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## The Impact of Managers' Competences upon the Performance of Small Enterprises

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**Abstract:**

**Purpose:** The objective of the article is to present the results of the study pertaining to the impact of competences of small enterprises' managers upon the enterprises' performance.

**Design/Methodology/Approach:** The review of available literature as well as empirical studies were performed in order to arrive at the objective. This enabled an in-depth examination of the subject matter. The review of literature enabled the methodology of the study to be formed. The survey approach with the use of a questionnaire was applied in data collection. The impact of the managers' competences upon the performance of the enterprises was examined by means of structural equation modeling.

**Findings:** The study expands knowledge in the field of small enterprises management. The article revealed that the performance of such enterprises is affected by the competences of the management. Based upon the review of literature, three types of competences were distinguished. A list of competences, which takes the specific character of small businesses into consideration, was developed for each of the types. The empirical study revealed that managerial competences directly affect the performance of the enterprises. Such competences are reinforced by specialized competences as well as personal and social competences.

**Practical Implications:** The results of the study may offer valuable information for small enterprise owners. They may prove helpful in developing competence profiles and strategies regarding the improvement of managers' competences. They may also be of use to consultants offering trainings and advisory services for small businesses. The results of the study are compelling and encourage further research.

**Originality/Value:** The subject matter seems vital because insufficient competence level of the management is believed to be one of the weaknesses of small enterprises. Usually, such businesses are analyzed in relation to large enterprises or the entire MSME sector. The current study pertains exclusively to small enterprises, which have the lowest development capacity in the sector. Studies prove that the enhancement of the management's competences may contribute to the improvement of business performance.

**Keywords:** Competences, small enterprises, managers.

**JEL codes:** M12.

**Paper Type:** Research article.

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## **1. Introduction**

Micro, small and medium-sized enterprises (MSME) play a vital role in the economic and civilizational development. The sector is believed to constitute a basis for the democratic socio-economic order and one of the main driving forces behind positive changes occurring in well-developed economies and in effective transformation economies (Drucker, 2009; Matejun, 2015). Enterprises representing the sector constitute 99.8% of all business entities in the European Union. They are responsible for two out of three jobs in the private sector and create over half of the added value generated by enterprises in the EU (Parliament Europejski, 2021). In Poland, the share of MSMEs in the total number of business entities corresponds to the European average.

However, the structure of the sector diverges from the average- there are more micro enterprises (96.7% in Poland vs. 90.0% in the EU) and fewer small businesses (2.4 vs. 8.9%) and medium-sized enterprises (0.7 vs. 0.9) (Skowrońska and Zakrzewski, 2020; Strandell and Wolff, 2020). The fact that many micro and small enterprises do not grow and transform into medium-sized and large businesses is problematic (Warsaw Enterprise Institute, 2017). This is especially true of small businesses employing 10 to 49. Since 2014, their number has been dwindling. Their contribution to the GDP and job creation is the lowest among all business entities. They are also characterized by low innovation (Skowrońska and Zakrzewski, 2020).

The barriers hindering the transformation of small businesses into medium-sized enterprises are of various character. Their sources can be traced to both external and internal environments. Small enterprises are managed directly by owners. They rarely employ professional managers to manage the business. The owners are also reluctant to transfer full command to the managers (the term "management" is used henceforth to denote the group of managers and executives managing a business). In order to be effective at their job, the management should possess state-of-the-art knowledge and skills. They should also manifest proactive attitudes.

## **2. Theoretical Background**

### **2.1 Competences of Small Enterprises Management**

Regardless of the size of the enterprise, the management of a business is a complex and complicated process. In small businesses, the process is usually traditional and intuitive rather than systemic and professional. It is characterized by several specific features emerging from the dominant role of the owner, among others. If the owner possesses managerial knowledge, is able to think strategically and exploit skills, initiative and creativity of subordinates, the enterprise may thrive. On the other hand, if the owner's knowledge is limited and he is not compelled to expand it, the business capacity of the enterprise may be squandered and opportunities may be infinitesimal, which questions business growth. The owner's competences exert a

stronger impact upon small enterprises than in the case of large businesses, which are managed by a panel of experts in various fields. The results of the review of literature and selected empirical studies indicate a significant increase in the role of managerial competences in the MSME sector (Altinay and Wang, 2011; Beaver and Jennings, 2001; Bławat, 2003; Lachiewicz, 2019, Loan-Clarke *et al.*, 2000; Mieszajkina, 2020; Nakhata, 2007).

Competences constitute a conglomerate of knowledge, skills, experience, and characteristic features and attitudes, which distinguish a particular individual and enable the person to perform their job effectively and achieve their objectives (Rakowska and Sitko-Lutek, 2016; Szczepańska-Woszczyzna, 2020). Based upon sets of competences outlined in the literature and in consideration of the characteristic features of small enterprises, three types of competences were distinguished. Such competences should be in the possession of business owners and the management (Katz, 1955; Filipowicz, 2019; Oleksyn, 2018; Rubin and Dierdorff, 2009; Sidor-Rządkowska, 2010; Szczepańska-Woszczyzna, 2020; Tyrańska, 2016). They primarily require managerial competences, which reflect their training to perform specific tasks associated with management. Such competences are transferable. They determine effective activity in various business settings and enable the qualifications and experience a person has to be fully exploited.

The competences can be reinforced and enhanced by specialized competences relating to issues associated with individual aspects of the enterprise operation. They require a certain minimum of knowledge, and subject-related and technical skills to be acquired. The two types of competences are not of inherent character. They are developed in the course of learning and while gaining experience. To a certain extent, managerial competences are also affected by personal and social competences which determine the quality of individual and team tasks.

## **2.2 Performance of Small Enterprises**

The character of enterprise performance is multidimensional. Therefore, empirical studies apply several criteria in order to assess it (Wiklund and Shepherd, 2005). This is of vital significance in small businesses where the determination of the performance by means of economic and financial indicators is insufficient. This is due to the fact that such an approach does not include alternative criteria pertaining to personal objectives of the owner, which may not be synonymous with business objectives. Research practice successfully applies subjective indices of the performance. They are employed based on the owner's subjective view concerning the change of index values in individual aspects of the enterprise's operation in relation to previous time periods. In general, the results of such measurements correspond to objective intra-organizational indices (Dess and Robinson, 1984; Dyduch, 2013). Subjective indices are particularly useful in assessing the broader, non-financial dimension of the performance, are generally more readily available

than the objective (quantitative) indicators and demonstrate high reliability and validity (Dess and Robinson, 1984; Stam and Elfring, 2008). The present study applies the subjective measures due to the fact that small enterprise owners frequently refuse to disclose objective information related to financial data.

### **3. Research Methodology**

#### **3.1 Research Hypotheses**

Based on the assumption that managerial competences affect the performance of small enterprises, the subsequent analysis will focus upon the identification of relations between the two. Three hypotheses were posed:

*H<sub>1</sub>: There exists a positive relationship between the managerial competences of the management and the performance of small enterprises.*

*H<sub>2</sub>: Specialized competences exert a strong positive impact upon managerial competences of the management.*

*H<sub>3</sub>: Personal and social competences have an insignificant positive impact upon managerial competences of the management.*

#### **3.2 Research Location and Research Sample**

The study was conducted in the Lublin province, one of the poorest and the least economically developed regions in Poland and the EU. Such a poor condition of the province seems to find confirmation in the value of the synthetic index of entrepreneurship (reflects the condition of the MSME sector), which is the lowest in the country. For the Lublin province, the value amounted to 18.23 in 2018, while the leading (Masovian) province scored 85.71 (Skowrońska and Zakrzewski, 2020). This offered the author grounds to undertake research in the state of play concerning small entrepreneurship in the region.

The study encompassed 552 entities from the Lublin province. The entities met the criteria set out for small enterprises (Ustawa z dnia 2 lipca 2004 r. o swobodzie działalności gospodarczej). Random, stratified sample (layers - sections of the PKD) was selected by the Statistical Office in Lublin. The study received 521 completed questionnaires out of which 504 were ultimately selected for the analysis. Business owners constituted 72.4% of the sample, whereas managers and executives amounted to 27.6%. Over 10 years of job experience in a managerial position was indicated by 51.2% of respondents. Those with 5-10 years of experience constituted 20.9% and those with less than 5 years of experience 27.9%. Women accounted for 34.7% of the sample, whereas men for 65.3%.

#### **3.3 Research Methods**

The following methods were applied in order to verify research hypotheses, review

of literature, survey with the use of a questionnaire, structural equation modeling. The application of the survey was justified by the opportunity for a more extensive number of enterprises to be included in the study. An original survey questionnaire served as the research tool. The questionnaire was designed so as to assess the scope of managerial competences the management possessed.

Structural equation modeling was applied in order to examine the relationship between the competences of the management and the performance of small enterprises. The model encompasses four latent variables (managerial competences, specialized competences, personal and social competences, enterprise performance) along with 29 manifest variables. The operationalization of latent variables was conducted based on the following: review of literature, and review of approaches to the evaluation of competences and enterprise performance numerous authors present (Altınay and Wang, 2011; Balcerzyk, 2020; Filipowicz, 2019; Lumpkin and Dess, 1996; Martinkienė and Vaikšnoras, 2019; Oleksyn, 2018; Soderquist *et al.*, 2010; Szczepańska-Woszczyzna, 2020; Tonidandel, Braddy and Fleenor, 2012; Tyrańska, 2016), review of literature pertaining to the specifics of management and development of small enterprises (Lachiewicz, 2019; Mieszajkina, 2020; Nakhata, 2007; Spinelli and Adams, 2016), previous empirical studies, and the author's own experiences emerging from long-term cooperation with entrepreneurs from the Lublin province.

Managerial competences were specified by means of the following manifest variables, strategic thinking, planning, development of an efficient organization, personnel management, development of internal communication, controlling, comprehensive analysis of the enterprise's situation, creation of innovation. Specialized competences were specified by manifest variables such as analysis of competition, building client relations, sales and marketing, HR and payroll administration, controlling and budgeting, production/ services efficiency assessment, market diagnosis, acquisition of financial capital, exploitation of IT tools. Personal and social competences were specified by means of the following manifest variables: entrepreneurship and creativity, focus on achieving objectives, readiness to learn, building relationships and openness to others, knowledge and experience sharing. Enterprise performance was expressed by means of the following: profit, salary level, investments, product/ service quality, number of clients, range of products, market share.

Each of the manifest variables was assessed by means of a 5-point Likert scale. As far as latent variables pertaining to competences are concerned, 1 denoted "very low level", 5 "very high level". For latent variable "Enterprise performance", 1 denoted "performance much lower than in the previous year", and 5 "performance much higher than in the previous year". Cronbach's  $\alpha$  was used in order to assess the reliability of the research tool. In general, any value above 0.7 is considered acceptable (Sarstedt and Mooi, 2014). In the present study, Cronbach's  $\alpha$  for all variables was higher than the threshold: managerial competences  $\alpha=0.868$ ,

specialized competences  $\alpha=0.851$ , personal and social competences  $\alpha=0.726$ , enterprise performance  $\alpha=0.812$ .

### 3.4 SEM Modeling

SEM modeling was performed with the application of the maximum likelihood (ML) method (Bedyńska and Książek, 2012). In accordance with the guidelines of the method, variables whose skewness and kurtosis ranged between [-1; 1] were selected for the model. The model features 29 manifest variables. This means that the ratio of cases to variables is approximately 17. The application of structural modeling requires that stringent methodological assumptions must be met. Among others, the assumptions include an appropriate sample size which corresponds to the number of variables. General guidelines for research recommend studies to be conducted on a minimum sample size of 200, and with at least 15-20 cases per one variable (Kline, 2011; Wolf *et al.*, 2013). The present study meets the requirements. It ought to be noted that variables selected for the model were not affected by missing data.

Therefore, there was no need to complete missing data by means of imputation methods when modeling was conducted (Konarski, 2009). This means that the current model is based exclusively on respondents' answers. The analysis offered statistically significant parameters ( $<0.05$ ) for the interaction of variables both in the measurement and structural model. All estimates in the structural part of the model are positive. Table 1 presents indices for the assessment of the model's quality.

**Table 1.** Selected indices of the model's quality

Index	Value
CMIN / DF	3.557
GFI	0.852
AGFI	0.826
NFI	0.797
IFI	0.846
CFI	0.845
RMSEA	0.071

*Source:* Own creation.

The RMSEA index (root mean square error of approximation) ranges from 0.05-0.08. This denotes satisfactory fit of the model. In addition, the GFI, AGFI, NFI, IFI and CFI indices are close to the threshold value of 0.9. As a consequence, the indices confirm a good fit of the model. Table 2 and Figure 1 outline the results of structural modeling.

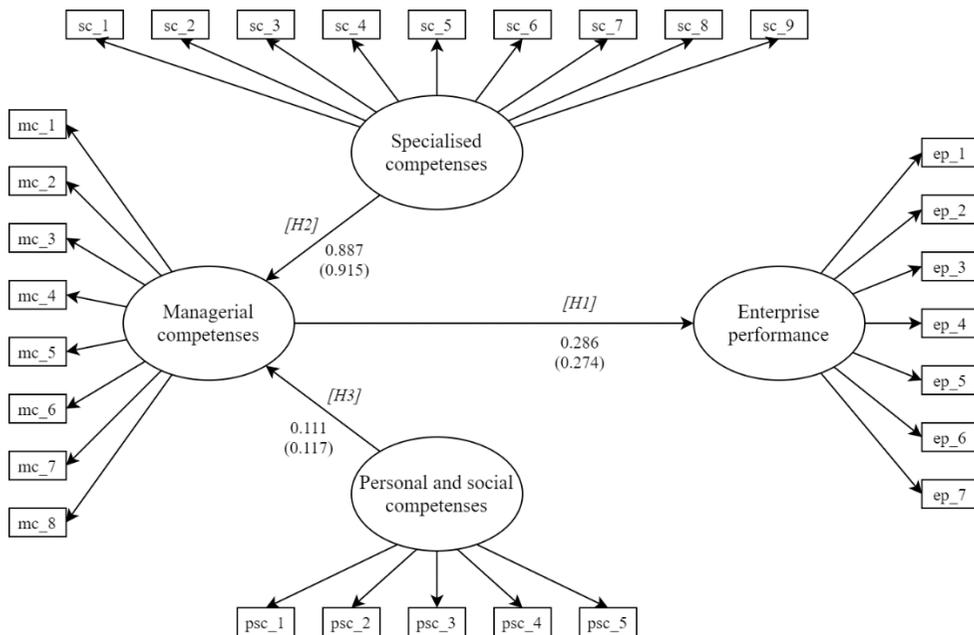
**Table 2.** List of estimated parameters of the model (standardized and non-standardized values)

Tested interaction	Interaction (non-standardized)	Interaction (standardized)
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	values)	values)
Specialized competences → Managerial competences	0.887	0.915
Personal and social competences → Managerial competences	0.111	0.117
Managerial competences → Enterprise performance	0.286	0.274

Source: Own creation.

Figure 1. Structural model - the impact of managers' competences on enterprise performance (standardized values)



Source: Own creation.

Modeling revealed a direct positive impact of specialized competences and personal and social competences upon the managerial competences of the management. These, in turn, exert a direct impact upon the performance of small businesses. The model explains approximately 85% ( $R^2=0.85$ ) of the variance for managerial competences variable and approximately 8% ( $R^2=0.08$ ) of enterprise performance. In addition, an indirect impact of specialized competences and personal and social competences upon enterprise performance was established (Table 3).

Table 3. Effects of indirect, direct and cumulative impacts of the individual types of managers' competences upon enterprise performance.

Impact effect	Specialized competences	Personal and social competences	Managerial competences
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Direct effect	0.000	0.000	0.286
Indirect effect	0.254	0.032	0.000
Cumulative effect	<b>0.254</b>	<b>0.032</b>	<b>0.286</b>
Standardized direct effect	0.000	0.000	0.274
Standardized indirect effect	0.251	0.032	0.000
Standardized cumulative effect	<b>0.251</b>	<b>0.032</b>	<b>0.274</b>

*Source: Own creation.*

The results of the analysis support the argument that there are no grounds on which the research hypotheses can be rejected:

$H_1$ - managerial competences exert a direct positive moderate impact upon the performance of small enterprises (0.274),

$H_2$  – the study revealed a significant positive impact of specialized competences upon the management's managerial competences (0.915). The impact is approximately eight times stronger than that of personal and social competences,

$H_3$  – the impact of personal and social competences of the management upon managerial competences is positive but low (0.117).

The analysis of the relationship between the competences of the management of small enterprises and enterprise performance indicates that the increase in the level of managerial competences by one unit improves the performance by 0.286; the increase in the level of specialized competences improves the performance by 0.254, and that of personal and social competences by 0.032 (cumulative effect, non-standardized).

#### 4. Conclusions

The results of the present study confirm that the competences of the management affect the performance of small enterprises. The impact is direct for managerial competences, and indirect for specialized competences and personal and social competences. The present findings correspond to the results emerging from the review of literature (Altinay and Wang, 2011; Orobia *et al.*, 2020; Nakhata, 2007). The relationship between the competences and performance is logical and natural: the higher the management's competences the better performance is to be expected (Filipowicz, 2019). The results of the study outlined in the present article revealed that the impact of the management's competences upon enterprise performance is not very strong in the Lublin province. This may prove competence deficiency among the management of the enterprises. However, it should be noted that the results are affected by other external and internal factors.

The present results may serve as practical recommendations for the day-to-day operation of small enterprises. Because enterprise performance is directly affected by managerial competences, the management should consolidate efforts to enhance these. As a consequence, businesses should expand knowledge and enhance skills

linked with the following: development of a vision of the future and cascading it to strategies and plans; methods of effective organization of activities, analysis and control of the enterprise's situation; means for developing the relationship of trust and cooperation; execution of the innovation process. Managerial competences should be enhanced by the acquisition of knowledge crucial for the delivery of tasks critical in the operation of the enterprise. In order to achieve a full synergy, an open to change, entrepreneurial and creative attitude should be developed. Such a systemic approach towards the development of the competences will enable the management of small enterprises to fully exploit endogenous and exogenous opportunities enabling enterprise performance to be improved.

The subject matter of the study is valid and attention-worthy. It would be worthwhile to apply the research model discussed in the article to assess another province/country characterized by a higher level of economic development than the one in the Lublin province. Another avenue for further research may be the comparative analysis of MSMEs of various sizes- micro and medium-sized businesses.

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