

## MANAGERS' COMPETENCE AS A FACTOR OF SME GROWTH

**Suvad Isaković, PhD**  
The Faculty of Economics, Zenica University  
Bosnia and Herzegovina

**Bahrija Umihanić, PhD, professor**  
The Faculty of Economics, Tuzla University  
Bosnia and Herzegovina

### ABSTRACT

*The paper deals with the nature of SME growth i.e. the aspiration of entrepreneurs and managers to find appropriate answers for the challenges of growth in different stages of the life cycle of a company. Besides the benefits they bring to owners, managers and employees, companies with high growth rate contribute to employment and economic development in a country. The results of many important researches used as a theoretical background of the paper, show that there is a disproportion between managers' aspirations regarding growth and their realization. Most managers fail to ensure companies' growth. The paper examines the reasons for their failure while a special prominence is given to managers' competences that are by a number of studies proved to be a key obstacle to SME growth.*

*The paper presents a part of the research results. The research was conducted on a sample which included 149 manufacturing SME. By the application of a mathematical model we identified 32 companies out of which 16 are with substantial growth potential whereas the other 16 do not show such a tendency. A sophisticated questionnaire, which included 285 questions in 10 groups, served as a basis for collecting data on growth indicators, managers' roles and other relevant features of managers' competence, in order to analyze the correlation between managers' competence and company growth. In data processing various scientific quantitative and qualitative methods were used in order to define key competences of successful managers. The research results enabled us to create a model of developing managers' competences called "competence diamond".*

**Keywords:** Managers' competences, growth of SME, competence diamond, enterprise life cycle

### 1. VARIOUS ASPECTS OF GROWTH AND DEVELOPMENT OF SMALL AND MEDIUM ENTERPRISES (SME)

A company's growth is a process of constant positive business activities of a company, analyzed from various aspects such as: financial, strategic, structural and organizational aspects [11; 1988]. Financial growth of a company is the increase in gross income, net profit and assets. Strategic growth of a company refers to the way a company reacts in its business environment, i.e. the way a company increases its competitiveness compared to the existing competition. Structural growth refers to the way a company is internally organized in terms of its management, i.e. in terms of responsibility, hierarchy communication and control system. Organizational growth monitors changes within a company with respect to the aspect of company's structure, organization culture, the role of entrepreneur and his/her style of managing the company.

Although Wickham sees the growth of a company from the aspects of variability of these factors, we believe that the aforementioned factors such as *strategic growth*, *structural growth* and *organizational growth* are actually the development of a company. It is a common occurrence that the terms "growth"

and “development” are used as synonyms although their meanings are semantically different. The term “development” means “a gradual change into more complex forms or more contemporary condition...” “Companies should differentiate between the right and wrong type of growth... any growth that, within a short period of time, results in a total increase in the productivity of a company’s resources is a healthy growth”. [3; 2006]

During their life cycles, small and medium enterprises face numerous problems that directly or indirectly affect their growth. The most frequent problems that companies face are given as follows: finances, market, management, insufficient knowledge, negotiation power of buyers or suppliers, and strategic orientation. As a company grows it creates the need for expanding management functions within it. Flexibility, ability to adapt to changes, is a key feature of small and medium enterprises. [8; 2005]

## **2. MODELS OF SME GROWTH**

In order to explain the phenomenon of company’s growth, many authors have been trying for decades to examine cause-effect relations of activities in a company. It is precisely under the influence of these relations that the company transforms its organization in executing business activities. Every growth model that has been issued has a hypothesis that companies, from the moment of their establishment, are exposed to dynamic changes. The ways company’s management reacts to such changes largely determine whether the company will be transformed into a form which will enable growth.

The literature presents various models of company’s growth. Some of them have been created on the basis of empirical research and some on the basis of theoretical research. All models of company’s growth are based on the life cycle of a company and they are divided into various stages. Greiner [6; 1972] presented a model of growth through five stages of company’s life cycle. According to this author, each stage of the life cycle begins with a relatively stable growth, which is followed by “a crisis” during which dynamic changes occur. The reaction of managers or company’s management is crucial in overcoming “a crisis” that happens every time a company passes from one stage of its life cycle into another. Galbraith’s model of company’s growth includes five stages of company’s life cycle [4; 1982]. The author developed this model while analyzing the high-technology companies and he divided it into five stages: proof of principle stage; prototype stage; model-shop stage; start-up volume production stage and natural growth stage. Miller and Friesen created their model of company’s growth which also includes five stages. They are: birth, growth, maturity, revival, and decline [9; 1984]. The model set by Churchill and Lewis, under the name The Five Stages of Small Business Growth includes the following stages: existence; survival; success, sub-stage III-D, sub-stage III-G; growth; and maturity [2; 1983]. Quinn and Cameron divided the growth of a company into four stages: entrepreneurial stage, collectivity stage, formalization and control stage, and structure-elaboration stage [10; 1983]. In our opinion, organization life cycle given by Adizes is the most detail representation of a company. His growth model has stages: courtship, infancy, go-go, adolescence, prime, stability, aristocracy, recrimination, bureaucracy, and death.

## **3. KEY FEATURES OF MANAGERS' COMPETENCE**

Managers’ competencies as a set of specific abilities, knowledge and skills have their characteristic features that determine their purpose. Bennis mentions four features of competencies that company managers ought to develop: (1) becoming a visionary and inspiring people to look to the future; (2) learning how to effectively communicate your vision; (3) building trust “necessary for the function of organizations” (4) believing in yourself [1; 1997].

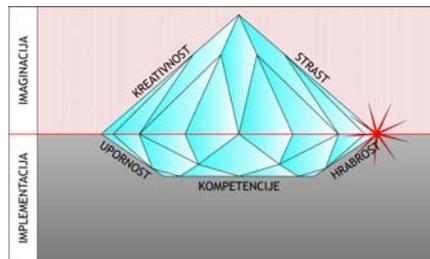
Other authors attach various levels of importance to managerial competencies. Goleman states that “in the relation of importance, each competence from emotional intelligence builds its own meaning but human relations and empathy skills are critical to success in some aspects of leadership” [5; 2002]. There have been many researches in traits of successful managers for a long time. The research with a special battery of tests, which included 2000 random sampled managers, showed that competent managers have the following characteristics: high IQ; high level of social leadership and social ability; high level of self-confidence; objectivity in the perception of oneself and others; high level of tolerance towards others; high interest in recognition and economic development; strong orientation towards goals.

In the empirical research of managers' competencies we will focus of the following factors: knowledge, abilities and skills. These factors represent key features of competencies.

#### 4. KEY MANAGERS' COMPETENCIES NECESSARY FOR SME GROWTH IN BOSNIA AND HERZEGOVINA FEDERATION

The empirical research in the influence of managers' competencies on the growth of small and medium enterprises in Bosnia and Herzegovina Federation (BiH Federation) was conducted on a stratified sample of N=200 manufacturing small and medium enterprises and their managers in BiH Federation [7; 2010]. The sample of companies for the research was created by a selection from a register of companies issued by the Central Bureau of Statistics of BiH Federation. The number of SME by cantons was selected according to the principle of a stratified sample, with all ten cantons in BiH Federation as strata. In order to achieve a representative quality of the stratified sample, SME number was selected approximately on the basis of a proportional number of inhabitants in these cantons. A questionnaire with 285 questions divided into ten groups was used as the research instrument. After the survey of manufacturing SME, the control of the questionnaire revealed that in 51 companies (out of 200) more than 50 percent of the total income in the last three fiscal years comes from trading or services. This is why our research was continued on a sample of 149 companies. The questions were explained in accordance with the general goal of the research, which was: *To create a model of developing managers' competencies, based on the results of the research in the cause-effect relations between the competencies of top-level managers and SME growth in BiH Federation.*

After the research results have been synthesized, we claim that managers' efficiency, besides the competencies, also includes special traits of a manager. They are: creativity, passion, courage and persistence. These factors, which, by their balanced development, make managers' efficiency, can be arranged into a diamond shape, as in the Picture 1.



Picture 1 Competence diamond

Manager's success depends on a balance arranged in a shape of diamond, which includes the set of competencies and traits of a manager- The Picture 1. presents a diamond divided into two zones: (1) imagination, which includes creativity, passion, courage and persistence of a manager and (2) implementation in which a manager, who, driven by passion, bravely takes risks and integrates competencies as his/her own knowledge, skills and abilities. However, the final realization requires persistence and self-confidence of a manager. In other words, within the defined zones of imagination and implementation, a manager uses his/her competence that includes a set of factors: (1) personality; creativity, passion, courage and persistence; (2) flexibility; skills and abilities; (3) control; knowledge.

#### 5. CONCLUSION

The analysis of theoretical and practical models of growth and competence of managers in SME in BiH Federation resulted in the identification of elements that are the key competencies of managers necessary for SME growth. The key elements of competence include: (1) **creativity** by which a manager uses a special and original approach to generating ideas, creating a vision, resolving issues and performing other managerial activities; (2) **passion**, that gives life to generated ideas and constantly encourages a manager to be more vigorous in the implementation of the generated ideas; (3) **courage** which, encouraged by passion, releases creativity which then can pass from the imagination into the implementation zone; (4) **competencies**, including knowledge, skills and abilities

of a manager, without which a creative idea would never get a final form; (5) **persistence** which helps a manager to always move forward despite numerous obstacles.

Any competence element below a certain level causes disbalance thus creating a deformation of a diamond shape. This is the best way to show that the potential for SME growth is reduced.

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