto, 2009). In addition, competence is also defined as mastery of a task, skills, attitudes and appreciation needed to support success (Sulaksana, 2003). Mainwhile, Baum (2014) defines competence as individual characteristics such as knowledge, skills, and abilities required to perform a particular job.

Entrepreneurial competence is an individual characteristic related to criteria referred to effective and superior performance in a job (Ahmed et al., 2018). In addition, Man et al. (2002) describe that this competency is the total ability of an entrepreneur to carry out his role or work successfully. Furthermore, he added that entrepreneurial competence contributes to knowledge, personality traits, abilities or skills, and other characteristics needed for successful job performance (Kaur & Bains, 2013).

Lackeus & Williams (2015) describe several aspects of competence that an entrepreneur must master. These aspects include knowledge, skills, and attitudes that can affect the willingness and ability to do entrepreneurial work in new value creation. In addition, several components in entrepreneurial skills that the authorities must master are: (1) initiative, (2) the ability to see and execute opportunities, (3) persistence, (4) care about work quality, (5) commitment to work contracts, (6) persuasion, (7) efficiency orientation, and (8) systematic planning (Baum & Locke, 2004). Based on the discussion, the proposed hypothesis is:

H1 Entrepreneurial competence has a direct and positive impact on entrepreneurial success.

3. Entrepreneurial Orientation

At first, entrepreneurial orientation was defined as activities related to product and market innovation, conducting a reasonably risky business, and coming up with proactive innovations to beat competitors (Rezaei & Ortt, 2018). Entrepreneurial orientation refers to the processes, practices, and decision-making activities that refer to new entities (Kiyabo & Isaga, 2020). A company is said to be entering a new entry when they introduce a new product, service, technological innovation, or innovation model that does not yet exist.

As previously discussed, the construct of entrepreneurial orientation is measured using three primary dimensions. The three dimensions in question are innovative, proactive, and risk-taking (Rezaei & Ortt, 2018). Innovation is associated with new ideas, practising creativity, or searching for fresh concepts (Urban, 2018). In addition, being proactive in entrepreneurial orientation is taking the initiative to shape an environment that suits their benefits (Ferreira et al., 2021). Finally, risk-taking is an activity that refers to the extent to which managers are willing to create available resources to face significant and risky commitments (Mustafa et al., 2015).

H2 Entrepreneurial orientation has a direct and significant impact on business success.

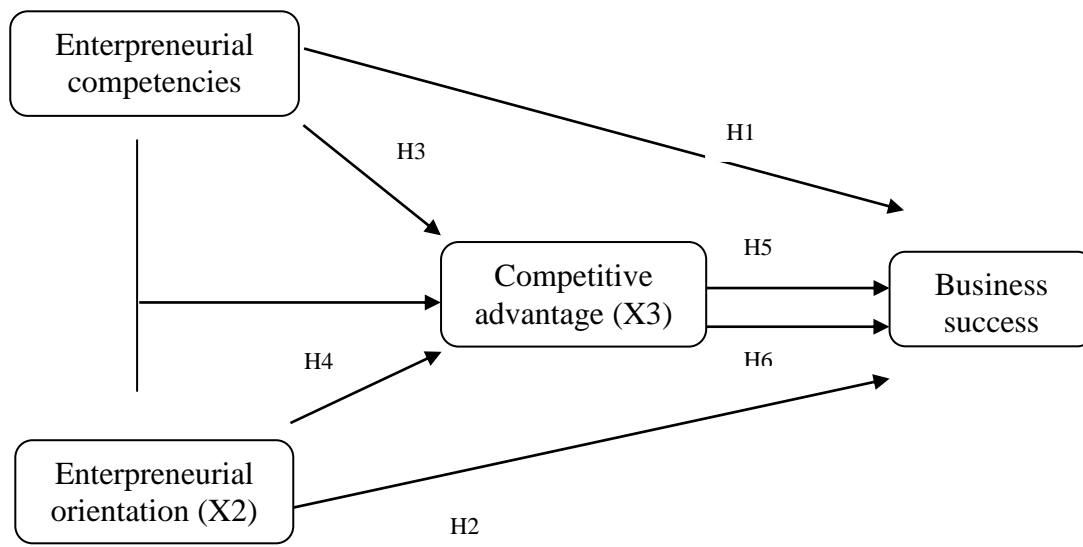


Figure 1. The theoretical framework of the study

4. Competitive Advantage

Competitive advantage is the result of implementing a strategy that utilizes various resources owned by the company. Two aspects are considered sources of competitive advantage, namely expertise and company assets (Wirda et al., 2019). Competitive advantage is determined by better performance than competitors and how to create superior value for customers (Aidara et al., 2021). Suppose it is associated with small and medium enterprises (SMEs). In that case, the role of each individual's ability with diverse behaviour greatly determines the company's success in achieving competitive advantage.

Competitive advantage is the goal of strategic thinking and the main focus in achieving success for entrepreneurial activities. Competitive advantage is considered an advantage obtained by offering more value to consumers than competitors' offerings (Kotler, 2005). In general, there are six main areas of entrepreneurial competence. Man et al.

(2002) describe six entrepreneurial competencies which include: (a) opportunity recognition competence, (b) relationship competence, (c) conceptual competence, (d) organizing competence, (e) strategic competence, and (f) commitment competence.

H3 Competitive advantage has a direct and positive effect on business success.

H4 Competitive advantage mediates the relationship between entrepreneurial competence and business success.

H5 Competitive advantage mediates the relationship between entrepreneurial orientation and business success.

H6 competence, entrepreneurial orientation, and competitive advantage have a direct and positive effect on business success.

2. METHODS

This study examines and analyses the effect of competence and entrepreneurial orientation on competitive advantage and its impact on business success in Emping Melinjo's small business in Selayar Islands Regency, South Sulawesi, Indonesia. The design used in this study is a survey research design with a quantitative approach. Survey research is a traditional type of research that seeks to describe a reality usually related to attitudes and behaviour (Mathers et al., 2009).

This study consisted of four variables, namely two exogenous variables, one intervening variable, and one endogenous variable. The four variables in question are entrepreneurial competence (X1) and entrepreneurial orientation (X2) as exogenous variables, competitive advantage (X3) as intervening variables, and business success (Y1) as endogenous variables. The population in this study were all small entrepreneurs Emping Melinjo in the Selayar Islands Regency, South Sulawesi, Indonesia, totalling 201 people. From the total population, the researcher determined the research sample using the Slovin formula to obtain a sample of 134 people (Stephanie, 2003).

Data collection in this study was carried out using a questionnaire with a Likert Scale model. This type of questionnaire is a method for expressing the respondent's feelings towards work by choosing one of the five alternative answers provided, namely TS (disagree), KS (disagree), R (undecided), S (agree), and SS (strongly agree). The questionnaire was developed by researchers containing four aspects, namely entrepreneurial competence, entrepreneurial orientation, competitive advantage, and business success, with 57 statements. The entrepreneurial competency variable uses indicators developed by Suryana (2012) consisting of technical, marketing, financial, and human relations competencies. In addition, the entrepreneurial orientation variable uses indicators from Lee & Tsang (2002) which consist of the need for achievement, internal locus of control, self-reliance, and extroversion. The competitive advantage variable was developed from the indicators proposed by Li et al. (2006), which consists of indicators of price, quality, and delivery dependability, while the business success variable refers to indicators from Riyanti (2011), which were developed from four indicators covering capital, production, customers, and business location.

The data processing technique used in this study is the *Structural Equation Model* (SEM) with AMOS 22 to analyze and ascertain whether entrepreneurial competence influences entrepreneurial orientation on business success mediated by competitive advantage in the small business of Emping Melinjo in the Selayar Islands Regency. SEM is generated from the fit model conducted by researchers by running the Goodness of Fit (GOF) test. Furthermore, after the model was declared fit, the researchers tested the validity and reliability based on the factor loading value, followed by proposing a hypothesis. Hypothesis testing is done by looking at the CR value generated by AMOS processing. If the CR value of the processing results is greater than the critical value, namely 1.96 at the significance level ($p < 0.05$), then the proposed hypothesis is declared accepted.

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3. RESULT AND DISCUSSION

The main title (on the first page) should be centered, and in Times New Roman 18-point, boldface type. Capitalize the first letter of nouns, pronouns, verbs, adjectives, and adverbs; do not capitalize articles, coordinate conjunctions, or prepositions (unless the title begins with such a word). Please initially capitalize only the first word in (for example, “Format for Preparation of Paper for Publication in the AJCIS” — as in these guidelines).

Before being used, the questionnaire used to collect data was tested for validity and reliability. The validity test results on the instrument show that several statement numbers get a score less than 0.5. The statement was subsequently removed from the questionnaire and was not used. In the entrepreneurial competence variable, from the 15 statement items, three items are not valid, while in the entrepreneurial orientation variable, four items are not valid from a total of 20 items. Furthermore, there are three invalid statement items on the competitive advantage variable from 17 items. Finally, in the business success variable, there are five invalid items out of 20 statement items.

The reliability test used in this study aims to determine the extent to which the results of an instrument can be trusted. Questionnaires can be reliable if the answers from respondents to questions are consistent or stable from time to time. This study uses the Cronbach’s Alpha method to determine whether the questionnaire items can be reliable or vice versa. Questionnaire items can be said to be reliable if Cronbach’s Alpha > 0.07 . The results of the reliability test can be seen in table 1.

Table 1. Reliability test results

No.	Variable	Cronbach’s Alpha	Standar Reliabilitas	Category
1.	Entrepreneurial Competence	.885	.70	Reliable
2.	Entrepreneurial orientation	.906	.70	Reliable
3.	Competitive advantage	.760	.70	Reliable
4.	Business success	.884	.70	Reliable

Based on table 1, the reliability test results above, it can be stated that all variables of competence and entrepreneurial orientation towards business success through competitive advantage indicate that Cronbach’s Alpha value is > 0.7 . Thus, this questionnaire is declared reliable or feasible to be used in research to collect data.

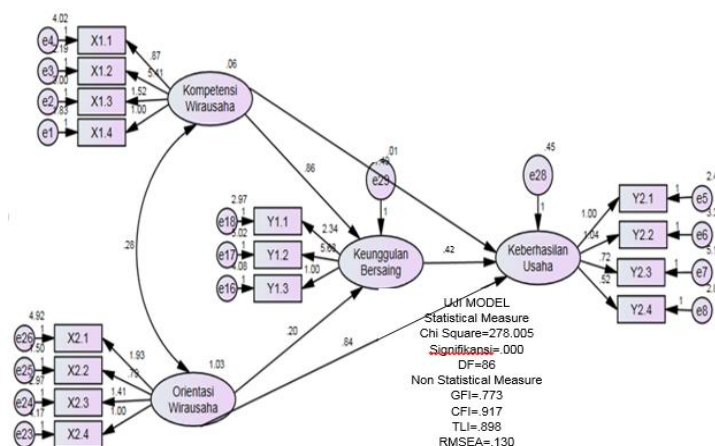


Figure 2. SEM final model fit

Table 2. The goodness of fit test results

<i>Goodness of fit indices</i>	Cut off value	Results	Conclusion
X ²	<50.46605	278.005	Good fit
CMIN/DF	< 2,00	86	Good fit
<i>Significance Probability (p)</i>	≥ 0.05	0,000	Good fit
RMSEA	< 0,08	0,130	Good fit
GFI	Close to 1	0,773	Good fit
AGFI	Close to 1	0,683	Good fit
TLI	Close to 1	0,898	Good fit
NFI	Close to 1	0,860	Good fit
CFI	Close to 1	0,917	Good fit

Based on table 2, the Goodness of fit test results can be seen that all test components have met the requirements and are included in the Good fit category. Thus, the structural model of the results of this study is considered quite good. That is, significantly between 1 indicator with other indicators on each variable is seen as interrelated.

Furthermore, hypothesis testing was conducted to determine the effect of each form of relationship between variables in this study. In addition, the hypothesis testing criteria used is to look at the value of the critical ratio requirement (CR) > 1.96 and a probability level of 0.05. The results of the hypothesis test can be seen in table 3.

Table 3. Path coefficient and hypothesis testing

			Estimate	S.E.	C.R.	P	Label
Y1	<---	X2	.203	.278	2.730	.046	***
Y1	<---	X1	.862	1.092	3.789	.043	***
Y2	<---	Y1	.417	4.602	3.091	.028	***
Y2	<---	X1	1.486	3.904	4.381	.003	***
Y2	<---	X2	.842	1.317	2.639	.023	***
X1.4	<---	X1	1.000				
X1.3	<---	X1	1.522	.781	1.999	.041	
X1.2	<---	X1	5.413	2.170	2.494	.013	
X1.1	<---	X1	.866	.674	2.286	.009	
Y2.3	<---	Y2	.723	.168	4.305	.000	
Y2.2	<---	Y2	1.040	.170	6.129	.000	
Y2.1	<---	Y2	1.000				
Y1.3	<---	Y1	1.000				
Y1.2	<---	Y1	5.682	2.044	2.779	.005	
Y1.1	<---	Y1	2.338	.876	2.670	.008	
Y2.4	<---	Y2	.520	.124	4.197	.000	
X2.4	<---	X2	1.000				
X2.3	<---	X2	1.413	.251	5.628	.000	
X2.2	<---	X2	.792	.151	5.230	.000	
X2.1	<---	X2	1.927	.338	5.707	.000	

a. Hypothesis 1

Based on the table above, it can be concluded that the path coefficient of the entrepreneurial competence variable on business success is 2,730. This score is more significant than 1.96 (the value of z table at = 5%) as the limit. This means that entrepreneurial competence has a positive and significant influence on business success, indicated by the value of p = 0.46. Thus, hypothesis 1 in this study is declared accepted.

b. Hypothesis 2

Based on the table above, it can also be seen that the path coefficient of the entrepreneurial orientation variable to business success is 3.789, which is greater than 1.96 (the value of the z table at = 5%). This indicates that entrepreneurial orientation has a positive and significant influence on business success. In other words, hypothesis 2 in this study is accepted.

c. Hypothesis 3

From table 3 above, it can be seen that the path coefficient of the competitive advantage variable on business success is 3,091 and is greater than 1.96 (table z value at = 5%). Thus, competitive advantage has a positive and significant influence on business success. Like the previous two hypotheses, hypothesis 3 in this study is also accepted.

d. Hypothesis 4

The table above also presents the results of hypothesis testing, which shows that the path coefficients of the entrepreneurial competence variable on business success through competitive advantage are 4.381 and 3.091. Both scores are greater than 1.96 (z table value at = 5%) as a condition. These results indicate that the entrepreneurial competence variable on business success through competitive advantage has a positive and significant influence. Thus, hypothesis 4 in this study is accepted.

e. Hypothesis 5

The table above shows that the path coefficients of the entrepreneurial orientation variable to business success through competitive advantage are 2,639 and 3,091, which means greater than 1.96 (the value of the z table at = 5%). This illustrates that entrepreneurial orientation to business success through competitive advantage has a positive and significant influence, so that hypothesis 5 in this study is declared accepted.

f. Hypothesis 6

Based on the table above, it can also be seen that the path coefficients of the variable entrepreneurial competence, entrepreneurial orientation, competitive advantage jointly affect business success. Thus, hypothesis 6 in this study is accepted.

This study proposes that competence, entrepreneurial orientation, and competitive advantage play an essential role in business success. In addition, this study also put forward the hypothesis that the competitive advantage variable mediates the relationship between entrepreneurial competence and business success and the relationship between entrepreneurial orientation and business success. There are six hypotheses tested, and all of them show what was proposed previously.

Entrepreneurial competence is the essential characteristic that includes general and specific knowledge, motives, traits, self-image, social roles, and life skills (Bird, 1995). Bahkan, Pepple & Enuoh (2020) added another aspect of this competency: the knowledge and skills needed to do specific jobs. In this study, the entrepreneurial competencies highlighted are engineering, marketing, finance, and human relations. However, other references mention more aspects of entrepreneurial competence, including (1) personal effectiveness competence, (2) academic competence, (3) workplace competence, and (4) management competence (Almeida & Buzady, 2019; Glackin & Phelan, 2020).

Mullins (2014) states that its role is significant to build entrepreneurial competence for entrepreneurs. Schumpeter (2007) suggests three prominent roles of an entrepreneur: innovator, individual who seeks profitable opportunities, likes considered risks and can fulfil performance. An entrepreneur who manifests entrepreneurial competence can have business insight in finding new methods with new solutions (Ulhoi, 2005). Santadreu-Mascarell et al. (2013) stated that recognising opportunities and executing them is the essential ability that small entrepreneurs must master.

Eggers (2013) research orientation reveals that entrepreneurial orientation has a positive influence on business development. In addition, entrepreneurial orientation is also defined as a description of how new entry is carried out by companies (Morris et al., 2013), explaining the importance of entrepreneurial orientation and the existence of marketing programs as a unit that supports company success especially for small and medium businesses.

Another finding in this study is a competitive advantage variable that mediates the relationship between competence & entrepreneurial orientation with business success. Competitive advantage is a distinctive competence of a business that distinguishes it from its competitors to have a plus value in the market (Kamukama et al., 2017). In addition, Barney (1991) states that competitive advantage involves choices about the market in which the company competes with competitors by using competitive prices and product quality.

According to Menurut Muafi & Roostika (2014), competitive advantage is the goal of strategic thinking and the main focus in achieving the success of entrepreneurial activity. Competitive advantage will be meaningful if associated with attributes valued by the market (Gupta et al., 2009). That is, customers must feel the difference between the product and its competitors. Some experts assess three leading indicators of competitive advantage: product quality, price, and after-sales service (Agha et al., 2012; Clulow et al., 2003). With the results of this study, it is hoped that entrepreneurs will pay attention to several essential variables in supporting their business success.

4. CONCLUSION

The results of this study indicate that several variables affect business success, namely competence and business orientation. In addition, the competitive advantage also plays a role in mediating the two exogenous variables on business success. With these results, it can be stated that this research contributes some knowledge to academics and small business actors in Indonesia, especially in the Selayar Islands Regency. First, the variables of competence and

entrepreneurial orientation have a positive and significant effect on business success. Thus, small business actors must adopt these two variables as one of the business development strategies. Second, both exogenous variables have a positive and significant effect on endogenous variables through competitive advantage. With these results, entrepreneurs must also consider various factors in competitive advantage in supporting the success of their business, such as price, product quality, and delivery dependability.

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