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“Management Science and Economics”

GOVERNANCE OF THE OWNER-MANAGED SMALL AND MEDIUM-SIZED ENTERPRISES

Summary of the Doctoral Thesis

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I hereby declare that the Doctoral Thesis submitted for the review to Riga Technical University for the promotion to the scientific degree of Doctor of Science (Ph. D.) is my own. I confirm that this Doctoral Thesis had not been submitted to any other university for the promotion to a scientific degree.

Māris Millers (signature)

Date:

The Doctoral Thesis has been written in Latvian. It consists of an introduction, 4 chapters, conclusions and proposals, 31 figures, 30 tables, 5 appendices; the total number of pages is 152 not including appendices. The Bibliography contains 123 titles.

CONTENTS

GENERAL CHARACTERISTICS OF THE WORK	5
1. OWNER-MANAGED SMALL AND MEDIUM-SIZED ENTERPRISES	11
The concepts of SMEs and owner-manager	11
Development of a typology of SME owners-managers	12
2. GOVERNANCE AND ORGANISATION DEVELOPMENT IN OWNER-MANAGED SMALL AND MEDIUM-SIZED ENTERPRISES	16
A systemic approach to enterprise management	16
Case analysis – comparison of governance practices	19
3. EMPIRICAL STUDY ON GOVERNANCE OF THE OWNER-MANAGED SMALL AND MEDIUM-SIZED ENTERPRISES.....	22
Methodology of the empirical study	22
Development of a hypothetic governance model for SMEs.....	23
Self-assessment process	28
Statistical analysis of study results	29
Cluster analysis by enterprise	31
Visual analysis of individual results of self-assessment.....	37
Profiling of companies based on the visual analysis of self-assessment.....	39
4. POSSIBILITIES OF APPLYING THE SME GOVERNANCE MODEL	41
Organization and business development of owner-managed SMEs	41
Development of start-ups and professional development of managers	45
CONCLUSIONS AND PROPOSALS	46
BIBLIOGRAPHY	52
AFTERWORD	54

GENERAL CHARACTERISTICS OF THE WORK

Small and medium-sized enterprises play a huge role in the economy of every country. In Latvia and also in Europe, more than 99 % of enterprises are small and medium-sized enterprises. A large proportion of private SMEs are run by the owners or founders of these companies. Unlike paid professional managers, owners, when running their own company, put at risk their remuneration, investments and commitments.

Larger companies usually have more resources available to hire the right specialists or buy the necessary services for each current problem or process. In smaller companies, the governance issues are often dealt with by the owner or manager themselves, and these people do not always have an education in management sciences or previous management experience.

Business literature as well as training programs often tend to use large companies and corporations as best practice examples for setting up management practices. However, the experience of large companies and their management practices cannot always be applied effectively and successfully in smaller companies.

Research on small business and owner-managed enterprises started several decades ago. In the first half of the twentieth century, new economic theories developed describing business cycles, processes, innovations, etc. – issues that are still relevant today. Austrian economist Joseph Schumpeter in his works developed an understanding of what a company and business are and pointed out the differences between an entrepreneur and a small business owner.

The Second World War left a deep imprint on the political map of Europe and also changed economic processes in much of Europe. After the collapse of the USSR and the restoration of independence in 1991, Latvia and other countries returned to the market economy and European business environment. In three decades, Latvia has taken significant steps in its development, but there is still a certain lagging behind Western European countries, both in economic indicators and in business activity and productivity.

Technologies have also experienced a huge leap forward in their development over the past 30 years. The Internet, telecommunications, robotic technologies, development of the artificial intelligence have changed both everyday life and the business environment and the organization of the work of companies. Technological and legislative developments have made it easier to set up companies and develop a business, while enhancing competition for both resources and customers. With joining the European Union, new opportunities have arisen for Latvian entrepreneurs, and they have also entered a new environment full of challenges and competition.

There is also a change in the understanding what a small business is. In 2005, a new classification of enterprises was introduced in the European Union, which defined micro-enterprises alongside small and medium-sized enterprises. It should, therefore, be taken into consideration that many of the publications and studies of previous periods on so-called “small enterprises” or “small business” could be relevant for micro-enterprises in today’s sense, and the findings of these studies cannot be unequivocally applied to small and medium-sized enterprises in the modern sense.

Another reason that has prompted the study of the owner-managed small and medium-sized enterprises is the repeatedly heard opinion in the business community that business owners run

their own businesses worse than paid professionals would. However, is it a substantiated view, or are they mere statements based on individual experiences?

Besides, we live in a time when the business environment, technologies, markets, legislation, habits of customers and employees are changing quickly. If during this time the understanding of what is a “small” or “rather small” and what is a “large” business has changed, then perhaps a modern “small” company needs a different understanding of how to organize and run a business.

In August 2021, more than 184 thousand enterprises, merchants, economic entities, organizations were registered in Latvia, and only a few hundred of these are large enterprises. The latest legislation also requires companies and organizations to indicate their beneficiaries. In the case of Limited liability company, the owners of the company, be they legal or natural persons, are usually easy to identify. But it is not so easy to identify how a company is run and managed. The Commercial Law stipulates that the company has a board of directors and at least one member of the board. But the company can also have a director, manager, president, council, procurator, trustee, partner. Consequently, determining who is a formal and who is the real manager of the company is not always clear and simple.

And even if the head of the company is the owner of the company, not everything may be as simple as it initially seems. The company can have several co-owners, each with a different “weight” and influence. The founder of the company may have a greater informal influence, while the “strategic investor” may be granted a greater influence in the company’s articles of association and other regulatory documents. Therefore, the question of an owner-managed company is not as simple and unambiguous as it may seem at first glance. And before exploring how owner-managed companies are run, it is also necessary to find out who exactly are the owners-managers of these companies and what they tend to be like.

The aim of this research is to study the governance of owner-managed small and medium-sized enterprises and to propose appropriate solutions in order to help improve the governance of such enterprises and also contribute to their sustainability.

In order to achieve the objective of the study, the **following tasks** have been set:

1. To study small and medium-sized enterprises and how understanding of such enterprises has changed over time.
2. To identify how business owners-managers are defined and called in the scientific literature and business environment.
3. To analyse previous research on the topic of governance and organisational development in owner-managed SMEs and to identify governance models already on offer.
4. To conduct an empirical study of owner-managed SME governance and to analyse data from the empirical study using different methods.
5. To develop a new governance model appropriate for the owner-managed SMEs and analyse the possibilities of its application.
6. To appraise the results of the study.

The object of the study is owner-managed small and medium-sized enterprises.

The subject of the study is governance and organization development in owner-managed small and medium-sized enterprises.

The work uses findings of Porter, Deming, Kaplan, Norton, Hamel, Osterwalder, and other researchers on the principles and approaches of business modelling, strategic planning, organization development and total quality management.

The Doctoral Thesis uses generally accepted theoretical research methods, such as analysis and synthesis, induction and deduction, focus group discussions, expert evaluations, analysis and compilation of information, grouping, comparison, graphical representation, qualitative and quantitative data processing, including statistical analysis and other methods.

The informative basis of the work consists of scientific literature, international and local publications, methodological literature, information and reports published by the national and international institutions of the European Union, the Republic of Latvia and other states, as well as other documents corresponding to the topic to be studied.

Limitations of the study. The study was carried out in Latvia. As part of the study, governance issues were addressed from the perspective of owners and managers of small and medium-sized enterprises. The study did not analyse the owner-managed SME governance from the perspective of employees, customers or other stakeholders. Issues related to the application of various types of corporate governance system software, investments and business development activities were not addressed due to the limited scope of the Doctoral Thesis. The study also has limitations related to publicly available data as well as the number of respondents.

In this work, the term “owner-manager” is used to cover the diversity of all equivalent terms found in literature.

In order to protect the business confidentiality and the privacy of their owners and managers, the names of all the companies mentioned in this work have been replaced by a neutral four-letter code (for example, company ABCD).

Scientific novelties:

1. A new typology of SME owners-managers has been created, consisting of 10 types of SME owners-managers.
2. A comprehensive, transparent and systemic approach-based governance model for owner-managed SMEs has been developed.
3. A self-assessment methodology and criteria appropriate for small and medium-sized enterprises, which SME owners-managers can use for the development of their enterprises and business, have been developed.
4. Grouping of the owner-managed SMEs according to their governance approach and result has been made using the empirical study data statistical analysis-based cluster analysis approach.
5. SME profiles (8 standard profiles), which would help SME managers to better understand the situation, risks and development needs of their companies, have been created and defined on the basis of visual analysis of the results of self-assessment of enterprises.
6. Methodology for the owner-managed SME organization and business development, based on the proposed governance model, self-assessment criteria and the approach of interpretation of self-assessment results, which can also be used for professional development of managers, has been developed and approbated.

Theses put forward for defence:

1. The term “owner-manager” narrowly reflects the diversity of situations that are found among persons who are the owners of small and medium-sized enterprises and at the same time their managers.
2. It is possible to create a governance model suitable for owner-managed SMEs, which can be successfully used for the owner-managed SME organizations and business development.
3. Grouping of enterprises by similar characteristics (clustering) makes it possible to identify typical situations of enterprises and develop appropriate governance and organization development approaches for them.
4. Visualization of the results of analysis of the company’s governance approach can help SME owners-managers and employees to develop a better understanding of the situation in the company, understand development challenges and opportunities.

Approbation and practical application of the results of the study

Topics of the Doctoral Thesis have been presented at scientific conferences and seminars:

1. 56th International Riga Technical University Conference "Scientific Conference on Economics and Entrepreneurship" SCEE'2015, Riga, 14–16 October 2015
2. International scientific conference “Innovations and smart entrepreneurship”, Ventspils University College, Ventspils, Latvia, 17–18 September 2015
3. 21st International Scientific Conference on Smart and Efficient Economy: Preparation for the Future Innovative Economy, Brno, 19–20 May 2016
4. SOItmC & RTU 2017 conference “Let Us Conquer the Growth Limits of Capitalism – through New Combination between Technology, and Market or Society”, Riga, 15–18 June 2017
5. Contemporary Challenges in Management and Economics (International Scientific Conference Economics and Management – ICEM-2017), RTU, Riga, 10–13 May 2017
6. International Scientific Conference “Contemporary Issues in Business, Management and Economics Engineering” (CIBMEE-2021), Vilnius, Lithuania, VGTU, 13–14 May 2021 (online)
7. Society of Open Innovation: Technology, Market, and Complexity (SOI) & Riga Technical University 2021 Conference, Riga, Latvia, 12–15 July 2021 (online)
8. World Multi-Conference on Systemics, Cybernetics and Informatics (WMSCI-2021) Orlando, USA, 18–21 July 2021 (online)
9. 62nd International Riga Technical University Conference “Scientific Conference on Economics and Entrepreneurship” SCEE'2021, Rīga, 14–15 October 2021 (online)

The theoretical and practical results of the Doctoral Thesis have also been used in the educational process, conducting classes within the study course “Entrepreneurship and Business Planning” in the RTU International master’s study programme “Innovations and Entrepreneurship” and in guest lectures on entrepreneurship organized by RTU FEEM in various RTU faculties. The author is a member of the Organizational Development Club “OAK”.

Structure and scope of work

The Doctoral Thesis consists of an introduction, four chapters, conclusions and proposals, a bibliography and annexes.

Chapter 1 of the Doctoral Thesis explores and analyses the concepts of small and medium-sized enterprises and the owner-manager of the enterprise, the contribution of such enterprises to the economy and how understanding of these concepts has changed over time. A new typology of SME owners-managers, consisting of 10 types of SME owners-managers is developed and proposed.

Chapter 2 explores SME governance issues from a systemic approach perspective. Particular attention is paid to the governance of owner-managed companies. At the end of the chapter, governance practices in three owner-managed small and medium-sized enterprises are compared on the basis of findings from theory and previous studies.

Chapter 3 describes the empirical study conducted on the owner-managed SMEs, the methodology of the study and the results of statistical analysis of the study data, cluster analysis and visual analysis of the results of the governance self-assessment.

Chapter 4 of the Doctoral Thesis develops and describes a methodology by which owners and managers of small and medium-sized enterprises can analyse and improve their business, as well as recommendations on how this approach can be used in the process of training and professional development of managers.

The volume of the Doctoral Thesis is 152 pages and 17 pages of annexes. The Thesis includes 31 figures, 30 tables and 5 annexes illustrating and explaining the content of the work. 123 sources of information in Latvian and English have been used for the development of the Doctoral Thesis.

Publications of the author of the Doctoral Thesis:

1. M. Millers, E. Gaile-Sarkane (2021) Management Practice in Small and Medium Sized Enterprises: Problems and Solutions from the Perspective of Open Innovation. *Journal of Open Innovation: Technology, Market, and Complexity*. 2021, 7(4), 214; <https://doi.org/10.3390/joitmc7040214>
2. Millers, M., Gaile-Sarkane, E. (2021). Towards new typology of the owners-managers of the small and medium enterprises. In: Selected papers of the International Scientific Conference “Contemporary Issues in Business, Management and Economics Engineering 2021.” <https://doi.org/10.3846/cibmee.2021.603>
3. Millers M., Gaile-Sarkane, E. (2021). Comparison of Governance Cases in Owner-Managed SMEs. *Journal of Systemics, Cybernetics and Informatics (JSCI)*, 2021, Vol. 19(5) pp. 40–46 <http://www.iiisci.org/journal/sci/FullText.asp?var=&id=SA157RJ21>, ISSN: 1690-4524 (Online)
4. Millers M., Gaile-Sarkane, E. (2021). Comparison of Governance Cases in Owner-Managed SMEs, In *Proceedings of the 25th World Multi-Conference on Systemics, Cybernetics and Informatics: WMSCI 2021* (Best paper of the Conference session)

5. Millers, M., Sceulovs, D. (2017) Are IT Skills Helpful to Manage Processes in a Small Business? *Procedia Computer Science*, 2017, Vol. 104, pp. 235–241. ISSN 1877-0509. Available from: doi:10.1016/j.procs.2017.01.130
6. Millers, M. (2016) Diversity of Owner Managed Small and Medium Enterprises. ICEM-2017. Available from: http://alephfiles.rtu.lv/TUA01/000060440_e.pdf#page=39
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Keywords: management, governance, small and medium-sized enterprises, owners-managers, management system, management processes, founder-managed companies, family business, organization development.

1. OWNER-MANAGED SMALL AND MEDIUM-SIZED ENTERPRISES

The first chapter of the Doctoral Thesis explores and analyses the concepts of small and medium-sized enterprises and the owner-manager of the enterprise, the contribution of such enterprises to the economy and how understanding of these concepts has changed over time. Also, a new typology of SME owners-managers is developed and proposed. The first chapter of the Doctoral Thesis is 27 pages long, it contains 3 figures and 7 tables.

The concepts of SMEs and owner-manager

Small and medium-sized enterprises (SMEs) are referred to as the backbone of the European Union's economy (European Commission, 2017). In Latvia and Europe, and likewise in the rest of the world, SMEs account for up to 99 % of the total number of enterprises and provide two thirds of all jobs.

The understanding of what a small business is has changed over time. In the 1935 company census in Europe and Latvia, the number of employees was determined as the border between a “small” and “larger” company – 5 employees. In the twentieth century, different criteria were applied in different countries and sectors to determine what a small, medium-sized or large enterprise is, and these criteria still vary from country to country.

In order to introduce a common approach in Europe, since 2005, three categories of companies have been defined in Europe in order to distinguish SMEs by size, with the number of employees, turnover and the company's balance sheet as criteria. According to this classification, small enterprises have 10–49 employees and medium-sized enterprises have 50–249 employees, but the enterprises with fewer than 10 employees are micro-enterprises. (European Commission, 2003).

This work explores small and medium-sized enterprises, or enterprises with at least 10 employees, and this should be taken into consideration, in particular when studying research carried out at different times on small business or small enterprises, since part of such research in the modern sense concerns micro-enterprises.

According to the data of the Enterprise Register of the Republic of Latvia, more than 184 thousand enterprises and merchants were registered in Latvia in August 2021 (LR Uzņēmumu reģistrs, 2021). This number also includes enterprises that do not currently carry out economic activities and are not excluded from the register. Among the economically active enterprises in Latvia in 2019 were 1679 medium-sized enterprises and 9120 small enterprises, which together employed more than 342 thousand employees, or 45 % of the total number of employees of enterprises. These companies have contributed almost 4 billion euros to the general government budget, which is more than half of the total payments of all companies.

A large part of private companies is run by their own owners or founders. National registers and databases do not make it possible to determine the exact number of such enterprises. Also, the term “owner-manager of the company” is ambiguous, so an analysis of this term was carried out.

In literature, various terms can be found that characterize a person who is the owner and manager of the company at the same time. “Owner-manager” is just one of such terms. When

studying the persons responsible for small businesses, Jennings and Beavers identified several terms, such as *entrepreneur*, *owner*, *manager*, *entrepreneur-owner*, *entrepreneur-manager*, *owner-manager*, *entrepreneur-owner-manager* (Jennings, Beaver, 1995).

In literature and studies, along with the term “owner-manager”, other terms can be found, such as “founder-run company” (Ahmad, Wilson, & Kummerow, 2011; Carland, Hoy, Boulton, & Carland, 1984). This term emphasizes that the company is run by its founder, and such a person has a greater historical link to the company. Also, the terms “family-run business” or “family business” are used to describe a special type of enterprise, as well as to describe how such a company is run (Cohen, Lauterbach, 2008; Gilding et al., 2015; Goffee, Scase, 1985; Poutziouris, 2003)

Most often, the owner-manager of the company is described as one individual person. There are studies that link this person’s actions in the company to his or her attitude to growth or lifestyle issues (Jaouen, Lasch, 2015) or, for example, to growth motivators (Wahlgrén, Virtanen, 2015). Being the owner of a company and at the same time being its manager can be both an advantage and a challenge (Millers, Gaile-Sarkane, Sceulovs, 2016). However, companies can have different forms of activity, ownership structure and also different ways in which management processes are implemented in enterprises. There is still a lack of a holistic view and a structured approach to this diversity.

The literature survey did not find a well-established typology of business owners-managers that would help to get a comprehensive and holistic view and properly show the differences between various types of owners-managers and also various types of companies run by their owners themselves. One way to help understand the diversity of SME owners-managers is to group similar types of owners-managers and develop descriptions of their profiles, or owner-manager typology. The work describes and proposes one possible variant of such typology.

Development of a typology of SME owners-managers

As part of the work, a new typology of small and medium-sized business owners-managers has been developed and offered. Such a typology will provide a structured way to better understand the diversity of SME owners and managers and raise awareness of their behaviour in planning, controlling and running their business. The proposed typology is an attempt to fill the knowledge gap caused by the lack of a holistic and systematic approach to understanding the diversity of SME owners-managers.

Typology development approach

In order to collect data for the development of typology, 52 semi-structured interviews with SME managers were held. Entrepreneurs and business owners with at least 10 employees in their companies were selected for interviews. This made it possible to focus specifically on small and medium-sized SMEs and to avoid the different approaches and specificities of micro or individual enterprises.

The entrepreneurs surveyed represented mostly private companies in Latvia as well as some companies operating in other European countries. Companies are of different ages and work in different sectors. The answers and data obtained was sufficient to detect different types of

owners-managers and the different ways in which companies are managed. The interviews were conducted between 2016 and 2020.

The findings of the literature review and interviews were used to define SME owner-manager types. The current typology version developed as a result of iterations consists of 10 types of SME owners-managers. All 10 types are shown in Table 1. Each type is assigned its own identifier (letters A to J), a name that describes the type, as well as a brief description of the situation, which helps to understand each type and also the differences between them.

Table 1

Ten types of owners-managers of SMEs (created by the author – novelty)

	Type of the SME owner-manager	Description of relevant situations in the enterprise
A	Single founder – manager	Company is permanently managed by its original founder. Company can be new, growing or can be mature, experienced. There also can be situations when the owner returns to company management after failed experience with hiring a professional manager.
B	Co-founder – manager	Company established by two or more co-founders, with one of them acting as manager or the CEO. Other founders can have supervisory role on the board or can hold other job positions in the company.
C	Manager co-owner	Company is managed by professional CEO who owns minority shares of the company as part of motivational programme or special agreement. Other owners can hold supervisory or controlling role on the Board or paid position.
D	Investor – manager	Company is managed by a person who became an owner as the result of management buyout, financial or strategic investment. Investor's long-term or short-term intentions can have been declared openly or kept hidden.
E	Business cluster owner	There is a group of smaller enterprises or organisations working closely in related business, established or owned by one person. Companies in the group can have also other co-owners or partners. Companies in the group can have various legal statuses (commercial, non-profit, fund, etc.).
F	Multi-business owner	There are several companies owned and managed by the same person, which all operate in diverse or unrelated businesses (such as production and leisure, or else). Usually, management effort in these companies also is part-time or unequal.
G	Family business manager	Enterprise which belongs formally or "as a fact" to one family, has several family members employed in various management and professional positions, formally and informally. Company is run by one of the family members.
H	"Had-to-become" owner-manager	Enterprise has obtained new owner-manager due to some inevitable event (such as sickness or death of previous owner, partner's divorce, or another crisis) or as a result of a gift from a partner or family member. The new owner-manager usually is a family member or close relative.
I	Owner-supervisor	Owner of the SME has recruited and nominated acting Director (or CEO) with certain delegated authorities who is in charge for daily management of the enterprise. Owner holds formal or informal supervisory role over his/her enterprise.
J	Cast-away-owner	Original owner has neglected company due to personal problems (sickness, addiction, personal tragedy, stress, etc.). Company is managed by some formal or informal leader-manager in a "survival mode" and with formal or informal authority.

The purpose of semi-structured interviews was to understand the role of the owner-manager in the company, his or her historical relationship with his or her own business and how the company is managed. The interviews included the following issues: is the current owner-manager a founder of a particular company or entered the company at a later stage; has the owner-manager other co-founders co-owners or other interested parties; how independent is the owner-manager in his or her decision-making; how closely involved or how distant is the owner-manager in the day-to-day management of his or her company; is that person the owner of one or several business entities, what is the general goal of the owner in terms of the management and growth of his or her business, etc.

Owner-manager types were defined as a combination of several attributes so as to sufficiently cover both similarities within the same type and differences between types. A brief description was drawn up for each type.

All ten types of SME owners-managers offered in this typology can be found in the current business environment. Each of the interviewed owners-managers can be associated with a certain type of the proposed typology:

***Example:** The head of the production company LBFI is its founder and sole owner. The company has been successfully operating on the market for more than 10 years. (Type A – single founder-owner).*

***Example:** The owner and CEO of JHOB acquired shares of the company from previous owners, developed the company and later sold it to other owners. This entrepreneur has also had a positive experience in the past to develop and sell businesses founded by himself or herself or other entrepreneurs. (Type D – investor-manager).*

***Example:** The founder and owner of the specialized goods trading company JLAB has hired a professional manager, and as part of the motivation system the founder has assigned a certain number of shares of the company to the invited salaried manager. (Type C – manager-co-owner).*

Comparison of SME owner-manager types

When comparing the proposed types of owners-managers with each other, one can expect some more or less characteristic features. For example, single owner-manager (type A) and investor-manager (D) are more independent in their actions and decisions than the manager-co-owner (type C) or family business manager (type G). In turn, the type B co-founder – manager together with his or her partners usually has more abilities to manage, influence and develop a business than a type H owner-manager who has become manager due to circumstances beyond his or her control.

Table 2 shows the characteristics of each type compared to other types in four dimensions: **(I) independence** (or dependence on others) in his or her actions and decision-making; **(II) involvement** (or distancing) in the day-to-day operation of the undertaking; **(III) ambition** (or caution) in his or her decision-making and choices; **(IV) level of capacity to implement** his or her objectives and plans.

This table (Table 2) was designed by summarizing the arguments heard in interviews with owners-managers about the characteristics of their actions and decision-making and should not be generalized to other companies and their owners-managers without further research.

Table 2

Comparison between SME owner-manager types (created by the author – novelty)

	Characterization dimensions Type of the SME owner-manager	Independence: independent ● or dependent ○	Involvement: involved ● or distant ○	Ambitions: high ambitions ● or cautious ○	Capabilities: greater ● or limited ○
		I	II	III	IV
A	Single founder – manager	●	●	◐	◐
B	Co-founder - manager	◐	●	●	●
C	Manager co-owner	○	●	△	●
D	Investor – manager	●	●	●	●
E	Business cluster owner	●	●	●	●
F	Multi-business owner	●	◐	◐	◐
G	Family business manager	○	◐	◐	◐
H	“Had-to-become” owner- manager	◐	●	△	○
I	Owner-supervisor	●	○	●	○
J	Cast-away-owner	○	○	○	○

Legend used in the table: ● pronounced characteristic; ◐ moderate characteristic;
○ weakly expressed or opposite property; △ not determined.

Application of the typology of SME owners-managers

Understanding the type of owner-manager can help to better understand his or her behavioural model, formal and also informal decision-making process and can finally help improve decision-making in business and personal development issues.

The types of SME owners-managers defined in this study can mainly be identified through self-assessment by the business owner or manager himself/herself or by a targeted interview. The type of owner-manager cannot be identified using data from the state enterprise register or other official databases. State registers initially process each legal entity as a separate company.

However, this study pointed to situations where the business can also be built up of more interconnected or independent legal entities.

The diversity of ways of organizing entrepreneurship can be expected to increase further in the future in order to better manage the increasing complexity of the business environment, mitigate potential business risks and seize even more opportunities provided by legislative, financial and social incentive mechanisms. It can also be assumed that new forms of ownership and management of small and medium-sized enterprises may arise in the future, and the traditional role of the owner and manager of the company will also change.

Recent events, such as the pandemic, and trends, such as technological developments and new business models, also open up new opportunities for business creation, governance processes, diversification of ownership structure, financing types and company governance. There is also a need to progress accordingly in understanding the way business owners manage and govern their businesses.

The typology of SME owners-managers offered in this work and its interpretations can be developed to improve the understanding of how different business leaders plan, control and run their business, what the drivers or limitations of their decisions are, and what competences need to be developed.

2. GOVERNANCE AND ORGANISATION DEVELOPMENT IN OWNER-MANAGED SMALL AND MEDIUM-SIZED ENTERPRISES

The second chapter of the Doctoral Thesis explores SME governance issues from a systemic approach perspective. Particular attention is paid to the governance of owner-managed companies. At the end of the chapter, findings from theory and previous studies are compared with governance practices in several owner-managed SMEs. The volume of the second chapter of the Doctoral Thesis is 30 pages, it contains 1 figure and 10 tables.

A systemic approach to enterprise management

Research on small businesses, business owners and managers has more than 100 years of history. The first publications mentioning small companies or small business appeared already at the end of the 19th century. Over the past 100 years, new economic theories have also developed and there have been many different attempts to look at business enterprises using a systemic approach.

The Latvian terminology dictionary contains several terms that are related to the management of companies and organizations. Along with the term “management”, terms such as “governance”, “control”, “administration” and others can be found (Termini.gov.lv, 2021).

The term “governance” is not new, but there is still no common definition of governance. According to Bevir (Bevir, 2012), governance applies to all governance processes, whether carried out by the government, by the market or by a network of organizations, whether it concerns a family, tribe, formal or informal organization or territory and by law, norm, power

or language. “Governance” is different from “government”, as it is less focused on the state and its institutions and more on social practices and activities.

There are also several interpretations in the literature on how the term “management system” is explained. A management system, according to Kaplan and Norton, authors of the Balanced Scorecard, is an integrated set of processes and tools that a company uses to develop its strategy, translate it into operational terms, and monitor and improve the effectiveness of both (Kaplan, Norton, 2008).

The term “governance” is used in the title of this work and it includes the whole set of actions and principles that are reflected by the terms “governance”, “management”, “control”, “administration” and corresponding terms both in Latvian and in English.

In the 19th century, there was an understanding that a company must definitely have some property, be it a plant or land, and there should also be workforce.

In 1890, Alfred Marshall, an English economist and the founder of the Cambridge School of economic thought, published a major work in five books “Principles of Economics” (Marshall, 1890). In his works he looked at and analysed four factors of production: three already traditional ones – land, work, capital, and later added a fourth – the organization of the production process. For many years, Marshall’s books were recognized textbooks in economic studies (Krilovs, 2014). Marshall was also one of the first to use charts in his publications, which made it easier to explain more complex concepts.

In the second half of the 20th century and in the 21st century, many systemic approaches to corporate governance and development emerged, still in use today. The evolution of approaches and methods describing companies as systems is reflected in Fig. 1.

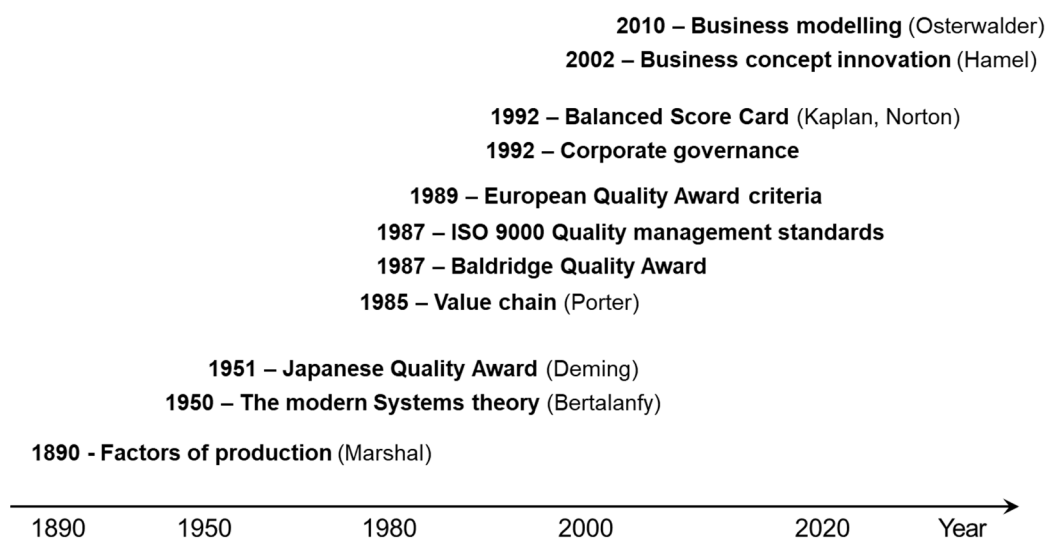


Fig. 1. Evolution of methods describing companies as systems in the period 1890–2020
(created by the author)

After the Second World War, a quality management approach was developed first in Japan and later in the United States and Europe – initially focusing on quality assurance in production, but later also covering other processes of the company’s operations and management, known today as Total Quality Management or TQM. In the 1980s, the competitiveness issues of

enterprises were raised, therefore customer-oriented process management and strategy issues gained popularity. At the beginning of the 21st century, in accordance with the opportunities and challenges created by technological development and globalization, business concept innovation and business modelling approaches emerged.

Many of these approaches, the principles and terminology introduced in them are often used in the governance and development of companies today. When creating a new governance model, it is necessary, as far as possible, to use the principles and terminology that are already familiar and understandable to their users. Appropriate principles, terminology and approaches will also be used in this work to create a governance model for the owner-managed SMEs.

In the post-World War II period, it was widely believed that large companies have the ability to generate greater economy of scale; they stimulate more innovation and increase competitiveness in global markets. As a result, the themes of research, as well as those of many government policies, were designed in order to stimulate the growth of large companies. Researchers' interest in small and medium-sized enterprises increased again in the 1970s. During this time, the role of SMEs in the economy was once again growing significantly, and the topics of research were also expanding. During this time, new terms and concepts such as business processes, business model, total quality management and others were introduced in educational literature and business environment.

David Birch made a significant contribution to small business research with his 1979 report "Job creation process" (Birch, 1979). The report showed that, contrary to prevailing beliefs of the time, it is small businesses that create most new jobs in the US. Birch was also one of the first to emphasize the importance of fast-growing firms, his research attracted the attention of politicians as well as scientists in the USA and abroad, and he also introduced the term "gazelles" widely used today.

One frequently asked question in the initial studies on owner-managed companies was how the owner-manager influences the company's business results. Among entrepreneurs, there is an opinion that at a certain point in time the founder or owner of the company should be replaced by a professional manager in order to avoid stagnation of the company or deterioration of business activity. However, there are studies that do not confirm such claims. Willard et al. (Willard, Krueger, Feaser, 1992) who analysed 155 fast-growing high-tech companies in the US, as well as Daily and Dalton (Daily, Dalton, 1992) who studied how the role of CEO is performed by the founders of the company and how – by business professionals, did not find significant differences between companies managed by founders and professional managers. Also Gulbrandsen's study of Norwegian private sector owner-managed companies with more than 15 employees showed that there are no significant differences in performance between companies managed by their owners or founders and companies managed by paid professionals (Gulbrandsen, 1996).

There are a number of studies analysing the factors affecting the performance and, in particular, growth of SMEs. The studies by Blackburn et al. (Blackburn, Hart, Wainwright, 2013) show that the size and age of the company are more important than the company's strategy and the owner's entrepreneurial skills. The existence of a business plan also has a positive impact on the results of the company's activities.

Studying the views of owners-managers on issues of growth and lifestyle Jaouen and Lasch linked their behaviour in business to their personality profiles (Jaouen, Lasch, 2015). Wahlgrén

and Virtanen also studied the attitude of owners-managers towards the growth of their company, and their research revealed three types of growth motivators – economic, psychological and social (Wahlgrén, Virtanen, 2015).

The range of researched topics on SMEs has expanded and covers now management issues, systemic approaches to company management, as well as the psychology and behaviour of owners, individuals, and groups. It should be noted once again that the European Commission introduced a new classification of small and medium-sized enterprises in 2005 (European Commission, 2005), therefore, it is necessary to avoid possible misunderstandings that may arise when analysing research and literature on small business and small enterprises.

Case analysis – comparison of governance practices

Literature research shows that the development of the company's management system in the owner-managed small and medium-sized enterprises may be influenced by various objective and subjective factors. To obtain as complete an understanding of the event or situation as possible, a case analysis method may be used (Yazan, 2015), and this study carried out a multi-case analysis, first examining three owner-managed companies separately and then explaining similarities or differences in their governance.

To find out how the governance system is developed in the owner-managed small and medium-sized enterprises and their possible peculiarities, a case analysis was carried out within the framework of the study. Structured in-depth interviews with owners-managers of small or medium sized companies were conducted to identify underlying factors and particularities of how management system is developed in the selected companies. The interview questions were formed to cover main elements and approaches for governance and management system development. The results of the interviews were compared with each other and also with the conclusions from the literature research.

All three companies are small or medium sized enterprises with the number of employees between 20 and 50, and they represent services, production, and trade segments from three European countries, and in this section they will be referred to as Company A, Company B, and Company C.

Company SNLS (in this section referred to as Company A) is a marketing services and sales training company from Netherlands. Company DFRA (in this section referred to as Company B) produces design and promotional products using advanced technologies and is based in France. Company BLVS (in this section referred to as Company C) is a B2B products supplies company from Latvia. All three companies are managed by their owners who are also their founders. All companies have positive financial situation, loyal customer base and no major operational problems.

All three companies described in this article operate in comparable business areas, which include providing professional services in business to business (B2B) segments; they all have elements of production and offer some additional services.

The company analysis through interviews shows that there are differences how the management system and principles are established and developed. These differences are mainly defined by the owners-founders and are not country or local business culture specific. The summary of company analysis derived through interviews is provided in Table 4.

Table 4

Comparison of governance practices in companies A, B and C (created by the author)

Company A	Company B	Company C
Main business area		
Marketing services and sales staff training for B2B customers	Production of customized high-end technology-based products for B2B customers.	B2B product supplies and production.
Organization model		
Three interrelated enterprises working together and forming one business	One compact-sized professional company with a large freelancer network	One company with fully equipped sales, production and delivery staff and resources.
Defining strategy and policies		
No written strategy. Market goals are set. Key principles are defined and reminded during project work.	Focus on short-term tasks to develop business and company. Founders have vision and shared view on company development.	Strategy planning sessions were conducted with key team. Goals, plans and principles are written and followed.
Defined long-term goal		
Exit strategy – to sell business to larger market player in next few years.	Develop customer base and deploy further technologies.	Stabilize business, increase efficiency and profitability.
Culture and communication		
Open communication with all employees, customers, partners.	Professionals at work, friendly and family-like environment outside the office.	Objectives and key performance indicators are set to be achieved with professional attitudes.
Process management		
Formalizing best practices during project work to ensure best offer and service to customers.	Work-based learning. Understanding process and opportunities to select most appropriate way of working.	Key processes (sales, production, deliveries) are defined and formalized in ISO-9000 certified system.
Motivation system		
Salaries are defined in combination with project-based motivation approach.	Professional level salaries. Relevant fees for freelancers.	Combination of salary and performance-based bonus system.
Target market/target area		
International (locations in several countries)	Country-wide, single country, limited to use of national language.	Country-wide in a few defined geographical service areas.
Role of co-owners/partners in company		
Both co-owners are professionals in core business (marketing) and work in company	One is professional in core business area, the other – expert and advisor in financial and administrative issues.	One is the founder and business developer; the other is a business manager and administrator.

There are both similarities and differences between the three companies. Company A, in fact, is a combination of three legal entities (enterprises), all with similar ownership structure, each with own brand name, where one enterprise is often involved as subcontractor for another enterprise in their customer's projects. Company B keeps a smaller core team of permanent employees and uses a larger network of freelance specialists who are involved in their customer projects in accordance with current needs and required competences. Company C has established own production capacity for a specific product line, has own sales force, call centre and delivery fleet, and each business unit has dedicated manager in charge.

Companies A and B have no formalized and written strategy. The founders of companies A and B have defined a few essential principles, which are shared and reminded to employees and

also freelancers during regular work and customer projects. Company C has arranged a series of seminars with key managers and specialists to formulate and write down key principles, objectives, and implementation plans.

Company A uses extensive and open communication with its staff, customers and business partners about business trends, customer needs, technology development. Company B tends to maintain professional relationships during projects and family-like environment outside working hours, arranging informal dinners and weekends for team members. Company C defines processes, sets targets and key performance indicators (KPIs) for various business aspects, keeping informal relationships to a limited level.

During interviews every owner-manager was able to recognize and name some management practices or management system elements, which had been ultimately eliminated as inappropriate or ineffective for their particular company or situation. It shall be noted that practices such as “delegation of authority”, “weekly staff meeting”, “formalized procedures” were named among eliminated practices by some of companies interviewed, while similar practices were found to be effective in other companies.

Although companies represent different countries and different markets, their owners-managers mentioned several similar challenges in respect to their company governance and leadership abilities: communication to staff and customers, personal time management and prioritization of own work, stress management, personal appearance. Also, the balance between private and professional life and personal values were named among factors that influence their managerial role in their companies.

All three companies have positive financial and market results and no major operational problems. However, there are more differences than similarities in the way how the governance system and key principles are set. Every company set their system in their own way, based very much on the owner’s own preferences, company circumstances and own learning process.

For these three companies there is no one single element leading to a positive result, but there is a combination of elements that well fits the company’s situation and business circumstances.

The interviews with business owners-managers show that it is important to bring elements of the company’s management system into line with the current business conditions, rather than introducing some particular good governance practice. This is even more important for small and medium-sized enterprises because they have limited resources and expertise. It is necessary to provide simple ways and understandable concepts when creating their own management system, business model, and strategy to avoid misunderstandings and overlapping.

The three companies analysed in this research demonstrated that they can achieve positive financial and market results by applying different and sometimes controversial principles and implementing governance practices in different ways. A valid conclusion for these three companies is that there is no one single element leading to a positive result. A combination of several elements that well fits the company’s situation and business circumstances is essential for success. Selection of governance approach and implementation of management system are driven by personal preferences and abilities of the owner-manager.

3. EMPIRICAL STUDY ON GOVERNANCE OF THE OWNER-MANAGED SMALL AND MEDIUM-SIZED ENTERPRISES

The third chapter of the Doctoral Thesis describes the empirical study conducted on owner-managed SME governance, the methodology of the study and the results obtained by performing statistical analysis of the research data and visual analysis of the results. The volume of the third chapter of the Doctoral Thesis is 37 pages, it contains 18 figures and 16 tables.

Methodology of the empirical study

The literature review on governance of owner-managed small and medium-sized enterprises and the interviews with managers of such companies show that there is a great diversity among owner-managed small and medium-sized enterprises, and there cannot be a single approach to the governance of such enterprises. An empirical study was carried out to identify the diversity of governance in owner-managed small and medium-sized enterprises.

The study on owner-managed SME governance is a comprehensive empirical study consisting of quantitative and qualitative research.

The aim of the empirical study is to use various research methods to explore how owner-managed small and medium-sized enterprises are governed, the approaches inherent in the management of enterprises and their result.

The preparation, implementation, and analysis of the results of the study are illustrated by the study diagram shown in Fig. 2. During the preparatory phase of the study, a case analysis was carried out – a comparison of the governance approaches in three companies. Based on literature research, case analysis and expert group discussions, an owner-managed SME governance model, self-assessment criteria and a self-assessment process were developed.

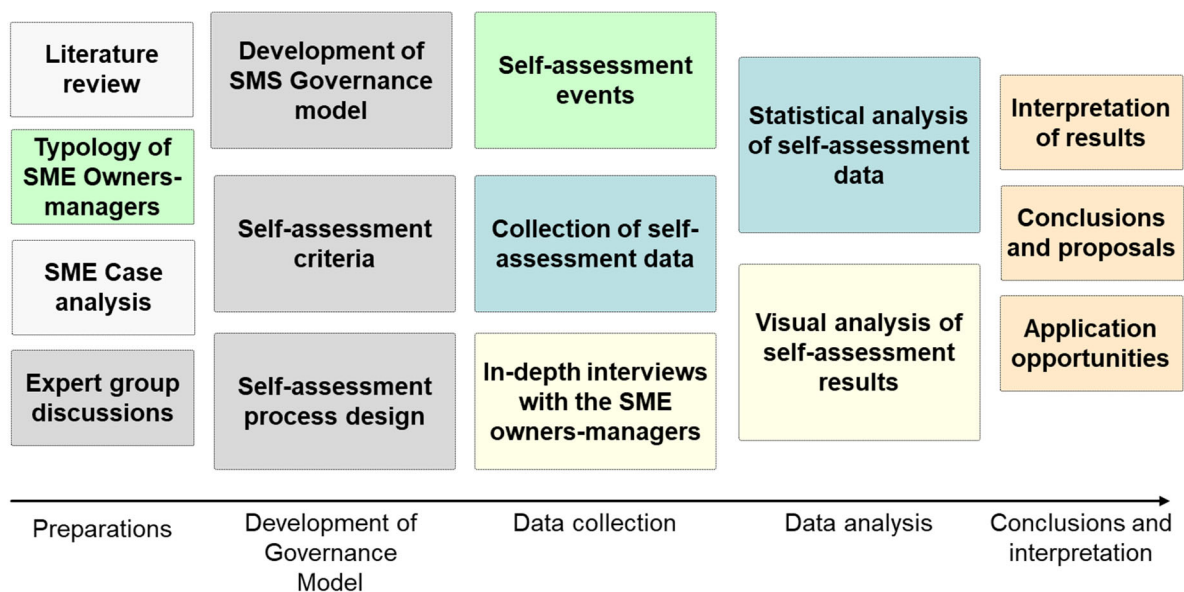


Fig. 2. Scheme of the empirical study (created by the author)

The data collection methods used in the study include a survey using an electronic or paper questionnaire and in-depth structured interviews with small and medium-sized business owners, managers or members of the management group on the governance of these companies, their development challenges and opportunities.

Data processing methods include statistical processing of research data (using SPSS software), visual analysis of the results of individual self-assessment of enterprises, discussions in the expert group on quantitative and qualitative results of the study and their interpretation. Statistical analysis of data was carried out using SPSS software tools (Stehlik-Barry, Babinec, 2017). Data analysis and interpretation of the results were carried out in accordance with the approach and methodology used in marketing and market research (Jansons, Kozlovskis, 2016).

Basis of the study. The survey participants were 210 owners, managers or members of the business management group of SMEs operating in Latvia. The study participants carried out a self-assessment of the governance of their companies using the proposed criteria and self-assessment guidelines. Questionnaires submitted by 205 respondents were considered valid for statistical data analysis.

In-depth interviews on enterprise governance were organized with 20 owners, managers, or members of the management group of SMEs in Latvia.

The research base was gradually increased to cover a sufficiently large and wide range of enterprises working in different sectors and at different stages of development.

Tasks of the empirical study:

1. To establish a hypothetical SME governance model and self-assessment criteria appropriate to the situation of owner-managed small and medium-sized enterprises.
2. To collect research data – self-assessment results for a sufficiently wide and diverse range of small and medium-sized enterprises.
3. To perform statistical analysis of research data using mathematical statistical methods and tools.
4. To carry out an in-depth analysis of individual companies using methods of visual analysis of interviews and research data.
5. To summarize the results of the study and draw conclusions.

Stages of the study. The study was carried out in five parallel phases between 2017 and 2021: in the first phase, an expert group developed an SME-compliant enterprise governance model and self-assessment criteria; in the second stage, surveys were carried out with business owners, managers and members of the management group; in the third stage (in parallel with the second stage), several in-depth interviews were conducted with individual business owners, managers and members of the management group; in the fourth stage, statistical analysis of research data was carried out; in the fifth stage, the results of the study were summarized.

Development of a hypothetic governance model for SMEs

To explore and identify diversity in the governance of owner-managed small and medium-sized enterprises, a governance model suitable for owner-managed small and medium-sized enterprises was first established. It was based on the following principles:

1. **A systemic approach.** The governance model is based on a systemic approach, contains a certain and finite number of interrelated elements that provide a holistic view on the enterprise.
2. **The principle of cause and effect.** The model includes the cause-and-effect principle and reflects the relationship between the approach established in the enterprise and the outcome or result.
3. **Simplicity and transparency.** The model should be simple and transparent enough to be understandable and relevant also for people without special education in management.
4. **Quantifiable assessment.** The model should be designed in such a way that each element of the governance model can be assessed with a quantifiable value, regardless of the sector of activity of the enterprise and the specifics of the enterprise.

The governance model was designed to cover three levels – the strategic level, the organizational level and the management and control level. The proposed list of elements for the owner-managed SME governance model is given in Table 6.

Table 6

Elements of the owner-managed SME governance model (created by the author– novelty)

Level	No.	Element	References
Strategic	1	Business model	(Porter, 1996)
	2	Goals and strategy	(Hamel, 2000)
	3	Market and customers	(European Foundation for Quality Management, 2021)
Organisational	4	Products and services	(Osterwalder, Pigneur, 2010)
	5	Processes	(Kaplan, Norton, 2008)
	6	Personnel	
Management and control	7	Management team	
	8	Planning and change management	
	9	Finances	

The structure of the governance model, the number of elements and their names, as well as the self-assessment criteria were developed by discussing several times in the expert group what approaches described in the academic environment and business literature, which are mentioned in Chapter 2 of the Doctoral Thesis, are used in different enterprises, what are the current topics that experts face when working with small and medium-sized enterprises, what terminology is used in Latvian and also in other languages.

American psychologist George Armitage Miller in 1956 formulated an assumption that a person's ability to process information on simultaneously interacting elements with reliable accuracy and validity has the upper limit and it is seven plus or minus two elements (Miller, 1956) This assumption has been found to be relevant in psychology (Baddeley, 1994) and also received approvals for mathematical modelling (Saaty, Ozdemir, 2003). When creating an owner-managed SME governance model and selecting model elements, the expert group considered several model variants, including even 10 or 12 elements, but in the final version a model with 3 elements in each of the 3 levels with a total number of elements of nine corresponding to Miller's magical number seven plus or minus two was selected.

The content of all nine elements of the proposed owner-managed SME governance model and the wording of the questions regarding the approach and outcome are shown in Table 7.

Table 7

Elements of the SME governance model and their content (created by the author)

No.	Element of the governance model and its contents:
1	Business model
1A	Approach – A clear and transparent business model has been defined for the company
1B	Result – The business model ensures sustainable development of the company
2	Objectives and strategy
2A	Approach – There are clearly defined business goals and strategies to achieve these goals
2B	Result – Set goals are achieved
3	Market and customers
3A	Approach – Target markets, customer segments, marketing and sales strategy are clearly defined
3B	Result – The customer base and loyalty grow
4	Products and services
4A	Approach – Product/service groups and their development directions are defined
4B	Result – Offer is competitive and ensures future growth
5	Processes
5A	Approach – Processes and measurements are defined; performers are familiar with them
5B	Result – Sales, production, service, and logistics processes are efficient
6	Personnel
6A	Approach – Employee responsibilities, roles and motivation factors are defined
6B	Result – Employees are competent and motivated to achieve the company's goals
7	Management team
7A	Approach – A steering group/management team is set to take decisions
7B	Result – The management group works as a united team in the interests of the company
8	Planning and change management
8A	Approach – A short- and long-term action plan is defined, integrated with the strategy
8B	Result – Changes and the development project are effectively implemented
9	Finances
9A	Approach – The company has a clearly defined financial management
9B	Result – The company has positive financial performance

A model with nine elements provides a comprehensive view of the various aspects of the company's activities well enough, at the same time retaining simplicity and transparency, and this is especially important for small companies, which are often run by people without special education in management. The names of all nine elements of the governance model are selected in such a way that they correspond as far as possible to the concepts and terms used in the business modelling approach (Hamel, 2002; Osterwalder, Pigneur, 2010), strategy formulation (Kaplan, Norton, 2008; Porter, 1996), quality management (European Foundation for Quality Management, 2021) and other commonly used governance models and approaches.

According to the cause-and-effect principle, each element of the governance model is evaluated in two dimensions – the approach dimension (A) and the results dimension (B).

The approach dimension helps to find out what management practices are established in the company in each of the elements of the model. The results dimension describes the outcome or the result what this approach delivers to the company. As each element has two dimensions – approach dimension (A) and result dimension (B), the proposed governance model covers in total 18 topics – 9 questions on the approaches and 9 questions on the results.

For example, the third element of the governance model is “market and customers”. In the question of self-assessment of the approach (question 3A), it is asked whether the company has clearly defined target markets, customer segments, marketing and sales strategy. The question of the result (question 3B) asks what the customer base is and how loyal customers are.

The level of development at which the approach is established in the company may differ from one company to another. The result achieved may also be different. Therefore, a self-assessment scale was also created and detailed self-assessment criteria were developed.

The approach to assessing the self-assessment result is based on a five-point (five-beam) scale. The self-assessment scale for questions about the approach and about the result is shown in Table 8.

Table 8

Self-assessment scale for questions about approach (A) and result (B) (created by the author)

Score	A-Approach	B-Results
0	No evidence of any system	Negative outcome or no evidence
+1	Manager sets instructions	Evidence shows weak results
+2	Beginning of systemic approach	Some positive trends
+3	Key principles are defined and implemented	Stable, positive result
+4	Systemic approach is in use	Long-lasting improvement
+5	Solid, advanced approach	Best-in-class, leading results

Regarding the questions about approach (A questions about each element), +1 point means that the company does not have a formal system, and the manager, above all, gives all the instructions themselves and sets out the principles of what to do. +5 points means that a stable, strong, progressive approach is in place, which can serve as a model for other similar companies.

For results (question B for each element), +1 point means that there is evidence of poor performance, while +5 points means that performance corresponds to the highest level of its field or industry. 0 points means that there is no evidence of any approach or that the results of the relevant element of self-assessment are unknown. In the evaluation of both the approach and results, +1 point means a minimum positive result – the beginnings of the definition of principles and system formation, or at least that the result is measured and known, even if it may be unsatisfactory at present.

The company’s governance model and the proposed self-evaluation scale are designed to help the business owner or manager get an objective view of their business, rather than falsifying self-evaluation results and unnecessary pursuit of some imaginary and idealized model.

According to the self-assessment scale, the expert group formulated self-assessment criteria for each element of self-assessment – examples of management situations in the approach questions (questions A) and characteristic examples of results in the questions on the results (questions B). An example of criteria for one of the elements of the governance model – market and customers (Element 3) – is shown in Table 9.

Table 9

Example of self-assessment criteria: Element 3 – market and customers (created by the author)

Score (points)	The governance model elements and self-assessment criteria
	3A – Approach – Target markets, customer segments, marketing and sales strategy are clearly defined
0	There is no evidence of any approach
+1	We work with those customers who come to us
+2	In the company, everyone has their own understanding of target customers and the market
+3	We know what customers we want to serve, and salespeople work with them
+4	Our target markets, customer segments, marketing and sales strategy are defined
+5	We regularly improve our market strategy and organization based on the analysis of the situation and results
	3B – Result – Customer base and loyalty grow
0	No information or negative result
+1	The number of customers is known to decrease and/or customers are often unsatisfied
+2	The customer base is unstable. There are difficulties in retaining and attracting customers
+3	The customer base is growing, but the customer is not always satisfied
+4	The number of customers, sales volumes, customer loyalty and satisfaction are increasing
+5	Customers rate our company as the best in the market or in its field of activity

According to the self-assessment criteria for this element of self-assessment, the company does not define any approach and employees work with those customers who have found the company themselves, but it indicates the development of the approach at +1 point level. If an understanding who the target customers are is being developed in the company, but this understanding has not yet been formalized, it corresponds to +2 points. If the basic principles for attracting customers and customer service are defined, and employees work accordingly, then the self-assessment in this question is +3 points. If a detailed set of guidelines is in place, this indicates a well-developed system (+4 points), but if these approaches are regularly improved, then there is a strong system (+5 points).

Similarly, the results are evaluated in each element of the governance model. Regarding the question of customer base and loyalty (Question 3B), if it is known that the number of customers decreases or customers are often unsatisfied, such performance is evaluated with +1 point, but if the number of customers increases and customers rate the company as the best in the market or at least in their field of activity, such performance is evaluated with +5 points.

In such self-assessment, absolute indicators of results (for example, number of employees, turnover, profit, efficiency) are not taken into account as factors improving or worsening the result of self-assessment. For example, a company with 100 employees is not considered “more developed” than a company with 10 employees. Similarly, a company with 10 million euros turnover cannot be regarded as “more successful” than a company with 1 million euros turnover.

In smaller companies, owner-managed enterprises, as well as among start-ups, it can be expected that in several or even many questions the result can also be +1 or +2, which may be an appropriate result for the development stage of the enterprise, or the resources allocated to the company in solving the relevant issue.

Self-assessment level “+5” is consistent with a good strong system regarding the approach or for stable positive performance regarding the result, which would be more common for larger, stronger companies.

Self-assessment process

The company’s self-assessment was usually held as an interactive event in small groups or individually under the guidance of a moderator. During the self-assessment event, participants were first introduced to the general principles of company governance and company development, the proposed governance model and self-assessment criteria. For each self-assessment issue, participants were provided with appropriate examples and illustrations to raise participants’ understanding of a systemic approach to the governance of the company and to obtain a more objective and adequate self-assessment result.

Self-assessment was usually organized as part of a training, experience sharing or organization development event. From a few (3–4) to dozens of SME owners, managers and members of the steering group took part in various self-assessment activities.

Self-assessment participants were offered the opportunity to perform a self-assessment using an electronic questionnaire or filling out a paper self-assessment form. Self-assessment participants were also offered the opportunity to maintain their own anonymity or that of their company. The identity of self-assessed companies and their owners or managers was not disclosed to other participants in the self-assessment event and is not disclosed in this study.

During the research, 9 larger self-assessment events were organized, each with 15 to 60 participants, including experience sharing events for entrepreneurs in the “Organization Development Club”, regional business associations, seminars of the Good Business Practice organized by Latvian Chamber of Commerce and Industry, seminars of training and professional development organisations. Self-assessments were also organized as part of development projects for individual companies. In several cases, business owners and managers chose to conduct their company’s self-assessment at a different time and in a place convenient for them, individually or together with their management group. If the same owner owns several companies, self-assessment could be carried out for each enterprise separately.

The study data from the electronic self-assessment tool and from the paper self-assessment questionnaires were summarized in an electronic table. Questionnaires submitted by 205 respondents were considered valid for statistical data analysis.

In order to better understand the size of the study participants’ companies, five categories of companies were defined, which in this study are marked by numbers 10, 25, 50, 100 and 200. The number of respondents according to the size of the enterprises is shown in Table 10.

In this case, the size of the company is characterized by the number of employees in the relevant business, which may be formed by the employees of the company, permanent full or part-time outsourcing services (for example, couriers, accountants, auxiliary workers, technicians, etc.), regularly attracted specialists or freelancers (designers, sellers, experts, consultants, etc.). In cases where a single business consists of a set of several enterprises or legal entities, the number of employees may be formed by the total number of employees in all these enterprises. Therefore, in the context of this study, the number of people employed in the

company may differ from the number of employees reported in the company's national registers.

Table 10

Number of respondents by company size (created by the author)

No.	Number of people employed	Category	Number of respondents	% of total
1	~10–20	10	59	28.8
2	~20–40	25	68	33.2
3	~40–80	50	24	11.7
4	~80–160	100	13	6.3
5	~160–250	200	19	9.3
6	Not identified	-	22	10.7
		Total:	205	100

Most respondents to the study are enterprises in the category with 10–20 employees (59 respondents or 29 %) and 20–40 employees (68 respondents or 33 %).

Statistical analysis of study results

The study data with 205 participants' self-assessment results were collected in a single data table. The data table shows the response identification number of each study participant. The name of the participant company and the identity of the person who carried out self-assessment is not disclosed. The participant identification number will also be used to regroup the results of the self-assessment according to the dendrogram resulting from cluster analysis. The summary table also contains two calculated subtotals: the sum of the result of the self-assessments on the questions on the approach (Sum_A) and the sum of the result of the self-assessment on the questions on the result (Sum_B). Information about the size of the company (company category) is also provided.

To check the reliability of the 205 answers used in the data analysis, the Cronbach's alpha coefficient ($N = 205$) was calculated, which showed a numerically significant test reliability indicator $\alpha = 0.912$.

The average results of self-assessment for companies grouped by their size using a radar diagram format are shown in Fig. 3.

The average self-assessment score of all groups (green line, "Aver ALL" in Fig. 3) for most of the self-assessment questions was between 2.5 and 3.0 points. The result of self-assessment was slightly lower for question 5A (Approach – Process management – 2.38 points), but slightly higher for question 3B (Results – Customer base and loyalty – 3.21 points).

In the group of companies with 10–20 people employed (dark blue line, "Aver 10") the results of the self-assessment for almost all questions were slightly lower than for larger enterprises. On the other hand, for larger companies, the self-assessment results for questions were slightly higher, for some questions it was 1–1.5 points higher than for other companies. For example, among the largest companies – in the category "200" (see light blue line, "Aver 200" in Fig. 2) – higher self-assessment results were for questions 3A – market and customer management approach, and 7A – management group organization. In turn, in the category

“100” (yellow line, “Aver 100” in Fig. 2) a higher result was for questions 1A – business model (Approach) and 4B – supply competitiveness (Results).

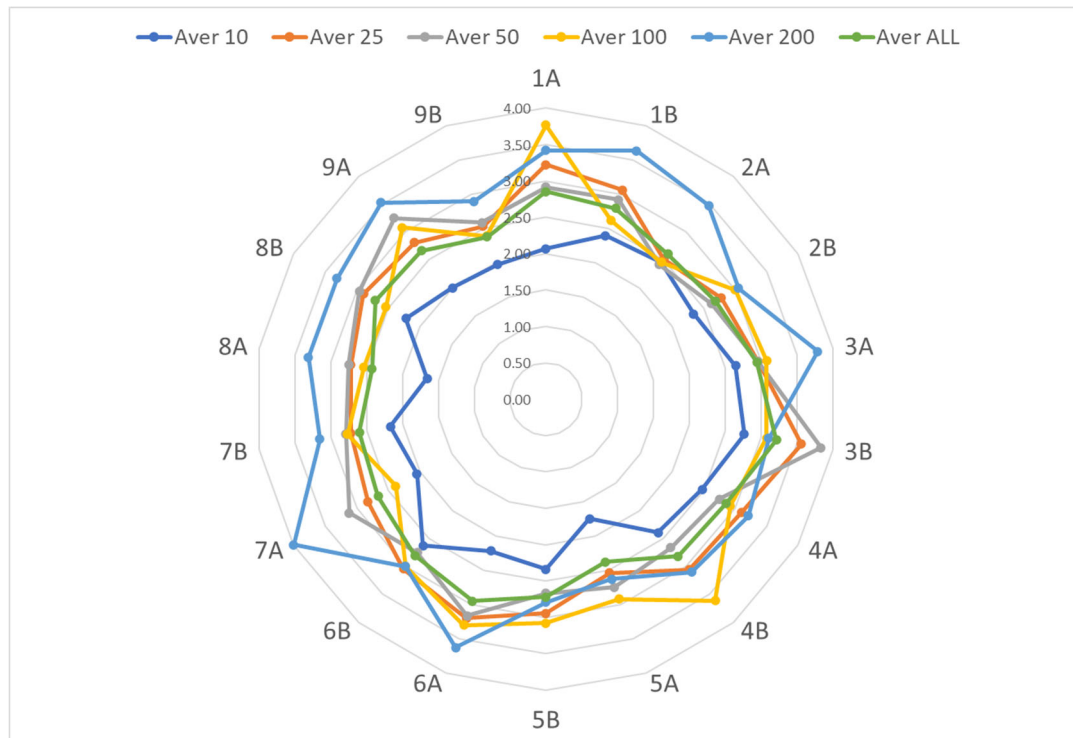


Fig. 3. Average results of self-assessment in enterprise groups by company size (created by the author)

The diagram shown in Fig. 3 presents the averages of the groups of companies; however, the individual self-assessment results for each company could differ from the average results, as well as from other similar companies in their industry or group of companies. These results should be seen as statistical information and without further analysis should not yet be used as a basis for decisions on the company’s development.

Correlation between governance approach (A) and results (B)

The correlation between variables on all 18 self-assessment issues (1A to 9A and 1B to 9B) appears weak when calculating Spearman’s rho, with almost all issues not exceeding 0.5.

However, when analysing the correlation between a set of A questions (questions 1A to 9A) – what are approaches in the company in each of the elements of self-assessment and the set of B questions (questions 1B to 9B) – what are results of each of the elements of self-assessment using Pearson correlation coefficient, a significant correlation $Pearson\ r = 0.803$ shows. Spearman’s correlation coefficient also shows a significant correlation in $Spearman's\ rho = 0.808$. These results indicate that there is a causal relationship between the overall established approach in the company and the company’s performance.

A similar relationship can be observed in the scatter diagram of individual responses of the respondents shown in Fig. 4. In this diagram, the horizontal axis describes the sum of self-assessment points in all questions about the approach (Questions A), while the vertical axis describes the sum of self-assessment points in all questions about the result (Questions B).

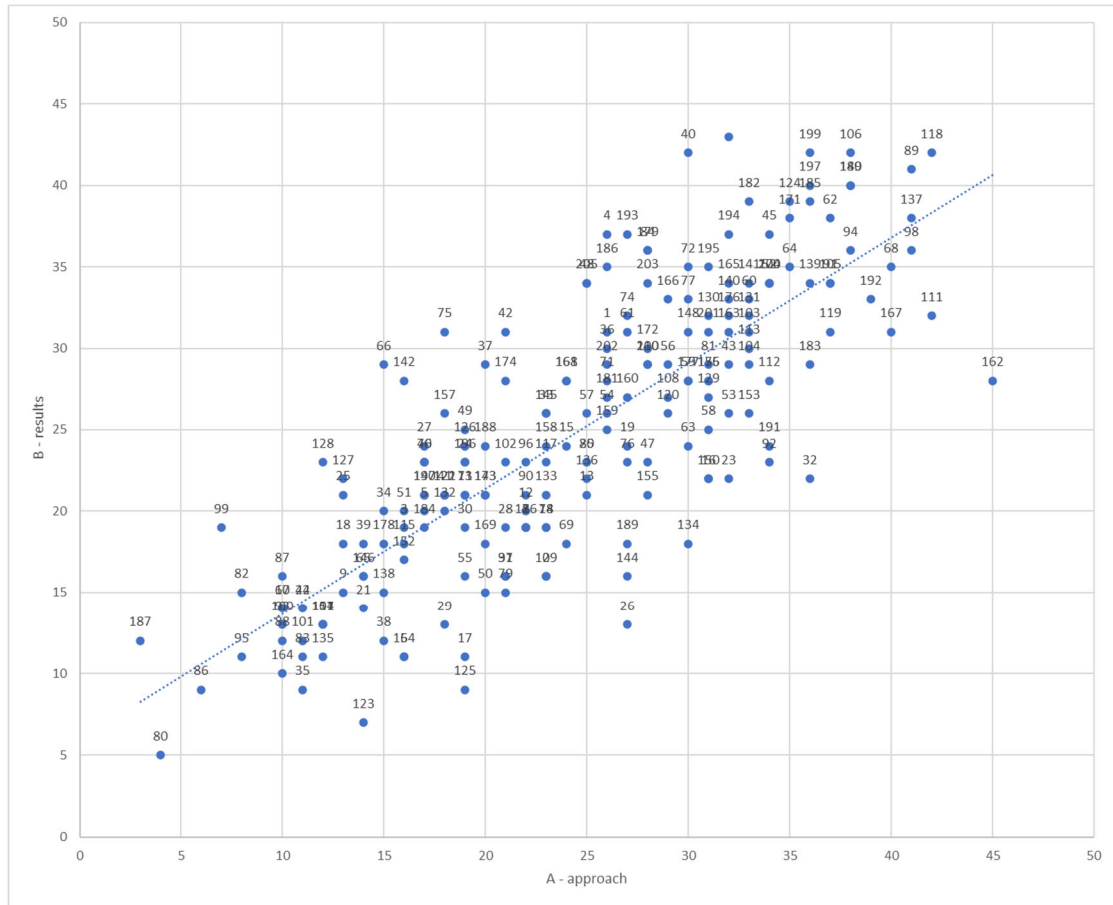


Fig. 4. Scatter diagram – totals for approach (A) and results (B) ($N = 205$)

The maximum possible number of points in each dimension is 45 points (9 self-assessment questions, maximum 5 points per question).

The scatter diagram of assessment results in Fig. 4 shows that companies with higher overall scores in approach questions (Questions A) tend to have higher scores in result questions (Questions B). However, there are also many respondents whose self-assessment total score on results is significantly higher or significantly lower than the score of self-assessment on approach questions. This means that the approaches and systems established in the company do not always provide an adequate result, and the lack of these approaches or systems does not always lead to poor performance either.

Cluster analysis by enterprise

In order to search for companies with similar characteristics among study participants, a hierarchical cluster analysis by company was performed, calculating the average distances between the points of each pair with the average linkage approach. SPSS software was used to perform cluster analysis and create a dendrogram.

Cluster analyses are based on the mathematical calculation of the distance in the multidimensional space between the results of each company's self-assessment. The result of the cluster analysis performed using SPSS software was visually represented by a dendrogram.

The complete dendrogram is included in Annex 4 to the Doctoral Thesis. In the dendrogram, by choosing the appropriate distance as a clustering parameter, several groups of companies with mutually similar characteristics, or clusters, can be identified. On the other hand, in order to understand the characteristics of the companies included in each cluster, the dendrogram was aligned with the self-assessment results table of all 205 companies rearranged according to the dendrogram.

To enable visual analysis of the results, all individual responses were highlighted using the red-to-green colour code, which is explained in Fig. 5. The meaning of self-assessment points is explained in Table 8. According to the colour code, green or dark green (+4 or +5 points) indicates a well-developed approach or a good result, while red or pink (+1 or +2 points) indicates the origins of the system formation or poor performance.

Score:	0	1	2	3	4	5
Code:						
Colour:	Dark red	Red	Pink	White	Light green	Dark green

Fig. 5. The red-to-green colour code for the self-assessment scoring

The main results for cluster analysis by company are shown in Fig. 6. The dendrogram of all 205 companies is shown on the right side of Fig. 6 in the area with a grey background. The self-assessment scores for all 205 companies rearranged according to the dendrogram and painted with a red to green colour code are shown on the left side of Fig. 6 as a green-white-red-coloured table. In this image, several clusters identified as a result of the empirical study are marked with rectangles and with letters A, B, C, etc. Enlarged images of multi-cluster dendrograms and detailed self-assessments of the companies that make up these clusters are included and described in more detail in this chapter below.

A cluster in such a dendrogram can be considered as a group of several respondents with a sufficiently small rescaled distance. The smaller the distance chosen when creating clusters, the more similar the signs are to all respondents within one cluster. In turn, by choosing a greater distance, it is possible to create wider clusters that include respondents with more different characteristics.

With the help of SPSS software, a dendrogram was created in which companies are grouped according to their similarity. The criterion of similarity is the distance measurement of one respondent's responses in a multidimensional space from another respondent's responses. In the context of the cluster analysis of this study, respondent responses are formed as points in an 18-dimensional space with six possible coordinates (from 0 to 5) in each dimension.

When creating clusters – groups of enterprises with sufficiently similar characteristics, two variables should be taken into account – the distance between respondents' responses and the size of the group. A smaller distance means more similarity between companies within the same group. In turn, a larger distance allows creating larger clusters. It is therefore necessary to take an iterative approach when creating clusters: to create groups of respondents large enough and to include sufficiently similar respondents in each cluster. If necessary, clustering can be repeated by selecting a different level of accuracy and also the resulting size of the clusters. A significant group in this study is considered to be a group of enterprises with similar

characteristics, which combines at least 5 % of the total number of respondents. At the number of respondents $N = 205$ it would be at least 10 respondents (rounded to the nearest integer).

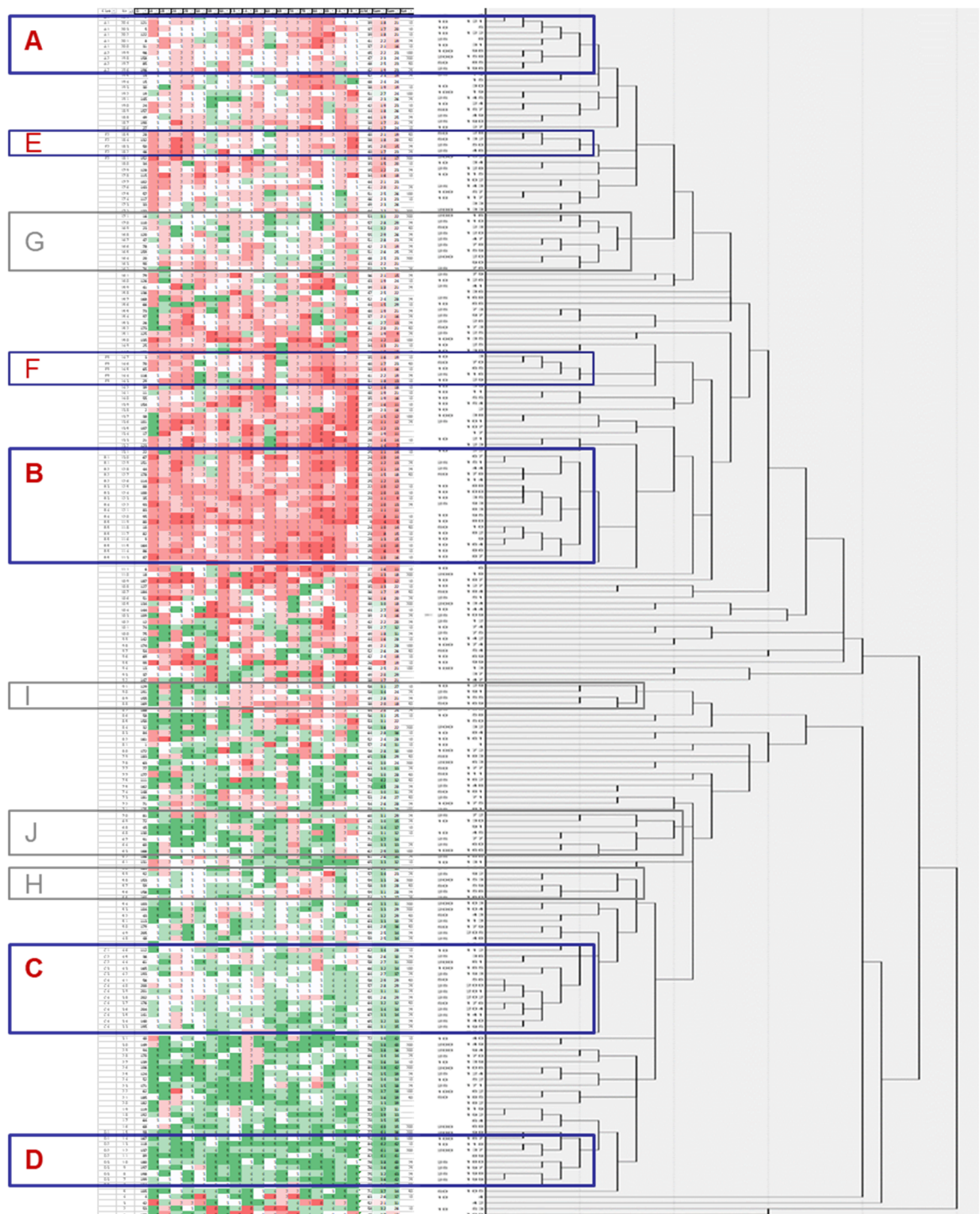


Fig. 6. Illustration of clusters on a dendrogram (right) aligned with the results of the self-assessment (on the left side of the image)

When choosing a distance value of 5 (five units) for clustering, the dendrogram of this study shows four distinctly larger clusters of enterprises with at least 10 or more respondents each. In this dendrogram with the selected distance of 5 (five units) there are 5 smaller clusters – with 4

or 5 respondents each and another 13 small clusters with 2 or 3 respondents each. For other respondents, the “distance” to another nearest respondent is more than 5 units.

In cluster analysis, mathematical algorithms that group measurements according to certain mathematical characteristics are used (in this case, Euclid distance or distance between points in multidimensional space), without waiting for a special result. Therefore, in order to understand the common characteristics of the companies included in one cluster, the results of the self-assessment of enterprises within one cluster were compared.

The four largest clusters identified in the dendrogram shown in Fig. 6 with a notional distance of 5 units were designated as clusters A, B, C and D. Two smaller clusters have also been identified by the same distance – E and F. Several more clusters can be identified by selecting a lower level of accuracy or increasing the notional distance, and such clusters are shown as clusters G, H, I and J in Fig. 6.

The first cluster (referred to as cluster A) consists of 10 companies, which are numbered in the study data table as companies #7, #121, #5, #122, #8, #31, #96, #158, #85, and #196. The dendrogram fragment of this cluster is shown in Fig. 7 and the individual responses of respondents included in cluster A are shown in Table 11.

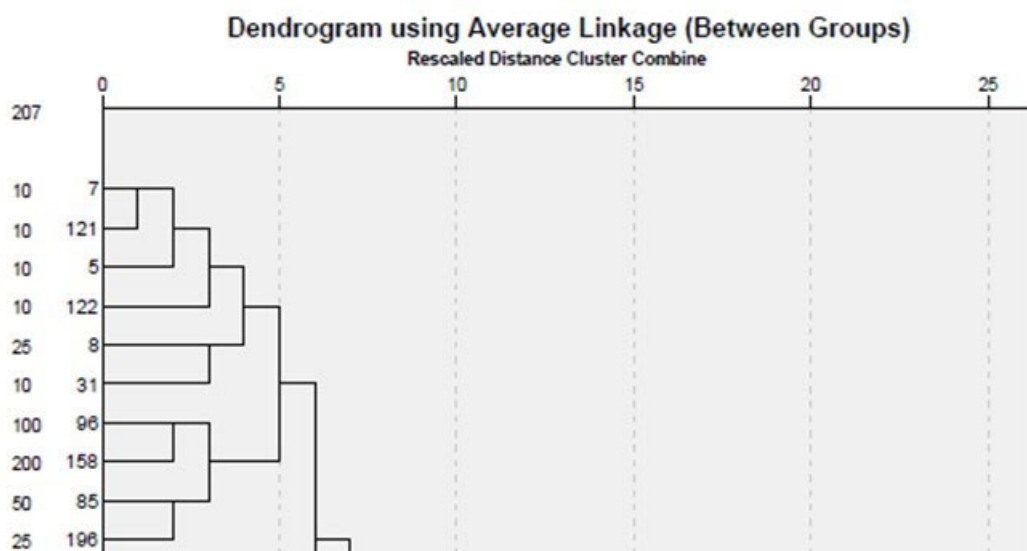


Fig. 7. Dendrogram fragment – enterprise cluster A (created by the author)

The companies included in cluster A can be described as companies with a moderately developed approach and moderately good performance. The total self-assessment results for these companies ranged from 37 to 48 points, which can be considered as quite good. Evaluation of most of the self-assessment questions shows that the company has developed basic approaches, and the results are already showing positive results or improvement trends. For some self-assessment questions, respondents in this cluster could also have a higher score (3 or 4 points), but for some questions, the performance was marked as weak (with 1 or even 0 points). The companies in this cluster were characterized by positive trends in the development of their customer base, as well as good financial results (almost all companies had an assessment score of 3 points for question 9B (Financial results); and 3 or even 4 points for question 3B (Customer base)).

Although mathematically all 10 companies were conditionally allocated to one group, there were two subgroups in this cluster, which are referred to as A1 and A2, and there are already differences between these subgroups. The individual responses of the companies included in subgroups A1 and A2 are shown in Table 11.

In subgroup (subcluster) A1 with six companies (#7, #121, #5, #122, #8, and #31), similar self-assessment results were expressed in questions 5B – Efficiency (2 points for all answers), 3A (Setting goals and strategy), and 3B (Achieving goals) – all answers were at the level of 3 or 4 points; and showed good financial results (answers at 3-point level to question 9B – Financial results). This subgroup consisted mainly of companies from the group of smaller companies with 10 or 25 employees.

Table 11

Responses of cluster A respondents with subsegments A1 and A2 (created by the author)

ID	1A	1B	2A	2B	3A	3B	4A	4B	5A	5B	6A	6B	7A	7B	8A	8B	9A	9B	SUM	Sum.A	Sum.B	Kat
A1																						
7	2	3	2	2	4	3	3	2	2	2	3	2	2	1	1	1	3	3	41	22	19	10
121	1	3	2	2	3	3	2	3	2	2	2	2	2	2	1	1	3	3	39	18	21	10
5	1	2	3	3	3	3	2	2	1	2	3	2	2	2	1	2	1	2	37	17	20	10
122	1	3	3	3	3	4	1	2	1	2	4	3	1	1	1	0	3	3	39	18	21	10
8	3	1	2	2	4	4	2	1	3	2	4	3	2	2	0	1	2	3	41	22	19	25
31	2	1	3	2	2	3	2	1	2	2	5	1	2	1	0	2	3	3	37	21	16	10
A2																						
96	2	3	2	2	3	3	3	2	1	3	3	2	2	3	3	2	3	3	45	22	23	100
158	3	3	2	2	3	3	3	2	3	3	3	2	3	3	1	3	2	3	47	23	24	200
85	3	2	2	2	3	4	1	2	4	3	3	2	3	3	2	2	4	3	48	25	23	50
196	3	3	2	2	1	3	1	2	3	2	2	3	3	3	2	2	2	3	42	19	23	25

The second subgroup, A2, which included companies #96, #158, #85 and #196, had stronger management team practices with higher scores (3 points) for question 7B (Leadership). All enterprises in subgroup A2 were companies with 25–200 employees.

The location of companies of this cluster and other identified clusters in the self-assessment results scatter diagram is shown in Fig. 8. A similar analysis was performed with other clusters.

Cluster B consists of 18 companies. Companies in this cluster generally have weaker self-assessment results than cluster A companies, ranging from 15 to 30 points. In most self-assessment questions, both the approach and the results were rated at 1–2 points for these companies indicating the development of weak governance approaches of the company or the initial stage of their development. Most of the self-assessment results were also assessed as weak or inconclusive, but for most companies in this cluster the self-assessment score on performance issues (B issues) is slightly higher than in the issues of approach (A issues). Cluster B shows five smaller subgroups with differences specific to each.

Cluster C includes 15 companies. Companies in cluster C are characterized by good self-assessment results in both approach and results issues and the overall self-assessment result between 55 and 68 points. When comparing the C cluster framework of a single subgroup, the 4 companies in subgroup C1 have weaker financial results (Question 9B) than other companies in this cluster, while for the 2 companies of subgroup C2 the product portfolio (question 4B) is rated at the highest possible rating of 5 points.

The 10 companies of **cluster D** are characterized by a high rating on a large part of self-assessment questions – 4 or 5 points and a high overall self-assessment result – 69–84 points.

Most companies in this cluster also have highly valued financial results (5 points for Question 9B). Of the companies in cluster D, only one is from the category of smallest enterprises (~10 employees); the other companies are from categories with a larger number of employees – 25, 100 and 200.

Analysis of larger clusters A, B, C and D shows that when choosing a relative distance of 5 units, clusters with similar overall self-assessment result are formed, but the companies in such clusters also show a number of differences in the governance and work organization of the company, as well as differences in performance results. This observation is also confirmed by the analysis of other smaller clusters. Cluster E brings together four companies. The sum of responses from respondents in this cluster ranges from 35 to 40 points. Cluster F consists of five companies, and the sum of responses from respondents in this cluster ranges from 30 to 41 points.

The locations of the companies that make up the four largest clusters – the location of A, B, C and D in the total result scattering chart are shown in Fig. 8, and the locations of these clusters are marked with a bold red oval line.

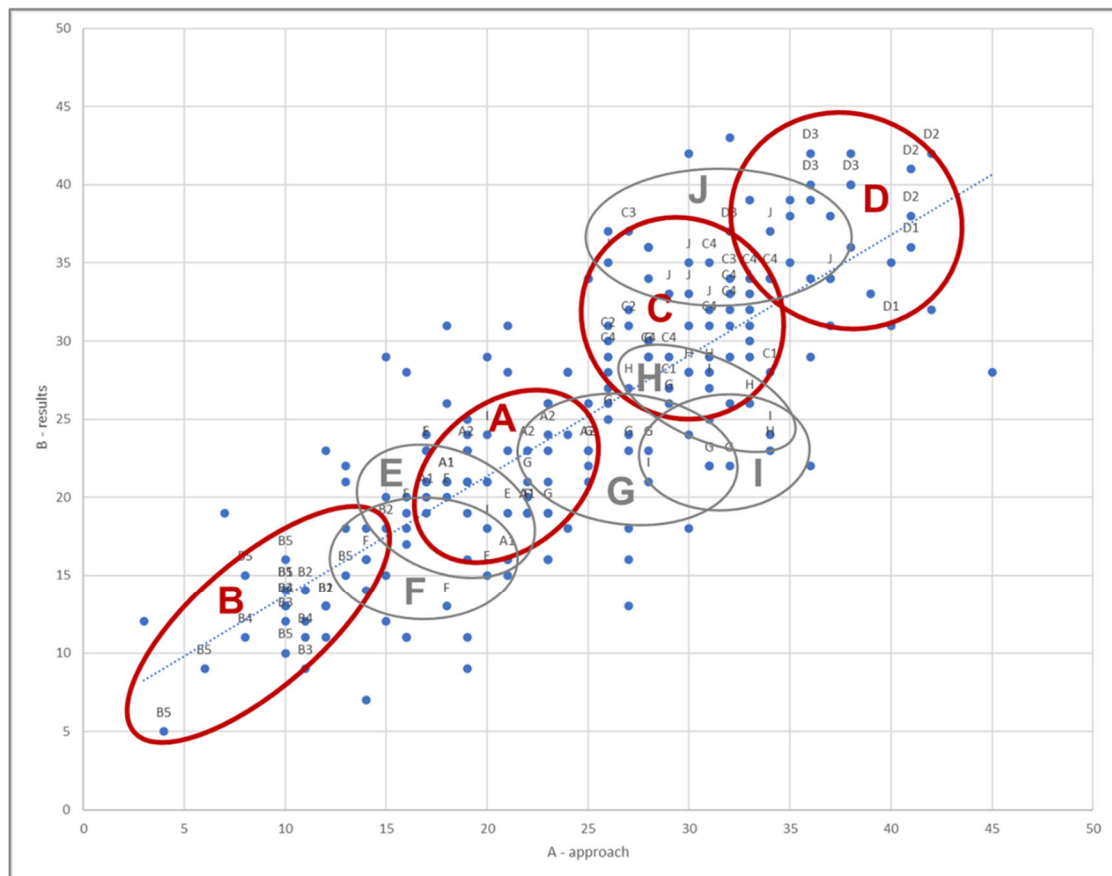


Fig. 8. Scatter diagram with clusters marked in it (created by the author)

The remaining clusters in the dendrogram include 4 or fewer companies – there are 4 more clusters with 4 companies and another 13 clusters with 2 or 3 companies each. The relative distance between other companies or groups of companies is more than 5 units. This shows that such a method of self-assessment reflects well the diversity of enterprises. The cluster analysis

approach used in this study, which is based on mathematical analysis tools, also reflects the diversity of companies.

Figure 8 also features light grey oval lines for other clusters E, F, G, H, I and J marked in the dendrogram shown in Fig. 6. Overlapping cluster areas means that companies achieve a similar self-assessment result in a different way, and the result of developing company governance approaches at a similar level may also be different.

The companies in cluster J with less developed governance approaches have been able to achieve a similar result to the companies in cluster D. Companies in clusters I, G and H, on the other hand, have achieved a weaker result with similar approaches than the companies in cluster C.

These research data confirm that it is important for companies to implement and develop approaches that are appropriate to the company's situation, external environment and the company's objectives.

It should be noted that the four clusters A, B, C and D together cover 53 companies, which accounts for only 26 % of all respondents. All other companies are part of other smaller clusters.

An attempt to create clusters using a relative distance of more than 5 units can lead to poor quality and unusable results. For example, clusters G and J (marked in Figs. 6 and 8) include companies that have significantly different levels of development of approaches and different results on many self-assessment issues. Clusters I and H, on the other hand, are made up of a small number of enterprises, which account for only 2–3 % of the total number of respondents.

To create “more accurate” clusters, it is possible to reduce the distance indicator for clustering to 3 or 4 conditional units. This approach would create 35 small specific clusters in the dendrogram. It describes how different levels of development of governance approaches can be in companies and how different the performance of companies can be. Such a breakdown can be used for specific research purposes, but this number of clusters is too large to create an easy-to-use and easy-to-communicate cluster map.

To better interpret the results of self-assessment and draw conclusions about the current situation and development possibilities of a particular company, it is necessary to look for and choose other ways of interpreting and analysing the results. Visual analysis of self-assessment results could be one such possible solution.

Visual analysis of individual results of self-assessment of enterprises

In order to evaluate the individual outcome of the enterprise self-assessment, a model of visualization of the enterprise self-assessment results was created. The visualization of the company's self-assessment was performed with the help of an approach that is often used to reflect sociological and demographic data and is called a population pyramid or a population tree (Bezy, 2016). An example of a visualization of the individual result of the company's self-assessment is shown in Fig. 9.

In the self-assessment visualization model, all nine self-assessment elements are arranged vertically, from top to bottom: element 1 (Business model) is located at the top of the model, and element 9 (Finance) is located at the bottom. The result of the self-assessment in the questions on the approach (Questions A) is shown on the left, while the results of the self-assessment in the questions on the results (Questions B) are shown on the right. The self-

assessment scale is designed so that each element can be evaluated on one axis, and the centre of the scale (zero point) is located in the middle.

Reflecting the result of self-assessment in the visualization model, a figure coloured according to the result of self-assessment is obtained, which is easy to perceive, understand and further analyse. In order to check and verify how self-assessment can be used to analyse the situation and plan the development of companies, in-depth interviews were held with 20 business owners-managers who had previously carried out self-assessment of their company using the method applied in this study.

***Example:** ITIT is a growing IT industry company. The company provides professional services to business customers. The company employs 10 people, and the number of employees continues to grow. The company is not yet profitable, as some services are provided at significant discounts to attract new customers.*

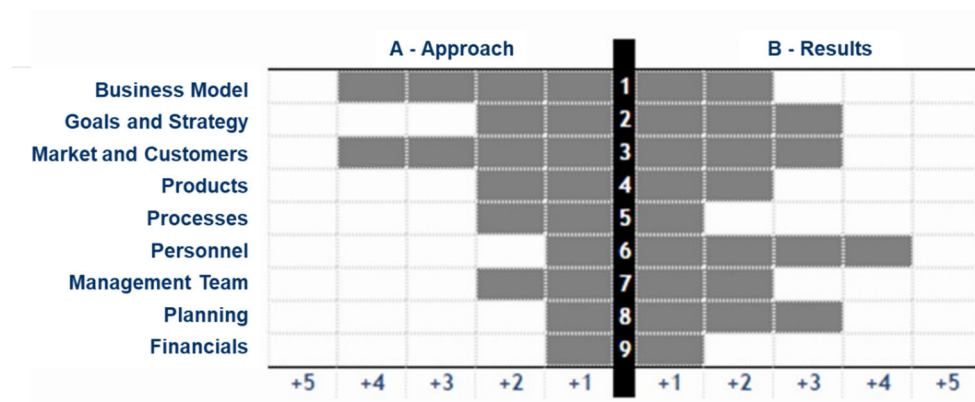


Fig. 9. Visualization of ITIT self-assessment result

The result of the self-assessment, shown in Fig. 9, shows that the company has a strongly defined business model and market strategy, a management team has been formed and the company achieves its growth goals. At the current stage of development, the company does not yet work with positive profits, and also there is no established practice of financial management. This is an appropriate situation for a new, fast-growing company.

Conclusions on individual results of self-assessment of enterprises

When analysing the individual results of self-assessments of individual companies, as well as taking into consideration the results of cluster analysis described in the previous chapters, several company-specific situations may be observed, for example:

- There are companies with poorly developed governance practices and also poor results in many elements of self-assessment.
- There are enterprises with a moderately or well-developed system and average or good results in most self-assessment results.
- There are companies that have both a strongly developed system and good results on almost all self-assessment issues.
- There are enterprises that have a significantly higher or significantly weaker self-assessment result in one or more elements.

- There are companies whose self-assessment in the questions on the approach (Questions A) is significantly higher (or lower) than in the questions on the results (Questions B).

Using a visual analysis of the self-assessment results, it is possible to create a profile corresponding to the most characteristic self-assessment situations of enterprises, which can be used in the analysis of the company's situation and in planning its development. The offer for profiling of companies based on a visual analysis of the self-assessment results is described further.

Profiling of companies based on the visual analysis of self-assessment

In line with the company-specific results of governance approaches and self-assessment of results, several (eight) standard company profiles were created. To make it easier for users to understand information that at first glance seems complex, names were chosen for each profile that can be easily associated with the visual representation of the self-assessment result.

A summary of the visual profiles of the self-assessment of enterprises is shown in Fig. 10. The names given to the profiles are: Black Square, Oak Leaf, Butterfly, Palma, Christmas Tree, Left Wing, Right Wing and Candle. The company characteristics specific to each profile are described below; and, based on the experience of other similar companies their potential operational risks and development challenges can also be predicted.

Profiles are designed taking into consideration possible similarities and differences between various companies and peculiarities or trends in self-assessment results on different issues.

Company profile “Black Square” – almost all elements of self-assessment are evaluated with the maximum possible rating.

Company profile “Oak Leaf” – all elements are moderately or well developed, in some questions the rating is slightly higher or lower than in others.

Company profile “Butterfly” – a company whose most elements are well developed, but in one or more elements there is a significant shortfall (bottleneck).

Company profile “Palm Tree” – well-developed elements of the strategy level (upper elements), while the rest are weak or with relatively weaker evaluation result.

Company profile “Christmas Tree” – less developed elements are of the strategy level (upper elements), while the rest are with a good or better self-assessment result.

Company profile “Left Wing” – several elements of the approach (Questions A) are more developed, but weaker performance is in the results (B) issues.

Company profile “Right Wing” – less developed elements of the approach (Questions A), but better performance in the results (B) issues.

Company profile “Candle” – weak rating (1 point) of almost all issues.

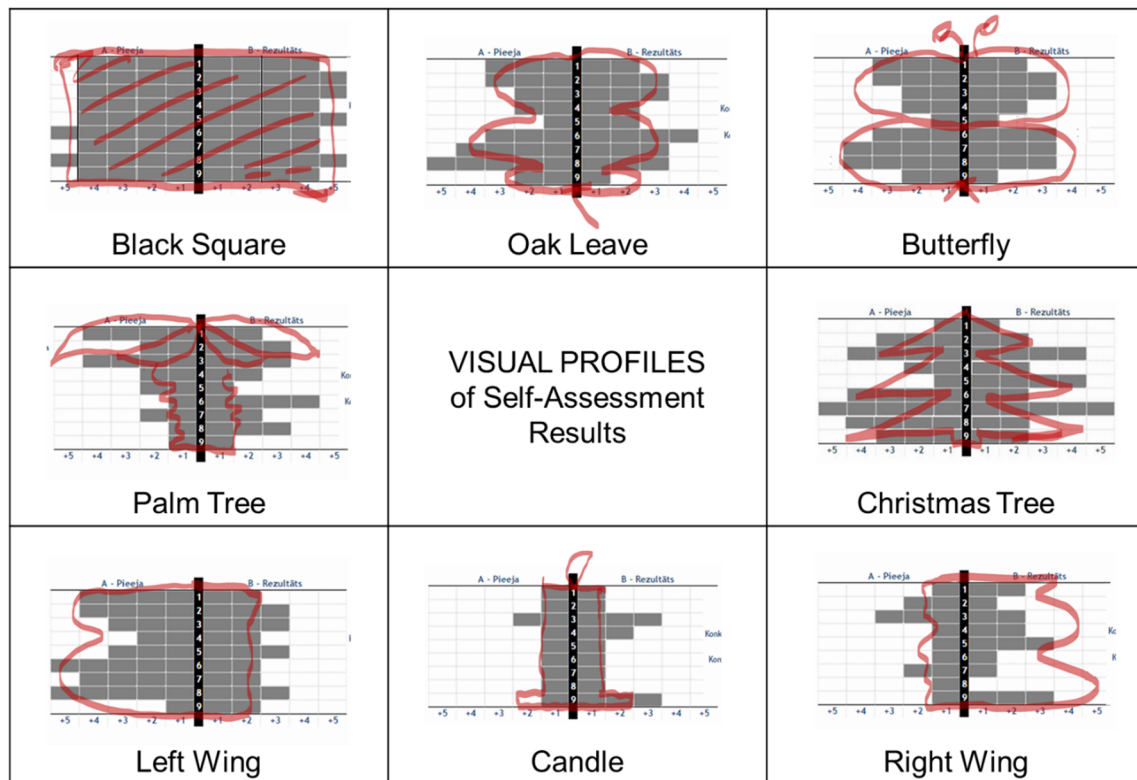


Fig. 10. Summary of self-assessment visual profiles (created by the author)

Each profile has its own inherent problem situations, potential hazards and also development opportunities, which the company's management can pay attention to when planning the future development of their company, such as:

Profile "Oak Leaf", or self-assessment result with symmetrical, variable result ranging from +2 to +4 points is a common result for many medium-sized and well-organized companies. The profile of the oak leaf shows that all elements are at a greater or smaller level of development and also ensure an appropriate result. Such companies must evaluate their development goals and priorities, and continue to improve their system and work organization according to the internal situation of the market or company. If the company does not have ambitious development goals in such a situation, but has a good enough market, efficiency and financial results, the management of the company can choose to continue its activities as usual. However, without a long-term activity aimed at improving the organization and governance of the company's work, there is a risk of losing the previously considered appropriate governance approach and performance.

Profile "Candle" indicates a company for which almost all elements are at an early or initial stage of development and evaluated at +1 or possibly +2 points. Such situations are characteristic of a single-owner tightly run and controlled company, where the manager or founder themselves is actively involved in all processes, controls their course and makes decisions. In a similar situation, there may be start-ups or recently established companies whose founders are the only ones who fully govern all the most important issues of the company and have not yet managed to form a team, define a structure and establish regular operational processes. If a company thinks about growth or wants to gain more stability in changing market conditions, then its management and owners also need to think about improving strategies, systems and processes. However, many companies, especially smaller ones, can operate under the leadership of their manager or founder for a long

time and also achieve sufficiently good financial results. Nevertheless, the manager or owner of such a company should consider the need to build a management team or a core of employees that would facilitate his or her daily work and allow him or her to devote more time to his or her health, family or well-being in the future, or to focus on the development of other business ideas.

None of the profiles should be rated better or worse than any other. Each profile shows certain advantages, disadvantages and potential risks associated with the day-to-day operation and development of the company. When choosing the development priorities of their company, business owners and managers should be guided not only by the characteristics of the self-assessment profile, but must evaluate the internal and external environment of their business, their personal and their company's development goals, principles and needs. The company's self-assessment and the visual profile of the self-assessment result can serve as a simple and at the same time effective tool to form a common understanding among its staff or management team about the situation in the company, to start or continue the development of the company's organization and business.

4. POSSIBILITIES OF APPLYING THE SME GOVERNANCE MODEL

The fourth chapter of the Doctoral Thesis develops and describes a methodology by which owners and managers of small and medium-sized enterprises can analyse and improve their business and also recommendations on how this approach can be used in the process of training and professional development of managers. The fourth chapter of the Doctoral Thesis is 23 pages long and contains 9 figures.

Organization and business development of owner-managed SMEs

The typology of SME owners-managers developed in this study, the enterprise governance model, the company's self-assessment approach and the interpretation of its results can be used for further development of SME organizations and business, development of start-ups, as well as in the professional development of managers. Given the limited resources of small and medium-sized enterprises and respecting their owners-managers' possibly limited abilities and experience, the approach can be used at several successive levels: (1) to develop a common understanding in the steering group or among the staff on the management and good management practices of modern organizations; (2) to analyse the company's situation and discuss the necessary changes and improvements; (3) to plan and manage the development and change of the organization.

The methodology used for analysing and improving the activities of an SME company should be sufficiently simple and at the same time effective. The created methodology for the organisation and business development in owner-managed SMEs consists of six consecutive steps. These steps are illustrated in Fig. 11.

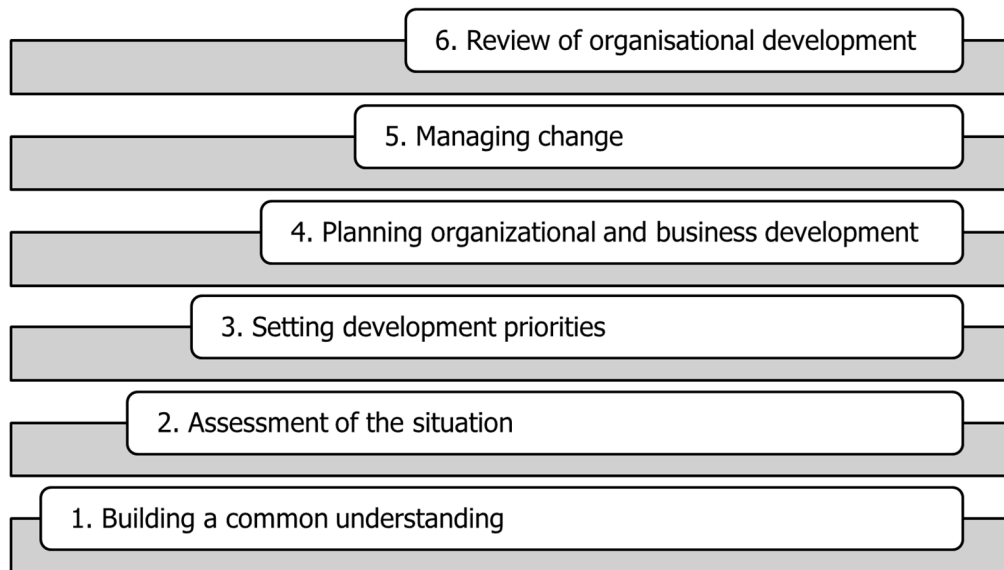


Fig. 11. Conceptual framework of methodology – six steps (created by the author – novelty)

According to the complexity, situation and possibilities of the company, each step can be implemented in a simpler or more extensive way. However, it is important that all steps are passed (applied) in the development path.

Step one: Building a common understanding of the organisation as a system

When starting changes in the company, it is necessary that the management team or core of employees of the company have a unified or at least similar understanding of the general principles of operation of the organization and a systemic approach. At this stage, the company's management can organize a training seminar or introductory lecture in which an understanding of such concepts as a business model, strategy, planning, process management, change management is formed. Such a measure is necessary so that all participants in the process of change similarly understand the terms and methods that will be used in the development of the company.

Step two: Assessing the situation

In the second step, a self-assessment of the company's activities is carried out in the management group or in an extended management group, with the participation of a wider range of employees, using the self-assessment method described in this work, which consists of nine pairs of questions about the approaches and the results. Self-assessment allows to evaluate the approaches implemented in the company in comparison with the good management practices of other companies. In the course of self-assessment, it is important to collect arguments and evidence about exactly what approaches are established in each of the elements of the governance model, which leads to a specific numerical assessment in each self-assessment issue. When evaluating results, one should not rely on participants' subjective evaluations but also identify and mark specific performance indicators and their trends in order to justify the numerical value of each self-assessment.

If self-assessment is organised as a live event, participants can use self-assessment forms or self-assessment cards based on the model shown in Fig. 12. Each self-assessment participant

can make notes on their self-assessment card about how the relevant management element has been implemented in the company and what the result is, thus creating a visualization of the self-assessment result.

◀ ◀ [A] Approach ◀						▲	▶ [B] Results ▶ ▶ ▶					
Business Model						1						Business Sustainability
Strategy						2						Achievement of Goals
Market and Customers						3						Customer Base
Products and Services						4						Product Portfolio
Processes						5						Efficiency
Personnel						6						Competence, Loyalty
Management Team						7						Leadership
Planning						8						Change Management
Financial Management						9						Financial Results
	+5	+4	+3	+2	+1	▲	+1	+2	+3	+4	+5	

Fig. 12. Self-assessment card (created by the author – novelty)

In the course of self-assessment, after evaluation of each question or after evaluation of each group of questions (3 questions), a summary discussion may be held, in which both each individual participant's assessment and the joint assessment made by the management group are marked in one joint self-assessment card. Significant differences in individual valuations show that employees or members of the management group in the company have different perceptions of the current approach or performance. This is a good reason to discuss the issue in more detail.

Step three: Setting priorities based on the result of self-assessment

In the third step, based on the result of self-assessment and even more so on the aggregate arguments and performance indicators, it is necessary to determine the priorities for business and organizational development. It is best if the principles of balance and cause-effect are used to set priorities. This means that a small number of goals are set, covering both business development (e.g. market and financial results) and organizational development issues (e.g. process approaches, employee development or strategy improvement tasks). An example of company development planning based on the result of the company's JPIK self-assessment is shown in Fig. 13.

Example. JPIK is an IT platform-based service company. The company's business goal is to improve financial results – to significantly grow turnover and improve the profitability of the company. The company has a good business model, clearly defined target markets and customers, new services are being developed, and planning is carefully carried out. However, many important business processes are not yet well enough organised at the moment, as the company has been in the growth phase. Therefore, the management of the company sets the following priorities, which are illustrated in self-assessment card with arrows: the core processes must be improved (1), which will allow to further improve and ensure a competitive offer to customers (2), which, in turn, will facilitate the attraction of new customers and also improve the loyalty of existing customers (3). Finally, the increase in the customer base will

have a positive impact on turnover, while efficient processes will help to improve profitability (4).

◀ ◀ ◀ [A] Approach ◀						▲	▶ [B] Results ▶ ▶ ▶					
Business Model			X	X	X	1	X	X				Business Sustainability
Strategy			X	X	X	2	X	X	X			Achievement of Goals
Market and Customers				X	X	3	X	X	X	3		Customer Base
Products and Services				X	X	4	X	X	2			Product Portfolio
Processes					X	5	X	X				Efficiency
Personnel			X	X	X	6	X	X	X	X		Competence, loyalty
Management Team		X	X	X	X	7	X	X	X			Leadership
Planning	X	X	X	X	X	8	X	X	X			Change Management
Financial Management				X	X	9	X	4				Financial Results
	+5	+4	+3	+2	+1	▲	+1	+2	+3	+4	+5	

Fig. 13. Planning of the JPIK company development, based on self-assessment (created by the author)

Step four: Organizational and business development planning

After the goals and development priorities are set, it is necessary to prepare an organizational and business development plan. In the simplest way, it can be a single-page chart with a time axis and tasks (or projects), the most important events or milestones, and also marked results to be achieved in terms of financial, market, processes and internal development. In the planning of changes and development, common project management approaches or IT tools can be used if any relevant ones are in use in the company.

Step five: Managing change

If the development priorities of the company have been selected and an organizational and business development plan has been established, the management of the company must announce the commencement of changes and inform the employees how the changes will be implemented. Depending on the skills and abilities of the company and employees, the employees themselves may be involved in the implementation of changes, or short-term or long-term specialists, cooperation partners or consultants may be involved.

The theme of change management has been the subject of numerous studies and publications, which companies can use to develop their organizations and businesses. Along with approaches that have already been recognised as classic, such as Deming's PDAC (Plan-Do-Check-Act), John Kotter's 8 steps of managing change (Kotter, 2012), project management approaches, etc.; companies may consider applying the Agile approach that was originally used in software development (Dingsøyr, Nerur, Balijepally, Moe, 2012), later also used in production (Gunasekaran et al., 2019), and today in the company offer development and change management processes (Brand, Tiberius, Bican, Brem, 2021), and even human resource management and employee development.

Step six: Organization development review

In the course of the process of change, a regular review of the organization's development should be organized. In a shorter period (for example, every two or three months), it is necessary to make sure that the development of the organization is carried out according to the selected priorities and the plan. Such review may be held in the management group or an extended management group, similar to self-assessment sessions. If deviations from a plan or unexpected changes in a market, external environment or company are detected, plans or the organization of project and task execution may be adjusted.

In a longer period of time (for example, once a year or once every six months) a repeated self-assessment or strategy review may be held to make sure that priorities and tasks corresponding to the market and the external environment are set for the development of the organization and business.

The organization's development report can also include evaluation of previously implemented projects and tasks, as well as the analysis of and decisions on what approaches should continue to be used for the company governance and organizational development, and which should be changed or improved.

If, when starting the process of the organizational development, one or another step cannot be successfully implemented, then it is advisable to return to one of the previous steps and re-perform the actions provided for at the relevant stage. When planning the development of the company, it is necessary to preserve and use as much as possible those approaches and principles that already work well in the company. This helps to avoid misunderstandings and also unnecessary time and resource consumption. When introducing and offering new approaches in the company, it is necessary to be aware that business literature and teaching materials offer different tools and solutions on each topic.

Development of start-ups and professional development of managers

When creating a start-up or developing a new business idea, the company's self-assessment approach cannot be fully used because the company probably has neither defined nor established all elements of the management system, and it cannot yet show any results.

However, also when creating a start-up or developing a new business idea, the author of the idea or business developer should understand the basic regularities and also take a systemic approach. The conceptual framework of the organizational development methodology corresponding to the creation of a start-up company is set out in Subchapter 4.2 of the Doctoral Thesis. This framework also consists of six consecutive steps, and the first step is to raise awareness of business as a system. The next four steps are based on four of the nine elements of the SME governance model described and outlined in the previous chapters – development of a potential start-up business model, setting goals, development roadmap preparation and financial planning. The sixth step is to decide on the creation of the new business and the next steps. A relevant decision may also be to stop further development of a business, or changing the business idea or business model, or returning to one of the previous steps.

The approach used in this study can also be applied in the professional development of managers both in higher education institutions and in professional management development programs, as well as in the competence development of CEOs and specialists.

The format and content of the training programmes or experience exchange activities can be adapted according to the format envisaged by the organisers and the composition of the participants, their interests and needs taken into consideration. This may include raising awareness of business as a system, of the diversity of business owners-managers based on the typology of owners-managers, of the different levels of business development and their corresponding profiles and the resulting development risks, practical exercises and examples of good practice on the development of enterprises in general and each of the elements of governance separately.

Individual elements of the content used in business study programmes can be used in the **youth interest education**, but this must be adapted to their knowledge and skills and the format of the event.

The content and elements to be used in **professional development of managers** may be similar to those of the study programs of universities and other educational institutions. However, it should be taken into consideration that managers represent their own companies that are already operating and may have their own specific situations and different development needs. Therefore, along with the development of individual skills and abilities of the manager, it is necessary to promote tools and approaches that help to form a common understanding in the management group or among the staff about the management of modern organizations and good management practices, allow to analyse the situation of the company and consider the necessary changes and improvements; promote planning and targeted organizational development and change.

It is important to note that the typology of SME owners-managers developed and described in this study, the business governance model, the company's self-assessment approach and the interpretation of its results should not be defined as an end in itself for use in enterprises, but should be used as a set of tools and methods to help SME owners and managers, specialists, coaches and trainers raise understanding and promote the further development of SME organizations and businesses.

CONCLUSIONS AND PROPOSALS

Scientific publications and business literature provide evidence of the diversity and variety of owner-managed small and medium-sized enterprises, business owners and managers, and how such companies are managed. The literature review shows that authors use different terms to describe small and medium-sized enterprises, their owners and managers, and the ways in which they manage and develop their businesses.

Literature analysis carried out as part of the study shows that understanding of small business and small-medium-sized enterprise has been different at different times and still varies from country to country. Since 2005, in the EU, the SME classification has been used, according to which a small enterprise with at least 10 employees is considered to be a small business, while enterprises with 1–9 employees are referred to as micro-enterprises. This should be taken into consideration when analysing information and previous research on small business, small and medium-sized enterprises in order to avoid misunderstandings when, for example, the formulated conclusions on small enterprises in the modern sense would apply to microenterprises, sole traders or other forms of entrepreneurship.

“Owner-manager” is just one of the terms that in literature refers to a person who is the owner of a company and also runs his/her own company. The terms “founder-manager”, “entrepreneur-manager”, “head of family business” and other have similar meaning. Several synonyms or job titles instead of the term “manager” can be found in English literature such as the term “owner-CEO”.

In research and business literature, the business owner is often considered as one single person with his or her own individual skills, attitudes and psychological traits. This study identifies and describes situations in which a company can have several owners at the same time, people can become owners-managers or co-owners-managers in different circumstances, and their role as a manager-owner can also be implemented in different ways.

The typology of SME owner-managers developed and described in the Doctoral Thesis showing 10 different types of owner-managers can help to build a better understanding of the diversity of small and medium-sized business owners-managers. Each type of owner-manager has its own different name and a corresponding description of the situation of the company, a comparison of various types has been created, as well as examples of appropriate companies and their owners-managers identified in the course of the research have been added.

This study highlights a number of challenges faced by SMEs and their managers in the context of the current business environment – competition, limited resources and competences, increasing complexity of the business environment, opportunities and the need to use the knowledge and experience created in external environments and other enterprises.

Literature research shows that authors have offered a number of systemic approaches to the management and development of organizations. These approaches have been designed taking into consideration the specifics and requirements of the relevant period of time. A number of approaches originally designed to be used in large companies have been adapted or are adaptable for use in small and medium-sized enterprises. At the same time, small and medium-sized enterprises, as well as their owners-managers, who often do not have specific education in the field of management science, have difficulties in choosing the most appropriate management approaches and the appropriate way to implement them in their companies due to their complexity and specific terminology.

There is a wide diversity of companies in the SME segment. Different management practices are used in companies and similar approaches may lead to different results. Such companies also have contradicting experiences of how one approach or another affects the company, its performance and results.

Examples of the companies covered by the study show that positive financial and market results can be achieved by companies applying different and sometimes opposite approaches and by creating their own management system in different ways. The study confirms that there is no single element or one form of governance that could ensure a positive result for SMEs. Successful operation of the company is the result of a combination of several governance elements in a way that fits well with the situation of the particular company and its operating conditions. The choice of governance approach and the implementation of the management system are also often determined by the personal preferences and abilities of the owner-manager or co-owners.

In companies, it is important to make the elements of the management system fit their business conditions, rather than introducing some separate good governance practices. This is

even more important for small and medium-sized enterprises because they often have limited resources and competences. It is also necessary to look for a simple and understandable way how to use different concepts, avoid misunderstandings and overlaps in the management system, business model, and strategy.

A new governance model for owner-managed small and medium-sized enterprises must be able to reflect the diversity of SMEs, and the following principles shall be used to build it:

- The governance model must be based on a **systemic approach**. It must contain a finite number of interrelated elements, which together form a holistic view on the company.
- The governance model should include the **cause-and-effect principle** so that it reflects the relationship between the approaches established in the company and the results.
- The model should be designed **simple and transparent** enough to be understandable and also usable by the managers and owners who do not have special education in management.
- The model and its elements must be **sufficiently generic**, and so that each element of the governance model, its level of development and also its outcome can be assessed regardless of the sector of activity of the particular enterprise and the company specifics.

In the Doctoral Thesis, such governance model of owner-managed SMEs is developed and described with self-assessment methodology and criteria that SME managers can use for the analysis and development of their companies.

The empirical study on owner-managed SMEs, which analysed data from 205 companies, shows that there is a great diversity between owner-managed SMEs. This is confirmed both by the analysis of clusters by enterprise and the visual profiling of the individual results of the self-assessment of enterprises.

The empirical study carried out in the Doctoral Thesis shows that statistical analysis methods and software can be used to identify groups of companies or clusters with similar characteristics of how companies are managed and what their performance is.

The number of clusters and their structure in this study show that there is a great diversity and variety between owner-managed small and medium-sized enterprises in the way how companies are managed and what their performance is.

Four representative groups of companies (clusters) were identified by the selected cluster analysis approach and precision level, each containing at least 5 % of the total number of respondents of the study. However, it should also be noted that only 26 % of all respondents were included in these four clusters. When choosing a higher level of accuracy for clustering, 35 clusters were obtained, mostly with 1–3 % of respondents in each, and together they covered a larger part of the companies, however, also in this case, many companies remained outside the boundaries of the defined clusters.

The fact that the results of the companies' self-assessment are grouped into many small clusters shows that the situation that is characteristic of one company may be similar in another or several companies, so it cannot be argued that the situation of each company is unique and unrepeatable.

Although the results of statistical analysis of data of the empirical study indicate that there is a strong correlation between how developed the governance approaches are and what the company's results are, the cluster analysis and analysis of data of individual enterprises show that there is no unambiguous relationship between good management practices and good

results, and vice versa – that lack of good management practice does not always result in weak or poor results.

Mathematical analysis of self-assessment data of the enterprises makes it possible to identify characteristic situations of enterprises and group companies according to similar characteristics. However, such information – the belonging of the company to one or another cluster – does not yet provide sufficient grounds to draw certain conclusions about the organization of the work of the particular company and formulate proposals for improving the organization of work and the governance of the company.

In this work the visual analysis approach of the company's self-assessment results was developed, which is a new tool for the interpretation of the company's self-assessment data regarding the current situation of a particular company, operational risks and decision-making on the development of the organization and business.

According to the result of the company's self-assessment and its characteristics, 8 standard company profiles were defined. In order to make it easier for decision-makers – SME owners-managers to understand information that at first glance seems complex, a name was chosen for each profile, which is easily associated with the visual representation of the self-assessment result.

The company's self-assessment and the visual profile of the self-assessment result can serve as a simple and at the same time effective tool to form a common understanding among the company staff or in its management team about the situation in the company, to start or continue the development of the organization and business of the company.

The approach used in this study can be used for further development of the organisation and business of enterprises, for development of start-ups, as well as professional development of managers. Given the limited resources of small and medium-sized enterprises and also respecting their owners-managers' possibly limited abilities and experience, the approach can be used at several successive levels:

- to develop a common understanding in the steering group or among the staff on the management of modern organisations and good management practices;
- to analyse the company's situation and discuss the necessary changes and improvements;
- to plan and manage the development and change of the organization.

The **aim set out in this Doctoral Thesis** – to study the governance of owner-managed small and medium-sized enterprises and to offer appropriate solutions in order to help improve the governance of such enterprises and also promote their sustainability – has been achieved.

The theses put forward for defence in the study have been confirmed in whole or in part:

1. The thesis that the term “owner-manager” narrowly reflects the diversity of situations found among persons who are owners of small and medium-sized enterprises and at the same time their managers has been confirmed. The typology of owners-managers developed in the work indicates 10 different types of owners-managers with a name specific to each type and a description of the situation.
2. The thesis that it is possible to create a governance model suitable for owner-managed SMEs, which can be successfully applied to the development of SME organisations and business led by different owners, has been confirmed. In the work a governance model suitable for owner-managed SMEs, which consists of nine elements with criteria

regarding the approach introduced in the company in each of the elements of the governance model and the result.

3. The thesis that grouping of enterprises by similar characteristics (clustering) makes it possible to identify typical situations of enterprises and develop appropriate governance and organization development approaches for them has been partially confirmed. The clustering approach using statistical analysis methods of data allows the identification of several groups of enterprises with similar characteristics. Depending on the selected level of accuracy, the number of such groups is from 4 to 35. However, the diversity of governance situations among owner-managed SMEs is high and many companies are not included in these identified clusters. Even within the same cluster the diversity of situations is too large to allow the same recommendations to be addressed to all companies belonging to the same cluster. The conclusions drawn from the statistical analysis of the data of a larger enterprise cluster study may be used but are not sufficient to make decisions about the situation of an individual company and its development.
4. The thesis that visualization of the results of analysis of the company's governance approach can help the SME owners-managers and employees to develop a better understanding of the situation in the company, development challenges and opportunities has been fully confirmed. The 8 standard profiles of the company's self-assessment result visualization developed in the work allow each owner-manager to identify their company with one of the standard profiles with sufficient accuracy, and to use the developed guidelines to determine the appropriate development priorities and tasks for their company.

The study carried out in this work confirms that a systemic approach is appropriate to raise awareness of SME governance, analyse the situation of individual SMEs, plan their development, and promote the professional development of owners, managers and employees of such enterprises.

Proposals

The small and medium-sized enterprise segment is important for the economy of Latvia and other countries. Owners and managers of such companies create jobs, pay taxes. In order to promote the functioning and sustainability of such enterprises, it is necessary to further study the governance of these companies and to offer solutions that will improve the performance and sustainability of such enterprises:

1. **Public authorities and legislators** should continue to raise awareness of small and medium-sized enterprises, their situation and operating conditions in order to develop legislation and regulatory frameworks in such a way that they are understandable, easy to use and also do not create unjustified financial or working time investments for SME owners and managers. When drafting regulatory enactments, it is recommended to use uniform and more precise terminology.
2. **Municipalities** should continue to create a favourable environment for SMEs and promote the development of the competences of their owners, managers and specialists, so that such enterprises continue to create jobs for the local population, attract investment to the region, provide competitive products and services both on the domestic market and for export.

3. **Entrepreneurs, business owners and managers**, as well as company specialists, can use the methods and approaches developed in this work to analyse the activities of their companies, improve their governance and work organization.
4. **Business consultants and coaches** can use the methods and approaches developed in this work as part of training or development projects for their customers.
5. **Industry business associations and territorial business associations** are advised to organise educational and experience exchange events for their members, raising awareness of the organisation as a system, good governance practices, organizing self-assessment events of enterprises and analysis of situation specific to participants.
6. **Higher education institutions** in management study programmes must develop their students' understanding of an organisation as a unified system and the specifics of small and medium-sized and owner-managed enterprises. The governance model developed in this work is appropriate to build such an understanding. It is also advisable to develop an understanding of the basics of entrepreneurship of students of other fields of study – engineering, technology and social sciences – as their future jobs or type of activity may be related to private business, small or medium-sized business.
7. **Society** as a whole needs to develop an understanding of private business and small and medium-sized enterprises, as such companies create jobs, pay taxes, influence and form the local environment in cities and counties. The well-being of society as a whole depends to a large extent on the success of SMEs.
8. **The methodology applied in this study** can be used to study the management of companies in other markets outside Latvia and also to expand the research base in Latvia. The methodology for self-assessment and organizational development of enterprises created in this work should be improved and adapted accordingly in order to apply it also in larger enterprises, SMEs managed by salaried professionals, non-governmental organisations (NGOs), as well as state and local government institutions.

The author continues his activities in the field analysed in the Doctoral Thesis – governance of owner-managed small and medium-sized enterprises – by conducting training courses and classes on entrepreneurship, business modelling and business planning topics in RTU FEEM study programmes, participating as an expert and consultant in enterprise development projects, conducting experience exchange, training and professional development seminars for enterprises, organizations and their managers in Latvia and other countries. The author regularly writes and publishes popular science articles on the topics of corporate management and governance in popular business-related websites and magazines.

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AFTERWORD

I received my first degree in higher education almost 30 years ago, graduating from the Faculty of Physics and Mathematics of the University of Latvia. While studying physics, I developed an understanding of complex natural processes and a systemic approach to exploring them. Working for 15 years at “Lattelekom” Ltd together with an international management team I gained knowledge and experience in transforming the largest technological company in Latvia into a modern and development-oriented commercial company. While studying in international master’s study programme “Innovation and Entrepreneurship” at RTU, I gained encouragement to create my own business. For 15 years now, managing my own company “MM Studija” Ltd, I have been helping other entrepreneurs, managers, and specialists to develop their organizations and businesses.

This Doctoral Thesis and research conducted reflect my experience and explorations over many years. I hope that the lessons and solutions gained from this work will help entrepreneurs and business owners, managers, and employees, including business environment creators, university teachers and researchers to develop a better understanding and make decisions that will contribute to the development of both entrepreneurship and our society as a whole.

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