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MARKETING | RESEARCH ARTICLE

Entrepreneurial Competence and Small and medium enterprises' Profitability: A Case of sunflower oil processing enterprises in Tanzania

Rabisante Moshi^{1*} and Salum Matotola²

Abstract: Determine the influence of entrepreneurial competence on SMEs' profitability focusing on personal, interpersonal and business competencies on SMEs' profitability. A cross-sectional research design whereby data were collected at once from 102 randomly selected sunflower oil processing firms in Dodoma region in Tanzania. Structured questionnaires were used to collect data. The study's findings reveal that personal, interpersonal and business competencies had a positive significant influence on the profitability of SMEs ($p < 0.05$). Integration of personal, interpersonal, and business competence influences profitability of sunflower processing firms. Involvements of personal, interpersonal, and business competencies influence the profitability of SMEs (sunflower processing firms).

Subjects: Small Business Management

Keywords: Sunflower; Processing; SMEs; Profitability; Entrepreneurship; Competencies

1. Introduction

Small and medium enterprises (SMEs) are of great importance economically as they contribute to the economic growth of the nation (Kadete, 2014) as they operate in all production (Mchome, 2016). As such, SMEs offer employment opportunities, and act as a source of income to the government and individual citizens (Anderson, 2017) and contribute to 80%, 62%, 79%, and 80% of employment in the USA, UK, Italy and China respectively. Similarly, SMEs have contributed to GDP growth by 51%, 25%, 63% and, 60% in the USA, UK, Italy and China respectively (Rushefsky, 2017). In developing countries SMEs have contributed working population by 50% and 49.6% in Zambia and Mozambique (Nuwagaba, 2015).

In Kenya, however, SMEs have contributed to the creation of 80% of employment and contribute to about 20% of the GDP (Ong'olo & Awino, 2013). Anderson (2017) found that in Tanzania, SMEs approximately employ 5.2 million people and contribute to 27–45% of the country's GDP. This means that SMEs have been among the contributors to the economic development of Tanzania

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and individual citizens. However, the specificity of the category of SMEs which contribute to the national economy and individual economic welfare neither catalysts behind the performance of SMEs towards national economic growth is still unclear.

Studies conducted on the profitability of SMEs have not incorporated sunflower processing firms, and hence the current study is focused on examining the influence of the entrepreneurship competence on profitability of sunflower processing firms. It has been noted that entrepreneurial competencies exist in various forms such as personal competencies, interpersonal competencies and business competencies (Matić, 2022), and these competencies were found to drive the SMEs' survival. This implies that entrepreneurial competence fosters SMEs profitability; however, limited studies have been conducted in Tanzania. Furthermore, these studies have not linked entrepreneurial competencies with financial performance, in terms of profitability, efficiency, liquidity, returns and gearing ratios, since entrepreneurial competencies influence the financial performance of business firms globally. This study therefore, is intended to correlate the entrepreneurial competencies (personal competencies, interpersonal competencies and business competencies) and profitability of sunflower processing firms.

The SMEs have been an academic concern to many scholars due to economic vitality globally (Anderson, 2017). The government has employed several SME survival-enabling strategies such as development of policy of 2003, National Entrepreneurship Training Framework (NETF) of 2013, Small Industries Development Organization (SIDO) in 1973 and Sustainable Industrial Development Policy (SIDP) (1996–2020), University of Dar es Salaam Innovation and Entrepreneurship Centre (UDEIC, 2015). However, performance of majority of SMEs is still questionable. The failure of SMEs is associated with entrepreneurial incompetence (Matić, 2022) of firms' managers.

However, limited knowledge is available on linking entrepreneurial competency and SMEs performance in Tanzania. Thus, ambiguities overshadow. Limited knowledge on the role of entrepreneurial competency and the way influences performance of SMEs somehow affect enterprises to live longer and realize profit from their investment. Thus, the current paper is aimed to assess the entrepreneurial competencies on owner-managers towards SMEs profitability. The study specifically will consider the influence of personal, interpersonal and business competencies on profitability of sunflower processing SMEs in Tanzania.

2. Literature review and hypothesis development

This part has presented the theoretical and empirical review of related literature from different parts of the world under three entrepreneurial competencies.

2.1. Resource-based theory

This theory was developed by Wernerfelt in the year 1984. The theory argues that when a business possesses unique and super resources attain the competitive advantage over its rivals and generate more profit (Barney, 1991).

It has two assumptions, namely, heterogeneous and immobile. The first assumption is that homogenous companies do not have opportunity of attaining competitive advantage. The second assumption states that on a short-term basis strategies of one business firm cannot be imitated by another. Thus, owner-managers of SMEs need to create competitive advantages which also need maintenance as it may be short-lived feature.

2.2. Personal competence on profitability of SMEs

The profitability of an enterprise is determining the owner-manager competence of owners of such enterprises (Aisyah et al., 2017). This is because the owner of SMEs is required to possess various skills that are important in ensuring a good performance. Moghimi and Subramaniam linked Malaysian SMEs and employees creativity. Meanwhile, Sukardi, Indah, Faturachman and

Sulaemanin Indonesia noted that among other factors, capital, skills, creativity had affected SMEs' performance. Similar observations were noted by various scholars. However, this aspect was conducted in Malaysia, Indonesia and Australia. Also, De Asis-Galvez (2021) linked the entrepreneurial competencies of managers in the Philippines with SMEs performance. It was found that personal integrity had a significant influence on business success. Other scholars with similar findings regarding personal tenacity and personal integrity include Pathirana and Semasinghe (2018), Leovaridis and Popescu (2017), Orengo-Serra (2017) and Okonji, Olufemi, Oghojafor and Mgbe (2020). Through this, it is clear that integrity and tenacity, when fully possessed and utilized in business, profitability of SMEs, will be archived. Under this ground it is essential to hypothesize that,

H₁: *personal competence influence profitability of sunflower processing firms*

2.3. Interpersonal competence on the profitability of SMEs

Interpersonal competence is the ability to interact with others and with the community. This includes the building of healthy relationships that are mutually beneficial between parties (Abraham, 2016). The profitability of SMEs has been linked to the communication skills, conflict management and teamwork (Nneka, 2019; Voraphani and Chungviwatanant, 2019). This argument was supported by Karadakal, Goud and Thomas in India. Thus, interpersonal competence can help to retain the employees in the organization. While Tumwebaze, Wandiba, Olutayo and Kabasinguzi in Uganda emphasized the need of diplomatic conflict resolution, Ajike et al. in Nigeria noticed the relationship between conflict management and the performance of firms.

Communication is among the interpersonal competence that shows how one relay and receive information to and from others. These competencies are essential for everyday conversation as well as for professional advancement. Peters noted the relationship between leadership and communication in SMEs. This implies that SMEs requires communication competence in managing them. This implied that communication competence by owners of SMEs boosted firm's profitability. Other studies with similar findings include Adriana and Muntadarsyah, Kimaro and Katarzyna. On other hand, teamwork has been linked with organizational performance. This study was cemented by Todericiu who also appraised the teamwork among employees, towards profitability of SMEs. Thus, teamwork is crucial for profitability of SMEs; however, these studies have not specified the kind of SMEs dealt with. Ying and Fangdealt with factors behind effectiveness of team-building among employees in SMEs in Malaysia. It was found that effective teamwork allows teams to produce outcomes greater than the sum of individual members' contributions. Based on this, it is proposed that

H₂: *interpersonal competence influence profitability of sunflower processing firms*

2.4. Business competence on the profitability of SMEs

According to Priansa viewed business competence as a collection of abilities, skills, maturity, experience, effectiveness, efficiency, and success in carrying out job responsibilities. From these definitions, it can be summarized that business competence is the ability of individuals to have competence in financial management, seeking opportunities and generating new networks within the business entity for the purpose of generating profit. Opportunity seeking mainly target to see what others have not seen and use it as an opportunity of generating profit within the enterprise (Sawaeen and Ali, 2019).

Khan, Xuehe, Atlas and Khan in China discovered that opportunity seeking had effect on satisfaction of customers while Nwachukwu, Chladkova and Zufanlinked the entrepreneurial orientation, entrepreneurial competencies, entrepreneurial leadership and firms' performance.

This leaves room for further investigation of this issue. Similarly, network linkage and performance of SMEs were linked in Tanzanian context. Thus, social media networking as a means used by enterprises to create networks with different customers from different parts had no significant impact on the performance of these SMEs. Thus,

H₃: *business competence influence profitability of sunflower processing firms*

3. Material and methods

This study used a cross-sectional research design as it is suitable in establishing the valence of a phenomenon, situation, problem, attitude or issue, by taking a cross-section of the population. The study was conducted in Tanzania in Dodoma region in three districts, namely, Kongwa council, Dodoma city and Chemba council in Dodoma region. The sunflower sector was selected because sunflower oil processing SMEs increased from 269 to 417 in Dodoma region. The study used a simple random sampling method. Through the simple random sampling method, all members of SMEs had an equal chance to be involved in the study.

To get rid of variable errors researcher used Cronbach's Alpha (α) to measure reliability which is the most common internal consistency measure and is generally expressed as a number between 0 and 1. Meanwhile, validity requires an instrument to be reliable, but an instrument can be reliable without being valid. The questionnaire was tested against content validity for sake of ensuring that instrument covered all relevant contents that was supposed to be measured.

3.1. Data analysis

The descriptive statistics was used in analyzing the demographic respondents' characteristics whereas multiple linear regression with the help of SPSS version 20 was used to establish the correlation among variables at stake it is capable to establish variable correction respectively. In this study the modified Engel function (1997) was adopted as written below:

$$y_i = \beta_0 + \beta_1 X_{i1} + \beta_2 X_{i2} + \beta_3 X_{i3} + B_p x_{ip} + e$$

Whereby;

Y = SMEs profitability

β_0 = constant (coefficient of intercept)

X_1 = Personal competency

X_2 = Interpersonal competency

X_3 = Business competency

β_1 , β_2 , and β_3 are the regression coefficient of the four variables.

e = the model's error term (also known as the residuals)

4. Findings and discussion

4.1. Characteristics of the respondents

In this section sex, age, education level and working experience of respondents involved in the study have been covered.

4.2. Sex of respondents

Table 1 indicates that the majority (85%) of the respondents were male, while 15% were female. The findings imply that both sexes were represented in the study, but again it affirms the argument that the majority of SMEs are owned and managed by males.

4.3. Age of respondents

Results show that majority (51%) of the respondents were youth at the age range 28–37 years, while only 8% were aged between 18 and 27 years. Detail explanation is depicted in Table 2

4.4. Education Level of respondents

Results shown in Table 3 indicate that a majority (46%) of the respondents had a primary-level education, closely followed by 23% who had Form Four level of education. The rest held diploma and certificate.

4.5. Respondents' working experience

Results from Table 4 indicate that majority (74) experience about 7 years, whereas the least (2%) had 18 years and above in the sunflower oil processing business.

4.6. Diagnostic Tests

The researcher conducted various diagnostic tests to ensure that the assumptions of the Classical Linear Regression Model (CLRM) were not violated, and the appropriate model was chosen for

Table 1. Characteristics of the Respondents by Sex

| Respondent Gender | Frequency | Percent (%) |
|-------------------|------------|-------------|
| Male | 87 | 85 |
| Female | 15 | 15 |
| Total | 102 | 100% |

Table 2. Characteristics of Respondents by Age

| Respondent Age | Frequency | Percent (%) |
|----------------|------------|-------------|
| 18–27 | 8 | 8 |
| 28–37 | 52 | 51 |
| 38–47 | 27 | 26 |
| 48+ | 15 | 15 |
| Total | 102 | 100% |

Table 3. Characteristics of the Respondents by Academic Qualification

| Respondent Academic Qualification | Frequency | Percent (%) |
|-----------------------------------|------------|-------------|
| Standard 7 | 47 | 46 |
| Form Four | 24 | 23 |
| Form Six | 11 | 11 |
| Certificate | 11 | 11 |
| Diploma | 7 | 7 |
| Bachelor Degree | 2 | 2 |
| Total | 102 | 100 |

Table 4. Characteristics of the Respondents by Working Experience

| Respondent Working Experience | Frequency | Percent |
|-------------------------------|------------|-------------|
| 3–7 years | 74 | 73 |
| 8–12 years | 19 | 19 |
| 13–17 years | 6 | 6 |
| 18 years+ | 3 | 2 |
| Total | 102 | 100% |

Table 5. Coefficient of Determination

| Model Summary | | | | |
|--------------------|----------|-------------------|----------------------------|---------------|
| R | R Square | Adjusted R Square | Std. Error of the Estimate | Durbin-Watson |
| 0.821 ^a | 0.674 | 0.663 | 3.64877 | 1.716 |

Note: a. Predictors: (Constant); Personal competency, Business competency and Interpersonal competency;
b. Dependent Variable: SMEs profit

analysis in the event that the CLRM assumption was not compromised. VIF had a value of 5 which is acceptable range. On the other hand, the Durbin-Watson test was nearest to 2, implying the absence of an autocorrelation problem at a $p < 0.05$ level of significance.

4.7. Regression analysis

Coefficient of determination adjusted R square (R^2) (Table 5) shows that independent variables (personal competency, business competency and interpersonal competency) affected the dependent variable (SMEs' profitability) by 66.3%, at p -value = 0.001, which is significant $p < 0.05$. The remaining 33.7% is contributed by other exogenous variables which are beyond this study.

From Table 6 of ANOVA with an F-statistic of 48.498 established a significance level of 0.000 which was significant at $p < 0.05$ level of significance, implying that the tested variables had significant effect on the sunflower oil processing firms.

4.8. Regression results

From Table 7, the model constant was 0.402 with a t-value of 4.102. The p-value for the constant was significant at 0.006. As such, the researcher observed that the level of SMEs' profitability is statistically significant. On the other hand, the t-value for personal competency, interpersonal and business competencies were 8.838, 10.333 and 8.816 respectively at with a p-value of 0.000. Thus all variables were significant at the $p < 0.05$ level of significance. Based on the model was developed from Table 7

Table 6. ANOVA Results

| ANOVA ^a | | | | | |
|--------------------|----------------|-----|-------------|--------|-------|
| Model | Sum of Squares | Df | Mean Square | F | Sig. |
| Regression | 1937.024 | 3 | 645.675 | 48.498 | .000b |
| Residual | 1584.31 | 119 | 13.314 | | |
| Total | 3521.333 | 122 | | | |

Note: a. Dependent Variable: SMEs profitability; b. Predictors: Constant personal competency, interpersonal competency, business competency

Table 7. Summarize the Regression Results

| Coefficients | | | | | |
|--------------------------|-----------------------------|------------|---------------------------|--------|------|
| Model | Unstandardized Coefficients | | Standardized Coefficients | T | Sig. |
| | B | Std. Error | Beta | | |
| (Constant) | .402 | .098 | | 4.102 | .006 |
| Personal Competency | .327 | .037 | .231 | 8.838 | .000 |
| Interpersonal Competency | .432 | .049 | .161 | 8.816 | .003 |
| Business Competency | .279 | .027 | .194 | 10.333 | .002 |

Note: a. Dependent Variable: SMEs profitability

$Y = 0.402 + 0.231X_1 + 0.161X_2 + 0.194X_3$, suggesting that holding other factors constant, a unit increase in personal competency, interpersonal competency and business competency leads to an increase in SMEs profit by a multiple factor of 0.231, 0.161 and 0.194 units respectively.

4.9. Implication of the study

Based on the study theories, the study gives implication that personal traits, characteristics, patterns of thoughts, feelings and behavior matter indeed in the performance of SMEs. Meanwhile, the manner an entrepreneur interacts with other people in society is crucial in either affecting his/her business performance positively or negatively. This is because almost everything important in life occurs through social interaction, or as part of preparation for future social interaction, through employment of one's social network and the manner it relates to the social interactions. Thus, SMEs' owner-managers are required to be innovative, creative and hard workers so as to enhance their performance. Yet, SMEs, will be successful by building positive interactions with fellow entrepreneurs is imperative for mutual benefit.

4.10. Limitations and areas for future study

The study confined itself in three (3) councils of Dodoma region. Similarly, it has considered personal competence, interpersonal competence and business competence only. In this view, a future study was recommended to be done on other industries in Tanzania. Based on the role of agriculture, it is also worthwhile to conduct similar study on other crops apart from sunflowers. Similarly, it is also recommended that a study should be broadened to cover other regions of the United Republic of Tanzania. While few aspects of entrepreneurial competencies were covered it is suggested that other competencies regarding entrepreneurship should be researched.

5. Conclusion

Based on the study findings, there is a positive and significance effect of personal competence (in terms of creativity, tenacity and integrity) on the SMEs' profitability. Meanwhile, there is a positive correlation between interpersonal competence and SMEs profitability. Furthermore, it was noted that business competence is a key determinant of SMEs' profitability in Tanzania. Therefore, it worth to state that business competence significantly influences SMEs' profitability. It is therefore concluded that personal, interpersonal and business competences has an effect on the level of SMEs' profitability in Tanzania.

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