Characteristics of a Successful Entrepreneurial Management Team

Alexander L. M. Dingee, Brian Haslett and Leonard E. Smollen

What are the personal characteristics required to be a successful entrepreneur? Before making the personal sacrifices required to start and build a major enterprise, would-be entrepreneurs should engage in serious soul-searching to be sure they have what it takes to thrive in the toughest jungle of the business world.

To assist in this introspection, the following guidelines have been prepared by principals of Venture Founders Corporation (VFC). Founded in 1970 to design and apply new approaches to venture development and financing, VFC serves investor clients both in the United States and in the United Kingdom. These clients have committed capital to funds that finance new and young ventures that are found, evaluated and assisted by VFC.

Venture capitalists say they prefer a grade A entrepreneur with a grade B business idea to a grade B entrepreneur with a grade A idea. And it is generally a strong management team, not a lone entrepreneur that they back.

With that in mind, there are some initial questions that would-be entrepreneurs must consider: Do I have adequate *commitment, motivation* and *skills* to start and build a major business—to be a successful entrepreneur? Does my management team have the necessary skills to enable us to succeed in building a particular venture? And finally, do I have a viable idea?

If these questions can be answered affirmatively, then it may be wise to consider developing a business plan and beginning a search for venture capital. This, however, is only the first step of the entrepreneurial self-examination process.

Am I an Entrepreneur?

A good way to answer this question is by objectively comparing yourself to a successful entrepreneur. Begin by studying the following characteristics that successful entrepreneurs, venture capitalists and behavioral scientists say are important for success.

Drive and energy level: A successful entrepreneur must have the ability to work long hours for sustained periods with less than the normal amount of sleep.

Self-confidence: A belief in yourself and your ability to achieve your goals and a sense that events in your life are self-determined is essential.

Setting challenging but realistic goals: The ability to set clear goals and objectives that are challenging, yet realistic and attainable.

Long-term involvement: A commitment to projects that will reach completion in five to seven years and to work towards distant goals. This means total dedication to the business and to attaining these goals.

Using money as a performance measure: Money, in the form of salary, profits, or capital gains, should be viewed more as a measure of how the company is doing rather than as an end in itself.

Persistent problem solving: You must have an intense and determined desire to solve problems toward the completion of tasks.

Taking moderate risks: Entrepreneurial success is generally the result of calculated risk-taking that provides a reasonable and challenging chance of success.

Learning from failure: Understanding your role in a failure can be instrumental in avoiding similar problems in the future. A failure may be disappointing, but should not be discouraging.

Using criticism: You need to be able to seek and use criticism of the style and substance of your performance.

Taking initiative and seeking personal responsibility: You need to seize opportunities and put yourself in situations where you are personally responsible for success or failure. You should be able to take the initiative to solve problems or fill leadership vacuums. You should enjoy being involved in situations where your impact on a problem can be measured.

Making good use of resources: Can you identify and use expertise and assistance that is relevant to the accomplishment of your goals? You should not be so involved in the achievement of your goals and in independent accomplishment that you will not let anyone help you.

Competing against self-imposed standards: Do you tend to establish your own standard of performance, which is high yet realistic, and then compete with yourself?

No one individual possesses all these attributes. Weaknesses can be compensated for in other members of your management team. Do remember, though, *you* are the *most* critical risk. Rate yourself on each of these key characteristics "strong," "average," or "weak" compared with others you know and respect. Be as honest and accurate as you can. If you think you are average or weak on most of them, then do yourself, your family, and your would-be business associates a favor—do not start a business.

If you rate yourself high on most traits, this may be unrealistic and therefore you should review these ratings with people who know you well. Spouses, teachers, peers, and professional advisors are all likely to view you differently, both in terms of your past accomplishments and your potential. Take time with each reviewer to explain *why* you rate yourself as you do. Be prepared to alter your ratings in light of their opinions. If people you know tell you that you are likely to fail as an entrepreneur, they may be right. But both of you should be aware that making such an evaluation realistically is no quick-and-dirty task.

Once you believe you have an adequate assessment of yourself, think back on personal experiences that demanded entrepreneurial strengths. Reflect on these incidences and see if you acted in a manner consistent with your rating.

If you are convinced that you have the entrepreneurial wherewithal to start and build a business, you must now evaluate your management skills to determine your abilities and those that your management team must have. To this end, you should systematically audit your managerial experience and accomplishments in marketing and sales; operations; research, development, and engineering; finance and accounting; general management and administration; personnel; and the legal and tax aspects of business. To rate yourself, we suggest the following standards.

Strong = Know thoroughly and have proven ability
Average = Have limited knowledge and accomplishments and will need backup perhaps part-time
Weak = Unfamiliar and need someone's full-time skills

The different nature of each element makes it unlikely for individuals to be equally strong in all elements of these seven functions. For example, a powerful direct salesperson probably will not show equal strength in market research and evaluation.

Before giving yourself an overall rating on each of these functions, we suggest that you break them down to the principal elements and rate yourself on each element. Note that the critical elements of any function may vary with each venture: the marketing and sales function includes market research and evaluation and marketing planning as well as sales management and merchandising, direct selling, service, and distribution. The latter will not be critical if you market through distributors.

A listing and brief description of representative elements of all seven functions is presented at the end of this article.

For a more objective evaluation, you may want to review your management skills with former and current supervisors, peers and subordinates, who may all see a different side of you. After thoroughly evaluating your entrepreneurial traits and your management skills, you should be able to determine the personal risks you will run if you try to create a business.

If your dream is to build a multimillion-dollar business, it might also be wise to check your evaluation with one or more of the professionals who are active and respected in the fields of career counseling and entrepreneurial behavior. A man with a weak heart may only ask his wife about taking a gentle stroll up a small grassy hill, but he would be wise to consult a doctor before trying to climb a mountain.[1]

Does My Team Have the Necessary Complementary Skills?

Research into successful ventures shows that teams perform better than one individual. Knowing this, venture capitalists always look for a balanced team. So your next task is to analyze the business you are contemplating and determine what abilities and skills are critical to its success in the first two to three years. Then set about building a management team that includes people who are strong where you are weak.

In a new company, you may not want or be able to afford full-time staff to perform all functions. It is, however, important to choose part-time people carefully, since you may want some of them to come on board later. Avoid teaming up with a school friend whom you only know in casual situations or a colleague in the lab or office whose skills match your own. Although these collaborations are tempting, they rarely work out, and venture capitalists may be put off by a team that is made up of all engineers, salespeople or relatives.[2]

Do I Have a Viable Idea?

Imagine yourself a venture capitalist who has just analyzed the few hundred business proposals examined last year. Your analysis shows that you handled the various proposals in these ways.

1. Sixty percent were rejected after a 20-to-30 minute scanning.
2. Another quarter were discarded after a lengthier review.
3. About 15% were investigated in depth and two-thirds of those were dismissed because of serious flaws in the management team or the business plan that could not be easily resolved.
4. Of the 5% that were viable investment opportunities, terms acceptable to the entrepreneur(s) and other existing stock holders were negotiated in only 3%.

The 15% that were investigated in depth were presented by strong, well-balanced management teams who were able to show you relevant accomplishments in marketing, finance and operations and had developed (perhaps with some prodding by you) a comprehensive business plan.

As an entrepreneur, think what that venture capitalist's analysis means to you: there is a three-in-one-hundred chance of securing capital from any one source on terms acceptable to you and the investor and only a 15% chance of being considered seriously for investment, and a comprehensive business plan is usually required to qualify for such consideration.

So if you are really serious about going into business for yourself, you should start to develop a comprehensive business plan. If the plan is done properly and completely, it will probably take you 150 to 300 hours of intense work. Even when it is done, there is no guarantee that you will raise enough investment capital.

Is there any way to avoid going to all this effort only to have your plan rejected after a 20-minute perusal? Try seeing your business idea through the objective, critical eyes of a venture capitalist.

Before developing a business plan, it is important to answer the questions that venture capitalists may have on their minds when they review a plan to determine if it is worth studying and calling a meeting to discuss. The first question: What exactly will be sold to whom? Other key market questions are:

- Why will the customer buy your product?
- Who are the ultimate users and what influences on their purchasing habits are beyond your control?
- Who is the competition? Are they profitable now? Why do you think you can successfully compete with them?
- Is the market large and growing? Does it offer a multi-million-dollar potential for your company?
- Are you or will you be in a recognized growth industry?

You should then answer several questions about the other major aspects of the business you contemplate, questions about your team, your financial needs and the risks you are running. Such questions may include:

- What is the *maximum* amount of dollars and length of time that will be needed before your product is ready for market?
- What is the depth of your team's knowledge and extent of their reputations in the types of markets, technologies and operations in which you will be active?
- What are your team's management skills in the three key areas of marketing, finance and operations?
- How many unproven marketing, technical and manufacturing approaches do you contemplate?
- What are the strengths, weaknesses and major risks of your venture?

Careful thought about these areas should enable you to take a reasonable first look at your own venture ideas and to evaluate the potential for success as well as the major risks. The risks in any entrepreneurial venture are you, the entrepreneur, your team and any fundamental flaws in your venture idea. You should then be able to put together a business plan and avoid many of the early errors (for example, team inadequacies; underpricing; weak cash management) that so often cripple new ventures. You should also be able to improve your chances of securing financing and launching a successful venture.

Representative Elements of Seven Management Functions

1. Marketing and sales

   a. *Market research and evaluation*: Ability to design and conduct market research studies and to analyze and interpret study results; familiarity with questionnaire design and sampling techniques.
   b. *Strategic sales*: Experience in developing marketing strategies and establishing forces and then planning

appropriate sales, advertising and promotional programs and setting up an effective network distributor or sales representative organization.

c. *Sales management and merchandising*: Ability in organizing, supervising, motivating and providing merchandising support to a direct sales force; analyzing territory and sales potential; and managing a sales force to obtain a target share of the market.
d. *Direct sales*: Experience in identifying, meeting and developing new customers, demonstrated success in closing sales.
e. *Service*: Experience in identifying service needs of particular products and in determining service and spare parts requirements, handling customer complaints, and managing a service organization.
f. *Distribution management*: Ability to organize and manage the flow of the product from manufacturing through distribution channels to the ultimate customer, including familiarity with shipping costs, scheduling techniques, carriers, etc.
g. *Overall marketing skills*: Give yourself a combined rating reflecting your skill level across all of the above marketing areas.

2. Operations

a. *Manufacturing management*: Knowledge of the production processes, machines, manpower, and space requirements to produce the product; experience in managing production to produce products within time, cost, and quality constraints.
b. *Inventory control*: Familiarity with techniques of controlling in-process and finished goods inventories of materials.
c. *Quality control*: Ability to set up inspection systems and standards for effective control of quality in incoming, in-process and finished materials.
d. *Purchasing*: Ability to identify appropriate sources of supply, the amount of material in inventory, familiarity with economical order quantities and discount advantage.
e. *Overall operations skills*: Give yourself a combined rating reflecting your skill level across all of the above operations areas.

3. Research, development and engineering

a. *Direction and management of applied research*: Ability to distinguish and keep a prudent balance between long-range projects at the frontiers of your technology, which attract the most creative individuals, and shorter range research in support of current product development activity.
b. *Management of development*: Ability to plan and direct work of development engineers and to use time and cost budgets so that perfectionists do not ruin you and yet product performance, appearance, and production engineering needs can be met; ability to distinguish between bread-board, field and preproduction prototype programs.
c. *Management of engineering*: Ability to plan and direct engineers in the final design of a new product for manufacture and in the engineering and testing of the production process to manufacture that new product.
d. *Technical know-how*: Ability to contribute personally to research, development, and/or engineering because of up-to-date in-depth knowledge of the technologies in which your company is involved.
e. *Overall research, development, and engineering skills*: Give yourself a combined rating reflecting your skill level across the above areas.

4. Financial management

a. *Raising capital*: Ability to decide how best to acquire funds for startup and growth; ability to forecast the need for funds and to prepare budgets; familiarity with sources and vehicles of short- and long-term financing.
b. *Money management*: Ability to design, install, maintain, use financial controls; familiarity with accounting and control systems needed to manage; ability to set up a project cost control system, analyze overhead/contribution/absorption, prepare profit and loss and balance sheets, and manage a bookkeeper.
c. *Specific skills*: Cash flow analysis; break-even analysis; contribution analysis; budgeting and profit-planning techniques; profit and loss, balance sheet, and present value analysis of return on investment and payback.
d. *Overall financial skills*: Give yourself a combined rating reflecting your skill level across all of the above financial areas.

5. General management and administration

a. *Problem solving*: Ability to anticipate potential problems and plan to avoid them; ability to gather facts about problems, analyze them for real causes, and plan effective action to solve problems; thoroughness in dealing with the details of particular problems and in follow-through.
b. *Communications*: Ability to communicate effectively and clearly, both in speech and in writing, to the media, the public, customers, peers, and subordinates.
c. *Planning*: Ability to set realistic and attainable goals, identify obstacles to achieving the goals and develop detailed action plans to achieve those goals; ability to schedule own time very systematically.
d. *Decision making*: Ability to make decisions on your best analysis of incomplete data.
e. *Project management*: Skill in organizing project teams, setting project goals, defining project tasks, and monitoring task completion in the face of problems and cost/quality constraints.

f. *Negotiating*: Ability to work effectively in a negotiating situation; ability to quickly balance value given and value received.

g. *Personnel administration*: Ability to set up payroll, hiring, compensation, and training functions.

h. *Overall administrative skills*: Give yourself a combined rating reflecting your skill level across all of the above administrative areas.

6. Personnel management

a. *Leadership*: Ability to understand the relationships between tasks, the leader, and the followers; ability to lead in situations where it is appropriate; willingness to manage actively, supervise, and control activities of others through directions, suggestions, inspiration, and other techniques.

b. *Listening*: Ability to listen to and understand without interrupting or mentally preparing your own rebuttal at the expense of hearing the message.

c. *Helping*: Ability to ask for and provide help and to determine situations where assistance is warranted.

d. *Criticism*: Ability to provide performance and interpersonal criticism to others that they find useful; ability to receive feedback from others without becoming defensive or argumentative.

e. *Conflict resolution*: Ability to confront differences openly and to deal with them until resolution is obtained.

f. *Teamwork*: Ability to work well with others in pursuing common goals.

g. *Selecting and developing subordinates*: Ability to select and delegate responsibility to subordinates and to coach them in the development of their managerial capabilities.

h. *Climate building*: Ability to create, by the way you manage, a climate and spirit conducive to high performance; ability to press for higher performance while rewarding work well done.

i. *Overall interpersonal skills*: Give yourself a combined rating reflecting your skill level across all of the above personnel management areas.

7. Legal and tax aspects

a. *Corporate law*: Familiarity with legal issues relating to stock issues, incorporation, distribution agreements, leases, etc.

b. *Contract law*: Familiarity with contract procedures and requirements (government and commercial), including default, warranty, and incentive provisions; fee structures; overhead, general and administrative expenses allowable, and so forth.

c. *Patent law*: Experience with preparation and revision of patent applications; ability to recognize a strong patent; familiarity with claim requirements.

d. *Tax Law*: Familiarity with general state and federal reporting requirements for businesses and with special provisions concerning Subchapter S corporations, tax shelters, fringe benefits, etc.

e. *Overall legal and tax skills*: Give yourself a combined rating reflecting your skill level across all of the above legal and tax areas.

Notes

1. For a discussion and appraisal of such evaluations, see "Business Leadership Training: A Six-Month Evaluation," a paper by Jeffry A. Timmons, D.B.A., and John L. Hayes.
2. For further discussion, see "The Entrepreneurial Team: Formation and Development" by Jeffry A. Timmons, D.B.A., a competitive paper presented at the annual Academy of Management meeting in 1973.

Alexander L. M. Dingee *is a cofounder and chairman of Venture Founders Corporation, Lexington, Massachusetts, which manages venture capital funds dedicated to creating and investing in seed, startup and first-stage situations. Previously he had successfully started two companies and now he also continues to cofound new ventures, Network Inc., a terabit router company, Marlboro, Massachusetts, and Cortec Inc., turnkey coinjection systems, Beverly, Massachusetts, for his own account.*

Brian Haslett *was a cofounder of Venture Founders Corporation and played a lead role in establishing its U.K. subsidiary and in helping many American and British entrepreneurs create and finance their new enterprises. He subsequently was a contributor to* Venture Capital Journal. *Mr. Haslett died in 1985.*

Leonard E. Smollen *was executive vice president and a cofounder of Venture Founders Corporation, a private company that manages venture capital funds. Currently Mr. Smollen provides consulting services to new ventures and venture capital partnerships.*