

PROJECT MANAGEMENT COMPETENCES NEEDED: AN ANALYSIS OF PRELIMINARY WISDOM OF APPLICATION OF ESTONIAN RECONSTRUCTION ACT

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Abstract

This paper is intended to explore the essential need for project management competences in reconstruction of companies. On 26 December 2008 the Reconstruction Act (in Estonian *Saneerimisseadus*, translated also as Reorganization Act and Rehabilitation Act) was forced in Estonia. This was quite a „revolutionary“ development in the insolvency-related business regulations and thus in the whole business environment in Estonia.

In this paper we examine the Estonian Reconstruction Act and carry out a cross-case analysis of accumulated empirical experience and existing court practice in Estonia. Our methodical approach (particularly for the first task) is following the new institutional and behavioural economics, namely the economic analysis of law. Our main working hypothesis is that the process of reconstruction has the typical attributes of a project and thus, its implementation requires application of specific tools and techniques which are used in project management. The only logical deduction is that the managers of the reconstruction process must have (at least basic) competences of project management. We examine the need of specific project management competences across all the three competence areas and 46 competences of IPMA International Competence Baseline and prevail upon that not only technical, but also contextual and behavioural competences are necessary. Also we pay attention to possible policy implications, showing that successful reconstructions can make the Schumpeterian „creative destruction“ less „destructive“ and more „creative“ and thus influence sustainability.

Keywords: Business reconstruction, Project Management, Competences

Introduction

The purpose of reorganization law is to provide an insolvent debtor with a limited but reasonable period of time within which to develop a plan and present it to its creditors, who must decide to whether to accept or reject it (Saneerimisseadus, 2008). When the act was entered into force, even The World Bank reflected it in their annual report (The International..., 2009). The objectives of rehabilitation can be summarized as rescuing financially distressed firms, maximizing the values of assets for creditors, and protecting the public interest. But the overall economic objective of rehabilitation procedures is to enable a financially distressed enterprise to become a competitive and productive participant in the economy, thereby benefiting not only the main stakeholders of an enterprise (owners, creditors, and employees) but also the economy more generally (IMF, 1999). Thus, successful reconstructions can make the Schumpeterian „creative destruction“ less „destructive“ and more „creative“ and thereby increase the overall sustainability in the whole economy and society.

Our main working hypothesis is that the process of reconstruction has the typical attributes of a project and thus, its implementation requires application of specific tools and techniques which are generally used in project management. The only logical deduction is that the managers of the reconstruction process must have (at least basic) competences of project management. We examine the need of specific project management competences across all the three competence areas and 46 competences of IPMA International Competence Baseline and prevail upon that not only technical, but also contextual and behavioural competences are necessary.

Research Methods

The methodical approach (particularly for the first task) is following the new institutional and behavioural economics, namely the economic analysis of law. Our empirical data are derived from an inquiry which was conducted in spring 2010 among the 80 potential reorganization advisers (Noppel, 2010). The inquiry included also a question about competences that the reconstruction adviser needs.

Project and Reorganization

The reorganization of an enterprise means the application of a set of measures in order for an enterprise to overcome economic difficulties, restore its liquidity, improve profitability and ensure sustainable management (Saneerimisseadus, 2008). That means an organization cannot continue its normal activity without concurrent difficulties. The role (and even existence) of projects in organizations has actually not yet found total consensus in academic literature. For instance, Turner, Grude and Thurloway (1996) pointed out that organizations undertake projects when they can achieve their business objectives more effectively than by doing routine things and when the potential benefits outweigh the risk. Cleland and Ireland (2006) stated that project management has been used to create change or deal with change in societies since ancient times. Lindgren and Packendorff (2003) proposed a project-based view of entrepreneurship, where the main characterizing keyword is seriality. The last is actually well-known in entrepreneurship literature as serial entrepreneurship, representing one kind of habitual entrepreneurship (see, for instance Ucbasaran *et al.* 2008). And recently, Kuura, Blackburn and Lundin (2011) scrutinized the relations of entrepreneurship and project management and emphasized that "... certain stages in life cycle of every business – like (re-)development, relocation, renewal, etc. – meet the substantial criteria of a project and therefore should be treated as projects." (ibid: 15). Lukason (2008) also interprets reorganization as a process which has an influence on the organizational activity and the company could act more or less effectively.

There is not (yet) a uniform definition for a project or a programme or for project management and we will not go into discussion of a „right“ definition. Here we rely on definition of IPMA¹¹ (2006) stating that “A project is a time and cost constrained operation to realize a set of defined deliverables up to standards and requirements”. More and more projects of different kinds are managed professionally. For instance, there are projects in organizational development and legislation (IPMA 2006).

IPMA (2006) has also spotlighted the main issues in projects and programmes and differences between them from a management perspective. In order to show that reorganization has typically to deal with the same issues, we constructed the counterparts of projects/programmes in the reorganization, as presented in Table 1 (the third column).

Table 1. Project, programme and reorganization: main issues and differences

| | project | programme | reorganization |
|-----------------------|--|--|---|
| The goal (of a) | is to produce deliverables | is to achieve strategic change | is to ensure sustainable management for a company |
| Vision and strategy | are related through the business case of a project | are realized by a programme | are realized by reorganization plan |
| Business benefits | are largely excluded from a project | are largely included in a programme | are largely included in a reorganization |
| Organizational change | is often excluded from a project | is usually included in a programme | is usually included in a reorganization |
| Time, cost | are defined in the business case and are manageable in a project | are roughly defined within the strategy; are broken-down to individual projects within the programme | are defined in the reorganization plan |

Sources: IPMA 2006; authors (reorganization).

Looking at the issues related to projects and programmes and their counterparts in reorganization (Table 1) we can say that (according to general understandings) reorganization has even more similarities with a programme than a project. This is explicitly apparent in terms of the goal, vision and strategy, business benefits and (most probably) also organizational change. Yet, in terms of time and cost it is more similar to a project; and treating reorganization as a programme (consisting of several projects) may not be necessary in most cases.

Reorganization act (Saneerimisseadus, 2008) also names “project”, standing for rehabilitation plan. In general understandings, this is a project proposal and/or a project (management) plan, to be accepted and approved by those involved and communicated to the relevant interested parties (IPMA

¹¹ International Project Management Association (www.ipma.ch)

2006). According to the law, a rehabilitation plan also needs an approval of creditors (Saneerimiseadus, 2008).

It is useful to note here that the meaning of a project as a plan (scheme, design, etc.) is historical, leading back to the early roots of projects in engineering (see Cleland & Ireland 2006).

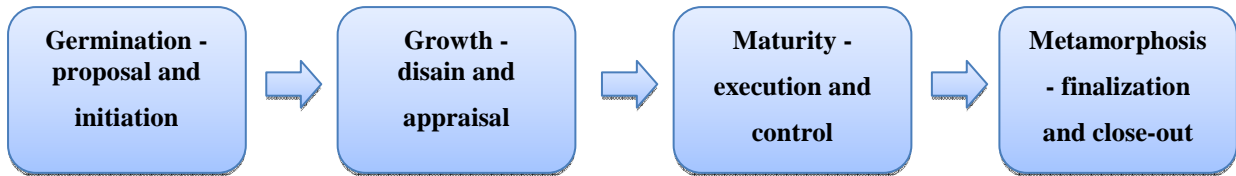


Figure 1. The four-stage life cycle of a project (Turner, 1999).

In germination phase reconstruction process begins with the problem identification or cognition of the risk. The adviser shall immediately obtain information about the economic situation and the planned reorganisation of the enterprise. In the growth stage reorganization adviser (with organization management) shall promptly notify the obligees of commencement of reorganisation proceedings and the amount of the claims that they have against the undertaking according to the list of debts. The third stage in reconstruction process includes implementation of the rehabilitation plan, monitoring and reporting to the court. Then adviser analyses the solvency of the undertaking during reorganisation proceedings and, if insolvency has become evident, notify the court and the undertaking promptly thereof. In the last phase of the reorganization process finalization and close-out are needed.

Reorganization Adviser as a Project Manager

A reorganization adviser has a very important role during the process because the course of company"s reorganization proceeding depends greatly on his/her knowledge and skills. It has been argued (Noppel, 2010) what skills should a good adviser have and concluded that there is a need for extensive knowledge of economics, legal and management issues. One must admit that there are a lot of requirements for one person but the charge is also in correspondence with the work, i.e. sufficiently motivating.

The debtor usually selects the person to act as a monitor or a trustee. Estonian Reorganization Act (Saneerimiseadus, 2008) validates that reorganization advisers can be:

- 1) sworn advocates, sworn advocates's senior clerks¹², auditors and trustees in bankruptcy;
- 2) other natural persons who are honest and of moral character, and who are proficient in oral and written Estonian, who possess good economic and the necessary legal knowledge and who have been awarded an officially recognized Master's level degree;

¹² Often called „attorney at law“ and „assistant attorney at law“.

3) investment firms and credit institutions.

There has been considerable debate about who is the best adviser in rehabilitation procedure. In Estonian practice court usually appoints an attorney or trustee in bankruptcy as an adviser. Some of the parties had doubts about the advisability of this action. Herewith we want to point out a risk – trustees in bankruptcy as reorganization advisers may tend to turn the reorganisation into bankruptcy – because this process is more familiar to them and also may be more quicker and easier for other involved parties, especially for (some) obligees. Obviously, this will not make the Schumpeterian „creative destruction" less „destructive" and therefore, will not be the best for many involved parties, from the owners-managers to the whole society.

IPMA chose the project management competences from three ranges: the technical range, the behavioural range and the contextual range (IPMA 2006) and those ranges are divided into different elements.

Technical competences include (*ibid.*): project management success, interested parties, project requirements & objectives, risk & opportunity, quality, project organization, teamwork, problem resolution, project structures, scope & deliverables, time & project phases, resources, cost & finance, procurement & contract, changes, control & reports, information & documentation, communication, start-up and close-out. Reorganization adviser needs at least level B of effective technical competence, which means he/she has to have shown effective application of the technical competence elements in complex project situations and within the scope of the project. It is very important, that the adviser should identify all the interested parties, what their interests are, and sequence both in order of importance to the project. At least same important competence as the last mentioned, is reorganization cost and change management. It is self-evident that reorganizer need a good contract management skills. Due to the fact that the implementation period of reorganization act is too short and there is no proper judicial practice, adviser has to have very good communication abilities.

Behavioural competence elements are (*ibid.*): leadership, engagement & motivation, self-control, assertiveness, relaxation, openness, creativity, results orientation, efficiency, consultation, negotiation, conflict & crisis, reliability, values appreciation and ethics. The descriptions of effective behavioural competence of a reorganization manager have also been described in level B: he/she has to have shown effective application of the behavioural competence elements in complex project situations and within the scope of the project. Reorganization project is so important to the companies involved that there is no space to failure or need for guidance.

Contextual competence elements are (IPMA 2006): project orientation, programme orientation, portfolio orientation, project, programme & portfolio implementation, permanent organization, business, systems, products & technology, personnel management, health, security, safety & environment, finance and legal competence. The descriptions of effective contextual competence at level B state that he/she has to have shown effective application of the contextual competence elements in complex project situations and related to its scope. Undoubtedly, we can say that advisers finance and legal competences are essential for survival of the company.

The requirements to a reorganization adviser and his/her fee are high because the specialist chosen by an undertaker and later approved by the court will incur high financial costs to the company involved. The inquiry (Noppel, 2010) revealed that the most important competences are management skills and after that comes economical and legal competences (see Figure 2).

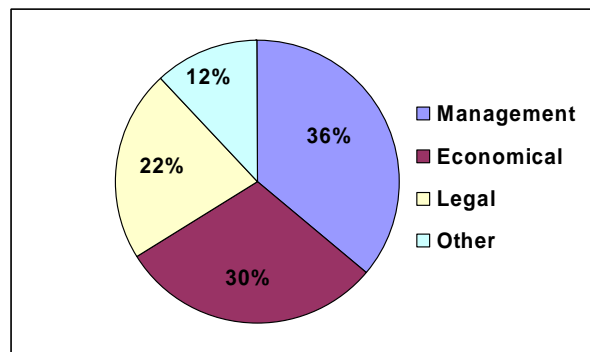


Figure 2. Reorganization advisers competences needed (Noppel, 2010).

Restructuring proceedings may involve intense negotiations between the debtor and the creditors. During the negotiation stage, the draft plan may be significantly modified. The most important role in this negotiation is reorganization manager’s communication competences, which confirms the conclusion reached earlier.

The total competence required per range should be split between the ranges in the following proportions (See table 2).

Table 2. Weighting of competence ranges of project managers by IPMA ICB and reorganization advisers

| Competence range | IPMA Level A % | IPMA Level B % | IPMA Level C % | IPMA Level D % | Reorganization advisers % |
|------------------|----------------|----------------|----------------|----------------|---------------------------|
| Technical | 40 | 50 | 60 | 70 | 20 |
| Behavioural | 30 | 25 | 20 | 15 | 30 |
| Contextual | 30 | 25 | 20 | 15 | 50 |

Sources: IPMA 2006; authors (Reorganization advisers).

Weightings of competence ranges of reorganization advisers above are rough and perceptual and basing on logical deductions. As seen in Table 2, the reorganization advisers are most similar to IPMA Level A („*Certified Projects Director*” – IPMA 2006) but good contextual competences are even more important. This is mainly because of two competence elements – business (or business case) and permanent organization.

Moorhead (2010) is convinced that although all professionals are specialists (lawyers “specialize” in “law”), there is now a growing sense that general professional status may not always be sufficient to render lawyers competitive or competent. That brings us to the aforementioned topic if the trustee in bankruptcy or a sworn advocate is the best reorganization adviser.

Concluding remarks

The first part of the article explored the project and reorganization as a process. Our main working hypothesis was confirmed and we are now convinced that the process of reconstruction has the typical attributes of a project. The only logical deduction is that the managers of the reconstruction process must have the same competences as project manager. We examined the need of specific project management competences across all the three competence areas and can conclude that a reorganization adviser needs not only technical, but also contextual and behavioural competences.

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