

Received: 2 April 2020

Accepted for publishing: 6 January 2021

DOI: 10.32025/JBM19002

In search of high-performance workplace factors among SMEs

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ABSTRACT

Purpose. Small and medium-sized enterprises (SMEs) are essential contributors to employment creation and global economic growth. For long-term survival in the market, SMEs need the capabilities to organise their resources in a way that leads to high performance and competitive advantage. Based on the conceptual framework of entrepreneurial orientation and the resource-based view of the firm, performance-influencing organisational factors among SMEs providing manufacturing services are analysed.

Methodology. In this study, the financial performance of 47 SMEs was analysed, and a survey of 499 employees was conducted. Financial performance was evaluated by ROA and ROS, and productivity was measured by turnover and net profit per employee to identify high-performance SMEs. Competitive aggressiveness was measured by changes in the market share to verify whether the high-performance group of SMEs corresponds to the entrepreneurial orientation construct. A questionnaire with a six-point Likert scale and the Mann–Whitney U test were used to test the hypotheses.

Findings. The managerial capabilities to create strong workplace performance exist where: (a) management has a respectful attitude toward employees, (b) management supports the development of employees' professional skills, (c) employees are provided with everything they need to achieve high job results, (d) employees want to work for the company in the long term, (e) remuneration to employees is fully in line with their level of professional skills, (f) co-workers perform their work effectively, (g) employees work shorter job shifts. These elements constitute the knowledge-based resources of high-performance SMEs, giving them, at a minimum, a temporary competitive advantage.

Value. The findings of this article contribute to the literature on entrepreneurial orientation, supplementing the construct of organisational factors with the characteristics of managerial capabilities leading to high performance and competitive advantage.

Keywords: entrepreneurial orientation, managerial capability, performance, forestry SMEs

Paper category: research paper

INTRODUCTION

On the global scale, the process of delivering goods and services to consumers has become highly specialised. Businesses focus on their strengths in home markets and outsource their other needs (World Bank, 2020), thereby creating global value chains with multiple companies involved in the manufacturing process. A typical model of a global value chain consists of large organisations that contract smaller organisations for the services needed to deliver their products to the market. Therefore, small and medium-sized enterprises (SMEs) become an important link in the creation of wealth across the globe. According to Ayyagari *et al.* (2014), the SME sector's contribution is comparable to that of large firms. SMEs have the largest share of employment creation and the highest sales and employment growth. Large companies, however, have higher productivity growth. Therefore, it is essential to focus research on the capabilities of SMEs to survive and thrive as a part of a value chain or as individual companies.

To be successful in the market, a company needs to create a competitive advantage. The creation of sustained competitive advantage depends on the unique resources and capabilities that a company uses to compete in its market. Managers must search inside their company for valuable, rare and costly-to-imitate resources, and then use these resources in their organisation (Barney, 1995). Therefore, managerial knowledge and capabilities play an important role in the success of a company. In particular, managerial capabilities can be internal factors that limit the growth of a company (Penrose, 1959) because the valuable, rare and socially complex resources and capabilities of the company must be organised in a way that exploits its full competitive potential (Barney, 1995). From the perspective of the resource-based view of the firm (RBV), resources can be divided into those that are knowledge-based and those that are property-based (Penrose, 1959; Miller and Shamsie, 1996). Managerial capabilities comprise a knowledge-based resource of a company and, compared to property-based resources, are better designed to respond and adapt to the challenges facing the company. This is because knowledge-based resources provide the company with the skills needed to adapt their products to market needs and to deal with competitive challenges (Miller and Shamsie, 1996).

Moreover, the complexity and tacitness of technological knowledge are useful for protecting the significant product improvements of a company from imitation (McEvily and Chakravarthy, 2002). However, companies with similar capabilities might have different economic returns depending on the composition of their competitors (Chatain, 2010). This might also be explained by the fact that the performance of a company depends on the performance of its employees, regardless of the size of the company and its other characteristics (Aguinis, 2009). In this light, the proposition by Hansen *et al.* (2004) is very topical. Hansen *et al.* propose to shift the focus of RBV research from the relationship between resources, capabilities and the financial performance of the company to the relationship between administrative decisions and company-level financial performance. For this purpose, the entrepreneurial orientation (EO) construct is a suitable

approach. It embraces an essential aspect of the way a company is organised, and it suggests that knowledge-based resources are positively related to a company's performance and that EO enhances this relationship (Wiklund and Shepherd, 2003).

Considering that SMEs individually, or as a part of large organisations' value chains, contribute remarkably to global economic activity – and that the managerial capabilities of these companies play an essential role in the management of resources, the creation of competitive advantage and the growth of the companies – the following research question is proposed: What differentiating characteristics of managerial capabilities result in high performance and competitive advantage of SMEs? The objective of this article is to determine the differentiating characteristics of managerial capabilities in high-performance SMEs. The study is based on the conceptual framework of EO and the resource-based view of the firm.

The next section of the study is the literature review, a depiction of the theoretical background and the development of the hypotheses. The third section contains a representation of the research methods. In the fourth section, the study results are reported. Then, in the fifth section, the findings are discussed, and recommendations for further research are proposed. In the sixth section, the article concludes with an outline of the limitations of the study.

LITERATURE REVIEW

The resource-based view of the firm

RBV focuses on the resources and capabilities controlled by a company that underlie persistent performance differentials among competitors (Peteraf and Barney, 2003). A business company is both an administrative organisation and a collection of productive resources (Penrose, 1959). The value of administrative, or knowledge-based (Miller and Shamsie, 1996), resources is reflected in the quality of administrative decisions that influence the performance of the company (Hansen *et al.*, 2004). To create more value than its competitors, a company must produce greater net benefits, through superior differentiation and/or lower costs (Peteraf and Barney, 2003). Although companies may possess similar or homogeneous property-based resources, due to different knowledge of how to exploit them, companies are capable of rendering different productive services (Penrose, 1959). This means that, due to resource heterogeneity, some companies have resources that generate more value than others (Peteraf, 1993). Therefore, companies with superior, more value-generating resources will have a competitive advantage (Peteraf and Barney, 2003). The more valuable and rarer a company's resource-capability combinations are, the higher the probability will be that it will have a competitive advantage (Newbert, 2008). Meanwhile, a company has a competitive advantage if it is capable of generating more economic value than a marginal competitor in its product. Also, the economic value

generated by a company is the difference between the perceived benefits of the product buyers and the economic cost to the company. Several or even many companies in a given industry may have a competitive advantage (Peteraf and Barney, 2003). The potential of a company's competitive advantage depends on the value, rareness, and imitability of its resources and capabilities, as well as on its organisational readiness to exploit these resources and capabilities, known as the VRIO framework (Barney, 1995). Resources and capabilities, such as research and development intensity and advertising intensity, positively influence financial performance, lead to resource heterogeneity and assist a company in achieving competitive advantage (Nair and Bhattacharyya, 2019). Previous studies on EO show that when applied to the VRIO framework, EO represents how a company is ready to discover and exploit opportunities (Wiklund and Shepherd, 2003). Therefore, in this study, RBV and EO are taken as theoretical concepts to explain how characteristics of managerial capabilities result in SMEs having a high level of performance and a competitive advantage.

Entrepreneurial orientation

EO is positively associated with the financial performance of a company (Poudel *et al.*, 2019). EO can assist in the explanation of managerial processes that provide some companies with the capability to use their resources and to respond to challenges earlier than their competitors (Wiklund and Shepherd, 2003). EO is characterised by entrepreneurial themes, which include the dimensions of autonomy, innovativeness, risk-taking, proactiveness and competitive aggressiveness (Lumpkin and Dess, 1996; Wales *et al.*, 2020). It moderates the relationship between a collection of knowledge-based resources and company performance (Wiklund and Shepherd, 2003). Managerial competence is a vital function of the quality of the entrepreneurial services available to the company (Penrose, 1959). Factors such as managerial style, need for achievement and other social or motivational factors might help to explain a company's performance (Lumpkin and Dess, 1996). EO, as an organisational property, shows up when an organisation's top management style, organisational configuration, and new entry initiatives demonstrate an entrepreneurial theme (Wales *et al.*, 2020). Companies managed by executives with high individualism will have a higher performance than those whose executives have low individualism (Yucel, 2011). Executives with superior reasoning and problem-solving capabilities are likely to have more potential to design more effective business models and to make more intelligent investment decisions (Helfat and Peteraf, 2015). Moreover, executives whose personalities reflect higher core self-evaluations have a stronger positive influence on their company's EO (Simsek *et al.*, 2010). Furthermore, EO facilitates SMEs in achieving environmental sustainability and improving performance (Amankwah-Amoah *et al.*, 2019), while green purchasing capabilities have a positive effect on the growth of a company, and this relationship is positively moderated by the environmental orientation of the chief executive officer (CEO) (Andersén *et al.*, 2020). CEO founder status is positively related to EO (Deb and Wiklund, 2017). This indicates

the importance of managerial capabilities in leading a company to success in the market. Capabilities, in general, encompass the capacity to perform physical and mental activities (Helfat and Peteraf, 2015). Meanwhile, managerial capabilities embrace the managerial knowledge of individuals who work in the company. The individual's managerial knowledge consists of such domains as managerial, functional, technical, company and environmental knowledge (van den Bosch and van Wijk, 2001). Therefore, knowing how to create a high-performance workplace is a prerequisite to building a successful and competitive company, and managers play the leading role in this process.

Workplace

High-performance work practices in the development of individual workers' key competencies are essential in the creation of a high-performance organisation (Leoni, 2012). A study by Doeringer *et al.* (1998) shows that Japanese hybrid workplace systems emphasise social and organisational learning, employee participation in problem-solving and employee commitment as the principal means of motivating labour efficiency. Employees are rewarded with career advancement and high wages, and they respond with high labour productivity. Additionally, Smith (2003) points out that training structures and policies need to be supportive of learning in the workplace, and training personnel need to be skilled.

Furthermore, improvements in workplace organisation, including re-engineering, teams, incentive pay and employee participation, are a significant component of productivity growth. Productivity is higher in companies with more highly educated employees (Black and Lynch, 2001; 2004), flexible job assignments and employment security (Ichniowski *et al.*, 1997). However, the effect of these practices on employees' welfare is diverse (Black and Lynch, 2004). Therefore, reward management is important in a company, which includes necessary strategies, policies and processes to ensure that the value of employees and the contribution they make to achieving objectives is recognised and rewarded (Armstrong, 2012). Many studies show that when monitoring costs are low, piece-rate payment is appropriate (Lazear, 1986) and pay-for-performance increases productivity (Shearer, 2004; Gielen *et al.*, 2010) and attracts more skilled employees (Lazear, 2000; Gielen *et al.*, 2010). Nonetheless, individuals value pay differentially, and those who attach a higher perceived value to pay are those who perform at higher levels in an incentive environment (Fox *et al.*, 1993). However, reward management is not just about pay and employee benefits. It is also about non-financial rewards such as recognition, training and development opportunities and increased job responsibility (Armstrong, 2012).

Moreover, productivity increases when working alongside more capable friends (Bandiera *et al.*, 2010). However, managers are important actors in the creation of a high-performance company. Knight (2000) stresses the importance of managers in adapting to changes in their environment at a tactical level and an operating level to employ the tactics

needed to maintain or enhance the company's performance. Process management practices play an essential role in the adoption of environmental practice (Jakhar, 2016). Eisenhardt (2013) points out that successful top management teams are diverse, have a history of working together, can be conflictual but are quick to make strategic decisions, rely on 'simple rules' and are capable of designing an organisational structure. However, Buckingham and Coffman (1999) argue in their study that great managers do not believe that, with enough training, an employee can achieve anything; they do not try to help employees overcome their weaknesses but focus instead on the strengths of each individual. The authors also argue that no matter how generous its pay or how significant its expertise, a company that lacks great front-line managers will fail. Thus, the importance of managerial capabilities in creating a high-performance workplace is beyond question, and, according to Buckingham and Coffman (1999), the strength of a workplace can be measured by twelve questions, which cover the main elements needed to attract, focus and keep the most talented employees. However, Buckingham and Coffman's study (1999) embraced small and large companies from various industries. Therefore, in this study, it is argued that the differentiating characteristics of a high-performance workplace in the context of SMEs might differ from those found in previous studies. Thus, based on Buckingham and Coffman's (1999) characteristics of the high-performance workplace, and given that the performance of a company depends on the performance of its people (Aguinis, 2009) and that due to resource heterogeneity some companies have resources that generate more value than others (Peteraf, 1993), the following hypotheses are put forward:

H₁: the management of high-performing SMEs has the capabilities to create a workplace that differs significantly by having the following characteristics of a productive workplace:

- a) employees' remuneration is based on pay-for-performance
- b) employees' salary is fully in line with their level of professional skills
- c) employees always receive recognition from company management for a well-performed job
- d) employees are doing the job they can do best
- e) employees are supplied with everything they need to achieve high job results
- f) employees know what is expected from them
- g) employees regularly receive a performance assessment from the management of the company
- h) employees work shorter job shifts
- i) the company management has a respectful attitude toward employees
- j) the company management supports the development of employees' professional skills

H₂: the management of high-performing SMEs has the capabilities to create a workplace that differs significantly by having the following characteristics of an engaging workplace:

- a) co-workers perform their work effectively
- b) employees always share information that can help to improve the skills of co-workers
- c) employees always, when seeing an opportunity, put forward work improvement proposals to the management of the company
- d) employees know that their work is important
- e) employees want to work for their current company in the long term
- f) relations among co-workers in the company are professional and friendly

In summary, based on the conceptual framework of EO (Lumpkin and Dess, 1996), the hypotheses derived from the literature review are elaborated in the following model.

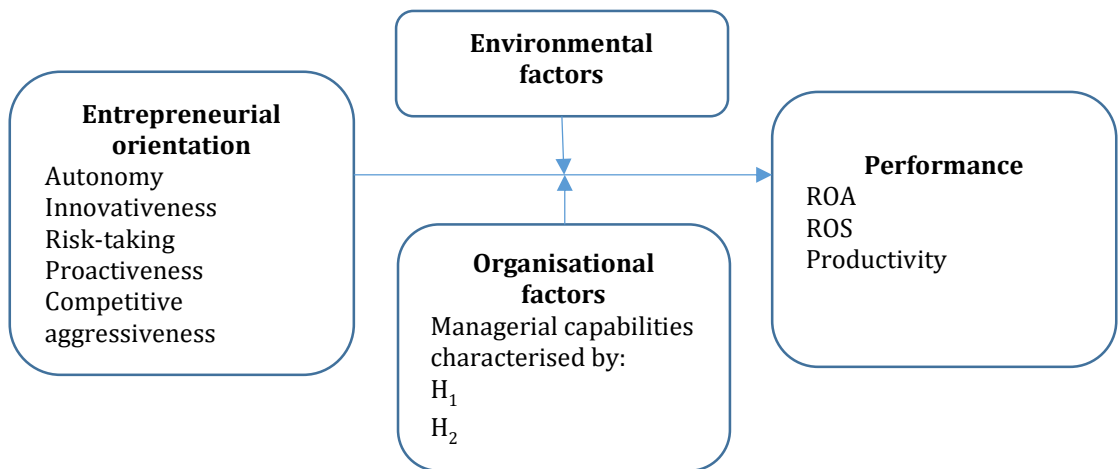


Figure 1 **Managerial capabilities within the conceptual framework of EO**

METHODOLOGY

In this study, the financial performance of 47 SMEs is analysed, while a survey of 499 employees was conducted between May and August 2019. All companies operate in the forest industry of Latvia. The employees surveyed were reached during training seminars organised by JSC Latvia’s State Forests. Paper-form questionnaires were used. Survey data was analysed by SPSS (Statistical Package for the Social Sciences) software. To test the hypotheses, a questionnaire with a six-point Likert scale from “strongly disagree” to “strongly agree” was used. Before the survey, the questionnaire was pilot-tested to ensure

the clarity of the questions. It is suggested that studies should include multiple performance measures, including traditional accounting measures and other elements of broader stakeholder satisfaction (Lumpkin and Dess, 1996). However, Pankaj and Rivkin (2006) point out that a company that earns superior, long-term financial returns within its industry has a competitive advantage. Therefore, in this study, financial indicators of eight years are taken from the Lursoft database to distinguish between high-performing SMEs and their competitors. Financial performance was evaluated using ROA (return on assets), ROS (return on sales) and productivity measured as turnover and net profit per employee. To identify high-performance SMEs, the following steps have been taken: (1) For each financial performance criterion, SMEs were ranked in descending order according to mean values over eight years, and the rank value was attached, where 1 means the highest performance and 47 the lowest. (2) The mean value of ranks for each SME was calculated. (3) SMEs were ranked in ascending order by the mean value of ranks, where the lowest value means the highest average performance in a given criterion. (4) In the final step, the list of SMEs was divided into quartiles, and the first quartile of SMEs with the lowest mean values of ranks was set as the first, high-performing group of SMEs, and the second to fourth quartiles were set as the second group of SMEs. Competitive aggressiveness (Lumpkin and Dess, 1996) was measured by the changes in the market share for the eight-year period to verify whether the first group of SMEs corresponds to the EO construct. All selected companies provide roundwood manufacturing services for JSC Latvia's State Forests, where contracts are awarded in open tenders, and the price for the service is a dominating factor. Therefore, the changes in the market share represent the competitiveness of the company. The Mann–Whitney U test was used to test the competitive advantage of the first group of SMEs. Cronbach's α was applied as a test of the questionnaire data reliability. The Mann–Whitney U test was used to test the hypotheses, as the data do not meet the requirements of a normal distribution.

The methodology for the selection of high-performance SMEs and the test of the hypotheses of this study are illustrated in the following model:

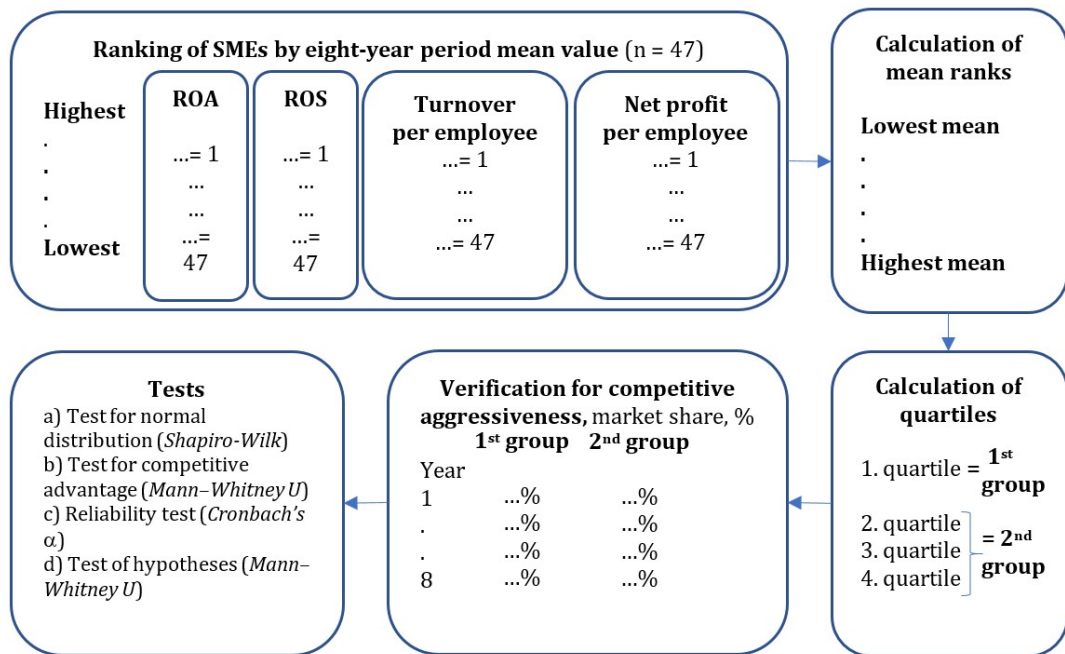


Figure 2 Methodology for the selection of high-performance SMEs and the test of hypotheses

RESULTS

Financial returns of the eight-year period were analysed to identify whether the first group of SMEs had a competitive advantage. The results show that the first group had significantly higher ROA, ROS, turnover per employee and net profit per employee in this period. The results are presented in Table 1.

Table 1

Mean values of eight-year period (2011–2018) financial returns of SMEs (n = 47) and number of employees

Criterion	ROA, %	ROS, %	Turnover per employee, K€	Net profit per employee, K€	Number of employees
group (n = 12)	18 (SD 14.8)	11 (SD 5.9)	100 (SD 66.9)	11 (SD 13.4)	43 (SD 35.5)
group (n = 35)	4 (SD 57.5)	4 (SD 8.3)	72 (SD 96.1)	2 (SD 4.5)	43 (SD 43.8)
p-value	<.001	<.001	<.001	<.001	.191

Sig. at a level of $p \leq 0.05$

Thus, the selected group of high-performing SMEs has a competitive advantage over its competitors in the second group. However, the number of employees is not significantly different, and the companies can be classified as SMEs based on the definition of the European Commission (Eurostat, 2020).

The changes in the market are analysed to verify whether the first group of SMEs possesses competitive aggressiveness. The results are presented in Figure 3.

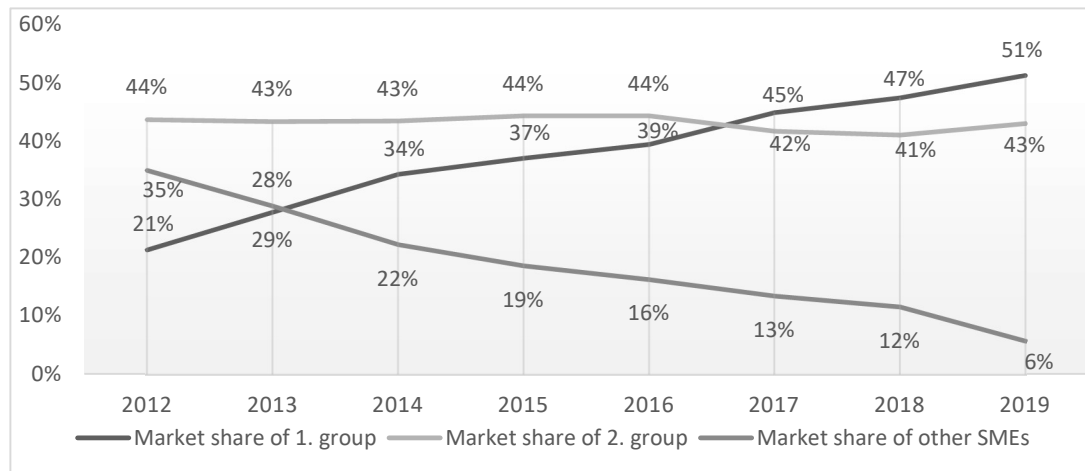


Figure 3 Changes in the market share of the first and second groups of SMEs

SMEs in the first group were capable of increasing their market share from 21% in 2012 to 51% in 2019, a 30% increase in eight years. However, the second group of SMEs lost one percent of its market share in eight years. It is thereby confirmed that the first group of SMEs possesses competitive advantage and EO as measured by competitive aggressiveness.

Before the test of the hypotheses, internal consistency was measured using Cronbach's α (Cronbach, 1951). For H_1 $\alpha = .839$, and for H_2 $\alpha = .716$, which represents good and acceptable internal consistency (Taber, 2018). For respondents from the first group of SMEs, $n = 236$; for the second group of SMEs, $n = 263$. The results of the H_1 hypothesis test are shown in Table 2.

Table 2

The results of the H₁ hypothesis test

No.	Item	Group of SMEs	Mean rank	<i>U</i>	<i>p</i> -value																																																																																												
H _{1e}	Employees are supplied with everything they need to achieve high job results	1	272.4	25737.0	<.001																																																																																												
		2	229.9			H _{1i}	The company management has a respectful attitude toward employees	1	279.1	23937.5	<.001	2	223.0	H _{1b}	Employees' salaries are fully in line with their level of professional skills	1	261.2	25383.0	.006	2	227.8	H _{1j}	The company management supports the development of employees' professional skills	1	264.7	26633.0	.008	2	233.2	H _{1j} control	Employees always have a desire to improve their professional skills	1	248.8	30343.0	.898	2	247.3	H _{1h}	Duration of the job shift	1	230.9	26546.0	.015	2	261.4	H _{1a}	The salary of employees depends on labour productivity	1	256.9	29408.5	.261	2	243.8	H _{1a}	The salary of employees depends on quality	1	256.6	29228.0	.265	2	243.1	H _{1c}	Employees always receive recognition from company management for a well-performed job	1	254.0	28882.5	.320	2	241.7	H _{1f}	Employees know what is expected from them	1	253.0	29854.5	.518	2	245.5	H _{1f} control	The company management always explains the requirements for work and their importance	1	258.6	27812.5	.074	2	237.7	H _{1d}	Employees are doing the job they can do best	1	246.9	30285.5	.744	2	250.9	H _{1g}	Employees regularly receive a performance assessment from the management of the company	1	248.1
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Sig. at a level of $p \leq 0.05$

The management of high-performing SMEs has capabilities to create a workplace that differs significantly by having the following characteristics of a productive workplace: (1) employees are supplied with everything they need to achieve high job results, (2) the company management has a respectful attitude toward employees, (3) employees' salaries are fully in line with their level of professional skills, (4) the company management supports the development of employees' professional skills, (5) employees work shorter job shifts, 10 h (SD 4.6) and 11 h (SD 7.1) respectively. Therefore, H_{1e}, H_{1i}, H_{1b}, H_{1j} and H_{1h} of the H₁ hypothesis are accepted. Meanwhile, there is no significant difference in the following characteristics of the productive workplace: (1) employees' remuneration is based on pay-for-performance (the salary depends on productivity and quality), (2)

employees always receive recognition from company management for a well-performed job, (3) employees know what is expected from them, (4) employees are doing the job they can do best, (5) employees regularly receive a performance assessment from the management of the company. Therefore, H1a, H1c, H1f, H1d and H1g of the H1 hypothesis are rejected.

The H1j part of the hypothesis was controlled by employees' desire to improve their professional skills. The results indicate that there is no significant difference between the employees of both groups of SMEs in terms of the desire to improve their professional skills (p -value .898). However, only the management of the first group of SMEs shows support for the development of employees' professional skills (p -value .008). Additionally, the H1f part of the hypothesis was controlled for whether managers explain the requirements for work and its importance to their employees. The results show that there is a trend (p -value .074) for the management of the first group of SMEs to give more attention to the explanation of the requirements for work and its importance. The results of the H2 hypothesis test are shown in Table 3.

Table 3

The results of the H₂ hypothesis test

No.	Item	Group of SMEs	Mean rank	<i>U</i>	<i>p</i> -value
H _{2c}	Employees want to work for the current company in the long term	1	276.2	24852.0	<.001
		2	226.5		
H _{2a}	Co-workers perform their work effectively	1	268.9	26113.5	.001
		2	231.2		
H _{2b}	Employees always share information that can help to improve the skills of co-workers	1	257.0	27965.0	.105
		2	238.1		
H _{2d}	Employees know that their work is important	1	249.8	29852.5	.705
		2	245.4		
H _{2c}	Employees always, when seeing an opportunity, put forward work improvement proposals	1	245.2	29833.0	.774
		2	248.6		
H _{2c} control	The company management always explains the feasibility of introducing employee proposals	1	257.0	27484.5	.087
		2	236.1		
H _{2f}	Relations among co-workers in the company are professional and friendly	1	248.2	30485.5	.979
		2	247.9		

Sig. at a level of $p \leq 0.05$

The results show that the management of high-performing SMEs has the capabilities to create a workplace that differs significantly by having the following characteristics of an engaging workplace: (1) employees want to work for the current company in the long term, and (2) co-workers perform their work effectively. Thus, the H_{2e} and H_{2a} parts of the H₂ hypothesis are accepted. Meanwhile, there is no significant difference in the following characteristics of an engaging workplace: (1) employees always share information that can

help to improve the skills of co-workers, (2) employees know that their work is important, (3) employees always, when seeing an opportunity, put forward work improvement proposals, (4) relations among co-workers in the company are professional and friendly. Therefore, the H₂b, H₂d, H₂c and H₂f parts of the H₂ hypothesis are rejected. The H₂c part of the hypothesis was controlled by the explanation to employees of the feasibility of introducing their proposals. The results show that there is a trend (p -value .087) for the management of the first group of SMEs to put more effort into the explanation of the feasibility of introducing employee proposals.

Additionally, the results are controlled by the experience of employees in their current job position and at their present age, since more senior employees are better fitted to tasks than less senior ones. Therefore, more senior employees exhibit higher productivity and earnings on average (Harris and Holmstrom, 1982). The results are presented in Table 4.

Table 4

The results of control items

No.	Item	Group of SMEs	Mean rank	U	p-value
Control	Experience in the current job position	1	236.8	27894.5	.319
		2	249.5		
Control	Age of employees	1	226.0	25431.5	.018
		2	256.0		

Sig. at a level of $p \leq 0.05$

The control results show that there is no significant difference between the first group and second group of SMEs in terms of employees' experience in their current job position; p -value .319. Experience in the current job position is 8 years on average, SDs 6.9 and 5.8, respectively. However, there is a significant difference in employee age between the first group and the second group of SMEs: 38 years (SD 10.8) and 40 years on average (SD 11.0), respectively.

DISCUSSION

In this study, the differentiating characteristics of managerial capabilities to create a high-performance workplace in SMEs are explored. First, it was found that in high-performance SME workplaces, managers supply employees with everything they need to achieve high job results; management has a respectful attitude toward employees; employee salary is fully in line with the level of professional skills; management supports the development of employees' professional skills; co-workers perform their work effectively; employees work shorter job shifts; and they intend to work for their current company in the long term. Therefore, there are seven differentiating characteristics of the managerial capabilities needed to create a high-performance workplace in an SME. Supplementary to

Buckingham's and Coffman's (1999) characteristics of the high-performance workplace, in this study, it was found that employees' salaries according to their level of professional skills, shorter job shifts and willingness to work for the current company in the long term might also characterise the strength of a workplace. The findings of this study contribute to EO literature and particularly to the top management characteristics that lead a company to high performance (Lumpkin and Dess, 1996; Eisenhardt, 2013; Buckingham and Coffman, 1999; Yucel, 2011; Helfat and Peteraf, 2015; Simsek *et al.*, 2010; Deb and Wiklund, 2017).

Second, the results show that there is no significant difference in the following workplace characteristics of SMEs: (1) employees' remuneration is based on pay-for-performance, (2) employees always receive recognition from company management for a well-performed job, (3) employees know what is expected from them, (4) employees are doing the job they can do best, (5) employees regularly receive a performance assessment from the management of the company, (6) employees always share information that can help to improve the skills of co-workers, (7) employees know that their work is important, (8) employees always, when seeing an opportunity, put forward work improvement proposals, (9) relations among co-workers in the company are professional and friendly. These are the necessary characteristics for a workplace to be capable of competing in the market. However, these characteristics are unlikely to differentiate high-performance companies from their competitors.

Third, the control variables show that there is no significant difference between employees of both groups of SMEs in terms of experience in a current job position; the average is 8 years. Moreover, given that the employees of the first group of SMEs are younger by 2 years on average, the higher performance of the first group was not influenced by differences in years of experience and the fact that more senior employees are better fitted to tasks than less senior ones, and more senior employees exhibit higher productivity and earnings on average (Harris and Holmstrom, 1982).

Overall, the results show that apart from the nine common characteristics of SMEs' workplaces, high-performing SMEs possess seven differentiating characteristics which give them a competitive advantage, due to resource heterogeneity (Peteraf, 1993) and the capability to exploit it (Barney, 1995). Moreover, the managerial capabilities to create a high-performance workplace comprise a knowledge-based resource which positively influences a company's performance. Thus, this study supplements the findings of Wiklund and Shepherd (2003) that knowledge-based resources are positively related to a company's performance and EO enhances this relationship. In general, it is argued that SMEs that have the workplace characteristics included in this study have at least a temporary competitive advantage because socially complex resources and capabilities are much more difficult to imitate (Barney, 1995), and managerial capabilities to create a high-performance workplace are valuable and rare.

CONCLUSIONS

1. This study attempted to determine the managerial capabilities necessary to create a high-performance workplace in SMEs. The managerial capabilities to create strong workplace performance exist where: (1) management has a respectful attitude toward employees, (2) management supports the development of employees' professional skills, (3) employees are provided with everything they need to achieve high job results, (4) employees want to work for the company in the long term, (5) remuneration of employees is fully in line with their level of professional skills, (6) co-workers perform their work effectively, (7) employees work shorter job shifts. These elements constitute the knowledge-based resources of high-performance SMEs, giving them, at a minimum, a temporary competitive advantage.
2. Only some of the differentiating characteristics of managerial capabilities were included in this study. Therefore, further research might investigate other characteristics such as team building, employee selection, the decision-making process, design thinking and other industry-related characteristics that might positively influence performance and lead SMEs to a competitive advantage.

LIMITATIONS

This study explored the differentiating characteristics of the managerial capabilities of SMEs in the forestry industry in Latvia, and only manual workers were included. The creation of a high-performance workplace for knowledge workers (Drucker, 1959; 2002) might require different managerial capabilities. The findings of such a study might differ from those of this study.

The sample size of SMEs included in this study consists of 47 companies. A bigger sample size of companies and a study of other industries or in other countries may reveal additional characteristics of managerial capabilities or amend the findings of this study. This is because two trends were noticed in the control questions: (1) the management of the first group of SMEs gave more attention to explaining the requirements for work and its importance (p -value .074), and (2) the management of the first group of SMEs put more effort into explaining the feasibility of introducing employee proposals (p -value .087).

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