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## Entrepreneurial competencies, psychological capital, working capital management and perceived market share. A case study of small and medium enterprises in Dar-Es Salaam, Tanzania

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### Key Words

Entrepreneurial competencies, Psychological capital, Working capital management and Perceived market share.

### Abstract

*The purpose of the study was to examine the relationship between entrepreneurial competencies, Psychological capital, Working capital management and perceived market share. This study was focused on Dar es Salaam region. It attempts to explore the relationship between entrepreneurial competencies, psychological capital, working capital management and perceived market share of SME's. A sample of 384 SME's was selected using cross sectional, qualitative and quantitative survey design was undertaken.*

*The research findings of the correlation coefficient of the total sample of (384) revealed that there is a positive relationship between entrepreneurial competencies and perceived market share, Negative relationship between psychological capital and perceived market share, negative relationship between working capital and perceived market share. Entrepreneurial competencies and perceived market share however results from the regression analysis revealed that only entrepreneurial competencies was the only significant predictor of perceived market share.*

*Using this finding, SME are recommended to ensure that entrepreneurial competencies is developed since this finding has revealed that the presence of entrepreneurial competencies in SME's will predict perceived Market Share*

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### Introduction

Small and medium enterprises are found in every sector of the economy and are essential for sustained long term growth and employment (MacDonald, 2007).

Tanzania's entrepreneurs are continuing to take their market shares in the global market though at a slow pace, and in their own learning model (Hollensen, 1998). In the context of Tanzania, micro enterprises are those engaging up to 4 people, in most cases family members or employing capital amounting up to Tanzanian Shillings (Tshs) 5 million. The majority of micro enterprises fall under the informal sector. Small enterprises are mostly formalised undertakings engaging between 5 and 49 employees and with capital investment from Tshs 5 to Tshs 200 million. Medium enterprises employ between 50 and 99 people and use capital investment from Tshs 200 to 800 million ( Tanzania SME's Development policy, 2003, Apr.p.5).

The concept of entrepreneurial competence comprises different important aspects such as knowledge, motive, traits, self-images, social roles and skills which results in venture birth, survival and growth and this may be a factor for these firm performances in the market (Bird, 1995). Entrepreneurial expertise is built upon the competence to identify and pursue new opportunities as well as organizing competence which involves acquisition and management of

necessary resources to realize the opportunity (Erikson, 2002). Research confirms the high importance of entrepreneurship education. It recognizes influences on the emergence of entrepreneurial intentions, as well as on the quality of entrepreneurship on the survival rate of new businesses and on their growth in the market share (Lans, 2008).

Working capital management helps small firms to increase their chances in the market share winning. This can be seen from the work of Kwame (2007) who acknowledged that, the existence of an efficient and effective working capital management makes a substantial difference between successful and less successful small and medium enterprises. Working capital management also assists small and medium enterprises to improve on financial performance. Working capital management reflects a firm's short-term financial performance (Garcia & Martinez, 2008). Small companies tend to focus on some areas of working capital management where they can expect to improve marginal returns (Howorth & Westhead, 2003).

Psychological capital helps small businesses to improve in terms of performances. Research has supported the synergistic and higher order factor of psychological capital and demonstrates that psychological capital is open to human resource development for the return of performance improvement and competitive advantage (Avey, 2007). Psychological capital predicts desired employee outcomes such as performance and job satisfaction better than the individual resources independently Luthans, Avolio (2007). Other research shows that positive psychological capital can make small enterprises to move forward and attain the market (Luthans, 2002).

When small retail trade businesses have no effective human resources, it will be difficult to develop and compete with others in the market. For example; small businesses in Dar-es-salaam Tanzania fails to operate effectively due to poor management of working capital. (UDBS 2007, 2008), asserted that most of workers in small enterprises in Dar-es-salaam are not competent enough to manage the flow of cash which brings big problem on their market performance and their failure to compete and operate effectively. Hence, these firms are not able to be competitive in their market due to insufficient cash flow that could satisfy both short-term debts and other upcoming expenses. Due to incompetent workers and poor management of working capital, small and medium enterprises in Dar es Salaam are not able to win the market share.

There is a need for small traders to put in place various means of improving their business performances and effectiveness.

### **Purpose of the Study**

The study seeks to examine the relationship between Entrepreneurial competencies, psychological capital, working capital management and perceived market share.

### **Objectives of the Study**

- i. To assess the relationship between entrepreneurial competencies and perceived market share.
- ii. To establish the relationship between psychological capital and perceived market share.
- iii. To establish the relationship between working capital management and perceived market share.

### **Research Questions**

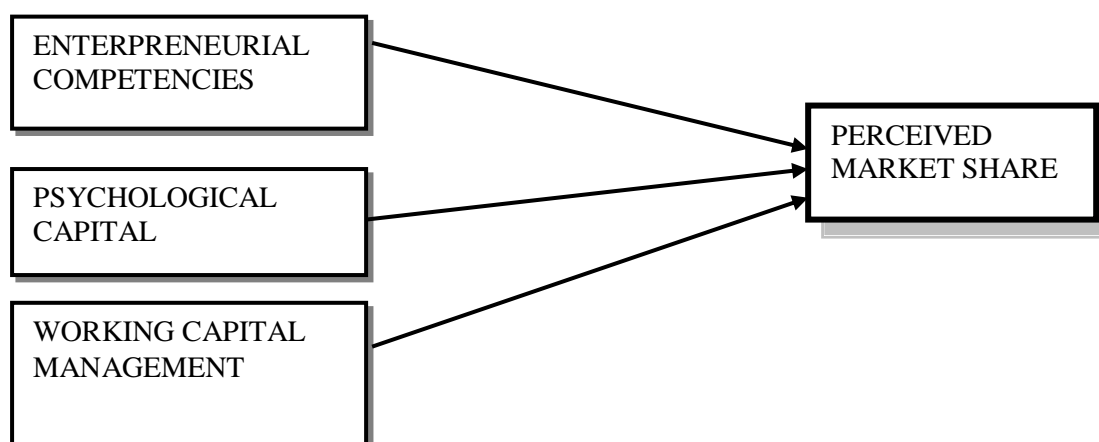
- a. What is the relationship between entrepreneurial competencies and perceived market share?

- b. What is the relationship between psychological capital and perceived market share?  
 c. What is the relationship between working capital management and perceived market share?

### *Conceptual frame work*

The following Conceptual framework was developed after the review of existing literature to investigate the research questions at hand. The framework shows Entrepreneurial competencies, psychological capital and working capital management practices as the independent variables used to explain perceived market share as the dependent variable. In order to facilitate the study, the researcher developed a conceptual Frame work drawn from the works done by different scholars; Entrepreneurial competencies as stated by (Lans, 2008) that could lead to perceived market share. For the purpose of this research, working capital management was determined in respect to inventory management, receivables management payables management and cash flow management as described by Kwame, (2007) and Psychological capital was adopted from the work of Luthans & Avey, (2007).

**Fig 1: Conceptual framework**



**Source:** Lans, 2008., Luthans., 2007 & Kwame 2007

It is conceptualized that entrepreneurial competencies, psychological capital, working capital management influences competitive advantages of small and medium business enterprises.

### *Case Analysis*

As a consequence of the coexistence of formal and informal activities in Tanzania, the small and medium enterprises sector is highly diverse, with structures, problems, growth potential and access to support differing widely between segments (Calcopietro & Massawe, 1999). World over, SME's sector had acquired a significant and pivotal position in the entire development process making significant contribution to the national/global economy, and UNIDO, (2006) observed that, a recent cross country regression revealed a strong correlation between large SME sector and per capita growth of growth domestic product (GDP). SMEs can achieve high growth by focusing on particular product groups, avoiding spreading their marketing activities too widely, and avoiding operating in markets dominated by large firms by choosing carefully the markets in which they operate (Adams & Hall, 1993). It is estimated that SMEs make up more than 90% of all business establishments worldwide (Lin, 1998). In Tanzania, it is estimated that approximately 50% of the industrial output originates from SMEs (United Republic of Tanzania, 2001). The rest of the discussion below is based on the report provided by the Tanzania Chamber of Commerce Industry and Agriculture, 2003:

## Literature Review

### *The relationship between entrepreneurial competencies and perceived market share*

Proper entrepreneurial competences are required to a successful start, operation and ensuring the survival of a new business in the market (Onstenk, 2003). There are some empirical studies that have shown that entrepreneurial competencies not only increase competitive advantages; but also are predicted to influence firm performance (Man, Lau, and Chan, 2002). The concept of competence has a direct relationship with the small enterprise's effectiveness. Caird (1992) stipulate that competences are recognizable, assessable and relevant for practice which can be developed, learned and described on different levels, and it is supposed that there is a strong relationship between competence and organizational effectiveness.

Competence helps the business to grow and compete effectively in the market. Competencies are capacities that exist in a person which lead to behavior that meets the job demands within the parameter of the organization environment and that in turn bring about desired results. This means that there is evidence that indicates that possession of the characteristic precedes and leads to effective and/or superior performance on the job (Boyatzis, 1982).

### **The relationship between psychological capital and perceived market share.**

Psychological capital helps small and medium enterprises to improve on their effectiveness. Research has supported the synergistic and higher order factor of psychological capital and demonstrates that psychological capital is open to human resource development for the return of performance improvement and competitive advantage in the market (Avey and Luthans, 2007).

Psychological capital involves four components namely Self efficacy, optimism, hope and resilience. This can be seen from the work of Lazarus (2003) who specifically identifies self-efficacy, optimism, hope, and resilience as relevant avenues of exploration for enhanced understanding of how humans adapt and cope.

Organizational psychological capital can be regarded as a strength that should be retain and manage in promoting the personal development and performance at personal level and in increasing the leverage, performance, income and competitive advantage at the organizational level (Luthans V.D., 2007 & Wright, 2003).

Organizational psychological capital is the whole of these positive attributes changing and improving with the education or development (Luthans & Youssef, 2007). Thus psychological capital is becoming a positive improvable construct intended to enhance and redirect the organizational and personal performance. Psychological capital may be developed with the short practices during group training ( Luthans, 2006).

According to Larson & Luthans (2006), there is a positive relationship between general psychological Capital and job satisfaction. This is again discussed further that general psychological capital construct is positively related to performance, satisfaction, and commitment (Luthans, 2008).

Avey (2009), also asserts that there is strong and positive relationships between promotion-oriented psychological ownership and employee commitment, job satisfaction and intentions to stay with the organization. The obtained results of this study support all of these

findings that hope, optimism and resilience was positively related to organizational commitment and job satisfaction.

In the case of rapidly changing technology, employees resist a new technology, not because of their fear of the technology itself, but because of their lack of confidence in their psychological capacity to successfully use the technology and to perform adequately (Hill et al. 1987).

### *The relationship between working capital management and perceived market share*

Proper working capital helps the performance of any firm. Pandey (1995) argues that the better the management of assets, the larger the amounts of sales, Peel and Wilson(1996) have stressed the efficient management of working capital, and more recently good credit management practice as being pivotal to the health and performance of the small firm sector winning their market competition.

Small and medium enterprises have not developed their financial management practices to any great extent and they conclude that owner managers should be aware of the importance and benefits that can accrue from improved financial management practices.

The pioneer work of (Shin & Soenen, 1998) and the more recent study of (Deloof, 2003) have found a strong significant relationship between the measures of Working capital management and corporate profitability. Their findings suggest that managers can increase profitability by reducing the number of day's accounts receivable and inventories. This is particularly important for small growing firms who need to finance increasing amounts of debtors.

For small and growing businesses, an efficient working capital management is a vital component of success and survival; i.e. both profitability and liquidity (Peel and Wilson, 1996). Working capital management assist SME's to be stable. Smaller company should embrace formal working capital management practices with the hope of minimizing the probability of business failure, as well as to enhance business performance (Wilson, 1996).

While the performance levels of small businesses have traditionally been attributed to general managerial factors such as manufacturing, marketing and operations, working capital management may have a consequent impact on small business survival and growth (Kargar and Blumenthal, 1994).

## **Summary of results**

### *Bivariate Correlation Test*

Bivariate correlation test was used to find out the relationships between the objectives of the study. Results are interpreted under the subsections that follow, guided by the objectives.

**Table 8: Bivariate Correlation Test**

	<b>1</b>	<b>2</b>	<b>3</b>	<b>4</b>
Entrepreneurial competences [1]				

Psychological capital [2]	.647**	1.000		
Working capital management [3]	.581**	.486**	1.000	
Perceived market share [4]	.204**	.098	.079	1.000

\*\* . Correlation is significant at the 0.01 level (2-tailed).

### Entrepreneurial competencies and perceived market share

The results from the table showed a positive and significant relationship between entrepreneurial competencies and perceived market share ( $r = 0.204^{**}$ ,  $p < 0.01$ ). This implies that a change in entrepreneurial competencies is associated with positive change perceived market share indicating that as entrepreneurial competencies increase, then perceived market share also increases.

### Psychological capital and perceived market share

There was no significant relationship between psychological capital and perceived market share ( $r = .098$ ,  $p = .110$ ). This implies that the workers hope, confidence, resilience and optimism is not associated with perceived market share.

### Working capital and perceived market share

Working capital management and perceived market share did not show any significant relationship ( $r = .079$ ,  $p = .198$ ). This showed that working capital management is not associated with perceived market share.

**Table 9:Regression analysis**

Model		Unstandardized Coefficients		Standardized Coefficients	T	Sig.
		B	SE	Beta		
1	(Constant)	3.146	.505		6.232	.000
	Entrepreneurial competences	.404	.133	.264	3.040	.003
	Psychological capital	-.086	.146	-.047	-.587	.557
	Working capital management	-.076	.114	-.051	-.668	.505
A. Dependent Variable: Perceived market share						
B. $R^2 = .045$ , Adjusted $R^2 = .034$ , $F = 4.075$ , $Sig = .007$						

**Source: Primary data**

From the findings, entrepreneurial competencies predicted 26% of the variance in perceived market share. There was a significant relationship between perceived market share and entrepreneurial competencies ( $sig. = .003$ ).

The findings indicated that, the adjusted R value is 34% (that is, Adjusted R value = .034). This implies that 3.4% of the variance in perceived market share can be attributed to entrepreneurial competencies, psychological capital and working capital management. A combination of these independent variables appear as statistically significant predictors of perceived market share ( $Sig. = .007$ ). However, it should be noted that entrepreneurial competencies can independently predict perceived market share.

### Discussions and conclusions



**Examining the relationship that exists between the study variables.**

This section interprets and discusses findings in relation to the three research questions

**Relationship between entrepreneurial competencies and perceived market share.**

Results in table 8 indicate a significant positive relationship between entrepreneurial competencies and perceived market share (.20\*\*). Small enterprises are likely to succeed when they embrace entrepreneurial competencies.

This is in agreement with some empirical studies that have shown that entrepreneurial competencies do not only increase competitive advantages, they are predicted to influence firm performances within the market (Man, Lau, and Chan, 2002; Ahmad, 2007; Ahmad et al., 2010).

With regards to the resource based view, SMEs are suggested to place emphasis on developing and utilizing competencies because these are important intangible assets that are able to increase superior performance (Reed & Defilippi 1990), to create barriers to replications (Hamel & Prahalad 1994, & Wickham 2006), and to develop and sustain competitive advantage in the market (Zaugg & Thom 2003).

The entrepreneur has a responsibility to utilize required resources for creating value (Vesper 1980), and has an ability to foresee and evaluate business opportunities, to gather the necessary resources in order to take advantage of them, to create and build value from non-value resources, and to initiate appropriate action to ensure success in the competitive market (Meredith et al. 1982, & Timmons, 1989).

As a result, small and medium enterprises require individual who has efficient entrepreneurial competencies for enhancing and sustaining organizational competitive advantage (Zaugg & Thom 2003). Entrepreneurial competencies for the study are combinations of knowledge and skills which are considered as key contributions for great performance in the market (Bosma et al. 2012, & Hayton & Kelly 2006).

**Relationship between psychological capital and perceived market share**

The results indicated that there is no significant relationship between psychological capital and perceived market share (.098). This implies that in the context of this study, psychological capital has no bearing on perceived market share.

**Relationship between working capital management and perceived market share.**

The results indicated that there is no significant relationship between working capital management and perceived market share (.079). This implies that in the context of this study, working capital management has no bearing with perceived market share.

**Conclusions.**

The study established that entrepreneurs who had entrepreneurial competencies were very likely to succeed in their markets. This implies that for entrepreneurs to succeed in their market, they should undergo training on business skills. More so the results from table 8 showed that entrepreneurial competencies have positive relationship with psychological capital and working capital management. This implies that entrepreneurial competencies should be improved to enable among others, the proper management of working capital of SME's in Dar es Salaam.

The relationships between psychological capital and perceived market share have not shown any relationship to entrepreneurs in Dar es Salaam. This implies that in the context of this study, psychological capital has no bearing on perceived market share. The relationships between working capital management and perceived market share have not shown any relationship among entrepreneurs in Dar es Salaam. This implies that in the context of this study, psychological capital has no bearing on perceived market share.

## Research limitations and direction for further research

### Limitations

The researcher anticipated a problem of minimal or lack of response from some of the traders. Some took too long to fill the questionnaires and others not fill them at all. Due to language problem in the part of respondents, the researcher with the help of Google translator, decided to change the questionnaires in to Swahili language. Despite these limitations, the researcher believes that the findings of this study were useful in filling the knowledge gap that the study set out to fill.

### Areas for Further Research

Areas recommended for further research are:

This study did not show any significant relationships between psychological capital, working capital and perceived market share. The same study should be carried out among SME's in other regions in Tanzania to find out the reality since there is a significance relationship between psychological capital, working capital management and perceived market share contrary to previous studies.

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