How should we divide the pie? Equity distribution and its impact on entrepreneurial teams

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1. Executive summary

While equity ownership is important to entrepreneurs because of the connected financial rewards and the level of power and control within the firm, we know little about the consequences of equity distribution for the interaction within entrepreneurial teams and how these interactions develop over time. Understanding the consequences of equity distribution among team members for team interactions is important because a well-functioning entrepreneurial team is the key to a positive venture development and high levels of performance.

To address this gap we used a longitudinal case study approach and identified eight entrepreneurial teams—four with an equal and four with an unequal equity distribution—as appropriate cases in a multi-stage theoretical sampling approach. We followed these eight entrepreneurial teams over the time span of six months and further tracked them for up to 18 months after the study period to record important events such as team member exit. In total, we conducted 35 semi-structured interviews with the entrepreneurial team members. Additionally, we collected field notes, press reports, and self-report survey data.

We followed an inductive coding strategy and in an iterative process a dynamic model of the consequences of equity distribution among team members surfaced from the data. The key variable emerging in the interviews was the team members’ perceptions of justice of equity distribution. High perceived justice triggered positive team interaction spirals consisting of an increase of team interaction spirals, whereas low perceived justice triggered negative interaction spirals. Teams exposed to external threats drifted from a positive spiral to a negative spiral despite high perceived justice. We discuss the implications of our study for research on entrepreneurial imprints, justice, and exit.

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Abstract

Drawing on a multiple case study approach and data on eight entrepreneurial teams observed over six months this article develops a dynamic model of the consequences of equity distribution among team members. Perceived justice of equity distribution emerged as a key variable influencing entrepreneurial team interactions and important entrepreneurial outcomes. High perceived justice triggered positive team interaction spirals, whereas low perceived justice triggered negative interaction spirals. Teams exposed to external threats drifted from a positive spiral to a negative spiral despite high perceived justice. We discuss the implications of our study for research on entrepreneurial imprints, justice, and exit.

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attraction—the team’s experience of being a strong entity—and a reciprocal decrease in team repulsion—the team’s thoughts, feelings, and behaviors connected to a process of drifting apart. In contrast, low perceived justice triggered team negative interaction spirals in which team attraction decreased over time, while team repulsion reciprocally increased. Teams which were confronted with external threats in terms of a corrosive impact by investors drifted from a positive spiral to a negative spiral despite high perceptions of justice. The negative spirals escalated over time and resulted in the exit of one team member. In contrast, we observed no team member exit in teams with positive spirals. Moreover, positive spirals were connected to high levels of team and venture performance, whereas negative spirals resulted in lower levels of performance.

Our study provides insights how entrepreneurs’ decisions at firm foundation impact the firm’s development and thus contributes to the literature on entrepreneurial imprinting. We also contribute to work on distributive justice. In contrast to employees in established firms who can reduce their input to restore justice, entrepreneurial team members still need to sustain their level of effort in order not to risk their venture’s performance which creates a frustrating dilemma for entrepreneurial team members. Finally, we contribute to work on entrepreneurial exit by showing how team interactions can trigger exit and how investors initiate turnover via impacting team interactions.

2. Introduction

“There are thousands of issues that a startup has to deal with. Equity, the distribution of shares in the company, is the nuclear issue. The X-ray issue. The one that opens things up right to the core. Rolly and I had sweated and toiled and struggled together on this company. But we could work together all we wanted, for as many days and nights and months and years as we liked. Until it came right down to discussing equity in hard numbers, our actual forward going percentages of ownership, we did not really know each other’s mind.”

[—(Ashbrook, 2000: 163)]

Tom Ashbrook’s reflection on the early days of his Internet start-up demonstrates that the distribution of equity among co-founders is a far-reaching, emotionally-laden decision for the entrepreneurial team. This is hardly surprising, given that equity ownership represents the primary economic reward entrepreneurs receive in return for their efforts and investments into the venture (Hall and Woodward, 2010) and is connected to the level of power and control in their firms (Nelson, 2003). As the split usually takes place within the first weeks of the venture’s foundation, Hellmann and Wasserman (2011: 1) refer to the distribution as “the first deal” made by the entrepreneurs.

However, previous research on equity ownership in entrepreneurial firms typically focused on relationships between entrepreneurs and investors and addressed, for example, the investors’ interest to monitor the firms in their portfolio (Lerner et al., 1995), the entrepreneur’s willingness to grant investors the right to replace the entrepreneur (Hellmann, 1998), and the development of faultlines between entrepreneurs and investors (Lim et al., 2013). Moreover, equity ownership has been considered as an incentive to attract new entrepreneurial team members (Chandler et al., 2005; Wasserman, 2012). However, while there has already been an early call for research on antecedents and outcomes of equity distribution within the entrepreneurial team (Kamm et al., 1990), there has been a remarkable paucity of studies on this topic (Hellmann and Wasserman, 2011). Only a study on stock options has shown that stock option dispersion increases team cohesion in top management teams (whereas it decreases cohesion in family firms; Ensley et al., 2007). Studies focusing on the actual distribution of equity among entrepreneurial team members only addressed its consequences for financial firm outcomes (Hellmann and Wasserman, 2011; Kroll et al., 2007), but have not focused on social psychological consequences of equity distribution in entrepreneurial teams. So far, we know little about these consequences for the interaction within entrepreneurial teams and, in turn, outcomes of these interactions, such as team stability and team/venture performance. Investigating these interactions and outcomes is important because it helps to better understand how entrepreneurial teams impact venture development and performance. More generally, there is substantial interest to understand how entrepreneurs’ and entrepreneurial teams’ decisions and characteristics imprint the firm’s development (Baron and Hannan, 2002; Beckman and Burton, 2008; Leung et al., 2013). This gap resulted in our research questions that served as guiding ideas in this study: (i) how the equity distribution in an entrepreneurial team shapes interactions between its members over time, (ii) how the outcomes of these interactions develop for the team and the venture, and (iii) how and why these effects differ between entrepreneurial teams.

Given that no comprehensive understanding of the consequences of equity distribution in entrepreneurial teams exists so far, field-work and grounded-theory “is more likely to generate novel and accurate insights into the phenomenon under study than reliance on either past research or office-bound thought experiments” (Brown and Eisenhardt, 1997: 2). As Eisenhardt and Graebner (2007: 25) point out, “a major reason for the popularity and relevance of theory building from case studies is that it is one of the best (if not the best) of the bridges from rich qualitative evidence to mainstream deductive research.” Our major data sources are 35 semi-structured interviews with the co-founders of eight entrepreneurial ventures, which we followed over a period of six months. Our study provides several major new insights.

First, current research on equity distribution within entrepreneurial teams has focused on explaining antecedents (Hellmann and Wasserman, 2011; Kotha and George, 2012) or consequences in terms of financial firm performance (Hellmann and Wasserman, 2011; Kroll et al., 2007) but has neglected its impact on interactions within the team. Our data revealed that the team members’ perceived justice of equity distribution left an imprint on the entrepreneurial team’s interactions. High perceived justice triggered a reciprocal, positive team interaction spiral which consisted of an increase in team attraction and a decrease in team repulsion over time. Low
perceived justice resulted in a reciprocal, negative team interaction spiral consisting of a decrease in attraction and an increase in repulsion. Triggered by external threats, some teams initially high in perceived justice could not maintain the positive interaction spiral over time but started drifting into a negative spiral. The two interaction spirals affected important entrepreneurial outcomes: team stability as well as team and venture performance.

Second, we contribute to the literature on justice in organizational contexts. In contrast to employees in established firms, all entrepreneurial team members are typically involved in the decision on equity distribution (Hellmann and Wasserman, 2011). Despite this involvement, our study highlights substantial variance in perceived distributive justice (cf. Colquitt, 2001) across teams and within teams over time. Perceptions of justice appear to play an important role in the development of the team and the venture.

Finally, an emerging literature studying the reasons and routes of entrepreneurial exit has identified a variety of drivers for exit decisions (e.g., Bruner et al., 2000; Gimeno et al., 1997; Ucbasaran et al., 2003; Wennberg et al., 2010). Our model extends the theories on entrepreneurial exit by incorporating dynamic interaction spirals within the entrepreneurial team which are influenced by the team members’ perceptions of just or unjust equity distributions, and which, in turn, influence team member exit.

3. Theoretical context

Entrepreneurial teams are “two or more individuals who have a significant financial interest and participate actively in the development of the enterprise” (Cooney, 2005: 229). Entrepreneurial teams and their tasks differ from corporate management teams because they face the liabilities of the venture’s newness and the associated high failure risk (Schjoedt et al., 2013). Moreover, lacking the context of an established organization, the internal structures of these teams are often unclear (Blatt, 2009). Entrepreneurial teams also own a substantial part of the venture’s equity and thus carry a significant proportion of the venture’s risk (Hall and Woodward, 2010). However, they enjoy more freedom regarding strategy formulation and execution as well as team development than corporate management teams (Boeker, 1989; Ruef et al., 2003). For the current paper, three streams of literature are particularly relevant. We review them briefly below which leads to the research questions guiding our project.

3.1. Entrepreneurial team composition

One important goal of entrepreneurial team research has been to investigate how the composition of the team influences the team’s and the venture’s development (cf. Knockaert et al., 2011). Entrepreneurial teams are often homogeneous in terms of gender, age, and ethnicity (Ruef et al., 2003), which has been associated with higher team stability (Ucbasaran et al., 2003). However, research has also shown that ventures benefit from team heterogeneity. For example, entrepreneurial teams with a more heterogeneous functional background are more likely to achieve a successful initial public offering (Beckman et al., 2007). Further, particularly in early development stages, heterogeneity in terms of team members’ functional and educational backgrounds can trigger venture performance (Amason et al., 2006).

Moreover, research has shown that heterogeneity of team members’ functional backgrounds increases the likelihood of a new member’s entry, whereas heterogeneity in the members’ entrepreneurial experience increases the likelihood of a member’s exit (Ucbasaran et al., 2003). Further, new entries and founding team members’ exits enhance the likelihood that the venture goes public (Beckman et al., 2007). However, while some studies saw team turnover as an indication that investors ‘professionalize’ the team (Hellmann and Puri, 2002) and found a positive relationship between team member exit and venture performance (Bruton et al., 2000; Chandler et al., 2005), others found that founder/CEO exit leads to a loss of social capital and reduced venture performance (Bamford et al., 2006), and that there are positive effects of the original founders’ continued presence for firm performance (Kroll et al., 2007). Although the consequences of entrepreneurial exit for the firm can vary, “the exit of the founder has a significant effect on the firm and is a key milestone in the organization” (DeTienne, 2010: 205).

While research on team composition and its changes has advanced our understanding of entrepreneurial teams and their impact on venture outcomes, this literature has largely neglected interaction processes within entrepreneurial teams (Klotz et al., 2014). For example, there has been insufficient investigation how team-level interactions trigger changes in team composition, and the dynamics of team interactions before member exit. We suspected that grounding our theorizing in data on how equity distribution influences the stability of entrepreneurial teams would generate additional insights.

3.2. Interactions within entrepreneurial teams

Another important research stream has focused on interactions within entrepreneurial teams. Studies focusing on team interactions that have negative implications for team and/or venture performance have found, for example, that relationship conflict is negatively related to team satisfaction (De Dreu and Weingart, 2003), team decision quality (Amason, 1996), and venture performance (Ensley and Hmieleski, 2005). Moreover, conflicts were identified as one reason for team member exit (Vanaelst et al., 2006).

Work focusing on positive entrepreneurial team interactions (i.e., those that have positive implications for team and/or venture performance) showed that team cohesion is positively related to venture performance (Ensley and Hmieleski, 2005). Franke et al. (2008) concluded that team cohesion is more important to experienced investors than to their less experienced counterparts. Recent theoretical work proposed that the development of communal relational schemas (i.e., caring about one another’s needs) can build up trust in entrepreneurial teams (Blatt, 2009). Moreover, trust triggers top management teams’ decision quality (Carmeli et al., 2012) and creativity in entrepreneurial teams (Gemmell et al., 2012).

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The key insight from this stream of literature is that interactions within entrepreneurial teams are key factors influencing team and venture performance (Crowdhub, 2005; Ensley and Hmieleski, 2005; Klotz et al., 2014); however, there is considerable variance in the antecedents of these interactions and how they impact the team’s development. Our data led to new insights about the link between equity distribution among team members and interactions within entrepreneurial teams.

3.3. Equity ownership and its distribution in entrepreneurial teams

Most research focusing on equity ownership in entrepreneurial firms has addressed the distribution of equity with respect to investors or other helpers outside of the firm (Gompers and Lerner, 1998; Hellmann, 1998; Kotha and George, 2012; Lerner et al., 1995). In return for their financial investment, investors want to actively control and influence the firm (Gompers and Lerner, 1998) which can even result in the investors’ intervention to replace the entrepreneur with an outside manager (Hellmann, 1998). Besides financial resources, entrepreneurs might also need to grant equity in exchange for non-financial resources such as contacts to suppliers and customers, advice, and moral support (Kotha and George, 2012). Moreover, entrepreneurs in young entrepreneurial firms which often lack legitimacy and financial resources (Brinckmann and Hoegl, 2011) offer equity as an incentive to attract potential co-founders (Chandler et al., 2005; Wasserman, 2012). Ucbasaran et al.’s (2003; 109) definition of entrepreneurial team members explicitly includes only individuals with at least 10% of the venture equity “in order to have the incentives and the power to enhance organizational performance.” Likewise, some larger firms offer equity ownership to their managers as an incentive (Lerner and Wulf, 2007) because equity ownership is supposed to align the equity holder’s interests with the interests of the firm (Wasserman, 2006).

While this research highlights the granting of equity in terms of gaining additional resources, granting equity to others can also be painful to entrepreneurs like “giving up part of ‘their baby’” (Lim et al., 2013: 53) and “include[s] additional governance and financial risks as well” (Brinckmann and Hoegl, 2011: 42). Consequently, the distribution of equity within the entrepreneurial team has been described as “one of the most complicated and tension-filled” decisions in an entrepreneurial team (Wasserman, 2012: 182). The distribution is influenced by team members’ prior experiences, social ties, capital investments, and contributions to the idea for the new venture (Hellmann and Wasserman, 2011). However, because this distribution cannot be easily changed if founders do not use contingent contracts (specifying individual contributions; Wasserman, 2012), imbalances in the distribution might arise. For example, one equity holder can turn into a ‘free rider’ benefitting from the team’s collective effort without contributing much (Kotha and George, 2012; Wasserman, 2012).

Therefore, the distribution of equity might result in far-reaching consequences for entrepreneurial teams. But research on the consequences of equity distribution is sparse and focuses mainly on financial firm outcomes. For example, Hellmann and Wasserman (2011) found that equal equity distributions among team members resulted in lower venture valuation by outside investors. In contrast, Kroll et al. (2007) found that firms with more original team members in the board benefitted more from an equal equity distribution among these original members than from an unequal distribution with respect to post-IPO performance. Moreover, while stock option dispersion was found to increase team cohesion in non-family top management teams (and to decrease cohesion in family firms; Ensley et al., 2007), we lack insights how equity distribution shapes interactions within entrepreneurial teams. This lack of research is reflected in a recent call by Kotha and George (2012) to examine consequences of ownership distribution in entrepreneurial firms. Based on the research gaps presented in this section, our empirical study is guided by the following overarching research questions:

*How does equity distribution in an entrepreneurial team shape interactions between its members over time and how do the outcomes of these interactions develop for the team and the venture? Why do these effects differ between entrepreneurial teams?*

4. Data and methods

4.1. Research design

As prior research has not yet sufficiently explored our research questions, we suspected that ground our theorizing in data would enable us to generate additional insights and employed a multiple case study approach. Multiple case studies are particularly suited for unexplored research areas, in which research questions addressing the “how” and “why” are sought to be answered (Edmondson and McManus, 2007). We use a longitudinal design because “entrepreneurial teams cannot be understood without an appreciation of the temporal issues affecting them” (Lockett et al., 2006: 127). We followed the case teams over an extended time period which allows us to study how a sequence of events produces specific outcomes over time (Van de Ven, 2007) and thus gives a better impression of causal relationships between variables and their temporal changes.

Our research setting is startups located in business incubators in a European metropolitan area. Incubator startups are particularly appropriate for our study because they have recently begun to exploit new business opportunities (Rice, 2002) and thus are likely to be still run by the founding team. We identified ten incubators for young ventures and generated a list of ventures from the incubator websites. Specifically, we focused on ventures which were founded and run by an entrepreneurial team (cf. Cooney, 2005). This list contained 289 ventures, which we contacted either in person or by phone to gain their participation. Overall, 64 teams with an average team size of 2.5 members agreed to participate. These ventures came from a variety of different industries including information technology, services, medical technology, e-commerce, and life sciences. To select a number of cases which is consistent with recommendations for comparative case study research (e.g., Eisenhardt, 1989), we followed a multi-stage theoretical sampling approach.
Theoretical sampling is advantageous because “just as laboratory experiments are not randomly sampled from a population of experiments, but rather, chosen for the likelihood that they will offer theoretical insight, so too are cases sampled for theoretical reasons, such as revelation of an unusual phenomenon” (Eisenhardt and Graebner, 2007: 27). In accordance with stratified theoretical sampling (Miles and Huberman, 1994) we first classified each venture by its equity distribution: one group containing 35 ventures with an equal equity distribution between all team members, the other containing 23 ventures with an unequal distribution. Six ventures did not grant us any insight into their equity distribution and were dropped from the sample.

Since theoretical sampling relies on cases that are “information-rich” (Patton, 2002: 169) and thus allow for an understanding of the phenomenon under study at a highly detailed level, we focused on ventures that provided us with rich data including participation in multiple rounds of interviews and granting us insights into sensitive team and reward related issues and processes (see below). From our initial sample, eleven ventures with an equal equity distribution and eight ventures with an unequal distribution provided detailed and rich enough information; team members of the other ventures were either not willing to talk to us about sensitive internal issues to an extent that we considered necessary to build a reliable theory, or some team members were not willing to participate in all interview rounds.

When we started analyzing the 19 teams which provided rich enough data, we soon realized that those with two members and those with more than two members differed in terms of interactions. For example, coalitions formed in some teams with more than two members—a phenomenon that cannot be observed in two-person teams (Moreland, 2010). We considered it impossible to compare teams with two members to teams with three and more members with respect to team interactions. Further, team size impacts the stability of entrepreneurial teams (Ucbasaran et al., 2003), suggesting that it would be difficult to compare teams with different sizes. We thus decided to focus on 16 teams composed of two co-founders to reduce complexity of the interactions observed and facilitate the analysis of attitudinal, affective, and behavioral processes within the team. While this focus on dyadic teams represents a limitation to the generalizability of our results, it is consistent with the observation that many ventures are founded by two individuals. For example, in studies on entrepreneurial teams, average reported team sizes are 2.1 (Ensley and Hmieleski, 2005), 2.2 (Chowdhury, 2005), and 2.5 co-founders (Ucbasaran et al., 2003).

In the final step, we made use of maximum variation sampling to get a better reflection of reality and to develop a robust model (Creswell, 2012). We contrasted the teams which showed the highest levels of positive and negative facets of variables and constructs of interest (cf. Yin, 2009). This focus on ‘extreme cases’ illuminates the core effects associated with equity distribution and thus provides the best starting point to build new theory (Eisenhardt, 1989). In addition, the focus on a finite number of cases provides the opportunity to balance the development of sufficiently textured theory with the amount of data to be analyzed (Brown and Eisenhardt, 1997). By analyzing the eight cases, we were able to reach theoretical saturation: when we tried to fit the remaining eight cases with our emerging theoretical model, we did not find any major disagreements with the model such that further modification would be justified.

In Fig. 1a, we provide details about the case ventures. To protect the participants’ anonymity, we use fictitious names for the teams (J1–5 for teams in which equity distribution was perceived to be just and U1–3 for teams in which equity distribution was perceived to be unjust) and the members (using the same starting letter per team and consonants and vowels for just and unjust teams, respectively). Table 1 presents additional information about the team members and their backgrounds.

4.2. Data collection

Consistent with most studies using a multiple case study approach (e.g., Davis and Eisenhardt, 2011; Maurer and Ebers, 2006) the primary source of data to build our model was semi-structured interviews. For each of the eight cases we interviewed both team members twice within a time frame of six months with the exception of one team member who exited his team before the second interview (Andrew, U1) and another team member who was not available for the second interview (Ian, U3), resulting in a total of 30 interviews. During the iterative data analysis process it became apparent that follow-up interviews would be beneficial in the five cases where a team member had left the venture during or after the time frame of our study. We were able to conduct additional interviews with both co-founders of one team after they had separated (J5). Further, we conducted a follow-up interview with the departing co-founder of another team (Andrew, U1) and already spoke with the co-founder (Alice) about the exit in the second interview. Moreover, we conducted follow-up interviews with the remaining founders of J3 (Lance) and U2 (Emma); in case of U2 the follow-up interview was conducted after the failure of the venture. Team U3 also experienced the exit of member Irene shortly after the second interview; however, both team members denied us an additional interview. While the concrete topics of the follow-up interviews varied, they were used for clarification purposes and explored specific issues that emerged during data analysis. Thus, for building the model we relied on 35 interviews in total (taking into account the eight cases not included in model development but used for validation we relied on a total of 68 interviews). Thirty interviews were conducted face-to-face and five were conducted via phone. Since ensuring confidentiality and anonymity to informants encourages candor (Huber and Power, 1985), we promised to keep any information from the interviews confidential, particularly towards fellow team members. Interviews which typically lasted between 50 and 60 min were recorded and transcribed. The collected data amounted to over 400 transcribed pages and over 30 h in recorded material. Fig. 1a provides an overview of the interview timing.

The first round of interviews revolved around three major themes: (i) the team’s background and the business model, (ii) the individuals’ perspective on their day-to-day work, the business, and their future careers, and (iii) the team’s interaction. We made use of an interview guide containing 24 open-ended questions, following recommendations for exploratory research (Edmondson and McManus, 2007). The second interview conducted six months later aimed at exploring the following key topics: (i) team and firm developments since the first interview, (ii) the decision-making processes in the entrepreneurial team including equity distribution, and...
(iii) the handling of different team situations with a particular emphasis on team conflict (which emerged as an important theme already in the first round of interviews). The second interview encompassed 28 open-ended questions. Since a common weakness in interview situations is that past events may not be present in the minds of the interviewees at the time of the interview (recollection bias), we asked the interviewees to reflect on a common incident rather than a general abstraction (Podsakoff and Organ, 1986). For instance, for interview questions on team conflict, we asked the interviewees to refer in their answers to the most intensive team conflict during the past six months.

To mitigate biases arising from individuals’ imperfect recall and limited rationality, we collected additional data. During all interview sessions, field notes were taken on on-site observations (e.g., how team members interacted during lunches or coffee breaks following the interviews, and how teams allocated their office space). Further, over the time frame of our study, we repeatedly reviewed
### Table 1
Background information on entrepreneurial team members.

<table>
<thead>
<tr>
<th>Team</th>
<th>Founder</th>
<th>Age</th>
<th>Educational background</th>
<th>Professional accomplishments</th>
<th>Prior relationship</th>
<th>Idea</th>
<th>Contribution to venture (I1)</th>
<th>Contribution to venture (I2)</th>
<th>Equity stakes</th>
<th>Investors’ equity stakes</th>
</tr>
</thead>
<tbody>
<tr>
<td>J1</td>
<td>Pete</td>
<td>30</td>
<td>Business</td>
<td>Apprenticeship in bank</td>
<td>Friends</td>
<td>Similar</td>
<td>Similar</td>
<td>Similar</td>
<td>50%</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Paul</td>
<td>32</td>
<td>Business</td>
<td>Analyst at a software company</td>
<td>Friends</td>
<td>Had first idea</td>
<td>Similar</td>
<td>Similar</td>
<td>50%</td>
<td></td>
</tr>
<tr>
<td>J2</td>
<td>Jeff</td>
<td>28</td>
<td>Business</td>
<td>Work experience as business consultant</td>
<td>Fellow students at university</td>
<td>Developed idea together</td>
<td>Equal</td>
<td>Equal</td>
<td>50%</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Jim</td>
<td>28</td>
<td>Business</td>
<td>Work experience as business consultant</td>
<td>Fellow students at university</td>
<td>Developed idea together</td>
<td>Equal</td>
<td>Equal</td>
<td>50%</td>
<td></td>
</tr>
<tr>
<td>J3</td>
<td>Larry</td>
<td>29</td>
<td>Business</td>
<td>–</td>
<td>Incidental meeting at entrepreneurship center</td>
<td>Had first idea</td>
<td>Equal</td>
<td>Equal</td>
<td>10%</td>
<td>Exact distribution among VC fund and strategic investor unknown</td>
</tr>
<tr>
<td></td>
<td>Lance</td>
<td>29</td>
<td>Engineering</td>
<td>Founded a company previously</td>
<td>Incidental meeting at entrepreneurship center</td>
<td>Equal</td>
<td>Lance invests more time</td>
<td>Equal</td>
<td>10%</td>
<td></td>
</tr>
<tr>
<td>J4</td>
<td>Doug</td>
<td>37</td>
<td>Business</td>
<td>Work experience as engineering consultant</td>
<td>Former colleagues</td>
<td>Had idea and started firm</td>
<td>Dan invests more time</td>
<td>Dan invests more time</td>
<td>90%</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Dan</td>
<td>39</td>
<td>Law</td>
<td>Work experience as software consultant</td>
<td>Former colleagues</td>
<td>Developed idea together</td>
<td>Dan invests more time</td>
<td>Dan invests more time</td>
<td>10%</td>
<td></td>
</tr>
<tr>
<td>J5</td>
<td>Sam</td>
<td>27</td>
<td>Business</td>
<td>–</td>
<td>Acquaintances via entrepreneurship club</td>
<td>Developed idea together</td>
<td>Equal</td>
<td>Equal</td>
<td>34.5%</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Sean</td>
<td>30</td>
<td>Computer sciences</td>
<td>–</td>
<td>Acquaintances via entrepreneurship club</td>
<td>Developed idea together</td>
<td>Similar</td>
<td>Sean invests more time</td>
<td>34.5%</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Alice</td>
<td>32</td>
<td>Architecture</td>
<td>–</td>
<td>Acquaintances via university</td>
<td>Developed idea together</td>
<td>Alice invests more time</td>
<td>Alice invests more time</td>
<td>70%</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Andrew</td>
<td>25</td>
<td>Electrical engineering</td>
<td>–</td>
<td>Acquaintances via university</td>
<td>Developed idea together</td>
<td>Alice invests more time</td>
<td>Alice invests more time</td>
<td>30%</td>
<td></td>
</tr>
<tr>
<td>U1</td>
<td>Emma</td>
<td>28</td>
<td>Computer sciences/MBA</td>
<td>Work experience in established organization and in startup</td>
<td>Contact via newspaper advertisement</td>
<td>Had idea for application of technology</td>
<td>Equal</td>
<td>Emma invests more time</td>
<td>55%</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Ed</td>
<td>27</td>
<td>IT</td>
<td>–</td>
<td>Contact via newspaper advertisement</td>
<td>Developed technology first</td>
<td>Ed invests more time</td>
<td>Ed invests more time</td>
<td>45%</td>
<td></td>
</tr>
<tr>
<td>U3</td>
<td>Ian</td>
<td>53</td>
<td>Social sciences</td>
<td>Work experience for television company</td>
<td>Neighbors</td>
<td>Developed technology first</td>
<td>Irene invests more time</td>
<td>Irene invests more time</td>
<td>40%</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Irene</td>
<td>48</td>
<td>Teaching degree</td>
<td>Work experience as freelancer and as book author</td>
<td>Neighbors</td>
<td>Had idea</td>
<td>Irene invests more time</td>
<td>Irene invests more time</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Note: I1 = first interview, I2 = second interview.
the websites of the ventures. We also collected secondary data from trade magazine articles, founder portraits in magazines, press releases, and we closely monitored announcements of winners of important local and national entrepreneurship, design, and small businesses awards to find out if our participating ventures were mentioned. All additional data (excluding the questionnaires) amounted to a total of 318 pages, and were used to complement and validate the interview data to build a more solid theory (Yin, 2009). Finally, we also collected some quantitative data on the teams. The purpose of this data was not to perform detailed statistical analyses, but to complement the qualitative data and enhance the validity of findings (Yin, 2009). Specifically, since our focus was on interactions within entrepreneurial teams, we measured team members’ perceptions of relationship conflict (Jehn and Mannix, 2001) and their satisfaction with the team (Jehn et al., 2010) using 3-item scales. We captured these constructs in online questionnaires, which team members filled out in weeks 1, 10, 19, and 28 of our study. Moreover, to connect team interactions with performance outcomes we also drew on measures of self-assessed team performance (Shaw et al., 2011) and venture performance (Higashide and Birley, 2002) from the last questionnaire in week 28. However, as the relevance of and the relationship between specific constructs emerged from the interview data and we developed our propositions based on these emerging patterns (Suddaby, 2006), we could not include all constructs that comprise our model in our surveys because we did not know of them at the time of the questionnaire development (i.e., before the interviews). Therefore, the quantitative data are only a rough indicator for constructs that emerged to be important in our qualitative data. Fig. 1b and c provides more details about our data set and the time periods covered.

4.3. Data analysis

We followed an inductive coding strategy (Corbin and Strauss, 2008). Although we had a focus on team interactions and knowledge of the related literature, we approached the cases with an open mind (without preconceived propositions) to allow the data to speak to us (Suddaby, 2006). For the coding, we devised an initial coding scheme containing 18 categories consisting of 50 subcategories which we considered as possibly being relevant for our broad research questions. Our data allowed us to include constructs at different levels of analysis, such as the individual level (e.g., the team members’ background), the team level (e.g., level of conflicts in the team), and the venture level (e.g., venture performance).

The coding scheme was constantly revised, i.e., some categories were dropped and others added throughout the coding process. We proceeded in an iterative way, i.e., we repeated the coding and analysis steps multiple times before arriving at a final outcome (Miles and Huberman, 1994). We ended with a total of 25 categories spanning 68 subcategories. These categories and sub-
categories comprised variables and constructs that we deemed as potentially relevant for understanding the research questions of our study. To assist the process of coding and re-coding, we used the computer-based qualitative analysis program NVivo (version 9).

Finally, we composed tables with all interview quotes and archival data per construct and per case. In a subsequent step, we compiled an analysis table and assessed the level of the specific category for a particular case (e.g., if relationship conflict for the case team was high, medium, or low). The assessments were performed by one of the authors and an independent rater. The two raters had an initial percentage agreement of 91.5%, consistent with inter-rater reliabilities reported elsewhere (Haynie and Shepherd, 2011; Kelley et al., 2008). Unclear cases were discussed among the raters until agreement was reached. We then proceeded with a cross-case comparison to investigate differences between teams with equal and unequal equity distributions (Eisenhardt, 1989; Miles and Huberman, 1994). By drawing on this iterative process and oscillating between the table containing the interview quotes and the table containing the construct levels, the most important variables as well as their interrelations emerged.

5. Equity distribution, team interactions, and entrepreneurial outcomes

The model including the key constructs and relationships emerging from our data is illustrated in Fig. 2. Although the model emerged from the inductive study, we present it here to provide the reader with a roadmap and a preview of key findings. Team members’ perceived justice of equity distribution (rather than actual shares of distribution) strongly impacted team interactions. First, high perceived justice of equity distribution created a reciprocal, positive interaction spiral within the team which consisted of an increase in team attraction and a decrease in team repulsion. Team attraction referred to factors fostering the team’s experience of being an entity and was reflected by two indicators, intrateam trust and team cohesion. In contrast, team repulsion referred to a team’s thoughts, feelings, and behaviors connected to a process of drifting apart which was reflected by relationship conflict and social distancing. Second, low perceived justice of equity distribution triggered a reciprocal, negative interaction spiral—a process of decreasing attraction and increasing repulsion evolved over time. However, not all teams in which perceived equity distribution was initially high could maintain the positive interaction spiral because external threats caused the development of a negative spiral over time. Finally, the team interaction spirals affected entrepreneurial team stability and entrepreneurial team/venture performance.

5.1. Perceived justice of equity distribution

Focusing on the impact of equity distribution in entrepreneurial teams our data revealed that team members’ perceptions of justice with respect to equity distribution rather than the actual distribution were key constructs to explain variance in interactions across teams. This importance of perceived justice of equity distribution is consistent with reactive content theories of justice which “focus on how individuals respond to unfair treatment” (Greenberg, 1987: 11), i.e. distributive justice (Colquitt, 2001; Colquitt et al., 2001; Welbourne, 1998). Content theories of justice can be distinguished from process theories which address “the fairness of the procedures used to make organizational decisions and to implement those decisions” (Greenberg, 1987: 10) and which in an entrepreneurial context have mainly been applied to analyze perceptions of justice in the interaction between venture capitalists and entrepreneurs (Busenitz et al., 2004; Sapienza and Korsgaard, 1996; Sapienza et al., 2000). In our case teams, perceptions of justice of the distribution outcome were central, not perceptions about the distribution process. Since equity ownership represents a crucial financial reward for firm founders (Hall and Woodward, 2010; Wasserman, 2012) and is connected to decision-making power and control in their firms (Nelson, 2003), the outcome (rather than the process) can be expected to be highly relevant in the medium and long term. Team members who believe that their equity ownership in relation to their contribution to the venture is equal to the other members’ ownership in relation to the others’ contribution perceive the distribution as fair, i.e. distributive justice is high (cf. Colquitt, 2001; Colquitt et al., 2001). In contrast, those who believe that their equity ownership in relation to their contribution to the venture is lower than the other members’ ownership in relation to the others’ contribution perceive the distribution as unfair, i.e. distributive justice is low (cf. Adams, 1963; Cropanzano et al., 2007). Table 2 provides an overview of quotations from the team members of this study about perceptions of distributive justice and, if applicable, changes over time.

Our data illustrate that all members of five out of the eight case teams perceived equity to be fairly distributed among them. Specifically, all members of teams where equity was distributed equally (J1, J2, J3, J5) perceived high levels of distributive justice. A representative example of these teams is Jim’s statement (J2): “Pretty simple: we founded our company together and each of us got half. There were no discussions or anything like that.” (interview 2). Similarly, team J3 highlighted the importance of “equal treatment” (Larry, interview 1). Remarkably, also both members of one team with an unequal distribution (J4) perceived this distribution to be fair although it was highly unequal (90:10). In this case, perceptions of justice were based on the different inputs of both team members into the venture since foundation. As this finding indicates that perceived justice of equity distribution might depend on factors besides the actual equity distribution, we will elaborate on the antecedents of perceived justice in Section 5.2.

In contrast to team J4, the minority owners in teams U1, U2, and U3 perceived the unequal equity distribution to be unjust and this view typically increased over time. In the first interview, minority owner Andrew (U1) described how his negative but accepting view on the equity distribution right after negotiation deteriorated over time. First, he stated that he had tried to accept the unequal split: “We had our discussions, of course. At the end of the day it was upon me to accept and acknowledge Alice’s accomplishment.” However, in the same interview he explicitly voiced his current dissatisfaction with the distribution: “At the end of the day the ‘return’ for me has to be evident. By now, I am sincerely questioning that [return].” In contrast, we did not find any evidence that Alice perceived the distribution to be unfair. In team U2, minority owner Ed had a moderate distributive justice perception at the beginning of our study:

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Table 2
Perceived justice of equity distribution.

<table>
<thead>
<tr>
<th>Team member</th>
<th>Level over time</th>
<th>Statements from first (I1), second (I2), and follow-up (FI) interviews</th>
</tr>
</thead>
<tbody>
<tr>
<td>J1 Pete</td>
<td>Stable: high</td>
<td>Pete (I2): “We decided to found [our venture] and the process was very simple. [...] Paul had much more know-how, while I initially put in a lot of personal commitment and leveraged my network. Therefore, we never had a problem with splitting it 50:50. Moreover, Paul is a lot on the road [...]. And I would say he took a lot more vacation. But we never had a discussion about that.”</td>
</tr>
<tr>
<td>Paul</td>
<td>Stable: high</td>
<td>Paul (I2): “We have tried to develop really fair models. I mean, how can you argue that one should get 49 and the other one 51?”</td>
</tr>
<tr>
<td>J2 Jeff</td>
<td>Stable: high</td>
<td>Jeff (I2): “we did not even discuss [the equity distribution]. We were at the solicitor and when we filled out our form, we did not even discuss this but rather, how we would write our company name (laughs). It was 50:50. No question about it.”</td>
</tr>
<tr>
<td>Jim</td>
<td>Stable: high</td>
<td>Jim (I2): “Pretty simple: we founded our company together and each of us got half. There were no discussions or anything like that. It was clear.” [INT: Does that mean that it was not a decision in itself?] “No. It was clear from the beginning that Jeff and myself would be awarded half.”</td>
</tr>
<tr>
<td>J3 Larry</td>
<td>Stable: high</td>
<td>Larry (I1): “[We work] “in partnership. Absolutely balanced, equally weighted. I would not say that one of us dominates, … For me, an equal treatment is important in the founder team.”</td>
</tr>
<tr>
<td>Lance</td>
<td>Stable: high</td>
<td>Lance (I2): “[In the contract] “we are treated absolutely equally. In the end, we have the opinion that it is better for the firm to have ‘functioning’ directors who pull together.”</td>
</tr>
<tr>
<td>J4 Doug</td>
<td>Stable: high</td>
<td>Doug (I1): “About two months ago, I have offered 10% of the equity to Dan. Prior to that, I had 100%.”</td>
</tr>
<tr>
<td>Dan</td>
<td>Stable: high</td>
<td>Doug (I2): “[Our team collaboration is] “…very partnership-like.”</td>
</tr>
<tr>
<td>Dan</td>
<td>Stable: high</td>
<td>[INT: Did you set the split in the contract?] Dan (I1): “I had targeted that when I came back from the US [and joined the company in 2007], I offered it to him [to take 10%], […] I told him: ‘I am willing to become a co-owner of the company’. And he acknowledged it and did not talk about it anymore. Now and then he said, that it could be a valid option, and last year, he brought it up again and told me that he wanted me to become co-owner. And so, we have realized this. Actually, he brought it forward as his idea and Doug is really very, very appreciative and very, very generous.”</td>
</tr>
<tr>
<td>J5 Sam</td>
<td>Stable: high</td>
<td>Sam (I1): “[In contrast to our business angel] “Sean and I have the clear majority. We have argued for that because Mr. Robertson [the business angel] joined the venture later […]. His share is below 10%.” [INT: Is the rest equally distributed between Sean and you?] Sam (I1): “Yes, it is equally distributed […]. Sean invests a similar amount of time in the venture as I do.”</td>
</tr>
<tr>
<td>Sean</td>
<td>Stable: high</td>
<td>Sean (I1): “We established from the beginning that both of us earn the same and have the same equity stake. And that we do not track exactly how many hours each of us has already invested, what each of us exactly does. It should more or less be ok. From my viewpoint, I don’t know what Sam’s view is, it is important that everyone is totally motivated and standing behind this. And that it is not the company of one of us and the other one merely chips in, but we have to stick it out through thick and thin.”</td>
</tr>
<tr>
<td>Andrew</td>
<td>Declining: medium to low</td>
<td>Andrew (I1): “In the beginning, we had our discussions, of course. At the end of the day it was upon me to accept and acknowledge Alice’s accomplishment […]. I am more the soft negotiation partner, not the tough guy who says: ‘my way or the highway’ […]. My argument was also that I did not want to found a company and sacrifice so much time with almost nothing in return. At the end of the day you need motivation to achieve something.”</td>
</tr>
<tr>
<td>U1 Alice</td>
<td>Stable: high</td>
<td>[INT: Who has how many shares?] Alice (I1): “The background of our decision was that I have worked much longer on the project and that I have invested substantially in the patent […]. [Hesitating] … at the moment it is 70 to 30, […] This distribution is fixed.”</td>
</tr>
<tr>
<td>Andrew</td>
<td>Declining: medium to low</td>
<td>[INT: How did you come up with your share split?] Andrew (I1): “We had our discussions, of course. At the end of the day the rest is equally distributed between Sean and you?” Sam (I1): “Yes, it is equally distributed […]. Sean invests a similar amount of time in the venture as I do.”</td>
</tr>
<tr>
<td>Emma</td>
<td>Declining: high to medium-low</td>
<td>Emma (I1): “I have more shares than Ed probably because I am the CEO […] I have been involved full-time in the project, I have simply invested more.”</td>
</tr>
<tr>
<td>Ed</td>
<td>Declining: medium-low to low</td>
<td>Emma (I1) [describing that she has granted additional 5% to Ed although she thought that she deserves 60%]: “55:45 sounds sillier than 60:40, but the 5% less are not so important for me. For me, it was important that I have more because I wanted my higher risk to pay off. But I think that this was good [granting 5% to Ed]. I think that he feels more appreciated now.”</td>
</tr>
<tr>
<td>Ed</td>
<td>Declining: medium-low to low</td>
<td>Emma (I2): “Now I would say that I should get more percentages because I put much more effort on sales. In the meantime I have seen how irrelevant the technological quality is for venture success.”</td>
</tr>
</tbody>
</table>

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“Emma has always argued that she brings more resources into the company. She claims to have a lot of business knowledge and contacts. She has a lot more contacts, also global ones. That would give her a competitive edge compared to a pure developer who has no idea about business” (interview 1)

In the second interview, Ed described the equity distribution and his role connected to it as the “decision that has annoyed [him] most.” He explicitly described the distribution to be unfair:

“I would just say half of the shares would be appropriate. And she has the opinion that she should have an additional 5% [to the current 55%; i.e. 60% in total] and that she was so ‘generous’ and gave me 5%.” [INT: “How do you evaluate this ‘generosity?’”] “I think nothing of it.”

The majority owner of U2, Emma, explained in the first interview that she perceived the distribution to be fair; however, in the second interview she also complained about the unfair distribution because she thought that she should even have had a larger portion of equity. Finally, while minority owner Irene from U3 stated that she was “not so happy” (interview 1) with the distribution and this view had deteriorated in the second interview, majority owner Ian described their distribution as fair.

Interestingly, in teams in which perceived justice of equity distribution was high, perceptions of justice were shaped as a shared perception within the team (and thus mirrored a team-level construct; e.g., Paul from J1 stated “We have tried to develop really fair models”). In contrast, in teams in which perceived justice of equity distribution was low, no shared perception developed within the team which made an individual level of analysis more appropriate. One team member’s perception of injustice was enough to trigger a negative interaction spiral (see description below), indicating that for perceived justice the team minimum score (Barrick et al., 1998) is relevant for the development of team interactions. This observation parallels previous work on team composition which showed that one team member scoring low in one relevant variable can trigger a lower overall score for the whole team (Barrick et al., 1998).

Thus, in our sample perceived justice of equity distribution varied across teams and between members of one team. Moreover, the team members’ initially low perceptions of justice tended to deteriorate over time. In the following, we will first explore the antecedents of these perceptions and then investigate the impact of perceived distributive justice on teams’ interactions. Finally, we will connect these team interactions with entrepreneurial outcomes.

5.2. Antecedents of perceived justice of equity distribution

To better understand how the perceptions of justice of entrepreneurial teams’ equity distribution developed, we explored potential antecedents. Not unexpectedly, the first factor that turned out to influence perceived justice was the actual distribution of equity within the team. In our sample, members of teams with an equal distribution were more likely to describe the distribution as just, whereas the minority owners in teams with an unequal distribution were more likely to perceive it as unjust (see Table 2).

Second, consistent with previous work (Wasserman, 2012) the team members often mentioned their own and their partners’ past and present contribution to the venture as important when describing their view on the justice of equity distribution. Typically, members of teams with an equal distribution highlighted their equal contribution to the venture, for example, the joint development of their business ideas (J2 and J5) or the equal amount of time and effort invested by both team members (J1, J2, and J3). This observation is consistent with theories on distributive justice (Greenberg, 1990) highlighting that “an equal balance between the ratio of a person’s contributions and his or her outcomes” triggers justice perceptions (Greenberg, 1987: 11). Likewise, J4’s members emphasized a match between the founders’ contribution and their unequal equity split. While majority owner Doug had founded the company in the first place, minority owner Dan joined later and had first worked as a paid employee for the venture. Dan appreciated Doug’s offer to become a minority co-owner (cf. Table 2) and fully acknowledged Doug’s seniority: “Of course, Doug was much more experienced […] and I was absolutely ‘wet behind the ears’.”

The majority members of U1, U2, and U3 all claimed having developed the idea for the venture, consistent with the observation that there usually is an “idea premium” (Wasserman, 2012: 158) with respect to the equity distribution in an entrepreneurial team. Moreover, majority owner Alice (U1) stated that she invested more time in the venture in comparison to minority owner Andrew. Emma, U2’s majority owner, stressed that she worked on more important tasks than minority owner Ed. At the end of our
study, she considered the 55:45 split to be to her disadvantage because she thought that her contribution was even higher. Ian (U3) justified his majority ownership “because [he] had the idea and [he] laid the groundwork. Irene only joined later.” In sum, the majority owners affirmed “the appropriateness of the outcome, given their contributions” which is an indicator for perceived high distributive justice (Colquitt, 2001: 389). In contrast, minority owners tended to lack acceptance of the majority owners’ perceived higher contribution. Andrew (U1) was “quite disappointed, mainly because of this clear gap” (follow-up interview). Ed (U2) argued for a 50:50 split because he had first developed the technology before Emma had the idea how to apply it and he repeatedly emphasized that he “was part of [the venture] from the beginning” (interview 2). Although Irene, U3’s minority owner, acknowledged her co-founder’s initial contribution, she considered the equity distribution to be unfair because of her high investments of time and effort. This observation is again consistent with work stating that individuals perceive distributive justice to be low if their input is greater than their output in relation to others (Colquitt, 2001; Cropanzano et al., 2007).

Finally, previous research has found that prior personal relationships between founders explain how equity is allocated between them (Kotha and George, 2012; Wasserman, 2012). In our interviews, team members did not explicitly connect their prior personal relationship to the distribution of equity. However, comparing the teams in which members perceived equity distribution to be fair with teams whose members did not, there is some indication (albeit not consistent evidence) that teams with high perceived justice had had a closer prior relationship than teams in which perceptions of injustice arose. For example, team J1 consisted of two friends, team J2 were two former fellow students, and team J4 were former colleagues. In contrast, the founders of team U2 had not had any ties prior to venture foundation and met only because Emma replied to a newspaper advertisement posted by Ed who was looking for a co-founder. While these observations are consistent with previous work (Kotha and George, 2012; Wasserman, 2012), teams J3, J5, U1, and U3 all consisted of acquaintances with rather weak ties (see Table 1).

Importantly, although team members’ prior relationship influenced perceived justice of equity distribution to some extent, the actual distribution of equity also represented a cornerstone for the development of that relationship. For example, members of both J3 and J5 stated that they explicitly made use of their equal equity split to shape their relationship into a team of “functioning directors who pull together” (Lance, interview 2), and which “stick[s] it out through thick and thin” (Sean, interview 1). Team J4 also highlighted a change in the members’ relationship due to the equity split which transformed the “there is the boss and here am I” (Dan, interview 1) relationship into a “very partnership-like” relationship (Doug, interview 1) in which both team member take on full responsibility for the venture. Thus, the equity distribution and connected justice perceptions appeared to be an incisive event which could intensify or change ongoing relationships and interactions in a team. U2 minority owner Ed emphasized this importance in the second interview referring to equity distribution as “[t]he decision that has annoyed [him] most” and stating “[f]or me, it is really about the symbolic value.” This symbolic nature of equity distribution described in our data parallels previous work characterizing the distribution of equity as one of “the most emotional and visceral events in the development of a founding team” (Wasserman, 2012: 147) and as “a trial by fire” for potential future difficult team interactions (Wasserman, 2012: 183).

While previous work found that heterogeneous teams are less likely to split equity equally (Hellmann and Wasserman, 2011), we did not find substantial differences between teams with an equal and unequal split in our sample with respect to age, educational, and experiential heterogeneity. However, this finding might also be caused by a rather low level of heterogeneity in our teams (cf. Table 1). In sum, our results show a link between (i) an equal split of equity and high levels of perceived justice, (ii) members’ perceived relative contribution to the venture and perceptions of justice, and (iii)—to a lesser extent—team members’ prior relationships and perceived justice. Thus, we propose:

**Proposition 1a.** An equal split of equity between entrepreneurial team members increases the likelihood that the equity distribution is perceived to be just.

**Proposition 1b.** A perceived match between entrepreneurial team members’ contributions (equal or unequal) and equity distribution increases the likelihood that the equity distribution is perceived to be just.

**Proposition 1c.** A closer personal relationship between entrepreneurial team members prior to founding the venture increases the likelihood that the equity distribution is perceived to be just.

### 5.3. Perceptions of distributive justice and team interaction spirals

Our data revealed that team members’ perceived justice of equity distribution had a strong impact on interactions within the entrepreneurial team. From the members’ descriptions of these interactions and their development over time, two different interaction ‘spirals’ emerged depending on the level of perceived justice. Spirals are deviation-amplifying relationships (Lindsey et al., 1995) in which an increase in one variable results in an increase in another one (enhancing spiral) or a decrease in one variable results in a decrease in the other one (diminishing spiral) in a cyclical manner (Shepherd et al., 2010). Importantly, one team member’s perception of injustice was enough to trigger a different interaction spiral in comparison to a team where all members perceived justice to be high (team minimum score; Barrick et al., 1998).

Specifically, team interaction spirals that emerged from our data consisted of the two different variables team attraction and team repulsion. Based on our data we define team attraction as attitudinal, affective, and behavioral factors within entrepreneurial teams shaping the team’s experiences of being an entity with strong common bonds. High intrateam trust and high team cohesion emerged as indicators for team attraction in the interviews. Team repulsion entails the teams’ thoughts, feelings, and behaviors connected to a process of drifting apart. In our data, team repulsion was manifest by the team members’ descriptions of relationship conflict and social distancing.
Table 3
Perceived justice of equity distribution and intrateam trust.

<table>
<thead>
<tr>
<th>Level over time</th>
<th>Statements from first (I1), second (I2), and follow-up (FI) interviews</th>
</tr>
</thead>
<tbody>
<tr>
<td>J1 Stable: high</td>
<td>Paul (I1): “I have absolutely 100% trust in Pete […] I would expect that Pete has also 100% trust in me.” (I2): “To most people I cooperate and work with, I offer a 50:50 split. There are no arguments against it. […] At the end of the day, it is a partner whom you must trust 100%.”</td>
</tr>
<tr>
<td>J2 Increasing: medium to high</td>
<td>Jeff (I1): “In the beginning it was more difficult [to split responsibilities], because we really had the feeling that we have to discuss everything with the other one. However, that decreased over time. Now I hardly discuss anything with him that is not strategically important […] For me personally, it was not easy [to split responsibilities] because I am sometimes very perfectionistic […] However, there is no other way and it works fantastically.” [INT: How would you describe the feedback culture at J?] Jeff (I1): “That is something we have learned very well in consulting. We won’t be stingy with feedback.” [INT: How do you exactly give feedback in the founder team?] “If someone observes something he directly gives feedback. For us this is rather characteristic. If we are sitting somewhere and having a chat, even in a private setting, we give each other feedback.”</td>
</tr>
<tr>
<td>J3 Increasing, then declining: medium to high</td>
<td>Paul (I2): “We have needed some time to learn to address problems in a direct and open way.” [INT: How would you describe the feedback culture at J?] Paul (I2): “More open and better than earlier. The feedback culture has developed very well.”</td>
</tr>
<tr>
<td>J4 Increasing: medium to high</td>
<td>Andrew (II): “I [learn] how to phrase in a way not hurting the other person. […] I did not have the best leadership qualities (i.e., how to best criticize someone). […] If there is anything coming up we discuss it openly and honestly. It works very well, there is little to criticize.”</td>
</tr>
<tr>
<td>J5 Declining: medium-high to low</td>
<td>Lance (II): “We have been sitting in one room for 5 years and have done a lot together. A lot of the things just occur naturally. We are also very open to each other. If I give him feedback, he does not take it the wrong way.” Lance (II): [Referring to the investor telling them to split responsibilities and the individual pay will be performance-based] “Larry and I talked very openly the entire time.” [INT: Did you talk in confidence?] “Yes. We then built our joint perspective and I think we were successful to avoid a wedge being driven between us [by our investor]. […] We acted in concert.”</td>
</tr>
<tr>
<td>K1 Stable: low</td>
<td>Larry (II): “We have been sitting in one room for 5 years and have done a lot together. A lot of the things just occur naturally. We are also very open to each other. If I give him feedback, he does not take it the wrong way.”</td>
</tr>
<tr>
<td>K2 Declining: medium-low to low</td>
<td>Paul (II): “At the beginning it was a little tense because I was a bit too harsh to him because there was a lot at risk for the company and maybe because I also did not have the best leadership qualities (i.e., how to best criticize someone). […] If there is anything coming up we discuss it openly and honestly. It works very well, there is little to criticize.”</td>
</tr>
<tr>
<td>K3 Declining: medium-high to low</td>
<td>Lance (II): “We have needed some time to learn to address problems in a direct and open way.” [INT: How would you describe the feedback culture at J?] Lance (II): “More open and better than earlier. The feedback culture has developed very well.”</td>
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<td>K4 Declining: medium-high to low</td>
<td>Andrew (II): “I [learn] how to phrase in a way not hurting the other person. […] I did not have the best leadership qualities (i.e., how to best criticize someone). […] If there is anything coming up we discuss it openly and honestly. It works very well, there is little to criticize.”</td>
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<td>K5 Stable: medium-high to low</td>
<td>Paul (II): “At the beginning it was a little tense because I was a bit too harsh to him because there was a lot at risk for the company and maybe because I also did not have the best leadership qualities (i.e., how to best criticize someone). […] If there is anything coming up we discuss it openly and honestly. It works very well, there is little to criticize.”</td>
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within the team. As team attraction and team repulsion represent two opposite ‘forces,’ we did not observe enhancing or diminishing spirals, but ‘reciprocal spirals,’ i.e., mutually reciprocal relationships: High perceived justice of equity distribution triggered positive team interaction spirals in which team attraction increased and, correspondingly, team repulsion decreased over time. In contrast, a team member’s low perception of justice triggered negative team interaction spirals in which team attraction decreased and, correspondingly, team repulsion increased over time. We will now develop these reciprocal spiraling relationships step by step.

5.3.1. Perceived justice of equity distribution and team attraction
The constructs that emerged to reflect team attraction were intrateam trust and team cohesion. First, intrateam trust encompasses the “shared generalized perceptions of trust that team members have in their fellow teammates” (De Jong and Elfring, 2010: 536) and has been described as “key aspect of the social exchanges that take place between functional managers” (De Clercq et al., 2010: 90). Intrateam trust facilitates information exchange (Talaulicar et al., 2005) and enhances team performance (De Jong and Elfring, 2010). Second, team cohesion—the “degree to which members of a group are attracted to one another” (Shaw, 1981: 213)—is reflected by (i) interpersonal attraction of team members, (ii) commitment to the team task, and (iii) group pride (Beal et al., 2003). Team cohesion increases team satisfaction and decreases turnover (O’Reilly et al., 1989), and has been linked to high team performance (Beal et al., 2003). Tables 3 and 4 provide an overview of the trust and cohesion levels within the entrepreneurial teams in our sample. Teams which perceived distributive justice to be high (J1 to J4) typically started with rather high levels of intrateam trust and cohesion and these high levels were stable or even increased over the time frame of our study. Team J5 represents an exception to this pattern and team J3 experienced a decline in trust and cohesion after our study. Teams in which one member perceived equity distribution to be unfair (U1 to U3) displayed lower levels of trust and cohesion.

Team J1 is an example for high intrateam trust and cohesion. In the first interview Paul explicitly stated that he had a close and trust-based relationship with his co-founder Pete: “I have absolutely 100% trust in Pete. […] I would expect that Pete also has 100% trust in me.” In the second interview Paul mentioned that he perceived distributive justice as an important prerequisite for generating and maintaining trust in any working relationship: “To most people I cooperate and work with, I offer a 50:50 split. There are no arguments against it. […] At the end of the day it is a partner whom you must trust 100%.” Pete illustrated the team’s strong cohesion by describing high interpersonal attraction towards his partner and commitment to the team task: “With Paul, I have found the absolutely perfect partner, whom I would not give away for anything in this world […] my vision is that we will remain a team forever. If we start new projects, we start them together. […] We also agreed that in case one of us will get ill, the other one will care for him.” (Interview 1). The high trust and cohesion between Paul and Pete is also reflected by a field note taken several months after the second interview when one of the researchers met the team again and learned that they had started to co-invest in local business startups. Similarly, members of other high distributive justice teams emphasized that high intrateam trust had developed over time (J2, J3, and J4), was important in difficult situations (J3), and facilitated an open communication between team members (J2, J4). These teams also showed strong cohesion. For example, Jeff (J2) illustrated a strong sense for team tasks and high interpersonal attraction by describing his co-founder as “an excellent and cooperative business partner” who “is very cooperative by nature and that’s why it is very easy.” The J2 founders developed a climate of cohesion through a daily informal happening in the coffee kitchen, entitled the “5 o’clock song,” where founders and employees come together to listen to a song and chat informally. Jim proudly described this ritual meeting as “ten people who are standing behind this [venture] with lots of excitement.” Another field observation we made during the interviews was that both Jeff and Jim repeatedly started an answer with “my co-founder has probably already told you this” or “my co-founder will probably also tell you this,” which indicated high alignment as they felt certain to agree with each other even with respect to difficult topics. Finally, Doug, the majority owner of J4, highlighted an increase in the team’s interpersonal attraction over time, and both entrepreneurs showed a strong appreciation for each other’s strengths (Table 4).

Although perceived distributive justice of equity distribution was high, the members of team J5 described a sharp decline in intrateam trust and cohesion during the six-month time frame of our study. In the first interview, J5’s co-founder Sean described the team collaboration as “direct, honest exchange, aiming to arrive together at a consensus both from a content and an emotional perspective,” whereas he reflected on the team in a follow-up interview conducted after his co-founder Sam had left:

“Maybe there was also a bit more distrust towards the other person. I do not know, whether this was reciprocal, but from my side there was distrust [in Sam]. I challenged everything. […] Also, if all the facts he presented to me were accurate.”

Similarly, in the first interview Sean connected the equal distribution to high levels of cohesion by stating: “We established from the beginning that both of us earn the same and have the same equity stake. […] From my viewpoint, […] it is important that everyone is totally motivated and standing behind this.” However, by the end of our study, Sam indicated that team cohesion had decreased:

“[The team spirit is not so great. […] I think that one has to create a better team out of the individual people. We are still missing the situation that each team member has the innate drive to improve the situation. […] When then go to visit the customer, [Sean] obviously tells me that it is useless. […] I am the only one driving to the clients.” (Interview 2)

For team J3, in the first interview Lance described the team’s positive development since they started the company as follows: “I would say that today we work together better than ever. We are more aligned than ever with respect to our goals.” Co-founder Larry referred to their team spirit as “fantastic” and highlighted their ability to work together well despite “very different perspectives.” However, in the interview after Larry’s exit, Lance reported that he had started being annoyed about Larry who turned out to be “very keen on controlling” and “always wanted to know everything to the smallest detail.” He also stated that he had always defended Larry against the investors’ criticism in the advisory board meetings; however, he was also annoyed by Larry’s introversion which

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made interaction with him difficult. Thus, it appears that high perceived justice of equity distribution facilitates the development of trust and cohesion, but that this effect does not appear automatically and there might be factors that diminish its development or persistence over time. We will discuss the special situation of teams J3 and J5 below.
Intrateam trust and cohesion were clearly lower in all low distributive justice teams (U1, U2, and U3). For example, in a follow-up interview after Andrew had left team U1, he reflected that:

“the most important things are trust in the team and the belief in the team. The moment this starts to go to pieces it is a very dangerous moment for the venture. [...] I did not trust her [the co-founder] anymore and she did not trust me.”

Andrew’s description of co-founder Alice as a “very strong personality with a very concrete perspective of how things should go” who “left oftentimes little room for another strong leadership personality [...] besides her” also exemplified the low interpersonal attraction and cohesion in team U1. Similarly, team U2 was characterized by low cohesion as illustrated by Ed’s view on his co-founder Emma as being “sort of on an ego trip. [...] she threatened me, that if she was not the sole director, she would leave the team. Such things come up over and over again.” Ed’s perceptions are consistent with a six-page long article about the venture in a large national magazine which mentioned Ed only once in a side note while it featured Emma heavily as “the lead entrepreneur,” who stated in this article: “This is my firm, only I am capable of doing it.” Emma illustrated the low trust in U2 in interview 2: “There are many things that I keep quiet about. [...] you cannot talk about everything.” Finally, in the second interview, Irene (U3) mentioned that she has “to control everything” and stated that her trust in co-founder Ian had even decreased because he had not been truthful in some occasions (Table 3). She also highlighted the low interpersonal attraction she perceived from her co-founder and his low commitment to the team task with the consequence that she has “to do everything” and there “simply is no appreciation [from Ian’s side] for me”.

In sum, the impression emerged from our data that within teams high in perceived justice of equity distribution attraction was higher than within teams low in perceived justice. Survey data captured from the team members at four points in time across our study were consistent with this impression. Specifically, when we compared the averaged team-level scores of satisfaction with the teams (cf. Jehn et al., 2010), we found that in teams high in perceived justice (J1 to J5) the average satisfaction with the team (mean = 5.80) was higher than in teams low in perceived justice (U1 to U3, mean = 4.33). This difference is statistically significant ($t(30) = 2.99, p < .01$) which is consistent with our observations. Therefore, we postulate:

**Proposition 2.** High perceived justice of equity distribution triggers high team attraction—consisting of intrateam trust and team cohesion—whereas low perceived justice triggers low team attraction.

### 5.3.2. Perceived justice of equity distribution and team repulsion

In contrast to teams with high perceptions of justice, for low perceived justice teams we observed increasing repulsion in team members’ descriptions of their team, their partner, and their interaction. Team repulsion was manifest by the team members’ descriptions of relationship conflict and social distancing behaviors within the team. First, *relationship conflict* refers to the team members’ disagreements about interpersonal issues (Jehn, 1995) and is known to diminish team satisfaction and performance (De Dreu and Weingart, 2003), decision quality (Amason, 1996), and to increase team members’ turnover intentions (Bayazit and Mannix, 2003). Since conflict in corporate settings often emerges from perceptions of injustice (Greer and van Kleef, 2010), perceived justice of equity distribution might also trigger the development of relationship conflict in entrepreneurial teams. Second, as another important indicator of team repulsion emerging from the data was *social distancing* including aloofness, condescension, and withdrawal (Siegel and Hambrick, 2005). Research has found that perceptions of low justice in organizations trigger employees’ reduced interest in their work, withdrawal from work, and turnover intentions (Cole et al., 2010; Si and Li, 2012). Further, individuals who earn less than their colleagues tend to show decreased collaboration, lower satisfaction, and higher turnover intentions (Pfeffer and Langton, 1993), while “those who receive more may respond with condescension, aloofness, and social distancing from their seemingly less worthy counterparts” (Siegel and Hambrick, 2005: 263). We distinguish between entrepreneurial team members’ own behavior, their statements, and their actions, and their perceptions of their fellow team member. Thus, we report the team members’ own feelings of aloofness (i.e., they reported to feel detached from their team), their withdrawal behavior (i.e., they reduced their contact with the co-founder or thought about doing it), and their condescending behavior (i.e., they spoke in a cold and deprecating way about their co-founders or they insulted them), but also their perceived aloofness (i.e., the team members’ perception that their partner was detached from the team), perceived withdrawal (i.e., the team members’ perception that their partner reduced contact with the team), and perceived condescension (i.e., they reported being treated in a deprecating or insulting way). Tables 5 and 6 provide evidence that for teams with low justice perceptions relationship conflict and social distancing was high, whereas for teams perceiving high justice, relationship conflict and social distancing was low.

Teams J1, J2, and J4 experienced particularly low relationship conflict, and we did not find any evidence for social distancing behaviors in our data. Paul from team J1 explicitly connected the team’s just equity distribution with a low level of conflicts:

“We have tried to develop really fair models. I mean, how can you argue that one should get 49 and the other one 51 [percent]? At the end of the day this entails such a high potential for conflict that it is not worth it.” (interview 2).

Consequently, Paul already stated in the first interview that “in the two years [we have worked together], we have never had a major disagreement.” Co-founder Jim of J2 described some minor conflicts right after starting their company, but when he was asked about any current emotional conflicts in J2, he stated: “No, luckily not. [...] If this does not work it will be hard to survive as a startup.” The members of team J4 also reported a low initial level of relationship conflict and a further decrease over time (Table 5). While Doug recalled some conflict in the initial months of their collaboration, his co-founder Dan stated in the second interview: “No, we never had any [conflicts] between the two of us.”
In team J3, Lance described some frictions that the team had experienced at the beginning of their collaboration, but also emphasized that the team members “have learned to respect the other’s opinion, [they] have less friction than [they] had earlier.” In the second interview, Larry described a disagreement about J3’s financing negotiation, but highlighted the positive outcome. Although this
indicates a decrease in relationship conflict during our period of study, in the interview after Larry’s exit Lance repeatedly complained about Larry’s behavior and reported some serious relationship conflicts. Further, he complained about Larry’s meticulous working style and that he felt “always confronted with some opposition.” Further, he admitted that he already had considered Larry’s exit before indicating some withdrawal from the team. In team J5 relationship conflict was relatively minor at the beginning, but it developed over the time frame of our study. While in the initial interview Sam described their collaboration as “consensus oriented,” but indicated that “[it is not that we avoid conflicts;” in the second interview, briefly before the team split up, his co-founder Sean recited in great detail and annoyance a number of substantial relationship conflicts that had taken place recently (see Table 5). After his exit from team J5, Sam detailed how his aloofness to the venture developed: “it was approximately the past half year when things got worse. I just did not like the company and the environment anymore.” Thus, even teams with high perceived distributive justice are not immune against relationship conflicts and social distancing, but perceived justice of equity distribution reduces the likelihood of team repulsion to develop. But like our findings on team attraction, our data suggest that the teams J3 and J5 undergo different processes than the other teams in which perceived justice of equity distribution was high (see Section 5.4).

In contrast, members of low distributive justice teams described substantial and intensifying relationship conflicts and social distancing behaviors. Whereas some team members explicitly connected conflicts with the unjust equity distribution, interestingly, it appeared that conflicts about the equity distribution had a ripple effect and extended to other topics with respect to the venture and the team. For example, when asked how they decided about their equity distribution, Emma (U2) admitted that the issue was an unresolved conflict within their team:

“We had a short fight [about the equity distribution]. Ok, it was not really short. It actually went on for a relatively long time and we wasted our entire resources [on it]. We fought about it for some weeks and then we put it to the side.” (interview 2)

Emma also complained about her co-founder’s withdrawal behavior and lack of enthusiasm already in the first interview (cf. Table 3), and in the second interview she provided several examples of her condescending stance towards Ed and claimed that he suffered from an “inferiority complex.” She also showed little acknowledgement and respect for Ed’s work and highlighted her contribution to the venture emphasizing “how irrelevant the technological quality [Ed’s competency] is for venture success.” Moreover, conflicts were aggravated by the magazine article which featured Emma extensively and mentioned Ed only once on a side note. Evidently, conflicts became more general and involved hurt feelings. Whereas Ed complained about the article being unfair and condescending towards his co-founder, Emma, he elaborated the impact of the article on their collaboration:

“This is a last drop in a cocktail. I just did not like the company and the environment anymore. It is not that we avoid conflicts, it is just that we do not address problems in a direct and open way. Our decisions and agreements have improved now. We had a short fight [about the equity distribution]. Ok, it was not really short. It actually went on for a relatively long time and we wasted our entire resources [on it]. We fought about it for some weeks and then we put it to the side.” (interview 2)

Doug, majority owner of J4, described some conflicts at the beginning of the collaboration with his co-founder Dan and blamed his own communication style (see Table 5). The reduction in conflicts led to a “very good, improving relationship (interview 2)

5.3.3. Perceived justice of equity distribution and team interaction spirals

Typically, teams with high perceived justice of equity distribution described a cyclical process in which higher team attraction reduced team repulsion and reductions in team repulsion led to higher levels of team attraction. These reciprocal, positive interaction spirals evolved over time and supported the teams to develop and maintain high team attraction and low team repulsion. For example, Jim, the co-founder of J2, described a reduction in conflicts over time because of an increase in trust and cohesion:

“At the beginning, we had to discuss more, so we had more controversies. But now we know better how to understand the other’s issues without endless discussions. Our decisions and agreements have improved now.” (interview 2)

Likewise, Lance (J3) explained the initial improvements in their team with “a more respectful interaction” and a learning process “to address problems in a direct and open way.” Doug, majority owner of J4, described some conflicts at the beginning of the collaboration with his co-founder Dan and blamed his own communication style (see Table 5). The reduction in conflicts led to a “very good, improving relationship (interview 2)

We did not exclude J3 from the data because the negative interaction spiral in the team only developed after our study and, thus, J3 would not show notably high values in relationship conflict in the surveys.

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very friendly, very partnership-like team collaboration which is an indicator for an increased team attraction. Moreover, Doug highlighted that their open and honest team communication had contributed to survive and settle conflicts.

Similarly to positive interaction spirals, negative spirals developed when perceived justice was low. That is, lower team attraction and perceived condescension further reduced attraction, and vice versa. For example, in the interview after his exit, Andrew (U1) reported that: "Our level of trust was severely shattered after this conflict and [...]." Sam (FI) passed the blame on me [...]. It was about who is responsible. The question was: Who is guilty? And more or less, they [Sean and the business angel] passed the blame on me [...]. At the end of the day I also started to get my doubts, whether it is the right business model, the right team [...]."

Similarly, Emma (U2) connected lower levels of trust with the smoldering conflict: "I have often been at a point, where I thought, should I gun down [our venture] or should I go into stealth mode [...]. I have the personal conviction that one should not ask one's business partner about their private matters [...]. My feeling is that I lost the connection to Andrew through the physical distance [they split rooms] [...]. What I would have done differently: I should have been demanding to go for a beer at least once per week." Emma (I2): "I think he has an inferiority complex. But I don't know why. I mean he is good in what he does. We are founders. There are many things we can be proud of. I just think that it is not my fault, but that it is something personal." (INT: So you think that is not your fault?) "No, I mean, I am very tolerant and cautious. I don't think that it is my fault.

Table 6

<table>
<thead>
<tr>
<th>Form</th>
<th>Statements from first (I1), second (I2), and follow-up (FI) interviews</th>
</tr>
</thead>
<tbody>
<tr>
<td>J1</td>
<td>&lt;No evidence&gt;</td>
</tr>
<tr>
<td>J2</td>
<td>&lt;No evidence&gt;</td>
</tr>
<tr>
<td>J3</td>
<td>Perceived aloofness and withdrawal behavior</td>
</tr>
<tr>
<td>Withdrawal and condescending behavior</td>
<td>Lance (FI): &quot;When I am always confronted with some opposition for my area of responsibility, then I start thinking if I really enjoy working like this. So for me [Larry's exit] did not come out of the blue, but I had considered this for quite some time.&quot;</td>
</tr>
<tr>
<td>J4</td>
<td>&lt;No evidence&gt;</td>
</tr>
<tr>
<td>J5</td>
<td>Feelings of aloofness and condescending behavior</td>
</tr>
<tr>
<td>Perceived withdrawal and condescending behavior</td>
<td>Sam (FI): &quot;I don't exactly know when it started, but I think it was approximately the past half year when things got worse. I just did not like the company and the environment anymore.&quot;</td>
</tr>
<tr>
<td>Withdrawal behavior</td>
<td>Sean (FI): &quot;He started to involve me less and less in certain decisions. I had the feeling that we came to an agreement with respect to a certain topic and then he turned out to act in a completely different way.&quot;</td>
</tr>
<tr>
<td>U1 Withdrawal behavior</td>
<td>INT: What do you find inspiring in Andrew? (I1): &quot;OK [...] (Pause). Could you pose this question more concretely?&quot; INT: What are characteristics that you value highly and potentially try to emulate? &quot;I think his calmness. He is calmer than I am.&quot;</td>
</tr>
<tr>
<td>Feelings of aloofness</td>
<td>Alice (I2): &quot;I have the personal conviction that one should not ask one's business partner about their private matters [...]. My feeling is that I lost the connection to Andrew through the physical distance [they split rooms] [...]. What I would have done differently: I should have been demanding to go for a beer at least once per week.&quot;</td>
</tr>
<tr>
<td>Withdrawal behavior and perceived condescending</td>
<td>Andrew (FI): &quot;The process was basically like this: I have suggested the possibility that I might want to quit. I did not approach her and said 'quit'. In this moment, Alice was tremendously hurt and then reacted in an offending and really nasty way.&quot;</td>
</tr>
</tbody>
</table>
| U2 Condescending behavior      | Emma (I1):"Ed played the project manager role in his last company. He aims at having a leading role in our company, [...] Currently I still find some dissatisfaction in him. It is, for example, very important to take part in a project management training. Also that he gets the feeling to get ahead. His role has developed in the sense that I showed him offentimes, that he can have what he wants. If he continues to learn a bit more and does something about it, [...] I think he would have preferred if we both were company directors. But he accepted it this way, too [that Emma is the sole company director] I think he knows, deep in himself he knows that he is not ready for it yet." Emma (I2): "I think he has an inferiority complex. But I don't know why. I mean he is good in what he does. We are founders. There are many things we can be proud of. I just think that it is not my fault, but that it is something personal." (INT: So you think that it is not your fault?) "No, I mean, I am very tolerant and cautious. I don't think that it is my fault.

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the team: “I just try to avoid conflicts. […] There are many things that I keep quiet about.” Furthermore, she showed disappointment and criticized Ed’s incorrect work which indicated low team cohesion and led to even more conflicts: “Usually I fight more than him. […] Because I thought that I could rely on him and then things came differently” (see Table 5). Irene, the minority owner of U3, described a reduction of intrateam trust after a conflict that she had had with her co-founder Ian about a new computer he had bought from company funds (cf. Table 3). Moreover, the low cohesion resulted in her withdrawal from the team: She stated that her collaboration with Ian “had rather no future” in the second interview and concluded that she did not want to “invest money anymore. If [Ian] makes any investments, I will tell him that I will not support this.”

In sum, our data revealed that perceptions of distributive justice not only trigger team attraction and/or repulsion, but dynamic interaction processes in entrepreneurial teams, which can be described as reciprocal, either positive or negative interaction spirals where enhancing levels of team attraction diminish team repulsion and vice versa. Therefore, we propose:

**Proposition 4a.** High perceived justice of equity distribution triggers a reciprocal, positive team interaction spiral consisting of a mutually reinforcing relationship between increasing team attraction and decreasing team repulsion.

**Proposition 4b.** Low perceived justice of equity distribution triggers a reciprocal, negative team interaction spiral consisting of a mutually reinforcing relationship between decreasing team attraction and increasing team repulsion.

In addition to low perceived justice triggering the negative team interaction spiral, our data also revealed that once the spiral is started, it further reduces team members’ perceptions of justice. In particular in teams U2 and U3, we found a ‘feedback loop’ connecting back the negative spiral to perceived justice of equity distribution. For example, while Ed perceived the equity distribution in team U2 to be rather unfair (medium-low level) at the beginning of our study, this view deteriorated over time. While in the first interview he acknowledged that the unequal equity distribution reflected the team members’ contribution to the venture, in the second interview he stated that “half of the shares would be appropriate” for him. After extensive conflicts about the equity distribution, Ed felt provoked by Emma’s condescending behavior. In the second interview, he connected the team’s equity distribution to Emma’s “ego trip,” and he referred to the equity distribution as “[the] decision that has annoyed [him] most.” Similarly, Emma initially perceived the distribution to be just; however, she—as the majority owner—developed perceptions of injustice. Her condescending attitude towards Ed resulted in her disrespect of Ed’s contribution. In the second interview, she concluded that she “should get more percentages because [she] put much more effort on sales. In the meantime [she has] seen how irrelevant the technological quality is for venture success.” Thus, increased social distancing evoked Emma’s perception of an unjust equity distribution. Similarly, in U3 the negative team interaction spiral further diminished low perceived justice of equity distribution. While Irene stated in the first interview that she was “not so happy” about the equity distribution, she intensely complained about her co-founder Ian and his withdrawal behavior which led to a further decrease of her perceptions of justice. In the second interview, she stated that Ian wanted her to complete all upcoming venture tasks and that this was an unfair mismatch to their 40:60 split in equity. These findings also suggest that team members might have a positive bias with respect to the entrepreneurial team during early stages of the venture, but that this positive view might get more rational, i.e. negative, when the team has worked together for a longer time and when difficulties in the collaboration are starting to arise. Therefore, we propose:

**Proposition 5.** A negative team interaction spiral triggered by low perceived justice of equity distribution can further reduce perceived justice of equity distribution over time.

### 5.4. External threats and team interaction spirals

Interestingly, despite similar starting conditions like other teams with high perceived justice of equity distribution, teams J3 and J5 showed a different interaction pattern over time. First, both team members of J5 described a decline in trust and cohesion which led to an increase in conflicts and social distancing, which further diminished trust and cohesion. For example, in an interview after Sam’s exit, Sean described that over the last six months he had developed “distrust” and finally “challenged everything” his co-founder did, leading him to condescending behavior, such as accusing his co-founder of lying (cf. Table 6), and complaining about his social distancing. Simultaneously, Sam reported that during the timeframe of our study he started “not to trust him [Sean] anymore,” and he described a variety of resulting conflicts and enhanced aloofness to the venture: “I just did not like the company […] anymore,” which finally resulted in his exit soon after our study. A closer look at this team revealed that it was repeatedly confronted with an important external threat triggering deteriorative processes within the team and inhibiting the positive and protective effects of high perceived justice of equity distribution. Specifically, J3 was confronted with the substantial pressure from a business angel who actively participated in internal processes in the venture and its founding team. Sean reported about the difficulties of this collaboration:

“I always find it difficult to bring a third person on board, what you can see if you look at our business angel […] Each new person that has a leading role changes the entire dynamics [in the team]. […] It is already difficult enough to march into the same direction if you are two people.” (Interview 2)

In particular, Sam repeatedly described an increasing lack of trust and cohesion between him and Sean, which he attributed to the business angel: “The question was: ‘Who is guilty?’ And more or less, they [Sean and the business angel] passed the blame on me.” It
became obvious that the business angel’s pressure on the venture team decreased trust and cohesion between the team members which also resulted in relationship conflicts and social distancing.

In the time frame of our study, team J3 reported the development of a positive team interaction spiral; but already in the second interview Lance described that “there were substantial conflicts and tough phone calls” with their investors. Lance had the impression that the investors wanted to “drive a wedge” between the team members, but he stated that the team was able to manage these conflicts and that they “acted in concert.” However, in a follow-up interview with Lance after Larry’s exit, we learned that more and more conflicts arose, in particular between Larry and the advisory board. At first, Lance tried to protect Larry against the advisory board’s criticism, although he thought that this criticism was justified. He reported his own annoyance with Larry’s meticulous working style and that he could “never tell what Larry is thinking.” Besides this decrease in cohesion and intrateam trust, Lance described several conflicts and tensions that he had experienced with his co-founder (cf. Table 5). Recalling the exit process Lance explained that he had felt some pressure from the investors of the firm’s advisory board that Larry should quit, but there was no “big bang” in the team. In contrast to team J5, Lance’s statements do not appear to be similarly negative; he even highlighted his appreciation for Larry’s professional competences in the follow-up interview.

These findings parallel previous studies showing that conflicts between entrepreneurs and investors are common (Collewaert, 2012; Sapienza et al., 2000), but they additionally highlight how these conflicts provoke negative team interaction spirals and team member exit. However, this effect was not identical in teams J3 and J5. Our data revealed that team J3 had an overall positive view on their investors indicating that they had built up relational rents (De Clercq and Sapienza, 2001). For example, in the second interview Larry described their main investor in the advisory board as someone who “does not only give us money and sees what will happen, but is really conducive for business, and this is something which really takes the firm one step forward.” In contrast, Sam (J5) presented a negative view on the role of their business angel “over the last weeks we have relied on the feedback from our business angel, Mr. Robertson. At the moment both of us think that this has been a rather big mistake.” Thus, the negative effects of investors appear to be less destructive if the team members see benefits from their investors. Moreover, whereas Lance (J3) emphasized in the follow-up interview that the investors were not able to “drive a wedge” between the team members, team J5 experienced the formation of a faultline between Sam and the dyad of Sean and Mr. Robertson. This was reflected by Sam’s statement in the follow-up interview:

“I had a difficult relationship with Mr. Robertson and for the two [Sean and Mr. Robertson] the relationship was much better. Mr. Robertson thinks that Sean is a genius. I have criticized Sean several times much more open and harsher than Mr. Robertson did.”

In recent research, these investor-driven faultlines in entrepreneurial teams have already been associated with higher levels of relationship conflict (Lim et al., 2013) which provides another reason for the erosive impact of investors on team interactions and why this impact was worse for J5 than for J3. Based on the above, we propose:

**Proposition 6.** External threats increase the likelihood that teams drift from a positive team interaction spiral emerging from high perceived justice equity distribution to a negative team interaction spiral.

5.5. Team interaction spirals and entrepreneurial outcomes

Our data also showed that the two different interaction spirals developing in our teams had different effects on entrepreneurial team stability as well as team and venture performance. First, negative interaction spirals appeared to be difficult to stop and teams experiencing these spirals were more likely to experience team member exit which is defined as “the process by which the founders […] leave the firm they helped to create; thereby removing themselves, in varying degree, from the primary ownership and decision-making structure of the firm” (DeTienne, 2010: 204). Andrew exited U1 during the six months of our study, Irene (U3) and Sam (J5) had their exit soon after our second interview, and in the year following our study Ed left U2 and Larry left J3. All these exits were attributed to a substantial extent to problems within the team. In a follow-up interview after his exit, Andrew (U1) reflected that “[…] in the team a lot of things went wrong […] about 50% I had lost faith in the project and for 50% I had lost faith in the team.” Andrew showed substantial social distancing and described a three-month long “exit process” which escalated in the exit decision followed by a complete breakdown of communication and social isolation. When we tried to contact Andrew immediately after his exit, we realized that he had isolated himself from his former social life, deleted all his accounts in social networks, changed his phone number and e-mail address, and had gone abroad for a substantial amount of time. Only six months later we were able to conduct the follow-up interview, where he explained his behavior by the deteriorating team interaction at the time the team split up. Describing reasons for his exit from J5, Sam also mentioned a decrease in intrateam trust and cohesion and that he felt treated in a condescending way by his co-founder which triggered his withdrawal from the team (cf. Table 6). Similarly, Ed (U2) commented on his severe intentions to quit the venture in the second interview (cf. Table 6). In the follow-up interview after Ed’s exit, co-founder Emma described in detail how the team drifted apart and that they reduced the number of meetings because “it was simply disagreeable to be in a room together” (cf. Table 6). In team U3, minority owner Irene stated in the second interview shortly before her exit that a future collaboration with her co-founder is “not very likely” and complained about her co-founder’s withdrawal behavior and the lack of team cohesion (cf. Table 4). Finally, while Larry’s exit in team J3 was mainly driven by the investors in the firm’s advisory board, co-founder Lance also described tensions, conflicts and annoyances in the team (cf. Tables 5 and 6) and admitted that as a consequence he “had considered [Larry’s exit] for quite some time.”

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In contrast, all teams with stable positive interaction spirals continued working together and we did not find any evidence that members intended to exit. Moreover, team members highlighted their close ties and commitment to the team. For example, Paul (J1) stated in the second interview that they were open about the job offers that they frequently got from other firms “because we are certain that we do not want to leave.” Jim (J2) emphasized the importance of being in a team with his co-founder because “everything that works well, works well because both of us act together.” Based on the above, we propose:

**Proposition 7a.** Whereas positive team interaction spirals decrease the likelihood of entrepreneurial team member exit, negative team interaction spirals increase the likelihood of exit.

Second, our data also revealed that team interaction spirals were connected to entrepreneurial team and venture performance. While we relied on team members’ assessments of team performance, we captured venture performance by three different indicators: Interviews statements, the number of employees and employee growth over our study period, as well as press reports about important entrepreneurship, design, and small businesses awards won by the ventures. Since in our interview data team performance and venture performance were difficult to separate and research has established a strong connection between the two (Chowdhury, 2005; West, 2007), we report them here jointly. Fig. 1a and Table 7 provide an overview of entrepreneurial team and venture performance.

Teams with a positive interaction spiral reported higher levels of team and venture performance. For example, in teams J1 and J2, members described their complementarity and that their co-founder compensated their weaknesses facilitated by their high levels of intrateam trust. Jeff (J2) elaborated: “The teamwork between the two of us is efficient because we are indeed very different. That is the advantage and makes our work efficient. I think that we complement each other perfectly.” Moreover, he highlighted how positive decision-making processes in the team have developed over time (cf. Table 7). Additionally, both ventures performed well over the course of our study. J1’s founders highlighted that they did not attach great importance to rapid growth and, consequently, they did not want to apply for any additional funding. Paul (J1) summarized in the second interview: “Now at the end of the year you look back. [...] I thought ‘Wow, what has been happening here?’” and his co-founder Pete also showed a high level of satisfaction with venture performance (cf. Table 7). During the six months of our study their number of full-time employees grew from 4 to 6. Although J1 did not win any major entrepreneurship awards, the founders proudly mentioned several international conferences where they had been invited to present their IT solutions. Similarly, while both founders of J2 mentioned problems to attract sufficient users to their website in the first interview, in the second interview Jeff explained that they had found several partners and now the number of users and their dwell time was satisfactorily. J2 had hired three new employees during our study, and in the year after our study J2 won two important entrepreneurship/small business awards. Probably the most successful venture in our sample was J4, whose members described that their emerging trust was the basis for their successful teamwork (Table 7) and connected the positive interaction spiral to improved decision quality, team coordination, and team task execution. In the second interview, Dan stated enthusiastically that their success “is reflected in our business statistics which almost bring tears to our eyes because they really are super, super good,” and Doug was also positive (cf. Table 7). The already high number of employees at study start of 82 further increased to 90 within the six months, and the venture won a major entrepreneurship award before our study and another one after it (cf. Fig. 1a).

In contrast, members of the teams with negative interaction spirals experienced lower team and venture performance. Already in the first interview Andrew (U1) described his discussion about technological issues with his co-founder Alice as not very effective and shaped by low trust (Table 7). He also listed several failures including the rejection by an important investor, major technological problems, and that a key customer canceled their order. A substantial delay in the installation process for U1’s second order was aggravated by a lack of communication in the team (cf. Table 7), and the venture constantly struggled with finding customers. In the follow-up interview, Andrew described that the growth projections of the business plan could not have been met, linking it to the set-backs to his co-founder’s “personality traits which emerged over the course of time and which made teamwork very difficult.” Moreover, Andrew complained that important competences in the team were lacking, such as an experienced developer or a talented salesperson. These issues were also reflected in the number of employees decreasing from two to one. The venture’s website reported that U1 won one award before the start of our study; however, as we did not find any further information on this award, we did not categorize it as major. U2 first experienced several successes including winning a business plan competition and a detailed article in a national magazine featuring Emma. However, Ed’s social distancing from the team hindered further exploitation of the publicity provided by the article. Ed connected the low cohesion in the team with low team performance by stating in the second interview that “it would help if the team spirit was stronger […] Now it is simply less strong because we do not closely work together.” In the follow-up interview, Emma summarized that “this was a bad team.” Moreover, she admitted that the technology had never worked properly and she could not retain existing customers or acquire new ones, leading her to close down U2 (Table 7). Irene (U3) provided several examples of low team performance which were caused by a lack of communication mainly due to Ian’s withdrawal from the team. For example, the team failed to notice a hacking attack resulting in a severe misinterpretation of the web site traffic. Other examples refer to suboptimal team decisions which increased the team’s workload and deterred new partners. The venture was not able to attract a sufficient number of users to their website and in a startup competition “the feedback was that the website was so chaotic.” Thus, Irene did “not see any prospects” for the team and the venture.

As J3 and J5 experienced a shift from a positive to a negative spiral the development of team and venture performance was more complex. At the beginning of our study, Sam (J5) described a very dynamic and performance-oriented team climate (Table 7), and his co-founder Sean stated that they liked to incite each other which he presented as one secret of J5’s success. However, in the follow-up interview Sam elaborated on several team conflicts and a substantial decrease in trust (see above), and he complained about a lack of communication in the team. Whereas Sean had support from some employees, Sam felt overloaded with his tasks being the only one...
working in his area of responsibility, which indicates that workload sharing in the team did not work well. Consequently, J5 had difficulties in finding investors which made further technological developments impossible. In the follow-up interview, Sean stated that Sam refused to prepare documents for an upcoming financing round because he considered it to be unnecessary which had been an unresolved conflict in J5 (see description above). Sean’s negative view on venture performance as “a failure” in the follow-up interview is complemented by the fact that J5’s small employment growth only referred to non-permanent employees and—to the best of our knowledge—J5 did not receive any awards or other recognition for their achievements. In contrast, the team and venture performance was high for J3 despite the evolving negative team interaction spiral. Larry emphasized their complementarity as an
indicator for high team performance in the first interview, and Lance described a positive development of their team’s performance (cf. Table 7). This assessment of team performance even persisted after Larry’s exit, and Lance summarized in the follow-up interview:

“We had times where it was exhausting. But we also identified the points of conflict and have worked on their solution. We knew each other’s strengths and weaknesses which complemented each other well. So we had a very high team performance.”

J3 had won several awards and had received their first venture capital funding before our study. During our study, the number of employees rose from eleven to sixteen. Moreover, the team was successful in attracting a strategic investor and closing a new financing round. Despite the pressure experienced from investors and Larry’s exit, success continued. In a follow-up interview, Lance reported that he convinced a large, public company to become a key customer and initiated collaboration with an important international partner to support international growth. He stated: “according to our plan, we are not break-even yet because we invest a lot in the development. But the firm is doing well.” Perhaps, this positive view on team and venture performance also reflects that the negative spiral was not as pronounced as in other teams.

To corroborate the trend emerging from the interview data, we resort to survey data on self-assessed team performance (Shaw et al., 2011) and venture performance (Higashide and Birley, 2002) in the final (fourth) questionnaire at the end of our study. For positive spirals, we again relied on team satisfaction and for negative spirals on relationship conflict. We found a significant relationship between team performance and team satisfaction \((r = .92, p < .01, n = 8)\) as well as relationship conflict \((r = -.92, p < .01, n = 8)\). For venture performance, we found a positive correlation with team satisfaction \((r = .70, p = .05, n = 8)\) and a negative correlation with relationship conflict \((r = -.66, p = .08, n = 8)\). While the latter two significance levels are marginal, given the very small sample size we still consider them as important. Overall, the findings from the survey data provide support for our observations emerging from the interviews, and they are consistent with previous findings on team cohesion and relationship conflict (de Wit et al., 2012; Mach et al., 2010) and venture performance (Ensley and Hmieleski, 2005). Thus, we propose:

**Proposition 7b.** Whereas positive team interaction spirals enhance perceived entrepreneurial team performance, negative team interaction spirals diminish perceived entrepreneurial team performance.

**Proposition 7c.** Whereas positive team interaction spirals enhance venture performance, negative team interaction spirals diminish venture performance.

6. Discussion and conclusion

We motivated this study by the limited current theorizing and empirical work on the consequences of entrepreneurial equity distribution and set out by asking: “How does equity distribution in an entrepreneurial team shape interactions between its members over time and how do the outcomes of these interactions develop for the team and the venture? Why do these effects differ between entrepreneurial teams?” Our data revealed that not the equity distribution per se, but the team members’ perceived justice of this distribution was a crucial factor and substantially impacted the development of team interactions. We now discuss the study’s theoretical contributions to research on entrepreneurial imprints, justice, and exit.

6.1. Theoretical and practical implications

The early months of a new venture are critical to develop a “business platform” which “becomes the potential bedrock on which subsequent practices will be built” (Yang and Aldrich, 2012: 479). Among others, the Stanford Project on Emerging Companies studied the effect of these imprints by understanding “the organizational models or blueprints that entrepreneurs brought to bear, explicitly or implicitly, in launching their new ventures” (Baron and Hannan, 2002: 9). Sources of imprint, e.g., experiences and environmental conditions at firm foundation, influence in which direction entrepreneurs grow and develop their firms over time (Mathias et al., 2014—this issue). Several studies following this research tradition revealed that the founding team’s structure and experience (Beckman and Burton, 2008), heterogeneity in team members’ functional backgrounds (Beckman et al., 2007), and the team members’ shared prior work experiences (Leung et al., 2013) explain later team and venture development. While this work has mainly focused on founders’ and founding team members’ plans and blueprints, values, and backgrounds (Baron and Hannan, 2002; Beckman and Burton, 2008; Leung et al., 2013), the results of our inductive study extend current theory of imprinting by showing that the effect of imprints can be less automatic than previous research has assumed and by considering interactions within the entrepreneurial team. First, our findings inform the evolution of path dependence in entrepreneurial ventures. While previous research on the effect of imprints assumes a rather straight-forward and direct impact of the founders’ backgrounds or previous experiences (e.g., Beckman and Burton, 2008; Beckman et al., 2007), we show that perceived justice of equity distribution imprints the emerging organization in a more complicated way. For some teams—those high in perceived justice—the adjustment of the practices, processes, and structures in the new venture process is facilitated, whereas others—those low in perceived justice—experience substantial struggles because of the imprint. Second, we show that perceptions of distributive justice rather than the actual distribution of equity emerged as a social imprint. They impacted interactions within the entrepreneurial team and, through these interactions, team and venture development. Perceived justice impacted the dynamic development of reciprocal, positive or negative team interaction spirals. These findings are consistent with recent theorizing on mutually reinforcing relationships in the development of organizational cultures (Shepherd et al., 2010), and they show that imprints can trigger these complex and interdependent processes. However, these processes can also change over the life time of...
a venture and future theorizing and empirical work should acknowledge potential dynamics and interdependencies. For example, future research might investigate the dynamic relationship between intrateam trust in the original entrepreneurial team and the overall “climate of trust” (Fulmer and Gelfand, 2012: 1203) that develops in the firm including its employees. Additionally, our model highlights the important role of contextual factors in shaping the development of the effects of these imprints and explaining variance across ventures. Even though teams in our sample had similar starting conditions, their development did not follow the same path, but was additionally shaped by the team’s specific contextual situation because external threats imposed upon the teams J3 and J5 by their investors caused a drift from a positive to a negative interaction spiral. This finding emphasizes that although an imprint can trigger a certain development in a venture, specific contextual factors of the venture and its team can counteract these effects which past studies have rarely acknowledged. Future work could draw on this finding and explore the impact of other external threats (e.g., environmental dynamism or hostility) on the effect of the venture’s starting condition on venture development.

Second, we contribute to the literature on justice in entrepreneurial and organizational contexts. Previous research has identified a positive relationship between distributive justice in organizations and individual as well as organizational performance (Colquitt et al., 2001; Whitman et al., 2012), a positive relationship between interns’ perceptions of distributive justice in an entrepreneurial venture and their willingness to join the venture (Zhao, 2013), and it has highlighted the importance of entrepreneurs’ perceptions to be treated in a just way by their investor, i.e. high procedural justice, for successful venture exit (Busenitz et al., 2004). Entrepreneurial teams represent an interesting context to analyze perceptions of justice and their consequences because in contrast to employees in established organizations these teams make their decisions about reward distributions without the influence of a supervisor (Blatt, 2009). In established organizations, employees’ participation or ‘voice’ increases perceptions of justice and their satisfaction with unfavorable distributions (Folger et al., 1979). Although the entrepreneurial team members in our sample were involved in the decision of equity distribution, we observed substantial variance in perceptions of distributive justice across teams and within teams over time.

First, these findings emphasize the importance of equity ownership for the team members which is consistent with previous work highlighting the connected financial rewards (Hall and Woodward, 2010) and level of power and control (Nelson, 2003). Second, entrepreneurial team members are probably more affected by an unjust distribution because in contrast to employees who can reduce their input in their work to restore justice (Croppanzano et al., 2007), it is counterproductive for entrepreneurial team members to invest less effort as this might harm the venture they own—reduced venture performance creates the frustrating situation that the smaller piece for the team member is taken from an even smaller cake.

Moreover, high perceived distributive justice represented a beneficial foundation for team interactions. These findings complement Blatt’s proposition (2009) that communal schemas and the use of contracting between entrepreneurial team members can help overcome the challenges of novelty to facilitate the development of trust as one important component of the team’s relational capital. Our findings also highlight the importance of contracting in terms of ownership allocation for the development of trust. However, we provide an important extension by focusing on the perceptions of contents (i.e. whether these contents are perceived as fair) rather than the extent to which contracting is used. If contracts are used but are not perceived as fair, it appears that the development of intrateam trust is severely impaired. Indeed, low perceived justice of equity distribution represented a detrimental foundation for team interactions triggering negative team interaction spirals which, in turn, reduced team stability and team/venture performance. This finding is consistent with the organizational team literature which describes perceptions of justice as “the ‘glue’ that allows people to work together effectively,” whereas injustice is “like a corrosive solvent that can dissolve bonds within the community” (Croppanzano et al., 2007: 34). However, although, on average, higher levels of perceived distributive justice prevented a negative development in team interactions, this was not always the case. Thus, our results demonstrate the benefits of distributive justice in entrepreneurial teams, but also the limits of its effects.

Further, our data allowed us to link team interaction spirals with important entrepreneurial outcomes. While the performance effects of interaction spirals parallel previous findings on the association between entrepreneurial team interactions and team (de Wit et al., 2012; Mach et al., 2010) as well as venture performance (Ensley and Hmieleski, 2005), our results show how these interactions and the associated dynamic and interdependent social processes over an extended period of time impact team and venture performance. The importance of a dynamic perspective is particularly evident for team J5 which started to develop a positive spiral but due to its specific context could not capitalize on this ‘good start’ in terms of achieving high performance in the end. These findings emphasize the benefits of both a dynamic approach (i.e., longitudinal studies) and the consideration of context when studying the link between team interactions with entrepreneurial outcomes.

Finally, previous research has found that entrepreneurs’ exit from their ventures is influenced by their human capital (Gimeno et al., 1997), venture performance (Wennberg et al., 2010), and the impact of investors (Bruton et al., 2000). Specific to the exit of entrepreneurial team members, existing work suggests that it is associated with heterogeneity of team members’ experience (Ucbasaran et al., 2003). Complementing these studies, the model induced from our data provides insights how interaction processes (negative team interaction spirals) trigger exit. The dynamic and amplifying negative interaction process was particularly destructive because resulting from an increase in team repulsion teams typically reduced their contact, and, at the same time, the fewer remaining interactions were less or not rewarding due to a decrease in team attraction. Thus, entrepreneurs’ exit decisions are not only based on meeting an economic threshold level (Gimeno et al., 1997), but also on meeting a ‘social threshold’ level capturing the minimal acceptable level of negative experiences within the team. Consistent with research indicating that some investors actively trigger entrepreneurial turnover (Bruton et al., 2000; Hellmann and Puri, 2002), we identified the investor’s pressure as a key contextual factor causing teams to drift from positive interaction spirals to a negative spiral despite high perceived justice of equity distribution. However, we did not find evidence for internal threats in our data. Future research could explore the effect of internal threats on team interactions, such as one partner’s personality or low performance, and difficult life situations like illness or family problems. Moreover, future research could focus on the actual exit and post-exit process. For example, it would be interesting to analyze how the remaining founder

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deals with the equity owned by the exiting founder, if the exiting founder sells his/her shares and to whom, and how remaining and exiting founders negotiate the value of the venture’s shares.

Besides theoretical implications, our study also offers implications for practice. First, in their negotiations about equity distribution, entrepreneurial teams need to pay attention to the perceived justice of the distribution beyond specifying the team members’ contributions to the venture. In particular, when past contributions to the firm are acknowledged, e.g., an “idea premium” (Wasserman, 2012: 158) is granted to a team member, team members should also discuss potential future contributions and expectations to reduce the development of perceived injustice. Perhaps, a dynamic equity agreement would have helped the teams to avoid these perceptions, however, none of the teams in our sample made use of contingent contracts. Moreover, this study shows how investors as external threats can adversely impact the interactions in entrepreneurial teams. First, entrepreneurial teams need to be aware of this effect when deciding for or against collaboration with investors. Second, our model suggests that well-developed team interaction spirals can at least attenuate the investors’ erosive effect. Thus, while investors represent a certain risk for the functioning of entrepreneurial teams (Hellmann, 1998; Lim et al., 2013), high levels of intrateam trust and team cohesion might help the team to cope with this external threat.

6.2. Limitations, future research, and conclusions

As for all case-based research, the generalizability of our model is limited by the small sample size. Future studies should pursue large-scale approaches to test important relationships in our model. For example, measures established in the entrepreneurial context include trust (Talaulicar et al., 2005), relationship conflict and team cohesion (Ennsley and Hmieleski, 2005), and perceived justice (Zhao, 2013). These measures can be used to test our propositions on a statistical basis. Using a longitudinal design, researchers could follow teams over time to further support the effects proposed by our model. Importantly, since we observed substantial dynamics even though the time frame of our study was only six months, future longitudinal research should capture monthly or weekly changes in constructs and variables (e.g., using experience sampling methodology, Uy et al., 2010). Further, other factors such as the team members’ assertiveness or the prior team interactions might also play an important role in the development of team spirals (although our participants did not make this connection in the interviews explicitly). Moreover, we focused only on dyadic teams to increase comparability and disentangle the complexities of interpersonal relationships in larger teams. Future studies should consider larger teams and test whether the findings presented here are also valid in these contexts. Indeed, in larger teams additional effects could be observed. For example, whereas in our dyadic teams assessments of team performance were hardly distinguishable from performance assessments of single team members, in larger teams these assessments could differ. It would be interesting to analyze how larger teams react to an underperforming member (e.g., coalition building, Moreland, 2010) and if one member’s low performance potentially represents an internal threat to the team.

As equity ownership is also connected to entrepreneurs’ control and power in their firms (Nelson, 2003; Wasserman, 2012), another interesting avenue for future research building on our findings would be to study control and power in entrepreneurial team decision making. In teams with an unequal split, majority owners can outvote the other team members whereas an equal split entails equal power in team decisions. The teams in our sample, however, typically described their decision-making processes as balanced and involving both partners. Even in teams U1 and U2 where the majority owners were described as being more assertive in team decisions, the members stated that decisions were made jointly and that the member who was responsible for the relevant area/topic had the casting vote. Interestingly, some teams with an equal distribution experienced challenges in their decision making when it was difficult to find a compromise indicating that an equal distribution can slow down decision making. Future research could explore the team decision making processes connected to the members’ ownership control and compare decision speed, satisfaction with the decision, and the members’ commitment to the decision across teams with different levels of perceived justice of equity distribution. Potentially, it would be most insightful to observe and video tape actual team decisions and analyze the interactions as they occur, which would reduce self-report biases typical of interviews.

Finally, a promising topic for future research would be to further explore the impact of investors on entrepreneurial team interactions. In particular, it would be interesting to investigate how investors side with members of an entrepreneurial team and how this influences the team’s development. Our data provided first evidence how this effect unfolds over time; however, only J3 and J5 had external investors. While we found some similarities between J3 and J5 with respect to the negative team interaction spirals that investors triggered in these teams, there were also some differences between the investors’ impact on team interactions. In team J5 a faultline between Sam on the one side and his co-founder Sean and the business angel on the other side emerged (cf. Lim et al., 2013), while J3 still successfully established relational rents (De Clercq and Sapienza, 2001) with the investor. One reason for this effect could be the differences in venture performance between J3 and J5 as Sapienza et al. (2000) suggest that lower levels of venture performance increase conflicts between investors and entrepreneurs. This finding indicates an even more complex relationship between team interaction spirals and venture performance such that venture performance could moderate how external threats affect entrepreneurial teams. Moreover, in both teams, both team members had equal power and status at the beginning of the study. The way how investors impact team interactions might differ if there is a strong lead entrepreneur in the team and the investors could side with or against this team member. Thus, while our study provides another step to better understand the investor—entrepreneurial team relationship and investors’ impact on team interactions, much more remains to be understood and provides interesting opportunities for future research. Beyond the impact of investors, team members did not mention that any other important actor in their social environment had a substantial influence on their interactions. However, future research could explore the potential role of other entrepreneurs, coaches, or mentors surrounding entrepreneurial team members. In particular in incubator settings like in our
study, other entrepreneurial teams might be well observable and potential social comparison processes between fellow teams might have an effect on perceptions of one’s own entrepreneurial team.

To conclude, the distribution of venture equity within the entrepreneurial team is one of the first decisions team members need to make. This inductive study offers new insights by showing that high perceived distributive justice triggers reciprocal, positive team interaction spirals, while low perceived justice triggers negative team interaction spirals. Moreover, negative team spirals further reduce perceived justice of equity distribution. These results suggest a social imprint effect of perceived justice of equity distribution on entrepreneurial team interactions and take a dynamic perspective on the consequences of this effect. We hope that our study stimulates further research on the social consequences of early decisions in the venture’s life for entrepreneurs, their teams, and the venture’s employees.

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