

Managers Capabilities and Competences in Changing Environment: Empirical Study in Latvia

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ABSTRACT

Last decade of high economic turbulence and significant fluctuations has tested managers' ability to adapt and apply the relevant skillset and competences to ensure success of their companies in various market conditions. The aim of research is to analyse if managerial competencies required to successfully lead a company differ in times of rapid growth or crisis and normal market conditions. Research methods such as review of the literature and organized focus groups with managers of SMEs representing various service and manufacturing industries are applied. As a result, authors developed a customized list of managerial competencies and identified individual importance of different competencies in periods of growth and crisis. Whilst research is limited to SMEs in Latvia, this is a first step in a series of studies to explore managers' capabilities and competence models.

Keywords: Competence, Capabilities, Changing environment.

1. INTRODUCTION

Entrepreneurs' ability to generate new ideas and commercialize them successfully is the main driver of economic growth. This applies to all industries and organizations. Consequently, country's economic growth depends highly on proper development and use of each entrepreneur's capabilities and competencies, which is the object of this research.

Country's economy is constantly changing and recent history of turbulent economic changes in Latvia – rapid growth followed by sudden and steep decline (crisis), brings to the table a wealth of information and experience that has so far been unexplored and undervalued and needs to be accumulated and analysed. This recent experience can form a solid base for future modelling of manager's competences. In light of economic cycles it is important for companies and their managers to be prepared for the next wave by drawing the appropriate conclusions from the recent experience. However, while the need is evident, there is a clear lack of empirical research to provide companies and managers with understanding and tools to adapt to expected changes.

Authors found ample research indicating existence of significant competence gaps between the competences required and those actually applied in management [27], [15], [35], [26]. Managerial competence gaps are caused by changes in different internal or external aspects (job content, industry requirements, etc.). This supports the notion that during the time of change previous experience and competences are no longer applicable and new competences are needed [26]. However, while competence gaps are analysed authors found no research on the competence gaps in relation to change of economic environment. Similarly, there is ample research on economic cycles, including aspects of performance management. For

example, Meyer and Stensaker [23] have explored issue how organizations can develop capacity for change and Chau *et al.* [8] have explored issue of performance management in time of crisis.

Interviews with applicants conducted as part of admissions process for Master of Business Administration studies at Riga Technical University, revealed managers' (i.e., applicants) concern with the need for different skill-set and capabilities to successfully manage a company in severe market conditions, such as rapid growth or decline. These interviews served as the basis for starting the research.

Managerial competencies required to successfully lead a company in crisis or rapid growth environment are different. The individual importance of these competencies also varies according to the market environment. In this paper authors are investigating managers' competencies and changes of their importance in different development stages of economic cycles. For purposes of this research the impact of individual organizational lifecycles that each company passes through alongside more global economic changes, will be omitted. Following the scientific approach of analysis – moving from more general to more particular – we focus solely on analysis of small and medium enterprise (SME) managers' competencies and capabilities in different economic cycles as the first step in the series of research on management of companies in growth and crisis situations.

2. MANAGERS' COMPETENCES, COMPETENCE MODEL AND CAPABILITIES

Many authors across the globe have been writing about the competence theory, yet the development of it has taken different routes in different geographies. In the USA, development of competence theory-based management approach begun in 1976, when McClelland [20] created tests to assess enterprise managers. Boyatzis [4], [5] continued similar studies and empirically determined manager's characteristics. Spencer and Spencer [30] are also among the greatest contributors to the development of the competence theory. In Europe, Mansfield and Mitchell [18] were among the first ones to start the discussion about competences within the context of labour law. Their considerations were based on studies conducted by Frank [14]. Meanwhile, inclusion of competences in management standards had already been described by Cockerill [9] and Mathewman [19].

The concept of competence has been developed further by many well-known scientists and researchers, entrepreneurs and representatives of public organisations. Mulder [24], for example, analysed competence development in organisations and compared over 40 definitions of the concept of competence, distinguishing differences on a number of dimensions.

Armstrong [2] defines the concept of competence, taking into account two aspects: behavioural competences (soft skills),

which are characterised as an opinion on how to act in order to properly perform one's work; and technical and functional competences (hard skills), which must be known and implemented by individuals in order to perform one's work well.

Another frequently used term is competency. United Nations Industrial Development Organization – UNIDO [34] suggests that a competency is a set of skills, related knowledge and attributes that allow an individual to successfully perform a task or an activity within a specific function or job.

Latvian professor Rauhvargers [28] defines competence as totality of knowledge, skills and attitudes, which qualifies one for the performance of tasks of a specific type or level.

The meaning of competence is linked to an individual's ability to learn, communicate and cooperate in a changing environment. Based on this approach and considering the rapidly changing environment, it can be inferred that competence has in fact become one of the key characteristics of a person and thus is also closely related to a company's life cycle [17].

According to the studies done, authors conclude that, when speaking of competence in Latvia, three elements are implied – abilities, knowledge and skills, which are then further split into several groups of elaborately defined competencies.

The development of the competence concept reveals a new research direction – competence models. The link between competence and performance is identified as highly important. In Anglo-Saxon countries the competence models are focused on management competences. The widely accepted definition of the competence model used by managers of Anglo-Saxon countries is the set of desired competencies – skills, knowledge, attitudes, underlying characteristics or behaviour – that differentiate effective performers from ineffective ones [4], [5], [21]. Delamare le Deist and Winterton [10] stressed that every country employs an individual approach to evaluation of the competencies and development of the competence models. According to them, the behavioural approach is the USA tradition, the functional approach is the UK tradition, while France, Germany and Austria belong to countries with a multi-dimensional and holistic approach to evaluation of competencies. We believe the multi-dimensional holistic approach to be the most relevant for Latvia, yet the overwhelming dominance of SMEs in our economy combined with the small internal market results in having some specific features to the competence models used here.

Competence model consists of multiple competence groups, each of which contains numerous competencies – individual skills and abilities. Various sources and studies show different groupings of competencies, forming various competence models suitable for any particular case and situation. For example, I. Lapiņa and D. Aramina [17] have organized competencies into four basic groups, each encompassing qualities defined in greater detail: Professional competencies; Social and communication competencies; Personal and responsibility competencies; Innovative, learning and leadership competencies.

Competencies and competence groups are considered in the context of various sciences. Competence models are widely used in strategic management, human resource management, education etc. In the field of education, for example, competencies are grouped according to three criteria [32]:

- to know and understand (theoretical knowledge, the ability to understand),
- to know how to behave (practical skills and behaviour skills and their use in practice);
- to know how to live (values, attitudes, responsibility).

Another widely used competence model developed by UNIDO [34] suggests that all competencies can be grouped into 3 categories: Managerial; Generic; Technical and Functional. Authors in the field of management services often talk about competence models in the aspect of talent management, leadership and other management areas.

The concept of capabilities is commonly found in literature on competitive advantage, changing environment, assets and resources, processes and activities, learning processes, and specificity and commonality of dynamic capabilities [3], [7], [11], [22], [29], [31], [36].

However, most of the discussion of capabilities focuses around the organizational capabilities rather than manager's competences and abilities in running an organization – which is the focus of our research. Of all the definitions we found, Teece *et al.* [31] and Mulders and Romme [25] come closest to our understanding of capabilities within the context of managers' capabilities.

According to Teece *et al.* [31], the term capabilities emphasizes the key role of strategic management in appropriately adapting, integrating and reconfiguring internal and external organizational skills, resources and functional competences to match the requirements of a changing environment. Meanwhile, Mulders and Romme [25] define dynamic capability as capabilities that convey deliberate knowledge, invoked on a repeated basis, on how to question purpose and effectiveness of the resource base; this deliberate knowledge then serves to generate and modify operating routines and processes to address changing environments and/or create market change.

No single opinion exists about what is a competency or competence neither in general definitions, nor in managing a company or organisation, or in performing job responsibilities.

For the purposes of this research authors define the following concepts: **capability** is the ability to use the competence and apply competence models in various situations; **competence** (plural – competences) is a set of skills, knowledge and attitude or set of competencies (single – competency) that include also personal behaviour or intent.

3. EMPIRICAL STUDY OF MANAGERS' COMPETENCES IN CHANGING ENVIRONMENT

All market economies periodically move through four development stages of expansion, peak, recession, and recovery. Similar stages can often be observed in an individual company's development. Authors analysed manager's competencies and capabilities in changing environment, focusing on extreme market conditions.

Crisis and rapid growth are considered the extreme phases of a cyclical development. Over the past years, companies in Latvia have experienced both situations: the steep economic growth of the mid-2000s followed by the rapidly evolving global crisis in 2008~2010. Adaptability has been crucial in both situations – the crisis and rapid growth. Yet the question which managerial competencies are necessary to ensure successful company management during each of these periods remains largely unanswered, especially for SMEs.

Statistics illuminate the dominance of medium, small and even micro companies in Latvian economy: according to Eurostat Statistical database [13], SMEs comprise 99,8% of all enterprises in Latvia. Since SMEs form such a crucial part of the economy in Latvia, we limited the scope of our research to small and micro enterprises.

The research methodology is based on research design and methods as developed by Eisenhardt [12] and further described

by Yin [37]. Research is based on eight main steps: defining research question(s), selecting cases, combining qualitative and quantitative data, entering the field, analysing data, extending existing theory, comparing emerging theory with existing literature and closing the research.

In this research, interviews were not conducted as deliberate part of the research, but served more indirectly – to prove the topicality of research before it was undertaken, as authors already mentioned earlier.

We used focus group method in our research for its highly interactive and dynamic character; diversity of opinions present in a focus group leads to a more creative and productive discussion, when compared to individual interviews. Also, Research by Griffin and Hauser [16] shows that one two-hour focus group reveals about the same number of results as two one-hour interviews while Carson *et al.* [6] indicate that “focus groups concentrate clearly on a specific topic and involve interactive discussion among its participants”.

The total number of focus groups respondents was 34, aged 24 to 63, both sexes and representing 34 different SMEs covering a variety of service and manufacturing industries. Focus groups were composed in such a way as to ensure maximum diversity of participants from both academic and business environment, and several methods and procedures were applied and tested in order to achieve the planned results of the focus groups.

In total, 3 focus groups of 8–14 persons each (size determined according to the methodology described by Griffin and Hauser [16]) were conducted.

We used the following process in conducting focus group discussions: at the beginning, focus group participants were asked to individually name 4–5 managerial competencies of a successful SME manager in each of the competence groups defined by Lapina and Aramina [17] – Professional competencies, Social and communication competencies, Personal and responsibility competencies and Innovative, learning and leadership competencies. These were then combined in a common list, creating certain sets of competencies within each group. As a result of the focus group discussions, 30 competencies that a manager should have to successfully manage an SME in crisis or rapid growth conditions were identified.

Customer need identification and analysis methodology of Quality Function Deployment method [1] was used to gather the results of the focus groups.

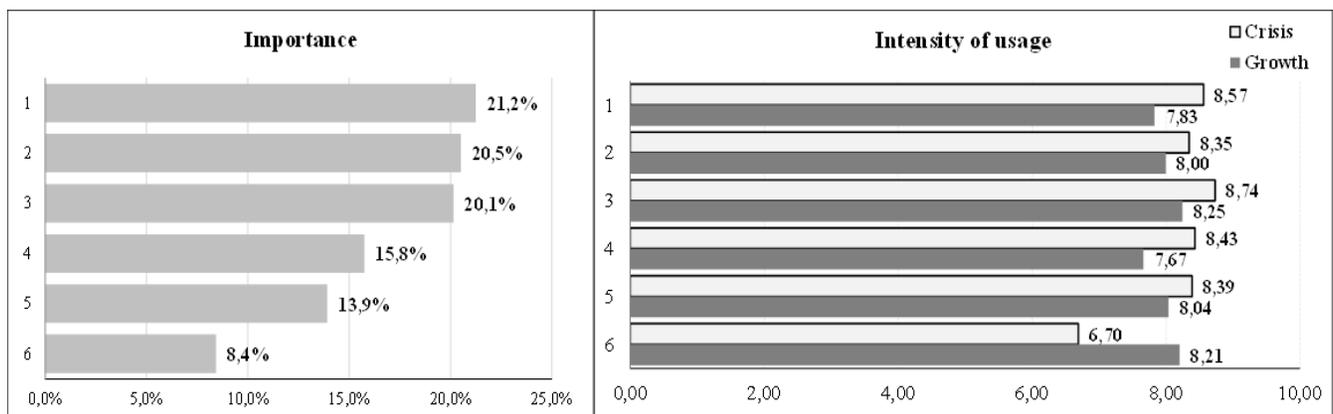
To ensure the model reflects managerial competencies, authors renamed some of the groups and relocated some competencies to different competence groups – resulting in a new competence model with the following four competence groups: Professional; Social and communication; Personal, responsibility and leadership; and Innovative and learning competences. As a result, a modified competence model for an “ideal” SME manager was developed, combining all managerial competencies into four competence groups.

Then, participants spent 15–25 minutes individually ranking the competence groups and competencies within the groups according to their importance for Latvian SMEs under regular market conditions. Afterwards, the participants ranked the competencies according to their importance in various market conditions – crisis and rapid growth.

The weight of each specific competency within a competence group is depicted – see Figures 1-4. The indicator is calculated for normal market conditions and various market conditions – crisis and rapid growth. The results of focus groups are described in detail below.

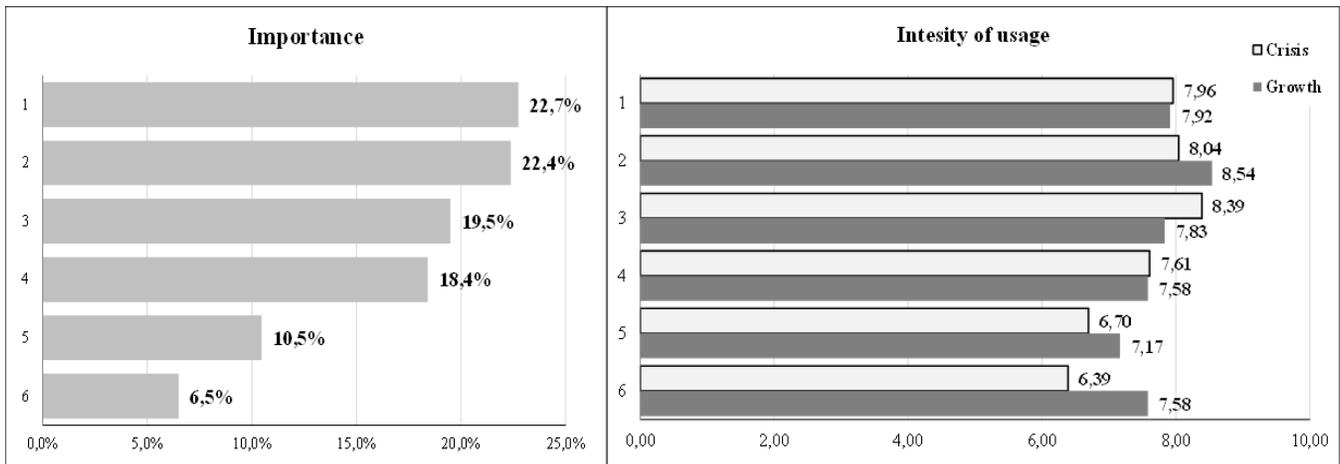
When ranking specific competencies according to their importance in managing a company under regular market conditions within each competence group, members of the focus groups agreed on the following:

- the most important *Professional* competencies are analysing and evaluating, and only then come planning and managing. Presentation skills were named the least important and motivation skills came third from the bottom. However, the ability to persuade and motivate is the third most important in the group of Social and communication competencies;
- in the next group – the *Social and communication* competencies group, the ability to form relationships within and outside the company were identified as the most important ones. Surprisingly, respondents considered language skills to be of minor importance. This, however, could be explained in two different ways: first, knowing at least two foreign languages has now become “a must have” for managers, especially if they operate in the export market, and second, great part of SMEs in Latvia work with local customers and their daily business does not require speaking foreign languages. It is likely that the absence of information technology proficiency on the list can be explained in the same way;



1. Ability to analyse and evaluate; 2. Ability to plan;
 3. Ability to manage; 4. Ability to motivate;
 5. Ability to react, delegate, and allocate risks; 6. Ability to present

Figure 1. Usage intensity of *Professional* competencies and their importance [created by authors]



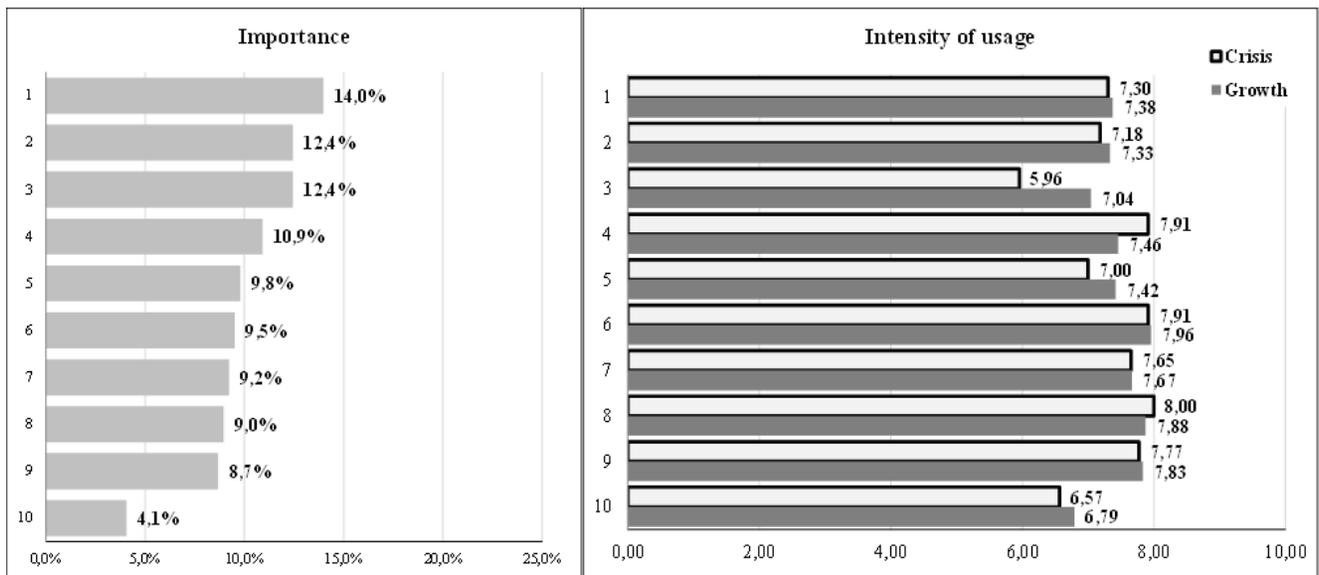
1. Ability to form relationships within the company;
2. Ability to form relationships outside the company;
3. Ability to persuade and motivate;
4. Ability to form and organize the team work;
5. Ability to find compromise, diplomacy;
6. Ability to communicate in a foreign language

Figure 2. Usage intensity of **Social and communication competencies** and their importance [created by authors]

- the most important *Personal and responsibility, leadership* competencies were leadership, self-organisation, self-development and responsibility, while self-criticism was considered of low importance. Since large part of these competencies can be thought of as personal qualities, it is typical to have a wide variety of opinions regarding the importance of any specific competency in this group; the rankings vary significantly while simultaneously attaching similar level of importance to several competencies. This is not

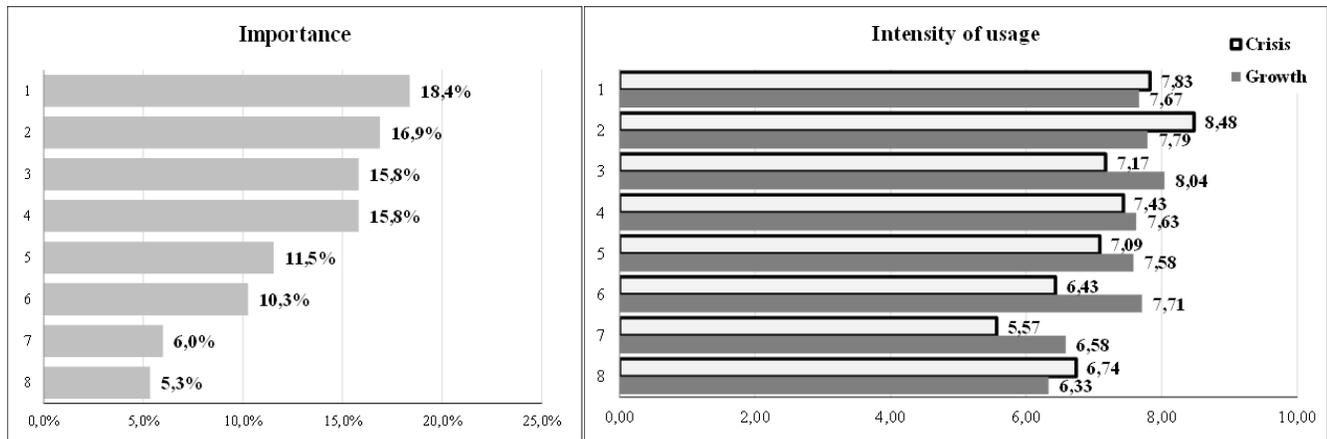
unexpected nor extraordinary, since this competence group is highly dependent on the manager's personality, specific organizational culture, business sector, customers, and other factors;

- creativity and ability to spot and cease opportunities are ranked first and second, respectively, within the group of *Innovative and learning* competencies. The interesting and rarely mentioned ability to notice illogical issues (also errors) came in last.



1. Leadership; 2. Self-organisation and self-development; 3. Responsibility;
4. Collaboration; 5. Erudition; 6. Respect; 7. Trustworthiness, loyalty;
8. Intelligence; 9. Intuition; 10. Self-criticism (reasonable)

Figure 3. Usage intensity of **Personal, responsibility and leadership competencies** and their importance [created by authors]



1. Ability to be creative; 2. Ability to spot and cease opportunities;
3. Ability to generate ideas; 4. Ability to take risk;
5. Willingness to learn; 6. Ability to promote employee development;
7. Ability to pass on knowledge and skills; 8. Ability to notice illogical issues

Figure 4. Usage intensity of *Innovative and learning competencies* and their importance [created by authors]

Analysing the arrangement and assessment of individual competencies under extreme market conditions, it can be observed that rapid growth does not ensure a more balanced use of all competencies of a manager, while in crisis predominance of certain competencies can be observed. For example, during crisis the importance of presentation skills reduces, when compared to periods of rapid growth (from 8.21 to 6.7). Significant drop in importance is also observed regarding responsibility (from 7.04 to 5.96). At the same time increased importance of analysis and evaluation abilities (+ 0.74 points), along with the ability to motivate (+ 0.76 points), and ability to spot and cease opportunities (+ 0.69 points) is observed in periods of crisis.

The most important competencies during crisis in each of the groups are ability to manage (among Professional competencies), ability to persuade and motivate (Social and communication competencies), intelligence (Personal and responsibility, leadership competencies group), and ability to spot and cease opportunities (Innovative and learning competences).

In rapid growth circumstances, however, the priority competencies are: ability to manage (within Professional competencies), ability to form relationships outside the company (Social and communication competencies), respect (Personal and responsibility, leadership competencies), and ability to generate ideas (Innovative and learning competencies).

The actual environmental conditions that a manager faces affect his/her ability to use these competencies. This ability to use specific competencies determines the set of capabilities a manager possesses. Thus, the set of capabilities a manager applies in everyday life is much narrower than the set of competencies this same manager actually holds.

4. CONCLUSIONS

Challenges that managers face regarding the competencies and capabilities needed to survive and succeed in a dynamic environment have been investigated in this research. The authors investigated importance of various managerial

competences. They particularly examined differences in competences required during economic downturn and growth.

When analysing the varying importance of competencies in light of different economic conditions, authors concluded that importance of competencies does vary along with economic changes – in times of economic crisis professional competence group plays a more significant role than the other groups, while during periods of growth importance of non-professional competence groups increases more significantly. When exploring in more detail the importance of individual competencies, high variance was observed: i.e., during crisis the importance of presentation skills and responsibility falls (a drop from 8.21 to 6.7 and from 7.04 to 5.96, respectively); while increased importance of analysis and evaluation abilities (+ 0.74 points), the ability to motivate (+ 0.76 points) and ability to spot and cease opportunities (+ 0.69 points) is observed.

The analysis of individual responses showed that importance of certain competences varies depending on the size of the company – even within the same statistical group of SMEs. The research revealed that managers of relatively larger companies – the medium sized enterprises within the SME group – were less involved in daily functional activities and had more space for the actual management function. In this case, the managers were assigning significantly different importance to various competencies in times of crisis and growth. Therefore, we conclude that the competences needed in small and micro enterprises differ from those required in managing medium size companies – and the differences in crucial managerial competences with regard to the company size need further exploration.

Based on the results of this research we are convinced further research on capabilities and competencies in SMEs will allow gaining a more thorough understanding of their role in ensuring sustainability in changing business environment.

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