

## **The Contribution of Managerial Ability and Entrepreneurial Motivation on Business Performance with Business Climate as Mediation Variable**

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**Abstract:** *Domestic consumption level fell sharply because the long post-pandemic recovery had severely impacted production and trade sectors where Small and Medium Enterprises do business most. Unhealthy business climate becomes pivotal moment for academicians to review the capability of Small and Medium Enterprises to survive the effect of covid-19 pandemic. The review was carried out by analyzing the contribution of managerial ability and entrepreneurial motivation to business performance through the mediation of business climate. East Java was selected as the scope of research. Number of samples was 120 Small and Medium Enterprises sorted with purposive sampling. Primary data were obtained through questionnaire. Analytical method was Partial Least Square operated with SmartPLS. Result of research showed that the significant impact of managerial ability and entrepreneurial motivation on business performance has made Small and Medium Enterprises consider as necessary to improve the potential and effectiveness of business management that has been applied.*

**Keywords:** *managerial ability, entrepreneurial motivation, business performance, business climate*

**Abstrak:** *Penurunan konsumsi domestik akibat pandemi berkepanjangan berdampak serius pada sektor produksi dan perdagangan, di mana hal ini sangat dirasakan oleh pelaku usaha mikro, kecil dan menengah. Iklim usaha yang tidak sehat ini menjadi momen penting bagi akademisi untuk mengkaji sejauh mana bisnis UMKM dapat bertahan melalui analisis kinerja bisnis berdasarkan kontribusi kemampuan manajerial dan motivasi wirausaha sebagai variabel bebas, serta iklim usaha sebagai variabel mediasi. Jawa Timur dipilih sebagai lingkup pengamatan, dengan memilih sampel sebanyak 120 pengelola UMKM yang ditentukan dengan teknik purposive sampling. Data primer diperoleh dengan menggunakan kuesioner, untuk selanjutnya dianalisis dengan metode Partial Least Square pada program SmartPLS. Adanya dampak signifikan dari kemampuan manajerial dan motivasi wirausaha terhadap kinerja menjadikan pelaku bisnis UMKM harus meningkatkan potensi dan efektivitas manajemen bisnis yang diterapkan.*

**Kata kunci:** *kemampuan manajerial, motivasi wirausaha, kinerja, iklim usaha*

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**INTRODUCTION**

Covid-19 pandemic is a prolonged pandemic with serious impact on global economics (Shah et al., 2020; Yu et al., 2020). The economics of worldwide countries, including Indonesia, were forced to depressed by covid-19 pandemic (Susilawati et al., 2020). Share markets fluctuate faster and investors show not only pessimistic sentiment on future return but also fear of uncertainty (Buğan, 2021; Liu et al., 2020). The level of abnormal return experienced by most Asian countries tend to be more negative than other countries in the world (Liu et al., 2020). During covid-19 pandemic, the economics of developing countries in Asia were severely affected shown by the decreasing of domestic consumption level and the disruption of supply side in production and trade sectors where Small and Medium Enterprises (SMEs) do business most (Abdul Abiad et al., 2020).

One obvious consequence of covid-19 pandemic is unhealthy business climate which is not conducive to SMEs (Gregurec et al., 2021; Shinozaki & Rao, 2021). Expansive outbreak, mass quarantine, and travel ban have ruined the trust of domestic and international companies to the government ability in coping with the impact of covid-19 pandemic (Bouey, 2020). When purchase capacity of the people is low, business performance of SMEs is also low (Shinozaki & Rao, 2021). Long before covid-19 pandemic, business climate in Indonesia was already unhealthy due to wrong regulation made by business stakeholders (ILO, 2019; Suprapti et al., 2020). Tax regulation tends to overburden SMEs (Nogal-Meger, 2018). Other factors affecting business climate are managerial ability and entrepreneurial motivation (Eniola, 2021; Fitria, 2020). Managerial ability of SMEs managers is still low (Permana, 2020). This finding signifies those SMEs managers are incapable to manage resources efficiently and effectively.

Several previous studies gave results that follow up the findings above. During unhealthy business climate, entrepreneurial motivation of SMEs managers is very low (Nkwabi & Mboya, 2019). Managers of the SMEs are less motivated to learn about how to make their business successful and also less enthusiastic to take lesson from business failure. Current business environment has become more dynamic and challenging, and therefore, the SMEs need to be ready to deal with such situation (Sanchis et al., 2020). Besides, the SMEs are still in difficulty to improve their skill on business development (Asia Pacific Foundation of Canada, 2018). Few factors are causing this difficulty such as environmental condition, regulation, capital market, and the situation of national economics. Several studies had examined the effect of managerial ability (Bhutta et al., 2021; Bhutta et al., 2021) and entrepreneurial motivation (Bourlès & Cozarenco, 2018; Andreou et al., 2017) on business performance, either through direct way or indirect way with mediation of business climate (Qalati et al., 2021; Sitharam & Hoque, 2016;

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Adedeji et al., 2020). The authors of this research have expectation that the results of this research can provide materials for evaluating the survival ability of Small and Medium Enterprises in the middle of covid-19 pandemic.

## **LITERATURE REVIEW**

### **Managerial Ability**

The success of certain business unit is strongly affected by managerial ability of individuals who sit on management board (Popescu et al., 2020). Managerial ability refers to a capability and motivation of the manager to allocate business resources in efficient way (Bhutta et al., 2021; Guillén-Gámez et al., 2020). Also, managerial ability represents the capability of manager in managing business unit in order to get profits as maximum as possible with the available resources (Demerjian et al., 2012). Business unit managed by manager who has managerial ability is usually profitable (Baik et al., 2018). Managerial ability is determined by four indicators, respectively: (1) knowledge; (2) self-awareness; (3) emotional intelligence; and (4) interpersonal skill (Popescu et al., 2020).

### **Entrepreneurial Motivation**

Entrepreneurial motivation is an intention to start a business and arrange the components that constitute the business (Lynch et al., 2017). Entrepreneurial motivation is a complex desire underlain not only by economical factor, such as financial aspiration, but also by non-economical factor such as career choice (Su et al., 2020). Entrepreneurial motivation enables someone to choose a career as entrepreneur (Barba-Sánchez & Atienza-Sahuquillo, 2017). Entrepreneurial motivation differentiates into extrinsic motivation and intrinsic motivation (Lynch et al., 2017). There are four determinants of entrepreneurial motivation, which respectively are: (1) entrepreneurial intention; (2) role-model of entrepreneurship and social value of entrepreneurship; (3) knowledge about entrepreneurship; and (4) attitude to become entrepreneur (Alam et al., 2019; Kim-Soon et al., 2020; Malebana, 2014).

### **Business Climate**

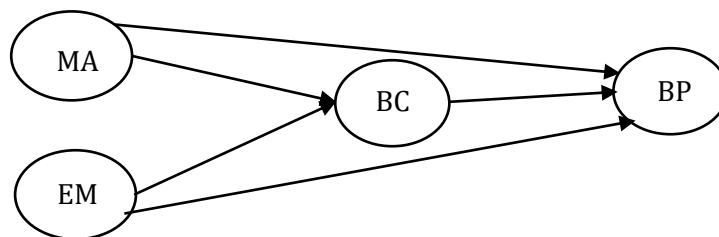
Business climate is a function of external factors that play underlying role in affecting the environment of business unit (Adedeji et al., 2020). Business climate index is a predictor of productivity that is often used to estimate economic growth (Jolley et al., 2015). Business climate has great impact on business unit, especially Small and Medium Enterprises (SMEs) (Olubitan, 2017). Business climate is an indicator that affects business performance. Industrial policy planning is an important factor that connects various factors of business climate (Ajagbe & Ajetomobi, 2017). Factors determining business climate are: (1) competitive industry and competitive pressure; (2) regulation that is in effect; (3) taxation and incentive; (4) infrastructure condition; and (5) workforce availability (Adedeji et al., 2020; Jolley et al., 2015; Qalati et al., 2021).

### **Business Performance**

Within the context of Small and Medium Enterprises (SMEs), business performance is about the capability of the SMEs in fulfilling what the investors want. Business performance can take few forms such as profit, growth or market price (Marmaya et al., 2018). Business performance of SMEs, therefore, can be seen from the capability of the SMEs in giving value to stakeholders, including owners, customers, people, and government (Aminu & Mohd Shariff, 2015). Business performance of SMEs also concerns with the capability of the SMEs in managing resources, setting market orientation, and improving information technology (Abdullah & Rosli, 2015). Besides, business performance of SMEs can also be estimated from the fulfillment of the demand of stakeholders. If this fulfillment is better than what the competitors do, then those SMEs are performing better (Aminu & Mohd Shariff, 2015). Indicators that measure business performance of SMEs are respectively: (1) total sale and sale performance; (2) earnings; and (3) investment on fixed assets (Abdullah & Rosli, 2015; Kijkasiwat & Phuensane, 2020).

### **METHOD**

Research approach is quantitative approach that is used to find out the effect of managerial ability (X1) and entrepreneurial motivation (X2) on business performance (Y) through business climate (Z). Conceptual framework is described in Figure 1 as following:



**Figure 1. Conceptual Framework**

### **Population and Sample**

Population of research is SMEs in East Java. Sampling technique is purposive random sampling with criteria, precisely two criteria, respectively that: (1) the SMEs are still active in East Java and (2) the SMEs are still registered with the related department. Sample size is determined using Malhotra Technique (Malhotra et al., 2017). After applying sampling procedure to research population, the final number of samples is 120 SMEs.

### **Research Instrument**

The items are arranged in Likert Scale using four intervals. Scoring system is implemented based on respondents' choice on answer alternatives. There are four answer alternatives, which respectively are: (1) very disagree/very incompatible; (2) disagree/incompatible; (3) agree/compatible; and (4) very agree/very compatible.

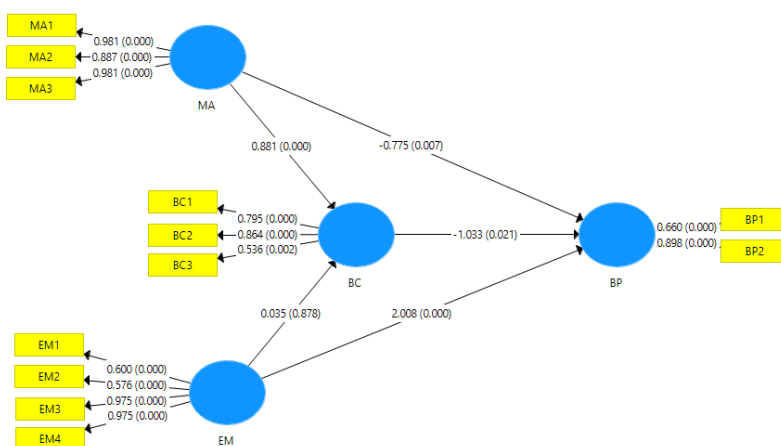
### Data Analysis

Primary data are in the form of the recapitulation of respondents' answers over research variables arranged in Likert Scale. Data analysis and hypothesis test were conducted with an analytical method called Partial Least Square (PLS). The operation of this method is facilitated by a computer program named SmartPLS 2.3.8. This program helps the authors of this research to estimate the contribution of causal relationship across latent variables. The use of PLS comes with few considerations, precisely that the current research involves four latent variables, several reflective indicators, and small sample size. Hypothesis test with PLS method is conducted using a method called resampling bootstrap (Jaya & Sumertajaya, 2008) which comprises two elements, namely Goodness of Fit Outer Model and Goodness of Fit Inner Model (Jogiyanto, 2011; Jogiyanto, 2011). Result of analysis is considered significant if significance value (p-value) is smaller than significant level ( $\alpha$ ) of 0.05.

## RESULT AND DISCUSSION

### Test of Goodness of Fit Outer Model

Testing procedure over Goodness of Fit Outer Model involves reviews on two components, namely: (1) convergent validity, reviewed from: (a) loading factor value; and (b) AVE value; and (2) reliability, reviewed from Composite Reliability test. Result of convergent validity through the checking of loading factor value is depicted in the following Figure 2.



**Figure 2. Summary of Loading Factor Value**

Result of convergent validity test through the checking of AVE value is shown in the following Table 1.

**Table 1. Summary of AVE Value**

Latent Variable	AVE
MA	0.904
EM	0.648
BC	0.555
BP	0.621

Based on loading factor values obtained, exogenous indicator variable is connected to exogenous construct through measurement equation. The formulated equation is organized in the following Table 2.

**Table 2. Measurement Equation for Exogenous Indicator Variable**

Exogenous Indicator	Exogenous Construct		Error $\delta = 1 - \lambda^2$
	MA Managerial Ability	EM Entrepreneurial Motivation	
MA1	= 0.981MA		+ 0.038
MA2	= 0.887MA		+ 0.212
MA3	= 0.981MA		+ 0.038
EM1		= 0.600EM	+ 0.641
EM2		= 0.576EM	+ 0.668
EM3		= 0.975EM	+ 0.050
EM4		= 0.975EM	+ 0.050

Next, measurement equation for endogenous indicator variable is then created in Table 3 as following.

**Table 3. Measurement Equation for Endogenous Indicator Variable**

Endogenous Indicator	Endogenous Construct		Error $\varepsilon = 1 - \lambda^2$
	BC Business Climate	BP Customer Satisfaction	
BC1	= 0.795BC		+ 0.369
BC2	= 0.864BC		+ 0.254
BC3	= 0.536BC		+ 0.712
BP1		= 0.660BP	+ 0.565
BP2		= 0.898BP	+ 0.193

Result of reliability test through the checking of Composite Reliability value is displayed in the following Table 4.

**Table 4. Summary of Composite Reliability Value**

Latent Variable	Composite Reliability
MA	0.966
EM	0.874
BC	0.783
BP	0.762

### Test of Goodness of Fit Inner Model

Testing procedure over Goodness of Fit Inner Model is reviewed from R Square ( $R^2$ ) value. Results of all tests previously conducted are shown in the following Table 5.

**Table 5. Summary of Test of Goodness of Fit**

Goodness of Fit		Parameter	Rule of Thumbs		Decision
Outer Model	Convergent Validity	Loading factor	All loading factor values > 07		Convergent Valid
		AVE	All AVE values > 0.5		
	Reliability	Composite Reliability	Composite value > 0.7	Reliability	Reliable
Inner Model	R <sup>2</sup> Evaluation	R <sup>2</sup> Value	R <sup>2</sup> > 0.25		Fit

The contents of the table above indicate that all criteria of goodness of fit are fulfilled, including for goodness of fit outer model (Hair, Hult, Ringle, & Sarstedt, 2017, p. 107) and for goodness of fit inner model (Hair et al., 2017, p. 186). Referring to those results, then research model is said as fit and thus, can be used in hypothesis testing.

### Hypothesis Testing

Alternative hypothesis ( $H_a$ ) is accepted if  $t_{count} \geq 1.96$  (Hair et al., 2017). The summary of t-statistics ( $t_{count}$ ) from direct effect test is described in Table 6 as following.

**Table 6. Summary of  $t_{count}$  for Direct Effect Test**

No	Direct Effect	Hypothesis		Path Coef f.	$t_{count}$	Decision	Explanation
		$H_0$	$H_a$				
1.	MA on BC (MA→BC)	$H_{0(1)}$ : $\gamma_{11} = 0$	$H_{a(1)}$ : $\gamma_{11} \neq 0$	0.88 1	3.7 59	$H_0$ is rejected; $H_a$ is accepted	The effect is positive and significant.
2.	EM on BC (EM→BC)	$H_{0(2)}$ : $\gamma_{12} = 0$	$H_{a(2)}$ : $\gamma_{12} \neq 0$	0.03 5	0.1 54	$H_0$ is accepted; $H_a$ is rejected	The effect is positive but not significant.
3.	MA on BP (MA→BP)	$H_{0(3)}$ : $\gamma_{21} = 0$	$H_{a(3)}$ : $\gamma_{21} \neq 0$	- 0.77 5	2.7 26	$H_0$ is accepted; $H_a$ is rejected	The effect is negative and significant.
4.	EM on BP (EM→BP)	$H_{0(4)}$ : $\gamma_{22} = 0$	$H_{a(4)}$ : $\gamma_{22} \neq 0$	2.00 8	11. 692	$H_0$ is rejected; $H_a$ is accepted	The effect is positive and significant.
5.	BC on BP (BC→BP)	$H_{0(5)}$ : $\beta_{21} = 0$	$H_{a(5)}$ : $\beta_{21} \neq 0$	- 1.03 3	2.3 18	$H_0$ is accepted; $H_a$ is rejected	The effect is negative and significant.

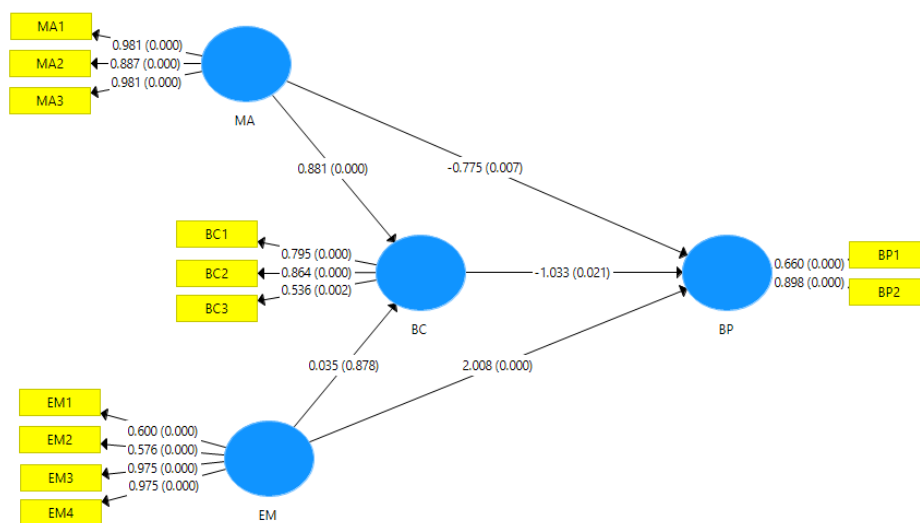
Correspond to the contents of the table above, variable MA has significant direct effect on variable BP. The direct effect of variable EM on variable BP is also significant. According to the Norm of Baron and Kenny (Hair et al., 2017), the testing over mediation or moderation effect can be conducted only if the direct effect is significant. In this research, the direct effect is found to be significant. Therefore, mediation effect test can carried out involving (1) the mediation effect of variable BC to the direct effect of variable MA on variable BP and (2) the mediation effect of variable BC to the direct effect of variable EM on variable BP. Hypothesis test is applied based on values from bootstrapping procedure.

The summary of t-statistics ( $t_{count}$ ) from mediation effect test is arranged in the following Table 7.

**Table 7. Summary of  $t_{count}$  for Mediation Effect Test**

No	Indirect Effect	Hypothesis		Path Coef f.	$t_{count}$	Decision	Explanation
		H <sub>0</sub>	H <sub>a</sub>				
1.	MA on BP through BC (MA→BC→BP)	H <sub>0(6)</sub> : $\gamma_{21} + \beta_{21} = 0$	H <sub>a(6)</sub> : $\gamma_{21} + \beta_{21} \neq 0$	- 0.91	2.628	H <sub>0</sub> is accepted ; H <sub>a</sub> is rejected	The effect is negative and significant.
2.	EM on BP through BC (EM→BC→BP)	H <sub>0(6)</sub> : $\gamma_{22} + \beta_{21} = 0$	H <sub>a(6)</sub> : $\gamma_{22} + \beta_{21} \neq 0$	- 0.036	0.158	H <sub>0</sub> is accepted ; H <sub>a</sub> is rejected	The effect is negative but not significant.

Referring to the results of bootstrapping procedure which are used for calculating t-statistics ( $t_{count}$ ), then hypothesis model is created in Figure 3 as following.



**Figure 3. Summary of Hypothesis Model**



By the results of  $R^2$  value from the test of goodness of fit inner model and also the results of path coefficient value, then each latent variable can be connected through structural equation. The explanation of this structural equation is given in the following Table 8.

**Table 8. Structural Equation**

Endogenous Construct	Exogenous Construct	Error $\zeta = 1 - R^2$
BC	$0.881MA + 0.035EM$	+ 0.163
BP	$= -0.775MA + 2.008EM - 1.033BC$	+ 0.470

## Discussion

### *Managerial Ability and Business Performance*

The statistic result signifies that although managerial ability has meaningful effect on business performance but the contribution is just the opposite. Managers with good managerial ability do not determine SMEs business performance. This position is contrary to the findings given by Bhutta et al. (2021), Bourlès & Cozarenco (2018), and Andreou et al. (2017), which generally indicated that managerial ability has positive effect on business performance. These previous studies claimed that high managerial ability will produce high business performance regardless of the effect is significant or not.

Field observation was carried out. The authors discovered that managerial ability of SMEs managers is still low. Specifically, not all managers have good managerial ability. As the consequence, managerial ability does not directly have positive effect on business performance. Managers found their method to manage or organize the business as not yet efficient and effective. The prominent reason behind this is that the managers are lacking of understandings on the achievement level expected from their position in management seat and also on the role expected from them to be played. Managers with low managerial ability often find difficulty in motivating their subordinates to attain optimum work.

### *Entrepreneurial Motivation and Business Performance*

This result confirms that high entrepreneurial motivation from SMEs managers will have good impact on business performance. This position is in line with previous findings given by Eniola (2021), Fitria (2020), and Purnamasari, Mulyadi, & Tarmedi (2019), which generally said that entrepreneurial motivation is a variable that must be taken as priority by business people because this variable has direct impact on business performance. Entrepreneurial motivation is an energy that can stimulate business players to attain their desired outcomes. Individuals with entrepreneurial motivation are more successful in their business if compared to those without entrepreneurial motivation. Moreover, individuals with entrepreneurial motivation are associated with better business performance (Purnamasari, Mulyadi, & Tarmedi, 2019).

Managers of SMEs are incapable to take lesson from business failure. Therefore, their skill on business development is hardly increasing. Reasons behind this problem are environmental condition, regulation, capital market, and the situation of national economics. Low entrepreneurial motivation is identical with low business achievement or low business performance. This achievement may take form as financial number or self-satisfaction. However, some of the problems above do not make the relationship across variables to have negative sign or to become not significant. Pertinent to this situation, therefore the managers of SMEs must always maintain their entrepreneurial motivation to attain the expected business performance despite obstacles or problems constraining SMEs success.

### ***Managerial Ability and Business Climate***

This result is in conformity with Eniola (2021) and Fitria (2020). High managerial ability from SMEs managers is associated with better business climate. In this context, business climate is one of external factors that business people shall into account. Business climate not only affects business performance but also becomes the consequence of business strategy created by business people (Adawiyah, 2014).

Managerial ability is not only related to how SMEs managers can organize, coordinate and allocate resources to the goals but also concerning with how capable the managers are in solving problems (problem solving skill). Result of field observation showed that SMEs managers are seemingly less able to coordinate and optimize the potentials of resources and the managers are also lacking of problem solving skill. This situation affects business climate because SMEs becomes less empowered and easily vulnerable to the pressure of government policy and regulation. If business climate is not supportive to the development of SMEs, then business climate is like sending bad signal to many aspects underlying SMEs, including service, security, growth, resilience and quality. Apart from this unfavorable situation, the contribution of managerial ability on business climate was found to be positive and also significant. This position explains that many flaws identified in this research do not have fatal implication to business climate experienced by the SMEs in East Java.

### ***Entrepreneurial Motivation on Business Climate***

This result implies that entrepreneurial motivation of SMEs managers is not directly contributing business climate. This position is in contradiction to the finding of Kim-Soon et al. (2020), which elucidated that entrepreneurial motivation is linearly related with business climate. Managers with high entrepreneurial motivation are capable to produce business climate conducive to business development. Due to this contradiction, the hypothesis involving entrepreneurial motivation and business climate is rejected.

According to the result of field observation, some managers of SMEs have relatively low entrepreneurial motivation. This shall become an important issue that managers shall think about. Factors causing low entrepreneurial motivation are less supportive regulation that may not support SMEs, hostile environmental condition, and uncertain national

economics. In such horrifying business climate, SMEs tend to show low business performance. Government support is definitely needed to help SMEs to survive and regain their market share. Any measures that the government can take to support SMEs are protecting SMEs market share from hostile competitors, providing funding resources to SMEs, and opening training classes to improve entrepreneurial motivation of SMEs managers.

### ***Business Climate and Business Performance***

This finding signifies that good business climate is surprisingly related with poor business performance. Business climate is an indicator influencing SMEs business performance (Ajagbe & Ajetomobi, 2017). The effect of business climate on business performance has been confirmed by Qalati et al. (2021) and Sitharam & Hoque (2016) through their findings, which generally said that business climate, especially related with social environment (domestic and international), has impact on business performance.

Business climate is determined by several factors, namely: competitive industry and competitive pressure, regulation, taxation and incentive, infrastructure condition, and workforce availability (Adedeji et al., 2020; Jolley et al., 2015; & Qalati et al., 2021). With respect to the SMEs in East Java, good business climate can come from government effort to set regulations that support SMEs empowerment. If the regulations tend to be aggravating or confusing (not effective and not efficient), then such regulations give bad signal to business performance. Theoretically, high business performance is attained when business climate has become conducive and advantageous to SMEs growth. What the government did for SMEs can directly determine whether SMEs are successful or not. If SMEs in a locality are developing, then the success of those SMEs will influence the economics of that locality in particular and also the economics of East Java in general.

### ***Managerial Ability on Business Performance through Mediation of Business Climate***

In conformity with the analysis result, the indirect effect of managerial ability on business performance through business climate is negative and significant. This result explains that high managerial ability is instead followed by low business performance even when the SMEs take business climate into consideration. Managerial ability represents the capability and motivation of managers to allocate business resources in efficient way (Bhutta et al., 2021). This capability is vital for SMEs business performance, especially when the SMEs must deal with hostile business climate. Any business units, including SMEs, are strongly affected by business climate (Olubitan, 2017). All these findings indicate that business climate plays important role in the relationship of managerial ability and business performance. Therefore, managers, including those in SMEs, are required to always be aware and adaptive to business climate dynamics. Good managerial ability can help SMEs to survive uncertain situation, including during covid-19 pandemic. Previously said by Ajagbe & Ajetomobi (2017), the government shall plan or set industrial policy that is relevant to the creation of favorable business climate.

### ***Entrepreneurial Motivation on Business Performance through Mediation of Business Climate***

The indirect effect of entrepreneurial motivation on business performance through business climate is found to be negative and not significant. In other words, if the mediation of business climate is taken into account, then high entrepreneurial motivation is not likely to be associated with low business performance. This position indicates that SMEs managers do not always focus their business plan on the current situation. During the situation of covid-19 pandemic, the managers of SMEs in East Java keep their entrepreneurial motivation as the driving energy to attain the expected business performance. Therefore, the role of business climate is not significant in this matter, especially for SMEs in East Java.

Business performance of SMEs can be measured from the capability of the SMEs in giving value to stakeholders, including owners, customers, people, and government (Aminu & Mohd Shariff, 2015) and also in giving earnings to deliver stable business growth (Marmaya, Razak, Wee, Karim, & Ridzuan, 2018). Either with or without the mediation of business climate, entrepreneurial motivation still becomes an absolute requirement that can make certain business surviving and attaining the best business performance. This statement is supported by Lynch, Slåttsveen, Lozano, Steinert, & Andersson (2017) who described entrepreneurial motivation as a deep intention or an inherent energy from individuals that will drive them to start a business, manage that business, and achieve the targets. Surely, without strong entrepreneurial motivation, SMEs managers may find difficulty in developing business in the sluggish situation like during covid-19 pandemic. When business climate does not support business performance, then business people shall focus on other aspects (variables) that determine business performance. And, one of such aspects is entrepreneurial motivation.

### **CONCLUSION**

The effect of managerial ability on business performance is negative, entrepreneurial motivation has positive effect on business performance, managerial ability on business climate is positive, and business climate has negative effect on business performance of SMEs in East Java. The owners or managers of SMEs to take into consideration of managerial ability and entrepreneurial motivation in their effort to improve business performance. Both managerial ability and entrepreneurial motivation can be improved through active participation of business owners or managers in the seminar or training session on entrepreneurship, which shall be facilitated by the related department in local government or the association of SMEs. To realize this goal, things that shall be done by SMEs are complying with regulations, being innovative to strengthen competitiveness, and staying adaptive to any change in market condition. Next research is recommended to review other variables that are possibly influencing business performance, which among others is crisis period. Different business scope needs to be extended to include SMEs in service sector, private companies or other institutions. Population of research shall be expanded in order to get bigger sample size and to enable the results of research to be generalized.

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