

The Mediating Role of SMEs' Performance in the Relationship between Entrepreneur Competence and Satisfaction

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Abstract

This study aims to examine the mediating role of SME performance in the relationship between entrepreneur competence (EC) and satisfaction (ES) in Indonesia. Data were analyzed using Structural Equation Modeling (SEM), AMOS 24. A total of 380 employers in Pekanbaru City, Riau Province, were selected as the participants. The results showed that SME performance partially mediates the relationship between entrepreneur competence and satisfaction. This is because the direct effect between SMEs' performance and ES is still significant. The implication of this study implies that there is a need to improve the SMEs' performance to increase their competence and create satisfaction for employers. Moreover, entrepreneurs who are satisfied with their businesses always wish to stay longer and do not give up on it.

Keywords: *Entrepreneur; Performance; Competence; Satisfaction; Well-being; mediation*



INTRODUCTION

Entrepreneurship is one of the important elements that help in developing a country (Belasen & Hafer, 2012). According to Astadi *et al.* (2022), these business activities increase not only state income but also people's welfare. The study by Iskamto & Jenita (2020) emphasized that

entrepreneurship is one of the solutions to workers' financial problems. However, entrepreneurs create their businesses to earn income and offer job opportunities but still feel dissatisfied (Iskamto *et al.*, 2019; Auer Antoncic & Antoncic, 2011; Carree & Verheul, 2012; Hessels *et al.*, 2017).

Previous studies showed that employers do feel dissatisfied with their SMEs' performance (El Shoubaki & Stephan, 2018). This is because they experience or have poor and low profits (Ajayi, 2018; Hessels *et al.*, 2017; Carree & Verheul, 2012). In Indonesia, businesses failed due to a lack of expertise (Hani *et al.*, 2012; Ardiana, *et al.*, 2010; Marlina, 2017; Utami & Mulyaningsih, 2017). This causes Auer Antoncic & Antoncic (2011), Binder & Coad (2016), and Bradley & Roberts (2004) to emphasize that SMEs' performance positively affects entrepreneur satisfaction (ES).

According to Ahmad *et al.* and Ajayi (2018), Al Mamun *et al.* (2016), Hessels *et al.* (2017), and Lee & Nam (2021) employers' competence (EC) significantly influences ES. The study by Guerra & Patuelli (2016) in Switzerland showed that education positively affects entrepreneur satisfaction. Also, Mitchell *et al.* (2002) indicated employers' ability significantly influence SMEs' performance. According to Vu & Nwachukwu (2021), competence becomes the key to a successful business in Japan. Narkhede *et al.* (2014) and Lopa & Bose (2014) emphasized that entrepreneurs' ability was not related to the SMEs' performance.

Alfiyah and Carruthers *et al.* (2019), and Lee & Nam (2021) explained EC in the developed economies but this assessment still have limitations in the context of "emerging markets". Therefore, this study fills the gap by examining the effect of entrepreneur competence on satisfaction with SME performance.

LITERATURE REVIEW

Entrepreneur Satisfaction

In this life, well-being and happiness is something that every individual really wants to have, especially entrepreneurship. Dijkhuizen *et al.* (2018) states that Psychological well-being or better known as psychological well-being, is a multidimensional measure of psychological development and mental health, including the scale of the level of independence and positive relationships with

others (Belasen & Hafer, 2012; Michalos, 2014). Entrepreneurs are business sectors where the perpetrators have independence and have a positive relationship with others to be able to manage their business and develop it. Is that so an entrepreneur can be said to be satisfied. An entrepreneur who has satisfaction and good psychological well-being will affect the performance in managing his business (Bianchi, 2012; Pollack *et al.*, 2015). An individual is prosperous when the individual can accept his present life, has a positive relationship with many people, has the ability to deal with pressure and self-directed, is able to set goals and direction in life and feel the meaning in life in the present and past, the ability to develop potential in themselves and continue to develop in a sustainable manner, and finally the ability to have and create an environment that is in accordance with his physical condition (Bradley & Roberts, 2004; Michalos, 2014). Entrepreneurship is a vehicle for psychological well-being because an entrepreneur must have a definite goal, be independent, develop himself and explore the potential he has and the ability to establish good relations. Carree & Verheul (2012) stated that earnings, psychological well-being and leisure are factors influencing entrepreneurial satisfaction. However, not all entrepreneurs are able to reach a level of psychological well-being because there is no which can guarantee whether the business will succeed or not.

Entrepreneur Competence

In a competitive market environment, businessmen must be well-competent in various areas such as attitudinal, academic, behavioral, and technical as today's business process is considered very composite. Consequently, the role of entrepreneur in business enterprise is considered as a curtail and is studied through the approach to competency. The competence approach has become popular as a way to study entrepreneurial characteristics (Man *et al.*, 2008; Mitchelmore & Rowley, 2013; We, 2017). As per Baum *et al.* (2001), the competencies are defined as personal characteristics, such as the skills, skills and knowledge needed to achieve a particular task. Man *et al.* (2008) said entrepreneurial competencies are a set of higher-level characteristics including identity characteristics, abilities, and information. This can be seen as the entire ability of the businessman to perform his part successfully. Key attributes such as specific knowledge, motivations, features, self images, social role and capacity that lead to the creation, survival and/ or progress of enterprises are identified as the competences (Bird, 1995). It is

assumed that the particular skills of the entrepreneurs are direct predictors of enterprise success, while general skills have substantial indirect effects. There are similarities between entrepreneurs in managing an organisation, particularly small and medium-sized enterprises. Where skills are needed to succeed. The skills approach is now becoming prominent in the study of entrepreneurs ' success factors (Laguna *et al.*, 2012; Mappigau & Hastan, 2012; Sanchez, 2012). While Wickramaratne *et al.* (2014) conducted a study at tea manufacturing firms in Sri Lanka in which Entrepreneurial Skills: Opportunity Skills, Organizing Skills, Strategic Skills, Relationship Skills and Commitment Skills. Laguna *et al.* (2012) stated that a SME's success will depend on human skills, both general skills and special skills. Research in five European countries find that general skills (organizational skills, opportunity-taking skills) have a significant indirect impact on business development, whereas specific skills (industrial and technological skills) have a significant direct impact on business performance.

MSEs Performance

Dijkhuizen *et al.* (2018) has been said that business or organisational success can be described as "the nature of the organization's delivery to customers and clients" and "the degree to which the organisation is well run," and yet success is related to the accomplishment of investor desires. Business performance can be defined as having the same or similar outcomes as a market growth enterprise, and company performance is both a learning industry phenomenon and a multi-dimensional and complex trend. Furthermore, success can be described as an institution's capacity to generate appropriate behaviour and outcomes (We, 2017). Xiang (2009) and Laguna *et al.* (2012) both claimed that Micro The potential and motivation to contributing to prosperity and employment growth by beginning, expanding, and sustaining companies or firms is referred to as business efficiency. Performance is a method for determining how much an organisation can stretch its capital from its main or early market mode to produce sales. As a result, success as one of the company's corporate or development objectives within a given time span (Pollack *et al.*, 2015). Santarelli & Tran (2013) took the view that entrepreneurial success could be separated into objective and subjective results. Objective performance refers to various financial indicators, most of which are accurate and persistent data such as sales growth and net profit. On the other hand, subjective quality applies to non-financial metrics,

including judgments at personal satisfaction and problem solving. Efficiency, however, remains to be conceptualizing, operationalizing, and measuring the different ways of making cross-comparison difficult. According to Abdullahi *et al.* (2015) Describe performance as a behavior or activity that is deemed in line with how successful businesses are doing. Looking at Shane (2003) performance concept, it is inferred that performance is associated with success in all areas of effort. Global Entrepreneurship Monitor (2013) stated that performance was an act of successful doing something; doing well; using knowledge as distinct from mere possession. Cho & Lee (2018) noted that the factors driving non-economic entrepreneurial success are becoming more creative, while risk-taking patterns have little effect on both economic as well as non-economic results. Lee and Cho Additionally discovered There is no business oriented relationship in entrepreneurial education For seasoned entrepreneurs, education is not as effective as it is for students. Non-economic company performance is linked to lengthy goals and growth opportunities. Proactivity has an effect on non-economic corporate results. As a result, developers must look for ways to publicise their creative solution.

Entrepreneur Competencies And Entrepreneur Performance

For study, success is often linked to MSEs management, and the concept and arrangement are seldom clear and reasonable; so instead of the company's propriety in what shape the business does not matter, it is extremely indisputable and significantly presumed. (Abdullahi *et al.*, 2015; Fang & An, 2017). Lee *et al.* (2011) and Watson *et al.* (2003) emphasised that operational success consisted of three distinctive organisational results: economic results (investment return, earnings, profitability, and so on); shareholder return (financial added value, overall return on investors, and so on); and company performance (sales, market share, and the rest).

MSEs Performanc And Entrepreneur Satisfaction

It has been found that company engagement which emphasizes economic goals is not better in terms of quality and satisfaction. A higher level of satisfaction is expected for what emphasizes non-economic goals. Also found; that later, even when controlling for results, those who are more positive are more satisfied (Cooper & Artz, 1995). Found from previous research suggest both a direct and an indirect link between job satisfaction

and organizational performance (Binder & Coad, 2016). While there are already a variety of drawbacks, such as low pay, satisfaction is also one of the variables in the actions of entrepreneurial (Carree & Verheul, 2012).

Entrepreneur Competence and Entrepreneur Satisfaction

Hessels *et al.* (2017) and Roche (2014) conduct research on the beneficial connection between satisfaction of industry and workers through the consideration of highly qualified and low-quality employment in Europe. Both realized that it was happier in their lives to become an entrepreneur than to be a student. Business ventures have additionally appeared to help settle helpless life fulfillment because of low-ability common work. Andersson (2008) saw that self-craving business venture gives worthwhile advantages beside work satisfaction, yet in addition adds to more prominent general fulfillment throughout everyday life and better prosperity, the two of which would build business in the initial three years. Roche (2014) saw that informed financial specialists were exceptionally satisfied with knowledgeable labourers. Education in business skills is needed to help run commercially sustainable businesses. They are increasing their happiness in being entrepreneurs (Kautonen and Palmroos, 2010).

RESEARCH METHOD

According to Creswell & Garrett (2008) and Saunders *et al.* (2003), this study supports empirical hypotheses. A descriptive, quantitative, and cross-sectional survey was used to learn about what is occurring in business activities.

Demographics and Sample Data

A total of 380 entrepreneurs in Pekanbaru City, Riau Province, between November and December 2021 were selected as the participants. Data were collected using a semi-structured questionnaire. A total of 380 out of the 400 entrepreneurs selected at random submitted valid responses to these questions. This showed that 92% response rate was appropriate and acceptable for this study. The content validity of the questionnaire which was conducted in Indonesia is confirmed by two university professors.

Variables and Measurements

This study adopts or uses a questionnaire from Ma (2008), Machiriri (2012), and Ryff (2014) to measure entrepreneur competence and satisfaction, as well as SMEs performance. A 10-point Likert scale ranging from strongly agree to strongly disagree was used to obtain information about EC and ES. This is in line with Awang *et al.* (2016) that this scale is the best during the analysis of data. Also, a 10-point Likert scale ranging from below to above average was used to evaluate SMEs' performance. Data were analyzed using a Structural Equation Modeling (SEM), AMOS 24.

Mediation Analysis

A mediation analysis was used to investigate how X exerts its influence on Y (MacKinnon, 2000). This showed that SMEs' performance partially mediates the relationship between the independent and dependent variables. Therefore, the entrepreneur competence predictor needs to affect the company's performance and satisfaction. Baron and Kenny (1986) presented the following mediation conditions.

1. The independent variable which is competence need to affect the entrepreneur's satisfaction.
2. The mediator which is SME performance needs to affect the ES.
3. The independent variable which is competence need to affect the SMEs' performance.

The above three mediation conditions provided by Baron and Kenny (1986) were satisfied while being examined. Therefore, structural equation modeling needs sufficient correlations between the independent, moderate, and ultimate dependent variables to test the effect (Hair *et al.* 2006).

RESULTS

In this study, there is no need to send further questionnaires to respondents who failed to return the survey because 95% of them have submitted a high response. A total of 380 questionnaires were returned out of 400 that were distributed to the participants. In this study, a direct survey was used in obtaining information (Talib, 2013). Data were analyzed using SEM (Ghazali *et al.*, 2012; Hair *et al.*, 2019; Iskamto, *et al.*, 2020).

Assessment for Construct Validity

This study needs to incorporate all joint constructs and use the Pooled-CFA approach to evaluate the discriminant validity of the model (Awang, 2015; Brown, 2015; Ghozali, 2017; Loehlin & Beaujean, 2017). All the constructions have to be combined because they consist of the first and second orders. Therefore, this analysis needs to obtain a composite average for each sub-construction of the measurement model. Table 1 shows the simplified method using the Pooled Measurement System. The absolute, additional, and the parsimonious fit conformity includes $RMSEA < 0.08$, $CFI > 0.90$, and the $Chisq/df$ ratio < 3.0 . Therefore, the measurement model has the requirements for construction validity (Awang, 2015; Brown, 2015; Ghozali, 2017; Klein, 2015; Loehlin & Beaujean, 2017).

Table 1: The Fitness Indexes indicate

category	index	acceptance	GoF
Absolute Fit Index	RMSEA	$RMSEA < 0.08$	0.063
Incremental Fit Index	CFI	$CFI > 0.90$	0.944
	TLI	$TLI > 0.90$	0.937
Parsimonious Fit Index	Chisq/df	$Chi\text{-}Square/df < 3.0$	2.647

Assessment for Convergent Validity and Composite Reliability

This analysis measured Average Variance Extracted to determine Average Validity Extracted (AVE). Convergent validity is achieved if the AVE approaches a minimum value of 0.5 (Awang, 2015; Brown, 2015; Byrne, 2016; Loehlin & Beaujean, 2017). The study also indicated that composite reliability (CR) needs to be measured and its value has to surpass 0.6. Table 2 shows the AVE and CR for the construction.

Table 2: AVE and CR Constructs

Construct	Sub-Construction	Loading Factor	AVE	CR
Entrepreneur competence	OPC		0.967	0.961
	ORC	0.971		
	SC	0.976		
	CMC	0.948		
	CNC	0.668		
Entrepreneur Satisfaction			0.524	0.815
	AU	0.701		
	PG	0.714		
	LT	0.733		
	SA	0.746		
SMEs Performance			0.670	0.924
	PF1	0.856		
	PF2	0.836		
	PF3	0.799		
	PF4	0.793		
	PF5	0.827		
	PF6	0.798		

The analysis results showed that the AVE and CR values have the minimum levels of 0.5 and 0.6, respectively. This study needs to infer that the convergence of validity and composite reliability is accomplished. Also, the measurement model for all latent constructs involved is validated after the CFA report is completed (Awang, 2015).

Measure the Mediation effect on the model

This study aims to determine the mediate effect of SME performance on the relationship between entrepreneur competence and satisfaction. Therefore, the mediator measured the relationship between the independent and dependent variables.

Table 3: Regression Weight

			Est.	S.E.	C.R.	P
MP	<---	EC	0.385	0.074	4.490	***
ES	<---	EC	0.401	0.079	5.595	***
ES	<---	MP	0.246	0.080	3.904	***

Table 3 above shows that all the hypotheses are accepted because they have a significant value of < 0.05 . The hypothesis includes the following.

H1: Entrepreneur competence positively affects SMEs' performance.

H2: SMEs' performance significantly influences entrepreneur satisfaction.

H3: Entrepreneur competence positively affects satisfaction.

Figure 1: The Mediation Effect of Variable

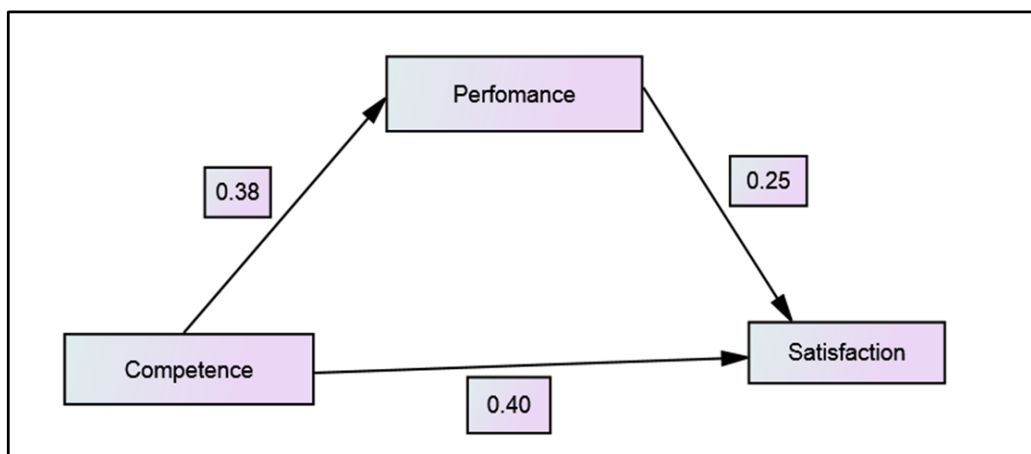


Figure 1 shows the indirect effect of entrepreneur competence on SMEs' Performance which also influences satisfaction with 0.38 and 0.25 while in the direct one, EC affects ES with 0.40. This show that the indirect effect is $0.09 < \text{direct of } 0.40$. Therefore, partial mediation was used because the direct effect is still significant.

DISCUSSION

In indirect measurements, entrepreneur competence positively affects SMEs' performance which also affects satisfaction, while the direct one allows EC to significantly influence ES. There is a mediating effect of SMEs' performance on the relationship between EC and ES because the direct effect is lower than the indirect one. A Partial mediation was used because the direct effect is still significant. The results are in line with Binder & Coad (2013), and Carree & Verheul (2012) that SMEs' performance mediates entrepreneur satisfaction.

CONCLUSION

The results showed that SME performance mediates the relationship between entrepreneur competence and satisfaction. Partial mediation was used because the direct effect is still significant. This study raises the issue that SMEs' performance mediates the relationship between entrepreneur competence and satisfaction in Indonesia. Also, it completely become a new reference in the field of entrepreneurship which focuses more on ES.

This study implies there is a need to improve the SMEs' performance and competence to create satisfaction for entrepreneurs. Also, it is assumed that SMEs' performance becomes higher if EC is improved through training and non-formal education. This study has theoretical implications in the main areas related to the increase of knowledge by including entrepreneur competence and satisfaction. Further analysis needs to examine if there are gender disparities in competency requirements. In conclusion, entrepreneur satisfaction in SMEs tends to be improved by beginning with competencies and increases through performance. This is because the requirements for the fitness index were achieved.

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