The Influence of Founder-CEOs Human Capital on SME Performance: Founder Perceptions in the Video Game Industry

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Abstract

Understanding the link between new venture success and the human capital possessed by the firm's chief executive officer has in the past been a frequent research area. How founders view the importance of the executive's knowledge has not, however, gained much attention from scholars. This thesis examines how founders of small firms view industry specific- and general business knowledge possessed by the CEO and the importance of this for their firms and the how this relates to the findings of previous research. In order to understand how founders perceive the importance of CEO knowledge, interviews with founders of video game development firms have been conducted. The results shows that most founders view CEOs possession of both industry specific knowledge and general business knowledge as important in order for firms to become successful, perceptions based to a large extent on their view of the industry as being complex and unique. Their views are also largely consistent with the findings of previous research. The thesis concludes with a section on future research.

Keywords

Perception, Human capital, Small businesses, Founder-CEO, Performance, Productivity
Introduction

The interest among researchers in organization development and management have to a large degree focused on big and mature firms in the past, the interest in SMEs have not been as prominent (Ulhoi, 2005). This has somewhat changed as scholars starts to focus their attention towards these firms (ibid). Entrepreneurship and small business research in the management field has become one of the fastest-growing academic literature as well as in the number of active researchers (Landström and Johannisson, 2001). Interest for the topic has also risen among decision-makers and politicians as many see these type of businesses as an answer to the problem with high unemployment rates (ibid). Small firms’ stands for the most number of firms in both the United States as well as in European Union and the benefits to employment and economic growths generated by SMEs are used frequently in political decisions (Soriano and Castrogiovanni, 2012). Hence it is not hard to find arguments why the interest among scholars for SMEs is important, both from a political, economic as well as academic standpoint. The connection between SMEs chance for success and the knowledge of the firms CEO has been researched by many scholars and is an important aspect of their performance (Soriano and Castrogiovanni, 2012; Boden and Nucci, 2000; Chandler and Jansen, 1992). According to Soriano and Castrogiovanni (2012) the experience and knowledge of CEOs has a positive link to the performance of these firms. Furthermore, Soriano and Castrogiovanni (2012) state that the knowledge of a founder-CEO is more important in small firms than in large because the management has greater leverage to impact on firms productivity and performance in SMEs. As CEOs of small and medium sized firms are less constrained and has bigger opportunities to act than they would if they were leaders of big firm their impact is more prominent (Daily and Dalton, 1992). The human capital of founder-CEOs is in other words something that might influence business's profitability and success in SMEs to a large extent.

The research on how founders themself view this has not been as frequent (Yusufs, 1995; Huck and McEwen, 1991; Hess, 1987). In this thesis the focus is on the perceived importance of founders on founder-CEOs knowledge related to industry and business in SMEs as I argue that how founders perceive these issues might have significant influence on the way they organize their startups. Researching the link between success and knowledge is an important area but do not say much about how founders argue when starting their SMEs. The limited research on founders views thus are a weakness in the existing theory. Their motivations and choices when appointing a CEO might have a crustal impact on their firms’ performance and there is therefore a need to further understand their argumentations.

In order to shed a light on this issue the video game industry in Sweden has been chosen. Video games, both for consoles and for computers are also big business and the industry has become one of the major segments for entertainment (Cohendet and Simon, 2007). The industry is, as an example, bigger than the movie industry and consumers are increasingly spending more on video games and video game related entertainment. (Wallop, 2009) In Sweden the industry is going through rapid growth but also rapid change (Swedish games industry, 2010). From 68 developing studios in 2006 to 106 in 2010 more game developers
are launching businesses every year, but it also a branch which sees great fluctuations in turnover and result from one year to the next which leads to some of them closing every year to (ibid). When these businesses start out it more a rule than exception that they have a small number of employees, in 2010 61% of the firms had less than 5 employees. In knowledge-intensive or technology intensive small firms such as the video game industry it is more of a rule than exception that these new firms are created in teams rather than by a single entrepreneur (Burger-Helmchen & Cohendet, 2011). According to Johansson (2005) many of the small organizations in the game development industry lack knowledge and skills about developing their businesses in terms of for example leadership, human resources and finances which might lead to the businesses failing. The CEOs in these small businesses often do not have all the right knowledge in order to lead their organizations if they start to grow (Zackariasson, 2012). The video game development industry thus provides an interesting pool of entrepreneurs in order to view how founders perceive founder-CEO knowledge.

Before starting a new venture individuals have to consider many factors. Founders have to consider legal, economical and managerial issues before their business is created as well as when the firm has been created. Knowledge about the industry their venturing into and knowledge about general business in the founding team, more specifically possessed by a founder-CEO might be something that has a big impact on the level of success the business can have. Founders’ knowledge about marketing, budgeting, law, and taxes as well as other business and industry related issues might have the possibility to influence the SME in either a positive or negative direction. This is an interesting subject as the starting phase forces small organizations to face the problems and opportunities with leadership and organizing their businesses.

By developing on the existing theories on founder-CEO knowledge link to firm performance and productivity this thesis aims to study how founders views compares to previous studies. The research questions that motivated this study are: 1) Do founders of SMEs view industry specific knowledge and experience possessed by the founder-CEO as a vital factor for business success? 2) Do founders of SMEs view general business knowledge and experience as a vital factor for business success? 3) Are their views in line with the previous research on this subject?

**Theoretical background**

This thesis focuses on founders’ attitudes towards business specific and industry specific human capital possessed by the founder-CEO. The term founder-CEO, where the founder or one of the founders take the role as CEO (Bamford, Bruton and Hinson, 2006) and CEO-owner, where the owner or one of the owners take the role as CEO (Soriano and Castrogiovanni, 2012) is in this paper used synonymously as the focus is on founders that also are the owners. In small-medium sized enterprises (SMEs), at the startup phase, it is common that the owners and founders are the same individuals which have guided this thesis.

The effects of Founder-CEOs human capital on firm performance have been gained attention by scholars (Soriano and Castrogiovanni, 2012; Boden and Nucci, 2000; Chandler and Jansen,
The research on human capital relationship to performance displays a number of different approaches favored by different authors. While researchers such as Soriano and Castrogiovanni (2012) and West and Noel (2009) research owner-CEOs industry- and business knowledge related to their SMEs performance. Jo and Lee (1996) as well as Boden and Nucci (2000) researched educations impact on performance while Kim, Aldrich and Keister (2006) viewed both work experience and education compared to new venture success.

There are also differences in their view on how to measure success. Some (Van de Ven, 1984; Harber and Reichel, 2005; Boden and Nucci, 2000) defines new venture success as primary survival based issue. In other words, if a firm is successful is determined by whether or not it survives over period of time. This does not however mean these researchers solely focus on survival, Van de Ven (1984) also states that sales can be used to measure success in an accurate way. Jo and Lee (1996) on the other hand use return on investment (ROI) as a variable for success. This can be compared to Soriano and Castrogiovanni (2012) who states that they use profitability as their measurement for success. They argue that using ROA is more accurate than using ROI (or even ROE) as they state that it is a more conservative measurement (ibid). Despite the differences in approach the findings of these researchers are relatively consistent in their findings as is shown in the next section.

Another important note is that all of the scholars are that they have put leaders and their human capital in focus and expanded our knowledge on this topic. According to Langowitz and Allen (2010) founders human capital is widely considered to be an important factor related to firms success. One of the more common definitions of human capital is the one defined by Becker (1962) and it states that human capital contains the capital or resources that an individual has. Human capital is resources are, in other words, embedded in individuals and these resources can be improved on by ether experience, on the job training, health or education (ibid). For instance, education can be gained either when an individual goes to school or through personal and professional experience acquired during his/her life (Becker, 1994). A version on this definition points out this also relates to intelligence and networks of individual workers or managers, which can lead to competitive advantage (Barney, 1991). In their view human capital is a stock, something an individual possesses that can be used when needed. Another definition described by Lim et. al. (2010) is a more activity based one which adds the ability of individuals to meet tasks they are faced with. In this definition values, culture and philosophy is also relevant part of an individual's human capital and for example value guides the individual in its actions (ibid). Lim et. al. (2010) states that human capital also meet these goals by finding the best solution based on the knowledge at hand.

General business knowledge

Two ways of obtaining of general business knowledge has been identified in previous research; education and previous work experiences (Soriano and Castrogiovanni, 2012; Robinson and Sexton, 1994) Founders education as part of human capital is one of the aspects of business survival that have received much attention from scholars. How this human capital correlates with new ventures performance has been studied from different angles (Jo and Lee, 1996; Robinson and Sexton, 1994; Kim et. al., 2006). Jo and Lee (1996) states that there have
been studies showing that education has an impact on performance in firms with high tech focus. This link cannot however be shown in SMEs on a general level (ibid). This limited correlation did however not show in their study where they found that an entrepreneur’s education did have a positive influence on profitability in all the studied industries (ibid). In other later studies such as Boden and Nucci’s (2000) they found similar correlations. According to them businesses with founders that had four or more years of college experience had a better chance at surviving their first five years as a business (ibid). Kim, et. al. (2006) who viewed education in relationship the likelihood of individuals starting new ventures state that there is not always a straightforward line between education and performance. They found that individuals with college education were more likely to become nascent entrepreneurs than individuals with solely high school education. Another important result of this study was that individuals with specific degrees [for example computer engineering] showed more motivation and commitment to their venture if it was in an industry related to their field (Kim et. al., 2006).

These studies were conducted with education in general as the measurement to compare with performance or motivation. Soriano and Castrogiovanni (2012) developed on this by viewing education in business at either a business school or a university as the measurement for performance. Rather than viewing general education they focus on individuals with or without a degree in business administration or courses in business administration taken at a undergraduate level (ibid).

Education in general business has, according to Soriano and Castrogiovanni (2012) only an impact on performance and productivity if it is undertaken during a founder-CEOs time as a manager. According to them education specific to business administration does not have an impact on performance as they argue that an individual cannot learn managerial theories fully in the abstract (ibid). Hence a founder’s higher education has an impact on the performance of a venture but only regarding general education. Human capital in terms of business administration gained from college do however not have those links to performance. Knowledge about business can also be acquired from practical experience, either with the individual having one or more businesses before or with experiences working with similar issues as employees.

A second way, defined by scholars (Soriano and Castrogiovanni, 2012; Robinson and Sexton, 1994) to gain general business knowledge is with experience from previous employments or as having owned businesses before. General knowledge about business from experience has a positive impact on the earnings of business owners, and cumulated experience has more and more impact on the firms’ performance (Robinson and Sexton, 1994). Entrepreneurial skills based in human capital gained from experience in other firms, their own or others, enables founder-CEOs to handle a variety of situations (Soriano and Castrogiovanni, 2012). This idea is in line with researchers such as Duchesneau and Gartner (1990, p. 306) who state that small business owners benefitted from having what they call “street smarts” where these individuals would learn from past experiences and apply it in new situations with familiar problems.
When an founder-CEO have experienced situations similar to those in the SMEs he or she is currently running Soriano and Castrogiovanni (2012) argue that it is more likely that the founder-CEO will evaluate these situations and see opportunities in a more efficient way than otherwise. In their studies Soriano and Castrogiovanni (2012) did, in line with their assumption and the researchers before them they find that general business knowledge obtained from experience had that expected result. In SMEs managed by founder-CEOs with practical experience in business administration there was a positive link to both productivity and performance. General business knowledge has in other words an impact on performance and productivity if it is gained in practice, or as mentioned above in education during their active work life as managers but not when gained as education before starting their venture (ibid).

Industry specific knowledge

Some previous studies focusing on the human capital of founder-ceo human has indicated that industry-specific knowledge possessed by CEO-owners in SMEs has a positive link to both productivity and profitability of a firm (Soriano and Castrogiovanni, 2012). This type of human capital has an impact on the performance of the firm, in this study, on their ROA (ibid). West and Noel (2009) points out that the knowledge or experience from the industry that CEOs possess in new ventures is more related to profitability if they are closely related to the new business strategy rather than the CEOs experience in the industry as a whole counting in years. They state, in other words, that CEOs of new ventures benefit more from having strategy related previous knowledge than simply experience of the industry on a whole.

Lee and Jo (1996) argue that it is important that the founder-CEO has knowledge about his or her line of business and they specifically point out that knowledge of the SMEs products is crucial. A CEO with previous experience in the same line of business or industry has a positive effect on growth, more than other experiences according to Lee and Jo (1996). West and Noel (2009) found a positive link between productivity of new ventures and their CEOs having previously worked in the same industry. They argue that this could be an effect of these CEOs having more knowledge on how to guide their employees as well as knowing which tasks should be done and which practices that are the most efficient (ibid). There is in other words a link between profitability, productivity and the previous industry specific knowledge of a founder-CEO in a small firm.

Perception

How founders perceive the importance of CEOs knowledge is a research field that has not gained much attention despite the influence this might have on small businesses. The existing research is very region focused (Yusufş, 1995; Huck and McEwen, 1991; Hess, 1987). In Yusufş (1995) article he examines success factors of small businesses as perceived by entrepreneurs in the South Pacific. He found that entrepreneurs perceive the skills, or human resource, of founders to be an important part of a firm's success (ibid). Huck and McEwen (1991) find the same pattern on Jamaica, managerial issues and budgeting was perceived as the most crucial part in order for a small business to succeed. In a survey on SMEs in the United States Hess (1987) found that the managers in SMEs perceived knowledge about
selling and marketing as the most important factor for success of their businesses. Yusuf (1995, p.71) on the other hand found that marketing ("such as good service, customer satisfaction, finding a market niche, advertising, and sales promotion") was perceived as the least important factor. Both in Yusuf (1995) and Huck and McEwen (1991) articles the focus was on regions under development that had little educational infrastructure which they argue had an impact on the perceptions of the participants.

As we can see the literature on SMEs performance in relation to the human capital of the founder-CEO is expanding. In this paper I develop on this by viewing the perceptions of the founding teams, including CEO-founders. The research in this field is not as developed as the research and number of scholars interested in CEO-owners knowledge and performance despite holding strong relevance in understanding SMEs and the development of them. In order to truly understand how and why a firm is created as well as how and why it succeeds or fails viewing the perceptions of the founders is critical. While the former research gives guidelines on how to organize a new venture we also need more understanding on how founders view these matters themselves.

**Research methods**

In order to find the perceptions of founders’ seventeen interviews were conducted alongside an observation during spring of 2013. Previous researches have used surveys as the main form of methodology, both to view perception and the link between founders’ knowledge and performance. In order to capture more in-depth views of the participants I have used interviews instead of surveys as perceptions, experiences and arguments behind the perceptions of the participants is more visible using this methodology.

All the interviews have been semi-structured (Saunders et. al. 2009) with themes drawn partly from the literature but with room for the participants to develop their own views and arguments behind their statements. This methodology was used in order to see their argumentation in light of the literature whilst giving the participants opportunities to develop their views. Ten interviews were conducted during 1, 5-1 hours and seven during around 10-20 minutes. The latter was more concentrated to the research topic and conducted after the answers from the longer interviews had been lightly analyzed. These people were interviewed in order to get a more comprehensive look on whether or not the participants’ experiences and perceptions were similar to a larger group in the industry.

Alongside the interviews an observation was conducted in order to view which issues developers in this industry argue is important to handle in order for small firms to be establish and survive. The observation was conducted during a round table meeting, led by Peter Björklund (CEO of outbreak studios) at Lindholmen science park [April 24, 2013]. During the meeting the future of game development in Gothenburg was discussed among nine participants who all are founders of small firms. The goal of the meeting was to bring up the issues the game developers in Gothenburg needs help with in order to start and expand their businesses, help that could possibly be provided by a newly found organization called Indie Gothenburg. The purpose of this organization is to help newly founded businesses as well as
creating a buzz around Gothenburg as a city with an active game developing community. During this meeting my role was solely as an observer. Using these both interviews and observation allowed me to capture not only the participants views based on my questions but also their argumentations amongst each other on the subject of firm survival and performance. In order to get more validity the argumentations found in the observation have been analyzed alongside the answers from the interviews in order to view if founders argue that the same issues are viewed as important in both the interviews and the observation.

Secondary data have also been collected through newspaper articles, the homepages of relevant organizations and industry relevant reports in order to contextualize the industry. This data has been assessed in terms of relevance, reliability and validity, potential measurement biases have also been considered in the collecting of this data.

Participants

In order to get a relevant view on video game developers perception of founder-owners knowledge related to success I interviewed individuals with experience of owning their own business in this industry. This group is interesting because they have experienced this ownership in this branch first hand. In the interviews most of the participants had between one to three years of experience while some had more than ten years of experience as founders and owners. The ten longer interviews consisted of founders of three firms, one which started three years ago and has grown fast, one which was started 15 years ago and has become one of the biggest in Sweden and one that started three years ago that will close down this spring. In order to contextualize the participants’ statement information from the interviewed about their firms have been used in the empirical section. All of the participants were men, most in their 20s, one in his 30s and one in his 40s. With the exception of two people all of them had degrees from university, most of them as either programmers or graphic designers but five of them had degrees in business administration, two of which had studied both graphic design and business administration.

Analyzing the data

In order to understand and capture the views of the founders a theoretical framework based on previous research on performance related to founder-CEO knowledge has been used. During the collecting of the data focus has been put on finding themes and patterns in the interviews. As suggested by Strauss and Corbin (2008) the upcoming data collection has been adjusted based on themes that have emerged during the process. Following the methods described by Saunders et. al. (2009) the data was then summarized in order to find the key points in the statements of the interviewed. This process aims towards making themes more prominent as well as in order to view relationships between them (ibid). In the next phase I have categorized the data based on the theoretical framework in this paper. These categories, industry specific knowledge and business related knowledge, have then been reorganized into relevant units towards which I can test my question. This is in order to see how valid my understanding of my data is and to see the validity of my conclusion. Additional information about the context of the firms provided by the participants has also been used in order to analyze and discuss the empirical findings.
Results

This section starts with a presentation of the context of the industry and the participants. In the following parts of this section findings of the interviews have been categorized and analyzed based on categories driven from the literature.

In the interviews conducted for this study the video game industry as being rapidly changing highly technical was, according to the interviewed, crucial in order to understand the possible importance of founder-CEO knowledge. They stated that when starting a firm in this industry it is very common to be a group of friends with interest in developing games that start it together. This was described by some as a way to make sure you can work together and have the same goals. Other described this as a pitfall and stated that you should start with people you have actually worked with before, in order to see if the team will work. Despite difference in opinion on this subject most of them still stated that the common way to start a new venture in this industry is to be one of more programmers together with one or more graphic designers, there is rarely someone with knowledge about business in these firms. They also stated that there is a resistance among the programmers and graphic designers towards becoming the CEO, mainly because of the responsibilities that technically trained developers view comes with being a CEO. Some of them even argue that the role as CEO is mostly filled by the programmer who is worst at programming and thus can spend time on things that is not directly related to making the games.

During the round table meeting some key issues related to newly founded firms and firms in the process of starting firms was brought up as important in order for these organizations’ to become sustainable. According to the participants the lack of knowledge about business related issues was one of the more prominent things that hindered new firms. They referred specifically to administrative issues such as how to start firms, how to pay taxes as well as legal issues regarding potential employees. These developers hoped that education on these topics could be something they might get help with, for example with workshops, but at the same time they also stated that they do not need to know these things themselves. They stated that they wanted to have someone they could ask, an expert or another developer, but that they did not show interest in knowing this themselves.

Another issue was marketing and relationships to publishers (beside the legal issues). They stated that they needed someone who could help them get in touch with the right publisher; they also needed help with how to talk to them once they get contacts. One of the developers at the meeting had experiences with trying to get his game submitted by a publisher but he did not know how to precede ones they told him he needed to change much in the game. His main problem was to know how to have a dialog with them in order to make a game they want to submit at the same time as his game follows his vision. This was something most of them agreed with and they stated that they were interested in developing these skills themselves.

When talking about new ventures in general based on their experiences this group state that knowledge about business is important in general and thus not focusing on it being important solely for the individual in the role as CEO. In both Yusufs (1995) and Huck and McEwen’s
(1991) research they found similar patterns where entrepreneurs state that budgeting and managerial issues was a crucial part of a small firm's survival. Similar pattern thus can be seen in this setting despite the differences between the contexts as these individuals have higher education and are active in a highly technological industry whilst Yusufs (1995) and Huck and McEwen’s (1991) researched focused on regions under development.

**Founders view on the business experience and education possessed by the CEO**

Among the participants there was a general agreement stating that knowledge about business is important in the role as CEO. Hence, the main disagreement was not about the importance in a general level, all stated that some knowledge was required but some argued that how much the CEO needs to know depends on your firm. One of the interviewed stated that he thinks it depends on the goal the founders put on their firm. If the founding team wants to become big it is crucial to have a CEO with the right knowledge about management, marketing and finances but not if the founders are fine with barely being able to live on their games. He stated that this is an unhealthy way of viewing game development but that it is very common. This view is somewhat in line with another of the participants who state that the CEO need to have knowledge in order for the firm to grow and become successful, the difference being that he viewed this as something crucial, being small and barely living on your creations was not an option according to him all doe he stated that it is common. The other one who stated that it depends focused on the financial situation of the venture, he argued that if you have much money there is less need for a CEO with knowledge about law or finances as the firm would afford to pay someone to do this for them. Besides these two, who argued it depended on your goal or your wallet there was only one, a programmer, who stated that the CEO only need to know a little and that that was independent of the goal of the firm.

Out of the 17 interviewed these three were in other words the only ones who did not press on business knowledge as something vital for the CEO to possess while the others did. The majority of the interviewed did in other words that that they think the business knowledge of the CEO is important and most of them argued that it is crucial in order for firms to survive and state that many firms go bankrupt because they do not have this knowledge. The CEO at a rapidly growing firm in Stockholm stated that it is vital in order for a firm to grow. He has a degree in business administration as well as previous experience as from business related issues such as law and he stated that he knew what they should do when they started their firm. He argued that knowledge about for example employees, insurance and user agreements are important and that you cannot let things go wrong.

“If you have a grocery store you have to make sure it is profitable, the same is true when making videogames, but I don’t think people understand that”

[Graphic designer, closing down firm, 2013]

One of the graphic designers at a firm that is closing down after four years due to them losing interest and not selling enough games to live on it stated that people in the industry do not realize the importance of for example financial issues before founding a new venture. In this
firm the CEO did not have any business related education but he had owned and managed a
firm in another industry before. The graphic designer compared it to owning a grocery store
where everyone understands that you need to make a certain amount of money to make it
survive as well as to make money on it. He argued that many programmers and graphic
designers, especially the ones still studying, do not view it like this and he thinks many of
them will fail when they try because of this. The CEO at the rapidly growing firm stated that
he believes there is a problem with one or two programmers starting a firm together if none of
them know how to handle the business side of the firm. He also stated that it is not a good
idea that a technical person such as a programmer takes the role as CEO if he does not have
the right knowledge. The business developer in this firm argued that the knowledge possessed
by their CEO about how to start a firm in a correct way was important for their firm. From
both the observation and the interviews we can see that they view these issues as important
but they do not differentiate between CEO knowledge that is gained from education and
knowledge gained from experience. In theories related to human capital and firm performance
the difference between how a CEO obtains this knowledge has different impact on
performance and productivity (Soriano and Castrogiovanni, 2012; Robinson and Sexton,
1994) As Soriano and Castrogiovanni (2012) found that education only has an impact on
performance when gained during practical experience this could have an impact on SMEs
performance if founders do not view it in this way. Following the existing studies founders of
SMEs should try and find CEOs with “on the job” experience of business related issues but
from these interviews we can see that differences in how CEOs gain their knowledge is not
something they mention.

The CEO of a rapidly growing firm argued that it was not only about the knowledge he
possesses but rather the right atmosphere that his knowledge could create. He argued that he
being able to handle business related issues would enable the people working on the games to
focus on them instead of focusing on business. This was a theme that emerged in most of the
interviews as one of the reasons, beside opportunities for growth and survival, to why the
CEOs knowledge was important.

“You need to have a good infrastructure with a good CEO in order for the programmers to be
able to have peace and quiet”

[CEO, rapidly growing firm, 2013]

“Economic issues take time away from the actual work and if you have a CEO that don’t have
this kind of knowledge it will take even more time away from the games”

[Graphic designer, closing down firm, 2013]

Their main concern and focus on the games and the development of those and if individuals
who should be working on the games have to do other things that time is wasted. Three of the
interviewed are founders of two successful video game developing firms, one as CEO, one as
business developer and one as a graphic designer. They argue that their successes was partly dependent on that the CEOs of both these firms had knowledge about business related issues as both had education in business administration and one of them had experience from working life. According to the graphic designer at one of these firms it was crucial that their CEO had business related education and he thinks their success was dependent on this in many ways. The CEO of the other firm states that he does not think it is a good idea if a technical person such as a programmer takes on the role as CEO, mostly because it will take time away from the working on the games. According to the main founder at the firm that is closing down economic issues take time from the actual work and if you have a CEO that do not have knowledge about these things it will take even more time. Besides him many of the other also argues in addition of taking time away from the video game development the level of knowledge determines how much time is going to be spent on the wrong things as one participant called it.

Thus we can see that the founders argue that knowledge about business is important, both as described above in general terms and regarding knowledge possessed by a CEO. The same argumentation was used in both the meeting and during the interviews where they viewed for example knowledge about taxes and law as vital. Despite this they also display reluctance among themselves as well as arguing that there is a general resistance among other developers towards gaining this knowledge. Their main concern when describing these issues related to CEOs was however not only about survival but rather more about efficiency or productivity. This is in line with both Soriano and Castrogiovanni (2012) and Duchesneau and Gartner (1990) statements that experience will enable CEOs to handle situations more efficiently. The founders’ views are in many ways similar to their findings as they state that a CEO with knowledge is able to work more efficient regarding these issues. Besides viewing business related knowledge of their CEOs as important for firm survival they thus also argue that it has an impact on firm performance, mainly through enabling the production of their games. Their view on the matter of CEO knowledge is thus not only based on survival or performance in and of itself as suggested in Yusufs (1995) and Huck and McEwens (1991) studies, but rather based on an idea that business related issues hinder production if they are not handled by someone with adequate experience. Instead we can see that they view business related human capital possessed by the CEO as vital for survival but the implications (having to spend less time away from developing their games) of having a CEO with knowledge about business as vital for firm performance.

**Founders view on experience from the industry possessed by the CEO**

How the founders perceived the importance of previous experience in the industry possessed by the CEO was fairly consistent among the participants. There was one who argued that if the CEO is a flexible person he will be able to handle the flexibility in the industry independent on whether or not he has worked in the branch before. He argued that it is a very important that the CEO knows how to market the games but he do not think you need to have industry experience in order to do that as long as the CEO is flexible and responsive.
The same two who argued that the knowledge about business related issues possessed by the CEO depends on the firm he is managing also stated that this was true related to if he have experience from the industry. Hence one of them argued that if you have much money in the firm, if you can afford to outsource marketing it is not important while the other interviewed stated that it depended on the aim the founders have with the firm. If they want to sell the games themselves rather than through a publisher he argued that the CEO do not need to have that much experience from the industry. He reasoned that if you want to sell your games yourself and do not care about growth the firm can still survive, but only barely which he thinks many developers think is okay. The rest of the participants stated that it was very important; some of them even stated that it was even more important than business knowledge. Two reasons for this emerged in the interviews was that the video game industry is special as it is special and consists of creative people.

Most of the founders of a firm that is closing down stated that it is important and the more experience you have or the more you know the better it is. They especially state that the CEO needs to know much about marketing as the product and industry is very unlike other industries.

“Different games need different kinds of marketing, if you don’t understand that there will be problems.”

[Main founder, closing down firm, 2013]

The main founder stated that as different kinds of games should be marketed differently the CEO that is in charge of this needs to understand which type of game his company develops. He argued that an indie game [few people working on the product] should not and cannot be marketed like a block buster game [that costs millions of dollars to produce]. In his view a CEO that does not have knowledge about the industry risk trying to market a small game as if it was a million dollar game even if the firm and the games do not match that. He stated that their firm made visual games, and that he wanted to tell a story with them thus making their firm very different from mainstream games. In the firm he was active in founding their CEO did not have experience from the industry and he states that their CEO looked too much at how big games where marketed. According to the main founder their game was a small game with an independent felling and should have been marketed like that. Another aspect of this was brought up by another founder who argued that a CEO with experience will know how much money to put into marketing contra paying rent, paying the wages to the employees and profit to the co-founders. Most of the other founders agree that marketing is vital and one of them stated that if their CEO would have had experience from the industry he would have had the ability to analyze the market and how to market their games. He also states that a CEO needs to be able to analyze the market in order to see what games people want, but he adds that this is something you do if you specifically want to make money. This way of developing games is something the graphic designer of a big firm in Stockholm state was important when they started their business. Their CEO had knowledge about which games they should make in order have a higher chance of selling their games. This strategy was according to their CEO
the reason why they could become big. He also states that in his view more developers should have this strategy in order to have high profitability.

Soriano and Castrogiovanni (2012) states that industry specific experience have a positive impact on firm performance and productivity and from the interviews a theme where they focus much on marketing appears as a crucial issue related to this. When stating that industry specific knowledge possessed by the CEO most of them focused on this theme as the most important thing for a founder-CEO to know. The founders’ arguments are based on a view on products as being unique and that small games should not be marked in the same way as games with a high budget. Lee and Jo (1996) argue that the importance of industry specific experience often comes down knowledge about the products if it is to have an impact on performance. When arguing the importance of industry specific knowledge we can see that the founders in this study view knowledge about their products as vital but it is, as we can see from example the main founder of the firm that is closing down solely about the products themselves but also about what kind of firm you have. His argument was that they are a firm with focus on making artistic games and should market their games in the right way because of that. West and Noel (2009) argue that profitability is related to CEOs experience off business strategy rather than his years in the industry. Knowledge bout the games are not only about the games themselves according to the founders but also about strategy. As mentioned above here is two broad groups that are described as existing in the industry, the firms that focus on making money and the firms that want to tell a story or share their visions. We can see that he founders perceive the industry related knowledge possessed by their CEOs as having an impact on their ability to market their games it the best way both if they want to make “artistic games” or if their goal is to make money. Their view on this is in other words in line with West and Noel (2009) as the both the groups argue that this is important.

The other theme that emerged from the interviews was that a CEO needs to have experience with handling the unique challenges in the industry that rises when creative people work together. The CEO of a rapidly growing firm states that a successful organization has a CEO who can divide the firm into a creative part and a business part where the creative people have time to do what they are good at. The graphic designer at the big firm in Stockholm state that the CEO needs to know how to handle these creative people. He also argues that if you have a leader with the right experiences and people that can see what good code and graphics are then you are safe. According to some of the founders at the firm that is closing down the potential problems with a CEO without experience from the industry can have a big impact on the CEOs leadership capabilities. The main founder at this venture stated that they asked their friend who had owned a business before but not in the same industry to be the CEO as none of the other were interested. They wanted this friend to take on the responsibility as head of financial issues, marketing as well as managing people in order to put their projects together. According to the interviewed in this firm this did not happen and some of them argued that it was partly because he did not know how to make them work together, for example in following deadlines. One of them stated that the CEO only pushed them to work more when there was a deadline put on them from outside. The graphic designer on a successful firm in Stockholm stated that in the beginning it was crucial for their firm that their CEO pushed
them to stick to deadlines which made them develop more games in a shorter period of time. He argued that their CEOs ability to make them more productive was very important, especially as the other in the founding team focused more on partying and traveling with the money they made. In the founders view this is important as they perceive their industry to be special as many of the people involved in video game development are what they call creative. West and Noel (2009) argue that the ability of a CEO to connect people and to lead them is important in order for the firm to have a high efficiency. The founders in this study press on the same qualities as being crustal and that it is something a CEO can possess if he or she has experience in the same industry. Their line of reasoning is in close to that of West and Noel (2009) when they argue that industry specific knowledge is relevant partly because it enables CEOs to manage employees.

Conclusion

In previous research on how founders perceive the importance of business related issues on firm performance surveys have been used to capture the views of many participants. This paper aimed towards getting a more in-depth view of founders reasoning and experiences as well as how they perceive the issue of founder-CEO human capital. Following the theoretical framework we can see that the founders in this study view many of the same factors crustal for performance and productivity as the factors precious research has found important. Most of the founders viewed business related issues as important for survival and they linked it to the knowledge of their firms CEO. They also state that there is reluctance towards filling that role and that the individuals who do in many cases do not have the knowledge they view as important which might have a big importance on these firms. Previous research (mainly from Soriano and Castrogiovanni, 2012) found that business knowledge had a positive impact if gain on the job or in education during a CEOs time in the working life but not when gained before. We can see that al doe the founders’ view these experiences as important for survival they do not differentiate between education and on the job experience which might influence the performance of their firms in a negative way. The main finding doe is that they do not view these issues as important primarily because they are important in and of themselves but rather because of their potential negative importance when note executed properly. They argued that a CEO with little or no experience has to spend more time on these issues rather than on their games. Knowledge possessed by the CEO related to industry experience was more important than their knowledge about business and this because they connected it mainly with their products and the strategic marketing of them. Managing people was another issue that was raised as they perceived their industry to be flexible and composed by creative people who they argued is hard to manage. This was lined more to productivity then performance among the participants.

How founders perceive the importance of CEO knowledge is mostly in line with what previous research has found important for performance and productivity in SMEs which can be viewed as an uplifting find as it might have an impact on the number of SMEs that survive and grow.
Future research

In order to understand more on the subject of founders’ perceptions further research should be conducted in more industries and in other countries. The views presented in this study were based much on their situation/industry thus we need more research on if this is true in other industries as well an if other categories of founders state the same.

Further research should also focus on the link between founders’ perception of these issues and the performance and productivity of SMEs.

References

Journals


Books


Electronic references


Other resources
