Prevalence of Management Teams in the Firms Owned by Habitual and First-time Entrepreneurs

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Abstract

This study focuses on the prevalence of teams, especially management teams, in the firms owned by habitual (i.e. serial and portfolio) and first-time entrepreneurs. Previous research concerning habitual entrepreneurship has predominantly focused on the reasons behind the activity and the meaning of prior entrepreneurial experience in the background of the habitual entrepreneurship. To date, most team-oriented studies in the field of entrepreneurship have rather focused on entrepreneurial teams, management teams being of less interest. In this study, we extend the prior research by linking also management teams to the discussion. Moreover, this study seeks to bring some new insights to the above issues by paying attention to a previous closure experience of an entrepreneur and to its effects to a future team formation.

The aim of this study was, firstly, to clarify how common the firms managed by management teams, other teams and solo entrepreneurs are in the context of habitual and first-time entrepreneurship. Secondly, the interest was to find out whether the previous closure experience of an entrepreneur has an influence on the prevalence of management teams in the new firms. In this study a management team is defined as a team of a minimum of three members of which at least one operates as an appointed manager (hired outside the firm) without ownership. Instead, other teams refer to a group of people who actively participate in the firm

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management without the requirement of a hired manager (such as entrepreneurial teams and family teams).

The final sampling size was 245 small firms and in total, 119 firms took part in the research (i.e. over 48 per cent). The data was analysed by using chi-square test and one way ANOVA analysis of variance. The research revealed that management teams were more common in the firms owned by habitual entrepreneurs than in the firms owned by first-time entrepreneurs. Correspondingly, there were more solo entrepreneurs among the first-time entrepreneurs. The results suggest that although a closure experience does not necessarily directly influence the probability of the existence of teams it may decrease the probability of solo entrepreneurship. Based on the results, management teams should be taken into consideration more strongly also in the context of habitual entrepreneurship and small business research.

Keywords
management teams; habitual and first-time entrepreneurs; small firms

1 Introduction

During the last two decades habitual entrepreneurship research has become one of the most studied dimensions of entrepreneurship. Habitual entrepreneurs are entrepreneurs whose entrepreneurial experience originates from at least two different firms either temporally one after another (serial entrepreneurship) or simultaneously (portfolio entrepreneurship) (e.g. Hall 1995; Westhead & Wright 1998). To date, habitual entrepreneurship research has mainly focused on the phenomenon itself, the birth and birth process of the habitual entrepreneurship (e.g. Birley & Westhead 1995; Carter 1998; Rosa 1998; Westhead & Wright 1998) and the meaning of entrepreneurial experience in entrepreneurship (e.g. Rerup 2005; Starr & Bygrave 1991; Ucbasaran & Westhead 2002; Westhead et al. 2005). However, still only little is known about the ways habitual entrepreneurs organize the management of their businesses, and how the management differs from the management practices conducted by first-time entrepreneurs.

Already a couple decades ago MacMillan (1986) suggested that the entrepreneurship researchers should pay attention to the habitual entrepreneurs, who assigned the responsibility of running their existing businesses to appointed managers while directing their own resources in founding new businesses. Since then, management teams have been nearly ignored when researchers have paid attention predominantly to entrepreneurial teams and especially to their meaning in the birth of portfolio entrepreneurship and the management of firm portfolios (e.g. Iacobucci & Rosa 2005; 2004). However, a previous case study conducted by Huovinen and Tihula (2006) suggests that entrepreneurs may prefer management teams instead of entrepreneurial teams in some conditions like, for example, if an entrepreneur wants to keep his/her dominance over the firm and bear the entrepreneurial risk personally. Thus, there is a need for studies with more multidimensional viewpoints of the existence of different kinds of teams and their meaning in the context of habitual entrepreneurship.

This study intends to fill the research gap described above by focusing on the prevalence of teams in small firms owned by serial, portfolio and first-time entrepreneurs. The aim of this study is, firstly, to clarify, how common the firms managed by management teams, other teams and solo entrepreneurs are in the context of habitual and first-time entrepreneurship. Secondly, the interest is to find out whether a previous closure experience of an entrepreneur has an influence on the prevalence of management teams in the new firms. These issues are in the focus of this study because of the findings of the previous qualitative study of Huovinen and Tihula (2006), which stressed the need to explore these issues quantitatively.

The paper starts with defining the terms habitual entrepreneurship and management teams used in this study. Then the research propositions of the study will be stated. After that the data collection and the empirical data will be presented. The results and key findings of our study are discussed thereafter as well as the conclusions. The implications and limitations of our study are presented at the end of the paper.

2 Definitions and background

2.1 Habitual entrepreneurship and the meaning of entrepreneurial experience

Entrepreneurship does not necessarily mean a commitment to only one firm for the duration of the whole career of an entrepreneur (e.g. Cooper & Dunkelberg 1986; Rosa 1998; Ucbasaran et al. 2003). Many entrepreneurs have experience of owning and managing several firms, whether temporally one after another or simultaneously. In other words, the entrepreneur's career is not always the same as the life cycle of the firm he/she has founded or bought. The first firm may open the entrepreneur new opportunities which might not have been available otherwise or might gone unnoticed (Hills et al. 2002; Ronstadt 1988; Ucbasaran & Westhead 2002).

Hall (1995) divided habitual entrepreneurs into serial and portfolio entrepreneurs based on the fact whether they own their firms temporally one after another or simultaneously. Westhead and Wright (1998) define habitual entrepreneurs maybe in the most versatile way by suggesting that the portfolio entrepreneur founds, inherits, or buys a new firm next to the original one, whereas the serial entrepreneur founds, inherits, or buys a new firm after selling or closing his/her original firm. The prevalence of habitual entrepreneurship in different nations and regions have been demonstrated in several studies (e.g. Birley & Westhead 1995; Huovinen 2007; Kolvereid & Bullvåg 1993; Schollhammer 1991; Westhead & Wright 1998), and it has been estimated that approximately one third of the entrepreneurs have entrepreneurial experience from at least two different firms.

Entrepreneurial experience influences the personality of an individual to some extend (Littunen 2000), and previous successful entrepreneurial experiences may, in addition to the obvious positive influences, also have a negative influence to the development of a new firm (Rerup 2005; Simon et al. 2000; Starr & Bygrave 1991; Westhead et al. 2004; Wright et al. 1997). According to Rerup (2005) it is crucial for a habitual entrepreneur to be able to separate his entrepreneurial history from the present, because the same business models are not likely to function in different situations. He sees this characteristic as especially important in high-technology-industries, where the operational environment is often complicated, unorganised and unpredictable, and the previous experience may loose its meaning in the changed circumstances. Previous entrepreneurial experience does not necessarily mean success in future business, and it is misconceived to assume that experienced entrepreneurs always succeed better than beginners (Schollhammer 1991). The real talent of an entrepreneur may be seen in a false light, if only the number of owned firms is viewed in connection with the entrepreneurial experience. Even if a temporally long experience of one firm does not necessarily develop diverse entrepreneurial skills, it never the less to some extend refers to success in entrepreneurship. On one hand, many short entrepreneurial periods after another may tell about repeated failure and incapability to act as an entrepreneur (Carroll & Mosakowski 1987). Previous success has, however, a positive influence in the inclination to found a new firm, because successful entrepreneurs are more likely to found a new firm than failed entrepreneurs (Schollhammer 1991). On the other hand, also entrepreneurs who have failed in their original firm often try again.

2.2 Management team

A management team is a small group of managers including the CEO and the managers from different functional areas (such as manufacturing, marketing, and finance) and other key persons who give a firm its general direction and specialize in running the business. The managers with complementary skills in a management team are at the same organizational level, report to the same person, hold leadership positions in the firm, and share information that helps them perform their individual jobs more effectively (McIntyre 1998, 2-3, 5-6; Longenecker et al. 1994, 215; Van Egeren 1994, 18; Keck 1998, Finkelstein 1992, Keck & Tushman 1993). Thus, team members are not only responsible for their own functions, but also "wear another hat" of firm leadership (Nadler 1992). Team members come regularly together to make CEO-conducted key decisions that affect the entire organization or department and help the firm to achieve its goals (McIntyre 1998, 2-3, 5-6; Nadler 1997, 4; Nadler & Spencer 1997).

According to Longenecker et al. (1994, 215), not all members of a management team need competence in all areas; the main idea is a balance. The CEO remains the top leader and is accountable for the entire firm's performance, but the other management team members allow the CEO to have multiple viewpoints and enable a common decision making process (Lester et al. 2002; Cohen & Bailey 1997). Management teams are accountable for example to external owners, the board, and the employees. Although the members of a management team may hold some equity in the firm (i.e. small ownership position), it is not always the case (Stumpf et al. 2002). The term top management team (TMT) is typically used when talking about big firms where many management teams operate at different levels, and when it is considered the highest level of the management teams. In this study a management team is defined as a team of a minimum of three members of which at least one operates as an appointed manager (hired outside the firm) without ownership.

3 Research propositions

Previous studies concerning management in the context of habitual entrepreneurship have mainly concentrated on entrepreneurial teams (e.g. Iacobucci & Rosa 2005; 2004). The studies have almost solely discussed portfolio entrepreneurship, because managing several firms simultaneously in practice is generally impossible for only one entrepreneur. In the context of portfolio entrepreneurship entrepreneurial teams are formed to minimize the problems related to the use of time. Then the used time in developing a new firm will be divided between several entrepreneurs or shareholders and will release at the same time resources of the portfolio entrepreneur to the development of other firms (Iacobucci & Rosa 2004). In the firms owned by serial entrepreneurs, entrepreneurial teams are probable, for example, in the situations where a successful serial entrepreneur invests the accrued wealth to new firms and becomes a part of an entrepreneurial team. On the other hand, a serial entrepreneur failed in a previous business may need business partners in order to enable the continuation of his/her entrepreneurial career.

It has been observed in the studies that not only entrepreneurial teams (Iacobucci & Rosa 2004), but also management teams (Huovinen & Tihula 2006; MacMillan 1986) run many successful firms. Management teams occur in the firms of portfolio entrepreneurs especially when the entrepreneur wants to bear the entrepreneurial risk and wants to be responsible for the businesses (i.e. need for independence)[2] (Huovinen & Tihula 2006). However, the situation where an entrepreneur builds up a team from his/her key persons for managing the firms without losing his/her ownership (i.e. a strong entrepreneurial role in the firms) has not been much studied. Rerup (2005) and De Koning (2003) have been among the first to open the discussion by presenting "well-seasoned team" or "inner circle" in managing several businesses simultaneously. MacMillan (1986) labels these entrepreneurs as business generators, who initiate and build a business and then hand it over to professional management teams, when the entrepreneurs become bored with the existing firm because of the desire to create something new in a new business. From these theoretical starting points, the first research proposition is formulated as follows:

1a there are more management teams in firms owned by habitual entrepreneurs, and more solo entrepreneurs in firms owned by first-time entrepreneurs

1b there are more management teams in firms owned by portfolio entrepreneurs than in firms owned by serial entrepreneurs.

In addition to founding a firm also relinquishing a firm relates substantially to habitual entrepreneurship. It is generally known that on average every second firm has to close down its operations during the first five years (e.g. Dean et al. 1997; Mata & Portugal 1994). The problem of the entrepreneurial research has been the faulty presumption that closing down a business means always failure in business (e.g. De Castro et al. 1997; Ucbasaran et al. 2001). A firm may be relinquished also by selling it, or simply by deciding to close down the business (Cardozo & Borchert 2003). In this study closure experience means both selling and closing down a business. Some studies have noted that a closure experience affects the way an entrepreneur looks at his/her current business. According to Huovinen (2007) a closure experience may develop the entrepreneurial know-how as well as a founding experience. A closure experience may, for example, develop the self-knowledge of an entrepreneur, i.e. knowledge about his/her strengths and weaknesses. This can be seen, for example, as a stronger liability distribution to appointed managers or business partners (Huovinen & Tihula 2006). Based on these observations the second research proposition is as follows:

2 there are more teams in firms owned by entrepreneurs with closure experience than in firms owned by other entrepreneurs.

[2] In the case of an entrepreneurial team, the entrepreneurship is shared between the founders.

The literature of entrepreneurial teams and management teams suggests that they can play a significant role for the firm performance. In fact, teams have continuously been related to organizational effectiveness and high performance (e.g. Pasanen 2003, 113; Roure & Keeley 1990; Vyakarnam et al. 1999). For example Pasanen (2003, 113) observed that behind successful SMEs in the region of Northern Savo there often was an entrepreneurial team with members with diverse knowledge, which contributed to the comprehensive management, and the success in it. Also according to Littunen (2000) entrepreneurial teams may help new firms to survive, because through entrepreneurial teams the firms may become more competitive and increase the number of their innovations and their performance compared to other firms. In this kind of firms, where several persons participate in the strategic decision making, also the growth rate is often higher than in other firms (e.g. Littunen & Tohmo 2003; Vyakarnam et al. 1999).

The importance of management teams has been largely discussed from different viewpoints (e.g. firm performance, characteristics, strategy, and decision-making) since the first half of 1980s. A great deal of organizational theory and literature support the significance of management teams and perceive them as crucial in firms. Management teams play a powerful role in the success or failure of organizations in many studies (e.g. McIntyre 1998, 13-14; Peterson et al. 1998; 2003; Goines 2002) and their important role for firm growth has also been noted widely (e.g. Pasanen 2003; Storey 1994; Wiklund 1998). According to these theoretical considerations the third research proposition is as follows:

3 firms with team management are more profitable than firms without teams.

4 Data collection and methodology

The Salesleads -register maintained by Blue Book TDC Indexes was exploited in the sampling of the research. This register is national, and its information has been gathered by various sources such as Business Register of Statistics Finland, Suomen Asiakastieto Oy and Finnish Tax Administration in addition to direct contacts to enterprises. Small firms with 20-49 employees operating in the regions of Northern Savo, Southern Savo and Northern Karelia were chosen to the population. In the register, there were altogether 287 of this kind of firms.

In this study, the focus is on small firms with 20-49 employees, firstly, because there is a reason to believe that firms with less than 20 employees do not have management teams in this sense because of the small firm size and indirect function of the employees (e.g. Boter & Holmquist 1997, 165; Federation of Finnish Enterprises 2005). Secondly, firms with less than 50 employees may already be large enough for team management and they may have a real need for shared leadership. In the firms with more than 50 employees, the occurrence of management teams increases as well as does the formality of the teamwork on the top level of management. The data was analysed by using chi-square tests and one way ANOVA analysis of variance. In addition to the subjective data gathered from the firms also objective information of financial statements was used. The summaries of the information of the financial statements were taken from the Inoa database, which is a public database of Finnish firms.

Additionally, some industries like electricity, gas and water supply firms owned by municipalities or central-corporation-led retail trades, and subsidiaries of large corporations were outlined from the study. This made the sampling more presentable, and assured that the studied firms would be comparable to each other. After this outlining the final sampling size was 245 firms. The responsible persons in the firms participated in the study either by returning a questionnaire by mail or by filling in the form designed for this purpose in the Internet. After the second questionnaire, the response percentage was over 48, when altogether 119 firms took part in the research.

5 Findings

The results of this study clearly indicate that teams were more common in firms owned by habitual entrepreneurs than in firms owned by first-time entrepreneurs (chi-square test, $p<0,10$). The largest number of management teams could be counted in the firms owned by serial entrepreneurs (47,8 per cent), whereas other teams were most common in the firms owned by portfolio entrepreneurs (56,4 per cent). At the same time, the smallest number of teams could be counted in the firms of first-time entrepreneurs, in which as many as one third (30,4 per cent) a single entrepreneur was responsible for the management. Hence, proposition 1a is supported. Table 1 presents the prevalence of teams in the firms owned by first-time, serial and portfolio entrepreneurs.

Table 1. Prevalence of teams in the firms owned by first-time, serial and portfolio entrepreneurs

Variable	First-time N	First-time %	Serial N	Serial %	Portfolio N	Portfolio %	Chi-square statistic	Signif. level
Firm management							8,75	0,068*
Management teams	15	26,8	11	47,8	13	33,3		
Other teams	24	42,9	9	39,1	22	56,4		
No teams	17	30,4	3	13,0	4	10,3		

* p<0,10

The bigger the firm, the more common management teams often are. Thus the prevalence of management teams in the firms owned by serial entrepreneurs might indicate that these firms were bigger than other firms. A comparison between the average turnovers of the firms showed, in fact, that the firms owned by serial entrepreneurs were significantly bigger than those of first-time entrepreneurs (one way ANOVA, 'F'=3,137, p<0,05). At the same time no statistically significant differences could be observed between the turnovers of the firms owned by serial and portfolio entrepreneurs or the turnovers of firms owned by first-time and portfolio entrepreneurs. The result supports, however, the natural consumption according to which the prevalence of different kinds of teams, and particularly management teams, increases according to the increase in the firm size.

The prevalence of other teams among the firms owned by portfolio entrepreneurs may be explained by the limited personal resources of the entrepreneur, when business partners make it possible to own and manage several firms simultaneously (see e. g. Iacobucci & Rosa 2005). It was interesting to observe that there were more other teams (e. g. entrepreneurial teams) than management teams in the firms owned by portfolio entrepreneurs. The result may, of course, be interpreted in many ways, but one factor affecting it might be the observation that portfolio entrepreneurs often operate in family firms (see Huovinen & Tihula, forthcoming). In other words, if the entrepreneur operates in a family firm, he is not necessarily keen on handing over the reins to a hired manager. In any case, contrary to expectations, proposition 1b cannot be supported.

This study also examines, whether there are more teams in the firms owned by entrepreneurs with previous close-downs than in the firms owned by other entrepreneurs. The results suggest that although a closure experience (selling and closing down) does not necessarily directly influence the probability of the existence of teams, it may decrease the probability of solo entrepreneurship (chi-square test, p<0,10). Hence, proposition 2 is tentatively supported. Table 2 shows the prevalence of teams in the present firms of entrepreneurs with closure experience and in firms owned by other entrepreneurs.

Table 2. Closure experience and number of teams

Variables	Management teams		Other teams		No teams		Chi-square statistic	Significance level
	N	%	N	%	N	%		
Closure experience							5,81	0,055*
Yes	19	50,0	29	46,3	19	20,8		
No	19	50,0	25	53,7	5	79,2		

* p<0,10

Findings may refer to the development in entrepreneurial knowledge and know-how through critical events during the entrepreneurial career. Critical events require a strong commitment and/or enthusiasm in solving matters (Cope 2003; Cope & Watts 2000). It may be a question of situations that are negative and threatening to the entrepreneurial career, but also situations that are positive, like sales of business contributing to the wealth of the entrepreneur. These kinds of situations may develop the self-knowledge of the entrepreneur, i.e. knowledge of his/her strengths and weaknesses. This knowledge may lead to a situation, where the entrepreneur develops his/her present business with more confidence in his/her strengths, and at the same time shares the responsibility with other in the matters outside these strengths.

Previous studies have indicated that firms with team management are often more profitable than other firms. In this study, on the other hand, no statistically significant differences in the results of last financial statements could be observed (one way ANOVA, 'F'=1,51, p>0,10). However, the firms managed by management teams and other teams had slightly better results than other firms. Based on the results, proposition 3 is only partially supported.

6 Conclusions

The study showed that teams are more common in firms owned by habitual entrepreneurs than in those owned by first-time entrepreneurs. In regard of portfolio entrepreneurs the prevalence of teams is natural, because managing several firms simultaneously is in practice not possible for a single entrepreneur. It may thus be assumed that entrepreneurial experience from several firms may increase the probability of different kinds of teams in the management of firms. Especially a closure experience seems to increase the probability of teams, or at least to decrease the possibility of solo-entrepreneurship. For example, an entrepreneur with experience of bankruptcy may need partners in his/her present business alone in order to receive financial resources. On the other hand, a previous renouncement of a firm may have developed the self-knowledge of the entrepreneur and thus created an awareness of the need for an entrepreneurial team or a management team. It was also surprising that contrary to the expectations there were more management teams in the firms owned by serial entrepreneurs than in those owned by portfolio entrepreneurs. This may have been influenced by the fact that portfolio entrepreneurs often operate in family firms, where the ownership and management are meant to be kept in the family.

Based on this study, management teams and other teams are common in small firms especially in the context of habitual entrepreneurship. In practice, if teams are a result of networks developed through accumulated entrepreneurial experience, and if the team managed firms are more successful than other firms, this raises an interesting notion of whether first-time entrepreneurs should be motivated toward habitual entrepreneurship. In other words, the entrepreneurs need a lot of encouragement to seize the opportunities instead of leaving them unutilized because of the fear of failure. These are issues the entrepreneurship developers and regional developers should pay attention to.

In interpreting the findings of this study, some limitations should be observed. We acknowledged that since the study was restricted to firms in Eastern Finland, caution must be exercised in generalising the results across other firms and areas in Finland. Moreover, the study did not take into consideration on what phase of their life cycle the firms were, which may affect, for example, the growth intentions of the firms. Caution must be also exercised because of the difficulties in the separation of the teams. In future studies the focus should be more on the structure of the teams and their operations in the firms owned by habitual entrepreneurs (i.e. what are these teams and how do they work), and on the connections between closure experience and team existence. This requires both qualitative and quantitative studies.

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