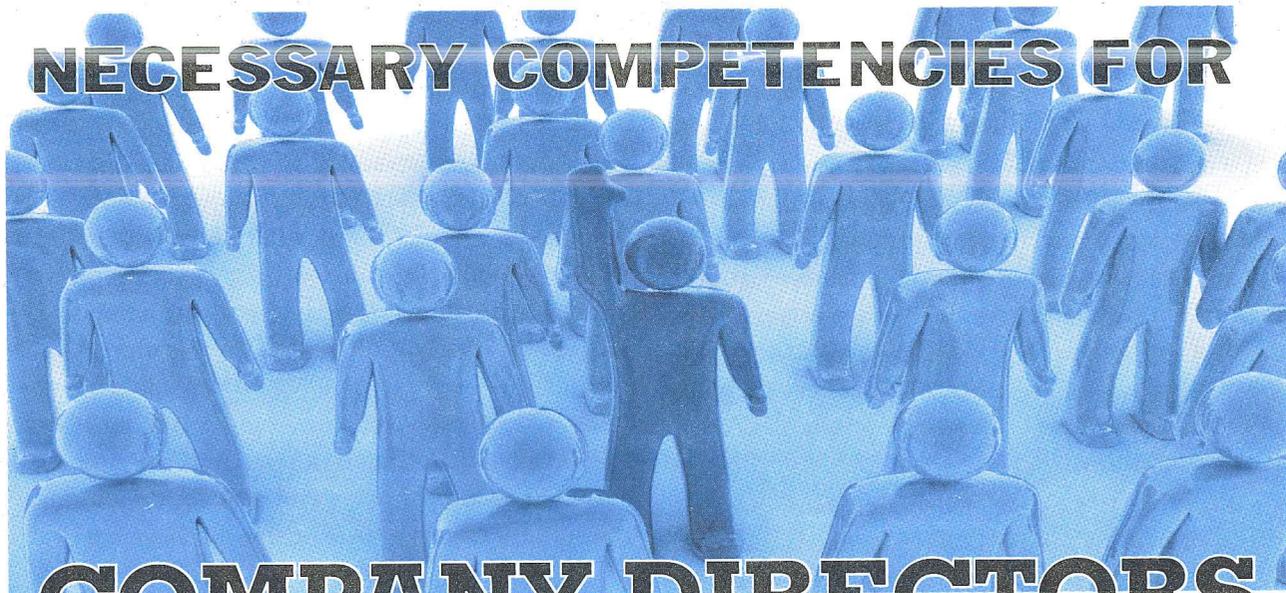


NECESSARY COMPETENCIES FOR



COMPANY DIRECTORS

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1. Introduction

In the world, discovering and measuring competencies in general, and the ones of directors in particular, have attracted attention from both researchers and the public. Many studies at national level of competencies have been carried out. In Vietnam dictionaries of competencies made their appearance in big groups. A major survey of 12 business managerial skills in 63,760 companies in 30 northern provinces was conducted in 2007 by Hà Nội-based SME Support Center and SME Development Office with help from the JICA. Realities seem to precede researches. Thus, this research on "Necessary Competencies of Company Directors" is carried out with a view to establishing criteria for measuring competencies of Vietnamese directors.

In the first stage, we employ qualitative methods to initially discover 96 skills necessary for directors. In the second and quantitative one, the CFA method is used for testing the scale measuring director competencies established in the first stage. Samples comprise 206 directors in HCMC. Results show that director competencies can be divided into six groups: ability to make plan, analyze and make decisions; ability to communicate and solve problems; ability to manage human re-

source; ability to master political, social and legal environment; ability to manage information; and ability to control financial matters with 21 accepted competencies. Director competencies affect greatly ($\lambda=0.80$, $p<0.001$) the firm performance. Research results may provide companies with a basis for working out criteria for recruiting, training, and estimating the director competencies, and add some material for reference about managerial skills in Vietnamese organizations.

2. Theoretical basis

a. Director competencies:

Although the term is widely used in both theory and practice, there is no definite definition of competency and its components. We decide to use the description of competency offered by the University of British Columbia: "Competencies are any behavior, motive, attitude, skill, knowledge or other personal characteristics demonstrated through behavior, that (a) is essential to perform your job, and/or (b) is crucial to the success of the unit and /or the position."

Because directors undertake a wide range of diverse and complicated tasks, researches on director competencies are also diverse. Some studies group such competencies according activities by directors. For example, Singer (2000) mentions 55

competencies in four fields of activities by directors. Similarly, Renee (2001, 171) suggests 58 competencies necessary for seven fields of activities. Other researches classify competencies according to their effects or scale of impact. Council on foundations (2006), for example, establishes two groups of director competencies: (a) basic competencies include all basic knowledge and skills required of all directors, and (b) functional competencies reflect knowledge and skill of directors in particular fields. These approaches to classification of competencies according to groups or fields of activity usually name various competencies and cover all fields of activity of directors. The competencies mentioned, however, are usually based on qualitative discoveries or only initially tested.

The quantitative approach usually lists and tests competencies necessary for directors. Collins (2004), for example, names 12 competencies needed for successful directors of small and medium enterprises.

Some researches applied broadly to realities as a special method of measuring and developing managerial competencies, such as the "360 degree feedback" by Center for Creative Leadership (1996) that presents 16 groups of key competencies in three fields: (a) Dealing with job challenges; (b) directing the personnel; and (c) communicating.

In reality, companies have to make job descriptions and work out standards of knowledge, skills and awareness necessary for a director.

Summary of existing researches on director competencies shows that a director should have competencies necessary for managers in general:

- (1) Strategic management
 - (2) Personnel management
 - (3) Concern for customers
 - (4) Management of resources
 - (5) Communicating skills
 - (6) Knowledge of markets
 - (7) Understanding of business and marketing issues
 - (8) Problem analysis
 - (9) Decision making
 - (10) Negotiation and discussion
 - (11) Understanding of laws and regulations
- And the director, at the same time, should have

competencies needed particularly for a director:

- (1) Alertness to business opportunities
- (2) Ability and influence and take the lead in the industry
- (3) Knowing how to set targets and missions
- (4) Political and legal alertness
- (5) Entrepreneurship
- (6) Understanding of superstructure
- (7) Being aware of international affairs
- (8) Ability to take care of organizational images, values, culture and prestige
- (9) Ability to realize corporate missions
- (10) Managing the pressure and keeping a balance between work and life
- (11) Ability to deal with uncertainties and ambiguities

Thus, existing researches name too many competencies necessary for directors to acquire. Do these competencies reflect characteristics of the Vietnamese business climate during its international integration? Based on competencies presented by theories, we tried to explore competencies needed for Vietnamese directors by employing group discussions, direct interviews, expert method, examination of answered questionnaires, and CFA method to test the scale values.

b. Relation between necessary director competencies and firm performance:

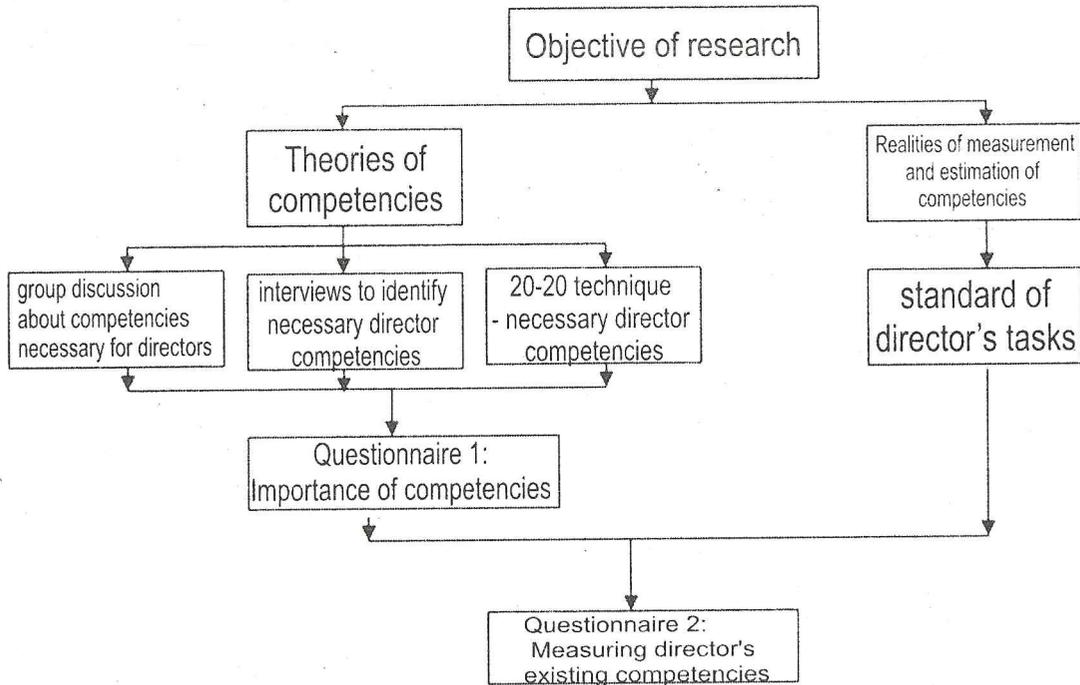
The firm performance is measured according to five criteria: financial result; potentials for development; customer satisfaction; recruitment and retention of skilled employees. This approach was used in studies by Singh (2004) and Pfeffer (1998). Studies by Renee (2001); Venero and Nabitz (2007), and Toor and Gunlana (2008) affirm that competencies of directors affect greatly the firm performance. Our research aims at measuring director competencies and the firm performance according to estimates by directors themselves.

3. Research stages and data processing

a. Stage 1: Initial discovery of competencies necessary for directors:

Objective of the first stage is to discover necessary director competencies. To identify all competencies characteristic of directors in Vietnam during the international integration, our research follows steps presented in Figure 1.

Figure 1: Process of discovering initially director competencies



The stage 1 is carried out with:

- Group discussion with eight managers to identify necessary director competencies.
- Listing 20 important competencies: Full-time employees taking graduate and postgraduate courses are asked to list 20 necessary director competencies. The result is 110 competencies suggested by 450 respondents.
- Intensive interviews with six directors are conducted to perfect the list, adjust and eliminate competencies identified by the past researches and previous steps; and 96 competencies are accepted and used for the next step of the research.
- Importance of director competencies discovered by qualitative researches is examined. Subjects for the examination are 45 managers from various companies. They are directors or persons who work with directors, so they can help select variables used for measuring the competencies. Participants in the examination are asked to estimate the importance of each competency according to a five –point scale, from 1 (totally unimportant) to 5 (very important) According to classification of answers applied to a survey con-

ducted by Tas (1988), competencies that have a value of 4.5 or higher are considered as essential; competencies with values varying from 3.5 to 4.49 are considered as important; and competencies in the 2.5 – 3.49 bracket are relatively important. Results show that all 96 competencies under consideration are important and relatively important.

- The expert method is used for establishing standards of director's tasks.

The last step of this stage is to make a list of necessary competencies for a director. Our group analyzes and classifies discovered competencies according to above-mentioned quantitative techniques and compares them with competencies found by past studies of foreign researches. Due to a large number of competencies discovered (96), shortage of fund for the survey, and lack of ability to get contact with directors, we decide to apply the approach taken by Singer (2000) in which each competency is measured by its sub-competency. For example, "understanding of monetary matters" is measured by knowledge of cash flow, conditions of capital market, interest rate, investment, and monetary and financial policies. At the end of the first stage, we accept 54 competencies.

b. Testing the scale for director competencies and measuring relations between such competencies and firm performance:

- Objects of the survey are directors. The survey is carried out with some difficulties because it's hard to get appointments with them – the highest leader of their organizations – and some questions in the questionnaires are sensible, such as “please check the box that reflect exactly your competency.” In spite of assurance that all answers are treated with confidentiality, directors are reluctant to assess their own competencies with the result that only 206 answers are sent back. Members of the research group have to explain the questions to potential respondents.

- Sample: the survey attracts 206 directors, that is sampling is based on convenience and they are directly interviewed. Of these participants, 146 (72.6%) are male and 55 (26.4%) are female; 17 (8.5%) are under 30; 53.3% are in the 30-45 age bracket; and 38.2% are older than 45. Regarding their education, 83.2% are graduates. As for their seniority, 39.2% have worked as directors for less than five years; 38.7% from five to 10 years; and 23% over 10 years. Regarding their workplace: 12.9% of respondents work for foreign-invested companies; 17.8% in the public sector; 47% for private businesses and 22.3% for joint stock companies.

- Scale test: All 54 competencies – variables discovered in the first stage undergo the EFA test and are reduced to groups of director competencies (this approach is applied by Ling and Fang - 2003). Some competencies are eliminated because of their low factor loadings, or being extracted from two groups of competencies or more. This act is necessary because some competencies are similar or overlapping. For example, competency in managing human resource also show itself clearly in skill in motivating employees; or understanding of business conditions is also found in political, social and legal knowledge. The resulting 23 competencies are divided into six groups of competencies.

In the CFA test, maximum likelihood estimation shows that the model has appropriate parameters: Chi-square [172] = 261.207; $p=0.000$; GFI= 0.858; TLI=0.911; CFI= 0.927; RMSEA=0.061; and the scale has composite reliability (ρ_c) = 0.884; variance extracted ρ_{vc} = 0.564; and weighted mean Λ = 0.745. Correlation coefficient between groups has a unidimensional value that varies from 0.407 to 0.762 with $(1-r)/SE > 1.96$. Four components that have unidimensional value are N3, N4, N5 and N6 because N1 and N2 have relations between errors. Table 1 presents result of the scale test.

Table 1: Scale test results

Scale	Components	Composite reliability (ρ_c)	Variance extracted (ρ_{vc})	Weighted mean (Λ)	Result
Scale measuring director competencies	6	0.8842	0.5643	0.7447	Acceptable
Analyzing and decision making	5	0.8537	0.5464	0.7276	Acceptable
Communication and problem-solve	3	0.8374	0.5702	0.7438	Acceptable
Human resource management	5	0.8069	0.5115	0.7143	Acceptable
Understanding of political, social and legal environment	2	0.7285	0.4728	0.6867	Acceptable, but ρ_{vc} is rather low
Information control	3	0.6107	0.4414	0.6620	Acceptable, but ρ_{vc} is rather low
Financial management	3	0.7052	0.5447	0.7380	Acceptable

After the CFA, the scale measuring the director competencies comprises six components/ groups with 21 variables whose names are as follows:

- N1: Planning, analyzing and decision making:

- (1) Decision making
- (2) Problem analyzing
- (3) Situation analyzing
- (4) Target establishing
- (5) Short-term tactics/ orientation planning

- N2: Communication and problem-solve:

- (6) Problem solving
- (7) Horizontal communication
- (8) Vertical communication

- N3: Human resource management:

- (9) Personnel encouraging
- (10) Influencing
- (11) Labor managing and paying
- (12) Job performance evaluating
- (13) Subordinate training and developing

- N4: Understanding of political, social and legal environment:

- (14) Social and political understanding
- (15) Legal regulation knowledge

- N5: Information control:

- (16) Network building
- (17) Information gathering
- (18) Overall environment analyzing

- N6: Financial management:

- (19) Profit managing
- (20) Cost understanding and controlling
- (21) Budget control

- Test of the scale measuring the firm performance: The scale has the Cronbach alpha reliability of 0.815. In the CFA test, the scale has results appropriate to parameters: Chi-square (2) = 2.185; $p = 0.335$; GFI = 0.993; TLI = 0.997; CFI = 0.999; RMSEA = 0.026 and the scale has composite reliability (ρ_c) = 0.834; variance extracted ρ_{vc} = 0.5572; and weighted mean $\Lambda = 0.7458$.

- Test of measuring model: Parameters of the model are appropriate to Chi-square (252) = 403.57; $p = 0.000$; GFI = 0.822; TLI = 0.885; CFI = 0.903; RMSEA = 0.066; and the scale has composite reliability (ρ_c) = 0.884; variance extracted ρ_{vc} = 0.564; and weighted mean $\Lambda = 0.745$. Correlation coefficient between latent variables of the competency scale with the variable of firm per-

formance is somewhere between 0.424 and 0.698 with values of $(1-r)/SE > 1.96$.

- Results of the test of research model: Parameters of the research model are relatively appropriate: Chi-square (266) = 416.853; $p = 0.000$; GFI = 0.819; TLI = 0.891; CFI = 0.904; and RMSEA=0.064. Results of the CFA test show that the scale with six components and 21 competencies is acceptable. Impact of the director competencies on the firm performance is apparent ($\lambda = 0.80$; $p < 0.001$). Explanatory degree of competencies for the firm performance R^2 is equal to 0.64. This means that, according to directors, 64% of the firm performance is explained by the director competencies.

4. Result discussion

All 96 competencies discovered and tested initially in the stage 1 are considered as important or relatively important to directors. In the stage 2, 96 competencies are reduced to 54 competencies for convenient examination and test. After the CFA test, the six components of the scale (21 variables) measuring the director competencies encompass all aspects of operations of directors (Planning, analyzing and decision making, Communication and problem-solve, Human resource management, Understanding of political, social and legal environment, Information control, and Financial management). Of the competencies as variables, 33 ones are eliminated during the CFA test because:

- Discrimination between competencies under examination is not clear, and one competency can be extracted from many elements. For example, personnel skill has a close correlation with the personnel encouraging skill.

- Variables presented in the questionnaire are generalized instead of observed ones. Although explanation is enclosed with the questionnaire, misunderstanding is inevitable among respondents.

- In addition, many Vietnamese directors are not equal to their position. We can easily see that the six components of the scale reflects more general skills of managers in their operations and tasks than competencies needed for the top leader of the company, such as entrepreneurship and strategic vision, etc. It is because most directors today still pay too much attention to operations that deal with immediate challenges posed by the

market instead of some long-term plans. Such concepts as missions and visions are still new to many directors, especially in SMEs. To affirm this remark, however, we need more studies.

Six components of the scale, however, still reflect contents to measure; and the director competencies produce huge effects on the firm performance and the explanatory degree of these competencies for the firm performance is very high.

5. Principal contribution of the research

Theoretically, the research discovered and tested the competency scale, and found out relations between groups of competencies and the firm performance. The research affirms these competencies affect greatly the firm performance. The competency scale can serve as a basis for selecting and measuring the director competencies, and perfect the scale needed for researches on competencies. Information gathered by the research can help training centers work out training programs appropriate to demands from realities.

6. Shortcomings in the research and suggestions for follow-up researches

The first shortcoming comes from the convenience-based sampling. Most directors who take part in the survey are competent ones from well-managed companies in HCMC (directors from loss-making companies have refused to participate in the research).

The second shortcoming is the small size of samples. Getting access to top leaders of companies is no easy task. In addition, the content of the research is sensible and may prevent many directors from taking part in it.

Thirdly, the measuring model comprises a large number of variables because of diverse and complicated tasks of directors, and as a result, the limited number of participants forces the research group to join two or three variables together. This practice can reduce the number of variables but it may lead to overlapping effects, and the fact that variances of some variables are extracted from the same two or more groups of competencies may increase the errors. Future researches may be conducted with sample of bigger sizes or being selected scientifically or be based on better approaches with a view to reducing the number of observed variables, thereby measuring more ex-

actly effects of each variable on the firm performance ■

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