ENTREPRENEURIAL TEAMS: DEFINITION AND DETERMINANTS

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ABSTRACT

Stressing a conceptual approach to the subject of entrepreneurial teams, this paper suggests a comprehensive definition of entrepreneurial teams. Then, entrepreneurial teams and their effectiveness are linked to venture performance. The concept of entrepreneurial team effectiveness is analyzed and discussed based on its antecedents - the environment, power and politics, communication, team composition, and demographic characteristics. The paper especially argues that considerations of entrepreneurial team composition need to include cognitive characteristics. Based on Jung's four archetypes, it is suggested that the lack of any of the four cognitive types limits the entrepreneurial team's effectiveness and, in turn, venture performance.

INTRODUCTION

Creating a new venture is not easy, especially when considering the amount of information, skills, capabilities, and knowledge it takes to make a venture successful. Research has shown that teams start a significant number of new ventures, or a team is created within the first years of start up (Kamm, Shuman, Seeger, & Nurick, 1990; Watson, Ponthieu, & Critelli, 1995), and researchers have established that there is a strong association between venture success and team created ventures (e.g., Eisenhardt & Schoonhoven, 1990). Also, research on top management found that the executive team has a greater influence on the organizational performance than the individual executive (Hambrick & Mason, 1984; O'Reilly, Snyder, & Boothe, 1993). Therefore, the quality and composition of the team is a critical determinant of organizational performance (Glick, Miller, & Huber, 1993; Hambrick, 1994). Venture capital firms rarely consider venture proposals based on individual entrepreneurs,

but favor proposals from team based ventures (Kamm et al., 1990) because team based ventures, overall, have a better track record (Timmons, 1994). In sum, as Cooper and Daily (1997:144) phrase it "Entrepreneurial teams are at the heart of any new venture."

Because team based ventures outperform single-entrepreneur-ventures (Cooper & Bruno, 1977), entrepreneurial teams (ET) become an interesting topic for research. It is, therefore, expected that a significant part of the literature has dealt with the topic of ET. However, this is not the case. Most of the literature has focused on the individual entrepreneur (Watson et al., 1995). This calls for research on the ET, determinants of ET effectiveness, and ET's impact on venture performance. This paper is a contribution to the field of entrepreneurship because it will: define ET, link ET to venture performance, and develop propositions on determinants of ET effectiveness for future research.

ENTREPRENEURIAL TEAMS

The research that has been done on ET has not established a definition of an ET, as with the case for top management teams (O'Reilly, et al., 1993). Hambrick (1994) discusses how the top management team is not a team per se but a group of people with management responsibilities. Robbins (1993:285) defines groups as, "Two or more individuals, interacting and interdependent, who have come together to achieve particular objectives." According to Cooper and Daily (1997), an ET is more than a group because it involves a shared commitment to the new venture, but they stop short of defining what "shared commitment" is. Katzenbach (1997) suggests that what must be shared is the accountability. Whereas Kamm et al. (1990) suggest that the "shared commitment" is equity or financial interest in the new venture by saying that an ET is two or more individuals who together establish a venture where they have equity interests. In 1993, Kamm and Nurick (1993) refined the definition of ET to two of more people who formally establish a new venture in which they share ownership.

Teams have been defined recently by Cohen and Bailey (1997) as a group of individuals who share interdependent tasks and outcomes for these tasks, and are also seen by themselves and others as a social unit. This definition is usable for the purpose of defining ET, especially when Eisenhardt and Schoonhoven's (1990) contribution in defining ET is considered: a group of people holding full-time executive positions at the time of founding. Building on all these perspectives, the following definition of ET is suggested and will be used for this paper.

An entrepreneurial team consists of two or more persons who have an interest, both financial and otherwise, in and commitment to the venture's future and success; whose work is interdependent in the pursuit of common goals and venture success; who are accountable to the entrepreneurial team and for the venture; who are considered to be at the executive level with executive responsibility in the early phases of the venture, including founding and pre-start up; and who are seen as a social entity by themselves and by others.

As this definition suggests, it is *not* necessary to be in the pre-start up or founding phases of the venture to be a part of the ET. It is possible for a person to be considered a part of the ET if the person is brought into the venture in the early phases to help establish the venture.

The definition also emphasizes interdependent tasks is the pursuit of common goals, etc. This does not mean that tasks have to be performed by all team members (Katzenbach, 1997). It means that tasks can be performed by individuals in the ET, in sub-groups of the ET (and with others outside the ET), or by the entire ET, but the tasks all contribute to the common goals of the ET and the future success of the venture. It is the tasks that are interdependent.

The definition also emphasizes that the ET should be seen by themselves and by others as a social entity. This means the ET is not formed based on titles or otherwise, but is formed based on a shared commitment to each other as participants in the ET and to the ET as an entity. This shared commitment will show itself in the venture performance.

ENTREPRENEURIAL TEAMS AND VENTURE PERFORMANCE

Performance measures have typically been in the form of accounting data, e.g., return on investment. Two significant problems exist with accounting measures, first, they are based on history and, second, they are not forward looking (Chakravarthy, 1986). Because accounting measures are based on history, they are not useful for new ventures that do not have a past. The history-based accounting measures cannot assist the ET in assessing if the (strategic) venture goals have been met and whether the venture has been successful.

Despite these two major problems with accounting based measures, the literature has used accounting measures to assess venture performance (e.g., O'Reilly et al., 1993), such as growth in revenues and profitability (Kamm et al., 1990; Chandler & Hanks, 1993). However, these measures assume that the goals of all ventures include revenue and profitability growth. Some ventures may have other goals, such as life-style ventures. Other researchers have used a measure based on failure, marginal survival, and growth (Cooper, Gimeno-Gascon, & Woo, 1994). This measure may be better. However it does not measure the success-rate of meeting the venture's performance targets, nor whether these are met on time. Also, the three-part measure, suggested by Cooper and associates, does not take into account that not all ventures are targeting growth, nor that the venture may be harvested. The shortcoming of the measures used in the literature does not truly indicate whether a venture has been successful or not. Also, the lack of consistency (Murphy, Trailer, & Hill, 1996) in measures used has added to the fragmented and contradicting results of venture research.

Despite the deficiencies in the measurement of venture performance, the literature has been able to consistently determine that the ET has a significant impact on venture performance (Cooper & Bruno, 1977; Kamm et al., 1990; Jackson, 1992; O'Reilly et al., 1993; Watson et al., 1995; Hambrick, Cho, & Chen, 1996; & Cooper & Daily, 1997). This explains why Hambrick and Mason (1984) contended that a venture is a reflection of its ET. This discussion leads to proposition one:

P1: *Venture performance is dependent on the entrepreneurial team's effectiveness.*

Proposition one suggests that venture performance is specific to the venture (Rumelt, 1991) and that the ET is of vital importance, indicating that performance at one organizational level affects the performance at higher organizational levels (Cohen & Bailey, 1997). Since the ET

affects the venture performance and the ET has little more than its members to establish the venture, set goals, and meet these goals, the ET effectiveness and, especially, what determines ET effectiveness need more consideration.

DETERMINANTS OF ENTREPRENEURIAL TEAM EFFECTIVENESS

The ET interprets and responds to the external environment, as well as manages the venture internally (Jackson, 1992; O'Reilly et al., 1993). This shows that the ET has a dual and complex function. The complexity is furthered by the fact that the creation of a venture is a novel and unstructured task (Jackson, 1992). Adding to this complexity is the lack of operating history, non-developed scanning capabilities, etc. because there is no precedence to rely upon (Cooper et al., 1994). These aspects place a need for diverse capabilities, skills, and knowledge on the ET. Therefore, the ET needs both heterogeneity in capabilities, skills, and knowledge, but also need homogeneity to be able to work together and be effective. The environment in which the ET has to operate becomes an aspect influencing its effectiveness because the environment may require resources, human or financial capital, the ET does not have. The ET's internal functioning, communication, composition, and conflict handling also become determinants of its effectiveness. How the ET handles and succeeds on the aforementioned ET-aspects determines the ET effectiveness and, ultimately, the venture performance. To assess ET effectiveness, each determinant will have to be examined, starting with the environment.

Environment. Rumelt (1991) found that success, in terms of performance, is business-level specific, not industry-level specific. This means that it is how the ET responds to and affects the environment that determines venture performance, and not that ventures created in a specific industry will outperform new ventures in other industries. Yet, the environment affects the team structure and, in turn, ventures' performance. As Hambrick (1994) reports, environmental jolts led to a reduction in tenure and changes in demographic composition due to replacements in the team. Because the ET and venture performance is linked, a change in the ET will also affect the venture performance.

The type of environment, stable or turbulent, affects the ET and venture performance. Murray (1989) argues that a venture with a heterogeneous ET-composition will experience lower venture performance in stable environments because the need for communication is greater in a heterogeneous ET and fast responses in the stable environment are essential for ET effectiveness. Glick et al. (1993) found that in turbulent environments, an ET with a heterogeneous composition was positively associated with performance in turbulent environments because the heterogeneous ET made more comprehensive decisions, which included considering more options. Similarly, Eisenhardt and Schoonhoven (1990) concluded that venture performance is partly due to the venture's present and founding environments.

Eisenhardt and Schoonhoven (1990) found that a growth market provides the combination of present market size and rapid increases in demand that is facilitative of venture growth due to the abundance of resources that could be generated in this kind of environment. They concluded that the founding environment and ET have a significant impact on venture performance. Surprisingly, Eisenhardt and Schoonhoven

(1990) also found that the effects of the founding environment did not fade over time, as Glick et al. (1993) found with ET heterogeneity, but the effects of the founding environment grew over time. Therefore, the founding environment is a vital factor in venture performance. This does not mean that the founding environment necessarily is an industry; it could be a niche. With these considerations in mind, proposition two is as follows:

P2: *Venture performance depends on the founding environment, not necessarily an industry, and on the match between the environment, stable or turbulent, and heterogeneity/homogeneity of the entrepreneurial team.*

As illustrated above, the environment can change the composition of the ET and affect the venture performance. The environment can also make it necessary for the ET to change the power structure within the ET.

Power and Politics. The environment may require the ET to shift the power structure, permanentely or temporarily (Follett, 1941). The shifting of power may run contrary to the motivations of some ET members who desire power for the sake of power (Timmons, 1994). These individuals will seek to concentrate power through the means of politics (e.g., restricting information) within the ET. Politics within the ET reduces its effectiveness and venture performance, because to further the political goal of achieving power, information will be restricted or will be intentionally misleading. Politics will consume a valuable and limited resource: time (Eisenhardt & Bourgeois, 1988). Therefore, proposition three and four are:

P3: *Shifting power (e.g., to make decisions within the entrepreneurial team based on the situation and/or task at hand) positively influences both entrepreneurial team effectiveness and venture performance.*

P4: *Politics within the entrepreneurial team, based on destructive motivations, will reduce entrepreneurial team effectiveness and venture performance*.

Together proposition three and four do not indicate that shifts in power lead to politics. This requires destructive motivations, such as seeking power for the purpose of having power (Eisenhardt & Bourgeois, 1988). Politics may be limited through the use of constructive communication processes.

Communication. Conflict is not the cause of politics, but the concentration of power is the cause of politics according to Eisenhardt and Bourgeois (1988). Conflict over strategic performance goals, or other significant issues, regarding the venture may provide the ET with an opportunity to communicate ET member expectations and decide on common goals that all ET members will work for. This way communication can enhance venture performance (Watson et al., 1995). Whereas, disagreement over strategic issues and lack of communication to settle these issues within the ET may lead to lowered venture performance (West & Meyer, 1998). Continued communication that is rich in nature, such as face-to-face communication, leads to integration of the ET, more comprehensive decisions, and facilitates coordination of the interdependent tasks of the ET and the venture (Glick et al., 1993; Hambrick, 1994), and, ultimately, results in better venture performance. Therefore, proposition five is:

P5: *Rich communication, both in quality and quantity, will enhance the entrepreneurial team effectiveness and, in turn, venture performance*.

The need for communication to 'iron out' differences in perspectives of the world (paradigms), interpretations, and expectations for the venture and ET participation depends on the degree of heterogeneity within the ET. For example, as Glick et al. (1993) points out, heterogeneity will decrease over time as the ET engages in the process of communicating to solve problems and thereby becoming a socially integrated unit. Smith, Smith, Olian, Sims, O'Bannon, & Scully (1994) suggest that as the ET becomes a socially integrated unit, it reacts faster and is more flexible, efficient, and effective because the ET, through supreme problem solving skills and communicated aspirations, can allocate time and energy to where it will have the most impact. Whereas, Hambrick (1994) and Hambrick et al. (1996) notice that homogeneity within the ET benefits the speed of decision-making but at the cost of actions of less magnitude as compared to a heterogeneous ET. Therefore, ET composition is an important determinant of venture performance.

Team Composition. The composition of the ET refers to the collective characteristics of its members (e.g., Banter & Jackson, 1989). ETs are most effective if they balance their skills, knowledge, and abilities as Cooper and Daily (1997) suggest. Heterogeneity in the ET's composition is needed for the ET to achieve a high level of effectiveness and venture performance.

The environment for a new venture may be considered turbulent, from the perspective of the ET, and the creation of the venture is a novel and discontinuous action. For situations that include novel problems or turbulent environment, heterogeneous team composition has been found to be superior in performance (Filley, House, & Kerr, 1976; Hambrick & Mason, 1984). Filley and associates (1976) also found teams that were homogeneous in composition were more efficient in dealing with routine tasks. This illustrates that the compositional effect of the ET is an important aspect of the ET effectiveness and venture performance.

The human characteristics that differentiate the team members from each other and create heterogeneous team have typically included demographic characteristics, such as tenure, age, functional and educational background, race, etc. (e.g., Bantel & Jackson, 1989). Despite the significant amount of the research on ETs that focus on demographic characteristics, it is only a part of ET heterogeneity. For example, Eisenhardt and Schoonhoven (1990) and Hambrick and D'Aveni (1992) linked team demography and organizational performance together via unmeasured psychological variables. This shows that ET-composition considerations need to include cognitive aspects and that the research based on demographic composition has been limited at best. Therefore, proposition six is:

P6: *An entrepreneurial team that is composed of people with a balance of demographic and cognitive heterogeneity and homogeneity that match the venture's development stage and its environment will achieve superior venture performance.*

Another aspect of ET composition is time and its affect on the team. As mentioned earlier, it was found that effects of diversity, especially for demographic characteristics, within the ET decreased over time as the ET engaged in lengthy discussions and solved disagreements and complex problems (Glick et al., 1993; Harrison, Price, & Bell, 1998). This may be beneficial to the venture as it develops and as tasks become routine which are more efficiently handled by

homogeneous ETs. However, the need for a heterogeneous ET may still be desired because the heterogeneous team can make more effective decisions. Therefore, a change in ET-composition may be desired, a mechanism that will make departure from the ET graceful is needed. Or, as Timmons (1994) and Kamm and Nurick (1993) suggest, two of the pitfalls of entrepreneurship are the failure to consider that the ET will change in composition over time and the lack of mechanisms to adjust the ET accordingly. These two pitfalls suggest that proposition seven should be as follows:

P7: *An entrepreneurial team that adjusts its demographic and cognitive composition according to the venture's needs, in terms of development stage and venture environment, will have enhanced venture performance*.

Demography. Diversity in the ET's composition may lead to some negative effects, such as increased time consumption to make decisions. However, most of the literature has established that heterogeneity in functional experience and educational background increase ventures performance because the ET makes more comprehensive decisions of strategic importance (e.g., Eisenhardt & Schoonhoven, 1990).

Some demographic characteristics have not been positively associated with performance. Race has not been established to have a significant impact of performance, but its related aspects, such as a limited network in an entrepreneurial environment or in an industry, may limit the probability for a successful venture (Cooper et al., 1994). Also, entrepreneurs having parents who were also entrepreneurs has not been associated with successful ventures, but has been associated with ventures that experienced marginal survival (Cooper et al., 1994). Demographic characteristics that had non-significant relationships with performance included: previous held management level of ET members, whether the ET member had experience in not-for-profit organizations or had not been in the labor force, and the ET's use of professional advisors to improve decision making (Cooper et al., 1994). This leaves only two demographic characteristics that significantly affect ET effectiveness and venture performance through diversity in perceptions of problems and the approaches to solving the problems at hand. These demographic characteristics are educational background and industry experience. Also as discussed earlier, the ET's ability to communicate effectively affects ET effectiveness (e.g., Glick et al., 1993). Based on this discussion, it is possible to develop proposition eight:

P8: *Entrepreneurial teams that have members with heterogeneous and complementary industry experiences and educational backgrounds and have (developed) effective communication within the team will be more effective and will enhance venture performance*.

Researchers have used demographic characteristics to assess ET cognitive heterogeneity (e.g., cognitive style or risk aversion), which is based on an assumption that demographic characteristics are proxies for psychological constructs (Hambrick 1994). Glick et al. (1993) and Harrison et al.'s (1998) found that the effect of demographic diversity was reduced over time, whereas the cognitive characteristics are sustainable and, therefore, not able to be approximated from demographic characteristics. Therefore, demographic diversity is independent of cognitive diversity. The use of demographic characteristics may have been based on ease

of use and collection, as suggested by Bantel & Jackson (1989) and Hambrick (1994).

Cognitive Characteristics. Cognitive heterogeneity refers to differences in how a person perceives the environment and what they are concerned with (Hambrick, 1994). Hurst, Rush, and White (1989) outline how and why cognitive diversity can increase team effectiveness. They follow Jung's four cognitive types and argue that the literature has only been concerned with two of Jung's cognitive types: thinking and sensing. They argue that by limiting research to these two cognitive types only, research cannot accurately assess team effectiveness and that the four cognitive styles are stable over time, in contrast to demographic characteristics as argued by Glick et al. (1993) and by Harrison et al. (1998).

The four cognitive styles are present in all human beings but one style is dominant (Hurst et al., 1989). The four types are intuition, feeling, thinking, and sensation. First, the intuition style is concerned with possibilities, patterns, and ideas. Second, the feeling type is focused on people and values. Third, the thinker is interested in cause and effect relationships. Fourth, the sensation type is concerned with activities.

Hurst and associates (1989) argue that a team without each one of the four types will not function effectively. The reason for this inability for the ET is based on the process of creating a venture. The venture creation goes through a process of *imaging* the venture, motivation is created to pursue the idea of a new venture, *planning* of the venture, *implementing* the venture creation, *evaluating* the performance, and *assessing* the (personal) satisfaction with the venture experience (Hurst et al., 1989). It is the intuition that sparks the idea of creating the venture: the conceptual development. The feeling part involves motivating people and assessing the values needed for the venture. The planning takes over from the intuition and feeling by transforming, through thinking, the concept and values into objectives for the venture and creating a strategy to achieve these objectives. The strategies, through the sensing, create activities, or more commonly known as tasks, that call for action and later results. The results are evaluated in the thinking style, and the feeling of personal satisfaction and achievement with the venture creation is assessed and cognitively realized in the intuition mode (Hurst et al., 1989). This suggests that the true entrepreneurial behavior exists in the intuition and feeling types because the thinking and sensing types are typical of non-entrepreneurial management. It is the prospecting (Miles & Snow, 1978) that sets entrepreneurs apart from traditional managers, who lack the intuition and feeling aspects due to their training and education. Based on this need for all four cognitive types in the ET, proposition nine is as follows:

P9: *Entrepreneurial teams that have representation of all four of Jung's cognitive styles will be more effective and will achieve higher performance than entrepreneurial teams that have any deficiency in the representation of the four cognitive styles*.

This implies that cognitive diversity is a vital part of ET effectiveness and venture performance. Through cognitive conflict, the ET can develop more comprehensive decisions based on richer information and perceptions, gain a better understanding of the problems, and develop more options for actions (Eisenhardt, Kahwajy, & Bourgeois, 1997). This also requires that power and politics, as well as affective conflict (personal attacks) to be limited (Amason &

Sapienza, 1997). Therefore, proposition ten is:

P10: *Entrepreneurial teams who engage in cognitive conflict and avoid affective conflict will experience superior effectiveness and venture performance*.

Constructive conflict, and especially affective conflict, takes time to resolve making a venture less efficient, this is why heterogeneity is a double-edged sword (Hambrick et al., 1996).

Conflict. As proposition ten suggests, there are both constructive and destructive conflict arising from diversity. This implies that diversity should be limited. However, homogeneity, both cognitive and demographic, has some serious consequences that may impair the ET and may lead to an undesired termination of the venture. Without conflict and challenges of ET members' perception, the ET may experience "groupthink" (Janis, 1972). The groupthink will unconsensiously limit the range of options for the ET and limit information processing of the ET (Eisenhardt & Schoonhoven, 1990; Finkelstein & Hambrick, 1990). Despite this aversion of homogeneity in the ET, some homogeneity must exist for the ET to be able to function. It is an aversion of too much homogeneity that is the issue. Heterogeneity leads to conflict that takes time, making the ET slower in responding and less efficient (O'Reilly et al., 1993; Hambrick et al., 1996). Yet, several researchers have emphasized that heterogeneity is vital to ET effectiveness (Eisenhardt & Schoonhoven, 1990; Bantel & Jackson, 1989; Cooper & Daily, 1997). This means that cognitive conflict in the ET is an essential determinant of venture performance.

SUMMARY AND FUTURE RESEARCH

This paper has developed a more comprehensive definition of an entrepreneurial team than what exists in the literature. Based on the definition of entrepreneurial teams; ten propositions were proposed with each proposition focused on entrepreneurial team effectiveness. The first proposition associated entrepreneurial team effectiveness with venture performance. In this relation, a short discussion of how to measure performance was obtained concluding that the currently used measures are not sufficient.

Propositions two through ten suggested how determinants of entrepreneurial team effectiveness affect the entrepreneurial team effectiveness, and in some cases also directly affect venture performance. In the pursuit of the later propositions, this paper identified that the current literature has assumed that demographic characteristics can accurately measure psychological constructs. The paper suggests a departure from this path and that psychological constructs, such as cognitive styles based on Jung's work, are used. This will more accurately describe the determinants of entrepreneurial team effectiveness and venture performance in addition to the two demographic characteristics of industry experience and educational background. Also, the composition of the entrepreneurial team's characteristics is suggested to be of importance to the entrepreneurial team's effectiveness both in terms of heterogeneity and homogeneity.

The paper indirectly suggests potential fruitful venues for future research. Considering the paper's suggestion of use Jung's four cognitive styles to identify and form an optimal performing ET, it also seems appropriate to study how team

personality affects ET effectiveness, and if an optimal combination of personality traits for an ET can be identified. With this in mind, it seems appropriate to investigate and develop measures for ET effectiveness and/or venture performance that actually measure what entrepreneurs' consider to be indicators of ET effectiveness and venture performance, instead of the present, imposed, performance measures that are based on history. Another fruitful venue for research would be to study how environmental factors affect the ET, its composition and potential need for compositional change, its effectiveness and venture performance over time. Also, does the founding environment have a lasting effect on the venture over time, as Eisenhardt and Schoonhoven (1990) suggest, especially when the ET's own performance targets are considered?

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