



## **Management Roles & Leadership Skills to Attract Venture Capital in Switzerland**

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### **ABSTRACT**

**Startups constitute an essential component of a working market economy and foster economic growth, employment as well as technological progress. However, managing and leading companies at an early growth stage poses an enormous challenge, as investment failure amounts to approximately 75%. That said, receiving venture capital is all but an easy task and only 1% of investment opportunities considered qualify for an investment. Against this backdrop, the aim of this article is to identify particular management and leadership skills that attract venture capital more successfully than others do. The investigation finds that management-related criteria appear to be the most important factor for Swiss venture capitalists. Especially the track record of founders and the diversity of backgrounds within the startup's core team were considered relevant.**

**Keywords:** Management roles, leadership skills, venture capital

JEL Classification: M10, M16, M20

### **INTRODUCTION**

Managing and leading companies at an early growth stage poses an enormous challenge. Startups constitute an essential component of a working market economy and foster economic growth, employment as well as technological progress (Corl, 2019; Kuratko 2007). The global economy of startups amounts to a worth of approximately 3 trillion US dollars (Fisk, 2019) and reflects the primary creator of new jobs in a nation's economy (Hathaway, 2013).

Particular gazelles, known as young high-growth companies with an annual employee and revenue increase of more than 20%, contribute to economic growth (Swiss Start-up Monitor, 2016). At present, seven of the ten most valuable corporations in the world (Duffin, 2019) were once gazelles, owing partly their growth pace to venture capitalists (VCs), who invested in the company at an early stage.

However, investment failure amounts here to approximately 75% (Ghosh, 2012). Researchers have found a correlation between the success of a VC firm and the number of meetings conducted with the management of the startup. And yet, receiving venture capital is all but an easy task. That said, only 1% of investment opportunities considered qualify for an investment (Gompers et al., 2016).

Against this backdrop, the aim of this article is to identify particular management and leadership skills that attract VC more successfully than others. As a result, a selection of managerial activities and leadership behaviors shall be revealed that are regarded as most critical according to VCs' experience.

### THEORETICAL FRAMEWORK

The term startup is vaguely defined (Wilhelm, 2018) and can be interpreted as a business model or product that has been designed for the market (Viswanathan, 2018). The transition from a startup to a company is usually a flowing process. Even within the startup category, significant differences exist regarding business maturity and size. Zelek (2013) identifies six major stages of a company that are closely related to the product life-cycle concept (Vernon, 1966).

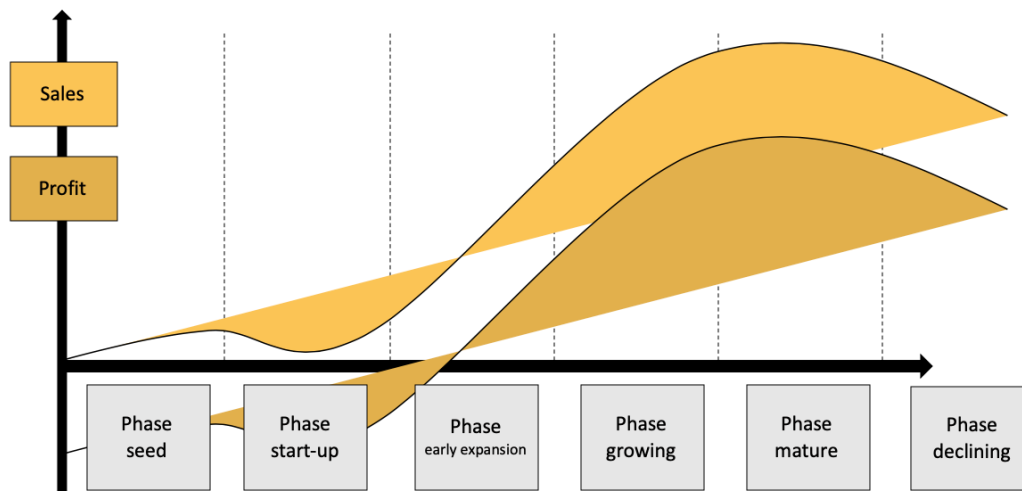




Figure 1: Startup phases (Burżacka & Gąsiorowska, 2016)

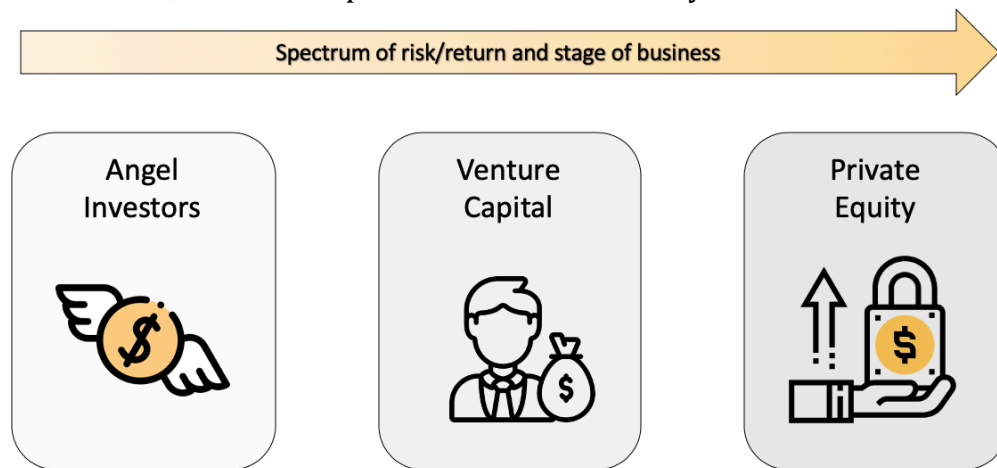
Figure 1 divides the companies into six maturity phases in accordance with its sales volume and profitability. Startups fall in one of the first four phases, while growth-stage companies are typically located somewhere between the early expansion and growing phases. Since a company usually applies for funding several times during its early years, the term round describes one particular event of fundraising during which money is exchanged by VCs in return for shares of the startup (Cremades, 2018).

Table 1 lists a funding history, including four major rounds, before a company conducts an exit, whereby it goes either public or is being acquired (Hayes, 2020). According to Reiff (2020), series A and B are typically conducted by companies on a strong growth track. The exit stage is the phase in which a company loses its startup status in exchange for becoming a full enterprise or part of an existing corporation. While the prior is usually achieved via an initial public offering, the later traditionally comes with a buyout of existing shareholders, often seen in the context of an acquisition by a more established competitor. During the seed funding, angel investors in the form of wealthy individuals represent the source of funds raised (Ganti, 2020). Venture capital firms typically appear one stage later, once a company has proven that its business model works and is already generating revenue (Corporate Finance Institute, 2020). This is normally the case once a series A is initiated by the startup.

**Table 1: Investment Series (Reiff, 2020)**

	Seed Funding 	Series <b>A</b>	Series <b>B</b>	Series <b>C</b>	Exit 
<b>Company phase</b>	First official equity funding, which happens at the beginning of a company's lifetime	Typically initiated after the startup has an established userbase and KPI's, which show a potentially profitable business model	At the end of a company's development stage, aiming towards commercial success	Already successful companies that want to develop new products/services or expand to new markets	
<b>Funding purpose</b>	<ul style="list-style-type: none"> <li>• Product development</li> <li>• Market research</li> <li>• Establishing a founder team</li> </ul>	<ul style="list-style-type: none"> <li>• Continuing progress on development</li> <li>• Validating product in the market</li> <li>• Hiring top talent</li> </ul>	<ul style="list-style-type: none"> <li>• Expanding market reach</li> <li>• Scaling</li> <li>• Building solid sales, marketing and customer support teams</li> </ul>	<ul style="list-style-type: none"> <li>• Further scaling</li> <li>• May be used for M&amp;A to expand market reach</li> <li>• Increase user base</li> </ul>	

Private equity (PE) is another type of investment attracted by successful later-stage startups. PE firms are traditionally larger than VCs and prefer to invest in more mature companies with fewer risks (DeChesare, 2020). Since this would result in a lower return with the same ticket size, PE firms usually invest a higher stake in companies (Cremades, 2019), as indicated in Figure 2. In this article, the focus is put on the role of VCs only.



**Figure 2: Major types of startup investors (Corporate Finance Institute, 2020)**

Fund raising constitutes the main investment vehicle for VCs (Sun, 2015). VCs are often named general partners (GPs) in the process of fundraising must pitch their fund and company to limited partners (LPs), which can take the form of wealthy individuals, large corporations, pension funds, or family offices.

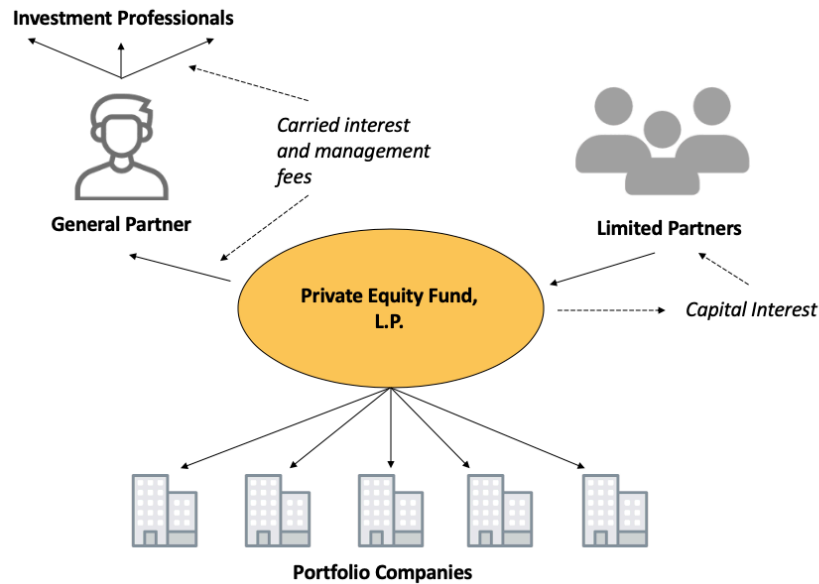


Figure 3: Structure of a venture capital fund (Fleischer, 2008)

Deal sourcing, the activity of identifying suitable startups eligible for the funds raised, is conducted (Sørensen, 2007). In general, VC's activities can be divided into six phases, as shown in figure 4.

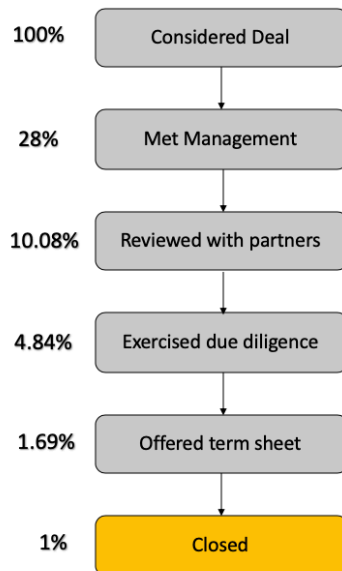


Figure 4: Deal funnel (Gompers et al., 2016)

During each phase, predefined criteria are applied to eliminate unsuitable startups. The percentage next to each phase shows the likelihood with which startups arrive at this stage. Accordingly, only approximately 1% of all potential deals are closed at the end of the process (Gompers et al., 2016).

According to Leutner et al. (2014) as well as Barrick and Mount (2005), analyzing entrepreneurial tasks is strongly associated with management skills. Following Nayar (2013),

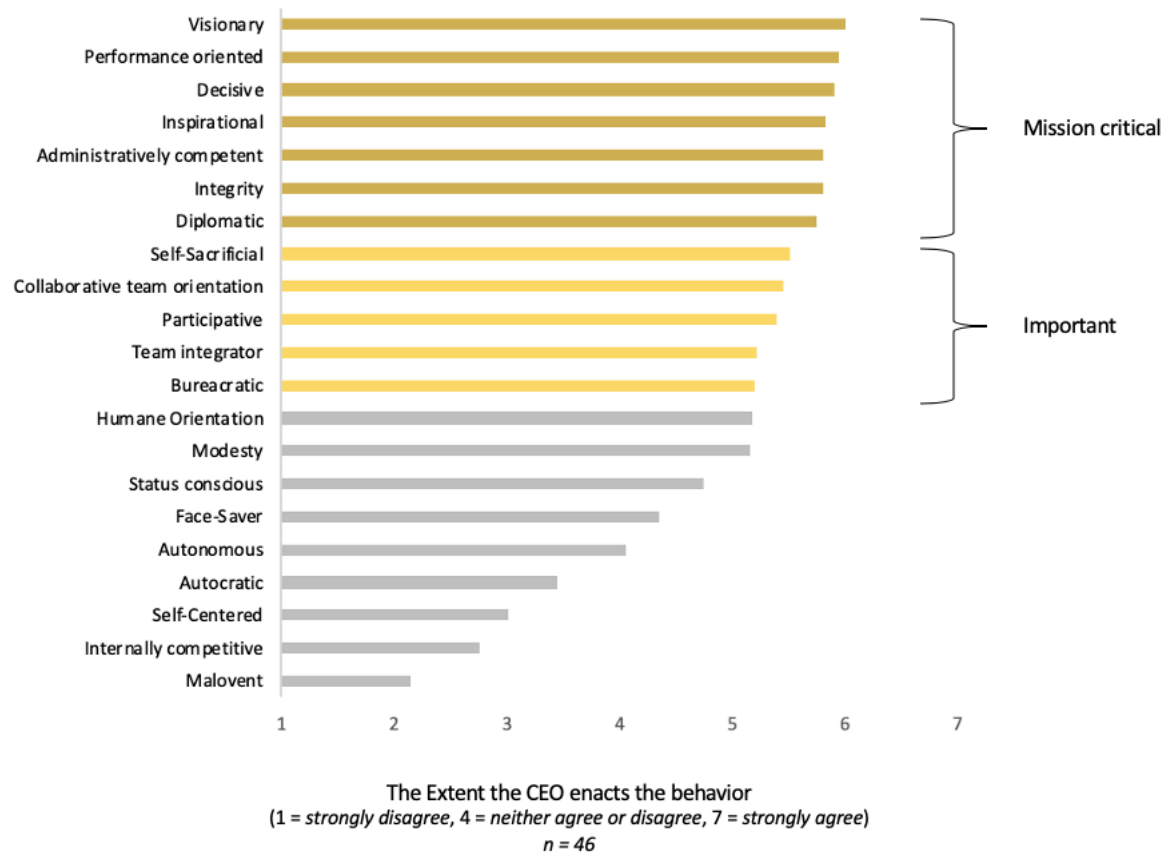
management can be defined as controlling a group or entities to reach an objective. In contrast, leadership shows the ability to exert influence over individuals and enable their contribution towards organizational success.

Kotter (1990) points out that a manager should run an efficient organization and be as consistent as possible, whereas a leader should seek continual change (Kotter, 2001). Mintzberg (1971) dismissed the ideas of Fayol (1949), who summarized managerial work as planning, organizing, coordinating, commanding, and controlling. Instead, a set of managerial roles were created (Lamond, 2005), as listed in table 2.

**Table 2: Management roles (Mintzberg, 1971)**

Type	Managerial Role	Characteristic activities
Interpersonal	Figurehead	- Inspiring employees - Exerting authority
Interpersonal	Leader	- Managing employee's performance - Managing employee's responsibilities
Interpersonal	Liasion	- Networking on behalf of the organization - Assigning people to suitable tasks
Informational	Monitor	- Seeking out for relevant information - Monitoring the team's well being and outcome
Informational	Disseminator	- Communicating potentially useful information - Bringing employee's up-to date
Informational	Spokesperson	- Communicating to external stakeholders - Convincing outsiders of the company's vision
Decisional	Entrepreneur	- Creating and controlling change - Solving problems
Decisional	Disturbance Handler	- Taking charge when the company hits an unexpected roadblock - Mediating disputes
Decisional	Resource Allocator	- Determining where organizational resources are best applied - Managing the financials
Decisional	Negotiator	- Participating in negotiations - Getting employee's to buy in on new projects

Nevertheless, Carroll and Gillen (1987) criticize that a significant part of a manager's daily work is conducted mentally and therefore cannot be observed. Laud et al. (2015) note that certain activities relevant to the job of a manager were not yet assigned to any specific role or cluster. The importance of venture capital for an economy has been scientifically proven many times.



**Figure 5: GLOBE project on leadership skills (House et al., 2014)**

Zaech and Baldegger (2017) observe the influence of leadership styles on the overall performance of startups. Accordingly, transformational leadership shows the most significant impact on the performance. By integrating, motivating, and inspiring employees to innovate and create change, both growth and success for the company can be best achieved (White, 2018). To identify global leadership skills, the GLOBE Project investigated the importance of matching CEO skills with expectations for leadership effectiveness across 24 countries (House et al, 2014), as displayed in figure 5.

### FINDINGS

To identify management roles and leadership skills that attract VC in Switzerland, first secondary data has been collected by summarizing findings from relevant literature and categorizing them into distinct sections. Thereafter, primary data through fourteen semi-structured interviews was gathered through a written set of questionnaires (see appendix 1).

In a similar investigation, Gompers et al. (2016) conclude that management-related factors were seen as the most decisive factor in decision-making by 47% of VCs, ahead of business-related factors (37%), while financial factors were only mentioned by 3% of participants (Andres, 2018).

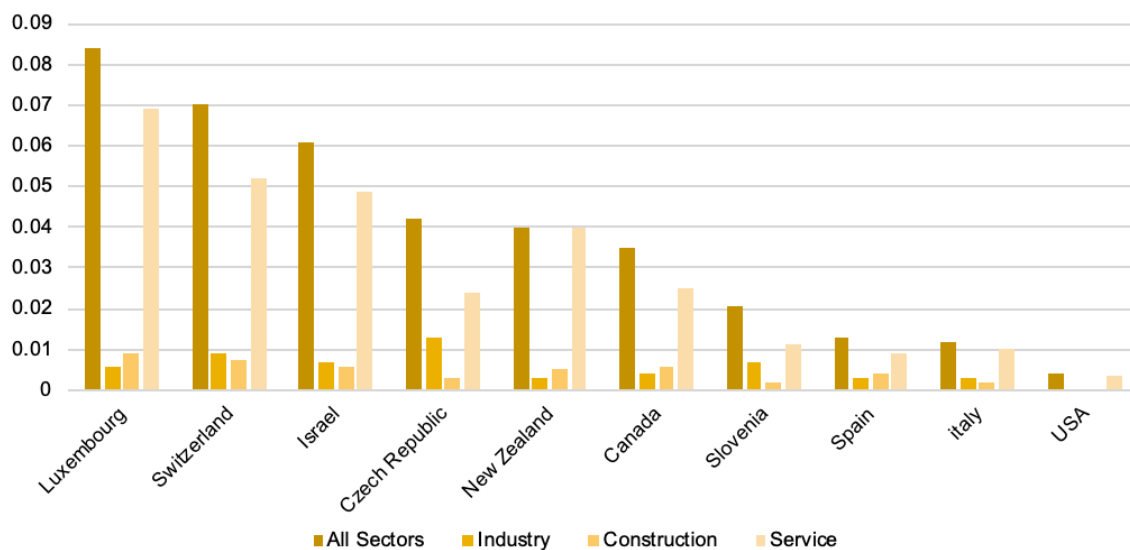
There are substantial differences in managing a company depending on the type of the business (Bennett & Robson, 2004). Paolillo (1984) finds that the size of the firm has a substantial influence on the extent to which Mintzberg’s managerial roles are required. In smaller firms,

the role of the spokesperson was found to be the most characteristic, which requires managerial knowledge on processes, procedures and techniques related to occurring problems, and means to transmit this information to others (Kumar, 2015).

Deeb (2015) shows that a growth-stage CEO needs to shift his focus from a more internal view to the outside of the company. As companies encounter a more complex environment with an increasing number of stakeholders during the growth stage, decision-making should therefore be decentralized (Golembiewski, 2018). That, in turn, which might result in the diffusion of CEO power (Mintzberg, 1983). At this stage, it is crucial for the CEO to slowly disengage from the minutia of daily operations (Deeb, 2015) and start employing senior managers who are capable of coping with critical contingencies (Hickson et al., 1971).

According to Gompers et al. (2016), the widest gaps in industry-specific criteria have been found between IT and healthcare investors. While the latter weighs management-related factors more importantly, healthcare focuses rather on business-related factors, with a specific stress on the industry experience of the founder team. Petty and Gruber (2011) investigate the reasons to reject business proposals. The main reason for the rejection constitutes the product or service that the company was offering, which did not lie within the focus of the VC fund or did not meet the criteria that the VC was seeking.

According to the Global Innovation Index (2019), Switzerland ranks among the best-performing nations in terms of innovation, which is also reflected in the high percentage of high-growth startups per capita (see figure 5).



**Figure 6: Number of gazelles in 2011 per 1,000 working-age residents (Ecoplan, 2016)**

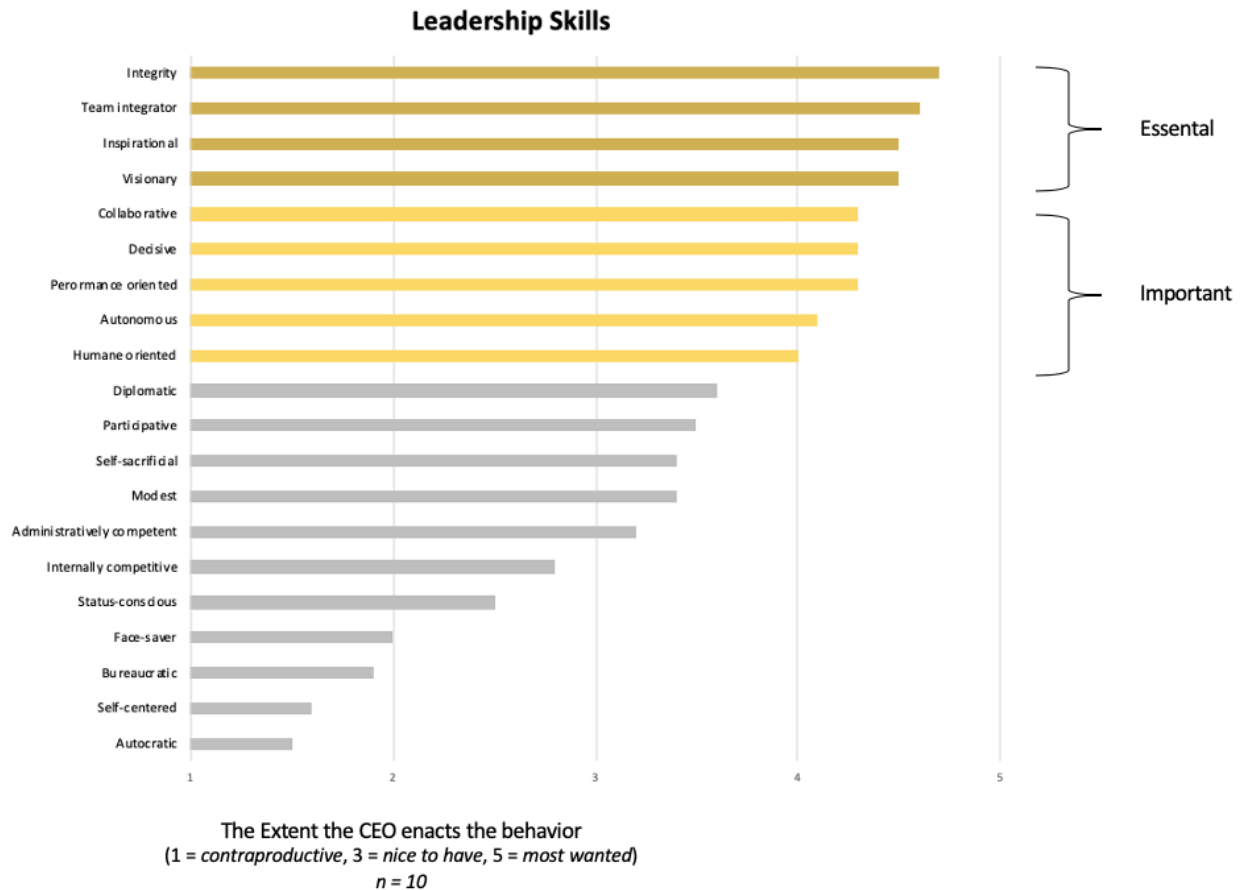
In 2019, invested capital in Swiss startups amounted to CHF 2.294 bn, which is an increase of 86% compared with 2018 (startupticker.ch, 2020). Clusters and hubs play an important role through technology and knowledge transfers among institutions and firms, social infrastructure as well as the development of a skilled labor force (Portugal Ferreira et al., 2012). Venture capital firms are often part of such clusters since their physical presence helps recruit talents from top universities, attend board meetings of startups, and raise funds.

Role	Characteristics	Combined approval Rating
Figurehead	Being a source of inspiration for employees	37%
	Enjoying authority among employees	
Leader	Being great at managing the performance of employees	41%
	Being great at managing the responsibilities of employees	
Liaison	Being able to network effectively on behalf of the organization	65%
	Being great at assigning the right people to opportunities for the company	
Monitor	Regularly monitoring employees in terms of productivity and well-being	24%
	Regularly seeking out for relevant information concerning the organization	
Disseminator	Making sure that everyone in the company is on the same page	18%
	Communicating potentially useful information to employees in a consistent manner	
Spokesperson	Being a great communicator to internal and external stakeholders	73%
	Being great at convincing outsiders of the company's vision	
Entrepreneur	Being great at creating and Controlling change within the organization	37%
	Being a great problem solver	
Disturbance Handler	Taking charge when the company hits an unexpected roadblock	47%
	Being great at mediating disputes	
Resource Allocator	Being great at determining where organizational resources are best applied	31%
	being greeat at managing the financials	
Negotiator	Getting all employees to buy in on the vision of a new project	55%
	Being great at leading and participating in negotiations	

**Figure 7: Perceived importance of management roles by VCs**

Within this investigation, as shown in Figure 7, mastering the spokesperson role is assumed to be most critical to Swiss VCs, while being a liaison and negotiator appears also to be important. Each role stems from a different role class, meaning that not a particular type of manager was perceived as relevant by VCs. Instead, the mix of an interpersonal, informational and decisional category deems appropriate articipants in the open question section.



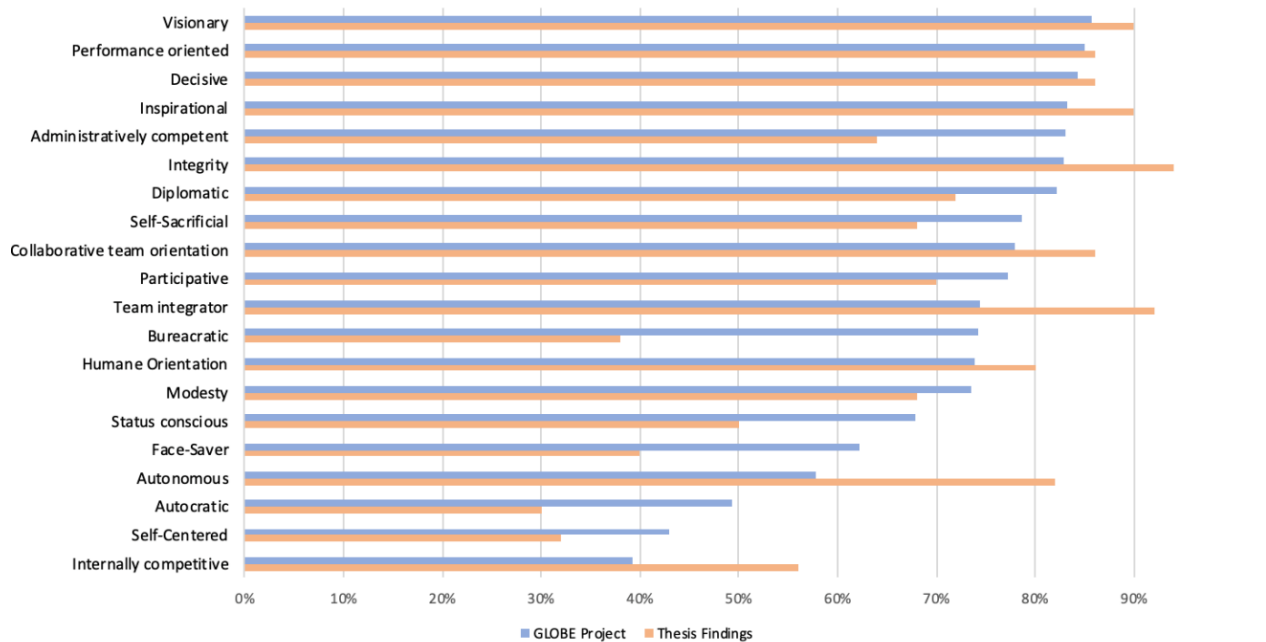


**Figure 8: Ranking the GLOBE Project's leadership behaviors according to VCs' perceived importance**

In view of leadership skills, integrity, the role as team integrator, being inspirational and visionary received more than 90% approval and are seen as essential by half of the respondents, as displayed in figure 8. Three out of four answers describe behaviors that can be associated with transformational leadership.

### DISCUSSION

Mintzberg (1971) originally found the decisional skill category to include the critical elements of a manager's work. However, Paolillo (1984) emphasized certain roles to be required more intensively than others depending on the company's size. Accordingly, the spokesperson role is most characteristic in smaller firms' CEOs, while all three skill categories hold importance. Taking an investor's view into consideration, Swiss VCs indeed regard mastery in the spokesperson role as important to find in the CEOs in which they invest.



**Figure 9: Comparing the GLOBE Project's leadership behaviors with Swiss VCs' perceived importance**

Swiss VCs also consider characteristics from all three skill categories as important, without tending towards one in particular. There is limited validity in these findings, since only two characteristic activities have been extracted from each role, despite them covering numerous areas of a manager's workday.

Furthermore, the questionnaire focused on mastery in managerial areas rather than simply executing tasks, which makes the results from this article hardly comparable with Paolillo's (1984) findings. In figure 9, the results of this article are compared with the findings of the GLOBE Project. For instance, the GLOBE Project used a scale from strongly disagree to strongly agree. There was a different outcome in terms of leadership skills deemed important by VCs compared with what has been found by the GLOBE Project.

Being administratively competent and diplomatic is considered to be mission-critical for a successful CEO, according to House et al. (2014), while not being regarded as strongly important by Swiss VCs. On the other hand, being a team integrator scored much higher among Swiss VCs. Since the sample included opinions from all company sizes, the findings of this investigation might be an indicator for transformational leadership being more important in startups than transactional leadership.

## CONCLUSION

Existing literature on venture capital can only partly explain which skills managers need to attract venture capital for their growing startup. However, previous studies highlight the important role that the manager or rather entrepreneur plays during the decision-making process of VCs. Research on the critical element showed contradicting results, until Gompers et al. (2016) found clear evidence in their survey-based study that management-related criteria are most important to most VCs.

However, in terms of entrepreneurial activity, Switzerland performs below the global average in this category (The Federal Council, 2017). This finding might be explained through the general tendency towards risk aversion among Swiss citizens as well as the availability of lucrative alternatives in the job market (Sieber 2009; Swiss State Secretariat of Economic Affairs SECO, 2012). As a CEO, an individual is demanded to efficiently manage their organization's growth and lead by example.

In the context of a growth-stage startup, Zaech and Baldegger (2017) found that CEOs perform most successfully when focusing on a transformational leadership style, while Paolillo (1984) found that the role of a spokesperson is most characteristic. This investigation found that management-related criteria appear to be the most important factor for Swiss VCs. Especially the track record of founders and the diversity of backgrounds within the startup's core team were considered relevant. Since the sample of participants is relatively small, additional research is suggested to further validate this result of this work.

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