

Social Interaction: A Determinant of Entrepreneurial Team Venture Success

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ABSTRACT. An important issue to explain the success of new ventures is mostly ignored by the research of entrepreneurship: the social interaction within entrepreneurial teams. The purpose of this paper is to introduce the concept of social interaction, which was originally developed for innovation teams in the field of entrepreneurship research and theory.

The theoretical discussion proves if an adoption of the social interaction to the field of entrepreneurship is theoretically possible. Using the data of 159 German entrepreneurial teams, the effects of social interaction on new business success are empirically proven. The introduced measurement model, which consists of six dimensions, shows a high quality in the empirical test. The quality of the social interaction within entrepreneurial teams is crucial for the new venture success. An empirical comparison with the frequently used team conflicts confirm that the measurement of conflicts is not a sufficient substitute measurement for social interaction. Overall, the social interaction in entrepreneurial teams could be seen as an important but not only factor of business success.

1. Introduction

People who are founding and developing new ventures are confronted with a great variety of challenges deriving mainly from business and technological uncertainty. In this context entrepreneurs have to solve technological, managerial, jurist as well as human related problems. Moreover, the transformation of an idea into saleable products can take years and requires financial resources and leadership in business and technology. Existing theoretical and empirical studies reflect the great variety of influences on entrepreneurial success. Despite the magnitude of research on new ventures and small businesses, researchers still cannot explain theoretically the

growth of firms adequately (Tuck and Hamilton, 1993). As the entrepreneur is the focus and plays a key role in the firm's activities, various studies analyse the characteristics and behaviours of these key people. However, most of these studies see the entrepreneur as a single person. This traditional view is strikingly paraphrased by Cooney and Bygrave (1997): "*For a long time it has been a great myth that entrepreneurship implicitly describes the battle of a lonely hero against economic, governmental and social forces.*"

In contrast to these research efforts, multiple entrepreneurs have been well documented since the beginning of the industrial revolution. For example, Werner von Siemens and Georg Halske founded in 1847 the Siemens AG of today, and in 1863, Dr. Eugen Lucius, Carl Meister and Ludwig Müller founded the Hoechst AG, demonstrating impressively that even at the beginning of the 20th century entrepreneurial teams could be very successful. Analysing the industry, entrepreneurial teams appear to be more common than the entrepreneurship literature suggests (Cooper, 1986; Teach et al., 1986; Vyakarnam et al., 1997). Hunsdiek (1987) reports for Germany a median of 2.2 entrepreneurs per new high-tech venture. Based on a sample of 340 very promising East German new high-tech ventures which get substantial financial support from the German government, Pleschak and Werner (1998) report that 68% of these firms are founded by two or more persons. Cooper et al. (1990) cite a study of 2994 entrepreneurs and members of the National Federation of Independent Business who reported that they had only 30% full-time partners at the time of start-up. Entrepreneurial teams are a part of the economic reality.

The variation of occurrence rates of venture

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teams depends on the kind of businesses (Cooper and Daily, 1996). In high-tech industries, entrepreneurial teams are the dominating form of start-ups, shown by the median percentage of 70% calculated across ten different studies (Cooper et al., 1990). To conclude the brief analysis, entrepreneurial teams are an omnipresent phenomenon in western economies and entrepreneurial research should analyse the phenomenon of entrepreneurial teams and their success factors in more depth.

2. Entrepreneurial teams as a determinant for venture success

In times of enormous knowledge growth the tendency towards entrepreneurial teams is getting stronger (Hunsdiek, 1987) and is often seen as the superior entrepreneurial start-up concept. Besides, many high-tech start-ups require substantial time and capital until they reach a market. Last but not least, teams can establish more powerful networks in different environments. These relations lead to the basic assumption of our research: *In knowledge-intensive dynamic industries entrepreneurial teams outperform single entrepreneurs.*

A number of empirical studies already document that firms founded by teams are on average more successful than those founded by individuals (Cooper and Bruno, 1977; Mayer et al., 1989; Bird, 1989; Timmons, 1990; Kamm et al., 1990; Vyakarnam et al., 1997). The next table summarises the empirical results of those studies which analyse the effects of entrepreneurial teams and their characteristics on the venture success in comparison to single entrepreneurs.

The present empirical studies (Table I) confirm the hypothesis that entrepreneurial teams are more successful than individuals. All studies, independent of the country or industry, indicate more or less a positive influence of the entrepreneurial teams on venture success. Reviewing the empirical studies, we find a preference for analysing high technology industries. In this regard Gartner (1985, p. 703) wrote: *"High technology industries might require more skills than an individual would be likely to have, necessitating that individuals combine their abilities in teams in order to start an organisation successfully."* The contextual influence of the industry might have an effect on the success rate of entrepreneurial teams.

Overall the main argument for the advantages of teams is based on the positive effects of a combination of people with diverse personalities, characteristics, knowledge, skills and abilities (Vesper, 1990; Vyakarnam et al., 1997). Significant empirical research has been done explaining the formation of entrepreneurial teams, their functioning and their influence on the success of new ventures (Cooper and Daily, 1996; Cooney and Bygrave, 1997; Vyakarnam et al., 1997). Others show that the heterogeneity of team member characteristics within the teams plays a key role (Klandt and Kirschbaum, 1985; Teach et al., 1986; Picot et al., 1989; Doutriaux, 1992; Ensley, 1997).

Some argue that if a business is less dependent upon a single person, illness or the loss of an entrepreneur is less likely to cripple the whole venture (Cooper and Daily, 1996). In addition, positive psychological effects were identified. Working together in a team lowers entrepreneurial stress caused by the entrepreneurial situation. The team members are also more likely to trust and support each other (Boyd and Gumpert, 1983). Theoretically, the statistically proven positive relationships between multiple founders and venture success are implicitly or explicitly attributed to the resource based theory of the firm.

This approach is too narrow to explain both the performance differences between teams and the question of team design within a process, because it implies that differences in the performance between entrepreneurial teams could be explained by the characteristics of their members. However, such a simple input-performance-explanation ignores many research findings and theories which have been generated in team studies. In these studies, an input-process-output explanation is preferred, i.e. the input-performance relation is mediated by the interaction process of the team members. This interaction process is not only determined by the skills reflected in a team-composition, but from other variables of team-design. Therefore, it is interesting to take a closer look at team-interaction and its determinants.

TABLE I
Relevance of entrepreneurial teams

Year	Authors	Type of study	Sample size and industry	Success measurements	Country	Results
1977	Cooper, Bruno	Survey	250 High tech	Sales/year	U.S.A.	Portion of venture teams in the successful group of successors 76% Portion of single founders in the successful group 24%
1980	Obermayer	Case studies	33 Div. companies	Sales/year	U.S.A.	3 out of 10 single founders reach sales > \$6 mio. 16 out of 23 team ventures reach sales > \$6 mio.
1985	Klandt, Kirschbaum	Case studies	25 Software	Sales/year #Employees/year	Germany	Successful venture teams 38% Successful single founders 18%
1986	Teach, Tarpley, Schwartz	Survey	237 Software	Sales/year	U.S.A.	Successful venture teams 46% Successful single founders 16%
1987	Albach, Hunsdiek	Survey	180	Sales/year	Germany	Successful Venture Teams 43% Successful single founders 20%
1989	Picot, Laub, Schneider	Survey	52 Tech. Ventures Div. industries	Sales/year #Employees/year # offene Aufträge	Germany	Successful Venture Teams 63% Successful single founders 38%
1989	Feeser, Willard	Survey	42 Computer hardware	Sales/year #Employees/year	U.S.A.	Venture teams are more successful (not quantified)
1989	Mayer, Heinzl, Müller	Survey	45 High tech	Sales/year #Employees/year Level of innovation	Germany	Teams reach higher growth rates (not quantified)
1992	Doutriaux	Longitudinal 8 Jahre	73 High tech	Sales/year Over 8 years	Canada	Significant influence of the team size on sales after 3–4 years
1993	Kulicke u.a.	Survey	93 Tech. ventures Div. industries	Sales/year	Germany	Significant influence on success Successful Venture Teams 76% Unsuccessful single founders 60%
1996	Brüderl, Preisendörfer, Ziegler	Survey	1710 All industries	Survival Sales growth Employees growth	Germany	No clear result Bivariate analysis teams are more successful, but in multivariate analysis no significant influence
1999	Pleschak, Werner	Survey	124 Tech. ventures Div. industries	Survival Sales growth Employees growth	Germany	Tendency that teams are more successful Not significant

3. Social interaction irrelevant or essential for entrepreneurial theory?

Analyzing the present comparisons between teams and single founders more critically, we see that none of these studies (Table I) takes the disadvantages of teams into account. Personal interviews by the author with bankers and venture capitalists reveal both the advantages of multiple founders and their potential risks. Teams carry the potential of inefficient communication, complex long lasting decision processes and personal conflicts. Dysfunctions, like group losses, social loafing, group think, risk-shifting are well documented in the research literature on teams (Latané et al., 1979; Janis and Mann, 1977; Janis, 1982). Why should they not exist in entrepreneurial teams?

Within the entrepreneurial research area only a few authors discuss the disadvantages of entrepreneurial teams (Doutriaux, 1992; Eisenhardt and Schoonhoven, 1990). Cooper and Bruno (1977, p. 21) mention the problem “... *that a firm with multiple founders typically has more overhead* ...”. Also, Kamm et al. (1989) note that with the growing size of the firm, the possibility of combining the complementary skills increases, which leads on the one hand to positive effects in team performance; but on the other hand the increase of team size limits the efficiency caused by too much expertise and management styles. Beneath the great successes of teams we also find many examples of failures (Kamm et al., 1990). The disadvantages suggest that teams might also have some limitations. We have to admit that the performance of the team can be less than the sum of the performance of its team members. However, it can also be more! But which theory gives an answer to this question? Can this theory be applied to the situation of a new venture – which differs in many respects from the situation of teams within large organisations? Why does the performance of entrepreneurial teams vary and why do some teams fail? The discussions in the field of entrepreneurial research mostly focus on the characteristics of teams. To answer the questions on a theoretical basis we leave the field of entrepreneurial research for a moment and take a look at the body of organisational theory.

Today, analyses of teams within organisations

are fashionable, and the body of knowledge is growing fast. Teams as an organisational concept are discussed in different functions and contexts (Hackman, 1987; Gladstein, 1984; Cohen and Bailey, 1997; Hoegl, 1998; Helfert, 1998). One major area of research investigates top management teams and their decision-making processes. The second major research field studies the role of teams in the innovation processes. In the theoretical literature the importance of teams for innovation is prevalent. Empirical studies suggest strong influences of teams on innovation success (Johns and Snelson, 1990; Clark and Fujimoto, 1991; Coopers, 1993; Pinto et al., 1993; Mohrman et al., 1995; Lechler, 1997; Hoegl, 1998). These authors consider teamwork as a crucial factor for high team performance resulting in product, project or innovation success (Hackman, 1987; Gladstein, 1984; McGrath, 1964; Ancona and Caldwell, 1990; Shea and Guzzo, 1987). In his comprehensive empirical work, Hoegl (1998) transfers the theoretical concepts of teamwork into a measurement model to measure the quality of teamwork. Analyzing 147 software teams in software development laboratories within four large international companies, he proves a significant influence of teamwork quality on the project success. In this context, the quality of teamwork is defined as the collaboration within teams. In our further analysis we call it the quality of social interaction within the teams.

Even though the results on social interaction in other research areas are definitely clear, we only find a few studies analysing various aspects of social interaction within entrepreneurial teams. Watson et al. (1995) examined the influence of team interpersonal process effectiveness on new venture success, conceptualising and operationalising leadership, interpersonal flexibility, team commitment and helpfulness as independent predictor variables. From these variables team commitment and leadership show a significant and strong influence on venture success (Watson et al., 1995). Whereas Cooper and Daily (1996) found that consensus of entrepreneurial teams in decision-making is not necessarily good, a “*lack of consensus may lead to a greater variety of approaches to problem-solving*” (Cooper and Daily, 1996, p. 139). Beyond this they looked at team heterogeneity, psychological variables of the

team and consensus in decision-making. In his empirical study, Ensley (1997) analyses the effects of entrepreneurial team skill heterogeneity and conflict on strategic orientation and performance of new ventures. He reports a negative influence of affective conflict on strategic orientation; whereas a direct link between affective conflict and performance could not be supported by his research.

To summarise the discussion, we see that the analysis of team characteristics (Table I) is dominant. Only some aspects of the social interaction within entrepreneurial teams are investigated – mainly conflicts within the teams (Ensley, 1997). But until now we do not find any approach examining the social interaction as a whole. The quality of social interaction might play an important role for entrepreneurial teams as it does for innovation success. Dealing with the two questions we have raised in this section we can summarise our discussion with the main hypothesis: *The quality of the social interaction within entrepreneurial teams is positively related with the new venture success.*

The purpose of this paper is to introduce within the field of entrepreneurship research the concept of social interaction, which was originally developed in the field of innovation teams. It is the goal to develop a model to measure the quality of social interaction within the entrepreneurial team and to prove empirically the importance of the social interaction for the venture success.

4. The conceptual framework

Theoretical discussions identify weaknesses in the theoretical foundation of entrepreneurship by transferring concepts of organisational theory which are intentionally focused on large complex organisations (Dandridge, 1979). For a sustained extension of entrepreneurial theory we have to check if a transfer of the teamwork model from innovation teams is permitted in a theoretical sense. The subject of the analysis is the team. For our problem a transfer is valid if the characteristics of innovation teams roughly coincide with the entrepreneurial teams.

According to the common literature (Alderfeld, 1987; Hackman, 1987; Wiendieck, 1992; Guzzo and Shea, 1992), Hoegl (1998) defines a team as

“a social system of three or more people, which is embedded in an organization (context), whose members perceive themselves as such and are perceived as members by others (identity), and who collaborate on a common task (teamwork).” Innovation teams also have to create and implement new products or services within a given schedule and budget.

An entrepreneurial team is defined by Vyakarnam et al. (1997, p. 2) as *“the ‘top team’ of individuals who is responsible for the establishment and management of the business”* whereas Watson et al. (1995, p. 394) go further, including the financial interest of the team members and the minimal size in their definition: *“A venture team is two or more individuals who jointly establish and actively participate in a business in which they have an equity (financial) interest”* (also Cooney and Bygrave, 1997). In addition Kamm et al. (1990) complete the characteristics with the number of team members and that the team members are present during the pre-start-up phase and that they hold equity in the firm.

Innovation teams and entrepreneurial teams in high-tech firms have similar characteristics (Table II). Both are confronted with a highly dynamic context in which they have to perform. Entrepreneurial as well as innovation teams have to implement innovative tasks. In Schumpeter's words: *“They have to perceive profit opportunities to carry out and implement new factor combinations”* (Schumpeter, 1952; Vyakarnam et al., 1997). At the beginning the time frames are nearly the same, whereas in the long run some differences may occur. Both are more or less responsible for the results and they have to expect nearly the same consequences. Also, the relations between the team members are characterised by equality. The similarities indicate a high validation for the introduction of the social interaction model and suggest the concepts of social interaction can be applied to entrepreneurial theory.

To measure the social interaction in venture teams we have chosen and modified the model of Hoegl (1998), who conceptualised and empirically tested the social interaction of innovation teams. It contains 6 components: (1) communication, (2) cohesion, (3) work norms, (4) mutual support (5) coordination and (6) the balance of member con-

TABLE II
Comparison of team characteristics

Characteristics	Innovation teams	Entrepreneurial teams in high-tech ventures
Task characteristics	Innovative task Creating a new product	Innovative task Creating a new business
Common goals	Successful innovation	Successful business
Tenure	2 or more years, defined end	open end
Common responsibility	Responsible for technical results	Responsible for business results
Common risks	Career risks	Personal and career risks

tributions. These components are defined in the following section.

Components of Social Interaction within Entrepreneurial Teams:

- (1) *Communication*: The communication within a team provides the means for information exchange among team members (Pinto and Pinto, 1990). The quality of communication depends on frequency, formalization, structure and openness of the information exchange (Hoegl, 1998). *Frequency* refers to how often and extensively team members communicate; *formalisation* relates to how much preparation is required before communication among the team members can occur (Katz, 1982); *the structure of communication* depends on whether direct communication between team members is possible or if the information exchange occurs through mediators (e.g. team leader); *openness* refers to how openly and sincerely team members share information with each other.
- (2) *Cohesion*: Group or team cohesion describes the degree to which team members desire to remain in the team. Mullen and Copper (1994) explain three pivotal aspects of cohesion: interpersonal attraction of team members, commitment to the team task and group pride/team spirit. Several authors agree that it is unlikely to achieve high team performance without an adequate level of team cohesion (Hoegl, 1998; Mullen and Copper, 1994; Guzzo and Shea 1992; Helfert, 1998).
- (3) *Work norms*: Norms are defined as shared expectations within a team regarding the behaviour of team members (Levine and Moreland, 1990; Goodman et al., 1987).

Norms regarding effort of team members are particularly important for successful teamwork.

- (4) *Mutual support*: Mutual support is considered essential for teamwork (Tjosvold, 1995). The collaboration of the team members depends on cooperation rather than competition (Hoegl, 1998).
- (5) *Coordination*: Within the process of the task fulfillment many activities are delegated within the team. Mostly the members are working parallel on different subtasks. These contributions have to be harmonised and synchronised by defining time frames, budget lines and deliverables. The way in which the team is controlling these activities influences the quality of social interaction.

Hoegl (1998) also defines the balance of member contributions as the sixth dimension of teamwork, but the results show some problems of content validity. By definition this concept is too close to the technical task performance. On the other hand many authors in the field of entrepreneurial research are taking conflicts and their influences on the performance into account (Ensley, 1997).

- (6) *Conflict resolution*: The style with which the team members handle rising conflicts is important for their perception of the social interaction. Conflicts in situations of high pressure and dynamic contexts in which entrepreneurs are acting are inevitable. What is in question is how the team resolves upcoming conflicts before they unfold their destructive effects on performance.

To estimate the importance of the social interaction we also have to define the dependent variable.

The definition of the success is linked to many problems. Some are the dependence on the time, the perspective and the settled goals. Because success is multi-dimensional we define new venture success by five dimensions:

1. *Economic success*: The authors of different studies of new venture performance agree that the success of these ventures can be measured in terms of economic growth (Eisenhardt and Bird, 1990; Bantel, 1998; Cooper and Gimeno Gascón, 1992; Teal, 1998). Thus, we define economic success by growth rates of sales per year, ROI and the number of full-time employees as well as the company image.
2. *Competitive position*: The achieved competitive position depends on the technological and market position. The technological position of a new venture is defined by the level of technical innovations and the level of technological position in comparison to the competition. The market position is defined by the market success and the strength of the market position in comparison to the competition.
3. *Efficiency*: The efficiency describes the level of cost and time performance in comparison to the competition.
4. *Client satisfaction*: Client satisfaction is defined by the quality of image and the satisfaction of the customers with the performance of the products or services.
5. *Personal success*: This dimension refers to the personal satisfaction of the team members with the business performance as well as with teamwork. Cooper and Gimeno Gascón (1992) mention the need for achievement, internal locus of control and risk taking as pivotal personal characteristics of entrepreneurs and they are likely to have influence on the perceived personal success of new ventures. We define personal success by the development of the founder's personal income, personal satisfaction with the business results and the satisfaction with entrepreneurial teamwork.

The measurement model of Hoegl (1998) was adopted and modified in order to investigate entrepreneurial teams. The dimensions of the social interaction refer to the team as the unit of analysis. Accordingly, all items measuring the social interaction were specified on the team-level of

analysis. The dimensions of the social interaction were measured with Likert scales including 3 to 6 items. All items used were measured on seven point rating scales ranging from strong disagreement (1) to strong agreement (7).

With this model we can now specify our main hypothesis: *The quality of the social interaction within entrepreneurial teams is positively linked to the venture success*. According to Hoegl (1998), we propose that each of the six components of social interaction has a positive relation to the five success dimensions. In other words: The higher the value of each dimension the higher the new venture success should be.

5. Research design and sample characteristics

The analysis of social interaction in entrepreneurial teams is part of a larger ongoing empirical study to identify the success factors of entrepreneurial teams in Germany. The goal is to build up a large database which allows us to empirically prove our hypothesis.

Firms with the following characteristics were preferred for the sample:

- Technology-driven companies;
- Companies aged 6 years or less;
- Multiple founders;
- Founders work part- or full-time within the firm since formation; and
- Founders hold equity shares.

In order to identify new technology-based firms founded by entrepreneurial teams, databases of two German banks were used. All of the identified firms were first contacted by phone. Phone contact was initially made to confirm fulfilment of the requirements while convincing entrepreneurs to participate in our study.

The data was gathered in individual interviews using a fully standardised questionnaire with open questions at the end of each section. In each company at least two members of the entrepreneurial team were interviewed. With this multiple respondents approach it is possible to avoid the common method variance problems of a single key informant. Also, the control of the interview situation was important in order to prevent the team members from answering the questionnaire together.

The questionnaire itself is divided in two parts.

The first part contains only quantitative measures of the firm, the structure of the team and the quantitative business results. This information is free from personal bias, and therefore we asked only one respondent for this kind of data. The interview for this part took an average of 45 minutes.

The second part of the questionnaire contains items only measuring the social interaction within the entrepreneurial team and the personal evaluation of the business results. This kind of data was gathered separately from two members of the entrepreneurial team. For the second part of the questionnaire the interview took approximately 60 minutes.

The actual sample included 183 firms founded in Germany. Because of higher ages and different business models, 24 cases were eliminated from the analysis. In sum, we analysed the data of 159 teams, comprising 322 different interviews with at least two members from each team.

All of the firms operate in technology-intensive services and in high- and low-tech industries. The main fields of the industrial firms are machinery construction, electronics, chemicals, construction and plant and engineering.

The average age of the firms is 3.5 years. Overall, 53% of the firms are younger than 3 years old. All of the firms were founded by teams, with two (58.5%), three (27.6%) or more members (13.9%). The median team size is two and the mean is three founders per team. Most of the companies are small in size. 80% have less than 10 employees and 60% reach yearly sales under DM 2 million.

TABLE III
Industries

	Proportion	Number
Industrial	23%	36
Software	66%	106
Hardware	11%	17

6. Empirical findings

6.1. Measurement model of social interaction

The following table shows the statistical coefficients describing the quality of the used scales to measure the six components of social interaction defined above.

Table IV contains the results of both the present study and Hoegl's study (shown in parentheses) from which the measurement scales were developed.

The results reach a high quality level for the used measurement scales. Each component was assessed using three to six items. All components were first separately tested for uni-dimensionality by a confirmatory factor analysis and for reliability analysis estimating Cronbach's Alpha. After these tests, only the coordination component had to be modified by eliminating one item. All developed scales attain explained variances between 60% (communication) and 81% (work norms) and high Cronbach's Alphas. These values indicate high reliability and also construct validity of the developed measurement model.

In the next step, scores for the components were calculated by summarising and weighting the

TABLE IV
Quality of measurement models of the social interaction (in parenthesis: Values of Hoegl's study)

Components of social interaction	No. of items	Cronbach's Alpha	Communality	Factor loadings
Communication	6 (10)	0.86 (0.89)	4.17	0.88 (0.89)
Coordination	3 (4)	0.78 (0.75)	2.12	0.80 (0.73)
Mutual support	5 (7)	0.89 (0.94)	4.01	0.93 (0.91)
Work norms (effort)	4 (4)	0.91 (0.86)	3.34	0.84 (0.82)
Cohesion	6 (10)	0.87 (0.91)	3.53	0.90 (0.88)
Conflict resolution	5	0.87	3.23	0.80

Eigenvalue 4.44 (4.35).

Variance explained (Factor Social Interaction) 74.10% (72.60%).

Cronbach's Alpha of the Social Interaction Scale 0.93.

scores of the single items. With these scores a factor analysis was calculated with the six sum-scales of the social interaction components. The high factor loadings and communalities document (Table IV) that, the six dimensions represent a homogeneous construct to measure the quality of social interaction. The whole scale of the six components explains 76% of the variance and attains a Cronbach's Alpha of 0.92 (Table IV).

The comparison with the original measurement model which has been developed to measure the quality of teamwork within innovation teams could be seen as another validation test for the used scale. The high agreement with the results from the original sample of 581 members of innovation teams is striking. Thus the validity and reliability of the used measurement model are high enough to apply it for observation of the social interaction of entrepreneurial teams.

After constructing and proving the scales of social interaction we are now able to describe the characteristics of the social interaction within the entrepreneurial teams. How do the entrepreneurs rate the quality of social interaction within their teams?

To describe the characteristics, we first averaged the ratings of the interviewed team

members for each team separately. These averages are used for all of the following analyses.

The results are surprising. Most of the teams reach a high quality level of social interaction. The means lie over 5.8 on a seven-point-scale and the medians reach even higher ratings. Only a few teams indicated a low rating for the social interaction. Even the lowest rating reaches just 2.81. Also the ratings of the team members do not differ. The reasons for the high ratings lie in the team foundation. The members of only six teams did not know each other before the foundation of the firm. All others were friends, relatives or former colleagues. It seems that the social relationship is most important for the choice of the partners.

6.2. New venture success

In this section we first examine the scales developed to measure new venture success from the qualitative perspective. In the second part the success of the assessed companies will be analysed. New venture success was measured using four different scales as qualitative measures and the annual sales and profits over the last five business years as quantitative measures.

Table VI summarises the details on the

TABLE V
Characteristics of the Social Interaction Scale and its components

		Social Interaction	Communication	Coordination	Mutual support	Cohesion	Work norms	Conflict resolution
N	Valid	155	157	158	158	157	158	158
	Missing	4	2	1	1	2	1	1
Mean		5.80	5.87	5.42	6.01	6.07	6.00	5.42
Median		5.95	6.08	5.66	6.30	6.25	6.38	5.60
Standard deviation		0.81	0.91	0.98	0.90	0.84	1.08	0.98
Minimum		2.81	2.92	2.17	2.70	3.00	2.00	2.10
Maximum		7.00	7.00	7.00	7.00	7.00	7.00	7.00

TABLE VI
Quality of measurement models of the subjective success dimensions

Dimensions of new venture success	No. of items	Cronbach's Alpha	Eigenvalue	Variance explained
Economic success	4	0.76	2.38	59%
Competitive position	4	0.78	2.52	63%
Efficiency	2	0.82	1.71	85%
Client satisfaction	2	0.89	1.81	90%

measurement scales for Economic Success, Competitive Position, Efficiency and Client Satisfaction. The outcomes were evaluated by each of the interviewed team members separately. The items were rated on 7-point rating scales. Each success dimension was measured by two to four items. Using a confirmatory factor analysis the four dimensions were separately tested for unidimensionality and the reliability was tested by estimating Cronbach's Alpha. Each scale reached a satisfactory level of scale quality.

To measure the quantitative side of new venture success we used the sales and profits of the companies from the last five years of business. The profits or losses were measured within six different classes:

1. Losses more than DM -100,000;
2. Losses between DM -30,000 and DM -100,000;
3. Losses or profits between DM -30,000 and DM +30,000;
4. Profits between DM +30,000 and DM +100,000;
5. Profits between DM +100,000 and DM +500,000;
6. Profits above DM +500,000.

Due to the fact that the quantitative data was sampled for the last five business years, we have no data from the first business year of the six-year-old firms. Therefore, the sample size differs between the first and the second business year. In the start-up phase many new ventures and especially high-tech-ventures show losses. But overall many of the young companies were successful within the first years. Within the third year of business more than 50% of the firms have profits

above DM 30,000. The sales and profit measures show high deviations, caused by differences in firm age, and therefore as measures of success have only limited predictive quality.

6.3. The importance of the social interaction

With these success measurements we can now prove the main hypothesis: *The quality of the social interaction within entrepreneurial teams is positively linked to the venture success.*

Most of the used variables did not meet the condition of normality, therefore Spearmans's rank correlations were used. The correlations shown in Table VIII between the quality of social interaction and the dimensions of new venture success are significant at the 1%-level, except the economic success and the quantitative success indicators. Social interaction is a construct that measures a specific type of team process. In this sense, the correlation with efficiency is not surprising.

More surprising is the strong relationship between the social interaction and the client satisfaction. We can only speculate about this correlation, but it seems that within a team of high social interaction, mistakes are compensated for by members taking over the responsibilities of other team members. This supportive culture for solving problems or correcting mistakes by others results in satisfied clients. On the other hand, there is no correlation to the economic results. It seems that problems in the social interaction are compensated by other processes like the task orientation.

In comparison to the results of Hoegl (1998), who investigated the impact of teamwork quality

TABLE VII
The development of profits and sales over time

	Profits/Losses				Sales Mio. DM			
	Mean	Median	Std. Dev.	N	Mean	Median	Std. Dev.	N
1st year	3.27	3.00	1.11	130	0.96	0.3	2.90	131
2nd year	3.52	3.00	1.19	139	1.74	0.7	4.14	141
3rd year	3.79	4.00	1.19	116	2.36	1.0	7.08	118
4th year	4.20	4.00	1.03	70	3.33	1.6	9.65	69
5th year	4.16	4.00	1.15	38	2.91	2.2	2.93	40
6th year	4.36	5.00	1.36	16	3.21	2.1	2.91	16

TABLE VIII
Correlations between the social interaction and the new venture success

Components of social interaction	Dimensions of new venture success						
	Economic success	Competitive position	Efficiency	Client satisfaction	Sales	Profits	Satisfaction
communication	n.s.	0.31**	0.26**	0.38**	n.s.	n.s.	0.46**
Coordination	n.s.	0.24**	0.32**	0.31**	n.s.	0.21**	0.50**
Mutual support	n.s.	0.32**	0.22**	0.43**	n.s.	0.17*	0.55**
Work norms (effort)	n.s.	0.29**	n.s.	0.25**	n.s.	n.s.	0.38*
Cohesion	0.21**	0.30**	0.27**	0.41**	n.s.	n.s.	0.64**
Conflict resolution	n.s.	0.29**	0.18*	0.27**	n.s.	n.s.	0.55**
Social interaction	n.s.	0.31**	0.27**	0.40**	n.s.	n.s.	0.55**

Spearman Rank correlations; * $p < 0.05$, ** $p < 0.01$; two tailed.

TABLE IX
Quality of measurement models of the conflict types

Alternative measure	No. of Items	Cronbach's Alpha	Eigenvalue	Variance explained
Affective conflicts	3	0.82	2.22	74%
Cognitive conflicts	3	0.85	2.33	78%

on project success, there are similarities in the level of the correlations between the interaction and the success dimensions, thus supporting the validity of our results.

Overall, the results indicate that the quality of the social interaction within entrepreneurial teams is crucial for the new venture success and they support our hypothesis.

6.4. Alternative measurement of social interaction

Some empirical studies investigate single variables of social interaction. But do we need to take the social interaction as a whole into account or are single variables sufficient for predicting success? Research often focuses on conflicts, which could be seen as the negative results of failures in the social interaction. The role of conflicts in decision processes has been investigated for top management teams. In this area it is believed that two types of conflicts exist: Affective and cognitive conflicts. This concept and the measurement scales used were introduced to the entrepreneurial area by Ensley (1997) who overtook the concept of Amason et al. (1995).

On the other hand, we propose conflicts as a complementary measure for the quality of social interaction. Do our concepts of social interaction and the management of conflicts relate to the conflicts?

Ensley (1997, p. 104) proposed and verified a causal relationship between cognitive and affective conflicts. The correlation (0.73) he found approximately matches the present results. This may also be interpreted as a validation test. The correlations indicate a strong relationship between the conflicts and the activities for conflict resolution. Nevertheless, the insignificant and low

TABLE X
Correlations between the types of conflicts and conflict resolution mechanisms

	Affective conflicts	Cognitive conflicts
Affective conflicts	–	0.71**
Cognitive conflicts	0.71**	–
Conflict resolution	–0.48**	–0.55**
Social interaction	–0.44**	–0.53*

* $p < 0.05$, ** $p < 0.01$.

TABLE XI
Correlations between the types of conflicts and the new venture success

	Economic success	Competitive position	Efficiency	Client satisfaction	Sales growth	Profits	Satisfaction
Affective conflicts	n.s.	n.s.	n.s.	n.s.	n.s.	n.s.	n.s.
Cognitive conflicts	n.s.	-0.19*	n.s.	n.s.	n.s.	n.s.	n.s.

* $p < 0.05$, ** $p < 0.01$.

correlation between the social interaction and the affective conflicts once more confirm that the measurement of conflicts is not a sufficient substitute measurement for social interaction.

The quality of the used measurement scales for the two conflict types (Table VI) is high enough to use them for further analysis. The next step investigates the impact of the two types of conflict on the new venture success.

The correlations between the dimensions of new venture success and the two types of conflicts show only punctuated influences. It is interesting that the affective conflicts are correlated significantly with the economic success and efficiency. These results are contradictory to Ensley (1997) who could not find any significant influence of the conflicts on new venture success at all. Ensley (1997, p. 106) states that in the field of top management team research there is: “. . . *significant disagreement about the role of affective conflict in top management groups.*” The weak relationship to the venture success also documents that the use of conflicts does not sufficiently represent the social interaction.

7. Integration of the results in a theoretical framework

Our analysis of diverse empirical studies shows that entrepreneurial teams are more successful than single founders. The existence and economic importance of entrepreneurial teams are uncontested, but we could not find any empirical study analysing the risks of entrepreneurial teams. In our discussion we identified a lack of theoretical and empirical work for the team phenomenon in the field of entrepreneurial research. Until now most of the empirical studies focus on the characteristics of the teams. With this approach it is not possible to explain accurately the differences in

the performance of entrepreneurial teams. This is empirically shown by the weak linkages between the team characteristics and the new venture success.

We decided therefore, to change the level of analysis from this input-oriented approach, to the process-oriented approach. Risks of entrepreneurial teams could be better explained by analysing the process level. The influence of team processes on the new venture success are shown by some empirical studies. They used only isolated variables but none of the present studies conceptualised the team process within the entrepreneurial team. The main goal of our study was to close this theoretical gap by introducing the social interaction as a description of the team process to the entrepreneurial research.

The research of top management teams and innovation teams offers some theoretical concepts describing the social interaction more precisely. In the first step we proved the relevance of the social interaction within innovation teams. In the next step we compared the characteristics of innovation and entrepreneurial teams. The strong similarities allowed us to adopt the concept of social interaction for the entrepreneurial team research. In the last step we tested empirically the validity of the social interaction within entrepreneurial teams. The high similarities to other empirical studies justify our introduction of social interaction into the field of entrepreneurial research.

Our hypothesis that the social interaction influences the new venture success is supported. For a more precise and broader understanding, the present results suggest a need for an integration of the social interaction in existing frameworks like the ones of Slevin and Covin (1995, p. 181), Cooper and Daily (1997, p. 130) or Ensley (1997, p. 155).

Social interaction is important for the new

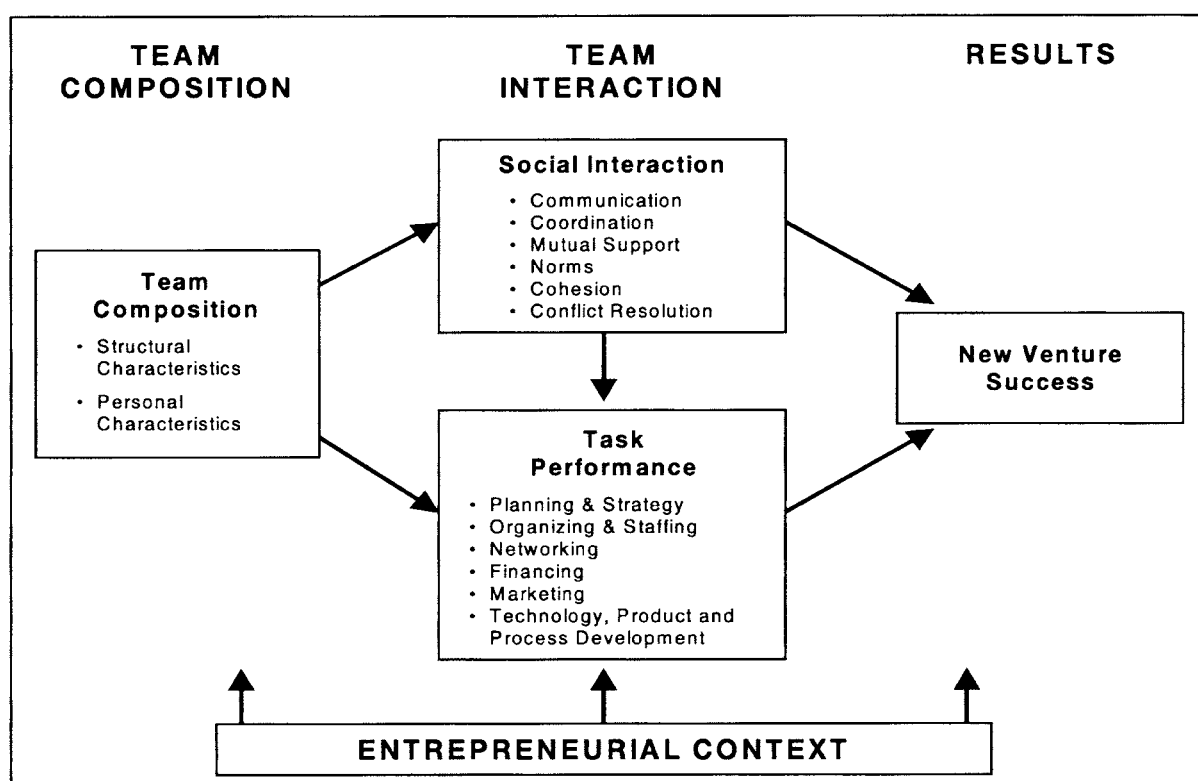


Figure 1. Extended framework for the success factors of entrepreneurial teams.

venture success, but this raises the question, how is it influenced and which other factors does it influence? The concept of social interaction of entrepreneurial teams is a part of an empirical study to investigate the success factors of venture teams. Thus, the concept is an integrated part of the broader theoretical framework (figure) underlying this study. Figure 1 shows the causal relations we want to investigate further.

Some of the causal relations have already been empirically tested, but our analyses will go a step further and test the entire causal structure of the success factors of new high-tech ventures.

List of items used in the study:

Dimension scales of social interaction

Communication

1. The entrepreneurial team members communicate frequently with each other.
2. The entrepreneurial team members communicate intensively with each other.

3. Team members share ideas and information frankly.
4. I'm completely content with the accuracy of information interchange within the entrepreneurial team.
5. I'm completely content with the exactness of information provided by other team members.
6. The founders share opinions and information spontaneously.

Coordination

7. The founders adjust closely the processing of their tasks.
8. Within the entrepreneurial team job's aren't done twice.
9. Within the entrepreneurial team related tasks are well coordinated.
10. Within the entrepreneurial team every task is assigned to specific team members.

Mutual support

11. The founders support and complement each other as well as they can.
12. Discussions among the founders are always constructive and beneficial.
13. Proposals and contributions of the founders are always respected.
14. Proposals and contributions of the founders will be discussed and developed.

15. The entrepreneurial team works within a cooperative ambience.
16. The founders reach consensus in every important issue.

Work norms (effort)

17. Every founder perceives herself/himself as responsible for the entrepreneurial team's goals.
18. The founders share the workload of the entrepreneurial team equally.
19. Every founder works as best as she/he can in order to achieve the entrepreneurial team's goals.
20. Every founder is involved equally in reaching the common goals of the entrepreneurial team.

Cohesion

21. Every founder is completely integrated in the entrepreneurial team.
22. Working in the entrepreneurial team has the highest priority for every team member (in comparison with other jobs and private life).
23. Mutual sympathy is a characteristic of the entrepreneurial team.
24. Strong cohesion is a characteristic of the entrepreneurial team.
25. I'm proud to be part of the entrepreneurial team.
26. The entrepreneurial team is convinced of his capacity to perform well.

Conflict resolution

27. Disagreements between the founders are frankly discussed.
28. Disagreements between the founders are objectively discussed.
29. The founders normally come easily to an agreement.
30. Disagreements between the founders are solved rapidly.
31. The founders solve conflicts and disagreements within the entrepreneurial team completely.

Affective conflicts

32. The decision-making process provokes frequently personal conflicts between the founders.
33. Within the entrepreneurial team affective conflicts occur often.
34. The decision-making process causes often emotional reactions of the team members.

Cognitive conflicts

35. Referring to basic decisions entrepreneurial team members often disagree.
36. In discussions the founder's points of view often differ greatly.
37. The founders often hold different views in the decision-making process.

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