The entrepreneurial team

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

Nietzsche
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

Financial
- Equity
- Debt
- Grants
- Sales revenue
- ‘Love money’

 Intellectual
- Patents and IPR
- Trade secrets
- Know-how

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

Human
- Generalised assets
  - Offices
  - IT & related equipment
  - Vehicles

Physical
- Specialised assets
  - Production facilities
  - Bespoke equipment & software
"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

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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
What investors look for in an entrepreneurial team

- Prior experience in this industry or market
- Prior entrepreneurial experience
- Well-established, broad social networks
- Specific technical and personal skills
- Shared values and vision
- Complementary personal characteristics
- Leadership

Venture Success?
Human behaviour and the AQ-EQ spectrum

Dislike un-planned change
Obsessive interest in facts
Socially ‘awkward’
Few, but deep, friendships
Introverted

Tolerant of ambiguity
Interest in relationships
Socially ‘adroit’
Many friendships
Extroverted

Based on the work of Simon Baron-Cohen
Core competences of entrepreneurial teams

- Shared vision, values & beliefs
- Technical expertise
- Business expertise
- Domain experience
- Leadership
- Personal skill & self awareness

Vyakarnam and Jacobs (2001)
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
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**
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

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<td>Sweat equity</td>
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Stage 1: Think carefully about the drivers of success in your new venture. Agree a weighting (1-10) for each of these
**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.

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

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<td>26.2%</td>
<td>15.7%</td>
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<td>38.6%</td>
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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....
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
Likely weaknesses

Personal Skill
Self Awareness
Financial expertise
Marketing expertise
Technical expertise

Likely strengths

Building and Managing Relationships

Shared Vision, values & beliefs

(In)competencies in technology based ventures
Us and them....

Formation

Inner team

Outer team

Time, process formality, political activity

After Vyakarnam et al. 1999
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’