

## Building the Management Team

# Building teams in entrepreneurial companies

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## ABSTRACT

This article focuses on the essentials of building effective, collaborative, team-based organizations. Our target audience is the entrepreneurs and innovators who found and build knowledge-based organizations, especially entrepreneurs in the biotechnology and biomedical fields who are technologically driven, but who also have special constraints typified by these industries, e.g. long life cycles, highly capital and risk intensive, and also highly regulated. We address best practices for building entrepreneurial companies from two perspectives: 1) “experiential learning” gathered over years of experience in building and growing entrepreneurial organizations; and, 2) “academic learning” on building effective teams based on selected academic or scholarly literature. Our goal is to provide a perspective that blends real-world lessons filtered through a more scholarly approach based on case literature and other research-based studies. The material summarized herein is presented as a learning module to the participants in the Biotechnology Entrepreneurship Boot Camp. The pedagogical approach taken is to present the background material and perspective contained herein to provide a blended experiential and academic perspective. As a counter-point, we follow with a moderated panel discussion around these and other topics from the real-world perspective of biotechnology entrepreneurs. The panel consists of the key members of a real biotechnology company, different for every Boot Camp, consisting of key C-level officers and founders and a venture capitalist that funded the company. Thus the “theory and practice” of building a biotechnology company comes together in the context of a real-time case with audience interaction. We summarize briefly in a concluding section some key lessons learned from numerous panel discussions, which have been gathered over the years.

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## INTRODUCTION

**T**HE ONSET OF company formation starts with the vision of the founders and the articulation of the culture that they want to build into the “DNA” of the startup organization. The goal is to build and then sustain that vision and culture as the company grows through its life cycle. While each company is different in regard to its culture and mission, the challenge faced by the founders can be reduced to the following ingredients

articulated by Boni in a review of the book written by the second CEO of Amgen, Gordon Binder<sup>1</sup>:

- Build a talented and balanced management team in a culture that incorporates an interdisciplinary, team-based, collaborative approach with leadership throughout
- Encourage and reward performance
- Organize around autonomy and innovation
- Tolerate risk and learn from failure

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All of us can learn a few lessons from Amgen, which is arguably one of the most successful biotechnology companies in the relatively short history of the industry. We suggest that in building a management team there

are some best practices that have proven to be successful over the years. First and foremost is the challenge and principal objective to *build an entrepreneurial culture* that incorporates the necessary values and ingredients to capture and grow market share and which utilize the principles of sustained or disruptive innovation including business model innovations. Herein we do not cover the “hot topic of innovation” *per se*, but we focus on the “secret sauce of innovation” which is the human capital and processes needed to create and deliver innovations to the market and capture value for the organization sustainably.

In addition to the list presented above we would add the following additional cultural traits of successful organizations:

- A focus on the market need first, which comes from being close to the customer or user
- Implementation of a reward system that values contribution and success and incorporates both psychological ownership of the outcome, and equity ownership
- Embraces an open innovation model to take advantage of ideas and collaborations beyond the “borders” of the company itself

The second challenge is to *imbue in this culture the following values* as identified in a recent Harvard Business Review article by Steven Prokesh, entitled “How GE Teaches Teams to Lead”<sup>2</sup>.

- Challenge and involvement
- Freedom
- Trust and openness
- Time for ideas
- Playfulness and humor
- Conflict (creative tension but not destructive)
- Idea support
- Debate
- Risk taking

These common principles form the basis for building a managerial team and creative culture needed to innovate. A paraphrase from Phil Jackson, the most winning basketball coach in history is appropriate here; the strength of the team is each individual member — the strength of each member is the team.

## KEY QUESTIONS TO ASK WHEN BUILDING THE TEAM — THE ACADEMIC PERSPECTIVE

Building a team is comprised of three phases summarized by Thompson<sup>3</sup>, each of which must be re-visited as the organization and the team transitions from startup to development and commercialization stage, and then proceeds to market launch, growth and maturity.

Phase One consists of **Task analysis**. Specifically what is the work that needs to be performed and what is its focus, how much authority and autonomy does the team have to manage its own work, what is the degree of interdependence among the team members, and are the team members interests aligned or competitive?

Phase Two consists of the **People required** to perform the tasks to achieve at least the next milestone or two. How many people are needed, what technical, task management, and interpersonal skills are required, and what diversity is optimal for the team?

Phase Three consists of **Processes and Procedures required** to achieve success. What are the explicit or spoken norms, what are the implicit norms, which norms are conducive for performance, how are ineffective norms revised, and how much structure is required?

Overlaying these tasks, people and processes is the entrepreneurial culture that is desired. That is, those organizational characteristics and norms noted above plus the “expected entrepreneurial style of the people engaged,” e.g. willingness to assume “some” risk, thriving on chaos, not controlling, positive, passionate, perseverant, and motivated to make an impact, or even to change the world.

## BUILDING A BIOTECHNOLOGY ORGANIZATION

Most early stage biotechnology companies, as with most technology companies, start with two or three founders. They bring their passion, vision and mantra for a new company, along with the needed expertise, skill sets and networks to provide leadership for the two key and critical dimensions, each with its own attendant risks: 1) *technology advancement*, and 2) *business/market development*. In effect, upon founding, the *task analysis* and *people required* phases occur simultaneously and the founders form the kernel of a viable startup. Following the Thompson framework, the focus on developing and advancing the technology and the market in parallel is the essential “task” to be done, and the founders are the “key people who perform those tasks” — these are organization specific. This initial founding team (and their advisors added as necessary) then evolves through

Phases One and Two of the Thompson “model” in parallel where team members are acquired to evolve the technology and the market/industry dimensions, while advancing the commercialization process and developing the business model. It is understood that they must also acquire the needed financial resources to move forward. In most biotechnology startups where both technology leadership and business leadership are essential, decisions are most often made informally and by consensus, with input and perspective from both dimensions, but over time these roles evolve into a more formal structure, with decisions by the Chief Executive Officer (CEO) and Chief Technical or Scientific Officer (CTO or CSO). In most technology-enabled organizations (including biotechnology) the task analysis indicates that leadership is required to:

- Provide vision, strategic direction, fund raising, team building and overall leadership
- Lead scientific advancement, technology commercialization, and product development
- Lead business development and partnering

Additionally for biotechnology companies specifically, it will be necessary to add the capacity to deal with the following activities:

- Regulatory compliance and clinical demonstration
- Intellectual Property (IP) development
- Reimbursement

Early on these tasks can be accomplished by the members of the founding team and/or by part-time talent. These people expand from the kernel to comprise the core of the startup and development-stage team that most often has several people with perhaps two C-level positions designated to handle both inside and outside functions — these include simultaneous development of the product while working in parallel to more thoroughly understand and address customer/user need and the external environment. Acquiring people assets in biotechnology/tech companies is as important as acquiring financial assets, but one is required to accomplish the other — while advancing the opportunity and proposed solution. In effect an additional key task is developing the organization — most often consuming a significant part of the CEO’s time allocation, along with acquiring funding! A quote here is appropriate to consider when building and growing biotechnology companies which are knowledge-based organizations. “Your most precious possession is not your financial assets. Your most pre-

vious possession is the people you have working there, and what they carry around in their heads, and their ability to work together” — attributed to Robert Reich, former Secretary of Labor in the Clinton administration and now a professor at the University of California, Berkeley.

The team that comprises an early-stage organization is not complete without developing its “periphery” — team members who serve in a more advisory function and contribute to the organization on an as-needed basis. It is critical for early stage organizations to develop a set of directors/advisors that bring specialized expertise, connections, and access to networks for funding, partnering, hiring, etc. Note that an Advisory Board and a Board of Directors each perform different functions. Most important is the need to institute a formalized, but small Board of Directors (BOD) of at least three people, including independent director(s) perhaps growing to five as equity investment occurs. The BOD provides overview of strategic direction and operations but also ensures that corrective actions based on internal and external changes and issues are addressed in a timely manner. The BOD will have fiduciary responsibility and other boards are advisory only — most often providing specialized knowledge and guidance such as science/technology, clinical development, etc. These bridges between the internal organization and the external environment also provide credibility and validation of the opportunity being pursued via the reputation of the people engaged with the organization. These directors and advisors are most often compensated via equity using industry norms as guidelines for a directors and advisors stock option pool.

Therefore the leadership team consists of core members (i.e., “the people on the ground) who have committed and are willing to take a risk to join the company, and the peripheral members, the BOD/Advisory Board. This extended team is expected to provide expertise, networks, perspective, and discipline as follows:

- Access to people, capital, partners, and markets/customers
- Access to counsel and expertise for IP, regulatory, reimbursement, clinical trials, corporate agreements
- Advice, experienced perspective and mentoring
- Adherence to plan and fiduciary responsibility

As noted above the characteristics of this extended team include the knowledge, skills and expertise, coupled with the requisite interpersonal skills (diversity, collaborative and communicative), and who have a shared

value system (a common purpose and vision, trust, and sense of humor). In addition since in many technology-based organizations one is dealing with large egos, it is advisable to be able to “check your egos at the door.”

## FINDING AND HIRING GOOD PEOPLE

Finding and hiring good team members is the most important challenge faced by any company let alone a start-up or early stage organization! Especially at the earliest stages of any organization the CEO and other founders must be personally engaged in the hiring process since the “organizational DNA” or culture is imprinted starting with the hiring process. Selecting the right people “with the right DNA” is important to building the desired cultural norms — both spoken and unspoken. All startups should strive to hire only “A players” since excellence is essential to company success. Don’t just hire to get the job done, make sure that the person “fits” and can also do the current task or job as well as grow with the organization. Hiring is expensive and time consuming, so hire right. A bad fit can be bad for the organization and replacing someone is also problematic and expensive. But if replacement is necessary do it quickly and professionally otherwise the “bad fit” will affect the organization itself.

Diversity is good since there are many skill sets required to build a successful company and diverse perspectives and experience sets provide more enlightened and innovative solutions. In a biotechnology or biomedical company diversity includes: various scientific backgrounds, business development/industry knowledge, expertise ranging from IP to regulatory to reimbursement. Additionally one must deal with perspectives gathered in small companies and in larger, more mature organizations, e.g. pharma or large medical devices companies. All of these key elements of the extended management team need to be integrated into the entrepreneurial and innovative culture being built. We advise embracing diversity, but not relying on chance to develop synergies as the team is built up over the life cycle of the company. It is also important to build mechanisms and processes to manage diversity not only internally, but also across the boundaries of the firm as networked innovation and partnering emerge as a norm in the biotechnology/biopharma industry. This open innovation business model is becoming increasingly important as industry convergence continues, blurring the boundaries of what is pharma and what is biotechnology. The team, culture and vision sharing are as important as skill sets so that there is trust, liking, and respect (unspoken norms) across the team and organization. Most successful organizations

build this mentality into the hiring process and walk away from talented people if the cultural fit is not there.

It is important to understand and deal with factors that motivate entrepreneurs, and to address them individually as the team is built and expanded. It is important to know what motivates each member of the team. Entrepreneurial characteristics that are pertinent to biotechnology companies have been discussed by Boni in his review of Binder’s book<sup>1</sup>.

## WHAT MAKES TEAMS WORK, OR NOT? THE ACADEMIC PERSPECTIVE

To discuss what works and what does not, we need to deal with three key factors. 1) the structure of the team, which includes roles and routines; 2) behavioral integration — managing the diversity; and 3) team norms — goals and shared values, and means of coordinating, communicating, managing conflict, making decisions, running meetings, and norm enforcement.

Larson and LaFasto<sup>4</sup> list the following necessary conditions for effective teamwork.

- A clear, shared and elevating goal
- A results-driven structure, that includes
  - Clear roles and accountabilities
  - An effective communication system
  - Monitoring of individual performance and providing feedback
  - Fact-based judgments
- Competent team members (technical and interpersonal)
- Unified commitment
- Collaborative climate
- Standards of excellence
- External support and recognition
- Principled leadership

We refer the reader who is further interested in building effective teams to several good *Harvard Business Review* articles by Billington<sup>5</sup> and Katzenbach and Smith<sup>6</sup>. While these articles are not targeted specifically at knowledge-based biotechnology companies, the authors ask the question of what makes the difference between teams that perform and those that don’t? These are universal lessons. In that regard they point out that teams and groups are not the same. The team is defined as “as small number of people with complementary skills (competence) who are committed to a common purpose, set of performance goals, and an approach for which they hold themselves mutually accountable.” The Billington article points out that mutual accountability differentiates a team from a group. In a team if the team

fails (or the company), all fail together. If the team succeeds all are rewarded. One other best practice that is important in any startup organization is for the leadership team (and its Board) to establish and maintain a sense of urgency. Kotter identifies the sense of urgency as the first and essential step in his 8-step process for leading change identified in extensive case studies<sup>7</sup>. From a practical perspective we advise that the team consider spending a lot of time together outside of the workplace and inside (which is inevitable in a startup environment).

## SUMMARY OF “LESSONS LEARNED” FROM THE BOOT CAMP PANELS TARGETED AT BIOTECHNOLOGY COMPANIES

It would be remiss on our part to leave the reader with the above summary without discussing how the pedagogical approach taken at the Boot Camp and what has been learned over the years from multiple panels. After an introductory discussion of the above principles we assemble a panel that consists of founders, key officers and investors in an emerging biotechnology company. These panels are different at each Boot Camp, so the following represents a summary of the “hot topics” that are consistently discussed at these panels.

Each panel is chaired by the moderator with discussing a number of key issues and exchanging views on how they are handled “in the real world” during the startup and development stages of the organization. Most organizations represented are still at the development/clinical level or just entering the market growth stage. The audience has an opportunity to ask questions and to engage in discussion with each other and with the panelists and Moderator. Over the years the following topics and brief summary of recommendations gather the most questions and discussion:

### 1. VIRTUAL STARTUPS VS. “BRICKS AND MORTAR”

Acquiring capital is very difficult if not impossible until a considerable amount of risk (technology, IP, clinical, and team) is reduced. However, progress must be made to interest investors. Therefore, founders most often need to acquire non-equity resources (government, economic development) or funding from individual angels to raise limited seed capital. It is also beneficial to do so to increase market cap and reduce dilution. So reducing the amount of capital needed is recommended by leveraging resources; e.g. use of academic facilities, outsourcing product development and clinical work to others. It is recommended not to invest in facilities except for the bare minimum, instead invest in key people who may or

may not join the company full time, and have founders fill multiple functions on the management team. “Cash is king” so use it wisely. Eventually you will need some facilities so consider locating in an incubator or leveraging common space with existing organizations in a research park. Invest in “hard assets” only when this is justifiable after evolving down the commercialization path.

### 2. THE FIRST HIRES AND BUILDING BOARDS

Start with a small core team that originally consists of the founders (2 or 3) and a few part time consultants — noted above. Identify key advisors and directors who can provide you with good advice and credibility and pay them with equity (it’s worth the dilution). Find an attorney that will work on a contingent basis (not always possible) and consult with them on creative and legal ways to handle compensation, stock and corporate partnering issues. However, make sure that vesting is used for stock options. Alternately, issue restricted stock. Consider what happens to the stock if key people leave? If it is gone with the departing person it will dilute those who remain since the person has to be replaced. Pay the core team less-than-competitive salaries until funds are raised — they will make up for it with stock. Hire for the essential tasks that need to get done but make sure the fit is good (see below). Use mentors to help you and to locate advisory board members and directors. Initially you should have no more than three to five science/business advisory board members (non fiduciary positions) and three board members (with at least one outside, credible and experienced person). Advisors and directors surrounding and supporting (and mentoring) the core team will facilitate progress with commercialization and will lead to downstream success with fund raising and partnering.

Hiring progression/priority will generally proceed in the following order of priority:

- Business, scientific/technical, market/business development leadership team
- Clinical/medical, regulatory and IP expertise (can be outsourced with inside leadership via a key employee at the appropriate time)
- Personnel to contribute to the scientific and business agenda associated with commercialization according to the organizational priorities (generally product development and customer/user development).
- Financial management (once significant funds are raised, especially A-round financing)

Keep in mind that as new team members join they must buy into the culture that has been created by the founders. So these first members are key and will build and preserve the corporate culture. Fit, shared values, relevant experience and ability to execute are all important.

A subset of this discussion always revolves around the issue of “splitting the equity pie” and dilution. One could write an entire article on this topic; suffice it to say that the initial equity should be split among the founders and early hires (if any) based on what they have contributed to the company formation, what they will contribute going forward, and the level of risk each person takes. Engage a good lawyer to help with this because it is always a contentious issue as to who contributed what and who will do so going forward. Most prominent among the contentious issue is the debate about the weighting of science vs. business in equity participation. Make sure that the founders get rewarded for their founding contributions (value is attributed to both technology and business acumen), and make sure that those who take the risk and actually join the company are rewarded for that as well. Small equity pools are then created for advisors/directors and for stock options for employees to be hired prior to the next funding tranche — typically 15% to 20% of the total for all parties. The pool will then be replenished prior to the next equity raise (investors will most often insist that the dilution will be taken by the insiders and not the investors). Many entrepreneurs worry excessively about dilution. For those who have been through this many times however, there is a realization that creating value that builds the capitalization of the company is the key outcome to be pursued, and taking outside money is essential to value creation and risk reduction, i.e. a “small piece of a large pie” is better than the alternative. Getting to the end game is the objective!

### 3. BALANCING SCIENCE AND COMMERCIALIZATION

In biotechnology and biomedical companies there is always the need to continually advance the science (to prove principle, build the platform and the IP portfolio). However, progress down the commercialization pathway is necessary to generate the funding that will be needed to attract subsequent team members. Therefore, priorities and a sense of urgency to advance the technology and business have to be established early on at the founder and board level and managed carefully by the CEO and CTO or CSO of the company. Many organizations maintain close ties to a university where scientific advances can be handled (but be careful of IP and conflict of interest issues). Commercialization involves clinical demonstration in parallel with product development, which is difficult in a regulated environment. Once funding is

raised make sure to allocate a small portion to advance the science and also consider some government augmentation (via the SBIR program) to achieve those objectives. While SBIR funding is non-dilutive, sometimes the timing is not consistent with commercialization priorities.

### 4. MANAGING THROUGH TRANSITIONS

Along the commercialization pathway company leadership and the board will need to deal with evolution of the team as people join the team and leave the team — either voluntarily or involuntarily. Sometimes founders take “lesser roles” as new leadership is required to move forward thru the clinic and into the marketplace, or to raise venture capital and/or partnership funding. We have not found the perfect formula for dealing with these issues. One thing that can be counted on is that it will happen in virtually every company. In order to manage this process the right people must be on the board or on the advisory group to assist with the people issues — the addition or subtraction as well as the team remaining. Nothing can destroy team chemistry faster than a mismanaged transition. The best advice is to handle the situation quickly and professionally with good communication to all of the constituencies of the company appropriate to the specific situation. It is rare that a founder who becomes the CEO of a biotechnology startup can survive through to the acquisition or IPO.

In conclusion, we present one current and timely thought that is becoming increasingly important for building and funding biotechnology companies. As these organizations are built, consider using capital efficient business models. This is essential for biotechnology and biomedical companies where it is important to reduce technical, market, and team risks prior to bringing in the extensive amounts of capital required and even to form win-win partnerships while maintaining the ability to share significantly in the value that has been created by the team. Iterative product and market development can lead to lower capital expenditures and faster time to market (even though the regulatory authorities tends to slow down the cycle time — this is not as much of an issue for other technology companies where lean and agile methods are being employed). There is much discussion in the field of biotechnology about the use of leveraged capabilities and assets including the building of “virtual companies” using management teams that have prior experience with bringing products to market, and/or by partnering with outside organizations. Also consider creating value and reducing risk via proof of principle demonstration in a clinical setting (even if off shore) prior to raising large amounts of capital. An extensive discussion on this topic is beyond the scope of the current article, however suffice it to say that virtual

companies can be created to leverage expertise by using open innovation principles to partner for technology, market access, product development and clinical testing, manufacturing, even management teams. Why build capacity that already exists? Sharing value might be a better option. The challenge is to build a core team that is equipped with the processes and networks to access and effectively manage these relationships. However, keep in mind that it will be necessary to have expertise on the extended team to manage the partnered or outsourced tasks. This will require the existence of talent that has experience with product development, clinical testing, etc. The subject of building teams in open innovation environments is a topic of current work and research.

Keep in mind that the overall objective in building a team is to address one key component of risk reduction for the organization — demonstration of the ability to execute. The team addresses market risk, regulatory risk, IP risk, and risk associated with reimbursement. Other sections of the Boot Camp deal with reduction of technical risk and are not addressed explicitly herein except how they are addressed by having the right people on the team at the right time.

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