

ENTREPRENEURIAL COMPETENCIES

ASSEMBLING HUMAN RESOURCES AND CAPABILITIES

Human resourcefulness underlies the very core of
entrepreneurial activity and new ventures.
Entrepreneurs work in founding teams that start most new ventures.

ENTREPRENEURIAL COMPETENCIES

01.

- Entrepreneurship definition
- Innovation definition
- SME vs IDE
- The burning area
- The founder perspective
- Exercise

SME VS. IDE

Not all companies are created equal.

At least, there are 2 distinct types of companies with different economic roles, requiring individually tailored

- supporting policies,
- set of management skills and
- education

to support each.

THEORY



INSIGHT

Fake news +++ Successful entrepreneurs love risk!+++

When targeting your new idea to your current business is like **playing chess** (Goduscheit, 2012):

- You know the pieces, you know what they can and cannot.
- You know what your competitor is doing and is probably going to do
- You can think out many moves in advance, you have to if want to win

ACTIVITY

Answer the following question

Can Entrepreneurship be thought?

a. Yes

b. No

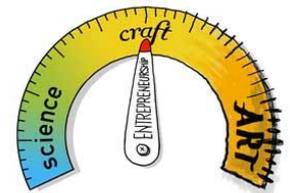


ACTIVITY

Answer the following question

Can Entrepreneurship be thought?

The sciences tend to be well-defined and deterministic, art is the opposite.



THE TWO ENDS
OF THE SPECTRUM

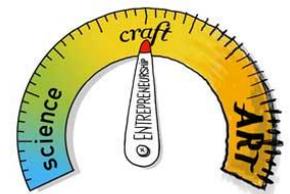
ACTIVITY

Answer the following question

Can Entrepreneurship be thought?

The sciences tend to be well-defined and deterministic, art is the opposite.

Entrepreneurship is a **craft** that sits between these 2 ends of the spectrum.



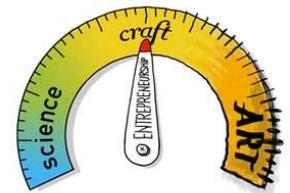
THE TWO ENDS
OF THE SPECTRUM

ACTIVITY

Answer the following question

Can Entrepreneurship be thought?

Pottery consists of some fundamental skills that aren't obvious, but these skills can be learned, and a crucial part of the education process is apprenticeship. Luck alone does not make you a potter.



THE TWO ENDS
OF THE SPECTRUM

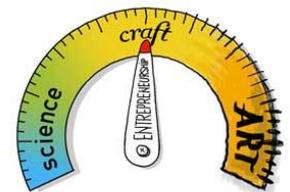
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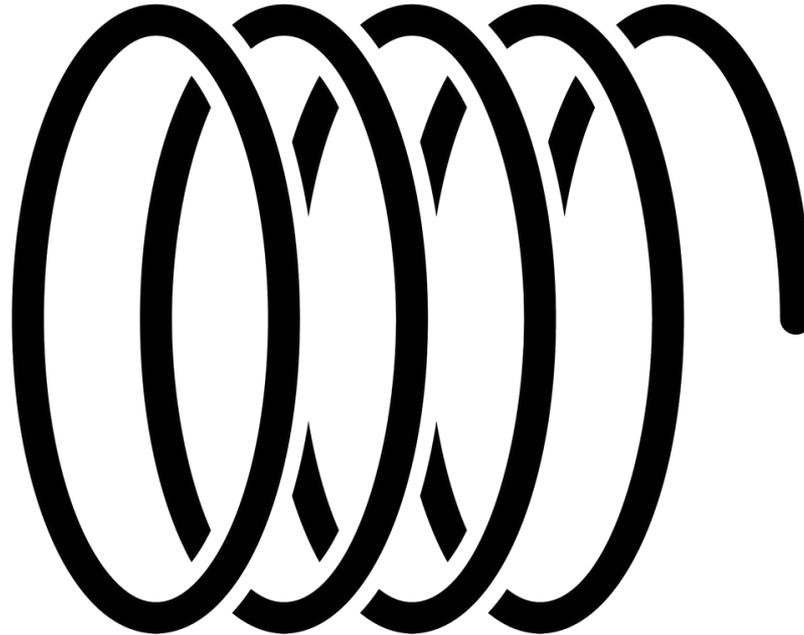
Data from numerous studies shows that the more times you start a company, the higher your odds of success in future ventures (see serial entrepreneurs).



THE TWO ENDS
OF THE SPECTRUM

ENTREPRENEURSHIP DEFINITION

An elastic word



ENTREPRENEURSHIP DEFINITION

A review

According to Onuoha (2007), “is the practice of **starting new organizations** or **revitalizing mature organizations**, particularly new businesses generally in response to identified opportunities.”

Schumpeter (1965) defined “entrepreneurs as individuals who exploit market opportunity through technical and/or organizational **innovation**”.

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Schumpeter (1965) defined “entrepreneurs as individuals who exploit market opportunity through technical and/or organizational **innovation**”.

For Frank H. Knight (1921) and Peter Drucker (1970) “entrepreneurship is about taking **risk**”.

Bolton and Thompson (2000) have defined an entrepreneur as “a person who habitually creates and **innovates** to build something of recognized value around **perceived opportunities**”

ENTREPRENEURSHIP DEFINITION

A working definition

"The pursuit of opportunity beyond resources controlled",

(Stevenson 1983, 1985, 1990)

ENTREPRENEURSHIP DEFINITION

A working definition

"The pursuit of opportunity beyond resources controlled"

Pursuit

- a sense of urgency that is seldom seen in established companies, where any opportunity is part of a portfolio and resources more readily available
- the mere passage of time consumes limited cash balances
- short window of opportunity perceived

ENTREPRENEURSHIP DEFINITION

A working definition

"The pursuit of opportunity beyond resources controlled"

Opportunity

an offering that is novel

- pioneering a truly new product ✓
- hiring more sales people ✗
- devising a new business model ✓
- creating a better/cheaper version of an existing product ✓
- targeting an existing product to new sets of customers ✓
- raising a product's price through testimonial engagement ✗

ENTREPRENEURSHIP DEFINITION

A working definition

"The pursuit of opportunity beyond resources controlled"

Beyond resources controlled

- resource constraints
- entrepreneur dilemma



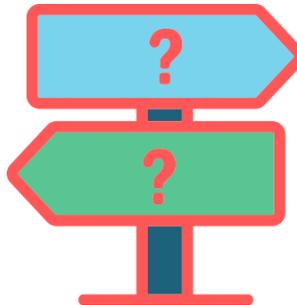
ENTREPRENEURSHIP DEFINITION

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Entrepreneur dilemma

On the one hand, it is definitely difficult to reduce entrepreneurial **RISK** without resources.



RISK



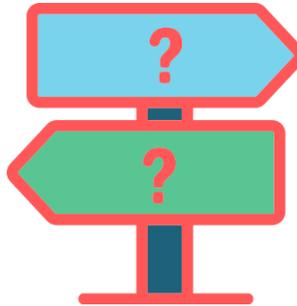
ENTREPRENEURSHIP DEFINITION

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Entrepreneur dilemma

On the one hand, it is definitely difficult to reduce entrepreneurial **RISK** without resources.



On the other hand, it can be difficult to persuade investors to commit to a venture when **RISK** is still high.

ACTIVITY

Answer the following question about **risk**

Do (successful) entrepreneurs love risk?

- a. Yes
- b. No





INSIGHT

Fake news +++Successful entrepreneurs love risk!+++

Reality

Entrepreneurs are **not gamblers**, who have no control over risk.



INSIGHT

Fake news +++Successful entrepreneurs love risk!+++

Reality

Entrepreneurs are **not gamblers**, who have no control over risk.

Entrepreneurs take calculated risks in an area where they know they have an advantage, then “de-risk” everything else.



INSIGHT

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When targeting your new idea to your current business is like **playing chess** (Goduscheit, 2012):



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INSIGHT

Fake news +++Successful entrepreneurs love risk!+++

When targeting your new idea to a new market is more like **playing poker** (Goduscheit, 2012):



Fake news +++Successful entrepreneurs love risk!+++

When targeting your new idea to a new market is more like **playing poker** (Goduscheit, 2012):

- You do not know all information in advance
- You must adapt and adjust as new cards (information) regularly arrives
- You have to manage your resources to stay in the game to see next card



Fake news +++Successful entrepreneurs love risk!+++

Takeaways, do not engage co-founders

- loving gambling
- loving risk
- not aware of the risks associated with joining a new venture
- downplaying the risks associated with launching a new venture

ENTREPRENEURSHIP DEFINITION

A working definition

"The pursuit of opportunity beyond resources controlled"

Conclusions

- Entrepreneurship as approach to **managing** (a team) rather than a specific stage in a company life cycle.

ENTREPRENEURSHIP DEFINITION

A working definition

"The pursuit of opportunity beyond resources controlled"

Conclusions

- Entrepreneurship as approach to **managing (a team)** rather than a specific stage in a company life cycle.
- Entrepreneurs can be found in many different types of organizations, including already established companies. In such companies, they definitely do not work alone!

Intrapreneurship in action

Education Product Manager
Burning Glass Technologies • Boston, MA • Full-time
Posted 3 weeks ago • Be among the first to apply

We're seeking an entrepreneurial product manager to join our team which is driving innovation across the higher education sector. As a member of our team, you'll envision solutions that harness the world's largest and most sophisticated labor market database. Together, we'll imagine, create and refine real-time data and planning tools that shape the ways people plan for careers, colleges and universities develop talent and institutions envision their workforce needs.

At Universities Across The Country, Our Solutions Empower

- Administrators to design and market academic programs which meet the skill needs of local employers hiring today

Seniority Level
Entry level

Industry
Marketing & Advertising ,
Information Technology & Services ,
Computer Software

Employment Type
Full-time

Job Functions

Set alert for similar jobs

People also viewed

- Product Manager, ECG**
Cardinal Health
Mansfield, MA, US
Be an early applicant
1 week ago
- Product Manager, Fluid Management Consumables**
Cytiva
Marlborough, MA, US
Be an early applicant
1 week ago
- Sr Product Manager**
3Play Media
Boston, Massachusetts

Intrapreneurship - definition

Intrapreneurship is a system which allows an employee to act like an entrepreneur within an organization.

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Intrapreneurship is a system which allows an employee to act like an entrepreneur within an organization.

By acting like an entrepreneur, her scope is to create a **new business**. Sometimes that business becomes a new section, or department, or even a subsidiary spinoff.

Intrapreneurship - Ways to incentivize it

Idea fair, a less formal version of business plan proposal

Hackathon, one-off event associated with solving a problem

Intrapreneurship - Ways to incentivize it

Idea fair, a less formal version of business plan proposal

Hackathon, one-off event associated with solving a problem

Sandbox fund, to buy employees' time to help build a prototype or business plan

Innovation time, see Google employee "20% time" to be spent on side projects

INSIGHT

Products of Intrapreneurship



PLAYSTATION



POST-IT



IPOD



G-MAIL

ACTIVITY

Q & A

INNOVATION DEFINITION

A working definition

Innovation = Invention x Commercialization

INNOVATION DEFINITION

A working definition

Innovation = Invention x Commercialization

- An invention/idea/intellectual property/piece of technology is not an innovation per se
- Most innovations fail due to a lack of commercialization
- In the long run, every innovation fails

INSIGHT

who invents vs. who wins



This company invented the text-based, keyword-driven ads on search result pages.



This company was quite successful at commercializing it

INSIGHT

who invents vs. who wins



This company invented the text-based, keyword-driven ads on search result pages.



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INNOVATION DEFINITION

A working definition

Innovation = Invention x Commercialization

About the role of entrepreneurs, as technology becomes more and more a commodity

- Entrepreneurs (and their co-founding team) primarily serves as commercialization agents
- Funding serves as commercialization agent too, in terms of new human resources to add

ACTIVITY

Q & A

SME VS. IDE

Not all companies are created equal.

At least, there are 2 distinct types of companies with different economic roles, requiring individually tailored

- supporting policies,
- set of management skills and
- education

to support each.

ACTIVITY

let's spot the difference

Coffeeshop



Bio-tech
company



SME VS. IDE

Not all companies are created equal.



A coffee shop is a small medium enterprise, or **SME**.



A biotech company working on a novel drug to defeat lung cancer is an Innovation Driven Enterprise, or **IDE**.

Let's review the main differences.

SME VS. IDE

Not all companies are created equal.

SME

Focus on addressing local and regional markets only.

Innovation is not a competitive advantage.

Jobs generally performed locally, e.g. restaurants.

Most often family businesses with little external capital.

SME VS. IDE

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SME

Focus on addressing local and regional markets only.

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IDE

Focus on global markets, even though they can start locally.

Innovation must be competitive advantage.

Jobs do not have to be performed locally.

More diverse ownership base and external capital providers.

SME VS. IDE

Not all companies are created equal.

SME

The company typically grows at a linear rate. When you put resources (e. g.: money and people) into the company, the system (revenue, cash flow, jobs, etc.) will respond quickly in a positive manner.

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IDE

The company starts by losing money, but if successful will have exponential growth. When you put resources into the company, the revenue/cash flow/jobs numbers do not respond quickly

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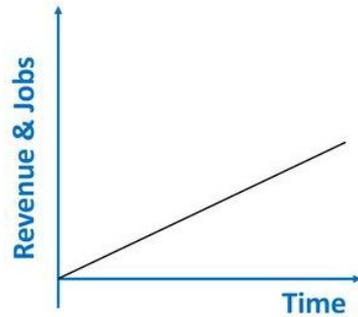


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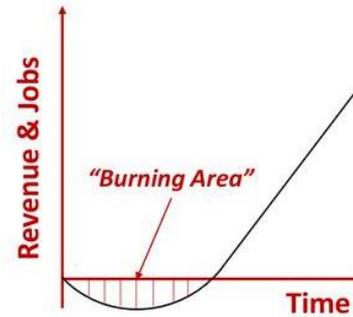
SME VS. IDE

The burning area

SME and IDE Expected Revenue & Job Trends



SME: Usually Not Risky

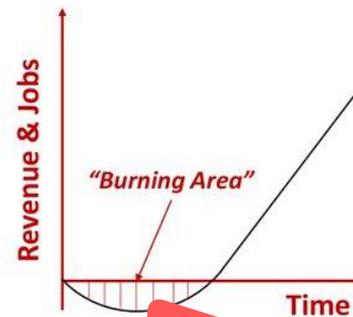


IDE: Much Riskier, but More Ambitious (*Go Big or Go Home!*)

SME VS. IDE

The burning area

SME and IDE Expected Revenue & Job Trends



IDE: More Riskier, but
More Ambitious
or Growth

*if... You can't do
it on your own!*

(Hammoud, 2020)

SME VS. IDE

The founder perspective



Marco



Paola

Marco can run a coffeeshop by himself and by hiring **employees**.

He can be focused on delivering every day the best coffee in town.

Marco can learn to run a coffeshop from others.

He can take a course to learn how to make great coffees and that's it!

SME VS. IDE

The founder perspective



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Paola

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Paola can't run her company by herself. She needs a **team!!!**

Paola should master a vision, what will happen in 10 years from now.

Paola can't learn how to run her innovative venture from others.

She can't take a course, but she can definitely engage mentors and advisors!

ACTIVITY

Q & A

ACTIVITY

Position the following initiatives as either SME or IDE, from the founder perspective. Does she need employees or a team? Why?

- launching a pizzeria
- building a pizzeria franchise
- opening an e-commerce selling vintage clothes
- opening an e-commerce selling second-hand cars
- producing and selling high protein pasta made with insect flour
- opening a grocery store
- developing a music streaming app

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ENTREPRENEURIAL COMPETENCIES

ASSEMBLING HUMAN RESOURCES AND CAPABILITIES

Key considerations facing entrepreneurs:

Choosing cofounders wisely and carefully

Securing help and guidance from others beyond the founding team

Developing strong working relationships within team and with others

ENTREPRENEURIAL COMPETENCIES

02.

- Five myths about founding a team debunked
- Interviewing potential co-founders
- Mentoring
- Advisoring

FIVE MYTHS ABOUT FOUNDING A TEAM DEBUNKED

Myth #1

Successful entrepreneurs are individuals who work alone.

Reality #1

- Research clearly shows that teams are much more likely to succeed than individuals (Roberts, 1991).
- However, 60% of new ventures fail due to problems with the team (Klotz, 2014).
- Entrepreneurship is a team effort in kind of an extreme sport.

FIVE MYTHS ABOUT FOUNDING A TEAM DEBUNKED

Myth #1

Successful entrepreneurs are individuals who work alone.

Takeaways #1

- Do not launch your new venture alone!
- I repeat, do not launch your new venture alone!

Startups

The secret to creating a successful startup is your contacts book

A big data analysis of 42,000 startups has found there's one key thing that encourages growth



By **CHRIS STOKEL-WALKER**

Thursday 25 April 2019



Source: <https://www.wired.co.uk/article/how-to-grow-startup?fbclid=IwAR0LI5-grHFEwSa4dzVolRH2GWJeJfJiRjooBxotpXlIFbQfw6OcgquCaOYhttps://arxiv.org/pdf/1904.08171.pdf>

Your contact book matters

Tips about expanding your contact book

- Be on LinkedIn, nowadays plenty of resources on how to build an effective profile
- Attend a couple of conferences per year, it is also a nice opportunity to take a break from the daily routine
- Give first, they will remember it



FIVE MYTHS ABOUT FOUNDING A TEAM DEBUNKED

Myth #2

Successful entrepreneurs are the smartest and most high-achieving people in the classroom.

Reality #2

- Entrepreneurs are not necessarily the best at every subject
- They do have a vision 
- They are focused  in one area where they see the most potential.

FIVE MYTHS ABOUT FOUNDING A TEAM DEBUNKED

Myth #2

Successful entrepreneurs are the smartest and most high-achieving people in the classroom.

Takeaways #2

- Look for co-founders sharing the same vision and being able to stay focused, forget about marks at school
- You may consider which university they attended, in terms of contact book asset, see Myth #1.

A list of dropped out entrepreneurs

- Bill Gates (Harvard)
- Steve Jobs
- Mark Zuckerberg (Harvard)
- Arash Ferdowsi  **Dropbox** (MIT)
- Jack Dorsey  **twitter** and  **Square** (NYU)
- Jan Koum  **WhatsApp**
- Travis Kalanick **Uber** (UCLA)

FIVE MYTHS ABOUT FOUNDING A TEAM DEBUNKED

Myth #3

Successful entrepreneurs are born not made.

Reality #3

- Research shows that entrepreneurs don't necessarily come from parents who are entrepreneurs.
- Entrepreneurial skills can be acquired and taught. After all, it is all about learning how to make products costumers want.
- The more you practice, the better (see serial entrepreneurs).

FIVE MYTHS ABOUT FOUNDING A TEAM DEBUNKED

Myth #3

Successful entrepreneurs are born not made.

Takeaways #3

- Look for "been there, done that" co-founders, therefore quite familiar with the startup process
- Look for user-entrepreneurs, see next slides



User entrepreneurs

The starting point

- Users have long been acknowledged as a critical source of innovation. Users innovate because they expect to benefit from an innovation by using it.
- In contrast, manufacturers innovate because they expect to benefit by selling the innovation to others.
- A user entrepreneur tends to experience a need in her life and develop a product or service to address this need, often before founding a



User entrepreneurs

Some studies

- 84% of firms of the juvenile product industry born between 1980 and 2007 were founded by parents, grandparents and babysitters (Sonali, 2012).
- 52% of the MedTech startups receiving corporate VC investment between 1978 and 2007 were founded by practicing physicians (Sonali, 2012).
- Nearly 50% of innovative startups founded in the United States that survive to age 5 are founded by user entrepreneurs (Aulet, 2017).

FIVE MYTHS ABOUT FOUNDING A TEAM DEBUNKED

Myth #4

Entrepreneurs are successful because they are charismatic.

Reality #4

- This is an iconic portrait of XXXXXX's first 11 employees, dating back to 1978.
- Can you spot the founder?



FIVE MYTHS ABOUT FOUNDING A TEAM DEBUNKED

Myth #4

Entrepreneurs are successful because they are charismatic.

Reality #4

- Just the same portrait of those XXXXXX's first 11 employees, 30 years later.
- Now, can you spot the founder?



FIVE MYTHS ABOUT FOUNDING A TEAM DEBUNKED

Myth #5

Successful entrepreneurs are undisciplined.

Reality #6

- Nothing could be farther from the truth.
- It is essential for entrepreneurs to be disciplined in order to achieve success, because they need to accurately execute against much larger competitors with limited time and resources.

INTERVIEWING POTENTIAL CO-FOUNDERS

Checklist

- Connections - Who do you know? Who do you know that has expertise in different industries? Do you know other entrepreneurs?
- Knowledge - What was the focus of your education or career?
- Capability - What are you most proficient at?
- Financial assets - Do you have access to significant financial capital, or will you be relying on a meager savings account to start out with us?



INTERVIEWING POTENTIAL CO-FOUNDERS

Checklist

- Name recognition - What are you well-known for? Skills in engineering? Understanding digital marketing?
- Past work experience - In previous jobs you've held, what inefficiencies or "pain points" existed?
- Passion for a particular market - Does the idea of improving healthcare excite you? How about education? Energy? Transportation?
- Commitment - Do you have the time and effort to devote to this endeavor? Are you ready to make it your only focus?



MENTORING

Intro 1/2

Originally, mentors have been seen as people with extensive experience and knowledge who contribute towards creating career opportunities and providing career support for their respective mentees. In this kind of mentoring, mentors are expected to have all the answers and this is not even close to reality when launching a venture successfully.

Nowadays, mentors are seen as the ones supporting their mentees' development and, during period of change in life and work, mentors share their knowledge and experience. When launching a venture, change is the only constant, therefore mentors should be an important part of the founding team.

MENTORING

Intro 2/2

A learning alliance

Mentoring that works is more and more seen as a learning alliance. In this role, mentors listen and ask questions, both exploring and challenging questions. They give feedback and also make their views known and tell stories from their own life and work.

Mentees are not immediately presented with advice and solutions, but hear stories that can inspire and develop ideas that can form the basis for further development. They are exposed to questions that develop new insight and new perspectives.

In this way mentees can find their own answers and solutions, test them, experiment and receive help with analysing and evaluating the results through new dialogue with their mentors.

MENTORING

The basics

- Mentoring is a learning process for two people, mentor and mentee
- Mentoring creates an oasis of calm and reflection to think about everyday events and their own pattern of behaviour
- Mentoring is an important framework for exploring how to handle external requirements for change [insert some examples]
- Trust between the two people is vital to tackle subjects that really make a difference

MENTORING

The role of the mentor

- To contribute full knowledge, experience and insight to help mentee "take a bird's eye view"
- To first and foremost listen and ask questions but also explain, advice and criticize in a constructive way
- to understand their role and to be trained to use it in a beneficial way
- to recognize the learning zone and act appropriately
 - Comfort zone, where we feel competent and in control - limited learning opportunities
 - **Learning zone**, where we feel uncertain and insicure - many opportunities for growing
 - Panic zone, where we panic and lose sight - learning becomes blocked

MENTORING

The role of the mentor

Mentoring is situational and the mentor should adjust their behaviour to the mentee's situation, task, goal and readiness for the learning. Ten situational roles have been recognized, to be used at the right time and right way:

- Storyteller - telling own stories for mentee's inspiration
- Discussion partner - entering into discussions and challenges mentee
- Advisor - giving expert advise
- Knowledge sharer - sharing professional knowledge when needed
- Coach - asking questions which leads to new insights
- Critic - giving constructive feedback
- Networker - supporting in developing and using networking
- Door opener - opening doors and giving references
- Sponsor - guiding in relation to mentee's career
- Friend - encouraging and supporting

MENTORING

The role of the mentee

- Open to talk about things that really matters
- Open to challenges, unconventional questions and new angles while listening to criticism
- Open to assume responsibility, to decide how they will use the new knowledge and insights in action plans
- Qualifying the good mentor

MENTORING

The role of the mentee

How to qualify a good mentor, if they show:

- genuine interest in the development of others
- high level of self understanding and interest for own personal development
- ability to listen and observe
- ability to ask exploring clarifying and challenging questions in a constructive manner
- openness and interest in the differences between the mentor and mentee
- ability to communicate on knowledge and experience without dominating
- ability to set aside on needs and focus on mentee
- ability to combine and structure information and see new connections
- high level of empathy
- courage to experiment and reveal own weaknesses and failures

ADVISING

In a nutshell

Put it simply, advising is the paid version of mentoring. Yes, you need advisors!

As a general rule, early stage startups compensate advisors with 1% equity in the company.

This amount varies according to the advisor's expertise, role within the company, and the stage of the company. Some cash may also occur.

Advisors working more than 2 days a month indicate a 'real' time commitment. Advisors working less than 2 days a month may indicate him/her being hired as a figurehead, someone to impress on the company pitch deck or web site.

ADVISING

Advisor roles

Board Advisors: they are experienced ex-founders or industry experts whose input is sought into the strategic direction of the company, and they are given a seat on the company's board of directors to help shape the company strategy and decision-making.

Technology Advisors: they help the company with broad knowledge of the state of the tech sector, implementing technology best practices (Scrum, Agile) and system architecture (SaaS, scaling, blockchain). They are often there to shape the longer term tech vision and roadmap in a way that would be too time consuming for a CTO who ends up getting consumed by the daily tasks.

General Advisors: they are similar to Board Advisors, but do not sit on the board of a company. This does not indicate that they have less experience, but simply that they have less input over the strategic direction of the company. For example, an ex- Chief Marketing Officer from a different industry to the startup might be an invaluable General Advisor.

ADVISING

Working with boards 1/2

Many types of companies require board by law. On the other hand, it may sound a bit awkward setting up a board in a solo founder startup. The board is the shareholders' representatives to the management of the company.

A good board

- is small (easier to organize calls and meetings)
- had an odd number of members (no deadlock situation)
- 3 to 5 members for startups (begin with 3)
- equal number of founders & external investors plus one who is neutral (chosen by the founders)
- is time consuming to manage

ADVISING

Working with boards 2/2

The foolish CEO

- concentrates all dialogue with the board about formal board meetings
- discloses important board material only at the actual board meeting and before
- makes the board meeting into a sales presentation

The wise CEO

- books all board meetings one year in advance
- combines the formal meetings with continuous dialogue (emails, board calls, short telephone conversation)
- reports regularly to the board in order for them to get well prepared for the formal meeting

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ENTREPRENEURIAL COMPETENCIES

ASSEMBLING HUMAN RESOURCES AND CAPABILITIES

New venture success is strongly determined by the quality of its

Human capital - Knowledge, skills, talents, abilities of its co-founders and employees. Social capital - Their reputations, social networks and relationships with others

**ENTREPRENEURIAL
COMPETENCIES**

02.

- The Human Capital
- The Social Capital

THE HUMAN CAPITAL

Intro

Capital = Financial Capital + Human Capital + Social Capital, where

Financial capital = savings, salary, inheritance and investments.

Human capital = education, experience, skills, time and knowledge.

Social capital = social relations and network.

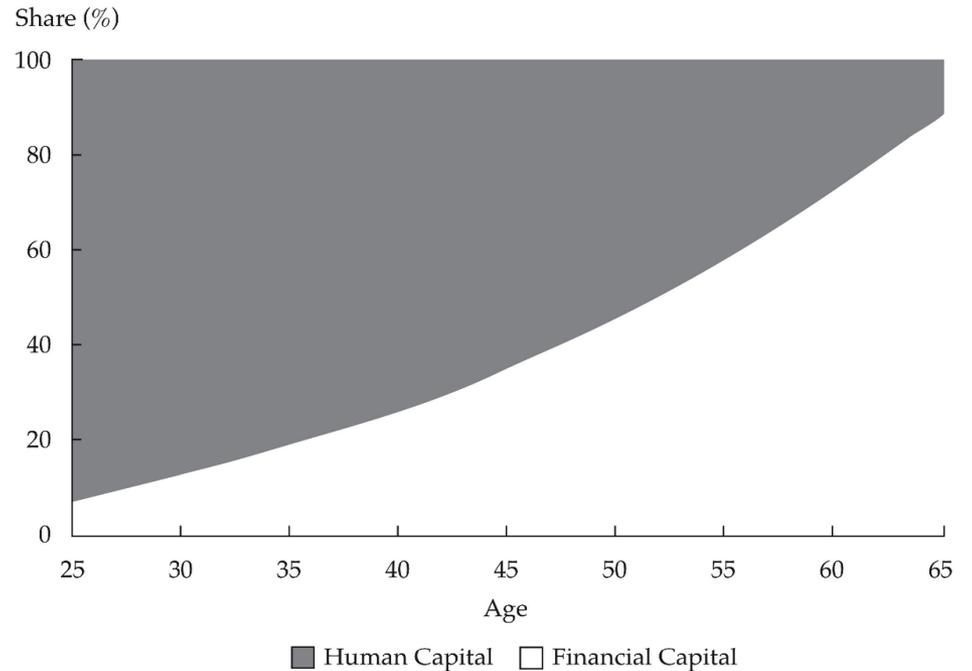
Human capital is the source of all the financial and social capital. It is because of your education, experience, skills, time and knowledge that you are able to build connections and financial wealth.

THE HUMAN CAPITAL

Intro

This figure illustrates the relationship between human capital, financial capital and total wealth over time. Human capital is not only the source of almost all the financial capital that a person will accumulate over time but also the dominant form of capital.

As you put your knowledge, skills, time and experience to use, the portion of financial capital increases until the money starts working for you to eventually become the majority of your capital.



THE HUMAN CAPITAL

Intro

Most entrepreneurs miss or at least greatly undervalue the human capital part of the entrepreneurial success equation. For most, business building looks like this:



What most entrepreneurs don't recognize is that when they invest time for fundraising, attend events and pitch investors, network and pitch co-founders, they are in fact investing their human capital.

THE HUMAN CAPITAL

Investing in Human Capital

Most entrepreneurs miss or at least greatly undervalue the human capital part of the entrepreneurial success equation. For most, business building looks like this:



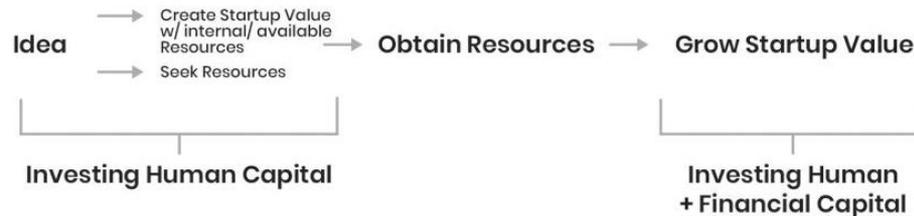
What most entrepreneurs don't recognize is that when they invest time for fundraising, attend events and pitch investors, network and pitch co-founders, they are in fact investing their human capital.

THE HUMAN CAPITAL

Investing in Human Capital

In particular, first-time entrepreneurs, start with an initial investment of almost zero and yet, invest all of their human capital chasing the return **before growing their initial position**. The common outcome is a few months resource-hunting for an idea that has no proof.

As a result, entrepreneurs are **bad investors of their human capital**.

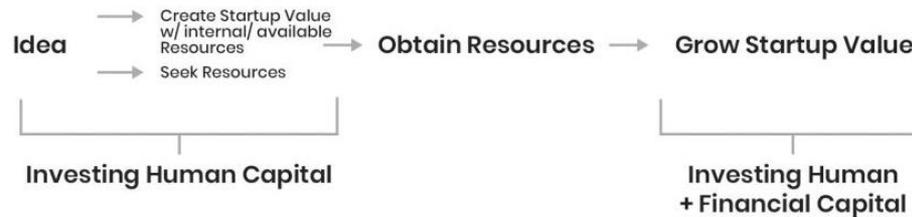


THE HUMAN CAPITAL

Investing in Human Capital

The truth is that business external resources like funding are almost always a consequence of startup value and founders' background.

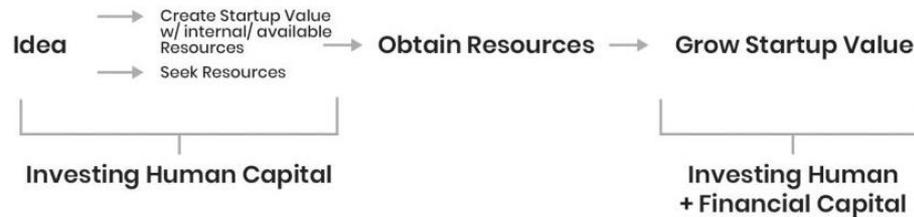
Investing human capital to build these two key variables **should thus precede** or at least occur simultaneously.



THE HUMAN CAPITAL

Investing in Human Capital

Founders who recognize the value of their human capital, not only find ways to build startup value with what they already own but also leverage their skills, knowledge and time to create financial capital for reinvestment and growth.



Financial vs. Human vs. Social Capital

The starting point

- Access to business startups may not be available to all people because of resource constraints
- Successful starting entrepreneurs focus more on the things they can control
- There is a strong emphasise of financial resources

Financial vs. Human vs. Cultural Capital

The study (Kim, 2006)

- Research conducted on 1,050 US entrepreneurs
- The relative importance of 3 forms of resources in pursuing startup ventures, namely financial, human, and cultural capital were examined

Kim, P.H., Aldrich, H.E. & Keister, L.A. Access (Not) Denied: The Impact of Financial, Human, and Cultural Capital on Entrepreneurial Entry in the United States. *Small Bus Econ* 27, 5–22 (2006).
<https://doi.org/10.1007/s11187-006-0007-x>

Financial vs. Human vs. Cultural Capital

Findings

- Neither financial nor cultural capital resources are necessary conditions for entrepreneurial entry
- By contrast, potential entrepreneurs gain significant advantages if they possess high levels of human capital.
- Specifically, advanced education and managerial experience are significantly positively associated with entrepreneurial entry.

Financial vs. Human vs. Cultural Capital

Conclusions

- Entrepreneurs which are more likely to invest over a hundred thousand euros to start their ventures than to commit their human capital to make a business out of their ideas should just do the opposite to increase their odds of success.

THE HUMAN CAPITAL

The 2 biggest components of our human capital

Knowledge: education, skills and experience fall under the knowledge category.

The more knowledgeable we are, the more valuable our human capital becomes. This explains why investors pay more for repeat founders.

Time. The most critical component of human capital is time simply because if entrepreneurs don't put in the time to execute on their acquired knowledge, business value won't create itself.

Knowledge has no value if not used to build value. Since knowledge significantly affects performance, educated entrepreneurs need less time to take their ideas or businesses from A to B as they make less mistakes and better decisions.

THE HUMAN CAPITAL

The 2 biggest components of our human capital

Investors can't fund every promising entrepreneur for one main reason: available funds are allocated to those who prove that they have what it takes to turn their vision into reality.

“Having what it takes” rarely means years of startup experience and a PhD. It usually means:

- Having started and used available resources to create value where the investor will serve as an **enabler** not a condition to start.
- Willingness to **focus, adapt and learn quickly**.

It is worth repeating, i Investors fund people, at least at the beginning stages of the company.

THE SOCIAL CAPITAL

Intro

For economists, the term 'social capital' allows for the consideration of social factors that are normally beyond the purview of economic analysis. Despite their intangible nature, economists have been interested in the role of social factors such as trust, reputation, norms and belonging in economic outcomes.

Social capital is multidimensional, intangible and dynamic. It exists mostly in the minds of individuals as attitudes, values and habituated patterns of thought and action. This makes it intangible since it cannot be directly observed and attempts to measure it must rely on proxies that indicate the presence of the underlying phenomenon. This has led many economists to simplify the concept to its more tangible components, such as **networks of social relationships**, or a single dimension, such as **trust**.

THE SOCIAL CAPITAL

A working definition

“The sum of the actual and potential resources embedded within, available through, and derived from the network of relationships possessed by an individual or social unit. Social capital thus comprises both the network and the assets that may be mobilized through that network”

Nahapiet, Janine and Sumantra Ghoshal. 1998. “Social Capital, Intellectual Capital, and the Organizational Advantage.” *Academy of Management Review* 23(2):242.

Your contact book matters

The starting point

- The closer to the ecosystem you are, the more opportunities you can access to
- The more opportunities you can access to, the easier some good luck will come to you.
- Invest some of your time in expanding your contact book



Your contact book matters

The study (Bonaventura, 2020)

- Using data from 41,380 companies collected over 25 years, the research team created a visual network to show connections between companies and their employees.
- Then, data on funding rounds, acquisitions and initial public offerings were all used as measures of startup success.

Bonaventura, M., Ciotti, V., Panzarasa, P. et al. Predicting success in the worldwide start-up network. Sci Rep 10, 345 (2020). <https://doi.org/10.1038/s41598-019-57209-w>



Your contact book matters

Findings

- Young startups quickly acquiring a central position within the network are more likely to get long-term economic success.
- The team then used this approach to develop success prediction algorithms, which were shown to be 2 to 3 times more accurate when predicting future economic performance than current screening methods adopted by venture capital firms.



Startups

The secret to creating a successful startup is your contacts book

A big data analysis of 42,000 startups has found there's one key thing that encourages growth



By **CHRIS STOKEL-WALKER**

Thursday 25 April 2019



Source: <https://www.wired.co.uk/article/how-to-grow-startup?fbclid=IwAR0LI5-grHFEwSa4dzV0LrH2GWJeJfJiRjooBxotpXlIFbQfw6OcgquCaOYhttps://arxiv.org/pdf/1904.08171.pdf>

Your contact book matters

Conclusions

- The closer to the ecosystem you are, the more opportunities you can access to
- The more opportunities you can access to, the easier some good luck will come to you.
- Invest some of your time in expanding your contact book



The VC contact book matters

The starting point

- Social capital is receiving ever more attention in entrepreneurship research
- However, studies on the role of social capital in entrepreneurship usually focus on the social capital of the entrepreneurs themselves.
- On the contrary, the role of the social capital and social networks of the investing VCs takes a much less prominent position.



The VC contact book matters

The study (Alexy, 2012)

- How does the social capital of venture capitalists (VCs) affect the funding of start-ups?
- Derived from a novel dataset containing more than 1,500 first funding rounds in the Internet and IT sector

Alexy, O.T., Block, J.H., Sandner, P. et al. Social capital of venture capitalists and start-up funding. Small Bus Econ 39, 835–851 (2012). <https://doi.org/10.1007/s11187-011-9337-4>



The VC contact book matters

Findings

- A high-social-capital VC should have a higher willingness to invest into a specific venture in the present (than a low-social-capital VC) for the same share of ownership in the new venture, or to risk buying a larger share of ownership of a specific venture
- In turn, startups that are being invested in by VCs with high social capital might, ceteris paribus, be able to raise significantly larger amounts of financial capital than ventures that are being invested in by VCs with lower levels of social capital.



The VC contact book matters

Conclusions

- The sheer volume of incoming information available to an investor and the uniqueness of this information will increase the amount of money they put into startups (information arbitrage).
- VCs may be successful by strategically building networks alike to both focused boutiques as well as broad generalists. Then, startups need not have a preference for any of the 2 archetypes, as long as the VC either has a clear specialization or diversity strategy with regards to their approach to the selection of syndication partners.



The VC contact book matters

In practice

- For VCs, given the importance of social capital, they will need to build and maintain through suitable strategies. Specifically, both a strong diversification as well strong specialization strategies seem to have merits, whereas hybrid forms could be of lower value.
- For startups, they do not have to be shy about approaching high-social capital VCs. If there is a chance their social capital is beneficial to a specific deal, there is no reason why this should result in the startup receiving a discount on their inherent valuation. In fact, the opposite may hold.

ENTREPRENEURIAL COMPETENCIES

ASSEMBLING HUMAN RESOURCES AND CAPABILITIES

Entrepreneurial spirit and vision needs constant nurturing and support. The founding team's personal characteristics will have a big impact on the long term viability of the project – understanding the 'Big Five' personality traits

ENTREPRENEURIAL COMPETENCIES

04.

- Intro on personality traits
- The Big-5 model
- Differences between
entrepreneurs and managers
- A multidimensional personality
framework

THE 'BIG-5' PERSONALITY TRAITS

Intro on personality traits

Many studies consider the “traits of entrepreneurs” or the “traits that make entrepreneurs successful” and what set them apart from general business managers. However, the typical personality traits of individuals will vary greatly by form of entrepreneurial activity, either SME or Innovation-driven enterprise (IDE).

These studies have often focused on the latter, i.e. high-growth settings or firms financed by venture capital (VC), where entrepreneurs face a high probability of their business failing, a very small probability of extremely positive outcomes.

THE 'BIG-5' PERSONALITY TRAITS

Intro on personality traits

Research on the personality traits of entrepreneurs took off in the mid-20th century, unifying approaches from economics, psychology, sociology, and business management to answer the questions:

- Who is an entrepreneur?
- What drives them?
- What traits define them?

THE 'BIG-5' PERSONALITY TRAITS

Intro on personality traits

With the notable rise of public and intellectual fascination with startup culture, the entrepreneurial personality literature has recently enjoyed a resurgence and convergence toward an increasingly consistent set of theoretical frameworks, with meaningful insights toward innovation policy and business education. The bulk of recent literature seeks to answer two main questions:

- Do certain traits predict an individual's likelihood of becoming an entrepreneur, and
- Do certain traits predict an entrepreneur's likelihood of achieving "successful" outcomes?

THE 'BIG-5' PERSONALITY TRAITS

The Big-5 model

While personality theory remains rife with its own set of contentions, researchers have primarily gravitated over the last few decades to the Big-5 factor personality model. It is a multidimensional approach towards defining personality, through measuring

- openness,
- conscientiousness,
- extraversion,
- agreeableness, and
- neuroticism

THE 'BIG-5' PERSONALITY TRAITS

The Big-5 model

Openness to experience: describes the breadth, depth, originality, and complexity of an individual's mental and experimental life

Conscientiousness: describes socially prescribed impulse control that facilitates task- and goal-orientated behavior

Extraversion: implies an energetic approach toward the social and material world and includes traits such as sociability, activity, assertiveness, and positive emotionality

Agreeableness: contrasts a prosocial and communal orientation toward others with antagonism and includes traits such as altruism, tender-mindedness, trust, and modesty

Neuroticism: contrasts emotional stability and even-temperedness with negative emotionality, such as feeling anxious, nervous, sad, and tense

THE 'BIG-5' PERSONALITY TRAITS

Differences between entrepreneurs and managers

Managers are frequently used as a comparison point for entrepreneurs given the potential need of both groups to direct workers and manage multiple tasks. In a meta-analysis of 23 studies conducted from 1970 to 2002 in a variety of countries and reported in English-language journals, it has been showed that entrepreneurs are:

- more open to experience,
- more conscientious,
- similar for extraversion,
- less agreeable, and
- less neurotic

In the Big-5 lingo, O+, C+, E, A-, N-

THE 'BIG-5' PERSONALITY TRAITS

Differences between entrepreneurs and managers [O+]

In the context of a business venture, an entrepreneur is likely to be attracted to constantly changing environments and the novelty of new challenges.

Individuals who thrive on challenges and novel environments are those who present creative solutions, business models, and products, and the openness of entrepreneurs may aid these functions.

Meanwhile, managers are often selected by their superiors for their ability to execute and deliver high-quality and low-variance results for a given set of directions rather than seek out original solutions.

Thus, researchers theorize that both the environment and job requirements of an entrepreneur select for individuals who are more open to experience.

THE 'BIG-5' PERSONALITY TRAITS

Differences between entrepreneurs and managers [C+]

Higher conscientiousness is the most significant difference between entrepreneurs and managers (C+). Conscientiousness is a composite of achievement motivation and dependability. Entrepreneurs and managers

are similar in dependability, but entrepreneurs score significantly higher than managers in the achievement facet.

In a meta-analysis of 41 studies, it has been concluded that individuals who pursue entrepreneurial careers are significantly higher in achievement motivation than individuals who pursue other types of careers and that entrepreneurs are more achievement-oriented than managers.

It is frequently hypothesized that those with high achievement motivation are drawn to environments in which success is more closely attributed to their own efforts, rather than a larger institutional setting in which business success or failure is less a function of one's individual efforts.

THE 'BIG-5' PERSONALITY TRAITS

Differences between entrepreneurs and managers [E]

Extraversion measures the extent to which one is dominant, energetic, active, talkative, and enthusiastic. Some researchers hypothesize that extraversion could be more important for

entrepreneurs than managers since entrepreneurs act as salespeople for their ideas to investors, partners, employees, and customers.

However, that no reliable difference emerges in the literature. Some studies actually show that entrepreneurs are less extraverted than managers.

This is an area where the definition of "entrepreneur" matters greatly: self-employed persons and growth-oriented founders tend to exhibit very different characteristics.

THE 'BIG-5' PERSONALITY TRAITS

Differences between entrepreneurs and managers [A-, N-]

Entrepreneurs are often found to have modestly smaller amounts of agreeableness and neuroticism (A-, N-) but these differences measured are quite small between entrepreneurs

and managers. Some researchers hypothesize that, because most entrepreneurs eventually become the CEOs of their own ventures, they do not need to worry about pleasing other people around them, whereas managers must at least please their own bosses.

Entrepreneurs to be less neurotic than managers, suggesting that this is because entrepreneurs

require exceptional self-confidence to take on the risks of starting a venture. Overall, however,

there is not a strong pattern of significant results in the current literature on these two dimensions.

THE 'BIG-5' PERSONALITY TRAITS

A multidimensional personality framework

In general, there is broad consensus us that entrepreneurs tend to be more open to experience than the general population, while the other traits are harder to determine.

What lies behind this latter uncertainty?

This limitation may in part reflect the influence of environment on each entrepreneurial population's traits, such that generalizations across populations, industry, and culture are an impossible task.

Necessity- versus opportunity-driven entrepreneurs certainly bring different personality traits, and even the opportunity-driven entrepreneurs in New York City might be different from those in Silicon Valley.

Another critique of the Big-5 framework is the overly general nature of these macro personality traits, such that they cannot easily predict situation-specific behaviors of entrepreneurs.

THE 'BIG-5' PERSONALITY TRAITS

A multidimensional personality framework

Frustrated by these limitations of the Big-5 framework to describe a coherent portrait of the entrepreneur, researchers have shifted toward creating a multidimensional personality framework that incorporates other qualities like:

- self-efficacy,
- locus of control, and
- need for achievement

THE 'BIG-5' PERSONALITY TRAITS

A multidimensional personality framework

Self-efficacy

It describes a person's belief that he/she can perform tasks and fulfill roles, and is directly related to expectations, goals and motivation. In the uncertain and competitive environment of new venture creation, many researchers hypothesize that entrepreneurs thrive on a strong sense of personal self-efficacy to execute their visions. In general, high self-efficacy correlates with work-related performance, small business growth and academic performance. nEntrepreneurs possess higher self-efficacy than managers and non-entrepreneurs.

THE 'BIG-5' PERSONALITY TRAITS

A multidimensional personality framework

Locus of control

A person with an internal LOC conceptualizes that their own decisions control their lives, while those with an external LOC believe the true controlling factors are chance, fate, or environmental features that they cannot influence.

LOC is considered to be a culturally dependent trait.

Many researchers find internal LOC to be stronger in entrepreneurial populations than in other populations. Moreover, a higher internal LOC is further associated with venture growth.

THE 'BIG-5' PERSONALITY TRAITS

A multidimensional personality framework

Need for achievement

It refers to an individual's desire for significant accomplishment, mastering of skills, and attaining challenging goals.

Entrepreneurs might hold a high need for achievement, as building a business from scratch demonstrates one's individual abilities in ways that are often hard to match when working within a system in which responsibility is diffuse.

ENTREPRENEURIAL COMPETENCIES

ASSEMBLING HUMAN RESOURCES AND CAPABILITIES

Building a strong HR team

ENTREPRENEURIAL
COMPETENCIES

05. HR FOR STARTUPS

- Intro
- Why startups need some HR functions
- A successful HR department
- HR Department Checklist for Startups

HR FOR STARTUPS

Intro

Startups rely on a flexible business culture.

They need to be able to fail fast and pivot. Structured HR and recruiting practices aren't the first things they prioritize because executives see them as dreadful "corporate," culture-killers that threaten innovation and flexibility.

So, developing good HR and recruiting processes usually takes a backseat.

HR FOR STARTUPS

Intro

But when left unchecked, unstructured HR and recruiting processes can do more harm than good. They can

- foster toxic work environments,
- create confusion and
- negatively impact employee morale and retention.

Businesses that deliberately develop a strong HR function show that they value employees and their business. These companies are better at hiring employees, developing employees, and retaining employees.

HR FOR STARTUPS

Why startups need some HR functions

When startups invest in HR, they are better at hiring because they are more likely to:

- Create inclusive job titles and descriptions that aren't discriminatory. HR helps come up with accurate job titles and descriptions to entice qualified candidates to apply. This is key for startups looking to scale and hire diverse teams.
- Conduct structured job interviews. Hiring the right people is critical for small businesses, and unstructured interviews invite bias into hiring processes. HR and recruiting staff can help startups follow structured interview processes to rate candidates on fair, predetermined criteria.

HR FOR STARTUPS

Why startups need some HR functions

When startups invest in HR, they are better at **develop** and **retain** because they are more likely to 1/5 :

- **Fairly compensate workers.** Compensation and benefits are a huge part of HR. Without HR professionals, conversations about pay increases are fraught and could come down to how managers 'feel' about an employee or position instead of what the fair market value for a role is. Fair compensation practices also prevent you from developing a gender pay gap.

HR FOR STARTUPS

Why startups need some HR functions

When startups invest in HR, they are better at **develop** and **retain** because they are more likely to 2/5:

- Invest in training **managers**. Startups are full of people who are “generalists” – employees who wear a lot of hats. These generalists often find themselves in management roles, without any formal management experience. Management training is important because the quality of your managers directly affects whether employees decide to stick with you, or abandon ship.

HR FOR STARTUPS

Why startups need some HR functions

When startups invest in HR, they are better at **develop** and **retain** because they are more likely to 3/5:

- Care about workplace culture. Good HR and recruiting departments take the pulse of employees in a way that doesn't feel like policing. They consider their candidate experience, conduct new hire check-ins and meet with managers regularly. This builds a strong culture that feeds a strong employer brand, which leads to better hires.

HR FOR STARTUPS

Why startups need some HR functions

When startups invest in HR, they are better at **develop** and **retain** because they are more likely to 4/5:

- Recognize the need for policies. As businesses grow, new employees may encounter new workplace issues: e.g. how to manage noise, process expenses and manage paid time off. HR departments work with executives to create policies that answer those questions uniformly. This helps manage small conflicts before they become big ones.

HR FOR STARTUPS

Why startups need some HR functions

When startups invest in HR, they are better at **develop** and **retain** because they are more likely to 5/5:

- Cultivate career paths. When companies reach at least 30 employees, figuring out how to develop those employees becomes critical to retaining them. HR is the best arm of your company for developing career-pathing programs to prevent turnover, which is expensive and disheartening for employee morale.

HR FOR STARTUPS

A successful HR department

What you don't need to build and run a successful HR department 1/2:

- **Jargon.** Jargon alienates employees, fosters distrust and diminishes productivity. HR departments should strive to communicate clearly, concisely and in-person, whenever possible.
- Going "by the book" in **every case.** Startups don't need to have hard and fast rules that govern every aspect of office life (e.g. formal dress codes are out of fashion.)

HR FOR STARTUPS

A successful HR department

What you don't need to build and run a successful HR department 2/2:

- A defined set of 'corporate values.' At the corporate level, you might need these – as there are usually many divisions, employees and cultures at bigger companies. But as a startup, corporate values can be limiting, and may change as your company evolves.
- An employee handbook. You need some policies (e.g. sick time, paid time off) but as a startup, you probably don't need something as exhaustive as an employee handbook.

HR FOR STARTUPS

A successful HR department

What you need to build and run a successful HR department 1/3:

Hire the right HR staff. They will be the ambassadors of your company culture, so look for individuals who embody it. Consider people who can serve as both:

- HR coordinators: This person meets with employees on a regular basis and encourages managers and employees to resolve issues amongst themselves.

- Recruiters: This person should meet with managers regularly to gain a sense of what qualities they value in candidates. They should also be able to identify each department's hiring needs, build talent pipelines and create good candidate experiences.

HR FOR STARTUPS

A successful HR department

What you need to build and run a successful HR department 2/3:

Encourage proactive HR involvement. Proactive HR staff do the legwork to meet people face-to-face and learn what drives employee engagement. This fosters trust in HR, instead of fear. Proactive HR employees

- Conduct regular check-ins with employees
- Meet with passive candidates
- Welcome new hires with flair

HR FOR STARTUPS

A successful HR department

What you need to build and run a successful HR department 3/3:

Empower your HR staff. An empowered HR staff is a group that doesn't have to run back and forth between executives and employees to gain approval for everything they say. They are free to represent employees and share information with them. Their employee goals might include:

- Onboarding employees correctly
- Measuring employee engagement
- Communicating with employees about what's going on at the company
- Being competitive with compensation and benefits

HR FOR STARTUPS

HR Department Checklist for Startups

Putting the right HR policies in place can help your startup grow smoothly. Use this checklist to cover the basics and give your new venture a head start.

Compliance

Ethical Behavior

Do you have policies for harassment and workplace safety in place?

Do you have additional conduct guidelines to develop a healthy culture?

Document Storage and Audits:

How will you collect needed signatures?

Where will you store signed documents?

HR FOR STARTUPS

HR Department Checklist for Startups

Compensation

Pay Ranges

Based on labor market trends, what should your organization set as starting pay for each position?

How much room will employees have to grow in their salary?

How often will compensation be reviewed?

Benefits

How will you cover the benefits required by federal and state law (unemployment insurance, disability insurance, workers' compensation, etc.)?

Which basic benefits and perks will your employees expect?

HR FOR STARTUPS

HR Department Checklist for Startups

Payroll

Dividing Responsibilities

What technology will you use to process your payroll?

Which employees will be responsible for overseeing payroll?

Will you outsource your payroll processing?

HR FOR STARTUPS

HR Department Checklist for Startups

Recruiting

Hiring Strategy

How will managers in your organization request new hires?

Who will need to approve new hire requests?

Diversity

How will you ensure that your hiring is non-discriminatory?

How will you screen for candidates that match your organization's values?

How will you find candidates that represent a diversity of backgrounds and life experiences?

HR FOR STARTUPS

HR Department Checklist for Startups

Onboarding

Orientation

What essentials do you need to cover during orientation?

What will you do to introduce new hires to your culture?

Which documents will you have new hires read and sign before their first day?

Training

What resources will your managers need to train new hires?

How will you follow up to ensure new hires are fully utilizing their benefits?

HR FOR STARTUPS

HR Department Checklist for Startups

Performance

Assessing Performance

What structure will you provide for managers to assess and report performance?

How will you record and track employee goals?

How often will employee compensation be reviewed and updated ?

ENTREPRENEURIAL COMPETENCIES

ASSEMBLING HUMAN RESOURCES AND CAPABILITIES

The key role of the Board of Directors and other third parties -to provide strategic direction,
support and governance

ENTREPRENEURIAL
COMPETENCIES

05. BOARD OF DIRECTORS

- Intro
- Basic principles
- Effective startup board members
- Working with boards

BOARD OF DIRECTORS

Intro

Put it simply, advising is the paid version of mentoring. Yes, you need advisors!

As a general rule, early stage startups compensate advisors with 1% equity in the company. This amount varies according the advisor's expertise, role within the company, and the stage of the company. Some cash may also occur.

BOARD OF DIRECTORS

Intro

Advisors working more than 2 days a month indicate a 'real' time commitment.

Advisors working less than 2 days a month may indicate him/her being hired as a figurehead, someone to impressing on the company pitch deck or web site.

Advisor roles usually fall into one of 3 categories:

- general advisor
- technology advisor and
- board.

BOARD OF DIRECTORS

Intro

General Advisors

They are similar to Board Advisors, but do not sit on the board of a company. This does not indicate that they have less experience, but simply that they have less input over the strategic direction of the company. For example, an ex- Chief Marketing Officer from a different industry to the startup might be an invaluable General Advisor.

BOARD OF DIRECTORS

Intro

Technology Advisors

They help the company with broad knowledge of the state of the tech sector, implementing technology best practices and system architecture. They are often there to shape the longer term tech vision and roadmap in a way that would be too time consuming for a CTO who ends up getting consumed by the daily tasks.

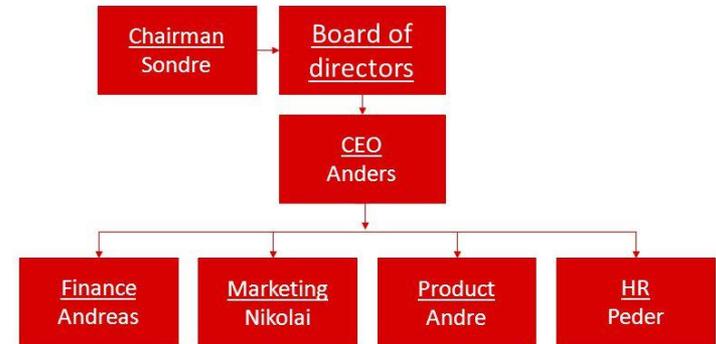
BOARD OF DIRECTORS

Intro

Board advisor

They are experienced ex-founders or industry experts whose input is sought into the strategic direction of the company, and they are given a seat on the company's board of directors to help shape the company strategy and decision-making.

Organization chart



BOARD OF DIRECTORS

Basic principles

A few basic principles that every founder should know when it comes to establishing a Board, 1/6.

Legal '

It's a legal requirement in most jurisdictions for private companies to have at least one director (i.e. it can just be the founder). Public companies, however, usually have more than one director (depending on the jurisdiction) on their Board. The Board is subject to fiduciary duties, which, in a general sense, obligate them to act in the best interest of the company.

BOARD OF DIRECTORS

Basic principles

A few basic principles that every founder should know when it comes to establishing a Board, 2/6.

What

It's the Board's responsibility to ensure that the interests of the shareholders are being considered in the strategic management and overall direction of the startup. At the early-stage, the interest of the Board and shareholders are aligned as the shareholders are the founder(s) and VC investors.

BOARD OF DIRECTORS

Basic principles

A few basic principles that every founder should know when it comes to establishing a Board, 3/6.

Who

The composition of a Board can vary depending on the stage of a company. However, the typical startup board is comprised of the founder(s), a VC (as the lead investor of a funding round), and independent board members chosen by the founder(s).

BOARD OF DIRECTORS

Basic principles

A few basic principles that every founder should know when it comes to establishing a Board, 4/6.

When

Startup boards are usually formed at the initial round of venture capital funding (if not earlier), and upon which, the size and composition of the Board are a negotiating point in the term sheet phase.

BOARD OF DIRECTORS

Basic principles

A few basic principles that every founder should know when it comes to establishing a Board, 5/6.

How

The frequency of board meetings can range from monthly to quarterly, but startup board members may also hold more frequent 'informal' meetings to address unforeseen circumstances (which there will be plenty by virtue of being an early-stage company).

BOARD OF DIRECTORS

Basic principles

A few basic principles that every founder should know when it comes to establishing a Board, 6/6.

Remuneration

The remuneration of board members will depend on the circumstances. For example, VCs taking a board seat in their portfolio companies are not remunerated. However, independent board members may be remunerated in the form of a small equity stake.

BOARD OF DIRECTORS

Effective startup board members

There are some characteristics that effective startup board members possess regardless of a startup's growth stage 1/4

Experience / Domain Expertise

Look for someone who has **been there and done that**, who will not only help you navigate the rough startup terrain, but also bring strong network connections in the market you wish to capture. VC board members are helpful, however, you don't want to rely on them as your only source of operational experience. Rather, aim to seek out board members with true operational experience in your market.

BOARD OF DIRECTORS

Effective startup board members

There are some characteristics that effective startup board members possess regardless of a startup's growth stage 2/4

sharp Opin**ion**

Consistent and constructive discussions are at the heart of an effective board. Having a board member who is quiet and fears speaking their mind is of little use. Effective board members are **radically transparent** and are not afraid to explore uncomfortable topics for the purposes of better decision-making.

BOARD OF DIRECTORS

Effective startup board members

There are some characteristics that effective startup board members possess regardless of a startup's growth stage 3/4

Responsive

Startups move at a rapid rate and you need responsive board members who are committed to returning your calls, text, and emails in a short time frame. Things will undoubtedly come up – lawsuits, financing issues, recruitment of employees, etc. The best board members help you put out any fires, help you understand where you went wrong, and assist you with planning your next steps.

BOARD OF DIRECTORS

Effective startup board members

There are some characteristics that effective startup board members possess regardless of a startup's growth stage 4/4

Adds Real Value

Board members are not just there to attend meetings. Effective board members add real tangible value to startups in the form of introductions to potential customers and partners, interviewing key candidates, coaching senior management, speaking at sales events, assisting with securing financing, and everything else in between.

BOARD OF DIRECTORS

Working with boards

Many types of companies require board by law. On the other hand, it may sound a bit awkward setting up a board in a solo founder startup. The board is the shareholders' representatives to the management of the company.

A good board

- is small (easier to organize calls and meetings)
- had an odd number of members (no deadlock situation)
- 3 to 5 members for startups (begin with 3)
- equal number of founders & external investors plus one who is neutral (chosen by the founders)
- is time consuming to manage

BOARD OF DIRECTORS

Working with boards

However, things can get complicated as the startup grows:

Seed Stage: 3-person Board, comprising of 1 Seed investor (maybe an angel or micro-venture capital investor), 2 co-founders.

Series A: 5-person Board, comprising of 1 Seed investor, 1 Series A VC investor, 2 co-founders, and 1 independent director.

Series B: 5-person Board, comprising of 1 Series A VC investor, 1 Series B VC investor, 2 co-founders, and 1 independent director.

Series C: 5 to 7-person Board, comprising of 1 Series A VC investor, 1 Series B VC investor, 1 Series C VC investor, 1 to 2 co-founders, 1 to 2 independent directors.

Series D: 7-person Board, comprising of 3 VC investors, 1 to 2 co-founders, 1 to 2 independent directors.

BOARD OF DIRECTORS

Working with boards

The foolish CEO

- concentrates all dialogue with the board about formal board meetings
- discloses important board material only at the actual board meeting and before
- makes the board meeting into a sales presentation

The wise CEO

- books all board meetings one year in advance
- combines the formal meetings with continuous dialogue (emails, board calls, short telephone conversation)
- reports regularly to the board in order for them to get well prepared for the formal meeting

BOARD OF DIRECTORS

Working with boards

sequoia capital, the prominent Silicon Valley venture capital firm, has long been a proponent of using 'board decks' to maximize the value founders get from board meetings whilst minimizing the time spent on preparation, with the likes of Dropbox, TuneIn, and Thumbtack using the following structure.

Running an effective board meeting

- 15 MINUTES**  **1 Big Picture**
CEO Update, Highlights, Challenges, Discuss company needs
- 45-60 MINUTES**  **2 Calibration**
Funnel metrics, Engagement metrics, Financial metrics, Performance vs Plan
- 15 MINUTES**  **3 Company Building**
Org Chart, Product Roadmap, Quality, Updates from teams: Engineering & Tech, Growth, Marketing, Business Development, Operations, Quarterly P&L, Monthly waterfalls
- 4 Working sessions**
- 30 MINUTES** **Topic 1**
Deep dive: functional area, large partnership opportunity, business challenge
- 30 MINUTES** **Topic 2**
Deep dive on quarterly company goals, product challenges
- 15 MINUTES**  **5 Closed session**
Formalities, stock option grants, etc.