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Managerial competencies and small business venture performance: an emerging economies perspective

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ABSTRACT

Purpose — *The challenges faced by most small-scale ventures in developing economies has largely been attributed to not just the environment issues, but also the poor human capacity of most managers to effectively make decisions that will ensure the continued survival of the business over a period. The objective of this research was thus to assess the effect of managerial competency on performance of SMEs.*

Method — *We adopted descriptive survey research design for this study. We used a sample of 394 SMEs managers for the survey, which were selected using convenience sampling technique. This research relied on content validity and internal consistency measure for validity and reliability respectively. We used multiple regression with the aid of SPSSv23 for data analysis.*

Result — *The outcome shows that managerial competencies affect the performance of small-scale enterprises. Also, we found that interpersonal competency of manager of SMEs is low, while the cognitive competency made the strongest unique contribution to explain venture performance. We conclude that to drive improved performance there must be effort targeted towards improving the skills of managers of SMEs in the country.*

Contribution — *This research validates the resource-based view theory and contributes to expand literature on competency and leadership from an emerging economies context.*

Keywords: *competency, managers, performance, SMEs, venture*

INTRODUCTION

Organizations internal environment are responsible for combining resources towards transforming the organizations inputs into outputs (Pearce & Robinson, 2009). However, this is dependent on the unique characteristic of the individuals or employees before a result that is effective or superior performance can be obtained (Wu & Yang 2006). This is why competencies that go beyond just narrow skills or employees' work efforts should be developed. These competencies should entail the various skills and activities required to carry out task in all locations of the business, linking the value chain that can guarantee the organization's unique capability (Thompson, 1998). This explains the growing scholarly interest in the concept of competencies (Bartoli & Blatrix, 2015; Czaja, 2019; Comer & Drollinger, 2013).

Kayes, Peter and Sun (2015) stressed that managerial competences are vital to the sustenance of the organization, as they allow for innovative and proactive approach on issues that affect the existence of the organization, while ensuring that customers are satisfied. The aim for excellence and quality standard is a benchmark, while ensuring the interest of the organization is placed above personal interest.

Further, managerial competency allows for effective skill development and the right attitude to meet future challenges and better serve the organization's interest. Managerial competency allows for objective assessment of activities, decision-making consistency, and adherence to objective performance standards through establishing what is expected to drive expected performance in the organization.

Managerial competencies require the set ability to effectively manage both the external and internal resources in the organization, despite the level of manager in the organization. The external competency allows for managing customers, government and regulatory agencies, suppliers, and a host of other external resources that contribute to a business's growth. The internal are the employees, managing conflict, compensation and other internal component of an organization (Armstrong, 2020).

Managerial competencies involve internally and externally managing the employees and other expatriates in the organization (Kayes, 2005). Internal skills serve in resolving basic conflicts and issues within the firm. External skills serve to maintain cordial relationships with all other stakeholders. An individual's competence is usually linked to that person's capabilities or skill in carrying out a specific task (Tippins & Soho, 2003).

Firms or companies can utilize their capabilities when directing their resources to a particular objective or using them to produce goods and services. They cannot be seen or touched and have a greater effect when they only possess such capability (George & Jones, 2012). Managerial competencies are the abilities, motivations, and behaviours required for a position, and include teamwork, conflict resolution, customer orientation, and leadership (Czaja, 2019).

There are several components of managerial competency, however, in line with the resource-based view theory, this study is interested in the interpersonal, functional and cognitive competency. These dimensions were used to frame the study hypotheses that were assessed against small businesses performance.

The resource-based view theory was used to underpin this study. The Resource-Based View (RBV) theory has been linked to Penrose (1959) works. Makhija (2003) held that the theory perceives the firm as an administrative organization, where there is regular assessment of productive physical and human resources to be use in the interest of the organization. Grant (1991) posed that RBV theory supports an organization internal environment, and its resources and capabilities, as a means to justify the creation of wealth and value that can give the organization competitive advantage.

The theory holds that the focus should be on the internal resources and capabilities that can generate immediate economic benefits that allow the firm gain increased advantage in their immediate operating environment. Pearce and Robinson (2009) stated that resource-based view explains and characterises the organization's core strategic advantage through assessing their inimitable resources and capabilities as a source of value.

The core of the theory is the belief in the business internal environment as a panacea to improved performance and competitive advantage. The internal environment involves the organizations-level institutions encompass the functional knowledge, creativity and skills that can be viewed as the managerial competency. The internal environment therefore must be structured to support the utilisation of the core competency of the managers in the organization. Where not sufficient, there should be effort to ensure that their capabilities and skills are increased to improve performance.

Firm performance can be viewed as the level to which an organization or firm actualizes its expected outcome (Tangen, 2005). According to Sims (2002), an enterprise functions effectively if it is both competitive and profitable. Consequently, performance is contingent upon two parameters: productivity and effectiveness. According to Bartoli and Blatrix (2015), the notion of performance must be attained by prototyping and assessed based on the productivity, efficacy, and excellence of the enterprise's activities over a period.

According to Rylkova (2015), performance is when a firm can achieve certain results it aimed to achieve and these results conform to the firm's initial set standard, over a specific period of time. According to Selvam, Indhumathi, and Lydia (2012), performance is a specific outcome of leadership, finance, and sales that confers viability, productivity, and success on the organization and its institutional and routine elements.

The challenges faced by most small-scale ventures in developing economies has largely been attributed to not just the environment issues but also the poor human capacity of most managers to effectively make decisions that will ensure the continued survival of the business over a period. The growing need for SMEs to be deployed to drive improved employment opportunities and reduce poverty in Nigeria remains a gap that has necessitated this research.

SMES remains one of the largest in Nigeria, however, its contribution in recent times have been below expectation. The sectors contribution to the country's GDP still struggles at below 50%, which is the same way it has been in the 10 years (NBS, 2018), hence, understanding what role managerial competencies would play to reverse this abnormally is another gap that this study seeks to close.

Despite government policies such as free market system, removal of price control and foreign exchange controls aimed at boosting the small-scale enterprises, however, little seems to have been achieved prompting the need to fill the gap on what influence individual factor (competence) plays in addressing venture performance of small businesses. Hence, the central purpose of this research was to account for the effect of managerial competencies on performance of small-scale enterprises. Next, we assessed the dimensions of managerial competencies (interpersonal, cognitive and functional) on the performance of the small businesses.

METHOD

The study adopted descriptive survey research design for the study. The choice of the design is because of the need to have a quantitative analysis of the problem of the study. The study was centred among SMEs in South East, Nigeria, using Enugu state specifically. The information from the state chambers of commerce reports registered SMEs at 26,267. The choice of the state chambers of commerce is because they provide the most reliable information on the number and operational activities of SMEs in the state. The study adopted Taro Yamane formula to determine the sample size, which was arrived at 394. The study used a sample of 394 SMEs managers for the survey. G.power analysis was conducted to verify for sample adequacy and the result proved that the sample size of 394 was adequate. Convenient sampling technique was used and the challenge of collecting data was the basis for adopting this technique. Questionnaire was used for data collection, and two research assistants assisted in the in-person distribution and retrieval of the questionnaires from the entrepreneurs. The data collection period was from June 2022 to August, 2022. The study used self designed questionnaire for the study, however, existing literatures were guide in the design of the instrument of the study. The study relied on content validity and internal consistency measure for validity and reliability respectively. The study used multiple regression with the aid of SPSSv23 for data analysis.

Hypotheses development

Interpersonal competency

Interpersonal competency is evident in management when they understand who their staff are, what they want from the job, and knowing and implementing the best way they can be motivated to give their best to their jobs (Smith, 2009). In competing markets, organizations need to have a good workforce on their side because they are responsible for creating the products that the customers use. As such, their disposition towards the organization determines how well they will produce goods or relate with customers to bring about repeat sales.

Okoro, Washington, and Thomas (2017) examined the effect of interpersonal relationship on organizational effectiveness. The study used a survey design and a sample of 239 that participated in the study. The study used a regression for the analysis of the study. The study found that interpersonal relationships significantly affect workforce performance and well-being, leading to organizational productivity.

Similarly, the study of Islam, Nasira, Pritom, Paul & Rabbi (2016) was on the effect of interpersonal relationship in salesperson service performance in Bangladesh. The study used a survey design for the study. The study has a sample 80 participants in the study. The study used a simple random sampling technique for the study. The study adopted simple regression technique for the study. The study found that interpersonal competency significantly affects the sales person's performance. The study recommends that the customers should be handled effectively as it affects the business's performance. Thus, this study proposed that:

Ho_1: Interpersonal competency has positive significant effect on venture performance

Functional competency

Functional competencies are a source of competitive advantage and are also related to market and profitability performance (Nguyen, 2008). It is claimed that core functionality ability is now a greater foundation of strategic difference than the other two forms of competency (Hamel, 1994). This is due to the fact that corporations are focusing under globally rigorous expectations for production and services quality and are using collaborations, expansions, and market structure to establish globally consistent image and marketing operations.

Production, promotion, research and development, and human capital may be used to evaluate functional capability (Nguyen, 2008). The company's capabilities are the stockpiles of accessible variables held or under its management. Utilizing many other company resources and bridging strategies like innovation, decision support systems, reward management, confidence among managers and workers, and much more, the ultimate goods or services are created (Amit & Schoemaker, 1993).

The study of Emmerling and Boyatzis (2012) assessed emotional and social intelligence competencies from a cross-cultural perspective. The study used a longitudinal design. The study assessed social intelligence using cognitive competency. The study indicates that cognitive competency was vital for the development of human capacity across culture. The study used a sample of 634 respondents for the study. The study used ANOVA for analysis. The study recommends that developing cognitive competency would help improve performance.

The study of Tumthong, Piriyasurawong, and Jeerangsuwan (2016) was on the effect of functional competency development for Academic Personnel. The study used the international professional qualification standards in computing field for the study assessment. The study tried to validate the functional model competency approach using nine selective experts. The study used a questionnaire designed in a likert scale format. The study found that functional model of competency is essential to drive improved performance. Thus, this study proposed that:

Ho_2: Functional competency has significant positive effect on venture performance

Cognitive competency

Cognitive competency is also a proven necessary factor for successfully establishing a firm in a new market environment (Shochley-Zalabak, 2015). Entering a new market for an old product (or vice versa) requires management to have a vast understanding of all key variables and their effects on the market's operations. Such cause-effect relationship analysis demands in depth thinking and cognitive ability to be done properly and to arrive at an outcome or decision that can be implemented (Schermerhorn & Bachrach, 2020). If this is done properly, it will ensure success in the firm's entry into a new market or increase its products' quality and attractiveness, which gives the firm a higher chance of succeeding in the market.

The study of Garavan and McGuire (2001) was focused on assessing the influence of cognitive competencies and workplace learning. The study used a survey design for the study. The study sample were 132 managers of textile companies. The study used regression for data analysis. The study found that the cognitive competencies have significant influence on workplace learning. The study recommends that managers should be trained for improved things that will help their cognitive ability to have improved workplace learning. The study used textile firms while this is on SMEs.

The study of Rohana and Abdullah (2017) was on leadership competencies and organizational Performance. The study used cognitive competency as a proxy of leadership competencies. The study was a survey design. The study used a sample of 287 for the study. The study used a regression technique for the study. The study found that an organization leader can improve leadership skills by training managers to develop and master multiple intelligences to improve performance. The study recommends that cognitive competency is vital to drive improved organizational performance. The study was not conducted in Nigeria, so the findings cannot be generalised. Thus, this study proposed that:

Ho_3*:* Cognitive competency has significant positive effect on venture performance

RESULT AND DISCUSSION

The questionnaires distributed for the study were three hundred and ninety-four copies (394). However, during vetting and coding it was observed that nine (9) of the instruments were not properly filled. At the same time, five (5) was not returned and during descriptive analysis of the data three (3) outliers were observed, thus leaving the study with three hundred and seventy-seven respondents' data that were used for analysis (377). The suitable instruments accounts for 96% of the instruments, which is suitable for analysis (Creswell, 2014).

Table 1. Demographic distribution of participants

Variables	Number (frequency)
Gender	
Male	199(53%)
Female	178(47%)
Age distribution	
18-30years	68(18%)
31-40years	79(21%)
41-50 years	149(40%)
51years and above	81(21%)

Source: author analysis (2019)

Table 1 above shows the demographic distribution of the respondents. The gender indicates that male reached 199(53%) and female 178(47%). The age distribution showed that respondents from 18-30years are 68(18%), 31-40years are 79(21%), 41-50 years are 149(40%); 51years and above are 81(21%).

The Vscale ratio of the content validity by two experts in management and measurement and evaluation indicates 0.78, which is high and as such the instrument was valid to measure the construct of the study. The Cronbach alpha of the instrument indicates that the items had a coefficient alpha of 0.923, which is also high given the threshold suggested by Creswell (2014).

The study ensured that assumptions of the technique were adopted. The check for normality, linearity, multicollinearity and homoscedasticity indicated that they were satisfied. The Durbin Watson result showed absence of auto correlation. The normality test using histogram plot output from SPSS showed the residuals are close to the curve as suggested by Pallant (2001). The scatter plot showed they were not far from the centre. The VIF does not exceed 10 and tolerance value not lower than 0.10 indicating assumption was not violated.

Table 2. Multiple regression result of managerial competency on venture performance

				T	Sig.	Collinearity statistics	
	B	Std. error	Beta			Tolerance	VIF
(Constant)	2.132	.948		2.248	.025		
Interpersonal competency	.206	.050	.216	4.130	.000	.472	2.117
Functional competency	.219	.054	.222	4.076	.000	.435	2.297
Cognitive Competency	.393	.055	.365	7.096	.000	.490	2.042

a. Model Parameters: R = .778; R^2 = .665; F = 214.531; Sig. = 0.000
b. Dependent Variable: Venture Performance

Source: authors' computation (2019)

The above Table 2 represent the multiple regression result of the study variables. The study was on managerial competency and venture performance. The overall model was assessed with the possibility the dependent variable would likely be influenced by the independent variables (functional, interpersonal and cognitive competency). The result confirmed the independent variables' ability (functional, interpersonal and cognitive competency) to predict the dependent variable (venture performance). The result showed that the relationship between managerial competency and venture performance is high given the r-value is 0.778. This indicates that managerial competency and venture performance in this study has a shared relationship of 77.8%.

Managerial competency proxies (functional, interpersonal and cognitive competency) accounts for 66.5% of the changes among venture performance. The significant F-test shows the relationship positive and significant, given that (F=214.531, p<0.000). This means the model is fit and the entire prediction ability of managerial competency through its dimensions is significant on performance of SMEs selected for the study. The result showed that cognitive competency is the most relative contribution to explain SMEs performance.

Discussion

The central objective of this study was to assess the influence of managerial competencies on the performance of small-scale businesses in Nigeria. The objective was achieved given the findings from the data and analysis. The study found that managerial competencies affect the performance of small-scale businesses in Nigeria. Understanding firms' managerial competencies prepares its management for the future. Managers have a clear knowledge of their unique strengths and can use them to their advantage (Veliu & Manxhari, 2017).

The hypothetical relationships were tested and the findings are discussed further. The result on hypothesis one for the study showed that the p-value is less than 0.05, thus, the alternate hypotheses is accepted. The finding agrees with the study of Hashim (2008) that interpersonal competency significantly affects venture performance. Hence, it is imperative for management of business organizations to ensure that there is great attention of interpersonal and relational skills in the whole organization, so the action of one manager does not drag the organization backward.

Similar, it validates the study of Tumthong *et al* (2018) that highlighted the essence of interpersonal competency on improving organizational performance. Hence, the finding can be justified and asserted that interpersonal competency is vital to venture performance in SMEs. This lends support to the fact that organizations competencies are the vital foundation that distinguishes the organization, as it defines the possibility of their existence and operation. It determines the extent of the organization's productivity through the application of the varying competencies in the production and operation of the firm.

The second hypothesis also showed a positive significant result given the p-value less than 0.05. The hypothesis is accepted and the finding confirms the study of Okoro *et al* (2017) that functional competency has significant effect on venture performance most especially SMEs. In support to this finding is the study of Nasira *et al* (2016) as both studies agrees that to improve a business performance, there is need for the managers to have the right functional skills that allow them make the best decision in the interest of the organization.

The views of Cormer and Drollinger (1999) are further supported that sustaining improved performance in any venture, there is need for the managers to develop their functional skill to manage the affairs of the business. Grant (1991) in support held that the developing competencies and ability of manager has direct impact on the resources of the firm, as it is a direct resource, which when deployed in the production and operational process of the organization would result in superior performance and ensure the organization derive immediate leader benefit in their operating industry.

Finally, the third hypothesis is also accepted, as the p-value is less than 0.05, thus supporting the hypothesis. The result agrees with the finding of Emmerling and Boyateis (2012) that cognitive competency is vital for the improved performance and growth of the business. In the same vein, the study of Garavan and Maguire (2001) was further supported with this finding indicating that the drive for improved organizational performance should be anchored on the development of the manager's cognitive competency.

CONCLUSION

This study set to determine the effect of managerial competencies on the performance of small-scale businesses in Nigeria. Based on the findings, we conclude that managerial competencies remain integral towards driving increased performance of small-scale businesses. For effective management in an organization, there must be attempt at strengthening the employees' capacity to contribute to their organization's growth through competency development.

It is critical to increase venture performance is functional competency in businesses in Nigeria. The goal of organization should develop the competency to accelerate general activities in the organization. We recommend that:

1. There should be effort at ensure that developing and sustaining the right interpersonal competency is ensured in SMEs, since they deal with a greater number of persons regularly, there is need for interaction that advance the interest of the business.
2. Managers should ensure that refresher courses that are related and non-related to their core operational functions are attended regularly to help improve their functional competency, since it is at the heart of the continued operation of the business.
3. Mental development helps for innovative and creative ideas, as such managers should be supported to engage in activities that will help improve their cognitive ability to think through problems, generate new ideas and design new concepts that will increase performance.

We suggested further studies to assess possible mediating factors that could influence managerial competencies and their effect on performance using large firms in developing and developed economies. This research is limited to a quantitative approach and future studies should consider employing a qualitative approach towards the problem.

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