

# A Study of Entrepreneurial Competence in Micro-Enterprises

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## ABSTRACT

*This study aimed to understand the implications of the entrepreneurial competence in micro-enterprises. Literature on micro-enterprises and entrepreneurial competence has been reviewed; the research design opted the analysis of entrepreneurial competence in micro-enterprises in a multi-case study way. By the research findings were divided by the construct implication of entrepreneurial competence in the abilities of six constructs in two levels for data analysis. Finally, this article proposed the practical implications of micro-enterprises management and recommendations for future research.*

**Keywords:** *entrepreneurial competence, entrepreneurial management, micro-enterprises*

## INTRODUCTION

Micro-enterprises are important to Taiwan's economic development to a certain extent. About 70% of all enterprises, the micro-enterprises that employ less than 5 persons also contribute to 10% of the total turnover and the employment of about 600 thousand persons. The issue of micro entrepreneurship should not be taken lightly, because for the entrepreneurs the exercise of entrepreneurship is a matter concerning survival. What many do is injecting all they have accumulated in it such that the success or not of the new business not only concerns employment but may lead them to indebtedness. "Entrepreneurial competence" has been intensively explored by many since it, as a concept, was introduced to the field of strategy management. Research in competency approach tends to increase too (Baron and Markman 2003; Man et al. 2008; McGregor et al. 2000; Schmitt-Rodermund 2004). For example, Chandler and Hanks (1994) believed that the competence of the entrepreneur facilitated the enterprises to grasp opportunities and enhance their performance; Hatch and Zweig (2001), found, after in-depth research in 50 rapidly developing enterprises, that the ultimate drive under which the enterprises realized swift development was their adaptability, which worked often through entrepreneurial competence. Man et al. (2002) further probed entrepreneurial competence from a comprehensive angle. They defined entrepreneurial competence in the aspects of capability of opportunity, capability of relationship, capability of conceptualization, capability of integration, capability of strategy and capability of commitment. Such research all, to a certain extent, verified that entrepreneurial competence really affects the performance of newly founded enterprises.

This study based on the above to try to understand the contents of entrepreneurial competence in micro-enterprises, in order to help the practitioners understand the operational performance from entrepreneurial competence in micro-enterprises, further to promote the economic growth in the society.

## LITERATURE REVIEW

### Definition and characteristics of micro-enterprises

In most countries, micro-enterprises are recognized by the criterion of less than five employees. The Global Entrepreneurship Monitor, GEM, in its 2001 report, proposed the concept of survival-driven

entrepreneur and opportunity-based entrepreneur. The former refers to the entrepreneurial activities that are engaged due to the lack of other options of employment or to the dissatisfaction with the available options of employment; the latter refers to the entrepreneurial activities that are engaged in pursue of a business opportunity. The survival-driven entrepreneur is the micro entrepreneurship in question herein.

The entrepreneurs of micro entrepreneurship display apparent characteristics of survival-driven entrepreneur. For example, they are mostly under 25 or over 45 years of age, and have received lower levels of education, a majority of them doing no more than primary school or junior high school. Being anxious to get out of the awkwardness that existed before their entrepreneurial activities, the entrepreneurs of micro entrepreneurship look to a shorter period of return of investment than that by the opportunity-based entrepreneurs to recover the costs invested in order to avoid the investment risk. For entrepreneurs of micro entrepreneurship, the starting funds come from personal capital, family and relatives and partnership, but rarely bank loans. In selecting trades, their choices are normally those with lower technical hurdles and the trades with higher technical hurdles are automatically avoided.

### **Definition of entrepreneurial competence**

Entrepreneurial competence is the ability to identify and obtain or create the market on the basis of entrepreneurial opportunity and the requirement of resources (Karra et al. 2008). It is the key skill and implicit knowledge the entrepreneurs possess, including personality, skills and knowledge, which are regarded as the overall capability of the entrepreneurs to successfully fulfill their duties (Man et al. 2002); it is also the aggregate of the capabilities that require the entrepreneurs in order to qualify as the role of the entrepreneurial work and is associated with the birth, survival and growth of new founded enterprises (Chandler and Hanks 1994; Chandler and Jansen 1992; Krueger et al. 2000; Ma and Tan 2006).

### **Constructs of entrepreneurial competence**

The construct implications of entrepreneurial competence are divided in six constructs in two levels: the entrepreneurial opportunity of level one includes the capabilities of exploration and exploitation of level two, and operation of level one includes organization, strategy, relationship and commitment of level two (Chang 2010).

Capability of opportunity exploration: the entrepreneur's capability of capturing and incubating market opportunities by various means, contained in his behavior of identifying, exploiting and utilizing opportunities. The entrepreneur's unique function is being able to restore balance of the market by identifying and exploiting opportunities. Opportunity exploration is one of the important capabilities a successful entrepreneur must possess (Vaghely and Julien 2010). The entrepreneurs are opportunity identifiers rather than organization creators in general meaning. Thus, entrepreneurial opportunities are discovered, recognized and constructed (Baron and Ensley 2006; Sarason et al. 2005; Shane, 2000).

Capability of opportunity exploitation: entrepreneurs' strength in developing, after exploring the opportunities, new ideas, fast creating products or service, discovering new market sector, developing new methods of production, marketing and management to gain benefits and establish their new enterprises and organizations (Chandler and Hanks 1994). It is the entrepreneurs' accumulation of knowledge about products and market and the ability to realize (Rice 2002; Choi and Shepherd 2004). The consecutive process of exploration and exploitation in entrepreneurship has been recognized by both the academia (Aldrich 1999; Choi et al. 2008) and the industries (Block and MacMillan 1985).

Capability of organization: the entrepreneurs' capability of organization is that which is related to the activities like handling of resources internal and external to the new enterprise, structuring starting

teams, leadership, training and monitoring (Chandler and Hanks 1994). In founding the new enterprise, the entrepreneurs should focus on the effective attainment of external resources and should be able to allocate and employ those available effectively. Also, effectively operating with efficiency oriented and being attentive to quality work and monitoring are the capabilities the entrepreneurs should have to manage different functions with. In addition, they should be able effectively manage the workers at the new enterprise to coordinate the internal behaviors; so the entrepreneurs should possess the abilities such as authorization, training and directing and working with others. Hence, the new enterprises require the entrepreneurs to possess the capabilities of leading, control, monitoring, organizing and mobilizing resources inside and outside organizations as well as their effective organization and planning for the functions of the new entity.

Capability of strategy: this is entrepreneurs' capability of responding, based on strategic orientation, to the affairs in the areas of different functions and the exterior uncertainty, which can only be acquired through practice and learning over time (Man et al. 2002). As the sole decision maker of the new enterprise, the entrepreneurs should be able to specifically indicate the direction for development of the enterprise, lay the plans and carry out the strategies. The fact that the entrepreneurial activities are often faced by complex problems dictates that the entrepreneurs possess a certain degree of analytic ability including decision skills, referencing and grasping complicated information, undertaking risks and innovation. Hence, the capability of strategy requires the entrepreneurs to possess a view of the big picture, establish specific action targets and realize the strategy to fulfill the predetermined objects.

Capability of relation: this is the entrepreneurs' ability to promote inter-personal and individual-organization interaction. Entrepreneurship is the process of identifying and exploiting and developing opportunities with scarce resources. An important task, which the entrepreneurs should complete, is to pave the way for establishing the new enterprise by connection and communications and shaping advantages for the new business. Entrepreneurship is also the process of maintaining and creating new relationships by the entrepreneurs, which manifests itself as the socialization of the new enterprise. Hence, the entrepreneurs should possess the ability to establish relationships, to communicate, to convince others and socialize. This is the ability to start up good interactive relationship with individuals or with groups for individuals.

Capability of commitment: this drives the entrepreneurs to run sustainable operation. As entrepreneurial activity is not an easy matter, the entrepreneurs are often seen with excellent capabilities of undertaking responsibilities, dedicating oneself and taking advance actions; they have the strong momentum to finish the entire course from birth to end of the a new enterprise. There even are occasions that the entrepreneurs are required to take action ahead of the drive of the environment so as to prevent the new enterprise from being subject to external impact (Chandler and Jansen 1992). A strong sense of mission with remarkable perseverance against outside interference makes it possible to operate continuously and to fulfill the capability of commitment to suppliers, employees, customers and various benefits including risk investment.

## **RESEARCH METHOD**

With reference made to the research procedure by Yin (2003), this study involved the steps of uncovering of research issues and verifying the research object, gathering literatures and information, in-depth case study, revising research issues, research design, analysis and conclusion and recommendation.

The objects of this study were thus to understand the implications of entrepreneurial competence in micro-enterprises to impart the practitioners the insight into the operational performance of

entrepreneurial competence in micro-enterprises. In the gathering of documentary information, this study constructed the framework for the documentary theories from the literature on entrepreneurial competence before having in-depth understanding and analysis in a multiple of cases. In multi-case study, documentary theories not only can assist the researchers draw up appropriate research design, making gathering information easier, but also is an important tool of inductive analysis in the data of case study.

In the process of research and analysis, this study gathered a sub-level of information involved in the cases under study and conducted in-depth interview with the case-related persons to better understand the entrepreneurial competence in the cases. The process went on to integrate the analytic opinions by the researchers and the advisors to deduce the final findings as recommendations for the practitioners and as our findings to clarify the contents of the constructs on entrepreneurial competence.

For subject of research, this study made selection by the two features as follows. First, the cases have been established at similar time in similar surrounding conditions; besides, every case was a micro-enterprise with less than five people. The second, the researchers were considerably familiar with the entrepreneurs of the cases, which was beneficial to the acquisition of sub-level information and the convenience in the communication of data analysis.

## **RESEARCH FINDINGS**

### **Capability of opportunity exploration**

Company A was founded in February of 2009; having surveyed the then market in the region of Yunlin, Chiayi and Tainan Counties for beverages, it formulated something of the taste like no others in the beverage market at prices lower than ever before. Company B was founded in 1988, starting with a primitive street vendor to the setup of its first physical store “Erjixuan” to increase the competitive ability. To keep its customers coming back, company B constantly developed new products and priced flexibly to rival its competitors. Company C was founded in August 1999; its founder probed the characteristics of the coffee industry in Huashan Area, Gukeng, and assessed the business cluster of the nearby café and guesthouses for exploration of the market potential. Its practice was intensely talked about island-wide after the First Taiwan Coffee Festival in Yunlin County, making the industries related the Gukeng coffee more confident about their fast development. Company D was founded in 2007 April, when the market for the watermelon trade had already been saturated. Its entrepreneur had to investigate the taste of consumers and the competition of prices. Company E was founded in 2009 June. This subject of this case attempted at the transportation of chiefly seafood like fish and oyster, as the transportation industry, in particular, the door-to-door delivery, such as I-Cat、 T-Join Transportation and HCT Logistics, has been in fierce competition. From the above analysis, in terms of capability of opportunity exploration, the companies A, B, C, D and E of micro entrepreneurship took the establishment in market and regional location very seriously and were very aware of the cognition of public general, as the consumers, about price, taste, quality and service. Meanwhile, Company E was also very aware of the cooperation on the distribution by its collaborating firms. Therefore, the following proposition is hereby proposed.

Proposition 1: The capability of opportunity exploration as entrepreneurial competence in micro-enterprises focuses on local market and consumer cognition.

### **Capability of opportunity exploitation**

Company A innovated the formulation of beverages during its founding process to answer to the consumers who favor novelty; it also found new market sector, where it grasped what was the prices that

consumers could accept at that time via night market and physical shop and probed consumers' motives of buying beverages (e.g., thirst and hot weather). Company B, with a view of consumer satisfaction, constantly rolled out new products challenging its customers on their sense of curiosity about Erjixuan products. The owner redeveloped repeatedly their products in terms of flavor till the consumers wanted to come back for the products to establish customer satisfaction, whereby to make its customers think of Erjixuan whenever it came to baked wheat cake and twisted crullers. Company C devised shapes of originality during its course of birth because the consumers were inquisitive. Each cup of coffee it dished out bore a customer-fancied or creative pattern drawn on frothed milk or cream to appeal to the customers as well as arrest their taste bud. In the course of establishment, Company D made in-depth understanding, through customers passing-by and known beverage stores, of consumer's motives of buying tea, for example, thirst quenching and hot weather. In the course of establishment, Company E discovered various ways of delivery of seafood materials, such as shells, fishes and crab, by truck in the realm of fish distribution. From the above analysis, in terms of capability of opportunity development, companies A, B, C, D and E of micro entrepreneurship recognized the public general's behavior of buying products. Therefore, the following proposition is hereby proposed.

Proposition 2: the capability of opportunity development of entrepreneurial competence in micro-enterprises focuses on the accumulation of knowledge about products and market.

### **Capability of organization**

Company A started the business by the members of a family, who have begun the trial run at the Cultural Recreation Park in Douliou City, Yunlin County, developing in the form of beverage vending van and testifying whether their products met the consumer demand through trial sales. The relevant operations in the course of business, e.g., purchasing, ingredient mixing and production, were all done by labor division in the family. Company B had only 3-4 employees besides the owner in its inaugural stage, where the product finishing of the internal operation had all been done by the owner alone with him and his wife taking care of the financing for the store. Most of their suppliers had come from Douliou, who transacted with the company by cash only and owner himself managed the finance. Company C had begun its business from the operation at Gukeng Green Tunnel in Yunlin County and employed no one in the course of operation, running independently in the stage of growth. Company D had used no employees except the family members to prepare all the beverages in the initial stage. Company E started with a 3.49-ton small truck but not any employee; all cargo delivery was done by the founder alone and the source of fund, at NT2.2 million, was cover by the family. Following that, in the growth stage, the thought of purchasing two 17-ton trucks was given to increase the operational performance. From the above analysis, the capability of organization of Companies A, B, C, D and E of micro entrepreneurship could be divided in five aspects. In the aspect of inter-personal relationship, they depended on their friends and relatives to obtain the related information; in the aspect of finance, they all used simplified accounting integrating the financial statements; in the aspect of techniques, they acquired based on the related experiences from their own investigation; and in the aspect of market, Companies A, B, C and D were intensively set up at large-scale events, tourist scenic spots and the passage of people and passers-by. With Company E, it was more unique in the aspect of market, and in the aspect of procurement, they all depended on the powerful collaboration with the suppliers and wholesales. Therefore, the following proposition is hereby proposed.

Proposition 3: the capability of organization of entrepreneurial competence in the micro-enterprises focused on the source integration in the aspects of maintenance, purchasing, techniques, market and finance.

### **Capability of strategy**

Company A had an operation mode of mobile beverage vendor; in terms of setting up responsive strategy, it focused on product strategy and flexibility of price, not so complex as a beverage store in the form of physical store. When first founded, Company B had the stores and the land all to the owner, hence, the sharing of cost was easier and the pricing tended to be flexible. Promotion-wise, sales promotions like buy-ten-get-one-free, sampling and eating contest were very appealing to the public general as consumers and the group of students. The operation mode Company C took in its entrepreneurship was café on wheel; because trucks for café purpose have been illegal modification in Taiwan, the selection of business location was crucial to it. The operation mode Company D took in its entrepreneurship was self-owned store, which the owner used to sell merchandise in, and was successful when he employed buy-five-get-one-free promotion sale. Company E had opted the service of delivery of seafood products; drawing up how to appear in the market was important contemplation, for example, to entice more firms to join it. From the above analysis, as for capability of strategy, Companies A, B, C, D and E of micro entrepreneurship all opted promotion sale in their strategy analysis and promotion strategy to boost the product sales. Their market strategies differed according to different industries and different locality. Their product strategies differed according to different products, but focused on their respective product quality. They all resorted to low costs as pricing strategy and in terms of distributorship strategy, they conducted direct face-to-face retails. The focus of Company E was on the special distributorship which should consider the return trip of the seller and of the buyer. Therefore, the following proposition is hereby proposed.

Proposition 4: the capability of strategy of entrepreneurial competence in micro-enterprises focuses on the formulation of specific action target for the industry, including the integration of promotion strategy, market strategy, product strategy and distributorship strategy.

### **Capability of relationship**

Company A was influential to its industry to a great extent in the communication with customers and interaction in transaction. In respect of the entrepreneurial process, as differences and bias were inevitable during content communication, the contents were all smoothed out in good faith in order to avoid conflicts. The owner of Company B discovered that, in customer demands, consumers' self-awareness rose and, service, the consumers highly preferred the greeting style with warmth and smile. Company C involved the family members and friends and relatives as partners in the investment in the entrepreneurial process; thus, to avoid conflicts, it was always that the entrepreneur conducted face-to-face internal communication. As for the capability of relationship of Company D, the external communication with customers was just as important as with the family internally in the entrepreneurial process. The operation was long-term working and thus required product quality; otherwise, words would spread from the customer who bought for once to many others. To Company E, the capability of communicative interaction with the collaborating firms under contract was important. From the above analysis of the capability of relationship in Companies A, B, C, D and E of micro entrepreneurship, it required the knowledge of consumers' taste and product quality in respect to customers. Cooperation with suppliers was important in respect to the supply. In respect of connections, it required the ideal bridge of friends and relatives; whereas Company E was special as it depended on the overall cooperation among all logistic firms, for instance, small trucks collected the goods before loading them onto large trucks so as to make the total operation smooth such that the time-demanded delivery arrived at the destination at certain time or earlier to increase the operational efficiency. Therefore, the following proposition is hereby proposed.

Proposition 5: the capability of relationship of entrepreneurial competence in micro-enterprises focuses

on the content integration of customer-principal relation and interactive relation between organizations.

### **Capability of commitment**

As in the beverage industry, Company A committed to the seeking of relevant suppliers to cooperate with in long term. As for the water used in preparing the beverages, which kind of water to be used depended on the collaboration with the suppliers in order to fulfill the commitment to customers. Company B, who demanded massive raw material, committed to keeping good relation with its upstream suppliers and to the quality control at every outlet, which meant that goodwill was the best commitment to the consumers. Company C being founded in the coffee industry, it located the related suppliers for coffee bean wholesale too. In a commitment to the quality of meticulously chosen bean, it maintained good communication with the suppliers to ensure fresh and good quality and purchased at the suppliers' in person. Company D, dealing in fruits and vegetables, committed to the seeking of relevant suppliers and the suppliers did commit to delivery as well. Company E was a delivery service for single seafood category and accordingly located relevant cooperative suppliers. From the above analysis in capability of commitment of Companies A, B, C, D and E of micro entrepreneurship, the product commitment focused on product quality and operation efficiency; customer commitment focused on consumer satisfaction with product and principal service quality; supplier commitment centered at the cooperation with principals. Therefore, the following proposition is hereby proposed.

Proposition 6: the capability of commitment of entrepreneurial competence in micro-enterprises focuses on the integration of customer satisfaction and the capability of sustainable operation.

## **CONCLUSIONS AND RECOMMENDATIONS**

This study made extensive exploration in entrepreneurial competence through five cases of micro entrepreneurship under study. Our findings are as follows: (1) the capability of exploration of entrepreneurial competence in micro-enterprises focuses on the cognition of regional market and consumers. (2) the capability of opportunity exploitation of entrepreneurial competence in micro-enterprises focuses on the accumulation of knowledge about products and market. (3) the capability of organization of entrepreneurial competence in micro-enterprises focuses on the resource integration in the aspects of interpersonal relationship, procurement, techniques, market and finance. (4) the capability of strategy of entrepreneurial competence in micro-enterprises focuses on setting forth specific action targets for the industry, including the integration of promotion strategy, market strategy, product strategy and distributorship strategy. (5) the capability of relationship of entrepreneurial competence in micro-enterprises focuses on the content integration of customer-principal relation and organizational interactive relation. (6) the capability of commitment of entrepreneurial competence in micro-enterprises focuses on the integration of customer satisfaction and the capability of sustainable operation.

In management implication: micro-enterprises have strong capability of adapting to changes of market demands; micro-enterprises have clear asset rights and specific authority and duties; the organizational structure of micro-enterprises is flexible and easy to manage; and with small-size but delicate business, micro-enterprises are able to cater closely to customer demands. For entrepreneurs to fulfill the micro entrepreneurship, their entrepreneurial competence should involve six constructs of capabilities in two levels; level-one entrepreneurial opportunities include the opportunities of exploration and exploitation and the level-one operation includes the level-two capabilities of organization, strategy, relationship and commitment.

For future research, we suggest as follows: (1) to construct more sound entrepreneurial competence models that are organization related by other research methods. (2) to supplement or expand the implications and constructs of the research model. (3) to enlarge the research sample and further make empirical analysis to render the entrepreneurial competence model for micro entrepreneurship more rigorous.

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