

Cambridge Judge Business School

The entrepreneurial team

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‘In individuals madness is a rarity,
but in groups...it is the rule’

Nietzsche



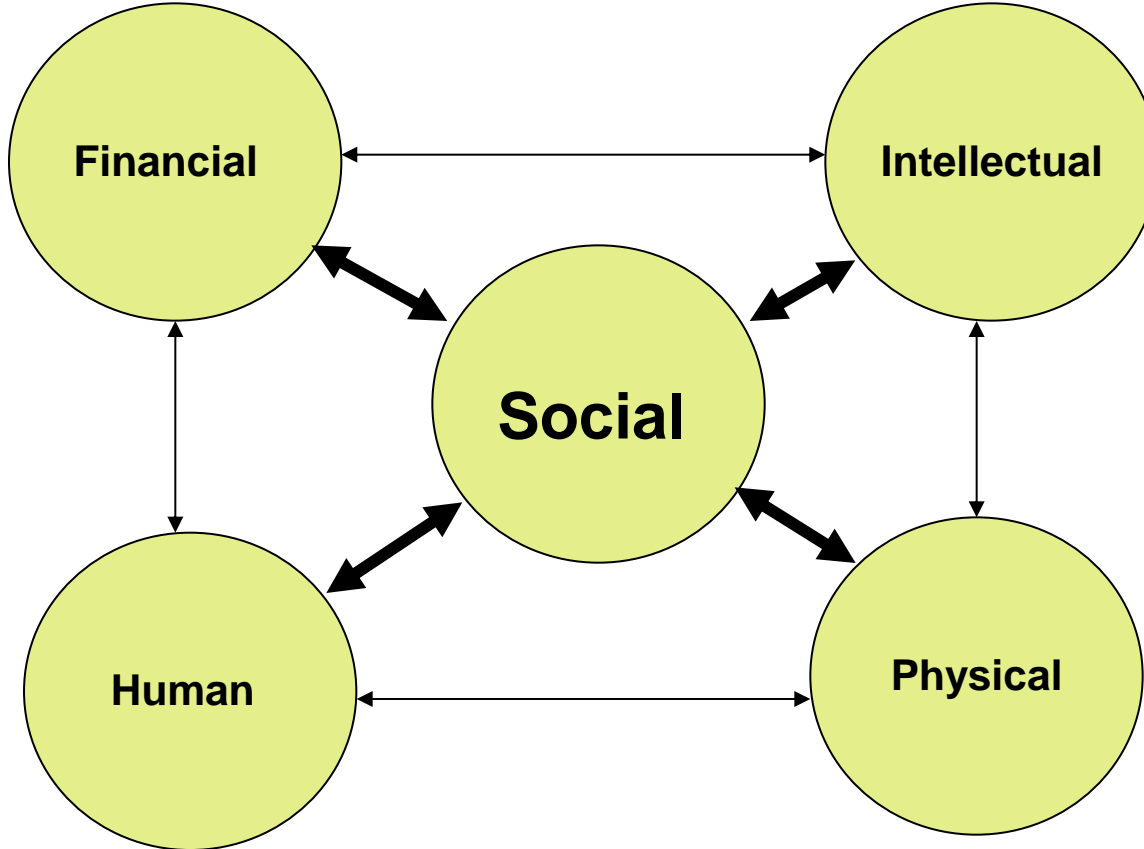
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In this session:

- The role of social capital
- The core competences of entrepreneurial teams
- Recruiting and selecting team members
- Dividing founders' equity
- What goes wrong...?

The Resource Acquisition Framework

Equity
Debt
Grants
Sales revenue
'Love money'



Patents and IPR
Trade secrets
Know-how

Founders
Board of Directors
Advisory board
Employees
Contractors
Professionals
Government and institutional

Generalised assets
•Offices
•IT & related equipment
•Vehicles

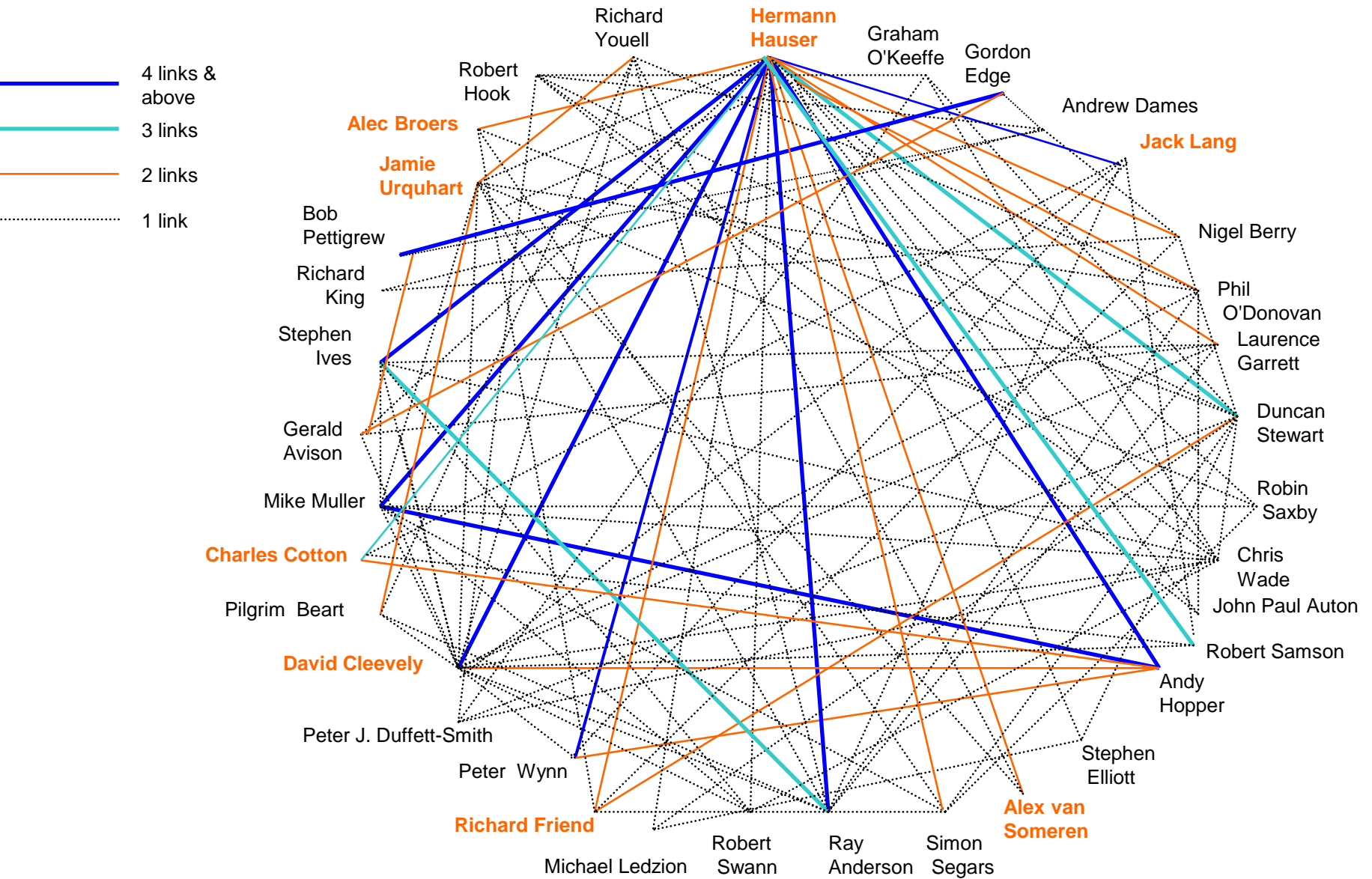
Specialised assets
•Production facilities
•Bespoke equipment & software

The power of social capital

“The majority of high technology companies that have shaped the success of Cambridge cluster are connected to a handful of serial entrepreneurs, business angels and venture capitalists”

Myint 2005

Structural and relational social capital in the Cambridge hi-tech cluster



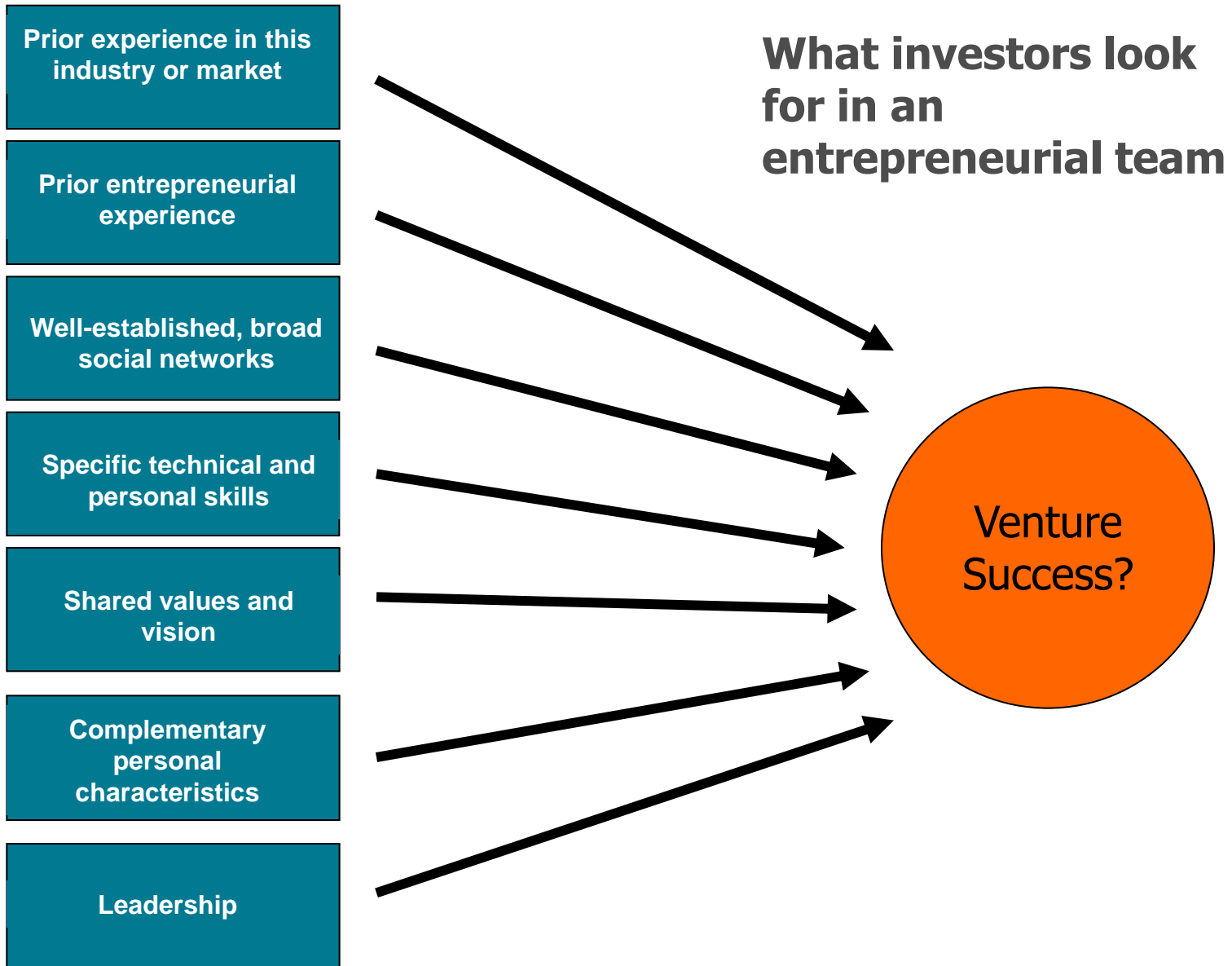
Social Capital and Social Competence

- **Social capital** (network and reputation) gains access to the right people but **social competence** determines the outcome...
- **Social competence:**
 - Accuracy in perceiving others
 - Persuasiveness
 - “Impression management”
- **Accuracy in perceiving others** positively correlated with **financial success** of entrepreneurs

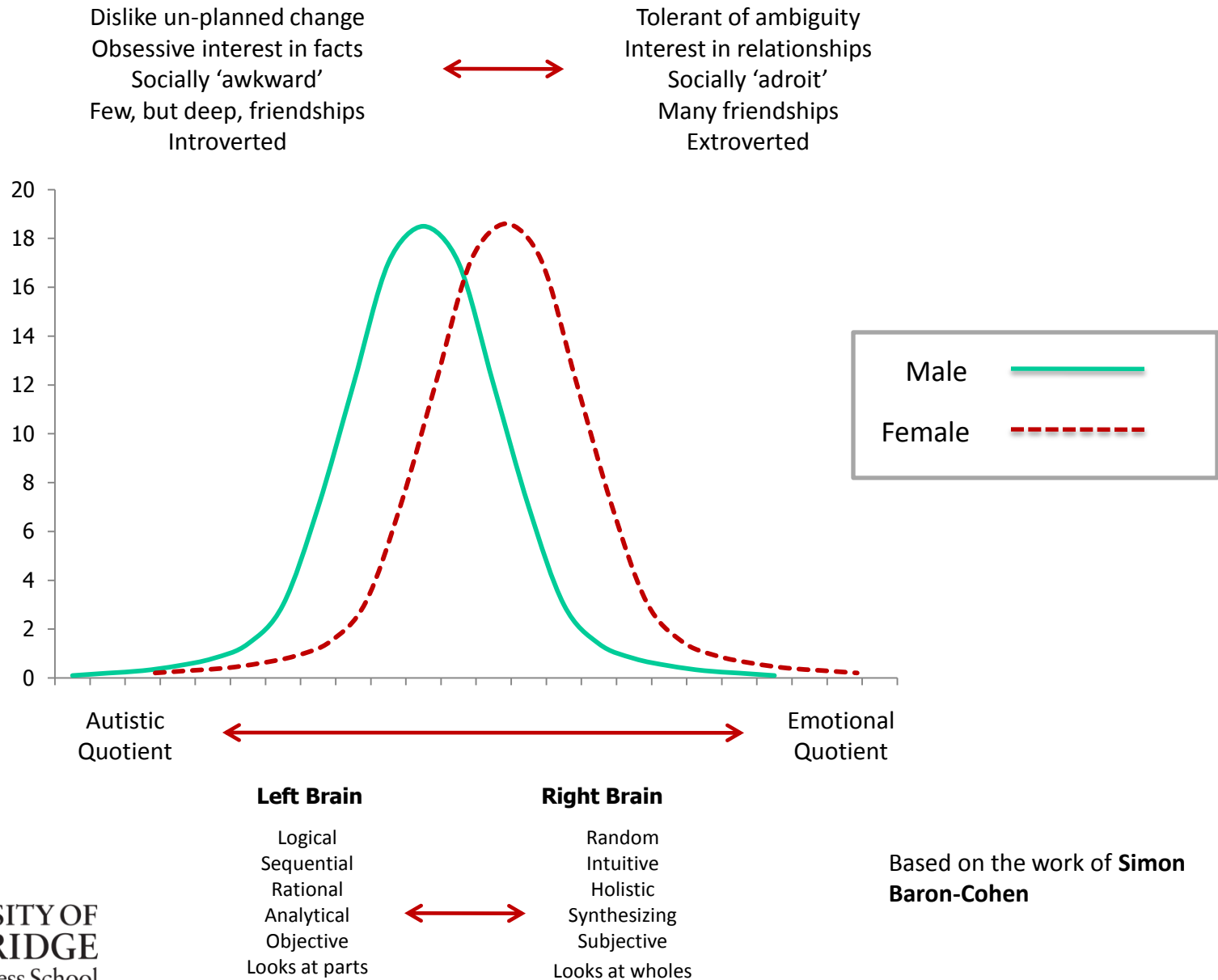
Social skills matter!

Most high potential new ventures require a team

- Almost impossible to raise formal equity without a team
- Alone, you won't have enough time!
- Mix/depth of functional skills
- Diversity of perspectives – superior decision making(?)
- Management of complexity
- Contribution to your capital mix
- Social and psychological support

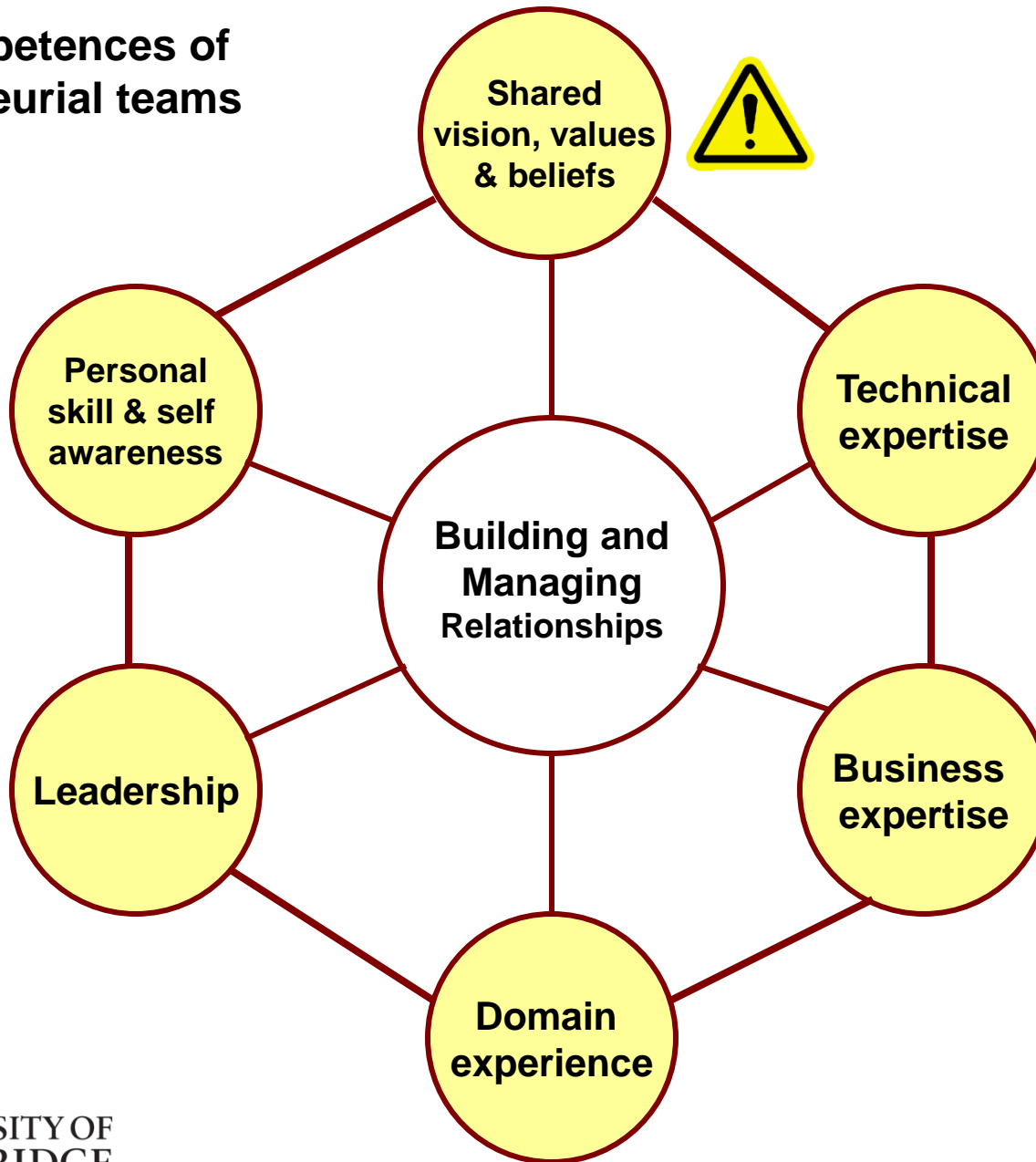


Human behaviour and the AQ-EQ spectrum



Based on the work of **Simon Baron-Cohen**

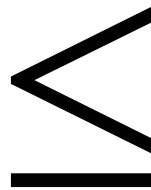
Core competences of entrepreneurial teams



Inducements - Persuading people to join the team

Barriers

- Family responsibilities
- Commitment to career
- Current financial commitments
- Attitude towards uncertainty
- Fear of failure
- Fear of financial loss



Material rewards:

- ✓ Equity in new venture
- ✓ Salary & *bonuses*
- ✓ The 'toys' (if we 'make it big')

Non material rewards:

- ✓ Flexibility – part time to begin with
- ✓ Personal achievement
- ✓ Working relationships
- ✓ Recognition
- ✓ Control
- ✓ Prestige, power, challenge, fun

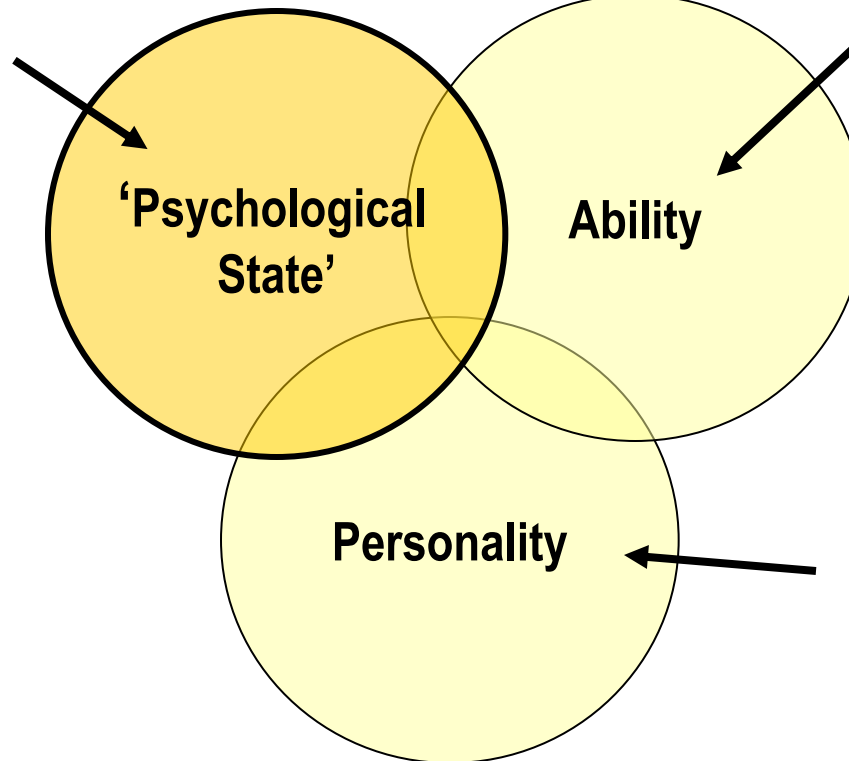


Non-material rewards are often the most powerful

The 'black arts' of selection....3 key questions

Will they do the job?

Depth interviewing
References
Trial engagement
Specialist instruments



Can they do the job?

CV
Interview
References
Aptitude tests
Trial tasks
Trial engagement

Will they fit in?

Informal/team interview
References
Psychometric assessments
Trial engagement

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Dividing equity

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A cautionary word about equity

- Novice entrepreneurs are prone to parting with too much equity too easily
- Equity is sold or used to reward for value created it is not 'given away'
- What constitutes an appropriate reward?
 - **NED or chairman = 2% (+/-)**
 - **Full time (non-founding) director = 5% (+/-)**
- Do not reward with equity without a 'bad leaver' clause in the shareholder agreement
- Consider vesting shares
- Remember that a share option scheme is an important motivator for employees and that this can account for up to 10-15% of the equity in the business



CONSERVE YOUR EQUITY

Slicing the founders' pie...

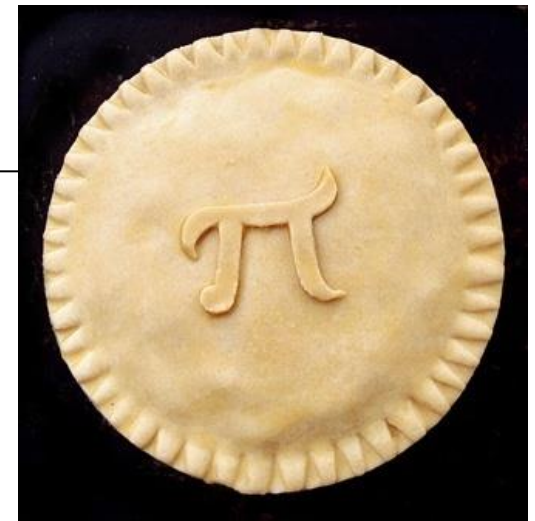


Who gets what should reflect actual contributions to the ultimate success of the venture (distributive justice)

For example:

- The idea and core technology
- Domain expertise: Industry/market/start-up
- Commitment and risk (time and money)
- Role and responsibilities
- Sweat equity (preparing the BP)
- Social capital

Stage 1: Think carefully about the drivers of success in your new venture. Agree a weighting (1-10) for each of these



	Weight
Idea and technology	6
Domain expertise	3
Commitment and risk	7
Responsibilities	6
Sweat equity	2
Social capital	2

Stage 2: Consider the past, current and (likely) future contributions of each founding team member to the ultimate success of the company. Score these from 1-10.

	Weight	Founder 1	Founder 2	Founder 3	Founder 4
Idea and technology	6	10	0	3	0
Domain expertise	3	2	3	4	8
Commitment and risk	7	2	2	4	10
Responsibilities	6	5	4	3	8
Sweat equity	2	4	2	2	7
Social capital	2	0	10	4	9

Stage 3: Multiply the weightings by the contributions to calculate the ‘fair’ share of the pie....

	Weight	Founder 1	Founder 2	Founder 3	Founder 4
Idea and technology	6	60	0	18	0
Domain expertise	3	6	9	12	24
Commitment and risk	7	14	14	28	70
Responsibilities	6	30	24	18	48
Sweat equity	2	8	4	4	14
Social capital	2	0	20	8	18
Total Points		118	71	88	174
% of Total		26.2%	15.7%	19.5%	38.6%

What happens when equity holders leave?

'Good Leaver' clause

- Retirement
- Redundancy
- Injury
- Receive market value of shares

'Bad Leaver' clause

- Resignation
- Gross misconduct
- Non-performance
- Give shares back!
- Get back money invested..but not 'sweat equity'



You need this in your Shareholder Agreement....

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What goes wrong?

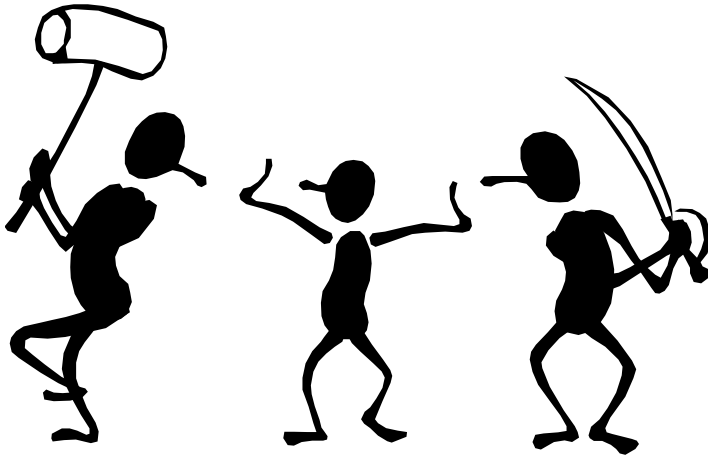
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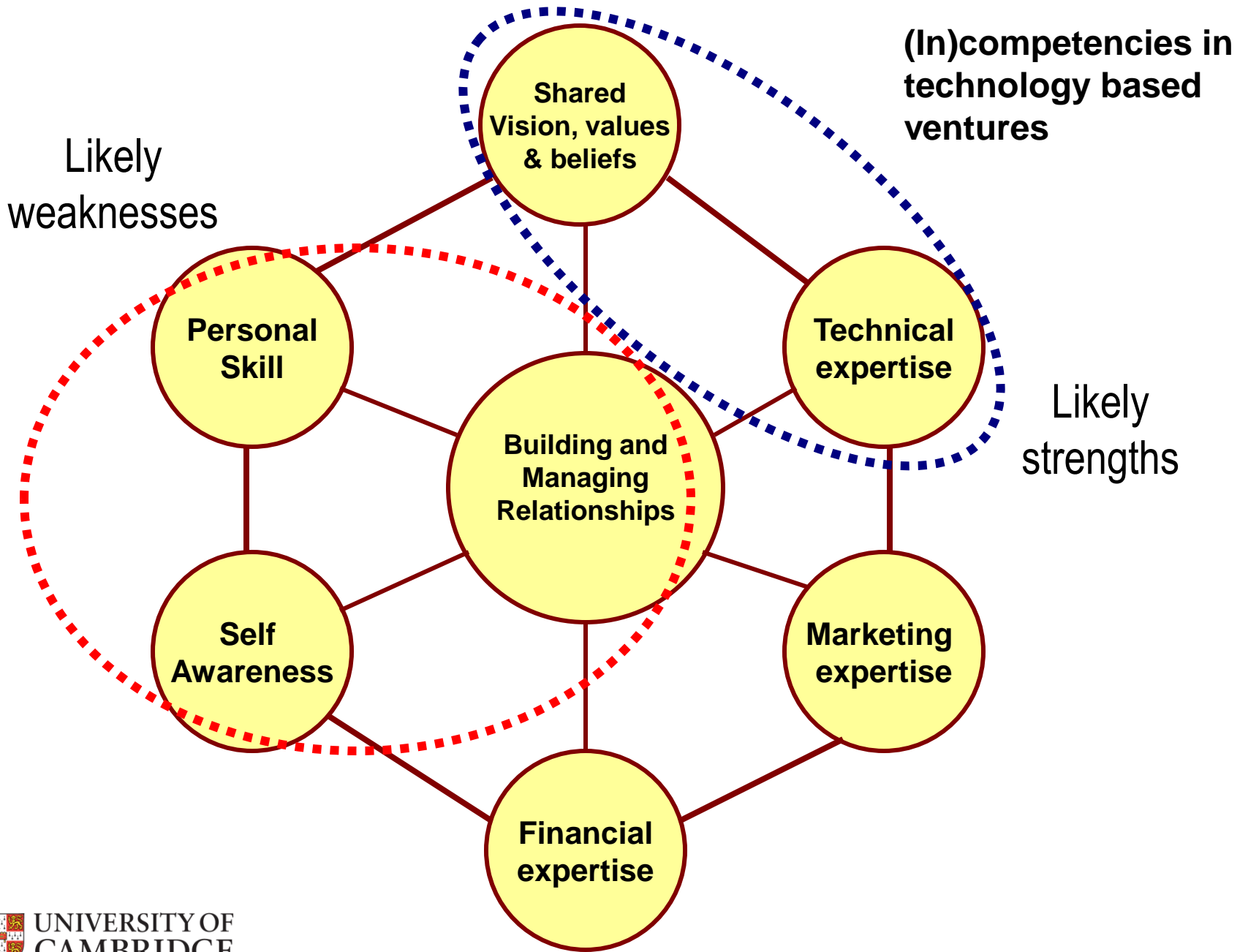
Failure to establish norms relating to conflict



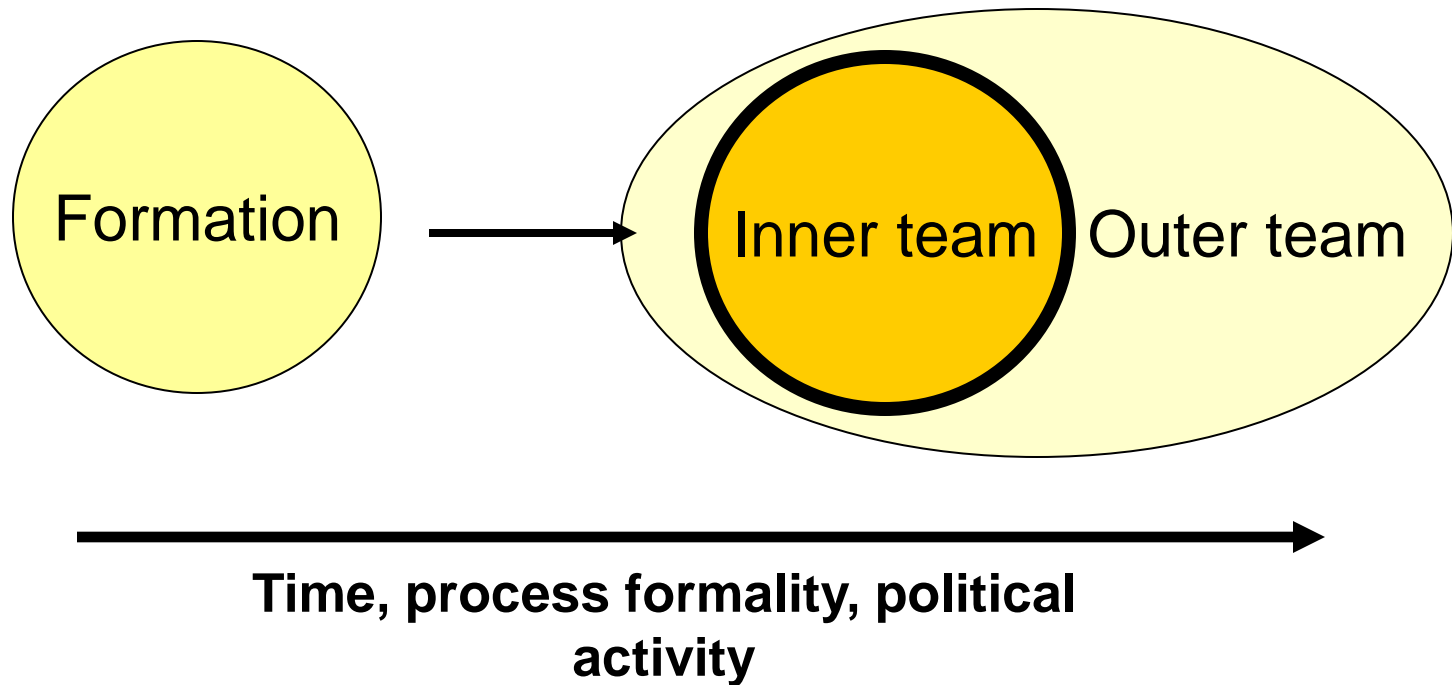
- **Cognitive conflict** - issue/task related..
- **Affective conflict** - getting personal..
- **Role conflict** - contradictory/incompatible messages..



Moderate levels of cognitive conflict are associated with better decisions



Us and them....



Building an entrepreneurial team - Key points

- Select members for their eligibility *and* their suitability
- Pay **very close attention** to values, goals and commitment
- Use external resources to fill gaps (advisory board, NEDs, professionals)
- Don't part with equity before value has been added/created, use bad leaver clauses and share vesting
- Take the best legal advice when drawing up your shareholder agreement
- Slow to hire.....quick to fire, particularly early on!



'Hire in haste...repent at leisure'