## Organisational culture and organisational performance: The mediating effects of managerial competence

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#### Abstract

Managerial competence is important due to its relationship with both the competitive ability of managers and organisational performance. A key variable that extant literature has scarcely addressed is the role that managerial competence plays in the organisational culture and organisational performance relationship. Organisational culture creates and shapes managerial competence via values and norms to enhance organisational performance. Essentially the proposed model posits that managerial competence meditates the relationship between organisational culture and organisational performance. The primary managerial implication of the model is that organisational culture should be used to drive managerial competence which then results in organisational performance.

Key Words: Organisational Culture; Managerial Competence; Organisational Performance.

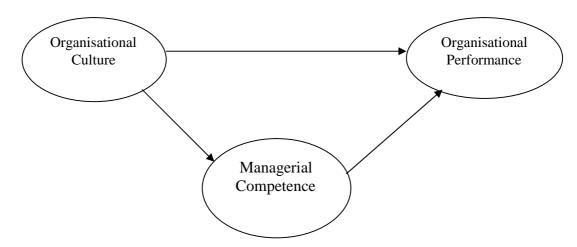
## **1. Introduction**

Managerial competence is an important theme in management literature. This is because managerial competence has been widely shown to affect organisational performance (Cockerill, 1993; Homer, 2001; Horton, 2000; McClelland, 1998; Larsen, 1997; Roche, 1994). In turn, managerial competence is affected by various organisational factors. These antecedents include organisational culture, organisational structure, information technologies and organisational size (Asllani and Luthans, 2003; Jirasinghe and Lyons, 1996; Martin and Staines, 1994). Asllani and Luthans (2003) argued how information technologies pressures managers to manage knowledge which inturn effects managerial competence. Additionally, research has suggested that there is a difference between large and small firms and managerial competences (Martin and Staines, 1994; Stuart, Thompson and Harrison, 1995). For example, Martin and Staines (1994) found that there is a difference in managerial competences (creativity, risk taking and innovation) in small firms. However, amongst these antecedents to competence, management scholars have emphasised the role of organisational culture as it affects the values, beliefs, norms and behaviours of managers, which affects their abilities, skills and knowledge which increases managers' efficiency and effectiveness (Longest and Friede 2002; Thompson, Stuart and Lindsay 1996).

Culture of an organisation would hold employees' values and norms to enhance performance of an organisation, as it could improve the values system within organisations by developing employee motivation and satisfaction (Bate, 1994; Zamanou and Glaser, 1994). Consequently various studies have examined the relationships between organisational culture and organisational performance (e.g., Burt et al., 1994; Deal and Kennedy, 1999; Kotter and Heskett, 1992; O'Reilly and Chatman, 1996). However these studies have summarily neglected the role of mediating factors in understanding the relationship. Understanding mediating factors become important as Wilderom, Glunk and Maslowski (2000) argue that there is inconsistent support for the proposition that organisational culture is a direct predictor of organisational performance. Furthermore, it is important to understand whether organisational culture has a direct or an indirect relationship with performance and this has implications for the development of the mediating construct. If organisational culture is mediated by managerial competence, then it would be important for management to use organisational culture to develop managerial competence, which will then lead to performance. Additionally, managerial competence has been studied quite extensively in the context of categories of managerial competence (Gilmore and Carson, 1996; Goffee, 1996; Lenehan, 2000) and comparability of managerial competence in different countries (Hogg, 1993; Hunt, 2002), but in doing so have neglected integrative models of managerial competence.

To this end, this paper applies competence theory (Australia Industry Task Force on Leadership and Management Skills, 1995; Boyatzis, 1982; Cunningham, 1992; Horton, 2000; Lester, 1994; McLagan, 1997) to develop an integrative model that links organisational culture, managerial competence and organisational performance (See Figure 1). Furthermore it argues that managerial competence mediates the relationship between organisational culture and organisational performance. This paper is structured as follows. First the competency theory is explained; second each of the hypothesised relationships is discussed and lastly, implications and conclusions are presented.





## 2. The Competence Theory

Since Boyatzis wrote "The Competent Manager" in the early 1980s, managerial competence has been considered as an important component of performance assessment for managers. conceptualizations of primary Although there are varying competences, two conceptualisations of competence are emphasised in literature; skill-based conceptualisation proposed primarily by UK academics and (Lester, 1994; Rowe, 1995) and behavioural based conceptualisation proposed by USA-based academics (Boyatzis, 1982). From a skill-based perspective, Tate (1995: 83) stated that "competences are what the managers are seen to have satisfied if managers are competent." Competences are concerned with what a person demonstrates in a job, and it also related to performance (Tate, 1995). In contrast, from a behavioural based perspective, competencies are what traits, knowledge and skills people have and bring into play (Boyatzis 1982). A manager acquires a set of competencies, which then are applied in the form of behaviour, producing beneficial outputs (Parry, 1996).

It is important to understand the distinction between competence and competencies as competence can be measured by many competencies (Tate, 1995) and this has implications for hypotheses development in the latter part of this paper. Competence is "an area of work", competency is "the behaviours supporting an area of work", whilst competencies are "the attributes underpinning a behaviour" (Moore, Cheng and Dainty, 2002: 316). Managerial competence is a general term, where managers owning abilities, skills and knowledge are able to demonstrate their tasks effectively and play their managerial roles well in work. Competency is one kind of managerial behaviour to be maintained in a working environment. Competencies are considered as elements and attributed of behaviours (Cheetham and Chivers, 1996; Hunt and Wallace, 1998; Moore, Cheng and Dainty, 2002). Table 1 illustrates the relationships among competence; competency and performance. Inputs are competencies, which are knowledge, skills, abilities (Hoffmann, 1999), and outputs are competence (Tate, 1995). Outputs are related to outcomes, which essentially is the organisational performance (Cockerill, 1993; Hoffmann, 1999).

Table 1: Individual inputs-outcomes model

Inputs	$\rightarrow$	Outputs	$\rightarrow$	Outcomes
(Competencies)		(Competence)		
Knowledge, skills		Demonstration as		Organisational performance
and abilities		products and services		

Source: adapted from Cockerill (1993); Hoffmann (1999); Parry (1996); Tate (1995).

## 3. Development of the Hypotheses

Organisational culture is a significant factor influencing organizational performance (Choueke and Armstrong, 2000; Jones, 1995; Willcoxson and Millett, 2000). Organisational culture not only influences managers' behaviour in an organization, but also determines the success or failure of organization (Morris, 1992; Smith, 2003; Sorensen, 2002). Furthermore, Gordon and DiTomaso (1992) find that, in the context of short-term future performance, a culture of action orientation and innovation/risk-taking is strong predictor of short-term performance. Additionally, there have been various studies illustrating the relationship between organizational culture and organizational performance (See Table 2). Based on the prior evidence the following proposition is suggested.

Study	Empirical foundation	Key Arguments/Findings
Calori and Sarnin (1991)	260 surveys in five organization	Both the intensity and homogeneity of organizational culture are positively correlated with organizational performance.
Gordon and DiTomaso (1992)	850 surveys in 11 organisations	A culture of action orientation and innovation/risk-taking is a strong predictor of short-term performance.
Marcoulides and Heck (1993)	392 surveys in 26 organisations.	Organizational culture influence organizational performance directly and indirectly.
Sadri and Lees (2001)	N/A	A positive culture is a significant factor in organizational success and profitability.
Sorensen (2002)	160 surveys	Stronger culture could lead to high organizational performance

 Table 2 Organisational Culture as an antecedent to Organisational Performance

#### P1) Organisational Culture is positively related with organizational performance.

Organisation culture affects managerial competence, as it affects managers` attitudes and behaviour in the workplace through shared assumptions, values, and norms (Cameron and Quinn, 1999; Longest and Friede, 2002) and the relationships between members` behaviours and the internal environment (Alvesson, 1993; Deal and Kennedy, 1982; Jirasinghe and Lyons, 1996; Schein, 1985). Organisational culture influences managers on how they make decisions, deal with information and manage the internal organisational environment. For example, if an organizational culture has a more participatory culture, employees would be more involved in the organization. Consequently, the managers would illustrate their communication competence easily through information flows (Brooks, 1994; Zamanou and Glaser, 1994).

Furthermore, organizational culture influences managers directly, because organizational culture influences their perceptions, thoughts and feelings (Batelann, 1993; Brown, 1995; Schein, 1984, 1985; Willcoxson and Millett, 2000). Organisational culture is a series of management practices and behaviours, and it encompasses each aspect of an organization, including: how it is designed, what is considered, how employees relate to each other, and how members regard customers. Organisational culture reflects managerial competence, because it could manipulate competencies pattern (Boam and Sparrow, 1992; McCredie and Shackleton, 2000). Therefore, if managers understand cultural aspects, including the strengths and weaknesses of the organization, they would perform their roles better in their workplace (Rashid, Sambasivan and Johari 2003; Vielba, 1995). For example, in a company that has a strong hierarchical culture (control, stability and internal maintenance); the company would emphasize efficiency, timeliness and smooth functioning. Therefore, this culture will influence managerial competence is terms of coordination, managing the control system and managing acculturation (Cameron and Quinn, 1999). In addition, there have been various studies illustrating the relationship between organizational culture and managerial performance (See Table 3). Based on this prior evidence the following proposition is argued.

Study	Empirical foundation	Key Arguments/Findings
Brooks (1994)	N/A	Organizational culture plays a key role in influencing managers` problem solving and decision-making competence.
Longest and Friede (2002)	N/A	Organisational culture influences contextual competence in the health service sector
Drejer (2000)	N/A	Organisational culture as the process of organizational learning leads to development of managerial competence.

 Table 3 Organisational Culture as an antecedent to Managerial Competence

## P2) Organisational Culture is positively related with managerial competence.

Behavioural anchors are competency statements, which identify the items of competency. Studies suggest in general that these anchors correlate to performance indices (McCredie and Shackleton, 2000; Nicolson, 1994). Behavioural anchors are performance criteria, which "specify the outcomes to be achieved in order to demonstrate competent performance" (Australian Institute of Project Management, 1996: 4). For example, 'communications' is one item of managerial competence, whereas "Effectively presents ideas orally and in writing" is the behavioural anchor of "communications" as well as a competency statement (Raelin and Cooledge, 1995: 26).

Managerial competence provides a framework to understand the level of managers' performance and organizational performance (Murphy and Constans, 1987). For example, Vilkinas, Cartan and Piron (1994) used a series of managerial competence as determinants of performance and Ackerman's (1986) illustrated that specific skills, content abilities, specialized knowledge and general ability, viewed as managerial competence, influence organizational performance. Moreover, if an organization builds a good link between managerial competence and organizational performance, it would become a competence-based organization, which would then be helpful for managers in achieving organizational success (Abraham et al., 2001; McClelland, 1998; Roche, 1994). Moreover, there have been various studies illustrating the relationship between managerial competence and organizational performance (See Table 4). These prior discussions suggest a positive relationship between managerial competence.

Study	Empirical foundation	Key Arguments/Findings
Garavan and McGuire (2001)	N/A	From the resource-based theory, the organizational performance components are dependent on the competence.
Roche (1994)	N/A	Developing managerial competence leads to 5 to 20 per cent increase in productivity and reduce managers' turnover.
Thompson, Stuart and Lindsay (1996)	60 surveys in over 30 organisations.	Managerial competence of top team members influences organizational profits and growth directly.
Wallick (2002)	N/A	Qualitative findings suggest that managers are seen as leaders to enhance organizational performance.

## **Table 4 Managerial Competence and Organisational Performance**

## P3) Managerial Competence is positively related with organizational performance.

The conceptual model suggests that managerial competence mediates the relationship between organizational culture and organizational performance. Essentially this suggests that if managerial competence is based on organizational culture (Cameron and Quinn, 1999; Quinn, Thompson and McGrath, 1990), managerial competence is more likely to lead to greater organizational performance. The potential contribution of managerial competence to performance can be understood in terms of the effects of organizational culture on managerial competence. The argument is that organizational culture creates and shapes managerial competence, which in turn determines competitive advantage. This chain of causality implies an indirect link between culture and performance. For example, Marcoulides and Heck (1993) argued that organizational values influence organizational performance indirectly through individual attitudes, which make up managerial competence. Furthermore, managers execute their tasks via managerial competence which influences organizational performance (Gordon and DiTomaso, 1992). Although an CEO creates organizational culture, it is spread by managers. Therefore, it is important that managers have similar values to the culture, reflected by their managerial competence. This then leads to a strong synergy, resulting in improved organizational performance. Based on the prior arguments the following proposition is suggested:

# P4) Managerial Competence mediates the relationship between organizational culture and organizational performance.

#### 4. Implications and Conclusions

Although extant literature emphasises managerial competence in terms of issues such as selection, training, career and performance appraisal, this paper differs in that it highlights the development of a competence-based organization via value systems of organisational culture. Furthermore, this paper presented a conceptual framework, whereby the role of managerial competence in understanding the relationship between organisational culture and organisational performance, was highlighted. Managerial competence essentially encompasses issues such as managers'abilities, skills and knowledge to perform their managerial roles and tasks well. If validated this model may have several implications for managers. For instance, if managers understand they work within the market-oriented type of culture, they would prefer to demonstrate the market-oriented ness in their own competencies. Such as "managing competitiveness", "energizing employees" and "managing customer service" (Cameron and Quinn, 1999). On the other hand, from leaders' perspective, if they can conceptualize managerial competence as a mediating variable between organisational culture and organisational performance, they would understand the importance of developing managerial competence from a macro-strategic/organisational perspective, as opposed to an individual level.

The model is in a conceptual stage and consequently requires empirical validation. For example, there is little empirical evidence for the relationship between organizational culture

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and managerial performance (see table 3). Furthermore, this lack of empirical evidence is evident in the relationship between organizational culture and organizational performance (see table 2) and the relationship between managerial competence and organizational performance (see table 4). Additionally research may attempt to understand what kinds of organisational culture affect organisational performance and what types of managerial competence were developed by organisational culture.

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