ENTREPRENEURIAL MANAGEMENT

What Makes a Successful Startup Team

by Eva de Mol

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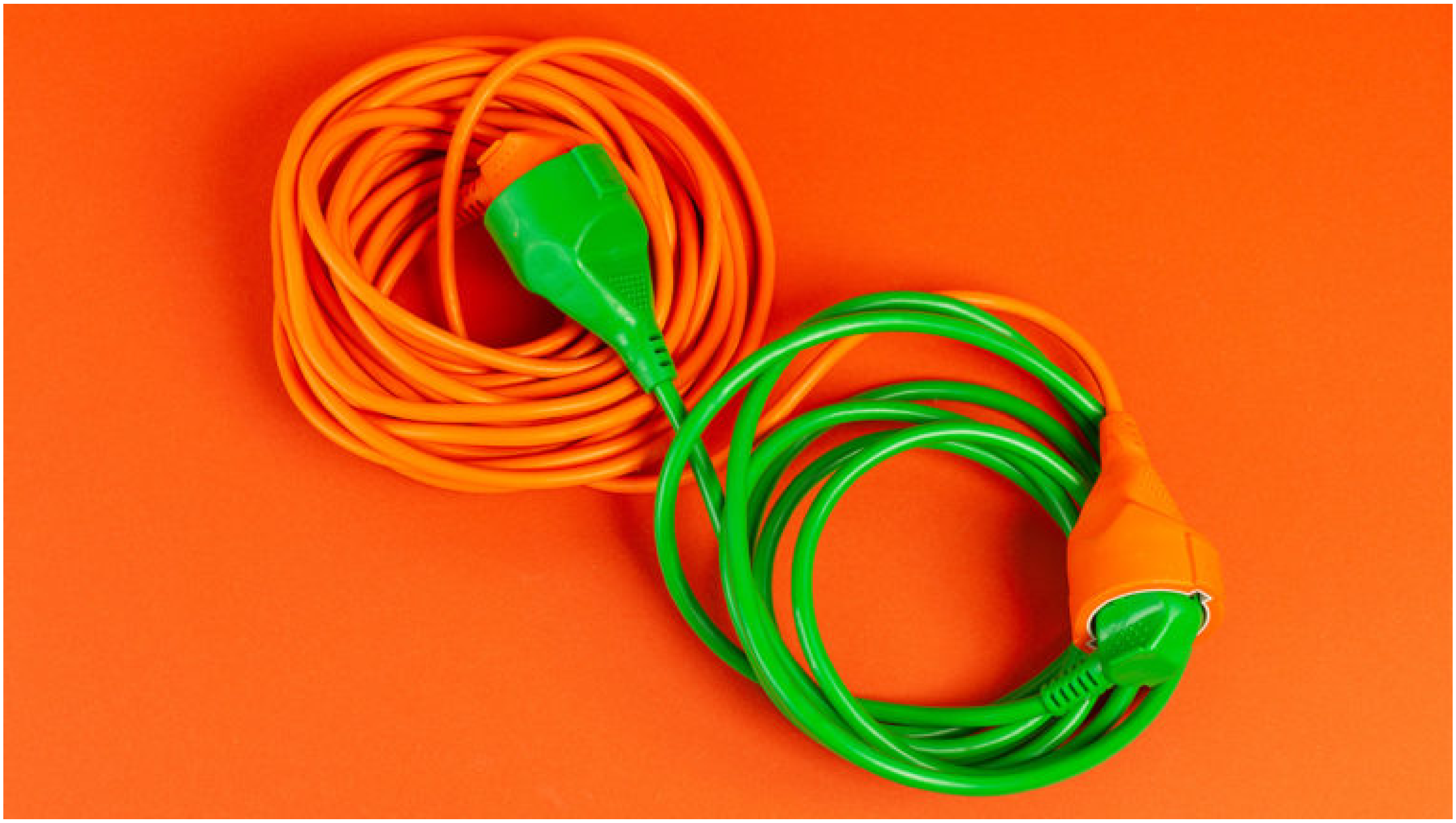

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When venture capital investors are doing due diligence, they focus carefully on the financial side of the business. Does the company have an interesting business model? How big is the addressable market? What are the growth plans of the company? They hire expensive experts and use advanced data tools to answer these questions and ensure that every financial detail is on the table.

But when it comes to evaluating the startup team, gut feel and intuition tend to be the main due diligence instruments that come into play. This isn't a great approach. Data shows us that 60% of new ventures fail due to problems with the team.

What makes a successful startup team?

One common answer is that prior startup experience, product knowledge, and industry skills predict the success of a new venture. But is prior experience sufficient for a team to work well together? In a recent study of 95 new startup teams in the Netherlands, we explored that question.

Read about our study

Our study was conducted among 95 new startup teams in the Netherlands. All startup teams were part of an accelerator program and had been working on their business for at least 3 years and were active in the high technology sector. On average teams had 2.3 members, 71% of the entrepreneurs were male, with an average age of 34. The average education level was a Masters' Degree, and 43% of the participants had prior start-up experience.

We first announced our research during an events day at the start of the accelerator program, and then contacted all team members via email, asking them to complete a survey. This first survey asked them questions about their human capital skills, such as prior startup experience, industry experience, level of education and previous work experience. We also asked questions about their experience of entrepreneurial passion and their strategic vision for the company. For example, we asked team members whether they agreed about the short and long term strategic goals of the venture.

One year after the first survey we collected our performance data when all startup teams were evaluated by experienced venture capital investors. These investors evaluated written business plans and financial progress of the companies on five dimensions: innovation in

We found that experience alone was not enough to make a team thrive. While experience broadens the teams' resource pool, helps people identify opportunities, and is positively related to team effectiveness, a team also needs soft skills to truly thrive. Specifically, our study shows that shared entrepreneurial passion and shared strategic vision are required to get to superior team performance as rated by the external venture capital investors.

Of the startups we studied, the group that reported high levels of previous experience but average to low levels of passion and collective vision demonstrated weak team performance when it came to innovation in products and services, customer satisfaction, cost control, and expected sales growth. Contrary, the group of teams that reported average levels of previous experience but high levels of passion and collective vision demonstrated significantly stronger performance.

We also found that greater team experience only leads to better performance if team members share a strategic vision for the company. Thus, when team members don't agree on the future strategy of the firm, the knowledge and skills they have will only marginally contribute to team performance.

Stellar teams have it all: hard and soft skills

When we talk about this balance between team member experience (hard skills) and passion and vision (soft skills) there's a sweet spot where stellar teams seem to live. If team members are super smart and experienced, but they don't feel like sharing this knowledge due to a lack of alignment about the vision for the company, their knowledge is useless for the business. Instead, these differences in passion and vision make teams perform worse. For example, if the CTO in the startup team has a lot of experience in the cyber software industry that is useful for building the current business, but she doesn't agree with the CEO on the future strategy of the company, she is less likely to share all her previous knowledge on cyber software within the team.

To illustrate the importance of evaluating an entrepreneurial team with this balance between hard and soft skills in mind, let's look at the case of Emma, an investor at a venture capital firm. (The names of people and institutions in this story have been changed for anonymity.) Emma recently told me about a potential investment in a software company in Stockholm that she was very excited about. Let's call it Clocker. When Emma read about Clocker and received the company materials, she was thrilled to meet the team. In addition to the interesting financials, the team's track record was outstanding.

The CEO had in depth industry knowledge, worked in the software space for years, and led the product division for Salesforce. The CFO graduated from Harvard, had worked for Bain & Company before joining Clocker and had very strong financial and strategic skills. The VP of Sales was a sales tiger who had worked as an account manager for Microsoft. Finally, the fourth team member was very hands-on, a serial entrepreneur with a successful exit on her resume and some experience with start-up failures. On paper, this team for sure seemed to have all it would take to successfully scale up Clocker and ensure a nice return on the investment.

Nevertheless, when the team members presented their pitch in the boardroom and elaborated on the Clocker growth strategy, Emma was disappointed. The story just didn't hold. While the CEO told Emma that she wanted to expand to the U.S. and become the next Salesforce, the CTO did not seem to share this ambition. He dismissed the CEO's ideas immediately and argued that the company would be too busy with other projects to realize global expansion this year. It became clear that the Clocker team had very different goals in mind. They were also not equally passionate about the company. The VP of Sales still ran his own sales business on the side — while the CTO was constantly on the lookout for other jobs.

When Emma talked to the CEO a few weeks later she learned that the Clocker team had broken up. Because of their different goals for the company, team members did not communicate efficiently and failed to share their knowledge, which led to bad team dynamics and weak decision-making.

While previous experience has often been cited as a key ingredient for entrepreneurial success, our results show that experience alone will not lead to success. Instead knowledge, skills, and passion are *equally* important for succeeding as a new venture. Experience and expertise only lead to better performance if team members share their knowledge and have a common vision for the company.

When investors evaluate startup teams they should keep in mind that a great resume alone is not enough to achieve great performance. Building a successful startup is a long and bumpy road; without entrepreneurial passion and strategic vision, a stellar resume merely becomes a piece of paper.

Eva de Mol worked on her PhD at the VU University Amsterdam and Berkeley Haas Business School. She's a Partner at CapitalT, a Dutch venture capital fund investing in early stage tech companies with diverse founding teams.

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