

Team size, diversity and performance of new ventures and SMEs in the UK: a meta-analysis

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This paper describes what we know about the effect of top managerial teams (TMT) size and diversity on the performance of new ventures and SMEs. It does so by summarising the results of a thorough literature search of quantitative studies published on this topic between 1990 and 2016 and of a meta-analysis on the relationships reported in these studies.

Meta-analysis provides a systematic approach to reviewing the existing literature on a specific topic and synthesizing the prior empirical results, and estimates the effect size of the relationship, that is its strength and statistical significance across different studies. While the meta-analysis reveals many significant and positive effects of team size and diversity, the range of effects varies quite widely depending on context, generating a range of effect sizes from small to large.

Key findings

The analysis showed the following consistent results for all types of SMEs: a medium positive effect size of functional diversity on innovation, ethnic/gender diversity on internationalization, and experience diversity on other performance measures. Consistent results were also obtained for a small positive effect size of experience diversity on internationalization.

Other results differ between groups of firms:

- For new ventures, we find a very high effect size for ethnic/gender diversity on employment size, a very small effect size of team size on innovation, and a medium high effect size of ethnic/gender diversity on other performance measures.
- For high tech ventures (both new and established), we find a medium effect of education diversity on other financial measures of performance and a medium effect of functional diversity on innovation.

Measuring TMT size and diversity effects

TMTs are typically composed of senior executive directors and function heads. Our literature search revealed 47 studies and 266 measured relationships between TMT size or diversity and firm performance. These studies employed different samples, econometric techniques, geographical and industry sector focus. Almost 77% of the studies in our sample focus on new ventures, 60% on high-tech firms and 36% on SMEs.

Using meta-regression techniques allows us to summarise the key impacts of team size and diversity on different aspects of business performance. See Figure 1 for an illustration of the effects on SMEs. For these firms, consistent results were obtained for a medium positive effect size of functional diversity on innovation, ethnic/gender diversity on internationalization, and experience diversity on other performance measures.

Authors

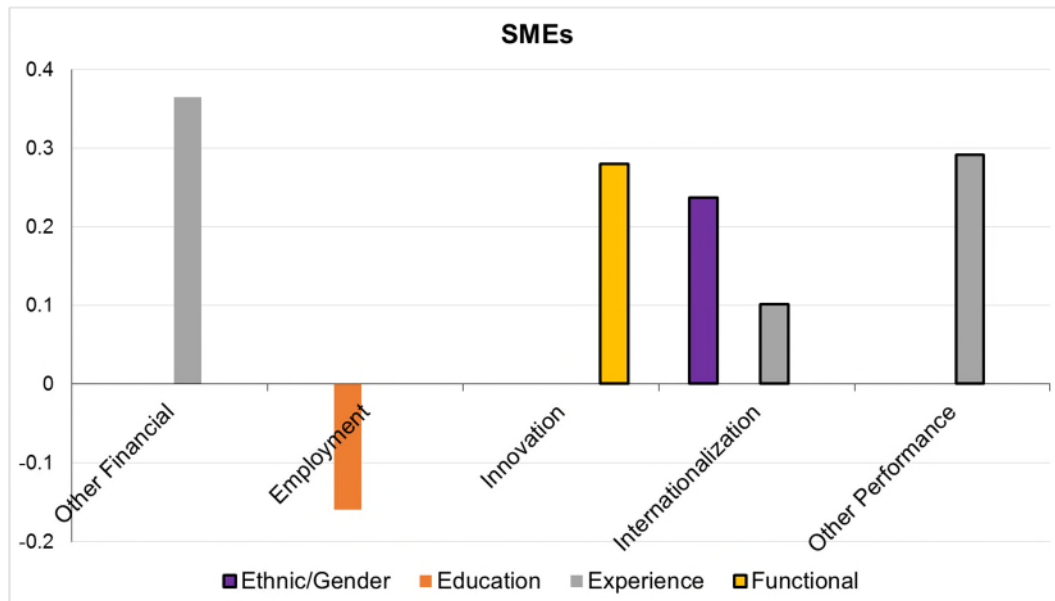


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Figure 1: Effects of top management team diversity on aspects of the performance of established SMEs



Despite the number of studies which have considered the size and diversity of top management teams we observe considerable inconsistency in results between groups of firms. More replicative studies would enable us to identify effect sizes with greater precision.

Policy implications

Our findings support a widespread view that a well-balanced management team is more likely to deliver strong performance, although the nature of the balance, for example whether the balance is in functional diversity, or in the range of experience, or in gender or ethnicity, may affect the type of performance. Overall, though, a good guide for entrepreneurs, investors and policymakers is that building diversity into the TMTs of SMEs is likely to have positive performance benefits.

In policy terms our results suggest the value of considering both diversity and the size of top management teams in any form of growth or performance audit. In general terms larger, more diverse teams are associated with better performance. Context matters, however, with the evidence suggesting that the benefits of different aspects of diversity differ, for example, between new firms and established SMEs.

Full paper link:

<https://www.enterpriseresearch.ac.uk/our-work/publications/>