Effect of entrepreneurial competencies on firm performance under the influence of organizational culture

Hee Song Ng [1], Daisy Mui Hung Kee, PhD [2]

[1] School of Management, Universiti Sains Malaysia, 11800 USM Penang Malaysia
ngheesongphd@gmail.com
[2] School of Management, Universiti Sains Malaysia, 118000 Penang, Malaysia
daisy@usm.my

Abstract: In order to be successful in today's competitive and rapidly changing market environments, SMEs need to continuously acquire and enhance their entrepreneurial competencies. Research has shown that entrepreneurial competencies are crucial drivers for firm performance. However, there are diverse concepts of entrepreneurial competencies and their link to firm performance. In this regard, we postulate that organizational culture is a relevant factor in strengthening the link between competencies and performance for SME performance. Hence it is important to examine at the variations in how different firms respond to business environment and of the evolution of organizational culture as a source of competitive advantage. Drawing insights from the extant literature, we aim to provide a better understanding on the relationship between competencies and firm performance under the moderating effect of organizational culture. A model on competencies is proposed to provide useful insights into entrepreneurial competencies.

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1. Introduction

Entrepreneurial competencies play a pivotal role in ensuring success of business. McClelland (1987) argued that successful entrepreneurs have three most important personal entrepreneurial competencies, namely, they were more proactive that they did things before they had to; they showed characteristics that were part of an achievement motivation syndrome; and they had a commitment to others. The rest of the seven competencies are quality and efficiency; calculated risk taking; goal setting; information seeking; systematic planning and monitoring; persuasion and networking; and independence and self-confidents (Mugion, 2013). On the other hand, Griffin (2012) and Ropega (2011), asserted that most of the business failures are due to lack of SME owner-managers' incompetence, inadequacy and inexperience in managing their business and taking quick remedial action in crisis situations. Boyatzis (1982) defines competence as "an underlying characteristic of a person which results in effective and/ or superior performance in a job. Bird (1995) asserted that entrepreneurial competencies are the underlying characteristics such as generic and specific knowledge, motives, traits, self-images, social roles, and skills which results in venture birth, survival, and/ or growth. Baum, Locke and Smith (2001) define competencies as individual characteristics like knowledge, skills, and abilities required to perform a specific job, and categorize them into general competencies consisting of organizational skill and opportunity skill; and specific competencies consisting of industry skill and technical skill. Meanwhile, Moore, Cheng and Dainty (2002) state that in terms of characteristics, competence is the area of work, competency is the behavior(s) supporting an area of work, and competencies are the attributes underpinning a behavior.

Man, Lau and Chan (2002) concurred that entrepreneurial competencies are considered a higher-level characteristic encompassing personality traits, skills and knowledge, and therefore can be seen as the total ability of the entrepreneur to perform a job role successfully. And entrepreneurial characteristics are distinctively expressed in six areas, namely opportunity; relationship; conceptual; organizing; strategic; and commitment. Lau (2004) asserted that by blending the Kirznerian and Schumpeterian perspectives, entrepreneurial competencies can be better expressed by traits (relationship orientation, commitment, opportunities, risk-taking, efficiency, integrity and pride; skills (planning, communication, organizing); Knowledge (production, operation, purchasing and supply, financial and legal). Although entrepreneurial competencies are recognized as one of critical success factors for SMEs, research on critical success factors is complex as key success factors are interrelated and circumstantial. It is a challenge to predict firm performance as the extant empirical evidence revealed that their results remain mixed and limited findings to date (Ng & Kee, 2012). A recent research on by Kee, Effendi, Talib and Rani (2011) identified six main factors for success, namely networking; product; ability to focus on market; customer relations; supportive management; and leadership. We believe that ability to focus on market is part of the entrepreneurial competencies whereas networking, customer relations and leadership are part of the managerial competencies. These critical factors are closely related to the domain of entrepreneurial competencies. It is also affirmed by Ahmad, Ramayah, Wilson and Kummerow (2010) who reported that entrepreneurial competencies are strong predictors of business success for SMEs. Although the effect of entrepreneurial competencies may have been explored in certain extent, we provide an integrated account of contributions relating to entrepreneurial competencies in different context. In this study we also contribute to this growing literature by considering the moderating effect of organizational culture on the relationship between entrepreneurial competencies and firm performance. The results will contribute to the increased effectiveness of developing SMEs and shed more lights on the priority of determining predominant types of competencies for further development.

2. Resource-Based View

Resource Based View (RBV) of the firm suggests that possessing resources which are valuable, rare, inimitable, and lack substitutes, enable a firm to not only distinguish itself from its rivals, but also to create competitive advantage. Maintaining inimitability is central to the sustainability of competitive advantage (Barney, 1991).

3. The Issue of the Entrepreneurial Competencies

The 2011 Global Entrepreneurship Monitor indicates that Malaysia compares less favorable vis-à-vis other countries due to the general lack of confidence and perceived capability in entrepreneurship. Furthermore, Malaysia scores low level of technological readiness with ranking of 51st out of 126 in the 2012-2013 Global Competitiveness Report. This means the overall level of competencies of all industries needs to be upgraded. By acquiring and harnessing the capabilities in entrepreneurship, management and technical expertise, SMEs can improve their competencies to compete locally and globally. In addition, the SMIDEC (2007) calls for SMEs to acquire expertise and build core competencies in process and product engineering, and adopt ICT to meet international standards on quality delivery imposed by MNCs. In fact, there should be strong symbiotic relationship between MNCs-SMEs as their parallel growths promote sustainability of national economy growth in the long term. National Human Resource Centre under the PSMB provides human capital development training programs for SMEs to increase the competencies and capabilities of SME. As at 31st December 2011, a total of 4,225 employees attended capability building programs. At the state level, Penang Skill Development Corporation (PSDC) and Associate of Malaysian Medial Industries (AMMI) are working together to provide the Competency Development Program in Medical Technology to enable SMEs to gain accreditation and acceptance as viable vendors (Penang Institute, 2013).

4. Entrepreneurial Competencies

Ansoff (1985, p. 96) provided a firm competence profile which consists of facilities and equipment; personnel skills; organizational capabilities; and management capabilities which are arrayed by functional areas namely general management and finance; research and development; operations; and marketing. Hitt and Ireland (1985) state the distinctive competencies for firm performance cover general management; production/operations; engineering and R&D; marketing; finance; personnel; and public and government relations. Meanwhile, Chandler and Jansen (1992) argued that most successful founders, having firms with higher levels of growth and earning, perceived themselves as competent in Entrepreneurial roles (able to see and acts on opportunity with intense effort); Managerial roles (able to conceptualize business interests, motivate individuals and groups inside and outside the firm, establish right connections in network); and Technical-functional roles (able to use tools and methods of a specialized field which is industry-dependent). Chandler and Hanks (1994) stressed the importance of Entrepreneurial competence – ability to recognize and envision taking advantage of opportunity; and Managerial competence – ability to lead, manage all organizational interests and activities in a synergistic manner congruent with the goals of the organization.

Katz and Green (2009, pp. 59-60) state that entrepreneurial competencies are forms of business-related expertise, consisting of five components, namely, basic business functions; industry specific knowledge; resource competencies; determination competencies; and opportunity competencies. Nurach and Chandrachai (2012) found that SMEs attached importance to competencies in planning, cultural awareness, and decision-making and problem-solving while least importance to competencies in stakeholder management and leadership. Spinelli and Adams (2012, pp. 290-299) suggested the management competency inventory in terms of the dimensions in marketing, customer relations management, supply chain management, operations/production, finance, entrepreneurial leadership, interpersonal team, and law. Santandreu-Mascarell, Garzon and Knorr (2013) categorize ten personal entrepreneurial competences, namely, Opportunity seeking and initiative; Risk taking; Demand for efficiency and quality; Persistence; Commitment to the work contract; Information seeking; Goal setting; Systematic planning and monitoring; Persuasion and networking; and Independence and self-confidence.

Camuffo, Gerli and Gubitta (2012) reported that functional, emotional and cross-functional competencies can variably affect performance and categorized them into two groups, namely, threshold competencies - self-control, Information gathering and visioning; and distinctive competencies - planning, empathy, business bargaining, organizational awareness, directing others and benchmarking. Sánchez (2012) reported that entrepreneurial competence plays an influential role in organizational capability and competitive scope, and also has a direct effect on firm performance; the use of organizational capabilities affects positively the firm performance and it partially mediates the relationship between entrepreneurial competence and firm performance; although competitive scope is not significantly related to business growth, it is a strong predictor of other performance dimensions, such as efficiency and relative performance; and organizational capability is a strong predictor of competitive scope. Gerli, Gubitta and Tognazz (2011) reported that the entrepreneurial competency portfolio has an impact on the organizational performance. In particular, competencies like efficiency orientation, planning, persuasiveness, self-confidence, organizational awareness, directing others, teamwork, leadership and benchmarking are related to a higher firm performance.

Ahmad et al (2010) reported that entrepreneurial competencies are strong predictors of business success in SMEs, and the association between entrepreneurial competencies and business success was more strongly evident in hostile and dynamic environments than in more benign and stable environments. In another study, Ahmad, Halim and Mohamed Zainal (2010) proposed a framework for entrepreneurial competencies and firm performance where entrepreneurial competencies cover strategic; opportunity; conceptual; organizing; relationship; technical; and personal. Sambasivan, Lim, Rose and Abdul (2010) found that functional competencies and interpersonal competencies of founding entrepreneurs have been found to have a significant impact on venture growth. However, according to Lee, Huam, Mohd Osman and Md Rasli (2010), managerial competencies do not impact on the relationship between innovativeness and SME performance. Kang (2009) found that competencies are positively related to entrepreneurial success, and specifically, high entrepreneurial competencies and high managerial competencies are linked to satisfaction on financial performance whereas high managerial competencies and high technical competencies are linked to satisfaction on non-financial performance.

Man, Lau and Snape (2008) show the entrepreneur's opportunity, relationship, innovative, human and strategic competencies contribute to the long-term performance of an SME via competitive scope and organizational capabilities. In a related development, Lans, Verstegen and Mulder (2011) empirically validated a refined framework grouped under the new three domains, namely Analyzing; Pursuing; and Networking which constitute the heart of entrepreneurial competence for small firms. This framework also encompasses insights into education and learning. Singh, Garg and Deshmukh, (2008) reported that Introduction of new technology and identification of market changes have emerged as most important competencies because they are significantly correlated with subjective performance, objective performance and overall competitiveness of organization; Levels of focus given on competencies development by Large Scale Enterprises (LSEs) differ significantly from SMEs. Baum, Locke and Smith (2001) reported that CEOs' specific competencies (industrial skills and technical skills) are direct predictors of venture growth, and CEOs' general competencies (organizational skill and opportunity skills) had significant indirect effects on venture growth.

Wasilczuk (2000) argued stated that personal competencies, not operational competencies, seems to have a greater influence on growth. Huck and McEwen (1991) suggest that technical topics and customer relations were the competencies that entrepreneurs perceived as most important for small businesses. Both technical and non-technical skills among entrepreneurs, including management, planning and budgeting, and marketing competencies, are needed for business growth.

In another related studies, Stoner (1987) identified eleven areas of distinctive competences which can be competitive advantage. The most common area was "Experience/ knowledge/ skill of the owners/ workers", accounting for over 30% of the businesses. The second was "unique/ special/original product or service" (20%), "location" (13%), "low costs/prices" (11%), and "relative quality of product/services" (11%). The remaining five areas, namely "variety/ availability/ flexibility of product/ service"; "friendly atmosphere"; "reputation/ image";

"unique method of marketing" and "reaching a unique marketing niche/ untapped market", were present in less than 10% of the businesses. Interestedly, five of the businesses (11%) possessed no distinctive competence.

Finally, Mitchelmore and Rowley (2010) summarized all key competencies into five areas, namely entrepreneurial competencies; business and management competencies; human relations competencies; and conceptual and relationship competencies. Given these prior linkages between entrepreneurial competencies and firm performance, the following proposition is restated.

H1: Entrepreneurial competencies will positively correlate with firm performance.

5. Organizational Culture

Hofstede (1997) defines organizational culture as the collective programming of the mind, which distinguishes the members of one organization from another, stressing that organizational culture is holistic, historically determined, related to the things anthropologists study, socially constructed, soft, and difficult to change. Organizational culture can be best measured by five dimensions, namely Power distance; Uncertainty avoidance; Individualism vs. collectivism; Masculinity vs. femininity; Long term vs. short-term orientations. Schein (1990) defines organizational culture as a pattern of basic assumptions, invented, discovered, or developed by a given group, as it learns to cope with its problems of external adaptation and internal integration, that has worked well enough to be considered valid and, therefore is to be taught to new members as the correct way to perceive, think, and feel in relation to those problems. Meanwhile, Denison (1990, p. 2) defines organizational culture as the underlying values, beliefs, and principles that serve as a foundation for an organization's management system as well as the set of management practices and behavior that both exemplify and reinforces those basic principles.

Hickman and Silva (1984, p. 70) assert that there are three components for building culture, namely instilling commitment; rewarding competence; and maintaining consistency. In fact, organizational culture can be best described by examining its underlying assumptions, values, practices, rituals, heroes and symbols. Drucker (1994) asserts that there are three sets of assumptions, namely, Environment where organization interacts with society, markets, customers, and technology; Mission where organization envisions for meaningful results; and Core competencies where organization must excel in order to maintain leadership. Abdullah (1996, p. 141) further clarifies that the core competencies should covers good analytical and problem-solving skills as well as a sound understanding of basic computing concepts; ability and confidence to assess a situation quickly and recommend solution; a learning posture and desire to seek opportunities to learn quickly on the job; skills in communicating effectively in English; and demonstrating the courage to take actions and lead others.

Basically, there are three perspectives on culture, namely Timmons (1999) which consists of six elements, namely, Clarity, being well-organized; High standards, pressure for excellence; Commitment; Responsibility; Recognition; and Esprit de corps; Cornwall and Perlman (1990) which consists of ten elements, namely Risk; Earned respects; Ethics of integrity, trust, creditability; People; Emotional commitment; Work is fun; Empowered leadership throughout firm; value wins; Relentless attention to details, people, structure, and process; and Effectiveness and efficiency; Peters (1997) which consists of eleven elements namely Learning; Embrace change; Customer Focus; Total Integrity; Excellence; Involve everyone in everything; Experimentation; Fast-paced innovation; Small start and fast failure; Visible management; and Measurement/accountability.

Morris, Kuratko and Govin (2008) synthesize those three perspectives into an entrepreneurial culture with eight elements, namely, Focus on people and empowerment; Value creation through innovation and change; Attention to the basics; Hand-on management; Doing the right things; Freedom to grow and to fail; Commitment and personal responsibility; and Emphasis on the future and a sense of urgency. Kotter and Heskett (1992) highlight the powerful influence of corporate culture on firm success, and offer three cultural perspectives, namely strong; fit; and adaptive. The adaptive cultural perspective is the most desired as it not only encourages confidence and risk taking among employees, but focuses on the changing needs of customers. Organizational culture can be a potential predictor or moderator for firm performance but it can double-edged sword for firm performance (Ng & Kee, 2013).

Abdullah and Pedersen (2003) postulate eight dimensions of organizational culture. They are Relationship vs. Task; Harmony vs. Mastery/ Control; Shame vs. Guilt; We-group vs. I-Individual; Religions/ secular; Hierarchical vs. Equality; vii) Polychronic vs. Monochronic, and High Context vs. Low Context. Denison and Mishra (1995) proposed organisational culture can be measured by four dimensions namely Involvement; Consistency, Adaptability, and Mission, with each having three subculture traits. This instrument intends to provide a measure of an organization's progress towards achieving a high-performance culture and optimum results.

Martin and Staines (1994) called for further research into organizational culture and examine the dichotomous position between managerial and technical competencies, to determine which one is more superior to success of firms. However, from the existing framework, organizational culture has been used as a moderating variable. For example, Covin and Slevin (1991) postulated that organizational culture can be an organizational factor which can serve as independent variable or moderating variable for the relationship between entrepreneurial posture and firm performance. Lumpkin and Dess (1996) proposed a framework where organization culture moderate the relationship between entrepreneurial orientation and performance. Chadwick (1998) proposed a framework to test the moderating effect of entrepreneurial orientation and firm performance. In the latest research findings, Kreiser, Marino, Kuratko and Weaver (2013) state culture individualism positively moderate the relationships between both innovativeness-performance and proactiveness-performance.

SMEs needs to nurture a new breed of SMEs and nascent entrepreneurs who take calculated risks, sense commercial opportunities and above all innovate to lead the high-growth charge against the backdrop of growing global competitive environment. This means, culture will play an important role in this transformation which is also in line with the Central Bank of Malaysia's (2003, p. 27) research on SME development, which identifies sound business culture as one of the critical factors for SMEs. Indeed, entrepreneurs are not only the creators of organizational structures and technologies but also the creators of culture at various stages of organizational life from birth, growth and evolution (Pettigrew, 1979).

Ahmad, Wilson and Kummerow (2011) studied the competency-mix in a cross-cultural setting and found that conceptual, opportunity, personal, learning, and ethical competencies are context-free while relationship, strategic, familism, social responsibility and commitment competences are culture-specific. Ahmad (2007) found entrepreneurs adopt a more cautioned attitude toward risk taking and tend to focus on action of competitors for strategy formulation. Indeed, Malaysia is a multiracial and multiethnic country with each ethnic group, mainly Malays, Chinese, India, indigenous Kadazans and Ibans are able to retain its own fundamental beliefs and traditions. Generally, Malaysians tend to be culturally collectivist rather than individualist, accommodating, avoiding airing their opinions for fear of being branded by their colleagues as arrogant and self-opinionated. The goal of Malaysia is to excel, grow, develop and achieve the Vision 2020 where Malaysia can be a united nation, with a confident Malaysian society, infused by strong moral and ethical values (Abdullah & Pedersen, 2003). In brief, we argue that cultural factor makes a great feature in the Malaysian work context. Hence, we hypothesize:

H2: Organizational culture moderates the relationship between entrepreneurial competencies and firm performance.

6. Proposed Framework

Based on the extant literature and research objectives, a conceptual framework is put forth for consideration for this research. Figure 1 depicts the theoretical framework link Entrepreneurial competencies (EC) firm performance (FP) under the influence of organizational culture (OC).

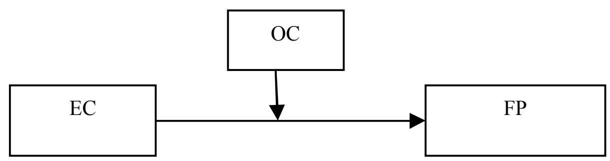

Fig 1: Proposed Framework

7. Discussion

Validation of competence-performance relationship is addressed in the paper. A validated model will provide better understanding of the competence-performance significant practical implication on SME performance issues and the development of effective performance management. First, empirical research has showed that despite having lack of resources SMEs can still compete and survive in this rigorously competitive business environment. Pihie and Elias (2008) reported that entrepreneurs perceive competencies (such as establishing good human relations, developing managerial skills and technical skills) and determining customer needs as the most important factors for business success. Second, empirical testing of the proposed model will assist in determining appropriateness of both conceptualizing competence impact on firm performance and theorizing partially moderated proposition of organizational culture. SMEs need to adopt an organizational culture that stimulates competence development through organizational learning. This paper provides evidence that competence is one of key success factor driver for the survival, growth and development of SMEs. We argue that a thriving and more productive SME sector equipped with entrepreneurial competencies can certainly give a substantial boost to the nation's economy. Third, in the global economy in which SMEs are increasingly required to operate, it is imperative that the impact of culture and environment is understood and appreciated. Therefore, our research framework posits that organizational culture moderate the competence-performance relationship. We expect that exploring organizational culture is an important step for refining the relationship of competence–performance.

Drawing lesson from Korea industrialization, local firms needs not only to bolster manufacturing competencies in standardized and low cost products, but they need to upgrade their indigenous capabilities and manufacture more value-added products to over the problems of increasing local wages and emerging competitive threats (Kim, 2004). It is therefore important to promote the parallel growth of MNCs and SMEs for economic sustainability without relying too much on low-cost advantage to lure FDI by MNC to drive export-oriented manufacturing (MITI, 2010; Ong, 2012; SME Corp, 2010).

8. Conclusion

In order to compete successfully locally and globally, SMEs should be equipped with strong entrepreneurial competencies. The areas of expertise cover knowledge, capacities, and skills through continuous learning. SMEs should nurture an organizational culture which conducive for entrepreneurial competencies through organizational learning. Ideally SMEs should be equipped with three competencies, namely, Entrepreneurial competencies (focusing on business opportunities and values creation); Managerial competencies (focusing on people management and complexity on effective planning, organizing, coordinating, and control); and Technical competencies (focusing on science and technology, and innovation for customer requirements). This is also in line with Chandler and Hanks' (1994) studies on three competencies. SMEs need to strengthen resilience and competitiveness and to move up the value chain. Therefore, efforts should be intensified to acquire and harness these entrepreneurial competencies. Finally this research makes contributions to the existing body of literature concerning competence-performance link under the influence of organizational culture.

Despite its contribution, the limitation of the study should be noted. First, since this is an initial attempt at understanding how intermediate outcomes of competence may impact firm performance, Obviously, this is not an exhaustive list, as there are several other key success factors like SME leadership, innovation and image and reputation (Ng & Kee, 2012). These additional variables have the potential to interact with competence-performance link under the influence of cultural milieu. Future work should consider what types of competencies which can enhance firm performance for SMEs. Next generational business model calls for SME owner-managers to leverage competency to drive a significant improvement in top-line and bottom line performance. Future research should also consider the influence of competence on the top SME performance (Jonash & Sommerlatte, 2000). It would be worthwhile to examine how organizational culture works through competence to enhance the top SME performance. More research will provide useful insights into the issues of the competence-performance construct in the culture milieu that can help us to better understand the development, survival and growth of SMEs.

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Corresponding Author:
Hee Song
School of Management
Universiti Sains Malaysia
11800 USM Penang Malaysia
Email: ngheesongphd@gmail.com

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