

Entrepreneurship: Successfully Launching New Ventures

Startups' lifecycle and Building a *New-Venture* Team

Chapter 9

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- ✓ Advantages and disadvantages of starting a new-venture team
- ✓ Key elements of a successful founding team

Before starting... an expert's point of view

Startups' lifecycle: there are different phases

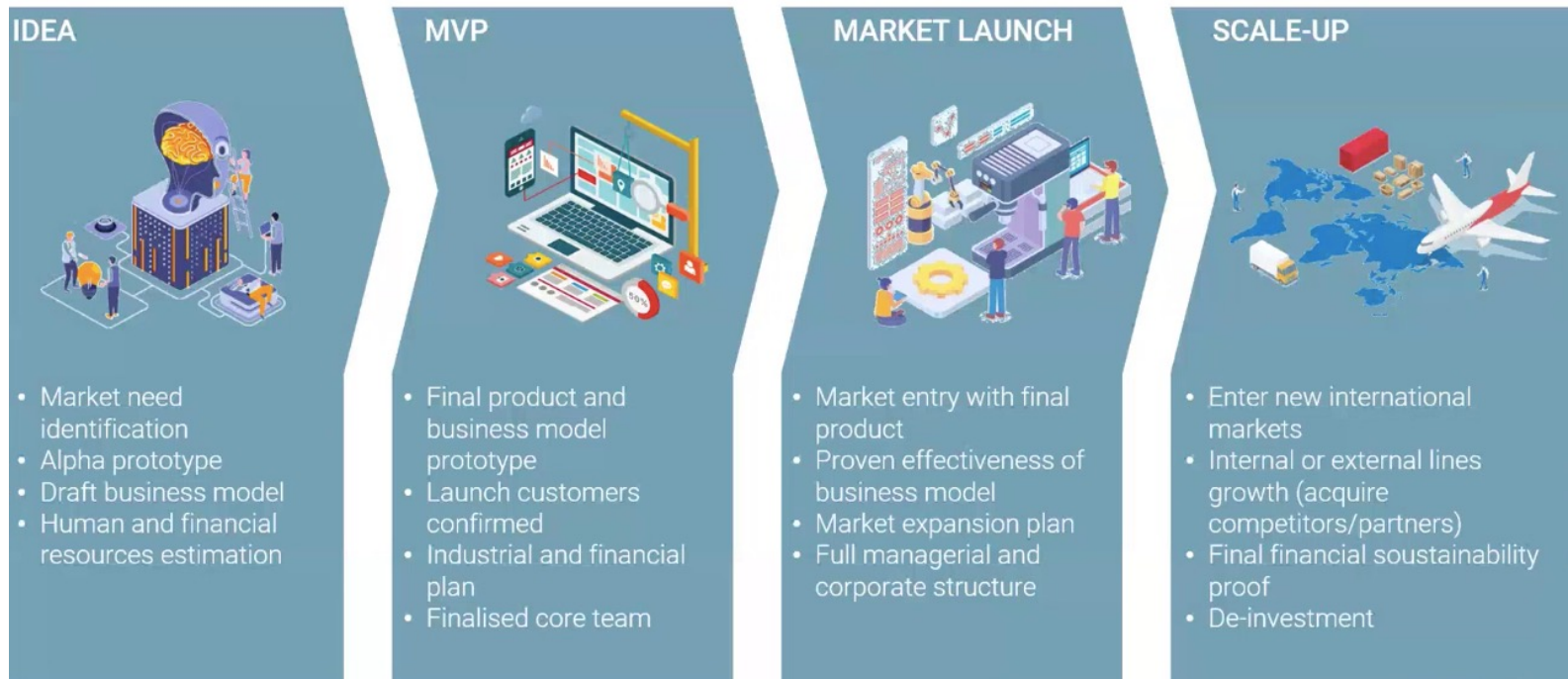
- **Nicola Redi**, is a venture capitalist and a renowned expert in the field of innovation policy management.
- He has taught an educational module named “Train the Trainers” in the context of the **InnovaMare Project – Interreg Italy-Croatia**
- The education module for all the partners in the **InnovaMare Project**, was aimed at enhancing their knowledge of innovation strategy and management.
- The video about “Different phases of startup's lifecycle



Nicola Redi – Venture Capitalist

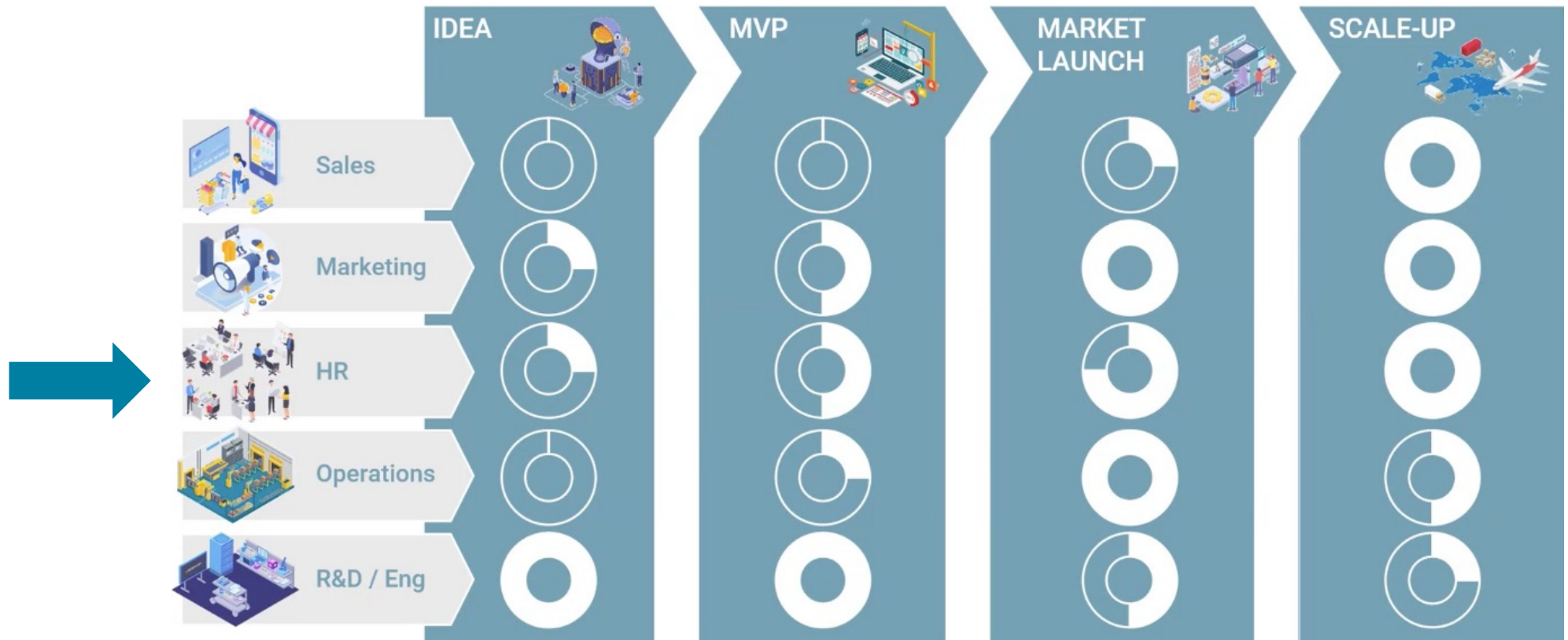
Startups' lifecycle: there are different phases

There are different phases in startups' lifecycle



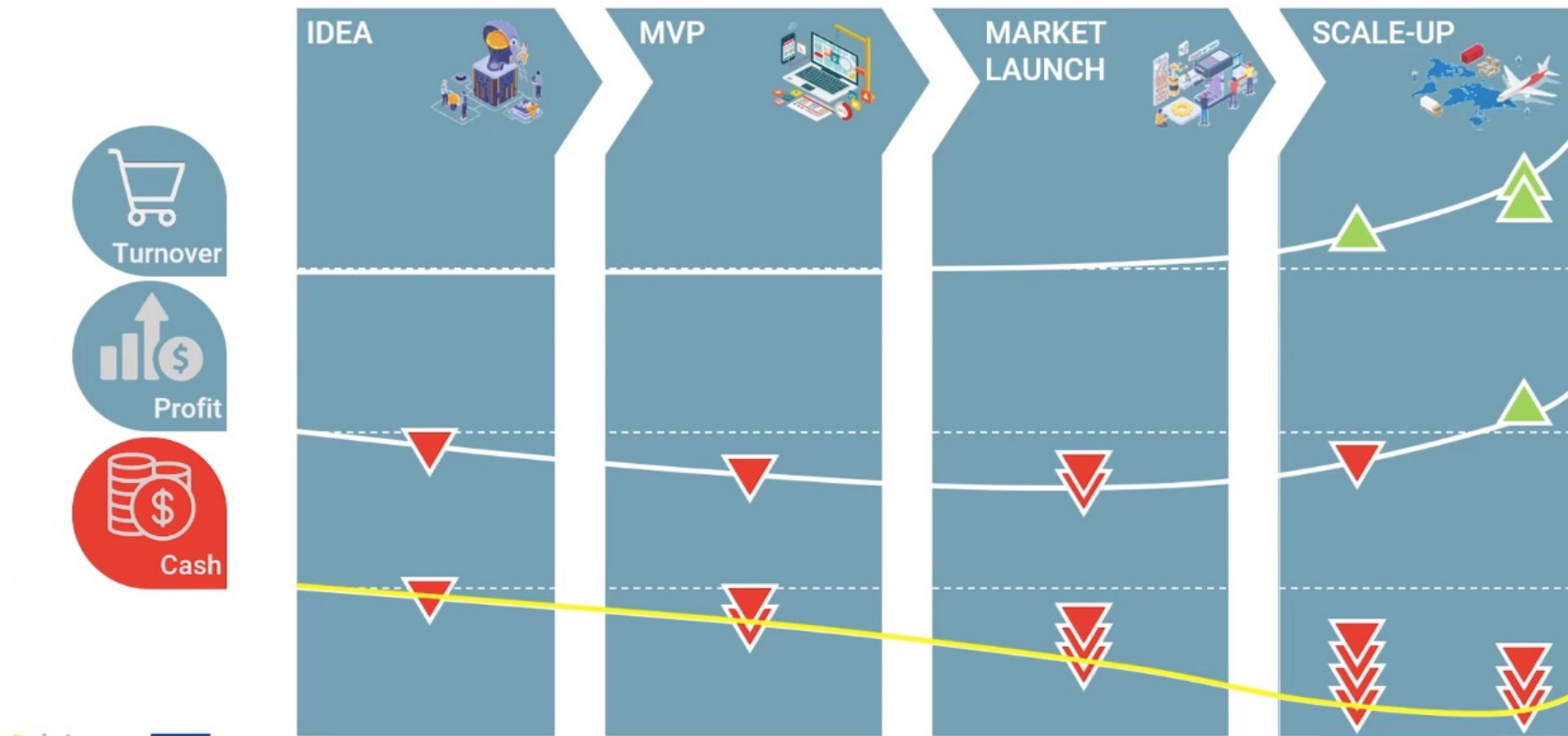
Startups' lifecycle: there are different phases

Revenues, costs and investments are different for each phase



Startups' lifecycle: there are different phases

Revenues, costs and investments are different for each phase



Entrepreneurship: Successfully Launching New Ventures

Sixth Edition, Global Edition



Chapter 9 Building a *New-Venture* Team

Startups' lifecycle: there are different phases

IDEA



- Market need identification
- Alpha prototype
- Draft business model
- Human and financial resources estimation

FOCUS: HR
Building a *New-Venture* Team



New-Venture Team

- **New-Venture Team** is the group of founders, key employees, and advisors that move a **new venture** from an idea to a fully functioning firm.
- Usually, the team doesn't come together all at once. Instead, it is built as the new firm can afford to hire additional personnel.
- The team also involves **more than paid employees**.
- Many firms have **boards of directors, boards of advisors, and professionals** on whom they rely for direction and advice.

New-Venture Team

From the experience that you collect during this course, in your opinion, why is a New-Venture team important?



Liability of Newness

- New ventures have a high **propensity to fail**.
- The **high failure rate** is due in part to the **liability of newness**: new companies often falter because the people involved can't adjust fast enough to their new roles, and because the firm lacks a track record of success (with outside buyers and suppliers).
- Assembling a **talented and experienced management team** is one path that firms can take to **overcome these limitations**.
- Attending **entrepreneurship-focused workshops** and events, or joining one of the growing number of **start-up accelerators**.

Creating a new-venture team

- Those who launch or establish an **entrepreneurial venture** have an important role to play in shaping the **firm's business model** → **A well-conceived business plan**
 - Often, several start-ups develop what is essentially the same idea at the same time.
- ↓
- **The key to success** is not the idea *but rather* the ability of the initial founder or founders to **assemble a team** that can execute the idea better than anyone else.
 - **A new-venture team**: an important signal to potential investors, partners and employees.

Separate Elements of a New-Venture Team

Figure 9.1 Elements of a New-Venture Team



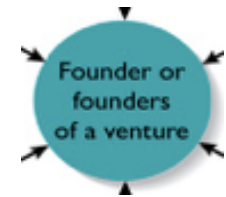
Common Mistakes in Putting Together a New-Venture Team (1 of 2)

1. Placing unqualified friends or family members in management positions.
2. Assuming that previous success in other industries automatically translates to your venture's industry.
3. Presenting a “one person team” philosophy—meaning that one person (or a small group of people) is wearing all hats with no plans to bolster the team.

Common Mistakes in Putting Together a New-Venture Team (2 of 2)

4. Hiring top managers **without sharing ownership** in the firm.
5. **Not disclosing or talking dismissively** of management team skill or competency gaps.
6. **Vague or unclear plans** for filling the skill or competency gaps that clearly exist.

The Founder or Founders of a New-Venture



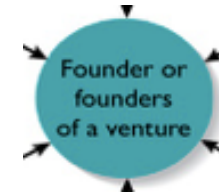
1. Size of the Founding Team

- Studies have shown that 50% to 70% of all new ventures are started by **more than one individual**.
- Experts **disagree** about whether new ventures started by **a team** have an advantage over those started by a **sole entrepreneur**.

2. Founder or Founders

- The **characteristics of the founder or founders** of a firm and **their early decisions** have a significant impact on the manner in which the new-venture team takes shape.

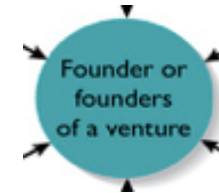
Advantages and Disadvantages of Starting a Venture as a Team (1 of 2)



- **Advantages**

1. Teams bring more **talent, resources,** and **ideas** to a new venture.
2. Teams bring a broader and deeper **network** of social and professional contacts to a new business.
3. The **psychological support** that the cofounders of a business can offer one another can be an important element of a new venture's success.

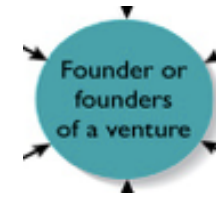
Advantages and Disadvantages of Starting a Venture as a Team (2 of 2)



- **Disadvantages**

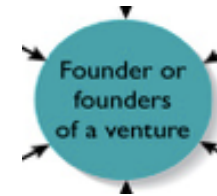
1. Team members may not get along.
2. If two or more people start a firm as “**equals**”, conflicts can arise when the firm needs to **establish a formal structure** and designate one person as the CEO.
3. If the founders have **similar areas of expertise**, they may duplicate rather than complement one another.
4. Team members can easily **disagree** in terms of work habits, tolerances for risk, levels of passion for the business, ideas on how the business should be run, and similar key issues.

Key Elements of a Successful Founding Team



- ✓ Teams that have **worked together before**, as opposed to teams that are working together for the first time, have an edge.
- ✓ The members of the **team are heterogeneous**, meaning that they are **diverse in terms of their abilities and experiences**, rather than homogeneous, meaning that their areas of expertise are very similar to one another.
- ✓ The team is **not too big** → **two to three founders**.
 - A founding team can be too big, causing communication problems and an increased potential for conflict.

Preferred Attributes of Sole Entrepreneurs and Members of a New-Venture Team (1 of 2)



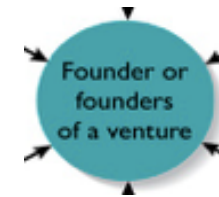
1. Higher Education

Evidence suggest that important **entrepreneurial skills** are enhanced through higher education.

2. Prior Entrepreneurial Experience

Founders **familiar with the entrepreneurial process** are more likely to avoid costly mistakes than founders without similar experience.

Preferred Attributes of Sole Entrepreneurs and Members of a New-Venture Team (2 of 2)



3. Relevant Industry Experience

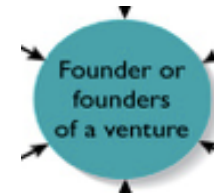
Founders with **relevant industry experience** are more likely to have:

- Better established professional networks.
- More applicable marketing and management skills.

4. Broad Social and Professional Network

Founders with **broad social and professional networks** have potential access to additional know-how, capital, and customer referrals.

Looking for a cofounder...



- Several websites dedicated to **matching cofounders** for start-ups

(e.g., CoFoundersLab) <https://cofounderslab.com/>



Connect Collaborate Educate Raise

Sign in

Sign up

One platform to **connect, collaborate, educate** and build your startup.

Designed by entrepreneurs for entrepreneurs to connect you with CoFounders, advisors, mentors, investors, and innovators 🚀

Sign up for free



Find a Co-Founder

Find the perfect co-founder based on interests, skills, and location.



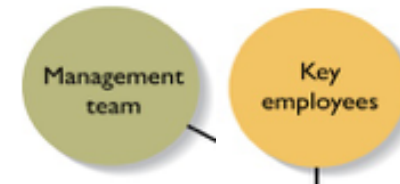
Get Funded

Learn how to pitch and find investors for your startup.



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The Management Team and Key Employees



- Once the decision to launch a new venture is made, **building a management team** and **hiring key employees** begins.
- Start-ups vary in terms of how quickly they need to **add personnel**: *in some instances*, the founders will work alone for a period of time. *In other instances*, employees are hired immediately.
- **Hiring people**: takes time and once people are onboard need time to understand the business.
- **Recruiting challenges**: find good employees today is not an easy task.

Skills Profile for New Venture



Figure 9.2 *Skills Profile* for New Venture

A **skills profile** is a **chart** that depicts the **most important skills** that are needed and where skills gaps exist in a new firm.

Technical skills and **soft skills**
(e.g., interpersonal skills, teamwork, leadership)

	Executive Leadership	Store Operations	Supply Chain Management	Marketing and Sales	HR/Recruiting	Accounting and Finance	Community Relations	Information Systems	Franchise Operations
Jack Petty	X								
Peggy Wells		X				X			
Jill Petersen				X					
Cameron Ivey			X						
Gap 1					O				
Gap 2							O		
Gap 3									O

X = position filled
O = position vacant

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Sources of Labor New Ventures Utilize to Get Their Work Done (1 of 2)



1. Full-or Part-time Employee

- An employee is someone who works for a business, at the **business's location (or virtually)**, utilizing the **business's tools and equipment** and according to the business's **policies and procedures**.

2. Intern

- An intern is a person who works for a business as a trainee for the purpose of obtaining **practical experience**.
- Formal **internship programs** as a **recruiting tool**.
- A chance to “look” at a **potential hire** before making a formal commitment to that person.

Sources of Labor New Ventures Utilize to Get Their Work Done (2 of 2)



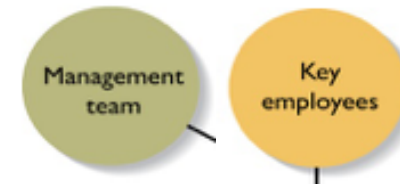
3. Freelancer (or contractor)

- A person who is in business for themselves, works on **their own time with their own tools and equipment**, and performs services for a number of different clients.

4. Virtual Assistant

- **A freelancer** who provides administrative, technical, or creative **assistance** to clients **remotely** from a **home office**.

The Management Team and Key Employees



- In entrepreneurial firms, it is particularly important that all members of a **new venture team work effectively together**.
 - The **fear that an employee will not work out** is one of the benefits of **hiring interns, freelancers, and virtual assistants**.
- ↓
- These individuals **work on strictly an “as needed” basis** or on fairly **short-term contracts**, and a business can simply move on if the person doesn't work out.
 - *In contrast*, separating from a **full-time or even a part-time employee** can be much more difficult.



The Roles of the Board of Directors (1 of 2)

- **Board of Directors**

- If a new venture organizes as a **corporation**, it is **legally required** to have a **board of directors**.
- What is it? A **board of directors** is a panel of individuals who are **elected** by a corporation's shareholders to **oversee** the management of the firm.
- A board is typically made up of both **inside directors** and **outside directors**.
 - An **inside director** is a person who is also **an officer of the firm**.
 - An **outside director** is someone who is **not employed by the firm**.



The Roles of the Board of Directors (2 of 2)

• Formal Responsibilities of the Board

- A board of directors has **three formal responsibilities**:
 1. Hire the officers of the firm (the key managers).
 2. Declare dividends.
 3. Oversee the affairs of the corporation.
 - making sure the firm operating ethically.

• Frequency of Meetings and Compensation

- Most boards of directors meet **three to four times a year**.
- New ventures are more likely to pay their board members in **company stock** or ask them to serve **on a voluntary basis** rather than pay a cash honorarium.

What a Board of Directors Can Do to Help a Start-Up Get Off to a Good Start



Function	Importance of Function
Provide Guidance	<p>Although a board of directors has formal governance responsibilities, its most useful role is to provide guidance and support to the firm's managers.</p> <p>Pick board members with needed skills and useful experiences who are willing to give advice and ask insightful and probing questions.</p>
Lend Legitimacy	<p>Another function of a board of directors is to lend legitimacy to a firm. Well-known and respected board members bring instant credibility to a firm. This phenomenon is referred to as signaling.</p>

Attitudes of the Board of Directors

TABLE 9.4 Attributes of Effective Boards of Directors and Effective Board Members

Attributes of Effective Boards of Directors

- Strong communication with the CEO
- Customer-focused point of view
- Complementary mix of talents
- Decisiveness
- Mutual respect and regard for each other and the firm's management team
- Ability and willingness to stand up to the CEO and the firm's top managers
- Strong ethics

Attributes of Strong Board Members

- Strong personal and professional networks
 - Respected in their field
 - Willingness to make personal introductions on behalf of the firm
 - Strong interpersonal communication skills
 - Pattern recognition skills
 - Investment and/or operating experience
 - Ability and willingness to mentor the CEO and the firm's top managers
-

Rounding out the Team: The Role of Professional Advisers

- **Board of Advisors**
- **Lenders and Investors**
- **Other Professionals**



Board of Advisors (1 of 3)



- **Board of Advisors**

- A board of advisors is a **panel of experts** who are asked by a firm's managers to provide **counsel and advice** on an ongoing basis.
- Unlike a board of directors, a board of advisors possesses **no legal responsibility** for the firm and gives nonbinding advice.
- An advisory board can be established for **general purposes** or can be set up to address a **specific issue or need**.

Board of Advisors (2 of 3)



• Board of Advisors

- Many people are more willing to serve on a company's **board of advisors** *than its board of directors* because it requires **less time** and there is **no potential legal liability involved**.
- Like the members of a board of directors, the members of a company's board of advisors **provide guidance and lend credibility** to the firm.
- Make **high-level introductions** to early customers, suppliers, and business partners.
- Most boards of advisors have **between 5 and 15 members**.
- Boards of advisors interact with each other and with a firm's managers in several ways.

Board of Advisors (3 of 3)



- **Guidelines to Organizing a Board of Advisors:**

1. A board of advisors should not be organized just so a company can boast of it. Advisors will become disillusioned if they don't play a **meaningful role in the firm's development and growth**.
2. A firm should look for board members who are **compatible and complement** one another in terms of **experience and expertise**.
3. A company should carefully spell out to the individuals involved the rules in terms of **access to confidential information** → **nondisclosure agreements**.
4. Firms should caution their **advisers to disclose that they have a relationship with the venture**.

Lenders and Investors (1 of 2)



- **Lenders and Investors**

- **Lenders and investors** have a vested **interest in the companies they finance**, often causing them to become **very involved in helping** the firms they fund.
- Like the other non-employee members of a firm's new-venture team, lenders and investors help new firms by **providing guidance** and **lending advice**.
- In addition, a **firm's lenders and investors** assume the natural role of **providing financial oversight**.

Lenders and Investors (2 of 2)



• Lenders and Investors

- The amount of **time and energy** a lender or investor dedicates to a new firm depends on the **amount of money** involved and how much help the new firm needs.
- *For example*, a **lender** with a well-secured loan may spend very little time with a client. In contrast, a **venture capitalist** may spend an enormous amount of time helping a new venture refine its business model, recruit management personnel, and meet with current and prospective customers and suppliers.
- An average **venture capitalist** will likely visit each company in a portfolio multiple times a year. This number of visits denotes a high level of involvement and support.

Ways Lenders and Investors Add Value to an Entrepreneurial Firm (1 of 2)



1. Help identify and recruit key management personnel.
2. Provide insight into the industry and markets in which the venture intends to participate.
3. Help the venture fine-tune its business model.
4. Serve as a sounding board for new ideas.
5. Provide introductions to additional sources of capital.
6. Recruit customers.

Ways Lenders and Investors Add Value to an Entrepreneurial Firm (2 of 2)



7. Help to arrange business partnerships.
8. Serve on the venture's board of directors or board of advisors.
9. Provide a sense of calm in the midst of the emotional roller-coaster that many new-venture teams experience.

Other Professionals



- **Other Professionals**

- The other professionals that make up a firm's new-venture team include **attorneys, accountants, and business consultants.**

- **Business Consultants**

- A business consultant is an individual who gives **professional or expert advice.**
- Business consultants fall into **two categories:**
 - paid consultants;
 - consultants who are available for free or at a reduced rate through a nonprofit or governmental agency.

Thanks for your attention

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