



**Universität
Zürich** ^{UZH}

Department of Business Administration - Chair for Entrepreneurship

A Primer in Entrepreneurship

Prof. Dr. Ulrich Kaiser

Chair of Entrepreneurship

Universität Zürich

Fall 2014



Content





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A Primer in Entrepreneurship

Part III Moving from an Idea to an Entrepreneurial Firm

Lecture 9

Building a New Venture Team

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Agenda

1. Creating a New Venture Team

- 1.1 The Founder or Founders
- 1.2 Recruiting and Selecting Key Employees
- 1.3 The Roles of the Board of Directors

2. Rounding Out the Team – The Role of Professional Advisors

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- 2.2 Lenders and Investors
- 2.3 Other Professionals



Questions



What is a new-venture team and what can a new-venture team do to overcome the liability of newness ?



Which factors enhance the value of a new-venture team?



What is the role of the board of directors ?



What is the purpose of forming an advisory board and how do professional advisors, lenders and investors, and other professionals add value to an entrepreneurial venture ?

...to be answered in today's lecture.

1 Creating a New Venture Team

Usually the team doesn't come together all at once. Instead, it is built as the new firm can afford to hire additional personnel.

A new venture team is the group of founders, key employees, and advisers that move a new venture from an idea to a fully-functioning firm.



The team also involves more than paid employees. Many firms have boards of directors, boards of advisers, and professionals on whom they rely for direction and advice.



1 Creating a New Venture Team

New Venture have a high propensity to fail.

Source: Marmet (2006)

	# firms founded 96/97	still existent in 2000	exit rate (in %)
Manufacturing	539	270	50
Construction	601	323	54
Services	5.972	2.695	45
Banking & Insurance	144	46	32
IT/ R&D	537	269	50
Business-related Services	2.158	1.108	51
Wholesale Trade	983	377	38
Retail Trade	1.036	436	42
Restaurants	171	71	42
Telecommunication	291	104	36
Real Estate	145	62	43
Personal Services	182	86	47
Education	102	40	39
Health	101	51	50
Entertainment	122	45	37
Total	7.112	3.288	46



1 Creating a New Venture Team

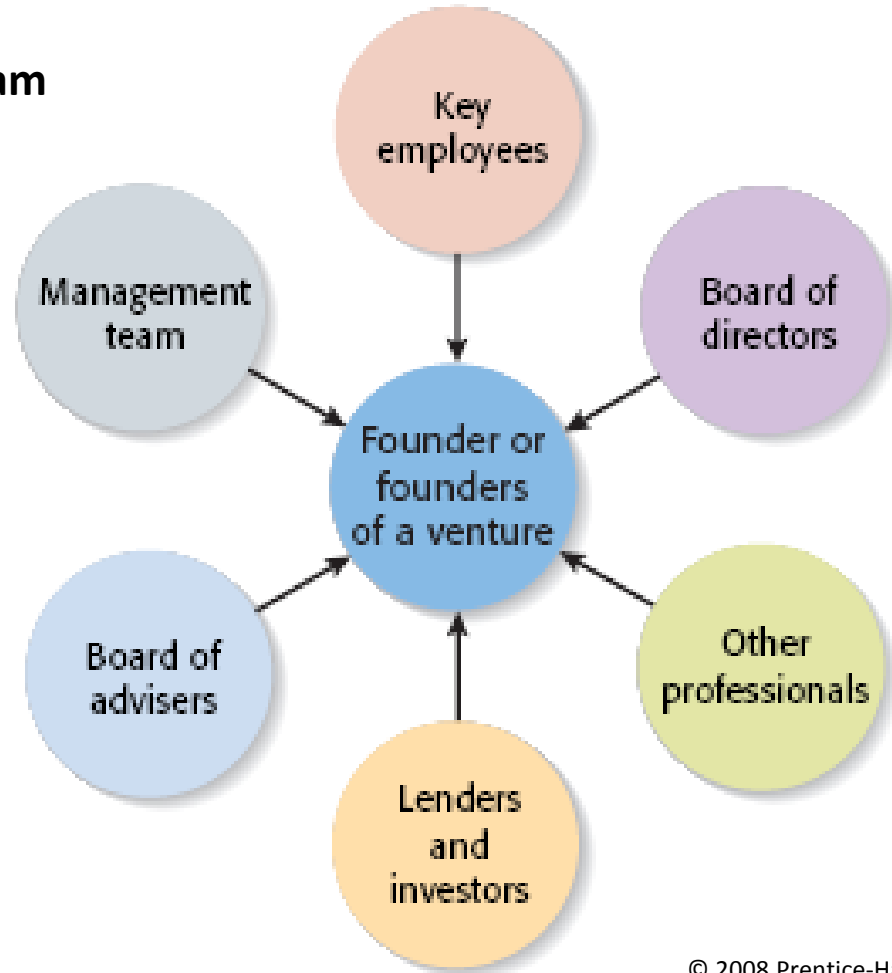
Assembling a talented and experienced new venture team may hinder firms to fail due to the liability of newness.

liability of newness refers to the fact that companies often falter because the people who start the firms can't adjust quickly enough to their new roles and because the firm lacks a "track record" with outside buyers and sellers.

1 Creating a New Venture Team

Elements of a New Venture Team

It is widely known that a well-conceived business plan cannot get off the ground unless a firm has the leaders and personnel to carry it out.





1.1 The Founder or Founders

The first decision that most founders have to make is about the size of the founding team.

Founders have to decide whether to start a firm on their own or whether to build an initial founding team.

It is generally believed that new ventures started by a team have an advantage over those started by an individual.

Compared to a sole entrepreneur, a team brings to a new venture ...

- more talent,
- more resources,
- more ideas,
- more professional contacts.

50-70 %
(CH: 47 %)
of all new firms are
started by teams or
partners.



1.1 The Founder or Founders

Several factors affect the value of a team that is starting a new firm.

Teams that have worked together before, as opposed to teams that are working together for the first time, have an edge.

If the members of the team are heterogeneous (being diverse in terms of abilities and experiences) rather than homogeneous (areas of expertise being very similar to each other) they are likely to have different points of view about important issues.

These different points of view are likely to generate debate and constructive conflict.

1.1 The Founder or Founders

Woodley, Anita & Malone, Thomas (2012): What Makes a Team Smarter? More Women. Harvard Business Review, 89(6), 32–33

What Makes a Team Smarter? More Women



The finding: There's little correlation between a group's collective intelligence and the IQs of its individual members. But if a group includes more women, its collective intelligence rises.

A part of that finding can be explained by differences in social sensitivity, which we found is also important to group performance. Many studies have shown that women tend to score higher on tests of social sensitivity than men do. So what is really important is to have people who are high in social sensitivity, whether they are men or women.



1.1 The Founder or Founders

One reason the founders are so important is that in the early days of the firm, the founders' qualities are the most valuable resources the firm has.

level of education

Evidence suggests that important entrepreneurial skills are enhanced through higher education.

prior entrepreneurial experience

Founders with prior entrepreneurial experience are familiar with the entrepreneurial process and are 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 will most likely have better-established professional networks and more applicable marketing and management expertise than founders without relevant industry experience.

professional network

Founders with broad social and professional networks have potential access to additional know-how, capital, and customer referrals.



1.2 Recruiting and Selecting Key Employees

Some founders draw on their network of contacts to identify candidates for key positions, while others use executive search firms.

executive search firm is a company that specializes in helping other companies recruit and select key personnel.

Some founders approach the task of hiring by creating a formal hiring plan. Others approach the task more informally, and hire personnel as funds become available and opportunities emerge.



1.2 Recruiting and Selecting Key Employees

Growth in Recruitment via Social Media

One in every five people begin job searches using social networks like Twitter, Facebook and LinkedIn, according to a recent study by Kelly Services, a workforce solutions provider. This indicates a shifting trend in online recruitment and growth of social media in the overall professional networking space. Jobvite, a recruitment solutions provider, conducted a survey of 800 employers in June and found that 90% of these companies will start recruiting through social media this year.

Source: http://www.forbes.com/sites/greatspeculations/2012/08/03/linkedin-lives-in-fat-city-if-recruiting-via-social-media-accelerates/#footnote_0_67224



1.2 Recruiting and Selecting Key Employees

Many founders worry about hiring the wrong person for a key role.

Since most new firms are strapped for cash, every team member must make a valuable contribution, so it's not good enough to hire someone who is well-intended but who doesn't precisely fit the job.



1.3 The Roles of the 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.

If a new venture organizes as a corporation, it is legally required to have a board of directors.

A board is typically made up of both inside and outside directors.

inside director is a person who is also an officer of the firm.

outside director is someone who is not employed by the firm.



Most boards of directors meet three to four times a year.

New ventures are more likely to pay their boards in company stock or ask them to serve on a voluntary basis rather than pay cash honorarium.





1.3 The Roles of the Board of Directors

A board of directors has three formal responsibilities.

- 1.** appoint the officers of the firm
- 2.** declare dividends
- 3.** oversee the affairs of the corporation



1.3 The Roles of the Board of Directors

If handled properly, a company's board of directors can be an important part of its new venture team.

There are two ways a board of directors can help a new firm get off to a good start and develop what, it is hoped, will become a sustainable competitive advantage.

provide guidance Although a board of directors has formal governance responsibilities, its most useful role is to provide guidance and support to the firm's managers. Many founders and CEOs interact with their board members frequently and obtain important input and advice.

lend legitimacy Well-known and respected board members bring instant credibility to a firm.



1.3 The Roles of the Board of Directors



Board of Directors

Nokia Board of Directors consists of the following eleven members: Stephen Elop, Bengt Holmström, Henning Kagermann, Per Karlsson, Jouko Karvinen, Helge Lund, Isabel Marey-Semper, Jorma Ollila, Marjorie Scardino, Risto Siilasmaa and Kari Stadigh.

The operations of the company are managed under the direction of the Board of Directors, within the framework set by the Finnish Companies Act and our Articles of Association as well as any complementary rules of procedure as defined by the Board, such as the Corporate Governance Guidelines and related Board Committee charters.

The responsibilities of the Board of Directors

The Board represents and is accountable to the shareholders of the company. The Board's responsibilities are active, not passive, and include the responsibility regularly to evaluate the strategic direction of the company, management policies and the effectiveness with which management implements them. The Board's responsibilities also include overseeing the structure and composition of the company's top management and monitoring legal compliance and the management of risks related to the company's operations. In doing so, the Board may set annual ranges and/or individual limits for capital expenditures, investments and divestitures and financial commitments not to be exceeded without Board approval.

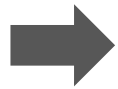
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Source: <http://www.nokia.com/about-nokia/corporate-governance/board-of-directors>



2 Rounding Out the Team – The Role of Professional Advisors

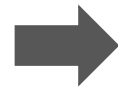
Along with the new venture team members founders often rely on professionals with whom they interact for important counsel and advice.



board of advisors



lenders and investors



other professionals



2.1 Board of Advisors

A growing number of start-ups are forming advisory boards to provide them with direction and advice.

advisory board is a panel of experts who are asked by a firm's managers to provide counsel and advice on an ongoing basis.

Most boards of advisors have between five and 15 members.

Companies typically pay the members of their board of advisors a small honorarium for their service, either annually or on a per-meeting basis.



2.1 Board of Advisors



scientific advisory board

The Weight Watchers weight-loss plan is developed by credentialed scientists with proficiency in weight management. In addition, Weight Watchers consults regularly with renowned experts to ensure that its weight-loss plan reflects the latest scientific thinking.

Claude Bouchard, Ph.D.

Executive Director, Pennington Biomedical Research Center,
Louisiana State University
Baton Rouge, Louisiana

Walmir Coutinho, M.D.

Professor of Endocrinology
Pontifical Catholic University of Rio de Janeiro
Rio de Janeiro, Brazil

Mario Foz, M.D.

Professor of Medicine, Emeritus, Autonomous University
Barcelona, Spain

Hans Hauner, M.D., Ph.D.

Professor for Nutritional Medicine, Technical University
Munich, Germany

Michael Lowe, Ph.D.

Professor, Department of Psychology



Nestlé Good Food, Good Life Creating Shared Value Advisory Board

To increase our positive impact on society, the Nestlé Creating Shared Value Advisory Board met for the first time in April 2009. The Board members, all internationally recognised experts in corporate strategy, nutrition, water and rural development were appointed for three years to act as direct advisors to the Nestlé Chairman and CEO.

The Board meets twice a year to further develop the CSV concept, analyse the Nestlé value chain and suggest potential actions, help to lead the annual CSV Forum and select the winner of the new Nestlé Prize in Creating Shared Value.



Nancy Birdsall

is the founding president of the Center for Global Development. Before founding the center, she served for three years as senior associate and director of the Economic Reform Project at the Carnegie Endowment for International Peace. From 1993 to 1998, she was executive vice president of the Inter-American Development Bank. Before joining the Inter-American Development Bank she spent 14 years in research, policy, and management positions at the World Bank.



Robert E. Black

is Chairman of the Department of International Health, Behavior, and Society, Bloomberg School of Public Health, Johns Hopkins University. He has led professional activities to reduce the burden of deaths from diarrhoea, malaria, and tuberculosis in low-income countries.



2.1 Board of Advisors

Guidelines for Organizing a Board of Advisors



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.



2.2 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.

As with other non-employee members of a firm's new venture team, lenders and investors help new firms by ...

... providing guidance

... lending legitimacy

Furthermore, they assume the natural role of providing financial oversight.

In some instances, lenders and investors also work hard to help new firms fill out their management teams.



2.2 Lenders and Investors

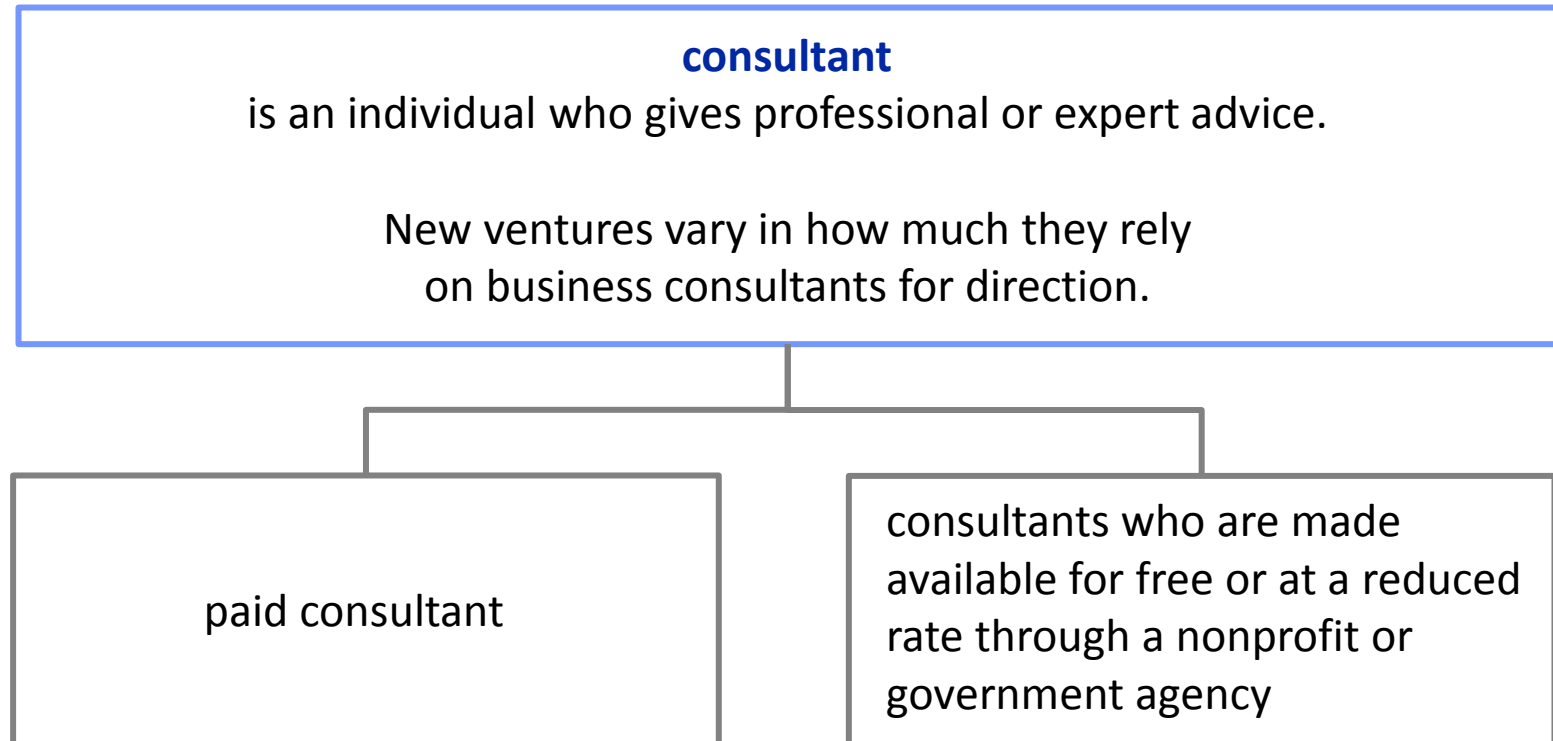
Beyond financing and funding, lenders and investors add value to an entrepreneurial venture by ...

- ... helping to identify and recruit key management personnel;
- ... helping the venture fine-tune its business model;
- ... providing introductions to additional sources of capital;
- ... providing insight into the industry and markets in which the venture intends to participate;
- ... serving as a sounding board for new ideas;
- ... serving on the new venture's board of directors or board of advisors.



2.3 Other Professionals

Other professionals assume important roles: Attorneys, accountants, and business consultants are often good sources of counsel and advice.





Do you know the answer ?



What is a new-venture team and what can a new-venture team do to overcome the liability of newness ?



Which factors enhance the value of a new-venture team?



What is the role of the board of directors ?



What is the purpose of forming an advisory board and how do professional advisors, lenders and investors, and other professionals add value to an entrepreneurial venture ?

...test yourself.



References

Barringer, B. and D., Ireland (2008): Entrepreneurship - Successfully Launching New Ventures, Pearsons Prentice-Hall.



Outlook

