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ENTREPRENEURIAL ORIENTATION AND SME SUCCESS FACTORS

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ABSTRACT

Purpose. Drawing on the concept of entrepreneurial orientation (EO) and the aspect of top management style, this study attempts to find the factors that lead small and medium-sized enterprises (SMEs) to success in business.

Methodology. In this study, a survey of 110 Latvian and Swedish forestry contracting companies' top managers was conducted. Quantitative and qualitative research methods are applied to assess the companies' performance and the factors driving the companies' success. A questionnaire with a five-point Likert scale, principal component analysis, the Mann–Whitney U test and text coding were used to test the hypotheses and answer the research questions.

Findings. EO-inherent SMEs, compared to their conservative counterparts, have a significantly higher number of employees, turnover, profit and return on asset rate. The differentiating success factors for EO-inherent SMEs are (a) employees' contribution, treatment of employees and teamwork, (b) quality of manufacturing services and efficiency of company internal processes, (c) activity in improving collaboration processes with the buyer, (d) control of company operations, (e) the use of new technologies and machinery in manufacturing, and (f) high demands of manufacturing service buyers. Meanwhile, unfair competition, difficulties in raising funds and overall political instability in the country are considered as hindering factors for the success of EO-inherent SMEs.

Value. The findings of this study contribute to the literature on entrepreneurial orientation in the SME context, characterising the success factors and differentiating style of SMEs' top managers in creating a growing and high-performing company.

Keywords: entrepreneurial orientation, success factors, performance, forestry SMEs

Paper category: research paper

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INTRODUCTION

Many studies in entrepreneurship have focused on success or failure factors in innovation (D'Attoma and Ieva, 2020; Bharadwaj *et al*., 2017; Storey *et al*., 2015), growth of startups (De Crescenzo *et al*., 2020; Halberstadt *et al*., 2021), customer relationship management (Hilton *et al*., 2020), strategic management (Martinsons *et al*., 2017), company level (Lussier and Corman, 1995; Lussier, 1995), and industry scale (Li *et al*., 2020; Lussier, 2005; 1996a; 1996b). However, little attention has been paid to success factors that differentiate entrepreneurial companies from their conservative counterparts. Yet numerous studies have confirmed that companies possessing the entrepreneurial orientation (EO) attribute (Wales *et al*., 2020; Covin and Wales, 2019; Covin and Slevin, 1991; Lumpkin and Dess, 1996) are characterised by higher performance than their counterparts (Putniņš and Sauka, 2019; Amankwah-Amoah *et al*., 2019; Covin *et al*., 2006; Wiklund, 1999; Covin, 1991). The performance of a company is the result of the performance of its employees, regardless of the size or other characteristics of the company (Aguinis, 2009). However, to achieve high employee performance, the company must be managed in a competitive way where top managers play an important role. Thus, the top management style, which embraces what top managers value, their objectives, beliefs, mindsets, leadership, dominant logic, and communications (Wales *et al*., 2020), is an aspect that leads the company to high performance and competitiveness in the market. Moreover, in the literature on EO, there is a lack of studies exploring the factors that entrepreneurial top managers consider important for the success of their companies. Success is the achievement of a high position in a particular field, such as business (Collins, 2022), while organisational performance encompasses such outcomes of a company as profit, return on assets, return on investment, sales, market share, and shareholder return (Richard *et al.*, 2009). As Wales *et al*. highlighted, mapping questions for future studies in EO, it is important to explore how an entrepreneurial top management style shapes what managers pay attention to. Thus, this study aims to find out the success factors that differentiate high-performing EO-inherent companies from conservative ones. The following research question is proposed to fulfil this objective: What success factors differentiate high-performing EO-inherent companies from their conservative counterparts? The study is based on the concept of EO and attempts to find the factors that lead small and medium-sized enterprises (SMEs) to success in business.

The next section of the study comprises the literature review, a description of the theoretical background, development of the hypotheses and lower-level research questions. The third section contains a depiction of the research methods. In the fourth section, the study results are outlined. Then, the findings are discussed in the fifth section, and further research is proposed. In the sixth section, conclusions are presented. The article closes with an outline of the limitations of the study.

LITERATURE REVIEW

Entrepreneurial orientation

An entrepreneurial company is closely related to ambitious activities, but even if a company is not very ambitious, it may be competently managed, particularly in the case of small and medium-sized enterprises (SMEs), where there is a close link between the objectives of the owners and the company (Penrose, 1959). Moreover, Miller (1983) argues that the most important thing is not the critical actor but the process of entrepreneurship itself and the organisational factors which foster it. Thus, an entrepreneurial company is characterised by attributes such as innovativeness,

undertaking risky ventures, and proactiveness in looking forward and seeking opportunity (Miller, 1983; Covin and Slevin, 1991; Gupta and Wales, 2017). Lumpkin and Dess (1996) add two more attributes – autonomy and competitive aggressiveness – to characterise an entrepreneurial company. These attributes permeate the company at all levels and reflect the overall strategic philosophy of top managers on effective management practices (Covin and Slevin, 1991; Lumpkin and Dess, 1996). Meanwhile, a nonentrepreneurial or conservative company innovates passively, is risk-averse, and imitates competitors instead of leading in the market (Miller, 1983). Thus, the literature on EO distinguishes EO-inherent companies from their conservative counterparts. Furthermore, in the literature, the concept of EO is examined from different perspectives.

As described by Covin and Wales (2019), there are three main constructs of EO: (1) unidimensional (Covin and Slevin, 1989; Miller, 1983), (2) multidimensional (Lumpkin and Dess, 1996), and (3) two-dimensional (Anderson *et al.*, 2015). The essence of EO constructs is depicted in Table 1.

Table 1

EO constructs and the main principles

EO construct	Main principles
Unidimensional	Entrepreneurial companies are characterised by risk-taking, innovativeness, and proactiveness (Covin and Slevin, 1989; Miller, 1983). Entrepreneurship might be viewed as a composite weighting of these three variables (Miller, 1983).
Two-dimensional	The three existing attributes of EO are grouped into two lower-order dimensions: (1) entrepreneurial behaviours (including innovativeness and proactiveness) and (2) managerial attitude towards risk (risk-taking). EO is seen as a multidimensional construct, consisting of two noninterchangeable dimensions. There is positive covariance between these two dimensions, and both dimensions are fundamentally necessary for EO to exist (Anderson *et al*., 2015).
Multidimensional	Each attribute of EO (autonomy, innovativeness, risk-taking, proactiveness, and competitive aggressiveness) may vary independently, depending on the environmental and organisational context (Lumpkin and Dess, 1996).

Both unidimensional and two-dimensional EO constructs posit that company-level entrepreneurship is characterised by risk-taking, innovativeness, and proactiveness. According to the unidimensional construct, all three EO attributes must positively covariate, while, according to the two-dimensional construct, two dimensions – entrepreneurial behaviours (innovativeness and proactiveness) and managerial attitude towards risk (risk-taking) – must positively covariate. However, according to the multidimensional construct, attributes of EO may vary independently to characterise company-level entrepreneurship. As argued by Lumpkin and Dess (1996), all five attributes of EO may be present when a company engages in a new entry; however, a successful new entry also might be achieved when only some of these attributes are operating. Overall,

according to Wales *et al.* (2020), EO, as a company attribute, emerges when a company's top management style, configuration of elements, and new entry initiatives exhibit an entrepreneurial theme, which includes such dimensions as innovativeness, proactiveness, risk-taking, competitive aggressiveness, and autonomy (Wales *et al.*, 2020). Although it is well known that EO is positively associated with the performance of a company (Poudel *et al*., 2019; Amankwah-Amoah *et al*., 2019; Tang *et al.*, 2015; Chaston and Sadler-Smith, 2012; Rodrigues and Raposo, 2011; Covin *et al*., 2006; Lumpkin and Dess, 1996), not all dimensions of EO equally influence it. As argued by Putniņš and Sauka (2019), risk-taking has a direct, positive effect on performance, while innovativeness and proactiveness have an indirect positive impact on performance through risk-taking. However, not every kind of risk-taking positively influences a company's performance. Constructive risk-taking, as a dimension of EO, is rewarded with higher company performance (Putniņš and Sauka, 2019), but if the entrepreneur's belief in their own capacity for performance is too strong, highly challenging or unrealistic objectives might be set and, thus, the risk-taking is increased beyond an acceptable level (Palmera *et al*., 2019). Moreover, superior performance can be achieved by leaders with an internal locus of control since they are characterised by a task-oriented style (Anderson and Schneier, 1978). Meanwhile, Altinay *et al.* (2016) note that there is no positive relationship between EO and employment growth. Given that the literature confirms that EO is positively associated with the performance of a company but has no effect on employment growth, and considering that the objective of this study is to find out the success factors that differentiate high-performing EO-inherent companies, the following hypothesis is put forward to confirm that EO companies included in the sample pool of this study meet high-performance criteria:

Hypothesis H_1: EO and CO companies differ significantly by the following performance and employment indicators:

a) net turnover
b) net profit
c) return on assets (ROA)
d) return on sales (ROS)
e) profit per employee
f) turnover per employee
g) number of employees

Business success factors

EO itself is not the recipe for long-term organisational success; a complementary orientation that promotes stability, focus, and control is vitally needed (Covin and Wales, 2019). Various studies have found the factors that determine the success or failure of a company. Lussier and Corman (1996) have identified 15 non-financial factors that might influence the success or failure of a small company, and 10 of them significantly influence business. However, examining success or failure factors in the context of other countries, a different set of factors for a company's success is found. The main findings on factors influencing success are shown in Table 2.

Table 2

Factors influencing SMEs' business success

No	SME success-influencing factors	Articles	Country (authors)
1	Attraction and retention of qualified employees	4	USA (Lussier and Corman, 1996) Singapore (Siow Song Teng et al., 2011) Croatia (Lussier and Pfeifer, 2001) Romania (Rașcă and Deaconu, 2018)
2	Business planning	3	USA (Lussier and Corman, 1996) Israel (Marom and Lussier, 2014) Croatia (Lussier and Pfeifer, 2001)
3	Record keeping and financial control	3	USA (Lussier and Corman, 1996) Israel (Marom and Lussier, 2014) Romania (Rașcă and Deaconu, 2018)
4	Use of professional advisors	3	USA (Lussier and Corman, 1996) Israel (Marom and Lussier, 2014) Croatia (Lussier and Pfeifer, 2001)
5	Business start during a recession or a period of economic expansion	2	USA (Lussier and Corman, 1996) Israel (Marom and Lussier, 2014)
6	Capital sufficiency	2	USA (Lussier and Corman, 1996) Israel (Marom and Lussier, 2014)
7	Education of business owners	2	USA (Lussier and Corman, 1996) Croatia (Lussier and Pfeifer, 2001)
8	Belonging to minorities or non-minorities	1	USA (Lussier and Corman, 1996)
9	Experience in industry	1	USA (Lussier and Corman, 1996)
10	Parents who also owned a business	1	USA (Lussier and Corman, 1996)
11	Management experience	1	Israel (Marom and Lussier, 2014)
12	Availability to companies of top managers who have good leadership qualities	1	Singapore (Siow Song Teng et al., 2011)
13	Excellent relationships of companies with their customers	1	Singapore (Siow Song Teng et al., 2011)
14	Good products and services and timing in introducing these in the market	1	Singapore (Siow Song Teng et al., 2011)
15	Efficient decision making	1	Romania (Rașcă and Deaconu, 2018)
16	Management of operations	1	Romania (Rașcă and Deaconu, 2018)
17	Sales	1	Romania (Rașcă and Deaconu, 2018)

The most common factor influencing SMEs' business success is attraction and retention of skilled and qualified employees. This is followed by business planning, record keeping and financial control, and use of professional advisors. At the same time, other factors are less frequently confirmed across countries. However, there is a lack of studies examining the factors that are important for the success of EO-inherent companies and differentiate them from their conservative counterparts. Thus, the following hypothesis is put forward:

Hypothesis H_2: the success of companies characterised by entrepreneurial orientation is driven by:

a) employees' contribution and contribution to employees
b) quality of manufacturing services and efficiency of company internal processes
c) activity in improving collaboration processes with the buyer
d) control of company operations
e) the use of new technologies and machinery in manufacturing
f) availability of funding necessary for investment

g) high demands of manufacturing service buyers

Given that predefined factors may not embrace and reveal comprehensive aspects of success-affecting and hindering factors, open-ended questions must be posed to the respondents. In the qualitative part of the study, the following research questions are proposed:

RQ1: What are the differentiating success factors for companies characterised by EO?

RQ2: What are the differentiating factors that hinder the success of companies characterised by EO?

The study is based on the concept of EO and the aspect of top management style since it comprises the top managerial objectives, beliefs, logic, decisions, and communications which exhibit an organisational commitment to EO (Wales *et al.*, 2020). Moreover, company performance is a function of organisational as well as individual-level behaviour (Covin and Slevin, 1991), and in small, "simple" companies, entrepreneurship is driven by the personality of the leader (Miller, 2011). Therefore, from the perspective of upper echelons theory, if we want to understand why companies act and perform in the way they do, we must regard the biases and dispositions of their most powerful actors – top managers – because executives act based on their personalised interpretations of the strategic situations they face, and these interpretations are a function of the executives' experiences, values, and personalities (Hambrick, 2007).

METHODOLOGY

In this study, a survey of 110 top managers of forestry contracting companies from Latvia (n=55) and Sweden (n=55) was conducted. The companies were randomly selected from the JSC Latvia's state forests (total n=76) and Statistics Sweden (total n=788) databases. All the selected companies have the common standard industrial classification (SIC) code 0220. Quantitative and qualitative research methods are applied to answer the research questions and test the hypotheses. Given that the qualitative study methods include the aggregation of responses, the number of respondents from both countries was kept at the same level. Items related to EO and predefined success factors are included in the quantitative part. In contrast, to complement and reveal a broader range of factors, the qualitative part of the study includes open-ended questions related to factors that lead a company to succeed in business and factors that hinder it. A questionnaire with a five-point Likert scale was developed for predefined questions. EO is measured by nine items, drawing on and amending the items of Covin and Slevin (1989) since these items were developed decades ago and there is a need to try to update the measures (Miller, 2011). Control items were developed to control for other factors that might influence the measured factor. The respondents had to assess each of the factors identified in the open-ended questions on a scale of 1 to 5. The questionnaire was developed in Latvian, English and Swedish. The translations were double-checked to avoid differences in the text. Computer-assisted web interviewing (CAWI) and computer-assisted telephone interviewing (CATI) were conducted. Interviews in Latvia and Sweden were conducted by interviewers from KANTAR Latvia and KANTAR Sweden respectively. Data on financial performance indicators from a five-year period (2015-2019) were obtained from the Lursoft database in Latvia and Bolagsfakta in Sweden. Swedish krona (SEK) is converted to euro (EUR) at an exchange rate of the European Central Bank (ECB) on the last day of a year. Ten companies included in this study do not disclose financial information. Thus, the data on 100 companies, 50 from each country, is taken to assess financial performance. Respondents were split into two

groups according to the highest score in the EO composite item – (1) EO group n=55, (2) CO group n=55 – to distinguish between EO and conservative companies (CO). The unidimensional EO construct is applied since it examines entrepreneurship as an organisational attribute, emphasising its top management style and its strategic content as manifest through new entry initiatives (Wales *et al.*, 2020). The methodology for testing hypotheses in the quantitative part of the study is given in the following model:

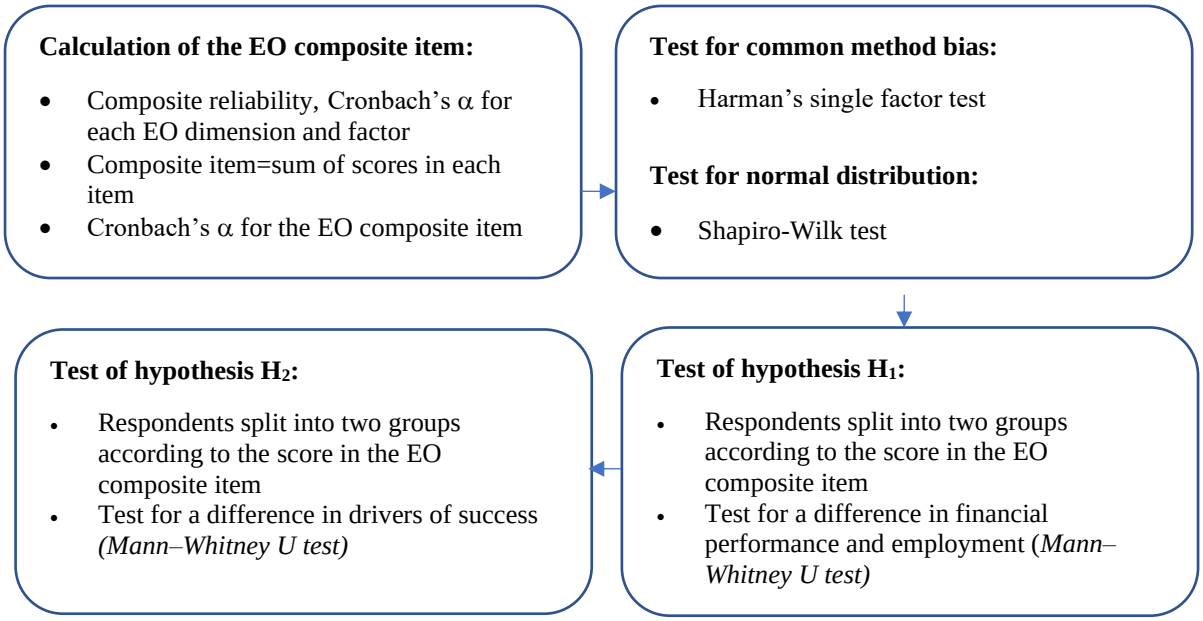

Figure 1 **Model of hypothesis testing**

The methodology for answering research questions in the qualitative part of the study is given in the following model:

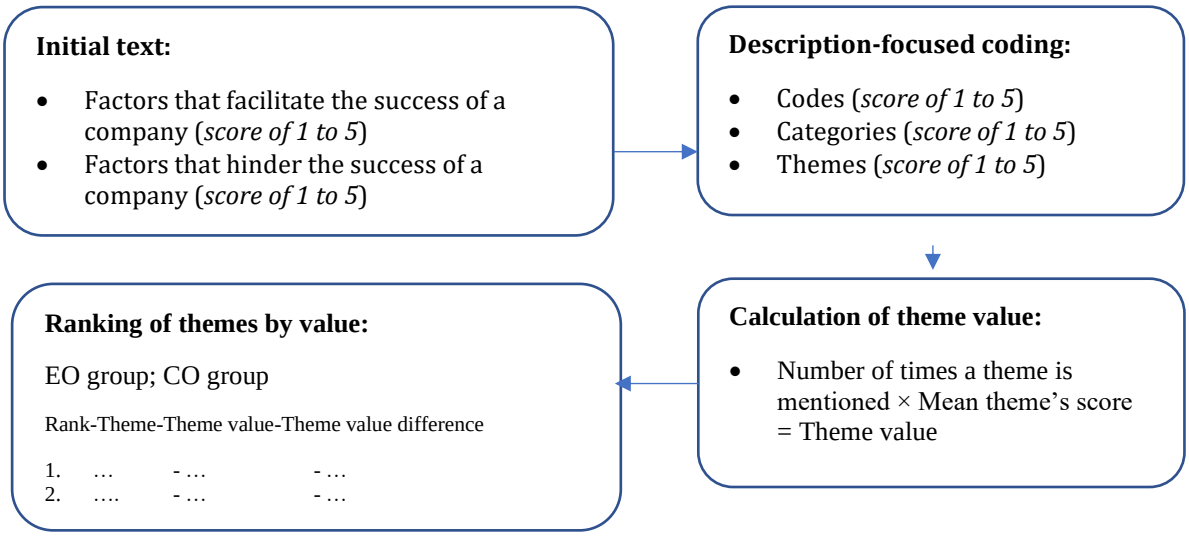

Figure 2 **Model of qualitative data analysis**

The description-focused coding approach (Miles *et al*., 2014; Adu, 2019) is used to convert the initial text of respondents' answers into the themes related to the factors that facilitate or hinder a company's success. Each score added by the respondent to the factor was tracked through the entire coding process, from the initial text to the theme. Themes are grouped according to the common factor. In the next step, the value of each theme is calculated. Then, the themes are ranked by their value, from the highest to the lowest. Finally, the theme value difference between the EO group and the CO group is calculated to answer RQ1 and RQ2. Themes mentioned only by one group of companies are excluded from comparison analysis to avoid overestimating.

RESULTS

Overall, in the qualitative part of the study, EO-inherent companies identified 47 factors influencing company success, and CO companies identified 32. One factor mentioned by EO companies and four mentioned by CO companies were not classified due to ambiguous descriptions. As regards factors that hinder success, EO companies identified 34 and CO companies identified 30. Two hindering factors identified by EO companies were unclassifiable due to ambiguous descriptions. Consequently, top managers of EO-inherent companies were more responsive and provided a larger number of factors than their counterparts at CO companies. A complete list of factors is shown in Appendices 1 and 2.

Survey data in this study is obtained by the CATI and CAWI methods. A Harman's single factor test is used to control for common method variance. The first factor captured 28.6% of the variance in data, which confirms that the survey data is free of common method bias (Tehseen *et al*., 2017).

A reliability analysis of composite items was done before testing the hypotheses. The results of the reliability analysis are presented in Table 3.

Table 3

Results of composite item reliability analysis

Hypothesis	Item	Factor loading ƛ	AVE	Composite reliability	Cronbach's α
H_1	INN1	.804	.66	.85	.876
	INN2	.846			
	INN3	.791			
	RIS1	.884	.56	.78	.691
	RIS2	.500			
	RIS3	.807			
	PRO1	.697	.55	.78	.797
	PRO2	.811			
	PRO3	.706			
H_{2a}	EMP1	.834	.70	.82	.564
	EMP2	.834			
H_{2b}	QEP1	.862	.74	.85	.655
	QEP2	.862			
H_{2c}	ACT1	.884	.66	.85	.727
	ACT2	.859			
	ACT3	.680			

H_{2d}	CON1	.784	.64	.84	.705
	CON2	.884			
	CON3	.725			

For all the composite items, factor loadings and average variance extracted (AVE) exceeds the 0.5 threshold, composite reliability values are greater than 0.7, and the values are in an acceptable range (Taber, 2018), indicating that the requirements are met (Hair *et al*., 2010). The EO composite item from the innovativeness, risk-taking and proactiveness items was calculated. Internal consistency of the EO composite item is assessed by Cronbach's α (Cronbach, 1951; Cronbach and Shavelson, 2004). EO composite item α = .878, which indicates good internal consistency (Taber, 2018). Companies were split into two groups according to the highest score in the EO composite item – 1) EO group (50% highest scores), 2) CO group (50% lowest scores) – to test the H_1 and H_2 hypotheses. The results of the H_1 test are shown in Table 4.

Table 4

Mean values of the five-year period (2015–2019) financial indicators of SMEs (n=100) and the number of employees (Mann–Whitney *U* test)

Hypothesis	Indicator	Group	Mean rank	*U*	*p*-value	Mean	SD
H_{1a}	Turnover, K€	EO	273.1	20940.0	<.001	3196	485
		CO	206.3			1333	133
H_{1b}	Net profit, K€	EO	254.1	25507.5	.029	154	31
		CO	226.4			70	11
H_{1c}	ROA	EO	253.9	25805.5	.039	8	15
		CO	227.7			6	18
H_{1d}	ROS	EO	243.9	28346.5	.690	5	9
		CO	238.8			5	9
H_{1e}	Profit per employee, K€	EO	243.0	28576.5	.804	8	1
		CO	239.8			8	1
H_{1f}	Turnover per employee, K€	EO	237.8	28011.0	.536	147	12
		CO	245.6			136	7
H_{1g}	Number of employees, K€	EO	270.7	21542.5	<.001	26	39
		CO	209.0			15	22
Control	The price level of the company	EO	50.44	1247.0	.982	2.8 (57%)	0.8
		CO	50.56			2.8 (57%)	0.8

The results in Table 4 show that EO-inherent SMEs have a significantly higher turnover, profit, ROA rate and number of employees. Thus, the H_{1a}, H_{1b}, H_{1c} and H_{1g} parts of hypothesis H_1 are accepted. Higher financial performance is not caused by the higher price level of a company since both groups of companies have similar price levels – 7% above the mean market price on average. Thus, in the given indicators, the higher performance of EO-inherent companies is related to the non-financial processes of a company. It should be noted that there are no differences in productivity figures such as turnover and profit per employee. This might be explained by the similar technology that is used in providing services for the buyer. Also, a similar ROS rate might be explained by a similar price level. Thus, the H_{1d}, H_{1e} and H_{1f} parts of hypothesis H_1 are rejected.

Hypothesis H2 was tested to look for factors contributing to the success of EO-inherent companies. The results of the H2 hypothesis test are presented in Table 5.

Table 5

Differentiating drivers of success for the EO and CO companies (n=110), the quantitative part (Mann–Whitney *U* test)

Hypothesis	Drivers of success	Group	Mean rank	*U*	*p*-value	Mean (SD)
H_{2a}	Employees' contribution and contribution to employees	EO	68.2	814.5	**<.001**	3.6 (0.7)
		CO	42.8			2.9 (0.9)
H_{2b}	Quality of service and efficiency of processes	EO	67.5	855.0	**<.001**	3.9 (0.6)
		CO	43.6			3.3 (0.9)
H_{2c}	Activity in improving collaboration processes	EO	65.5	961.5	**.001**	4.0 (0.7)
		CO	45.5			3.5 (0.6)
Control	Improvements in cooperation processes with the client	EO	62.9	1105.5	.010	4.0 (0.8)
		CO	48.1			3.5 (1.1)
Control	Main clients' responsiveness in cooperation	EO	60.3	1247.5	.092	3.6 (0.9)
		CO	50.7			3.3 (1.0)
H_{2d}	Control of company operations	EO	66.6	902.5	**<.001**	4.0 (0.7)
		CO	44.4			3.4 (0.8)
H_{2e}	The use of new technologies and machinery	EO	62.8	1109.0	**.012**	3.5 (1.1)
		CO	48.2			3.0 (1.1)
Control	With new machinery, the company can earn more	EO	59.6	1288.5	.152	3.6 (0.9)
		CO	51.4			3.4 (0.8)
H_{2f}	Availability of funding necessary for investments	EO	56.8	1444.0	.671	3.6 (1.1)
		CO	54.3			3.5 (1.2)
H_{2g}	High demands of manufacturing service buyers	EO	63.1	1093.0	**.009**	3.7 (1.1)
		CO	47.9			3.2 (1.1)
Control	EO dimensions	EO	83.0	3.0	<.001	3.7 (0.4)
		CO	28.1			2.4 (0.6)
Control	Experience in the forest sector	EO	54.2	1439.5	.662	19.4 (11.9)
		CO	56.8			21.6 (14.4)

The results in Table 5 show that the differentiating drivers of success for EO-inherent companies are (1) employees' contribution and contribution to employees, (2) quality of service and efficiency of processes, (3) activity in improving collaboration processes, (4) control of company operations, (5) the use of new technologies and machinery, and (6) high demands of manufacturing service buyers. Thus, the H_{2a}, H_{2b}, H_{2c}, H_{2d}, H_{2e} and H_{2g} parts of hypothesis H_2 are accepted, and H_{2f} is rejected, confirming that availability of funding necessary for investments is not a differentiating success factor for EO-inherent companies. Activity in improving collaboration processes is controlled by the conviction that improvements in cooperation processes with the client are important for a company's success and that the main client is responsive in cooperation. The results show a significant difference between EO and CO companies in the conviction that improvements in cooperation with the client are important for a company's success (*p*-value .010). There is also a trend that the main clients of EO-inherent companies are more responsive in cooperation than clients of CO companies (*p*-value .092). Therefore, activity in improving collaboration processes, as a success factor for EO-inherent companies, is supported by the conviction that improvements in cooperation with the client are important.

In addition to the predefined factors, respondents answered open-ended questions to obtain a deeper understanding of the factors affecting a company's success. Indefinite, unmanageable and Covid-19 factors have been excluded from further analysis. Factors such as 'favourable weather conditions' influence the business of forestry contractors, but they are unmanageable, and the Covid-19 virus influence varies and is unlikely to be significant in the long run. The results for RQ1 are shown in Table 6.

Table 6

Differentiating drivers of success for the EO and CO companies (n=110), the qualitative part

Theme rank		Drivers of success	Theme frequency		Theme value		Value difference
EO	CO		EO	CO	EO	CO	
2	20	Treatment of employees	11	1	51	5	46
1	18	Teamwork	11	2	52	8	44
7	12	Investment in new technologies	5	3	22	14	8
10	6	Good contract work prices	3	5	15	23	-8
12	4	Quality of work	3	6	14	27	-13
34	9	Long-term contractual relations	1	4	4	18	-14

In addition to the factors shown in Table 5, the three most differentiating success factors for EO-inherent companies are (1) treatment of employees, (2) teamwork, and (3) investment in new technologies. In the overall theme rank, for EO companies, teamwork is the most important driver of success (mentioned 11 times and 52 points scored) and treatment of employees is second (mentioned 11 times and 51 points scored). For CO companies, teamwork is in 18th place (mentioned twice and 8 points scored) and treatment of employees is in 20th (mentioned once and 5 points scored). The third most differentiating factor – investment in new technologies – is in 7th place for EO companies (mentioned 5 times and 22 points scored) and 12th place for CO companies (mentioned 3 times and 14 points scored).

However, CO companies, more than EO-inherent companies, consider that (1) long-term contractual relations, (2) quality of work, and (3) good contract work prices are important for the success of a company. Long-term contractual relations are in 9th place for CO companies (mentioned 4 times and 18 points scored) and 34th place for EO-inherent companies (mentioned once and 4 points scored). Quality of work is in 4th place for CO companies (mentioned 6 times and 27 points scored) and 12th place for EO-inherent companies (mentioned 3 times and 14 points scored). Good contract work prices are in 6th place for CO companies (mentioned 5 times and 23 points scored) and 10th place for EO-inherent companies (mentioned 3 times and 15 points scored).

A complete list of factors that companies' top managers consider important for the success of a company is included in Appendix 1.

However, as a counterweight to factors contributing to the success of companies, there are factors that hinder business success. The results for RQ2 are shown in Table 7.

Table 7

The differentiating factors that hinder the success of EO and CO companies

Theme rank		Hindering factors	Theme frequency		Theme value		Value difference
EO	**CO**		**EO**	**CO**	**EO**	**CO**	
3	21	Unfair competition	7	1	30	4	**26**
5	20	Difficulties in raising funds	4	1	16	4	**12**
8	27	Political instability in the country	3	1	14	3	**11**
25	8	End-of-life technologies	2	3	7	13	**-6**
14	4	Low contract work prices	3	6	12	21	**-9**
1	1	Lack of skilled employees	16	18	65	75	**-10**

EO-inherent companies, more than CO companies, consider that (1) unfair competition, (2) difficulties in raising funds, and (3) political instability in the country are factors that hinder the success of a company. Unfair competition is in 3rd place for EO-inherent companies (mentioned 7 times and 30 points scored) and 21st place for CO companies (mentioned once and 4 points scored). Difficulties in raising funds are in 5th place for EO-inherent companies (mentioned 4 times and 16 points scored) and 20th place for CO companies (mentioned once and 4 points scored). Political instability in the country is in 8th place for EO-inherent companies (mentioned 3 times and 14 points scored) and 27th place for CO companies (mentioned once and 3 points scored).

However, CO companies, more than their EO-inherent counterparts, consider that (1) lack of skilled employees, (2) low contract work prices, and (3) end-of-life technologies are factors that hinder the success of a company. Lack of skilled employees is the most hindering factor for both EO and CO companies. However, CO companies mentioned it more often – 18 times – and added more value to it: 75 points scored. EO-inherent companies mentioned it 16 times and granted it 65 points. Low contract work prices are in 4th place for CO companies (mentioned 6 times and 21 points scored) and 14th place for EO-inherent companies (mentioned 3 times and 12 points scored). End-of-life technologies are in 8th place for CO companies (mentioned 7 times and 13 points scored) and 22nd place for EO-inherent companies (mentioned twice and 3 points scored).

A complete list of factors that companies' top managers consider as hindering the success of a company is included in Appendix 2.

DISCUSSION

In this study, the differentiating drivers of success for high-performing EO-inherent companies are explored. It is found that EO-inherent companies differ from their CO counterparts with a significantly higher turnover, profit, ROA rate and number of employees. This indicates that companies included in this study demonstrate EO and performance relationships similar to those found in other EO studies (Covin *et al.*, 2006; Wiklund, 1999; Lumpkin and Dess, 1996, Covin,

1991). The most substantial influence on company growth is exercised by the growth attitude of top managers, the EO of the company, and the dynamism of the environment where the company operates (Wiklund *et al.*, 2009). Companies included in this study operate in one common industry. Therefore, the dynamism of the environment where the companies operate is similar and does not determine differences in growth indicators such as turnover and number of employees. This indicates that in this study, the attitude of top managers toward the growth of the company and EO inherence are the main factors that might explain differences in performance indicators.

The differentiating drivers of success for EO-inherent companies are (1) employees' contribution and contribution to employees, (2) quality of service and efficiency of processes, (3) activity in improving collaboration processes, (4) control of company operations, (5) the use of new technologies and machinery, and (6) high demands of manufacturing service buyers. As predefined factors may not reveal all aspects of success drivers, in the qualitative part of the study it is additionally found that the three most differentiating success factors for EO-inherent companies are (1) treatment of employees, (2) teamwork, and (3) investment in new technologies. Thus, the qualitative part of the study supports the findings of the quantitative part that taking care of employees and new technologies is an important factor for the business success of EO-inherent companies. Factors other than high demands of manufacturing service buyers emerge from the company's internal environment. These factors are related to objectives, decisions, logic, and beliefs of top managers (Wales *et al.*, 2020): if they treat employees well and foster teamwork, employees will raise their contribution to the company. Activity in improving collaboration processes with customers as well as quality and efficiency of processes, control of company operations, and investment in new technologies are also needed for the success of a company. This leads EO-inherent companies to high performance and success in business, since the performance of a company is a function of organisational as well as individual-level behaviour (Covin and Slevin, 1991), and in SMEs, entrepreneurship is driven by the personality of the leader (Miller, 2011), and if we want to understand why companies act and perform in the way they do, we must regard the biases and dispositions of their most powerful actors – top managers (Hambrick, 2007). However, CO companies, more than their EO counterparts, rely on (1) long-term contractual relations, (2) quality of work and (3) good contract work prices. Thus, they rely on external environment factors more than internal ones, which are directly manageable and depend on top management style. This indicates that top managers of EO-inherent companies might be characterised by a stronger internal locus of control (Rotter, 1966) than their counterparts at CO companies.

The importance of employees in the success of a company is in line with previous studies by Lussier and Corman (1996), Siow Song Teng *et al*. (2011), Lussier and Pfeifer (2001), and Rașcă and Deaconu (2018), while other factors found in this study supplement existing knowledge, determining the success drivers for EO-inherent companies. As a counterweight to factors contributing to the success of companies, there are success-hindering factors. EO-inherent companies, more than their CO counterparts, consider that (1) unfair competition, (2) difficulties in raising funds, and (3) political instability in the country are factors that hinder the success of a company. The difficulty of EO-inherent companies in attracting financial resources might be linked to a greater need for investment in new technologies. Dissatisfaction with the political situation in the country reflects civil attitudes. However, unfair competition as a hindering factor reflects the values on which EO-inherent companies base their activity on the market. The cost advantage resulting from involvement in activities in the shadow economy might be considered as an act of unfair competition. As Sauka and Putniņš (2020) indicated, smaller companies engage in more activities in the shadow economy than larger companies. EO companies are characterised by higher turnover and number of employees. Thus, further research might investigate the

differentiating values of EO-inherent companies, including tolerance towards involvement in the shadow economy.

Continuing with success-hindering factors, CO companies, more than their EO-inherent counterparts, consider that (1) lack of skilled employees, (2) low contract work prices, and (3) end-of-life technologies are factors that hinder the success of a company. Although lack of skilled employees is the most hindering factor for both EO and CO companies, it has a higher impact on CO companies. In the quantitative part of the study, both groups of companies reported similar price levels for company services. However, low contract work prices have more impact on business success for CO companies than for EO-inherent companies. This might be explained by the fact that in business success, CO companies rely more on external environment factors than internal ones, which are directly manageable. End-of-life technologies are more of a success-hindering factor for CO companies than for their EO counterparts. However, it is EO companies that mentioned investments in new technologies as a success factor.

CONCLUSIONS

This study attempted to discover the differentiating drivers of success for high-performing EO-inherent companies. First, it was found that EO-inherent SMEs have a significantly higher number of employees, turnover, profit and return on asset rate. Second, the differentiating success factors for EO-inherent SMEs are (a) employees' contribution, treatment of employees and teamwork, (b) quality of manufacturing services and efficiency of company internal processes, (c) activity in improving collaboration processes with the buyer, (d) control of company operations, (e) investment and the use of new technologies and machinery in manufacturing, and (f) high demands of manufacturing service buyers. Third, unfair competition, difficulties in raising funds and overall political instability in the country are the differentiating hindering factors for the success of EO-inherent SMEs.

LIMITATIONS

This study explored the differentiating drivers of success for EO-inherent SMEs in the forestry industry in Latvia and Sweden. In the context of other industries and larger companies, other drivers of success for EO-inherent companies might be found.

The sample of SMEs in this study comprises 110 companies. A larger sample size and research in other countries might find additional success factors since a trend was noticed in the control question 'main clients' responsiveness in cooperation' (*p*-value .092) which might influence activity in improving collaboration processes with the client.

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Appendix 1

Complete list of factors that companies' top managers consider important for the success of a company

No.	EO group factors	Theme frequency	Theme value	CO group factors	Theme frequency	Theme value
1	Teamwork	11	52	Good collaboration with business partners	10	42
2	Treatment of employees	11	51	Skilfulness of employees	8	37
3	Skilfulness of employees	9	44	Demand	7	29
4	Good collaboration with business partners	10	43	Quality of work	6	27
5	Favourable weather conditions	9	37	Service flexibility	6	27
6	Demand	5	23	Good contract work prices	5	23
7	Investment in new technologies	5	22	Cooperation and communication	5	21
8	Business environment certainty	4	18	Experience in the sector	5	19
9	Economic stability	4	16	Long-term contractual relations	4	18
10	Good contract work prices	3	15	Motivation of employees	3	15
11	Experience in the sector	3	15	Economic stability	3	14
12	Quality of work	3	14	Investment in new technologies	3	14
13	Settlement discipline	2	10	Reputation of the company	3	14
14	Curiosity	2	10	Favourable weather conditions	3	13
15	Motivation of employees	2	9	Labour force stability	3	12
16	Work in the local region	2	9	Competition	2	9
17	Purposefulness	2	9	Settlement discipline	2	9
18	Stability in the country	2	9	Teamwork	2	8
19	Business environment regulation	2	8	Support from state institutions	2	7
20	Competition	2	7	Treatment of employees	1	5
21	Cutting red tape	1	5	Honesty	1	5
22	Selecting employees	1	5	Intuition	1	5
23	Honesty	1	5	Work in the local region	1	4
24	Possibility to participate in tenders	1	5	Control of internal business processes	1	4
25	Initiative	1	5	Receiving high-quality services	1	4
26	Order	1	5	Good planning and organising	1	4
27	Good planning and organising	1	5	Purposefulness	1	4
28	Wellbeing	1	5	Risk management	1	4
29	Making good decisions	1	5	Good fortune	1	4
30	Regulatory framework for environmental protection	1	5	Medium-term contracts	1	4

31	External markets	1	4	Low fuel prices	1	4
32	Control of internal business processes	1	4	Good logistics	1	3
33	Free market niches	1	4	Indefinite	4	16
34	Long-term contractual relations	1	4	-	-	-
35	Intuition	1	4	-	-	-
36	Service scaling capability	1	4	-	-	-
37	Technical competence	1	4	-	-	-
38	Geographical location of the company	1	4	-	-	-
39	Reputation of the company	1	4	-	-	-
40	Good fortune	1	4	-	-	-
41	Low fuel prices	1	4	-	-	-
42	Low costs	1	4	-	-	-
43	Innovative solutions	1	3	-	-	-
44	Good road infrastructure	1	3	-	-	-
45	Planning independence from the buyer	1	3	-	-	-
46	Ability to adapt to conditions	1	3	-	-	-
47	Support from state institutions	1	3	-	-	-
48	Indefinite	1	5	-	-	-

Appendix 2

Complete list of factors that companies' top managers consider as hindering the success of a company

No.	EO group factors	Theme frequency	Theme value	CO group factors	Theme frequency	Theme value
1	Lack of skilled employees	16	65	Lack of skilled employees	18	75
2	Unfavourable weather conditions	9	34	Unfavourable weather conditions	10	38
3	Unfair competition	7	30	Business environment instability	7	29
4	Business environment instability	9	35	Low contract work prices	6	21
5	Difficulties in raising funds	4	16	Low demand	5	21
6	Excessive bureaucracy	4	15	Excessive bureaucracy	4	17
7	Covid-19 pandemic	5	15	Covid-19 pandemic	3	14
8	Political instability in the country	3	14	End-of-life technologies	3	13
9	Poor job planning and organising	4	14	Incomprehensible requirements in procurement	2	10
10	Low demand	3	14	Global crises	2	9
11	High tax burden	3	13	Poor job planning and organising	2	9
12	Lack of working capital	3	13	Lack of long-term contractual relations	2	8
13	High environmental requirements	3	12	Competition	1	5
14	Low contract work prices	3	12	Lack of settlement discipline	1	5
15	Lack of reputation of the company	2	10	Poor overall economic situation	1	5
16	Indifference	2	10	Market volatility	1	5
17	Fear of responsibility and change	2	9	High tax burden	1	5
18	Market volatility	2	9	High prices for forest machines	1	4
19	Price instability	2	8	Employee voluntary turnover	1	4
20	Incompetent customers	2	8	Difficulties in raising funds	1	4
21	Competition	2	8	Unfair competition	1	4
22	Insufficient demand	2	8	Lack of communication	1	4
23	Unstable tax system	2	8	Shortcomings in receiving unemployment benefits	1	4
24	Global crises	2	7	Shortcomings in the issuing of sick leave	1	4
25	End-of-life technologies	2	7	Lack of working capital	1	3
26	Lack of long-term contractual relations	1	5	Small company	1	3
27	Lack of a national forestry development strategy	1	5	Political instability in the country	1	3
28	Unfair timber measurement	1	5	Unstable tax system	1	3
29	Inability to take responsibility	1	5	Routine job	1	3

30	Small company	1	4	Incompetent customers	1	2
31	Unreliable business partners	1	4	-	-	-
32	Lowest price as the most important factor in the procurement tender	1	4	-	-	-
33	People’s multifariousness	1	3	-	-	-
34	A lot of responsibilities per employee	1	3	-	-	-
35	Indefinite	2	9	-	-	-