



# THE IMPACT OF MANAGERIAL COMPETENCIES ON BUSINESS PERFORMANCE: SME's IN KOSOVO

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### Abstract

One of the most important criteria for having effective managers is competency. Managers are required to ensure that organizations achieve their objectives. Today, when measuring organization's performance, its better results more and more are referred not to material resources of an organization, but to human resources and their competencies; development of competencies has become one of the key priorities of the organization. This study investigates the connections between managerial competency and performance of SME's. Data collection was made through questionnaires, and the constructs used were adapted from prior research and already tested for reliability. For the study we used a structured questionnaires' and the data analyses where made through statistical package for social sciences (SPSS). Results indicated support for the theoretical model that was considered. The findings suggest that managerial competency is associated with performance.

KEY WORDS: managerial competencies, managers, performance, sme's.

### Introduction

Research on competencies went to analyze, understand and explain the importance of managerial competencies in the organizations. Many studies showed that competencies is a cluster of the related knowledge, skills characteristics and attitudes that correlates with effective performance and are able to be measured evaluated, and strength through training and development programs it is consider as a common term for employees to assert their working and show the real activities (Berge et al., 2002). Every business organization need effective managers to be successful in today's highly competitive and dynamic business environment. It is very important for a business organization to identify, develop, and retain talented people. Every successful and effective manager possesses several competencies that enabled him to perform efficiently and effectively at different managerial levels. Management occurs within any type of organizational context where human and physical resources are combined to achieve certain objectives. Managerial competencies play today an important role in different types of organizations. The Competencies can detect the differences between average and excellent managers. The relationship between managerial competences and business success still remains an important issue within organizational literature (Crook et al., 2011). Competencies can give companies their competitive advantage over their competitors. This can be achieved through companies developing competencies that are not easily transferable from one business to another. Competencies can also be called maturing when they are no longer relevant to the firm's strategic positioning. Some core competencies that are difficult to duplicate can be developed through the firm's reputation, service, traditions and image (Lado et. al, 1994).

Managerial competencies refer to knowledge, abilities, skills and behaviors required for effective job performance in managerial occupations.

In addition to executing each function effectively, each level of manager should demonstrate managerial skills with regard to performing job-related tasks and responsibilities because management skills developed order and consistency through management functions (Bateman & Snell, 2002). Competencies vary depending on the type of business and manager competencies, similar to company core competencies, which can change with variables such as time, location of business or size of business. The precise definition of managerial competencies is heavily contested. In the context of SMEs, managerial competencies are defined as sets of knowledge, skills, behaviors and attitudes that can contribute to personal effectiveness of managers (Hellriegel, Jackson, Solcum and Staude, 2008). Contemporary business companies need management professionals with managerial competences that would enable an employee to success-fully perform in ever changing business and economic environment.

This paper determines the impact of managerial competencies on business performance.

The following questions were raised up for the purpose of this research:

Which are the managerial competencies that can help in the process of business performance?

What are professional competencies?

What are social competencies?

What are personal competencies?

Which managerial competencies – professional, social or personal are more important for business performance?

## Literature Review

### Managerial Competencies

Managerial Competences are important because they are forward looking, describe the skills and attitudes the staffs need to meet future challenges, help clarify expectations and provide a sound basis for consistent and objective performance standards by creating a shared language about what is needed and expected in an organization (United Nation's Report, 2004). Organizations applying several managerial competencies which draw attention to the need to understand how different these competencies are working in organizations, this require to highlight the most effective competency in order to enhance it for a better performance. Competencies are measured in terms of importance and frequency. By measuring how important a competency is, managers can show how critical these competencies can be within a particular profession. It is also important to see how often competencies are used in a particular job. Building on McClelland's (1973) view, Competency term that was defined by Boyatzis (1982) as underlying characteristics that the person possess lead to achieve outstanding performance. Competence has been defined as the ability and willingness to perform a task (Brown, 1993). Competencies have been defined by Boyatzis (1982), as "an underlying characteristic of a person in that it may be a motive, trait, skill, aspect of one's self-image or social role, or body of knowledge which he or she uses (Boyatzis, 1982). Drucker (1985) defined competence at individual level as an ability of employees to offer superior performance in tasks. Competency is used as an umbrella term to cover almost anything that might directly or indirectly affect the job performance (Woodruffe, 1992). Managerial competencies are a cluster of similar knowledge, skills and attributes that are essential to effective job performance (Karns, 1998). Henderson (2000) defines competency as a combination of knowledge and skills required to successfully perform an assignment. Its attainment is evidenced by the ability of an individual to gather data, process it into useful information, access it and arrive at an appropriate and useful decision in order to initiate the actions necessary to accomplish the assignment in an acceptable manner. Boyatzis (2000) describes managerial competencies as underlying characteristics of a person that he or she uses to solve problems that arise at a work place. According to Kayes et al (2005), managerial competencies involve internally and externally managing the host people and other expatriates in the organization. This internal management skill serves to resolve conflicts between local employees and expatriates and maintain a close relationship between them. Draganidis & Gregoris, (2006) defined competency as a combination of tacit and explicit knowledge, behaviour and skills that gives someone the potential for effectiveness in task performance.

Spencer and Spencer (2008) posited that competences refer to the range of skills which helps in satisfactory performance and competencies refer to the behaviour adopted in a competent performance. Managerial competencies were developed because of current and

emerging business requirements (Meyer & Semark, 1996).

Managerial competencies can affect organizational performance. Heffernan and Flood (2000) surveyed 114 human resource managers to determine the usage of competency frameworks in Irish industry. The relationship between the adoption of a competency model and other variables was investigated. The results confirmed that use of a competency framework was linked to improved organizational characteristics and was reflected in better organizational performance, such as reduced turnover and growth of the industry. A managerial competency has been used and is recommended regularly by several authors constructed initially on the basis of (Boyatzis and Goleman 2007; Boyatzis 1982) work. It is as follows.

**Table 1.** Contents of managerial competencies

Blocks of Managerial Competencies	Managerial Competencies
Professional competencies	Planning, problem solving, information gathering, analytical thinking, abstract thinking, strategic thinking, learning from one's own and others' experience, striving for results, initiative, business-like orientation, generation of ideas, diligence, resolution, global perspective, organizational skills, team-work, negotiation skills, leadership, conflict handling, communication, organizational awareness, systemic logics, written communication, creativeness and ability to implement innovations, modern knowledge, time management, risk assessment, risk-taking, defining the circle of personal interests.
Social competencies	Communication and influencing others, verbal communication, convincing communication, effective relations, orientation to customer, goal-setting, delegation of authorities, change management, performance management, fairness, responsibility, flexibility, cultural awareness, qualification, group-building and development skills.
Personal competencies	Self-confidence, stress management, personal reliability, loyalty, self-control, self-confidence, self-management, listening skills, system of personal values, personal goals, continuous personal self-development, personal responsibility for taken decisions, awareness of ethics relevance in business.

Source: I. Bakanauskien and J. Martinkien (2011)

### Business performance

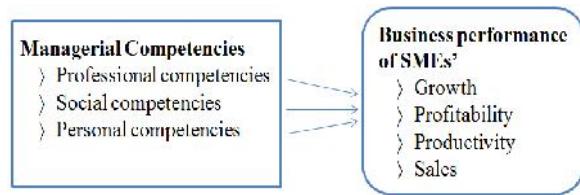
Since the beginning of competency management, nearly all authors have stated a positive relationship between management competencies and success. Business performance is addressed to organizational effectiveness, in a broader concept, there are two

indicators explaining business performance including financial performance (sales growth, profitability, earning per share) and operational performance (market share, new product, product quality, marketing effectiveness and value added) (Venkatraman & Ramanujam, 1986). Timmons (1999) asserts that as you achieve business success, it is sometimes measurable and sometimes not. Accumulating a certain volume in sales is certainly one way to measure success, but it is not the only way; earning a prestigious award, earning the respect of your peers, or providing livelihood to your employees may be far more meaningful to you. Boyatzis (1982) argued in his seminal book on competency and performance, that the competency clusters "Goal and Action Management", "Leadership", and "Human Resource Management" are the most important ones. Prahalad and Hamel (1990) distinguished between technological and management competencies and only the fit of both will lead to entrepreneurial success. Companies gain and sustain competitive advantage due to the ability to renew, integrate and expand their existing competencies which enable the firm to transform resources into value offerings leading to sustain and increase firm's performance (Doole et al., 2006). Castelli (2006) defines Business success as a subject to individual interpretation based on upbringing, past experiences, role models, competitive forces, personal motivations and goals. For some, merely staying in business can be considered success, while for others it could be achieving a certain level of sales or an IPO thus core values of the business (Castelli, 2006). Another study explored business performance indicators as sales growth, customer growth, profit growth and working capital growth (Ismail, 2012). While performance would be divided onto financial and non-financial performance where financial performance is financial efficiency, profit measures, non-financial performance includes customer satisfaction, sales growth, employee's growth and market share, SMEs often investigate their growth via turnover growth and employment growth (Sidik, 2012).

In a study performed on firm performance, perceived performance is defined as an indicator including growth, firm profitability and market share in which firm growth and profitability are the essential parts of a firm's performance and those are measured to evaluate the competitiveness of the firm (Soininen, Martikainen, Puimalainen, & Kyläheiko, 2012). The researcher developed a conceptual framework drawn from the works Berger (2002) where business success was described in terms of sales, profitability and survival.

### Conceptual Framework

The following Conceptual framework was developed after review of existing literature to investigate the research questions at hand. The framework shows Managerial competencies (professional, social and personal) as the independent variables used to explain business performance as the dependent variable.



Source: own processing

### Methodology

This research is designed to check the relationship between managerial competencies and business performance. A self-administered survey questionnaire was used to collect primary data from the targeted samples of Kosovo managerial employees. Questionnaire was designed based on the paper "Determining managerial competencies of management professionals: Business companies managers' approach in Western Lithuania region", authors: Irena BAKANAUSKIEN , Jurgita MARTINKIEN , published in the ORGANIZACIJ VADYBA: SISTEMINIAI TYRIMAI: 2011.60, ISSN 1392-1142.

Business performance was measured using the Questionnaire of Entrepreneurial Success (Wiklund and Shepard, 2005). The scale items refer to the assessment of one's own Business's growth evaluation during the last three years.

Questionnaire was designed to take the required data about managerial competencies and their impact on business performance. Data analysis is taken through descriptive statistical method. It includes Mean, Standard deviation and Linear multiple regression. The population for the study was all the managers of small and medium enterprises (SMEs, Kosovo), distinguishing between small companies that employ from 10 to 50 staff and medium-sized companies that employ from 50 to 250 employees. The respondents were asked to complete a self-administered questionnaire which was collected immediately after completion. The sample was drawn on 195 managers from small and medium enterprises in Kosovo. While 195 questionnaires only 110 of them met the conditions for analysis. A convenient sampling technique was used to select the managers. Descriptive statistical method was used to assess perceptions of managerial competencies. Statistical Package for the Social Sciences (SPSS, version 24.0) was used to analyse the data. Principal components analysis and varimax rotation methods were used to managerial competencies analyse. Linear multiple regressions were used to assess the relative importance in predicting the business performance.

The Cronbach's alphas for all the scales are at an acceptable level of reliability, averaging 0.85

The relative importance of the business performance dimensions was based on their Beta (*i*) weight in the following hypothesized linear regression model:

$$Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \dots + \beta_n X_n + \epsilon$$

*Y*: dependent variable – business performance

*0*: regression coefficient of intercept

*i*: partial correlation coefficient of latent independent variables

Xi: latent independent variables

e: random error.

The research results of the mentioned profiles characteristics are given in Table 2. and describe demographic characteristics of the respondents in this study including gender, age groups, education level, Size of SME's, management level.

**Table 2.** Profile of managers at SME's

General information		Response	
	Item	n	%
<b>Gender</b>			
Male		92	83.64
Female		18	16.36
<b>Age groups (years)</b>			
20 - 30		14	12.73
31 - 40		21	19.09
41 - 50		39	35.45
51 - 60		24	21.82
>= 61		12	10.91
<b>Highest education level</b>			
Bachelor's		44	40
Master		60	54.55
Phd		3	2.73
Other		3	2.73

Size of SME's			
Small		18	16.36
Medium		92	83.64
<b>Management Level</b>			
Top		56	50.91
Middle		30	27.27
First		24	21.82

Source: own processing

The distributions of the respondents according to their gender: 83.64 % of respondent are male; according to their age group: 35. 45% of respondent are between 41 - 50 years old; 21.82% of respondents are between 51-60 years old; 19. 09% of respondents are between 31-40 years old; 12. 73% of respondent are below 30 years and 10.91% of respondents are above 61 years old. Distribution of respondents according to highest education qualification: table shows that majority of the respondents, 54.55% have obtained master degree, 40% have bachelor degree, 2.73% have PhD and the least 2.73% of respondents have other degree. Distribution of respondents according to size of SME's: 83.64% of respondents are in medium size, 16.36% in small size, most of the respondents 50.91 work in top level.

Descriptive statistics for respondents' answers related to managerial competencies and the business performance are shown in table 3.

**Table 3.** Descriptive statistics of managerial competencies and performance measures

#	Scale Items	Mean	Std. Dev.	#		Mean	Std. Dev.
<b>Professional competencies</b>				#	<b>Social competencies</b>		
1	Global perspective	4.09	1.04	1	Cultural awareness	3.41	1.18
2	Strategic thinking	4.14	0.73	2	Empowerment	3.69	1.26
3	Leadership	4.27	0.81	3	Empathy	3.73	1.09
4	Written communication	4.61	0.95	4	Goal-setting	3.80	0.98
5	Creativeness	4.58	0.87	5	Change management	4.25	0.84
6	Planning	4.78	0.89	6	Flexibility	4.32	0.57
7	Negotiations	4.65	0.95	7	Effective relations	4.50	0.72
8	Risk-taking	4.62	0.92	8	Qualification	4.78	0.54
9	Risk assessment	4.81	1.17	9	Orientation to customer	4.81	0.45
10	Abstract thinking	4.15	0.84	10	Fairness	4.87	0.48
11	Organizational awareness	4.01	0.81	11	Responsibility	4.65	0.42
12	Modern knowledge	4.28	0.72	#	<b>Personal competencies</b>		
13	Generation of ideas	4.25	0.78	1	Personal goals	3.95	0.85
14	Problem-solving	4.43	0.59	2	Achievements	4.06	0.73
15	Organizational skills	4.03	0.68	3	Self-management	4.16	0.55
16	Team-work	4.32	0.71	4	Personal reliability	4.13	0.62
17	Conflict handling	4.68	0.54	5	Stress management	4.22	0.59
18	Information gathering	4.72	0.61	6	Self-development	4.45	0.51
19	Analytic thinking	4.84	0.63	7	Awareness of ethics in business	4.36	0.75
20	Time management	4.89	0.54				

21	Communication	4.48	0.61		
#	<b>Business performance</b>				
1	Nature of the Capital Investment for the last 3 years		3.68	0.82	
2	What is the trend of your customers for the last 3 years?		3.74	0.75	
3	To what degree has your business achieved its most important goals?		3.68	0.83	
4	The volume of sales the business has made for the last 3 years		3.65	0.91	
5	The volume of assets the business has attained for the last 3 years		3.81	0.85	
6	The level of profits the business has raised for the last 3 years		3.76	0.72	
7	Have other outlets been opened up since they began this business?		3.58	0.94	
8	The growth rate the business has registered overtime		4.21	0.77	
9	Business rewards to its customers at their due date		4.11	0.85	
10	Degree of expansion of the business from its earlier initial size		4.08	0.51	
11	In the last 3 years, has the business introduced products or services that were new or improved to the market?		4.26	0.45	
12	The extent of the business' market share for the last 3 years		4.16	0.48	

Source: own processing

Results for the importance rating are displayed in Table 3. Mean scores were plotted to check the “Normal Distribution” Competencies with a mean score 4.50 to 5.00 were classified as essential competencies to achieve business performance, competencies with a mean score of 3.50 to 4.49 were classified as considerably important competencies and competencies with a mean score of 3.00 to 3.49 were classified as moderately important competencies. Based on the distribution the managerial competencies identified under mean score below 3.00 in

this study are not analysed. Managers at SMEs’ in Kosovo perceive themselves reasonably competent in all facets of their managerial competencies. They did however feel relatively more competent in their ability to time management (4.89), analytic thinking (4.87), orientation to customer and risk assessment (4.81), planning and qualification (4.78), information gathering (4.72), conflict handling (4.68), responsibility and negotiations (4.65), risk-taking (4.62), written communication (4.61), self-development (4.45), problem-solving (4.43) and the last cultural awareness (3.41).

**Table 4.** Regression analysis for managerial competencies and business performance

Model	t	Sig.	F	r2	Sig.
constant	-0.343	.633			
Professional competencies	.576	.5.767	.000*		
Social competencies	.247	2.102	.003*	14.10	.536
Personal competencies	.347	3.149	.001*		.000

Note: \*indicate significance at 5 percent level; N=110 ; dependent variable: business performance (five – point scale, 1=Far Below Target, 2=Slightly Below Target, 3=Mid Target, 4=Slightly Above Target, 5= Far Above Target); independent variables: Professional competencies; Social competencies; Personal competencies

Source: own processing

Table 4 shows that there was a significant positive relationship between managerial competencies and business performance ( $r = .536$ ,  $p <.01$ ). This implies that existence of managerial competencies in the business will result into business success and lack of managerial competencies results into failure of the business. The partial correlation coefficients of the three independent variables showed that professional competencies ( $= 0.576$ ), followed by personal competencies ( $=0.347$ ), emerged as the most important factor in predicting the business performance in Small and medium-sized enterprises, followed by social competencies ( $= 0.247$ ) in order of influence.

This indicates that there is a significant impact of the managerial competencies on business performance measures and professional competencies have the most impact on the business performance. Regression analysis showed that professional competencies and personal competencies have the most significant statistical impact on business performance and explains (53.6%) of the variation in performance.

## Conclusions

The successful activity of SMEs has a significant impact on economic development (e.g. Bosma et al., 2008). Therefore it is important to identify factors which consolidate the success of these businesses. The study aimed to contribute to our understanding of how managerial competencies of Managers affect SME

performance measured as subjective assessment of economic growth indicators against competitors on the market.

The results of this study generally corroborate the theoretical model assuming that more managerial competencies characteristics are mediators between professional and personal characteristics and business performance. The linkages between independence managerial competencies were observed to be positively significant to business performance. The study showed the aspects that influencing the managerial competencies for good organizations performance. These current studies focus on the managerial competencies and they are applied in the SME's by the managers, but future research could also study and determine the managerial competency only the one level management. As McClelland showed, it is important to look beyond person's basic skills. When organizations work seriously to apply the required managerial competencies, set the tasks they avoid the recruiting costs, dissatisfied customers, missed opportunities and create their own position in the market and drive successful to organizations. In general, the study looked at Managerial competencies and performance of the small and medium size enterprises. It is therefore evident that the combinations of managerial competencies (professional, social and personal) have an Impact on the Performance of SMEs in Kosovo.

Managerial competencies are not fixed and should correspond to the needs of the organization.

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