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## The Impact of Personality and Competence of Leaders on Business Success

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**Abstract:**

**Purpose:** This article aims to identify leaders' personality and competence traits that determine success for Polish small and medium-sized enterprises.

**Design/Methodology/Approach:** Empirical data are selected from an experimental survey conducted by the Statistics Poland from December 2017 to January 2018 as part of the Determinants of Entrepreneurship Developments in the SMEs Sector project. We used 20959 surveys of enterprises in which the leader (an owner or a manager) played a dominant role. To test the dependence of measures of success (selected aspects of changes in enterprises) and assessments of the importance of personality and competence features of leaders, we built appropriate contingency tables and used the Pearson chi-square independence test. We also applied logistic regression and calculated the appropriate odds ratios.

**Findings:** When estimating logistic parameters, we obtained a model with five statistically significant variables: beliefs about the possibility of achieving set goals; high aspirations and constant search for new challenges; passion and commitment; fluency in foreign languages; and knowledge of the company's market.

**Practical implications:** The results of this research suggest for enterprises a need for pro-development activities in the field of managerial competencies.

**Keywords:** SMEs, success, leaders' personality and competence, logistic regression.

**JEL classification:** J28, J53, M54.

**Paper Type:** Research study.

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## 1. Introduction

One of the most important aspects of regional development is the development of entrepreneurship and competitiveness of enterprises in the SME (small and medium-sized enterprise) sector, which provide, among other things, an ability to adapt to changes in the economy, the creation of new jobs, the development of a competitive advantage, and effectiveness of achieving goals (success in the market). Hence the tasks and activities related to providing appropriate conditions for the development of entrepreneurship (treated as a regional development factor) are listed in most contemporary binding strategic documents, regional or national development strategies, or operational programs that implement development goals in the country or region within the EU budget.

The success of SMEs can be described with various measures. It is a complex, multifaceted, and interdisciplinary issue. In the economic dimension, one can identify the research stream in which entrepreneurship is defined by the results of activities and the effectiveness of activities. The stream includes scientific studies building on Knight (1921), according to which risk is a category pertaining to entrepreneurial activity and entrepreneurship means the profit received for bearing uncertainty and risk, and studies following Cole (1959) that identify entrepreneurship with targeted activities aimed at setting up and developing a profit-oriented company<sup>4</sup>. Measures of entrepreneurial success include employment growth, increase in revenues, an equity, profits, increase in market share, and improvement of the competitive position (Baron 2007; Chandler and Hanks 1993; Entrepreneurship Indicators Program).

As with business success, there are many determinants of business development and achieving success and understanding them requires an interdisciplinary approach. Several studies address the importance of various factors underlying enterprises' success. In addition to the external determinants of enterprises' operation, including the local and institutional environment, such studies analyze internal conditions, including those related to the systems and methods of unit management, the personal and personnel aspects of strategic planning, and the role of the leader of the enterprise (the owner or manager responsible for directing enterprise development, undertaking key activities, and initiating new ventures).

Research confirms the importance of the personality and competence features of a leader for the company's development processes and its success. Some studies particularly stress the role of managerial personality traits (Kiggundu 2002; Zoysa and Herath 2007; Street and Cameron 2007, Jokinen, 2004; 2005), especially risk-taking, risk-recognition skills, belief in ability to achieve goals (Maciel and

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<sup>4</sup>See Hébert R.F. and Albert N. Link A.N. (2007), "Historical Perspectives on the Entrepreneur", *Foundations and Trends® in Entrepreneurship*, Vol. 2, No. 4, 261-408.

Camarago, 2010), firmness (Leaptrott and McDonald, 2008), and motivation, perseverance, and sacrifice (Yukl, 1994; Suryanto *et al.*, 2017).

Scientists attribute great importance to experience and competencies that include knowledge, skills, and entrepreneurial abilities (Dunne, Klimek, and Roberts 2005; Crook *et al.*, 2011; Mitchelmore and Rowley 2010; Kiggundu, 2002) According to Herron and Robinson (1993), training, education, employers' experience, and other demographic variables are important factors influencing entrepreneurial competencies. Enterprises with managers highly competent at entrepreneurship find it easier to exploit emerging business opportunities and to improve their competitive position (Covin and Miles, 1999).

Some analyses find a positive correlation between managers' international professional experience and organizational and economic benefits to companies (Black *et al.*, 1999; Carpenter *et al.*, 2000; 2001). In the global context as indicated, by Jokingen (2005), it seems that technical knowledge, factual knowledge, and customer or shareholder orientation garner much less attention than "soft" features such as self-awareness, self-control, flexibility, and social skills. So-called "core global-leadership competencies" include self-awareness, commitment to personal transformation, and inquisitiveness.

In general, the presented results of analyses were based on empirical studies carried out on few samples with a small number of observations (Sarwoko, Surachman, and Hadiwidjojo, 2013; Laguna, Wiechetek, and Talik, 2012), in terms of the selected region or for selected business activities for example, among small-business owners distributing clothing in Brazil, Parana (Maciel and Camarago, 2010) among SMEs in Malaysia (Ahmad *et al.*, 2010) among restaurant managers in the metropolis of Calabar, Nigeria (Umeze and Ohen, 2015).

This article aims to assess the significance and the impact of development of selected enterprise features and behaviors in SMEs based on Polish SME entrepreneurs' opinions, obtained on a mass scale. It also attempts to determine how the selected variables concerning leaders' characteristics and behaviors influence their chance of business success.

## **2. Methodology and Data Sources**

We select our data from an experimental survey conducted by the Statistics Poland (Central Statistical Office, CSO) in Poland from December 2017 to January 2018 as part of the Determinants of Entrepreneurship Developments in the SMEs Sector project<sup>5</sup>. The subject of the survey was enterprises from the nonfinancial<sup>6</sup> sector

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<sup>5</sup>*Determinants of the Entrepreneurship Development in the SMEs Sector implemented in 2017–18 by Statistics Poland under the project Support of Monitoring System of Cohesion Policy in the Financial Perspective 2014–2020 as Well as Programming and Monitoring*

employing 10 to 249 workers (that is, small and medium-sized enterprises). This was the first comprehensive and massive-scale effort undertaken to examine the determinants of business success. The CSO conducted the survey using an electronic form via the CSO Reporting Portal, with the support of interviewers (employees of statistical offices). In total, the sample included 43389 enterprises, though this article only considers the 20959 surveys of enterprises in which the leader (the owner or manager responsible for directing the company's development, implementing key activities, and initiating new ventures) played a dominant role. The firms participating in the survey are important representatives of the Polish SME sector and are profiled in Table 1.

**Table 1.** Profile of SMEs participating in the study

Factor	Enterprise has leader in dominant role	Other enterprises
Total number of respondents	20959	22420
% of total	100.0	100.0
<u>Size class</u>		
small (10–49 employees)	80.3	80.1
middle (50–249 employees)	19.7	19.9
<u>Years in operation</u>		
less than 3 years	3.9	4.1
3 or more years	96.1	95.9
9 or more years	77.0	75.9
<u>Principal activity (NACE 2007)</u>		
manufacturing (section C)	29.2	27.1
construction (section F)	13.5	11.0
trade; repair of motor vehicles (section G)	27.1	28.3
transportation and storage (section H)	6.5	6.4
accommodation and catering (section I)	2.9	3.1
information and communication (section J)	2.6	3.0
real estate activities (section L)	2.3	3.9
professional, scientific, and technical activities (section M)	4.5	4.8
administrative and support services activities (section N)	2.9	3.5
education (section P)	1.0	1.0
human health and social work activities (section Q)	3.3	3.3
arts, entertainment, and recreation (section R)	0.4	0.4
other services (section S)	0.5	0.7
<u>Market range</u>		
local	28.1	35.6
regional	15.8	13.8
country-wide	37.8	34.4
international	18.2	16.2

**Source:** Authors' own elaboration based on data from the project "Determinants of the entrepreneurship development in the SMEs sector" (2018).

Cohesion Policy after 2020. Report available on website <https://stat.gov.pl/en/experimental-statistics/research-and-development-rd-innovation-information-society-ict/>.

<sup>6</sup>The survey did not include enterprises conducting activity classified as section A (agriculture, forestry, hunting and fishing), K (financial and insurance activities), and O (public administration and national defense, obligatory social security).

The analysis, whose results are presented in this article, encompasses the following variables characterizing selected personality traits and leaders' behavior in the enterprise ( $X_1, \dots, X_{16}$ ) and variables characterizing changes in selected aspects of enterprise development (measures of success) over the last three years ( $Y_1, \dots, Y_8$ ):

- $X_1$  - belief in the possibility of achieving goals
- $X_2$  - tendency to take and assess risk
- $X_3$  - formal education, theoretical knowledge
- $X_4$  - participation in specialized courses, training, internships
- $X_5$  - knowledge of the company's market
- $X_6$  - fluency in foreign languages
- $X_7$  - constant search for opportunities to cooperate with new partners
- $X_8$  - self-confidence, ambition
- $X_9$  - determination and consistency in action
- $X_{10}$  - extensive management experience
- $X_{11}$  - high aspirations and constant search for new challenges
- $X_{12}$  - ability to cope with change in the organization
- $X_{13}$  - ability to build teams and create conditions for teamwork
- $X_{14}$  - passion, commitment
- $X_{15}$  - resilience in the face of stress and failure
- $X_{16}$  - firmness and heavy demands on employees

- $Y_1$  - changes in the number of employees hired
- $Y_2$  - changes in the number of clients served
- $Y_3$  - changes in the number of business partners, suppliers
- $Y_4$  - changes in financial health
- $Y_5$  - changes in net revenues
- $Y_6$  - changes in the value of current assets
- $Y_7$  - changes in equity
- $Y_8$  - changes in investment outlays
- $Y_9$  - changes in competitive position.

To measure opinions, attitudes, and views of the entrepreneurs surveyed (variables  $X_1, \dots, X_{16}$ ), the Central Statistical Office used a five-point scale, assigning the following codes:

1 = totally unimportant; 2 = rather unimportant; 3 = neutral; 4 = rather significant; 5 = significant (key). A 0 was assigned when the factor was not present (it did not characterize the leader).

For each variable characterizing the level of change in the enterprise over the last three years ( $Y_1, \dots, Y_9$ ) divided the set of enterprises into two subgroups by assigning the following codes: 1 = improvement of the situation; 0 = no improvement.

In addition, a variable  $Y_0$  synthesizing information from individual variables  $Y_i$  ( $i=1,..n$ ;  $n = 9$ ), was introduced. It assigned the code 1 to indicate success in the market if, for at least half of the analyzed aspects of enterprise development, the situation improved within a given range—that is, if

$$\sum_{i=1}^n Y_i \geq \frac{n}{2} \quad (1)$$

Zero was assigned in other cases.

To determine whether respondents' beliefs about the importance of the characteristics of the leader in the company ( $X$ ) and their estimate of changes in the enterprise in selected aspects (improvement or lack of improvement) ( $Y$ ) are dependent, for each pair of variables ( $X, Y$ ) we tested the statistical hypotheses (variables  $X$  and  $Y$  are independent) on the appropriate distribution tables - tables contingency with  $r$  rows (categories of  $X$ ) and  $s$  columns (categories of  $Y$ ).

We used  $\chi^2$  Pearson's independence test, based on the possibility of calculating the theoretically expected numbers in the distribution table (that is, the numbers we would expect if there was not a relationship between the variables) (Aczel and Sounderpandian, 2017).

We decided whether to reject based on the probability value  $p$  ( $p$ -value) calculated for the value of the test statistic chi-square based on the data from the sample. If the  $p$ -value was less than or equal to the significance level  $\alpha = 0.05$ , we rejected the hypothesis of independence.

To investigate how the selected set of variables describing the presence of certain features in the company and the leaders' beliefs about their importance for their company's development affects the chance of success (defined with the synthetic variable  $Y_0$ ), we applied a logistic regression of the following form:

$$P(Y_0 = 1 | X_1, X_2, \dots, X_k) = P(X) = \frac{e^{a_0 + a_1 x_1 + a_2 x_2 \dots + a_k x_k}}{1 + e^{a_0 + a_1 x_1 + a_2 x_2 \dots + a_k x_k}} \quad (2)$$

where  $a_i$  ( $i = 0, 1, \dots, k$ ) are regression coefficients.

We used the reverse function, the so-called log-odds, as described by the following formula:

$$L(P) = \frac{P}{1 - P} = a_0 + a_1 x_1 + a_2 x_2 \dots + a_k x_k \quad (3)$$

To estimate the value of logistic-regression coefficients, we used the maximum-likelihood (MNL) method, which maximizes the likelihood function. Assuming independence of observations, reliability (probability) is the product of the probabilities of occurrence of individual observations from the sample at given parameters.

To determine the significance of regression coefficients, we used Wald's chi-square statistic, based on the asymptotic normality of the highest likelihood estimate (Institute for Digital Research and Education Materials at: <http://www.ats.ucla.edu/stat/r/dae/logit.html>).

Modeling the probability of occurrence of a specific event with the strength of logistic regression allows us to interpret model parameters in relation to the chance of the considered event occurring, where  $Y_0 = 1$  means there were positive changes in the company. When defining the chance as a ratio of the probability of success to the probability of failure, we can compare the two groups (success = positive changes; failure = no positive changes) using the odds ratio for  $X_i$ . If the odds ratio is greater than 1, in the first group the occurrence of the event is more likely, whereas if the quotient is smaller than 1, the incident is more likely in the second group. An odds ratio equal to 1 means equal probability.

### **3. Results Analysis and Discussion**

In light of the gathered opinions of entrepreneurs, only for very small shares of respondents did the selected personality traits and behavior of leaders ( $X_1, \dots, X_{16}$ ) not characterize the leader. We found the absence (or complete insignificance) of a feature for the following variables: fluency in foreign languages ( $X_6$ ); participation in specialized courses, trainings, and internships; and constant search for opportunities to cooperate with new partners ( $X_7$ ).

Considering the cases in which the personality traits and behaviors were characteristic of the leader in the enterprise according to the respondents' opinions, we found that the following factors had the greatest impact on the company's development and success: knowledge of the company's market ( $X_5$ ; 61.9 percent of respondents said this knowledge was crucial for success) and determination and consistency ( $X_9$ ; a very significant factor, crucial for 55.2 percent), as well as resilience in the face of stress and failure ( $X_{15}$ ; crucial for 55.1 percent), faith in one's own strength, ambition, and self-confidence ( $X_8$ ; 53.5 percent), and extensive management experience ( $X_{10}$ ; 52.9 percent).

At the bottom of the ranking of features of decisive importance for development and success were education and theoretical knowledge ( $X_3$ ), participation in specialized courses, training, and internships ( $X_4$ ), and fluency in foreign languages ( $X_6$ ).

**Table 2.** Opinions on the significance of selected leader qualities and behaviors on the development and achievement of the success of enterprises whose operation is based on the leader's dominant role.

Factor $X_i$	Factor does not exist ( $X_i = 0$ )	Level of significance of $X_i$				
		Totally irrelevant ( $X_i = 1$ )	Rather irrelevant ( $X_i = 2$ )	Neutral ( $X_i = 3$ )	Rather relevant ( $X_i = 4$ )	Definitely relevant (key) ( $X_i = 5$ )
% of respondents						
$X_1$	0.5	0.6	0.5	7.5	41.9	49.0
$X_2$	0.7	0.5	0.8	9.1	45.0	43.9
$X_3$	0.6	0.9	1.8	14.5	41.0	41.2
$X_4$	2.4	1.8	3.6	24.6	42.0	25.6
$X_5$	0.5	0.4	0.5	5.5	31.0	61.9
$X_6$	3.3	4.5	7.0	33.0	30.9	21.3
$X_7$	2.1	1.6	3.0	17.6	38.4	37.3
$X_8$	0.4	0.4	0.5	6.7	38.6	53.5
$X_9$	0.5	0.4	0.4	6.3	37.2	55.2
$X_{10}$	0.5	0.3	0.5	7.2	38.5	52.9
$X_{11}$	0.8	0.5	0.9	11.7	42.3	43.9
$X_{12}$	1.1	0.6	0.9	10.3	41.0	46.1
$X_{13}$	0.8	0.5	0.8	8.5	39.6	49.8
$X_{14}$	0.5	0.4	0.7	7.9	39.3	51.2
$X_{15}$	0.6	0.4	0.5	6.5	37.0	55.1
$X_{16}$	0.5	0.4	0.6	9.2	46.1	43.2

**Source:** Authors' own elaboration based on data from the project "Determinants of the entrepreneurship development in the SMEs sector" (2018).

In accordance with our methodology, we examined whether there was a relationship between the beliefs about strengths (selected characteristics of the leader in a given enterprise—that is, selected determinants of success) and variables characterizing the growth and development of enterprises (level of change in the enterprise over the last three years). For all individually tested pairs of variables concerning the characteristics and behaviors of the leader  $X_i$  and variables  $Y_j$  (measures of success), we looked for significant differences in comparable groups determined by variables  $Y$  and confirmed the differences with the significance of the Pearson chi-square ( $p$ -value < 0.05). In the case of variable  $Y_0$ , we found the largest values of the Pearson chi-square statistic in the following variables:

$X_1$  - belief in the possibility of achieving set goals ( $\chi^2 = 467.1$ ),

$X_{11}$  - high aspirations and constant search for new challenges ( $\chi^2 = 420.4$ ),

$X_6$  - fluency in foreign languages ( $\chi^2 = 414.8$ ),

$X_5$  - knowledge of the company's market ( $\chi^2 = 360.4$ ),

The statistic was the smallest for the following:

$X_3$  - formal education, theoretical knowledge ( $\chi^2 = 84.3$ ),



X<sub>10</sub> - extensive management experience ( $\chi^2 = 137.1$ ),

X<sub>4</sub> - participation in specialized courses, trainings, internships ( $\chi^2 = 147.6$ ),

X<sub>16</sub> - firmness and high demands on employees ( $\chi^2 = 169.1$ ).

Belief in the possibility of achieving set goals (X<sub>1</sub>) was very important (key) for 58.5 percent of respondents in the group of enterprises in which for at least half of the analyzed aspects of enterprise development there was an improvement of the situation in a given range (Y<sub>0</sub> = 1), while it was key for 44.3 percent of respondents in the remaining group (Y<sub>0</sub> = 0) - a difference of 14.2 percentage points. That is:

$$\frac{n(X_1 = 5 \wedge Y_0 = 1)}{n(Y_0 = 1)} - \frac{n(X_1 = 5 \wedge Y_0 = 0)}{n(Y_0 = 0)} = 14.2. \quad (4)$$

Although, according to the respondents' opinions, proficiency in foreign languages (X<sub>6</sub>) was the variable that the smallest percentage of respondents considered a very important/key feature of a leader, we found a greater difference in percentages between the group of successful enterprises and the others than in the case of the feature X<sub>10</sub> (extensive management experience):

$$\frac{n(X_6 = 5 \wedge Y_0 = 1)}{n(Y_0 = 1)} - \frac{n(X_6 = 5 \wedge Y_0 = 0)}{n(Y_0 = 0)} = 10.5 > \frac{n(X_{10} = 5 \wedge Y_0 = 1)}{n(Y_0 = 1)} - \frac{n(X_{10} = 5 \wedge Y_0 = 0)}{n(Y_0 = 0)} = 7.8 \quad (5)$$

We found the smallest difference in percentages between the group of successful enterprises and the others for X<sub>3</sub> (formal education and theoretical knowledge):

$$\frac{n(X_1 = 3 \wedge Y_0 = 1)}{n(Y_0 = 1)} - \frac{n(X_1 = 3 \wedge Y_0 = 0)}{n(Y_0 = 0)} = 6.2. \quad (6)$$

To investigate how selected variables characterizing competency and personality influence the chance of the enterprise's success, we applied a logistic-regression model. Using the likelihood-ratio test and the Wald test, we selected the model best fit for the data (eliminating irrelevant variables). The final estimated model included five variables:

$$L(X) = -3.50 + 0.21 X_1 + 0.06 X_5 + 0.18 X_6 + 0.14 X_{11} + 0.08 X_{14} \quad (7)$$

Recall the following definitions:

X<sub>1</sub> - belief in the possibility of achieving the goals set

X<sub>5</sub> - knowledge of the market where the company operates

X<sub>6</sub> - fluent knowledge of foreign languages

X<sub>11</sub> - high aspirations and a constant search for new challenges  
 X<sub>14</sub> - passion, commitment.

Table 3 includes, in addition to the relevant variables, parameter estimates along with standard errors of the estimate and *p*-value for the Wald test, and the odds ratios for the unit change of the X<sub>i</sub> value for the whole range of X<sub>i</sub> values.

**Table 3.** Results of logistic-regression analysis

Specification	Constant a <sub>0</sub>	X <sub>1</sub>	X <sub>11</sub>	X <sub>14</sub>	X <sub>6</sub>	X <sub>5</sub>
Estimate a <sub>i</sub>	-3.50	0.21	0.14	0.08	0.18	0.06
Standard error	0.13	0.03	0.03	0.03	0.01	0.03
t(20953)	-27.36	7.29	5.14	274	13.16	2.28
p	0.000	0.000	0.000	0.006	0.000	0.023
Chi-square						
Wald's W <sub>i</sub>	74836	53.19	26.46	7.53	173.31	5.20
p	0.000	0.000	0.000	0.006	0.000	0.023
Odds ratio for unit change of value X <sub>i</sub>	0.03	1.23	1.15	1.09	1.19	1.07
Odds ratio for a range of values X <sub>i</sub>		2.80	1.99	1.52	2.42	1.38

**Source:** Authors' own elaboration based on data from the project "Determinants of the entrepreneurship development in the SMEs sector" (2018).

Using the odds ratio and the estimated logistic-regression model, we compared the odds of achieving success in the market for different groups characterized by the variables included in the model. The largest odds ratios were obtained for the following variables:

X<sub>1</sub> - belief in the possibility of achieving the goals set,  
 X<sub>6</sub> - fluency in foreign languages,  
 X<sub>11</sub> - high aspirations and a constant search for new challenges.

The leaders' belief about the possibility of achieving set goals increases the chance of achieving success by almost three times in comparison with the leaders who do not notice the significance of this feature. Treating high aspirations and a constant search for new challenges as a key feature of the leader increases by almost twofold the chance of achieving success relative to the leaders who do not notice the importance of this feature. Although in light of the respondents' opinions fluency in foreign languages (X<sub>6</sub>) was the variable that the smallest percentage of respondents considered a very important/key feature of a leader, it turned out that in the group of leaders convinced of the key importance of the feature, the chances of success were 2.5 times higher than among leaders who did not recognize the importance of this feature.

#### **4. Conclusions**

Our analysis of 20959 surveys of Polish enterprises in which leaders (owners or managers) played a dominant role attempted to identify significant (from the point of view of the entrepreneurs) personality and competence qualities of leaders that affect business success. We found a statistically significant correlation for all selected research characteristics and behaviors of the leader and those characterizing business successes, as confirmed by the significance of the Pearson chi-square. The following characteristics turned out to be particularly important for the company's development and success: belief in the possibility of achieving set goals; high aspirations and a constant search for new challenges; passion and commitment; knowledge of the company's market. The importance of these features is correlated with higher values of business-success measures.

Using the odds ratio, we estimated that leaders' belief in the possibility of achieving set goals increased the chance of achieving success by almost three times compared to the leaders who did not note the importance of this feature. High aspirations and constant search for new challenges increased the odds of achieving success almost twofold. Fluency in foreign languages was the variable that the smallest percentage of respondents thought was a very important/key feature of leaders, but in the group of leaders convinced of the key importance of the feature, the chances of success were about 2.5 times larger than among the leaders who did not recognize the importance of this feature. The results of this research suggest for enterprises a need for pro-development activities in the field of managerial competencies.

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