THE INTERNATIONAL JOURNAL OF HUMANITIES & SOCIAL STUDIES

Effect of Interpersonal Competence on Organizational Performance

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Abstract:
The objective of the study was to determine the effect of interpersonal competence on the performance of firms listed on the Nairobi Securities Exchange and the corresponding hypothesis was formulated and tested. The study targeted Human resource managers of each of the 64 firms listed on the Nairobi Securities Exchange as at December, 2014, and 34 of them responded. The study adopted the positivist research philosophy and a descriptive survey design. SPSS Version 21 was used to analyze data using regression analysis. Research findings from the test of hypothesis established that interpersonal competence has positive and significant effect on organizational performance. The study finding supports the Resource-Based View and Knowledge Space Theory which underscore the crucial role of interpersonal competence in company performance. The study recommends further investigation of the study variables in non-governmental organizations, academic institutions and churches.

Keywords: *Competence, interpersonal competence, Organizational Performance, Nairobi Securities Exchange*

1. Introduction

Interpersonal competence is the experience, knowledge, and ability to cope with various interaction situations (Frey & Ruppert, 2013) whereas organizational performance is a collection of financial and non-financial indicators which provide information on the degree of achievement of objectives (Lebans & Euske, 2006). Interpersonal competence has been found to positively contribute to organizational performance (Thach, Ismail, Jegak, & Idris, 2008). Therefore, organizations that endeavor to perform should consider investing in the interpersonal competence of their managers. According to Knowledge Space Theory, competencies predict performance outcomes and provide an explanation for discrepancies in performance (Korossy, 1999). Thus, determining a set of problems and identifying a set of corresponding competencies can significantly assist organizations to enhance their performance. The Resource-Based View justifies variations in performance between companies because of knowledge asymmetries (Hoopes, Madsen & Walker, 2003).

Empirical research has shown positive and significant effect of interpersonal competence on organizational performance (Thach et al., 2008; Kim, Yune, Choi, & Gong, 2008). However, most of the cited studies targeted Education, Health and ICT sub-sectors in Iran, Taiwan, Jordan and Malaysia. Further, some studies focused on one aspect of organizational performance such as financial performance (Almajali *et al*., 2012). The extant study addressed the said gaps by examining the effect of interpersonal competence on both financial and non-financial performance of firms in different industries in Kenya as listed on the Nairobi Securities Exchange.

2. Interpersonal Competence

The way managers relate with others in their workplaces is determined by their level of competence. Interpersonal competencies enable managers to increase their productivity in establishing and maintaining healthy business relationships within organizations and internal and external stakeholders (Hogan & Warrenfeltz, 2003). Individuals who are socially competent have been found to be good in communication, team playing, networking, lobbying, maintaining meaningful relationships with internal and external business stakeholders and understanding their expectations (Mumford, Zaccaro, Connelly, Mars, 2000).

3. Organizational Performance

Organizations measure performance differently. Some measures of organizational performance include return on investment (ROI), market share and market share growth (Droge & Vickery, 1994), market share, sales, export proportions and growth rates in domestic and export sales growth (Sharma & Fisher, 1997). Other studies have measured organizational performance through profitability, gross profit, revenue growth, stock price, sales growth, export growth, liquidity and operational efficiency and the Balanced Scorecard (Anwar *et al*., 2012; Kaplan & Norton, 1992) . The Balanced Scorecard adopted by the current study examined firm performance from the perspective of the customer, learning and growth, internal business processes, environment and finances (Anwar *et al*., 2012; Kaplan & Norton, 1992). The selected tool is appropriate for this study because it is a multidimensional approach, which does not leave any key functional area in the organization unturned (Anwar, Djakfar & Abdulhafidha, 2012).

4. Firms Listed on the Nairobi Securities Exchange

The Nairobi Securities Exchange, formerly known as Nairobi Stock Exchange until July 2011, was formally recognized in 1954 by the London Stock Exchange as an overseas stock exchange (Nairobi Stock Exchange, 1996). It has grown to become a major financial institution as it has the fourth largest trading volume across the African continent and plays an important role in the growth of Kenya's economy (Olweny & Kimani, 2011). There were 64 companies listed on the Nairobi Securities Exchange as at 31 December 2014 (*NSE Handbook*, 2014). Since these firms represent key sectors of the Kenyan economy, which include Agriculture, Commercial, and Services Sector, Financial, and Investment sector and Development industry and Allied sector, Nairobi Securities Exchange was the target for the study.

The choice of listed companies for the study is further justified by the requirements for listing which include among others, that for a company to be listed, it must be a company limited by shares and registered under the Companies Act (Cap. 486) as a public limited company and to publish audited financial statements regularly in compliance with international financial reporting standards at the end of each accounting period (The Companies Act,2015). For the purpose of compliance, the listed firms issue their audited financial statements, which this study used to measure their financial performance (2012-2014). The group of firms listed on the NSE was considered appropriate for the study because various stakeholders expect them to perform and for them to perform satisfactorily, they would need resources and in particular human resources. The shareholders hold these companies accountable and expect them to facilitate generation of fair profits. The Government of Kenya aims to achieve and sustain an annual growth rate of 10% for it to realize the Kenya Vision 2030 (GOK, 2007) and therefore expects the NSE to play its role as a robust securities market.

The NSE, on its part, expects the listed companies to perform and meet the expectations of the stakeholders by enhancing their efficiency and competitiveness. To address the expectations of stakeholders, managers of the listed companies should be competent enough to achieve organizational goals.

5. Interpersonal Competence and Organizational Performance

Interpersonal competence influences organizational performance. In the Nooraie and Arsi (2012) study on emotional intelligence and faculties' academic performance, it was found that interpersonal competence and individual competence have a positive effect on academic performance of faculty members. Kim et al, (2008) found a positive correlation between interpersonal competence and organizational performance. Interpersonal skills are the best single predictor of job performance ratings (Wayne, Liden, Graf, & Ferris, 1997). Similarly, Ferris, Witt, and Hochwarter (2001) reported skills as the single strongest predictor of performance rating dimensions of task performance, job dedication, and interpersonal facilitation, as well as for an overall rating of return. Results of an investigation conducted by Payne (2005) indicated that high performing employees were more skilled at communicating empathy, adapting their communication and managing interactions with others than lower performing employees. Similar findings of another research showed that possession of interpersonal competence led to a good prediction of job performance (Riggo & Tylor, 2000). Further results of research indicated that among all individual factors, interpersonal skill had the strongest contribution in explaining the extension workers' performance (Thach et al., 2008). For the purpose of this study, the following hypothesis was formulated: Interpersonal competence has a positive and significant effect on the performance of firms listed on the Nairobi Securities Exchange.

6. Methodology

This study adopted a positivist philosophical tradition and a cross-sectional descriptive survey of all the 64 companies listed on the Nairobi Securities Exchange as at 31 December, 2014. Primary data was collected from human resource managers or equivalent persons. Secondary data on financial performance (ROA) of Nairobi Securities Exchange listed companies was extracted from the audited accounts for a three-year period, 2012-2014. Instrument validation was achieved through validity and reliability tests. Professionals in human resource management censured content validity. The researcher confirmed face validity by checking the coverage of all the areas of investigation in the instrument and by adopting already tested instruments used by similar studies. This was done to compliment the validity tests done by previous studies from which the research instrument was adapted. A reliability test of the collected data was performed using Cronbach Alpha and the coefficient for interpersonal competence and organizational performance was 86.8 above the minimum level (0.70) for acceptable reliability as suggested by Nunnally and Bernstein (1994). This means that the data collected was reliable for analysis.

7. Results and Analysis

The study used both descriptive and inferential statistics to analyze data from the questionnaires and from the published audited accounts. Simple linear regression analysis was used to establish the nature and magnitude of the relationship between the independent variable and the dependent variable and to test the predicted relationship. The value of R squared shows the amount of variation in the dependent variable caused by the independent variable.

The Beta value shows the amount of change in the dependent variable attributable to the amount of change in the predictor variable. The F-statistics measure the goodness of fit of the model. The statistical significance of the hypothesized relationship was interpreted based on R^2, F, t, β and p values. The regression model used was: $Y= \beta_0+ \beta_1 X_1+\epsilon$, where Y=Firm performance; $\beta_{0=}$ Intercept; $\beta_{1=}$ Coefficient; X_1 = Interpersonal Competence and ϵ=Error term.

7.1. Study Response Rate

The target population of the study was 64 companies listed on the NSE as at 31 December, 2014. These companies form the unit of analysis for the study as each company has a unique set of management competencies. Out of the 64 questionnaires issued to Human

Resource Managers or equivalent officers, a total of 34 were filled and returned in a form usable for analysis, constituting a response rate of 53.1 %. The study response rate of 53.1 % was considered adequate for purposes of data analysis compared to a previous study done in the same area by Sagwa (2014) who had 60 %.

7.2. Profile of Firms

The 34 firms that were surveyed represent the major sectors of Kenya's economy. Frequencies and percentages were used to examine the distribution of companies listed on the NSE. Table 1 shows how the firms that responded to the study questionnaire are distributed per sector.

Sector	Frequency	Percentage
Agricultural	2	5.9
Commercial and services	4	11.8
Automobiles & Accessories	2	5.9
Banking	11	32.3
Insurance	2	5.9
Manufacturing & Allied	6	17.7
Construction & Allied	3	8.8
Energy & Petroleum	2	5.9
Growth Enterprise Market Segment	1	2.9
Investment	1	2.9
Total	34	100

Table 1: Distribution per Sector

The findings in Table 1 indicate that out of the 34 firms that participated in the study, 32.3 % were in the banking sector; 17.7 % in the manufacturing and allied; 8.8 % in the construction and allied; 11.8 % in commercial and services; 5.9 % in Agriculture, insurance and energy and petroleum; 2.9 % in growth enterprise market segment and investment. The majority of the companies that responded to the questionnaire were in the banking sector (32.3%) and manufacturing and allied (17.7%). Sagwa (2014) had similar findings: 22.2 % for banking sector and 25 % for manufacturing and allied. Thus, most of the listed firms on the NSE (61.76%), which responded, are in the banking sector, manufacturing and allied and commercial and services sectors. These firms play a major role in the economic development of Kenya.

7.3. Test of the Hypothesis

The study sought to determine the effect of functional competence on the performance of companies listed on the Nairobi Securities Exchange. This was done by testing the hypothesis that interpersonal competence has a significant effect on organizational performance by performing simple linear regression analysis. Table 2 presents the results of the analysis.

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.768	.589	.576	8.17767

ANOVA

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	3068.141	1	3068.141	45.879	.000[b]
	Residual	2139.977	32	66.874		
	Total	5208.118	33			

Coefficients

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	39.325	9.470		4.152	.000
	Competence	15.256	2.252	.768	6.773	.000

Dependent Variable: Organizational Performance
Predictor Variable: Interpersonal Competence

Table 2: Simple Linear Regression Results for the Effect of Interpersonal Competence on the Performance of Firms listed on the Nairobi Securities Exchange

8. Discussion

From the results in Table 2, R=0.768, meaning that there was a strong positive correlation between the independent variable and the dependent variable. The R-squared is 0.589, indicating that 58.9 % of the variation in organizational performance is explained by variation in interpersonal competence and 41.1 % is explained by other factors that are not part of the study. The ANOVA results indicate that the model is statistically significant ($F= 45.879$, $p<0.05$). The standardized coefficients show that the effect of interpersonal competence on company performance was positive and significant ($\beta=0.768$, $t=6.773$, $p<0.05$). The beta value implies that for one unit increase in interpersonal competence, organizational performance increased by 0.768. The findings therefore confirm the hypothesis that interpersonal competence has a significant effect on the performance of firms listed on the NSE. The results of the analysis suggest that companies listed on the NSE should consider developing interpersonal competence to enhance their performance. The study findings agree with the result of a study by Kim, Yune, Choi, and Gong (2008) who found that interpersonal competence was positively correlated with organizational performance. Further, the findings of the extant study are consistent with those of Nooraie and Arsi (2012) study on emotional intelligence and faculties' academic performance, which established that interpersonal competence had a positive effect on academic performance of faculty members.

9. Conclusion

The study investigated the effect of interpersonal competence on the performance of companies listed on the Nairobi Securities Exchange. The study was conducted through a cross-sectional survey. The study employed both descriptive and inferential statistics to analyze the data. Simple linear regression analysis was used to determine the effect of interpersonal competence on organizational performance. The study tested and confirmed the hypothesis that interpersonal competence has a significant effect on the performance of firms listed on the Nairobi Securities Exchange. This implies that Nairobi Securities Exchange listed companies that invest in the development of interpersonal competence of their managers expect an improvement in their performance.

10. Acknowledgements

The researcher is grateful to all the firms and individual persons who participated in this research.

11. References

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