The mediating role of competitiveness between entrepreneurial competence and business success

Okky Rizkia Yustian[a*], Suryana[b], Chairul Furqon[b] and Heny Hendrayati[b]

[a]*Doctoral Student, Universitas Pendidikan Indonesia, Indonesia*
[b]*Lecturer, Universitas Pendidikan Indonesia, Indonesia*

C H R O N I C L E	A B S T R A C T
	The purpose of this study is to analyze the effects of entrepreneurial competence and competitiveness as mediating variable on the business success of apparel small- and medium-sized enterprises (SMEs) in Greater Bandung (five cities/regencies). To collect data, some questionnaires were used. Out of the 128 companies in the apparel SMEs population, 96 were selected as representative sample. The Partial Least Square Structural Equation Modeling (PLS-SEM) was used to test the hypotheses. The research out-comes revealed that entrepreneurial competence affected competitiveness, entrepreneurial competence affected business success directly and indirectly through competitiveness, and competitiveness affected business success. The managerial implication of this study is also discussed.

1. Introduction

The creative industry in Indonesia has been well developing since 2000 along with technological developments. Before 2004, the creative industry in Indonesia grew and developed naturally. In 2015, *Badan Ekonomi Kreatif* (the Indonesian Agency for Creative Economy), shortened as BEKRAF, was established as part of the President's commitment to exploring the untapped potential of the creative industry. The creative economy is one of the sectors that is expected to be a new strength of the national economy because it has become one of the important pillars of the Indonesian economy. The creative industries involve intellectual, original ideas that are realized based on the thoughts and feelings of the innermost heart of creative beings who want to advance the domestic industry. According to Bekraf (2018), the creative economy in Indonesia is dominated by three subsectors: first, the culinary subsector that contributes 41.69 % of Gross Domestic Product (GDP) in the creative econ-omy; second, the fashion subsector (18.15%); and third, the craft subsector (15.70%). The culinary subsector has made a significant contribution not only to the creative economy but also to the tourism sector. It does show an excellent performance by giving the largest contribution to GDP, but when viewed from total exports in the creative economy sector (US$ 19.4 billion), the culinary subsector only contributes no higher than 6%. It is in contrast to the fashion subsector, including apparel business, which contributes as high as 56% of the total exports of the creative economy sector. The highest contribution to the creative economy product exports is from West Java (33.66%), followed by East Java (20.85%) and Banten (15.66%). Fashion industry is one of the creative sub-sector industries in Indonesia. The activities included in the fashion creative in-dustry category are apparels, clothing, footwear, and other fashion accessories designs, fashion clothing and accessories pro-duction, fashion product line consultation, and fashion products distribution (Pangestu, 2008). According to McKinsey (2016), the fashion sector grows by 5.5 percent annually and rises as one of the seven largest sectors in per capita income per country. Not surprisingly, it becomes one of flagships creative industry sectors. However, a fairly high growth does not necessarily come with no problems for the fashion sector.

* Corresponding author.

E-mail address: okky.rizkia@gmail.com (O. R. Yustian)

The global problem of fashion retails' bankruptcy turns out to have a multiplier effect throughout the world, including on Indonesia. There is a downward trend of the number of apparel business units in Indonesia from 2015 to 2019. These apparel retails' fall can be attributed to the changes in consumer behavior among the millennial generation which urge companies to be flexible and adopt 'fast fashion' to survive, the competition against e-commerce, and, in the case of some fashion retailers, too much debt. The apparel exports from 2015 through 2018 tended to decline.

The declining phenomena of the number of business units in the apparel industry, the growth rate in the textile and apparel industry, and the number of apparel exports indicate that this fashion subsector have yet to be optimal in efforts to improve the business success. In detail, some of the problems faced by the apparel SMEs in West Java are explained as follows,

a.   There has been a decrease in the number of ready-made apparel business units from year to year, which shows that business success has not been optimal in the fashion subsector in Indonesia in general. In 2017, there were many fashion retailers shutting down their outlets and going bankrupt in the country.
b.   There was a decrease in the GDP growth rate in the textile and apparel industry when compared to previous years. This condition shows that the apparel industry has not been optimal in achieving the expected business success.
c.   The decreasing number of apparel exports from year to year shows that this sector has not been optimal in increasing its business success. This problem is related to several factors that have yet to be optimal in influencing business success improvement.
d.   The various problems arising with the effort to increase the business success of apparel SMEs are related to the SMEs' competitiveness in the production process and to the final apparel products that fall short of expectation or do not suffice to increase the business success of apparel SMEs.

In essence, business success is the company's success in achieving its goals, which are influenced by internal factors (competence, competitiveness, innovation) and external (environment) (Suryana, 2014). The latest approach to understanding how individual behavior can impact on business outcomes is focused especially on competence (Man & Lau, 2005). Entrepreneurship involves owners'/founders' keen observation to see existing opportunities and ability to obtain necessary resources to exploit such opportunities (Alvarez & Busenitz, 2001). Entrepreneurial competence is the main source of entrepreneurship, and human resources are categorized as a company's intangible assets which enable the company earn greater success (Elenurm, 2012). Its relationship with business success has been discussed in previous studies (Al-Damen, 2015; Xiaogang & Xinchun, 2005; Tanoira & Valencia, 2014). It is also directly related to performance (Mitchelmore & Rowley, 2010), and success in terms of company size and economic growth (Tang, et al., 2007). To improve the entrepreneurial competence, Bakar et al. (2019) emphasized the importance of entrepreneurial learning within the organization to strive for business success. Entrepreneurship education may breed new competent entrepreneurs (Mulyadi et al., 2018). LaVan and Murphy (2007) examined the relations between national culture, human development, and business competitiveness. It implies that entrepreneurial competence must be in line with competitiveness to improve the business success. Shirokova et al. (2013) proposed the strategic entrepreneurship as a source of sustainable competitive advantage, and as one of the possible sources for creating a successful firm in an emerging economy. This means that the competitiveness of an enterprise can be influenced by specific entrepreneurial competence to boost its business success.

This study was based on the existing research gaps in several previous studies with regard to suboptimal business success as a result of insufficient competitiveness and suitable entrepreneurial competence. Several previous studies have examined the interrelationship between entrepreneurship competence, competitiveness, and business success, including Abou-Moghli (2018), Lee, et al., (2019), Cao, et al., (2017), Umar & Ngah (2017), and Irene (2017).

This paper was to examine the effects of entrepreneurial competence (EC) and competitiveness (CO) as mediating variable on the business success (BS) of the apparel small-and medium-sized enterprises (SMEs) in Greater Bandung (five cities/regencies: Bandung City, Bandung Regency, West Bandung Regency, Sumedang Regency, and Cimahi City).

2.   Literature Reviews

2.1   Entrepreneurial Competence

Competence is generally a person's ability or capacity to do various tasks in a job. Competence is the capacity existing in an individual that enables him/her to fulfill what is required by the work in his/her organization for it to achieve the expected results (Riyanti, et al., 2017). According to Mitchelmore, et al. (2014), competences fall into four broad categories: entrepreneurial competencies (e.g., idea generation, recognition, and taking advantage of opportunities); business and management competencies (e.g., business operational skills, financial and budgeting skills); human relations competencies (e.g., delegation skills, leadership skills); and conceptual and relationship skills (interpersonal skills, written communication skills, logical thinking skills). In this study, entrepreneurial competence refers to the ability to carry out tasks or jobs based on knowledge and skills and supported by attitudes that are characteristic to some individuals to achieve business success. Man et al. (2008) categorized six main areas of entrepreneurial competence: opportunity, relationship, conceptual, organizing, strategic, and commitment. Ahmad et al. (2010) emphasized that, in measuring entrepreneurial competence, entrepreneurs must understand

the behavior associated with nine competencies: Strategic, Commitment, Conceptual, Opportunity, Organizing & Leading, Relationship, Learning, Personal, and Technical.

2.2   Competitiveness

Competitiveness is a form of strategy to help a company in maintain its survival. It also refers to the ability of an organization to take a defensive position against competitors; this ability, which is the result of critical management decisions, enables the organization to distinguish itself from its competitors (Muhammed et al., 2016). Company managers need to consider competitiveness to increase their business success. Competitiveness is deemed important in increasing business success because the ultimate goal of the establishment of a company is to achieve maximum performance (Yaşar, 2010).

Viewed from the competitive strategy perspective, competitiveness is of two nature: industrial-based and resource-based (Hartmann & Herb, 2015). According to Muhardi (2007), competitiveness is an operation function that is oriented not only internally but also externally, that is, it responds proactively to the target market of its business. The factors influencing competitiveness are location, price, service/product quality, and promotion. In this paper, competitiveness refers to advantage of an industry's product and service creation strategy that cannot be imitated by competitors in a certain market share. The frequently used measurement of competitiveness is based on Porter (1986), who defines the four attributes that determine the competitiveness of a nation: (1) *Firm Strategy, Structure, and Rivalry; (2) Factor Conditions; (3) Related and Supporting Industries; and (4) Demand Conditions*. The four dimensions or determinants, individually and as a system, serving as the context for the establishment of national companies and the competition are (i) the availability of resources and expertise needed for achieving a competitive advantage in certain industries; (ii) information that shapes perceptions of opportunities and provides direction for the allocation of resources and expertise; (iii) targets of managers, owners, and HR involved in competition; and (iv) pressures needed by companies to make certain of investments and innovations.

2.3   Business Success

Business success is essentially the success of a business in achieving its goals (Suryana, 2014). In a general sense, success indicates a condition that is better than or superior over the condition in the past. A business is said to be successful if it has an advantage over the previous period or similar companies. Business success refers to business or organizational performance. Company performance is one important measure in a company related to company sustainability (Jayawarna et al., 2014). This performance applies to all types of companies or industries in the world, either small, medium, or large, including SMEs. Hoque (2004) states that in measuring business success, financial measures are not the only things done by researchers. A number of researchers report that in recent years there has been an increase in the use of non-financial organizational measures for evaluating business success. Past high emphasis on traditional performance metrics such as return on investment or net income diverted from concern for non-financial factors such as market share, customer satisfaction, efficiency and productivity, product quality, and employee satisfaction. Kaplan and Norton (1996) argue that non-financial measures can help managers recognize changes in the business environment, determine and assess progress towards business goals, and confirm achievement of performance goals. Based on this description, two main determinants of business success can be identified, especially in SMEs: (1) financial aspects and (2) non-financial aspects. Financial aspects relate to profitability, sales turnover, sales growth, and investment returns, while non-financial aspects relate to self-satisfaction, career advancement, customer satisfaction, customer loyalty, employee satisfaction, supplier relationships, business image, and work-family balance.

3.   Conceptual Framework and Hypotheses

The relationships among the variables of entrepreneurial competence, competitiveness, and business success draw this research's conceptual framework. The relationship between entrepreneurial competence and competitiveness points to the importance of human resources in addition to financial capital or tangible assets in shaping a company's competitiveness directly or indirectly. Excellent human resources in an institution or company are important and unnegotiable (Mathis & Jackson, 2003). For this reason, entrepreneurial competency management must be carried out in a proper and professional way to increase competitiveness so that business success can be achieved. Some of the previous researchers who examined the interrelationship between entrepreneurial competence and competitiveness are Lin (2017), Ling et al. (2017), and Sabadie and Johansen (2010). Based on the description above, the following hypothesis was proposed:

H$_1$: Entrepreneurial competence is positively related to competitiveness.

A literature review of entrepreneurial competencies shows that approaches to modeling business success that start from the premise that entrepreneurial abilities, skills, and behavior are essential for business results have both theoretical and practical appeal (Kiggundu, 2002; Man & Lau, 2005; Salomo, Brinckmann, & Talke, 2008). Entrepreneurs in SMEs perform three main roles: entrepreneurial, managerial, and functional. Arguably, developing the right mix of competencies that matches the task demands associated with this role will directly increase entrepreneurial effectiveness (Mayer-Haug et al., 2013). In view of this, we hypothesized the following:

H_2: Entrepreneurial competence is positively related to business success.

Renewal in the organizational structure of the human resource function affects competitiveness and business success. Ferreira et al. (2017) stress the importance of competitiveness to the success of an organization's performance. In this case, aspects of entrepreneurship can succeed in increasing competitiveness and business success if the organization pays attention to innovation. Without meaningful innovation, organizations cannot achieve successful performance and expected levels of competitiveness. The results of previous research from Ferreira et al. (2017), Riviere and Suder (2016), Rindova et al. (2010), Ivanov et al. (2015), Ambastha and Momaya (2004), and Kaur et al. (2017) related to competitiveness and business success stated that competitiveness can affect business success. Based on the literature review above, we proposed the hypothesis below:

H_3: Competitiveness is positively related to business success.

Research Methods Data collection was conducted with questionnaires (scaled 1 to 7) as the main instrument. The population was 128 apparel SMEs in Greater Bandung (Bandung City, Bandung Regency, West Bandung Regency, Sumedang Regency, and Cimahi City), and the representative sample was 96 units. The data were analyzed using partial least square path modeling (PLS-SEM). The construct of each latent variable can be described as follows.

a. Entrepreneurial Competence (EC) was an exogenous latent variable which had 9 (nine) manifest variables: Strategic (EC1), Commitment (EC2), Conceptual (EC3), Opportunity (EC4), Organizing and Leading (EC5), Relationship (EC6), Learning (EC7), Personal (EC8), and Technical (EC9).
b. Competitiveness (CO) was an endogenous latent variable doubling as a mediating variable which had 4 (four) manifest variables: Firm Strategy, Structure, and Rivalry (CO1), Factor Conditions (CO2), Related and Supporting Industries (CO3), and Demand Conditions (CO4).
c. Business Success (BS) was an endogenous latent variable which had 2 (two) manifest variables: Financial Aspects (BS1) and Non-financial Aspects (BS2).
d. and Non-financial Aspects (BS2).

Statistical investigation and analysis of this research were based on component-based partial least square structural equation modeling (PLS-SEM). There were two types of evaluation in the conceptual model: evaluation of outer measurement model and evaluation of inner structural model. In partial least squares, three tests were used to determine the convergent validity of the measured constructs (Shanmugapriya & Subramanian, 2015), i.e., Cronbach's alpha, composite reliability scores, and average variance extracted (AVE). The outer model would be considered as good if it had a Cronbach's alpha value of more than 0.6, composite reliability score of more than 0.7, and AVE of more than 0.5 (as a minimum 50% of measurement variance is captured by the latent variables). The inner structural model examined the path coefficient (β value) and t-statistic value, R-squared (R^2) value, and effect size (f^2). The mediating effect of the construct in the business success model is also to be discussed.

4. Results and Discussion

Descriptive data are presented in the tendency of the percentage of each manifest and latent variable. The percentage was to be called higher if ≥ 50% and lower if < 50%. It was to be assigned to either the high or low category. Table 1 illustrates the tendency of the percentage of each manifest and latent variable.

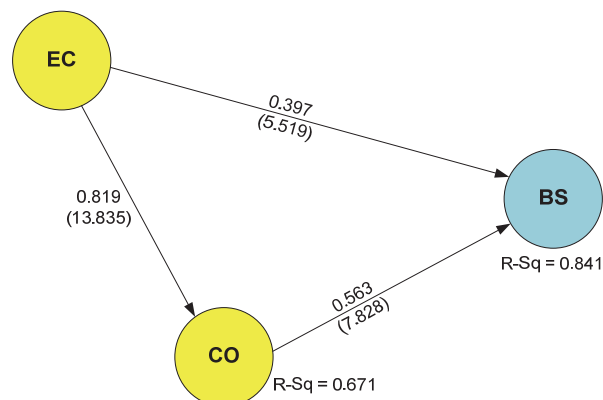**Table 1**
Percentage of Manifest and Latent Variables

Manifest and Latent Variables	Lower Percentage	Higher Percentage	Category
EC1	58.3	41.7	Low
EC2	43.8	56.3	High
EC3	60.1	39.9	Low
EC4	54.5	45.5	Low
EC5	56.9	43.1	Low
EC6	47.6	52.4	High
EC7	51.4	48.6	Low
EC8	49.0	51.0	High
EC9	53.1	46.9	Low
Entrepreneurial Competence	52.7	47.3	Low
CO1	54.2	45.8	Low
CO2	56.6	43.4	Low
CO3	54.2	45.8	Low
CO4	51.7	48.3	Low
Competitiveness	54.2	45.8	Low
BS1	60.4	39.6	Low
BS2	55.0	45.0	Low
Business Success	57.2	42.8	Low

From Table 1, it can be inferred that the entrepreneurial competence (EC) of the apparel SMEs in Greater Bandung had a lower propensity (52.7%). Out of the nine components of EC, six components were categorized as low, while three were categorized as high. The three components categorized as high were Commitment (EC2), Relationship (EC6), and Personal (EC8), which could be classified into soft skills. In this case, the competency of the SMEs to plan their vision, mission, and goals, identify opportunities, and synchronize business activities with strategic planning was still undeveloped. The competency of the SMEs to create new ideas, see problems in new ways, and implement new ideas also still required some improvement. Most of the SMEs did not have enough competence to identify customer desires, capture business opportunities, and implement them. The organizing and leading aspects also still needed attention for improvement. It seemed that the SMEs did not have the right opportunity to learn in various ways, keep abreast of recent information, and share knowledge or information. Most importantly, the SMEs at least needed to continue to improve technical capabilities in product design, bookkeeping, and marketing. The tendency of competitiveness (CO) was also lower (54.2%), and so were all of its components. From the aspect of Firm Strategy, Structure, and Rivalry (CO1), most of the SMEs had low levels of strategy implementation, management style appropriateness, and competition against similar industries. From the aspect of Factor Conditions (CO2), most of the SMEs lacked raw materials, operational capital, and labor. From Related and Supporting Industries (CO3), most of the SMEs had a poor ability to maintain relationships with suppliers, consumers, and similar industries. Finally, from the aspect of Demand Conditions (CO4), the SMEs also failed to meet the expected levels of ability to meet product orders, growth in product demand, and conformity with consumer tastes. Consequently, the achievement of business success (BS) of the apparel SMEs was also categorized as low (57.2%) due to the lower achievement of its components. The financial aspects, such as profitability, sales turnover, customer growth, and return on investment (ROI) were less encouraging to the SMEs, and so were the non-financial aspects (self-satisfaction, customer satisfaction, employee satisfaction, career development, business image, and work-family balance). In PLS-SEM, firstly we evaluated the outer measurement model. Table 2 summarizes the measurement model of each variable.

Table 2
Measurement Model of Variables

Latent/Manifest Variables		Loadings	Composite Reliability	Average Variance Extracted	Cronbach's Alpha	Goodness of Fit
EC	EC1	0.824	0.953	0.693	0.833	Fit Model
	EC2	0.816				
	EC3	0.841				
	EC4	0.862				
	EC5	0.823				
	EC6	0.848				
	EC7	0.834				
	BC8	0.792				
	BC9	0.848				
CO	CO1	0.950	0.963	0.866	0.949	Fit Model
	CO2	0.918				
	CO3	0.917				
	CO4	0.938				
BS	BS1	0.956	0.957	0.917	0.909	Fit Model
	BS2	0.959				

The Cronbach's alpha value > 0.6 or ideally > 0.7 and composite reliability scores > 0.7 are the threshold values for a fit model (Rahman et al., 2013). Additionally, the AVE should be higher than 0.5. Table 2 shows that the loadings of all manifest variables were higher than 0.7, which were valid. The values of composite reliability and Cronbach's alpha were higher than 0.7, and the value of AVE was higher than 0.5. These values confirmed the discriminant validity of the enablers in the model. In short, the construct measures in the measurement model were confirmed as reliable and valid. Secondly, we evaluated the inner structural model. To evaluate the inner structural model, we examined the path coefficient (β value), t-statistic value, R-squared (R^2) values, and effect size (f^2) of the model. The structural model is illustrated in Fig. 1.

Fig. 1. Structural Model

The calculation of the path coefficient and t-statistic value is presented in Table 3 as follow.

Table 3
Path coefficient and t-statistic value

Hypothetical paths	Original Sample (O)	Standard Error (SE)	t-statistic (|O/SE|)	Inference
EC – CO (H₁)	0.819	0.059	13.835	Significant
EC – BS (H₂)	0.397	0.072	5.519	Significant
CO – BS (H₃)	0.563	0.072	7.826	Significant

The path coefficient of EC-CO was significant with β = 0.819 and t-value = 13.835 (table value is 1.98 at 5% level of significance). This indicates that a 100 point change in EC would bring about an 81.9 point change in competitiveness, implying that entrepreneurial competence had a direct positive significant effect on competitiveness. The other path coefficients (EC-BS and CO-BS) were also significant. In PLS path models, the squared correlation values of 0.67, 0.33, and 0.19 are considered as substantial, moderate, and weak, respectively (Chin, 1998). The R2 values of each latent endogenous construct as shown in Figure 1 (R2CO = 0.671 and R2BS = 0.841) were greater than 0.67, which were considered substantial. The effect size (f2) is the measure of impact of each predictor construct on the dependent construct. The effect of predictor independent construct is large at the structural level if f2 is 0.35, medium if 0.15, and small if 0.02 (Cohen, 1988). The results and inference of the effect size are tabulated in Table 4.

Table 4
Effect Size (f^2)

Dependent construct	Independent construct	R^2 (included)	R^2 (excluded)	Effect Size	Inference
CO	EC	0.671	0	2.036	Large effect
BS	EC	0.841	0.737	0.659	Large effect
BS	CO	0.841	0.789	0.328	Medium to large effect

In this model, EC had a direct effect on CO, and direct and indirect through the mediating effect of CO on BS. The result of the mediating effect in the path model is presented in Table 5.

Table 5
Mediating effects

Construct	Mediating construct	Direct effect	Indirect effect	Total Effect
EC → CO	-	0.819	0	0.819
EC → BS	CO	0.397	0.461	0.858
CO → BS	-	0.563	0	0.563

The result of this mediating effect showed that CO could strengthen the effect of EC on BS. The indirect effect of the entrepreneurial competence on business success through competitiveness was greater than its direct influence. In other words, competitiveness could be a full mediating variable for entrepreneurial competence on business success. This means that entrepreneurial competence must go through competitiveness in order to increase its contribution to business success. Within the empirical setting of the apparel SMEs in Greater Bandung, the research found that entrepreneurial competence was significant to achieving and enhancing competitiveness of the SMEs. To increase this competitiveness, the SMEs must continue to focus on the opportunity competence, relationship competence, and technical competence as important components of entrepreneurial competence. The finding from this study is consistent with previous studies such as Ibidunni et al. (2018), Srivastava et al. (2017), and Drobyazko et al. (2019). The expected business success of the apparel SMEs will be achieved if the entrepreneurial competence and the firm competitiveness can be synergized. Entrepreneurial competence may best influence business success if it is through a certain level of firm competitiveness. In light of the aspects of business success, the SMEs must greatly understand and reconsider the financial aspects, such as, profitability, sales turnover, customer growth, and return on investment (ROI).

5. Conclusion

The present study revealed a positive relationship of entrepreneurial competence and competitiveness, and the effects on business success. From the empirical study into the apparel SMEs in Greater Bandung, it was found that (1) entrepreneurial competence affects competitiveness, (2) entrepreneurial competence affects business success directly and indirectly through competitiveness, and (3) competitiveness affects business success. The managerial implication of this study is that a certain level of entrepreneurial competence in SMEs can be applied provided that they consistently identify the sources and means of nurturing entrepreneurial competence. This certain level of entrepreneurial competence may boost competitiveness to a certain level. In this case, attention must also be paid to the level of availability of raw materials, operational capital, and labor. Finally, higher levels of entrepreneurial competence and competitiveness will enhance business success in terms of financial and non-financial aspects. This study provided an insight into entrepreneurial competence development and influence on the levels of competitiveness and business success of the apparel subsector, which may be validated further in various

other industry sectors. Future research may elaborate other factors such as business strategy and specific business environment.

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