The Influence of Managerial Capabilities Problem on a Firm Growth

Charles I. Uche, Ph.D
Department of Public Administration, College of Management and Social Sciences.

Abstract
This present study attempts to provide empirical evidence on the influence of managerial capacity problem on a firm growth. It specifically investigates how managerial capabilities relate to the firm growth in private institutions of higher learning in Nigeria. The aspect of managerial capacity considered in this study is the competencies, abilities and firm knowledge. Towards this end, a cross-sectional design with questionnaire survey on 50 employees comprising both academic and non-academic administrative staff of Odudua University, Ipetumadu, Osun State, Nigeria was conducted. Self-administered questionnaire procedure was adopted to obtain data pertaining to managerial capabilities and firm growth from the participants. Regression analysis was used to examine the proposed relationship and it was found that finance-fund is significantly related to business performance of the private universities as hypothesized. Discussion on the findings is highlighted, so as the implications for practice and future research. Limitations of the study are also offered.

Keywords: Managerial Capacity; Competencies; Knowledge; Firm Growth; Odudua University.

1. Introduction
Practically speaking, every firm across the globe has the tendency to growth. In other words, no firm wants to remain in its start-up stage for a long period of time. As a firm goes about its routine activities, it recognizes opportunities that would enable it to grow. Firm growth is described as the expansion of the firm. Firm growth comes with challenges or called it problem. It is unfortunate that firms are not always prepared or able to grow, due to lack of limited “managerial capacity” which is required to handle the firm growth to success (Barringer & Ireland, 2012).

Another major problem to organizational performance in Nigeria as observed is the lack of distinctive capabilities. It has been observed that many business organisations in Nigeria particularly those in the manufacturing sector lack distinctive capabilities (e.g. technological capabilities). This is true due to the absence of many Nigerian listed manufacturing companies in the global economic environment. The global competitiveness and global economic environment have been used to judge companies with distinctive capabilities (Ngo & O’Cass, 2012). To Ngo & O’Cass (2012), companies with distinctive capabilities are international players which have been able to differentiate themselves from their competitors. They found that there is a strong correlation between resource-capabilities of a company and its performance. However, they noted that there is lack of research in this area and therefore, called for more research in the area of resource-capabilities at the organizational level of the business. The study by Bolívar-Ramos, García-Morales, Mihi-Ramírez (2011) noted that organizational capabilities are very relevant to the performance of the organization yet there is little research on organizational competencies/capabilities. They argued that the introduction and adoption of new technologies would enhance organizational performance especially in turbulence environment such as Nigerian business environment. Hence, additional empirical studies are still required particularly in other research environment (Bolívar-Ramos, García-Morales & Mihi-Ramírez, 2011). Liu & Lin (2009) affirmed that it is the developmental capabilities of the Taiwanese shoe firms’ manufacturing that make them to achieve success at the early years. Accordingly, Beck & Wiersema (2013) concur that the dynamic managerial capabilities of the organization is responsible for differences in performance.
outcomes. Literature review has shown that authors (e.g. Liu & Lin, 2009; Beck & Wiersema, 2013) have made attempts on many areas of capabilities such as managerial capabilities, technological capabilities etc., however, there are still limited attempts on specific capability such as managerial capabilities of the organization which is of concern to this present study. Accordingly, despite the agitation of previous researchers that organization performance is improved by distinctive competences, it has been proved otherwise by some studies (e.g. Man & Wafa, 2008) conducted on the relationship between competence and performance of small and medium enterprises. For instance, Man and Wafa (2008) on the relationship between distinctive capability and performance of small and medium-size enterprises in Malaysia found that there is no significant relationship between distinctive capability and performance of SMEs. Thus, there is need to investigate the relationship between resource capabilities and the organizational performance.

2. Literature Review

2.1 Linking Managerial Capability and Firm Growth

According to Bakar et al. (2009), the term capabilities can be seen in various ways and emphases within an organization. For instance, managerial capabilities, marketing capabilities, technical capabilities, technology capabilities, R & D capability, production and manufacturing capability and marketing capability cannot be under emphasized in the role of firm growth as well as firm’s technology (Meyer & Utterback, 1992).

Managerial capability is described as one of firms’ resources that lead to differences in organizations performance outcome (Beck & Wiersema, 2013). In other words, it is the resources that enable the firms to handle its growth or business expansion (Barringer & Ireland, 2012). Distinctive competencies also regarded as capabilities are suggested by previous literatures in strategic management as one of the resources of organization’s competitive advantages. The theoretical background of distinctive capabilities as source of competitive advantages could be traced back to the early work of Selznick (1957) and Hitt & Ireland (1985). According to Leonard-Barton (1992) in laying emphasis on the importance of knowledge in an organization, capability was considered as a complex system which constitute of employee skills and learning, and the technology system, managerial system, and value system of the organization. Hamel & Prahalad (1994) differentiate among the market-access capabilities, integrity-related capabilities and functionality-related capabilities. Managerial capabilities are also part of the broader concept of distinctive capabilities which include managerial capabilities, marketing capabilities, technical capabilities, technology capabilities etc.

According to Prahalad & Hamel (1990), managerial capabilities constitute organizational skills and knowledge that are unique with knowledge driven and behavioral routines that contributes to competitive advantage. Distinctive competencies are developed through entrepreneurial process such as opportunity recognition, creative process and innovation (Kuratko & Welsch, 2002). Also, (Bakar et al., 2009) referred to managerial capabilities are the collective knowledge, skills and resources that are added to the market related needs of organization to add values to the goods and services of the organization in order to meet with those of the competitors and customers’ demand.

Empirically a relationship exists between a firm managerial capabilities and its growth which is related to the firm overall performance. Yavitz & Newman (1982) opined that distinctive competence in corporate organization such as R&D, outstanding executives and organization centralized marketing can yield understanding among the separate business units within the organization, and these competences take place through the development of certain activities among the related business units of the organization (Hitt & Ireland, 1985). For example, marketing unit of business can form competences by laying emphasis on the pricing strategies and advertising activities of the unit. It is suggested by Kiechel (1982) that the deficiencies of the organizational portfolio management approach is still amendable which have tendencies of resulting into cautious and controlled behaviours which can ignite innovation in organization.

Hamel & Prahalad (1994) differentiate among the market-access capabilities, integrity-related capabilities and functionality-related capabilities. According to Hall (1994), it was believed that those functional, cultural, positional and regulatory capabilities wholly constitute to the main competencies of an organization and define the competitiveness of the organization. In an empirical investigation conducted by Spanos & Lioukas (2001), it was proposed that the peculiar firm assets include organizational capabilities, marketing capabilities and technical capabilities affect organizational performance. Evidences from researches have revealed a decline in organizational performance as a result of portfolio management approach (Hitt & Ireland, 1985) however, Yavitz & Newman (1982); Baker et al. (2009); Edgar & Lockwood (2011) proclaimed that improvement in performance of separate business organization has been linked to the corporate level distinctive competences. Newly developed business organization has benefited greatly from the organizational corporate level distinctive competence which occurs through the development of executive personnel’s and assigning power to those critical units of business and through allocation of organizational resources.

Despite the agitation of previous researchers that organization performance is improved by distinctive competences. This was proved otherwise by some studies conducted on the relationship between competence and performance of small and medium enterprises. Man & Wafa (2008) on the relationship between distinctive capability and performance of small and
medium-size enterprises in Malaysia found that there is no significant relationship between distinctive capability and performance of SMEs.

2.2 The Theoretical Background: The Competency-Based Theory Perspective

To adequately understand the relationship between the independent and dependent variables in this study, the competency-based theory (CBT) and personality or trait theory were utilised. These theories are very popular in the academic domain and are widely applied in the area social sciences and management studies (Schilling and Koetting, 2010). The competency-based theory emphasizes on the importance of characteristics and competence on performance and effectiveness (Schilling and Koetting, 2010). Adopting the competency-based theory, the theoretical paper by Sahan (2009) reports that competence is a prerequisite to competency-based-teacher education theory. He argues that competencies are linked to all areas of performance in which performance can be assessed (Sahan, 2009). He further notes that due to the fact that competencies are observable constructs, they can be measured and assessed from the performance of an individual or firms. Similar to this is the trait theory which posits that individual as well as firms perform well due to their internal traits which are viewed as hereditary. Therefore, firm growth is as a result of its characteristics or traits. The Psychology Theory assumes that there are some distinguished psychological and demographic characteristics that firms or individual should possess for effective growth and performance (Cherry, 2012). Adopting this theory into the leadership domain, Robbins and Judge (2007) argue that trait theory differentiates leaders from non-leaders by focusing on their personal characteristics, qualities or attributes. Therefore, the theory tends to differentiate between leaders and non-leaders by looking at their personal or individual characteristics. In this study, this theory is adopted to demonstrate that firms’ characteristics such as competencies and knowledge are crucial in managing firm’s growth at all levels. It is assumed that when firm possess the capabilities such as competencies and knowledge, it has a high tendency of handling its growth, no matter the size and nature of the growth it experienced. Thus, the use of this theory in this study is justified. In view of the above discussions and in line with the research framework, the study advanced the following hypothesis:

**Hypothesis 1:** Managerial capabilities affect firms’ growth.

**Hypothesis 1a:** competence affects firm growth

**Hypothesis 1b:** knowledge affects firm growth

3. Methodology

3.1 Research Design

Experience has shown that research design for any study is best determined by the nature of the construct or variable being investigated. For instance, emotional and behavioural constructs may favour experimental design with qualitative approach while finance and performance constructs would suit cross-sectional research design with quantitative approach. Thus, this study adopts a cross-sectional research design technique with a quantitative research approach of survey questionnaires. Lucky (2012) asserted that both cross-sectional design and quantitative survey research approach are suitable in a social science study like this. It is faster and easier in terms of gathering information within a limited time.

3.2 Population and Sampling Technique

Our population covers all those academic and non-academic staff who are in administrative positions in Oduduwa University, Ile-Ife, Osun State, Nigeria.
For the sampling technique, the study employed census sampling technique to collect data from the respondents. The sampling technique becomes important whereby a survey covers the total population. This is mostly done where the population of the study is very small in size (Rani, 2012). Under this technique, every item or unit or respondent constituting the universe or population is selected for data collection due to the small population size (Rani, 2012). Finally, due to the census nature of the population, the sample size is 50.

3.3 Instrumentation
This study covered two major variables; managerial capabilities and firms’ growth. Managerial capabilities was measured using two (2) dimensions (competencies and knowledge of the firm) of six items adapted from Lucky & Yusoff (2015). The items reflect competencies and knowledge of the firm etc. Similarly, firm growth was measured using five (5) items adopted from Murphy, Trailer & Hill (1996). The items reflect growth performance of the firm. All items in the scale were measured on a 5-point Likert-scales (1= strongly disagree, 5= strongly agree).

3.4 Data Collection Procedure
A survey questionnaire through self-administered procedure was employed to distribute, gathered information and retrieved back the questionnaires from the participants. In all, a total of 50 questionnaires were distributed to the respondents who are drawn through purposive sampling technique (Lucky & Yusuff, 2015), however, only 43 usable responses were retrieved, represent 86%. The recommended response rate by the American Association for Opinion Research (AAPOR) in social science studies as reported by Lucky & Yusuff (2015); Lucky (2013); Johnson & Owens (2003) is 32.6%. Therefore, the response rate of 86% achieved in this study is considered good.

4. Data Analysis and Results
4.1 Descriptive Analysis Result
This was conducted using the descriptive analysis. The result of the descriptive analysis indicates that majority of the respondents representing 30.2 percent are between the ages of 31-35, 25.5 percent are between the ages of 41 years above while the remaining are less than 30 years and between 36-40 years, representing 23.3 percent and 20.9 percent respectively. For the gender, it shows that majority of them representing 65.1 percent are male while the rest of them are female with 34.9 percent. Also, for the marital status, it revealed that quite greater percentage of them, 67.4 percent are married while the remaining 32.6 percent are single. The result shows that all the participants are from 7 departments namely; administrative, Library, Legal, College of Management and Social Sciences (CMSS), College of Natural Sciences (CNASS), College of Environmental Design and Management (CEDM), Exams and Record and Bursary. Majority of the respondents representing 23.3 percent is from CMSS, 18.8 percent is from administrative, 11.6 percent is from library and exams and records departments respectively. Lastly, for the years in the organization, majority of them representing 60.5 percent have spent between 1-2 years with the organization, 20.9 percent has spent between 3.4 years, 16.3 percent has spent between 5-6 years while 2.3 percent has spent 7 years and above with the organization. Table 1 below depicts the result.
Table 1: Descriptive Analysis Result

<table>
<thead>
<tr>
<th>Demographic Variables</th>
<th>Frequency</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Age:</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>&lt;30</td>
<td>10</td>
<td>23.3</td>
</tr>
<tr>
<td>31-35</td>
<td>13</td>
<td>30.2</td>
</tr>
<tr>
<td>36-40</td>
<td>9</td>
<td>20.9</td>
</tr>
<tr>
<td>41 and above</td>
<td>11</td>
<td>25.6</td>
</tr>
<tr>
<td><strong>Gender:</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Male</td>
<td>28</td>
<td>65.1</td>
</tr>
<tr>
<td>Female</td>
<td>15</td>
<td>34.9</td>
</tr>
<tr>
<td><strong>Marital Status:</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Single</td>
<td>14</td>
<td>32.6</td>
</tr>
<tr>
<td>Married</td>
<td>29</td>
<td>67.4</td>
</tr>
<tr>
<td><strong>Departments:</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Administration</td>
<td>8</td>
<td>18.6</td>
</tr>
<tr>
<td>Library</td>
<td>5</td>
<td>11.6</td>
</tr>
<tr>
<td>Legal</td>
<td>2</td>
<td>4.7</td>
</tr>
<tr>
<td>CMSS</td>
<td>10</td>
<td>23.3</td>
</tr>
<tr>
<td>CNASS</td>
<td>6</td>
<td>14.0</td>
</tr>
<tr>
<td>CEDM</td>
<td>3</td>
<td>7.0</td>
</tr>
<tr>
<td>Exams and Record</td>
<td>5</td>
<td>11.6</td>
</tr>
<tr>
<td>Bursary</td>
<td>4</td>
<td>9.3</td>
</tr>
<tr>
<td><strong>Years in Organisation:</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1-2</td>
<td>26</td>
<td>60.5</td>
</tr>
<tr>
<td>3-4</td>
<td>9</td>
<td>20.9</td>
</tr>
<tr>
<td>5-6</td>
<td>7</td>
<td>16.3</td>
</tr>
<tr>
<td>7 and above</td>
<td>1</td>
<td>2.3</td>
</tr>
</tbody>
</table>

4.2 Factor Analysis

In checking for the construct validity of the instruments to determine whether each item is able to measure what they intend to measure, a confirmatory factor analysis was conducted using SPSS with the principal component analysis and a varimax rotation. A minimum loading factor of 0.4 was required for each item to be included in any factor in this study (Minai & Lucky, 2011; Lucky & Minai, 2012) while the Eigenvalue for all factors are greater than 1. The factor analysis result for the managerial capabilities variable shows that all the six items subjected to the factor analysis met the loading limit of 0.4. The six (6) items accounted for 56.57% of the variance with a KMO of .84. For the firm growth, the result indicates that all the five (5) items subjected to factor analysis loaded in to the factor. The five items also accounted for about 48.3% of the variance with a KMO of .67. All the results are represented in Tables 1 and 2.
Table 1: Factor analysis Result for Managerial Capabilities Variable

<table>
<thead>
<tr>
<th>Component</th>
<th>1</th>
</tr>
</thead>
<tbody>
<tr>
<td>MCAP4</td>
<td>.861</td>
</tr>
<tr>
<td>MCAP2</td>
<td>.835</td>
</tr>
<tr>
<td>MCAP3</td>
<td>.805</td>
</tr>
<tr>
<td>MCAP6</td>
<td>.699</td>
</tr>
<tr>
<td>MCAP1</td>
<td>.689</td>
</tr>
<tr>
<td>MCAP5</td>
<td>.594</td>
</tr>
</tbody>
</table>

Percentage of variance explained (%) 56.73
Kaiser-Meyer-Olkin .815
Bartlett’s test of sphericity approx. chi square 97.249
df 15
Significance level .000

Table 2: Factor analysis Result for Firm Growth Variable

<table>
<thead>
<tr>
<th>Component</th>
<th>1</th>
</tr>
</thead>
<tbody>
<tr>
<td>FGROWTH1</td>
<td>.796</td>
</tr>
<tr>
<td>FGROWTH3</td>
<td>.727</td>
</tr>
<tr>
<td>FGROWTH2</td>
<td>.720</td>
</tr>
<tr>
<td>FGROWTH4</td>
<td>.689</td>
</tr>
<tr>
<td>FGROWTH5</td>
<td>.524</td>
</tr>
</tbody>
</table>

Percentage of variance explained (%) 48.57
Kaiser-Meyer-Olkin .669
Bartlett’s test of sphericity approx. chi square 45.588
df 10
Significance Level .000

4.3 Standard Deviation, Correlation and Reliability Results for the Variables

A reliability test as well as correlation analysis was also conducted on the questionnaire items used in the measurement of the variables. As indicated in Table 5, the result represents the means, standard deviation, correlation and the internal reliability value (Cronbach Alpha) among variables. The Cronbach Alpha results indicate .84 for the managerial capabilities and .72 for firm growth. The correlation analysis result failed to confirmed the hypothesis that managerial capabilities are associated to firm growth.
Table 3: Mean, Standard Deviation, Correlation and Reliability Results for the Variables

<table>
<thead>
<tr>
<th>S. No.</th>
<th>Variables</th>
<th>M</th>
<th>SD</th>
<th>1</th>
<th>2</th>
<th>Cronbach α</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Managerial capacities</td>
<td>3.5853</td>
<td>.85246</td>
<td>1</td>
<td></td>
<td>.840</td>
</tr>
<tr>
<td>2</td>
<td>Firm growth</td>
<td>3.9395</td>
<td>.68942</td>
<td>.090</td>
<td>1</td>
<td>.723</td>
</tr>
</tbody>
</table>

Note: **Correlation is significant at the 0.01 level (2-tailed); N=43

4.4 Regression Analysis

As mentioned earlier four hypotheses were generated for this study. These hypotheses were tested using standard regression analysis. The standard regression analysis is used to determine what proportion of the variance in the dependent variable is explained by the independent variables when these variables are entered into the regression analysis (Cramer, 2003). As shown in Table 5, the independent variable otherwise referred to as managerial capabilities managed to explain significantly 0.8% of the variance in business performance with $\beta = .008$, $p < .01$, thus failed to support the hypothesis. In other words, managerial capabilities did not appear to statistically significantly influence the firm growth.

Table 5: Results of Standard Regression Analysis

<table>
<thead>
<tr>
<th>R</th>
<th>$R^2$</th>
<th>Adjusted $R^2$</th>
<th>Beta</th>
<th>F value</th>
<th>t</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td>.090</td>
<td>.008</td>
<td>-.016</td>
<td>.90</td>
<td>.335</td>
<td>.579</td>
<td>.566\textsuperscript{ns}</td>
</tr>
</tbody>
</table>

ns=not significant; s=significant; dependent variable=Business performance

5. Discussions, Implications and Conclusions

Through the investigation of managerial capabilities that relate to the firm growth of new business in which 42 participants were contacted, the present study revealed insights into the managerial capabilities of Oduduwa University in relation to its business growth. After a consideration of the limitations of this study, we discuss key findings from managerial capabilities and firm growth framework. We then discuss implications for practice and recommendation for future research.

Overall, contrary to the hypothesis developed, managerial capabilities in terms of competence and knowledge is found not to be significantly related to growth of the Oduduwa University. Thus, the study failed to find support for the influence of managerial capabilities on the firm growth of Oduduwa University. This result indicates that Oduduwa University growth over the past few years is not related to its managerial capabilities. In other words, it suggests that its managerial capabilities match the University growth. It further indicates that the growth of the university did not create any managerial capabilities problems for the university. The finding supports the previous attempt by Man & Wafa (2008) on the relationship between distinctive capability and performance of small and medium-size enterprises in Malaysia, affirmed that there is no significant relationship between distinctive capability and performance of SMEs.

One plausible explanation to the insignificant of managerial capabilities on the firm growth could be that one employee is meant to carry out many tasks even beyond his/her job description. Another thing could be that the respondents who are mainly from the Oduduwa University did not honestly responded to the questionnaire, an attempt to protect the University because in the practical sense of it as indicated by observation, the organization may be experiencing managerial capabilities problems as it struggles to contain its growth with the current managerial capacities.

Furthermore, the finding contrary the previous studies by Yavitz& Newman (1982); Baker et al. (2009); Edgar & Lockwood (2011) who claimed that improvement in performance of business organization is linked to the corporate level distinctive competences. Edgar & Lockwood (2011) proclaimed that improvement in performance of separate business organization has been linked to the corporate level distinctive competences. Also, Yavitz& Newman (1982) opined that distinctive competence in corporate organization such as R&D, outstanding executives and organization centralized marketing can yield understanding among the separate business units within the organization, and these competences take place through the development of certain activities among the related business units of the organization.
Practically speaking, the finding of the present study has an important implication especially for the Oduduwa University and its employees. First it provides direction for managing growth for the organization and the need to assign specific task to specific employees rather than multiple tasks for single employee.

5.1 Limitation of the Study and Recommendation for Future Study

We believed that a mixed methods study with both quantitative and qualitative data provide a better understanding of our research problem than the single quantitative data used this present study. Also, the use of mixed methods would equally provide an alternative perspective in this study. The mixed method would help the future researchers in this area of study to build on the strengths of both quantitative and qualitative data thereby by providing robust results. In essence, more data is needed to extend, elaborate on, or explain the initial data employed in this study. Therefore, we suggest that future study should develop a more in-depth understanding of how the managerial capabilities would influence the firm growth of Oduduwa University. The study believe that the use of an in-depth study approach such as face-to-face interview would allow the respondents to provide honest responses that would improve the finding of this present study.

Finally, the data represented only those employees in administrative positions or performing one administrative task or the other in Oduduwa University without taking into consideration other employees and students in the University. It is possible that there could bedifferent patterns of relationship emerging in different business and management departments in the university. Apart from that, the study gathered only 43 usable responses; a larger usable response say more than 150 respondents would have given the power to generalize.

5.2 Conclusion

In conclusion, the study has provided additional insight into the managerial capabilities problem that affects the business or firm growth particularly in Oduduwa University. Practically speaking, finding for this study has succeeded in providing empirical evidence that managerial capabilities in the form of competence and knowledge may not relate firm growth or growth of the Oduduwa University and this contradicts the competence-based theory by Schilling &Koetting (2010) which posited that competence and knowledge affect performance.

Overall, the present study concludes that managerial capabilities affect firm growth in an idea business organization where individual is responsible to specific task or carry out specific task but not in the case of Oduduwa University where individual carry out multiple tasks meant for more than two or three individuals.

References:


