

Entrepreneurial teams

TUM School of Management

Entrepreneurship Research Institute

Prof. Dr. Dr. Holger Patzelt



like us on
facebook



In this session you will learn:

- Why being different and being similar at the same time is good for entrepreneurial team members
- When it is good or bad to found with your friends
- What is the first key decision for entrepreneurial teams and why it is so important
- How entrepreneurs can protect themselves from free-riding team members

Definition of an entrepreneurial team

- At least two individuals
- Active part in the creation and development of a business
- Key role in strategic decisions
- Equity ownership (usually more than 10%)

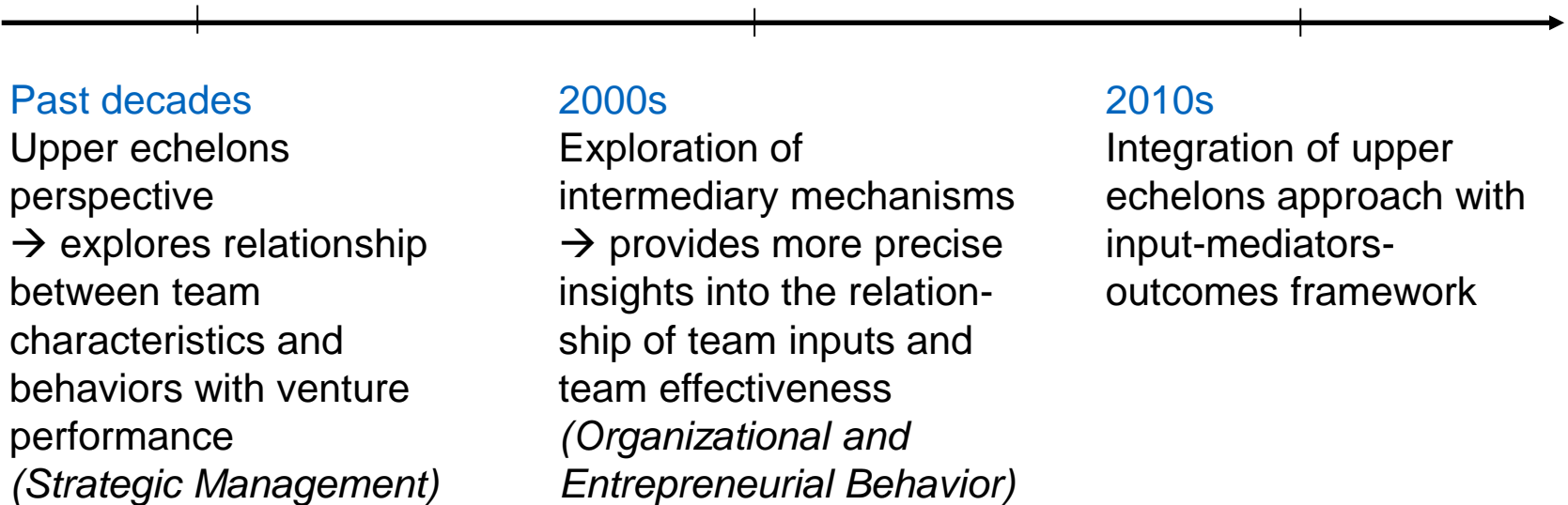


Why do entrepreneurial teams matter?

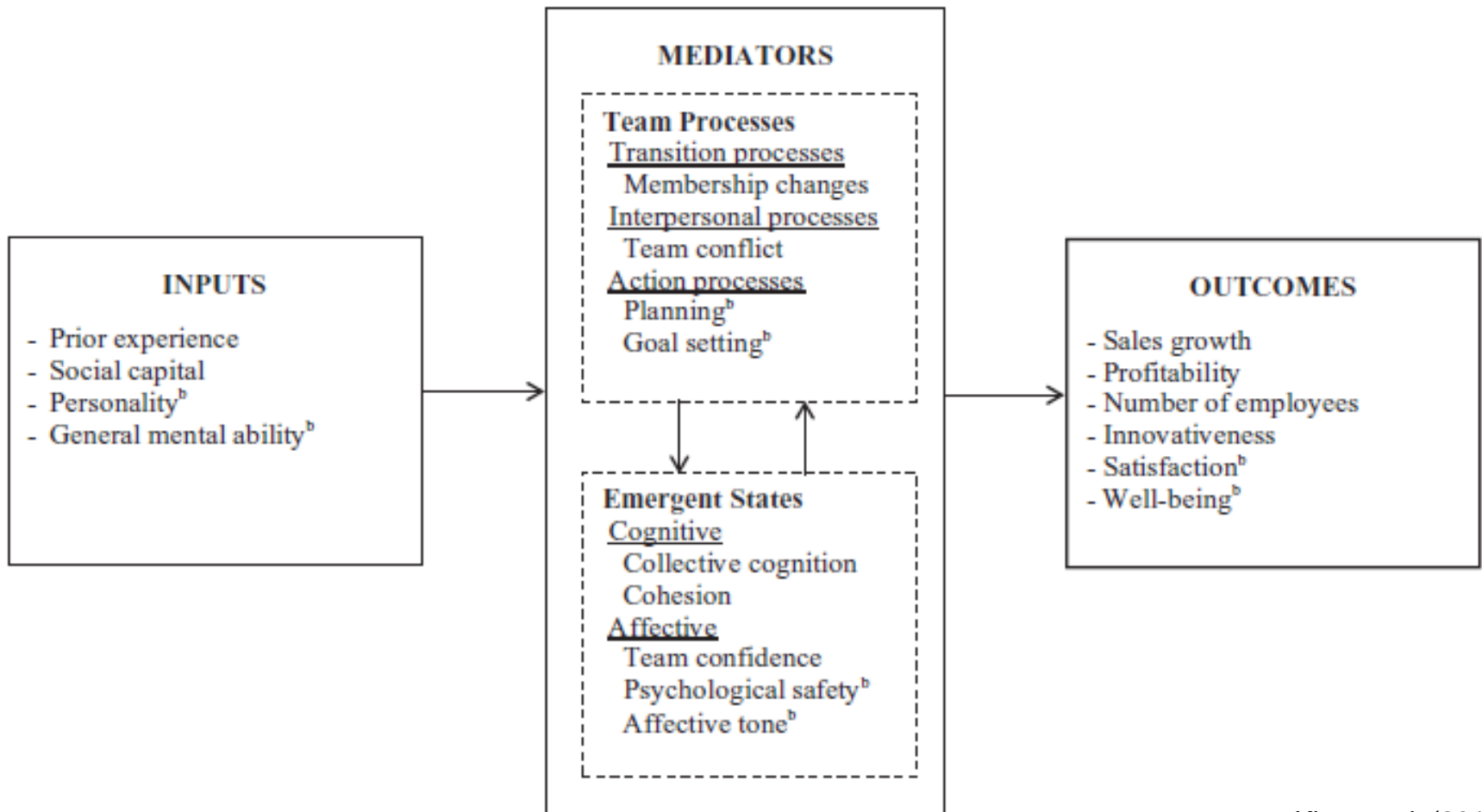
- More than two-thirds of innovative new ventures in Germany are started by teams (Ripsas & Tröger, 2015)
- What knowledge and skills do you need?
 - regulatory and legal know-how
 - management know-how
 - finance and controlling know-how
 - marketing know-how
 - industry know-how
 - technological know-how



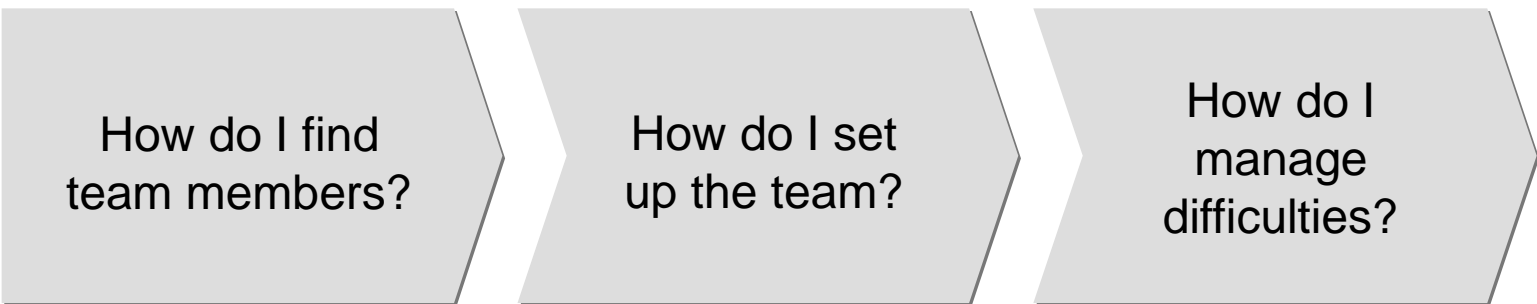
What do we know about entrepreneurial teams?



Examples in Input-Mediator-Outcome framework of entrepreneurial teams



Key questions for building entrepreneurial success teams



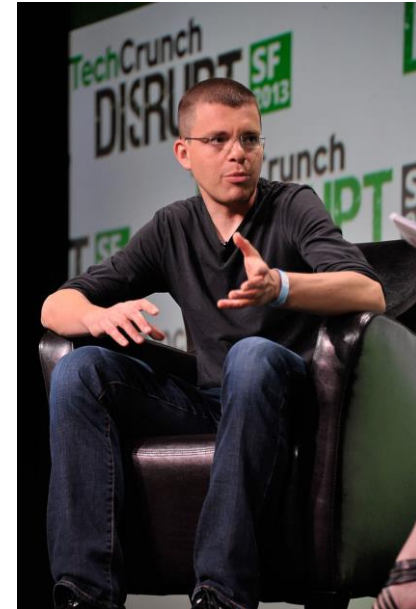
How do I find
team members?

How do I set
up the team?

How do I
manage
difficulties?

Your task (15 min):

- Prepare yourself for taking notes
- Listen to the podcast following the link provided on Moodle, in particular the part from 12:00 to 22:00 minutes
- Try to answer the following questions:
 - How would you describe Max Levchin's leadership approach?
 - What key issues does he mention as important to have a functioning team?
 - What metaphor does he use for working in an entrepreneurial team?



Leading entrepreneurial teams

- Entrepreneurs have to learn and adapt
- Leading by example
- Empathy
- Transfer of responsibility and empowerment
- Ownership
- Believe in people, seek inspirational team mates
- Be honest & learn from failures as a team

Intense emotions and a lot at stake – like a romantic relationship

Dating

Routines

Honeymoon

Quality time

Moving in

Conflicts

Prenup

Growing the family?

Divorce?

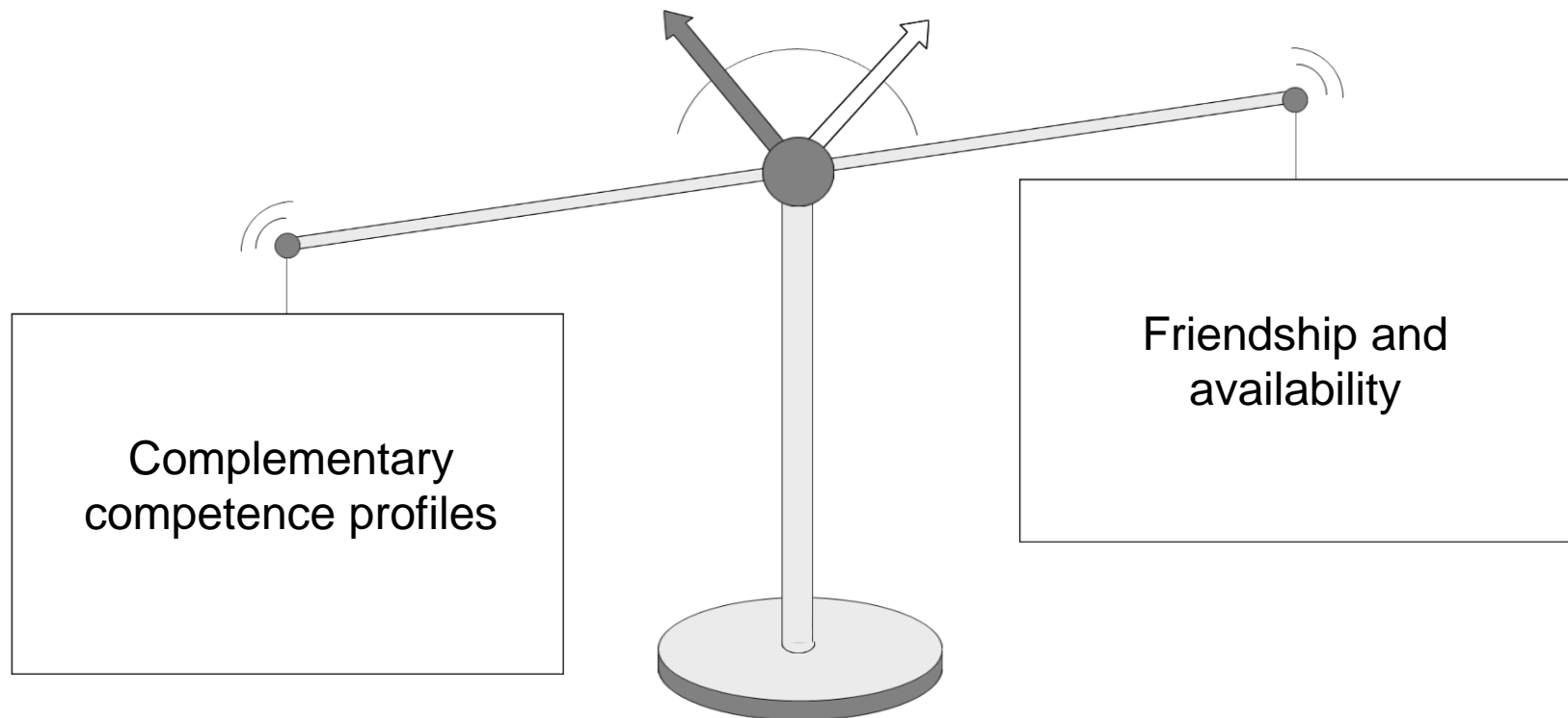
Team composition – All the same or different?



!

Heterogeneity of competences is often beneficial.
But homogeneity in values and vision is crucial!

Skill profiles vs. personal relationships



Teams based on weak ties

Benefits

Enjoy flexibility in search for potential partners.

Maximize your team's human capital.

Challenges

Make sure to understand others' values and vision.

Define your relationship and potential transformations.

Discuss rules and roles to establish fairness and trust.

Think about introducing certain rituals and routines.

Team charter can help to build up team!

Hunsaker, Pavetta, & Hunsaker (2011); Mathieu & Rapp (2009)

Teams based on strong ties

Benefits

Enjoy that you avoid one type of uncertainty (relational uncertainty).

Build on joint values, connect them to your firm values, and your firm's culture.

Challenges

Learn to have fights (distinguish between relationship and task conflict).

Speak early about potential changes in team composition.

Reflect about old and new roles.

Make sure to include others, such as future team members, employees.

Team charter can help to professionalize relationships!

Team charter building blocks

Part 1: Laying the foundations

- What are your preferred work times, styles, ways of communication?
- What are your individual business-related strengths and weaknesses?

Part 2: Team roles and expectations

- What are your goals and visions?
- What is high/ low performance for you?
Who will be responsible for what activities?
Who takes care of general/ less comfortable tasks?
- How do you want to represent firm to the outside?
- Should there be a leader? Who?

Part 3: Contributions and rewards

- Who contributed what?
- How do you measure contributions (if you want to measure contributions)?
- How do you ensure expected contributions?
- How can team members be rewarded and sanctioned?

Part 4: Future development

- How could you build up or integrate new competencies?
- How would you like to work with investors?
- How could you “break up?”
- When and how should the charter be reviewed?

Equity distribution in entrepreneurial teams

- In an entrepreneurial team, the distribution of equity is the entrepreneurs' "first deal" (Hellmann & Wasserman, in press)
- Typically, teams split quickly and agree on an equal split without longer discussions
- Negotiations about equity are often emotional and even stressful
- Besides money, power, and control in the venture are crucial issues

Your task (10 min)

Imagine the following situation and either alone or in a team try to come up with a suggestion how the venture's equity should be distributed within the entrepreneurial team.

1. Two founders have jointly developed their business idea and are about to register their company.
2. Entrepreneur A has developed an idea and B joins the firm to realize it.
3. Entrepreneur A is a novice (first-time) entrepreneur, while B is a serial entrepreneur who quits her previous venture to work for the start-up.
4. Entrepreneur A wants to invest more time in his family, while B wants to work full-time.

Criteria for the equity split

Backwards orientation

- Idea premium
- Capital contribution
- Opportunity costs

More certainty about contributions (but not necessarily agreement).

Forwards orientation

- Prior experiences, e.g. entrepreneurial or industry experience
- Level of commitment
- Titles

“when the pie is split, 95% of the work required for success remains in the future.”

(Wasserman, 2012, p. 155)

Timing of the equity split

Split earlier

- Attract team members with an equity incentive
- Previous work experience with co-founders in another start-up
- Time for calm negotiation before pressure to split

Split later

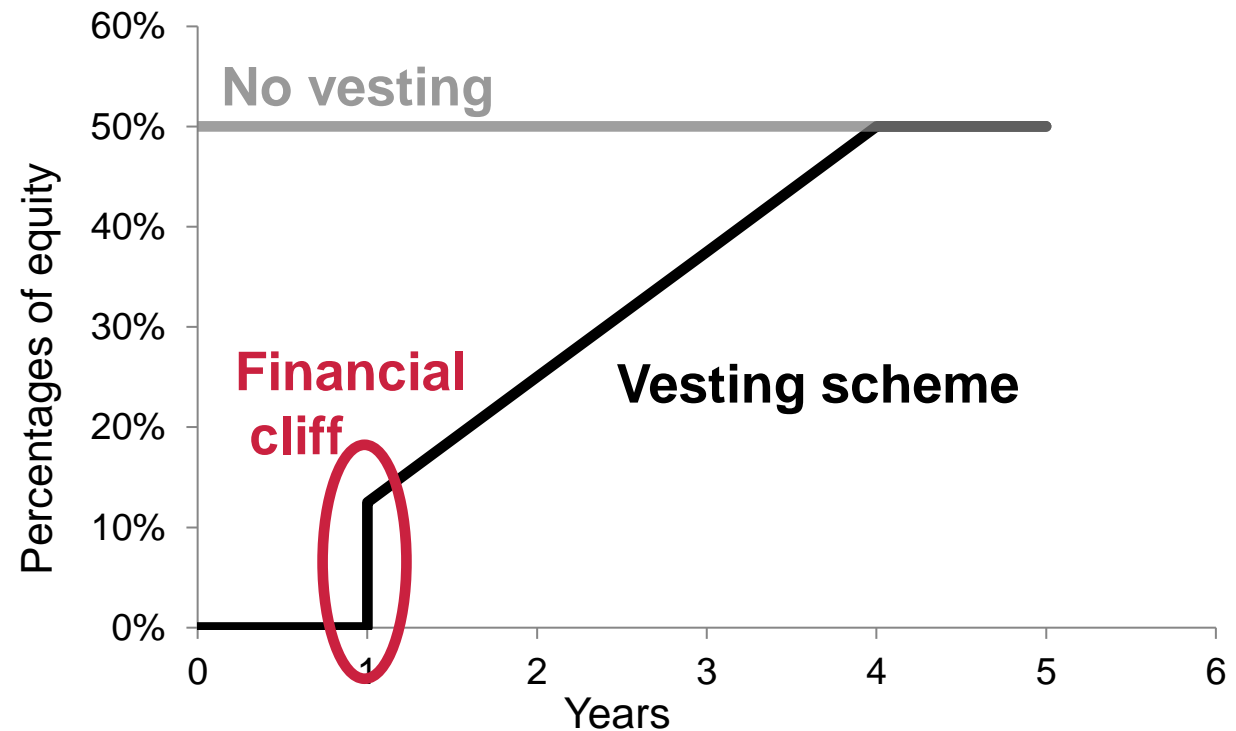
- Team members' contributions and commitment not clear in the beginning
- Future incentives are available
- Business model and roles will form over time
- No renegotiations are necessary after fundamental changes

Static vs. dynamic equity splits

- Uncertainty and changes in team members' contributions.
- Vesting can help to keep equity split fair over time because founders need to earn equity stakes
 - Based on time
 - Based on milestones
- Advantages if team members leave early (unvested portion can be reallocated)
- Not perfect, but protection for all team members

Vesting model for dynamic equity splits

- One founder in a team of two
- Equal split
- Total time period: 4 years
- Financial cliff after 1 year



Conflicts in entrepreneurial teams

Two views about consequences:

Conflicts reduce trust, cooperation, and venture performance

Conflicts increase exchange of ideas, decision quality, and venture performance

Differences in content:

Interpersonal incompatibilities, including tension, animosity, and annoyance among team members

Disagreements about the content of the team tasks, including differences in viewpoints, ideas, and opinions

Distinction:

Relationship conflict


Task conflict

But: Task conflicts can turn into relationship conflicts!

Managing conflict in entrepreneurial teams

- Take breaks during discussions to avoid annoyances and escalations
- Introduce some team rules (you might need to adapt them over time)
- Practice rules when you discuss “easy” topics
- Get to know your fellow team members’ attitudes and make sure to understand their goals, values, and visions
- Reflect on your own behavior and your team members’ behavior to develop a better understanding
- Give regular feedback on your observations
- Ask coaches/ mentors / outsiders for (neutral) support as soon as possible

Effective team communication



Constructive communication can help prevent relationship conflicts, by allowing task conflict.

Constructive

- Is considerate
- Doesn't threaten
- Is timely
- Doesn't blame
- Is specific
- Focuses on performance
- Offers concrete suggestions for improvement

Destructive

- Is harsh
- Contains threats
- Is not timely
- Blames
- Is not specific
- Focuses on recipient
- Offers no concrete ideas for improvement

Team Canvas









Version 0.8 | theteamcanvas.com | hello@theteamcanvas.com



Most important things to talk about in the team to make sure your work as a group is productive, happy and stress-free

Team name

Date

PEOPLE & ROLES  What are our names and the roles we have in the team? What are we called as a team?	COMMON GOALS  What you as a group really want to achieve? What is our key goal that is feasible, measurable and time-bounded? PERSONAL GOALS  What are our individual personal goals? Are there personal agendas that we want to open up?	VALUES  What do we stand for? What are guiding principles? What are our common values that we want to be at the core of our team? NEEDS & EXPECTATIONS  What each one of us needs to be successful? What are our personal needs towards the team to be at our best?	RULES & ACTIVITIES  What are the rules we want to introduce after doing this session? How do we communicate and keep everyone up to date? How do we make decisions? How do we execute and evaluate what we do?
STRENGTHS & ASSETS  What are the skills we have in the team that will help us achieve our goals? What are interpersonal/soft skills that we have? What are we good at, individually and as a team?		WEAKNESSES & RISKS  What are the weaknesses we have, individually and as a team? What our teammates should know about us? What are some obstacles we see ahead us that we are likely to face?	

Team Canvas by theteamcanvas.com. Created by Alexey Ivanov, Dmitry Voloshchuk
 Team Canvas is inspired by Business Model Canvas by Strategyzer.

This work is licensed under the Creative Commons Attribution-Share Alike 4.0.
 To view a copy of this license, visit: <http://creativecommons.org/licenses/by-sa/4.0/>



Session summary

- Entrepreneurial teams and their internal processes are a key determinant for the success of any venture
- Entrepreneurs must balance the emphasis on team member competence with an emphasis on founding with those whom they know
- Equity distribution is a difficult but important decision for entrepreneurial teams
- Managing conflict is important to keep the team functioning

References from the class

- Amason, A. C. (1996). Distinguishing the effect of functional and dysfunctional conflict on strategic decision making: Resolving a paradox for top management teams. *Academy of Management Journal*, 39, 123-148.
- Breugst, N., Patzelt, H., & Rathgeber, P. (2015). How should we divide the pie? Equity distribution and its impact on entrepreneurial teams. *Journal of Business Venturing*, 30(1), 66-94.
- Breugst, N., & Shepherd, D. A. (in press). If you fight with me, I'll get mad! A social model of entrepreneurial affect. *Entrepreneurship Theory and Practice*. doi:10.1111/etap.12211
- de Wit, F. R. C., Greer, L. L., & Jehn, K. A. (2012). The paradox of intragroup conflict: A meta-analysis. *Journal of Applied Psychology*, 97(2), 360-390.
- Eisenhardt, K. M., Kahwajy, J. L., & Bourgeois, L. J., III. (1997). How management teams can have a good fight. *Harvard Business Review*, 75(4), 77-85.
- Forbes, D. P., Korsgaard, M. A., & Sapienza, H. J. (2010). Financing decisions as a source of conflict in venture boards. *Journal of Business Venturing*, 25(6), 579-592.
- Hellmann, T., & Wasserman, N. (in press). The first deal: The division of founder equity in new ventures. *Management Science*. doi:doi:10.1287/mnsc.2016.2474
- Hunsaker, P., Pavett, C., & Hunsaker, J. (2011). Increasing student-learning team effectiveness with team charters. *Journal of Education for Business*, 86(3), 127-139.
- Jehn, K. A. (1995). A multimethod examination of the benefits and detriments of intragroup conflict. *Administrative Science Quarterly*, 40, 256-282.
- Jehn, K. A. (1997). Affective and cognitive conflict in work groups: Increasing performance through value-based intragroup conflict. In C. K. W. De Dreu & E. Van de Vliert (Eds.), *Using conflict in organizations* (pp. 87-100). Thousand Oaks, CA: Sage Publications.
- Joni, S.-n. A., & Beyer, D. (2009). How to pick a good fight. *Harvard Business Review*, 87(12), 48-57.
- Klotz, A. C., Hmieleski, K. M., Bradley, B. H., & Busenitz, L. W. 2014. New venture teams a review of the literature and roadmap for future research. *Journal of Management*, 40(1): 226-255.
- Mathieu, J. E., & Rapp, T. L. (2009). Laying the foundation for successful team performance trajectories: The roles of team charters and performance strategies. *Journal of Applied Psychology*, 94(1), 90-103.
- Ripsas, S., & Tröger, S. (2015). *Deutscher Start-up Monitor 2015*. Retrieved from http://deutscherstartupmonitor.de/fileadmin/dsm/dsm-15/studie_dsm_2015.pdf
- Wasserman, N. (2012). *Founder's dilemmas: Anticipating and avoiding the pitfalls that can sink a startup*. Princeton: Princeton University Press.