THE RELATIONSHIP BETWEEN ENTREPRENEURS KNOWLEDGE AND PERFORMANCE

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Abstract

The purpose of this research is to find out the relationship between entrepreneur knowledge and performance of small medium family-owned business in East Java Indonesia. A total of 381 small medium family-owned businesses in the East Java province of Indonesia are used as research respondents. These respondents were selected using proportional cluster random method to ensure that all of the predetermined areas in East Java were proportionally represented. Confirmatory Factor Analysis (CFA) is used to test the validity of the research variables, whereas Composite (Construct) Reliability is used to test the reliability of the variables. After all variables were declared as valid and reliable, the following step was to perform a multivariate analysis which involved normality, singularity, and outlier tests. After all the multivariate assumptions were fulfilled, a structural model testing was performed using the covarian-based structural model of AMOS. The result of this research suggests that entrepreneur knowledge has a positive and significant influence on performance of SMEs.

Keywords: performance, entrepreneur knowledge, small medium enterprises

INTRODUCTION

The business climate faced by companies nowadays is characterized by the increasing level of complexity, market diversity, and rapid change as the result of information technology development. This condition applies in every size of business, including small medium enterprises (SMEs). SMEs requires business owners to cope with product manufacturing and market uncertainty (Heinrichs & Lim, 2008). In such condition, where competition is high and market is uncertain, every company needs a businessman with a strong entrepreneurial orientation and the ability to empower knowledge to create a strategic decision making that is in line with the rapid change in the business environment.

Small medium enterprises have some advantages by its size, such as the flexibility in changing the direction of their business. For example, changing product quality to meet the market’s needs is easier to do because the procedure is simpler and easier to manage. Another advantage is close relationships with customers and suppliers. Since small medium companies only have several customers and suppliers, their relationships become closer and more personal. The other advantage is the development in information technology. IT development affects almost every aspect in life, including business. The development in IT also brings advantages to all business elements, including small and large companies. Since it is easier to access information, businesses are able to accelerate their decision makings. It also brings variety to promotional media or channels. These channels will become even more interactive and less expensive if the marketers are creative with their marketing communication strategies. IT development also simplifies the payment method and communication process within a business. Things become cheaper and more interactive for employees, suppliers, and customers alike. As the field of strategic management expands,