

# The effect of competence, emotional quotient, and financial quotient on the business performance of small and medium enterprises in Surabaya, Indonesia

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**ABSTRACT:** This study aims to analyze the effect of competence, emotional quotient, and financial quotient on the business performance of Small and Medium Enterprises (SMEs) in Surabaya, Indonesia. The study was conducted on 75 SMEs in Surabaya that run food and handicraft businesses, have about 10 to 50 employees and been operating for more than 5 years. The research methodology used in this research was descriptive explorative and data collected through the survey method with a questionnaire instrument. The result of this study is that competence, emotional quotient, and financial quotient simultaneously had a significant effect on business performance, while competence and emotional quotients partially had a significant effect on business performance, but financial quotient has no significant impact on business performance of SMEs.

**Keywords:** entrepreneur competence, emotional quotient, financial quotient, SME's performance.

## 1 INTRODUCTION

Currently, Indonesia is the third most optimistic country in Asia when it comes to Small and Medium Enterprises (SMEs) followed by India and Vietnam. According to the Minister of Cooperative of the Republic of Indonesia, Syarif Hasan, the number of SMEs reached 52.2 in 2011, it is growing every year and on average every SME can create 3-5 employment opportunities. Thus, if the target of 3 million SMEs yearly can be realized, then the number of employment opportunities can be increased by about 15 million people. With the growth of SMEs, unemployment is expected to decline from 6.8% to 5%. This fact reflects the participation of SMEs to the economic growth rate and economic equality in Indonesian is quite essential because it contributes substantially to the real sector.

SMEs contribute to economic growth and increase employment opportunity, both in developed and developing countries (Lockea, 2012). Problems that are often faced by SMEs is that in most of their countries, SMEs have difficulty in accessing financial support, using technology, incompetent managerial ability, low productivity, and the regulatory

cost in their business lifetime, thus competencies, intelligence, and skills are needed to overcome the problem in order to develop their business.

Individual competencies reflect emotional intelligence (Bass and Riggio, 2006), which consist of self-awareness, self-confidence, self-control, commitment, integrity, ability to communicate and influence, and ability to initiate and accept changes. Improving the ability of an individual's emotions will lead to the success of a business (Baron & Markman 2003). The results of Sumantri et al 2017 study also show that competencies have a significant effect on performance.

Goleman 1999 was the one who popularized other types of human intelligence, which are considered as an important factor that can influence the individual achievement, namely emotional intelligence that is known as the Emotional Quotient (EQ). Steiner & Meiner (1997) explain that emotional intelligence is an ability to understand their personal emotions and others, as well as know how personal emotions are expressed to increase the maximum potential of a person, the research of (Adianita et al 2017) concludes that Emotional Quotient has a significant effect on performance.

In addition to emotional intelligence, financial capacity is also needed by SMEs. Financial capacity is an understanding of financial concepts and skills, motivation and confidence to apply that knowledge, determine the best decisions, and make an improvement for the financial well-being of SMEs. Financial literacy provides knowledge and understanding of financial concepts and skills, motivation and confidence to apply such knowledge and understanding in order to make-effective 3 decisions across a range of financial contexts and to improve the financial well-being of SMEs.

In order to improve the performance of entrepreneurs, various factors need to be considered. Therefore, the problem of this research is: Does the self-ability consist of competence, emotional quotient, and financial quotient on SMEs business performance?

## 2. RESEARCH METHODS

The method used in this research was descriptive-causal quantitative research by analyzing the data descriptively and look for a causal link in order to test the hypotheses that have been formulated. Data collecting method used in this research was a survey method using questionnaire. The data source used primary data, which was obtained directly from 75 respondents who answered a questionnaire posed by researchers. The respondents were SMEs in Surabaya that have approximately 10-50 employees. Data analysis was performed using multiple linear regression analysis to determine the effect of independent variables on the dependent variable, namely the influence of Entrepreneurial Competence, Emotional Intelligence and Financial Intelligence. Besides regression analysis, coefficient correlation analysis as well as F test and T hypothesis testing using SPSS software were also carried out.

## 3. RESULTS AND DISCUSSIONS

The result of the competence level of SMEs in this study is an average of 4.32 (Very High). This shows that competence is really needed to run business because SMEs that still survive are those with high competence while the less competent es have difficulties in maintaining their existence, because an entrepreneur must possess all the important knowledge, skills, attitudes, and experience to be someone who has passion, and a certain ability to be creative and dare to do innovation by capable

of creating something new and different than what the market usually offers in order to attract more customers.

The result of SMEs' emotional intelligence shows an average of 4.18, which is considered in the high category. This suggests that emotional intelligence is needed to improve the competitive business because emotional intelligence is able to understand self-emotions and the emotions of others and to know how quickly to increase the maximum ethical value to create a personal strength which is needed in developing and managing the business. In fact, developing business always requires us to work together as a team to achieve better performance, as it also takes an approach to various parties both internal and external such as customers, the public or governmental organizations.

Descriptive analysis of Financial Quotients of SMEs in this study shows a high result, which is indicated by the average of 3.67 given by the respondents. The average shows that SMEs in Surabaya is considered as one of the areas with high financial quotient. This suggests that financial quotient is needed to improve the business, because financial knowledge demonstrates one's ability to maintain cash flow, maximum potential used, predictions, spiritual intelligence, and physical intelligence to obtain and manage SMEs' turnover according to needs.

After the validity and reliability testing was conducted, a Classical Assumption Test of normality test was carried out which shows that the distribution of the data has been on the frontier and it can be seen from the result that the model equations has a normal distribution, and the results of Multicollinearity test show that the value of Variance Influence Factor (VIF) in both of the independent variables in this research is under 10, meaning that there was no correlation between variables, or in other words, it is not Multicollinearity between independent variables and classical assumption. Afterward, the Heteroscedasticity testing was conducted.

Multiple linear regression analysis was conducted to determine the extent of the influence of competence, emotional intelligence, and financial intelligence on the performance of SMEs in a partial or simultaneous manner, which can be seen in Table 1.

Table 1: Multiple Regression Test Results

Model	Unstan-	Standar-				
	dardized	dized				
	Coeffi-	Coeffi-	Correlations			
	cients	cients				
	B	Beta	Sig.	Zero-	order	Partial
						Part
Constant)	-.013		0.985			
Compensa-	0.604	0.458	0.011	0.592	0.362	0.297
tion						
Emotional	0.219	0.273	0.030	0.458	0.313	0.252
Quotient						
Financial	0.055	0.041	0.808	0.451	0.036	0.028
Quotient						

Table 1 shows the results of data analysis which can be formulated in equation form of  $Y = -0.013 + 0.604 X_1 + 0.219 X_2 + 0.055 X_3$ , where a constant value (a) that is equal to -0.013 shows the absence of competence, emotional intelligence, and financial intelligence and the performance of the business will decrease by 0.013, meaning that competency, emotional intelligence, and financial intelligence from leaders are required to achieve best business performance. While the regression coefficient for competence variable ( $b_1$ ) = 0.604 shows that the higher the competence of an entrepreneur, the better company performance. If the competence of entrepreneurs increases by one point then the performance of the business will also rise by 0.604, assuming other variables are constant. The regression coefficient of emotional intelligence ( $b_2$ ) = 0.219 shows that when emotional intelligence variable increases by one point then the performance of the business will also increase by 0.219, assuming other variables are constant. Likewise, financial quotient variable had a positive effect although not so significant which is 0.055.

Table 2

Model	R	R Square	Adjusted R Square	Change Statistics		
				R Square Change	F Change	Sig. F Change
1	0.644	0.415	0.377	0.415	10.876	.000

Table 2 shows the results of Multiple Correlation analysis of 0.644. That results show that there is a positive relationship of high competency, emotional, and financial quotient on performance, and these three variables have contributed to the improvement of the business performance for 41.5%, while the other 58.5% is by other variables.

The first hypothesis states that compensation has a significant effect on the performance of SMEs as proven by the t-test values in Table 1 that shows 0.11 which is less than 0.05 thus the first hypothesis

is accepted. The finding in this study is in line with some existing theories including the research done by Sanchez (2011) that says the competence of entrepreneurship plays a role in the ability of an organization's competitive scope and shows a direct effect on company performance. Ardiana et al (2010) research results, Mahtab Barazandeh et al (2015), Faggian & McCann, (2009; and Mitchelmore & Rowley, (2010), the second hypothesis states that the emotional quotient significantly influences business performance based on t-test result that shows 0.03 (Table 1), so the second hypothesis is accepted. The results of this study are in line with the research done by Goleman (1999) that popularizes the kind of human intelligence of Emotional Quotient (EQ) as an important factor to be achieved in personal development. Goleman (1999), Cooper & Sawaf (2000) state that in teamwork, emotional intelligence has to be present in order to produce the best result. McLaughlin (2012) states that emotional intelligence has a significant effect on the company's growth.

The third hypothesis states that financial quotient has an effect on performance with the value of 0.244. This t test shows that the financial quotient had no significant effect on business performance because a significant probability value needs to be > 0.808 then the alpha value 0.05. So, the result of this study does not support the research of Goleman (1999), Goleman (1999), Cooper & Sawaf (2000), McLaughlin (2012) which suggest that emotional intelligence has set the parameter for entrepreneurship and social interaction situations such as negotiating, acquiring and organizing resources, identifying and capitalizing business opportunities, stress management, acquiring and retaining customers, as well as demonstrating leadership in achieving entrepreneurial performance.

The fourth hypothesis states that competence, emotional quotient, and financial quotient simultaneously have a significant effect on the performance of SME. From F test result shows (Table 2) 10.876 and a significant value of 0.00, which means competence, emotional quotient, and financial quotient have a significant effect on the performance of SME in Surabaya. The results of this study are on contrary to some previous theories and research results including the research by Siekei (2013), which states that the financial management skills acquired through financial capability can create performance improvement.

#### 4. CONCLUSION

Entrepreneurial competence has the greatest influence on the performance of entrepreneurs because it requires skills, knowledge, and attitude as it is shown in the behavior of entrepreneurs who are working in a business. Emotional intelligence that includes self-awareness, self-management, social awareness, and relationship management also had a significant effect on business performance because of the emotional quotient is needed by SMEs in running the business, particularly in innovation, and creativity in creating products/services that can compete in the market. Furthermore, financial quotient does not affect significantly on the performance of entrepreneurs and this is because the entrepreneurs in Indonesia still have a lack of knowledge in finance, in terms of strengthening the capital to expand its business and still have to learn about good financial management.

Based on the research results above, there are some things that can be suggested as follows: entrepreneurs need to be trained in order to improve the entrepreneurial competencies, emotional intelligence, and financial intelligence although not significant based on the Training Need Analysis (TNA). While the government needs to increase its contribution as business support.

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