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A process study of entrepreneurial team formation: the case of a research-based spin-off

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Abstract

This paper describes how a team of entrepreneurs is formed in a high-tech start-up, how the team copes with crisis situations during the start-up phase, and how both the team as a whole and the team members individually learn from these crises. The progress of a high-tech university spin-off has been followed up from the idea phase until the post-start-up phase. Adopting a prospective, qualitative approach, the basic argument of this paper is that shocks in the founding team and the position of its champion co-evolve with shocks in the development of the business.

Keywords: Entrepreneurial team formation; Research-based spin-off; Champion

1. Executive summary

This paper analyses how an entrepreneurial team evolves during the early phase of a venture. One of the main research questions addressed is the development of managerial and business capacity. Previous research has shown that early-stage venture capital funds use the "business experience" of the entrepreneurial team as a main criterion to consider investment. As a result, many high-tech start-ups and especially research-based spin-offs do not receive funding because they have no experienced manager within the start-up team. Incubators and interface services have tried to solve this problem by attracting experienced CEOs into the

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new venture. Although this might have been a solution to this problem at first sight, we observe that many CEOs have left these high-tech start-ups again soon after their arrival.

In the paper, we give some explanations for this phenomenon of management turnover: First, in the early phase of a high-tech start-up, the main activity is a further development of the technology using customers as a major source of information. Hence, technical business development remains a major task of the CEO. However, this means that a CEO hired from outside the research group should (a) be able to understand the technology very well and (b) have the ability to develop the business himself. Most CEOs hired from larger companies do not show these competencies. Second, the entrepreneurial team has to accept the arrival of an outside CEO. This is not to be taken for granted. In spite of the fact that they often indeed are technical wizards, researchers do not accept that an outsider becomes the chief of their company. The division between shareholder power, which remains in hands of the entrepreneurial team and management authority, which is given by the shareholders to the Board of Directors and the CEO in particular remains often theoretical. In practice, the entrepreneurs either want to run the start-up themselves or stay out of it as passive shareholders, keeping their main job in academics.

In the paper, we show how in practice, the champion of the venture automatically evolves into the CEO position. It would be very difficult to hire an outside CEO at the start of the venture. This would only be possible if the researchers have no interest to commercialize their own technology and explicitly choose to remain shareholders. We also show in the paper how an entrepreneurial team learns. After a year of operations, one of the engineers has gained enough maturity to become a CEO. The paper suggests that instead of hiring a CEO at the start of the company, it might be a more efficient choice to "coach" the start-up team and give the entrepreneurial team the time and freedom to learn. Doing so, the team develops itself the skills and capacities to run its operations. A professional manager might only be needed once the revenues are coming and breakeven is realized. The necessity of experiential team learning is seldom included in business plans. Instead, investors expect and entrepreneurs write ambitious business plans, which imply international business activities and a professional management team at the start. It seems as if the entrepreneurial spirit is almost immediately substituted by the false idea of professionalism. The case described in the paper shows a totally different approach, which turns out to be successful. Entrepreneurial teams, which have no experience at start, are able to acquire the necessary skills in a relatively short period. However, this team learning does not happen automatically. The provision of a minimum amount of coaching seems to be necessary. Once the learning has taken place, external shocks such as a capital increase are needed to formally restructure the organization.

The paper extensively refers to the role of the coach as an intermediary person between the financial investor and the entrepreneurial team itself. The coach translates the business expectations of the investor into strategic choices, which can be understood by the technical entrepreneurs. The major pitfall shown in the case happens when this coach is considered to be the CEO. When this happens, the entrepreneurs get rid of their responsibilities and view the coach as a deus ex machina, who can solve all their problems. In fact, he gets into the role of an external business manager. It is exactly this that should be avoided.