Organising in team based new ventures

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Table of abbreviations

AG	Aktiengesellschaft (stock corporation)
BVK	Bundesverband Deutscher Kapitalbeteiligungsgesellschaften
B2B	Business to Business
B2C	Business to Consumer
CERN	Corporation for Research and Educational Networking
Ch.	Chapter
CVC	Corporate Venture Capitalist
DM	Deutsche Mark
e.g.	exempli gratia (Lat.), for example
et al.	et alti (Lat.), and associates
EU	European Union
FN	footnote
FTE	Full time equivalent (employee)
GbR	Gesellschaft bürgerlichen Rechts
GmbH	Gesellschaft mit beschränkter Haftung (Ltd.)
HRM	Human Resource Management
i.e.	id est (Lat.), that is
IT	Information technologies
IPO	Initial Public Offering
KfW	Kreditanstalt für Wiederaufbau
NASDAQ	National Association of Securities Dealers Automated Quotations
NEMAX	Neuer Markt Index
OECD	Organization for Economic Co-operation and Development
PhD	Philosophiae Doctor (Lat.)
PR	Public Relations
R&D	Research and Development
SME	Small and Medium sized Enterprises
tbg	Technologie-Beteiligungs-Gesellschaft
US	United States of America
USP	Unique Selling Proposition
VC	Venture Capitalist
WWW	World Wide Web
ZEW	Zentrum für europäische Wirtschaftsforschung

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1 Introduction

With the rise of new technologies in informatics, biotechnology and telecommunications, a great number of new high-tech ventures has been founded in Germany since the mid 1990s. The absolute number of newly founded ventures has increased during that time and since then (e.g. Bundesministerium für Wirtschaft und Arbeit, 2003a).[1] The internet revolution has led to the internet hype or bubble. Many new business models were created and numerous new ventures in that field emerged literally over night. This development was fostered by the formation of a venture capital industry in Germany and the creation of 'Neuer Markt' in March 1997, the German stock market equivalent of the NASDAQ. Society even named these new ventures, their activities and their market the 'New Economy'. This was nicely put by Hjorth who wrote *"the western economies eagerly unite in a description of the millennium days as the dawn of 'The New economy'"* (Hjorth et al., 2003: 96). Altogether, the entrepreneurship wave was perfect. It was suddenly 'cool' to be an entrepreneur and the newly founded ventures attracted an immense publicity. Business plan competitions were institutionalised, TV series covered new ventures and their founders. And universities reacted by offering classes in entrepreneurship. Everyone was thrilled by the suddenly emerging entrepreneurial spirit.

One striking aspect about the Internet hype and the entrepreneurship wave was the high percentage of new ventures which were founded by a team (cf. Bronner & Mellewigt, 2000; Kamm et al., 1990; Gartner et al., 1994). It was the time of the 'new economy boy groups', i.e. former management consultants who formed a team and started a B2C or B2B venture. They represented a new breed of entrepreneurs, i.e. highly educated and exposed to a dynamic professional environment (Hellmann & Fiedler, 2001). Some of the new entrepreneurs were elevated by television and press to a status of 'pop icons'. One only needs to think of Loretta Würtemberger, Stefan Schambach or the three Samwer brothers.[2]

Economically and politically, the entrepreneurship wave was most welcome and supported as far as possible. New ventures are valuable to society and aid

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[1] For detailed analyses on the level of entrepreneurial activities for various countries, see the GEM (General Entrepreneurship Monitor) reports at www.gemconsortium.org. And for data on the German entrepreneurship development, see especially ZEW (Zentrum für europäische Wirtschaftsforschung) at www.zew.de.

[2] These three are co-founders of Webmiles AG, Intershop AG and alando.de AG

economic development as they create jobs and foster innovations and creativity (Audretsch, 2002; Haid & Weigand, 2001). An anonymous writer of the OECD wrote *"Entrepreneurship is central to the functioning of market economies. Entrepreneurs are agents of change and growth in a market economy"* (OECD, 1998: 11). The former German Federal Minister of Economics, Werner Müller, stated that *"an economic policy that aims at enhancing growth and employment has to maintain an European viewpoint. (...) We need a climate that triggers innovation in all of Europe and that encourages the development of an entrepreneurial spirit"* (Bundesministerium für Wirtschaft und Arbeit, 2001: translated by author). Just lately, the European Union has passed a green paper on the state of the art of entrepreneurship in Europe in January 2003 (Kommission der Eurpäischen Gemeinschaften, 2003). They attested that there has been a shift in the structure of businesses in the economy over the last decades. The 1960s and 1970s were dominated by large corporations. However, due to restructuring, outsourcing and consolidation efforts, these corporations became less and smaller. At the same time, the number of company owners has risen from 29 to 45 million in all OECD countries between 1972 and 1998 (Kommission der Eurpäischen Gemeinschaften, 2003). Thus, from an economic standpoint, it is healthy to have many new ventures founded. Entrepreneurship fosters a positive economic development.

Although many new ventures were founded, a high percentage of them failed (ZEW, 2002). Dandridge put it that *"small firms and growing firms have less tolerance for inefficiency than do established large firms"* (1979: 57). However, as expectations and publicity on these new ventures were high, the failures attracted a lot of attention, too. As quickly as the entrepreneurship wave has rolled over Germany, nearly as quickly has it died again. The best example is the closure of 'Neuer Markt' stock exchange on the 5th June 2003.

If new ventures are of such economic importance, they cannot be neglected or even ignored by academia. In order to keep the entrepreneurship wave and foster entrepreneurial spirit, we need to research it. Entrepreneurship has been a research topic in the United States since the seventies. In Germany it did not really start until the mid eighties or even later. Thus entrepreneurship is a rather young discipline and quite fragmented as well. The main research fields cover finance & venture capital, the psychology of the individual, female entrepreneurship and opportunity recognition (e.g. Hjorth et al., 2003; Sexton &

Landström, 2000). But if we want to better understand entrepreneurship as a whole and if we want to be able to work against the relatively high failure rates of new ventures in their early years, we have to take organisational aspects into consideration and research them more.

> *"Yet a new venture's capacity to recruit the appropriate people and build an effective organization around them arguably has a much if not more to do with ultimate success." (Burton, 2001: 13-14).*

New ventures have not until recently attracted any substantial interest from organisational theorists (Brytting, 1991; Bouwen & Steyaert, 1990b). The purpose of this study is therefore to shed light on organisational aspects in new ventures and to further develop our understanding and knowledge in organising processes in new ventures. It seems especially interesting to focus on ventures that have been founded by a team as they make up a large percentage of the new ventures.

To gain such new knowledge, this study has been designed as follows:

In *chapter two*, entrepreneurship as an emerging research field is being introduced. Although entrepreneurship has been mentioned and discussed in mainly economic literature already for the last 300 years, not until the last thirty years had it been a discipline within the management sciences. The research foci have shifted from the entrepreneur over opportunity recognition to finance issues. This development can also be traced in different entrepreneurship definitions. One prominent sub theme in entrepreneurship research are entrepreneurial teams. This will be especially looked at as it resembles one focus of the study. As new ventures face many problems which stem from organisational aspects, an overview of studies which exist in the intersection between entrepreneurship and organisation theory will be given. However, the lack of organising concepts leads to an overview of organisation theory in *chapter three*. That chapter explores to what extent organisation theory can be used to explain early developments in young organisations. The emphasis will be on developing a dynamic approach to organisations and to define aspects which need to be reflected upon before transferring them to entrepreneurship theory. Especially Weick's theory of organising will be introduced. As entrepreneurship is legitimated through the emergence of new ventures, *chapter four* presents creation processes of and within organisations. This approach aims at filling the gap in organisation theory.

The gaps and inconsistencies that have been worked out in the theoretical fields are formulated in the research questions presented in *chapter five*. This will be followed by the methodology and the research design appropriate for the empirical study. The latter is then explored in *chapter six*. On the basis of four conducted case studies, the creation, evolution and development of these new ventures will be analysed over a period of their first three years. The attention within this section will be on their organising processes. *Chapter seven* discusses the case studies findings with the extant literature from entrepreneurship and organisation theory. Four organising principles are created in which the main findings are summarised and elaborated on. The *last chapter* will summarise the meta findings, draw conclusions and illustrate the implications for new venture founders and policy makers alike.

2 Entrepreneurship

In this chapter entrepreneurship as an emerging research field is introduced. Although the entrepreneur and his tasks have been discussed in research for the last 300 years, the subject has recently attracted considerable attention. As organising in new ventures is the main focus of this study, emphasis on this chapter will be on organisational aspects within in entrepreneurship research.

2.1 Developing the research field – what is entrepreneurship?

Entrepreneurship is still a rather vague and imprecise term within the social sciences with no established definition (e.g. Gartner et al., 1994; Bruyat & Julien, 2000). Hardly any definition manages to cover entrepreneurship and at the same time characterises the entrepreneur as well. This is due to the variety of entrepreneurial tasks and the scope of the subject of entrepreneurship (Jennings, 1994: 10).[3] This section briefly introduces historical studies of entrepreneurship. The entrepreneur's roles as described in research as well as his tasks are used to derive at an entrepreneurship definition.

As a matter of principle there is no entrepreneurship without an entrepreneur. From a mere linguistical point of view, the historic provenience of the subject stems from the French word 'entreprendre' (Bretz, 1988: 26), an entrepreneur being someone who organised and managed military and adventure expeditions (Jennings, 1994: 11).[4]

2.1.1 Roles of entrepreneurs in the last 300 years

Already at the beginning of the 18th century, economic studies and theories conceptualised the phenomenon of entrepreneurship, focusing especially on the entrepreneur's roles. The different foci of those studies can be outlined in three categories (Bretz, 1988: 33-38):[5] the entrepreneur as risk taker, the entrepreneur as combinator or coordinator and the entrepreneur as innovator.

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[3] Closely related to that is the discussion whether entrepreneurship is a research subject of its own. Cf. the discussion in Academy of Management Review 25 (1) (Shane & Venkatarana, 2000) as well as the comments in issue 26 (1) (Zahra & Dess, 2001; Singh, 2001; Erikson, 2001; Shane & Venkataraman, 2001).
[4] On the origins and history of the word in the German language see (Fallgatter, 2001)
[5] For a comprehensive discussion of the historic development of the term entrepreneur, see Bretz (1988: Ch. 2.1.).

The notion of the **entrepreneur as risk taker** goes back to *Richard Cantillon* (1680-1734)[6]. The entrepreneur yields speculation profits. He buys for fixed prices, but does not know the sales prices he will achieve and thus cannot estimate his profits.[7] Crucial is the notion of risk which the entrepreneur is constantly taking. This is also pointed out by *Frederick Hawley* (1843-1929) in his book 'Capital and Population' (1882/1972). The entrepreneur constantly takes insecure decisions as to which product or service to manufacture and offer. The profit is the remuneration for the liability and risk he is taking.

Jean-Babtiste Say (1767-1832) described the **entrepreneur as coordinator** or **broker** in his "Treatise on political economy' (1869/2001).[8] The entrepreneur is the link between the scientist who develops theories and the worker who does the work. The entrepreneur pools the different resources and production factors. He has to estimate the demand and tries to meet it. He serves the important function of linking different sectors (agriculture, production, trade) with various actors (land owner and capitalists, technicians and workers, producers and consumers) (Koolman, 1994). *Adam Smith* (1723-1790)[9] also regards the entrepreneur as coordinator. He sees the 'undertaker' as capitalist and capital operator, where the invisible hand of the market plays the organising role.

In his 'History of Economic Analysis' (1912), *Joseph Schumpeter* (1883-1950) introduces the entrepreneur as **enforcer of new combinations**. He argued that entrepreneurship originates from innovations. For him the economic system is in equilibrium and the entrepreneur tends to break that equilibrium by introducing innovations. His concept of economic development is based on five innovation possibilities: (1) creation of a new good or a good of new quality, (2) application of new production techniques, (3) detection of a new market, (4) exploitation of new resources as well as (5) implementation of a re-organisation of market

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[6] In his ‚Essay on the Nature of Commerce' published in 1730, Cantillon discerned financially independent land owners; entrepreneurs, conducting marketing transactions on their own risk in order to yield profits; and employees who avoid making decisions in order to secure their income stipulated in contracts.

[7] According to this definition, larcenists and mendicants also fall in the category of entrepreneurs.

[8] Already in 1766, Turgot distinguished between an entrepreneur and a capitalist. In literature, however, the work of J.-B. Say prevailed (cf. Bruyat et al., 2000: FN 1).

[9] Smith's most renowned work 'The Wealth of Nations' was published 1937 in New York.

relations. These combinations should not be based on incremental improvements, but they should radically breach with the past. This is the first time when the entrepreneur is referred to as **innovator**. The entrepreneur starts and shifts business-cycles that characterise the economy on the macro-level. Schumpeter called the process 'creative destruction'.

Despite an entrepreneur being a risk taker, a coordinator, an enforcer of new combinations and an innovator, the entrepreneur is seen today to fulfil more roles and tasks. The modern view of an entrepreneur will be depicted in the next section. Nevertheless, these old definitions are important as they are still the base of today's research.

2.1.2   Who is an entrepreneur and what are his tasks?

What does the newly opened bakery shop around the corner have in common with Stefan Schambach or Lothar Späth? Depending on the definition, all of them are entrepreneurs. But the tasks of an entrepreneur are manifold. However, to give an overview, several definitions of entrepreneurship will be presented and will shed light on the various functions, e.g. founding the company, owning the company, bringing innovations to market, recognising opportunities, combining resources and expanding the company. In the following, each of these tasks will be underlined by definitions that all together emphasise the variety of the subject.[10] Single aspects often refer to separate research fields within entrepreneurship.

One of the first definition which comes to ones mind, is that an entrepreneur is somebody who **has founded one or several companies**. Dyer (1992) calls the founding of new companies the essence of entrepreneurial activity. The entrepreneur is the one who had the idea, realised it and organised and managed resources such as employees, investors, production lines and facilities.

> *"Entrepreneurship is the creation of organizations. What differentiates entrepreneurs from non-entrepreneurs is that entrepreneurs create organizations, while non-entrepreneurs do not."* (Gartner, 1988: 11)

At first sight this seems plausible, however it disregards those entrepreneurs, who e.g. bought an existing company, re-designed it and managed it successfully

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[10] For a detailed literature overview on the definitions of an entrepreneur see Gartner (1988).

(Stevenson, 1999). Many people in Germany would probably deem Lothar Späth an entrepreneur, although he was not the founder of Jenoptik AG. On the other hand, would we call a scientist an entrepreneur, who in fact founded a company, but never managed it and only holds a seat in the scientific board?

Thus, one could make the attempt to define an entrepreneur as a person who is the **proprietor/owner of a company**.

> *"... an entrepreneur is defined as a major owner [...] of a business venture not employed elsewhere."* (Brockhaus, 1980: 510)

This definition might be true for Stefan Schambach, Loretta Würtemberger and Peter Heinrich.[11] But would we also refer to the little kiosk owner around the corner or the third bakery owner in our street as an entrepreneur only because they own their shops? If the argument of ownership is held consequently, risk capital investors are also entrepreneurs as they often hold between 20 and 70 percent of the shares of new ventures. How many shares in a company do I need in order to be called an entrepreneur?

Some classifications are easier, when the **innovation** aspect is added. According to such definitions, an entrepreneur is someone who realised one of Schumpeter's five opportunities to enforce new combinations.

> *"Creating and building something new and more effective rather than just the continuation of something which already exists."* (Timmons et al., 1977: 4)

Accordingly, the founder of a new company, whose business idea is based on new patents or other innovations, is an entrepreneur. This simplifies the differentiation between Stefan Schambach and the little bakery around the corner.[12] But are entrepreneurs always innovative according to Schumpeter's criteria? What about a successful **imitation instead of innovation**? Was the founder of MLP, Manfred Lautenschläger, not an entrepreneur? An innovation is defined as the destruction of competencies where available know-how is mainly useless. Imitation on the other hand means competency enlargement and is based on existing know-how (Tushman & Anderson, 1986). For both aspects it is important that they are

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[11] These are co-founders of Intershop AG, Webmiles AG and MediGene GmbH.
[12] Unless the baker would produce red, green and yellow rolls which are not available on the market yet and which present a real innovation.

transferred and brought to market and used economically (Stevenson & Gumpert, 1985: 88).

This leads to **opportunity recognition** as an additional factor for identifying a 'real' entrepreneur. In order to successfully found a company, the attention does not have to focus on innovation or imitation. In fact, it is a matter of successfully recognising and exploiting opportunities.

> *"How opportunities, to bring into existence 'future' goods and services are discovered, created and exploited, by whom, and with what consequences."* (Venkataraman, 1997: 120)

And a true opportunity should lead to positive turnover and profit. Thus an entrepreneur could be the third baker in the street if he is making a huge profit, opens up new stores and later becomes the biggest baker or bakery trade chain in the country, e.g. Kamps AG. Unlike others, Heiner Kamps recognised and realised opportunities in the market. Opportunities can be defined as "a perceived future situation with a positive outcome." (Karlson & Junehed, 2000: 13) or as Stevenson and Jarillo put it, "a future situation that is deemed desirable and feasible" (1991: 194).

Several high-tech start-up companies embrace the perception of opportunities and the consequent or systematic screening of the market. In biotech industry, e.g. LION bioscience AG, systematically searches for the identification of new targets. Actually, they do not proceed to develop the active substances/drugs but rather sell the targets to pharmaceutical development companies. Thus their business is the recognition, identification and exploitation of opportunities.

Recognition and exploitation of opportunities is often linked to the **utilisation of resources**. However, especially start-up companies frequently can be characterised by following opportunities without having resources at their disposal.

> *"Entrepreneurship is the process by which individuals – either on their own or inside organizations – pursue opportunities without regards to the resources they currently control."* (Stevenson & Jarillo, 1990: 23)

"Entrepreneurship is defined as taking advantage of opportunity by novel combination of resources, in ways that have impact on a market." (Wiklund, 1998: 13)

In the majority of cases, a start-up company owns an important resource like a patent or has market access. In a second step, it tries to secure lacking resources, often by exploiting resources of third parties (Stevenson et al., 1991). This definition of entrepreneurship combines recognition and exploitation independently from resource equipment. According to the study of Hart et al. (1995), the definition should be narrowed down to the pursuit of opportunities independent from alienable resources. Many high-tech companies founded during the so-called Internet hype in 1999/2000 can be subsumed under this definition.

Every paragraph above added one more aspect to the definition of an entrepreneur. All the aspects are used in the Academy of Management's definition of entrepreneurship. Since 1998, the Academy has its own Entrepreneurship Division which relates to entrepreneurship as:

"The Entrepreneurship Division's domain is the creation and management of new businesses, small businesses and family firms, as well as the characteristics and special problems of entrepreneurs. The Division's major topic areas include:

- *New venture ideas and strategies,*
- *Ecological influences on venture creation and demise,*
- *The acquisition and management of venture capital and venture teams,*
- *Self-employment,*
- *The owner-manager,*
- *Management succession,*
- *Corporate venturing, and the*
- *Relationship between entrepreneurship and economic development."* (Academy of Management, 2003)

So far, the entrepreneur and entrepreneurship have been defined in many ways and opened up a large research field. This view is so broad that it is overlapping with a number of related research areas. The following chapter therefore tries to

depict overlaps with adjacent research fields and to demarcate and narrow down the field.

2.1.3 Entrepreneurship in contrast to SME Management and Corporate Entrepreneurship

There are two large adjacent research fields which have common boundaries and intersections with entrepreneurship. These are SME (small and medium sized enterprises) and corporate entrepreneurship, with intrapreneurship sometimes being used as a synonym (Hjorth, 2001).

The differentiation between **small business owners** and entrepreneurs[13] is similar to that between the small business venture and the entrepreneurial venture. The latter aims at growth (Fallgatter, 2001). It is characteristic for the small business that its shares are mostly held by the manager, who is heading and organising the company. He is the omnipresent founder of the company and the company's identity is clearly linked to him. In addition, family members are often employed working at the company, too. And for the founder, the company's profits are the main source of income. The business idea as such has already been realised in many varieties before (Miller, 1983). The company is in most cases a handicraft or retail business. There are no medium-termed product life cycles which limit the growth potential. The small business does not have special innovations or marketing campaigns. This all contrasts the entrepreneurial company, which was founded because of a new product or resource combination. The company is stamped by innovations and novelty. Growth and high profits are the most important objectives for the company. Examples are technology-driven product companies or innovative service providers that are characterised by fast product life cycles (Carland et al., 1984).

Contrary to entrepreneurship, **corporate entrepreneurship or intrapreneurship** refers to activities within existing or established companies (Zahra et al., 1999b; 1999a; 1999c). Corporate entrepreneurship studies processes which companies use for the modernisation, expansion or new definition of business units.[14]

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[13] The distinction in German research (Unternehmensgründer vs. Existenzgründer) was
    introduced by Szyperski and Nathusius (1977: 27).
[14] See zu Knyphausen-Aufseß (2002) for examples of intrapreneurship in large corporations.

According to Stevenson and Jarillo (1990) corporate entrepreneurship can be seen as a special way of management in large corporations.[15] The aim is to transfer and apply entrepreneurial behaviour at large corporations (e.g. Burgelman, 1983, 1994; Covin & Slevin, 1991; Stopford & Baden-Fuller, 1994).

To point out intrapreneurship, Stevenson and Jarillo's entrepreneurship definition stating that "*Entrepreneurship is the process by which individuals – either on their own or inside organizations – pursue opportunities without regards to the resources they currently control*" (1990: 23) could also start with **intra**preneurship instead of **entre**preneurship. This shows that an intrapreneur takes on similar roles and functions as an entrepreneur. Only he is not founder of a start-up company but employee of an existing, already established company. Often he is the promoter of an innovation within a company (Pinchot, 1985).

Recapitulating, entrepreneurship as a research field was introduced with its notions covering the last 300 years followed by various definitions depicting the scope of the field. It becomes clear that there is no general definition of entrepreneur and entrepreneurship. To limit the study, SME as well as Corporate Entrepreneurship were defined but will not be dealt with in this study. Within these limits, entrepreneurship will be defined as the process where opportunities, independent of resource availabilities, are pursued and will result in a new company foundation with entrepreneurs as 'organisation makers'. The latter expression can be interpreted almost literally. Entrepreneurs are constructing new organisational realities and are creating new communities of meaning in delineating and shaping the internal versus the external environment (Steyaert, 1995).

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[15] Brown et al. (2001) developed instruments to operationalise Stevenson's entrepreneurial management style.

2.2 Entrepreneurship research in the last decades

The entrepreneurship research field is a rather young discipline (Aldrich, 1999; Katz & Gartner, 1988). However, it has grown considerably over the last twenty years. Milestones in forming its boundaries and identity were:

(1) the first *MBA course on Management of New Enterprise* which was taught at Harvard in 1947 (Hjorth et al., 2003),

(2) the *Journal of Small Business Management* which started in 1963,

(3) the first major academic conference on entrepreneurship at Purdue in fall 1970 (Cooper et al., 1997b),

(4) the Journal *Entrepreneurship Theory and Practice* which started in 1976, being called *American Journal of Small Business* in the beginning (Hjorth, 2001),

(5) the first *Encyclopedia of Entrepreneurship* edited by Kent, Sexton and Vesper in 1982 and

(6) entrepreneurship becoming a full *division of the Academy of Management* in 1998.

By now, entrepreneurship has become a respected discipline within the field of management. However, entrepreneurship research has developed differently at different countries. Entrepreneurship research in Germany is, compared to the United States, still in its infancy. It booms since the mid 1990s which is due to the internet hype and the emerging venture capital industry. But what are the main research streams within entrepreneurship regardless of countries' specific developments?

Several studies have discussed entrepreneurship research in terms of its development over the years (Busenitz et al., 2003), e.g. Low and McMillan (1994), Churchill (1992), Grégoire et al. (2001; 2002). They all come to the conclusion that a convergence of conversations can be seen in entrepreneurship research. The next paragraph depicts two studies in which Grégoire et al. (2001; 2002) have come up with four major research fields.

2.2.1 Four major research fields within entrepreneurship

Grégoire et al. (2001) analysed all 13,593 references cited in the 752 papers published in the Frontiers of Entrepreneurship Research Proceedings between 1981 and 1999. As a result, four converging axes were identified which attracted the attention of entrepreneurship researchers over time.

These axes represent research on

(1) Personal characteristics of the entrepreneur

Psychology had a major influence on entrepreneurship becoming part of the social sciences (Hjorth et al., 2003). The main question attracting interest in this subfield is *'Who is an entrepreneur'*. The aim is to find out which characteristical traits and attributes discern an entrepreneur from other economic individuals and their behaviour (Gartner, 1985). This was probably started by McClelland (1961) referring to Weber in 'The Achieving Society' and Collins and Moore's (1964) book 'The Enterprising Man' who put at the core of entrepreneurship the 'desire for independence' and identified certain Oedipal conflicts and neuroses of the entrepreneur as the causal variable. This was followed by Kets de Vries (1977) concentrating on the entrepreneurial personality and later Brockhaus (1980) who studied the locus of control of entrepreneurs. Cooper and Dunkelberg (1986) analysed how the entrepreneurs acquired their venture, e.g. by inheriting, purchasing or founding it and compared it with their background and personal characteristics. Many more psychological and sociological studies have been carried out (Stevenson et al., 1990), often in an experimental way tackling questions on success, the wish of responsibility, challenges, risk acceptance, autonomy, power awareness, innovation ability, training as well as work experience.[16] However, either the results from these studies are not very significant or counter-studies show that entrepreneurs hardly differ from non-entrepreneurs in the researched characteristics (Gartner, 1988). Studies searching for the typical entrepreneur by means of demographical data like age, gender or family status are not very informative either (Vaught & Hoy, 1981), because this would imply that only 'natural born entrepreneurs' exist. This however, consequently excludes the possibility to become an entrepreneur and entrepreneurship education could be questioned, too. In addition, understanding the personality of an entrepreneur would neither be valuable since individual

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[16] A detailed literature overview is abandoned. Exemplary, see Gartner (1988).

behaviour is not consistent over time nor can personality traits predict behaviour (Hyrsky, 1999). At large, this trait approach did not contribute to a common characterisation of the entrepreneur (Gartner, 1985: 697).

(2) Factors affecting new venture performance

The main question is *"How can we measure new venture performance?"* and the factors affecting the performance. These factors range from the founder, the entrepreneur or entrepreneurial team (e.g. Birley & Stockley, 2000; Ensley, 1999; Hambrick et al., 1996; Roure & Maidique, 1986) to strategy aspects and environmental factors (Eisenhardt & Schoonhoven, 1990; Roure & Keeley, 1990). Sandberg and Hofer (1987; 1987) were the first to combine these different factors. They showed that industry structure and the venture's strategy constitute more important influence on new venture performance than the entrepreneur's behavioural characteristics. The problem with these studies is that market acceptance is easily treated as something that happens or not. Markets are treated as something which exists but which is not actively created. Industry conditions are often regarded as universally homogeneous and similar to all firms. Such assumptions oversimplify and do not reflect the reality of new firms very well (Aldrich & Fiol, 1994).

Another research stream in this category deals with new ventures' sets of resources and capabilities, being based on the resource-based perspective (Penrose, 1959; Wernerfelt, 1984; Barney, 1991). Often this view has been combined with different stages of growth models (e.g. Churchill & Lewis, 1983) or their transitions (e.g. Arbaugh & Camp, 2000).

(3) Venture capitalist's practices and their impact on entrepreneurship

A large number of studies concerns *venture capitalists' roles and practices*. The early seminal work by MacMillan et al. (1985) deals with the exploration of VC's decision criteria. From there, three different directions can be noted. Tyebjee and Buno's (1984) model of VCs' investment process, Gorman and Sahlman's (1989) description of VC's activities and finally Gompers and Lerner's (1999) examination of the form and function of venture capital funds. The last direction was pushed by Sapienza's (1992) study of VCs' involvement in funded venture. Manigart and Sapienza (2000) provide a useful overview of the field's development, concluding that selection, monitoring, advising and value-adding notions have mainly be studied from a conventional agency perspective. They

suggest to merge these research lines with strategic management theory to gain better insights. A link to new venture performance studies can be seen in Sandberg and Hofer's (1987) study in their use of VC's decision criteria as predictors of new venture performance.

   (4) The influence of (social) networks

The fourth research line within Grégoire's study involves *network aspects*. This area is mostly based on Aldrich and Zimmer's (1986) as well as on Birley's (1985) articles. The networking approach does not so much focus on networks and coalitions as in a management perspective but on expanding the action frame of the venturing process (Johannisson, 2000). Because of the liability of size and newness (Stinchcombe, 1965), prospective entrepreneurs have to mobilize 'social resources' (Starr & MacMillan, 1990) to having additional resources controlled by ownership. They need active networking capabilities to reach maturity and opportunities to grow. The personal network of an entrepreneur provides him with a universal resource kit. Enforcing identity and building general support generates cultural and emotional capital. Apart from providing information about and access to supplementary physical and financial resources, the personal network contains human and social capital (Johannisson, 2000). Johannisson distinguishes between general personal networks as the origin of business ventures and entrepreneurial networking and venture performance in networking research concerning entrepreneurship, which reflect different subfields in this research area.

Grégoire et al. (2001) analysed the described axes of convergence over time and how they had evolved. They identified four time periods.

   1981-1985: The characteristics of entrepreneurs as a defining theme
   1986-1990: Parallel conversations exhibiting little convergence
   1991-1995: Structuring the field around a strategic perspective
   1996-1999: Entering the resource-based perspective

Having analysed entrepreneurship research developments and methods used in mainstream management journals, entrepreneurship can be said to be focused on performance as the main variable with studies conducted at the firm level. Archival data used for regression-based analysis are predominantly used (Grégoire et al., 2002). Especially the dearth of (qualitative) research methods is

critical as thus important aspects of entrepreneurship will not be analysed and researched. As an outlook, Churchill (1992) claimed future research should deal with research methodologies, corporate venturing, venture and risk capital, high tech entrepreneurship and the process of entrepreneurship. However, the strive to become a discipline has led to a number of theory-construction-articles in the journal of *Entrepreneurship Theory and Practice*, especially during 1992 and 1993.

2.2.2 Entrepreneurial teams

In the following, the subfield of entrepreneurial teams will be outlined in more detail as it directly refers to the title of this study. According to Kimberly (1979) and Sing et al. (1986), new venture managers are disproportionately more important to the success of their firms than are managers of existing firms because of the unique threats associated with trying to be simultaneously both new and different. Thus managerial choice in new ventures drives organisational performance most directly (Ensley et al., 2002; Eisenhardt et al., 1990). Since the mid 1980s, management and entrepreneurial teams have received increasing attraction (Keeley & Roure, 1993), especially, as many of the new ventures have been founded by a team instead of a single founder (Kamm et al., 1990). Bronner and Mellewigt (2000) came to the conclusion in their study that technology orientated new ventures in Germany are founded by a team in 50-60% of all cases. In the US, this percentage is slightly higher with 60-80%.

The initial problem is that of its definition. As demonstrated in the figure below, Birley and Stockley (2000) have listed various definitions of the entrepreneurial team. The differences deal mostly with aspects of ownership, full and/or part-time managerial involvement or the position within the hierarchy. Figure 1 gives an idea about differences in components which make up the entrepreneurial team's definition.

Figure 1: Components of various entrepreneurial team definitions

the entrepreneurial team member...	was involved in pre-start up activities	has co-founded the business	holds equity	works full/part time in the comp.	has management involvement
Eisenhardt and Schoonhoven (1990)	not necessarily	not necessarily	not necessarily	yes	yes
Kamm et al. (1989, 1993)	yes	yes	yes	not necessarily	not necessarily
Watson et al. (1995)	not necessarily	yes	?	yes	probably

Source: by author, based on Birley and Stockley (2000: 289)

The problem is not only that of the definition but that many studies speak of top management teams. Although the management team is not always congruent with the entrepreneurial team, these two concepts can be easily transferred. For this study, entrepreneurial teams will be defined as consisting of members involved in founding the business and having an equity stake in the new venture.

The research on entrepreneurial and top management teams is mainly focused on the relation of various factors to the venture's performance, growth or success in general. It is assumed that the team's characteristics have an impact on the venture's development (Gartner et al., 1992a). Its genuine importance is well demonstrated by the following quote: *The new firm depends upon the team to such an extent that investors often indicate that they emphasize the quality of the management team more than any other single factor as they make investment decisions* (Cooper & Daily, 1997a: 127). Thus the performance of the entrepreneurial team is seen as a key determinant of the venture's success (Thakur, 1999; Cooper et al., 1994; Herron & Robinson, 1993).

The behaviour of the entrepreneurial team is often explained by emphasising the importance of understanding demographic characteristics such as age, organisational tenure, functional background or education of the team members as well as the distributional properties of those variables. In most studies, demographic attributes are used as a surrogate for skills. This approach stems from the 'upper-echelons' paradigm by Hambrick and Mason (1984) which views organisational outcomes, e.g. strategies and performance, as a reflection of the values and cognitive bases of powerful actors in the organisation. The

characteristics and the functioning of the top management team have far greater potential for predicting organisational outcomes than do the characteristics of the CEO. The underlying premise is that personal experience, values and likely behaviours of entrepreneurs and managers can be inferred from observable individual characteristics.

Team size is most often used as a control variable, however, the study by Hambirck and D'Aveni (1992) shows that firms nearing bankruptcy tended to have smaller teams than similar surviving firms. Conferring to high-technology firms, their team size was associated with growth as larger teams provide more capabilities (Cooper & Bruno, 1977; Eisenhardt et al., 1990). Roure and Maidique (1986) showed empirical support for links between the prior joint experience among top-management team members and venture success.

The general hypothesis has been that heterogeneous (complementary) teams are more successful than homogeneous (additive) ones (e.g. Ensley & Amason, 1999; Bronner et al., 2000), especially when they are functionally complete (e.g. Roure et al., 1986; Gartner, 1985; Kamm et al., 1990). However, Ensley and Mason (1999) talk of a 'double-edged sword' regarding the heterogeneity discussion in entrepreneurial teams. Heterogeneous abilities, education and functional experience lead to more cognitive resources and more creative solutions compared to homogeneous teams. These differences in abilities and perspectives cause cognitive conflicts. If they are solved on a cognitive level, the quality of decisions will improve. On the other hand, heterogeneity causes frequent and difficult communication. This results in the inefficient use of information. And conflicts are dealt with on an affective rather than a cognitive level. Overall, heterogeneity can also have a negative impact on performance. Whether the heterogeneity will lead to positive or negative consequences is mainly due to contextual factors as the impact of the industry or environment. Especially in dynamic environments, heterogeneous teams are advantageous as they are more flexible and better adaptable (Eisenhardt, 1998; Eisenhardt & Bourgeois, 1988; Bronner et al., 2000). The sort of integration that is necessary for this flexibility and efficiency is more likely to be a function of affective, interpersonal relationships than of formal, role-defined relationships (Katz & Kahn, 1966).

According to Eisenhardt and Schoonhoven (1990), team tenure is seen as an important factor of high performing new ventures. Cohesive teams tend to experience less turnover (O'Reilly et al., 1989). They seem to have certain

interactive advantages which allow them to perform better than less cohesive teams. Closely linked to the cohesiveness is the use of conflict. Teams that engage in functional, task-oriented conflict perform better than those in which conflict is dysfunctional and personally oriented (Schweiger et al., 1989; Amason, 1996). These two types of conflict are also called cognitive and affective conflict. The first is defined as *"task oriented and focused judgemental differences about how bets to achieve common objectives"* (Amason, 1996: 127). The affective dimension is defined as *"personally oriented disagreement focusing on interpersonal dislikes and disaffections"* (Ensley et al., 2002: 369).

Despite the question of cohesiveness, team dynamics as instability or turnover are common phenomena (Cooper et al., 1997a). Timmons (1994) reports that within the first five years, almost every new firm in the context of high-potential ventures had lost one founder.

All together, research on entrepreneurial teams is very diversified and sometimes conflicting in its findings. For this study, only ventures which have been founded by a team will be looked at. The question will be to analyse the impact of the team on the organising processes and the role, single member played in it. To be able to analyse these organising process in more detail, the intersection of entrepreneurship and organisation studies will be looked at in more detail.

2.3 Entrepreneurship and organisation studies

The intersection of entrepreneurship and organisation studies seems to be a neglected one. Not only does any definition pay any attention to that topic nor do many studies exist. In consequence, our understanding of organising processes taking place in new ventures is still very scarce (Brytting, 1991; Bouwen & Steyaert, 1990a; Gartner et al., 1992a; Manstedten, 1997), even though the number and quality of publications in the entrepreneurship field has dramatically increased over the past years. In outlining future needs of the entrepreneurship field, Churchill (1992) highlighted research methodologies, corporate venturing, venture and risk capital, high tech entrepreneurship and the process of entrepreneurship. The organisational dimension was not considered to be a research theme. Respectively, organising is not a prominent topic in entrepreneurship research, still entrepreneurs struggle because of organisational problems. This is documented mainly in more practitioner-oriented publications

(e.g. Malmsten et al., 2001; Manstedten, 1997). Although the importance of organising processes for their performance is widely acknowledged, the topic is largely ignored in both entrepreneurship research and teaching. 'The Portable MBA in Entrepreneurship' (Bygrave, 1994) does not even devote one section to the organising of ventures, but the book claims to cover the complete range what leading business schools teach about entrepreneurship. Bouwen and Steyaert (1990b: 243) summarise similarly:

> "The organizational focus or logic principle is seen as one of the factors influencing entrepreneurship. In the present literature on entrepreneurship, the awareness of this organization perspective seems to be rather partial. Recent reviews of entrepreneurship do not mention the organizational dimension as a research topic or as an issue for future research."

Vice versa, small and young firms have not been studied in the field of organisational behaviour and organisational theory either. There is almost a black-out with regard to the creation of organisations. Most research in the organisational behaviour field has been oriented towards large firms. In consequence, Quinn and Cameron suggested that

> "it may be that organizations must go through the first three stages in the developmental model before many of our conventional theories are appropriate. This would seem to be a particularly reasonable observation when we recognize that most research has focused on mature organizations and most research has been cross-sectional in design" (1988: 37).

A few, large organisations are still the source of our current knowledge in organisation theory, e.g. Roethlisberger's (1937) study of the Hawthorne plant of Western Electric involved a company of 29,000 employees. Chester Barnard's (1938) experience base was at New Jersey Bell. Alfred Sloan (1941) was at General Motors. Woodward dealt with companies employing a minimum of 100 people and Frederick Taylor (1913) examined Bethlehem steel.

More recently, Czarniawska-Joerges (1992: Ch. 1) argued that the need to study large organisations is still prominent as large organisations will be with us for a long time. When speaking of large, she treats 'large' and 'complex' synonymously, thus denying as such the complexity and variation of organising in smaller contexts and stating finally that we already know relatively much about small firms, thus allowing to concentrate more on large companies.

Often organisation theorists think of small firms as one homogeneous whole, while entrepreneurial scholars have stressed their heterogeneity. One illustration can be seen in the work of Mintzberg (1979b) who formulates five configurations for a theory of organisational structure. He distinguishes between the entrepreneurial ('simple structure') and the innovative configuration ('adhocracy') to describe the structural features of small, young and innovative firms. These two labels cannot be seen as being sufficient for describing the dynamics of the organising processes for such a heterogeneity of small firms and their structures. A second example can be found in the context of developmental models in which new ventures evolve into 'grown-up' firms. The underlying assumption seems often to be that new small firms are destined to grow into large organisations. Many of these models are characterised by a normative evolution towards a maturity phase (e.g. Greiner, 1972; Churchill et al., 1983) implying that those which do not reach the final stage remain premature. Dyer (1986) claims an evolution towards the stage of public ownership and professional management. However, this implies that others are deemed to be unprofessional.

This shows how small firms are seen as one group in which becoming big and large is the measure of maturity and professionalism. It seems as if the understanding and theorising about entrepreneurial firms is sometimes more hindered when being approached from a large firm perspective.

All this results in the need for more studies on the organisational dimension of entrepreneurship. From the viewpoint of entrepreneurship, this means that studying organising processes is a necessary theme for understanding entrepreneurship better. And the aim should not be to generate insights for organisation theory, i.e. large firms. Dandridge was one of the first to utter that claim when using the image that *"children are not 'little grown ups'"* (Dandridge, 1979). d'Amboise and Muldowney (1988: 236) formulated a similar but more moderate argument:

> *"It is clear that prescriptions for the management of small business are rooted in the corpus of general management theory; however, it is increasingly apparent that general management is not sufficiently specific when applied to small business. Small business management includes adequate number of distinguishing characteristics so that a subbody of constructs particular to it is necessary".*

From the point of organisation theory, this means that the study of entrepreneurial firms is important for understanding organising processes. This can be supported by Weick (1974a: 487) encouraging studies on *"everyday events, places, and questions, micro-organizations, and absurd organizations"* and not only large firms.

New concepts for start-ups and small firms need to take into account their changing and highly dynamic reality and environment. A process view of reality and organising is proposed to suit better than static and equilibrium-focused models. Entrepreneurship applies particularly well to such a 'flux'-context. A process view has lately been advocated in the entrepreneurship field (e.g. Bhave, 1994; Gartner, 1985). One way to apply the process view is by using a process language. This aligns with Gartner's idea that 'words lead to deeds' (1993). He argues that the words we use to talk about entrepreneurship influence our ability to think about the phenomenon and the subsequent research carried out. A second way to concretise a process view and to approach the idea of a dynamic process is by describing entrepreneurship in terms of dilemmas. The context of high tech companies which can be characterised by technological complexity, environmental dependency and economic uncertainty seems appropriate for a dilemmatic vocabulary and conceptualisation. Describing entrepreneurship in terms of dilemmas has been recently done by Jarillo (1989) concerning the use of external resources or by Dees and Starr (1992) regarding ethical issues faced by entrepreneurs. Although they stated important dilemmas entrepreneurs faced, little was said about the nature of dilemmas and their relationship to the entrepreneurial process. A third way to emphasise processes is by focusing on events in the stream of reality. Examples in entrepreneurship are studies by Bygrave (1989a; 1989b; 1993). Bygrave (1993) who considered the entrepreneurial event to be central in studying entrepreneurship. The entrepreneurial event involves the creation of a new organisation to pursue an opportunity. Entrepreneurial events occur within a larger context, a framework of events, circumstances, situations, settings and niches (Bird, 1989). Gersick (1994) found that a new venture was regulating its progress not only on the basis of temporal pacing by using milestones but through event-based triggers for action. Actions were initiated only when the right event had occurred.

In this study, entrepreneurship is seen as a consecution of events and interactions, short-lived appearances in Weikian terms, around which interpretations and actions are organised.

One of the reasons for the lacking interest in organising studies in entrepreneurship might be that organising itself is not seen as a key to new economic activity, which is at the heart of entrepreneurship studies. Thus, our understanding of new venture organising is limited to few key topics, such as the emergence of the organisation (e.g. Aldrich, 1999; Carter et al., 1996; Katz et al., 1988), and its reasons for growth and performance (cf. Wiklund, 1998). In the past decade, this situation has hardly changed (Hjorth et al., 2003). The few existing studies on young organisations can broadly be differentiated into those displaying static and those displaying dynamic views on the organisation, which is in parallel to organisation theory studies.

2.3.1   Studies from a static, structural point of view

New venture organising from a structural and static view tends to analyse the optimal fit between organisational structures and performance. In most studies the organisational structure is defined by dimensions such as specialisation, centralisation, formalisation and standardisation. These dimensions are mainly derived from the Aston Studies (Pugh et al., 1963; Pugh et al., 1968). In these studies, structures are regarded as the 'visible skeletons' around which coordination, decisions and responsibilities are organised (Meijaard et al., 2001: 180).

The study by Meijaard, Brand and Mosselman (2001) is one of the few analysing the relationship between organisational structure and performance in small and medium sized companies. The dimensions 'work division' and 'coordination mechanisms' are their starting point from which they run the analysis on data generated by a stratified sample of 1482 SMEs. A typology of nine organisational structures was derived through cluster analysis. They concluded that the relationship between structure and performance is complex. But this paper needs to be criticised in two aspects. First, the research design is based upon research on large firms. Rather than questioning SME's which structure variables they regard as being relevant, traditional variables are taken for granted. Second, taking their results, small SMEs are depicted as structure-less. However, if one agrees that

task diversity and self coordination are structure variables, then the smallest firm cannot be considered as being unstructured. Dandridge supports this by asking whether *"this means that 9 million firms are each uniquely indefinable, or simply that these firms do not fit the patterns we have learned from large complex systems?"* (1979: 56). However, there is a wide-spread impression about small ventures being structure-less. Although Mintzberg calls it 'Simple Structure', he claims that *"the Simple Structure is characterized, above all, by what it is not – elaborated. Typically, it has little or no technostructure, few support staffers, a loose division of labor, minimal differentiation among its units, and a small managerial hierarchy. Little of its behaviour is formalized, and makes minimal use of planning, training and the liaison devices. It is above all, organic. In a sense, Simple Structure is nonstructure"* (1979b: 306). This is a good example how small firms and simple structures are typically perceived among organisation theorists (Brytting, 1991).

Manstedten (1997) analysed the emergence and the further development of organisational structures as well as the organisational behaviour in a sample of young software companies. His starting point were traditional organisation theories about structure and processes and their development over time. The study resulted into a detailed stage model for new ventures. He argued that new ventures copy known structures and principles from traditional companies and that new organisational innovations can hardly be found.

Ganz and Tombeil (2001) researched the growth of 18 German start-ups. They partly covered organisational aspects such as the development of structures. They stated that organisational structures need to be flexible and dynamic in order to allow for diversity and to leave space for identity and individuality. By using Eisenhardt's and Browns's patching concept (1999), Ganz and Tombeil applied traditional organisation concepts such as specialisation, coordination etc. (cf. Pugh et al., 1968) to describe the companies. Questions regarding the reason and the way certain patterns developed were not tackled. They concluded by stating that young and dynamic ventures have hybrid organisational models with a focus on a functional structure.

Geeraerts (1984) examined the influence of the type of ownership on organisational structures in small firms. Grounding his study on the Aston's

operationalisations (Pugh & Hickson, 1976), he found that no relation exists between size and structure in the group of business-owner managers . But a positive relation was found in the group of not-owner managers. And the larger the firms the more differentiated and formalised they were. However, he also pointed out that there status of the management influences other aspects of the structure as well. But he failed to name these influences. An explorative and qualitative study might be able to identify some of those influences.

Van de Ven et al. (1984) stressed the role of organisation for the planning and initial development processes of new ventures. They compared 14 educational software companies from an entrepreneurial, an ecological and an organisational perspective. The latter mainly tested how well the companies had planned their foundation and followed the Program Planning Model developed by Van de Ven and others (Delbecq & Van de Ven, 1971; Van de Ven & Koenig, 1976). However, they admitted that *"no business, however well conceived and planned, is likely to be free of organizational design problems"* (Van de Ven et al., 1984: 99). As the other studies presented in this chapter, the authors limit their analysis to the Aston Studies' dimensions.

Overall, there are several aspects to be criticised in these studies. First, they are typical examples of using known dimensions and results from studies regarding established companies and transferring them imprudently on new ventures. Rather than trying to derive at genuine entrepreneurial dimensions being suitable for small ventures, known concepts and dimensions from organisation theory are transferred. However, *'children are not 'little grown-ups''* (Dandridge, 1979) and thus new ventures need to be analysed with different concepts and need to be look at with different eyes. Second, these studies are based on a positivistic perspective taking structures and rules for granted. The organisation is regarded separately from its members and (relational) processes are disregarded. Third, these studies regard the new ventures at one point in time. Developments over time had not been taken into consideration. But, especially new ventures change considerably in the beginning and internal and external changes are constantly occurring. Thus, there is a need for a dynamic examination of organisational aspects in new ventures. And a constructivist point of view would overcome the distinction between structures, processes and people.

In the next section, growth models will be discussed. They can be situated in between entrepreneurship and organisation theory studies as they try to link both and as they aim at a dynamic perspective.

2.3.2 Growth models

According to Shakespeare, every man proceeds through seven stages: infant, schoolboy, lover, soldier, justice, pantaloon and second childhood (Shakespeare, 2000: Act II, Scene vii). This idea of different is often transferred to the development of organisations. As a result, a vast variety of growth models have emerged (e.g. Greiner, 1972; Galbraith, 1982; Quinn et al., 1988; Churchill et al., 1983; Scott & Bruce, 1987; Kazanjian, 1988, and many more). There exist a variety of ways in which management theory depicts these. These models generalise the (early) life of firms. The difficulties is to sort them and set up a categorisation. The first step could be by using the concept of process logic and process dynamic.[17] For the process logic, "the central focus […] is on progressions (i.e. the nature, sequence and order) of activities or events that an organisational entity undergoes as it changes over time" (Van de Ven, 1992: 172) whereas the process dynamic "explain[s] how and why a process unfolds over time" (Van de Ven, 1992: 174). Thus each model could be classified along the classes within the process logic and its dynamic. Taking Van de Ven's categorisation, these models cover three of the four categories: life cycle process, dialectic process and evolution process theory.

However, in the following, not Van de Ven's categorisation will be applied, but a different one. Just a simple differentiation between life cycle models and stage models will be used. This is the result after having analysed several categorisation of which some are shown below.

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[17] This concept is based primarily on Durkheim. See also Van de Ven (1988; 1992). For a concise overview, see zu Knyphausen-Aufseß (1995: 167-171).

Figure 2:   Categorisation of growth models by various authors

Kaiser & Gläser (1999)	Manstedten (1996)	Mohr (1992)	Pümpin & Prange (1991)	Davidsson (1989)
Market development models	Life cycle models	Life cycle models	Market development models	
Stage models	Strategy, structural change models; behavioural change models	Stage models	Strategy, structural change models; behavioural change models	Stage models
Crisis models	Crisis models	Crisis models	Crisis models	
Metamorphosis models			Metamorphosis models	
	Mathematic formal models			Economic theories

Source: Author

Stage or life-cycles models discuss the entire life span of organisations, and thus also new venture organising. They provide a dynamic view on the development of organisational structures and processes (cf. discussion in Aldrich, 1999: 196-201). Usually, *life-cycle models* abstractly represent a cycle of emergence, growth, maturity, and decline, whereas *stage models* usually focus on the generic problems organisations encounter during growth. Firms are assumed to grow in distinct stages, each stage concluded by a set of typical problems and organisational responses. With each stage, the organisation would adopt to a specific configuration. Thus, these models largely share the configurational approach of e.g. Mintzberg (Wiklund, 1998: 29). The phases depicted in stage models are often similar. In the initial phase, an owner-manager might lead the firm informally. When a certain size is reached, a management crisis would occur, leading to the introduction of more structure and centralisation. The next crisis would occur when decision-making by the owner-manager became the bottleneck and more delegation was called for. This would eventually lead to the control crisis, asking for more coordination, and so forth (e.g. Greiner, 1972). Barry (1980) argued similarly by stating that during the venture's maturity, the personality of the founder would no longer match the new organisational requirements and the founder/manager needs to be replaced. The new phases would demand more delegation, planning and informal relationships, as the organisation becomes more formal and structured. All of these models simplify a

vast amount of facts associated with change and reduce a complex process to a uniform, predictable and deterministic pattern.

These stage or life-cycle models are on the one hand intuitively appealing as they directly address the issue of new venture growth and accurately point at the gradual nature of firm evolution. However, life-cycle models only conform to a uniform path of growth in a deterministic way (e.g. Fombrun & Wally, 1989). They assume that organisations pass through all the stages of the life cycle and that there would be an optimal configuration for each stage (cf. discussion in Wiklund, 1998). But, young ventures might simply experiment with new organising principles within the same stage, and these would not be accounted for. Life cycle models especially see the process as primarily dependent on the time factor. In other words, organisations follow the same time consistent pattern as they grow and decline (Hofer & Charan, 1994). The models mainly focus on the evolving of formal structures. They therefore neglect informal structures and processes. And they oversimplify the nature of the role of the entrepreneur or the entrepreneurial team. But the founders' motivations, decisions and actions have a great impact on the growth process, but are hardly considered in these concepts (Achtenhagen & Moehle von Hoffmannswaldau, 2003). In addition, a number of these models share the problem of lacking empirical evidence (Gibb & Davies, 1990).

2.3.3   Dynamic views on entrepreneurial organising

More dynamic views on organising and entrepreneurship look beyond the structural and configurational dimension and focus on organising as a process in new ventures. *"Entrepreneurial behaviour is about exploring 'how' various activities undertaken by individuals emerge into organizations"* (Gartner & Carter, 2003: 2).

As a notable exception to the lack of studies in this area, Bouwen and Steyaert (1990a) showed how the construction of organisational texture can help to analyse the entrepreneurs' motivation and how they try to transmit their initial ideas and logic to the organising processes. The focus is on what the entrepreneur thought and did in interaction with co-workers to create an organisation. Two developmental processes were identified. One reflects the emergence of a social network, while the other reflects the emergence of a task domain. The concept of 'organisational dialogue' was introduced to describe the action strategies through

which these two processes were connected. One finding states that the entrepreneur who initially acts as an inspirer, links his organisational members and sets the initial logic to the organising process. This study clearly showed the importance of the entrepreneur on the organising process. However, what happens if the venture is not founded by a single entrepreneur but by a team? Who then sets the initial logic or are other processes taking place instead?

In their second study, Bouwen and Steyaert (1990b) looked again at the creation of the social system which emerges during the organising process and which needs to be organised. The authors addressed five dilemmas which oscillate around the tension of creation and integration. The entrepreneur's constant task is to decide between staying in the initiating mode or to move into the organising mode as he is confronted with the transition between starting and organising. Bouwen and Steyaert concluded that creating a business and organising a firm are governed by different rules. This means that learning processes need to take place in order to manage both modes.

This scarcity of dynamic studies regarding organisational aspects in new ventures points to the need of further research in this area. One problem is that many theories are based on static concepts and therefore difficult to apply.

2.4 Conclusion: the lack of organising studies in entrepreneurship

This chapter depicted the developments in entrepreneurship research from a historical and from a current perspective. In the historical part, the perceived tasks of an entrepreneur were described. These had changed over time from a risk taker over a coordinator to an innovator. Today, the focus has moved towards the management side. The first authors were coming mainly from the economics' field, today these are mainly management scientists, psychologists and sociologists who research this subject. The variety of recent entrepreneurship definitions mirrored this and the section drew a picture of what entrepreneurship means today.

Entrepreneurship is a research field which covers a vast variety of topics all being linked to new ventures. Among these is research about personal characteristics, about factors affecting new ventures' performance, about venture capital and finance and about the influence of social networks which were described in detail. An additional topic is the organisational development of new ventures and their

organising processes. However, organising processes is not a prominent topic in entrepreneurship research so far. Most studies view the organisation as a static body rather than studying the new venture's organising processes which are dynamic and relational. One of the reasons is that organising itself is not seen as a key to new economic activity, which is at the heart of entrepreneurship studies. The knowledge of the early-stage processes of organising, in which the foundation for future structures and processes is built, is very scarce. In addition, none of the studies on new ventures took into consideration the fact that a high percentage is started by a team. Thus, team aspects in organising processes are relevant and need to be considered.

For conducting a study about organising processes in new ventures, a detailed look at organisation studies is crucial. Therefore, the next chapter will give an overview of organisational theory and an introduction to the concept of organising.

3 From organisation to organising

As organising in new ventures touches upon entrepreneurship and organising theory alike, both research areas need to be analysed. As organisational aspects have hardly been regarded in entrepreneurship, the question is to what extent organisation theory can provide explanations. The focus in this chapter will be on organisation design theory first and then shift to more constructivist approaches. Finally, organising as a concept will be displayed and especially the theory developed by Weick.

3.1 Traditional organisation theory

Organisation theory has many different facets. There simply is not *the one* theory but a variety of different (Scherer, 2001). Choosing a possible organisation theory is dependant upon the unit of analysis, i.e. the behaviour of the individual within an organisation, the relationships between different organisations or the structures of organisations (e.g. Pfeffer, 1982; Astley & Van de Ven, 1983). As this study aims at analysing organising processes in new ventures, the organisation design perspective comes closest. Before giving an overview of its development, basic questions about the character of an organisation will be dealt with first.

3.1.1 What is an organisation?

Writing about organisation theory, the first thing to do would be to give a definition of an organisation. The word 'organisation' is derived from the Greek word 'organon', i.e. tool or instrument (Brunsson & Olsen, 1998: 14). But what is and what constitutes an organisation? Which are the elements that differentiate an organisation from other social forms? As these questions touch already upon epistemological and ontological problems, the answers vary according to one's perspective.

Max Weber, as one of the 'scientific godfathers' of the concept of the organisation, defined an organisation (1978: 48-50, 34, 212, 1404) to have clear and definite boundaries with a central coordination system, internally differentiated, legitimated, malleable and part of a societal transformation. Many later efforts to understand organisations have dealt with the dimensions suggested by Weber's ideal model. Organisations have been seen as an ideal

research object for studying general prerequisites to rational action. Two main ones have been identified. First, the ways in which predetermined goals may be attained and second, the ability to control others whose actions are needed in order to bring about a desired state of affairs (Brunsson et al., 1998).

However, already Weber (1922/1990) was concerned about the organisation as such as he viewed an organisation as a rational tool which is at the same time coercive, inhuman and a threat to a civilised society. During the last decades, Weber's organisation model has been challenged on all his described dimensions (Brunsson et al., 1998). Organisations' boundaries have been described as being unclear and permeable (e.g. Ashkenas et al., 1995; March & Olsen, 1976). Organisations have been shown to be conflictual, polycentric and loosely coupled rather than coherent, hierarchical and tightly coupled units. Management and leaders have only limited command and control over behaviour, identities, causal and moral beliefs and incentives (Cyert & March, 1963; Cohen et al., 1972). It is uncertain under what conditions decisions at the top of an organisation will actually govern organisation behaviour. The latter is often driven by rules of appropriateness (cf. March & Olsen, 1989) rather than the calculation of expected utility. Rules and standard operating procedures are often based on identities, inalienable rights and historical experiences largely beyond the control of the management (March et al., 1976; Brunsson, 1985). Organisations cannot take their legitimacy for granted, they need to consider the potential effects for legitimacy of their talk and action. The interest in sense-making and the construction of meaning has also led to a renewed interest in how participants are educated and socialised and the mechanisms by which identities, loyalties and boundaries are developed, justified and changed through processes of interaction and interpretation (Weick, 1979; March et al., 1989).

All these criticism have challenged Weber's basic assumptions and show that the forms, processes and roles of organisations have changed fundamentally (Fenton & Pettigrew, 2000). However, there is no new coherent, theoretically oriented and empirically based research program (Scherer, 2001). Therefore, one cannot expect a single, dominant organising principle or logic of action but the aim should be to understand the competing ordering principles, the institutional complexity and the co-existence of different partial orders that exist (Brunsson et al., 1998).

Organisational theory in general distinguishes between three different conceptualisations of an organisation (e.g. Bea & Göbel, 2002; Bühner, 1999; Manstedten, 1997):

(1) The instrumental definition in which *a company has an organisation*. The organisation is the system of lasting rules and means for optimising its goal-oriented processes. The results of organising, e.g. structures and processes are subject of studies. Specialisation, coordination, configuration, delegation and formalisation are elements to analyse the organisation.

(2) The institutional definition meaning that *a company is an organisation*. The organisation is a socio-technical system and the relationships between its different elements are the main characteristics. These elements can be people, rules, boundaries and goals which are all in place by intention.

(3) The function-oriented definition in which *a company is organised*. Here, organising is an activity or function with the aim to create order. A critical aspect is the differentiation between the formal and the informal organisation.

The intensity of attention for each definition has changed over time. The first one was especially emphasised by early organisation researchers (e.g. Weber, 1922/1990). Later on, the institutionalists (e.g. North, 1992) and new institutionalists (e.g. Powell & DiMaggio, 1991) focused on the second definition. Finally, the third definition is more recently accentuated and tries to incorporate dynamic elements.

As a modification, zu Knyphausen-Aufseß (2003) altered the categorisation by adding a methodological definition. This does not approximate the definition by describing *what* an organisation is but *how* it is like. This follows March and Simon's (1958) notion which states that organisations are apparently omnipresent and thus important. As organisations are so manifold it is hardly possible to find one definition which covers all aspects and differences at the same time.

There are many more organisation definitions, many of them depending upon the epistemological stance one takes. Aldrich for example based his definition of an organisation on traditional Weberian dimensions but enriched it by a constructivist element.

"Organizations are goal-directed, boundary-maintaining, and socially constructed systems of human activity" (Aldrich, 1999: 2).

This definition pays attention to the social processes involved in the genesis and persistence of organisations. Other definitions add other criteria such as deliberate design, the existence of status structures, patterned understandings between participants, orientation to an environment or substitutability of personnel (Meadows, 1967; Scott, 1998). However, for this study, Aldrich's definition will be used.

3.1.2 Research on traditional organisational forms

Continuing with this traditional approach towards the basics of organisation theory, the next focus will be on different organisational forms in which organisation researchers have shown interest in over time. The research streams in organisational design covering the years 1950-2000 will be illustrated (cf. Fenton et al., 2000).

Figure 3:   Theoretical perspectives on organisational design 1950-2000

UNIVERSAL FORMS
Weber (1947) bureaucratic
Chandler (1962) multidivisional

CONTINGENCY THEORY

DISAGGREGATED FORMS
Stinchcombe (1959) environment
Woodward (1965) technology
Blau (1970) scale of operation

AGGREGATED FORMS
Burns & Stalker (1961)
mechanistic & organic types

Aston studies (Pugh et al., 1960/70s)
Activity & scale
Structures and activities

Harvard research
Larwrence & Lorsch (1967)
organisation & strategy
Rumelt (1974) diversification

INDUSTRIAL ECONOMICS
Williamson (1975) M-form

CONFIGURATIONAL APPROACH
Miles & Snow (1978)
strategy & environment
Mintzberg (1979) structural types

Design & Information Processing
Galbraith (1973) matrix form

NETWORK THEORY
Granovetter (1973) weak ties
Burt (1978) network properties
Lincoln (1982) network properties
Uzzi (1996) interfirm networks

Source: Fenton and Pettigrew (2000), modified

Fenton and Pettigrew (2000) argued that organisational design is characterised by the changing interest in aggregated and disaggregated conceptualisations of form. It basically started with the **universal forms**[18] of *Weber's bureaucracy* (1922/1990) which was based on the machine model of organisational behaviour in which the independent variable was some form of organisational procedure designed to control the activities of its members. Later on, *Chandler* (1962) introduced the *multidivisional form*, the M-Form, in which the creation of multiple divisions was due to the diversification of products for which resources had to be managed effectively. Both universal forms were based on hierarchy, formalisation, the division of labour and specialisation.

These two initial forms led to **contingency theory**. Its researchers created theoretical models derived from statistically established patterns of relations between contextual and organisational variables. The main interpretation was that there is no single best way of organising a business (Pfeffer, 1978). The structurally determined models posited associations between dimensions of organisational structure and contextual factors such as environment (Stinchcombe, 1965; Burns & Stalker, 1971; Emery & Trist, 1965; Lawrence & Lorsch, 1967b), technology (Woodward, 1965, 1970; Perrow, 1967) or scale of operation (Pugh et al., 1969; Blau, 1970; Blau & Schoenherr, 1971). In all of these studies, structure was seen as being dependant upon the specific circumstances the organisation faces. However, as the focus was on structures, processes were completely neglected. The studies also denied decisions-makers to have any choice between different options. [19]

Especially the Aston studies (Pugh et al., 1963; 1968) and a number of Harvard doctoral students (Lawrence & Lorsch, 1967a; 1967b; Rumelt, 1974) developed the notion of ideal types by recognising the greater diversity of organisational forms. They pursued the idea of dimensions as variables rather than the unitary conceptualisations Weber and Chandler had introduced. The *Aston studies* took a disaggregated approach by deconstructing the bureaucracy model into 26 constituent characteristics (Pugh et al., 1963; 1968). Thereafter, they combined

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[18] For a discussion about the pros and cons of "idealtypes" in organisation research, see a concise summary by Heidenreich (1991).

[19] For a critical essay on contingency theory, see Pfeffer (1978).

their characteristics to four bureaucracy models which were workflow bureaucracy, personnel bureaucracy, full bureaucracy and finally non-bureaucracy. They validated the notion that organisational structure is made up of the following five dimensions: specialisation, standardisation, formalisation, centralisation and configuration.[20]

On the aggregated forms, the *Harvard researchers* mainly equated strategy and structure with diversification and divisionalisation. Lawrence and Lorsch (1967a) focused on design principles of differentiation and integration.

In parallel to the Harvard school, another stream of research focused on ideal types of organisations, i.e. the **configurational approach**. Its researchers looked at strategy and structure from a multidimensional point of view. Miles and Snow (1978) showed that organisations adapted their unique configurations of strategy to their environments. They also indicated that this influenced the organisation's technology and structure. It resulted in four different organisational types, i.e. defender, analyser, prospector and reactor. Miller and Friesen's (Miller & Friesen, 1977, 1978) ten archetypes were derived from an empirical taxonomy of organisations. They had looked at common adaptive strategies and their structural and environmental correlates. Mintzberg (1979b) identified five structural types (simple structure, machine bureaucracy, professional bureaucracy, divisionalised form and adhocracy). Later, Miller (1986) reduced this to four strategy-structure types. The argument of the prevalence of common configurations was based on the population ecology's (Hannan & Freeman, 1977; Aldrich, 1979) premise that firms will converge upon viable configurations. Thus the repertoire of strategic and structural configurations was limited.

Due to the strong influence of (economic) sociology, **network concepts** (N-Form) have been introduced into the organisation design field (e.g. Powell, 1990; Burt, 1982, 1992; Salancik, 1995; Ahuja & Carley, 1999). Network theorists brought a more social and relational perspective to the study of organisations. The approach focuses on the identification of patterns of direct and

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[20] Heidenreich (1991) criticises the endeavour to find acontextual factors in international comparative organisation studies as these can never be acontextual from the beginning on. However, this is what Pugh, Hickson et al. (1969) had aimed at.

indirect linkages among persons and positions. As a result, networks of work and authority roles arise from an interdependence of individual lines of actions. Lincoln (1982) described the relationship between distributional form and the internal network structures of organisations as being complex and reciprocal. As classical management theorists were in part seeking solutions to the problem of managing relational complexity, the prescribed principles of formal structuring were based upon early management writers' conception of network form. Lincoln (1982) argued that the network form has shaped the modern organisations' distributional forms. Basic concepts in social network analysis are strong and weak ties as well as the dyad, the network and the node (Wasserman & Faust, 1994). The concept of embeddedness distinguishes between relational embeddedness which captures the quality of dyadic exchanges (Uzzi, 1997) and structural embeddedness which referres to the entire network system (Granovetter, 1992). If there was too much relational embeddedness, i.e. overreliance on strong ties in an organisation, the formation of cliques can act to isolate parts of the system and prevent integration which results in overembeddedness.

Recent **new forms of organising** have been described e.g. by Denison (1997) who proposes a process-based theory of organisational design which is built on the concepts of the value chain and networks. Ghoshal and Bartlett (1998) made a case for the individualised corporation as one where people and their management are central to the achievement of organisational success. Ashkenas et al. (1995) proposed the boundaryless organisation where goods and services move freely across borders within and between firms to achieve competitive advantage. Another new type is the virtual organisation as described by Handy (1996) which can be seen as a box of contracts. He suggested that organisations should be viewed as patterns of relationships rather than role positions occupied by people.

The problem with these traditional organisation design theories is that their structural categories refer mainly to formal organisational characteristics. These studies say little about the ways in which managers and members behave within them. Motivation, decisions, and actions have a great impact on the growth process, but are hardly considered in these concepts. Thus, conceptualising an organisation in terms of processes rather than static entities seems more suitable

for new ventures. Brunsson states that *"formal organizations do not always work in as organized a way as they say they do or as others describe them as doing"* (1999: 120). This means that an organisation is not only dependent on its formal structure. Instead there are more ways of analysing an organisation than by simply looking at authority and governance structures. There are organisational activities that lie outside traditional formal organisations which need to be described and that informal organisations create rules that are followed.

In order to understand organisations better and to see them not merely as consisting of authoritative structures, the next section will introduce the subjective perspective of organisations and will discuss what elements are needed when studying new ventures.

3.2 Different conceptualisations of organisation

As traditional organisation design theories lack a dynamic perspective which is needed for studying new ventures in their early years, a subjective approach to organisations is going to be specified in this chapter. As will be explained later, such an approach should be accompanied by the use of a processual language and by paying attention to dilemmas, dualities and paradoxes.

3.2.1 Objective versus subjective conceptualisations

There are many ways of classifying organisational theories and paradigms (e.g. Burrell & Morgan, 1979; Astley et al., 1983; Scott, 1998; Brunsson et al., 1998; Fenton et al., 2000). One of them is the distinction between objective and subjective or constructivist approaches as described by Burrell (1979).

In the objective approaches, *"organisations are fairly autonomous and consistent phenomena that can be described by a set of measurable attributes"* (Bouchikhi, 1998: 229). The characteristics of organisations can be grasped due to the existence of a reality that is external and independent of the knowing subject (Landry, 1995). These organisational characteristics are mostly structures which mean in this context e.g. systems of hierarchy, job descriptions, task delegation rules, process flows and regulations regarding competences. It is generally agreed that a causal connection can be drawn between structural characteristics as such, as well as between external factors and structural characteristics (Kieser, 1998).

This objective view is especially difficult to apply if trying to depict how people in organisations act because organisations are viewed as the context which is independent of the human actor. Both, organisations as well as the individuals are regarded as separate entities independent of each other. There are two fallacies with the way how people in organisations are depicted.

The first focuses solely on the person. Allport (1963: 192) has argued that those studies commit 'the individualistic fallacy' because they view *"personality as a unit in isolation"* without any *"reference to its setting in, and dependence upon, the social environment"*. People are the centre of interest and persons as well as organisations are viewed as being independent of each other. Favourite topics in these studies include individual motivation, leadership, group dynamics or job designs. The second type of theories emphasises the context and the organisation, neglecting the people connected to the organisation. This is the 'culturalistic fallacy' (Allport, 1963: 192). As a result, organisations are taken for granted because they exist independently of actors and actions.

In studies which theorise organisations as objectives, the employees are often viewed as working in and for the organisation. By setting organisations and persons apart, organisations are treated as though they themselves are actors. One example is the study of Allison (1969) in which organisations were invested with intentionality and in which they were given motive force or goals.

Rather than taking an objective approach to organisational analysis, relational processes are better for understanding an organisation. This is done in *subjective* or *constructivist approaches* in which the organisation is constructed in the organisational members' minds. All interaction patterns within an organisation have been built in the course of communication between these interacting partners (Kieser, 1999). This communication is based on mutual creation, i.e. persons build their own context, but these people are at the same time constructed by the context as well. This is due to the persons' relationships with their context and with other people. The relational processes are characterised by the activities of sense-making (Weick, 1979). This requires attention to organising as an activity which is achieved in and through cognitive and social processes. Structures are the results of the actions and the constructions of the participants (Levitt & March, 1988) and not because they are needed by the system. Persons, through their social relations, create more or less widely shared

constructions of their contexts (Hosking & Morley, 1991). This inevitable means that organising cannot be performed by a single actor. Hence, the emphasis in this study will be on the processes through which organising is achieved. However, I am not much interested in the substantive content of what emerges. The content is only needed so far, as it helps to understand the process of organising. The interest is in *"patterns of interaction amongst people, patterns which both create individuals as individuals, and which stem from their activities"* (Gerson, 1976: 796).

In shifting attention to processes, the emphasis should not be on outcomes as the end products of inputs from persons and organisations but rather on the complexities of social phenomena. This is not trivial as changing rather than stable relationships are at the centre of interest which are more difficult to grasp and to depict. The mutual and reciprocal characteristics of relational processes have to be acknowledged and their ongoing qualities should be captured (Weick, 1974b; Steyaert, 1997).

This can best be depicted by *process thinking* which is linked to the flux metaphor (Chia, 2002; Morgan, 1986). One of the first to recognise this was Heraclitus who introduced the image of a river. He transferred the 'panta rei', i.e. 'everything flows and nothing abides' to the flowing river saying *"You cannot step twice into the same river, for other waters are continually flowing on"* (quoted in Morgan, 1986: 233). This can be interpreted as a process of becoming being the basic reality of the world.

The metaphor of flux is taken up again by Morgan in his book *'Images of Organization'* (1986). This metaphor, one out of eight in his book, represents the change from a static to a dynamic vision of organisations, from a variable to a process approach. For such an approach, two characteristics are proposed. These are the use of a process language and the use of dilemmas which both demonstrate the process' dynamics (Steyaert, 1997).

3.2.2 The need for a process language

In order to concretise the process, a process language should be used. One example is Weick and his book *'The social psychology of organising'* (1969; 1979) in which the word 'organisation' disappears. He instead used the word 'organising' to create a dynamic conception. For Weick, verbs are crucial in describing process: *"Motion, change, and the flow of time would not be apparent*

without the verb and verb forms" (Weick, 1979: 43). This is similar to Bateson who coined the motto *"stamp out nouns"* (1972: 334). Using nouns rather than verbs implies that we try to stabilise everything. However, this covers up the fluid processes underlying all things (Weick, 1974b). Instead, 'organisation' should become 'organising' and the gerund should be used as often as possible.

The development of organisational theories involves the language we employ. Gartner argued in his article *'Words lead to deeds'* (1993) that the words we use influence our ability to think about the certain phenomena and our subsequent research. The use of a process language implies that members of an organisation are sensitive to the way the meanings of utterance can shift and flow. In this connection, Weick (1967: 68) refers to Vickers (1967):

> *"The proverb has it that we never step twice into the same river. It is equally true that we never go to work twice in the same undertaking. It is equally false; for these words 'river' and 'undertaking' do not denote unchanging substances, but continuing forms. The language of business and administration is full of such words. […] All are descriptive of relationships. There is nothing unusual in this. The familiar forms of language conceal from us the extent to which the objects of our attention are not 'things' but relations extended in time."*

The aim is to apply such a process language for the subsequent study to stress its processual characteristics.

3.2.3 Dilemmas as the dynamics of the organising process

A second way to approach the idea of a dynamic process is by describing dilemmas, dualities and paradoxes. To grasp the process character, a description of how the dilemmas function and how they shape the organising process should be given (cf. Janssens & Steyaert, 1999). Challenges of organisational life are more and more approached in terms of bipolar concepts (Pettigrew & Fenton, 2000; Pettigrew et al., 2003; Achtenhagen & Melin, 2003) such as dilemmas (Hampden-Turner, 1990), paradoxes (Cameron & Quinn, 1988; Poole & Van de Ven, 1989) and dualities (Evans & Doz, 1992; Janssens et al., 1999).

A *dilemma* is an either-or situation in which one alternative has to be preferred over the other (Hampden-Turner, 1990). A *paradox* can be defined as an apparent contradiction or an antinomy (Quinn et al., 1988).[21] One cannot choose between the contradictory elements as these operate simultaneously. Finally a *duality* is defined as opposing forces that have to be balanced (Evans et al., 1992), e.g. analysis versus intuition. Both its alternatives seem contradictory but can in fact be balanced, they are even complimentary.

To sum up, paradoxes emphasise the simultaneous presence of contradictory elements, dilemmas accentuate the impossible choice-situation and dualities stress the complementarities.

For Hampden-Turner (1990), a company gains value through its ability to reconcile dilemmas strategically. He argued that dilemmas appear and reappear in constantly changing forms. Evans and Doz (1992) regarded dualities as a *"pervasive feature"* (1992: 85) in the development of complex organisations. After a period of structuring and ordering in the 1950s and 1960s (e.g. Pugh et al., 1963; Kosiol, 1962) and after the principles of fit, match and consistency in the 1970s and early 1980s (e.g. Woodward, 1970; Blau et al., 1971; Mintzberg, 1979b), dualities are seen as an appropriate principle for theorising about organising. They especially are confronted with the turbulent, complex and highly competitive environment which characterises the high tech context in particular. Evans and Doz (1992) argued that dualities reflect a way of thinking, that they are some sort of mind-set.[22] Janssen and Steyaert (1999) added that the articulation of a duality is closely linked to its context and its conceived process of organising. *"Dealing with dualities thus becomes a complex organizing principle instead of simply a strategy"* (Janssens et al., 1999: 136).

All these concepts are bipolar with two distinguishable and indissoluble parts. Together with the introduction of such notions as dilemmas, paradoxes and dualities, many related terms like tensions, opposites, contradictions, dichotomies, polarities and ambiguities can be noticed in the vocabulary of organisation theory. These bipolar concepts become more and more important in organisation theory, especially in post-modern theory (zu Knyphausen, 1999).

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[21] For an elaborate discussion of paradoxes, see zu Knyphausen (1992)
[22] For an elaborate history of dualities in social systems, see Evans (1992: 88).

For Krippendorf, the paradox *"has important morphogenetic dimensions and might be a stimulus, if not the stimulus, for human cognitive growth and for social-organizational development"* (1984: 46). Steyaert and Janssen (1999) argue that the challenges of organisational life such as internationalisation, structural transitions and technological complexities require the building of tension into the process of organising.

There are two studies which deal with organising dilemmas in new ventures. The first is the study by Bouwen and Steyaert (1990b) who have come up with five different organisational dilemmas:

➢ the *motivation dilemma* concerns the entrepreneur who is asking himself whether he should or should not start a new venture,

➢ the *root dilemma* describes that the new venture builds its strength on its specific background knowledge and logic, however, new perspectives have to be brought into the venture which can be in opposition with the venture's roots,

➢ the *route dilemma* depicts the choice-problem between broadening and/or stabilising the new venture's activities,

➢ within the *time dilemma* there exist tensions between the short-term versus the long-term orientation of the entrepreneur and

➢ the *management/non-management dilemma* describes the relation either between management and non-management members or between those present at the start and those joining later.

Bouwen and Steyaert subsume these five dilemmas under the general dilemma of creation and integration. They argued that understanding entrepreneurship needs to take its dilemmatic nature into account. Although thinking in tensions and paradoxes contradicts the scientific logic of causality and determinism, it could signify a major breakthrough in searching for new pathways. However, the dilemmas should be embedded in descriptions of their social contexts.

The other study is by Brytting (1991) who ran a longitudinal grounded study of a small Swedish firm. He arrived at the idea of a 'basic dilemma' which distinguishes between two different types of organising processes: one that *"is spontaneous, non-analytical, and sometimes surprising. […] The other type of organizing process is planned and analytical"* (Brytting, 1991: 135). These two organising processes occurred at the same time in the new venture. However, he

did not further explain why he saw these two organising processes as a dilemma or how the venture coped with it.

To conclude, we can say that in order to study organising in new ventures, we need to pay attention to the language used and to look out for dilemmas, dualities and paradoxes. For using the flux metaphor, we need go beyond objective approaches as well as beyond static, reifying concepts (cf. Meyer et al., 1985). As a consequence, this implies reconsidering the idea that we can 'design' organisations (cf. Kieser, 1998). To think of organisations in terms of building and buildings is difficult to combine with a process approach. Going beyond objective approaches means searching for a new, suggestive language which allows to speak of movement and transition (Weick, 1969; Hosking et al., 1991). Most organisation theories have been directed towards stability, even the ones about change in organisations. Change projects are being regarded as temporary transitional periods in which an organisation is shuttled from one stable situation to the next. Organisations are striking in their seeming stability, but their mutability and fluidity should be seen as the norm and not as the exception. A small part of organisation theory (e.g. Weick, 1969; Hosking et al., 1991; Sims et al., 1993) is being reappraised, giving the idea of flux its due importance. This builds the transition to organising which will be depicted in more detail in the following chapter.

3.3 Organising as a process orientated concept

In order to develop a process-oriented conceptualising of the organisation and its processes, organising and its concepts will be introduced more in detail. This will be followed by Weick's organising concept (1969; 1979) which can be seen as one of the most thoroughly worked out process theories (Colville, 1994).

3.3.1 The organising process

In general, organising can be seen as the dynamic and action-based definition of an organisation. The notion of 'organising' is used by a variety of authors although many do not specify it. Even in different organising concepts, a distinction between static and dynamic categories can be demonstrated.

The simplest definition of organising is probably that it serves *"to create order out of chaos"* (Czarniawska-Joerges, 1996: 3978). Löwstedt focuses on the change of structure but acknowledging the process character by stating that *"The organising process can now be defined as the process in which an organization, or part if it, develops and changes its structure, either gradually or in dramatic leaps"* (1993: 506). However, organising should move beyond the concept of structure and rather focus on structuration. In terms of Giddens (1984), structure needs to be conceptualised as being dualistic. Structures are media and prerequisite at the same time. Delmar increases the action-orientation of organising by saying that *"Organizing involves establishing the set of routines and structures that support a goal-directed, boundary-maintaining system of activities. In contrast to much of the static description of organization theory, organizing is a process not a state"* (Delmar & Scott, 2001: 4). This last quote is focused on the definition of an organisation which is in line with Hosking (1990) as well as Bouwen and Steyaert (1990a) who emphasise that organising results in the creation of an organisation in action. However, it is finally Weick for whom organising is a truly processual approach based on constructivism. *"Organizing consists of the resolving of equivocality[23] in an enacted environment by means of interlocked behaviors embedded in conditionally related processes"* (Weick, 1969: 91). This organising process describes how the actions of individuals create an ordered and lasting process which finally constitutes the organisation (Neuberger, 2000).

Departing from this section, these very broad descriptions of organising need to be enriched with mechanisms and underlying concepts to understand it better. Analysing organisation theories in terms of organising aspects, two basic approaches to the process of organising can be discerned in literature (Ortmann et al., 1997; Czarniawska-Joerges, 1996). Organising can be either the effect or the cause of an organisation. In everyday language as well as in research, organisations are often described as objects within which various forms of work are performed. The organisation is seen as the reason of, or the frame for the organising process, i.e. the objective approach. However, if organisations are seen as socially constructed, the organisation becomes a result of the organising

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[23] In his later works, Weick uses sometimes 'uncertainty' or 'ambiguity' instead of 'equivocality' (Colville, 1994).

processes, i.e. the subjective approach.[24] The focus is then on the organising process itself, how people contribute to it and jointly develop their understanding of the process. In such a case, it would be interesting to understand which definitions of an organisation emerge and which are used by people engaged in organising. It is organising which makes an organisation and not the other way round.

If people's actions lead to an organisation, the traditional literature on organisation theory and organisation behaviour is challenged (Hosking, 1988). The organising's focus is on the dynamics of interactions between parts as opposed to the conception of parts as relatively independent sub-systems. The actions of organising contrast the static state of organisation (Emery et al., 1965). As the organising process leads to a state of being organised, its state becomes reified linguistically and will be regarded as an entity, an object or a structure. It assumes a quasi-independent existence (Czarniawska-Joerges, 1996). The organising perspective leads to a change of focus from structures to processes. It changes to an active perspective on organisational activities. This phenomenon is therefore ongoing, it is a process and it consists of a continuous set of activities.

As Weick (see especially 1969; 1979) has probably had the largest impact on the organising principle, his ideas will be presented in more detail in the next chapter.

3.3.2   Weick's theory of organising

The 'organising as a process' view is well known from Karl E. Weick's research. His book *'The Social Psychology of Organizing'* (1969; 1979)[25] can be seen as a reference to Katz and Kahn's book *'The Social Psychology of Organizations'* (1966) which regards organisations as open systems and which is a critique to neo-classical economics. The title of the books is taken up again in a variant by Hosking and Morley (1991) *'A Social Psychology of Organizations'*. All three books point to the idea that social processes constitute the dynamics of organisations, regardless of whether one is speaking of political (Hosking et al., 1991), cultural (Czarniawska-Joerges, 1992) or learning (Argyris & Schön, 1978)

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[24] See subchapter 3.2.1. for details.

[25] Weick initially published *'The Social Psychology of Organizing'* in 1969 in a very comprised and abstract form. The 1979 version bears the same title, but is otherwise a completely reworked edition.

processes. These studies show that one cannot conceive of power, culture or learning as separate phenomena from social interactions.

Weick's books (1969; 1979) charted a new course for the construction of a process-oriented theory of organisation. In addition, it entailed a refined language for the conceptualising of organisational processes. Weick specified that he is dealing with a grammar which, just as in language, consists of agreed rules by which ambiguities can be cleared as organisational members test them out. Organising is thus a social process in which unequivocality is searched within a broad spectrum of meanings.

Weick defined an organisation as something that *"is fluid, continually changing, continually in need of reaccomplishment, and it appears to be an entity only when this fluidity is 'frozen' at some moment in time"* (1969: 91).[26] He argued than an organisation has to be defined in terms of organising. *"Organizing consists of the resolving of equivocality in an enacted environment by means of interlocked behaviors embedded in conditionally related processes"* (1969: 91). Thus organising for him is mostly about information processing. Enactment, selection and retention are the three processes comprising organising.

The organising process as enactment/selection/retention

For Weick, organising is a cyclical process which consists of enactment, selection and retention mechanisms. This approach can be seen as an continuation of the Darwin model (1859) of natural selection in social terms rewritten for the context of organisations. Through *enactment*, episodes are created. Due to their ambiguity, they need further interpretation. These enacted episodes are created by generated changes or by bracketing a significant change in the environment. Through *selection*, an attempt is made to reduce equivocality by imposing or applying certain interpretative schemes or structures or enacted ambiguous episodes. Through *retention*, the products of successful sensemaking are stored in the form of enacted environments or causal maps. The result is a meaningful version of the ambiguous situation, reduced through action and communication. A precondition for enactment is the so called ecological change.

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[26] Weick ended his book with yet another definition of organisations: *"Organizations keep people busy, occasionally entertain them give them a variety of experiences, keep them off the streets, provide pretexts for story-telling, and allow socializing"* (1979: 264).

Without discontinuity, difference or any other form of variation, there is no enactable environment which is needed for sensemaking. This process of sensemaking with its four components is represented in the following schematic diagram.

Figure 4:   The arrangement of organising processes
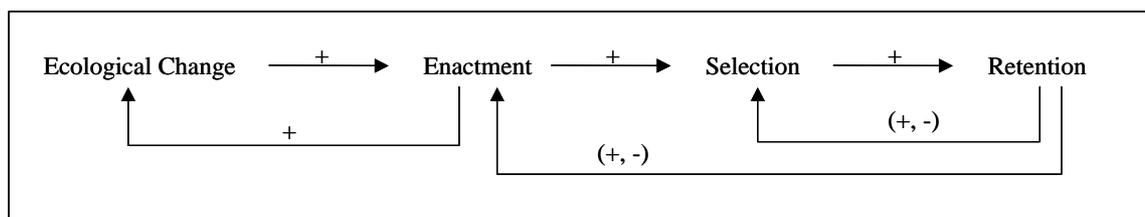
Source: Weick (1979: 132)

Each of the three organisational processes can be linked to a basic mechanism. This is 'bracketing' for the 'enactment' process, 'retrospective sensemaking' for the 'selection' process and '(dis)crediting' for the process of 'retention'.

'Enactment' by 'bracketing'

'Enactment' is the process by which reality is created and structured. The environment cannot be passively or objectively observed, but is actively constructed. 'Bracketing' plays an important role in this active construction. A person takes in only part of the environment, which then becomes his environment. *"Once something has been isolated, then that is the environment momentarily for the organization and that environment has been put in place by the very actions of the employees themselves"* (Weick, 1979: 154). In speaking and dealing with one another, people make their own and others' environments which they then observe, name or they take up action. *"It is that initial implanting of reality that I preserved by the word enactment"* (Weick, 1979: 165), and *"people in organizations need to find out what they have done"* (Weick, 1979: 152).

The enactment process provides a considerable different view of the relationship between organisation and environment. Both have long been seen as clearly separable entities, with the organisation obliged to attune itself to the changing

environment (cf. Ch. 3.1.2).[27] Instead, Weick believed that an organisation actively chooses its environment, shapes its content and interprets it. The same is applied when creating its internal environment. Morgan's idea (1986) that organisations construct their environments as projections of their own identity or self images is implicit in Weick's idea of enactment as bracketing and occurs on the basis of existing images and interpretations.

'Selection' via 'retrospective sensemaking'

The enactment process results not in one reality, but in many often ambiguous realities which demand a further reduction of ambiguity. People attempt 'to see what they say or do' and they try to come up with an answer to what they see. Ambiguity is reduced in the selection process by allowing interpretations from isolated fragments. This results in an agreement over a particular definition of reality.

The interpretations which are tested refer to previous interpretations, stored in cognitive maps, or are implicitly present in the enactments themselves. In the first case, influence proceeds from retention to selection through which new events or utterances are fitted into older and apparently successful interpretations. Thus, selection consists of the search for a possible consistence with existing frameworks and information. If this is not successful, meaning that *"if retention is discredited, then people, events, and actions that differ from previously enacted environments will be given greater attention, fresher labels, newer connections, and will have more likelihood of being stored where they will then assimilate and accommodate to whatever content remains in retention"* (Weick, 1979: 187). In the second case, categorised episodes serve as a sort of pre-interpretation, ready for further interpretations. The difference between enactment and selection is often rather small, since both imply a form of sensemaking and ambiguity reduction. The more the episode catches the attention, the greater the chance that new and adapted interpretations will be selected.

For Weick, selection is a form of retrospective sensemaking. Whatever organisation members see, understand, hear and feel is available for

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[27] See open system approach (e.g. Morgan, 1986; Scott, 1998). For a review of different views on the environment and their impact on strategic management, see Smircich and Stubbart (1985).

interpretation. Communication which reach each member are open messages. There are numerous meanings which cannot be reduced to equality with one another. However, the process of organising is loaded with equivocality and many actions which are meant to reduce this are the occasion of new and different ambiguities. These occasions are e.g. meetings, memos or reports.

Sensemaking is retrospective because it follows actions and because organisation members try to reflect upon what they were doing. This reflection assumes the form of *"writing plausible accounts, histories, and sequences for enactments"* (Weick, 1979: 195). Through communication, an agreement is reached what an action, a decision, a project or a career has been in the past and thus what it is in the process of becoming. Although organisations are to a certain point directed towards the future with their planning and strategic activities, they are indeed seen to be directed to the past as they are historising activities.

But what happens if such a common organisational history does not exist because the organisation has just come into existence? This is the case in this empirical study in which all new ventures do not share a common organisational history. It has to be analysed which mechanisms the organisation members use instead.

'Retention' through 'discrediting'

Retention is about the memory processes in the functioning of organisations. There are two sides of the organisational memory. On the one hand, memory is indispensable for creating meaning. On the other hand, forgetting is crucial, too, as it creates new space for new actions and new interpretations. How does an organisation store, apply, and destroy its retained interpretations? And how is the organisational memory organised?

Through retention, ambiguity and uncertainty are to a large extent cleared. This is mainly done in recorded form as e.g. in cognitive maps. *"An enacted environment is a historical document, stored in the retention process, usually in the form of a cause map, that can be superimposed on subsequent activities"* (Weick, 1979: 229). Through discrediting, organisation members can determine whether this knowledge can remain unaltered. 'Discrediting' remains mainly as a verb belonging to people who *"oppose, argue, contradict, disbelieve, doubt, act hypocritically, improvise, counter, distrust, differ, challenge, vacillate, question, puncture, disprove and expose"* (Weick, 1979. 229). This brings ambivalence and equivalence into the organisational process once again. Discrediting means both delaying retention for as long as possible and questioning previous

retentions. Weick situates discrediting in the tension between flexibility and stability, between multiplicity and uniformity. With discrediting, a company is caught up in an interplay of doubting what it knows and what it doubts. However, these doubts become the motor of organisational change. This is rather unusual for organisation theories as certainty is normally the prevailing principle. Through discrediting, one can acquire a fuller meaning and a variation in the interpretation which each experiment brings with it. This results in the possibility of new actions.

Organising as a social process

The organising process consists of enactment, selection and retention and takes place in the interactions implicit in acting, interpreting and understanding (Weick, 1979). Organisational actions, interpretations and knowledge do not take place in a vacuum but they are all social acts. In these, organisational members come to agreements about their perspectives. The activities of an organisation come into being through a flow of interactions between individuals, groups, departments, cultures and organisations. Thus, an organisation is a social construction. Organising is the process whereby people continuously make their organisation. They question it, rediscover it, confirm it, present it, establish it and break it open. In other words, they invent it on the basis of interactions between individuals and groups of individuals. Weick introduced a relational language since *"most 'things' in organizations are actually relationships"* (1979: 88). These are relationships between events, variables and social relationships. The latter are characterised by interdependence, a term that emphasises the circular nature of interaction. He describes the organisational flow in terms of everyday interactions. The basic unit to look at organisations are double interacts and interlocked behaviour cycles as Weick calls it. The double interact is the minimal form of a social process, namely when a person acts in relation to another one who is responsive to the first person, who is again responsive to the second person.[28] This double interact is the minimal form in which equivocality can become reduced. It is the unit in which the actions of persons become mutually meaningful. This is a minimal social situation or a form of pure organising. Without the possibility of a double interact, as in the situation of authoritative

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[28] The double interact is what Parsons has called *double contingency* (Parsons & Tolman, 1951: 3-29). See also Luhmann (1984: Ch 3).

power or bureaucratic activity, no open responsiveness and no redefinition is possible and the social process becomes reified.

Double interacts can also be seen as repetitive cycles of double interactions, which Weick called a cycle of interlocked behaviours. Double interacts become cycles of interlocked behaviours when they assume the notions of 'assembly rules' and 'grammar'. From this consecution of double interacts and cycles of interlocked behaviours, Weick tries to explain how longer sequences of organising can become intelligibly understood. He assumes that collective structures evolve from the repetition of cycles of interlocked behaviours and double interacts. He constructs the rise of organisations out of minimal social situations which is a useful approach to take in a thesis of entrepreneurship. A new organisation comes into being out of the interaction of one or two entrepreneurs and a handful of co-actors (Bouwen et al., 1990a).

The concept of collective structure was first used by Allport (1962). Whenever there is a *"pluralistic situation in which in order for an individual (or class of individuals) to perform some act (or have some experience) that he 'desires' to perform (or for which he is 'set') it is necessary that another person (or persons) perform certain acts (either similar or different and complementary to his own), we have what can be called a fact of collective structure"* (Allport, 1962: 17). He gave one answer why people come, work or live together. Weick developed this further towards a group model which can be applied to young ventures as well. People meet each other initially not around social goals, but around social means. *"Partners in a collective structure share space, time, and energy, but they need not share visions, aspirations, or intentions"* (Weick, 1979: 91). Interdependence is more readily found in the area of means than the area of intentions. When we look at new ventures in their initial phase, we can see that partnerships arose because two or more people have often worked together for a time in another company and discovered that their combined competencies and sheer presence together could form the basis for their own company. However, they have never spoken of shared visions or objectives. Weick sees social structures as coming into being in this way. *"Perhaps the most important consequences of treating the developmental sequence as starting with diverse means (towards) common means is that it preserves the crucial point that people create social structure"* (Weick, 1979: 92). Only later do these structures begin to evolve towards social objectives of which the first is the preservation of the group. As a result of this

process, different intentions will appear. Organising consists of the alternation between collectivity and diversity.

With this social conceptualisation of organising processes, Weick went beyond the individualised conception of organising on the micro level and also avoids the macro level. He argued on the meso level on which people make agreements, show leadership, negotiate and communicate.

Figure 5:   An exemplifying study using Weick's concept

Weick's theory (1969; 1979) on organising is very intriguing and has inspired many researchers. However, his ideas are used as a perspective rather than a theory and no study shows how to apply it rigorously. In addition, all these studies refer to Weick's concepts of organising and sensemaking at the same time. He elaborates on sensemaking in his last two books "Sensemaking in Organisations" (1995) and "Making Sense of the Organisation" (2000). Sensemaking is based on the concept of organising as a process, but can be seen as an advancement of his first two books. Studying his own research, the majority of articles published are conceptual and only very few are empirically based. Looking at his book "Making Sense of the Organization" (Weick, 2000) which is a collection of his major articles, the impression prevails that there is not one empirical study which covers all of his concept. Instead each paper deals with one of the major components of sensemaking. Thus there are papers about the ecological change, some about enactment, selection or retention.

For an illustration of the organising/sensemaking perspective by Weick, the study by Porac, Thomas and Baden-Fuller (1989) "Competitive groups as cognitive communities: The case of Scottish knitwear manufacturers" will by exemplified. The article explores how the mental models of organisational strategists determine perceptions of competing organisations and responses to competitive conditions. The authors have studied 17 Scottish companies manufacturing 'high quality' knitted outwear over a period of three years, conducting extensive semi-structured interviews. It is suggested that the Scottish knitwear sector exists as it is because the mental models of the decision makers intertwine to create a stable set of transactions in the marketplace. Core identity and causal beliefs allow managers to define competitive boundaries and make sense of interactions within these boundaries. The authors suggest that such beliefs are reinforced by a mutual enactment process. In this the technical choices (i.e. resource exchanges) of firms constrain the flow of information back to decision makers, thereby limiting their vision of the marketplace to that which has already been determined by existing beliefs.

Source: Author, based on the article by Porac, Thomas and Baden-Fuller (1989)

3.4 Conclusion: disregard of new ventures in organisation theory

This chapter started by discussing different definitions of an organisation and the implications of the differences. Afterwards the development of organisation design theory was depicted. It has been shown that most theories are based on an objective and static perspective of organisations. However, analysing new ventures and their organisational properties and developments, more dynamic approaches are needed. Thus a general dissatisfaction with the objective approaches to organising can be seen. First, these theories are a simplistic notion of 'fit', i.e. either mission fit, goal fit, structure fit or the like. And second, traditional organisation theory has been merely developed for large organisations. The studies hardly take any specific characteristics of new or small ventures into consideration.

In contrast to this, the subjective view focuses on a constructivist perspective on organisations allowing for seeing the patterns organisational members create through their interactions. However, two needs were articulated which accomplish this subjective view to be better suited for new ventures. These are the use of a processual language and the acknowledgement of dilemmas.

To apply an 'organising as' perspective on new ventures makes up for the inconsistencies and criticisms identified before. Following Weick, organising is the "*resolving of equivocality in an enacted environment by means of interlocked behaviors embedded in conditionally related processes*" (1979: 91). To stronger emphasise the dynamic perspective on organisations, Weick's theory of organising was introduced. The cyclical process comprises selection, enactment and retention as the three main concepts. The selection process is based on retrospective sensemaking which needs to be critically assessed in new ventures, as these do not have a history of their own in which to base the retrospective view. Therefore this study tries to find out how new ventures compensate for it and on which mechanisms they base their selection on.

To complete the discussion of organising in new ventures, the next chapter will focus on the emergence of organisations in general and organising principles in particular. The emergence perspective could be seen as an addition to organisation theory to pay attention to new ventures.

4 Creation and emergence

"Rather than asking, e.g. if strategy or technology determine structure, we need to ask how these emerge, are maintained, abolished, or aligned in the flow of members' actions and interactions." (Bouchikhi, 1998: 229). However, emergence is a multi-level phenomenon.[29] Regarding organisations and their existence, emergence can be analysed on three levels. The first is the emergence of new industries and populations of organisations as analysed by Schumpeter (1912) and later evolutionary theorists (Aldrich, 1979; Hannan et al., 1977). The second level analyses aspects regarding the emergence of single organisations as such, e.g. what are factors enabling a foundation? The last level is a micro-level describing the emergence of structures, routines and other social phenomena within the single organisation. In the following, all three levels will be discussed, although the emphasis will be on the second and especially the last aspect. However, before doing so, general thoughts about emergence as a phenomenon and its assumption from a social constructivist perspective shall be made.

4.1 Chia's process approach

What is emergence? Where does it start and where does it end? The meaning of emergence is often vague and varies in literature, usually emphasising bottom-up processes, self-organisation, internal dynamics and the absence of central design and determination (Van de Ven & Garud, 1989). Stein (2000) defines emergence as the turning up of not noticed and thus new or witty characteristics, thoughts, concepts or strategies. Mintzberg can be named as one example who differentiated between intentional and emergent strategies (1978: 945; 1994: 23-25). For him, organising is not only the result of planning but can be seen as an emerging pattern.

Prominent accounts of the emergence of organisations are population ecology (Hannan et al., 1977; Hannan & Carroll, 1995) and punctuated equilibrium (Gersick, 1988; Tushman & Romanelli, 1985). However, these 'traditional' theories are built on the idea of stasis or equilibrium as the natural state of the social world (e.g. Chia, 2002; Weber & Vogus, 2002). Organisational features are seen as developing from the *"interactions of individuals much in the same*

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[29] For different forms of emergence from a systems philosophy approach, see Laszlo (1972: 176).

way that snowflakes or ice-crystals develop from interactions of molecules" (Sandelands & Drazin, 1989: 473). As such, the language of agency, intentionality, choice, consequentiality and meaning dominates the organisation theory literature.

The underlying view is that the world is an ontology of being. *"If the emergence of novelty has to do with time and paradoxy, you can see why wherever the emergence of novelty is the matter, traditional theory cannot contribute much. Traditional theory is grounded on a logic of being, but not on a logic of becoming."* (zu Knyphausen, 1992: 146, translated by author). One way of using the ontology of becoming is by applying a genuine processual and emergent approach as e.g. described by Chia (2002). He articulated a comprehensive exposition of a process approach to the understanding of organisation as a social phenomenon. His approach is based on process metaphysics seeing the reality as continuously changing and in flux. Social entities such as individuals and organisations are manifestations of an underlying fluxing and transforming reality. Identities and attributes are themselves emergent qualities and they reflect our own temporarily stabilised conceptualisation. Individuals and organisations emerge as the loci of development within relational fields of social interactions. They are an outcome of unfolding events and happenings. As a consequence, events and occurrences rather than things are the basic unit of reality.

Change is the pervasive phenomenon whilst stability, order and organisation represent the productive efforts of human intervention to temporarily push back the immanent forces of change. In that sense, an *"organisation is nothing more than pockets of artificially stabilised patterns of interaction amidst this sea of ceaseless change"* (Chia, 2002: 13). However, organisations aim at fixing, stabilising, ordering and regulating human interactions so that predictability and productivity in social exchange can be achieved.

The couplet of structure and process is a major analytical axis for explaining organisational reality in mainstream organisation theory. Traditionally, structure and form are conceived as objective facts, existing independently of the observer. And process is thus what a structural form undergoes during transition or it is that what goes on within established structures. In Chia's approach, structures and processes are both based on events as is illustrated in figure 6 below. For Chia, structures are then *"events that manifest relative stability either because*

their rate of change is slow in relation to the observer, or because their change is linear and rhythmic and hence uniform" (2002: 15).

Figure 6:   The relatedness of events, structures and processes
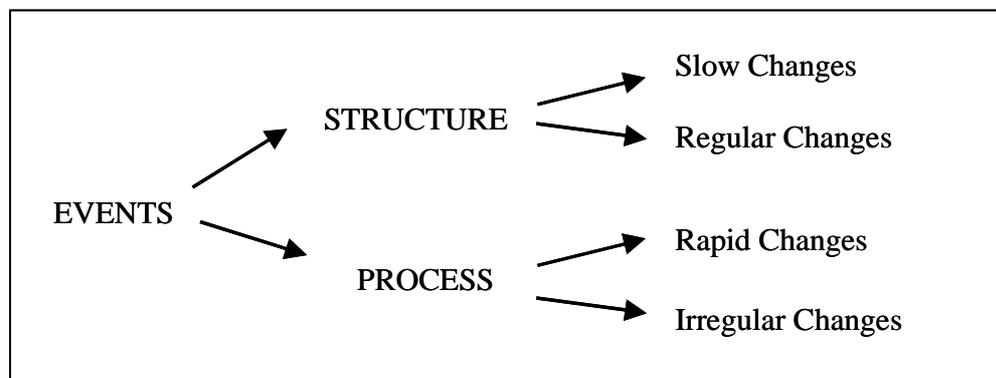
Source: Chia (2002: 16)

In this sense, organisations are event-structures that guide future human actions. And *"organizational emergence is the re-weaving of actors' webs of beliefs and habits of action as a result of new experiences obtained through ongoing interactions with 'its' environment"* (Chia, 2002: 21). Thus, emergence is an ongoing process in which actors try to make sense of it and try to act coherently.

As in other fields of social science, the focus shifted from *"nouns to verbs, from being to becoming and from what (traits you have) to how (you make this work). These studies can be described as an opening for a weak ontology, or weak thinking in theorising"* (Hjorth, 2001: 203). This can also be seen in entrepreneurship as in writings of Gartner et al. (e.g. Gartner, 1993; Gartner & Gatewood, 1992b; Gartner et al., 1992a) where the attention to the emerging, mutually creative relation between context and problem are acknowledged.

This means that stability and structural patterns are seen as the unproblematic essence of organisation, while emergence and change is problematic or even opposite to organisation. Rather the natural state of the world is regarded as a flux, a contourless flow of action and experience.[30] Organisation becomes thus an ongoing accomplishment that is actively contested and negotiated among

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[30] See also explanation about the metaphor of flux in chapter 3.2.1.

participants. It thus reflects a practice centered study of social life (cf. Schatzki et al., 2001).

4.2 The emergence of new industries

Schumpeter (1929) argued that the creation of new technologies is largely responsible for the development of new industries. Periods of rapid and discontinuous change fosters this (Scott, 1998: CH. 7).

However, the creation of new industries requires the development of an entire new community of single organisations which in total form the community. Certain financial, political and social institutions are needed to support these foundation efforts (Scott, 1998: Ch. 7; Stinchcombe, 1965). This is either done by motivating individuals to form and join such social units or by improving the chances that these units, once formed, will survive.

Due to similar societal circumstances, cohorts of new ventures tend to exhibit similar structural features. Evolutionary theories argue that basic characteristics present at the time of foundation tend to be imprinted and thus retain. As a result, there tends to be a strong correlation between the structural form exhibited by an organisation and the date of its foundation (Scott, 1998: Ch. 7).

This development can be demonstrated for Germany in the late 1990s. The rise of the internet enabled new and unforeseen economic opportunities. Complete new industries, job profiles and relationships emerged. All this met in the creation of vast numbers of new ventures. But, the financial possibilities were limited in Germany in the sense that venture capital on an institutionalised basis was hardly existing (Hellmann et al., 2001). The first foot on the venture capital market had been set by 'Technologieholding' which was founded in 1987. However, not before the late 1990s, the venture capital market had been fully established.[31] The government tried to support venture capital by providing federal funds. Initiatives such as the tbg (Technologie-Beteiligungs-Gesellschaft) and the KfW (Kreditanstalt für Wiederaufbau) granted financial resources. And the opening of "Neuer Markt" in March 1997 created an ideal exit option for venture capitalists.

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[31] For an overview of German venture capital market, see Hellmann and Fiedler (2001), and Koehnemann (2004) and chapter 6.1.3.

The above illustrates how the internet revolution has led to the emergence of a complete new industry, i.e. venture capital. And this also resulted in new business models and new ventures alike (Hellmann et al., 2001). The aspect of new ventures emerging will be the focus of the next section.

4.3 Creation processes of new organisations

General economic and societal factors (Stinchcombe, 1965; Hanlon & Saunders, 2001; Aldrich & Whetten, 1981) play an important factor in the foundation rate of new ventures. But what are reasons for and against the foundation of a new venture from the point of view of the single organisation and its possible founders?

The basic reason for founding an organisation is the division of labour, argued Adam Smith in 1776. However, work division also entails overhead costs. Someone must design, control and coordinate the divided work. Coase (1937) and Williamson (1975; 1996) introduced the reduction of transaction costs as an alternative explanation for the emergence of organisations. The coupling of cognitive limitations with high levels of uncertainty and complexity encourages individuals to move the affected transactions out of markets into organisations.[32] Later, (new) institutional theorists argued that the existing organisations and the general broad belief in these organisations are the main reason for new ones to found. *"The growth of rationalized institutional structures in society makes formal organizations more common and more elaborate. Such institutions are myths which make formal organizations both easier to create and more necessary. After all, the building blocks for organizations come to be littered around the societal landscape; it takes only a little entrepreneurial energy to assemble them into a structure"* (Meyer & Rowan, 1977: 345).

The process of creating a new organisation is an individual level phenomenon. It is the individual's actions which lead to a new organisation (Delmar et al., 2001). However, the formation of a new organisation occurs within a particular context (Gartner, 1985; Schoonhoven & Romanelli, 2001) which is influenced by environmental, economic, social and political factors. But the founder's actions are also embedded in this context. And these behaviours are seen as a process as

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[32] For a historical overview about the emergence of organisations as an institution in Germany, see Kieser and Kubicek (1992: 3-4).

they occur over a period of time, although they convey the impression of limited and concrete events. But in fact, they require series of actions (Gartner et al., 2003).

Recent studies have analysed single steps an entrepreneur takes when founding a new venture. Birley (1984) proposed eight different events in the incubation process. These events are assumed to occur in the following order: (1) owner's decision to start firm; (2) owner becomes self-employed; (3) incorporation; (4) bank account established; (5) premises and equipment acquired; (6) first order received; (7) tax first paid and (8) first full-time employees hired. Reynolds and Miller (1992) reduce this enumeration to four events with personal commitment, financial support, sales and hiring. When all four events have occurred, they speak of a fully established firm. Delmar and Shane (2001) posed the question whether the choice and order of such firm organising processes have an influence on the survival of new ventures. They found out that undertaking activities to generate legitimacy reduces the hazard of early disbanding. And that the initial survival fitness of new ventures depends on evolutionary processes prior to the legal foundation.

Factors and causes that might lead to the initiation of organisation formation activities have also been the subject of two special issues of *'Entrepreneurship Theory and Practice'* (1992; 1993) with a total of nineteen articles addressing the topic. However, Gartner and Starr (1993) already indicated that *"the predominant way in which entrepreneurial activity was construed involved viewing the process of organization creation in a mechanistic way (Morgan, 1986), that is, seeing entrepreneurial activity as a set of behaviors involved with assembling various resources that can ultimately be combined into an organization"* (Gartner et al., 2003: 16).

Rather than discussion a prevailing order, Katz and Gartner (1988) identified four characteristics of ongoing organisations instead: intention to achieve an explicit organisation purpose, assembling resources like financial support and expertise, creating a boundary e.g. incorporation and finally exchanges, i.e. trading resources across the boundary. They have shown that the organisation's emergence is a chaotic and uneven process which often does not succeed. To pay tribute to this circumstance, rather than speaking of birth which implies a smooth

process, founding and constructing are the terms used. Through this, language already shows the disorderly process (Aldrich, 1999: 77).

Two general problems should be mentioned which are linked with the analysis of emerging organisations. First, there is automatically a 'success bias' as most studies are based on successfully founded organisations (Aldrich et al., 1989; Katz et al., 1988). Second, there is the question, *when* a new organisation is founded. What is the proper point of time to speak of a new venture's foundation? *"The most important implication is the importance of separating the founding process into two parts. The gestation period, from conception to birth, should be treated separately from the post-birth period"* (Reynolds et al., 1992: 416). However, this differentiation is often difficult to do (Gartner et al., 2003).

4.4 Emergence processes within the single organisation

After the previous section has answered the question why organisations as such would emerge, the emergence of internal organisational processes will now be analysed. This encompasses the emergence of structures, rules and routines within a newly founded venture.

"Studies of emerging organizations show that most grow opportunistically, rather than by following a pre-set plan. Opportunistic growth […] threatens the coherence of new organizations" (Aldrich, 1999: 119). This quotation implies that organising needs to be organised and that it should receive some attention. As Blau (1970) noted, growth tends to increase horizontal and vertical complexity in organisations which creates a major administrative challenge for its managers.

Aldrich (1999) showed why the majority of new venture founders reproduces existing organisational forms. He argued that fundamental rules of organising exist in all modern societies. However, these may vary across societies and states. Strategies of action are generated by *"the symbolic experiences, mythic lore, and ritual practices of a group or society [that] create moods and motivations, ways of organizing experience and evaluating reality, modes of regulating conduct, and ways of forming bonds"* (Swidler, 1986: 284). These rules are part of the behavioural repertoire of socialised people who understand and use these rules as guides through most social situations. As an organisation is

a social model based on rules of any society, an entrepreneur builds his organisation on these rules as he takes them for granted.[33] As most entrepreneurs simply try to reproduce most common organising principles, the knowledge to do so must be widely available. One source for rules is knowledge and contacts made in a previous job. But what happens if the founders have hardly any work experience, e.g. if they are university graduates?

Next to organisational forms and rules, structures emerge, too. Giddens (1984) argues that structures exist only because of structured organising. And organisational structures exist only in the form of organised organising. Structures can be changed and thus emerge if organising is changed. The duality of structure means that structures are the means and the product of organising alike. They are enabling and restricting organising (cf. Ortmann et al., 1997).

If an entrepreneur organises his company, he relies very much on his experience when structuring processes. Löwstedt (1993) found in his study that the way in which entrepreneurs think about organising affects the eventual structure of their emergent organisations. To a certain extent, founders try to reproduce existing forms when founding a new venture, but they are nonetheless engaged in a discovery process, facing the challenge to create new knowledge on organising themselves (Aldrich, 1999). When trying to 'objectively' capture the emergence of organising in new ventures, one would overlook how and why these emerged.

An entrepreneur needs to improvise a lot when founding a new venture. Hardly any organising processes are fixed. The founders need to recall, develop and apply knowledge under extreme time pressure (Moorman & Miner, 1998). As soon as an organising process has been thought out conceptually, it is already implemented and executed. In contrast to established organisations in which managers have time to contemplate about their options, the entrepreneur must act immediately and has no time for reflection. However, this provides better learning opportunities (Sitkin, 1992). Lant and Mezias (1990) showed how this improvisation process allows for blind variations and novelties through which new organising processes can emerge. But this period of improvisation and possible emerging of new organising principles is limited to the beginning of the new venture (Gersick, 1994).

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[33] For rules and their origin, see Geertz (1973) and Giddens (1984).

Rather many organising processes are inevitably linked to the hiring of the first employee. Already early decisions, e.g. which applicant to hire or which tasks and jobs to give to whom, have lasting impacts on the new venture. If the organisation has hired its first employee, a division of labour and tasks begins to form alongside the emergence of a community of practice (Hanks & Chandler, 1994). The latter is the patterned social interactions between organisational members that sustain organisational knowledge and facilitate its reproduction. *"In the uncertain atmosphere of a startup, an organization's structure bears only a remote resemblance to the pictures painted in management or human resource textbooks"* (Aldrich, 1999: 127)

The first jobs to offer are mainly idiosyncratic jobs, i.e. jobs that are created around individuals. It is a matter of getting to know the new employee's abilities and competencies and later creating jobs around those. These new members are often hired without existing job descriptions. A labour division is mainly the result of the emergence of idiosyncratic jobs, the responses to organisational problems encountered during the beginning and the founders' initial plans (Aldrich, 1999).

New and existing organisational members construct their roles through frequent interactions. Eventually, a shared understanding is developed that facilitates the reproduction of organisational routines. The patterned social interactions between the members constitute a community of practice. Organisational coherence emerges as members' activities begin to involve them more deeply in communities of practice.

4.5 Conclusion: emergence processes in team based ventures need more attention

This chapter introduced emergence and emerging processes in organisations. Emerging as an ongoing phenomenon should not be seen from an ontology of being as most traditional theories do. Instead an ontology of becoming is proposed as the reality is constantly changing and in flux. And emergence is viewed as the result of social interactions. It is an ongoing process of which the founders and organisational members need to make sense of. More attention on this perspective should be paid when analysing new ventures and their organising processes. Especially as new ventures start from scratch, the emerging organising processes need to be looked at.

Organisation theory has identified three different levels on which emergence is important. These are the emergence of complete new industries, the emergence of a new organisation and the emergence of processes and patterns within a single organisation. The first is important insofar as external factors need to be identified which have enabled the emergence of each single venture. The question is whether the founders would have founded a company irrespectably of the general economic situation. On the second level, the traditional theory keeps lower transaction costs as the reason for founding a venture. However, the study aims at exploring whether this is a prerequisite or at identifying other reasons. Some entrepreneurship studies have taken a rather mechanistic perspective when looking at different steps leading to the foundation of a new venture. The question arises how a new venture which does not show these steps comes into being and how it copes with the uneven process instead. On the last, the individual company level, research suggests that founders are copying existing organising rules. These are mainly acquired during the founder's previous work experience. What if the venture is founded by a team? Do all founders have adopted the same rules? As the empirical study is based on founders which hardly have any work experience, which organising rules do they adopt?

In the course of the analyses of entrepreneurship, organisation and emergence theories in the previous chapters, many unclear aspects and questions were identified. It is therefore necessary to conduct an empirical study and explore how the founders and organisational members in new ventures have dealt with them. Therefore, the following chapter will focus on the research questions and the epistemological and methodological implications resulting from them.

5   Research questions and methodology

A researcher needs to be a master of questions: research questions, operational questions, interview questions or questions of interpretation (Steyaert, 1995). In this chapter, the research questions as well as questions concerning the research strategy will be answered. The purpose is to give the reader an understanding of the methodological reasoning that forms the base for this research project. Given the weaknesses of the theory and the studies conducted so far, an exploratory study was designed. Therefore a comparative case study method combined with a narrative and process analysis focus was applied. The aim has been to get the perceptions and logics of those directly involved in the organising processes in recently founded companies and to understand these. This chapter also contains an epistemological comment to ground the methodology. First, the research questions are going to be presented as they form the link between the theoretical chapters above and the methodology resulting from these questions.

5.1   Research questions

In the previous three chapters, the current research in entrepreneurship and organisation theory regarding the emergence of new ventures and its organising processes have been reviewed. Several shortcomings and open questions were identified which have led to the following research questions guiding this study.

Which organising principles emerge in new ventures?
As the literature review has revealed how little we know about organising in new ventures, this basic question needs to be illuminated. An explorative study should unfold principles or mechanisms that are of importance during the becoming of the venture and its early survival. Which principles can we identify that are typical for new ventures in their early phases? What are the reasons for the emergence of certain principles?

A very high percentage of new ventures in fast growing industries is not founded by a single founder but by a team. The underlying assumption is that team based ventures develop differently compared ventures founded by only one individual. Rather than an individual entrepreneur who tries to realise his idea of how to set up and run a new venture, the entrepreneurial team needs to organise itself first

before organising the venture. Therefore another research question deals with differences in the organising processes between a single entrepreneur and a team. *How does the fact, that the new venture was founded by a team rather than by one individual, influence the emerging organising processes?*

The previous chapters have made clear that most studies in the entrepreneurship field are based on concepts from traditional organisation theory. It is mostly taken for granted that these automatically fit to new ventures as well. The question to ask is whether this transfer is legitimated or whether new ventures need to be looked at with different eyes. So far, there hardly exist organising principles especially developed for new ventures. Neither have traditional organisation theories be evaluated for new or small ventures. Thus besides identifying new venture organising processes, traditional concepts need to be evaluated to what extent they can be applied to new ventures. As a result the following research question arises:

To what extent can traditional organisation theory be applied to new ventures and their organising processes?

Having developed the research questions, a useful research design needs to be set up. This starts by defining the research strategy and its methods. These will be introduced next.

5.2 Research foundations

The following section depicts the fundamental ontological and epistemological foundations for understanding the assumptions underlying this study. Burrell and Morgan point out that one's *"frame of reference, mode of theorising and modus operandi"* (1979:23) depends upon the basic meta-theoretical assumptions the researcher takes. Most studies test theories based on verification or falsification (Guba & Lincoln, 1994). Trial-and-error processes are used in order to test and modify ideas. Most of those studies are grounded on a *positivistic paradigm*[34] which assumes that reality is objectively given and can be described by measurable properties which are independent of the observer or researcher and her instruments. However, this study will be based on an *interpretative paradigm*

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[34] For detailed information in the concept of a *paradigm*, see Kuhn *"The Structure of Scientific Revolutions"* (1962).

which denies the existence of an objective reality but postulates subjective, individual and social constructions of the world (Burrell et al., 1979; Morgan, 1980). Within the interpretative paradigm, the researcher tries to observe on-going processes to better understand individual behaviour.

The epistemological and ontological understanding which is depicted above, has implications for theory and praxis alike. If everything is constructed, generating and testing hypothesis does not make sense. Research can only provide theories and constructs which gives others an idea how to see things differently (zu Knyphausen-Aufseß, 1995). Giving food for thought is thus one outcome theory can accomplish.

As there do not seem to be meaningful concepts or theories regarding organising processes in new team-based ventures, their behaviour stands out as being irrational, complex and difficult to understand. I therefore find it appropriate to conduct an explorative study with the aim to come up with patterns, issues and assertions in order to discuss organising processes from a management perspective. The purpose is to map out and elaborate on the issues I am studying. Having that in mind, a deductive approach is considered inappropriate and an inductive approach is chosen instead. To look at an organisation as a complex sensemaking process involves the interplay of individuals and social processes. Instead of starting with theoretically deducted hypothesis, I start from the actual actions and perceptions of the new ventures' founders and managers. The ambition is to explore the issue concerning organising processes and not necessarily giving a firm answer. I therefore ground the study on the empirical material I collected. Four new ventures were studied closely. The findings will not be tested on a large empirical basis afterwards.

Grounding the study on an interpretative and inductive paradigm, a qualitative approach is considered to be appropriate. One way of distinguishing between a qualitative and quantitative research is to look at the difference between:

    (a) explanation and understanding as the purpose of inquiry,

    (b) a personal and impersonal role for the researcher, and

    (c) knowledge discovered and knowledge constructed (Stake, 1995).

A qualitative approach is needed if the following is true (Creswel, 1998):

➢ The research questions ask *how* or *what* questions instead of *why*[35] questions.

➢ The study is of *exploratory nature* which means that variables cannot easily be identified. This implies a theory-building instead of theory-testing approach (Eisenhardt, 1989; Snow & Thomas, 1994). The idea is to generate new concepts and theories rather than testing existing ones.

➢ The study calls for a *detailed view* of the topic. This is in contrast to a quantitative study in which the phenomenon cannot be studied from outside and within its context at the same time (Miles & Huberman, 1994). Conceiving organising processes only from organisational snapshots of the topic is hardly possible. The aim is to be able to see patterns and links between problems, people, decisions and settings in the organisation.

➢ It is important to study organisational members in their *natural setting.* Removing them from their usual environment can lead to out-of-context results that distort them. In addition, the environment as such can be an influencing factor not to be missed.

As all these aspects are in line with the research questions mentioned before. Therefore a qualitative, inductive study based on interpretative paradigm will be conducted. Deciding for a qualitative research design implies that the study will be taking place in its natural setting, i.e. the new ventures. The researcher's task is to collect the data, to analyse it and to focus on the meaning of the participants (Creswel, 1998; Denzin & Lincoln, 1994b). Within a qualitative research setting, case studies are a well accepted qualitative method (Denzin & Lincoln, 1994a; Creswel, 1998; Yin, 1984), especially in organisation research (Ghauri & Gronhaug, 2002). The same is true for entrepreneurship research where case studies have been well accepted, too (e.g. Eisenhardt et al., 1988; Bouwen et al., 1990b; Levesque, 2001; Perren & Ram, 2004).

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[35] In contrast to this, Yin (1984: 13) also included *"why"* questions as being suitable for qualitative research. This can be explained by a rather positivistic case study approach which he proposes.

Qualitative research does not only differ from quantitative research in terms of methodology but also in the criteria assessing the empirical data. Traditional validity and reliability considerations are inadequate in their quantitative notions.[36]

The question of validity in a quantitative research setting concerns the choices of the parameters and the representativeness of the sample. In other words, validity evaluates whether the research method is capable to measure what it alleges measure. Regarding qualitative research, the criterion should asses how well the research method corresponds to the studied phenomenon. There should be a balance between the research problems and questions, the data gathering and the analysing methods. This inner-logic is a major criterion for quality.

Regarding quantitative research, *"reliability is the degree of consistency of instances when measured on different occasions by different or the same people and with different instruments of the same kind"* (Achtenhagen, 2001: 98). Reliability refers to the reproducibility and consistency of the data's processing and analysing. Regarding an interpretative approach, it is not that easy to reproduce the same results, especially when the researcher moves from empiricism to theory, i.e. from the empirical data into the interpretation through analysis. It is thus important that during the interpretative process, the reader should have the opportunity to follow the researcher's reasoning. This implies that the procedures taken are well documented and comprehensible (Miles et al., 1994). Another way of achieving a high reliability is triangulation (Jick, 1979). Multiple perceptions and methods should be used to gather data in order to clarify meanings and to verify the repeatability of the observation or interpretation (Stake, 1994).

5.3 Research methodology

In the following, the research methodology will be introduced more in detail. Out of several possible qualitative research approaches such as an ethnographic approach, an qualitative experiment or a document analysis (Mayring, 2002), the comparative case study approach was chosen and combined with a narrative and a processual analysis.

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[36] Note the discussion whether one should apply the same criteria to qualitative research as those employed in quantitative research (Denzin et al., 1994a: Part V).

5.3.1   The comparative case study approach

The case study method's objective is to carry out an intensive study on a specific object, usually a social object such as an individual person, a group or a company (Stake, 1995). The case study method can be described by gathering data in several different ways at a company and thus examining a specific present-day event or action in a limited environment (Yin, 1984). The object is studied from outside as well as within its context. The research should lead to a holistic, thorough and exact description of the object and the factors affecting it. To increase the understanding of a phenomenon or to further theory, more than one case should be examined (Eisenhardt, 1991). Case study research as an intensive method enables to identify essential factors, processes and relationships. An additional strength of the case study is its possibility to allow for different sources of evidence (Yin, 1984). The aim in conducting a case study is to understand the phenomenon from the point of view of the participants and its particular social and institutional context. This would be lost if the data was quantified (Myers, 1997).

Stake (1994) differentiates between three different case study types: the intrinsic one, in which the emphasis is on understanding one particular case without the aim to further develop theory; the instrumental type which analyses only one case but with the aim to gain further theoretical insights; and the collective type in which a number of instrumental studies are carried out. The collective type can also be titled a comparative case study. This is especially obvious when cross-case comparisons lead to a refinement of theory and a drawing of conclusions beyond a single case (Eisenhardt, 1991).

Three on-going discussions regarding case study methodology can be identifed. The first discussion regards the number of cases needed. Eisenhardt (1989) postulates the range from one to ten cases, however favouring between four to ten cases. Dyer and Wilkins (1991) argue for a single case study as it contains richer data. But Eisenhardt (1991) replies that a single case will not enable comparative case studies. In order to combine both arguments, four case studies will be conducted. This number of cases still allows for comparisons, but is still small enough to enable a thick description and a thorough understanding of each case (Rumpf & Zaby, 1997; Zaby, 1999).

The second discussion is about whether or not to enter the research field with a theoretical concept in mind. Yin (1994) explicitly states that the relevant theoretical field should be studied before entering the field. He contrasts this with other qualitative methodologies such as ethnography or grounded theory. For him no previous theoretical knowledge could be misleading. However, Eisenhardt (1989; 1991) is in contrast of the opinion that the researcher should enter the field 'theory-free', which means that the researcher should not have a theoretical concept or proposition in mind but be guided by the cases and their content. However, no researcher can be theoretically naïve and there is no way of observing the world independent of theory. Not only theoretical discussions but even empirical data are theory-laden. Still, the idea to generate theory from scratch is tempting because it might promote novelty. The purpose of conducting explorative research is to generate concepts and theories that make it possible to see things in a new way. However, the theoretical field can still be analysed prior to entering the empirical field.

The last and probably biggest discussion is about the issue of generalisability from case study research. The question is how much one can generalise from case studies in general and beyond the single case in particular. Yin states that *"case studies (as with experiments) rely on analytical generalization"* (1984: 39). This is in contrast to other methods, e.g. surveys which rely on statistical generalisations. Before the researcher can try to generalise findings to theory, he should particularise to show the case's uniqueness. That makes clear how one understands the case and then later how one derives its findings from it (Stake, 1995). Thereafter, the researcher captures assertions, issues and patterns and interprets them. A case study is suitable for enhancing general judgement (Rumpf et al., 1997), for refining theory, hypothesis building and revealing complexity (Stake, 1994) and for building general arguments (Rumpf et al., 1997). A thick description can also convey the reader a feeling of having experienced the situation himself and thus enable learning and knowledge. The cases' comparison leads to further insights (Stake, 1994). To sum this up, case studies enable to show patterns within organisations and facilitate the building of concepts and theory in order to see things in a new way.

As the case study approach is a rather broad concept, it makes sense in applying special analysis methods which can be combined with it. For studying organising

processes in new ventures, a narrative and a process analysis focus were chosen. Both complement and enrich the case study approach.

5.3.2 Narrative analysis

Hjorth (2001: 197) claims that

> *"There seems to be an advantage, when making sense of entrepreneurial processes, to adopt a narrative approach as the emerging shares the ongoingness (temporality) of the stories of the self and the world."*

But what is a narrative? There exists a fast variety of definitions (Achtenhagen & Moehle von Hoffmannswaldau, 2002) and most authors use the concepts without giving any definition. For example, narratives can be seen as a type of data (cf. Pentland, 1999), as the stories told in organisations (e.g. Boje, 1991), stories told about organisations (e.g. Calori et al., 2000), the telling about organisations (e.g. Steyaert, 1997), as a tool to gather stories in organisations (e.g. Boyce, 1995), and as a method of writing up research (e.g. Czarniawska & Wolff, 1998). Narrativity is viewed as a specific form of reality construction (Steyaert, 1995). Some authors claim narratives to be acontextual (Manning & Cullum-Swan, 1994) but most authors seem to agree that narratives can link stories to the context (e.g. O'Connor, 2000; Steyaert & Bouwen, 1997). In a broad definition, narratives *"are an account of events or experiences, fact or fiction, long or short, detailed or plain"* (Phillips, 1995: 629).

In narrative theory, stories can be viewed as a representation of the events of the past (Steyaert, 1995). With other words, a story is one individualised version of a narrative (Pentland, 1999). Schwartzman (1993: 44) points out that stories fulfil different purposes within an organisation. He lists six reasons for why they are important. Stories are

1. communicating historical experiences and provide individuals with a way to weave this experience into discussions of current activities;
2. distinguishing one's organisation as the best and/or worst and also for stereotyping other organisations;
3. socialising new members into an organisation;
4. documenting successes and failures and drawing conclusions (morals) from these examples;
5. indirectly communicating information to individuals about a range of issues that may be too sensitive or threatening to discuss directly;

6. shaping and sustaining individuals' images of the organisation in which they work.

Taken together, all these six aspects could play an important role for the organising processes in new ventures, too. It will be interesting to see which of them can be detected in the empirical study.

Concerning organisation studies, Czarniawska (1998; 2003) differentiates between three approaches regarding stories in organisation research.

1. *Research that is written in a story-like way* ('tales from the field'): this can especially be seen in case studies used as a teaching method. The students are given the circumstances and the problem and they have to fill in the action that would be possible. The general assumption with this form is that conveying the content via a storytelling mode is more effective than via the traditional scientific mode.

2. *Research that collects organisational stories* ('tales of the field'): here, the stories told in and by an organisation are being researched. Instead of data, the researcher collects accounts. The stories are a way of constructing meaning in an organisation. This form received much influence from Weick's sense-making works (1995). Stories do simplify reality but actually less than formal models do. Phillips (1995) argues strongly for the legitimacy of narrative fiction in organisation studies, not only in form of stories, but also in form of plays, songs, poems etc.

3. *Research that conceptualises organisational life as story making and organisational theory as story reading* (interpretative approach): Similar to interpretative approaches like organisational symbolism, the aim is to engage in a dialogue with the field via a story. This is in a way research as sensemaking à la Weick.

These three approaches should be regarded as 'ideal-types' and we will often find an overlap between them. In this study, I will focus on the second approach in which I will reconstruct the stories told by organisational members about the organisational settings and interpret them. However, I will also refer to stories told in the organisation. I consider this approach most useful for my purpose as I want to reconstruct what organising means in new ventures. I have argued above that the static view on organisations fails to grasp the emerging elements of organising processes. Using stories allows for a *"multiplicity of events to be*

flexibly connected along time" (Tsoukas & Cummings, 1997: 667) and which results in producing more dynamic theories (Calori et al., 2000). Following Steyaert (1997), stories are a fruitful approach to cope with an organisation's complexity as they deal with the inner as well as the outer context and address conscious and unconscious levels within an organisation. This is supported by Hjorth (2003) who claims that storytelling contextualises the events of entrepreneurship rather than constructing normative and idealised knowledge.

5.3.3 Process analysis

As the entrepreneurial context is highly dynamic and entrepreneurship has been described as a process in chapter 2.3.3., a process analysis seems more than appropriate. But what is a process and what is a processual analysis? Van de Ven (1992) identified three different meanings and ways in which the concept of a process is used in research:

1. as a logic used to explain a causal relationship in a variance theory;
2. as a category of concepts that refer to actions of individuals or organisations;
3. as a sequence of events that describe how things change over time.

The focus in this study will be upon the last two aspects. Process analysis means not to focus on one point of time but rather on the sequence of events, actions and changes that occur during a longer period. A dynamic rather than a static perspective is to be taken. But it is crucial to note that it is not a matter of simply describing the historical sequences but to identify the patterns within these processes. Special consideration will be given to the inner and outer context within which the new ventures emerge and develop. A certain degree of embeddedness enables interconnectedness between the different contexts and points in time (Pettigrew, 1992).

In order to emphasise a study's process character, attention should also be paid to the use of a process language (cf. Gartner, 1993; Steyaert, 1997; Pettigrew, 1997) as the choice of words have an impact on the perspective and way of thinking. This need has already been elaborated in chapter 2.3.3.

5.4 Research design

In accordance with the research questions and the subsequent methodology, the research design will be deducted and explained. This encompasses the choice of the case study companies as well as how to collect the data and afterwards how to analyse it.

5.4.1 Choice of case study companies

Sampling the cases is of great importance when conducting qualitative and especially case study research. However, as Stake (1995: 4) puts it *"Case study is not sampling research"*. One way of choosing the case companies is by searching for those which represent extreme positions in the field (Eisenhardt, 1989; Pettigrew, 1990) in order to gain a high variance. On the other hand, the foremost aim is to understand the case thus the selection is only of relative importance (Stake, 1995). As organising processes take place in all new ventures alike, extreme positions do not exist within this field. However, to make comparability easier and to comply with the research questions, certain criteria were developed which the companies should match. These selection criteria are the following:

> ➢ The companies have to be founded by a team. The reasoning for having chosen team-based foundations was to avoid that the company is mainly influenced by one dominant person. It is assumed that a venture that is founded by only one individual founder and not a team is much more stamped by his ideas, ideals and visions. I think it is more interesting and important to analyse how a team of founders thinks, feels and acts when shaping the organisation together. Thus their interactions are an important factor in the organising processes. In my study the size of the founding teams vary between three and eight founders.

> ➢ The ventures should not have been founded before 1999. Otherwise the founding period would be too long ago to recall and remember events and lines of action that occurred. And 1999 was still in the midst of the internet hype in Germany which had created certain external factors such as the possibility to attract venture capital. Out of the four companies chosen, three were founded in 2000 and one already in 1999.

> ➢ The new venture should not be a spin-off from an existing company as otherwise the incumbent's organising processes and culture are transferred

too easily. This was true for three companies. One company (*technology.com*) was actually based on an existing company. However, only the name was transferred. Otherwise the first company continued to exist. In that case, the new company can be regarded as a new venture.

➢ The majority of the founders should more or less just have graduated or been working at university. This should enable findings which are not too much influenced by previous work experience from being a member of a company.

➢ To eliminate certain industry specific characteristics, all four ventures should be situated in the internet industry.

➢ Finally, the companies should show a sign of rapid growth in terms of e.g. employees. Assuming that certain organising processes and structures are linked to a certain company size, there should at least be twenty people working at the company at one point in time.

Having set up these requirements, there was the question of getting access to four young companies. Two companies (*x-it.com* and *letters.de*) were chosen as there had been a contact from previous research. The other two ventures (*technology.com* and *talk-to-me.com*) were identified with the help of the regional business plan competition which was regarded as a suitable information source for relevant companies. The companies were contacted and asked for cooperation. From the beginning, it had been made clear that interviews with all founders should be possible and that recording the interviews will be allowed.

In the end, four case companies were identified which supported the study. The following figure gives an overview of the ventures that had been studied.

Figure 7:   Overview of the case study companies[37]

	technology.com	**x-it.com**	**letters.de**	**talk-to-me.com**
Industry	Software development & consulting	Software development & consulting	B2B bookseller	Natural speech dialogue systems
No. of founders	5	3	5	8
Month/year of foundation	August 2000	June 2000	September 1999	March 2000
Legal form	AG	GmbH	GmbH	AG
Highest No. of employees with company	43* in April 2002	24 in March 2001	20 in March 2001	22 in June 2002
No. of employees in Dec. 2002 (end of study)	20*	7	10	22
No. of people interviewed	3	3	4	3
No. of interviews with company	5	3	5	3
Research period	Dec. 2001 – Dec. 2002	Feb. 2002 – Dec. 2002	Sept. 2001 – Dec. 2002	Sep. 2001 – Dec. 2002

Source: Author   * not including the US subsidiary

5.4.2 Collecting the data

Choosing the data collection method depends on the paradigm of the discipline, the nature of the research object and the research questions. It is therefore not merely a means for carrying out the research project. Regardless of the chosen methods, it is important to remember that the researcher's personal influence is always crucial. She decides how the data is gathered, which aspects are taken into account, what is emphasised and which factors do not require as much attention and consideration. Dey (1995) has pointed out that data is not 'out there' waiting to be picked. On the contrary, data gathering means not only the choice for content but also the influence of several technical factors, such as making notes, recording, photographing, etc.

For this study, the data collection took place between September 2001 and December 2002. The method chosen is mainly interviews but enriched with

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[37] All company names and those from its members have been made anonymous.

company and secondary material such as web based-information, company brochures and business plans. Company documents do not present an individual's opinion or impression but rather the company's official perspective. They are an information source to add to the interviews. Current and former web pages had also been a rich data source. The internet archive (www.archive.org) has been a useful information source. To have the possibility to fall back on all these various data sources allowed for triangulation. Building the study on different types of data can improve the accuracy of the study by better judgements and a more holistic view in general (Jick, 1979).

An interview is considered to be especially suitable if the information needed relates to attitudes, opinions, experiences and observations of events, phenomena or organisational developments. The main attention should be paid to the interviewee's verbal expressions but any non-verbal expressions such as gestures, emphasis, various unintentional and intentional sounds should also be noted and taken into account. However, there exists a wide range of different kinds of interview forms, ranging from very structured interviews with closed questions to unstructured open or group interviews. For this study, a very open and only loosely structured interview form was chosen, i.e. the *narrative interview*. In these narrative interviews, the interviewee is asked to tell stories regarding the research questions (Mayring, 2002). The narrative interview is appropriate when subjective incidents and phenomena are of interest, i.e. perceptible transformation processes, projects or crises. The aim is that the interviewee is not only reporting, describing or arguing but reconstructing self-experienced events and phenomena. Very general questions such as 'How did it all start?' or 'How did the venture or project develop over time?' are used to get the interview started and going. The interviews were thus conducted in a conversational style (Burgess, 1988). Closed questions should be avoided if possible. Asking the interviewee to give examples or illustrations often lead to stories (Schwartzman, 1993). Holtgrewe (2002) claims that narrative interviews thus enable sensemaking à la Weick in real time. In addition, the narrative interview's advantage is the interviewer's ability to gain additional and new information about the phenomenon in question which she was unaware about so far. This is an advantage if the case study method is used because Yin (1984: 23) says that *"the boundaries between phenomena and context are not clearly defined"*. An interview guide can only be regarded as being preliminary and most

questions will only arise when starting to look at the field and being in it. In the end, a very thick description of the phenomena and of different events is possible. This comes *"near to an everyday account and therefore to direct observation"* (Czarniawska, 1997: 29).

All interviews were conducted face-to-face and lasted on average about 90 minutes, ranging from 60 minutes to more than two hours. They all took place at the interviewees' premises as this enhances credibility and fosters familiarity. The interviews were run in a quite similar way every time to facilitate comparisons. I would generally start with open questions about the company's historical development including aspects like the idea, the founding team and its forming, setting up the business, getting financed, the first employees and the development up to the present day. The aim is to get the interviewee talking. He should narrate his accounts of the company's development. I then would ask more specific about certain events and streams of activities to gain more depths. I let interviews develop in line with the aspects described by the interviewee as specific to the company's development and try to pay attention to themes he personally found problematic or difficult. A direct question reflecting theoretical concerns might not be the best way of finding out what organising looks like in practise. It seems more fruitful to learn how the interviewee expresses his interests and opinions in their own vocabulary. At two case study companies I conducted the interviews together with another researcher. At the first case (*technology.com*), we partly ran tandem interviews. At the second company (*x-it.com*), both of us conducted our own interviews, however afterwards discussed our findings with each other and exchanged information. This was known to the company.

All interviews were taped and fully transcribed.[38] Taping the interview instead of just taking notes enables the interviewer to concentrate on what is being said, rather than being continuously distracted by note-taking. This procedure also strengthens internal validity and reliability. The interviewees received copies of the transcripts with requests for approval. If they objected to certain parts of the transcripts they were asked to mark the parts which were then omitted from the final transcript. Interviewees were also asked to make additions or clarifications

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[38] Citations from interviews conducted in German were translated into English.

which were then integrated into the final transcript version. All transcripts are included as part of the case study data base.

In all four case companies, I was shown around the premises. This was another information source as the way people were distributed in the rooms represents yet another structural component. The architecture of the offices can foster or hinder communication, culture and identity. At *talk-to-me.com*, I even took part at their weekly lunch that they have together.

5.4.3   Analysing the data

After having collected all the data, the researcher is rewarded with a pile of data, mainly texts such as interview transcripts and documents. The next task is then to interpret the information and to come up with a new text that will bear the interpretations and findings. The presentation of the data is a very important part in qualitative research (Mayring, 2002). Analysing and presenting the data is closely linked to generating theory at the same time. I will therefore also add some ideas about theory formulation.

The method used to develop theory about organising in new ventures drew on existing descriptions of how to generate theory from qualitative data. These are in particular writings by Glaser and Strauss (1967), Mintzberg (1979a) and Miles (1979). In general, this means that theory and data were continuously compared until new concepts had emerged. It is a very iterative process. The aim is then to build a data-based theory.

The interpretation can be done by the grounded theory approach introduced by Glaser and Strauss' (1967). However, this method is best used in field work, e.g. ethnographic work as the possibility to constantly go back to the field is better. One example in entrepreneurship research is the study by Brytting (1991). Strictly speaking this method is not possible with interview methods. However, the basic idea of the iterative process between theory and data when contributing to our understanding of organising processes in new ventures is adapted for this study.

The other method used is social hermeneutics. This analysis is based on the written text which makes it very suitable for open and unstructured transcribed interviews. In the strict sense, there should be at least two researchers interpreting

the texts and asking each other questions. In those two of my case studies in which I had conducted tandem interviews, this was possible. I had the chance to discuss my interpretations with the other researcher for refinement. Czarniawska (Czarniawska, 1998) refers to Hernadi (1987) who classified hermeneutic interpretation into three steps: explication (the interpreter stands under the text), explanation (the reader stands over the text) and exploration (the reader stands in for the author).

For each case company, a thorough case story was written which provided a thick and extensive storyline. The narrative form has the advantage of leaving more room for the reader in the construction of knowledge. A story in particular offers more to hold on. As often as possible, the interviewees were quoted to convey their actual saying. In the end, the researcher writes his own story about the case. *"The case narratives are actually an attempt to re-live the stories of the interviews in a new story, which re-installs the different voices, their differences and resemblances"* (Steyaert, 1995: 466). The danger of a presentation in the form of interpretative charts is that it can be turned into an absolutism or reified as a model without taking the context into consideration. Such a model is then passed on without the reader having any perspective on how the development of knowledge took place, not to mention being able to have the researcher's own voice heard in the process.

Qualitative research in general does not aim at verifying hypotheses which have been generated from theory (Mayring, 2002). This would only be the case if following Popper's critical rationalism. Rather than theory-testing, theory-formulating is the aim. *"The idea that the essence of re-search is creating knowledge more than verifying it, and acknowledging the work of the researcher, who is more 'truth-maker' than 'theory-tester' or 'fortune-teller'"* (Steyaert, 1995: 97). Theories have traditionally be seen as being and meaning structures which aim at generality (Steyaert, 1995). However, Geertz has pointed out that these meanings are to a large part locally circumscribed (cf. Denzin et al., 1994a). He argues that *"the shapes of knowledge are always ineluctably local, indivisible from their instruments and their encasements. One may veil this fact with ecumenical rhetoric or blur it with strenuous theory, but one cannot really make it go away"* (Geertz, 1983: 4). Thus, all knowledge is always local, situated in local culture and embedded in organisational sites. Generalisability is a form

of context-independence or even of a-contextuality. A local theory can take many forms: it can be a metaphor, a mini-theory or a story. The latter is bound to context and audience without preventing us from re-telling the story somewhere else.

To sum up, the theory of generalisability becomes almost a reductionist principle, through which the world is not enriched with greater knowledge but is in fact reduced to more minimalist proportions. But the aim was to generate knowledge. Weick (1979) suggested the use of mini-theories or metaphors when applying local knowledge. Within organisation research, metaphors are increasingly seen as adequate forms to organise and generate knowledge (Morgan, 1986; Tsoukas, 1993; Alvesson, 1993). There are two different ways of using metaphors in theory development. On the one hand, the various theories of organisation can be conceived of according to the researcher's metaphorical perspective: *"Schools of thought in social sciences, those communities of theorists subscribing to relatively coherent perspective, are based upon the acceptance and use of different kinds of metaphor as a foundation for inquiry"* (Morgan, 1980: 601). In this way, Morgan (1986) arrives at a re-grouping of the organisation literature around eight basic metaphors. On the other hand, organisation researchers employ metaphors as a form of theory development, as a synthetic and powerful manner of generating theory. The language is used figuratively rather than literally. An analogy between two systems of meaning is laid down so that an attempt can be made to transfer the central characteristics from one phenomenon to a second.

As the research questions and aspects concerning the methodology have been elaborated on and as the research design has been developed, the next chapter will present the empirical cases.

6 The (hi)stories of the new ventures

This chapter mainly consists of all four empirical cases. Thorough case studies will be given analysing the new ventures' beginning and their first years. But before describing and analysing the ventures' developments, a small introduction of the internet industry and contextual developments will be given first.

6.1 Contextual factors and developments

The industry's context covers aspects such as the evolution of the internet technology and venture capitalists, the 'Neuer Markt' in Germany and the Green card for IT-specialists. This is merely a small section but helps to better understand certain developments within the companies' cases.

6.1.1 A typology and classification of the internet industry

To enable an overview over the e-commerce and internet industry, the segmentation developed by Krafft (2000) will be used. That is based on data from about 15,000 new ventures within the internet industry, collected in 1999. The data was analysed along two characteristics: turnover sources on the one hand and technology/marketing competencies on the other. This resulted in three large segments: content providers, service providers and platform providers. Within these three segments, a total of eight classes emerged with examples of companies given for each. Figure 8 on the next page depicts this framework.

The platform provider segment is seen as the initial enabler of the internet. Infrastructure companies provide access technologies for the internet and deliver the different components of which the internet is composed of. Probably due to the time advantage, US companies dominate this sector, genuine German companies only fill niches. Slightly more German companies have been founded in the software class. Some of these have even been successful on the American market such as Intershop or Brokat.

With 77%, the service provider segment has generated most of all companies. These companies either enable access to the internet via internet-service-providers or run the web pages via hosting. The integrators generate complex applications based on existing software. Multi media agencies focus on the customers' interface design and marketing activities. They sometimes create

Figure 8:   Framework of the e-commerce and internet industry
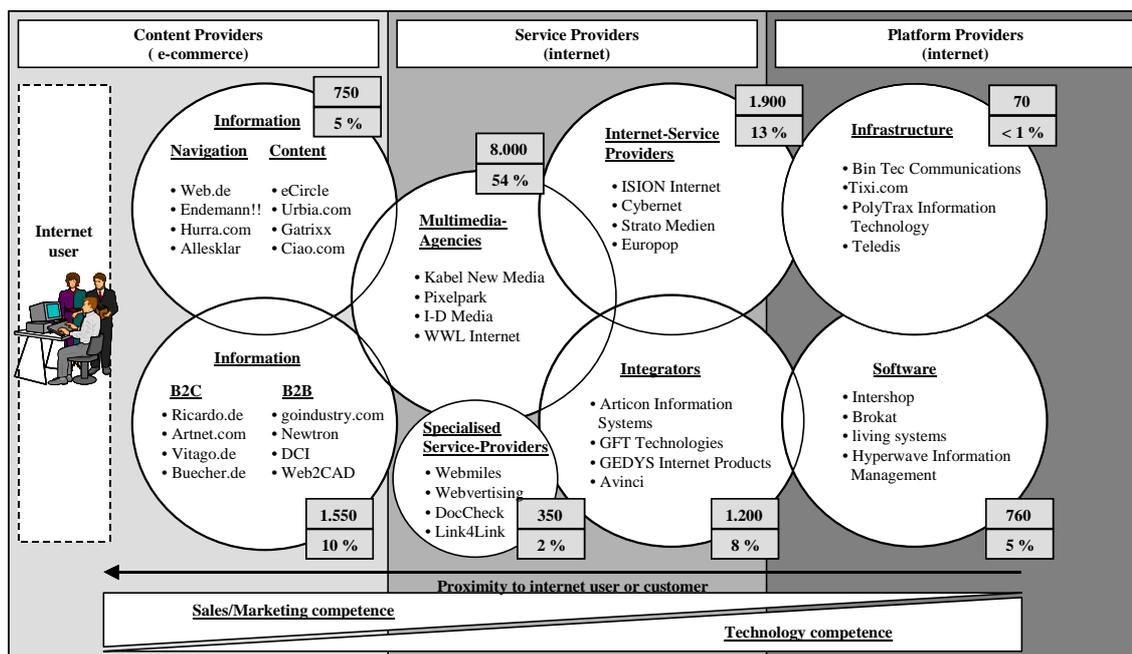
Source: Krafft (2000: 8), translated by author

simple customised applications, too. The transition between all three business models is smooth. To satisfy customer needs and wishes effectively, most of these companies operate in two or three classes. The fourth class within this segment emerged only when the industry had reached a certain degree of maturity. These specialised service providers concentrate on one step of the value creation chain solely. As specialists they can offer cheaper or better services.

The largest media interest, however, is aroused by the last segment, that of content providers. These offer products or services via the internet. First, these are information based services with a portion of 5% of all companies. These are mainly financed through advertising. One can distinguish between companies offering orientation on the internet via search machines on the one hand and content companies such as stock market information (gatrixx.com) or family related information (urbia.com) on the other. The other class in this segment is made up of companies which are transaction based and which create turnover either directly by selling or by taking provisions. Business-to-consumer companies make up 8.5% and business-to-business companies 1.5%.

Taken together, the distribution of the companies can be depicted as following.

Figure 9:   Internet landscape sorted after business models
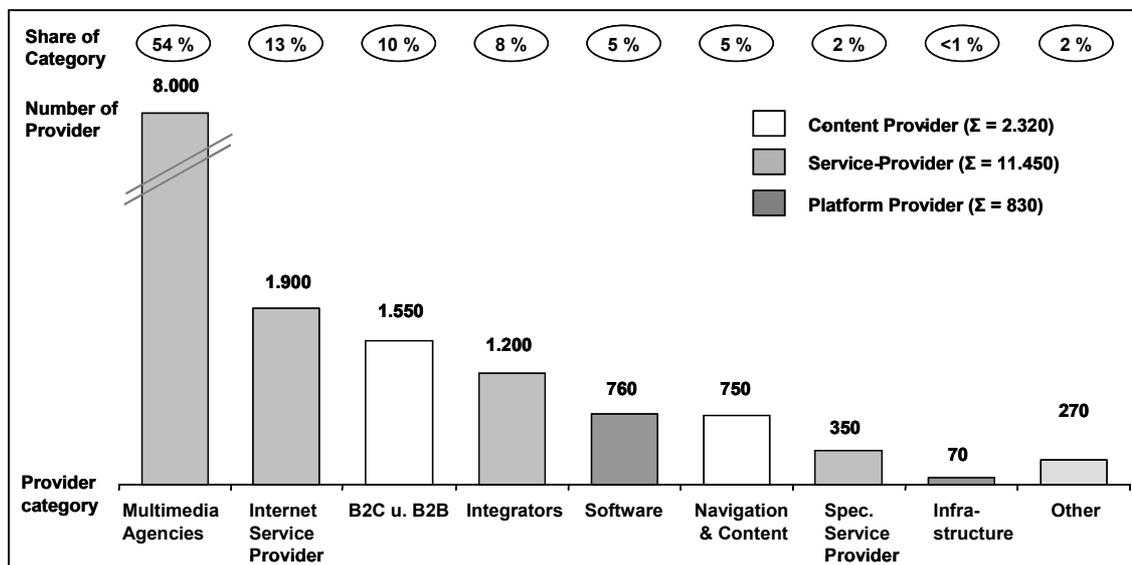
Source: Krafft (2000: 8), translated by author

The four companies of this study can be located in different segments and classes. As part of the interviews, the interviewees were asked to mark their company within this framework.

➢ *x-it.com* started as being a web-design agency and is therefore located in the multimedia-agencies class within the service provider segment. However, the venture later developed its own software which draws the link towards the software class within the platform provider segment. The interviewees marked two segments and created a new intersection.

➢ *technology.com* on the other hand is a representative from the platform provider's segment and the infrastructure class as it provides solutions for the planning, the operation and the optimisation of networks.

➢ *letters.de* is an online market place for used, rare and out-of-print books. As such it is clearly to be located within the content provider segment and the B2C information class.

➢ The only case company which does not exactly fit the classification is *talk-to-me.com* as this venture is not directly internet based but technology based. It offers solutions for voice controlled services by phone. From its structure and business model it is most likely comparable with companies from the technology/software segment.

Taken together, all three segments are covered by this study with one technological driven venture in addition. Just below, the known framework is depicted again. This time, all four case companies are included in the framework.

Figure 10:   Case companies added to the internet industry's framework
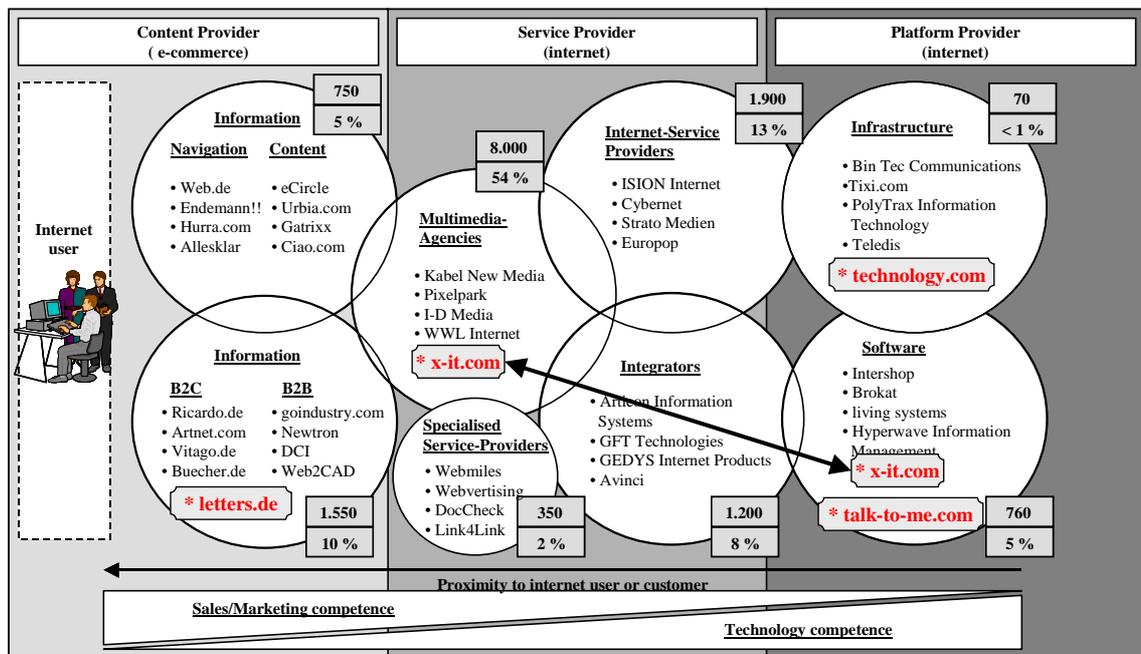
Source: author, based on (Krafft, 2000: 8)

The aim was to give an overview of all four case companies and their position within the internet industry. Next, a short introduction of the industry's context and the venture capitalist's industry development will be given. This lays the ground for better understanding the case studies.

6.1.2 Short history of the internet

The internet has not emerged overnight in the mid 1990s. Already in the 80s, quite a large distribution within universities and other research centres can be noticed. It had started as a project of the U.S. Defence in 1973 that had tried to develop communication protocols to allow different computers to communicate with each other. It resulted in the Transmission Control Protocol (TCP) and the Internet Protocol (IP). In the 1980's, public and commercial implementations of roughly hundred TCP/IP protocols became available. The breakthrough happened in 1993, when the research centre CERN (Corporation for Research and Educational Networking) announced, that there would be no patent or copyright fees to be due when using the world-wide web technologies. In

addition, 'mosaic', a much more user-friendly interface had been published which enabled non-experts to use the internet, too. Thereafetr, the University of Illinois sponsored the development of the first browser. This enabled nontechnical users to use the world wide web through graphically-based tools (Cerf, 2003; Connolly, 2000; Krafft, 2000).

Following the study of Krafft (2000), the technological development can be mirrored for the industry's development in Germany. It started in Germany with the platform provider's segment. This segment had its peak counted in companies on the market in 1996, followed by service providers (peak in 1997) and last the content providers (peak in 1999).

At the end of the 1980s, it were the platform providers that developed and sold modems to facilitate access to the internet. The foundation's peak of provider companies was in 1996/97, followed by a slight decrease whose figures then kept mainly constant. Due to the very specific technological knowledge needed, these companies are typically university or research spin-offs. The software companies of the same segment started with developing small software tools after the world wide web (WWW) was commercialised in 1993. This was followed by the development of shopping systems, online banking and customer management systems. Today, the buzzword is content management systems which enable the administration of complex web pages. The constant identification of new market opportunities allows for a constant number of newly founded companies in this segment.

This contrasts the segment of the service providers as its number of newly founded businesses is decreasing. And a strong consolidation trend can be seen with service providers, integrators and media agencies. The only exception within that segment are specialised service providers.

Last of all three segments have new ventures within e-commerce emerged. First, information providers, then B2C companies and, since 1998, B2B ones. Especially large media companies have invested heavily into this segment which made it increasingly difficult for new ventures to compete. As many B2B or B2C ventures have difficulties in creating their turn-around, venture capitalists are reluctant to invest in that segment which leads to less newly founded ventures.

6.1.3 Venture capitalists in Germany

There are three different aspects which should be considered under this heading. These are the emergence of venture capital in Germany, the creation of Neuer Markt (NEMAX) in March 1997 and its link with the emergence of internet/e-commerce ventures in Germany.

Venture capital in Germany began in 1965 when the first four funds were organised. The next milestone was ten years later, when in 1975 the Deutsche Wagnisfinanzierungsgesellschaft mbH (WFG) was created. All leading German financial institutions and the federal government supported the organisation. However, the WFG proved a complete failure and soon abandoned its early stage technology investment strategy (Becker & Hellmann, 2000). In the eighties, a number of venture capital firms followed the U.S. model and emerged with moderate success. Despite new federal initiatives to foster start-ups in high technology, such as the 'Beteiligungskapital für junge Technologieunternehmen' (BJTU), venture capital investments remained stagnant. Overall, the growth of the venture capital industry before 1997 had been slow (Bundesverband Deutscher Kapitalbeteiligungsgesellschaften, 1998: 74).

The situation changed abruptly when the Neuer Markt opened in March 1997. Neuer Markt is a special segment for technology and growth-oriented titles on the German stock market, comparable to the NASDAQ. Venture capitalists regarded the IPO at the stock exchange as the preferred option for an exit. This resulted in an increase in membership figures of 20% per year within its industry association BVK (Bundesverband Deutscher Kapitalbeteiligungsgesellschaften) (Hellmann et al., 2001). The Neuer Markt had started fulminatory and created much public interest. However, in March 2000, the market broke down and lost its sexiness nearly overnight. In the end, the Neuer Markt was closed on the 5th June 2003.

The study by Klandt and Krafft (2000) shows that the venture capital firms' boom to invest in internet/e-commerce start-ups Germany started in 1997. This newly created exit option for venture capital is seen as the major reason for the explosive growth. However, the venture capital investment boom is not the trigger for the internet/e-commerce foundations. Klandt and Krafft argue that the internet/e-commerce boom had started four years in advance, thus in 1994. It was rather customer needs which were the main reasons for new internet/e-commerce ventures to be founded between 1994 and 1997. This is supported by Hellmann and Fiedler (2001) saying that it was not only the creation of the Neuer Markt but

also the internet as providing an extreme rise in entrepreneurial opportunities and activities which gave rise in these new ventures.

Nevertheless, by late 1990, a diversified and international venture capital industry had emerged in Germany.

6.1.4 The German Green Card

Due to a shortage of IT-specialists and a lacking immigration law in Germany, the government had passed an IT-Specialists Temporary Relief Program as per August 2000. The aim was to meet the growing demand for highly qualified personnel by the information and communications industry. Via this program, IT-specialists from non-European countries were allowed to apply for employment. This temporary work permit is called '*Green Card*' and lasts maximum for five years, latest until December 2004.[39] The applicant needs to have a degree in computer sciences or earn at least 100,000 DM (or an equivalent of 51,000 Euro) with his German employer. In addition, he needs to sign a working contract with a German company to the same conditions as employees from the German labour market. The work permit is issued in accordance with the length of the employment contract, but may not exceed five years (Bundesministerium für Arbeit und Sozialordnung, 2001).

Within the first 100 days, nearly 3000 work permits had been issued. And after two years, 12,500 non-European IT-specialists had received a green card. But 20,000 green cards were available and many thus not asked for. Since the beginning of 2003, the initial high demand has slowed down. This was mostly due to economic reasons. The general employment figures in information and communication industries were decreasing, too. Nevertheless, the government claims that on average each green card has created two to three additional jobs in that sector (Bundesministerium für Wirtschaft und Arbeit, 2003c).

The following four subchapters will present the case studies. For each case, a short introduction of the company will be given in the beginning, covering the milestones and presenting its founders. Afterwards, the venture's history is described by its idea, the coming into being, the legal foundation as well as its

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[39] In July 2003, the program has been prolongued for another 1.5 years until the end 2004 (Bundesministerium für Wirtschaft und Arbeit, 2003b).

further emergence and development. For each company, a time period of two to three years is described and analysed. The focus will be mainly on its organising processes.

6.2 technology.com

technology.com provides solutions for the planning, the operation and the optimisation of networks. The new venture develops a software suite with three modules all of which are already for sale. The company was founded by former informatics researchers and graduates and it is located in a Bavarian university town. The company grew rapidly in terms of employees after they had been financed by a Venture Capitalist early on. However, as they lacked turnover, they faced severe financial problems and nearly closed the company down. They finally managed to survive by exerting severe cost cutting and re-organisational activities.

The company was founded by six persons which now will be introduced.

Professor is head of a computer science chair at a German university. He has been active in the area of Software Development since 1977 and gained a lot of business experience when he worked for companies like Alcatel or IBM. This together with his academic career gave him 15 years of experience in personnel management and leadership. He became the CEO of the company.

Simon graduated in Physics and Informatics. He was writing his PhD in computer sciences and ran his own small company doing computing systems consulting. He gained business experience through cooperation with several scientific institutions and industrial enterprises like Siemens AG and Nortel Networks. Having brought in a major patent, he became the CTO.

Michael had studied informatics and was then one of the professor's PhD students at the university. In the new venture he became responsible for HR, administration and finance as being the COO.

Mark as well as **Johannes** were both employed at technology GmbH beforehand. Joining the business plan writing team, they also became co-founders of the new venture. Mark became head of development and Johannes head of consulting. Both had studied informatics at that university.

Suresh is one of the Professor's nephews who owned and ran a small network consultancy company in the United States. This company was eventually incorporated in the German *technology.com* AG and this resulted in Suresh becoming one of the six founders of the AG.

Figure 11:   Milestones in the history of *technology.com*

1996	technology GbR was founded by the professor for accounting reasons
1998	May: the GbR was changed into a GmbH for liability reasons
2000	Regional Business Plan Competition Manager visits the professor and suggests the foundation of a separate software development company
	March: a team of four starts writing the business plan and winning a second price in the regional business plan competition
'Foundation'	**September**: foundation of the *technology.com* AG with six founders
	American sales company becomes wholly owned subsidiary
	Small turnover is generated with consulting services
2001	First employees are hired
'expansion'	**February**: VC buys shares
	March: first booth at the CeBit
	June & **August**: Marketing and Sales mangers are employed
'1st product'	**October**: module 1 is ready for sale
'strategic change'	New business plan speaks of separate products, rather than one big suite
	November: difficulties in selling the product, more marketing resources invested
	December: money from first finance round is used up
	Moving into a larger office in a new Technology Park
2002	**February**: new director for sales is employed
	Failure of running a second financing round, first VC helps out with intermediate round
'2nd product'	**March**: 2nd product is launched
	American subsidiary dismisses all employees except the founding manager
'crisis'	**April**: as no turnover is generated, all employees agree to wage reduction
	June: employees have to be laid off due to bad economic situation
	Marketing manager dies unexpectedly
	New CVC drops out in the last minute
	July: CFO is laid off
'gleam of hope'	**September**: project partnership with university is started
	New marketing manager is hired

6.2.1   The company's development

It all started with a conversation between the manager of the Northern Bavarian Business Plan competition and the Professor. The manager had visited the Professor at his university in November 1999 to introduce him to the concept of the business plan competition which had been set up in 1998 in northern Bavaria. The manager pointed to the chances new technological based venture had at the moment for receiving Venture Capital and other governmental support. The professor was not aware that the technologies he was developing at his university chair were likely to get financed. He had already founded a small company called 'technology GmbH' in Mai 1998 in order to manage and balance smaller consulting projects for industry. As universities were not allowed to issue product guarantees, this deficiency was compensated by launching the GmbH. Depending on the current project, students, graduates or research assistants were part- or full-time employed for the duration of the project.

> *"Because of my personal contacts to national and international IT-companies I was asked frequently for network consulting services. At some point we were not longer able to meet the demand due to short resources. We had the choice between turning down enquiries or outsourcing. We decided for the latter and founded the 'technology GmbH' for network management consulting. Now our developers and net-specialists at the university were able to make profit from their ideas and gained professional recognition." (the Professor in an interview, 29th April 2002, presented on the homepage)*

The conversation with the manager made the Professor think about an additional venture. He decided to write a business plan and to participate in the business plan competition. It was a sort of test. The idea was to evaluate the possibility of founding a company for computer network software. He thus asked Simon and Michael, two of his research assistants, and Mark, one employee from the GmbH, to write a business plan for developing and selling network software. It took them about three months to finish it. With this business plan they then took part in the second phase of the business plan competition. For this second of three phases, detailed financial data were not yet required. The task was rather to think about market structures and competition, the business model as well as marketing and sales.

> *"The business plan competition manager said, that what we have done so far in the service sector is pretty good and that we have good ideas in general. He suggested to try this at a bigger scale in a different setting for software development. As a result the business plan was written and we were looking for funding." (Michael, interview 3)*

Unexpectedly they were one of the winners of the second phase in May 2000. This made them think seriously about the possibility of actually founding the new venture. So far, it was more an idea and a game. Being a winner of a business plan competition's phase in those years automatically drew the attention of Venture Capitalists. However, the latter were always asking for a full business plan, especially one which showed detailed financial data for the next five years. In the end, Simon and Michael wrote a complete business plan.

From then, things happened rather quickly. Receiving Venture Capital was not that difficult and in September 2000, a private venture capitalist agreed to invest. As a result, the *technology.com* AG was founded on the 26th September with six founders: the Professor, Michael, Simon, Johannes, Mark and Suresh. *technology.com* was born. Michael and Simon were the Professor's research assistants of which Simon had mainly developed the technology during his assistantship time. To take advantage of the already existing GmbH's name and its reputation, the Professor outsourced the network management section of his GmbH and transferred it into the AG. Both current GmbH employees, Johannes and Mark, were asked to change to the new AG and became co-founders. As it happened, the Professor had a nephew in the United States who ran a small computer consultancy company. This company was eventually incorporated in the *technology.com* AG and it became a wholly owned subsidiary. Suresh, the Professor's nephew, joined the founding team and the US company functioned as a sales and consultancy subsidiary.[40]

With the legal foundation of the venture they immediately faced the problem of organising themselves within the management team. It was clear that the

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[40] In the course of this research, this American subsidiary will be neglected as far as possible. It will only be mentioned if necessary for the understanding of the American subsidiary's development. In addition, employment and other key figures will only be relevant for the German venture.

Professor was going to be the CEO. However, he stayed at the university in order to run his chair. The other positions were the result of the Professor's saying and the candidates knowledge and interests. It was first decided that Simon became CTO and Michael COO.

> *"I think, somehow it was a logic consequence that I shifted to the technical/product development department and Michael managed organizational things. Mark at first was appointed Head of Development, however it soon became clear that although he is a very good programmer and also a very good team leader, he is not really the best Head of Development. […] Johannes used to be a consultant, and has also kept doing consultancy but has not held a management position so far. He also has only few shares which reflects his small claim of leadership." (Simon)*

Simon had mainly developed the technological basis as a research assistant at the Professor's university chair. He held a patent in that technology since January 2000 which he sold to the AG in the course of the foundation. Mark, who formerly was responsible for the implementation of an early system at the GmbH's main customer, became department head of development. Johannes had first to finish his current project in the GmbH before starting to work for the AG in February 2001. He became head of consulting services.

Michael, Simon and Mark as well as two other employees who changed from the GmbH to the AG, started in autumn 2000 with the operational work. They were located at the same building as the GmbH which was an office block downtown. They started with renting one room and later expanded to three. When they started, everyone had many ideas, visions and ambitions. They were euphoric, very optimistic and had big plans in mind which were fostered by the VC's commitment. The business idea was to develop a software suite for providing efficient and reliable solutions for planning, operation and optimisation of communication networks. The technological base had been developed at the university and first experience was gained from small consultancy projects at the GmbH.

For carrying out these plans, employees were needed and had to be hired. The group of the four founders and the two former GmbH employees was not

sufficient. The growth in terms of personnel was quite fast. Eight employees were hired in the first months of 2001. And by November, *technology.com* had already 30 employees working there. These were mainly software developers and technicians working in the R&D department. They recruited many of the new employees via private networks such as employees working at other local companies or graduates which they still knew from university. Some of them had been student assistants at the Professor's chair. Still, they were not able to fill all positions needed via these ways. They placed job offerings in newspapers but developers and technicians were scarce on the job market.

> *"One typical example: we placed an expensive ad in CT thinking that CT was a renowned magazine and we could get someone to our town. However, we had two German applicants and about 200 with a Green Card". (Simon)*

In the end, *technology.com* had no other choice than employing foreign employees via the green card regularities as there were simply no qualified domestic applicants with broad knowledge and some experience. The problem was that the green card holders' education was not as good as a German degree. Nevertheless it started off quite well with the green card holders and they integrated quickly and were highly productive.

By summer 2001, the management team acknowledged to lack specific experience and knowledge. The problem was that they officially had a CEO, namely the Professor, who should run the company. Especially outsiders expected this and asked for him. However, he only took a term off between September 2000 and March 2001 to help with setting up the company. Afterwards, he was mainly at the university and only able to spent one day per week at the office actually. This double track created problems for the other founders. They sometimes wished for more support, mentally as well as operational to know how to cope with their new tasks. The Professor was willing to share his knowledge with the young management team but could do so only sporadically. He acted as a coach being present at the first recruiting talks, running some talks with Venture Capitalists and being approachable for questions. To compensate their experience and knowledge, the young managers referred to the business plan competition's coaching offerings and attended some of the seminars.

On the other hand, the strong link to the university was also an advantage. It enabled them to keep close contact to students as possible part-time employees and to be always informed about latest technological developments. They took the chance to acquire university research projects and to be part in some projects which were closely related to their own developments. In that way they financed some of their own projects and outsourced some development issues.

The business idea was to develop a software suite consisting of three modules. Instead of developing and programming the whole software suite at once, they started with the smallest one, called module 1 in the following. The initial plan was to have it ready for sale in October 2001. As they also sold network consultancy hardware components, they had turnover from the first moment. To support the future sale of their software product, they started with sales and marketing activities in May. The plan was to create a network of sales partners which would distribute their software products in addition to their own sales staff. For all these marketing and sales activities, they needed qualified employees. The VC had made the requirement that a marketing and a finance manager had to join the management board as the founding team lacked finance, sales, and marketing expertise. Simon and Michael were trying hard to find a suitable candidate. As they were so young, they hoped for someone more senior with 'white hair'.

> *"[It] makes a difference whether a sales manager is 25 years or 50 years old. This has nothing to do with performance or know-how but with trust." (Simon)*

But it was rather difficult to find appropriate candidates.

> *"One typical thing was to get an experienced head of marketing and Sales. We had human resources consultants and checked the market. We wasted a lot of time on that and then came Bernhard, who quite well fit into the company. But altogether, we wasted around 100,000 [DM]." (Simon)*

They met Bernhard at the CeBit. He started in May as their Marketing & Sales Manager and began setting up sales activities.

> *"In the next step a lot of work was done and Sales came in. Sales was supposed to do Sales and Marketing. However, this did not go too well, as Sales made no Marketing because they did not understand the product in the beginning. Thus, the technicians made Marketing as*

well. Actually, we had quite good technical Marketing, but in order to convince another company's management, you need typical Marketing phrases, and those came only after a while. This only happened after people had stepped back, looked at the charts and said that they had to make these statements as well. Meanwhile, we have achieved very good results." (Simon)

In August, the new CFO began his work. And in October, Boris joined them as head of indirect sales. Other than Bernhard, he was over fifty and thus complied with the white hair wish.

In the course of the year 2001, *technology.com* changed its recruiting process. The first big wave of new employees had been hired by end of November and the immediate placements slowed down by number. Initially, all applicants were interviewed by all managers before being accepted or rejected. After a while they realised that this process wasted too much time and resources. Why should the CTO run an interview regarding a sales applicant?

"I also had to accept that certain decisions were made without me where I thought I should have been asked. But very often that did not work because of the time schedule. In the beginning, I also employed people for Sales if they needed a new employee. But sometime down the road there were suddenly new employees I was not informed about. Maybe somebody had told me about it, but during this rapid growth period I just forgot about it because I had so many other things to do." (Simon)

This change in recruiting processes triggered a rethinking of other processes, too. It especially showed Simon that he needed to learn to delegate more, which was true for Michael as well. The company had grown too big that they were still able to deal with every matter and solve every problem. They had to learn to let go from certain topics. As a result, the recruiting processes changed and not everyone was involved in every decision any longer.

This rapid growth in personnel led to problems half a year later. Most obvious was the change in atmosphere and identity. The beginning was characterised by an informal and relaxed atmosphere. Employees met after work and went out for a beer in the evening. This also fostered a quick integration of new ones. But this informal atmosphere and the friendship network disappeared. There were too

many new employees coming in and the existing ones were not able to keep up the speed to build friendship relationships with all the new ones. This was aggravated by employing more and more green card holders. The first green card holders made an effort to get integrated and succeeded. But as others from the same country and culture got employed, they stuck together and a separation began. The green card holders were not any longer in the need to build friendship networks with their German colleagues. Sticking together with the ones from your own country is much easier. Soon the Asian employees, coming mainly from Taiwan, built their own clique. Corporate culture was an issue the management did not pay attention to in the beginning.

> *"At the beginning we did not really strive for a company culture. We just acted on instinct, always coordinated but not in the way that we had a document stating company functions, the culture or alike. It was clearly in our minds, but not formalised or coordinated. It just happened. Due to the preliminary work that was done, we meanwhile have noticed that there are gaps especially concerning company culture and the way we handled certain things internally." (Michael, interview 3)*

At that time, more and more problems became apparent, especially organisational problems. The parallel product development of three modules for the suite had to be handled as well as increasing marketing and sales activities. And it became apparent that the informal communication and coordination mechanisms did not work properly any longer. The company was simply too big for informal mechanisms working quickly and sufficiently. The immediate response were additional meetings to serve communication, coordination and control purposes. So far, there was a management board meeting which had been started right from the beginning on. It took place every Monday morning as this was the best time for the Professor to join them. This meeting actually evolved out of a pre-founding business plan meeting and lasted until the second quarter in 2001. It had mainly served to discuss business plan matters and early organisational aspects when setting up the company. In addition, the management had no specific process by which they informed the employees about important decisions or outcomes. It was rather handled in a word-of-mouth way. As the company was so small in the beginning of 2000, everyone knew the latest information quite quickly. The management meeting was supplemented by the

founder meeting. All five founders met on an irregular basis when important decisions had to be taken. It was especially important for the Professor who was seldom present at management meetings as well as for Mark and Johannes, who did not belong to the management team. They especially had to be informed about current management issues. This constellation of two founders not being part of the management team was a bit of a problem, as Simon acknowledged.

"It certainly is not always easy for both of them and it implies quite a potential for conflict and frustration. [...] Most of the time, I try to inform them about the decision that have been taken. However, that does not always work frictionless or to my satisfaction." (Simon)

After the development department outgrew ten people, the management realised that more structures were needed. Especially coordination had to be enforced as people did not know who was working on which project. The management had lost the feeling for who was responsible for which tasks or groups. Neither did the employees know who to address for certain topics. This was partly due to the fact, that more than fifty percent of the workforce was working since less than six months in the company. The first measure the management introduced in summer 2001 was that every developer had to write a weekly report. They then introduced team structures.

"There were similar trends in the development department. At first, we tried having a flat hierarchy through which all developers were informed about almost everything. But with more than twelve or thirteen developers, this no longer works. Currently, there are teams with team leaders and group leaders." (Michael, interview 2)

In autumn 2001, the management started reorganising and restructuring activities. It was a period in which the management deliberately thought about which measures to take and discussed different options. One issue was the ability of self-organising which they thought they could demand from such highly educated personnel.

The management realised that some processes they had taken for granted did not actually happen. They had thought that the different project leaders in the development section would communicate regularly with each other. Instead information structures were built vertically, i.e. either top-down or bottom-up but never horizontal. In order to change that shortcoming, all project leaders had to

meet every other week. And once a month, the project leaders had to arrange a meeting with their team. As a result, the different projects were better coordinated.

The management also introduced a sales, marketing and R&D meeting for every other Friday. The aim was to prevent marketing from promising customers all sort of functionalities which R&D was not able to deliver. Clients often commented on products and suggested functions they would like to have added. Sales had to communicate these suggestions to the developers which in turn had to comment if the changes were feasible. The meeting's aim was to coordinate these adaptation matters better and in a more regulated way. The meeting was also used to decide between the different suggestions so that R&D knew which variant to develop and to incorporate into the product.

> *"There is a meeting every Friday when Sales, Marketing and Research & Development meet in order to avoid that Marketing makes impossible promises to the customer. At the same time, the developers get to know what the customers want or what kind of projects they have to focus on. As we are only a small team we have to consider where to put our energy. If a customer says he would buy the software if this and that was working, then we have to see that these functions are implemented or adapted in order to work properly. That's why there is a meeting every Friday where such information is exchanged, where you get information on the status of each big customer and partner and which projects are running or what is in the pipeline." (Johannes)*

By the end of 2001, regular meetings had been implemented in every department: sales, marketing, administration, finance and development. These were intra- as well as inter-departmental meetings. They served not only a communication but also a control purpose. It gave the management as well as the department's and project's heads the opportunity to ask back and thus determine different projects' progresses and detect problems early on.

In summer 2001, *technology.com* faced a new situation. For the first time, an employee requested for redundancy. This came as a real surprise to the management. So far, they had thought that the team and the atmosphere were at

its best and that everyone enjoyed doing their jobs at *technology.com*. The management was aware that the salaries were not comparable to similar jobs at established companies. However, they thought, that the atmosphere compensated for it. This request for redundancy made them think about their HRM processes and activities.

> *"And I will not hire anymore anyone applying just because he is a developer. Instead I will only hire a developer because there are certain tasks for him to do and because I can show him a perspective at the company." (Simon)*

Up to then, they had been glad about every applicant willing to work for them. Although they had received an number of unsolicited applications due to their active press work, it was difficult to find good applicants willing to work for a start-up and which were in addition willing to move to a smaller university town. Many more preferred to live in a big city and to work for a well-known company. Their recruiting strategy was to hire generalists which they could employ for various tasks. As they needed so many new employees in the beginning, the specific future tasks for every applicant were seldom clear. It was simply a matter of hiring more people. The aim was to get projects going and to fulfil the VC's requirements to fill two management positions. Later on they realised that such a vague job profile had led to hiring new employees with too unspecific abilities. By summer 2001 they knew which abilities were needed and what type of person was fitting into the team. They only handed out a contract when the applicant had exactly the abilities and qualifications needed. This ensured that the employee paid off more quickly, as VC money was too expensive to grant new members a long training phase. Especially new applicants for non-development tasks had to work rather independently and should be able to seize problems and develop solutions. Due to the lack of a profound hierarchy they did not have an elaborate control system or the time to give them a lot of training on the job. Creativity was another ability that facilitated to cope with the work in a small company.

Another consequence of the sudden request of redundancy was the aim to introduce personnel talks in order to realise personnel problems earlier on. From autumn onwards, these talks took place every three months with each employee individually. It especially helped the management to recognise discontentment and to prevent requests for redundancies. They were astonished about the information they got through those talks. Most discontented employees were either bored or over-employed by their tasks. In the minority of cases it was an

issue of payment. These personnel performance reviews were also used to clarify who belonged to which department or project team and whom the employee had to report to.

In the beginning of 2002, the management had started to split the employees' salary into a fixed and a variable part. The latter was performance-based for which goals were defined on a three months basis. These were agreed in the quarterly personnel talks. Two or three goals were named by the management and one was defined by the employee. They had formalised the process by using an evaluation sheet on which aims and agreements were fixed. Beforehand, every bonus had been paid on a very informal basis. The quarterly personnel talks were also used for constructing job descriptions for every position. It was the employee's task to set up a first job description which was later adjusted during the talks. These descriptions were used by Michael and Simon to facilitate future recruitment processes as they simplified the match between an applicant's abilities and the needed requirements.

Due to the employees' organisational lack concerning the company's general structure, Michael created an organisational chart. The management realised that too many employees did not really know whom to contact for certain matters. The organisational chart was posted in the intranet and regularly updated. It was thought to be very useful for new employees as these were in a better position to gain an overview about people and positions. New employees had stated that they were lost in the beginning as no obvious structures existed. And in cases of mistakes, the relevant manager could more easily determine and track whose responsibilities were breached and what had gone wrong.

With an increasing number of employees and projects to handle, the management had less time to get involved operationally. Instead truly managerial and administrative tasks had to be dealt with.

> *"You kind of loose the overview. In the past when we only had three customers, I always knew whether a solution I had developed somewhere else was applicable. With so many employees it is obvious that someone does not know what happened with another customer in the past and whether you can re-use former solutions without developing something new. This ability gets lost sometimes. (Michael, interview 3)*

Simon found it more and more difficult to distinguish between his entrepreneurial and his managerial role. Due to his tasks and duties he had to mix both which made it very complicated. As entrepreneur he had to work very operational, support development processes and join the sales team as he knew the product best. But as manager he should be above the operational work and keep a distance to it. He should do more strategic work and management tasks such as leadership. It was especially difficult working on the one hand together with the developers and the sales team and on the other hand leading, i.e. praising, criticising and guiding the same people. Combining both roles was not feasible and he should take a decision. Part of the problem was linked to the difficulty to delegate. He found it hard to tell someone what to do, e.g. programming a specific feature, when it would be quicker for him to do it by himself. Only in the long-run will the other be as quick as himself and thus generate a true added value. He thought that delegation is linked to patience. But it is also dependent on the number of employees.

> *"Meanwhile, we can delegate certain tasks, which was not possible with only five employees." (Michael, interview 2)*

The employees lost an overview of what was and is going on, too. So far, everyone knew how one had dealt with the customers and what was done for each. They had tried to use already created solutions for as many customers as possible to avoid unnecessary duplication of work. This knowledge got lost as too many people were involved in too many projects. As a result, a similar solution got developed again due to the lack of knowledge about previous projects and solutions. It was clear that a knowledge management system was lacking.

All these changes altered the company's atmosphere substantially. The beginning was characterised by information being spread evenly in the firm by watering-can principle. Everyone knew nearly everything which was strongly affected by the office structure. As all members were sitting in three offices, news and information spread instantly. And problems were handled very uncomplicatedly at that time. As soon as one emerged, it got solved. The management afterwards tried to standardise the decision to prevent similar cases.

> *"We decided what to do at the moment when problems or questions arose. We kept that strategy and culture since the beginning. The way*

> *we decided then, we would decide today, only that today we have it*
> *formalised and standardised." (Michael, interview 3)*

The management's aim was to grant the employees a large action radius and a high autonomy of decisions as far as possible. They only wanted to be informed how the employee had decided in that matter and what actions had been taken. As a young and rather inexperienced management team, the founders often did not dare to take tough decisions and to be more resolute as they regarded themselves too inexperienced to do so. Instead they had looked out for a compromise or did not act at all. They had thought that many things would resolve itself. This resulted in having a lot of confidence in their people. Eventually they overestimated it. Their idea was to avoid setting up a large framework of rules, instructions and prohibitions. They demanded from their employees the ability to take decisions independently. This had also become a requirement for new employees. However the employees' behaviour changed. Due to the increasing number of employees and structures, the employees lost their sense of responsibility. As too many uncertainties were predominant, employees rather stuck to structures instead of thinking and taking own decisions. Instead of taking action and deciding or communicating with others, they waited for the management to take action or to call for a meeting.

> *"Once or twice they were told that they are grown-ups and therefore*
> *had to do things independently. If they want something, they do not*
> *have to call an official meeting but can meet anywhere. Slowly, they*
> *began to organise themselves." (Simon)*

The managers had to learn to take hard decisions and to be more resolute and consistent. They realised that it would also create a straighter atmosphere. Members which worked hard got acknowledged better and the others felt that they had to improve. This also fostered motivation.

One of the founders characterised the autumn of 2001 as the time when the company changed from being a start-up to become a 'normal' company. The beginning was very informal and decisions were taken quickly. They all addressed each other informally by their first name. The workforce was very young with a lot of graduates. Until the first growth phase in March 2001, the very homogeneous workforce coordinated itself and self-organisation prevailed. This ability was lost during the rapid growth. As a consequence of the different

formalisation measurements, inactivity and inertia resulted. The employees relied on the new structures and stopped their own initiatives.

> *"At the time of the incorporation, everybody talked to everybody. There was no CFO that drove a better car or who had power over the money, and whom I had to treat carefully because he paid my wages. People rather asked how to handle things and we had more of a community. When this 'community feeling' had disappeared, structural insecurities came up which dissolved when structures were created. Later on, these collapsed again, which is not totally wrong."*
> *(Simon)*

The management had then to play down the importance of structures and procedures to activate and motivate the self-organising abilities again. After a while the employees got used to take responsibility and managed to think in bigger terms again.

The management also realised that they had trusted the VC and its expertise too much. Eventually the VC did not really have such a good insight in the company to always give good advice. With hindsight, some pieces of advice were meant to be good but did not really suit *technology.com*'s situation. The management started to understand to be more critical and to use their own common sense much more.

Parallel to these organisational changes, a strategic change took place in October 2001. So far, they had aimed at developing the whole software suite parallel. As the product development processes matured only slowly and as they did not result in ready-for-sale products quickly enough, the management and the founders decided a change. The plan of developing the suite as a whole was abandoned and instead the three different modules were regarded as individual products which could be combined later in one suite. Focusing on the individual modules should enable a flexible market entry for each module and in addition lower the overall capital need. The immediate focus was then to finish the first module, a small and inexpensive tool for under 3000 € It theoretically suited most middle-sized and large companies. They already had one big customer but faced problems selling it on a grand scale. The sales manager told how a lot of companies praised the product but in the end none of them bought it.

With all the new employees and the enlarged management, the office space downtown became crowded and at last too small. At that time, the city was building a technology park at the outskirts and asked *technology.com* to move in. It emphasised *technology.com*'s pioneer spirit as they were the first to move into the city's first technology park. They agreed to move in but eventually faced the problem that the building was by far not ready and hardly anything worked in the beginning. A lot of improvising was needed after they had moved into the new rooms in December 2001.

Instead of having three offices like before, *technology.com* then occupied two levels with a total of fifteen offices. They took the chance and placed the complete research and development department on the lower floor and administration, finance, marketing & sale on the upper level. They seated employees together who work on same projects. This enabled a better communication. To visualise general task structures, a magnetic board was set up showing the various projects with its team members.

The idea for the first quarter of 2002 was to sell module 1 in large quantities and to arrange the market entry of the second module. To support the sales team, an additional sales manager was employed. At that time it also became clear that they would need a second round of financing in early summer to fully develop the whole suite. And the management realised that it had to concentrate much more on the market and its customers. To achieve the aim of selling much more of module 1, everyone in the company had to change their image of an R&D product company to a marketing-oriented company. However, such a change is difficult to get across. This mentality's change was most difficult for the employees in the development department who had been there from the beginning.

> *"The researchers, which have been with us from the beginning, simply continued as they were used to it. They have their projects which they want to bring to an end. They dislike each distraction from the outside. To develop and integrate as many functionalities as possible is what they wish. However, the new developers have been briefed differently by the head of the department. They much more consider the market in their actions. It is simply a matter of time until everyone has taken in that we do not develop for the sake of it but that we need to make our customers happy." (Michael, interview 2)*

This first quarter of 2002 was characterised by focusing on the development of key features of modules two and three as well as focusing on sales. As the chance to get fully financed by a second Venture Capital round was extremely low in general and as they did not succeed, they managed to get an intermediate financing round granted by the former VC. They calculated that the money would probably be sufficient until the end of the third quarter. Thus they needed to find a VC for the second round by the end of the second quarter. But *technology.com* had hardly any success selling its products which made convincing a VC even more difficult. But since it still had not generated any noteworthy turnover with module 1 in the first months of 2002 and the overall industrial and economic situation did not change, the management had to take action. These circumstances led to dismissing personnel in April 2002. They agreed on downsizing the American subsidiary. Nine out of ten American employees, i.e. everyone except Suresh, had to go. The American sales company was finally closed down at the end of that year. In addition, they dismissed some of the more problematic employees in Germany, of whom many were green card holders. It turned out that they were neither very productive nor motivated. This was partly due to the green card holders' attitudes. For many or them this job was just a temporary international intermezzo before going back to the home country. There they will be highly regarded as they can claim foreign working experience.

> *"In the beginning, Green Card holders are highly motivated, however this changes after six to nine months. Then they realise that they do not have to stress themselves as they are leaving after five years anyway. What kind of motivation can a Green Card holder have? He cannot achieve much in a company as he has to give up his career after five years anyway." (Simon)*

The official regulations state that a green card holder can work in Germany for up to five years. Thus some of them did not invest any emotional effort as they have to leave anyhow and it would not pay off in the long run. Therefore they did not show a strong effort to 'invest' in a lasting relationship with colleagues or the company in general. The other phenomena which was noticeable was that as soon as one of the 'good' green card holders met problems, he requested for redundancy and looked for a new job. The 'less good' ones knew that they would not find a job anywhere else and stayed. Thus self selection took place.

As the company's financial situation was still very bad, the management asked the remaining employees for a wage reduction of 20% in order to cut expenses.

They all agreed. To set an example, the founders themselves had cut their own salary already to a minimum. This crisis enforced the identification with the company and the whole team tried to work together to change the situation. They were aware that otherwise the situation would become worse and their jobs could be in danger.

June 2002 was an eventful and crucial month. *technology.com* thought that it had succeeded in arranging a second round of financing. The VC assured that they would only need to sign the contract. However, in June the very committed Corporate VC suddenly put the financing negotiations to an end. The corporation behind had just sold one of their wholly owned companies. The latter had been the reason for the strategic investment in *technology.com*. But after the sale, there was no reason any longer to invest in *technology.com*.

The month continued with the sudden death of the Marketing & Sales Director. This blocked the sales efforts for a fortnight. In addition, they had to dismiss the CFO whom they were not able to pay any longer. His main task in the last months had been to organise a second round of financing which he did not succeed but which was so vital. Thus, at the end of the month, both the Sales & Marketing manager and the CFO position were vacant. Simon and Michael realised that the management probably had been too big compared to the number of employees and the size of the company. Not only had they to pay the management salaries but the increasing number of divergent opinions in discussions made it more difficult to take decisions. Only if the company will grow over one hundred members again, could they imagine to enlarge the management board again. Nevertheless, they needed someone for marketing and someone for finance. They also realised that the administrative side was too strong as well. At the moment, they had one secretary per department which was simply too much. They were thinking of changing it to one main secretary for the whole management team.

Due to all these negative aspects, the management had to take action. The only thing they could do was to dismiss employees. Eleven employees had to go which means that eleven employees were left who continued to work.

> *"This step had to be taken a month ago as we could not keep the team any longer. Also, I cannot expect everybody to constantly forego twenty percent of their wages. So we dismissed some employees and*

> *thus reached a relatively lean structure. And we were able to keep the best." (Simon)*

The management had realised that it is more important to have good employees rather than many. And that one needs to take difficult decisions such as dismissing someone if he or she does not bring the expected performance. Dodging around does not help in the long-run and destroys more than it achieves. It is better to have a clear cut and save the money than keeping an employee. They also noticed that the productivity rate did not significantly decrease although they had dismissed so many. Some even performed better as there were less distractions through questions and the like and responsibilities were more clearly. Friction loss increases with increasing number of employees and relatively more coordination and administrative work is needed.

> *"You need someone who attends to these employees, who supervises them and sees what is going on. The work has to be allocated and it always happens that things are made twice because one person does not know that the other already did it." (Johannes)*

With the remaining employees, the management was just able to run the company and to continue with the product development. However, module 3 was completely put on hold although it was the company's most distinguishing module.

For the time being, the overall consolidation ended in September 2002 when good news were coming up. First, they finally managed to sell module 2 to a renowned German company. They then used the following two months for customising and adapting the product and for carrying out the order. Second, they were able to recruit an experienced sales manager which they poached from an established competitor. He was well known in that industry and enjoyed a good reputation with the customers. And finally, they received financial resources for a project which they carried out together with the university. They used the project and the money to continue developing module 3.

In the following months, they planned to keep the number of employees constant to ensure profitability. They hoped for significant sales due to the renowned sale and the new sales manager. And with resuming the product development of module 3 they were able to increase the product variety and strengthen their unique selling proposition.

6.2.2 Summary of findings

In the following I will point to the major findings which are prominent in this case study. As outlined in the research design chapter, the aim of this study is to examine organisational processes. Which organisational activities have evolved in new ventures over time and why they progressed as they did. Major organising principles were to be identified.

technology.com's foundation happened more or less by coincidence. The crucial event was the conversation between the Professor and the business plan competition manager. Neither the Professor nor any of his research assistants had the intention to found a company. The business plan competition was used to test the idea in a sort of game. In the case of a successful participation, they wanted to think about an actual foundation. Otherwise the 'game' would be stopped. As they won a price, they continued developing the idea. As predicted by the business plan manager, venture capitalists were eager at that time to finance technology start-ups. Thus it took not long until they received venture capital. However, the founder's intentions and aims differed. For the Professor it was probably a chance to raise his reputation if new products would be linked with his name and last not least to earn more money. Although he invested his own money, too, he bore the least risk keeping his full-time employment as a university professor. Thus he probably would be pleased if the company succeeded and neutral if it would not. For the other founders, things were different. All of them gave up their job to switch it with an adventure. They invested their private financial resources although at their age they probably had no large savings. In the end, one can hardly speak of a gestation period and with about six months the planning period was quite short.

The company was clearly technology driven, meaning that the management had a technological and no a business background, meaning that R&D was the most important department, meaning the vast majority of employees were technicians or computer science specialists. Thus the primary intention of most of them was to develop the product and get the software going. However, the business side was not in their range of vision. This led to problems as it was difficult to get across that they always needed to have in mind the customers' needs and perspective.

The company's atmosphere was influenced to a certain degree by the general entrepreneurial hype, i.e. the idea that there is a team of young founders, a large

amount of venture capital available on the account and a promising idea leading to the creation of a venture which is rapidly increasing its numbers of employees, however hardly having any turnover.

In the beginning, it was a very informal atmosphere and organisational mechanisms were hardly implemented. Decisions were taken by the complete management rather than by the relevant manager, information were spread via mouth-to-mouth process, coordinated coordination or communication did not take place. Instead a strong community emerged to cope with all uncertainty. This was important as neither the management nor the new employees had proper ideas which road to take. Due to active informal communication, a lot of equivocality was spontaneously resolved. However, the management often did not use new situations to extract more formalised procedure for similar situations to come. Rather, they were dealing with always new problems and new situations. This way of organising did work up to a certain company size. However, with increasing numbers of new employees, this active informal communication and network could not maintained any longer. As a result, the employees became insecure and problems accumulated. This was emphasised by the management's lack to delegate. It created conflicts as the managers wanted to handle operational, strategic and administrative matters themselves. All this led to a change in identity and atmosphere. It began with the management who realised that some sort of professionalisation and organisational awareness was needed. Fuelled through external triggers, e.g. the notice of cancellation, no sales success and slow developmental progress, more formal mechanisms were introduced such as job evaluation talks, weekly developers' reports, additional meetings and more delegation. Although this led to decreasing organisational pitfalls and processes running more smoothly, the business and financial aspects were still not as good as expected. Finally, employees had to be laid off. Unexpectedly, productivity rates hardly decreased. This made the management rethink many organisational and strategic aspects. However, they often did not dare taking drastic steps. In the end they stopped major development projects to aid the most advanced ones to succeed. A second group of employees were laid off just two months later and the management team was diminished. In the end, the rapid growth efforts especially in terms of personnel, were seen in perspective.

Although in summer 2002, there nearly seemed to be the end of the venture, they managed to survive. Due to severe reductions in personnel they were able to keep

expenses to a minimum and continued developing the current projects. The previous turbulent months had led to a new organisational understanding of the management. They had realised that running a company was not a game and that they should rather keep projects small in order to realise them. However, there was still the major problem of customers not buying the product. And as they were not granted a second round of financing, the management had to be content with small rather than big steps.

6.3 x-it.com

x-it.com is an internet-based venture which was founded in a small Bavarian university town in 1999. It emerged slowly and was finally founded by a team of three. The venture started with providing web services and strategic e-business consulting. Later on they added software development. It grew quite quickly in its first year but faced major problems when the new economy bubble burst. However, it managed to survive by consolidating.

The historic development can be seen as an overview on the following page in figure 12 followed by the detailed description of the company's story. First, the founding and management team will be presented.

Thorsten graduated in 2001 majoring Business Informatics. During his master studies he already carried out projects for larger companies. In his own company he became CTO.

His buddy **Martin** graduated from the same university in 2001, majoring Business Administration and Economics. Parallel to his studies he had worked for 2.5 years in a marketing agency. He became responsible for administration, finance and web design and was titled COO.

Jan, the third founder, was at the time of the foundation a research assistant at the local university writing his PhD thesis in organisation theory. He graduated in business sciences as well as in Badminton from the German Coaching Academy. He had worked as a badminton coach more than ten years.

Figure 12: Milestones in the history of *x-it.com*

1999 'Start'	**May**: Thorsten accepts an IT-consulting project for a big company; he founds a private company in order to balance the cash
	June: Thorsten employs his buddy Martin
	July: a web-designer and a secretary (Thorsten's fiancée) are employed
	October: they approach the university for help to professionalise and participate in an entrepreneurship seminar
2000 'First expansion'	**February**: acquisition of first big deal; university students are employed as part-time staff
	May: second big deal is acquired
	June: legal foundation of the Ltd. Company; university coach Jan officially becomes co-founder
	Full-time and part-time employees are hired
'1st crisis'	**October**: biggest client goes bankrupt; *x-it.com* has liquidity problems; private investor provides bridge financing
	December: employee for legal and HR matters is hired
	Moving to new premises
2001 'Strategic change'	**January**: a new private investor is found
	Strategic change: own products are developed alongside consulting and services
	May: two additional private investors come on board as a result of severe liquidity problems
	Autumn: first preliminary version of in-house product turns out to be faulty
'2nd crisis'	**October**: employees accept wage reduction; all students working part-time are dismissed
2002 'Cost reductions' 'Ongoing crisis'	Continuous struggle for survival, a number of smaller deals are acquired
	Two employees are dismissed for job performance reasons
	A new trainee is employed
	June: new investment round secures intermediary survival; financial situation allows to acquire new deals
	October: main regional competitor is bankrupt, acquisition of new deals facilitated

6.3.1 The company's development

x-it.com was founded almost by chance. In June 1999, Thorsten, an informatics student in his late twenties, was recruited for a software-programming project at an established company and asked his pal to join him, when he realised he could not manage the size of the project by himself.

> *"The project became bigger and bigger and I then coincidentally asked Martin to help. He lived in the same house and I knew that he was working for a local web agency. I needed someone who did this bothersome design stuff. And he said, he would do anything for money. So we were a twosome." (Thorsten)*

This initial experience convinced the team that they actually had a skill they could sell. They decided to stay together as a team and to run more projects. After some time, they hired a web designer and with the help of Thorsten's fiancée, they went on for almost half a year. However, they realised that they needed to professionalise in order to turn it into a real business. But they themselves had no clue how to do that. Thus, in autumn 1999 they approached the local university for help. In an entrepreneurship seminar, they were assigned to a coach who was not only skilled in IT, but also had extensive theoretical know-how in organisation and strategy. The aim of the seminar was to write a business plan and to take part in the regional business plan competition. In fact, the business plan for the second phase was not written by the two buddies but by the coach. Finally, they dropped out of the competition as they did not hand in a final version which would have included all financial data. They already had so much work with operational aspects, that they neglected the business plan. Small orders kept them quite busy. However, due to the lack of a unique selling proposition, they did not manage to attract venture capital through the business plan competition network. Instead, they were financed by business angels and their own personal capital.

Though the company had already been running for months, in the stories of the founders the real start of the company was when the coach, more or less by chance, acquired the first major deal for them in February 2000. This deal allowed to finance all current employees for one year. The deal was made with a well known local medium sized company. The three also hoped that this would radiate positive signals to the environment and increase their reputation in town.

"Jan had this appointment with Mr. X, the CEO of a large local company. It was Martin's birthday, and he was out partying. I had just gotten back from another appointment that day, and was still in my suit, when Jan called and told me to get in the car and come there immediately. But I didn't have a car, as Martin had borrowed it. Jan said, then call Martin to pick you up and have him take you over here. Martin was dressed less than casually and was out partying in town, he came to pick me up, and we went to the company. I was wearing a suit, but Martin looked like a pig, but nonetheless he came, too. Then, the three of us were in the CEO's office - that was great. The CEO, wow, we were nervous, and then we made a deal for an entire year, and later we got in a second deal and then it [the venture] went off. That was a funny story." (Thorsten)

This story of the becoming of the venture is told and retold in the company, and passed on to new employees as a means of conveying a certain start-up spirit. The acquisition of the first deal confirmed what the founders had already suspected. They would have difficulties to attract venture capital, but they could still survive if they were smart in acquiring projects. As hiring permanent employees was considered too expensive, a number of informatics students were recruited on a part-time basis since February 2000.

In May 2000, a second and even larger project was acquired. The customer booked the entire team until the end of the year 2000, and the venture moved into the customer's premises. So far they had worked in a backyard flat in which house both buddies had rented their own flats. The new office consisted of one large room where one desk next to the other was forming a ten meter long desk line. This formation enabled an active communication among all team members which helped to overcome organisational shortcomings. As the first project was still running, new staff had to be hired on a full-time basis. For cost saving reasons they did not employ head hunters but advertised in regional newspapers and offered open positions on their web page. To a certain extent, they were very surprised that people were interested in working for them.

"It was hard to get employees at all because of the war for talents. Actually we were astonished that we did find someone at all." (Martin)

Due to the general internet hype, software programmers were highly needed and thus difficult to get. This resulted in employing a lot of lateral hires. The founders argued that most people in that industry start from the beginning with no industry specific experience or knowledge anyhow. Learning by doing was thus the main ability needed. And they believed that employees foreign to the subject would foster creativity and inventiveness. They were looking for applicants which were not seeking quick (and dirty) money but who were willing to see their job within a long-term perspective. During the recruiting interviews, the founders paid more attention to the applicant's character to fit into the team than to his qualifications which were presumably not fitting that well anyhow. By the end of 2000, *x-it.com* had nine fixed salaried employees and a couple of students helping out on an hourly basis.

The company received the local newspapers attention by hiring the city's first green card holder.

> *"We had a guy from Russia whom we were very proud of as he was*
> *the first person with a Green Card in our city." (Jan)*

They also hired local apprentices for two reasons. First, they hoped for acknowledgment from local companies as training them was politically well respected. Second, these apprentices spoke the 'local language', i.e. knowing cultural aspects and habits which were quite important as the company aimed at local and regional customers first. And they might bring them a small network of contacts which could turn out to be useful.

The new deal put the venture into a remarkable situation as the company was financially secured for a number of months. Thus, the founders were not forced to focus on acquiring further deals. Rather, they could manage the venture – due to their lack of management experience – often by trial and error, and still grow.

> *"In 2000, we were in the astonishing and lucky situation that we had a*
> *'standing order'; we didn't experience growth problems and could*
> *therefore grow without problems and could allow ourselves to deal*
> *with things differently, to have a less professional management, after*
> *the deal was secured." (Jan)*

However, the 'standing order' enabled them to neglect many organisational topics. There was simply no need to think about organisational matters as everything seemed to function smoothly. While this situation was perceived as comfortable at the time, it backfired later. Management had not been forced from

the beginning to professionalise, as the financial situation appeared secured. Thus, on this stage little attention was paid to internal organising, and wheels were reinvented many times, for example in project work. The management simply did not fix processes or rules after a process had been run the first time. Thus the second time it came up again, the same questions arose and uncertainty retained.

For that first year, the founders refer to the 'Monday morning meetings' as the most important coordination mechanism. The management was happy about having had the meeting from the beginning on as it guaranteed a constant flow of information. It was mandatory for everyone in the company. The meeting was used to inform everyone about the status quo and the employees in return reported about their previous week. Tasks were then scheduled for the next one. This frank information policy was not only seen as a coordination tool but to foster motivation as well.

> *"The thing is, you can't motivate people in a start-up by paying them little and telling them 'Now drudge, slave!'. That doesn't work. You're much more dependent on their know-how than you initially think. There's so much stuff that you need to trust them with it. Trust maybe is the major factor. You have to trust in the capabilities of the employees. Beyond that, there really is a second somewhat hierarchical arena in the sense that someone has to set the direction in which to march, but that is all and it could come from anybody."*
> *(Jan)*

The management also believed that as much information as possible would prevent employees from harming the company. They believed in an 'openness and transparency policy' as a safety measure. Unfortunately, they later had to learn that this was only partially true.

Slowly, signs of hierarchy emerged, however, at this stage based on competences and input into the venture's development, rather than based on ranks. In June 2000, in consequence of the acquired deals, a private limited company was founded, with the two initial founders and the coach as shareholders. The three had realised in February that it was too risky working on a GbR basis (civil law

association). Although simply being a juridical act, it influenced the founders' attitudes to their venture.

> *"Transforming the company into a limited company changed something. I thought to myself that this means leaving the children's playground and really becoming an entrepreneur." (Martin)*

This act also formalised the founders' roles. Two became managing directors, one responsible for product development and technical matters, and the other for marketing and administrative matters.

> *"Martin didn't feel like doing my job and neither did I doing his. That was totally clear. We then had the separation given by education. Martin had the web agency around his neck and I managed the software development. This is also a typical split as you need more business economic know-how at the web agency for the Marketing concept etc." (Thorsten)*

The third founder continued his research job at the local university and acted in the venture in a mixed role of a stakeholder, adviser and managing director. He regarded himself being responsible for corporate strategy, lobbying and networking. However, his intention was to become CEO after having finished his dissertation. So far he called himself 'Chairman' which does not exist in a limited company form as such.

> *"For 3 ½ years now I am officially nothing. My business card says 'Chairman', which is a role that does not exist within a GmbH. It was an subterfuge of my own: how can I hold a position without holding it legally?" (Jan)*

Later on, this rather unclear role led to some confusion and conflicts in the company, as it was difficult for the employees to understand his true role and responsibilities.

The Ltd company contract was seen as more than a juridical contract. It was interpreted as an important structural feature, first to externally safeguard against litigation, and second as an internal manifestation of roles and responsibilities. The self-imposed contract set boundaries as well as codes of behaviour for the founders.

"We built the foundation of the company within three months. The funny thing is that I'm still proud of having done [the shareholder contract] so and not differently, even if the contract has some weaknesses. [...] The contract as the basic structure carries the company until today, despite its growth. That means, new shareholders came in and we still didn't have to change it much. Its structure remained the same; the way we restricted ourselves with muzzles and strait-jackets made sense, nobody could step out of line, nobody could say I'll let the thing crash - it also persists in times of crises and that is something which maybe isn't always thought about in the beginning." (Jan)

Until October 2000, things ran rather smoothly, even though in August and September both founders and the employed students had to take exams which lead to a reduced quality of work. In addition to the large projects, some smaller projects were acquired, leading to further growth. One of the founders compared the atmosphere and culture during that time with the military service's time. At the time being it was not liked much but glorified in retrospect. The work load and the respective working hours were extremely high for everyone. Even weekends were often used for finishing urgent projects. The management then provided a crate of beer and lots of pizza. But this changed in the course of the venture's development.

"I liked that a lot, because I knew that at the weekend everybody would be there. [...] But now, this only happens once or twice a year. Only if termination of a project is at risk. Some are always saying, great, we could do that more often. But whenever it happens, they have no time. In the past it was clear that you came even if you had another appointment." (Thorsten)

This first year led to the creation of corporate stories which were still told one year later. They were told to new employees to illustrate what it had been like in the beginning. One story centred around long working hours. Whenever someone was going home before six o'clock in the afternoon, the others wished him a nice afternoon.

"If someone goes home at six o'clock, there is still the saying that he took half a day off, although meanwhile almost everybody is leaving at six." (Thorsten)

Unfortunately for the venture, its biggest client had considerable financial problems and filed for bankruptcy in late October. The growth phase, which in the meantime had led to employing 24 people (16 full-time, 8 students), came to an immediate end. The secured financing was missing and bankruptcy was impending, as the remaining months till the end of year could not be financed by themselves. Therefore, a local bank was approached for loans, but it rejected. Instead, a private investor could be found, who provided a bridge financing until the end of the year 2000. As the venture had been located in the bankrupt client's premises, *x-it.com* was forced to move location, which happened in December 2000. This time they moved into their own office space which was considered as an important sign of maturity.

> *"It was a positive highlight of that year to move and then have our own entrance door for the first time. It is like a teenager leaving home and moving into your first flat. Suddenly you are grown up, having your own doorbell shows that it is yours. No one can suddenly come in and claim it not to be yours." (Jan)*

In this period, the founders also realised that they needed a more strategic position and decided to develop software products in-house. A clear decision what to do was needed as most employees were unclear about the company's goal after the loss of the main customer.

> *"To some it was clear that we would proceed to Content Management Systems, others thought we would stick to web design, others meant that developing individual software would be the future. Certainly, we have missed out communicating things. [...] We did not succeed in communicating where we are and where we head at." (Martin)*

This management decision about the product development was then broken down into single tasks and features the product should have. It happened in close contact with the employees as the latter had to say what they were able to do and which features were feasible. However, the product development bound many resources, and in consequence the next financial crisis was faced in May 2001. Two new investors were taken in to allow the venture to finish the product development. These investors were seen as an external signal for potential customers guaranteeing seriousness and a long-term perspective and it motivated the employees. Contact with the three investors was mostly limited to a meeting every other month at which the founders presented current developments. But it

was not as such that the investors tried to exert a lot of influence nor were they very interested in financial data. These meetings and the investors in general were rather an additional source of advice and information used by the founders. In autumn the new product's first version was said to be ready. Unfortunately they realised that the uncontrolled development had led to an unsatisfactory result. The version contained far too many bugs but had consumed a lot of resources.

In the entire year 2001, with the downturn of the economy, the deal inflow became more difficult and the financial situation became even harsher. The first measures taken were severe cost-cuttings and everyone realised that the initial 'good times' were over. The rented office space was reduced to save costs, dispensable goods were cut and services such as the cleaning service's contract and the supply of free drinks were cancelled. The second measure was to reduce personnel in October. They laid off all students with which they had problems anyway. Due to their exam periods, less and poorer work was done in March/April and August/September. And general productivity seemed to have been less with the students. Their lacking working schedules made it very difficult to coordinate work with others.

In addition, two full-time employees were dismissed due to personal reasons such as lack of know-how. Getting to terms with the need to dismiss people was a difficult task for the founders who had built much of their identity as founders around the fact that they had created jobs in the region. Having to dismiss people triggered a feeling of complete failure and is still mentioned as the worst experience made during the venture life. The venture continued with 14 people, who in addition agreed to lower salaries. However, due to the burst of the new economy bubble, motivation was difficult to obtain.

In October 2001, the previously mentioned lack of role definition escalated to the clear expression of distrust from the employees to the third founder, which led to his temporary resignation from office. Only after some effort was put into clearly communicating the roles of each member of the managing team, the situation could be smoothened. Yet, the team spirit was felt to be breaking apart. As a counter measure the management announced a monthly bowling event. Although being voluntary, peer pressure led to large participation.

The year 2001 turned into a long period of crisis, yet giving up was never an option.

> *"It is like a child of your own, there are people you are responsible for. This is something of your own, you do not just give up and plunk." (Martin)*

The founders realised that there will always be good and bad years comparable to summer following winter. One rather needs to learn from the mistakes. But forgetting could also help to cope with negative experience.

> *"You don't forget anything, on the contrary. But this might be individually. I think that Thorsten and Martin are perfect in repressing things. I cannot repress, on the contrary. I memorise everything, each situation and every single second. You always make new mistakes but you should not make the same mistake twice." (Jan)*

The positive aspect was that professionalisation took place during that year 2001. The aim to survive increased the focus to improve at all levels.

> *"That all developed in 2001, a year of crisis. When you're in a crisis, you have to professionalise, otherwise you won't survive. Professionalisation for us meant that we no longer ran blindly into serving new industries. We now take the time to gather industry-specific know-how first, then we can achieve a competitive advantage. You notice a big difference when you can tell your customer, I know your industry, I understand what you want from us." (Jan)*

This new focus on internal professionalisation also led to the hiring of a new employee with know-how in legal and HRM matters in October 2001. This new employee could give crucial support in contracting issues – as mistakes in contracting had caused the major loss in invoiced payments, for example with the bankrupt customer.

> *"Before, these things were handled very amateurish. Further signs of professionalisation are that we conduct a priori workshops with customers before fixing the deal. We specify our obligations, but also services beyond those obligations. Professionalising means to introduce a clear pricing scheme. Pricing is an important topic. I bet you that you can ask 100 companies and not even five of them will know exactly how their pricing works." (Jan)*

Next to legal matters, the new employee was also responsible for HRM. It was still the management's responsibility to choose whom to employ, but everything

else was handled by the lawyer. She also became head of the web design department. This enabled one of the founders to focus more on sales and administrative aspects. However, the other employees working in web design had difficulties accepting her as the boss as she knew less in those technical matters than they did.

Despite the economic downturn, the venture managed to survive. This involved the acquisition of smaller deals, the reduction of wages of employees and founders, as well as an increased commitment from the investors' parts. Survival led to an increasing focus to improve at all levels. Reporting, controlling or fixed working hours are examples of traditional tools being implemented.

> *"Before we did not have any fixed working hours. Today everyone has to appear by nine o'clock or the person is in trouble. There is a punishing fee one has to pay. Everyone being late or unprepared in meetings, has to pay, too." (Thorsten)*

At that point, the venture was perceiving itself as entering a new stage, that of professionalisation. Part of higher levels of organising are set rules of the game for the employees. Before, much freedom was granted not only in terms of how to design the own work processes but also in terms of working hours. However, it was noticed that a lack of standardisation unnecessarily prolonged cycle times and posed problems wherever people had to interact, leading to a constant reinventing of the wheel. Standards, e.g. how to save files or presentation templates, were increasingly used to facilitate standardisation. Human resource management was improved as well. They started with obtaining job descriptions from every employee about his position. These were very insightful for the management as they reflected the employee's understanding of his tasks and duties and the organisation in general. The job descriptions were then used to clarify misunderstood roles or tasks and to organise responsibilities more clearly. In addition to the internal application and generation of know-how, they drew on know-how from the outside. The father of one of the founders had recently retired from his former job as human resource manager for a large traditional company. To help his son and to apply his know-how and experience, he supported the venture in professionalising its processes, especially with setting up the job descriptions. The management used these descriptions for deciding who has to take over which job in case of vacations or illness. And it enabled them to delegate and control better. It also helped to specify open job profiles in

advertisements. But these functions and responsibilities were not visualised through an organisational chart.

> *"We do not have an organisation chart as it is actually clear how everything is going. You could ask everybody to which department he belongs. Those two right here belong to development department, I am Head of Development and everybody else up there belongs to the web agency with Susanne as Head of Web Agency and Martin is the Head of Sales Department, where Dirk is working. We just don't have it. Maybe Martin has one, I don't know. Or his father drew one, but I am not interested in it, because it is obvious anyway." (Thorsten)*

In addition to the Monday meetings, the employees had called for a Thursday meeting which was intended for personal feedback and for improving the communication. But instead of personal evaluations and problem solving, the meeting was used to discuss project work and to organise work processes. As the company climate was by now perceived to be dominated by prejudices and frontiers-building, management decided to hire an external trainer to conduct a communication training for the entire venture.

> *"This training is going to help us a lot. There have been quite some things going wrong during the last one or two years, although we had a very open communication and everything was openly discussed. Maybe that had been the reason for the difficulties. Calling everyone informally by their first name and knowing the people privately as well makes it difficult to run disciplinary measurements." (Martin)*

Everyone was very happy with the training. Especially the management realised many mistakes they had done regarding communications and culture. One topic was that they had hardly given feedback so far as they trusted the employees very much. They perceived it as a problem of drawing the line between being the manager on the one side and the friend on the other. They regarded it as being very difficult to utter objective criticism. This also included behavioural aspects. One founder realised that one cannot demand a certain etiquette from one's own employees but disobeying them oneself.

> *"Punctuality and respect for your company. I have often called it a chip shop or little rat-shop in the true meaning, which is totally wrong. I must not talk about my own company in such a cynical way as it is really something one should be proud of." (Jan)*

As a manager he had to set an example and act like a role model. They also learned that they often had misjudged the employees motivation. There are a lot of employees who see their job as the means to earn money. They are not as much intrinsically motivated as the management sometimes had wished.

> *"At the beginning we misconceived that all employees are as much motivated as we are and that everybody can act on their own responsibility. But in reality, in practise, this is not the case." (Martin)*

One of the founders regarded personal freedom as something very valuable. However, he had to learn that many of his employees thought differently. They rather wanted clear instructions and briefings instead of working independently and on their own. In order to learn more about the employees' aims and problems, individual job evaluation talks were planed for the following year. Although there was a lively communication between management and employees, it was hardly on a professional basis. Thus the management did not give the employees detailed and constructive feedback which the employees asked for.

In the first half of 2002, another two people were dismissed for personal reasons, i.e. for refusing to delete porn-movies from the server and for discussing company-internal matters with competitors. However, the management was astonished to notice that the loss of knowledge was less than expected. They often overestimated the employees' abilities and knowledge. Thus they started thinking how to improve their recruiting processes to yield better results. But as they had not employed anyone during the last six months, a new recruiting strategy was not observable.

The company has since then stabilised at ten people. In summer 2002, again a financial crisis was solved by persuading the shareholders to increase their investments. Since then, an increased focus on acquisitions had led to a number of small and middle-sized deals, mostly in the web design area. This was facilitated by the bankruptcy of the main competitor in the region. A new apprentice was employed at end of 2002 and plans were made for employing at least two people in spring 2003. In addition, the third founder started working full-time with the venture in early 2003, underlining the preparation for renewed

growth. But instead of becoming a manager as the other two founders, he worked as a free lancer for the company.

6.3.2 Summary of findings

The following main findings can be summarised from the *x-it.com* case.

x-it.com came into being after a series of little successful steps. It had started with a successful consulting project of the first founder followed by the acquisition of little deals later with his buddy and by managing to employ a designer. In the end, they won the later third founder's interest and finally acquired two big deals. However, this also shows, that it was not the founders' genuine idea to found a venture. It more or less happened step by step. This was especially true as they had no unique selling proposition for which they could obtain venture capital. The idea was a generic one although e-business consulting and web design have been recently new phenomena.

This image of the business model meandering along is also true for the founders' motivation and intentions. At the beginning, all of them had still other occupations. The two buddies were regular students at the local university. To a certain extent they were not reliant on their manager's income as they were still supported by their parents. The third founder had a full time PhD research position at the university. For all three of them, the venture was something alongside the other. But it turned out to be the other way around, i.e. the venture demanding most of their time and hardly leaving room for anything else. It was a sort of game and after having finished university, the world would be their oyster again. However, the venture developed and many employees were employed. This certainly changed the founders' options as just closing down everything was not possible any more. The main motivation was probably to earn some money alongside and to take the chance the internet hype was offering to everyone.

x-it.com's evolution from foundation over the next three years to the end of the study had been a long struggle between filing for bankruptcy and surviving. The venture started in a very uncoordinated way and displayed little formal structures. Coordination mainly happened by mutual adjustment. As the founders were as inexperienced with their new role as most employees were, the atmosphere can be characterised by a big team in which everyone helps each other without differences. This muddling through is also true for acquiring deals as it happened more incidentally than through detailed planning. Nevertheless, the company

grew and in response to its growth, it had to increase the level of standardisation. This involved mainly the interfaces but not the work practices. Wherever work responsibilities overlapped, the interface was standardised to facilitate cooperation. The same reasoning is true for the introduction of fixed core working hours. In 2002, the process of customer involvement and project structure was standardised. Yet, standardisation did not lead to higher levels of formalisation which would imply written documentation and regulations. Rather the weekly meeting served as the tool to communicate about the work to be done. At the same time, delegation and specialisation increased as well. This was fostered by the legal employee who came in. All founders were then clearly responsible for distinctive task areas and had certain employees to delegate to. At the same time, the locus of control stayed largely with the three founders. Yet, the issue became more important after bad experience had been made. The specialisation or roles within the top management team had led to the uncontrolled development of a software product which turned out to have used a lot of resources with non-satisfactory results. In consequence, peer-to-peer control increased. Similarly, bad experience with some employees' behaviour led to changes in control polices. Rather than introducing direct supervision, clear rules were set.

A number of organising processes were implemented in a rather reactive way when an organisational member became fed up with inefficiencies. While the stories tell about the reactive approach to organising, they also tell about the attempt to store produced know-how both in terms of organising and operational know-how. In times of stagnation, this know-how was actively maintained and further fine-tuned and later served to support future growth. Thus the case suggests that stagnation or decline are not necessarily to be viewed negatively. Rather, these periods of stagnation or decline had been crucial for the later survival of the venture. During these periods, the focus was put on actively developing internal competencies.

6.4 letters.de

letters.de is an online market place for used, rare and out-of-print books. The venture connects those who buy books with those who sell books. It was founded in autumn 1999 by a team of five guys who knew each other through university. They company grew constantly until sold to their main competitor in northern America in autumn 2002. The major milestones in the venture's development are illustrated in the following figure.

Figure 13:   Milestones in the history of *letters.de*

1999 'Start'	**March**: two friends have the idea of selling used and rare books via theinternet, they asked three friends to join them
	August: Business Angels invest into the idea
	September: foundation of the Ltd. Company takes place
	October: booth at the Frankfurt Book Fair with launch of the website, the online platform contains 100,000 books in the database
	December: CVC buys shares
2000 'First expansion'	**January**: first employees are hired
	March: internal reorganisation from market-based to functional-based structure
'Strategic change'	**June**: Internationalisation as English web page is launched and UK office is opened
	October: an additional web page for new books is launched
	change to brokerage fee business model
	Carl leaves the company
2001	**March**: French web page is launched
	London office is closed
	May: CVC finances intermediate round
'Merger'	**October**: selling the company to Canadian competitor
	Matthias leaves the company
2002	**February**: brand letters.de is dissolved
	Franz leaves the company; top management is reduced to two

In order to get familiar with its key players, a small description of each founder will be given.

Hartmut was working at his PhD. He graduated with honours in 1995, majoring in Industrial Engineering. In addition to his commercial education and internships all over the world, Hartmut worked for a management consulting company from 1996 to 1999. At *letters.de*, he was responsible for the commodity market and finance, administration and HR.

Dr. Matthias was finishing his post graduate studies in logistics in 1996. Before that he graduated with honours majoring Industrial Engineering in 1993. In addition to his academic career, Matthias has also been a consultant between 1993 and 1998. He was responsible for the contact with the antique book dealers.

Franz graduated in 1999 with distinction, majoring business administration. He did several internships during his studies. He started with being responsible for the academic book markets, business development and later marketing.

Carl had studied informatics and graduated in 1999. He then worked in a consultancy company which was founded and run by the Professor at which all the others had worked at. In this company he was responsible for hardware and other computer matters. At *letters.de* he became Head of IT and was mainly responsible for setting up the database.

Dr. Benedikt successfully finished his post graduate studies in logistics in 1999. Majoring in Business Management, he graduated with honours in 1996. His studies included a one year dual diploma programme in France. In addition he completed a one-term programme in business administration in England. Benedikt was an independent consultant between 1998-1999. He started as being responsible for the commodity market and then changed to IT and later PR & business development.

6.4.1 The company's development

The foundation of *letters.de* was the result of the general internet and founding hype which characterised Germany in the late 1990s. In spring 1999, two buddies were hooked by the foundation wave and started thinking about different possibilities.

> *"It was a certain urge to make something of one's own during the entrepreneurship wave [Gründerwelle]. There was only a relatively small window of opportunity to finance something. You have to admit it was a top opportunity to become self-employed with manageable*

> *risk. You just had to write a good business plan. As a matter of fact,*
> *that was sufficient then." (Hartmut)*

As they had no technological idea or patent which they wanted to commercialise, they focused and evaluated several B-2-C service ideas. They came across the idea of selling used books via the internet. Books were an ideal good to sell over the internet.

> *"We looked at the market, how big it was and whether it was really a*
> *mere internet business, meaning an intransparent, fragmented and*
> *inefficient market in the offline world, so that with the medium internet*
> *a completely new market could be established." (Hartmut)*

Hartmut and Carl then asked Matthias, Franz and Michael whether they would like to join them. The aim was to start with five founding members to have a strong starting team to get things going.

> *"We thought that it is actually great with so many persons because*
> *you can achieve a lot of power very quickly. These are also people*
> *with the same thinking and you cannot have enough of those. You*
> *have so much work and spend so much time in your office that it is*
> *quite good to have motivated people, who are generalists and can get*
> *on with a number of things." (Franz)*

These five then started writing the business plan in order to analyse the idea better and to present it to venture capitalists. But in that course, Hartmut and Michael did not get along well enough which resulted in Michael leaving the project in August. The remaining four immediately thought about who they could ask to join in again. It was Benedikt whom they asked and who agreed. All five knew each other as they were all connected to one university chair. Matthias had habilitated there, Benedikt had already finished his PhD and was now working as a consultant, Hartmut and Carl were still writing at their PhD and Franz had just graduated and intended to start his PhD with the same professor.

They intended to set up a company in which all five founders would be equal managers, thus they would have no CEO. In fact, all of them were too power conscious to let someone else do the job. However, the company shares were not evenly distributed. Christian, Franz and Hartmut owned more than Matthias and Benedikt. This was due to the initial commitment and the personal input. Eventually, they redistributed the shares after two years.

Next to writing the business plan, they had started developing the databank software which would be needed. The biggest event concerning books in Germany is the Frankfurt Book Fair which takes place every autumn. Just by accident, they managed to get a booth there which was a funny story often retold afterwards. Michael's surname coincidentally resembles a renowned publishing family whose large publishing house has the same name and is extremely well known in the publishing industry. Just for fun he called the Frankfurt Book Fair's office to ask for a booth reservation. Unexpectedly, he was simply asked for the size wanted and they neglected to ask for the company behind. It was quite astonishing as only member companies from the 'Börsenverein des deutschen Buchhandels' (association of Germany's bookselling trade) are allowed at the exhibition. *letters.de* was not yet founded and thus not a member at all. But since then they had a booth at the book fair and suddenly a deadline by which they had to present the company and their service.

Just before they were granted the book fair's booth, a couple of business angels invested in the idea. This money was needed to develop the platform and the database and to run market analysis. It was sufficient to finance the next three months. As a result, they rented a small one-room-office in a city in the Rhine area. So far, they hesitated to employ anyone on a monthly salary as they had no long-term perspective nor run a proper financing round. This resulted in employing only interns for up to six months. But the founding team managed to get financed by a Corporate VC already in September. This led to the foundation of *letters.de* as a limited liability company at 13th September 1999. Exactly one month later, they launched their web page at the Frankfurt Book Fair with a database containing 100,000 used books. Many fair visitors were surprised to find a small booth which did not present books but only had a computer. *letters.de* was demonstrating their database and the idea to buy used and rare books via the internet. All in all, they received good press coverage at the book fair which helped them to get recognised and known.

The remaining months of that year were characterised by setting up the company, improving the web page and enlarging the database. All this was done by the five founders and a couple of interns. The founders organised themselves around markets as they had learned from university. They distinguished between the academic market (Franz), the antiquarian market (Matthias) and the commodity

market (Hartmut and later Benedikt). The remaining two founders programmed the database. But a couple of months later they realised that it was better to divide the tasks by functions than by markets as it was too hard to separate the markets from each other. The market boundaries were blurred too often. Thus Carl became responsible for IT, Hartmut for finance and HR, Franz for business development, Benedikt for Marketing & PR and Matthias for the second-hand booksellers. However, none of the founders brought with them any experiences with the book market. Rather than regarding this as a negative aspect, the founders turned it into something positive.

> *"None of us knew the book market. I don't know, if that was not even a kind of an advantage. Someone coming from the book market who wants to build up something new in the book market might consider it too closely. But innovations stem from having no respect. That's what brought us forward." (Matthias)*

After the CVC had bought a minority of the stakes in December, *letters.de* hired their first full-time salaried employee in January 2000. Employing new members was a joint decision among the founders. Everyone had to agree as otherwise the applicant would be rejected. With hindsight they acknowledged that those applicants who raised disagreement among the founders but nevertheless have been employed, turned out to cause problems later on. It was startling how reliable and predictable the gut feeling had been, they said in the interview. Some applicants arose discussions among the five. They had difficulties deciding on those which showed no strong ambitions or mid-term goals. This was something completely unfamiliar to the five. In the cause of the venture's development they learnt that quite a large number of employees simply regards a job as a means to earn money. Not every employee dreams of becoming manager one day. A lot were happy as it was. With their management consulting backgrounds, the founders were irritated but accepted these different motivations. Their general recruitment strategy was to hire those applicants who appreciated having a high degree of freedom regarding their work and who were able to work quite independently.

> *"As all of us had so much operative work to do, we needed employees that could work independently. We would talk to them about different things for one hour a day, they get the work, we give feedback on the result or intermediary result and then it goes back. We have a core*

team of people, who all have the same conception and have great fun working like that. [...] We have established an environment where we like to work: a lot of freedom, you ask if you want to know something and besides that, you can do your own thing. Of course we have looked for people who fit right in." (Franz)

Discussions between employees and the founders were extremely content focused and less dominated by hierarchal influences. Rather than telling the employees what to do in case of a problem, the employees were asked for own solutions and suggestions. This all led to a culture which appeared to have suited founders and employees alike. Everyone worked for long hours, even on weekends. And if the work was done, everyone was free to go home. Office hours officially started at nine o'clock but no one ever controlled it. Some employees liked their workplace so much that they did not go on vacations any more. In the end the management had to tell them to take some weeks off.

The beginning was coined by few existing formal processes or rules. There were hardly any clear defined work processes or task areas except for the IT people. Many tasks had never occurred before. It was decided on the spot who was going to handle it. Thus, most matters were simply handled by delegation. After a while some sort of routines emerged unconsciously. Slowly, task responsibilities crystallised and were separated from the rest, e.g. customer service was handled by two employees. This was also important as the know-how was no longer attached to people but rather put into the processes and routines. Beforehand, a smooth action flow was rather vulnerable.

"It is only after some time, after gathering experience, that you know how things work. And suddenly you recognise a standard case and try to standardise it and put a process on it." (Benedikt)

One thing, the founders had to learn quite soon was motivation. Some of them had worked in or together with management consulting teams. But these function in a very different way because consultants are motivated by very different aspects than their employees as they emphasised. To improve HR processes, they started to introduce personal evaluation talks by spring 2000. They developed an evaluation sheet which was a combination of other companies' sheets. They emphasised that they ran the evaluation not only with their employees but also with their interns. The latter had to evaluate the management as well.

> *"We used the evaluation sheet for a mutual feedback so that interns evaluated us, too. Actually, they are quite good at noticing where something is in disorder." (Franz)*

Giving the employees a competent feedback was the driving factor behind its implementation. But it also helped the management to discover unnoticed dissonant matters and mechanisms at odds within the company. However, these job talks were not used for constructing job descriptions. The management said that it would not have made sense as job tasks changed too frequently and would very soon be outdated.

The employees developed a culture that controlled each other in a friendly manner. This was not so much regarding work but social aspects. If someone abused the large freedom, e.g. playing too much basketball on the terrace, taking too many free drinks or not keeping things in order, they reprimanded each other. The management hardly had to intervene. A key role in this played the company secretary, an elderly woman who was some sort of company mum for everyone.

By the second quarter, the management had introduced reporting mechanisms. They argued it could serve as a better decision basis. It took a while until the management had collected all important figures needed to calculate the key ratios they had set up. The aim was to base everything on transaction figures. This would enable them to exactly know which ideas will be feasible and profitable and which will not. It helped them to professionalise and to survive as they realised mistakes much earlier. A monthly report was also sent to the VC which increased their standing considerably.

Additionally, these reporting mechanisms were used to improve communication which the founders regarded as an important matter. Questions such as 'How do we communicate with our employees?', 'Which information should they get and which one not?' or 'How do we organise our information mechanisms?' were frequently discussed in the founders' meeting. They believed that it is advantageous to inform the employees rather thoroughly than insufficiently. To keep the employees better up to date, key financial figures on a weekly basis were posted at the blackboard in the entrance area. Everyone was then well informed and no one needed to speculate or guess about the company's situation. The problem was sometime caused by newspaper journalists calling and asking for current figures and the situation. Depending on the answering employee, the

answer changed considerably. With the weekly figures, something like that should not happen any more.

In June that year, a milestone event was the opening of a second office in London for internationalisation reasons. To set up the office, Benedikt moved to London and worked three days a week in England and two in Germany. He hired four English employees who helped him in running the new office. The technical questions were quite unimportant as the German platform was simply reproduced for the English market. Beforehand, an intern had analysed several European markets to decide the country. Although the English market was small in absolute terms, it was relatively the biggest in Europe.

By the end of summer, the management noticed a stronger need for coordination. By then, twelve full-time employees plus a couple of interns were working at *letters.de*. The peak was reached in March 2001 with 20 full-time employees. The problem which arose during that summer was that those employees who got assigned an intern, were not at ease with that task. They did not really know what to do with them. The management considered the interns as additional resources but the relevant employee often did not know how to take advantage of that resource. This signalled the management to delegate operational tasks even more in order to focus more strongly on HR management and strategic questions. The immediate measure taken was that the employees being responsible for an intern had to run the evaluation talk with him. Thus the employees became more aware of their responsibilities and duties. Eventually it changed their thinking so much that the management was able to implement group leaders who were responsible not only for interns but also for other employees. In order to overcome chaotic conditions, structures were seen as a necessary tool.

> *"We introduced this structure because we believed that it makes sense. At the beginning you are very hesitant because you do not really want three levels of hierarchy in a company with so few employees." (Hartmut)*

The evaluation talks with the management revealed that the employees had problems with being assigned tasks from various managers. In the end the employees did not know how to prioritise the different tasks and which to decline. To fix and visualise responsibilities, an organisational chart was created.

An additional effect was that new employees were integrated more quickly as they found it easier to gain an overview for different persons, departments and tasks.

> *"We formed responsibilities for tasks as well as a task organisation so that everybody knows who does what. The responsibility for the tasks was stipulated between us as well as disciplinary competences like holidays or such. [...] This was our organisation's development. We also realised it a little bit physically." (Matthias)*

They also changed the office structure by placing people together who are doing similar jobs. This made it easier to exchange knowledge and help each other more easily. It generally increased communication.

> *"All those classical instruments one doesn't want to have in a dynamic start-up company. But one has to admit that it actually is more efficient. It brings clearness, better orientation and brings you forward." (Hartmut)*

Introducing clear responsibilities within a company was not completely in the interest of the managers. They feared that the informal culture would partly get lost. Employees who had been there from the very beginning were used to communicate directly with everyone including the founders. Introducing too strict hierarchies and rules could discourage them.

October 2000 was an important month for the company. First, they launched a complete new product with *newletters.de*, a web page on which they sold new books. The idea was that people buying used books will also buy new ones. These customers would hopefully post their just read books on the used books page and sell them again. This could also increase the customer numbers.

Second, *letters.de* changed their revenue model. So far, the service to post used books in the database was free for sellers and buyers alike. This changed in such a way that a brokerage fee had to be paid by the seller. The fear that suddenly transaction numbers would drastically decrease did not happen. In consequence of the new revenue model, the accounting systems with its billing and collecting processes became much more sophisticated and formalised.

The third momentum of those months was the separation from Carl, the IT manager. He became more and more an obstacle as he had blocked important decisions and was not willing to compromise. His character of basically mistrusting everyone and everything was tiresome and unproductive.

Fortunately, the VC helped the remaining four founders by buying him out, thus they had not too much hassle with the whole affair. But still, it was something, everyone had tried to avoid. So far Hartmut had acted as a sort of intermediator in discussions among the founders. But at one stage it became too much and a final decision had to be taken.

Within three days they replaced the position with a new employee who turned out to fit well into the company. However, the new employee did not become manager thus the management team decreased to four. Instead, Benedikt was the responsible manager for the IT department. In the following, quite some changes occurred which could not have been possible with Carl.

The Monday meetings can be grouped in a pre- and a post-Carl era. The pre-era was characterised by long discussions, sometimes regarded to be too long. Nevertheless, it was important for them to create an open discussion culture as everyone was new within that market and mistakes were unavoidable. The discussions sometimes paralysed the organisation but helped them to avoid substantial mistakes.

> *"Like any founding team, we made a lot of mistakes, which is normal.*
> *But in the beginning we discussed all decisions to the last. This was*
> *quite good." (Hartmut)*

Since spring 2000, the meetings became more structured. Every Thursday, Hartmut would send around the agenda for the following Monday for everyone to prepare the topics. In the actual meeting, a protocol was written and distributed by Benedikt. This enabled them to refer to already decided matters and thus not discuss them again. If anyone had a problem in the pre-era, they had tried to conceal it as it would have triggered endless discussions. In the post-Carl era, these meetings became more and more structured and coordinated. Every founder gave a short account of his resort and only in cases of problems, discussions would start. Without Carl, the mistrustful atmosphere was replaced by an atmosphere of trust.

> *"In principle, we assumed that if someone did not ask or require help,*
> *everything was o.k." (Franz)*

So far, these Monday meetings were only for the management team. After Carl had left, they opened it up for key employees to foster their involvement and entrepreneurial thinking. Initially they feared offending those who could not take

part. Especially the employees that had been employed rather early felt strongly attached to the company. Due to these new meetings, the management had to learn that the employees were less informed than they had expected.

"On the other hand you reach for the stars at the beginning. You do not consider that your employees do not have the same know-how as you. It is not like you want to keep the information from them, but somehow you do not think about it. You always get the statistics and know everything. You have to force yourself to spend more time on informing people and so on. This is not necessarily so. You are very busy yourself and are well informed and think that your environment is also completely informed." (Benedikt)

Carl's leaving also marked the end of changing managing tasks. The responsibilities within the management team had changed whenever they realised that the current arrangement was not sound. It was a sort of experimenting. Initially they had started with a theoretical distribution based on their business plan but these had to be adapted to reality later on. It took some time until they knew each members' abilities and likings for special topics. It then became more and more clear who was good at managing people and who was better at managing functional tasks.

"We continually changed our tasks. There was a very intensive discussion among the founding team, as we are all very different types of persons, which probably helped. Some wanted to push market entry in an aggressive way, others were more considerate. They were a bit more circumspective and looked at the costs very closely. All in all, the capabilities of the founders complemented one another. That is probably why we made no capital mistakes. Like any team of founders we made a lot of mistakes, which is normal, but in the beginning we always discussed decisions to the end. This was quite good. There were some among us, who had working experience. But if you act in a completely new market, it is advantageous to develop a culture where you can talk about everything. You have to do that. These discussions were very hard and sometimes even brought the organisation to a standstill." (Hartmut)

But these constantly changing responsibilities had a very positive side, too. It enabled all founders to learn and experience about all other areas within the company. Thus they much more appreciated each other's work.

> *"It was exciting that the tasks had changed. This brought us a lot of know-how and understanding of each other's areas. In intensive discussions we were able to find a sustainable structure." (Hartmut)*

As the web page and the service were easily scalable, they launched a French web page, letters.fr, for the French-speaking markets in March 2000. In contrast to the English web page, they did not open an office in Paris, but managed and organised everything from Germany. They simply hired additional French speaking employees who would run that web page. As this worked out very well, they decided to close the London office. It saved a lot of resources and stopped communication difficulties which had started between the two offices. Since then, the English web page letters.co.uk was run from Germany. However, they had dismissed the English employees but hired one English speaking employee in Germany.

As the company was still growing, coordination and communication were persistent topics of current interest. To improve communication, the management called for a monthly meeting which was compulsory for everyone. This meeting started in March 2001 and was used to present major projects, outcomes from the Monday meetings and last month's figures. Due to the employees' questions the management once more realised how badly informed they were about the company's development in general.

The monthly meeting was expanded by one or two employees who gave a short overview of their tasks and responsibilities within the company. The management's aim was to improve the organisational knowledge and awareness, i.e. who was responsible for what tasks and what does each department actually do. But most employees were not really interested in such topics and they regarded it as a distraction and nuisance from their work.

With the collapse of the 'Neuer Markt', many start-ups in the high-tech sector had difficulties receiving a second round of financing. *letters.de* tried as well but did not succeed. As a result, their initial CVC stepped in and ran an intermediate financing round in May 2001. But the management knew that they soon needed

new financial resources to finance their growth. So far, the company was not profitable and needed additional financial resources. They also tried to build cooperation. During that process they got in contact with a Canadian competitor who was very interested. In the end, the Canadian management came over to Germany to discuss the option of buying *letters.de*. Finally, *letters.de* was sold and became a wholly owned subsidiary from the 1st October 2001 onwards.

This in turn changed *letters.de* considerably. It began with the management team being too big. Matthias was the first who left immediately and continued to fully concentrate on his academic career. It had always been a problem that he was only working part-time for the company. He tried to be in the office three days a week but still missed two days. It needed a lot of effort to keep him on track which was hard to achieve. Especially in the beginning, when so many things happened in one day. In the end, the whole team suffered from that constellation.

> *"Matthias had been totally exhausted from that double strain. The others always had the impression that he was not doing enough, and that was expressed in hidden or open remarks." (Franz)*

In February 2002, the new and integrated website were launched. On that day, the brand *letters.de* died and the German web page was dissolved into the Canadian brand.

Franz was the next to go. He stopped working in spring 2002 but was still involved in setting up the new corporate website. He could have worked in Canada at the headquarter but preferred to go back to university to write his PhD. Finally, Hartmut and Benedikt remained in the office and managed the subsidiary.

> *"We fitted the top management for the two of us in order to have more influence in Canada. So we did not talk with four voices but rather one concerning the operative business." (Benedikt)*

Next to the management team, the IT department was dissolved as all technical matters were handled from Canada. It was very hard for the founders to remove both IT specialists as they had done excellent work. Those two were the first employees which were dismissed due to business matters. The dismissals harmed the general atmosphere severely and impaired the trustful relationship between management and employees. To improve it and to acknowledge the IT

specialists' work, Benedikt and Hartmut organised a farewell party for them. They wanted to set a point as how the company deals with people they liked but which they nevertheless have to dismiss.

6.4.2   Summary of findings

In the following, the main findings from the *letters.de* case will be summarised. In contrast to both other cases described above, *letters.de's* development was not a result of mere chances but thoroughly planned. The idea had been triggered by the general internet and founding hype. The founders wanted to be part of that movement and to take the chance of being an entrepreneur. Rather than having a technological innovation to commercialise, they analysed various B2C business models which were feasible for a basically business oriented team. All in all the planning period before incorporation and taking up operational work took no more than six months.

The founders' major motivation to start such a venture was the existing chance to become an entrepreneur which bore a very limited financial risk provided that one receives VC funding. Without such a funding, the start-up would most likely not have come into being. The years 1998 to 2000 gave the window of opportunity to found the start-up. Before that time, venture capital hardly existed in Germany and after 2000, venture capitalists were demanding more prerequisites from start-up companies, e.g. a proof of concept for technological innovations. The founders aimed at profiting both financial and experience wise. Even in case of failure they were sure that their excellent education combined with their work experience and the enormous experience gained from running a start-up would enable them to find a new job quite quickly again. One of them did not even have to worry about failure as he still worked part-time at the university. All in all, they calculated that they were not really doing anything senseless which they would regret later on. The founding team had strong competencies in the management field. They knew from their studies and previous consultancy work about the possible pitfalls in the development of a company and which problems were likely to come up sooner or later. On the other side, all of them had neither experience nor knowledge regarding the book industry.

These elaborate considerations characterise the whole approach of starting and running *letters.de*. However, the episode about getting the booth at the Frankfurt Book Fair does not reflect this. This is one of the few incidents which happened

by chance and still are so vital for the start-up. The good press coverage and the acknowledgements they received at the fair gave them a fundament they could draw on. They then started very small with merely the five founders and some interns. Not before they knew that they could finance fixed-salaried employees did they hire them. In many ways they only took action if it was clear that it will be profitable. They discussed every matter at full length and balanced reasons for and against. This attitude inevitably resulted in routines, formalisation and professionalisation in general. Problems had to be solved but at the same time solution finding should be standardised if possible. They did not mind problems or mistakes but did not want to make them twice. This also led to the introduction of key financial ratios on which many decisions were to be based and balanced against.

One striking feature in *letters.de* was that they had not at all specialised their positions within the management team. The first big change was due to a different strategy, i.e. the positions based on a market segmentation and not on functions as they later did. But within the functional positioning, they had changed the positions several times. The specialisation taking place was a process of trial and error. However, contrary to one's expectation, the venture was neither paralysed by the frequent changes in positions nor by its long discussions within the management team. Instead, the rotating responsibilities and the long discussions helped not to commit big mistakes.

Delegations and coordination was suddenly increasingly possible after one of the founders had gone. The locus of control was concentrated on the remaining four founders. Rather than controlling each other or their employees, trust became more and more the prevailing control mechanism. Formalisation aspects also increased. It started very early with the semi-annual job evaluation talks which were also used for coordination and delegation purposes and helped to keep track of new employees, their abilities and tasks.

Despite all these professionalisation tendencies they were aware that it was a start-up. And they wanted to keep a certain entrepreneurial spirit as they themselves enjoyed working in such an environment and atmosphere. They characterised this with a lot of freedom regarding e.g. working hours, hardly any hierarchical barriers, the need and pleasure to bring in individual ideas and initiative. In addition they fostered the entrepreneurial identity prevailing in society by setting up a basketball rim on the roof deck, treating everyone with pizza every Friday, supplying free drinks for everyone and calling each other

informally by their first name. In order not to destroy this atmosphere, they paid special attention during the recruitment process to whether the applicant fits in such an environment and liked to work independently. Due to their careful recruiting, they hardly had problems with discontent employees.

6.5 talk-to-me.com

talk-to-me.com is a spin-off from an university's informatics department. A group of eight former colleagues decided to found the company in order to stay and work together. The company is offering solutions for voice controlled services by phone. This comprises voice portals, call centre automation as well as information and transaction systems. The venture grew steadily while paying a lot of attention to its company culture and internal communication. However, sales problems slowed that process down.

Figure 14:　　Milestones in the history of *talk-to-me.com*

1998	**Summer**: kick-off workshop for everyone interested, the idea is formed and elaborated on
1999	**Autumn**: a business plan gets written
2000 'Start'	**March**: first three founders start with operational work **August**: moving offices change of legal status into a public limited company **September**: consultants write a second business plan and receive shares **October**: partnership with CVC, shares are changed against money and a patent
2001 'external manager'	**January**: first employees get hired **March**: moving into a larger office **May**: a finance manager is hired
2002 'internal focus'	**January**: the finance manager becomes CFO **March**: the HR department is introduced **June**: a former Microsoft manager becomes CEO **August**: management board is downsized to CEO and CFO

In the following, the founders will be presented. This time, the focus will be on those who later filled management positions. The others are simply mentioned.

Paul graduated in informatics and continued working as a research assistant at the university. He was head of research group before founding a small consulting company together with a partner. They offered project management and start-up consulting. He started as CEO and later on became head of business development.

Dr. Felix wrote his PhD in informatics after having graduated on the same subject. He was one of those three founders who started working at the company from the beginning on. He was responsible for R&D as head of that department.

Dr. Monika had studied and received her PhD in computational linguistics. She started working at the company in March 2000 and became Head of Professional Services and later Head of Human Resource Management.

Dr. Erich was the eighth founder who stayed at university as he had a permanent position there.

The remaining four founders had graduated in informatics and written their PhD in the same field. **Viktor** and **Reinhard** worked in the R&D department, **Jochen** and **Judith** in Professional Services whereas the latter became responsible for Quality Management.

6.5.1   The company's development

In summer 1998, a group of researchers from a computer science department at a Bavarian university organised a workshop for discussing the possibility of founding a venture. The idea came from one of the researchers who then contacted Paul, a former colleague who was at that time running his own business doing project and start-up consulting. Paul organised the workshop and since then, things seemed to have taken on a life on its own. At the end of the day, nearly ten people considered supporting the idea. They agreed on starting the company in the beginning of 2000 as some of the researchers, mostly PhD candidates, would have finished their thesis by then.

The idea came a bit as a surprise to most of them. However, it found approval as most of the research team liked working together. So far, PhD graduates had started working for large companies and the technological knowledge was thus fragmented into different companies. For the last twenty years research in that

field had been carried out, it was quite elaborated and commercialisation became possible. Finally, many of the research team had settled down in town and did not mind staying there.

In the following months, the keen ones met once in a while to discuss further proceedings. It was quite clear that they would try to commercialise and licence products for voice controlled services. In their free time, Felix, Viktor and Reinhard started programming a first service product. And all together they started writing a business plan during the following months. These activities separated the interested ones from the pretenders. As there was a lot of weekend and night work involved, some dropped out because they were not willing to invest that much. One year later it was clear that eight people would actually found the company. As they aimed at growing incrementally, they did not approach venture capitalists but financed everything with their own capital contributions. In addition, they managed to interest some business angels who invested as well. They also decided to distribute the shares equally among the eight founders. Only Paul received twice the amount as he had put much more effort into getting everything going.

In March 2000, the first three of the eight founders started with the operational work. These were Paul, Monika and Felix. A larger company was subletting them one large office where they moved in. All others joined successively until the last founder started his operational work in February 2001. They had all worked on their PhD thesis and joined *talk-to-me.com* after their contract with the university had ended. Everybody except Erich, who stayed at university as he had a permanent position which he did not want to give up. He was the link to the university and ongoing research developments. This is rather important for a high-tech company as it constantly needs to be on track with recent technological developments.

Before taking up operational actions, they had to decide on the legal form. In order to start immediately, they took Paul's existing company and redefined and renamed it. The other option would have been to found a new company from scratch.

> *"We joined the existing company of one of our co-founders who already had his own GmbH. Starting right away seemed the easiest*

> *way for us because it did not take too much effort and we did not have*
> *to comply with any formalities." (Monika)*

They renamed the private limited company to '*talk-to-me.com*'. The company as such had been founded half a year ago and Paul had run the company together with a partner offering project management and start-up consulting. The only problem was that the former partner of Paul kept some of his shares. This, however, created increasing problems over the following months as he refused to sell his shares.

It had surprised everyone that the workshop actually interested so many researchers and that it eventually lead to the venture's foundation. Apart from Paul, all other seven founders had been working at the university writing their dissertation and had hardly any business experience.

> *"Those were quite academic people. They were very research oriented*
> *and probably they could not exactly imagine what it meant to work*
> *commercially. [...] Of course it makes a big difference whether you*
> *join a company as an employee or support the foundation of a*
> *company." (Paul)*

Quite a few people had warned them of founding a company with eight people, seven of which would actually work in the company. Many expected problems about the assignment of responsibilities and power plays. With so many founders, not everyone could be part of the management team. However, this led hardly to any disputes. It was clear for everyone that Paul would became CEO. He was in fact the only one heading for a managerial position. And as he had already been managing director at his former company, everyone regarded him most suitable for the job. None of the others insisted or even wanted a leadership position. In the end, Monika became head of professional services and Felix head of R&D. Other founders, e.g. Viktor had no ambition of becoming head of anything. He rather preferred working alone and not to manage people. The casting of the positions was very much a matter of personality, next to personality.

> *"This has to do with the fact, that at that time I had no idea of the*
> *organisational things an executive has to do. Just the legal*
> *requirements for a foundation, the financial things, accounting, etc. I*
> *do not know anything about this and the other founders do not either.*
> *Paul has a certain authority as he is about five years older than all of*

> *us. He already had a company of his own and knew about these things. […] Right from the beginning we knew, that if we want to focus strongly on technology, Paul has to keep organisational matters off our backs." (Felix)*

Thus it was Paul as CEO and the three department heads who formed the management team.

As the conflict with the limited company partner could not be solved, they decided in August to buy an existing public limited company, change its name, its supervisory board and its purpose. After having done so, all *talk-to-me.com* members were transferred to the new company. The reason for buying a public limited company instead of a private limited company was to have the possibility to go public one day. And it was easier to change the distribution of shares and to implement a stock-option program.

By autumn, ten people were working at the company. So far, they had not employed any fixed-salaried employees, but one intern for PR matters and some students who either wrote their diploma thesis at the company or who worked on an hourly basis in the R&D department. Nevertheless, the office quickly became too small and it was impossible to work properly. The management had already looked out for a new one and decided which to take. However, that office was not yet ready so that they needed an interims solution where they stayed for four months before moving to their final destination. The new office had the big advantage of having a large kitchen in which they placed a long table so that everyone could be seated. This room was important as it backed the community. At least once a week, every Wednesday, they cooked together and had lunch there. When I had been there for an interview, I was immediately asked to join them for lunch.

They had started with a telephone service as a prototype which three of the founders had created earlier on in their free time. It was a fully automatic computer service for the cinema programs in that region. But not as one would imagine that the voice is simply reading the program from one cinema to the other. Instead the calling person is asked to name the city and theatre or the film she would like to see. A nearly normal conversation between the computer and the calling person is possible. Interrupting or changing plans is no problem.

During the first half year the company's focus was on developing additional products and services. They created a product roadmap in order to know what to develop. Later in autumn, the 'product and project meeting' was implemented to coordinate the development efforts. It lasted five months during which developers, professional service and sales people discussed possible features. The business model was to sell or licence single modules. Customer companies would need these for setting up their own telephone services or for improving their call centres' technologies.

In the beginning of 2001, *talk-to-me.com* recruited two informatics' graduates to join the R&D department as well as two sales people. Most new employees had already worked as a student or as an intern in the company before. This enabled a quick integration and the new employees were very productive within a short time as they knew the company. The other reason was that the company atmosphere was very integrating. They were immediately accepted and not treated as new members. However, this implied that everyone took it for granted that newcomers knew what to do and no one felt responsible for giving short instructions. The integrative atmosphere was strongly visible as *talk-to-me.com* was employing one young man who was physically and mentally handicapped. His tasks were to run errands, make coffee and keep the large kitchen tidy as well as organising lunch if wanted. His position was subsidised by the state as otherwise the venture would not be able to finance him. But everyone enjoyed having him around. The management liked him and said that he strengthened the community and radiated a good atmosphere. As he took over little tasks from everyone, he unburdened the others who in return were able to concentrate more on their genuine tasks.

During the first twelve months, there were hardly any task distinctions. No functional or similar structure did exist and everything was more a muddling through as everyone did a bit of everything.

> *"At the beginning, everybody did everything and to a certain degree this has not changed yet. A strict separation between tasks does not work if you are only five people. [...] Even today roles are not as clearly as defined in the organisational chart but we are still sharing. We call it 'Resource Sharing', which does not mean, however, that we are still doing all the things we are not responsible for." (Felix)*

To improve the situation as they were growing, they started talking of departments and communicated these to the environment.

> *"Therefore, we meanwhile began to define and live responsibilities. If you are more people, everybody must know where he belongs, what he does and who is his boss." (Felix)*

This was specially fostered by the second business plan for which they contracted a consulting company in September 2000. They wanted to have a more professional and detailed business plan. It had to be written in English in case they would give it to a foreign venture capitalist. But they expected to gain more from the presence of the business consultants than just receiving the business plan at the end. However, these expectations were not met. With hindsight, they even regret having paid for writing the plan. They should have done it themselves. But the plan contained an organisational chart which gave them an idea how to set up and organise the different departments and which functions to create. They finally decided for the following departments: R&D (Felix, Viktor, Jochen, Reinhard and 2 FTE), Business Development and Administration (Paul), Professional Services (Monika), sales & marketing & PR (3 FTE) and Quality Management (Judith).[41] The latter was no full-time job but they wanted to set a point and show that they took the topic seriously. Professional Services was more or less consultancy, i.e. implementing modules at the customer's premises. However, R&D and Professional Services built a resource pool together to share its members. This enabled a greater flexibility e.g. in case of vacation or illness and distributed the knowledge more evenly on more people which was very helpful in the beginning.

Paul and the others had put on paper an organisational chart divided into functions. However, Paul admitted that in fact, a matrix diagram would suit it better. But he deliberately did not change it as it would have been too confusing for many to understand the logic behind a matrix organisation. He rather kept the impression of an functional organisation with resource sharing between two departments.

Although they had an organisational chart by spring 2001, one needs to distinguish between having one and living it as well. It took them another half a year until people lived up to their expected roles and responsibilities. This was

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[41] The underlined persons are the department heads.

especially prominent at the management level. So far, hardly any department head took decisions on his or her own. Everything was discussed and decided democratically. In fact, the distinction between CEO, department heads and non-manager founders was obsolete as all discussions were taken by the complete founding team. But it was impossible to keep up the democratic system after a while as it became too frustrating. Discussions lasting for hours were ineffective and too time consuming and decisions were hard to take. Most discussions were taken in the 'core meeting' which was not called in on a regular basis but whenever needed. The core consisted of all founders and the early employees who too had received company shares, too. By summer 2001, the core involved nine people. The management had given shares to the first two employees in order to foster their entrepreneurial spirit and to reward their effort. This has to be seen in the light of payment which was not comparable to industry.

> *"Especially during the early stage we let people participate in the company to a certain degree by giving them shares in order to provoke entrepreneurial spirit. Axel is one of those who almost counts as a founder, because he joined early even though he has not yet been with us during the planning stage." (Felix)*

The core met either face-to-face but they also discussed via emails. If possible, most discussions were taken unanimously. In addition to the core, there was the Monday meeting in which the whole company met.

At the end of the first year, organisational problems mounted and the management had to take action. The resource pool created constant problems as people had the feeling they had two bosses. They did not know whom to prioritise. As a result, the management made it clear to which department each employee belonged. As a consequence, the department heads knew exactly who was doing what and working on which project. It was also decided that every member of either department had to write a mail once a week to his boss and his colleagues stating his current tasks and activities.

An additional factor which accelerated professionalisation was the recruiting of a finance manager. Martin joined the company in May 2001 and was appointed CFO in January 2002. They urgently needed someone with experience and knowledge in financial matters which all of the founders lacked. And having

created the position of CFO could also be advantageous when looking for VC money.

A new team member always changes gridlocked habits and behavioural patterns. Martin discovered and mentioned many organisational discrepancies which were not obvious to the management and other employees as these had already worked too long there. They were in some ways blinded and unaware of certain conditions. Martin mostly noticed the lack of standardised processes or communication structures. But as he was new and had not known the others before, he was not part of the informal network. So far, most people had known each other for quite a time. Especially the management team which simply worked by acclamation. This has worked well in the first two offices as everyone was sitting in the same room. Thus, mutual adjustment was the common way of coordination.

Initially, most information pointed at Paul as he was the main manager. With two managers, it became important to direct the information to the responsible person. The CFO was only annoyed by organisational matters which were important for Paul to know but not for himself. He too often received all market information as well.

To improve the information flow, they activated an administrative meeting in summer 2001.

> *"Before reorganising the board, an organisational meeting was held where we discussed organisational topics within a small group. [...] In this group, we made unanimous decisions. It had the character of a management round, however, we did not take really difficult entrepreneurial decisions. Not daily business, but organisational things were discussed. We established it in the middle of 2001 and it still exists, but has been quite reduced because most things that needed regulation are regulated already." (Felix)*

The aim was to enable discussions and decisions in a smaller group than with the whole company which met on Mondays. Organisational aspects such as how to organise vacation leaves or how to deal with travel expenses were discussed. It were the five managers meeting once a week. After a year the frequency was reduced to once a month as by then, most administrative matters had been organised and routines and regulations implemented.

At the same time, *talk-to-me.com* started with semi-annual budget meetings. These were initiated by one of their business angels who was used to it from his former company. In this meeting, every manager and each department head had to report about activities going on in his responsibility area regarding projects and employees. The meeting was used to take decisions and to budget the coming months.

Due to the professionalisation, structures and processes increased. The management realised that these were very helpful for integrating new employees more quickly as they served as an orientation for them. On the other hand, the management was afraid of structures and fixed processes as it could remind one of large multinationals.

> *"We are far away from becoming an organisation like Siemens. And we don't want to aim at it either. When you start defining organisational structures and processes, you always have the fear in the back of your head that sometime you might become like Siemens." (Felix)*

Too many structures or new rules were sometimes regarded as being suspicious. It reminded some of bureaucracy which they did not aim at.

> *"So far, it has not been necessary, so why now? What is it all about, we are not with Siemens here. But in the end, if you think about it, there is no other way." (Monika)*

In order to coordinate activities better, a common online time schedule was set up for the whole company and became compulsory for everyone to use. Paul who had introduced this, regarded appointments which were not entered into the calendar as non-existent. He also started a common contact database for everyone to use.

> *"An organisation can only work well when know-how is shared and therefore you need such a data basis." (Paul)*

Additionally, he wanted to implement a groupware to combine the time schedule and the database. This would then improve and support communication activities even more. However, they first needed to evaluate existing offers on the market to take a decision whether to buy one or to program it oneself.

For the time being, they kept quite close contact to one of their business angels. He often advised them and observed them closely. Paul as CEO had noticed increasing difficulties in marketing and selling products and licences. He suggested to look out for a new manager who could become CEO if he suited well. Suddenly, Rolf, one of their business angel and former Microsoft manager offered to do the job. He already knew the venture and would enjoy being back in business. So in June 2002, Rolf joined them as CEO. This resulted in Paul stepping down as CEO but staying in the management board as Chief Business Development Officer. However, he himself regarded it silly to have a small venture with three managers on the board. So finally he stepped down and left the management board. For the first time, *talk-to-me.com* was managed by two external, non-founder managers.

> *"There had been times when there existed a 20-people-company with three executives. But that is just absurd. I have left the board now to take care of business development and enforce visions that are to make the company strong for the future. Insofar, none of the founders is at the head of the company anymore, but all founders are on second level." (Paul)*

In some ways he was even glad about it as he saw his own abilities in doing business development rather than running the company. The latter included too many administrative and legal aspects which he did not consider to be his main strengths. Thus the new management board consisted of Martin being responsible for finance and organisation and Rolf being head of R&D, professional services and HR.

Having recruited Rolf turned out to be a good move. They had generally lacked profound industry experience which Rolf has a lot of. In addition he 'guaranteed' credibility and reliability which the young founders lacked. He radiated confidence and experience to the external environment and brought with him a large network of contacts which could only but benefit the company.

> *"This has been a good move concerning outside credibility. As a start-up, a new technology venture with all but guys, you are prone to meet resistance or credibility problems with conservative-minded customers. Thus, a grey-haired head comes well into that." (Paul)*

But the new CEO did not only send positive signals to the external environment but in addition fostered an optimistic and joyful atmosphere within the company.

It was a good sign if such an experienced businessman joined a new venture and became its CEO.

Rolf's leadership style can be defined as 'management by a cup of cappuccino'. Whenever he felt like getting to know or discussing something, he simply took a cup of cappuccino and sat in one's office to talk over matters. He was not at all an introverted character, but rather communicated a lot with everyone, especially with the departments' heads and the founders.

With Rolf as CEO, decision taking processes changed. So far, the core had decided very democratically, if possible unanimously, in all important matters.

> "Mostly we voted via e-mail. We had no strict decision structures. In those meetings we always tried to meet everybody's expectations, which obviously does not work well." (Felix)

But as this process was too slow and long winded, Rolf embodied the locus of control much stronger in the management board. To speed up decisions and simplify them, Rolf and Martin took many decisions. But neither of them would have dared to take a decision which would be against the core's perceived will.

So far, HRM matters had been organised either by Paul or by Monika, who being head of professional services also felt responsible for those topics. As time went by, she realised the importance of HRM and that one needs to pay much more attention and time to it if taken seriously. She decided that a smooth growth process aimed at would not be possible without a sound HRM basis.

> "One lesson learnt from other foundations is that an extreme rapid build-up of a company is very error-prone concerning personnel decisions. We take that topic very seriously." (Paul)

As a result she officially named a HR department in May 2002. In the beginning she handled it alongside her Professional Service tasks. However, to fully concentrate on the new job, she handed over the Professional Services Tasks to Viktor who became head of the department. As most founders and employees came directly from university and were lacking professional HRM experience, she saw the possibility of creating routines and guidelines from scratch. No one really interfered as they themselves had no clear expectations or ideas what the job encompasses.

One of the first things she did was assigning one direct report person to each employee and she was introducing monthly job talks. Every employee should talk with his respective direct report about the activities of the last weeks and upcoming ones. It was the employees duty to ask for the talk. However, some department heads ran those talks every or every other week. This measurement ensured that communication generally improved and that people manager knew better what everyone was actually doing in their departments.

In addition, it strengthened the managers' role as being responsible for their employees which was not easy for everyone to accept.

> *"Some people refrain from being a boss suddenly. Not everybody wants to be put in this role." (Monika)*

So far, a rather egalitarian atmosphere had prevailed. This was fostered by the constellation that some of the founders had employee positions and were not managers. Thus some managers had to run the job talk as a manager with their co-founder. It was much easier with employees who were employed later on.

> *"For him [a later employed external applicant], it is totally clear that I am the boss. There is not much fuss about any roles." (Felix)*

The department heads had to learn how to run such a talk and how to handle the situation. They therefore had a training session for job evaluations in October 2002 which was run by an external coach. As everyone welcomed and profited from it, they planned to have similar trainings on a regular basis for special topics, e.g. time management or recruiting interviews. In addition to the regular job talks, leadership guidelines were drafted. Monika considered it to be important to think about those topics.

> *"We had also started with our leadership concept. This sounds a bit silly for such a small company, but I think it is very important to be concerned about it early on. We should discuss what leadership actually means for us as it should be more than simply telling people what to do. Instead we should see ourselves as service providers if one assumes responsibility for employees." (Monika)*

Monika also resented the way salaries were paid. There were no structures or guidelines regarding salary levels. So far, everyone's salary was the result of his personal negotiation's ability. Common guidelines for fixing the amount did not exist. Despite the actual salary's level, *talk-to-me.com*'s strategy was not to link the salary to personnel responsibilities. They would rather have a system in

which technology oriented employees without personnel responsibilities can earn similar salaries compared to those with personnel responsibilities.

> *"One aim of personnel development is to structure it in such a way that someone who has no leadership or personnel responsibility can get as high in hierarchy as someone who is head of a department. Both matter to us equally. Professional competence and personnel responsibility have to be regarded equally." (Monika)*

To come to such a salary structure, the managers were asked to develop job descriptions for all existing positions within their realm. But Monika was still lacking job descriptions for possible or future positions. This was needed as it makes it easier in recruiting interviews to indicate applicants possible career paths within the company.

> *"Also you are not able to show a job applicant any career perspectives. However, one should point out development opportunities, like, you start with this job profile but after several years these other positions might be possible. First of all we have to identify what kind of people we need, what positions they could take and what a long-term development perspective for these positions could look like. These are the things we are just considering." (Monika)*

Another thing she wanted to change was the naming of the departments. As head of Professional Services she had noticed that most customers did not know what to understand by Professional Services. She would rather like to rename it in something like Consulting.

She also intended to create a brochure or conceptualise a workshop for new employees in which the company would be introduced. The reason behind is the company's spirit and culture of which everyone was proud of. They even spoke of the 'talk-to-me-spirit'. It was especially the friendly and family-like atmosphere, the tolerance and the highly integrative capabilities which were pointed out. They would like to keep that spirit but fear loosing it when too many new employees join the company. They planned to recruit up to twenty new members in 2003. To grasp the spirit, she intended to ask every employee about his perception of the spirit and to describe it. As a result, the management could hand out a little booklet about the company and its spirit. The alternative would

be to run a workshop for new members in which single employees talk about their perception of the company and the culture.

So far, they did not have to dismiss any employees at all. They even had no fluctuation which they ascribed to the good atmosphere and culture.

> *"So far we did not have to lay off staff. This is due to the fact that we managed to buy cheaply. As a trade-off to the relatively low wages we increased the fun factor. People feel comfortable here, they like to work here and accomplish a lot." (Paul)*

However, it was not that easy to grow as they did not manage well to sell licences or their products. Although their technology was well developed and they received a highly recognised European Information Technology Prize in 2001, sales efforts were not very successful. They started contacting venture capitalists to receive funding. The high turnover rates from the service business was not sufficient for further developing products and reaching break-even. At the end of the study they were in close contact with two venture capitalists, however, it was not clear whether the negotiations would be crowned with success.

6.5.2 Summary of findings

In the following, the main conclusions will be drawn and summarised from the *talk-to-me.com* case.

The company came into being due to a variety of reasons. There was the technology which had been researched for nearly two decades and was well developed, there was a research team enjoying to work together and all finishing their PhD in a foreseeable time and there was the general entrepreneurship hype during which new ventures sprang up like mushrooms. These circumstances led to the initial workshop at which the idea was formulated and since then elaborated and worked on. As they intended to grow only incrementally, they did not approach venture capitalists. On the other hand, they bought an existing plc to change it into their own. Having bought an 'Aktiengesellschaft' hints at growth plans as it creates the possibility to go public in case of proven and persistent success. Thus, there seems to be the contradiction that the founders did not have a clear idea what to aim at. It is difficult to say what each single founder aimed at by founding the venture, especially as there were so many. It probably was not a matter of earning big money and getting rich. It was rather a

convenient way to stay in the area and to do a job which they like and which they can influence themselves.

After one and a half years of planning and preparations, the first three of the eight founders started with the operational work. All in all it was a smooth transition between the founders' research work at the university and the venture. There were hardly that many differences as it were the same people and the same kind of jobs. Especially as the first six months were mainly used for R&D work. Later on, finance, sales and HR became important, too. However, as all founders had an informatics background and had never worked at a company before, business and organisational experience or knowledge was hardly existent. The only exception was one founder who was then asked to be the CEO.

As a result, the company was more or less run like a research group at university. Equality was the prevalent principle. Be it that the number of founders and the shares' distribution, the way how decisions were taken or how task responsibilities and responsibility areas were hardly defined. Everything was designed to foster community and reminds a bit of creating an ideal world. *talk-to-me.com* was enacted very informally. Everybody did everything and, when necessary, even extra and weekend hours. The need to define responsibilities and to allocate managerial tasks entailed the risk of losing the informal and open atmosphere. It were mainly external influences which led to an identity change. First it were the business consultants through which organisational matters, mostly the organisation chart, were paid more attention to. As a result, delegation and specialisation were to be improved. Next was the recruiting of one of their business angels. As he had a different educational background and as he did not know anyone from beforehand, he found some organisational handlings rather strange. He then triggered and initialised better coordination and more formalisation. Lastly it was him who changed configurational aspects. The locus of control was focused much more on the management board and the management team, however leaving out all the others. When he was still a business angel and not yet CEO, he introduced the semi-annual budget planning meetings which helped to gain a more long-term perspective. The next wave of professionalisation was due to the creation of the HRM department. Organising aspects such as regular evaluation talks, leadership guidelines and salary structures were discussed and partly implemented. These aspects gave some food of thought and made the importance of organisational aspects more explicit.

This shows how their organisational attitude had changed from being reactive to proactive. The change was mainly because of the new CEO and former active business angel. The reactive phase could have lasted so long because *talk-to-me.com* did not grow that fast. As a result, organising shortcomings had hardly any noticeable effects. The other reason for not having an effect were the founders who were used doing things the way they did as they had never experienced anything else.

7 Organising in new ventures

The previous chapter has depicted how the four new ventures have emerged, developed and survived in their first years. The reasons for coming into being as well as the founders' intentions and aims were analysed. In a second step, their early development processes were described. Clearly, the emergence and early development of these four ventures cannot be considered to embody the full range of patterns and possibilities that occur in the creation processes of new ventures. Yet, certain dynamics are surely not idiosyncratic.

In this chapter, I will refine the findings presented earlier and lift them to a more abstract level. To do so, I will first analyse the findings further by confronting them with traditional organisation theory. Then, I will develop four different organising concepts which cover the major aspects. In those I will tie the findings to entrepreneurship and organisation theory in an attempt to further our knowledge in these fields.

## 7.1 Linking traditional organisational theories and case findings

Some of the cases' stories mirror a number of obvious themes that are closely linked to what has been suggested by traditional organisational and entrepreneurial theory on new ventures, especially regarding structure formation. In the following I will therefore confront extant theories regarding organisational development with the case findings.

The first step to discuss the four ventures' organisational development is by applying a growth model to the four cases to investigate in which stage they are in and whether they are confronted with similar problems as suggested by the model. As discussed on a more general level in chapter 2.3.2, a large number of these growth models exist (e.g. Hanks et al., 1993). To begin with, the case studies' developments will be compared with Churchill and Lewis' (1983) five stage model. This model seems most appropriate as it has especially been designed for small and growing businesses. To broaden the discussion, the stage contingent model by Kazanjian and Drazin (1990) will be used thereafter.

Churchill and Lewis' (1983) model is built on the idea that small companies experience common problems at similar stages in their development. The model emerged out of a combination of experience, literature search and empirical

research and it constitutes five stages of development: existence, survival, success, take-off and resource maturity. Each stage can be characterised along the contextual dimensions of size, diversity and complexity. For this, five management factors were taken into consideration, i.e. managerial style, organisational structure, the extent of formal systems, major strategic goals and the owner's involvement.

Figure 15: Small businesses at each developmental stage

*Smaller circle represents owner; larger circle represents business.
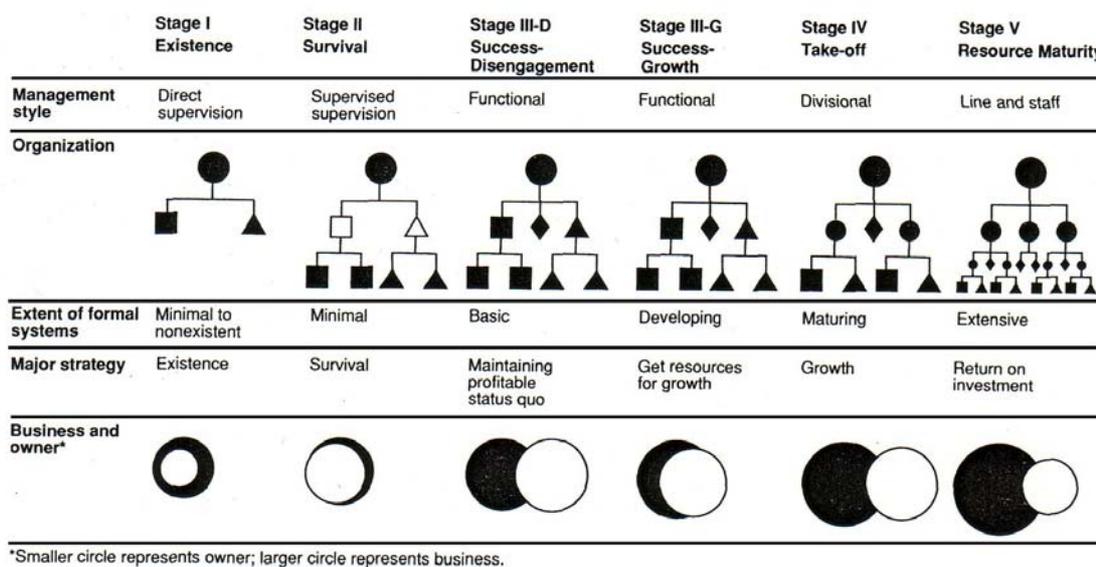
Source: Churchill and Lewis (1983: 266)

Comparing the four ventures studied, it appears that all four of them were in between stage one and two at the end of my research period, hence between 'Existence' and 'Survival'. This is insofar true as the ventures were still trying to generate enough cash to achieve the break-even point and to stay in business. It is also true that their system development in terms of e.g. formal planning was simple. However, several other aspects diverge from the model. Most importantly, their organisational mechanisms can be placed into stages three and four. A functional organisation had already been implemented in all four companies, although described for stage III. This means that the ventures were already tackling some of the issues of stage III already. *talk-to-me.com* showed quite an elaborate organisational chart which included HRM and quality management as departments (stage III). Responsibilities had already been delegated to non-founders and non-top management level as in *technology.com* and *talk-to-me.com* (stage IV). The latter had also replaced the founder-

management team completely with two external, experienced managers (stage V). As a crude judgement, *x-it.com* and *technology.com* could be said to be located in stage II whereas *letters.de* and *talk-to-me.com* were in stage III. The last two ventures have introduced organisational elements earlier than suggested by this model and other stage and life cycle literature (Greiner, 1972; Quinn & Cameron, 1983). It also means that stage II does not have to be completed in order to deal with issues of higher stages. This is partly in line with Hannan and Freeman's (1984) view that certain long-term organisational characteristics are established very early in the life of an organisation. However, they have not specified the meaning of 'early' any further.

The model by Kazanjian and Drazin (1990) contrasts the above one by distinguishing between four different stages. They call them conception & development, commercialisation, growth and finally stability. These evolve out of the dimensions of size, growth rate and dominant management problems. The structural dimensions taken are the structural form, the degree of formalization and centralisation and the top management composition. Kazanjian and Drazin have based their model on two studies. They had started with two explorative case studies leading to the stage model. The latter was then tested on a data base of 105 firms and partially supported.

Applying Kazanjian and Drazin's model (1990), all four ventures were in the 'Growth' stage (stage 3 out of 4), meaning that they have already built an organisational task system in stage 2, although formality and structure were still low. The model proposes that in the third stage the companies should struggle with the successful market acceptance. This is true for all four companies as all of them have developed at least one product which is ready for market entry. However, their acceptance and success is not measurable yet. The third stage is also characterised by the advent of functional specialisation and the move towards highly trained and experienced personnel. While the specialisation aspects seem to hold true, the personnel aspects differ from the model as most recruited employees had been well trained from the beginning. Only occasionally people were replaced by someone with higher experience levels later on.

To a certain extent these models help to convey an idea of which problems a venture might face in general and which aspects should be considered if a company strives for further growth. However, to gain a deeper understanding of

organising processes, these models are not very helpful. The major problem can be seen in the interrelatedness and interdependence of many organisational aspects and the complexity which is hard to depict in a stage or life-cycle model, which is simplifying by nature. Even if those models attempt to integrate different aspects, such as cognitive, behavioural and organisational phenomena, the simplification into stage models can only result in very universal models.

The findings also show that many of the stage models' underlying assumptions (Stubbart & Smalley, 1999) should be seen critical. The case studies' findings suggest that they often hold not true. The ventures' development is not necessarily uni-directional. This is most obviously demonstrated in the *technology.com* case. At one point the management had introduced more formalised mechanisms and structures, however only to overcome and substitute the lack of communication and shared identity. Once the feeling of identity was re-established again, formalisation was decreasing. Thus loops within the development are not explained in the models, or would at the most be seen as setbacks. Yet new venture development does not look like a smooth progression line, but rather like curvy lines with ups and downs. Sometimes these down-phases present real perils. But if the management is well aware of them, they can also be used for consolidation and an internal re-organising, leading to maturation of the venture and preparation for later growth. This was shown for example in *x-it.com*'s setbacks. Timmons (1994: 576) acknowledged that the *"actual growth curves […] will look far more like the ups and downs of a roller-coaster ride"*, however, he did not drew any conclusion from that. In his study he continued by describing yet another stage model. I would rather suggest to emphasise much stronger the irregular development' of new ventures instead of making new ventures' founder belief a smooth development.

Finally, Stubbart and Smalley (1999) concluded that stage models are in general *"more deceptive than alluring"* (1999: 285). Though this assessment might go somewhat too far, my results still suggest that growth or stage models have only limited applicability to new ventures as the models are not detailed enough. And in addition, these models hardly consider organising aspects inherent to the company.

Next, I will refer to crises and transition models as an alternative body of literature as suggested by Timmons (1977; 1999) who argues that these are more useful regarding new ventures. Crises and transition models focus on certain milestones and problems which need to be handled (e.g. Greiner, 1998; Timmons, 1999; Roberts, 1999).

According to Greiner's (1998) model, all new ventures will face five different evolution stages which are interrupted by revolution stages. These are: the growth phase of creativity stopped by the crisis of leadership, direction by autonomy, delegation by control, coordination by red tape and finally collaboration by the ?-crisis.

Figure 16: Greiner's five phases of growth
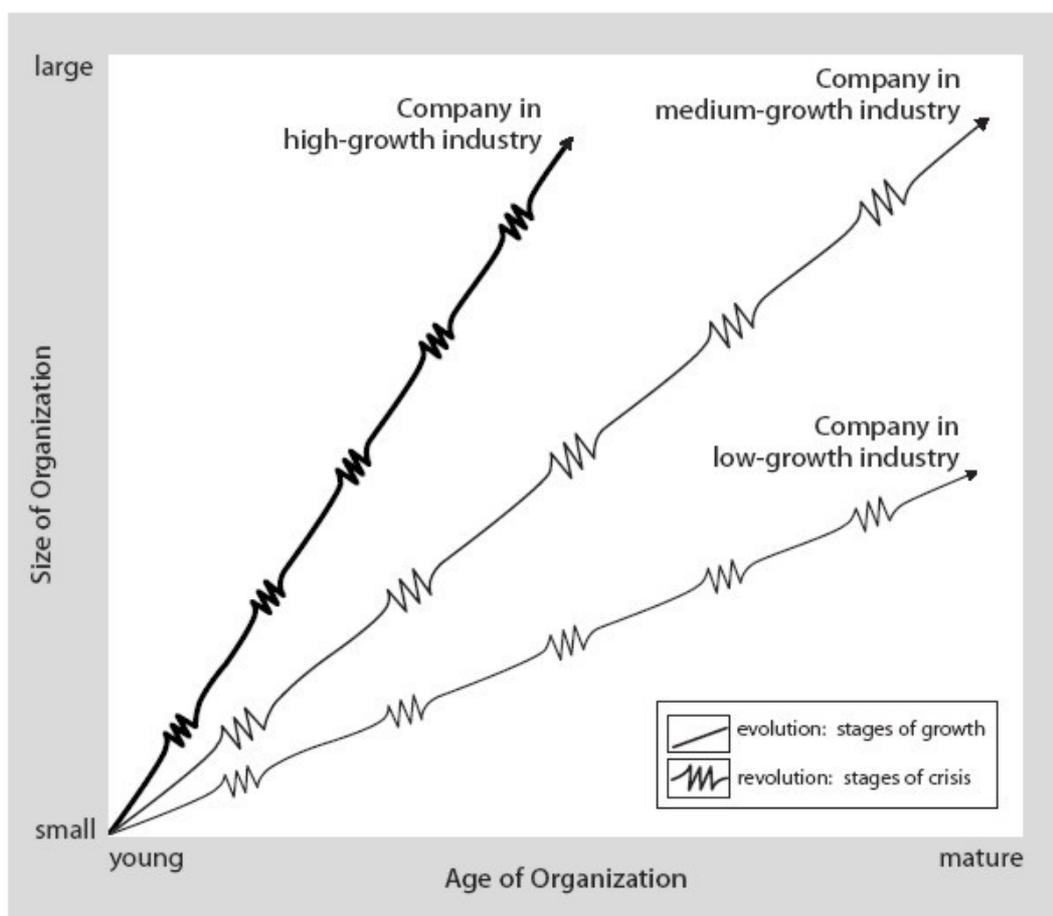
Source: Greiner (1998: 56)

Applying this model to the case studies, all four ventures experienced the autonomy problem, which implies that the management style is very directive and they need to learn to delegate more. Two of the cases also displayed a

leadership problem, i.e. who would lead the company and bring in new management techniques. This crisis would finally result in the replacement of the management. This is most obvious at *talk-to-me.com* with its large founding team of which only one member had some business experience. Although *technology.com* officially had an experienced and strong CEO, he hardly ran the company actively as he spent his time at the university. The other two founder-managers sometimes felt overburdened.

Greiner defined the control problem as one in which the management would attempt to maintain complete control but fails as the company is getting too big. This is only partly true in the four ventures. At *x-it.com*, the control problem was insofar different as the company was still so small that direct control was possible. But the founders simply did not do it as they wanted to grant their employees maximum freedom. There were no signs of the red-tape crisis (i.e. bureaucracy and procedures are more important than problem solving) or the ?-crisis (i.e. the psychological saturation of the employees who grow emotionally and physically exhausted from the intensity of teamwork) at any of the four companies.

Do these four ventures therefore have to be called 'premature' as claimed by Greiner? My findings rather suggest that not all organising principles tested in large organisations can be applied equally well to new and small ventures. The findings also contradict the assumption that small ventures only solve simple problems whereas large organisation solve large and complex problems (Brytting, 1991). It can therefore be concluded that even though these new ventures experienced periods of crises, the latter were based on different reasons than those suggested by crises models. The cases also illustrate that crises appear in a different order than suggested by Greiner (1998). The figure below illustrates the order of the crises as occurred in the cases.

Figure 17:   Order of crises at the case study companies

technology.com	autonomy → leadership → control
x-it.com	autonomy → control (→ leadership)
letters.de	autonomy → control
talk-to-me.com	leadership → autonomy (→ control)

Source: Author

The figure above reflects the great deviation of the cases' crises from Greiner's suggested order. Also, Greiner stated in his article's supplement from 1998[42] that the phases in between the crises would last between 3 to 15 years. In my study, these phases are certainly shorter. But Greiner admitted that the length of the phases would depend on the industry. Many of the ventures founded during and because of the Internet hype had the possibilities to grow very fast if supported by venture capital. This could explain shorter stages.

A different approach to transitions between stages is taken by Roberts (1999) who described four management modes through which a new venture's management is likely to go through: (1) real time management of content, (2) management of behaviour, (3) management of results and (4) management of context. This concept is an interesting alternative to the models discussed above, as it does not specify single tasks and processes as most other models, but generalises them to a more abstract level. The first three management modes were prominent in all four cases, the transitions between the modes caused trouble for some of the managers and some employees alike. The further the management proceeded in terms of the four modes, the more responsibilities were passed down to the employees. While Roberts' model is solely theoretical and has so far not been empirically tested, my findings provide support for the concept.

All models discussed above follow the assumptions that a venture needs to go through the different stages/phases/crises as otherwise it would not mature and professionalise. And professionalisation is the basis for growth. Thus the models implicitly say that professionalisation is the overall goal. Here, the question arises whether this suggested cause-and-effect relationship holds. If a venture displayed such a nicely charted development, would it then be more likely to survive and be better off? As already indicated above, I doubt it. My findings rather suggest that certain drawbacks can even be fruitful and help managers and employees to see things in a different way.

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[42] His article had initially been published in 1972 and was reprinted in 1998. In the reprint, Greiner added a one and a half page long supplement titled *"Revolution is still inevitable"*.

In order to understand the organising development better and to analyse it, I will now turn to organisation theory which has dealt with structural development of organisations in great depth. To begin with, I decided for the Aston studies as that model is well elaborated and well known in organisation theory and has inspired many studies afterwards. I will confront my findings with their five dimensions (Pugh et al., 1968) of specialisation, standardisation, formalisation, centralisation and configuration to see how far these traditional organisation theories are applicable to new ventures.

Figure 18:   Short definitions of the five Aston dimensions

Specialisation:	deals with the division of labour; the degree is an activity performed by someone with that function; the extent of which specialised roles exist
Standardisation:	the degree of a procedure/event that has regularity of occurrence and is legitimised by the organisation
Formalisation:	the extent to which rules, procedures, instructions and communications are written
Centralisation:	the degree and locus of authority to make decisions affecting the organisation
Configuration.	the shape of the role structure; the degree of the vertical and lateral span of control

Source: Author, based on Pugh et al. (1968: 72-79)

To use the concept, I estimated the degree of the dimension for each year and each venture along a three-grade scale. The scale distinguishes between low, medium and high degree in each of the five dimensions. The aim is to give an impression about the development of those dimensions and their magnitude.

Figure 19:   Dimensions of structure applied to the cases

year	specialisation 1	2	3	standardisation 1	2	3	formalisation 1	2	3	centralisation 1	2	3	configuration 1	2	3
x-it.com	L	M	M	L	L	M	L	L	L	M	M	M	L	L	L
technology.com	L	L	M	L	M	M	L	L	L	L	M	M	L	L	L
letters.de	L	M	M	L	M	M	L	M	M	M	M	M	L	L	L
talk-to-me.com	L	L	M	L	L	M	L	L	L	L	L	M	L	L	L

Source: Author   Key: L=low, M=medium, H=high

Interpreting this figure, one could rank the four ventures according to the number of the highest parameters out of the total of 15 parameters. In that case the ranking would be as following: *letters.de* with 9/15, *x-it.com* 6/15, *technology.com* 5/15 and *talk-to-me.com* with 3/15.

This enforces the impression that the ventures were initially run in an informal manner and later professionalised by implementing increasing levels of standardisation and centralisation. Formalisation and configuration were not distinctive and did not change either. The only exception is with *letters.de* which introduced the written evaluation talks and the written budgeting plans. This confirms general studies on new ventures' development such as Van de Ven et al. (1984), Manstedten (1997) or Meijaard et al. (2001).

All the above discussed models show that traditional and entrepreneurial theories can be applied. However, they are not capturing crucial organising processes and thus not giving new insights in organising processes in new ventures.

In addition, the traditional theories did not aim at new and small ventures but rather pointed towards established and large organisations. The question then arises to what extent are these theories generally applicable despite the age and size of the company? Neilson (1974) tested the validity of contingency theory as presented by Lawrence and Lorsch (1967a; 1967b) for small businesses. He found that *"size (in terms of personnel) affects the nature of the interaction pattern among organizational subgroups and interaction patterns affect the nature and quality of the information top managers can obtain"* (1974: 359). Thus small business managers could apply Lawrence and Lorsch's principles, however the forms taken are different from those in large firms.

The cases allow to demonstrate that the management's role shifts over time to be less operationally and more managerially and strategically orientated. This implied that a greater decentralisation and delegation is required. This is in line with Greiner (1972) and Adizes (1979). I can also confirm Van de Ven et al.'s view (1984) that firms at an early stage are extremely informal. However, their finding that new ventures are extremely unstructured is not quite true for my cases. Having developed specialised and centralised tasks as well as decision taking procedures, I would not call them unstructured. And besides, from an constructivist point of view, everything is always structured only to different degrees.

Organising was seen by the founders and managers not as a general problem, but as highly specific one, e.g. new accounting procedures had to be created and implemented or a job description for recruiting had to be set up for being

published in the national press. Thus, organising takes place by confronting highly concrete problems with highly concrete solutions. After a number of these problems or events have been accumulated, the founders see themselves as being organised. Ex-post, the organisation and organising gets rationalised.

However, this 'objective' view (Kieser, 1998) on the development process does not manage to capture the crucial organising themes that unfold in the stories. While a number of traditional, mainly structural categories can be detected, these fail to draw an accurate picture of new venture organising activities. Consequently I will now turn to discuss four organising mechanisms which emerged and had an important impact on organising in most of the cases studied.

In the following, I will categorise my finding into four principles. The interpretative analysis of the four case studies has resulted in: organising as enacting dualities, organising as the context of entrepreneurial behaviour, organising as identity construction as well as organising as a game. All four principles refer to organising as an achievement as well as an ongoing activity. As such, it is always both the result of entrepreneurial activities and an active process of attempting to bring things under control. Organising can be viewed as an ongoing struggle for order, regularity and coherence in the venture. It aims at achieving temporary patterns of regularities and routines. And organising plays a crucial role in preparing the venture for future growth.

7.2 Organising as enacting dualities

This is the first of four organising principles. Organising as enacting dualities points at one major challenge that evolved in the stories told, namely that of managing dualities. The ventures were confronted with opposing forces that needed to be balanced. The research approach chosen allowed for identifying dualistic situations because inherent ambiguities are not overlooked, but can be addressed to clarify their nature. As the ventures experimented with their organising processes, they constantly faced situations that were characterised by seemingly contradictory demands, e.g. professionalising but keeping an entrepreneurial spirit, being the boss and the friend at the same time or whether the founder wants to be a manager or rather focus on operational work.

These dualities will be depicted more in detail in the following short vignettes. *x-it.com* faced the struggle of maintaining a family-like spirit but at the same time felt the need to professionalise. The founders feared that by introducing more professional mechanism, they would loose their family spirit which they regarded crucial as it fostered trust and initiative. By keeping the family spirit, they had the impression that they do not have enough distance to be able to run disciplinary measures when necessary. One characteristic of the family spirit was they way of addressing each other. Everyone actually called each other by their first name and the informal 'du'.[43] This way of addressing each other is to a large extent necessary for building the family-spirit, one of the founders argued. An atmosphere of formality and aloofness would counteract the family spirit. The difficulties to take more rigorous actions were also hampered by the fact that the founders were of the same age as their employees, sometimes even younger. However, keeping the family spirit was neither an option as they also felt the need to professionalise especially in times of growing numbers of employees. Instead of introducing single job evaluation talks as other case ventures did, *x-it.com* introduced the 'Thursday Meeting' to tackle task evaluation matters and to improve communications. Thus they tried to combine both poles, however with little success as the meeting was not used for its intended aims. This certainly slowed their professionalisation. This family-professionalising-spirit dilemma was more or less apparent at all ventures. However, *technology.com* was not aware of it and *letters.de* managed to overcome it by implementing the regular evaluation process in which difficult topics were more easily addressed.

The founders of *talk-to-me.com* faced the dilemma of having co-founders who were not managers but employees. This resulted in founder-managers who had the legitimacy and power to 'control and rule' over their co-founders who were a member of their department. Acting as a department head was considered to be difficult enough, but they then had to face the situation of managing their own friends and co-founders and running evaluation talks with them. This created a very difficult situation for both sides. However, this dilemma was technically to be solved. Everyone had to learn how to manage it reasonably well. As a solution the HR manager planed to offer training modules for running evaluation talks in

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[43] This entails a cultural component of the German language. The use of the informal "du" is often interpreted as a sign of personal closeness, and therefore hinders behaviour that does not express friendship.

general and how to handle difficult situations in particular. She said that being aware of the possible problem helped to deal with the dilemma. *technology.com* was principally facing the same dilemma. But in their case, one of the co-founders formed a department of his own. This erased the problems as he mainly worked independently of the others. The other co-founder was head of the development department and enjoyed a high standing among the managers and other employees. The managers did thus not perceive the dualistic situation. In general, *technology.com* as well as *talk-to-me.com* both tried to cope with the dilemma by implementing auxiliary means such as formal rules or evaluation talks.

Another dilemma is that between the need for control on the one hand and the equally strong need to maintain trust on the other. In the beginning, control was not as important as most founders worked at operational tasks, too. However, as the management tasks increased with time and the founders mainly delegated operational tasks, the managers had to start controlling the work afterwards. It was a tightrope walk to handle control and trust at the same time. The difficulty was that too much control destroyed trust, but on the other hand, too little control could lead to unexpected results which might be recognised too late. This dualism was apparent at *x-it.com.* The management had trusted their employees to develop the company's first product. In the end, they were confronted with a product that had too many bugs and needed considerable redeveloping. They had to invest additional time and resources to bring it to a level at which they could sell it on the market. This incident led to a number of more formalised measurement, e.g. short working reports in the Monday meeting or general working hours for everyone. The founders hoped to improve professionalisation by these means. *letters.de* had solved the control-trust duality via a daily talk with every employee in which ideas and open tasks were talked over. To make such an organising mode possible, the founders had been especially looking for employees being able and enjoying to work very independently. The founders were aware that they did not like to exercise strong control on their employees. At *x-it.com*, this duality was identified again in another circumstance. It was the introduction of a common starting time for everyone in the morning. The management felt the need to improve coordination. But this highly contradicted the image of a modern and trustful company. They even introduced a penalty for coming too late. This measurement stirred the emotions, however, the employees

did not come up with an alternative. Finally, a last time dilemma within *x-it.com* is going to be depicted. In the beginning, their day-to-day activities were centred around organising and executing their two main and only deals. The organising process was to a large part focused on managing these two contracts effectively, as their survival depended on it. As a consequence of those dominant deals, they were slowing down all other organising processes. For the time being, they felt comfortable in doing so but the long-term perspective showed how they neglected developing organising skills needed later on. Suddenly, this time dilemma created viable problems.

The examples above show the large impact dualities have on organising in new ventures. The different dualities all reflect a dynamic and processual conception of organising. This contrasts most 'classical' dilemmas which are based on a static conception of an organisation, which mainly deal with the optimal fit of structures. This is in line with Janssens and Steyaert (1999) who distinguished between 'new' and 'classic' dualities.

These dynamic dualities need to be seen within their social context which has been enabled by the research approach chosen. The cases point at the inherent dualistic situations in which the managing team cannot choose between one or the other pole but has to reconcile both. This contradicts much of earlier writing in management theory, which assumes that choices between mutually exclusive options have to be made, e.g. between differentiation and integration (Lawrence et al., 1967a) or top-down or bottom-up (Daft, 1978). Thinking in tensions and paradoxes contradicts the scientific logic of causality and determinism. But allowing for tensions and paradoxes opens up new pathways (zu Knyphausen, 1988; 1992)

Organising and managing dualities does not entail finding an in-between position between two alternatives but managing both sides although they appear contradictory. It is a matter of balancing both sides. Most of these dualities in the cases are linked to the tension between the wish and the need to professionalise on the one hand but keeping an entrepreneurial atmosphere on the other. It seems as if choosing between an entrepreneurial and a professional mode (cf. Bouwen et al., 1990b) or the spontaneous versus the planned mode (Brytting, 1991). Professionalisation involves removing equivocality and degrees of freedom. However, equivocality and freedom are needed in the early phase and both

appear to be important entrepreneurial hallmarks for the ventures. Kimberley (1979) noticed similar difficulties with the creation of a new medical school. However, he argued that it is a problem of the transition phase which will get solved over time. I rather think that it should not be regarded as a transition problem. Not acknowledging the duality does not help in dealing with it. Bouwen and Steyaert (1990b) argued in their paper that an entrepreneur understands his situation better when realising the dilemmas. I would agree and extend this by saying that the management needs to learn how to live both sides of the coin at the same time as dilemmas cannot be abolished. It rather seems to be a question of balancing these. Thus, the tension between the two poles should be retained as it allows for a dynamic approach. Dilemmas are an ongoing activity which need to be enacted. The question emerging is how both poles can be linked through a dialogue. By acknowledging both sides the venture will be able to organise them. One way could be by linking the poles to different people within the organisation. A third person could enable a dialogue and therefore be a generator between both poles. As a result, fixed meanings are broken up, loosened and put in context. The other option is by shifting between both poles. However, this only allows for partially keeping the tension. This has been done at techmology.com varying their degree of formalisation.

Recent developments in organisational theory propose an increasing importance of duality management in established organisations (Janssens et al., 1999; Pettigrew et al., 2000) that are experimenting with innovative organising modes. The cases show that new ventures face these dualistic situations very early on. The founders need to be aware of these and come to terms how to deal with them. As their organising processes are only beginning to get elaborated, the management faces the challenge of learning to handle organising processes and their dualities at an early stage. Dealing with dualities thus becomes a challenging organising principle which not only organisation theorists should deal with but entrepreneurship researchers alike.

7.3 Organising as the context of entrepreneurial behaviour

Organising does not only enable processes but is also subject to restrictions as it is strongly influenced by its outer and inner context. 'Context' is seen here as a concept for a specific environment [Lebenswelt] which enables, legitimates and

brings meanings to events and actions (Hjorth, 2001). The inner and the outer context emerge as crucial factors shaping the entrepreneurial behaviour. The outer context includes economic, social and competitive environments. The inner context refers to the company's immanent factors such as structural, cultural and political aspects (Pettigrew, 1992; 1997). Studies regarding the outer context in relation to organising in new ventures focus on aspects such as the influence and access to financial resources (e.g. Gompers & Lerner, 2001; Engel & Keilbach, 2002) or social networks (e.g. Davidsson & Honig, 2003). These enable or hinder entrepreneurial behaviour. If looked at the outer context regarding the four cases of this study, the outer context's influence is clearly seen. This is for example the prospering VC industry in those years which enabled the foundation of many new ventures. Without it, *letters.de* would probably not have been founded. Or be it the society's increasing acceptance of new ventures as a legitimate employer which helped the ventures to recruit their first employees and thus to be able to continue their existence. Or the scepticism of local companies towards new ventures which made it very hard for *x-it.com* to set foot into that region. The region favoured local companies run by locals. This made the entrance of an out-group into the local setting more difficult and created very high barriers. Especially as all three founders came from different regions in Germany and spoke a different dialect. This resulted in intensifying their search for locals to employ, notably an apprentice. Training apprentices also increased the local standing as it is politically and socially highly appreciated. The outer context can hardly be changed by the founders. It is not within their range of organising to alter e.g. the society's attitudes or the finance industry. They can only adapt to these circumstances. Still, they have a large impact on organising processes.

In contrast to the outer context, the inner context is the result of the new venture's activities, its own history and its organising so far. However, studies analysing the impact of inner context on entrepreneurial behaviour hardly exist. Kazanjian and Drazin (1990: 138) mentioned the stage of growth as a contingency factor: *"A firm's stage of growth represents a contingency or driving force to which appropriate organizational responses must be matched"*. This can be regarded as an inner context contingency factor. For them, specific structures, functions and decision-making processes need to be in place as otherwise the venture will not be able to solve the problems related to the next stage. They depicted these structures more as a precondition for growth but did

not point out to the influence on organising. Brytting, in a more general way, stated that *"behavior is guided both by past, present and future structures"* (1991: 7). However, I would like to stress, that it is not only structures which should be looked at but organising in general which makes up the inner context of entrepreneurial activities. Organising predefines future activities based on the history of the venture and its experience with previous activities. Every organisation exerts restrictions on and enables its organising processes through the organising already done and in place albeit it has just recently been emerged. Since the beginning of organising and the start of the company, organising needs to be seen as a restriction and an enabler in itself. Simply speaking, this can be subsumed under the notion of 'organising as the context of entrepreneurial behaviour'. This inherent dual function can be compared to Giddens' (1984) concept of the duality of structure. Hence, organising can be seen as a means and a product at the same time. To a certain extent does the argument of organising as the context of organising touch upon path dependency theories but from a different angle. The concept of path dependence does not only occur as a result of technology but could be transferred to the individual firm level arguing that behaviour is the result of the choice of institutional framework or set of rules adopted (Heffernan, 2003). This could then be extended to the organising aspect in the sense that behaviour follows organising and vice versa.

In the beginning, *x-it.com* had relied on very few but large-scale projects. This was considered positive as these projects had led to growth and had generated secured turnover. As an immediate effect, seven people had to be employed at once to work on them. But when the largest customer filed for bankruptcy, the venture almost shared its destiny. Suddenly they had seven employees but no work. This experience then set the inner context of entrepreneurial behaviour. It called for a complete change in strategy. It resulted in the venture acquiring a more balanced customer portfolio and limiting the dependence on single customers. And it shifted the founders' attention away from doing operational work to strategic work, mainly focusing on acquisition as a true management task. This however, called for more control as they did not know any longer what every employee was doing.

Organising as the context for entrepreneurial behaviour can well be illustrated at the *talk-to-me.com* case. In the beginning, the founders had decided against venture capital. Instead, they had contacted business angels and were partly

financed by them. This resulted in getting to know Rolf, who became one of their business angels. Rolf turned out to be a very active business angel and often advised the company and suggested new concepts, e.g. the semi-annual budget meetings. These meetings formalised their planning processes considerably and inherently changed the organising processes. However, deciding against venture capital also demanded a much stronger financial involvement of every founder as they themselves had to procure by far the largest proportion. This created a considerable motivation and strong identity with the new venture. In times of scarce liquidity, they sometimes had wished having applied for venture capital right from the beginning. Especially as venture capitalists were far more reluctant to invest in 2002 than in 1999. The VC's investment strategy and intensity had considerably changed.

When *letters.de* introduced its job evaluation talks, these were intended as a tool for the management to give each employee a feedback. However, as employees became responsible for other employees later on and as they did not know how to handle this management task, the job evaluation talks were spontaneously used as a tool to get acquainted with leadership. They had to run the talks with the employees they were responsible for. This is an example where already implemented results of organising enabled quick solutions later on and influenced later organising.

In addition to the inner and outer context of organising, I would like to add a meso or in-between level. This seems necessary to fully understand the processes of organising as certain aspects are neither part of the inner nor of the outer context. This is especially true for the founders' abilities and experience. The young founders have not gained experience during the venture's existence so far, but contributed with experience and values from former job employments or studies. This played an important role in setting the context for entrepreneurial behaviour. *letters.de* profited from one founder's surname. This gave them the chance to participate at the book fair and then led to a good marketing and PR coverage. It was mainly a question of good luck. One of *x-it.com*'s founders acquired his profound knowledge in organisation theory before founding the venture. This influenced how certain structures and processes were set up. It was him who e.g. insisted upon introducing manuals how to deal with new customers. He knew from organisation and entrepreneurship literature the importance of it. The influence of the founders' experience is in line with Löwstedt's view (1993)

who states that the founder's way of thinking about organisation and organising would influence the structuring of a new venture. This can also be seen at *letters.de* where the founders absolutely wanted to start the venture with a founder team of five. They had observed similar teams which made very positive experiences with such a large team. So they wanted to do the same and to benefit from them. Even when one founder dropped out just before the actual incorporation, they quickly organised to get a new fifth team member. They were committed to go online with five founders.

Organising as the context of entrepreneurial behaviour, especially the inner and meso level, plays a much stronger role in new ventures than in established ventures. Single actions or organising processes can have a large impact on the venture's development, identity or stability as a whole. In established organisations, this is not so much the case as many more patterns and mechanisms already exist and as these are quite fixed. They cannot be changed so easily as they are firmly anchored in the company. This leads to an organisational inertia described by many studies (e.g. Hannan et al., 1984; Lawler & Galbraith, 1994). Thus, the importance of organising in new ventures from the beginning on has to be stressed. And management should be much more aware of it in order to act accordingly.

7.4 Organising as identity construction

Organising creates worlds as such but it also provides people and organisations involved in the process with names, roles and identities. Through the use of language, people endow their actions with meaning and themselves with identities as actors (Czarniawska-Joerges, 1996). The idea of identity is that organisations or their members engage in processes of self-reflection, i.e. they ask themselves who they actually are, what business they are in and what constitutes the very essence that makes them different from other organisations (Hatch & Schultz, 2000). Albert and Whetten (1985) defined organisational identity as those characteristics which its members believe to be central, distinctive and enduring. A distinction can be drawn between three different kinds of identity: (1) the identity of an organisation, (2) the identity of people within an organisation and (3) people's identification with organisations (Gioia et al., 2000).

The identity of an organisation emerges similar to the organisation as such. Albert and Whetten (1985) remarked that the foundation of a company is an instance when identity issues become salient. By definition, an organisation does not have an identity before it comes into being. Thus, the possibility of having a new venture without an identity does not exist. Continuing this line of argument, there would be no organisation without organising, hence no organisational identity would emerge or be constructed. It therefore means that in the moment organising starts, an identity emerges, hence organising as identity construction. However, this point has not yet been made in entrepreneurship research but seems to be vital as it stresses the importance of organising in new ventures.

It is important to remember that this study deals with the identities of recently founded organisations. While reference to the firm's history usually is an important part of organisational identity, the identity of start-ups cannot be based on such a heritage. Kimberly (1979) pointed at the founders and their ideas as they are especially important for the organisation's identity in its beginning phase. In the course of the organisation's development, this influence however diminishes as organising processes are designed to remove the equivocality that is attached to individual personalities. But in the earliest phase, the founders' intentions and ideas have far-reaching implications on the development of the new venture's identity emergence.

talk-to-me.com's founding team was probably the least business oriented of all four cases studied. Their main intention was to stay and work together as a team and to commercialise the technology. The wish to grow fast or to gain a lot of money was not their main focus. As long as everyone would be able to work in that company, earn money and things were running smoothly, everyone was presumed to be happy. Their identity at the time of foundation can be characterised by the notion of *community*. The diametric opposite pole is *letters.de*. For its founders, this internet-hype was a possibility to earn money quickly and at the same time, it was trendy to be part of the hype. For them it was a chance to test whether they liked being an entrepreneur, thus founding a company, being a manager and running a business. They were aware that quite a lot of these new ventures were not successful and would die early on. With their academic and consultancy background they had ideas and knowledge how to manage a company efficiently and successfully. Nevertheless, as it was a bit of a game, it was also supposed to be fun and reflect the current hype atmosphere of

that industry. For *letters.de*, *professionalisation* and *fun* are the key notions. *technology.com* is an example for an accidental founding. Without the external stimulus, i.e. the conversation between the business plan manager and the Professor or the business plan competition prize, they would have not thought about founding a venture. As all the founders had a technical background, it was a challenge whether their developed technology would stand the commercial test. For them, the notion *proof of technology* is characteristic. Last is *x-it.com* which happened to be founded incrementally. Two buddies realised that they can earn money by founding a business. They then simply kept it going alongside to their university studies. They had no idea what would happen after their graduation, so they gave it a chance. And beside, so many other people seemed to founding their little company, too. It was just the spirit of the time. Thus *Why not us?* and *let's try and see* are their notions.

These different intentions and notions influenced the ventures' further development in terms of organising and identity. The community aspect at *talk-to-me.com* is obvious in many ways. After the majority of the founders had started working at the company and after the first external employees had been hired, the founders decided to integrate and involve them stronger by giving them company shares. This automatically enlarged the core, their main decision-taking body. It was ten people meeting and discussing the major topics concerning the company, its strategy, decisions and further actions. This community identity can also be seen by having employed a disabled employee who runs errands and organises lunch and tidies the kitchen. The kitchen played an important role, too. It was a large room with a long table with space for everyone and a central communication point. At least once a week, the whole company was cooking and having lunch together. The founders emphasised the special company spirit whenever possible as it meant a lot to them. This resulted in a good integration of new organisational members. They tried to be on familiar terms with everyone. It was so important to them that they thought about creating a brochure covering the company history and its spirit. This would then be handed out to new employees. Thus the *talk-to-me.com* founders realised and lived their intentions. *letters.de* started very business orientated by immediately substituting the fifth founder who dropped out just before the incorporation. As they had decided to have five founders, they were committed to do so. Compared to the other three ventures, *letters.de* introduced formal rules e.g. holiday slips or meetings with a

protocol very early. They were also the ones who implemented financial ratios to allow for controlling their actions and strategies. But they also aimed at conveying a relaxed working atmosphere and being one of these hip new ventures. Playing basketball on the deck roof was all right, however, they soon restricted it to the late afternoon as it distracted the others. The organising processes in *technology.com* can all be related to technological developments and aspects. In contrast to setting up organisational aspects, technological procedures were defined and modules developed. R&D was the focus of everything. *x-it.com* appeared to have started rather unsystematically. It began with the two buddies not really knowing what their USP was. To improve the situation, they participated at the business plan seminar and ex-post wrote a plan which served to rationalise and legitimate certain actions, e.g. that they already had employed a designer and a team assistant. These random actions continued, e.g. the way they got their first deals. They acted very intuitive and tried to find the rationale for it afterwards.

These vignettes illustrate how the founders' initial intentions were reflected in their organising. Their intentions and ideas are clearly depicted in the emerging venture's identity. But it is only through organising that an identity is formed. Every organising activity either strengthens or slightly changes the identity. However, the founders' influence relatively decreased after the first employees have been recruited. The act of recruiting itself made the founders aware of the identity topic. And as a result, each new employee was a new influence on identity.

All four ventures were not only influenced by their employees but also by society. They were confronted with people's general image of start-ups[44] instead of their own specific identity. This was most obvious regarding the number of job applications when having advertised open positions. It proved to be difficult to find good and qualified employees. And this was not only due to the general economic situation and the lack of qualified personnel in general, but because of the identity a start-up has in general. This can also be characterised as 'liability of newness' although with a different connotation than Stinchcombe (1965) used it.

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[44] Hatch and Schultz (2000) speak of an organisation's image if concerned with the external perspective.

This liability is due to the existing uncertainty the environment perceives (Kimberly, 1979) regarding new organisations. The environment had hardly an image or knowledge about the venture. Neither had the latter proved to be viable. The ventures were aware that they were not able to compete with established and well known companies. They lacked the (imagined) stability and job security an established company can offer and which most job seekers prefer. And their salaries are not as high as in incumbent companies, neither do they offer extra social benefits. The new ventures tried to compensate it in two ways. The first is by giving shares to the employees or implementing a stock-option program. The second way sounds paradox but is by praising the start-up identity and atmosphere. Especially younger applicants fancy the seemingly relaxed and easy going atmosphere and the chance to be part of this internet hype. At least that is the people's general identification with new ventures.

Although it was difficult to build up quickly an external image, the ventures tried differently to create an internal common identity. The examples depicted that there are several organising aspects which lead to a common identity within the new venture. This is true for the identity among the founders as well the identity among all employees.

It seemed useful for the founders to first follow the same line and have a common perception of the identity among themselves. The most important organising mechanism for this were regular meetings. Despite the fact, that meetings were used for discussing specific problems and taking decisions, they more or less unconsciously fulfilled a second purpose. As the founders were mostly inexperienced in managing a company and how to deal with situations of being an entrepreneur, those meetings can be regarded as an enabler for the construction of identity. A frequent and thorough communication between the founders led to unifying identities. This was especially important in the beginning of a new venture so that all founders headed in the same directions to ensure similar answers to individual questions. Divergent ideas can help in the sense of brainstorming and gaining ideas, but such a fragile construction of an organisation in its early days easily breaks apart. The venture builds its identity by making a choice from the multiplicity of meanings available to them. This was solved differently at the four examined companies. *letters.de*'s founders first created a common identity during their Monday meetings. And afterwards they spread it via the mouth-to-mouth method and later via the general meeting to

everyone. This contrasts *x-it.com* whose founders hardly talked issues over amongst themselves but rather preferred everyone's opinion during their weekly meeting. However, they faced the difficulty that the three founders were very different in character and hardly knew each other. It took them quite long to form a team if they succeeded at all. But when they were forced to represent one opinion, it was difficult to come to terms. Both their complementarities and their differences became increasingly disadvantageous with time. In order to reduce uncertainty, it could have been better to meet more among themselves to discuss things first. At *talk-to-me.com*, a multiplicity of meanings existed within the large core which made a consensus very difficult. Although they officially had the position of a CEO, he was very consensus-orientated and it was more of an alibi-function. As they all knew each other from before, a common identity emerged quickly. In addition, their long planning period before the actual foundation helped, too. As the departments were all led by founders, the distribution of the identity happened automatically. At *technology.com*, one voice after the other tuned in as they did not all start at the same time. This was because the management positions were filled one after the other. It was therefore a bit more difficult to build a common identity among the management team as the team was partitioned. They had a weekly management meeting, too. However, the biggest problem was the CEO who mainly worked as a Professor and was sitting at the university rather than at the company's premises. This certainly hindered communication.

Despite the way how the four ventures handled the identity topic, it clearly depicts that identity is created through individuals' interactions within a social context (Czarniawska et al., 1998; Weick, 1995). Regarding the four cases, meetings and daily conversations play the most important role. This finding specifies Davies and Harré's (1991) study who argued that this process takes place in all interactions.

Not only the management but the whole company needed time and possibilities to build a common identity by enacting their environment. Stories played an important role in that process. These manifest identity which is easy to transmit. A strong and unambiguous identity was especially important in the beginning as it can substitute lacking organising processes. This strengthens Heidenreich and Töpsch (1998) argues that images, metaphors and stories fulfil central coordination- and legitimating functions, too. However, they have not looked at

new ventures in particular. The *technology.com*'s case clearly underlines this. One founder told how the strong identity with the venture and its resulting community among the organisational members solved many organising problems in the beginnings. When this community dissolved due to too many new employees which had not been integrated quickly enough, structural deficiencies became obvious. Rather than improving and 'repairing' the community, the management implemented more formalised structures and procedures. However, these formalised structures diminished again after the community improved. This is in line with Albert and Whetten (2000) who have pointed at the importance of having built an internalised or cognitive identity of what the organisation stands for and where it intends to go. This is clearly mirrored in the cases I studied. An existing sense of the organisation's identity is crucial for its organising.

The negative aspects of an identity which is not shared by everyone can be seen at *x-it.com*. The venture's identity was not clear, neither to the founders nor to the employees. The company had set up three different business units, but no one knew how to make an organisational identity of it. The employees did not know where the company was heading towards. The employees were very unsure about their acting and organising. It shows how the employees have difficulties making sense of the situations, especially as they do not have a strong organisation's identity. Huff and Sarason (1999) showed similar results in connection with making sense of paradox and complexity. It can therefore be argued that an organisation's identity is crucial in the beginning as it helps the employees to face uncertain decisions they have to take every day. If the overall picture is missing, the organising process falls apart and counteracting decisions will be taken.

This shows how an organisation's identity is especially important in the absence of bureaucratic structures. In such cases, the identity may substitute missing organisational structures, e.g. rules and procedure. This is in line with Bartunek (1984) who stated that the loss of shared interpretative schemata can be overcome by structures. However, he only considered it in connection with the contact between organisational members and the management. This study shows that the importance should be extended to all other organising aspects as well.

Previous research has come up with findings on the interrelationship of action and organisation identity. Much stress lies on the role of identity as setting,

enabling or constraining guidelines for action (Ashforth & Mael, 1996; Bartunek, 1984; Dutton & Dukerich, 1991; Reger et al., 1994). Some of this can be seen above. However, I would like to emphasise the interrelated identity-organising relationship. Organisational identities are the result of plans and ideas on the one hand and emergent organising on the other. Consequently, identity at a specific point in time does not only precede organising, it itself is preceded by organising which it has to relate to. As an analogy to Mintzberg, Ahlstrand and Lampel (1999), identity follows organising and organising follows identity like one foot follows the other. Thus, there should be a stronger focus on the interrelatedness of being and organising in entrepreneurship literature. Who you are is not dissociated from what you do, as shown with the cases studied. A stronger emphasis on context in identity research seems necessary. It is not sufficient to see *what* kind of identities are constructed. We should also consider much more that identities are constructed *of* organising, thus how they are constructed.

7.5 Organising as a game

After having discussed organising as enacting dualities, organising as the context of entrepreneurial behaviour and organising as identity construction, this last organising principal will treat organising as a metaphor for playing a game.[45] The use of a metaphor in organising theory is well known since Morgans's book *'Images of Organizations'* (Morgan, 1986). He stated that *"by building on the use of metaphor, we have a means of enhancing our capacity of creative yet disciplined thought […]. And in doing so, I believe that we can find new ways of organizing and new ways of approaching and solving organizational problems"* (1986: 17). However, the use of metaphors has hardly been applied in entrepreneurship research so far. But metaphors are especially useful for studying people's attitudes and thought processes (Hyrsky, 1999). *"A metaphor is a figure of speech in which a term is transferred from the object it ordinarily designated to an object it may designate by implicit comparison or by analogy"* (Hyrsky, 1999: 15). Metaphors represent the subset of cognitive and perceptual factors that

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[45] This metaphor should not be linked to *game theory* which is a branch of mathematical analysis developed to study the rational behaviour for interactive decision problems in conflict situations. In a game, several agents strive to maximise their (expected) utility index by choosing particular courses of action, and each agent's final utility payoffs depend on the profile of courses of action chosen by all agents. For a concise overview, see zu Knyphausen-Aufseß (1995: Ch. 2.13).

are salient to it. And they enable us to talk about experiences which cannot be literally described. Last, through imagery they provide a vivid, memorable and emotion-arousing representation of perceived experience.

As a result of the four case studies, I would like to introduce the metaphor of organising as a game. This metaphor has not received a lot of attention so far, e.g. Morgan did not use it as one of his eight metaphors in his book. However, he mentioned it in his bibliographic notes: *"organizational activity can be understood as the playing of a game"* (1986: 361) but he did not further elaborate on it. I will first analyse the game metaphor in more detail and show why the cases support this metaphor. Secondly, I will argue why such a metaphor is useful for understanding new ventures and their organising processes.

The metaphor of a game has many facets which can be transferred to an organisation, its members and their activities. Organising is like playing a game and the organisational members such as founders, managers and employees are like actors who play different roles in that game. The participants have primary and secondary roles and some actors may play a double role. However, if someone is playing a role no one is aware of or understands, it will lead to confusion because the other players have no possibility to expect certain behaviours and they have no clear picture of that person. This happened at *x-it.com* where one founder changed his role depending on the situation: he was either an academic or one of the venture's managers. Playing these different roles was so confusing that it was one of the reasons of his temporary resignation.

During a venturing game, everyone is having dialogues with the others and sometimes the leaders hold monologues. Similar to different ways of organising, different games can be played: strategic games, fun games, knowledge games, team games or individual games. Actors are always involved in it. And the players involved can come and go as well. There are the type of players who are playing just for fun, others who are playing for money and some who always want to win. And there is a lot of improvising and directing. Someone has to take the decision which rules are to be applied. All these are different facets which are related to a game and which resemble aspects of organising in new ventures. Aspects such as chance, rules, roles, fun and other associative notions of a game play a role in the new ventures' organising. Some of them will be described further in the next section.

Already the economic times during which these and many more ventures in Germany have been founded, can be linked to the metaphor. The late 1990's are called the 'internet hype' times and during that period, venture capital became available in Germany and many governmental financial support programmes had been set up to foster foundations. In the end it assumed bizarre, nearly alarming proportions. It became a sort of fashion to found a venture and to become an entrepreneur. University students wrote business plans in seminars and graduates were encouraged to found a venture. The actual (financial) risk to found a venture decreased considerably. Looking back, many of the founding teams regarded their entrepreneurial venture as an adventure or as a game, i.e. it was easy to get money and even easier to spend it. This was fostered by everyone's attitude that the internet-boom was cool and why should they not give it a try as well. So many were founding a venture, that the impression of it being really easy emerged. It was just as easy as playing ludo. The following cartoon conveys the atmosphere prevailing during the internet hype time.

Figure 20:   A week's schedule of a serial founder

The founders of *letters.de* and *x-it.com* stated explicitly that they wanted to be part of that hype and found a venture, too. A sort of 'me-too' effect arose. The founders of *letters.de* had been coming from an environment in which others had founded well known start-ups, e.g. onvista.com, alando.de or urbia.com. In short, founding a company seemed to be something very normal and it seemed to be more like a game, i.e. hardly any risk, always determinable, a high degree of freedom, lots of creativity and a high chance of winning. The same is true for *x-it.com*. As the general societal attitude was characterised by a 'lightness of being and founding'[46], they regarded it as being cool when founding a company. They had this attitude of 'Why not give it a try?'. As one of the founders had followed a course at the university about theory and practice of founding a company, they even were under the impression that they knew what they were doing.

However, if one wants to play a game, one needs others to play with for most kind of games. During the internet time, most ventures were founded by a team (e.g. Bronner et al., 2000). The four ventures in this study had teams of three, of five, of six and of eight founders. Especially with *talk-to-me.com*, it seemed as if everyone who wanted to join the 'expedition' could have done so. Thus they ended up having a team of eight. They appointed one team member as CEO, three as department heads and the others were normal employees. Creating a management team with equal rights had not occurred to them. In contrast to this, *letters.de* had good reasons for starting with five founders, whereas *talk-to-me.com* had not thought about the implications of the number of founders.

When playing a game, actors can set new rules every time they play. But certain basic rules always exist with every kind of game and can hardly be overlooked or neglected. A venture cannot change its rules every day, but it should nevertheless be aware of the game specific rules of e.g. the industry, the company or its members. Otherwise, they will face problems when its members behave to wrong or outdated rules. Such a rule was broken by one of *x-it.com*'s employees when pornographic material was found on his hard disk. The consequence was to lay him off. A new venture does not make all rules explicit. Nevertheless, everyone knows what is acceptable and what is not. Everyone has the basic rules in mind from similar games played previously. However, this also explains why only young people worked at the four ventures. There seem to be differences between different generations in the games played. One founder of *x-it.com* mentioned

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[46] This phrase follows Kundera's book "The Unbearable Lightness of Being" (1984)

that he will not hire older applicants as they do not know how to play the game. Thus one way to organise seems to be linked to the organisational members' mentality which depends upon their age.

Despite the metaphorical associations, games as such played also a role in the venture's development which was typical for the start-ups at that times. *x-it.com* had a tabletop football in their office. Within the first six months, different teams had emerged. Later on, in their second year, the management thought of something which would result in a better team spirit and foster togetherness. They proposed to go bowling once a month. Although it was on a voluntary basis, peer pressure led to numerous appearance. One of the founders compared it with his football experience where important issues are pondered after the game over beer. Going bowling would serve the same purpose. The management used it as a special organising tool and not only to have fun together. To *letters.de*'s office belonged a huge roof-deck on which the employees fixed a basketball rim. They had put up a tabletop football, too. So the employees would go outside playing a bit or do some shots if they had some free minutes or needed refreshment. The games did not only foster team spirit but also underlined the ventures' identity of being young, unconventional. Work should not have this connotation of seriousness and duty. Everyone should be able to relax for a few minutes in between.

The metaphor is especially fruitful for describing the initial organising of the founders and the ventures coming into being. However, the founders sooner or later had to realise that managing a new venture is more than a game. One founder of *x-it.com* described it well when acknowledging that they left the children's playground after having set up the company contract. The game metaphor is good for arguing the beginning and the kick-off phase. But this early phase should end at a certain point in the company's development as otherwise the company shows no learning capacities. It is like with games themselves. As a kid, games are everything and of high importance. When growing up and later when being an adult, games do still exist however of different importance. They have made room for maybe less creative and entertaining but nevertheless important processes. So finally the management needs to be aware that founding a venture is more than playing games. The process of ending the game could be initiated by someone challenging the organising rules which is then the trigger

for developing onto another logical level (Bateson, 1972: Ch. III-2). One might eventually continue with the game, however with differently negotiated rules. Marshak (1993) concluded his study that any change pursued in a company should be synchronised with the metaphorical language. Thus the founders should focus their attention and language and use words with which they like to convey the different organising processes.

Another additional aspect why the metaphor of a game is so fruitful when analysing organising processes, is its inherent notion of creativity. Games are generally be seen as an act of creativity (cf. Bateson, 1972). This aspect should be more integrated in entrepreneurship. Hood and Young (1993) have pointed at creativity as one possible characteristic founders should have. Entrepreneurship is a creative act whereby people partly generate their own world and rules. This is mirrored in the entrepreneurs' stories. These are stories of people who believed in their own power of production and creation. It is not so much how to organise production, but how to produce or make the organisation.

Creativity is a concept known in organisation theory for a long time (e.g. Woodman et al., 1993; West & Farr, 1992). My intention is to further integrate it into entrepreneurship. The idea of the concept of play in connection with an organisation is sometimes difficult to imagine as work and play have traditionally been kept separate. But creative organising is an act of playing. This is also found in Huizinga's book *Homo Ludens* (1998): *"Culture comes into existence in play form, culture is in the first place played. (…) That does not mean that the play changes into culture or dwells in it, but rather, that culture in its formatory phase has the character of a play and is formed by play-like forms and attitudes"*. The key for a new venture coming into being is playing and the continuing creation of a context of playing. In this sense, playing is a social and organising process.

In the end, many of the new ventures of the entrepreneurship wave that had been founded during the internet hype in Germany, disappeared by the end of 2001. Their game was over. But was it really just a game?

8 Conclusions and implications

This last chapter serves to sum up the findings of the previous discussion chapter and to describe them in terms of meta finings. In addition, theoretical and practical implications will be given and finally, some critical reflections upon the study will be drawn.

8.1 Meta findings

This study set out to explore, describe and analyse the organising processes in new ventures. To grasp different organising processes, I conducted an explorative case study comparing four internet-based new ventures and analysed their coming into being and their first two to three years after being founded.

The findings show that organising processes are crucial, but too little emphasised in entrepreneurship theory. The stories plainly told how important the different organising processes were for the venture and its development. They had a large impact on the ventures' growth and development later on. Many of traditional organisation theories are principally useful, however, resulting in little insights regarding new venture organising. This is due to the fact that most of the theories and concepts are constructed for larger and much more matured organisations which show a very different and much more diversified organising landscape than recently founded ventures. The underlying assumption when applying such theories to new ventures is that these theories either fit small ventures or that managers need to implement their concepts in order to grow and succeed. Too little considerations have been uttered regarding the idea that new ventures might need different theories and concepts. Although organisation theory does by definition comprehend all forms of organisations at all stages, one should cut out organisations coming into being and their beginning. This phase of an organisation is better covered by entrepreneurship theory. Second, traditional theory is too often static and focused on stability. As new ventures have to survive in a rapidly changing environment, stability can hardly be found at the ventures and should neither be the aim. Thus, dynamic approaches should be applied much more when analysing new ventures.

Growth models represent a research field in which organisation and entrepreneurship research is combined. Those models explicitly acknowledge

that a company is not born big but rather grows with time. (If it grows at all and does not stay small). These models are a good guideline to get an idea what problems and phases a new venture might face in its next ten to fifteen years. However, this study shows, that these models are kept far too general for generating more insights in organising processes. The growth models point at objectively perceivable and measurable aspects which do not allow for a relational perspective on organising. In addition, their underlying assumptions contradicted the ventures' actual developments so strongly that their explanatory power should be questioned.

The empirical findings resulted in four organising principles which emerged from the cases.

1. organising as enacting dualities,
2. organising as the context of entrepreneurial behaviour,
3. organising as identity construction and
4. organising as a game.

The four organising principles all exerted a large impact on the development of the four ventures. By developing organising principles, the focus is clearly set on a process perspective on organisations rather than a static one. Following Weick, the study shows that organising is understood as an activity which is achieved in and through cognitive and social processes. Organising in new ventures starts from scratch as the company has no history to base its values or identities on. This calls for a stronger communication of intentions and aims by the founders to compensate the lack. This is closely linked to another result which shows that each founders' intentions, aims and visions in a small venture are of much more important compared to established or large organisations. They are directly reflected in the emerging organising activities. In order to foster a smooth development, the founders in a team based venture have to be aware and communicate each other's intentions and aims as otherwise they will act against each other. These intentions will merge into the venture's initial identity before the latter is being influenced by operational activities and the employees. The identity of the new venture is so important because it can substitute structures which are not yet in place in the new venture. The founders should be aware of this as many of them are hesitant regarding fixing structures. This enables them to keep organising processes albeit avoiding fixed structures.

Organising in new ventures means knowing how to deal with dualities. The study has shown that dualities, paradoxes and dilemmas emerge form the beginning on. Especially in the uncertain and unsettling times of the beginning, dualities are an important factor for the development. These are dualities on the venture's identity or dilemmas between an entrepreneurial and a professional management style. But in contrast to problems which can be solved as such, dualities are different. The management needs to deal with both poles at the same time and needs to try to combine them simultaneously. Deciding for only one or the other pole is the least helpful solution as seen in the study.

The impact of organising as the entrepreneurial context has hardly been paid attention to in entrepreneurship research. In contrast to most studies, the impact of the inner rather than the outer context on entrepreneurial behaviour has been addressed in this study. The four cases reveal the large impact of the inner context on organising. The inner factors which shape the entrepreneurial behaviour deviate strongly from one venture to the other. This contrasts the outer context which is similar to those ventures founded at the same time in the same region. Inner context factors, however, vary considerably from venture to venture because these are influencing factors such as processes already in place, constituting factors or founders' and members' experiences or abilities. But the founders are hardly aware of these influences which makes it much more important to point them out. This inner context acts like a 'duality of organising', as organising defines the inner context of entrepreneurial behaviour and at the same time is influenced by it. It is likewise the mediator and the means. To a certain extent, this also touches upon path dependence logic, however, on an organisational rather than a technological level. The importance of organising as the inner context of entrepreneurial behaviour needs to be stressed because it exerts a much stronger influence on new ventures than established organisation. This is because there are so few fixed processes and structures in place which can act as a strong context on organising.

Finally, the metaphor of organising as a game has been introduced. The cases show that this metaphor is well applicable on different levels. Different kinds of games, of actors and of settings were identified which can be transferred to the ventures. In addition, the metaphor allows for interpreting the general economic and societal situation. The game metaphor is good for understanding organising

processes in the beginning and the kick-off phase of new ventures. Especially seemingly non-rational behaviour of the founders can be explained. Although some of the founders saw the venturing experience as a game, it should nevertheless be clear that it is not one.

8.2 Implications for new venture founders

As the study is being based on social constructivism, the researcher's aim by conducting such a study is to add to the conversation that is going on in an organisation. By raising my voice and uttering my perspective, I can attempt to make the actors involved reconsider their actions and thoughts. One way of doing so is by developing a self-reflective questionnaire which aims at raising the different organising issues that have been studied. The overarching point for new venture founders is to be more aware of their organising activities and processes. The latter have by far a greater impact than most of them acknowledge. As the founding team is the basis of the venture and reason for initial organising, a great importance is attached to it. Many organising aspects emerge, often unconsciously, however, this should not be the case with the founding team. Choosing one's future partners should be done carefully. Next to work experience, education and abilities, the founders should be aware of each others intentions and aims which they link with the venture. Why does everyone want to found the venture? What is each one's motivation behind it? What are everyone's time horizon? These are important questions which need to be addressed in advance as they have far reaching implications on the venture's organising.

Thinking in terms of training or consultancy, communication among the founders has been seen to be one of the most important aspects in constructing a new venture. One aim of trainings and consulting is that the utmost effort is done to communicate in clearly defined terms. Comprehensibility is the norm, the ideal. However, this implies that it is never admitted that meaning is equivocal and multivoiced. Rather than setting comprehensibility and unambiguousness as the goal, the management should be trained in how to deal with the equivocality of meanings. So far, communication is seen as the message between sender and receiver, but this tends to lead to a disadvantageous reductionism. Allowing for different voices could enable founders and employees alike to better construct organising mechanisms and identities and to better understand the organising

processes. And this in turn would foster creativity and play which is seen a an important factor in entrepreneurship.

One implication derived from the study concerns public opinion and universities. In late 1999, the internet hype had taken bizarre forms. The impression was prevailing that everyone could easily found a venture, get venture capital, start and manage a company. This was certainly not true and changed in the subsequent years again. However, a dilemma arose. Should one try to emphasise the difficulties in founding and managing a venture? Thus fostering entrepreneurship education? Should one restrain young people and graduates from founding their venture straight after leaving university? Or, and this is the other pole of the dilemma, should one be glad about all those new ventures? Quite a high percentage of them will need to file for bankruptcy sooner or later, but some will stay, grow and generate new jobs. Should we not foster creativity and play and new ventures even if they seem crazy because one never knows how they will develop and maybe prosper? As seen above, this duality cannot be solved but its tension should be kept and thought about.

8.3 Reflections on the study and proposals for further research

Every study has its limitations. There is nothing such as the 'perfect' study. The limitations will depend upon the deliberate and unconscious choices taken. Some limitations concern the research approach. Having chosen case study research has certain unavoidable limitations in itself. Some of these were already mentioned in the methodological chapter. One limitation of the study is that no employees nor even a sample of the employees have been included in the study. It would therefore be interesting to draw an even larger picture of the organisational developments and the organising principles in these new ventures by enlarging the people interviewed per company. Albeit the interviews showed a certain degree of diminishing marginal utility which justifies the number of interviews taken per company as being appropriate.

The interviews taken largely rely upon reflections, recalled events and impressions. There is always the problem of biasing. A more ethnographical study would have overcome some of these difficulties and would have been an

interesting alternative.[47] However, it seems nevertheless appropriate to have chosen the case study approach. Having tried to interview all founders of each company aimed at adjusting impressions and different perspectives in order to get a broader and more accurate picture. This helped to validate self-perceived measures to a greater extent possible.

With this study, some light has been shed on organising in new ventures. I hope that future research my be able to build on the results, especially the four organising processes identified. This would advance our knowledge in organising in new ventures and possibly confirm, refine or dispute the results made in this study. As the study has been explanatory in nature and chosen a qualitative, interpretative approach, a similar study carried out by different researchers or in different settings would be interesting. This would enable additional organising processes to be identified. Not until this, a quantitative and larger study seems reasonable to test the results. The outcomes of such a study would then be regarded as hypotheses for further testing.

All four companies, except *letters.de* which had been sold successfully to a competitor, were still active on the market at the end of this study. As this study has covered the first two to three years of the initial development of the company, a follow up would be interesting. How and why do the importance or intensity of the four organising processes vary over time? How do the founders manage and cope with issues after more routines have emerged and after they gained more experience?

A related question has to do with the fact, that this study concentrated on new ventures that had been founded by a team. An interesting comparison would be to run the study on companies founded by a single founder and then to analyse the differences. This would give more insights into the complex field of the founder's impact on a company's development versus environmental or industrial influences.

Moreover, future studies should develop concepts and methods to make entrepreneurs more aware about organising and organisational matters. The study has shown the importance of these processes, however, these hardly gain

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[47] Some researchers even argue that new methods are needed to conduct such studies (Van de Ven, 1992; Argyris, 1968).

attention in entrepreneurship education or consulting. It seems necessary to change this in order to foster more successful and stable new ventures.

All of these questions represent interesting courses for further research. Their contributions would extent knowledge in the area of entrepreneurship, organisation behaviour and especially organising processes.

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Appendix

List of interview partners

Interview partners at *technology.com*

Name	Position within company	Date
Michael	COO	18. December 2001
Michael (2)	COO	08. January 2002
Michael (3)	COO	22. February 2002
Simon	CTO	29. July 2002
Johannes	Senior Consultant	26. August 2002

Interview partners at *letters.de*

Name	Position within company	Date
Benedikt	Managing Director	21. September 2001
Benedikt (2)	Managing Director	20. June 2002
Hartmut	Managing Director	20. June 2002
Matthias	Managing Director	17. July 2002
Franz	Managing Director	14. August 2002

Interview partners at *x-it.com*

Name	Position within company	Date
Thorsten	Managing Director (Technology)	22. February 2002
Jan	Partner	22. February 2002
Martin	Managing Director (Administration)	05. June 2002

Interview partners at *talk-to-me.com*

Name	Position within company	Date
Paul	Head of Business Developing	06. August 2002
Felix	Head of R&D	14. August 2002
Monika	Head of HRM	14. August 2002

Summary in German[*]

Die Entrepreneurship Forschung ist in Deutschland seit dem Aufkommen des Internet-Hypes und den vermehrten Firmengründungen Ende der 90er Jahre in das Blickfeld der wirtschaftswissenschaftlichen Forschung gerückt. Ein kaum beachteter Aspekt in diesem Feld sind organisationsbezogene Fragen bei jungen Unternehmen. Die vorliegende Arbeit beschäftigt sich daher mit Prinzipien des Organisierens in internet-basierten jungen Unternehmen. Der Ausgangspunkt war die Feststellung, dass die vorhandene Organisationsliteratur fast ausschließlich für schon bestehende und größere Unternehmen konzipiert wurde. Neu gegründete und kleinere Unternehmen sind selten der Forschungsgegenstand. Vor allem auch vor dem Hintergrund der hohen Insolvenzquote bei neu gegründeten Unternehmen in den ersten Jahren stellt sich die Frage, inwieweit das eigene Organisationsverhalten als ein Erfolgsfaktor gesehen werden kann. Eine weitere Überlegung war, dass kleine, neu gegründete Unternehmen ein anderes Organisationsverhalten zeigen als größere, schon bestehende Unternehmen.

Als theoretische Grundlage der Arbeit wurde ein Überblick über die aktuelle Organisationstheorie und Entrepreneurship Forschung gegeben. Insbesondere wurden die Schnittpunkte beider Forschungsgebiete ausgearbeitet und dargestellt. Die sich daraus ergebenden Forschungsfragen umfassen die Entstehung von Prinzipien des Organisierens in neuen Unternehmen sowie die Übertragbarkeit von traditioneller Organisationstheorie auf junge Unternehmen und ihre Organisationsprozesse.

Aufgrund des explorativen Charakters der Forschungsfragen ist ein qualitativer Forschungsansatz mit insgesamt vier Fallstudien gewählt worden. Die vier untersuchten jungen Unternehmen wurden im Jahre 1999 oder 2000 durch Teams von bis zu acht Personen gegründet und sind in der Internet-Branche tätig. Die Gründer waren entweder Universitätsabsolventen kurz nach dem Abschluss oder Doktoranden als sie in die neu gegründeten Unternehmen einstiegen. Dadurch sollte eine starke Prägung durch vorherige Unternehmenskulturen vermieden werden. Die Unternehmen der vier Fallstudien wurden über einen Zeitraum von

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bis zu 15 Monaten beobachtet. Parallel wurden mit (fast) allen Gründern narrative Interviews durchgeführt, um die verschiedensten Facetten der Gründungsgeschichte und der Organisationsprozesse zu erfassen. Dieses Datenmaterial der Interviews zusammen mit umfangreicher Sekundärliteratur ist anschließend hinsichtlich der Organisationsprozesse und des Organisationsverhaltens der jungen Unternehmen ausgewertet worden.

Die Ergebnisse wurden anhand der traditionellen Organisationstheorie diskutiert, vor allem mit Wachstums- und Phasenmodellen sowie den Aston Studies. Die Grundzüge dieser Theorien konnten in den vier Fallstudienunternehmen ansatzweise aufgezeigt werden, jedoch war eine detaillierte Analyse der internen Organisationsprozesse und deren Entstehen nicht möglich. Es wurden daher vier Prinzipen des Organisierens entwickelt, die einen starken Einfluss auf das Organisationsverhalten und die Entwicklung junger Unternehmen haben. Organisieren wird dabei als eine Aktivität verstanden, die durch kognitive und soziale Prozesse zustande kommt.

Um die von Anfang an auftretenden Dualitäten und Paradoxien in jungen Unternehmen berücksichtigen zu können, wurde das Prinzip des *„Organisieren als Gestaltung von Dualitäten"* (organising as enacting dualities) entwickelt. Junge Unternehmen müssen sich mit spezifischen Dualitäten vom ersten Tag an auseinandersetzen, um beide Pole einer Dualität miteinander zu verbinden. Viele dieser Dualitäten beziehen sich auf die spezielle Situation junger Unternehmen. Hier ist z.B. die familiäre Atmosphäre zu nennen, die Ansprache mit Vornamen, durch die ein lockere Arbeitsumfeld erzeugt werden soll. Gleichzeitig gilt es aber auch, die Rolle des Vorgesetzten und Managers zu leben. Es wird gezeigt, wie ein Missachten dieser Dualitäten zu Problemen in der Organisationsentwicklung führen kann.

Organisieren bildet die Grundlage für Zukunftsaktivitäten basierend auf der Geschichte des Unternehmen und seinen Erfahrungen mit früheren Aktivitäten. Daher wurde das Prinzip des *„Organisieren als der Kontext von Gründungsverhalten"* (organising as the context for entrepreneurial behaviour) kreiert, da Organisieren Gründungverhalten sowohl ermöglicht als auch beschränkt. Die Besonderheit von jungen Unternehmen ist, dass diese bei Null anfangen und dadurch kein bestimmtes Organisationsmuster oder -verhalten vorherrschend ist. Der entstehende innere Kontext definiert und beeinflusst das Organisationsverhalten wobei letzteres gleichzeitig wiederum den Kontext prägt. Hervor-

zuheben ist dieser Aspekt deshalb, da er viel ausgeprägter ist als bei etablierten und großen Unternehmen. Diese sind wesentlich gefestigter in ihrer Organisationsstruktur und –verhalten. Viele der früh geschaffenen Strukturen und Prozesse haben unabhängig von ihrer eigentlichen Dauer einen bleibenden Einfluss auf das Organisationsverhalten der jungen Unternehmen.

Eine weitere wichtige Erkenntnis ist die Entwicklung der Identität der jungen Unternehmen unter dem Prinzip des *„Organisieren als Identitätsbildung"* (organising as identity construction). Dabei wurde besonders auf das Eigen- und Fremdbild eingegangen. Es werden verschiedene Organisationsmechanismen und ihre Auswirkungen auf die Identität dargestellt. Der Identitätsaspekt ist in Bezug auf das Organisationsverhalten bei jungen Unternehmen von entscheidender Bedeutung, da die Identität fehlende Koordinationsmechanismen kompensieren kann. Die Studie zeigt weiterhin, dass die ursprünglichen Unternehmens-vorstellungen und -ideen der Gründer einen sehr starken Einfluss auf die Identitätsentwicklung des Unternehmens haben. Und die Identität wiederum prägt entscheidend das Organisationsverhalten des jungen Unternehmens mit.

Als letztes Prinzip wurde *„Organisieren als Spiel"* (organising as a game) entwickelt. Dieses Prinzip lässt sich in verschiedenen Ebenen auf das Organisationsverhalten von jungen Unternehmen übertragen. Hier sind speziell die Prozesse in der Frühphase der Gründung zu nennen. Während der Internet-Hype-Phase waren viele Unternehmens-gründungen für den Gründer ein „Spiel": es hat Spaß gemacht. Es bestand durch VC-Beteiligungen kaum ein finanzielles Risiko. Viele junge Leute gründeten Unternehmen, da durch das Internet neue Märkte geschafft wurden. Interne Spielregeln konnten selbst festgelegt werden und es herrschte eine freundschaftliche Atmosphäre vor. Die Schwierigkeiten ergaben sich erst beim Übergang von dieser spielerischen Phase zu mehr Professionalität oder wenn Spielregeln nicht festgelegt wurden. Die Studie zeigt auch die Rolle von Gemeinschaftsspielen auf, die vor allem dem Gemeinschafts- und Unternehmensgefühl dienen sollten.

Curriculum Vitae

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1994	*Auguste-Viktoria-Schule*, Flensburg
	Abitur
1994 – 1996	*Universität Passau*, Vordiplom
1997	*Lund University*, Schweden, Auslandssemester
1997 – 2000	*Friedrich-Schiller Universität Jena*, Diplom Kauffrau
2000-2004	*Otto-Friedrich Universität Bamberg* & Graduiertenkolleg *Exist-HighTEPP,* Promotionsstipendium
2001	*Stanford University*, Scandinavian Consortium of Organizational Research, USA, Forschungsaufenthalt