

Soft Skills – The Missing Piece for Entrepreneurs to Grow a Business

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Small businesses and entrepreneurial startups are continually cited as critical engines for economic and social growth and development of our country. Many municipalities and state governments provide tax incentives, low (or no) interest loans, infrastructure improvements and “economic gardening” – an economic development model with the fundamental idea that entrepreneurs drive economies. Economic gardening initiatives connect entrepreneurs to resources, assist with refining business models, encourage the development of essential infrastructure, assess competitive intelligence, and provide entrepreneurs with needed information. The authors suggest what is missing is assisting entrepreneurs with development of their interpersonal or soft skills.

INTRODUCTION

“We started by believing in what people could do. Then we figured out how to create an environment where ordinary people could do extra-ordinary things.”

Bob Kierlin, Former CEO and Founder, Fastenal

Small businesses and entrepreneurial startups are continually cited as critical engines for economic and social growth and development of our country. (Pereira, 2013) In order to grow small businesses, state and local governments have provided tax incentives, low (or no) interest loans, and infrastructure improvements to attract and retain (both large and) small companies.

Most recently, many local municipalities and state governments have begun “economic gardening” – an economic development model with the fundamental idea that entrepreneurs drive economies. Economic gardening principles are based on research by MIT’s David Birch who suggested that most new jobs in any local economy were produced by the community’s small, local businesses. (Quello, 2012) The concepts were pioneered in 1987 in Littleton, Colorado as an alternative to traditional economic development practices. Today, economic gardening initiatives provide a framework for proven techniques that both challenge and compliment conventional practices and apply more specifically to second stage firms. (Quello, 2012) Second stage companies are companies that have advanced beyond the startup phase, typically employing 10-99 employees and generating \$1 to \$50 million in annual revenue. (Lange, 2012) Economic gardening initiatives connect entrepreneurs to resources, assist with refining business models, encourage the development of essential infrastructure, assess competitive intelligence,

and provide entrepreneurs with needed information. Major states like California regularly include economic gardening discussions in state development conferences.

There is no hope for development of local and state economies without strong, vital growth of small and medium sized businesses, yet the authors believe it is time to change the paradigm somewhat. A perusal of recent research findings has led us to conclude that some significant changes are needed in the services and opportunities that are offered to small business owners and entrepreneurs during the startup phase, as well as during the second stage growth initiatives.

In 2008, Keith McFarland discovered what was special about nine companies that successfully broke through the entrepreneurial stage of development and remain successful today. He found that as the small start ups grew, the leader needed to change their approach. In the early stages, there was no mid-management level so multi-tasking and running the company was important. As the company grew, the entrepreneur needed to spend less time running the day-to-day operations and more time leading, coaching and working as a team to identify strategies to transform the business to grow and succeed. It appears from McFarland's study, the needs of an entrepreneur changes with the development of the business initiative.

Entrepreneurs are idea people. Their business begins as an idea; but to achieve business success, the business owner must learn to manage, expand, and lead the company. Often, the personal traits that help entrepreneurs launch their business can work against them later with the company's growth. For example, the individual's single mindedness may be good in the early stages of the company, but may be viewed as defensive once the organization faces the need for growth, development, and change.

Today, the nature of work and likewise the skill set to attract, hold, and assure success of entrepreneurial undertakings has changed. Because of the changes, it is now vital that efforts to assist with the utilization and development of current capital strategic resources for entrepreneurs should be reassigned to resources that also provide interpersonal skill development. In order to gain a competitive advantage, entrepreneurial and small business initiatives must implement continual and ongoing growth of interpersonal skills commonly referred to as soft management skills. The authors firmly believe that without direct assistance on how to manage the business, while dealing directly with the interpersonal skills necessary for success, small and/or growth companies will continue to fail. The focus of economic gardening must now champion the critical theme of human capital development. The time to do this is limited and should be addressed early on in the formation of said companies.

HUMAN CAPITAL DEVELOPMENT

Human capital theory began appearing in economic literature in the 1960's. Economist Gary Becker's book *Human Capital* was published in 1964 and became the standard reference for many years. Becker viewed human capital as similar to the physical means of business productivity or tangible items such as buildings and machines. He defined human capital as an intangible means of a production asset. Today, human capital is broadly defined as the worker's set of skills which enhances productivity. Authors like Pereira (2013) and Hanushek (2008) underline the importance of human capital in productivity, competitiveness, and social development.

In corporate finance, human capital is a primary component of intellectual capital which, in addition to tangible assets, comprise the entire value of a company. Human capital is the value that employees provide through application of their skills, knowledge, and expertise which provides a necessary means for solving business problems. More specifically, human capital is seen as the cognitive skills, abilities, knowledge, personality, attitude, motivation, decision making, interests, and creativity that the worker provides in the workplace. These attributes and skills allow the workers to perform labor which will produce economic value.

Since Becker, many theorists have connected an investment in human capital development to economic development, productivity, business growth, and innovation – the areas often cited as justification for government subsidies for job skills training and small business growth and development. The confusion in economic development efforts supporting human capital development often arise,

because human capital is inherent in the individual worker and not owned by the organization as are the tangible sources of support. Human capital, for example, is substitutable, but not transferable, like land, labor and fixed capital.

Numerous studies have documented the critical factor of how effective organizations use their people resources as measured by creativity and innovation and how the success of companies increases to the extent a firm maximizes their human capital. Today, leading experts call for investment in human capital management and soft skills training for an improved return on investment (ROI) including higher stock appreciation. (Evans-Raoul, 2013) One entrepreneur explained that the quality of an entrepreneur can be judged by the quality of their work and the quality of their personal and interpersonal skills. With findings such as these, economic gardening initiatives cannot ignore the importance of supporting active efforts to manage and grow human capital. Today, investments and support must be provided to business initiatives to develop human capital, most especially soft management skills.

SOFT MANAGEMENT SKILLS

For the past three decades, there has been a growing body of evidence which points to the value of soft management skills. (Goleman, EI: Why It Can Matter More Than IQ, 1995) It's often been said that no matter what business you are in, you are in the people business. Well-developed people skills can mean the difference between success and failure. On-going research and books argue that if organizations are to survive in today's global, information based economy, managers and employees together must master the skills necessary to connect to and influence others, maintain relations, and manage and control themselves. This is even more important to entrepreneurs.

Prior to recognizing the importance of soft skills, the case was continually made that the cognitive or hard skills were the most important predictors of job and company success. In the workplace, companies and the military historically focused on cognitive skill testing, because the literature in industrial psychology attested to its preeminent importance in identifying workers who were most likely to succeed. Such beliefs led to a large scale effort to assess cognitive skills. Technical competencies, the cognitive or "hard" skills, refer to the traditional skills taught in business schools. Hard skills produce immediate and tangible results. They are usually well defined, visible, relatively simple to measure or evaluate and usually involve workers gaining mastery over an inanimate object. Many of the initiatives to help in the growth of small business development have dealt with the technical aspects of business success.

The emphasis on the hard skills changed in the 1990's with the discovery of the Big 5 personality dimensions. Behavioral science researchers in psychology and economics began suggesting that non-cognitive factors, or the soft skills, play a significant role in the workplace and were often shown to be more important than cognitive skills in determining success. Researchers were able to document that soft skills were critical for implementing change and transformation purposes, whether applied inside the organization or in dealings with suppliers, partners, or customers. (Holmberg-Wright, *The Importance Management & Entrepreneurial Soft Skills*, 2007) The importance of the soft skills was now being seen as more important to small business growth and success.

Unlike technical knowledge and expertise, soft management skills are the interpersonal component of leadership and management. These are skills that are not taught consistently or well in mainstream education systems or the workplace. Yet, these are the skills that allow companies to get ahead, be successful, and enable an organization and an individual to thrive. Soft skills are the people or human relations skills such as team building, time management, delegation, conflict resolution, stress management, effective customer communication, business writing, decision making, etc. (Holmberg-Wright, *The So Called Soft Stuff, Insights to a Changing World*, 2006) The definition has been expanded to include being resilient, curious, taking risks, being adaptable and creative or innovative. Unlike technical knowledge and expertise, soft skills often are more a matter of attitude and behavior. They are broadly defined skills that enhance productivity and the cognitive or hard skills.

Ongoing research and books like Daniel Goleman's *Emotional Intelligence* (1995) argue that for organizations (both large and small) to survive today, business owners and employees must master skills

needed to connect to and influence others, maintain relationships, and manage and control themselves. Emotional intelligence includes skills that drive internal world and response to the external world. Emotional intelligence concerns soft management skills.

IMPORTANCE FOR ENTREPRENEURS

Despite the growing body of evidence pointing to the value of soft skills, businesses and governmental programs continue to under invest in soft skills training and emotional intelligence. There appears to be a common misconception that soft skills cannot be taught or learned. There is also a tendency to avoid what's hard to measure. It is much easier to see immediate and tangible results from cognitive skill training and point to success and change. A difficulty for business when training for soft skill development is how to measure the value and changed behavior. The Return on Investment, ROI, from soft skill development is not immediately apparent and is difficult to quantify. One knows from experience the tremendous benefit successful soft skills training will manifest over time, but business owners want immediate impact and bottom line results. The waiting period often provides a stumbling block for many companies and investors.

THREE TYPES OF MANAGERIAL SKILLS

Robert Katz, management consultant, has written perhaps the most widely accepted article about management skills. (Katz, 1974) He states that a manager's ability to perform is a result of their managerial skills in three areas: technical, conceptual and human.

Technical skills involve the ability to apply specialized knowledge and expertise to work related techniques and procedures. Technical skills include production tools and machinery, as well as skills to increase sales, design different types of products and services and market the products and services. These skills are often most important for the first level managers, but top managers must also be cognizant of their importance. Start-up companies usually begin with the use of technical skills. Scott Edmonds, CEO Chicos, talked about the importance of devoting initial time in a start-up to managing the many technical aspects of the company. (McFarland, 2008)

Conceptual skills involve the ability to see the organization as whole. A manager with conceptual skills is able to understand how various functions in the organization complement one another, how the organization relates to its environment, and how changes in one part of the organization impact the whole. Conceptual skills assist a manager to look outside the goals of a single business department and make decisions that will satisfy the overall business goals. Economic gardening initiatives recognize conceptual understanding in four key areas: strategic market research, geographic information systems, search engine optimization, and social media marketing.

To grow the business, the successful companies recognize the conceptual and strategic growth of an organization must involve all the employees. The nine breakthrough companies put enormous faith - and power - in the hands of employees. The leaders trusted that the workers' actions would honor the company and its growth and in no way betray the company or its leadership. To do this successfully, the breakthrough companies and others recognized the important element in the way leaders viewed and treated the employees and customers. Conceptual understanding was tied with the human capital understanding.

The third area of skills that Katz found necessary were the human skills which involve a manager's knowledge of and ability to work with people – the soft skills. They are the social and interpersonal set of skills that are used when interacting and communicating with one another. Effective human or interpersonal skills enable a manager to become a leader, motivate employees for better accomplishment, make more effective use of the human potential, and deal with customers. When it comes to managing people, soft skills are the important differentiation of effectiveness and success.

Economic development and gardening initiatives have notoriously focused on the first two skill sets. The initiatives especially work with second stage businesses to move beyond the points of failure and

grow the company. The gardening initiatives often concentrate on tools and timing to grow the company such as developing new markets, refining business models, and accessing competitive intelligence. Yet, without the addition of the assessment and training in the soft management skill set, efforts directed at small business development and growth will surely fail.

Hogshead (2014) reported on research that showed 85% of an entrepreneur's company's financial success is due to skills in "human engineering" which is defined as one's personality and ability to communicate, negotiate and lead. Only 15% of the success was due to technical knowledge. Can economic gardening efforts ignore this important aspect when assisting startups to move to second stage?

ENTREPRENEURIAL SKILL SETS

Numerous studies have been conducted to identify why entrepreneurial startups have a high failure rate. (Wagner, 2013) (Bolonwu, 2013) (Philips, 2013) According to Bloomberg, (Wagner, 2013) 8 out of 10 entrepreneurs who start a business fail within 18 months while 80% crash and burn. Consistently, interpersonal and management issues are mentioned. The underlying cause of failure is rarely technical or ideas related. Rather, most failure is "attributed to a breakdown in communication between executives and talent, team and project managers (Hess, 2012) Gerber (2001) found entrepreneurs run into problems with the management of the business, because they concentrate their attention on their specialized field of expertise, neglecting managerial skills development.

A 2012 multivariable analysis (Bonnstetter, 2012) of a group of serial entrepreneurs identified five skills that made the individual unique and were most predictive of the successful entrepreneur mindset. The skills were the following: persuasion, leadership, personal accountability, goal orientation, and interpersonal skills. The authors explained that the interpersonal skills were the glue that held the other four together. They found this set of skills were most predictive of the entrepreneurial mindset. "In contrast to ephemeral notions that entrepreneur success comes as a result of perfect timing meeting brilliant ideas in a cosmic moment of alignment, this research indicates entrepreneurially successful people are successful for a reason – that many of them highly display certain personal skills."

One entrepreneur described the importance of soft management skills as the following: "Everything I do revolves around interpersonal skills. It is the single largest role in determining the outcome of every situation. It's not just investing in an idea but in a person and a team." (Holmberg-Wright, *The Importance Management & Entrepreneurial Soft Skills*, 2007) As this entrepreneur points out, well developed interpersonal skills can mean the difference between a business being successful or failing.

Certainly strong technological skills or expertise in key conceptual areas are critical to starting a business, but such skills are not the defining characteristic of entrepreneurs, nor will the technical expertise alone grow the company. Key qualities are traits such as creativity, the ability to keep going in the face of hardship, and social skills to coach and build great teams and work with customers. Well-developed people skills can mean the difference between success and failure.

Self-Awareness

Duffy (2014) explained that one of the best qualities an entrepreneur can exhibit is self-awareness. After interviewing numerous entrepreneurs, Duffy pointed out that they must get clear about who they are and how they can help the organization the most. Richard Branson (2014) agreed, taking it even further and explaining that in his early endeavors, he needed to know himself well so that he could hire his weakness. He explained that his unusually early level of self-awareness and smarts was the biggest contribution to his success. Bill Murphy (2010) further defined this important quality explaining how critical it is for an entrepreneur to know themselves first and then be able to put together start up teams that complemented their talents and expertise. Self-awareness includes values, beliefs, optimism, vision, initiative, persistence, and risk tolerance. Research studies have defined the most important soft management skills for meeting success in entrepreneurial undertaking. Along with self-awareness, the skills include communication, creativity (including problem solving), and management and leadership skills (which includes motivation, negotiating, goal setting, planning and organizing, team building).

McFarland talked about the importance of entrepreneurs being brutally honest with themselves. The more an individual knows his own personal characteristics, values, beliefs, and how they come across to others, the better chance of success. The individual needs to have a vision for the company and create a compelling vision of the future. Are they able to inspire others? How motivated are they to take on such a challenge? How resilient and optimistic are they to make the dream a reality? The more entrepreneurs know themselves, the better they will know how to work with others. Knowing oneself will also allow the entrepreneur to recognize when they may need to let go of control. Bill Murphy, Jr. (2010) in his book on successful entrepreneurs explained entrepreneurs are remarkably good at recognizing their own personality strengths and weaknesses, which lead them to put together startup teams that complemented their talents and experience. The key to becoming a good leader is not about having greater intellectual horsepower or better skills than employees. What really matters to leaders is what transpires among individuals.

Self-awareness and being brutally honest with oneself also plays into funding for startups. “I have never once met an angel or venture capital investor who doesn’t investigate character of a founder and his/her team before whipping out the checkbook.”

Communication

The skill of communication plays a critical role in the execution of all other skills. If you cannot communicate, the other skill sets will fall flat. Studies on the reason entrepreneurs fail point to poor communication. (Wagner, 2013) You cannot possibly be a good salesperson. Your planning skills won’t matter if you aren’t able to communicate your plans. Plans are virtually worthless without the people processes that transform plans into persistently productive actions. Decisions you make will be worthless if you can’t communicate how to execute them. The need to explain, discuss, sell, market, interact with the team are all critical communication skills for the entrepreneur.

Bob Kierlin created Fastenal Company by invoking “chaotic communication.” He had a totally open door policy wherein any employee could talk to him. He believed and acted on his belief that employees want to use their minds, skills, and energy to impact where an organization goes and how best to get there. Open (and chaotic) communication was his instrument of success. (McFarland, 2008)

An entrepreneur needs to be a successful sales person. Not only must they have passion and credibility; they must quickly understand the values and objectives of the customer and then make a proposition that resonates with the customer’s values and objections. To do this effectively, the entrepreneur must be able to recognize and understand the customer quickly. Malcolm Gladwell in *Blink* (2005) explained that people make decisions about an individual in less than 10 seconds. The first impression works for or against you. An entrepreneur needs to have an evaluative system which allows customer identification immediately.

Richard Branson (2014) explains that the digital age has changed a lot in business, but he explains that real life (as in face-to-face) networking with workers, customers and investors is still a business essential, “especially for an entrepreneur whose instincts have to rely heavily on trust based relations – you can’t look someone in the eye by text.”

Likewise, successful companies know how to increase their communication efforts when they face difficult times. During difficult times, many entrepreneurs tend to hunker down and stop communicating with the organization concerned that if they share the truth the workers will become frightened of the reality facing them. The problem is that during the difficult times, if there isn’t transparency in communication, the troops will create their own scenario which often is far worse than the reality of the situation. Additionally, minimizing communication at the time you need new ideas and teamwork the most is a surefire way of defeat.

Critical and Creative Thinking and Coaching Skills

These are skills necessary to grow and develop the business. An entrepreneur must invest time and effort to continually hone these skills. By concentrating on problem solving and creative thinking, the individual will be able to recognize (and create) opportunities to sustain and grow the business.

Practical Management and Leadership Skills

Basic knowledge of management is needed at the initial stage and later during the development stage. Without leadership, many entrepreneurs self-sabotage through extremely poor decision making and weak leadership skills. (Wagner, 2013) Usually in the beginning, management is conducted by the sole founder or owner who must perform all the actions. As the business develops, more management skills are necessary. This is often when frustration sets in. The owner is dealing with a totally new type of problem – management of others. Skills in planning, organizing, leading, controlling are needed along with an overview of finance, marketing, and attaining a competitive edge. Not everyone will be comfortable managing people. Numerous skills are needed to effectively run a business. The entrepreneur will need to plan and organize, set goals, make decisions, and market the business. One successful entrepreneur made mention that “team dynamics is the hardest and most personal challenge of all. Getting that wrong really hurts. Fundamentally, it’s all about leadership.” (Murphy, 2010)

Leadership is about organizing people and motivating them to work toward a common goal. The entrepreneur needs to give up some control and put efforts into building other people’s skills. To gain the competitive edge, managerial and interpersonal skills and knowledge are at the center.

TRAINING FOR HUMAN CAPITAL DEVELOPMENT

The soft skills can, in fact, be learned and honed. (Bonnstetter, 2012) It does take training and ongoing behavioral modification. For entrepreneurs to reach success, this development is critical. It becomes even more important as firms move to second stage development. Now there are more employees involved and relationships become critical to success and further growth. The building of teams and collaborative relationships are necessary. When assistance is offered to small business owners, training in the soft skills is critical – more critical, perhaps, than market research, competitor identification, or IT offerings.

CONCLUSION

Katz was correct when he defined the three skill sets needed by managers – entrepreneurs included. Managers and entrepreneurs do need technical and conceptual skill sets. When you have conceptual skills, you will make better decisions. When you have technical skills as most entrepreneurs do, you will make better cognitive decisions. But, without the interpersonal skill set, you cannot possibly be successful in growing your company. Failure will await you. One of the most important management tasks is to work with people. Without people, your company will not grow and expand.

Education in entrepreneurship should focus on how to be an innovator, visionary, creator of a strategic orientation for an enterprise. The training and education should be focused on strategy, planning, forecasting, bringing in new ideas and making them a reality. This is where economic gardening initiatives have focused their attention. But, to stay there will lead to failure. Concurrently, education and skill training in management and leadership must also be offered. The focus here must be on acquiring and developing self-awareness and managerial skills. As the business grows, so do the human capital skills that are needed for survival.

Governments and supporting programs for small businesses should consider ways to increase awareness about the need and significance of managerial skills and knowledge and also support the preparation of integrated educational and training programs for small business enterprises.

Research shows that soft skills can be learned. Each skill can be developed through learning and practical experience. Utilization of economic development and growth resources must continue to shift from the current emphasis on capital strategic resources to the strategic resources in the form of self-knowledge, communication, creative thinking, and overall leadership. By making soft skills a priority, organizations (both large and small) can drive success, growth, and a greater return on an investment. Knowing this, should lead economic development initiatives to offer resources to entrepreneurs to develop these necessary soft skills. (Bush, 2012) Entrepreneurs can gain the competitive advantage by

implementing continual and ongoing innovation. Managerial skills and self-knowledge are at the center of the enterprise and its growth.

Creating wealth and success in an organization depends on the ability to recruit the right people, maintain the right work environment to keep the team focused, and constantly communicating with employees.

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