

## THE DETERMINANTS OF MICRO AND SMALL ENTERPRISES PERFORMANCE: AN EMPIRICAL STUDY OF MILLENNIAL AND CENTENNIAL ENTREPRENEURS

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**Citation (APA 7<sup>th</sup>):** Ambinari, N. A., & Kholid, M. N. (2022). The Determinants of Micro and Small Enterprises Performance: An Empirical Study of Millennial and Centennial Entrepreneurs. *Jurnal Minds: Manajemen Ide Dan Inspirasi*, 9(1), 143-158. <https://doi.org/10.24252/minds.v9i1.27597>

Submitted: 01 December 2021  
Revised: 21 February 2022  
Accepted: 23 April 2022  
Published: 17 May 2022



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**ABSTRACT:** The purpose of this study is to determine the factors affecting the enterprise performance of Micro and Small Enterprises (MSEs) among generations Y (millennial) and Z (centennial) entrepreneurs during the Covid-19 pressure under the theory of Resource-Based View. Data were collected by online questionnaires to 227 generation Y and Z respondents and were analyzed using the Partial Least Squares Structural Equation Model (PLS-SEM). The data analysis findings indicate that risk-taking and networking positively affect micro and small enterprise performance positively and positively affect entrepreneurial competencies. Entrepreneurial competencies also significantly positively affect micro and small enterprise performance. While technology usage has no significant effect on micro and small enterprise performance, it substantially affects entrepreneurial competencies. Theoretical and practical contributions are provided.

**Keywords:** Micro and Small Enterprises (MSEs); Entrepreneurs; Entrepreneurial Competencies; Enterprise Performance

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DOI: 10.24252/minds.v9i1.27597

ISSN-E: 2597-6990

ISSN-P: 2442-4951

<http://journal.uin-alauddin.ac.id/index.php/minds>

Publisher: Program Studi Manajemen, Universitas Islam Negeri Alauddin Makassar 143

## INTRODUCTION

The annual increase in the number of Micro and Small Enterprises (MSEs) in Indonesia and the government's continued efforts to improve the quality of MSEs demonstrate that the existence of MSEs in Indonesia is critical. Micro, Small, and Medium Enterprises employ 64.2 million people and contribute significantly to the Gross Domestic Product, which now stands at 61.07% or Rp. 8,573.89 trillion, and it is expected to absorb 97% of the workforce in the business world by 2020 (Kementerian Keuangan Republik Indonesia, 2021). However, the Covid-19 epidemic struck at the start of 2020; 82.9% of 206 MSEs experienced a negative impact, with up to a 30% loss in revenue, while just 5.9% experienced a positive effect (Bahtiar, 2021). The tourism industry, particularly the tour, and travel industry, is the MSEs sector hardest hit by the Covid-19 outbreak (Sugihamretha, 2020).

The threat of failure and bankruptcy that MSEs face in Indonesia's uncertain economic environment necessitates a strategy to ensure that MSEs' capabilities and performance remain competitive and sustainable. External factors affecting a business's performance include business competition, supplier negotiating power, buyer bargaining power, the threat of new entrants, and alternative products (Brustbauer, 2016). Along with external influences, a business's performance is influenced by internal factors. These internal variables are innovation, technology, operational activities, human resource strengthening, marketing, research, and development (Hanggraeni et al., 2019). A business or organization must have an internal tangible and intangible resource distinct from rivals' offerings and cannot be replicated. A company or organization needs to have a competitive advantage and perform well (Barney, 1991). Intangible internal resources are those of a business that is difficult to replicate. Innovation, human capital, reputation, and culture are all examples of intangible resources (Surroca et al., 2010).

A person's personality or characteristics significantly impact the MSE business organization's success (Entrialgo et al., 2000). Age or generational status is one of the individual characteristics that affect the success of business MSE. There are various well-known generations, including the Veteran generation, the Baby boom generation, the X generation, the Y generation, and the Alfa generation (Bencsik et al., 2016). Along with the world's business environment, which is evolving due to technology, ages Y and Z are believed to be prepared to adapt to the newest business climate (Bencsik et al., 2016). Generation Y, also known as the Millennials Generation, refers to those born between 1980 and 1995, while Generation Z, also known as the Gen Z or Centennials Generation, refers to those born between 1995 and 2010 (Zemke et al., 2013). The traits of Generation Y and Generation Z, which are future-oriented, imaginative and creative, adaptable to technology, and responsive to events, are similar to the primary attributes that a business owner must possess (Bencsik et al., 2016).

Numerous studies on a business's performance have been conducted, particularly on Micro and Small Businesses (MSE). Risk-taking affects the performance of MSEs, with business size acting as a moderator (Asad et al., 2018). Entrepreneurial abilities or entrepreneurial competence affect small business performance (Abdullah & Bin Mansor; Radzi et al., 2017). Al Mamun & Fazal (2018) found that risk-taking does not affect entrepreneurial competencies, while entrepreneurial competencies positively affect enterprise performance. According to Al Mamun et al. (2019), entrepreneurial skills and networking affect entrepreneurial competencies, affecting entrepreneurial performance; however, networking does not affect enterprise performance.

Many previous studies on the factors that affect the performance of micro and small enterprises (MSEs) have been carried out. However, most of these studies have not considered the different generations of business owners. Given that the millennial and centennial generations exhibit qualities conducive to commercial success (Bencsik et al., 2016), it is critical to study these two generations. This study will investigate the effect of risk-taking, networking, technology usage, and entrepreneurial competencies on micro and small enterprise performance among millennial and centennial entrepreneurs.

## **THEORETICAL REVIEW**

### *Theory of Resource Based-View (RBV)*

The Theory of Resource-Based View (RBV) is a theory for determining a company's competitive advantage compared to other businesses that emphasize internal resources above external resources (Barney, 1991). This competitive advantage can be created through the use of unique corporate resources (heterogeneity), which cannot be transferred or copied (immobility) (Grant, 1991). Internal resources can be tangible or intangible and must at the very least meet specific characteristics that provide the business a competitive advantage over other companies, such as having value (valued), being rare, being unique (inimitable), and not being replaceable (non-substitutable) (Barney, 1991).

Tangible resources are those that are visible, quantitative, and easily transportable. These substantial resources include financial resources in the form of funds for the business and physical resources in the shape of land, buildings, machinery, cars, and other visible equipment (Sukrin & Ilham, 2021). Intangible internal resources are those of a business that is difficult to replicate. Innovation, human capital, reputation, and culture are all examples of intangible resources (Surroca et al., 2010).

According to the Resource-Based View (RBV) paradigm, this research examines risk-taking, networking, and technology utilization as internal resources of the organization that can provide a competitive advantage over other businesses and impacts entrepreneurial competencies and micro and small enterprise performance.

### *Risk-Taking*

Risk-taking is a person's proclivity to seize opportunities; it refers to the degree to which a person is prepared to undertake risky commitments in the face of failure or uncertainty in the future (Friesen & Miller, 1982). According to RBV theory, risk-taking is a critical skill to achieve high productivity and profitability for a business or firm (Barney, 1991). Entrepreneurial competencies are frequently demonstrated by a risk-taking mindset, such as when an organization or business actor makes strategic decisions to offer resources or debt substantial enough to expect a high rate of return where opportunities exist in the market (Lumpkin & Dess, 1996). Previous research has shown that risk-taking positively affects enterprise performance (Asad et al., 2018; Zhang et al., 2018). Previous research has also shown that risk-taking positively affects a firm's competencies in a critical environment (Slovic et al., 1982). In addition, some studies show that risk-taking is an important indicator that positively influences entrepreneurial intention (Sánchez, 2013). As a result, the following hypothesis was employed in this study:

H1: *Risk-taking has a positive effect on micro and small enterprise performance*

H2: *Risk-taking has a positive effect on entrepreneurial competencies*

### *Networking*

In this study, networking is defined as an individual's or organization's capacity to manage their network or business relationships with other parties (Aldrich et al., 1986). According to RBV theory, networking is the simplest form of business organization that does not require any coordination to facilitate business growth and contribute to competitiveness (Barney, 1991). The network capacity to form commercial partnerships is one of the talents that demonstrates the presence of entrepreneurial competencies, precisely the power to build relationships (Man et al., 2002). Networking can significantly affect a business's growth and development (Anderson et al., 2010). The previous study has established that networking positively affects entrepreneurial competencies through polishing and developing skills (Al Mamun et al., 2019; Bird, 2019; Hazlina Ahmad et al., 2010). Additionally, a prior study indicates that networking activities can have a favorable effect on a business's growth, where growth is one way to measure a business's or enterprise's performance (Lee & Tsang, 2001; Nabiswa & Mukwa, 2017). As a result, the following hypothesis is being tested:

H3: *Networking has a positive effect on entrepreneurial competencies*

H4: *Networking has a positive impact on micro and small enterprise performance*

### *Technology Usage*

Today, technology plays a significant role in the field of entrepreneurship. The term technopreneurship refers to the application of technology in entrepreneurship. It implies a strong correlation between technical advancement,

innovation, and entrepreneurship (Fowosire et al., 2017). Utilizing technology is one of an individual's abilities to generate a difficult-to-copy competitive advantage (Barney, 1991). Individuals and organizations can foster collaboration between small firms and their supply chain partners by implementing information and communication technology (Greene et al., 2000). According to RBV theory, technology usage enables businesses to achieve and sustain a competitive advantage (Radzi et al., 2017). Previous research on the use of technology shows that technology in entrepreneurship or technopreneurship positively influences the abilities and skills of an individual or entrepreneurial competency (Fowosire et al., 2017; Mopangga, 2015; Sulaiman et al., 2020). Technology usage has a positive effect on enterprise performance (Dibrell et al., 2008; Jasra et al., 2010; Raymond & Bergeron, 2008). As a result, the following hypothesis is being tested:

H5: *Technology usage has a positive effect on entrepreneurial competencies*

H6: *Technology usage has a positive impact on micro and small enterprise performance*

#### *Entrepreneurial Competencies*

According to RBV theory, entrepreneurial competencies contain essential information that enables them to deliver skills and talents that aid a business in generating competitive advantage (Barney, 1991; Grant, 1991). These abilities can range from the capacity to identify opportunities to the degree to build relationships, the power to generate and develop concepts, the capacity to prepare and manage operational flows, the ability to formulate strategies and plans, and the capacity to create long-term commitments (Man et al., 2002). Previous research has shown that entrepreneurial competencies positively influence the success of business performance or enterprise performance (Abdullah & Bin Mansor, 2018; Al Mamun et al., 2019; Al Mamun & Fazal, 2018; Baron & Markman, 2003). As a result, the following hypothesis is being tested:

H7: *Entrepreneurial competencies have a positive effect on micro and small enterprise performance*

Figure 1 illustrates a conceptual framework for micro and small enterprise performance.

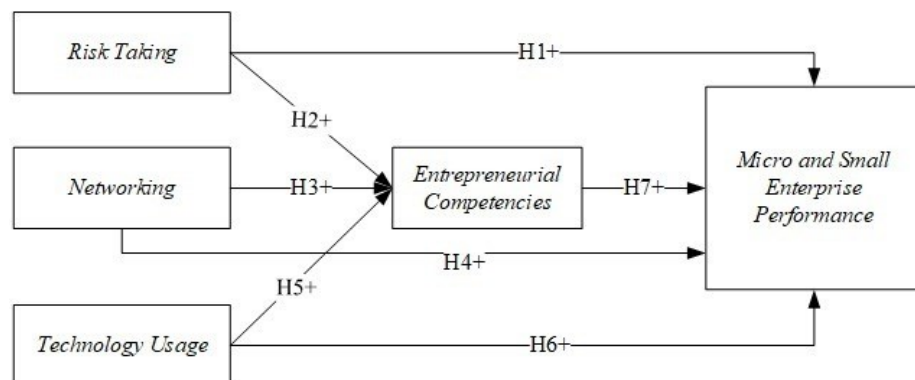


Figure 1. Conceptual Framework

## METHODOLOGY

This study uses quantitative methodologies in conjunction with primary data. Purposive sampling was used to obtain the sample for this study. Micro and small business actors (MSEs) who are members of Generation millennial (Y) and Generation centennial (Z) are included in the sampling criteria. Generation millennial comprises people born between 1980 and 1995, while Generation centennial comprises those born between 1995 and 2010 (Bencsik et al., 2016). The researcher employs these criteria because Generations Y and Z exhibit qualities such as a focus on future achievement, inventiveness, familiarity with technology, and an ability to react quickly to events due to the ease with which information can be received (Bencsik et al., 2016). There were two hundred forty-eight respondents in this survey, but only 227 met the criteria.

The data for this study were gathered using online surveys distributed via Google Forms. The questionnaire in this study employed a Likert scale ranging from "Strongly Disagree" to "Strongly Agree.". The measurement of variables in this study was adopted from several relevant previous studies. Each of the five-question items from Al Mamun & Fazal (2018) measures risk-taking, entrepreneurial competencies, and micro and small enterprise performance. Meanwhile, technology usage was measured using four questions adapted from (Radzi et al. (2017).

The data analysis method used in this study is PLS-SEM (Partial Least Square-SEM), which comprises a measurement model and a structural model (Hair et al., 2011). Convergent validity, discriminant validity, and reliability tests are all included in the measurement model. Concurrent validity is determined using a loading factor value parameter of more than 0.7 and an average variance extracted (AVE) value greater than 0.5. Convergent validity, discriminant validity, and reliability tests are all included in the measurement model. Concurrent validity is determined using a loading factor value parameter of more than 0.7 and an average variance extracted (AVE) value greater than 0.5. (Ghozali & Latan, 2015). While the discriminant validity test makes use of the cross-loading. The reliability test is conducted using a Composite Reliability value of better than 0.7. (Ghozali & Latan, 2015). Additionally, the structural model employs the R-Square (R<sup>2</sup>) and the t-value criterion (Hair et al., 2011).

## RESULTS

### *Respondents Profile*

Table 1 summarizes the characteristics of the respondents to this study. The majority of responders in this survey were female (174 respondents: 76.65%). Meanwhile, male respondents numbered 53 respondents (23.35 %). According to the respondents' ages, most respondents in this survey were 20+-25 years (98 respondents: 43,17%). Meanwhile, just 16 responders (7.05%) were

35+-40 years old. In terms of education, most respondents (144 respondents; 63.4%) have a bachelor's degree, while only two (0.88%) have a junior high school education. According to the respondents' business ages, the average respondent has less than five years old (184 respondents; 81.06 %). According to the products or services offered, most are fashion and accessory retailers (75 respondents: 33.04 %). Most respondents provide their products online (107 respondents: 47.14 %). The majority of respondents (175 respondents; 77.09 %) had a monthly revenue of IDR. 10,000,000 and were located in East Java (62 respondents; 27.31 %).

**Tabel 1. Respondents Profile**

Characteristics	Freq.	%	Sales Model	Freq.	%
<b>Gender</b>			Online	107	47,14%
Male	53	23,35%	Offline	17	7,49%
Female	174	76,65%	Online and Offline	103	45,37%
<b>Age (Years)</b>			<b>Turnover/Month (Rp)</b>		
15+-20	61	26,87%	< 10.000.000	175	77,09%
20+-25	98	43,17%	10.000.000 – 30.000.000	35	5,42%
25+-30	31	13,66%	30.000.000 – 50.000.000	8	3,52%
30+-35	21	9,25%	50.000.000 – 70.000.000	4	1,76%
35+-40	16	7,05%	70.000.000 – 90.000.000	1	0,44%
35+-40	16	7,05%	90.000.000 – 110.000.000	2	0,88%
<b>Education</b>			130.000.000 – 150.000.000	1	0,44%
Junior high school	2	0,88%	>190.000.000	1	0,44%
<b>Senior high school</b>			<b>Business Location</b>		
Bachelor's degree	76	33,48%	DKI Jakarta	24	10,57%
Master's degree	144	63,44%	DI Yogyakarta	9	3,96%
Master's degree	5	2,20%	Jawa Barat	22	9,69%
Master's degree	5	2,20%	Jawa Timur	62	27,31%
<b>Business Age (Years)</b>			Jawa Tengah	12	5,29%
< 5	184	81,06%	Sumatera	23	10,13%
5+-10	39	17,18%	Kalimantan	21	9,25%
20+-15	4	1,76%	Sulawesi	9	3,96%
20+-15	4	1,76%	Bali	33	14,54%
<b>Product or Service Type</b>			Nusa Tenggara	10	4,40%
Fashion and accessories	75	33,04%	Papua	1	0,88%
Food/drink	71	31,28%			
Beauty	21	9,25%			
Household	10	4,41%			
Internet	7	3,08%			
Education	4	1,76%			
Otomotif	5	2,20%			
Creative product	12	5,29%			
Tour & travel	3	1,32%			
Event organizer	4	1,76%			
Others	15	6,61%			

*Measurement Model Results*

The convergent validity test is illustrated in Table 2, where the outer loadings are more significant than 0.7 and the Average Variance Extracted (AVE) value for each variable is more significant than 0.5. The reliability test is evident by the Composite Reliability value for each variable, which is greater than 0.7 in all cases. For instance, NE1's external loading value is more powerful than the indicator's correlation with other constructs.

**Tabel 2 Convergent Validity Result**

<b>Variabel</b>	<b>Outer Loadings</b>	<b>AVE</b>	<b>CR</b>
<i>Entrepreneurial Competencies</i>		0,607	0,885
EC1	0,775		
EC2	0,750		
EC3	0,785		
EC4	0,800		
EC5	0,784		
<i>Micro and Small Enterprise Performance</i>		0,693	0,919
EP1	0,822		
EP2	0,850		
EP3	0,795		
EP4	0,860		
EP5	0,835		
<i>Networking</i>		0,743	0,945
NE1	0,779		
NE2	0,869		
NE3	0,870		
NE4	0,896		
NE5	0,875		
NE6	0,876		
<i>Risk Taking</i>		0,535	0,852
RT1	0,712		
RT2	0,732		
RT3	0,698		
RT4	0,733		
RT5	0,779		
<i>Technology Usage</i>		0,595	0,854
TU1	0,743		
TU2	0,810		
TU3	0,801		
TU4	0,728		



**Tabel 3. Cross Loadings**

	EC	EP	NE	RT	TU
EC1	<b>0,755</b>	0,451	0,425	0,385	0,590
EC2	<b>0,750</b>	0,432	0,458	0,374	0,308
EC3	<b>0,785</b>	0,475	0,398	0,432	0,535
EC4	<b>0,800</b>	0,474	0,408	0,409	0,457
EC5	<b>0,784</b>	0,546	0,474	0,392	0,489
EP1	0,501	<b>0,822</b>	0,472	0,453	0,449
EP2	0,522	<b>0,850</b>	0,468	0,408	0,414
EP3	0,531	<b>0,795</b>	0,524	0,433	0,323
EP4	0,483	<b>0,860</b>	0,492	0,427	0,333
EP5	0,509	<b>0,835</b>	0,527	0,410	0,294
NE1	0,579	0,495	<b>0,779</b>	0,434	0,375
NE2	0,479	0,513	<b>0,869</b>	0,316	0,310
NE3	0,434	0,482	<b>0,870</b>	0,306	0,279
NE4	0,454	0,516	<b>0,896</b>	0,313	0,264
NE5	0,454	0,516	<b>0,875</b>	0,339	0,286
NE6	0,448	0,557	<b>0,876</b>	0,252	0,267
RT1	0,252	0,337	0,332	<b>0,712</b>	0,226
RT2	0,507	0,427	0,216	<b>0,732</b>	0,445
RT3	0,252	0,336	0,298	<b>0,698</b>	0,179
RT4	0,429	0,380	0,289	<b>0,733</b>	0,332
RT5	0,343	0,366	0,294	<b>0,779</b>	0,271
TU1	0,448	0,355	0,340	0,383	<b>0,743</b>
TU2	0,485	0,351	0,305	0,296	<b>0,810</b>
TU3	0,556	0,354	0,251	0,366	<b>0,801</b>
TU4	0,399	0,276	0,149	0,234	<b>0,728</b>

*Structural Model Results*

As shown in Table 4, the R-Square value for the entrepreneurial competencies' variable is 0.543, indicating that the independent variable can account for 54.3 percent of the entrepreneurial competencies variable variance. Additionally, the micro and small enterprise performance variables have an R-Square of 0.501, indicating that all independent variables in this study may account for 50.1 percent of the effect on micro and small enterprise performance. The R-Square value is more significant than 0.5, indicating that the model in this study is moderate.

**Tabel 4. R-Square**

	<i>R Square Adjusted</i>
<i>Entrepreneurial Competencies</i>	0,543
<i>Micro and Small Enterprise Performance</i>	0,501

The findings of hypothesis testing are presented in Table 5. The results of the hypothesis analysis in this study indicate that the t value must be greater

than 2.57 for the hypothesis to be accepted or have a significant effect. It can be seen that the risk-taking and networking variables significantly influence micro and small enterprise performance. This result is consistent with previous research that risk-taking and networking can also affect enterprise performance (Asad et al., 2018; Nabiswa & Mukwa, 2017; Zhang et al., 2018).

**Tabel 5. Path Coefficient**

	<i>Relationships</i>	<i>t-value</i>	<i>P-Values</i>	<i>Hypothesis</i>
RT → EP	0,216	3,275	0,001	Accepted
RT → EC	0,211	4,255	0,000	Accepted
NE → EC	0,331	5,057	0,000	Accepted
NE → EP	0,341	4,565	0,000	Accepted
TU → EC	0,416	6,650	0,000	Accepted
TU → EP	0,056	0,741	0,459	Rejected
EC → EP	0,278	3,273	0,001	Accepted

Source: Adapted Smartpls output

The results of data analysis show that risk-taking, networking, and technology usage have a significant effect on entrepreneurial competencies. That is, H2, H3, and H5 are all accepted. These findings corroborate prior studies indicating that risk-taking, networking, and technology use can positively affect entrepreneurial competencies (Al Mamun et al., 2019; Sánchez, 2013; Sulaiman et al., 2020). Meanwhile, hypothesis testing on H6 reveals a value of less than 2.57, indicating that technology use has no significant effect on enterprise performance in SMEs. Additionally, the H6 test of entrepreneurial competencies and its impact on business performance is accepted. It is indicated that entrepreneurial talents have a significant effect on business performance. These findings corroborate prior studies showing that the capability of business actors can increase enterprises' performance (Abdullah & Bin Mansor, 2018; Al Mamun et al., 2019; Al Mamun & Fazal, 2018).

## DISCUSSION

According to the research findings, risk-taking positively affects enterprise performance in MSEs owned by millennial (Y) and centennial (Z) entrepreneurs. The greater a person's guts to take risks for all possible outcomes, including failure, the greater the performance or micro and small enterprise performance generated. The trouble acquired is not always negative, such as the risk of failure or loss; it can also be good, such as an increase in sales or again in reputation, making the company more well-known. As a result, entrepreneurs must adopt a risk-taking attitude to dare to take unanticipated risks in their businesses in the future. Similarly, risk-taking has a significant positive effect on entrepreneurial competencies, where the bravery to take risks is critical in uncertain times like these when situations are inherently unpredictable (Clark, 2010). An entrepreneur's risk-taking mindset is one aspect that contributes to the development of entrepreneurial competencies that result in a competitive

advantage (Al Mamun et al., 2019). The risk-taking mindset also reflects an entrepreneur's ability, precisely the capacity to seek out chances and develop strategies and plans (Man et al., 2002).

Another independent variable that has a significant positive effect on entrepreneurial competencies is the networking variable for MSEs in Generations Y and Z. Entrepreneurs must have strong networking abilities to create relationships with all parties that contribute to their firms' effectiveness and efficiency. Networking is an invaluable resource for developing a unique skillset necessary for growing one's business. According to the findings of this study, networking has a significant positive effect on micro and small enterprise performance as well (Hazlina Ahmad et al., 2010). For instance, with excellent networking for micro and small enterprises, a business can obtain various benefits, including free promotions from others in their immediate vicinity, accurate market share information, and constructive criticism and suggestions (Anderson et al., 2010). As a result, networking can significantly impact a business's growth and development (Correa et al., 2010).

Technology usage has a significant positive effect on entrepreneurial competencies. The word technopreneurship demonstrates that utilizing technology is a method of developing entrepreneurial competencies that result in a competitive advantage for a business (Fowosire et al., 2017). As a result, entrepreneurs who continue to operate their businesses according to the traditional model have shifted their focus to maximizing their use of technology, from using social media to promote and sell their products or services to automated applications to complete transactions. Thus, entrepreneurial capabilities will develop due to the urge to conduct business to live with the rapid advancement of technology (Alfonsius et al., 2021; Febrian & Ahmad, 2021). An entrepreneur capable of utilizing technology and staying current with technological advances will possess entrepreneurial abilities, including identifying opportunities, building relationships, generating and developing a concept, and preparing and managing the flow. It takes operational skills, the capacity to create strategies and plans, and the capacity to make long-term commitments (Man et al., 2002).

This study discovered that technology usage had no significant effect on micro and small enterprise performance. It could be because MSEs owners, particularly Generation Y and Generation Z, have incorporated technology into their businesses, as evidenced by their sales strategy, most of which are online (Soto-Acosta et al., 2018). The more company that uses technology, the less competitive advantage there is in technology utilization, which also does not affect micro and small enterprise performance (Rastini & Respati, 2021). The competitive advantage being discussed is a resource that cannot be replicated and is scarce in an era when technology usage is widespread among most business actors (Barney, 1991; Grant, 1991). As a result, entrepreneurs may devote additional resources to innovation and continued development of technology utilized in transactions and offers their products via social media (Brustbauer, 2016).

Finally, the study's findings indicate that entrepreneurial competencies significantly positively affect business performance. It signifies that the greater one's entrepreneurial competencies, the greater micro, and small enterprise performance. Thus, an entrepreneur must master all entrepreneurial competencies to improve and last over time for the ensuing performance (Hall & Rosson, 2006; Ireland et al., 2003). With entrepreneurial competencies, an entrepreneur will have an advantage in overcoming the hurdles that his business will experience, such as introducing new competitors or replaceable products, which will result in a decline in business revenue. When an entrepreneur possesses entrepreneurial competencies, they will prioritize micro and small enterprise performance goals such as increased sales, market share expansion, product innovation, production and sales growth, business sustainability, and long-term investments within their capabilities.

### **FURTHER STUDY**

While the model developed in this study can explain the factors affecting the micro and small enterprise performance, the study also has limitations beyond the researcher's control. The first is that most respondents are female, so the results may alter if the proportion of male and female respondents is balanced. Another constraint is the unequal distribution of surveys, as responders from Java outnumber those from other Indonesian islands by around 20 to one. Further study, particularly beyond Java, is projected to increase the number of responses.

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