

**THE EFFECTS OF ENTREPRENEURIAL
COMPETENCIES ON MICROENTERPRISE
PERFORMANCE IN THE SOUTHERN BORDER
PROVINCES OF THAILAND**

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**The Effects of Entrepreneurial Competencies on
Microenterprise Performance in the Southern Border
Provinces of Thailand**

by

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LIST OF ABBREVIATIONS

ASEAN	Association of Southeast Asian Nations
BTS	Bartlett's Test of Sphericity
CEOs	Chief Executive Officers
DTI	Department of Trade and Industry
EPSEM	Equal Probability of Selection Method
GDP	Gross Domestic Product
GEM	Global Entrepreneurship Monitor
HDI	Human Development Index
HDR	Human Development Report
HTI	Hospitality and Tourism Industry
KMO	Kaiser-Meyer-Olkin's
MSMEs	Micro, Small and Medium Enterprises
MSA	Measure of Sampling Adequacy
NGOs	Non Government Organizations
NSS	National Statistical Service
OECD	Organization for Economic Cooperation and Development
OSMEP	The Office of SMEs Promotion
QCA	Qualitative Content Analysis
R&D	Research and Development
SEM	Structural Equation Modeling
SMEs	Small and Medium Enterprises
SPSS	Statistical Package for Social Science
UN	United Nation
UNCTAD	The United Nations Conference on Trade and Development
UNDP	United Nations Development Programme

The Effects of Entrepreneurial Competencies on Microenterprise Performance in the Southern Border Provinces of Thailand

ABSTRACT

Microenterprise development plays significant role in developing the nation, income up-liftmen and poverty alleviation. Entrepreneurial competencies have been reported to have a significant impact on microenterprise performance. The purpose of this research is therefore, to establish the effect of entrepreneurial competencies on microenterprise performance in the southern border provinces of Thailand. The objective of the research is to investigate the influence of entrepreneurial competency comprising three dimensions; personal entrepreneurial competencies, enterprise competencies, and enterprise management competencies on microenterprise performance. This study uses survey method, factor analysis and SPSS software to analyze descriptive and inferential statistics. The questionnaire was distributed to 270 microenterprises in the southern border of Pattani, Yala and Narathiwat. Research findings show that personal entrepreneurial competencies and enterprise management competencies have positively and significantly influenced the performance of microenterprises, while enterprise launching competencies has no influence on microenterprise performance in the southern border provinces of Thailand. Based on the findings, several proposal have been forwarded to the government and relevant agencies to improve the performance of microenterprises in the southern border provinces of Thailand. Also, some suggestions for future studies have been illustrated at the end of the report.

Kesan Kompetensi Keusahawanan Terhadap Prestasi Perusahaan Mikro Di Wilayah Sempadan Selatan Thailand

ABSTRAK

Pembangunan perusahaan mikro memainkan peranan penting dalam pembangunan negara, peningkatan pendapatan dan pengurangan kemiskinan. Kecekapan keusahawanan telah dilaporkan mempunyai kesan yang signifikan terhadap prestasi perusahaan mikro. Oleh itu, tujuan penyelidikan ini adalah untuk mengkaji kesan kecekapan keusahawanan terhadap prestasi perusahaan mikro di wilayah sempadan Selatan Thailand. Objektif penyelidikan adalah untuk mengkaji pengaruh kompetensi keusahawanan yang terdiri daripada tiga komponen iaitu; kompetensi keusahawanan peribadi, kompetensi memulakan perusahaan, dan kompetensi pengurusan perusahaan terhadap prestasi perusahaan mikro. Kajian ini menggunakan kaedah tinjauan, analisis faktor dan perisian SPSS untuk menganalisa statistik deskriptif dan inferens. Borang soal selidik diedarkan kepada 270 pemilik perusahaan mikro di wilayah sempadan Selatan Thailand iaitu Pattani, Yala dan Narathiwat. Penemuan penyelidikan menunjukkan kompetensi keusahawanan peribadi dan kompetensi pengurusan perusahaan mempunyai pengaruh secara positif dan signifikan terhadap prestasi perusahaan mikro, sementara kompetensi memulakan perusahaan tidak mempunyai pengaruh terhadap prestasi mikroenterprise di wilayah sempadan Selatan Thailand. Berdasarkan hasil dapatan kajian, beberapa cadangan telah diutarakan kepada kerajaan dan agensi-agensi yang berkaitan untuk meningkatkan prestasi perusahaan mikro di wilayah sempadan Selatan Thailand. Juga, beberapa cadangan untuk kajian di masa hadapan telah di kemukakan di akhir laporan.

CHAPTER 1 INTRODUCTION

1.1 Background of Study

Entrepreneurs play an important role in revitalising economic development, in new venture creation, in the life of society, in the creation and development of new innovations, and in developing and commercializing new technologies (Rezaeizadeh, Hoga, Reilly, Cunningham, & Murphy, 2016). Entrepreneur is a highly respected person in the developed world. The word entrepreneurship conjures up visions of active, purposeful men and women accomplishing significant achievements (Shenura, Haile, & Negash, 2016).

From the perspective of policy makers in governments around the world, entrepreneurship is identified as having a strategic impact on the economic development and wealth creation of nations. Studies that examine the policy position on entrepreneurship and national development confirm its importance (Mokhtar, 2017). Porter (1998) argued that the strategic contribution of entrepreneurship towards economic development is dependent on the national ecosystem; in creating business success. In this respect, entrepreneurship development helps the growth in productivity and developing the economy. It creates job opportunities, and also increases income upliftment and poverty alleviation (Edgcomb & Thetford, 2013).

Furthermore, microenterprises are increasingly seen as potential creators of new employment opportunities and additional incomes contributing to improved social and economic well-being, as well as to the alleviation of poverty (Lateh, Hussain, & Halim, 2017). Throughout much of the twentieth century, development policies were focused on large-scale, centrally planned enterprises that usually served the better-off people in underdeveloped areas (Jurik, 2005). However, in contexts of economic development,

many researchers associate microenterprise development programmes with increased participant incomes and increased numbers of jobs in regions where programs operate (Lateh et al., 2017).

Microenterprise based on the size of their business volume, the value of assets, and/or the number of people working. They are usually operated and managed solely by an individual entrepreneur. Unlike medium-sized and large enterprises which usually have a management team to oversee various business functions such as marketing, finance, operation, human resource development, technology management, engineering, and research and development, etc., in microenterprises, the entrepreneurs normally perform all these functions by themselves. Thus, the effectiveness and efficiency of an enterprise of this type would depend solely upon the entrepreneur's skills (or the lack there of), unlike in medium and large enterprises where skilled managers are recruited from the labour market (Wasuntiwongse, 2016).

In a developing country such as Thailand, the nation's economic growth comes from tourism, manufacturing, services, micro and small enterprises (OSMEP, 2010). A large number of population increases job competition and unemployment. Meanwhile, certain groups of people are trying to survive by starting-up microenterprises to earn a living to support themselves and their family (Lateh et al., 2017). They normally attempt to generate the income and work out of poverty. Over 70 percent of Thai entrepreneurs are start-ups and operate at the microenterprise level (OECD, 2011). According to the Global Entrepreneurship Monitor's survey, Thai entrepreneurs have a relatively high necessity for a start-up, as result of the opportunity and necessity of producing income or wealth in their life (GEM, 2013; OECD, 2011). Besides, the economic activities at the southern border provinces in Thailand are generally based on agriculture; most people operates in microenterprise and trading with

neighboring countries (Ratjaroenkhajorn, 2014). In Narathiwat, Pattani, and Yala provinces, there is a huge number of microenterprises (Melvin, 2007). However, these areas are among the 20 poorest provinces out of the 77 provinces in Thailand. In addition, these areas record among the highest rates of people living under poverty in the country, and the incidence of extreme poverty is concentrated in a few districts within these provinces (Kaewsom, 2015).

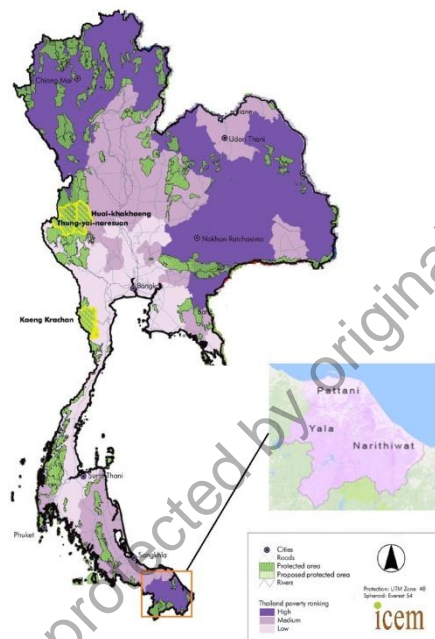


Figure 1.1: Thailand Poverty Ranking

Furthermore, the Tourism Authority of Thailand Intelligence Center (2016) states that the income standard in Thailand is 26,915 bath per month. Average earning of people who are living in the capital city like Bangkok is 41,002 bath per month, which is considered the higher earning province in Thailand. However, in the southern region, the data shows that people who are living in Pattani, Yala, Narathiwat, and Pathalung provinces are earning 15,001 to 21,500 bath per month. Thus, people in the southern border provinces of Thailand are earning below average and living under poverty as reported.

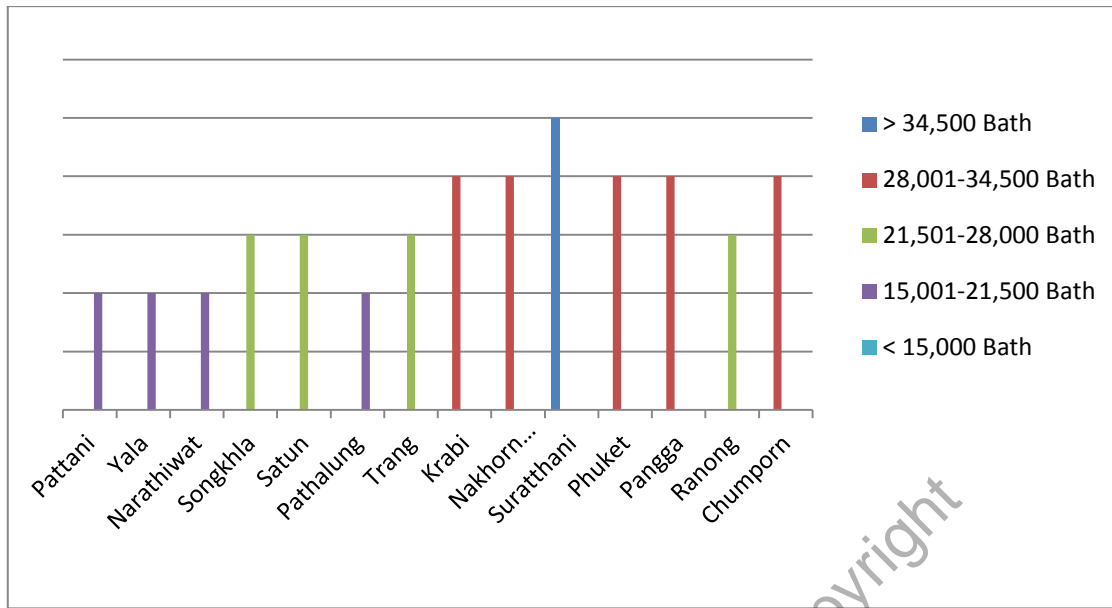


Figure 1.2: Average Income of People in the Southern Region of Thailand (2016)

However, engagement in microenterprise activities enables people in these areas to earn a livelihood and be economically secure. It is critical for equitable economic growth, income up-liftmen, and poverty reduction. It also allows people to fully participate in society while affording them a sense of dignity and worth (UNDP, 2015). Microenterprise is normally known as a small business by employing a few people, and having a very low balance sheet (Munoz, 2010). Most microenterprise owners are mainly interested in earning a living to support themselves and their families. They normally start the business to generate more income and to survive (Chaves, 2017).

According to Delacy, Chandler, Shehan, and Grunfeld (2015), one strong theme emerging from the literature has been that economic growth in and of itself will rescue the poor from poverty and advocates of this view consider economic growth to be the key foundation to poverty reduction (Delacy et al., 2015). Agyapong in 2010 mentioned donor countries and development agencies share the view of the pro-micro small medium enterprises springing up such entrepreneurial and innovative ventures help promote economic growth and help reduce the high poverty level in such developing

economies. Microenterprise development may bring innovation to the marketplace; however, the contribution of innovation to productivity often takes time and larger enterprises may have more resources to adopt and implement them (Agyapong, 2010).

Yet again, the role of microenterprises and entrepreneurship in economic growth and development involves more than just increasing per capita output and income; it involves performance, initiating and constituting a change in the structure of enterprise and society (Hisrich, Peters, & Shepherd, 2008). The change is accompanied by growth and increased output, which allows more wealth to be divided by the various participants. Change and development is facilitated according to one economic growth theory that is by innovation (Hisrich et al., 2008). According to Shenura, Haile, and Negash (2016), entrepreneurs are important agents of change in every society, yet they present the most enigmatic characters in the drama of economic development, particularly in the less developed world. Although it is an entrepreneur's purposive activity that bridges the gap between plan and reality, the precise way that this agent of change acts is often unpredictable (Shenura et al., 2016). Thus, it is important to know more about how some people come to display entrepreneurial intentions and behaviour, while in the same context, others do not. Comparative entrepreneurship research shows variations across countries in levels of entrepreneurship and new venture formations (GEM, 2013). In major economies at a policy level, there has been an increased focus on developing entrepreneurial competencies and experiences (Rezaeizadeh et al., 2016).

However, developing relevant competencies among the managing entrepreneur is considered to be a crucial step in providing microenterprise with a sustainable competitive advantage, primarily because this sort of enterprise is critically dependent on the entrepreneurs' capabilities (Gibb, 2005; Sadler-Smith, Hampson, Chaston, & Badger, 2003). According to McGregor and Tweed in 2001, the competencies of

entrepreneurs in microenterprises can be seen as “individually specific” and not “organisationally-indexed” as they are with large enterprises. This implies that, in microenterprises, owners’ competencies can be equated with enterprises’ competencies, thereby allowing the researcher to focus on individual entrepreneurs as the unit of analysis. In larger enterprises, however, enterprise’s competencies are dependent upon the competencies of various business units within the enterprises, therefore competencies for these enterprises should be measured at an enterprise level (Thongpoon, Ahmad, & Yahya, 2012).

From the past studies on entrepreneurship development, it was found that there are two existing models used to measure the abilities of entrepreneurs consisting of: personal entrepreneurial competencies model and managerial competencies model (Ahmad, 2007). A model of managerial competencies developed by McClelland and Boyatzis called the “Integrated Competency Model” (Boyatzis, 1982), is perhaps one of the foundational studies that provides insight into the development of models of entrepreneurial competencies. This model outlines the themes and associated clusters of competencies that are deemed important for managers (Irene, 2016).

Besides, Man (2001) developed a model of personal entrepreneurial competencies which relates competencies to enterprise performance and success. This model provides a basis for the classification of behaviors that can be appropriately located in different areas of competency. It is also among the most recently developed models considered and it was developed in an Asian, rather than a western context, though whether it can be considered representative of the broader Asia is debatable. Moreover, for the current study, Man’s model has been extended to include technical competency, as identified by Gaylen N. Chandler and Jansen (1992a).

Following Kiggundu's (2002) suggestion that entrepreneurial competencies could offer a realistic view of the know-how of running a business, the present study attempts to develop and extend Man's (2001) model of entrepreneurial competencies, using a behavioral approach that focuses on what individual entrepreneurs actually do to sustain their enterprises (Kiggundu, 2002). The utilization of the behavioral approach is consistent with Ahmad's (2007) suggestion that by understanding what entrepreneurs actually do – how they behave in real situations, and how they respond to challenging situations – one may better understand the role of entrepreneurs in ensuring the viability of their enterprise (Irene, 2016).

However, considering previous literatures regarding this field this study identified that there is still a lack of empirical investigation on venture initiation, survival and growth in the context of microenterprise development in underdeveloped areas such as Pattani, Yala and Narathiwat provinces in Thailand. This study further develops the framework by extending the concept of venture initiation and success competencies which consists of: enterprise launching competencies and enterprise management competencies. Thus, this study conducts three main independent variables: personal entrepreneurial competencies, enterprise launching competencies, and enterprise management competencies. Besides, microenterprise performance is a dependent variable of this study. This research framework has the relevance of entrepreneurial competencies that identify the entrepreneurs who need to lead us to achieve the research objectives, by relaying on Bird's (1995) model of entrepreneurial competencies. Finally, it has a social impact for alleviating poverty through microenterprise development.

1.2 Problem Statement

Most of the past decades, microenterprises have faced a lot of challenges from increased competition, the ability to adapt to rapidly changing market demand, technological change, and capacity constraints relating to knowledge, innovation, and creativity. A general belief by researchers, development practitioners, and agents is that a robust microenterprise must be the bedrock of an inclusive and sustainable development (Toluyemi, Sanni, & Toluyemi, 2016).

The microenterprises, especially when operating in the same environment as the medium-sized and large firms, are usually at a disadvantage when tapping into the normal services provided by both the government and private sector, such as those provided by financial institutions, government agencies, consultants, marketing channels, marketing promotions, etc. (Wasuntiwongse, 2016). Thai microenterprises have limited and sometimes denied opportunity to grow or expand to their real level of potential. The problem was found to affect most of the micro and small enterprises which do not have substantial assets to be used for collateral, lack of access to wider markets, lack of capability for business planning, lack of or limited skills of entrepreneurs and workers, lack of knowledge or information on technology, lack of business opportunities, and commercial laws and regulations (Wasuntiwongse, 2016).

For many microenterprises, however, their potential is often not fully realized due to factors related to their micro scale (Wasuntiwongse, 2016). In most microenterprises, the entrepreneur has to perform more complex tasks and activities than managers. These tasks are not only demanding but also they are varied and best operationalized behaviourally (Thongpoon et al., 2012).

According to Kabir, Ibrahim, Anuar, and Shah (2017), competency as a term has long been used in most entrepreneurship literature. Competency of the entrepreneurs is

one of the significant determining factors for performance, growth, and success or failure of enterprise operations (Mitchelmore & Rowley, 2013). Entrepreneurial competencies are the underlying characteristics possessed by an individual that assist them to execute the tasks in a manner that is most befitting (Lazar & Paul, 2015).

The personal entrepreneurial competencies which encompass elements of individual characteristics (Bird, 1995), reflect the ability of entrepreneurs to perform business activities effectively. Even though the enterprise owners might not need to deal directly with tools and equipment or undertake certain tasks by themselves, the knowledge and skills are necessary since they are the source of reference in the enterprise (Vijay & Ajay, 2011).

Some researchers have argued that concentration on the internal factors especially those related to “people issues” may improve enterprise performance and success (Ahmad, 2007). Consistent with this argument, results from an early study involving small enterprises operating in Montreal by Ibrahim and Goodwin (1986) indicated that the factors that contributed most to enterprise success were related to the skills and abilities of the entrepreneurs themselves. More recently, scholars have argued that many microenterprises have failed because of a lack of entrepreneurial competencies among enterprise owners (Kiggundu, 2002), as well as a lack of skills and abilities among those who hold key positions in the enterprises (Thongpoon et al., 2012). Similar arguments have been made about organizational failure more generally.

According to Seanor and Meaton (2008), entrepreneurship and new enterprise failure are often close companions. Most entrepreneurs experience failure during their careers, and many may experience new enterprise failure numerous times (Timmons & Spinelli, 2007). Longenecker et al. (1999) claim that when an enterprise fails to achieve the desired outcome, this is often attributed to the actions or inactions of the owner in

particular, the management's failure to create a clear vision and direction for the enterprise, failure to adapt to changes, inability to develop effective strategies, poor business forecasting and planning, poor decision making, and failure to have a clear understanding of the business and the enterprise. Another research conducted by Beaver and Jennings (2005), which utilised a case study approach involving micro and small enterprise owners in the UK, found that microenterprise failed because of the owners' "ineffective" behaviours such as inability to manage expenses, a lack of professional management action, a failure of control systems, as well as the absence of a clear vision. The imperative to redirect attention to the entrepreneur is also embedded in Wasilczuk's (2000) argument that the only way to minimize the negative impact on enterprises is for entrepreneurs to equip themselves with the relevant skills and abilities.

Furthermore, launching the enterprise, entrepreneur's requires a specific competency or skill to identify an item of product or service, to seek a market for it and organize all the inputs required to start the product as per the chosen line of business. It is visionary work followed by self-confidence and mental maturity including; environment scanning and opportunity sensing, market assessment and resource mobilization (GBSHSE., 2013). According to Lai (2015), every new enterprise needs at least an informal enterprise launching plan. The enterprise launching plan is the identification of an enterprise's start-up, how the enterprise intends to run and achieve the goals. It includes strategic elements, in spite of the fact that one of the major reasons for enterprise failures is the lack of strategic planning (Brophy, 2016). One of the major steps in launching any enterprise is to scan the environment or opportunity (Irene, 2016). This may take a long time, because the concept comes first, followed by assessment of the market, and after that to mobilize the resources (Lai, 2015).