

Development of Management Competences in Growth-Oriented New Ventures

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Abstract: The objective of the article is to examine the management competences of founders which are relevant for the success of growth-oriented companies. A survey showed that the demands on management competences during the different stages of new ventures vary significantly. In this context the stages of business formation are defined as pre-formation stage, implementation stage and growth stage, whereas the following types of competences were identified: specialised methodological systems/innovation, leadership/social and implementation competences. While at the beginning of a new venture implementation-oriented competences seem to be of particular relevance in order to initiate a growth-oriented enterprise, leadership and social competences become increasingly significant during the further development of the enterprise. This development toward a professional management must, due to the expansive growth of growth-oriented business formations, occur within a relatively short time span.

JEL Classification: M13, M11

Key words: growth-oriented companies, competences of entrepreneurs, individual/team competences, measures to develop management competences

Introduction

The boom in new ventures which has been observed in Germany in recent years has led to a multitude of successful new ventures, but also to a significant number of failures. Management can be seen as a crucial factor for the success or failure of a new

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venture since founders, as the central agents, represent its most important resource. The readiness and motivation to found a new venture, however, do not alone necessarily lead to its successful implementation. In order to successfully implement a new venture, founders must possess a number of competences or acquire them either before or in the course of the formation. This raises the question which management competences are relevant for the success of a venture and which measures can be applied towards developing such competences. The answer to this question was the objective of a survey carried out at the European Business School, in which founders were surveyed in the form of written questionnaires (Behler 2002).

Growth-Oriented New Ventures

Independent growth-oriented new ventures where natural persons as founders and owners of the enterprise carry the business risk represent the object of this research. In contrast to other business formations, the strategic orientation of growth-oriented new ventures lies in a significant and expansive growth, within which the new venture develops into a major enterprise in a short period of time (Szyperski/Nathusius 1999, p. 17). Here non growth-oriented new ventures represent the other end of the scale as their development over time leads to a marginal survival as a small business. In the course of the survey, growth-oriented new ventures were defined as ventures with a growth of more than 50% within the last three years in terms of annual turnover or number of employees.

The formation of a new venture must be seen as a process which includes all preparatory and targeting activities as well as the first steps of development after the legal act of formation (e.g. registration of a trade) has been completed (Szyperski/Nathusius 1999, p. 25). The formation of an enterprise can be divided into three stages which are characterized by certain activities, challenges and results: pre-formation, implementation, and growth stage.

The starting point of the pre-formation stage, which begins with the search for innovative ideas, is difficult to determine (Klandt 1999, p. 58). This stage includes all preparatory and planning activities concerning the process of formation such as feasibility studies or the development of a business plan. The pre-formation stage can be defined as a 'cost only stage' as this stage is characterised by expenditure while no turnover is made (Unterkoffler, 1989, p. 38). Organisational structures cannot be observed as at this point in time the management team of formations involving more than one founding partner are often incomplete and founders are still looking for suitable partners.

Formally, the implementation stage starts with the completion of the legal act of formation. This stages includes all procedures concerning the formation of an

enterprise as a social, legal and economic entity. With the commencement of business operations an important milestone is reached which is described as the point of no return (Klandt 1999, p. 60), (Szyperski/Nathusius 1999, p. 33). The objective of enterprises within the implementation stage – besides survival – is to establish the enterprise on the market. From a management-oriented perspective, the management team is completed and the first employees are recruited, so the first management and organisational structures develop. The tasks, however, are generally distributed according to the available capacities of the founders. The enterprise leaves the ‘cost only stage’ when the first turnover is generated and enters the ‘turnover stage’ (Unterkofler 1989, p. 38). This stage is completed when the profit wedge is attained.

The target of the growth stage is to achieve a secure competitive position in the market. Here differences in growth strategies can be observed. While the only objective of non growth-oriented formations is to safely establish themselves on the market, growth-oriented companies are also characterised – beside the establishment on the market – by an expansion of business activities, the exploration of new potential benefits as well as an increasing turnover through the multiplication of business activities (Pümpin/Prange 1991, p. 97). The focus lies here on the diversification of products and the tapping of new markets, while simultaneously aiming for an intensified expansion of internal functions and professional management structures (Wippler 1998, p. 12). The transition from the turnover stage to the profit stage represents the starting point for the growth stage of a company. The achievement of the breakeven point symbolises the successful market entry and represents the basis for the economic stability of the newly-founded company and for further growth.

Management Competences of Founders

In order to successfully fulfil the different management functions and tasks in growth-oriented new ventures, the members of management teams must possess specific competences. Accordingly, management competences are *those* competences which a manager should possess to fulfil his tasks (Thommen 2000, p. 344). Regarding new ventures, management competences represent competences which are required to successfully establish a new venture, but also for its successful management and development. Management competences are personal competences, which can be seen from an individual, an intra-organisational and an inter-organisational perspective (Probst/Deussen/Eppler/Raub 2000, p.13). Consequently, not all management competences must be available in any one company as managers from other organisations and institutions can be integrated to successfully perform the given tasks. Here it is important to differentiate between

individual and team competences. Individual competences represent competences which each individual member of the team must possess as they represent the basis for the integration of additional competences. Team competences are necessary to successfully manage the enterprise, although not every individual member of the team must possess those competences as the complementary competences of other team members may compensate for them.

Five different types of competences can be defined which are partly closely related to each other:

- *Specialised competence*: In order to complete actual functional tasks specialised knowledge is required. This specialised knowledge covers the different functional areas such as Marketing, Logistics, Finance and Human Resources (Thommen 1997, p. 234).
- *Methodological competence*: Managers need a good knowledge of business methods and tools independent from their functional tasks. Problem-solving and decision-making are examples.
- *Systems and innovation competence*: The management of a company requires good knowledge of the company structure, but also of the company's interaction with external systems. Here the ability to perceive potential for innovation is of special relevance for founders. Market knowledge and corporate knowledge are examples of systems and innovation competence.
- *Leadership and people skills*: People skills including e.g. communication, motivation skills as well as the ability to work in a team represents the basis for constructive and cooperative interaction with others, but also for successful human resources management (Schreier/Thommen 2002, p. 423).
- *Implementation competence*: In order to implement innovative ideas, managers and especially founders need action competence. Action competence is defined as the entrepreneurial/managerial potential to implement added value and to achieve innovative solutions within (social) systems (Wunderer/Bruch 2000, p. 68 f.). This includes, for example, the willingness to take risks and assertiveness.

On the basis of these definitions, the following management competences can be identified as relevant for success (see table 1.).

Table 1.: Individual Management Competences

Specialised Competence	Methodological Competence	Systems and Innovation Competence	Leadership and People Skills	Implementation Competence
Controlling	(Strategic) Planning Methods	Innovation	Motivation Skills	Innovation and Risk
Finance	Decision-making -Methods	Knowledge of Company Structure	Conflict-/Critical Ability	Decision-making Skills
Technical/ Product	Management and Leadership Techniques	Market Knowledge	Contact/ Cooperation Ability	Implementation Skills/ Assertiveness
Sales	Project Management Skills	Capital Market Knowledge	Leadership Skills	Staying Power
Marketing	Problem-solving Skills	Knowledge of Technological Environment	Team/ Integration Skills	Flexibility
Personnel Management		Knowledge of Political and Legal Environment	Communication Skills	Creativity
Production/ Logistic			Empathy	
Legal			Negotiation Skills	
Tax and Accounting			Organisational Skills	

Management Competences in Growth-Oriented New Ventures

In an empirical survey a significant correlation between the different stages of formation and management competence requirements of founders was discovered, which suggests an approach to the consideration of individual competences which is oriented to the stages of formation. In the pre-formation stage, the implementation stage and the growth stage different competences seem to be of relevance and a differentiation between stage-dependent and stage-independent competences can be made. An overview of the stage dependence of individual competences is given in table 2.

Table 2.: Significance of management competences within the individual stages of formation

Management Competences	Significance for Success	Stage dependene	Significance of Competence (5=very important 1=extremely unimportant)			Significance of Time
			Pre-for.-stage	Impl.-stage	Growth-stage	
Specialised Competence						
Controlling	medium	yes	2,72	3,51	4,59	increasing
Finance	very high	no	4,33	4,20	4,02	equal
Technical/Product Knowledge	very high	no	4,09	4,20	4,18	equal
Sales	very high	yes	3,39	4,29	4,65	increasing
Marketing	medium	yes	2,76	3,76	4,13	increasing
Personnel Management	medium	yes	2,33	3,38	4,17	increasing
Production and Logistics	low	yes	2,07	2,68	3,15	increasing
Legal Knowledge	medium	no	3,54	3,56	3,48	equal
Tax and Accounting	medium	yes	2,74	3,31	3,67	increasing
Methodological Competence						
(Strategic) Planning Methods	medium	yes	3,41	3,62	4,09	increasing
Decision-making-methods	medium	yes	2,85	3,47	3,89	increasing
Management/Leadership Techniques	medium	yes	2,61	3,73	4,48	increasing
Project Management Skills	high	yes	3,59	4,20	4,39	increasing
Problem-solving Skills	very high	no	4,26	4,56	4,59	equal
Systems and Innovation Competence						
Innovation Skills	very high	no	4,30	4,09	4,20	equal
Knowledge of Company Structure	medium	yes	2,63	3,51	4,15	increasing
Market Knowledge	very high	no	4,28	4,38	4,61	equal
Capital Market Knowledge	medium	no	3,48	3,49	3,59	equal
Knowledge of technological environment	medium	no	3,41	3,47	3,67	equal
Knowledge of political environment	very low	no	2,48	2,49	2,63	equal

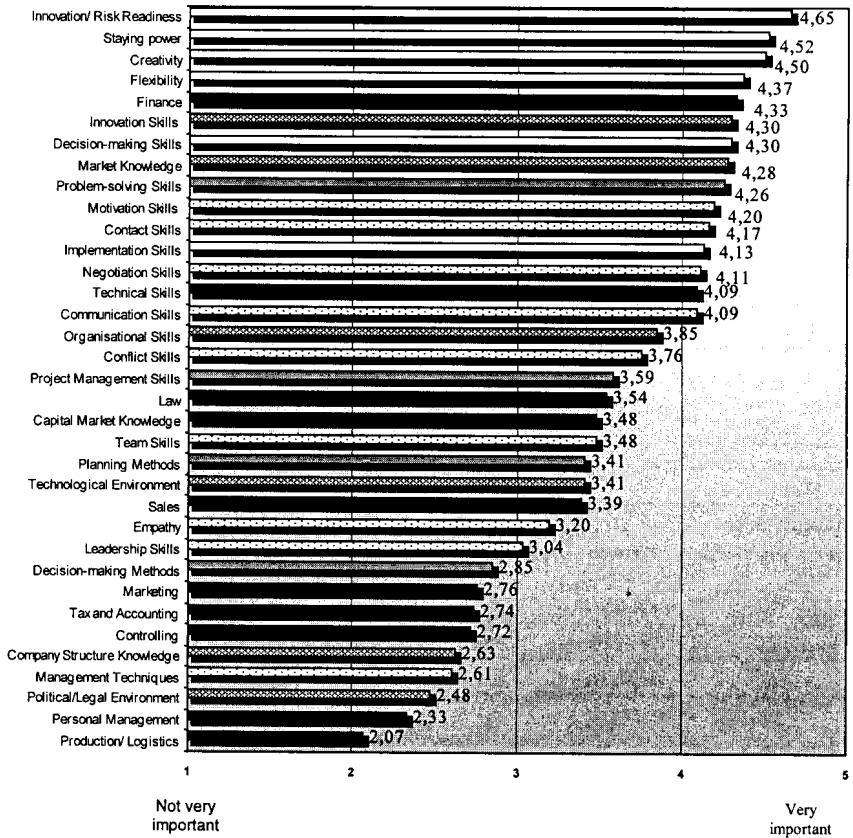
Leadership and Social Competence						
Motivation skills	very high	yes	4,20	4,49	4,61	increasing
Conflict-/Critical ability	high	no	3,76	4,07	4,07	increasing
Contact/Cooperation ability	very high	no	4,17	4,40	4,48	equal
Leadership Skills	high	yes	3,04	4,02	4,70	increasing
Team Skills	high	yes	3,48	4,09	4,33	increasing
Communication Skills	very high	yes	4,09	4,27	4,50	increasing
Empathy	medium	yes	3,20	3,78	4,04	increasing
Negotiation Skills	very high	no	4,11	4,31	4,41	equal
Organisational Skills	very high	yes	3,85	4,24	4,61	increasing
Implementation Competence						
Innovation and Risk Readiness	very high	yes	4,65	4,27	3,83	decreasing
Decision-making Skills	very high	no	4,30	4,42	4,39	equal
Implementation Skills/Assertiveness	very high	no	4,13	4,42	4,52	equal
Staying Power	very high	no	4,52	4,51	4,30	equal
Flexibility	very high	no	4,37	4,13	4,09	equal
Creativity	very high	yes	4,50	4,18	3,98	decreasing

Pre-formation Stage

In the pre-formation stage founders primarily need implementation competence such as innovation and the willingness to take the risks involved with the foundation, but also to market a new product idea. Even before the legal act of formation potential founders are confronted with problems concerning product development and the raising of capital. In order to solve these problems staying power and problem-solving skills are required.

In addition to market knowledge, innovation skills and creativity are of relevance to the recognition of product and operational innovations. A further problem area within this stage is the raising of capital. Here different internal and external capital procurement possibilities must be taken into account i.e. specialised knowledge in finance is of great significance. Moreover, the capacity for enthusiasm represents a further requirement for convincing potential investors or partners of the new product idea.

Figure 1.: Success-relevant Management Competences in the Pre-Formation Stage

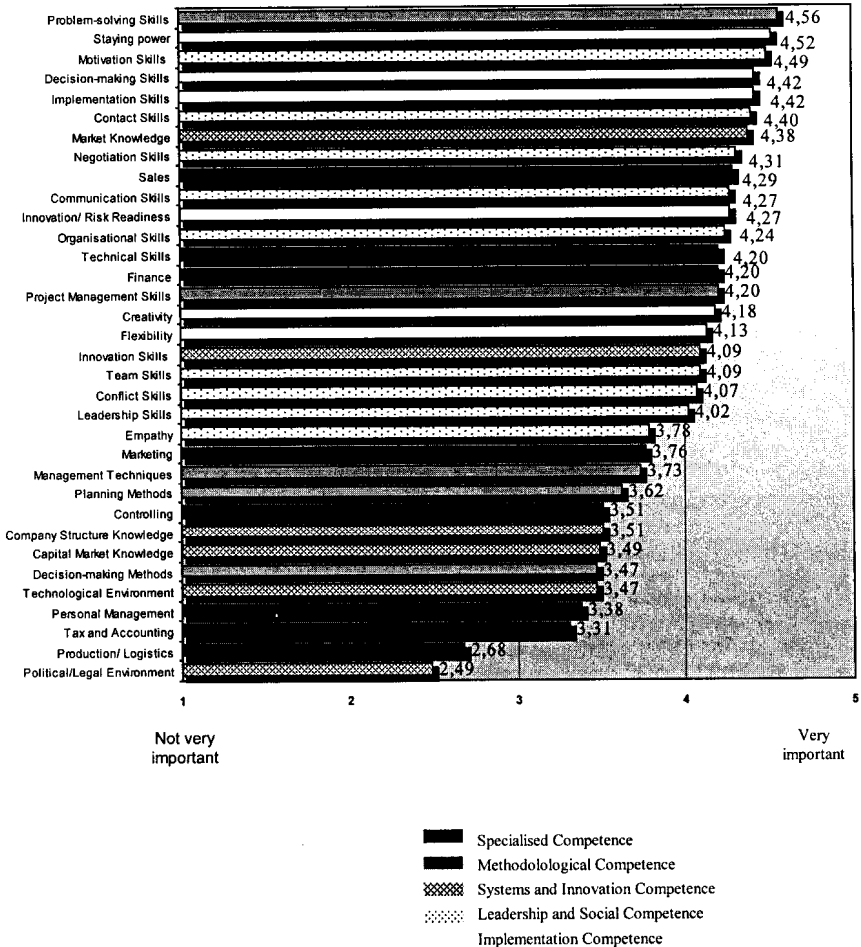


Implementation Stage

In the implementation stage, besides implementation competence, people's skills are essential in particular for negotiations with customers, investors, suppliers and potential partners. Here competences like motivation and negotiation skills are required, but also specialised competence becomes more and more relevant. This stage is characterised by the development of market maturity of the product and the

presentation of the product to the customer. As well as financial knowledge, technical and sales knowledge are of particular relevance. With the entry into the market founders might encounter barriers to new competition, but may also suffer setbacks regarding fund raising or the acquisition of new customers. In addition, technical problems with production might occur. In order to overcome these obstacles, a high level of assertiveness, staying power and problem-solving skills are required.

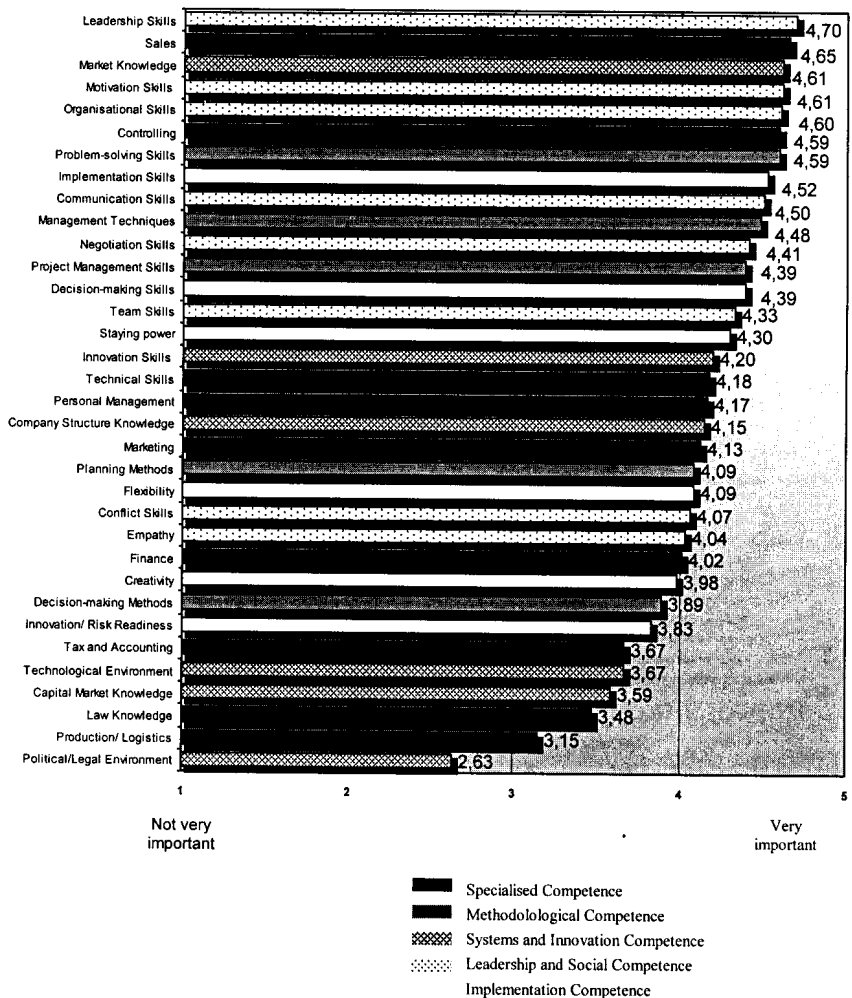
Figure 2.: Success-relevant Management Competences in the Implementation Stage



Growth Stage

Within the growth stage leadership and people skills become more and more relevant. Through expansive growth and the resulting recruitment of new employees competences like leadership, motivation and communication skills play an increasingly significant role. While in the previous stages, due to a shortage of human resources, tasks were principally divided on the basis of the workload of the individual founders, in the growth stage tasks are delegated to the respective employee.

Figure 3: Success-relevant Management Competences in the Growth Stage



Within the process of professionalisation of management, founders increasingly need specialised and methodological competence in the growth stage. In the wake of the multiplication of business activities, along with the innovation skills required to recognise product innovations, sales and marketing knowledge and project management skills are becoming ever more relevant. In the previous stages, as a result of a narrow range of products, sales knowledge was sufficient to market the products, but in this stage professional marketing is required for a specific product and marketing diversification. The increasing complexity of the enterprise as a result of its growth requires organisational skills, the development of a controlling system and, with that, specialised knowledge in controlling. The founders may also suffer setbacks in the growth stage, e.g. problems with follow-up financing or failed product launches. Consequently, in this stage, staying power also represents a highly significant management competence for founders.

Measures to Develop Management Competences

Presentation of Potential Development Measures

Different alternatives exist to develop and expand the management competences of founders. A differentiation is possible on the basis of the criteria 'type of competence generation' and 'scale of integration' (see table 3).

Table 3.: Types of Development Measures

Scale of Integration Competence Generation	high	low
internal	Team Expansion <ul style="list-style-type: none"> • Integration of new Partners • Recruitment of Managers 	Competence Advancement <ul style="list-style-type: none"> • Training • Consulting/Coaching/Mentoring
external	Interim Management	Outsourcing <ul style="list-style-type: none"> • Cooperations/Networks • Virtual Organisation/Market

The type of competence generation determines whether the development of a competence is internal or external. Competence generation is characterised as internal when the competence development results from a person who possesses authority in the new venture through equity participation and his position as a partner. Accordingly, an external competence generation results from a person with no equity

participation in the new venture. The scale of integration distinguishes to what extent the competence provider is integrated in the enterprise. Corresponding length of time and contractual integration represent a high scale of integration, while short-term commitments indicate a low scale of integration. According to the criteria 'competence generation' and 'scale of integration', four groups of development measure can be differentiated (see table 3).

Team Expansion

The integration of additional partners with equity participation in the management team in combination with an internal competence generation represents a team expansion. Depending on the individual perception team expansion can be divided into integration of new partners and the recruitment of managers. In integration of new partners the co-founder is fully integrated into the management team i.e. the co-founder has equal rights regarding the division of tasks, financial questions or liabilities. In recruitment of managers the employed managers are integrated on the basis of an employment contract while the managers act as employees in the name of the new venture. The employed manager reports to the founder as he does not participate in the equity, but possesses the authority to make decisions within his specialised field.

Interim Management

Interim Management is defined as the introduction of know-how through the integration of external managers without equity participation into the management team. Interim managers can be identified as external managers who are employed for a limited time period.

Competence Advancement

The development of competences of the existing founder/s is defined as competence advancement. Types of competence advancement are training, coaching and mentoring. The competence providers are independent (external) persons or organisations who advance the competences of the internal managers but act purely in an advisory capacity within the enterprise. The authority, however, remains ultimately in the hands of the founder. In the course of training programmes, founders acquire general and functional qualifications in courses as well as on seminars and congresses. Consulting, coaching and mentoring focus on specific problem areas in

the new venture. While consulting focuses on the solution of actual problems, the focus of coaching lies on the support of self-help. Mentoring, however, includes the advice and guidance of experienced managers and combines elements of consulting and coaching.

Outsourcing

The delegation of business tasks to independent external persons or organisations such as tax accountants is defined in the following as outsourcing. Here the relevant persons or institutions assume functions or functional areas of the venture, where they act as legally independent enterprises or entrepreneurs. Possible alternatives in the field of outsourcing are co-operations, networks, forms of virtual organisations as well as occasionally the purchase on the free market. While purchase on the free market and forms of virtual organisations represent short-term and one-off projects, the focus of the former alternatives lies on a medium to long-term co-operation with other organisations.

The application of the individual development measures depends on the specific situation – especially the type of competence missing and the stage of founding. The next two sections will cover those issues in more detail.

Development Measures According to the Missing Competence

Concerning the development of specialised competence it may be assumed that all development measures can be applied. For the development of individual specialised competences, however, different preferences seem to exist. While for the generation of competences in the field of law, tax and accounting outsourcing seems to be the most reasonable alternative, internal team expansion and the recruitment of new managers appear to be the most appropriate options to develop competence in sales or finance, but also concerning technical skills. At times, training and consulting also represent suitable measures.

The development of methodological competence requires in particular competence-advancing measures like training and consulting as business /operational methods and techniques represent the basic instruments of every manager. This also applies to systems and innovation competence. Nevertheless, due to the high significance of innovation skills for the success of a new venture, team integration and in the latter stages the recruitment of new managers also gain in importance.

Table 4.: Suitability of Development Measures According to Missing Competences

Measures to develop competencies →	Training	Consulting/Coaching/ Mentoring	Outsourcing	Integration of new Partners	Recruitment of Managers
Stage of founding ↓					
Specialised Competences	•	•	•	•	•
Methodological Competences	•	•			•
Systems and Innovations Competences	•	•		•	•
Leadership and People Skills	•	•			
Implementation Competences	•	•			

Leadership and people skills as well as implementation skills can be defined as individual competences which every manager in the founding team must possess. Due to their personal character, training, coaching and mentoring represent appropriate measures for the development of these competences, while outsourcing seems fundamentally inappropriate.

Development Measures According to Stages of Founding

While during the pre-formation stage cost-effective and flexible development measures in particular are required, more costly measures like the recruitment of additional managers become more and more a requisite in the course of the development of professional management structures and are also affordable as a result of increasing financial resources. As a result of additional capital inflow in the pre-formation stage, the integration of internal managers is especially appropriate for competence generation. Whether the integration of additional founders or the integration of investors is applied depends on the competence which is missing. At the beginning of the formation, however, for financial and flexibility reasons, competence-advancement measures and outsourcing seem appropriate. While team expansion becomes less significant in the latter stages, the recruitment of additional managers becomes more and more relevant during the implementation and growth stage because of increasing financial resources and the need for a division of labour.

Table 5.: Suitability of Development Measures According to Stages of Founding

Measures to develop competencies →	Training	Consulting/Coaching/ Mentoring	Outsourcing	Integration of new Partners	Recruitment of Managers
Stage of founding↓					
Pre-formation Stage	•	•	•	•	
Implementation Stage	•	•	•	•	•
Growth Stage	•	•	•		•

Conclusion

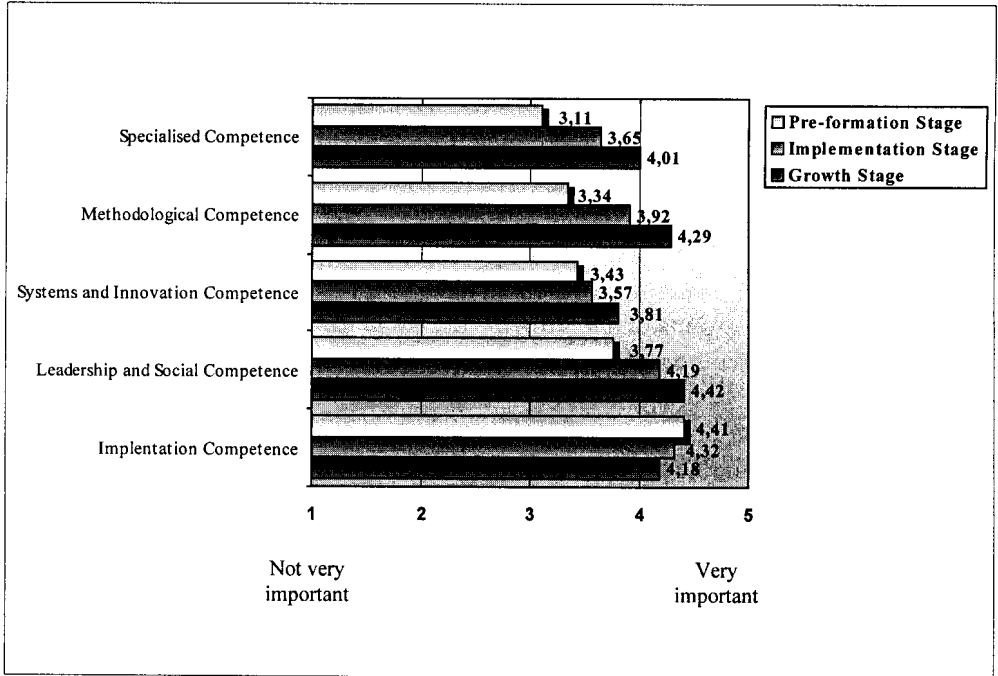
On account of their expansionary growth, the swift development of professional management structures seems to be requisite in growth-oriented new ventures. Founders must develop from implementation-oriented ‘doers’ to management-oriented ‘organisers’. This development is also reflected in the survey. At the beginning of the new venture, implementation and innovation competences such as the willingness to take risks, assertiveness, creativity as well as the capacity for enthusiasm and contact are required in order to implement product and operational innovations. In the course of the development of the enterprise, however, leadership competence, specialised competence and methodological competence become increasingly relevant (see figure 4).

In the survey on which this article is based, it becomes evident that not every individual founder must possess all competences. Deficits in specialised and system-oriented competences (team competences) can be offset by other members of the founding team or external sources. Leadership competence and implementation competence, however, are individual competences which every founder must possess in order to successfully implement a new venture, as they represent the basis for the integration of team competences.

In addition to the question as to which competences are relevant in the various stages of founding, the possibilities or measures, with which missing or insufficient management competences can be developed, are also of interest. These vary according to the missing competences, but also to the individual stages of founding. During the early stages of founding, due to the scarce financial resources, measures of competence advancement (training, consulting and coaching) as well as integration measures like the integration of internal managers (team expansion and integration of investors) are applied. In the course of the development of the enterprise, however, the recruitment of external managers becomes more and more significant.

Outsourcing (completion of tasks through legally independent organisations such as tax accountants), however, represents, on account of its independence from the individual stages of founding, an appropriate measure to generate competence. ,

Figure 4.: Significance of Management Competences in the Stages of Founding



Yet, the determination of a definite competence profile of the founder is difficult. The heterogeneous nature of the individual types of founders seems to determine exactly which competences should be available in which combination and/or specification in order to successfully implement a new venture. In addition, the strict definition of the individual competences is a complicated matter as they are generally linked with each other and can also be regarded as complementary. For the purpose of providing a detailed representation, the individual competences were not strictly defined.

Finally, the competence deficits which supposedly lead, in practice, to a failure of new ventures are described. Missing implementation competence such as the willingness to take risks and staying power prevent the transformation and implementation of an innovative idea into a marketable product during the pre-formation stage. In the later stages, however, other competence deficits are responsible for the failure of new ventures. By the growth stage at the latest, leadership and people skills such as motivation and organisational skills are

particularly required in addition to specialised and methodological competence because of the expansionary corporate growth in order to manage and control the growing enterprise. The failure of new ventures seems inevitable if the transformation of the management from creative 'doers' to the management-oriented 'organisers' fails or if missing competences cannot be developed. Here it can be observed that in particular new ventures where the management was expanded by recruitment of professionally qualified executives proved to be successful.

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