

## Conference Paper

# Business Owner's Expertise and Business Performance of the Finalists of the Young Entrepreneurs Competition and the Role of Employee Skills Training as a Moderating Variable

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## Abstract

The problem of unemployment is still a crucial issue in Indonesia. Lack of jobs that exist today is the main reason of the increasing unemployment in this country. This condition can be reduced if all job seekers try to create jobs rather than looking for a job. Entrepreneurship is an attractive option, but the presence of ASEAN Economic Community (AEC) in December 2016 is also a challenge for businesses in Indonesia. Competition does not only occur among domestic businesses, but also businesses throughout ASEAN. Enactment of AEC decreases the chance of SMEs to survive. This study explores the relationship between business owner's expertise, employee skills training, and the business performance of finalists of the Mandiri Young Entrepreneurs Competition in Indonesia. The sample collection is done by giving questionnaires to 31 finalists of the competition. This study uses Partial Least Square as statistical tool. The results of this study show the existence of significant relationship and direct influence of business owners' expertise on business performance. The significant results are also obtained with moderating effect of employee skills training on the relationship between the business owners' expertise and business performance.

**Keywords:** business owners' expertise, business performance, employee skills training

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## 1. Introduction

The phenomenon of an increasing number of students who become unemployed is one of the social problems that demand action. This condition can be reduced if every job seeker seeks entrepreneurship. Entrepreneurs can create jobs, improve people's quality of life, improve income distribution and also utilize and mobilize resources to increase national productivity. The enactment of the ASEAN Economic Community

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(AEC) makes ASEAN a single market and a production base where there are free flows of goods, services, investment, skilled labor and capital (Fadli, 2014). This will certainly be a lash for domestic businesses to improve the competitiveness of products offered to the market, especially for Micro, Small and Medium Enterprises (MSMEs), so they should avoid failures as best as possible.

Among the determinants of small business failures that have been identified as causing poor business performance is lack of skills required for business owners and also their employees [2]. Not only leaders, but employees must also have the necessary skills that can be improved through the training process. In the training, employees are given materials and specific knowledge in accordance with the skills required to improve performance of MSMEs. This is supported by Ibrahim and Ellis (2003) who state that training improves the viability of small businesses, as well as decreases small business failures associated with poor management skills.

Companies that want to have good business performance require business owner's expertise of surviving in the midst of globalization. This is supported by previous research conducted by Hart and Banbury (1994). To achieve good business performance, entrepreneurs are also required to have competent employees in their fields supported by employee skills training, because it has linkage to productivity improvement, sustained competitive advantage, and, ultimately, will influence company performance [8].

Bank Mandiri, one of the largest state-owned banks in Indonesia, responded to this phenomenon by conducting the *Wirausaha Muda Mandiri (WMM)* program aimed at those young entrepreneurs who have a mindset to create employment opportunities to inclusively participate in reducing unemployment in Indonesia. Mandiri Young Entrepreneurs provides facilities for young entrepreneurs to become a 'skills trainer' that will make their business a learning organization that continues to improve performance to respond to any changes that occur in the environment.

According to the arguments mentioned, this study aims to determine the Effect of Business Owner's Expertise on the Business Performance of Mandiri Young Entrepreneurs 2016 with Employee Skills Training as a Moderating Variable. Research conducted by Richard Chinomona from Vaal University of Technology (2013) argues that business owner's expertise positively and significantly affects business performance and the employee skills training of small businesses in Zimbabwe. This research differs from other researches because this research involves the participants from Mandiri Young Entrepreneurs 2016.

## 2. Literature Review

### 2.1. Business owner's expertise

The ability and expertise of the owner or manager of a company, as determined by the level of formal education acquired, greatly affects the use of information. The higher the education level, the higher the use of information. This is because of advanced teaching materials given in college [1]. According to Reuber (1997), there are two definitions of expertise, the first definition emphasizes and measures the ability of thinking, assuming that this is the basis of good performance, while the second definition emphasizes and measures based on performance, assuming that it is the consequence of thinking ability. Both views agree that expertise is developed or acquired through experience.

This study uses the second definition of expertise from Reuber that is based on performance. Expertise in this study refers to the knowledge, skills and abilities possessed by small business owners that potentially lead to superior performance when utilized. The most effective indicator of Business Owner's Expertise for a particular context is the success of the business, similarly for the context of industry and organization.

### 2.2. Employee skills training

Employees should be given training aimed at equipping, improving and developing work competencies to enhance capability, productivity and wellbeing ([13]: 276). Employee in this research is the person selling the service of mind or energy and receiving a predetermined amount of compensation [9] while training in this research is the process of training; Robbins (2001: 282) states that training is a well-planned formal training and has a structured training format.

Training also has great influence on the development of the company [3]. The implementation of training programs can be said to be successful if the participants of the training transform into having:

1. Improved ability to perform tasks
2. Changes in behavior reflected in attitudes, discipline and work ethic.

### 2.3. Business performance

According to Buyukozkan, Kayakutlu, and Karakadilar (2016), elements of business performance are essentially conceptualized as market performance and financial performance. Simamora (2001: 327) said that performance is an achievement of certain job requirements that ultimately can be reflected from both quantity and quality of output. Dani et al. (2013) suggest that business performance refers to the level of achievement of the business in a certain period of time.

Performance of MSMEs is essential in the business development. The objectives for a business unit consists of the business continuity, profit earnings and further plans in business development. All mentioned objectives can be achieved if the business unit has good business performance. Currently, the trend shows that financial performance is at the core of business performance, but some researchers have now measured business performance by defining a broader conceptualization focusing on factors picturizing financial performance [16].

## 3. Hypotheses Development and Conceptual Framework

### 3.1. Business owner's expertise and business performance

Business Owner's Expertise is considered as a strategic capability that enables business owners to extract all their advantages [17]. The expertise of small business owners is expected to have a positive impact on the performance of small businesses. Such relationships are also supported by previous research [2].

**H1:** Business Owner's Expertise has a positive effect on business performance

### 3.2. Business owner's expertise and employee skills training

Business Owner's Expertise in small businesses shows that small business owners are more likely to use their own expertise compared to larger businesses. Owner expertise and appreciation for positive outcomes motivate business owners to provide specific training to their employees in order to gain the skills needed in running a small business. Previous research also supports the positive relationship between management skills and employee skill training [10].

**H2:** Business Owner's Expertise has a significant positive effect on employee skills training

### 3.3. Employee skills training and business performance

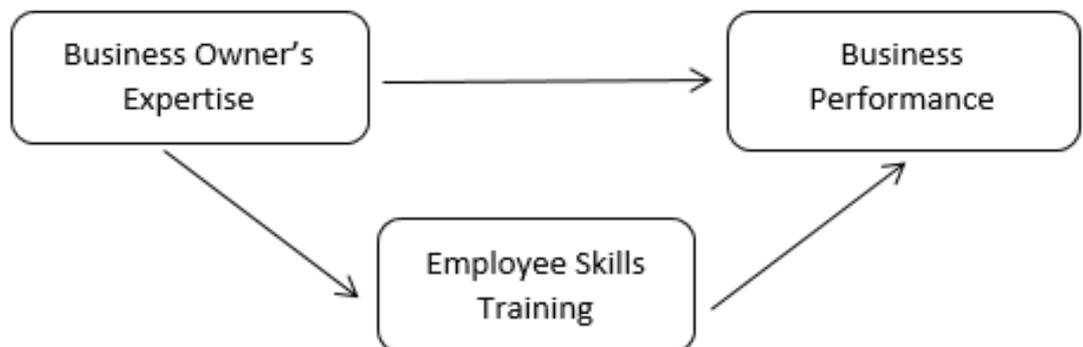
Employee skills training is associated with increased productivity, sustained competitive advantage and, ultimately, company performance [2]. Thus, it is conveyed in this research that good employee skill training in the context of a small business makes the business performance better. In addition, a positive relationship between employee training and company performance is also supported by previous research [2].

**H3:** Employee skills training has a significant positive effect on business performance.

### 3.4. Business owner's expertise, employee skills training, business performance

Business Owner's Expertise has a positive impact on the performance of the business, this is supported by research done by Hart and Banbury (1994) and there is also a link between employee skill training with productivity improvement and sustained competitive advantage that ultimately affects company performance [2].

**H4:** Business Owner's Expertise has a significant effect on business performance with moderating effect of employee skills training.



**Figure 1:** Conceptual framework.

## 4. Research Methods

### 4.1. Data collection and sampling method

Data collection is done by giving a written questionnaire about Business Owner's Expertise to employees and questionnaires about employee skills training and business performance to managers or business owners and one of the employees as

respondents. Questionnaires are used to obtain data from respondents via phone, email, or face-to-face meeting. The population in this study is the owners of MSMEs participating in Mandiri Young Entrepreneurs 2016. This study examines the owners of MSMEs participating in Mandiri Young Entrepreneurs 2016, which are located in East Java, with total number of 31 respondents using total sampling method. Hypothesis testing of this research is done with Structural Equation Model (SEM) approach based on Partial Least Square (PLS). PLS is a structural equation model (SEM) that is component or variant-based.

## 4.2. Respondents' characteristics

All participants of Mandiri Young Entrepreneur 2016 are divided into two categories, firstly, diploma and undergraduate students with a maximum age of 28 years at the time of enrollment and secondly graduates and alumni with a maximum age of 35 years upon enrollment.

## 5. Discussion

The discussion of this study is based on the output of the analysis using Partial Least Square (PLS) to test the hypothesis.

### 5.1. Business owner's expertise and business performance

Based on the results of our study on participants of Mandiri Young Entrepreneurs 2016 East Java Region, Business Owner's Expertise has a significant effect on business performance. When owners of the business have a good Business Owner's Expertise, then the business performance will increase.

Owners of MSMEs participating in Mandiri Young Entrepreneurs 2016 East Java Region who want to improve their business performance must improve the Business Owner's Expertise itself. Of employees who answered the questionnaire, 62% strongly agree that their business owner is an expert in the current business field. This shows the importance of business owner's expertise to improve business performance.

Owners of MSMEs participating in Mandiri Young Entrepreneurs 2016 East Java Region come from various industries, ranging from food, creative industries, and also trade and services. Despite coming from different businesses, business owner's expertise possessed by the respondents' bosses appeal, generally, the respondents'

bosses are still young and possess Business Owner's Expertise appropriate with their business field, which positively influences their business performance in the context of service, product quality and also finance.

This proves that the first hypothesis is supported. Hart and Banbury (1994) have explained the significant relationship between Business Owner's Expertise on business performance which is also proven in this study. Business Owner's Expertise is considered as a strategic capability that makes the owner do more than expected when wisely used [17]. For example, small business owners have expertise in operations, so that operational expertise is beneficial to the effectiveness and efficiency of performance (Speed, 1993; Wright et al., 1995).

## 5.2. Business owner's expertise and employee skills training

The results of our study on participants of Mandiri Young Entrepreneurs 2016 East Java Region show that Business Owner's Expertise has significant effect on Employee Skills Training. MSMEs owners who participate in Mandiri Young Entrepreneurs 2016 East Java Region are very concerned about training their employees, which ultimately improves the skills of their employees. Owners of MSMEs believe that if you want to succeed in competing, then the quality of the product must be maintained, and if you want quality of products to be maintained, the company must have employees with qualified skills in the business field. Fifty percent of respondents strongly agrees to the statement that employees received the required training. This statement is one of the indicators of the importance of employee skills training variables.

This proves that the second hypothesis is supported. Matlay (2002) has explained a significant relationship between Business Owner's Expertise and Employee Skills Training, which is also proven in this study. Overall, the employees of the MSMEs owners participating in Mandiri Young Entrepreneurs 2016 East Java Region already have qualified employee skills training. This emphasizes that there is a significant relationship between Business Owner's Expertise and employee skills training.

## 5.3. Employee skills training and business performance

Employee Skills Training has a significant effect on Business Performance. This proves that the third hypothesis is supported. Lits and Stewart (2000) have described a significant relationship between Employee Skills Training and Business Performance. Lits

and Stewart (2000) also stated that employee skills training is associated with sustainable productivity, improvements in competitive advantage and, ultimately, in company performance.

Business Performance of the participants of Mandiri Young Entrepreneurs 2016 East Java Region is influenced by the Employee Skill Training that they apply. This shows that employee training gives employees the required skills, improves productivity, continues to better competitive advantage and, eventually, influences performance of the business [2]. This is indicated by the results that 55% of respondents strongly agree with the statement that they have had a significant increase in income. This is not separated from the efforts of respondents to improve the ability of employees by providing training required by employees.

## 6. Conclusion

Based on the results of data processing using Partial Least Square (PLS) and discussion of the influence of Business Owner's Expertise on business performance of Mandiri Young Entrepreneurs 2016 participants with employee skills training as a moderating variable, the conclusions presented as follows can be drawn.

There is a significant positive relationship between Business Owner's Expertise and business performance that makes the hypothesis that Business Owner's Expertise has a positive effect on business performance accepted. The positive relationship between Business Owner's Expertise and business performance reflects that Business Owner's Expertise improves the business performance of Mandiri Young Entrepreneurs 2016 participants.

There is a significant positive relationship between Business Owner's Expertise and employee skills training that makes the hypothesis that Business Owner's Expertise has a significant positive effect on employee skills training accepted. The positive relationship between Business Owner's Expertise and employee skills training reflects Business Owner's Expertise of Mandiri Young Entrepreneurs 2016 participants in raising awareness of business owners to train the skills of their employees.

There is a significant positive relationship between employee skills training and business performance that makes the hypothesis that employee skills training has a significant positive effect on business performance accepted. The existence of a positive relationship between employee skills training and business performance shows that trained employees improve the business performance of Mandiri Young Entrepreneurs 2016 participants.

There is a significant positive relationship between Business Owner's Expertise on business performance with employee skills training as moderating variable that makes the fourth hypothesis stating that Business Owner's Expertise has a significant effect on business performance with moderating effect of employee skills training accepted. The existence of a significant positive relationship between Business Owner's Expertise and business performance through employee skills training shows the awareness of business owners participating in Mandiri Young Entrepreneurs 2016 of the need to train their employees to improve the performance of the business.

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