# The Relationship Between Wealth Creation and Professional Management in Small-Medium Enterprises

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## ABSTRACT

This mixed method study explored the relationship between the employment of professional managers and wealth creation in small-medium enterprises. Specifically, the study attempted to determine whether professional managers contribute to the profitability of small-medium enterprises in the secondary wood manufacturing industry. Furthermore, the study investigated the reasons why entrepreneurial firms have difficulty attracting and retaining professional managers. The study involved 36 secondary wood manufacturing firms engaged in the manufacture of a variety of products. The research validated that the more professional managers entrepreneurial firms employ, the greater profitability they realize and furthermore, entrepreneurial firms face major challenges in their pursuit to attract and retain professional management.


## INTRODUCTION

Wealth creation, survival, and sustainability require that small-medium enterprises (SME) establish and institute strategic initiatives that lead to competitive advantage. The attraction and retention of professional management is one such strategic initiative (Drucker, 1987).

Peterson, Kozmetsky, and Ridgway (1983) wrote that small business is an important part of the American economic system. In 1997, close to 40 percent of American households worked for a SME creating 95 percent of the wealth in the United States (Swiercz and Lydon, 2002). Small-medium enterprises account for approximately 80 to 90 percent of all business enterprises (Phan, Butler, & Lee, 2005), and they create 50 percent of the employment and the gross national product (GNP). In Canada, 80 percent of the wealth is concentrated in the hands of family businesses that are often considered small-medium enterprises (Leighton & Thain as cited in Phan et al., 2005). The purpose of this mixed method study is to measure the degree of association between profitability and professional managers. Furthermore, the research explains why entrepreneurial firms in the secondary wood manufacturing industry in British Columbia, Canada, have difficulty attracting and retaining professional managers.

The organization of the paper is as follows. The next section will elaborate, amplify, and provide a detailed background of the problem. The following section presents the hypotheses and research questions that will guide the study. The theoretical framework and a list of definitions that represent operational terms used in this research as well as a list of assumptions will be discussed. An outline of the scope of the study and its limitations and delimitations is provided. The literature review section documents both historical and current literature relative to wealth creation in small-medium enterprises in the context of the secondary wood manufacturing industry in British Columbia (BC), Canada. The next section explains the mixed method research design as well as the validity and credibility of the results. Following is the section that presents the data gathered and the results derived from analysis of the data followed by conclusions and recommendations.

### Background

Churchill and Lewis (1983) and Kets de Vries (1985) wrote that business founders that are often associated with small-medium enterprises find giving up what they have created difficult. Characteristic of a SME, often referred to as an owner-managed firm and at times as an entrepreneurial firm is having one key decision maker and very few subordinates in managerial positions. Dun and Bradstreet (as cited in Fredland & Morris, 1976) reported that 47.3 percent of business failures in the United States were directly related to lack of managerial experience as well as managerial incompetence. Chaganti and Chaganti (1983) found that poor management was the primary reason for 55 percent of SME failures in Canada.

Brush, Greene, and Hart (2001) suggested that the inability to attract and retain qualified human resources could result in business discontinuance. Another reason cited by Heneman and Berkley (2000) for the challenge SMEs have attracting managerial talent is that often founders are looking for managers who have a similar set of values to their own. Rowe (2001) stated, “Organizations led by visionaries who are not supported by strong managerial leadership may destroy [the] wealth [of the organization] even more quickly” (Executive Overview section, 1). Much of the research in the field of SMEs has centered on the traits, attributes, and characteristics of the chief executive officer, the founder, or owner-manager and entrepreneurial activity in general (Drucker, 1984; Feltham, Feltham, & Barnett, 2005; McKenna, 1996; Mitchell, Smith, Morse, Seawright, Peredo, & McKenzie, 2002; Mueller & Goic, 2002; O'Gorman & Doran, 1999; O'Regan & Ghobadian, 2002; Schein, 1983; Swiercz & Lydon, 2002). Founder strategic decision-making and visioning, succession planning, firm culture, and innovation are also the focus of much research in SMEs (Audretsch, 2004; Baumol, 2004a; Bhide, 1996; Bommer & Jalajas, 2002; De Vries & Margaret, 2003; Drucker, 1985; Drucker, 1987; Grant & Cibin, 1996; Haugh & McKee, 2004; Oswald, 1998; Thompson, 1999a; 1999b; Wasserman, 2003; Zahra, Hayton, & Salvato, 2004). Furthermore, researchers have studied factors that contributed to small firm success and failure (Chaganti & Chaganti, 1983; Chaston, 1997; Cochran, 1981; Fredland & Morris, 1976; Theng & Boon, 1996; Walker & Brown, 2004).

Research about the financial benefits that professional managers bring to the entrepreneurial organization is markedly absent. Furthermore, there is no evidence to suggest what type of human resource strategic initiatives SMEs should employ to attract and retain professional managers. Temtime and Pansiri (2005) suggested that unless SMEs employ professional managers, they will achieve lower financial performance than firms that employ professional managers.

**Research Questions and Hypotheses**

As noted in previous sections, managerial incompetence and a lack of managerial skills are major causes for poor small business performance or failure. Peterson et al. (1983) found that the primary reason for business failures is lack of management experience. Similarly, a more recent study conducted by Baldwin et al. (1997) found that "the main reason for [business] failure is inexperienced management" (p. 9). Similar studies conducted by other researchers support these two separate but similar findings (Chaganti & Chaganti, 1983; Chaston, 1997; Cochran, 1981; Fredland & Morris, 1976; Hall & Young, 1991; Theng & Boon, 1996; Watson & Everett, 1999; Wightman & Kelly, 1996). Wightman and Kelly (1996) suggested that most business closures were in the manufacturing industry. Lowe, McKenna, and Tibbits (as cited in Watson, 2003) made a similar observation that is supported by Fredland and Morris (1976). Return on investment (ROI) as a performance measure is an indicator of the well-being of the business and the ability of the business to create wealth, resulting in higher probability of survival and sustainability. The arguments about the relationship between poor performance and lack of managerial skills suggest that good management could enhance the chances of wealth creation. Although businesses vary by age, location, product lines, size, and ownership, the ultimate performance of a business will depend on the ability of the business to create wealth in order to continue survival. The study did not measure variables such as age, size, and location, and these variables should not be a limitation of the study nor affect the result of the study. Watson and Everett (1999) suggested that according to Jovanovic, older businesses have a lower business propensity to fail. As indicated previously, this limitation will not affect or bias the results of the study. In view of this, the research question that guided the quantitative part of the study is:

> **R1**: Are financial returns on investment higher in SMEs that employ professional managers compared to SMEs that do not employ professional managers?

Therefore, the hypotheses tested in this quantitative part of the study are:

> $H_0$: There is no relationship between wealth creation and the number of professional managers employed by SMEs in secondary wood manufacturing.
>
> $H_1$: There is a relationship between wealth creation and the number of professional managers employed by SMEs in secondary wood manufacturing.

Although researchers have hypothesized a relationship between firm financial performance and managerial skills, this is the first study that tested variables including the financial return on investment in SMEs and the number of professional managers the firm employs to determine whether and to what extent a relationship between these two variables exists.

Brush et al. (2001) stated that formal education of managers is a key success factor for an organization. They also stated that education helps on two levels, namely, the technical and social-contacts level. This scenario is more prevalent in smaller firms that do not possess the resources of large firms. O'Dwyer and Ryan (2000) and Temtime and Pansiri (2005) made a similar suggestion that education residing in small business is imperative for the success of the business.

Dimsdale (1974) wrote that SMEs have few managerial positions and characteristic of such firms is that the firm has one top manager who is the founder. Churchill and Lewis (1983) suggested that founders have difficulty relinquishing what they believe they have created. However, Johnston (2000) found that when CEOs of small firms delegate responsibility to their followers, the firm's effectiveness improves. Furthermore, McDonough (1969) suggested that the introduction of outside management did not pose a threat to the business or the control of the founder.

Qualitative research also suggested that SMEs find attracting and retaining professional managers difficult. Brush et al. (2001) wrote that the biggest challenge faced by SMEs is attracting and retaining professional managers. Heneman and Berkley (1999) suggested that little is known about the human resource practices of small firms and the practices they use to attract and retain professional management. Heneman and Berkley (1999) also suggested that the lack of financial and material resources makes competition with large firms difficult.

Kickul (2001) asserted that competent management is critical to creating sustainable and competitive advantage and noted that small firms offer their management team the opportunity to learn and develop new skills and multiple functions across the organization. Dimsdale (1974) observed that learning and developing new skills appeals to some people. McDonough (1969), who wrote that Chris Argyris found that managers like variety and challenge, further supports this observation.

Beyond these observations, little research has been devoted to professional management in the context of SMEs. Attracting and retaining professional managers is a challenge for SMEs (Brush et al., 2001; Ruhe, 2005). Heneman and Berkley (1999) suggested that little is known about the human resource practices of small firms and the practices they use to attract and retain professional management. To begin developing an understanding about this phenomenon and to create a theoretical framework for discussion and future research, four additional research questions, listed below, guided the qualitative part of this research study:

**R2**: What skills do professional managers bring to SMEs to help create wealth?
**R3**: Do SMEs have difficulty attracting and retaining professional managers?
**R4**: Which managerial skills should the SME consider when evaluating managerial talent?
**R5:** What is the attitude of professional managers to job security?

### Theoretical Framework

The research study drew from a variety of theoretical principles including profit and wealth maximization, entrepreneurship, management, agency, and organizational. The agency theory suggests that business agents that are nonfinancial participants in the firm will not carry out the affairs of the business as diligently as would a principal (Eisenhardt (1985; Eisenhardt, 1988). A second problem might occur when a manager may prefer to pursue strategic initiatives to maximize top-line growth resulting in short-term profits, whereas the principal might prefer strategies to maximize long-term wealth creation (Jones, 2004; Pearce & Robinson, 2005). These two conditions will cause moral hazard.

Management theory provides a blueprint that guides managers towards the accomplishment of the firm's goals (Winder, 2003). Drucker (1974) concluded that institutions cannot function without management. Drucker (1969) further noted that management became more prevalent once small business owners recognized that they could no longer do everything themselves. Unlike a leader, whose primary role is to create a vision and rally his or her followers to achieve the vision, the manager is mostly concerned with directing, controlling, planning, organizing, and problem solving (Kotter, 1990; Newstrom & Davis, 2002).

The organization theory centers on how to manage processes such as change and decision-making. SMEs are unlike large organizations (Baumol, 2004b; Kirzner, 1999; Wennekers & Thurik, 1999). For example, the span of control in a small company differs from that of a large organization as do the chain of command and the number of organizational layers. Today's smaller firms react faster to change in business conditions, are less bureaucratic than large ones, and use better human resource management approaches (Morgan, 1989).

The entrepreneurial theory emphasizes the role of innovation, the individual, and wealth creation. Wennekers and Thurik (1999) suggested that entrepreneurs improvise solutions for unforeseen problems. Schumpeter (1942) was more specific and stated that entrepreneurs destroy the existing state of equilibrium by breaking the circular flow. Osborne (1987) suggested that, "[The entrepreneur's] energy fuels this growth because it comes with individuals who wish to take risks and improve their well-being, individuals who view commercial enterprise as a vehicle to satisfy their selfish pursuit of wealth" (p. 13).

Weston (1949) suggested that profits are payments made for the performance of entrepreneurial functions in SMEs. Drucker (1958) and Nerlove (1929) linked profits to the risks the entrepreneur assumes and further argued that the need for profits as a survival requirement is an absolute one. Although some entrepreneurs that start SMEs place little value on financial outcomes, most view wealth creation as a primary purpose of the business (Osborne, 1987).

**Definitions**

Terms such as profit, professional manager, entrepreneurial company, and small-medium-enterprise have many meanings. Definitions are provided to clarify key terms used in the study and to eliminate ambiguity.

Richard Cantillon first coined the term *entrepreneur* in 1730 from the old French word *entreprendre* that translates *to undertake* (Brouwer, 2002; Carland et al., 1984; Kirzner, n.d.; Lowrey, 2003; Rumball, 1989; Stevenson & Jarillo, 1990). Joseph Schumpeter defined entrepreneurs as persons who create new combinations of productive resources, new factors of production, and innovations that destroy existing structures and the circular flow of equilibriums (as cited in Becker & Knudsen, 2002; Brouwer, 2002; Carland , Hoy, Boulton, & Carland, 1984; Goss, 2005; Hartman, n.d.; Jenner, 1994; Kirzner, 1999; Langlois, 1987; McGrath, 1999; Stevenson & Jarillo, 1990). For the purpose of this study, the definition of an entrepreneur is a person who has a financial stake in SME; he or she is involved in the production and sales of existing and innovative goods with the intent to maximize enterprise profits for personal benefit, the economy, and society.

In this study, the term *wealth creation* is synonymous with the term *profit*. Horngren (1981) wrote that firms use terms such as income, earnings, and profits synonymously. Other terms include net income, operating income, or income from operations (Horngren, 1981). The formula used in the study to measure ROI is net income divided by shareholders' equity. Weston and Brigham (1981) used the term return on net worth instead of return on investment, resulting in a similar definition.

Kubasek, Brennan, and Browne (2003) wrote that professionals need to meet certain criteria and characteristics including having a university educational training, meeting licensing requirements, following certain ethical standards, belonging to a formal association, making a commitment to public interest, and, being recognized by the public as a member of a professional group. Drucker (1987) stated that professional managers generate profits for others as opposed to themselves. As such, the definition used in this study for a *professional manager* is a person who attended a postsecondary institution, who is a member of a professionally recognized institution in good standing, and who has practiced in his or her field for more than a year.

Baumol (2004a) cited a report produced in 2003 by the United States Small Business Administration that suggested that small firms are businesses that employ fewer than 500 employees. For the purpose of this study, a SME is a firm that employs fewer than 200 employees or generates revenues of less than $100 million and is managed by at least one person who has a personal financial stake in the business.

A report published by Wilson, Stennes, Wang, and Wilson (2001) provided a definition of *secondary wood manufacturing* as manufacturing that further processes material into other products. BC Stats (2004) defined secondary manufacturing as industries "that produce goods from the products of other manufacturers" (p. 23). The study used the term secondary wood manufacturing for products manufactured after primary manufacturers of wood transform raw logs into a useable product.

**Scope, Limitations, and Delimitations**

The study assumed no sample bias. Furthermore, it was assumed that both successful and unsuccessful companies responded to the survey. Should the assumption be wrong, it is possible that the composition of the sample and the representativeness of the sample is a limitation. Future research can obtain empirical data for a similar research by attending the participants' premises and physically reviewing and interpreting the financial data. Moreover, the study assumed that professional managers, regardless of their professional background, years of practice, and disciplines offer similar benefits to the organization. The study is delimited in a number of ways. First, the data for the study were restricted to the secondary wood manufacturing industry in British Columbia, Canada. Second, the financial data for the study contained data for the past three financial years of the enterprises participating in the study. Third, the study obtained qualitative data from professional managers who have, at a minimum, an undergraduate degree. Fourth, the only source of financial data was the company's financial records. The study contains a number of potential limitations that are associated with a relatively small number of participants located in one geographic area. First, the research focused on one industry in a single country and in a single province. Second, the research did not investigate the results over a period using time-series analysis. Finally, the nonrandom choice of the participants for the qualitative part of the study was recognized. The research considered the limitations and delimitations of the research but it was determined that the information and new body of knowledge from the study would be useful and valid and that the compromised data if any, would not necessarily affect the results of the study.

## REVIEW OF THE LITERATURE

Historical and current literature was reviewed to determine the relationship between wealth creation, professional management, and the attraction and retention of professional managers to SMEs.

### Wealth Creation and the Professional Manager

Dunlop and de Jordy wrote, "In Canada, family-owned firms are estimated to constitute 80 percent of all Canadian businesses and generate $150 billion in sales" (as cited in Starvou & Swiercz, 1998, p. 2). The concern according to Phan et al. (2005) is that 30 percent of SMEs survive to the next generation and only 15 percent into the third. Furthermore, many SMEs never reach their profit potential, resulting in lower financial returns for their stakeholders. SMEs, more often than not, do not recognize the unique qualifications offered by trained professional managers and the role they play in business success (Drucker, 1974; Schumpeter, 1942; Swiercz & Lydon, 2002). Drucker (1985) argued that the entrepreneur that typically heads a SME cannot perform all managerial functions, and unless SMEs understand this, they will destroy the chance to create wealth.

Zahra et al. (2004) studied SMEs and found that because some firms are short-term-oriented, the focus of the organization was wealth creation as opposed to long-term strategic orientation. According to Walker and Brown (2004), success is often measured as profit, sales turnover, or returns on investment which "in economic terms . . . is seen as profit maximization" (p. 578). Sirmon and Hitt (2003) agreed and stated, "the desire for growth and wealth creation—characterizes the family firms" (p. 341).

Schumpeter argued that managers "simply draw conclusions from known circumstances, and the control function essentially consists of correcting individual deviation from a predetermined course of events" (Hartmann, n.d., p. 431). Furthermore, unlike the owner-manager of the SME, "professional [managers] do not receive the profits 'from taking a chance' but may lose their positions if they commit serious errors of policy" (Weston, 1949, p. 143).

Drucker (1958) observed that as commerce becomes more specialized, so will the need for highly trained managers or professionals, as Drucker calls them. Furthermore, Drucker (1958) wrote that professional managers "do not depend on 'opinion' or 'hunch'" (p. 84), an opinion also shared by Schumpeter (1942). Swiercz and Lydon posited that professional managers have skills and experience that can help organizations grow. Kotter (1990) listed the tasks performed by management including planning, budgeting, organizing, staffing, controlling, and problem solving. Falmholtz (as cited in Daily & Dalton, 1992) emphasized the importance of SMEs recognizing the objectivity and managerial experience that professional managers bring to the organization. Furthermore, Falmholtz suggested that "professional management….directly affect the financial performance of the firm" (as cited in Daily & Dalton, 1992, Research Questions, ¶ 5).

Schein (1983) stated that professional managers "have been specifically educated to be managers rather than experts in whatever is the company's particular product or market" (p. 25). Furthermore, professional managers are more analytical, more methodical, more economic-oriented, and more short-term-oriented (Schein, 1983). Gomez-Mejia, Nunez-Nickel, and Gutierrez (2001) hypothesized that removing members of the family from an unsuccessful SME would affect positively on firm survival as opposed to removing a professional manager. Sirmon and Hitt (2003) posited that many professional managers avoid working for SMEs because of limited potential to grow or mature professionally, lack of professionalism, and limited wealth transfer (p. 342).

Anderson and Reeb (2003) and Chua, Chrisman, and Sharma (2003) suggested that SMEs often limit the senior management positions to family members. Anderson and Reeb (2003) also observed, "continued founding-family ownership in U.S. corporations is an organizational form that leads to poor performance" (p. 1302). Burkal et al. (as cited in Sharma, 2004) suggested that often, family preferences for managerial roles in a SME are not determined objectively, "leading to placing family members in positions for which they are not best qualified"

(Nature and Type of Contractual Agreements, ¶ 5). Nicholls-Nixon (2005) suggested that bringing people from the outside that possess a different skill set and perspective could be a potential solution to alleviate the human resource challenge.

**Attracting and Retaining Professional Management**

McDonough (1969) suggested that as businesses grow, they require a new pool of talent because "eventually [the business] become[s] too large and complex to be managed by its founder" (McDonough, 1969, p. 3). Dimsdale (1974) postulated that attracting talented and strong managers to small organizations is not an easy task, more so, if the founder does not wish to relinquish control of the business. Subsequently, the owner may decide, "to get along without first rate managerial assistance" (McDonough, 1969, p. 3).

Cowan (1990) argued that hiring good people solves only half the problem; keeping these people is the other half. Cowan (1990), suggested that small businesses have advantages over big ones even though "[small businesses] operate at a financial handicap when it comes to competing with larger firms for good managers" (p. 69). According to a study conducted by Kinnie, Purcell, and Hutchinson (1999) SMEs do not employ sophisticated human resource management practices because often they lack resources such as time, money, and people.

Kickul (2001) also conducted a study of SMEs from a variety of industries to determine attraction and retention practices and concluded:

> While large firms may have the resources to promise their employees the opportunity for career development . . . small firms may offer their employees the opportunity to learn a broad set of skills and abilities across multiple functions and areas of the organization. (Promised Inducements: The Psychological Contract, ¶ 2)

Johnston (2000) suggested, "use of trained professional managers and experts were associated with better small business performance" (CEO Personality and Centralization, 1). According to Brush et al. (2001), the reason so many businesses fail each year is because they are undercapitalized, have ineffective management, or are unable "to attract and maintain qualified personnel" (p. 64). Blanchard stated that one reason entrepreneurial firms have difficulty attracting and retaining people is because "employees want a partnership relationship rather than superior-subordinate relationship" (as cited in Gupta, 2004 4).

A study conducted by Heneman and Berkley (1999) found that small firms "need to view and treat their attraction practices as strategic choices" (Small Business Practice Perspective, 4). Von Glinow wrote that "financial and status rewards do not seem to do much for highly skilled professionals" (as cited in Stover & Conroy, 1995, Abstract). Moreover, Heneman, Tansky, and Camp (2000) concluded that founders of SMEs "view human resource management decisions as very important to the growth of their enterprises" (p. 22). Bhide (as cited in Harvard Business Review on Entrepreneurship, 1999), suggested that most entrepreneurs tend to hire professionals only when they run out of choices and they have no other alternative

**Study Context**

For each large BC business exporter, there were four small ones. Small business in BC employed four times as many people as large business did. According to BC Stats (2004), "98 percent of all businesses in British Columbia were small business representing 58 percent of all private sector jobs in the province" (p. 3). SMEs' contribution to the BCs GDP was 30 percent. In 2003, 48 percent of all the jobs in BC were in the SME sector. Furthermore, BC Stats (2004) reported that only 5 percent of all businesses in BC were in the manufacturing sector compared 75 percent in the service sector. BC Stats (2001) found that "of the 1.5 million British Columbians who have a job and are not self employed, 41 percent work at an establishment with fewer than 20 employees, [and] 34 percent of employees in the province have jobs at establishments where there are 20 to 99 employees". The remainder works in larger businesses that employ 100 or more employees. BC Stats (2004) also reported that in 2003, 98 percent of all businesses in BC employed "fewer than 50 people" (p. 1).

In 2004, Michael Burt from The Conference Board of Canada studied the wood products industry in Canada. Burt (2004) broke the industry into three sectors including: (a) primary wood products, (b) engineered products, and (c) secondary wood products such as doors, windows, moldings, mobile homes, furniture, pallets, and prefabricated buildings. Most secondary wood manufacturers, or 59 percent of all establishments in this sector, employ 14 employees or fewer. When accounting for companies that employ 50 or fewer employees, the share of these companies reached 89.5 percent. Fewer than 4 percent of all secondary wood manufacturing companies in BC employ more than 100 employees.

Authors Wilson, Stennes, Wang, and Wilson (2001) identified 774 firms engaged in this sector including millwork, kitchen cabinets, panel boards, remanufactured products, and furniture. Although furniture, millwork, and cabinetry are highly visible sectors in BC, they contribute less than 10 percent of the industry's total sales and less than 20 percent of all jobs. Pressures from lobby groups to maintain a sustainable environment and competition for scarce resources have created additional challenges for the industry.

## METHOD

The mixed method research procedure used both quantitative and qualitative data. The quantitative portion of the study used a correlational research design. The qualitative portion used content analysis. Onwuegbuzie and Leech (2004) suggested that combining qualitative and quantitative research enables more flexibility in the investigation because the researcher can explore and address a range of research questions that are often complex in nature. De Vries and Margaret (2003) used a similar approach to the one used in this study to learn about New Zealand's furniture industry. The target population for the quantitative portion of the study consisted of SMEs from secondary wood manufacturers in BC and obtained from the BC manufacturing directory. The quantitative portion of the study included probability sampling and, more specifically, multistage cluster sampling. The target population used for the qualitative portion of the study consisted of managers who possess at least one postsecondary degree and are registered with a recognized professional association. The qualitative portion of the study included nonprobability sampling.

The pre-tested self-administered quantitative questionnaire was mailed to over 500 organizations. Participation was open to all organizations in this sector. To achieve statistical significance, Creswell (2002) recommended following Fowler's 1988 sample size guidelines of at least 30 participants. Thirty-six unspoiled surveys were returned. The qualitative portion of the study gathered data from face-to-face interviews with 15 professional managers drawn from the survey sample using a pre-tested interview protocol. According to Creswell (2002), 15 to 20 interviews is a sufficient number to use in qualitative studies. Participants were not offered financial incentives except for a copy of the final report provided the company participated in the survey.

The study used two instruments to collect data namely, a survey questionnaire and an interview protocol. The survey questionnaire was mailed to the participants together with a cover letter. Participants received assurances of confidentiality and a further assurance to comply with informed consent. The survey questionnaire gathered data about profitability, the dependent variable, defined as ROI, and the number of professional managers the firm employs, the independent variable. The data expressed the ROI statistic as a percentage. The statistic of professional managers was expressed as a percentage of the total number of managers employed by the firm.

The survey questionnaire provided the participants with a space to enter the ratios calculated for both the dependent and independent variables. These metrics were used to correlate the variables and to determine whether a relationship exists and the extent of the relationship between the dependent and independent variables. Specifically, the analysis calculated the Pearson correlation coefficient denoted in the study as $r$ and the coefficient of determination denoted in this study as $r^2$.

The interview protocol consisted of two main parts. The first part gathered demographic data such as name of interviewee, date, time, and location of interview, the current employment position of the interviewee, years of professional work experience, and professional designation. Each participant received assurances of anonymity and confidentiality. Prior to starting the interview, interviewees were asked to sign a consent form. The second part of the data-gathering process consisted of eight open-ended questions. The questions centered on the attitudes professionals have towards employment in SMEs, the unique skill sets they possess, and their feelings about and attitudes towards job security. Furthermore, the questions covered topics such as growth opportunities for professional managers in a SME, comparing and contrasting SMEs to large enterprises vis-à-vis promotional opportunities, personal growth, and financial rewards. The interviewer transcribed the answers provided by the participant on a predesigned data-gathering form. The responses were not audiotaped. Each interview lasted 45 to 60 minutes. The location of the interview was neutral.

The hypotheses were tested to determine whether a relationship exists between return on investment and the proportion of professional managers to total managers. Moreover, inferences were made about the slope and regression and the strength of the relationship between the variables studied. Analyzing the data collected from the face-to-face interviews used the approach suggested by Creswell (2002) and which consisted of six main steps including preparing and organizing the data, exploring the data, developing themes, narrative construction, data interpretation, and data validation. A panel of experts consisting of PhDs and MBAs judged the standards of the instruments. The panel assessed, independently, that the instruments could address the research questions. Similar variables used in this study had been previously used and tested for relevance by Anderson and Reeb (2003).

The study provided assurances that it was capable of delivering more truth and insight because it contains quantitative data supported by qualitative data. The qualitative findings were discussed with the interviewees for participant validation. The data-gathering process and analysis used coding to enhance the data collection process. Burrescia (2005) used a similar interview protocol and approach in his mixed study. The survey questionnaire provided the participant with the formula for ROI to ensure consistent and reliable data. Only the researcher was responsible for gathering data to ensure stability and equivalence. Moreover, the samples proposed for the study were large enough to minimize variations in data. The sample collected data for three years (i.e., calendar years 2003, 2004, & 2005). Daily and Dalton (1992) used a similar approach and period in their study to correlate firm performance using price-earnings ratio, return on equity, and return on assets as the dependent variable and owner-controlled firms as the independent variable. Finally, this research study set the significance level at .05, which is similar to other correlational studies (Anderson & Reeb, 2003; Daily & Dalton, 1992; Ucbasaran, Lockett, Wright, & Westhead, 2003) that set their significance levels (or alpha levels) at .01 or .05.

## PRESENTATION AND ANALYSIS OF DATA

The study gathered quantitative data from 36 secondary wood manufacturing enterprises and qualitative data through face-to-face open-ended interviews with 15 managers.

### Results for Quantitative Portion of the Study

The number of years of operation for companies that participated in the survey ranged from 4 years to 85 years with a mean of 25.94 years and a standard deviation of 18.36 years ($SD$ = 18.36). The mean sales for these companies was $8.43 million with a standard deviation of $9.39 million ($SD$ = 9.39). Approximately 70 percent of the participants reported sales lower than $10 million dollars. Only one company reported sales greater the $30 million. Approximately 85 percent of the respondents reported employment levels of fewer than 100 people in their operations. The mean number of employees for companies that reported employment levels was 43 employees with a standard deviation of 38 employees ($SD$ = 38). To determine the appropriateness and to eliminate potential violations in the assumption of the model, the aptness of the fitted model, using a residual plot analysis was evaluated. The evaluation did not find a violation in the assumption of equal variance at each level of the independent variable. The lowest and highest ROI reported by the participants was -52.48 percent and 103.38 percent respectively. The calculated mean score was 29.97 percent with a standard deviation of 37.14 percent ($SD$ = 37.14). Slightly over 50 percent of the respondents reported a ROI lower than 20 percent and less than 6 percent reported a ROI greater than 100 percent. Approximately 70 percent of the respondents reported that half or less of the management team have postsecondary education and are professional managers. The highest proportion of professional managers employed by a single company was 91.67 percent. The calculated mean score for the participants was 29.81 percent with a standard deviation of 22.36 percent ($SD$ = 22.36). The size of the companies that participated in the survey using the measure of people closely resembled the employment distribution reported by BC Stats (2001). A chi-square ($\chi 2$) analysis compared the observed and actual populations and concluded to fail to reject the null hypothesis of no differences in the two population proportions. The computed $\chi 2$ value was 2.0049 at $\alpha$=0.05 and df=3.

The empirical analysis yielded an $r$-value of .367 indicating a positive relationship between the dependent and independent variables. The coefficient of determination $r^2$ yielded a value of .135. Although the $r^2$ for the study is low, Chua et al. (2003) suggested that this is common in business research. They suggested that the more control variables a study has, the better $r^2$ the study will yield. The linear regression model yielded a probability $p$-value of .027 that is below the .05 value set as the level of significance. Therefore, a significant correlation exists between the profitability of the firm and proportion of managers that the firm employs and, accordingly, the alternative hypothesis is accepted.

### Results for Qualitative Portion of the Study

Eight of the 15 participants held engineering designations including mechanical, industrial, and electrical. These professionals performed managerial duties in operations, quality, research and development, and technology improvement functions. Other participants holding a commerce degree performed accounting, information technology, logistics, and marketing and sales duties. The average number of years the participants held a professional designation is 12 with a standard deviation of 12.20 years (*SD* = 12.20) and ranged from one year to 35 years. Nine or 60 percent of the participants have held a professional designation for 10 years or less. Six or 40 percent of the participants have held the professional designation for more than 10 years. The average number of years of work experience the participants reported is 16 with a standard deviation of 11.13 years (*SD* = 11.13). Participants' years of work experience ranged from three to 35 years. Six of the participants had 10 years of work experience and the rest had more than 10 years. More than 50 percent of the respondents suggested that the skills they acquired during their postsecondary education helped them strengthen both their business process and analytical skills. The participants suggested that business process skills are critical to small firms. The participants suggested that analytical skills are also important because managers can make educated and empirically valid decisions as opposed to intuitive ones. Approximately 30 percent of the participants suggested that they have other professional management skills such as problem solving, communications, good writing, and presentation. The least important of the skills included leadership skills, management skills, and negotiating skills. The participants suggested that these are learned skills and are not necessarily skills gained through postsecondary education. Most participants felt that owners of SMEs do not appreciate the benefits that professional managers bring to SMEs.

Approximately 60 percent cited limited advancement opportunities as the main reason for SMEs in the industry having difficulty in attracting and retaining professional managers. Nearly 50 percent argued that the industry pays lower wages compared to larger firms and that the benefits package is inferior to that of larger firms. More than 30 percent of the respondents suggested that professional managers would rather work for a large firm than a small one because of the higher perceived status associated with working for large firms. More than 25 percent and less than 30 percent of the participants also suggested that owners of a SME have too much control over the business affairs and the inability of the owner-founder to delegate and share responsibility with other managers is detrimental to the business.

More than 70 percent of the participants suggested that the best method to attract professional managers is through alliances with universities and by attending career fairs sponsored by universities or colleges. Other popular methods suggested include business networking, alliances with professional associations, alumni relationships, and the actual use of professional search firms. Only 20 percent of the participants suggested historical modes of recruitment such as advertising in newspapers, trade journals, business magazines, and on online websites.

Approximately 50 percent of the participants suggested that that the two most important skills professional managers possess are technical or analytical skills and interpersonal skills, including character. The argument in favor of character was justified by the fact that today's socially responsible work environment requires a highly ethical behavior. Approximately 20 percent of the participants suggested that professional managers possess less important skills such as leadership, the ability to work hard, good communication skills, and good problem-solving skills. Although the interviewees previously argued in favor of analytical skills, more than 70 percent of the participants said that qualitative skills were more important in a SME than quantitative skills because quantitative skills can be learned more easily.

More than 70 percent of the participants proposed that job security is an important factor when considering a job with an SME. The participants posited that owners of SMEs will not hesitate to downsize if the business is not generating sufficient profits. Furthermore, some 30 percent of the participants argued that SMEs do not possess the financial strength that large firms do which makes the consideration of job security even more critical.

Approximately 33 percent of the participants suggested that professional managers should not be concerned about job security because job security is entirely dependent on the individual. They argued that good performance and character are key factors for ensuring one's job security. Participants suggested that during an economic downturn, the firm will remove poor performers and retain good performers in newly formed or lateral positions. Finally, the comparison of SMEs to large firms yielded a large mix of results. Exactly 40 percent of the participants suggested that large firms do indeed offer more job security than small firms do. The primary preference of working for a small firm is the fact that small firms were more flexible and the jobs and tasks were less structured.

## SUMMARY AND RECOMMENDATIONS

The study stressed the important role of SMEs in creating economic wealth. Furthermore, the study pointed out the important role that professional managers play in helping SMEs create financial wealth. The study also found that SMEs find it difficult to attract and retain professional managers.

### Conclusions

The results of the study drew four *primary conclusions*. They are:

1. Professional managers can indeed help SMEs in the secondary wood manufacturing sector in BC create wealth.

2. Professional managers have many learned skills that can benefit a SME.
3. Although professional managers prefer to work for large firms, SMEs have much to offer by way of personal and professional growth.
4. Restructuring jobs and compensation systems could help the SME become more successful in attracting and retaining professional managers.

The study provides empirical evidence that a higher proportion of professional managers helps SMEs in secondary wood manufacturing in British Columbia achieve greater profitability. The *r*-value obtained from the data analysis is .367, and the estimated value for the coefficient $\beta_1$ □for the proportionate number of managers is significantly different from zero and calculated at .58. This finding supports the proposition that professional managers are associated with better small business performance. Professional managers, by virtue of their postsecondary education, possess skills that business owners or business founders might not have. The combination of the founder's innovation skills and the skills professional management possess can be highly beneficial for the SME. In addition, SMEs can benefit from many other postsecondary learned skills such as the roles and duties of management, negotiations, presentation, and writing. Primary reasons that prevent professional managers from choosing to work for SMEs include the lack of transfer of wealth, lack of professionalism, lack of advancement opportunities, and lower pay and benefits than larger firms. Owners and founders that are prepared to relinquish managerial tasks will enjoy greater success in their quest to attract and retain professional managers.

Traditional modes such as newspaper advertising for attracting professional managers are less popular today than in previous years. Organizations that form alliances with higher institution of higher education can readily draw from the pool of talent made available by the university or college. Networking within or outside a specific industry remains a very popular method for forming relationships with professional managers who are also future potential candidates. Although the combination of technical, analytical, and interpersonal skills is the ideal, qualitative skills are more difficult to acquire than learned quantitative skills. Some of these qualitative skills include the ability to work in a team environment, presentation and writing skills, and communication skills. There is a perception amongst professional managers that large organizations offer more job security than SMEs because they are more financially sound and can withstand economic downturns, whereas small firms are much more vulnerable to poor economic conditions. The results of the study further supported the notion that although some professional managers enjoy working for smaller firms, the need for job security and steady income offsets the benefits offered by small firms.

**Recommendations**

The results of this study demonstrated that SMEs in secondary wood manufacturing in British Columbia could enhance profitability if they employed more managers that are professional. Therefore, SMEs are encouraged to hire professional managers to fill key managerial positions. This study adds to the findings in the literature by suggesting that professional managers are not averse to working for SMEs. Based on the findings, the secondary wood manufacturing industry in British Columbia could become more successful in attracting and retaining professional managers if they clearly define the working relationship including duties, training, advancement opportunities, and wealth distribution. SMEs can network inside and outside the industry so that they can readily draw from a pool of available talent. As such, SMEs would benefit most if they formed alliances with local universities and colleges. Furthermore, SMEs should hire professional managers based on qualitative skills because the assumption is that these candidates already possess technical competencies. Job security is a major concern for professional managers regardless of economic conditions. Investment in long-term human resource strategic initiatives will potentially mitigate this concern. SMEs should allocate a portion of their revenues to both internal and external training and education. Furthermore, clear downsizing policies will further alleviate job security concerns.

**Suggestions for Future Research**

Although the findings are significant, the study did not address whether other factors such as the age of the organization, the size of revenues, and the number of employees play a role in the financial success of the firm. A multivariate research and a larger sample size might wish to explore to what extent these variables in addition to professional management affect profitability. Future research might wish to explore the type of human resources practices that would make SMEs a more attractive place in which to work, to achieve personal growth, and to mature as a professional manager. Future research might wish to generalize these results and investigate whether these findings are valid in other industries and other countries.

## Summary

The regression model suggests that the number of professional managers a SME employs is a good predictor of the profitability of the firm. The results of the study also confirm that professional managers possess both quantitative and qualitative skills. Future hiring practices should place more emphasis on qualitative skills such as teamwork, interpersonal, writing, and negotiating. Combining the many skills of the business founder with those of the professional manager would yield higher profitability for the firm. The study did not find a shortage of skilled professional managers willing to work for SMEs. Nevertheless, the study did find a discriminating group of people who are concerned with advancement opportunities, job security, and personal and professional growth. This finding is consistent with that of Hamel (1999), who suggested that people look for challenging and exciting work, as well as with the findings by Kickul (2001), McDonough (1969), and Worden (2002), who suggested that variety, problem solving, and freedom to make decisions is imperative. The findings of this study suggest that SMEs can enhance their profitability and competitive position and, at the same time, help the economy. Professional managers, on the other hand, can help SMEs achieve long-term viability and sustainability.

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