

THE ROLE OF HUMAN RESOURCE COMPETENCY ON THE PERFORMANCE OF SMEs IN ENHANCING COMPETITIVE ADVANTAGES: A STUDY OF ENDEK CRAFTS IN KLUNGKUNG REGENCY, BALI PROVINCE

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Abstract

SMEs has been proven to secure the Indonesian economy when faced with shocks in 1998. SMEs as one business unit that is very potent in contributing to the welfare of society because it is able to absorb labor beyond the ability of large-scale business. This study aims to provide a solution to strengthening the competitiveness of SMEs Endek Crafts in Klungkung regency, Bali Province. Efforts to strengthen business performance and competitive advantage based on strengthening the quality of human resources through increased competence consisting of knowledge, skills, and abilities. The research unit is SME Crafts Endek in Klungkung Regency, Bali Province, amounting to 43 pieces. The sample set in this research is 43 respondents (sample saturated). The respondent or observation unit in this research is the owner of UKM. The sampling technique in this research is by applying the simple random sampling method. Data were analyzed using Structural Equation Modeling (SEM), with Partial Least Square (PLS) approach through Smart PLS software application program. The finding of this research is that the knowledge and skill, of competence have no significant effect on business performance. While abilities have a positive and significant impact on business performance and business performance have a positive and significant impact on competitive advantage. This finding can provide information that knowledge and skills possessed by SME entrepreneurs are not able to

provide stimulus to improve the performance of SMEs business and SME business performance provides a stimulus to increase competitiveness. The recommendation given to SMEs is to improve Knowledge and skill of SMEs so as to improve performance and competitive advantage

Keywords: Dimension competence, business performance, competitive advantage, SMEs

INTRODUCTION

Small and medium enterprises (SMEs) are the largest business group achieved 99,9 % in Indonesia. SMEs absorbs labor 8.09 %, while large businesses 3.01%. However, seen from the contribution to the GDP of SMEs accounted for 23.44%, while large businesses accounted for 39.66. Based on the Boston Consulting Group Theory, the SMEs phenomenon is in the Question Mark quadrant, that is, business is growing rapidly but the contribution is still low, so strategies are needed that can stimulate faster growth to increase the contribution to reach the Star quadrant that is growing fast and contributing greatly.

The problem faced by most SME businesses in Indonesia is the low competitive advantage for the export market. The low competitive advantage has an impact on the low capacity and competitiveness to support economic growth. This problem is also faced by SME endek in Klungkung regency, Bali Province. Competition faced will be tighter in the era of Asean Economic Community (MEA) which has been enforced since the end of the year 2015. The urgent solution must be given by stakeholders to SMEs in increasing competitive advantage is to improve the quality of human resources both in the field of production management competence and field marketing Management.

The competencies of SMEs that need to be improved are in the field of knowledge, skills and abilities and attitude to improve the performance and competitive advantage. Michael J. Stevens, Michael A Campion (1994), argues that knowledge, skill, and abilities (KSA), are essential in building Teamwork. Teamwork is a dimension of organizational culture. Organizational culture can affect performance and subsequent performance can affect business competitiveness (Prakoso, Bagas, 2005). This research produces a model of SME development to face increasingly dynamic competition with the focus of analysis on human resources as a predictor of business performance improvement and competitive advantage of SMEs.

This study aims to provide solutions to strengthening the competitiveness of SMEs to face the increasingly fierce competition era. Efforts to strengthen competitive advantage based on strengthening the quality of human resources through increased competence. Dimensions of competence there are 3 (three) of knowledge, skills, and abilities. These three dimensions will

relate to SME business performance, and subsequently, SME business performance will stimulate competitive advantage. Research problems can be formulated as follows: Do human competencies play a role to stimulate performance and competitive advantage?

Research purposes

Purposes of this research are (1) to explain the competence of human resources, which consists of knowledge, skills, and abilities, (2) to explain the influence of each dimension of human resource competence such as knowledge, skill, and ability on SME business performance, (3) to explain the influence of business performance of SMEs on the competitiveness of SMEs.

Benefits of research

(1) Theoretical benefits. This research is expected to contribute to the development of science in the field of human resource management, especially in the small and medium enterprise (SME) sector. The built model is expected to complement the previous research, especially in the SME sector of endek craft. (2) Practical Benefits. This research is expected to provide information to decision-makers and stakeholders, in the development of SMEs endek crafts especially in Klungkung Regency and generally in the Province of Bali. This study aims to provide a solution to strengthening the competitiveness of endek craftsmen in Klungkung Regency, Bali Province, in the face of an increasingly fierce competition era. Efforts to strengthen competitive advantage based on strengthening the quality of human resources through increased competence.

LITERATURE REVIEW AND HYPOTHESES

Competence

Many organizations have recognized that qualified human resources are the key to gaining competitive advantage (Gaye Özçelik; Ferman, Murat, 2006). Houtzagers (1998) argues that much of the performance of troubled firms due to poor equipment capital, the inefficiency of distribution channels, poor product, marketing inefficiency, or poor resource allocation are all caused by human factors that are directly related to the activity. According to Mc Lagan (1997), the organization is now concerning the human resource competence base and its development. Mitrani et al., 1992; Spencer and Spencer, 1993) defines competence as an underlying characteristic of an individual which is causally related to criterion-referenced effective and superior performance in a job or situation. Based on that understanding the competence of an individual is something inherent in him that can be used to predict the level of performance.

Fransiska Soejono, *et al.*, (2015) describes that in an online business dictionary, competence is defined as a cluster related to the ability, commitment, knowledge, and skills that enable a person or organization to act effectively at work or in a situation. Competency indicates the availability of knowledge, skills that enable a person to make decisions in various situations. Spencer and Spencer (1993), states that competence can be divided into 2 (two) categories, namely threshold competencies and differentiating competencies. Threshold competencies are the main characteristics that a person must have in order to carry out his work. But does not distinguish a high performer and the average. While differentiating competencies are the factors that distinguish high and low performing individuals.

According to I.D.K.R. Ardiana *et al.* (2010), knowledge, is a mastery of science and technology owned by someone, and obtained through the process of learning and experience during his life. Knowledge indicators in this regard are knowledge of business management, product or service knowledge, consumer knowledge, promotion, and marketing strategy. Skill is a special capacity to manipulate an object physically. Skills indicators include production skills, communication, cooperation and organization, supervision, finance, administration, and accounting. Ability is the capacity of an individual to perform various tasks in a job. Capability indicators include the ability to manage a business, make decisions, lead, control, innovate, situations and change the business environment.

Business Performance

Business performance is a set of results achieved and refers to corporate achievement actions is the result of many individual decisions made continuously by management (Helfert 1996). The profile of the performance of small and medium enterprises is very complex and multi-dimensional in scope and characteristics, including owner's motivation, objectives and capabilities, internal organizational factors, specific sources, infrastructure and external relations (Mitra and Matlay, 2000; and Conway 2000; Storey 1994). To measure the performance of the firm, Kotler (1991) suggested that it is based on ROI rather than on profit margins.

According to (Appiah Adu *et al.*, 2001), business performance is influenced by two factors: external factors of the organization and internal factors of the organization that is the behavior of the organization and its human resources. Tvorik and McGivern (1997) reiterate that internal factors can account for twice the performance of external factors. Research conducted by Chaston, (1996), found that internal factors such as market orientation, personal entrepreneur, location and customer loyalty are key to measuring small business success. Furthermore, in his research, Chaston, (1996) found that the performance of small businesses is influenced by the age of the business itself.

Baswir (1995) added that there are 4 main factors causing low performance of small and medium enterprises (SMEs) in Indonesia, namely: 1) Nearly 60% of small businesses still use traditional technology; 2) Market share tends to decrease due to lack of capital, weak technology and managerial; 3) Most small businesses are unable to meet administrative requirements to obtain assistance from the Bank; 4) The level of dependence on government facilities tends to be very large.

Brady and Cronin (2001), Homburg Pflesser (2000), Morgan and Piercy (1996), assert that business performance is explained by marketing performance and financial performance. Five items to measure marketing performance are market share, sales level, customer loyalty, product quality, and new product success. Measuring financial performance is done by calculating the gross profit margin (gross profit margin), and return on investment (ROI).

In this research will use the results of research conducted by Chaston, (1996), Brady and Cronin (2001), Homburg Flesser (2000), Morgan and Piercy (1996), as an indicator to measure the performance of modified SMEs business in accordance with the characteristics of SMEs endek craft in Klungkung regency of Bali Province, namely market share, sales level, customer loyalty, product quality, new product success, location, business age and access to capital.

Competitive Advantages

The company's competitive advantage is the company's ability to implement new market strategies that can facilitate price reductions, productivity and increased market opportunity utility (Africa Competitiveness Report, 2009; Newbert, 2008). Companies that have a competitive advantage are the ability to create value and the extent to which companies can reduce costs, explore opportunities and can neutralize threats (Newbert, 2008). In other words, competitive advantage is the company's ability to manage processes and sources that are not done by competitors, where companies can create more opportunities than competitors. The company's resources and capabilities are the main sources of competitive advantage.

SMEs require continuous growth with high levels of innovation while maintaining competitive advantage (Cadiz et al., 2009). Four constructs are identified for innovation: process, market, strategic, product and behavioral innovation (Wang and Ahmed, 2004; Crossan and Apaydin, 2009). Process innovation is a company's ability to introduce new production methods, new technologies or new management approaches (Crossan and Apaydin, 2009). Market innovation deals with product innovation, to exploit market niches (Wang and Ahmed, 2004). Strategic innovation is the company's ability to overcome problems in a well-developed market to develop new, better strategies (Winter, 2003; Wang and Ahmed, 2004).

Product innovation deals with long-term business success, to develop where new products are introduced to benefit customers (Wang and Ahmed, 2004). Behavioral innovation consists of three levels: individual innovation, (changing willingness), group or team innovation (adaptability in response to change) and managerial innovation (management commitment and willingness to change the way to do things) (Crossan and Apaydin, 2009).

Day and Wensley (1988) declare a foothold in achieving competitive advantage, first is resource excellence consisting of the superiority of expertise and excellence in raw materials. Both position advantages consist of relatively low-cost advantages and value excellence for customers. Baradwaj, et al. (1993) states that the competitive advantage of a company is something that is not easily imitated by other companies. In this study the indicators of competitive advantage will refer to the research of Day and Wensley (1990) and Baradwaj, et al. (1993), which is worth, different from others and not easily replaced. Referring to the results of the research described above it can be arranged research hypothesis as follows:

Based on the above review, this research develops the following hypotheses. H1 : Knowledge of human resources has a positive and significant impact on the performance of SME. H2 : The Skill of human resources has a positive and significant effect on the performance of SME. H3 : The Ability of human resources has a positive and significant impact on the performance of SME. H4 : The performance of SME has a positive and significant impact on the competitive advantage of SME.

RESEARCH METHOD

This research is a quantitative research based on the principle of positivism, namely to test the validity of data and theory through hypothesis testing. The process of data analysis is based on the descriptive and the inferential analysis. The population in this research is all the SMEs that move in endek craft in Klungkung regency of Bali Province amounted to 43 pieces. The sample size determined in this study was 43 respondents (saturated samples). Respondents or observation units in this study were the owners of SMEs. The sampling technique in this study was by simple random sampling method. The analysis tool used is Structural Equation Modeling (SEM) with Partial Least Square (PLS) approach.

ANALYSIS AND RESULTS

Test of Validity and Reliability of Research Instruments

The instrument reliability test results showed Cronbach Alpha value between 0.435 and 0.715. Thus the instrument used to measure the construct can be stated quite reliably. Validity test is done by assessing the correlation of each score indicator with the total score of the construct. A

good validity requirement if the correlation is significant (Ghozali, 2011: 54). The results of validity test in this study showed a significant correlation between the scores of each indicator with the total score of the construct. This means that each indicator is valid.

Evaluation of Outer Model Reflective Indicators

Convergent Validity Test

The first step in testing the feasibility of the model is to test the relationship of variables with its indicator. The measurement is done by looking at the coefficient of factor loading each indicator to each latent variable. According to Lathan and Ghozali (2012: 78) an indicator is valid if its loading coefficient is above 0.50 (in this study used a minimum benchmark of 0.60) and significant at Alpha level of 0.05 or has a t-statistical value greater than 1.96.

Table 1. Outer Loading

Variable	Ability	Skill	Competitive Advantage	Business Performance	Knowledge
X1.2					0.907
X1.3					0.889
X2.4		0.762			
X2.5		0.711			
X2.6		0.777			
X3.2	0.823				
X3.4	0.705				
X3.6	0.765				
Y3				0.753	
Y4				0.843	
Y6				0.615	
Y7				0.723	
Z2			0.838		
Z5			0.615		

The results of data processing have shown all indicators of research variables > 0.60 (Table 1) means there is no problem convergent validity in the model under test. Convergent validity in addition to the value factor loading can also be seen from the Average Variance Extracted (AVE). In this study, the value of AVE (Table 2) of each construct is above 0.5. Therefore there is no problem of convergent validity in the model being tested.

Table 2. Average Variance Extracted (AVE)

Variable	AVE
Ability	0.586
Skill	0.564
Competitive Advantage	0.540
Business Performance	0.545
Knowledge	0.807
Criteria: Chin (1998)	>0.50

Discriminate Validity Test

Another way that can be used to test discriminant validity is to compare the value of the AVE root square root with the correlation value between the constructs. Table 3 shows that the square root value of AVE (0.766, 0.751, 0.735, 0.898) is greater than the correlation of each construct. Thus it can be said that the model no problem is seen from the discriminate validity.

Table 3. Cross loading

Variable	Ability	Skill	Competitive Advantage	Business Performance	Knowledge
Ability	0.766				
Skill	0.477	0.751			
Competitive Advantage	0.395	0.150	0.735		
Business Performance	0.661	0.525	0.326	0.738	
Knowledge	0.388	0.461	0.206	0.504	0.898

To make sure there is no problem with measurement, the final step in the evaluation of the outer model is the unidimensionality of the model. The unidimensionality test was performed using the Composite reliability indicator, and the Cronbach Alpha. For both of these indicators, the cut-off value point is > 0.60 (Tseng et al., 2006).

Table 4. Cronbach Alpha and Composite Reliability

Variable	Cronbach Alpha	Composite Reliability
Ability	0.651	0.809
Skill	0.650	0.795
Competitive Advantage	0.156	0.696
Business Performance	0.715	0.825
Knowledge	0.761	0.893

Table 4 shows that the coefficient of Composite reliability meets the acceptance criteria that is above 0.60. While the validity test is based on the Cronbach alpha, only the Competitive Advantage Variable has the Cronbach Alpha coefficient below the 0.60 cut-offs. However, the loading factor, Average Variance Extracted (AVE), Cross loading and Composite Reliability coefficients, meet cut-off criteria. Therefore it can be assumed that there is no validity and reliability or unidimensionality problem in the established model.

Inner Model Evaluation

Inner Model Evaluation aims to know the goodness of fit model with the following methods:

R-Square (R^2)

R-Square (R^2) indicates the strong influence of exogenous variables on endogenous variables. The value of R-Square (R^2) with p-value is smaller than Alpha 0.05, meaning that exogenous variables have a strong influence on endogenous variables.

Table 4. R-Square (R^2) Value of Endogenous Variables

Variable	<i>Original Sample (O)</i>	<i>Sample Mean (M)</i>	<i>Standard Deviation</i>	<i>t-Statistics (O/STDEV)</i>	<i>P Value</i>
Competitive Advantage	0.474	0.468	0.174	2.725	0.007
Business Performance	0.540	0.620	0.116	4.649	0.000

Q-Square (Predictive Relevance)

Q-Square (Predictive Relevance) measures how well the observation value generated by the estimation model and its parameters. The Q-Square (Predictive Relevance) value can be calculated as follows:

$$Q^2 = 1 - (1 - R^2_1) (1 - R^2_2)$$

$$Q^2 = 1 - (1 - 0.474) (1 - 0.540)$$

$$Q^2 = 1 - (0.526) (0.460)$$

$$Q^2 = 1 - 0.242 = 0.76 \text{ or } 76\%$$

Calculation of Q-Square (Predictive Relevance) is 76 %, this means that 76% relation between variables can be explained by the model. Based on both above calculation results are R^2 and Q^2 with good criteria, which means that the model can be reliable to predict and can be continued with hypothesis testing analysis.

Statistical Testing of Variable Relations

The results showed (Table 5) that there were two significant interrelations between variables that are Variable Ability to Business Performance Variables and Business Performance Variable to Competitive Variable, at $\alpha = 0,05$, with t-statistic 3,255 and 2.034 is greater than $z = 1.96$. Statistically, means that variation of Ability able to give a stimulus to the variation of Business Performance. Similarly, variations Business Performance are able to provide stimulus for variety of Competitive Advantages. In addition, there are two relationships between variables that are not significant (coefficient value of the path is not significant) is the relationship of Skills to Business Performance and the relationship of Knowledge to Business Performance, at $\alpha = 0.05$ with t-statistics 1,131 and 0.958, smaller than $z = 1.96$. Statistically, means that variations of Skill and Variations of Knowledge Variables are not able to provide significant stimulus to Business Performance.

Table 5. Path Coefficients

Variable	Original Sample (O)	Sample Mean (M)	Standard Deviation	t-Statistics (O/STDEV)	P Value
Ability=> Business Performance	0.482	0.466	0.148	3.255	0.001
Skill=> Business Performance	0.208	0.207	0.184	1.131	0.259
Business Performance => Competitive Advantage	0.326	0.354	0.160	2.034	0.043
Knowledge=> Business Performance	0.221	0.252	0.231	0.958	0.339

Hypothesis Testing Research

Hypothesis 1

The result of the research shows that the influence of Knowledge Variable on Business Performance Variables is not significant where $P = 0.339 > 0.05$ (Table 5). Statistically, means that Variations of Knowledge Variables are not able to significantly stimulate Variations of Business Performance variables. The results of research at the same time reject the hypothesis one was proposed.

Hypothesis 2

The results of the research indicate that the influence of Skill Variables on Business Performance Variables is not significant where $P = 0.259 > 0.05$ (Table 5). Statistically, means that variations of Skill variables are not able to significantly stimulate variations of Business Performance Variables. The research results rejected the hypothesis two was proposed.

Hypothesis 3

The result of the research shows that the influence of Variable Ability to Business Performance Variables is positive and significant where $P = 0.001 < 0.05$ (Table 5). Statistically, means that variation of Ability Variable is able to provide stimulus to the variation of Business Performance Variables significantly and positively. The results of the study at once received the hypothesis three was proposed.

Hypothesis 4

The results showed that the influence of Variable Performance on Competitive advantage Variable is positive and significant where $P = 0.043 < 0.05$ (Table 5). Statistically, means that variation of Business Performance Variable able to give stimulus significantly and positively to Variation of Competitive Advantage Variable. The results of the study at once received hypothesis 4 proposed.

DISCUSSION OF RESULTS

Based on the results of research on the causality relationship between variables it turns out that only two relations or hypotheses accepted, namely the relationship between the ability to business performance and the relationship between business performance to competitive advantage. On the other hand, there were two relationships or hypotheses were rejected, are the relationship between knowledge of business performance and the relationship of skills to business performance. The test results of each hypothesis can be explained as follows:

Knowledge of human resources has no significant effect on the business performance of SMEs

The results show that all indicators of knowledge are not able to stimulate the performance of SMEs business. In a descriptive study of respondents' perceptions of knowledge, it was found that most respondents felt they had knowledge of business management. However, the data is not significantly integrated with the variation of SMEs business performance data. This is possible because there is still a small percentage of respondents feel not understood about managing the business properly, especially related to the principles of business management, knowledge of consumers, and marketing management.

The Skill of human resources does not have a positive and significant effect on the performance of SMEs business

The results show that all skills indicators are not able to stimulate the performance of SMEs business. In the descriptive study of respondents' perceptions about skills possessed by SMEs, it is found that most respondents feel they have skills about business management. However,

these data variations are not significantly integrated with the variation of SME business performance data. This is possible because there are still a small number of respondents who feel not yet have skills in managing the business mainly related to skills in managing finances.

The Ability of human resources has a positive and significant effect on the business performance of SMEs

The results showed that all indicators of ability able to stimulate the business performance of SMEs. This is possible because the outstanding traits of SME entrepreneurs are the ability to motivate workers and control the business against various barriers, which can drive the improvement of business performance of SMEs.

Business performance has a positive and significant effect on the competitiveness of SMEs

The results showed that all indicators of SMEs business performance can stimulate competitive advantage. This is possible because the most prominent performance indicator in SMEs is the success of SMEs to build customer loyalty, product pattern development and business ages that have been long enough to have a good business experience. Prominent performance indicators are able to build the competitive advantage of SMEs. The most prominent competitive advantages are delivering customer value, the uniqueness of different products with other similar products and products not easily imitated.

RESEARCH IMPLICATIONS

Theoretical Implications

The result of this research is the model of SME development that focuses on the role of human resource competence to improve the performance and competitive advantage of SMEs. This model has been empirically tested with the relevant method of analysis through data collection. This model can explain the relationship of Human Resources Competence Variable with Business Performance Variables and Competitive Advantages Variable of SMEs. This study found that not all dimensions of Human Resources Competency Variable give the strong stimulus to Business Performance Variables of SMEs. Dimension variable of Competence as the most powerful to give the stimulus to Business Performance Variable of SMEs is the ability dimension. While the other two dimensions of knowledge and skills are not able to stimulate business performance significantly. The consequence of research result is there a new phenomenon that is why the dimensions of knowledge and skill are not able to stimulate business performance significantly? This phenomenon needs to be answered through subsequent research.

Practical Implications

The results of this study provide information to stakeholders to develop SMEs more effectively, especially on SMEs Endek Craft in Klungkung regency, Bali Province. Important information gained from this research is that knowledge and skills need to be tailored to the needs in improving business performance and competitive advantage of SMEs. There needs to be integrated cooperation between SMEs, government, and universities for SME development.

Limitations of Research

This research has built a model of SME development. The built models address the role of human resources to improve performance and business competitiveness. The role of human resources highlighted is the element of competence related to business performance and competitive advantage. The dimensions of human resource competence as the driving variable of business performance and competitive advantage are reflected by knowledge, skill and ability. Business performance and competitive advantage are not enough to be seen only from the competence of human resources, but there are other variables that can influence. The limitations of this study become an opportunity for subsequent researchers to consider various other variables to perfect this research.

CONCLUSIONS

The knowledge and skills of SME human resources are not integrated with the variation of business performance data. This finding can also mean that knowledge and skills possessed by managers about business management are not able to boost SME business performance. While the ability was integrated with the data variation of the business performance of the SMEs. This finding can be interpreted that the ability owned by managers about business management is able to encourage SME business performance. The results of the study also provide information that variation of Business Variable data is integrated with variations of Competitive Advantage Variable data. This finding can also mean that business performance on business management is able to encourage competitive advantage of SMEs

SUGGESTIONS

Knowledge and skills need to be directed more detail focusing on the field of production and business management for SME business managers. Increased knowledge of business management is directed to the principles of knowledge of business management, customer service, and marketing management. Skill upgrades related to skills in managing finances.

Ability should be improved in making decisions quickly, motivate employees, control the business, and ability to predict economic changes. Increased business performance still needs to be done because there are still a few managers feel the business performance is not good, especially related to access to capital. Increased competitive advantage still needs to be done because there are still a few managers feel that their competitive advantage of business is not good, especially related to the use of technology is still very traditional and business management business applied is still very simple.

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