

## **The Effect of Entrepreneurial Self-efficacy and Entrepreneurial Competence on The Entrepreneurial Entry Decision and The Success of Start-up MSMEs in Medan City**

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### **ABSTRACT**

One important element in the ASEAN Economic Community (AEC) 2025 blueprint is the strengthening of Small, Medium Enterprises (SMEs). The third largest city in Indonesia, Medan City, has a start-up Micro, Small, and Medium Enterprises (MSMEs) which ranks third in Sumatra itself. The problem is that not all MSMEs in Indonesia can survive or experience growth. So this study aims to determine the effect of entrepreneurial self-efficacy and entrepreneurial competence on entrepreneurial entry decisions and the success of start-up MSMEs in Medan City. The method of determining is the sample using a purposive sampling method, from 100 MSMEs owners. The findings of this study are that entrepreneurial self-efficacy (ESE) has a significant effect on entrepreneurial entry decisions, while entrepreneurial competence is not significant. However, the success of MSME start-ups in Medan is significantly influenced by entrepreneurial competence while ESE is not. The implication of this study is that strong confidence is needed when starting a business, and requires competence to gain business success.

**JEL:** L26, M13

**Keywords :** *entrepreneurial self-efficacy, entrepreneurial competence, the entrepreneurial entry decision, the success of start-up MSMEs.*

### **1. INTRODUCTION**

Micro, small, medium Enterprises (MSMEs) contribute greatly to the ASEAN economy. Ashariyadi (2016) explained that until mid-2016, about 96 percent of business forms in ASEAN were MSMEs with contributions to gross domestic product (GDP) of around 30 percent to 57 percent; and absorbs about 50 percent to 95 percent of the workforce. Therefore, one of the important elements in the ASEAN Economic Community (AEC) blueprint 2025 is the strengthening of Small, Medium Enterprises (Ashariyadi, 2016).

AEC provides an opportunity for businesses in Indonesia to emerge and grow. Zaky, Nuzar, Saputro, Prayusta, Wijaya & Riswan (2018) mapped businesses in Indonesia which concluded that from 2007 to 2018, a total of 992 businesses were established and spread throughout Indonesia. Mostly spread in Jabodetabek (52.62 percent), then on Sumatra Island

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(11.53 percent), and third in East Java (11.39 percent) (Zaky et al., 2018). In the last 5 years (2013-2018), of the total businesses, the dominant was in the start-up business phase (start-up phase) which was 604 businesses (60.89 percent). However, only 3.12 percent of start-up businesses go directly to the large scale, the rest (96.88 percent) start-ups are established at the scale of micro, small and medium enterprises (MSMEs).

The island of Sumatra is ranked second from the entire territory of Indonesia, but Medan City as the third largest city in Indonesia is only ranked third which has the highest number of businesses on the island of Sumatra after Pekanbaru and Banda Aceh (Zaky et al., 2018). Based on the pre-survey results of this study of 10 start-up businesses registered at the Medan City Cooperative and UMKM Office in 2018, information was obtained that the average length of time decided to become an entrepreneur since they intend to be around 3.6 years. In other words, the process of deciding entrepreneurship is not easy and fast so that not everyone who intends to become an entrepreneur finally decides to become an entrepreneur.

In Indonesia there are 4 start-up entrepreneurs who are able to make their business quickly enter the growth phase and successfully hold a unicorn status after standing around 5-8 years including Traveloka in 2017, Go-Jek in 2016, Bukalapak in 2018, and Tokopedia in 2017. The problem is that not all the Indonesian start-up MSMEs are able to survive or experience growth. Suryana (2001) said that the failure or mortality rate of small businesses in Indonesia reached 78 percent.

The success or failure of a business is influenced by many factors originating from internal and external organizations (Munizu, 2010; Sari & Sitepu, 2016). The view that says that external factors are more important than internal factors in achieving competitive advantage is known as the view of industrial organizations (David & David, 2019). From empirical studies, external factors that influence the success of a business include the family environment, task environment, aspects of government policy in the MSME sector, aspects of the role of related institutions, social aspects, cultural aspects, and economic aspects, (Munizu, 2010; Rachmania, Rakhmaniar, & Setyaningsih, 2012; Sari & Sitepu, 2016). Conversely, the view that considers that internal factors (internal resources) are more important than external factors is known as the Resource Based View (RBV) (David & David, 2019). Internal resources are divided into three categories, namely 1) physical resources which include factories, equipment, locations, technology, raw materials, machinery; 2) human resources including employees, training, experience, intelligence, knowledge, expertise, competence; 3) organizational resources that include organizational structure, planning processes, information systems, patents, trademarks, copyrights, data centers, and so on (David & David, 2019). Internal factors as a source of power to help the start-up MSMEs exploit opportunities and neutralize existing threats in the environment (David & David, 2019).

## **2. LITERATURES REVIEW**

### *2.1. The effect of entrepreneurial self-efficacy on the entrepreneurial entry decision*

From the literature study, internal factors that influence the entrepreneurial entry decision include experience, knowledge, ideas and concepts, resources (Reymen et al., 2015), rational factors, behavior-driven by goals (Perry, Chandler, & Markova, 2012), self-efficacy

(Fini & Lacetera, 2010). Based on image theory, one of the cognitive structures in making decisions is a valued image consisting of morals, beliefs, values, and responsibilities that will drive an action (Beach & R.Mitchell, 1987). Based on social cognitive theory, self-efficacy which is related to interests, choices, and performance is called occupation-specific self-efficacy such as entrepreneurial self-efficacy (ESE) and this is different from self-efficacy in general. Likewise in the entrepreneurial entry decision process, someone will dare to take the risk of opening a business, one of which is because of their self-confidence in their entrepreneurial ability or entrepreneurial self-efficacy (ESE) (Esfandiar, Tehrani, Pratt, & Altinay, 2017). Prodan & Drnovsek (2010) said that self-efficacy is the most influential factor to explain the entrepreneurial interest that will drive action. And several studies on self-efficacy or ESE conducted on students in determining work interest or entrepreneurial interest (Krecar & Coric, 2013; Setiawan, 2014; Widyastuti, 2013). Likewise in the literature study of Newman, Obschonka, Schwarz, Cohen, & Nielsen (2019), it was found that entrepreneurial self-efficacy (ESE) mediates the relationship between culture and the emergence of a business (Hopp & Stephan, 2012). Therefore,

**H1a:** there is a positive and significant effect of entrepreneurial self-efficacy (ESE) on the entrepreneurial entry decision of start-up MSMEs in Medan City.

### *2.2. The effect of entrepreneurial competence on the entrepreneurial entry decision*

While based on the theory of RBV (resources based view), starting a business will require a combination of resources (capabilities) and capabilities (capabilities) called competence to gain profit (Solihin, 2012). Funders for both investors and creditors will consider the competence of those fund users such as the study of Ibidunni et al. (2018) in technology-based businesses in Nigeria. Obschonka, Silbereisen, Schmitt-Rodermund, & Stuetzer (2011) study proves that one's initial competence as a teenager influences the progress of the decision-making process to open a business. Robles & Zárraga-Rodríguez (2015) argue that competence developed at the individual level when becoming students should be aimed at becoming an entrepreneur. Therefore,

**H1b:** there is a positive and significant effect of entrepreneurial competence on the entrepreneurial entry decision of start-up MSMEs in Medan City.

### *2.3. The effect of entrepreneurial self-efficacy on the success of start-up MSMEs*

After entering the business or becoming a start-up MSME entrepreneur, entrepreneurs continue to face a dynamic business environment that is difficult to predict (high uncertainty) (David & David, 2019). In Newman et al. (2019), previous studies generally show that there is a positive influence between founder's ESE (ESE from business owners) and the performance, growth, and innovation of a business (Cumberland, Meek, & Germain, 2015; Hallak, Assaker, & Lee, 2015; Hallak, Lindsay, & Brown, 2011; McGee & Peterson, 2017), founder's ESE with profitability (Jain & Ali, 2013; Miao, Qian, & Ma, 2017), founder's ESE with sales growth (Jain & Ali, 2013; Miao et al., 2017; Prajapati & Biswas, 2011), founder's ESE with product development (Prajapati & Biswas, 2011). To successfully exploit opportunities even under conditions of uncertainty, according to Engel, Dimitrova, Khapova, & Elfring (2014) the initial entrepreneurial self-efficacy (ESE) business establishment needs to be improved. Therefore,

**H2a:** there is a positive and significant effect of entrepreneurial self-efficacy (ESE) on the success of start-up MSMEs in Medan City.

#### *2.4. The effect of entrepreneurial competence on the success of start-up MSMEs*

In addition to ESE, other internal factors that influence the success of a business include demographic characteristics, motivation, characteristics (Rachmania et al., 2012), and competence (Echdar, 2013; Robles & Zárraga-Rodríguez, 2015; Sari & Sitepu, 2016; Sitepu, 2017). In the current competition conditions, the success or failure of a business can be seen from its ability to face competition and have a sustainable competitive advantage (David & David, 2019). To gain a competitive advantage from an internal perspective, it is based on the RBV theory that holds that a business must have distinctive competence, which means that a business must have unique and valuable resources or have special abilities in managing resources (Solihin, 2012).

The results of Robles & Zárraga-Rodríguez (2015) exploratory studies show that competence influences entrepreneurial effectiveness. Echdar (2013), Sari & Sitepu (2016) dan Sitepu (2017) consider competencies based on organizational functions consisting of marketing competence, human resource management competence, financial competence, and operational competence. Sitepu (2017) found that HRM competence hold the largest portion, followed by operational competence, then financial and marketing competence at MSMEs in Surabaya. Therefore,

**H2b:** there is a positive and significant effect of entrepreneurial competence on the success of start-up of MSMEs in Medan

### **3. RESEARCH METHOD**

In this study quantitative methods are used to confirm previous studies, with the MSME analysis unit in Medan. The population in this study was MSMEs registered with the Office of Cooperatives and MSMEs Medan City until 2018 as many as 773 MSMEs. Furthermore, to determine the number of samples must also be adjusted to the method of processing data. Data processing using the Structural Equation Modeling (SEM) method according to the rule of thumb SEM to determine the sample is five times the number of parameters estimated (Wijanto, 2008). But the SEM method also allows determining the number of samples based on a minimum requirement of 100 samples (Solimun, 2002) and this minimum requirement used in this study is 100 MSMEs Medan City Start-up.

In gathering the primary data, this study questionnaire uses an ordinal scale of 1-6 with sequential information including strongly disagree, disagree, tend to disagree, tend to agree, agree, strongly agree. The even scale is used aimed at avoiding the tendency of respondents to answer doubtfully or neutral (middle value). The entrepreneurial self-efficacy variable is operationalized as the characteristics of an entrepreneur who believes or is confident in his ability to face future business situations, which are perceived by the start-up MSME entrepreneurs of Medan City about 1) confidence will be able to tolerate change; 2) confidence will be able to respond to opportunities; 3) confidence will be able to produce ideas and products; 4) confidence will be able to have expertise and capabilities; and 5) confidence will be able to develop a plan. The entrepreneurial competence variable is operationalized as the characteristics of an

entrepreneur who is competent in managing a business, which is perceived by the start-up MSMEs of Medan City regarding motives (consistency of thinking), self-concept (attitudes and values), nature (character), knowledge (information), and expertise (physical and mental abilities) in 1) marketing; 2) finance; 3) human resources management (HRM); and 4) operational. The entrepreneurial entry decision variable is operationalized as a feature of a good decision, which was perceived by the start-up MSME entrepreneurs in Medan in deciding entrepreneurship by 1) choosing the best alternative, namely maximization and satisfaction; 2) implementation; and 3) evaluation. The success of start-up MSMEs variable is operationalized as the characteristics of a start-up business that survives and experiences growth (growth) towards the fifth year or after the fifth year of business life, which is perceived as start-up MSME entrepreneurs in Medan based on 1) financial growth (sales profits, returns, financial liquidity, increased sales and business profits); 2) market growth (level of customer satisfaction and level of loyalty, market availability and market position; 3) product growth (availability of stock in the market, market price, market capitalization, and the number of new products produced in the business).

First, the sampling method was determined using non-probability sampling, and purposive sampling technique with start-up criteria registered at the Medan City Cooperative and UMKM Office in 2018, operating in Medan City, and having a minimum operational age of 3 years because it refers to previous studies (Sitepu, 2017) and the assumption that on average a start-up MSME is able to survive and achieve growth (growth) has been operating for at least 3 years. Then, those who meet these criteria from the population become 726 MSMEs. As for the 100 start-up MSMEs Medan City needed was chosen to represent each sub-district (21 sub-districts).

The method used in data processing is Structural Equation Modeling (SEM) using LISREL 8.72 software. Data analysis that is important in this research is the measurement model analysis (validity and reliability test), and structural model analysis (hypothesis testing). The construct validity is done through factor analysis which in this study uses confirmatory factor analysis (CFA). While reliability is calculated by Construct Reliability (CR) and Variance Extracted (VE), and then the model compatibility is checked with Goodness of Fit Indices or GOFI criteria. Another analysis is a structural model aimed at testing research hypotheses or evaluating the coefficients or parameters of a causal relationship or the effect of a latent variable on other latent variables.

#### **4. RESULT AND DISCUSSION**

Criteria of the measurement model analysis (indicators validity) use Standardized Loading Factor (SLF)  $\geq 0.5$  (Wijanto 2008), while the reliability of valid indicators criteria use CR  $\geq 0.70$ , and VE  $\geq 0.50$  (Wijanto 2008). The results of the confirmatory factor analysis (CFA) is showed on table 1.

Table 1. Validity & Reliability Result

Variables	SLF	CR	VE	Explanation
<i>Selfeff</i>	SLF ≥ 0.50	0,91	0,67	good validity of 5 indicators & good reliability
<i>Coptence</i>	SLF ≥ 0.50	0,87	0,62	good validity of 4 indicators & good reliability
<i>Decision</i>	SLF ≥ 0.50	0,86	0,61	good validity of 4 indicators & good reliability
<i>Success</i>	SLF ≥ 0.50	0,84	0,64	good validity of 3 indicators & good reliability

All indicators have good validity, either all construct reliability. Meanwhile, the model compatibility show that Good-of-Fit Index (GOFI) values are obtained with a good to moderate index (good-marginal fit) including absolute (RMSEA, ECVI, Standardized RMR, and GFI), incremental (NNFI, NFI, AGFI, IFI, and CFI) and parsimonious (Normed Chi-Square, CAIC, and AIC), and other GOFI (CN). Thus, the compatibility of the measurement model in this study is in accordance with the recommendations of Hair, Black, Babin, Anderson, & Tatham (2006) for reporting at least one incremental index and one absolute index from the GOF. Hypothesis test results are based on the evaluation results of the structural model coefficients by checking the t-value of the coefficients or parameters summarized in Figure 1.

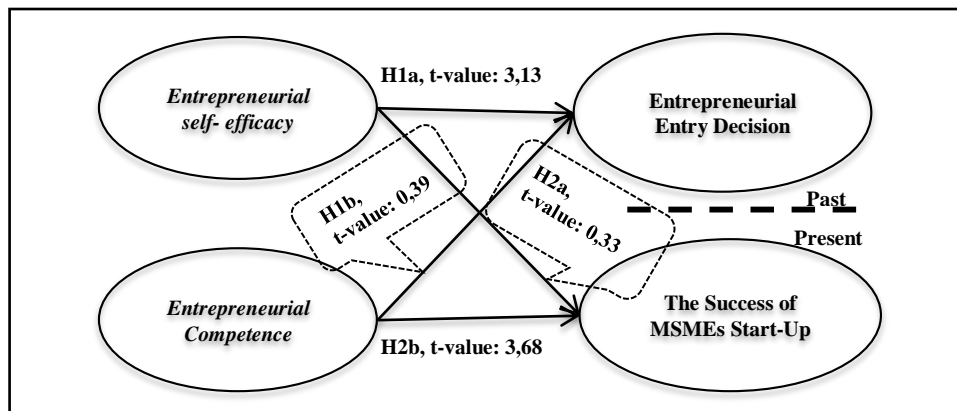


Figure 1. Hypothesis Test Results

Based on the figure 1, the results of the H1a hypothesis test are accepted because t-value  $+3.13 \geq \pm 1.96$ . This means that there is a positive and significant influence of entrepreneurial self-efficacy on the entrepreneurial entry decision of start-up MSMEs of Medan City. The H1b hypothesis was rejected with a t-value  $+0.39 < \pm 1.96$ , meaning that there was no significant influence of entrepreneurial competence on the entrepreneurial entry decision of the MSME Medan start-up. The H2a hypothesis is rejected with a t-value  $+0.33 < 1.96$ . This means that there is no significant entrepreneurial self-efficacy effect on the success of the start-up MSMEs in Medan. The H2b hypothesis is accepted with a t-value  $+3.68 \geq \pm 1.96$  meaning that there is a significant influence of entrepreneurial competence on the success of start-up MSMEs in Medan. To interpret the coefficient of determination ( $R^2$ ), it was found that the variation of the Decision was explained by the Selfeff and Coptence variations of 7.5 percent ( $R^2 = 0.07$ ), while the 92.5 percent was explained by variations of other variables outside the model. While the Success variation is explained by the Selfeff and Coptence variations of 10 percent ( $R^2 = 0.10$ ), while the other 90 percent is explained by variations of other variables outside the model.

#### *4.1. The result of the effect of entrepreneurial self-efficacy on the entrepreneurial entry decision*

This study result that entrepreneurial self-efficacy has a positive and significant effect on the entrepreneurial entry decision of start-up MSMEs in Medan City (H1b). A positive value means the higher the entrepreneurial self-efficacy, the higher the opportunity for the entrepreneurial entry decision to run. Other results of this study indicate that entrepreneurial competence has not significantly effect on the entrepreneurial entry decision of the MKM start-up city of Medan (H1b). The Pearson Chi-Square value of this study shows that there is a correlation between ethnic parents and entrepreneurial self-efficacy, and between business ideas and entrepreneurial competence at the start-up MSMEs in Medan.

In general, parents with indigenous tribes want their children to work as employees, especially ASN (State Civil Apparatus) rather than becoming entrepreneurs. While a Chinese child is expected to continue his parents' business. To be able to continue the business of parents, their children have been trained from an early age to have the ability or competence in running a business. Thus, for indigenous Indonesians, in general, the entrepreneurial entry decision is more difficult than for ethnic Chinese. But this fact does not mean that indigenous peoples cannot become entrepreneurs.

The majority of respondents in this study come from indigenous tribes such as Javanese, Bataknese, Malay, and others (97 percent) or only 3 people from the ethnic Chinese. The tribes in Indonesia, including in Medan, have different characteristics. Dominant are Javanese (34 percent) who have a Bataknese wife are 18 percent, and followed by Bataknese (26 percent). And most of the business ideas are original or self-initiated (86 percent) or 13 percent are parents' legacy businesses. Because business ideas are not inherited from parents, but the dominant ones are original or themselves pioneering, so the fusion of parents and wife's culture will form beliefs (self-efficacy) that encourage them to dare to take the entrepreneurial entry decision. This is consistent with the study of Hopp & Stephan (2012) who found that culture will encourage beliefs (entrepreneurial self-efficacy) to build a business. The belief that a strong start-up entrepreneur in the City of Medan has become their consideration when they deciding to become an entrepreneur (MSME). These beliefs include strong personal beliefs that will be able to tolerate change, will be able to respond to opportunities, will be able to produce ideas or products, will be able to have expertise and capabilities, and will be able to develop plans. Confidence will be able to deal with business situations called entrepreneurial self-efficacy. The results of this study are reinforced by the opinions of (Esfandiar et al., 2017; Hopp & Stephan, 2012; Krekar & Coric, 2013; Newman et al., 2019; Prodan & Drnovsek, 2010; Setiawan, 2014; Widyastuti, 2013).

#### *4.2. The result of the effect of entrepreneurial competence on the entrepreneurial entry decision*

Conversely, entrepreneurial competence does not significantly affect the start-up entrepreneurial entry decision of the MSMEs in Medan City. Entrepreneurial competence are generally formed in universities as shown in the studies of Obschonka et al. (2011), and Robles & Zárraga-Rodríguez (2015). 60 percent of the study respondents only graduated from high school, and only 21 percent graduated from college. When they decided to become entrepreneurs, the start-up MSMEs in Medan City realized that their competence as entrepreneurs in the fields of marketing, finance, human resources, and operations were not enough because the dominant did not have knowledge about entrepreneurship, business ideas

from themselves, not derived from people's inheritance. old (not with an entrepreneurial family background), and dominant not from Chinese culture. For this reason, they are aware that their competence are not enough to be entrepreneurs, but they still decide to become entrepreneurs (MSMEs entry decision) without considering the competence they have at that time. They think that if they consider having the competence of an entrepreneur first, they have not become entrepreneurs at that time and maybe even today. Thus, the results of this study indicate that in the past Medan City entrepreneurs considered entrepreneurial self-efficacy in the process of deciding to enter the business world or start a business, while entrepreneurial competence was not.

#### *4.3. The result of the effect of entrepreneurial self-efficacy on the success of start-up MSMEs*

This study found that entrepreneurial self-efficacy (ESE) did not significantly influence the success of the Medan City (H1b) start-up MSMEs. This result is not supported by the studies of (Cumberland et al., 2015; Hallak et al., 2015, 2011; Jain & Ali, 2013; McGee & Peterson, 2017; Miao et al., 2017; Prajapati & Biswas, 2011). ESE in this study was measured at one point in time (cross-section) that is after becoming an entrepreneur by asking ESE when taking the entrepreneurial entry decision. In addition, ESE in this study was measured at the level of individual owners of start-up businesses in Medan City (founder's ESE) without considering the confidence of members in their business. Dawkins, Martin, Scott, & Sanderson (2015) conclude that the founder's ESE alone is not enough to be able to advance a business but requires the collective-efficacy of a team.

The social cognitive theory emphasizes that ESE is fluctuating or situational, not a static belief (Newman et al., 2019). In other words, a person's ESE varies in response to situational demands faced by individuals. Although with a strong belief when taking the entrepreneurial entry decision, in the course of its business, MSMEs start-up Medan City must try to adapt to work conditions or tasks and environmental situations. This will cause the level of ESE in each working condition and the environmental situation faced to vary or fluctuate. This is consistent with Bledow (2013) opinion that ESE will increase as a result of internal mechanisms that mobilize resources for a task. This opinion is reinforced by studies competence Cumberland et al. (2015) who consider environmental factors in the relationship between ESE and performance. Bandura, & Locke (2003) in Newman et al. (2019) argue that many businesses that have succeeded when faced with great difficulties let themselves doubt that they will be able to double their achievements.

#### *4.4. The result of the effect of entrepreneurial competence on the success of start-up MSMEs*

The results of the final hypothesis of this study conclude that entrepreneurial competence has a positive and significant effect on the success of start-up MSMEs in Medan City (H2b). This result is supported by (Echdar, 2013; Robles & Zárraga-Rodríguez, 2015; Sari & Sitepu, 2016; Sitepu, 2017). Although at the beginning of starting up a business, the start-up MSMEs entrepreneurs in Medan City do not yet have special competence as the results of the H1b hypothesis, but when it has been decided to be the start-up MSMEs entrepreneurs in Medan City, they are required to quickly learn to adapt to work conditions. Specific competence that are entrepreneurial competence that they must immediately build are motives (consistency of thinking), self-concept (attitudes and values), nature (character), knowledge (information), and expertise (physical and mental abilities) in field 1) marketing; 2) finance; 3) human resources



management (HRM); and 4) operational. Even though they feel that they have not been maximized, the special competence of the internal factors of this business is enough to make start-up MSMEs of Medan City last for at least 3 years and if they continue to be improved their business will be sustainable (Solihin, 2012).

## 5. CONCLUSIONS

The results of this study conclude that there is an effect of entrepreneurial self-efficacy on the entrepreneurial entry decision, but not significantly on the success of start-up MSMEs of Medan City. Other results, there is no significant effect of entrepreneurial competence on the entrepreneurial entry decision, but significant on the success of start-up MSMEs in Medan. This study's implications is for prospective entrepreneurs, in the process of the entrepreneurial entry decision, it is important to strengthen the confidence of being able to run a business going forward by asking for the support of others or social persuasion, learning from people who experience, strengthening cognitive and values that are believed. Meanwhile, entrepreneurial competence that are not yet owned, do not become a barrier to deciding entrepreneurship. This does not mean that competence is absolutely ignored, because there are external factors that pay attention to entrepreneurial competence before deciding to provide support. In other words, prospective entrepreneurs who already have competence, the competence will not prevent it when it will decide entrepreneurship.

Another implication of this study is for the start-up MSME entrepreneurs, in running a business in order to survive and succeed through every stage of the business, it is necessary to have and improve entrepreneurial competence in the fields of marketing, finance, human resources, and operations. At present, there are many ways and tools to help entrepreneurs improve their competence both traditional and digital-based. In addition, business owners need to form and involve teams or members to overcome any challenges faced by start-up MSMEs in order to maintain the psychological condition of business owners and the formation of a shared belief in the success of their businesses. This study has limitations, among others includes entrepreneurial self-efficacy (ESE) measurement that only measured at one point in time, or not differentiating ESE when deciding (a few years ago) and when collecting the latest data. In addition, the number of respondents is still small and not specific ones. Therefore, further studies are recommended to increase the number of respondents or determine more specific respondent criteria. For the study of social cognitive theory, not only self-efficacy but also collective-efficacy and should be done longitudinally for a variety of different conditions. In addition, it is recommended to increase the number of factor variables even more, or adjust the factor variables to the current conditions and try to make the self-efficacy variable a moderating variable among other variables with business success.

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