

The Effect of External and Internal Factors on Entrepreneurship Competency and Competitiveness of Micro, Small and Medium Enterprises (MSMES) In Palu City

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Abstract - This research used a causality survey approach with data collected through questionnaires. The sample of the research was 171 respondents with the object of the actors/managers of MSMEs in Palu City. The research sample is determined proportionally on each business cluster based on predetermined criteria. Research data were analyzed by using structural equation modeling partial least square (SEM PLS). The result of the research shows that external factor of competitive scope has negative and insignificant effect on entrepreneurship competence but positive and significant to competitiveness of MSMEs. The external factors of dynamic capability have a positive and significant impact on the entrepreneurship competence and competitiveness of MSMEs in Palu City. Internal factor of organizational capability and potential of MSMEs have positive and significant impact to entrepreneurship competence but have positive and insignificant effect to competitiveness of MSMEs in Palu City.

Index terms - competitive scope, dynamic capability, capability of SMEs potential organization, entrepreneurial potential, MSMEs competitiveness.

I. INTRODUCTION

The development of MSMEs in Palu City Central Sulawesi as a competitive business sector, at least requires in-depth study of several factors that affect the competitiveness of MSMEs. With this study, will be known about the competitiveness position of MSMEs and several factors that effect it, so that will contribute in the development of MSMEs in Central Sulawesi in the form of policy explanation of empowerment MSMEs. Based on official data of the economic census of 2016, the number of business units in Palu City amounted to 46,164 business units that consisting of micro and small business units amounted to 44,696 business units (96.82%) and large medium enterprises amounted to 1,468 business units (3.18%). While the contribution of MSMEs to Gross Domestic Product (GDP) based on the results of the Bank Indonesia Review in 2015 amounted to 59.08%. These data indicate that the role of MSMEs in the national economic system is relatively insignificant in encouraging economic growth of a region.

The importance of MSMEs competitiveness is not only because the MSMEs group absorbs more manpower compared to large enterprises but also contributes greatly to the formation and growth of GDP. Developed countries like the United States show that 99% of MSMEs in the country are at the core of the industry base (Aharoni, 1994). In other industrialized countries joined in the OECD such as Japan, Germany, France and Canada, MSMEs are an important motor of economic growth and technological progress (Thornburg, 1993).

In developing countries such as Asia, Africa, and Latin America, MSMEs also has a very important role, especially from the employment opportunity perspective and income sources for the poor, income distribution and poverty reduction, and rural economic development (Tambunan, 2006). However, its contribution to the formation of GDP and non-oil exports, especially manufactured products, the role of MSMEs in developing countries is still relatively low if compared with developed countries.

Man et al. (2008) revealed that a wider competitive scope as an external factor will enable MSMEs entrepreneurs to move more freely which in turn will affect entrepreneurs 'activities in acting particularly to achieve the purpose of a competitiveness company. Other internal factors such as dynamic capabilities as stated by Borch (2004) suggest that dynamic ability can be a

source of special competence, managerial skills and long-term commitment to core personnel within the company. Besides that, dynamic ability can also encourage and facilitate learning activities in improving competitiveness, especially in the international market (Zahra et al., 2000) Thus dynamic ability can be an effective pattern in developing entrepreneurial competence and will directly affect the competitiveness of MSMEs.

Organizational capability focuses on internal processes and systems to fulfill customer needs in the creation of organizational competencies that specifically will give a competitive advantage. This factor is represented by the company's internal potential as a source in identifying the competitiveness of MSMEs. Most are divided into resources, which are input into the production process, and capabilities that emphasize tasks or activities to change resources (Grant, 1998). This view implies that large organizational capabilities will ensure that employee skills and efforts are directed towards achieving organizational goals and strategies. Prahalad and Hamel (1997) used the core competence terminology as fundamental to the company's strategy and performance. In his view, this core competency is essential in the context of creating the best value to the consumer. Besides that, core competence is also the basis for the company in entering new markets.

Another internal factor is the potential owned by MSMEs as stated by Partomo and Rachman, (2002) which is described as an advantage owned by MSMEs. Internal factors consist of; Innovation in technologies that easily occur in product development, a close humanitarian relationship in a small company, flexibility, and adaptability to rapidly changing market conditions compared with the large-scale company that generally bureaucratic, and dynamic managerial practices and entrepreneurial roles. This potential means that the advantages of MSMEs can be a source of competence which in turn will increase the competitiveness of MSMEs.

With theoretical development through the utilization of enterprise competitiveness concept for MSMEs and competence approach to study entrepreneurial characteristic, this article focus on the role of the entrepreneur in determining company performance. Through this approach, empirical studies have been conducted on the influence of external and internal factors on entrepreneurial competence and competitiveness of MSMEs. In this article, we report the results of this study. Besides that, this also discussed further implications, contributions and limitations of this study, as well as research guidance in the future.

II. CONCEPTUAL FRAMEWORK AND HYPOTHESES

Keats and Bracker (1987) stated that the strength and environment influence is an entrepreneurial function of entrepreneurs with a relatively high degree of intensity. Entrepreneurial intensity tends to be burdened by institutional constructions and gaps in exploiting organizational resources. Herron and Robinson (1993) suggest a causal relationship model between entrepreneurial behavior and external environmental structures.

Ropo and Hunt (1995) argued that the development of opportunities can be regarded as an entrepreneurial moral process with proactive changes and environmental observations. On the other hand, with a focus on corporate entrepreneurship, Zahra and Covin (1995) explain the positive correlation between entrepreneurial characteristics and company performance with the review that entrepreneurial characteristics help to identify and pursue profitable product / market opportunities and become the foundation for a competitive advantage position.

Another external factor that is a provision for entrepreneurs in developing competence is Dynamic Capability (dynamic ability). The dynamic ability paradigm is concerned not only with the limited resources in the company but includes processes that require control of external resources (Berney, 2002 and Hitt et al., 2001). Besides that, the dynamic capabilities will indirectly affect the operational capabilities of the company (Helfat and Peteraf, 2003). Dynamic capability is a source of special competence, managerial skills and long-term company commitment (Borch, 2004).

This relationship leads to a proposition; External factors consisting of competitive scope and dynamic ability are factors that related to entrepreneurial competence and competitiveness of SMEs in a sustainable manner.

Internal factors, related to organizational capability in developing entrepreneurial competence and competitiveness of MSMEs. Gartner and Starr (1993) suggest that the three main behaviors of entrepreneurship are as follows: 1) obtaining human resources, financial, information and material; 2) creating organizational structures and processes to produce goods and services; and 3) developing an ongoing exchange of goods and services that ensure the availability of future resources. This behavior is related to the organization's internal and external resources in building organizational capabilities. Ostgaard and Birley (1994) argue that the primary role of an entrepreneur is to develop networks in obtaining external resources.

Besides that, the potential of SMEs as a function in the development of entrepreneurial competence and competitiveness of the company is described as an advantage attached to MSME which consisting of; operational flexibility, the speed of innovation and cost structure (Partomo and Rachman, 2002). The benefits of MSMEs are seen in the role of entrepreneurs to create innovative capabilities of the company.

Thus a proposition can be developed: *internal factors consisting of Organizational Capabilities and SMEs Potential is a factor that related to entrepreneurial competence and competitiveness of SMEs in a sustainable manner.*

One of the functions of entrepreneurship is connecting of entrepreneurial competence with the competitiveness of SMEs. This relationship leads to the competitiveness of MSMEs. To ensure competitiveness, employers must set the direction and goal of the company to be visionary, strategic and focused on the goal. Baum, Locke, and Kirkpatrick (1999) have found that the vision of entrepreneurs and communication has a significant influence on the growth of company entrepreneurship. Previous research has also shown that there is a positive relationship between strategic planning and performance of MSMEs (Davig, 1986; Ibrahim, 1991; Kargar, 1996; Olson and Boker, 1995; Pleitner, 1989), although in the case of MSMEs the behavior of entrepreneurs such as strategic planning is generally informal, focused on business processes rather than broader horizons and content. Generally, MSMEs entrepreneurs lead the strategic planning process. Thus, the main competencies required in carrying out this task are those who have a strategic vision. This process will lead to the achievement of strategic objectives that ultimately lead to the long-term performance of the company. In fact, behavioral competence is similar to the objectives and action management of managerial competencies as proposed by Boyatzis (1982).

This description leads to a proposition: *Entrepreneurship Competence is a factor related to the competitiveness of MSMEs in a sustainable manner.*

III. RESEARCH METHOD

The population of this research is the entrepreneur of MSMEs in Palu City amounted to 2,151 (Dinas Perindagkop and UKM Palu City, 2017). The determination of sample size in this research is using the formula developed by Yamane (1990), so the sample in this research is 337 respondents.

Data collected by using questionnaires, therefore, the seriousness of respondents in answering questions is very important in research, validity. The result of research is determined by the measuring instrument that used. For this purpose, we need two kinds of testing, namely the test of validity (test of validity) and the test of reliability (test of reliability) in testing the consistency of respondents' answers.

Data analysis was done by using Partial Least Square Software (PLS). PLS is a powerful analytical method because it is not based on many assumptions. PLS as data analysis technique has advantages because; data does not have to be multivariate normal distribution (indicators with category scales, ordinal, interval to ratio can be used on the same model), and sample size should not be large. Besides that, it is used to explain the presence or absence of the relationship between latent variables and can analyze as well as constructs formed by reflexive indicators and formative indicators.

IV. RESULTS

The quantitative study of this empirical research consists of two main parts namely; validation development of research instruments from returned questionnaires and results analysis. From the number of questionnaires that were collected were 178 or 95.70%, while the number of questionnaires that were complete and can be processed as many as 171 questionnaires or 96.07% of the total number of questionnaires collected.

The result of Corrected Item Total Correlation analysis was done 2 (two) times and after removing the invalid questionnaire item from the research questionnaire, the reliability test result showed that the six research variables were declared eligible for further processing.

Evaluation of Structural Model

Evaluation of structural model (*inner model*) is done to see the relationship between the constructs of the research model. The structural model is evaluated by several approaches, namely; evaluation of R Square values to determine the effect of endogenous latent variables, predicted relevance values (Q2) to show evidence that the observed values are well reconstructed and the evaluation of Goodness of Fit (GoF) values to determine the overall suitability of the model used in this research. The result of evaluation structural model in this research can be used as a reference in explaining research model which has been proposed before.

Hypothesis Testing

The significance of estimated parameters provides useful information on the relationship between research variables. The basis used in the hypothesis testing is value contained in the *output path coefficients*. Hypothesis testing is done by t-statistic value on each partial influence line. *Bootstrapping* technique (re-sampling) on PLS is used in getting information about the relationship between research variables.

The result of *bootstrapping* on the structural model of research is presented complete in Figure 1 below:

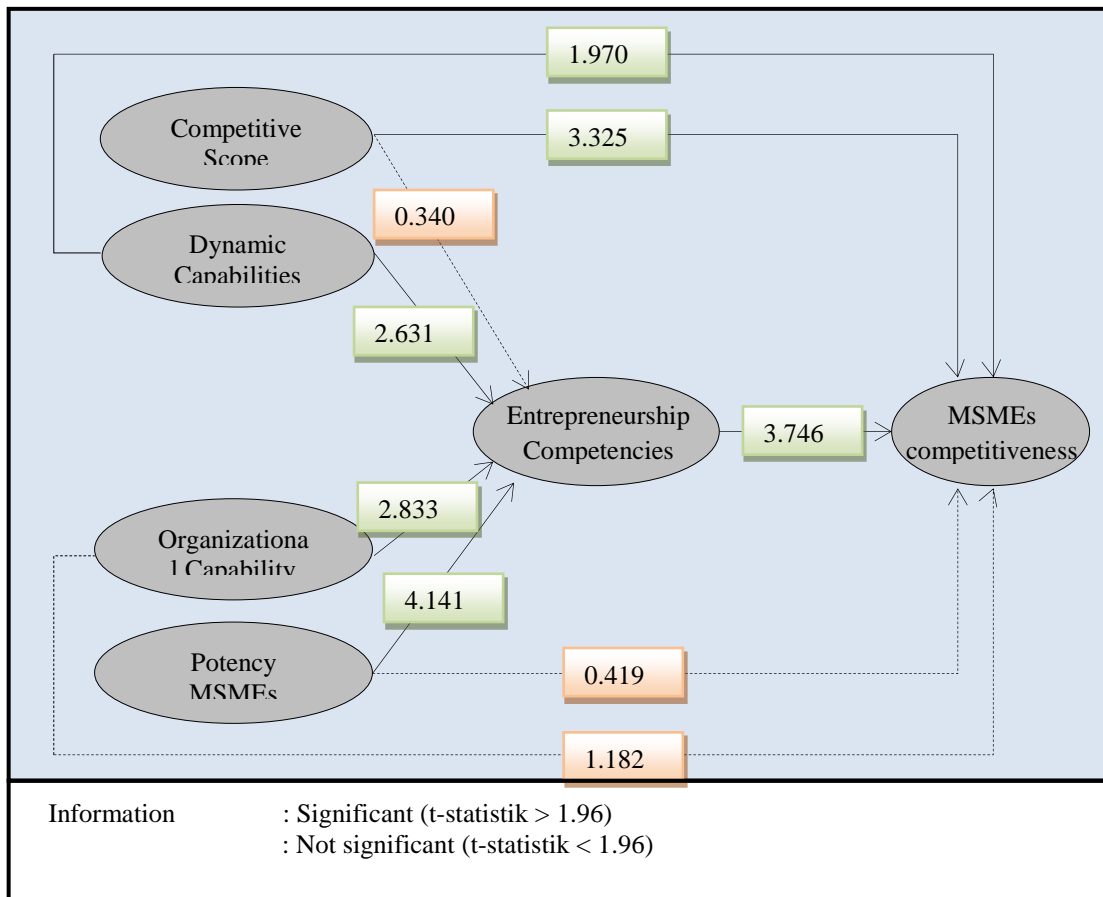


Figure 1: Bootstrapping Results of Structural Research Model

From the Figure 1, there are three partially paths that have t-statistics <1.96, or partial paths that are not significant while the remaining six partial paths have t-statistics > 1.96, or these six paths have a significant relationship.

V. DISCUSSION AND CONCLUSION

The Effect of Competitive Scope on Entrepreneurship Competence in MSMEs in Palu City.

The result obtained in this study is different from the previous research that is used as a reference. Where in the previous study showed that there was a positive and significant influence of competitive scope on entrepreneurial competence (Ardichvili and Cardozo., 2000., Ropo and Hunt., 1995., Zahra and Covin., 1995, Herron and Robinson, 1993).

The competitive scope of this entrepreneurial competence in the research is also in line with the results of Bank Indonesia (2015) study which found that the MSMEs business is still faced with external constraints in which the business climate that is not conducive in the form of coordination among MSMEs stakeholders is not yet unified. Government agencies, educational institutions, financial institutions, and business associations are more often run independently. The findings in this study provide information that MSMEs in their business activities relatively ignore and not give full attention to the external environment so that the competencies that are formed tend to be burdened by institutional construction and the gap in exploiting the resources of the organization.

The Effect of Dynamic Capability to Entrepreneurship Competence on MSMEs in Palu City

The second hypothesis proof in this research shows that the relationship between dynamic capabilities with entrepreneurial competence is positive and significant. The finding in this study implies that the enhancement of dynamic business capability will encourage the enhancement of entrepreneurial competence from MSMEs in Palu City. Based on the indicators developed in this study, it can be explained that:

These results support the outcome of previous research that conducted by Ahmad et al. (2010) found that the relationship between entrepreneurial competence and business success is stronger in the challenging and dynamic environment of a friendlier and stable environment. In addition, dynamic capabilities can provide value, because dynamic capabilities can transform a static view into a competitive advantage in a dynamic context. Besides that Borch (2004), found that dynamic ability is a source of special competence, managerial skills and long-term commitment of the company.

The Effect of Competitive Scope on MSMEs Competitiveness in Palu City

The test results show that the competitive scope has a positive and significant impact on the Competitiveness of MSMEs in Palu City. The findings in this study mean that the competitive scope can boost or enhance the competitiveness of MSMEs. Can be explained that the competitive scope in the context of MSMEs in Palu city has understood as one measure in achieving or increasing the competitiveness of MSMEs in Palu city. This means that achieving and enhancing the competitiveness of MSMEs requires extensive and intense attention to the company's environment.

The findings of this study are consistent with the findings of previous research conducted by Ardichvili and Cardozo (2000) and Man et.al (2008), where the conclusions of his research emphasize the existence of a significant relationship of competitive scope to the competitiveness of MSMEs. In addition, Sanches (2012) also found that the competitive scope is not significantly related to business growth, but can be a strong predictor of other performance dimensions (efficiency and relative performance). This finding is also reinforced by the opinion expressed by Nazla one of the perpetrators of MSMEs in Palu City who stated that in running his business he always tried to identify products needed by consumers and always trying to seize the business opportunities of high quality.

Based on the findings in this study can be interpreted that one of the appropriate strategies in achieving business competitiveness, especially in MSMEs is a focus on the business environment / industry. This is very reasonable because the observation of the environment directly will be a source of inspiration of MSMEs in developing their business. This is very reasonable because one of the limitations of MSMEs is weak in terms of funding and capital. So it takes carefulness in reading the environment for efficiency and effectiveness of business operations. This is different from large corporations with relatively large capital and resource support, from which Dean et.al (1998) shows that small businesses have certain resources that enable them to overcome some of the difficulties and constraints they face through developing partnerships and enabling businesses small to take advantage of certain industry opportunities that are easier than large companies.

The Effect of Dynamic Capability to MSME Competitiveness in Palu City

The findings in this study are in line with the findings of Helfat and Peteraf, (2003) stating that the dynamic capabilities will indirectly affect the company's operational capabilities. This means that the dynamic capability of MSMEs will have an impact on increasing the competitiveness of MSMEs. This is reasonable because dynamic capabilities are related to the company's readiness to exploit new opportunities to the future market.

Specifically, dynamic capabilities focus on rules and mechanisms that facilitate the creation of distinctive advantages that are new and difficult to imitate. Dynamic capabilities must balance the present and future circumstances. These include the creation of

new products and operational management of these productions, improvements to current competencies and routines, as well as removing previous tracking competencies and tracks that may hinder the company's renewal process (Teece et al., 1997).

The Effect of Organizational Capability to Entrepreneurship Competence at MSMEs in Palu City

The results of empirical research prove that the effect of organizational capability on entrepreneurial competence is positive and significant. Two indicators serve as a measure of organizational capability variables also proved to be a viable indicator in measuring other variables.

The findings in this study are in line with Gartner and Starr (1993) stated that entrepreneurial behavior is highly dependent on the company's ability to build organizational capabilities. Besides that, Ostgaard and Birley (1994) concluded that the organizational capability is seen as a function of the role and behavior of entrepreneurs in collecting and using existing resources within the organization that directly impact on entrepreneurship behavior of MSMEs in utilizing every opportunity that exists.

The results obtained in this study provide an understanding that in improving the entrepreneurial competence of MSME is very dependent on the ability of the owner/manager of MSMEs in the organization management. The ability to manage the organization that manifested operational capability and managerial capability is an initial internal factor in building MSMEs entrepreneurs competence. This is very reasonable because the consistency and policy of entrepreneurs in managing the organization will have an impact on their ability to reach and utilize the opportunities that exist. Besides, it also affects their ability to build networks, professional organization management, and long-term business vision.

The Effect of SME Potential on Entrepreneurship Competence in MSMEs in Palu City

The potential of MSMEs has a positive and significant relationship with entrepreneurship competence in the perspective of MSMEs in Palu City which means that the hypothesis has a positive effect and significant potential of MSMEs to entrepreneurship competence MSMEs in Palu City proven and acceptable.

The results of this study are suitable with previous researches of Raffa and Zolla (1994), Kitchell (1997), and Lefebvre (1992), where the conclusion of his research generally states that the advantages of MSMEs as an inherent potential are seen in the role of entrepreneurs to create company innovative capabilities, and also for its management capabilities in manipulating other human and physical resources leading to corporate innovation.

The potential of MSMEs as a source of entrepreneurial competence has also been proven where MSMEs as a flexible organization, adaptability and low-cost structure in its operations can survive in the middle of monetary crisis compared with big companies. Data from the Central Bureau of Statistics shows that after the 1997-1998 economic crisis, the number of MSMEs did not decrease, it increased, even absorbing 85 million to 107 million workers until 2012. In that year, the number of entrepreneurs in Indonesia was 56,539,560 units. From that, Micro, Small and Medium Enterprises (MSMEs) of 56,534,592 units or 99.99%. The rest, around 0.01% or 4,968 units is a big business (Bank Indonesia, 2015).

The findings in this study provide new information because it can be proven qualitatively that the potential of MSMEs is a distinct advantage for MSMEs. The macroeconomic condition that hit the crisis did not have a significant impact on the growth of MSMEs. This is because MSMEs in their operations are more flexible to environmental changes, as well as creative towards in making new ideas or opinion and with a low-cost structure. The potential of MSMEs enables MSMEs to build its ability to utilize and seize the opportunities available, build a wider network, manage the business organization effectively and efficiently and business orientation in the long term.

The Effect of Organizational Capability to MSMEs Competitiveness in Palu City

The results of this analysis give the meaning that the organizational capability of MSMEs has been realized in the form of capability in taking action related to the process and system of own resource management but has not directed yet on efforts to achieve and get business competitiveness. Based on the indicators developed in this study, it can be explained the relationship between organizational capability to the competitiveness of MSMEs in Palu City as follows:

This study provides reinforcement of the opinion that expressed by Ates et.al (2013), where in arriving at the conclusion that small and medium-sized businesses are in practice only more focused on short-term internal planning, and less attention to long-term views on internal and external issues, such as communication, competition, sustainable competitive advantage, strategic market positions and environmental monitoring.

The findings in this study are also reciprocal with the opinion of Bank Indonesia (2015) which states that the owners of MSMEs are still often involved in technical issues, so less thinking about the goals or strategic plan long-term business. The results of previous research provide an understanding that generally the strategy of MSMEs especially in developing organizational capability is only intended to exist in the effort and has not been directed to the strategic development to get business competition.

The results also provide answers to the endurance and growth of MSMEs in the monetary crisis, where in general MSMEs still exist because MSMEs in its business activities only focus on organizational management and relatively ignore the environment outside as a prerequisite in achieving business competitiveness. Besides that, limited capital and access to funding also have an important role in achieving the competitiveness of MSMEs. This limitation puts MSMEs into a business that is run with minimal equipment with minimal technology.

The Effect of MSMEs Potential on Competitiveness of MSMEs in Palu City

The effect of MSMEs's potential on MSMEs competitiveness is positive and insignificant to the competitiveness of MSMEs in Palu City. Thus the eighth hypothesis proposed in this study is not empirically proven. The explanation can be stated here, that the potential MSMEs perceived by the owners/managers of MSMEs is not as a factor that encourages the increased competitiveness of MSMEs in Palu City.

The findings in this study different from previous studies in which Matejun (2014) demonstrated that the operational flexibility and adaptability of MSMEs is a competitive resource because it provides a number of advantages, especially related to the speed of responding to environmental change conditions as an ability to seize opportunities and address external barriers, to strengthen and maintain a competitive advantage. This study also differs from the findings of Abraham and Sasikumar (2011) who found that through cost management and cost-cutting strategies in the firm's cost structure will affect the performance of firms to gain greater competitiveness.

The findings of this study provide new information on the importance of MSMEs to build strategies in a competitive structure. The findings in this study imply that the most effective strategies for small companies to general competitive advantage are the Niche, survival, and differentiation strategies, while the other three strategies - cost leadership, cost efficiency, and decentralization are not effective for small companies. Besides, one of the right strategies in the market situation with slow cycle, standard or fast is alliance strategic or cooperation strategy. This means that exploiting the MSMEs potential as a competitiveness requires a process because MSMEs can only compete on activities close to the consumer. While the activities are far from consumers need cooperation. Related to that in order to compete, then the main process that must be built by MSMEs is to form a competence which in turn will open the horizon and wider insight in achieving competitiveness.

The Effect of Entrepreneurship Competence on Competitiveness of MSMEs in Palu City

The analysis result shows that entrepreneurial competence has the positive and significant effect on Competitiveness of MSMEs in Palu City. This implies that increased entrepreneurial competence can lead to increased competitiveness of MSMEs. This means that the higher the competence of entrepreneurship, the higher the competitiveness of MSMEs in Palu City.

The findings in this study are along with previous research that is the relationship between strategic planning on performance in the context of MSME competitiveness (Davig, 1986; Ibrahim, 1991; Kargar, 1996; Olson and Boker, 1995; Pleitner, 1989). In this study concluded that entrepreneurial competence is needed in achieving strategic objectives that ultimately lead to the long-term company performance. This behavior of competence is similar with the objectives and management of the action to managerial competence as proposed by Boyatzis (1982).

Man et.al, 2008 found that the competence of commitment has a direct and positive effect on company performance. In addition, Sanches (2012) in his research also found that entrepreneurial competence plays an important role in improving performance both directly and indirectly.

The study results mean that the efforts to improve the competitiveness of MSMEs depend on the entrepreneurial competence of MSMEs. This means that in achieving growth and business competitiveness, it is necessary to have the entrepreneurial competence that is characterized by the ability of entrepreneurs or MSMEs to achieve and take advantage of opportunities.

VI. IMPLICATIONS

Theoretical implications

The hypothesis testing results have supported the model of MSMEs competitiveness theory, which explains how entrepreneurial competence affects the performance of MSMEs. Evidence found based on the results of hypothesis testing shows that for a while external factors competitive scope has not played a role in establishing entrepreneurial competence but play a role in improving competitiveness. While the external factors of dynamic capabilities play a role in establishing competence of entrepreneurship competitiveness of MSMEs. Besides, organizational capability and the potential of MSMEs within the scope of internal factors play a role in establishing entrepreneurial competence but cannot be developed in shaping the competitiveness of MSMEs. Therefore, this study provides theoretical and empirical evidence for the important role of employers determining the performance of MSMEs competitiveness and in accordance with previous research efforts puts employers as the main focus of entrepreneurship research.

Managerial Implications

The methodological contribution of this research is the development of survey instruments to measure the influence of external and internal factors as well as entrepreneurial competence based on entrepreneurial behavior. Instruments in this study were developed by modifying the existing instruments in the measurement of external and internal factors as well as entrepreneurial competence with the results of the qualitative analysis. This instrument is validated through correlational analysis, where the construct and other construct relationships in the theoretical model are tested with significant relationships. This instrument has provided a unified understanding to measure entrepreneurial competence from a behavioral point of view. In addition to testing with the competitiveness of MSMEs, the instruments developed in this study functioned well to identify the relative strength of external and internal factors of entrepreneurial competence.

Limitations

A major limitation of this study is the low response rate at the quantitative stage that has resulted in a smaller sample than expected. Another limitation of this research is related to the generalization of the theoretical models used in this study. Although supporting evidence for the current model is found to explain the relationship of external and internal factors to the competence of entrepreneurship and the competitiveness of MSMEs but this may not apply to all contexts. The main reason is that MSMEs are sampled only in Palu City, so the resulting model cannot explain MSMEs in Indonesia. In addition to these two limitations, this study is also limited because entrepreneurs are conceptualized as the main actors through their competence in influencing the long-term performance of MSMEs. Therefore, this model can only be used in investigating the performance of entrepreneurs who are dominated by individual businesses and are not appropriately used in MSMEs established by a group of entrepreneurs.

Further research can be done by comparative studies in various industries. Comparisons between different industries can help in understanding the different entrepreneurial competencies of each industry. Besides, the possibility of further research can be done by comparing between technology-based industries and knowledge, so that more research focus can be done. In addition, further research can also be done by adding behavior orientation variables based on personal characteristics such as motivation, behavior, work experience, and level of education, so as to enrich the findings, especially in understanding the competence of entrepreneurship and the competitiveness of MSMEs.

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