TEAM-MANAGED GROWING SMES: A DISTINCT SPECIES?

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ABSTRACT

Research has revealed the importance of an entrepreneurial team for firm growth. The aim of this paper was to identify factors differentiating team-managed growing SMEs and non-team-managed growing SMEs. The empirical analysis of about 150 variables was based on the data of 63 team-managed SMEs (58.3%) and 45 non-team-managed SMEs (41.7%). The main finding was that there are few differences between team-managed growing SMEs and non-team-managed growing SMEs.

Keywords: strategic management; performance; growth; entrepreneurial teams; management teams; small businesses
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INTRODUCTION

The importance of teams has been revealed in recent management and entrepreneurship research, and firm growth, which is important for economic development in any country, is also increasingly being researched. Growth, in terms of new jobs and revenues, is often generated by small and medium enterprises (SMEs). For firm growth, entrepreneurial teams and management teams are a key factor (e.g. Birley & Stockley 2000; Cooper & Daily 1997; Weinzimmer 1997).

Effective management is arguably a critical factor for firm performance, since the management of a firm plays a critical role in determining a firm’s strategy. In many studies, effective management has been found to be an important success factor for SMEs (Ghosh & Kwan 1996; Yusuf 1995; Wijewardena & Cooray 1996). On the other hand, poor management has been associated with firm failure in several studies (Haswell & Holmes 1989; Gaskill et al. 1993; O’Neill & Duker 1986).

Several terms are used for teams of owners, entrepreneurs and firm managers, e.g. entrepreneurial teams, entrepreneurial founder teams, strategic teams, management teams, top management teams, and top management groups (Hambrick 1994). There is a variety of closely-related concepts, indicating the conceptual confusion in the field. In fact, each term seems to have several definitions, making comparison of previous studies difficult. In general, an entrepreneurial team often consists of firm owners only (who usually are founders), whereas a management team can consist of both owners and hired managers.

A number of empirical studies have revealed that firms founded and managed by teams are on average more successful than firms founded and managed by single persons (see e.g. Lechler & Gemuenden 1999; Rosa & Scott 1999; Vyakarnam et al. 1999). Firms that have a diverse range of management skills and competencies, i.e. a large number of management functions covered by individuals in the
management team, have a significantly greater propensity to survive (Westhead et al. 1995). It has also been found that firms with more than one shareholder when it was set up were significantly more likely to survive. On the other hand, an incomplete start-up team, and disagreement with partners, for example, can contribute to firm failure (Roure & Maidique 1986; Hall & Young 1991).

It has been argued that an entrepreneurial team is fundamental to firm success, especially in terms of firm growth (Birley & Stockley 2000). An individual entrepreneur’s limited perception may be a central bottleneck factor, and a management team can significantly improve management performance. Already in the late fifties Penrose (1959) proposed that firm growth is constrained by the availability and quality of managerial resources. In fact, many studies draw attention to the importance of an entrepreneurial team for firm growth (see Birley & Stockley 2000). For example in their study of technology-based ventures, Eisenhardt et al. (1990) found an association between a strong management team and firm growth (see also Weinzimmer 1997). Storey (1994: 158) highlights the importance for the growth rate of a small independent firm of shared ownership and an ability to build an efficient management team.

Team entrepreneurship provides better conditions for high performance, enabling the division of labour and specialization of the members of an entrepreneurial team (see e.g. Timmons 1999: 278). In such a case, the capabilities and special knowledge areas of the team members complement each other (Westhead et al. 1995). This enables teams to respond to multifaceted challenges such as innovation, quality and customer service (Katzenbach & Smith 1993). In this way an entrepreneurial team can provide strong know-how, an expanded knowledge base, extensive knowledge of the customer industry sector, strong feeling of togetherness, and flexibility in working hours, for example (see Pasanen 2003). Moreover, the social capital of team members can help the firm to gain access to resources and attract customers, suppliers, employees, and advisors (Cooper & Daily 1997). A team can also enhance the firm’s credibility in the market. Many of the advantages of team entrepreneurship are analogous to the advantages firms gain by networking with other firms.
To date, however, studies focusing on growing established team-owned and -managed SMEs and their performance have been rare. This is an unfortunate omission since, arguably, such firms play an important role in regional economic development, for example. As we know, most of the new jobs are created by existing, not new, SMEs (e.g. Davidsson et al. 1993). They are often the only feasible engines of development, especially in peripheral regions, and they generate societal growth in terms of new jobs and revenues, innovations, production networks, etc.

In his study of successful SMEs in peripheral locations, Pasanen (2003) found that more than two thirds of successful SMEs (70%) had at least two owners, and 79% of these were led by a team, i.e. SMEs led continually and with a significant input by more than one owner. The study also revealed that team-based firms often sought growth.

In this study, team-managed growing SME are compared with non-team-managed growing SMEs. The aim was to identify factors differentiating growing firms in these two groups. In this paper, team-managed enterprises are firms with at least two owners which have been jointly led continually, and with a significant input by more than one owner. In other words, the firm is run by a team of firm owners, which in the case of growth firms can be regarded as an entrepreneurial team. In this paper, however, the team need not to be a founding team (cf. e.g. Kamm & Nurick 1993; Watson et al. 1995).

According to the upper echelons perspective (Hambrick & Mason 1984; see also Carpenter et al. 2004), organizational outcomes – strategic choices and performance levels – are partially predicted by managerial background characteristics. In this light, it can be expected that there may be differences between team-managed and non-team-managed firms.

**DATA AND METHODS**

This paper is based on data from a larger exploratory study of the factors affecting SME performance
Empirical data were collected from 108 growing SMEs in Eastern Finland, of which 63 were team-managed firms (58.3%) and 45 non-team-managed firms (41.7%). A team-managed enterprise was defined as a firm with at least two owners which has been jointly led continually, and with a significant input by more than one owner. The study focused on established, i.e. more than four years old, SMEs, not new ones. A mail survey was directed to CEOs of SMEs operating in the sectors of manufacturing, business services, and tourism. The response rate was 53.7%.

Firms in the samples shared some features: (1) age: established, i.e. more than four years old, not new firms; (2) size: SMEs, i.e. they employed fewer than 250 persons; (3) performance: growth firms, i.e. they had grown in terms of turnover during recent years; (4) location: peripheral, i.e. outside major cities and not in core areas; (5) ownership: independent firms, not subsidiaries of other companies; and (6) industry sector: operated in the sectors of manufacturing, business services, and tourism.

A comparison of the two groups of SMEs was based on data referring to the characteristics of entrepreneurs and enterprises, their life cycles, the strategic choices made, the success factors of SMEs, and the nature of their environment (see Pasanen 2003). Several factors in these areas are associated with firm performance. The characteristics of entrepreneurs consist of variables relating to entrepreneurs’ education, experience and other demographic factors. Variables related to the characteristics of SMEs and their life cycles include the firm’s demographic characteristics and growth behavior indicators. For the strategic choices made by the firm, the focus was on innovativeness, internationalization, specialization and networking. These strategic choices include three important elements affecting SME performance: markets, products, and the way of doing business (Normann 1976). Innovativeness refers to the products of the firm, internationalization to its markets, and specialization and networking to the way of doing business. The environment was approached by studying the characteristics of the customer, industry and location. The success factors of SMEs were presented as statements describing their importance in the firm’s competitive advantage.
In identifying the differences between team-managed and non-team-managed SMEs, approximately 150 variables were tested using appropriate statistical tests, depending on the variable: the t test, non-parametric Mann-Whitney U test, or chi-square test. These tests were conducted to test the differences between the two groups for each of the individual variables. In the analyses of success variables, the U test was used instead of the t test due to the skewness of the data. Exploratory factor analysis was used to extract the emerging dimensions of success.

RESULTS AND DISCUSSION

The main finding of this study was that there are few differences between team-managed growing SMEs and non-team-managed growing SMEs. Five out of about 100 variables related to the characteristics of entrepreneurs and enterprises, their life cycles, the strategic choices made, and the nature of their environment showed statistically significant differences between the two groups of SMEs (see Table 1). The number of founders, number of founders still involved in the firm, and number of owners were bigger in team-managed firms. It was more typical of team-managed firms than of other firms that the founder(s) came from the local region. Team-managed firms were also at earlier stages of their life cycles than other firms.

<table>
<thead>
<tr>
<th>Variables</th>
<th>Test</th>
<th>p value</th>
</tr>
</thead>
<tbody>
<tr>
<td>No. of founders</td>
<td>U test (z = -3.672)</td>
<td>p &lt; .0005</td>
</tr>
<tr>
<td>No. of founders still involved in the firm</td>
<td>U test (z = -3.748)</td>
<td>p &lt; .0005</td>
</tr>
<tr>
<td>No. of owners</td>
<td>U test (z = -5.325)</td>
<td>p &lt; .0005</td>
</tr>
<tr>
<td>Founders’ homeplace</td>
<td>$\chi^2 = 9.976$ (df = 2)</td>
<td>p = .007</td>
</tr>
<tr>
<td>Life cycle stage of business</td>
<td>U test (z = -2.196)</td>
<td>p = .028</td>
</tr>
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It is, of course, natural that there are more founders and owners in team-managed SMEs. The findings may indicate the importance of multiple founders (e.g. Bruno et al. 1987; Feeser & Willard 1990; Westhead et al. 1995) and their strong commitment to the firm: many founders were still involved in the firm’s operation. For some reason, the founders of team-managed SMEs often came from the local area. This may have implications for regional economic development, for example. Earlier stage of life cycle of team-managed firms may be a consequence of breaking down of the original team at some stage of the business (see e.g. Timmons 1999; Ucbasaran et al. 2003).

A total of 55 variables formulated as verbal statements describing potential success factors were analyzed. The CEOs’ perceptions of their firms’ success factors were generally similar in team-managed firms and in other firms. Two variables, continuity of key persons and high quality products, showed statistically significant differences between the two groups (see Table 2). Team-managed SMEs valued more continuity of key persons and high quality products.

**TABLE 2 Differences in Success Factors between Team-Managed and Non-Team-Managed SMEs**

\( p<.05 \)

<table>
<thead>
<tr>
<th>Variables</th>
<th>Test</th>
<th>( p ) value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Continuity of key persons</td>
<td>U test (( z = -2.076 ))</td>
<td>( p = .038 )</td>
</tr>
<tr>
<td>High quality products</td>
<td>U test (( z = -2.011 ))</td>
<td>( p = .044 )</td>
</tr>
</tbody>
</table>

In team-managed firms, the team typically consists of the key persons of the firm. The role of the team members was considered important. The continuity of team members can be critical for the firm if each member of the team has specialized for a specific function or task area, for example. In order to explain why team-managed firms value high quality products more than other firms, further investigation is needed.
However, the other findings concerning the success factors indicating statistically almost significant differences (.05<\(p<.10\)) between team-managed and other SMEs may shed some new light on the issue. These findings show that team-managed firms attached more value to customer feedback (\(z=-1.939; \ p=.052\)), cooperative personnel (\(z=-1.789; \ p=.074\)), good after-sales service (\(z=-1.739; \ p=.082\)) and continuity of personnel (\(z=-1.656; \ p=.098\)). This may suggest that team-managed SMEs pursue high quality by paying more attention to customer feedback in order to better understand and respond to customers’ real needs. They may also see quality as a wide concept, including the quality of after-sales service. It also seems that team-managed firms in general value their personnel more than other firms because they gave higher importance to cooperative personnel and continuity of personnel.

In addition to single variable tests, exploratory factor analysis was carried out for the whole sample (\(n=108\)) in order to reveal latent success factors in growing SMEs and then to compare differences in them between the two groups of SMEs. The factor scores were saved as variables and tested between the two groups. This analysis revealed no statistically significant differences between the two groups.

Finally, exploratory factor analyses of the 27 most important success statements, i.e. the highest-scoring half of the success variables, were done separately in both groups of firms in order to extract the emerging dimensions of the success of team-managed firms and non-team managed firms. Such an approach allowed qualitative comparison of the success factors between the two groups. However, the results of the factor analyses for each group were almost identical, and the same dimensions of success could be found in both groups of SMEs. However, the factor analyses uncovered the dimensions of success affecting the performance of team-managed SMEs and non-team-managed SMEs and revealed that success in both types of firms is a multidimensional phenomenon, i.e. there are several factors affecting firm performance.

**CONCLUSIONS**

The findings suggest that there are few differences between team-managed and non-team-managed
SMEs. The role of the team does not appear in the firm characteristics or strategies. This may imply that growing SMEs in these two groups are very similar in their characteristics, or that differences – if there is any – are related to some other variables that were not analyzed in this study: the personal traits of entrepreneurs and the team members, for example, might have differed between team-managed and other SMEs.

It seems that the strategies employed by growing SMEs are not dependent on whether the firm is managed by a team or by a solo entrepreneur. The findings suggest that a team can facilitate firm growth, but the absence of one is not an obstacle for growth. Moreover, the success factors in both groups were also very similar, indicating that the same factors are considered important for firm success in both groups. This suggests that team-managed growing SMEs are not a distinct species among growth SMEs.

REFERENCES


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