4 Venture teams start-ups: An undiscovered field of research

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The importance of venture teams

Success or no success - that is the question in economics for managers as well as for entrepreneurs, for single fighters as well as for venture teams. Therefore entrepreneurial success and its requirements are of great importance in scientific research, too. In several research projects scientists analyze it, but they take into account only very factors of influence.

Most stressed of these factors is the new entrepreneur as a *person*. Besides the scientists refer to *economic factors* concerning the enterprise and to *government aid* (Müller-Böling/Klandt 1989: 143 f.). All these single projects lack a connecting *theory of entrepreneurial success* (Picot et al. 1989: 1). Müller-Böling stresses the importance of a *conceptional framework* as a requirement for the development of a scientific theory (Müller-Böling 1984: 17 f.).

Which object is to choose for scientific research - this question is the first problem a scientist has to solve - and it is an important one, because the object might influence the results seriously. In economics *venture teams* are neglected or even ignored in the most cases. And that in spite of the fact that the number of venture teams - especially in technical branches of business - is increasing steadily (Albach/Hunsdiek 1987: 563 f.). But this fact contradicts traditional economic theory, which does not include venture teams. Perhaps they are ignored for that reason.

The entrepreneur as 'single fighter' - described by Schumpeter

Schumpeter founded economic theory of the entrepreneur as it is today. But that was already in 1926. He defined entrepreneurs as 'subjects of economic business, who are the

active elements and push through new combinations.' (Schumpeter 1926: 111; translated by Müller-Böling) He excludes teamwork for the real entrepreneur of his definition. For such a person *power* is as important as the will to win and the possibility of being creative himself (Schumpeter 1926: 138). It sounds absurd that someone should share these possibilities. The entrepreneur does not want to share or to work in a team, he fights alone, and he likes it. And Schumpeter is of the opinion that the entrepreneur has to fight, because he has to defend his innovations against legal, political and - last but not least - social sanctions (Schumpeter 1926: 126). Lack of understanding of all the others is the basis of his work, he does not expect and he does not need partners or support of a team. So far Schumpeters theory.

Examples of well-known and successful venture teams in Germany

In reality there are some entrepreneurs of the type described by Schumpeter of course. But there is an equal number of enterprises that was started by two or more founders or was taken over by a team later.

For Schumpeter 'the functions of inventor or engineer and of entrepreneur are separated' (Schumpeter 1926: 129; translated by Müller-Böling). According to his theory only the real entrepreneur is of any importance for national economy. But meanwhile reality proved him wrong, because there are many successful enterprises that were started by teams, in which the partners were able to cooperate and to complement one another.

Some of the examples stem from the American high-tech-market of the last 40 years. Names as Hewlett-Packard, Intel or Apple are well-known all over the world and were started by venture teams. In Germany some well-known brands also were invented by team-start-ups. *Carl Benz* for example went bankrupt twice before he cooperated with marketing-expert *Julius Ganß* and businessman *Friedrich von Fischer* successfully (Simsa 1987: 28 f.).

Engineer *Wilhelm Maybach* and entrepreneur *Gottlieb Daimler* led the *Daimler-Motor-Society* to success (Simsa 1987: 21 f.). And a similar venture team started *Fichtel und Sachs*, one of the most important enterprises in ball-bearing industry (Beck 1987: 280 f.).

Family start-ups also proved successful in Germany. *Kaiser's Kaffeegeschäft, Melitta* and *Adidas* were started in such a way. *Melitta* and *Hugo Bentz* were married (Block 1987: 227 f.), and so were the founders of Kaiser's *Wilhelm* and *Louise Schmitz* (Ueffing 1987: 161 f.) as well as *Adi* and *Käthe Dassler* (Kaiser 1987: 82 f.).

Gerhard Dannemann was looking for a partner, who already produced cigars. And he found *Auguste Blase* (Hill 1987: 98 f.). And very well-known German enterprises such as *Haribo* in sugar confectionary industry (Rieck 1987: 201 f.) or tailor *Hugo Boss* (Ingersoll 1987: 55 f.) were started by one traditional entrepreneur, but are now led by a venture team.

These examples are not new. Most of the enterprises mentioned were started in the 19th century. Venture teams are not at all a new phenomenon in connection with business start-ups. And it is an interesting one for scientific research.

Conceptional framework for venture team start-ups

Most of scientists in economics do not see the necessity of research in this field of venture team start-ups. The results published in Germany are few and they are isolated. It is not

possible yet to integrate them in a *conceptional framework*, which makes possible a theoretical basis.

During the following chapters the attempt is started to develop such a conceptional framework, which can be discussed afterwards. It is specially developed for venture team start-ups. Another conceptional framework concerning start-ups as a whole has been presented before (Müller-Böling/Klandt 1989).

Entrepreneurial success depends of four factors of influence:

* macro-social environment
* person and partner
* business planning
* start-up firm

Macro-social environment

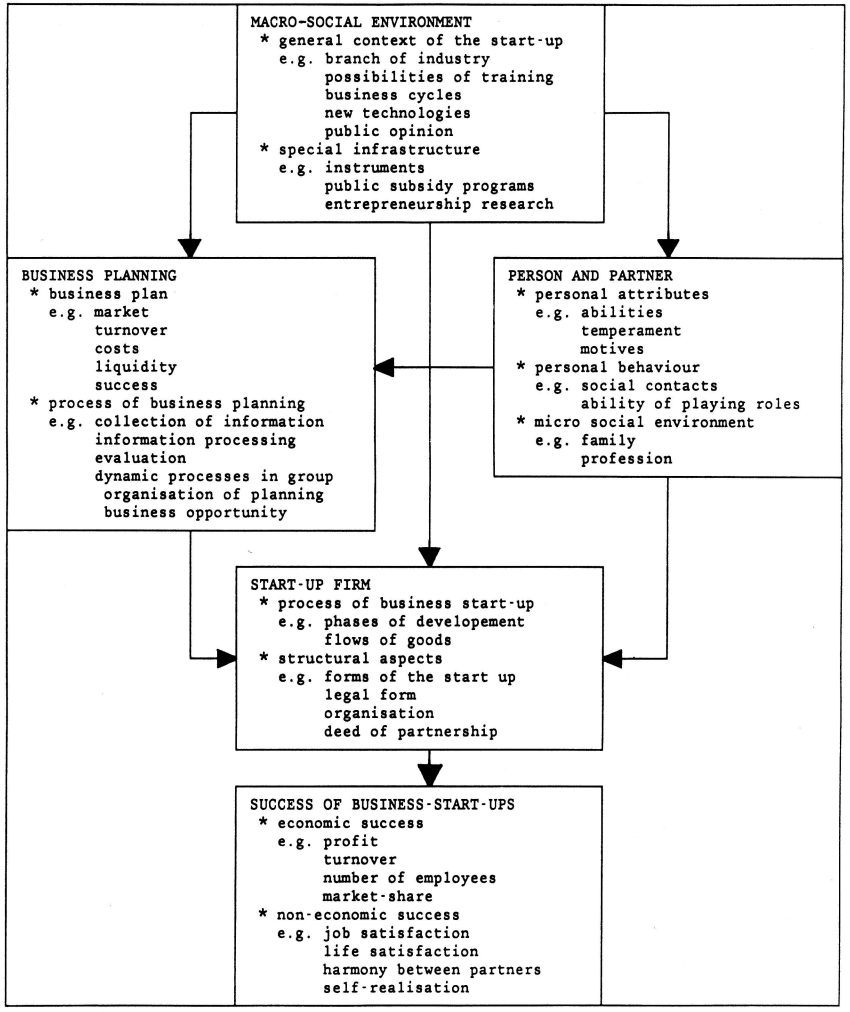
A new enterprise has to be judged in two different contexts. On the one hand one has to consider the branch, in which it wants to work, the possibilities of training, business cycles, new technologies and public opinion concerning business start-ups as a whole. These factors belong to the general context of the start-up (Müller-Böling/Klandt 1989: 155 f.).

On the other hand the more special infrastructure of the start-up has to be examined. Which persons or institutions help the new entrepreneur starting his enterprise? Are there consultants, banker or venture capitalists to aid him? Does government aid exist, which supports the founder financially? Do scientists deliver results of research, that might prove helpful? The answers to these questions influence success or failure of the new enterprise.

Person and partner

For one single founder a personal theory of business start-ups does already exist. The most important work in this field was published by Klandt in 1984. He describes the influence of character and situation of the new entrepreneur on success or failure of his enterprise. For venture teams a similar theory does not exist yet, but it is possible to deduce it from Klandt's results.

Figure 1
Conceptional framework for venture team start-ups



In this context one has to analyze personal attributes such as abilities, temperament and motives as well as personal behaviour for example during social contacts or the ability and necessity of playing roles (Müller-Böling/Klandt 1989: 158 f.).

But the founder does not live as a single or isolated person. Micro-social contacts such as in family, with friends or colleagues play an important role for a person. And so they influence the success of a new enterprise. 'The term 'social' must be applied to all social interaction and in that way refers to the special field of economic integration. 'Micro' means that only a part of the complete social surrounding is sorted out, which is important for one single person or a group in society. (...) Specific situations in family or at work are typical of micro-social surroundings.' (Klandt 1984: 48; translated by Müller-Böling)

Concerning venture teams personal attributes must not be examined isolated for one single individual. Combinations of attributes in the venture team are of even greater importance. Which of these combined attributes have any influence upon economic success? This question is interesting for further research in this part of the conceptional framework presented here.

Business planning

According to consultants as well as financiers and scientists business plans are one of the most important factors of influence upon economic success. But this opinion is not proved yet in economics. Business plans in venture team start-ups afford special chances and problems. On the one hand it is possible that the plan is discussed intensely and is of greater quality therefore. On the other hand discussion might be so intense that no or no good plan can be made at all.

So there are two aspects of business plans that have to be discussed. First research concentrates upon the *business plan as such*. The plans made for venture team start-ups are not different from that made for enterprises with only one entrepreneur (Müller-Böling/Graf 1988: 615 f.). The components are just the same, one can find questions of market structure and costs as well as liquidity and success plans.

Second the *process* of developing a business plan might be extremely different in venture teams. One has to consider dynamic processes in group that influence the collection of information as well as the working on them or their evaluation. Closely connected are the organization and the kind of work necessary for making a plan. The idea, what sort of enterprise the new entrepreneur wants to start, is important in this context, too. Despite it is examined only seldom, even for single entrepreneurs (Picot et al. 1989: 53).

Start-up firm

Even according the enterprise as such one can distinguish processual and structural aspects of research (Müller-Böling/Klandt 1989). Concerning the process of the start-up *steps of development* or *flows of goods and services* have to be examined. In this context one has to distinguish between real goods such as products or services, nominal goods (finances) or information goods (data, accountancy).

Structural aspects are different forms of start-ups, for example a full-time engagement of the entrepreneur in his business start-up versus a part-time engagement, independent enterprises versus dependent foundations or e.g. the form of management-buy outs. Besides one has to consider different legal forms in connection with the start-up in a venture team or the organization of the enterprise, that means division of labour and responsibility

between the partners. Picot et al. (1989: 53) stress that one has to judge contracts with others as well as arrangements inside the enterprise.

Success of business start-ups

According to the conceptional framework discussed here success depends on all the other factors mentioned before. On the one hand there is the economic success of an enterprise, to be seen from profit, turnover, number of employees or market-share. On the other hand the phenomenon of non-economic, subjective success of the entrepreneur has to be analyzed. Factors like job or life satisfaction, harmony between the partners or the possibility of self-realization have to be judged in this context (Müller-Böling/Klandt 1989: 160f.)

Some empirical results concerning venture team start-ups

In Germany special empirical analysis of venture team start-ups do not exist. There are only some works that do *partly* refer to venture teams:

Klandt/Kirschbaum (1985): Klandt and Kirschbaum studied start-up and development strategies of young software firms. They questioned 25 business start-ups and addionally used data of 16 cases of an analysis of a market research institute. The managers or partners of the start-ups were interviewed in face-to-face interviews based on an interview guide and after one year additionally by a questionnaire.

Albach/Hunsdiek (1987) and Hunsdiek (1987): Start-ups in technical branches are central in the work of Albach and Hunsdiek, because these branches are of great importance concerning structure and development of national economy. They studied 67 enterprises in West Germany founded at the end of the seventies and in the beginning of the eighties. Albach and Hunsdiek were supported by enterprise centres, consultants and incorporated firms. The scientists used a questionnaire with open questions as well as with closed.

Kulicke (1987): Enterprises in technical branches were analyzed by Kulicke as well. She used a structured questionnaire and questioned 83 entrepreneurs. The start-ups analyzed by Kulicke were settled in industry-branches with high growth founded after 1960.

Picot et al. (1989): Picot et al. questioned 53 founders of innovative enterprises. The scientists were supported by chambers of commerce, ministries of economy, and enterprise centres. The interviews were made in spring and summer of 1987. Picot et al. tried to examine as many branches as possible.

Müller-Böling (1989): Venture teams were theme of a specialized study made by students of business management at the University of Dortmund. On the one hand 31 interviews were made in 16 different enterprises. On the other hand groups of students were observed, which played a management business game simulating a start-up realistically. The groups observed consisted each of a student of information science, of mechanical engineering and of economics.

According to the conceptional framework presented before the results of these four examinations are summarized on the following pages.

Macro-social environment

Only in the study of Müller-Böling information are given about the infrastructure of start-ups such as finances and consultants:

Finances: In half of the enterprises finances are judged as the most serious problem in context with start-ups (Falkenhagen 1989: 13 f.). Another half knows the need of capital stock correctly even in the beginning. Concerning government aid 66 percent of the interview-partners are of the opinion that venture teams are preferred (Falkenhagen 1989: 17 f.). So they are in contact with their bank.

Consultants: Consultants specialized for start-ups are consulted only in very few cases. Compared with that banker, private friends and wedded partners are judged very helpful (Falkenhagen 1989: 22 f.). On the contrary parents, business partners and consultants in chambers of commerce seem not very helpful to the entrepreneurs questioned. No help is needed in finding the idea, what sort of enterprise to start (0 percent), in conceptioning the enterprise (33 percent), or in finding the ideal team (7 percent) (Falkenhagen 1989: 25 f.).

Person and partner

Personal abilities: Most of the partners in a venture team meet each other at work (97 percent) (Neumann 1989: 35 f.). Teams arranged by agencies play no important role. Only 10 percent of the founders are women, most of them are between 26 and 40 years old (77,4 percent) (Neumann 1989: 27 f.) - the same age as in start-ups of one single entrepreneur. 62,5 percent of the entrepreneurs questioned worked in the branch of their enterprise before. In most of the cases entrepreneurs try a start-up only once, 19 percent tried it twice or even more often.

58 percent went to colleges or universities, only 20 percent of the entrepreneurs left school after 10 years (Neumann 1989: 28). Mostly one member of a venture team has got a degree, the others have not. High and low qualification working together - this constellation is very typical of venture teams. Missing qualification for example in economics is compensated in a team working together (Albach/Hunsdiek 1987: 568).

Picot et al. (1989: 99) also stress the importance of complementing and supporting one another in a venture team. The know-how necessary for entrepreneurial success should be spread between the partners to achieve success. 'Theoretically one founder should fulfil all functions necessary for the enterprise: the function of co-ordinating information (finding and developing of ideas) as well as the functions of co-ordinating resources and markets. In practice the main emphasis often is found in one field, mostly in the technical one. (...) Therefore supplementing of abilities is necessary, most likely in the person of a partner, whose abilities lie in other fields of entrepreneurial necessities.' (Picot et al. 1989: 259; translated by Müller-Böling)

Venture teams consist of specialized partners, single entrepreneurs have a wider range of experience in different functions of the enterprise (Kulicke 1987: 146 f.).

Micro-social surroundings: Most of the new entrepreneurs start their enterprise without concrete help of friends or relatives. But these persons support the founders in another way: they admire their initiative (Neumann 1989: 33 f.). The more other entrepreneurs are known in private contacts the more positive the attitude of friends and relatives is.

Business planning

Ideas for a new enterprise are very stable. 94 percent of the new enterprises follow the first idea (Staude 1989: 52 f.). More time is necessary to make a business plan in a team than by a single entrepreneur. But the partners believe their plan to be of higher quality (Staude 1989: 54 f.).

Looking at the start-ups in the management business game the group found out that during the first period after the start-up all entrepreneurs have to plan most intensely, because each decision is new for the team and many of them are decisions important for all the following periods (Wittram 1989: 129 f.).

Besides the analysis of decisions made in the periods before is important. Most teams discuss objective and functional and avoid emotional quarrels. After a failure longer discussions follow but the number of themes discussed decreases because the teams use their faults made before for learning (Wittram 1989: 126 f.). All the decisions are made in team, none of the partners becomes a specialist for one field or the other.

Start-up firm

Form of new enterprise: Venture team start-up.

In technical branches the trend leads to more venture team start-ups. Hunsdiek proofs a high number of venture teams in this field, and besides he found out that the teams themselves grow in number. 'From 1962 to 1983 the number of partners in one enterprise was 1,7, in 1984/85 it grew up to 2,2.' (Hunsdiek 1987: 55; translated by Müller-Böling)

A similar effect Müller-Böling found out. Only 56 percent of the venture teams consist of two partners. A quarter starts the enterprise with three, 19 percent with four partners (Neumann 1989: 34 f.).The same results Kulicke found out: 'This tendency one can consider since 1974. 64,7 percent of the 34 enterprises founded before 1974 were started by one single entrepreneur. 66,7 percent of the younger enterprises were founded by a venture team.' (Kulicke 1987: 108; translated by Müller-Böling) Picot et al. (1989: 98 f.) found out that more than half of the entrepreneurs questioned by his team started their enterprise with one, two, three or more partners.

Teamwork: Mostly conflicts between partners are solved with the help of discussions, though serious conflicts are quite seldom. Problems between the partners are more probable in teams with great differences of age between the partners (Diegmann 1989: 65).

Success of business start-ups

Economic dimension: Especially in technical branches of industry venture team start-ups are more successful in tendency. Albach/Hunsdiek (1987: 577) found out that 43 percent of the venture teams are successful whereas only 20 percent of the single entrepreneurs have similar success.

In the analysis of Picot et al. (1989: 259) 63 percent of venture teams reach the group of very successful enterprises. On the contrary only 38 percent of the single entrepreneurs reach this group. Klandt/Kirschbaum (1985: 85) also differentiated two extreme groups of success (terciles). Five of 13 venture team start-ups belong to the higher group whereas only two of 11 single entrepreneurs reach this group.

One requirement for such a success are heterogeneous teams, where knowledge is intensed and spread, not multiplied.

According to Kulicke (1987: 269) no interdependency between the pure number of partners and entrepreneurial success does exist. 'The variable number of team-members cannot explain profits in the enterprises examined.' The number of partners cannot positively influence growth. The combination of qualification matters.

Klandt/Kirschbaum (1985: 85,86) find references for a correlation between division of responsibilities and the success of the business start-up. Five of seven successful start-ups divide responsibilities for distribution and production, but only one of seven unsuccessful enterprises has this division.

In the management business game harmony in group is decisive for success (according to profits in the end of all game periods). (Meyer 1989: 146 f.) Recognition of problems and intense discussion influence success positively. Short discussion of the decision concerning the location of the enterprise prevent success as well as stressing such activities as analyzing and predicting in comparison to economic problems. Failing teams need more time to decide and therefore had less time for the many decisions necessary in a successful enterprise (Meyer 1989: 157 f.).

Non-economic dimension: The entrepreneurs questioned told the team of Müller-Böling their own non-economic aims, they planned to achieve with the start-up. Their contentedness with these aims is above-average. Even this contentedness is connected with the combination of different qualifications in the venture team (Staude 1989: 48f.)

Requirements for research and training

This first and only small attempt to present the scientific results in the field of venture team start-ups shows how few these results still are. A more basical research is necessary, and it is necessary soon - not only because of the lack of knowledge, but also because of the serious lack of practical training for entrepreneurs.

Looking at the growing number of venture team start-ups and their increasing importance concerning management-buy outs an intense discussion about their pros and cons would be beneficial - as well as about requirements and obstacles.

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