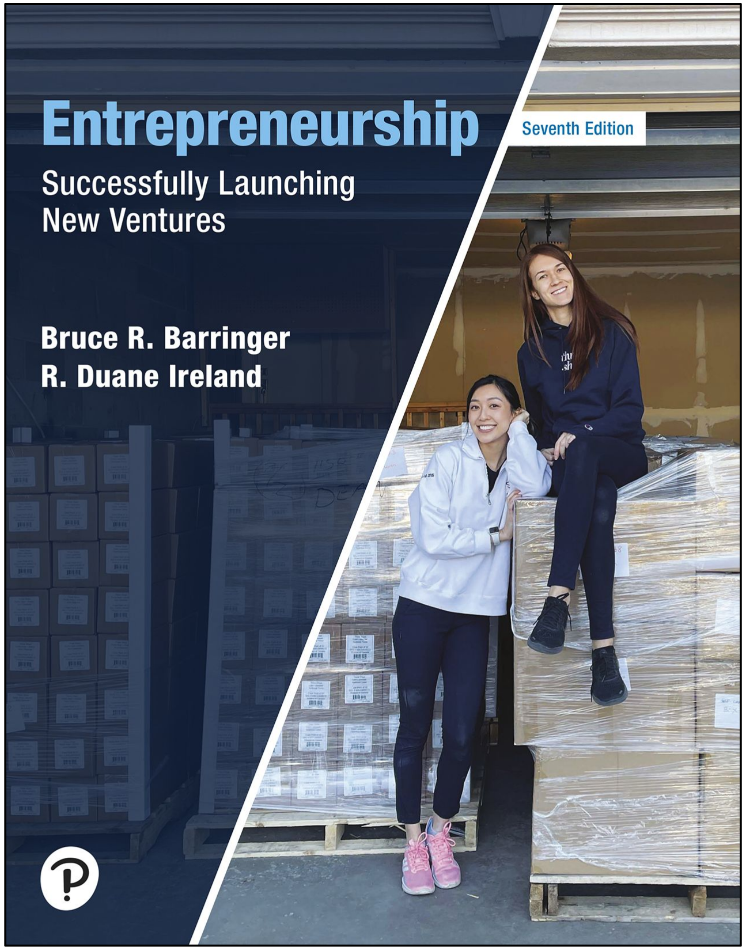
Entrepreneurship: Successfully Launching New Ventures

Seventh Edition



Chapter 9

Building a New-Venture Team

Learning Objectives

9.1 Explain the concept called **liability of newness.**

9.2 Describe a new-venture team and discuss the primary elements that form such a team.

9.3 Identify professional advisers and explain their role in a new-venture team.

9.4 Explain why a new-venture team might use consultants to obtain 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.

9.1 Liability of Newness as a Challenge

- New ventures have a high propensity to fail.
- The high failure rate is due in part to the liability 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.

9.2 Creating a New-Venture Team

- A well conceived business plan, one that flows from the business model the firm established previously, cannot get off the ground unless a firm has the leaders and personnel to carry it out.
- The way a founder builds a new-venture team sends an important signal to potential investors, partners, and employees.
- In general, the way to impress potential investors, partners, and employees is to assemble as strong a team as possible.

Figure 9.1 Elements of a New-Venture Team

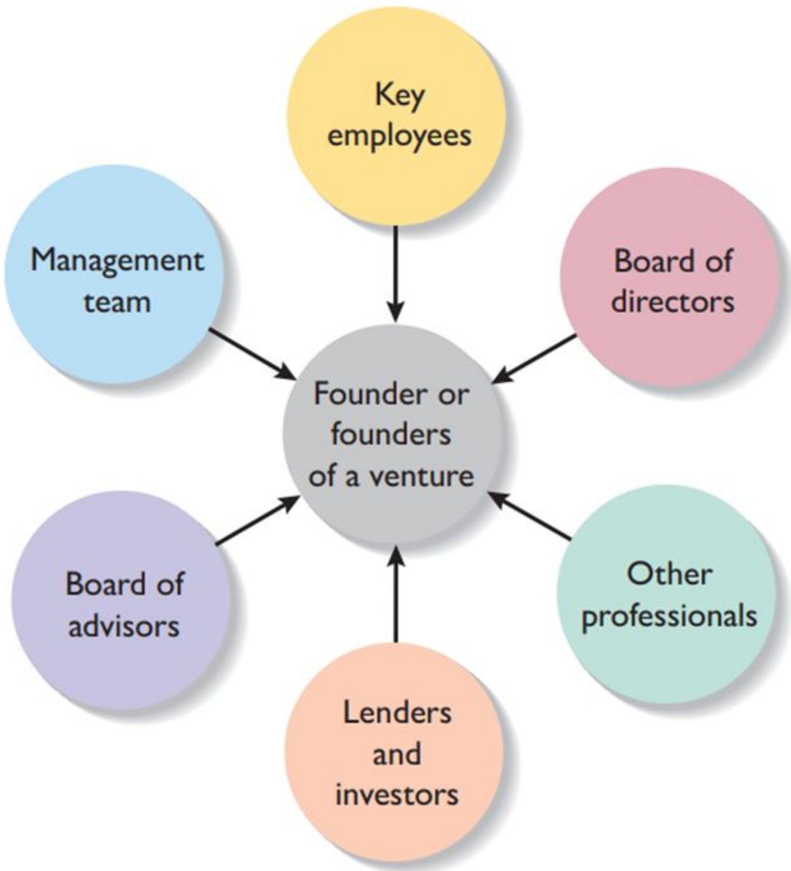


Table 9.1 Common Mistakes Made When Assembling a New-Venture Team (1 of 2)

- Placing unqualified friends or family members in management positions.
- Assuming that previous success in other industries translates automatically to your venture’s industry.
- Presenting a “one-person team” philosophy—meaning that one person (or a small group of people) wears all hats with no plans to bolster the team.
- Hiring top managers without sharing ownership in the firm.

Table 9.1 Common Mistakes Made When Assembling a New-Venture Team (2 of 2)

- Not disclosing or talking dismissively of management team skill or competency gaps.
- Vague or unclear plans for filling a firm's skill or competency gaps.

The Founder or Founders of a Venture (1 of 3)

- 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.

The Founder or Founders of a Venture (2 of 3)

- Size of the Founding Team (continued)
  - Teams bring more talent, resources, and ideas to a new venture.
  - The psychological support that the cofounders of a business can offer one another can be an important element of a new venture's success.
  - 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.

The Founder or Founders of a Venture (3 of 3)

- Size of the Founding Team (continued)
  - Teams that have worked together before, as opposed to teams that are working together for the first time, have an edge.
  - Teams with members who 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, can be beneficial.
  - The team is not too big.
    - A founding team can be too big, causing communications problems and an increased potential for conflict.
    - The sweet spot is two to three founders.

Table 9.2 Preferred Attributes of the Founder(s) of an Entrepreneurial Venture

Attribute	Explanation
Firm started by a team	New ventures that a team starts can provide greater resources, a broader diversity of viewpoints, and a broader array of other positive attributes compared to ventures that individuals start.
Higher education	Evidence suggests that higher educational experiences enhance value-creating entrepreneurial skills.
Prior entrepreneurial experience	Founders with prior entrepreneurial experience are familiar with the entrepreneurial process and are more likely to avoid costly mistakes than founders new to the rigors of the entrepreneurial process.
Relevant industry experience	Founders with experience in the same industry as their new venture most likely have better-established professional networks and more applicable marketing and management expertise than founders without relevant industry experience.
Broad social and professional network	Founders with broad social and professional networks have potential access to additional know-how, capital, and customer referrals.

The Management Team and Key Employees

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

Figure 9.2 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

Table 9.3 Sources of Labor for New Ventures (1 of 2)

- Full-or Part-time Employee
  - Someone who works for a business, in person or remotely, utilizing the business’s tools and equipment and according to the business’s policies and procedures.
- Intern
  - A person who works for a business as an apprentice or trainee to obtain practical experience.

Table 9.3 Sources of Labor for New Ventures (2 of 2)

- 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 several clients.
- Virtual Assistant
  - A freelancer who provides administrative, technical, or creative assistance to clients remotely, often from a home office.

The Roles of the Board of Directors (1 of 3)

- 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 Directors (2 of 3)

- 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.

The Roles of the Board of Directors (3 of 3)

- Provide Expert Guidance
  - Although a board of directors has formal governance responsibilities, its most useful role is to provide guidance to and support for the firm’s managers.
- Lend Legitimacy
  - Well-known and respected board members bring instant credibility to a firm.
  - Investors like to see new-venture teams, including the board of directors, that have people with sufficient clout to get their foot in the door with potential suppliers and customers.
  - Board members are also often instrumental in helping young firms arrange financing or funding.

9.3 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
  - An advisory board 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)

- 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
  - 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.
  - 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 nonemployee 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.

Table 9.5 Beyond Financing and Funding: Ways Lenders and Investors Add Value to an Entrepreneurial Venture (1 of 2)

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

Table 9.5 Beyond Financing and Funding: Ways Lenders and Investors Add Value to an Entrepreneurial Venture (2 of 2)

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

9.4 Other Professionals

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

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