Chapter 9

Building a New-Venture Team

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Chapter Objectives
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1. Identify the primary elements of a new-venture team.
2. Explain the term liabilities of newness.
3. Discuss the difference between heterogeneous and homogenous founding teams.
4. Identify the personal attributes that strengthen a founder's chances of successfully launching an entrepreneurial venture.
5. Describe how to construct a "skills profile," and explain how it helps a start-up identify gaps in its new-venture team.

Chapter Objectives
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6. Describe a board of directors and explain the difference between inside directors and outside directors.
7. Identify the two primary ways in which the nonemployee members of a start-up's new-venture team help the firm.
8. Describe the concept of signaling and explain why it's important.
9. Discuss the purpose of forming an advisory board.
10. Explain why new venture firms use consultants for help and advice.

New-Venture Team

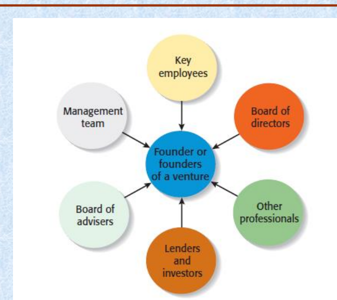
- New-Venture Team
  - Is the group of founders, key employees, and advisors that move a new venture from an idea to a fully functioning firm.
  - Usually, the team doesn't come together all at once. Instead, it is built as the new firm can afford to hire additional personnel.
  - The team also involves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

Liabilities of Newness

Liabilities of Newness

- New ventures have a high propensity to fail.
- The high failure rate is due in part to liabilities of newness, which refers to the fact that 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.
- Assembling a talented and experienced management team is one path that firms can take to overcome these limitations.

Separate Elements of a New-Venture Team



The Founder or Founders

- 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.
- 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.

Advantages and Disadvantages of Starting a Venture as a Team

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- Advantages
  - Teams bring more talent, resources, and ideas to a new venture.
  - Teams bring a broader and deeper network of social and professional contacts to a new business.
  - 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

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- Disadvantages
  - Team members may not get along.
  - 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.
  - If the founders have similar areas of expertise, they may duplicate rather than complement one another.
  - 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 Element of a Successful Founding Team

- Heterogeneous rather than homogenous teams tend to be more effective.
- This team is starting an educational software company.
- The woman on the left is a former teacher, the woman in the middle is a software engineer, and the man on the right has a business background.

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

- Higher Education
  - Evidence suggest that important entrepreneurial skills are enhanced through higher education
- Prior Entrepreneurial Experience
  - Founders familiar with the entrepreneurial process are more likely to avoid costly mistakes than founders without similar experience.

Factors that Contribute to a Founder or Founders' Success

- Relevant Industry Experience
  - Founders with relevant industry experience are more likely to have:
    - Better established professional networks
    - More applicable marketing and management skills
- Broad Social and Professional Network
  - Founders with broad social and professional networks have potential access to additional know-how, capital, and customer referrals.

Recruiting and Selecting Key Employees

- Recruiting Key Employees
  - 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.
  - A <u>skills profile</u> is a chart that depicts the most important skills that are needed and where skills gaps exist in a new firm.

Skills Profile for New Venture Fitness Drinks

	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

The Roles of the Board of the 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.
  - 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 the Directors
2 of 2

- Formal Responsibility of the Board
  - A board of directors has three formal responsibilities.
    - Appoint the officers of the firm.
    - Declare dividends.
    - Oversee the affairs of the corporation.
- 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	Although a board of directors has formal governance responsibilities, its most useful role is to provide guidance and support to the firm's managers.
Lend Legitimacy	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.

Rounding out the Team: The Role of Professional Advisors

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, an advisory board 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 (continued)
  - 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.

Board of Advisors
3 of 3

- Guidelines to Organizing a Board of Advisors
  - Advisors will become disillusioned if they don't play a meaningful role in the firm's development and growth.
  - A firm should look for board members who are compatible and complement one another in terms of experience and expertise.
  - When inviting people to serve on its board of advisors, a company should carefully spell out to the individuals involved the rules in terms of access to confidential information.

Lenders and Investors

- 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.

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

- Help identify and recruit key management personnel
- Provide insight into the markets that the new venture plans to enter
- Help the venture fine-tune its business model
- Serve as a sounding board for new ideas
- Provide introductions to additional sources of capital
- Serve on the new venture's board of directors or board of advisors

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

- Recruit customers
- Help to arrange business partnerships
- Serve on the board of directors or board of advisors
- Provide a sense of stability and calm

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 and consultants who are available for free or at a reduced rate through a nonprofit or governmental agency.