

COMPANY AND TEAM FORMATION



COMPANY FORMATION

- **Case study:** Steve Blank's Theory

Steve Blank proposed the use of a 4-step scientific approach to business creation. His CD approach also helps to know whether your team is delivering the right thing.

The Steps are:

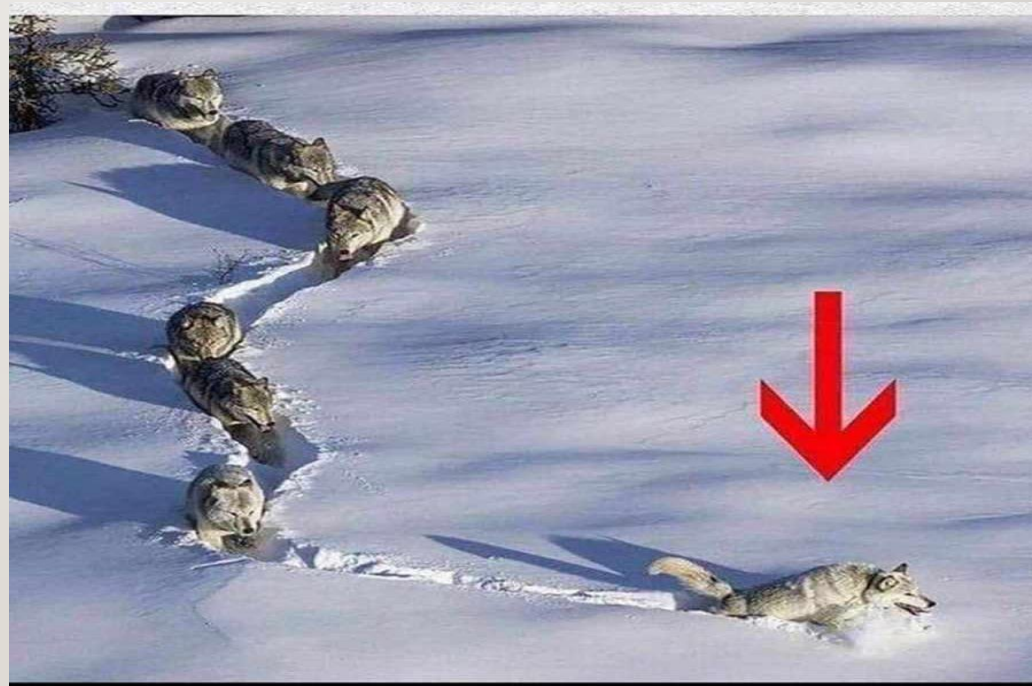
- Customer discovery (*refer to Week 2*)
- Customer validation (*refer to Week 2*)
- Company creation – deploy the right resources
- Company building – grow your organization to support the demand

Founders and Teams

- The way a founder builds a new venture sends important signals to potential investors, partners and employees.
- Some founders like to feel control and are reluctant to involve themselves with partners or hire managers who are more experienced than they are.
- Other founders are aware of their limitations and work hard to find the most experienced people available to bring on board.

Team Structure

- What type of team?
- What is the purpose of the team?
- Who is the leader of the team?



Definition of a Team

A team is defined as a small number of people with complimentary skills who are committed to a common purpose, set of performance goals and approach for which they hold themselves accountable

- Together
- Each
- Accomplish
- Much

The New Venture Team

- A new venture team is a group of founders, key employees and advisors that move a new venture from the idea stage to a fully functioning firm.
- Usually the teams do not come together at once, they are built as the new firm can afford to hire new personnel.

Elements of a New Venture Team

- Founder/founders of a venture team
- Board of directors
- Management team
- Key employees
- Lenders and investors
- Other professionals

Importance of Entrepreneurial Teams

- Teams are crucial for attracting investors because investors look for experience and integrity in management.
- The team is also a key element in new venture growth. Without a team to plan, manage and control the activities of a growing firm, the firms activities will be limited to what the founder can personally supervise and manage.

Sources of Teams

- **Familiars;** this may include family, friends and current and former business associates.
- **Unfamiliars;** people who are not known to the entrepreneur at the start of the new venture. They are individuals who have the potential for top management and may have the previous start up experience.

These people can be found through personal connections, business associates or traditional personal recruitment techniques.

Team Formation

What to do at the First meeting of your new team:

- **Define what they need to accomplish and how the team will operate**
- **Develop measures for short and long term success**
 - **Having short term goals, reinvigorates**
 - **Long term is the ultimate purpose**
- **Establish ground rules of operation**

Factors that affects value of a Team

- Teams that have worked together as opposed to teams that are working for the first time.
- Heterogeneous teams as opposed to homogeneous teams.
- The size of the team being too big can create communication problems and has the potential for increased conflict.

Pitfalls of Teams

- Team members may not get along thus some investors favor teams consisting of people who have worked before.
- When two or more people start a venture as equals conflicts can arise when the firm needs to establish a formal structure and designate one person as the CEO of the firm.

Team Traits

- Cohesion; team members believe they are all together in this and if the company wins everybody wins. Rewards, compensation and incentive structures rest on building a company value and return on capital invested.
- Teamwork; a team that works as a team rather than where individual heroes are created.
- Integrity; choices are made regarding what is good for the customer, the company and value creation.

Team Traits (Cont'd)

- **Commitment to the long haul**; members believe that they are playing for the long haul and that the venture is not a get quick drill.
- **Harvest mind-set**; the eventual capital gain is seen as important not the monthly pay check.
- **Commitment to value creation**; team members are committed to adding value for customers and making money for the teams constituencies and stakeholders.

Rewards and Incentives

- How much shares ownership should go to whom?
 - Share the wealth with those who help to create the value and thus the wealth
 - Realize a harvest of at least 5 to 10 times the original investment
 - Make sure the company prospers and grows thus creating a huge, shared pie

Questions for the Lead Entrepreneur/Founder

- Is formation of a team desirable or necessary?
- Do I want to grow a higher potential company?
- What talents, know-how, skills, track record, contacts, and resources are currently available?
- What is needed to succeed?
- Who is needed to complement me?

End of Lesson!