Organising for entrepreneurship

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PART 1: BUILDING THE START-UP

1.INTRODUCTION

Entrepreneurs are reinventing the company

- Entrepreneurs are redesigning the building block of capitalism
- Airbnb & Uber operate platforms without owning the underlying rooms and cars that are being used; both take a cut from every transaction.

Entrepreneurs as heroes?

- There is a Mythmaking Industry of Successful Entrepreneurs
- The implicit assumption is that success is inevitable if you have the right great idea & or a brilliant, exceptional mind
- Selection bias – we only observe successful stories
- Consequences on entrepreneur's typical explanation of own failure:
    - "We weren't visionary enough" (no brilliant mind)
    - "We didn't have the right stuff"
    - "We weren't in the right place at the right time"

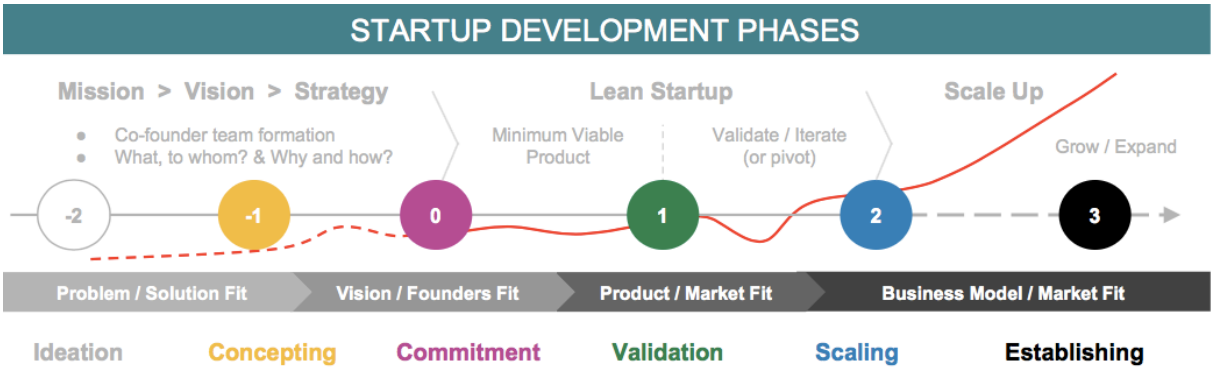
The reality

- Most start-ups fail within few years from founding (e.g. Manso 2016)
- Even high-potential start-ups – i.e. those with a potentially great idea - fail!
- Alternative explanations for why start-up fail provided by academic research:
    - External Risk – Building a product nobody wants (Steve Blank, 2013)
    - Internal Risk – Management problems (Kaplan & Stromberg, 2004)
- The goal of this course is to understand how to minimize the occurrence of:
    - risk 1 (by learning the Lean Startup method)
    - risk 2 (by learning how to face key founding team dilemmas).

The Leitmotif of the Course

- Start-up success is not just the result of good genes or of being in the right place at the right time
- Start-up success can be engineered by following the right process and by making the right managerial decisions in face of strategic and organizational start-up challenges
- This means entrepreneurship can be learned, which means it can be taught
- Entrepreneurship can be looked at as a specific type of management
- This course offers an analytical framework to take critical decisions by looking at what options do exist, and at what are the implications for the long-term success of a certain decision
- Without such framework, founders are at an increased risk of making poor strategic decisions.

How to Turn a (Promising) Idea into a (Great) Company



We won't talk about the first step in this course

2. THE LEAN START-UP METHOD

2.1. The marshmallow challenge

Key lessons in general

- Prototyping Matters: Kids do Better than Business Students: They create taller and more interesting structures. The reason kids do better is that they spend more time playing and prototyping. They naturally start with the marshmallow and stick in the sticks. The Business School students spend lots of time planning, then executing the plan, with almost no time to fix the design once they put the marshmallow on top.
- The Marshmallow as Metaphor for the Hidden Assumptions of a Project: The assumption is that marshmallows are light and fluffy and easily supported by the spaghetti sticks. When you actually try to build the structure, the marshmallows don't seem so light. The lesson is that we need to identify the assumptions in our (start-up) project – the real customer needs, the cost of the product, the duration of the service – and test them early and often. This is at the base of the lean startup methodology

Key lessons for entrepreneurship

- Plan vs Action
  - In uncertain settings such as entrepreneurship & rapidly changing industries relying too much on planning might be harmful. It is better to take action than to plan
  - You risk end up committing a big mistake and not have the time and resources to recover
- Action = Experiments
  - Action can take the form of small experiments and trials, where you learn valuable information about the market for your product
  - The failure of the small experiments can provide important learning to improve products
  - Experimentation enables using minimal resources to learn what it may work, thus to reduce uncertainty. The Lean startup (LS) is a relatively new experimentation technique based on the formulation and testing of hypotheses about your business idea (like the marshmallow hypothesis)

2.2. Traditional Approaches to Launch a Start-up

1. **Build-It-And-They-Will-Come**

- Once identified an opportunity, the entrepreneur focuses on product development. Vision: the "perfect product". Rely only on the founder vision for initial guidance, and then focusing an engineering-dominated team's energy to turn the vision into reality
- Bypasses customer feedback and demand validation (no testing of business model hypotheses). Can be an ego defensive strategy (avoid feedback hiding in the office)

2. **Waterfall Planning (stage-gate planning)**

- The entrepreneur translates her vision into a plan and then methodically execute it
- Divides product development work into phases that are completed in sequence with each new phase starting only when the prior phase's passes a formal review
- Phases: (1) concept exploration (BP), (2) product specification, (3) product design, (4) product development, (5) internal testing, (6) alpha test with pilot customers to validate technical performance
- These steps represent the plan for an engineering team. Other functions, e.g. marketing, work in parallel
- Entrepreneurs learned this technique in big corporations when launching product line extensions.
- Used by large corporations where they have an engineering team and the marketing team goes through the same process
- This can cause problems whe applying to a startup

3. **Just do it!**

- Opposite of planning, these entrepreneurs rely on an improvisational approach
- Jump into the startup process with imagination and aspirations but no strong product vision or detailed plan
- Rely heavily on feedbacks and assistance from people they know and meet. They adapt their offering frequently to meet the feedback obtained from resource providers and customers & to respond to surprises
- Pro's. leverage scarce resources by tailoring a product to suit resource providers' preferences. Also, it allows to adapt quickly to new circumstances/opportunities.

Approach Type	Disadvantages
Build-It-And-They-Will-Come	High risk of inventing the wrong product. Lack of customer feedback along the way, only once a product is launched is risky if uncertainty about demand is high.
Waterfall Planning	Customer feedbacks only late in the process when alpha test. Impose linear vs parallel progression. Hard to revise: assumptions may become obsolete in a rapid changing industry. Not iterative process: errors introduced early in the stage are discovered only late requiring rework. Rigid system not good for startups that need to adapt to customers' feedbacks
Just do it!	Not anchored to a strong vision or hypotheses. The vision helps the entrepreneur to make sense of the feedback. Otherwise it is hard to know when to make course corrections (performance threshold) and what directions/changes should be taken. Particular problematic when the entrepreneur fail to see interconnections between decisions. E.g. early adopters vs mainstream users

2.3. The comparative advantage of the Lean Start-up Method

1. It evaluates an early-stage start-up's entire business model rather than focusing narrowly on the product offered by the start-up. => Focus not only on product but also on entire business
2. It provides a rigorous framework for entrepreneurial experimentation, offering guidance on how to efficiently test business model hypotheses and on the best time for an entrepreneur to pivot. This rigorous framework is the scientific method: formulate hypotheses and then test them. In fact, the LS is also called hypotheses driven entrepreneurship approach.
3. Unlike other methods for managing an early-stage venture, the lean start-up approach balances the strong direction that comes from a founder's vision with the need for redirection that follows from market feedback.

Why Lean Startup (LS)?

- It reduces the risk of mistake n.1: offering a product nobody wants. Many startups fail because their founders waste resources building and marketing products before they have resolved business model uncertainty. And many crash when there's the first contact to the market.
- Uncertainty resolution is the main goal not the start-up growth. LS maximizes, per unit of resources used, the amount of information gained to resolve the uncertainty. How?
    - Speed matters (time to market). Rapid iteration, small batches, and short cycle times are designed to maximize the amount of learning, and the speed with which learning takes place.
    - Test then Invest. It focuses less on minimizing expenses and more on minimizing waste, in the same sense that lean manufacturing is about eliminating waste in the manufacturing process. It is not a bootstrapping method!

Steve Blank (2003): Why the LS Changes Everything?

- The "Fallacy of the Perfect Business Plan"
    - BP rarely survives first contact with customers
    - Startups are not smaller versions of large companies. Existing companies execute a BM while startups look for one!
- The LS fosters entrepreneurial success by helping new ventures launch products that customers actually want, far more quickly and cheaply than traditional methods, and by making the startups less risky

A startup is a temporary organization designed to search for a repeatable and scalable business model under conditions of extreme uncertainty (Eric Ries)

Limits of the Lean Startup Approach

- LS is especially well suited for software-based businesses, given the relative ease of revising and testing new product version. However, with 3d printing and other rapid prototyping tools, short development cycles are becoming prevalent also in many manufacturing businesses
- In general, this approach is less applicable:
    - When mistakes must be limited
    - When demand uncertainty is low
    - When demand uncertainty is high but development cycles are long

2.4. The LS Process

1. **Develop a Vision**
2. **Translate the Vision into falsifiable Hypotheses**. Displayed in the business model canvas
3. **Specify Minimum Viable Product (MPV) Tests.** Tests the hypotheses using experiments, by building Minimum Viable Products (MVPs), i.e. smallest set of activities needed to disprove a hypothesis. (For product we refer to also services)
4. **Prioritize Tests**
5. **Learn from MPV tests.**
6. **Persevere, Pivot, or Perish.** Based on test feedback, you must decide whether to persevere with the proposed BM; pivot to a revised BM that changes some elements; or perish, abandoning the new venture.
7. **Scaling and Ongoing Optimization.** This process is repeated until all of the key business model hypotheses have been validated through MVP tests. At this point, product-market fit is achieved: a product that profitably meets the needs of the target market's customers, and can start scaling up

2.4.1. The Vision

- A high-level statement of the founder's beliefs about the customers the venture will serve, the problem the venture will solve, and how it will do so.
- As the venture proceeds and experiments generate learning, it would be typical for the venture to "pivot"—that is, to change the strategy but not the vision
- However, if the venture changes the problem it is focusing on, the customers it is serving, and the solution it is offering (vision) it is not a pivot but a change of vision and thus a completely new idea.
- The vision is important because it anchors the new venture and subsequent changes around a core set of beliefs.
- Ex.: "Zipcar will enable urban consumers who don't own automobiles to rent cars from nearby locations for hourly or daily use, avoiding the high costs of long taxi trips and the hassles of traditional car rental services."
- Vision: creating a world- changing business
- Strategy: the business model
- Product: the end result of this strategy

2.4.2. Hypothesis formulation

We do it throught the business model canvas.
Business model: integrated set of distinctive choices specifying a new venture's unique customer value proposition and how it will configure activities to deliver value and earn sustainable profits
Goal of a start-up: find a repeatable and scalable business model

The business model canvas can be summarized in 4 areas

Customer Value proposition, technology and operations management, go-to-market plan, cash flow formula

1.Customer Value proposition

- Reliance on Powerful Partners
  - Unable to fund full in-house development (resource constrained)
  - Attract partner support by convincing of the value
  - Weak bargaining power (no reputation/track record)
- Customer Skepticism
  - Deep discount may be necessary to attract early adopters
  - Analysis of customers' willingness to pay in face of uncertainty about the startup promise
- Limited Market Research Options
  - Survey or focus group are too expensive & yield unreliable predictions with radically innovative products because customers cannot draw on personal experience to infer their latent preferences
  - Techniques better suited for start-up: e.g. smoke tests

Factors that can have a big impact on the startup ability to create value for their customers:

Customer switching costs (SC)

- These are extra costs when switching suppliers
- SC are important to analyze the customer value proposition (CVC) for 2 reasons:
  - If the target is an existing market then you must steal customers from competitors. Delivered value > value of competitors + switching costs
  - Once the venture has costumers it can capture a larger portion of the value it creates if you impose higher switching costs (via contractual or technological means).
  - E.g. Apple. But careful! Prospect customers can anticipate the lock in effect & choose not to switch

Network effects (NE)

- Many startups aspires to harness network effects by building new platform or relying on existing ones
  - Better to have a proprietary platform to capture all the value rather than leveraging on existing platforms (e.g. FB)
- NE exist when willingness to pay for a product depends on n. other customers with whom they can interact by using the product (e.g. fax)
- NE arise e.g. in platform-mediated networks where intermediaries provide the platform and facilitate users' interactions.
- These are attractive business models for entrepreneurs. E.g. Monster

SC: when a customer changes from one company to another.

2.Technology and Operations Management

Vertical Integration (n. in-house activities)

- Advantages for startups. It avoids:
  - High uncertainty --> contract incompleteness
  - Small numbers bargaining (few potential transaction partners) --> vulnerable to holdup when renegotiate
  - Asset specificity (tailored to a specific party request) --> the asset can't be redeployable to other uses
- Disadvantage for startup: major investments. Startup are resource constrained.

First-Mover Advantages

- Preemption of customer relationships
  - Acquiring big customer base before the others enter lead to cost reduction advantages (scale economies)
- Preemption of scarce Valuable Assets
  - Via long term contracts you can lick up valuable assets as skilled labor, attractive locations
- Preemption of key patents
  - Choosing not to license out may make it costly for competitors to "invent around"

Late-mover advantages

- Reduction of R&D costs through reverse engineering
  - In case of no patent protection
- Chance to leapfrog leaders with newly invented, superior production technologies
  - Leverage new technology that wasn't available when the pioneer launched --> leading to lower costs or superior performance
  - Qualcomm: successful late mover in establishing standards for cellular telephone equipment

Startup founders tend to overestimate first mover advantages and underestimate the difficulty of pioneering when a new market require significant behavioral changes by customers.

3.Go-to market plan

- A go to market plan specifies how to address a startup marketing challenges
- These choices depend on:
  - New market – bigger marketing investments but spread over years as the startup start with early adopters
  - Existing market – better to go for a frontal assault implemented over a shorter period of time

Crossing the chasm: the challenging strategic and marketing process by which tech-based startups transition from a small base of advanced / tech savy users (early adopters) to the large base of mainstream users (early majority). It is important for radically new product that target a new market.

Virality – customer acquisition methods for startups relying on online networks

- A product grows virally when its use spread through direct, customer-to-customer transmissions
- Very attractive since low marketing budget needed
- Mechanisms to achieve viral growth:
  - Direct network effects (e.g. Skype): users interact directly
  - Word of Mouth
  - Casual Contact (e.g. "Get your free email at Hotmail)
  - Incentives to existing customers to recruit new ones (bring a friend)
- Viral Coefficient:
  - n. of additional customers subsequently acquired through viral mechanisms for every new customer initially acquired
  - Startups relying on viral growth should track their viral coefficient based on different marketing programs
    - Ex.: n. invitations sent by each existing user X the conversion rates of invitation to new user

	Number of Customers Acquired				
Viral Coefficient	Year 1	Year 2	Year 3	Year 4	Year 5
0.3	1,000	300	90	27	8
1.0	**1,000**	**1,000**	**1,000**	**1,000**	**1,000**
1.3	1,000	1,300	1,690	2,197	2,856

4. Profit Formula

- It doesn't require additional choices about the business model design
- It evaluates the venture's economic viability based on the hypotheses formulated in the other areas

Customer value proposition	**Technology & Operations Management**
What unmet needs/customer problems will the venture address? What value does the venture deliver to the customer? Which customer segments will you target, i.e. who are your most important customers? What will be the key features of the venture's product/offer? What type of business/pricing strategy to create customer value will you use: differentiation or cost savings? Can the venture leverage network effects?	What activities are required to develop and produce the venture's core product/offer? Which of these activities will be performed in-house rather than outsourced to partners? Who are your key partners? Which key resources are you acquiring from your partner? What key activities the partners perform? Will the venture create valuable intellectual property/patents (IP)?

Go-to-Market (marketing strategies)	Profit Formula
Through what mix of direct channels (e.g., in-house sales force, website) and indirect channels (e.g., wholesalers, franchisees) will the venture deliver its product to the customer? How do you attract, keep and grow customers? What mix of free and paid demand- generation methods (e.g., mass advertising, public relations) will the venture employ to acquire customers? Will the venture have strong incentives to invest aggressively in customer acquisition due to network effects?	What are the most important costs (fixed and variables)? Which key resources and activities are the most expensive? For what value are the customers really willing to pay? What is the revenue model?

Hypotheses formulation

- The business model hypotheses should be:
  - Falsifiability
  - Comprehensiveness

Falsifiability

- For each business model element, an entrepreneur formulates a set of falsifiable hypotheses
- Falsifiable= it can be rejected through a decisive experiment (likewise the scientific method – research papers)
- If you cannot fail, you cannot learn!
- A hypothesis must be formulated in specific, quantifiable terms in order to be falsifiable.
- Examples:
  - Bad example: "Our product will spread through word-of-mouth." As long as marketing trials reveal that any word-of-mouth referrals have been made, then this vaguely worded statement will prove true, whether the number of referrals is very low or very high.
  - Good example: "Our viral coefficient over the next 12 months will exceed 0.5"—This hypothese could be proved wrong (rejected).

Comprehensiveness

- Not detailed hypotheses for all elements
- BM analysis is an iterative process
- Interdependences among business model elements
  - Due to serial dependence between BM elements, some hypotheses can't be analyzed without addressing others first. E.g. first hypotheses on which customer segments then on customer acquisition costs
- Internal consistency between model elements
  - Entrepreneurs should make a quick review through all elements of their business model. The goal is to surface potential "deal-breaker" issues early—in particular, any conflicts between elements of the business model—and to find ways to address them.

The Key Hypotheses - Customer Discovery

- The first step in any customer discovery process is to verify whether there could exist a demand (market) for the proposed product
- These types of hypotheses are core to the customer value proposition part of the BM. Hypotheses about potential customers' problems and the venture's solutions. Have we really identified a problem that potential customers want solved, & does our solution meet those needs?
- A value hypothesis tests if a product is valuable to potential customers
    - E.g. n. volunteers who want to try the product & retention rate
    - E.g. FB: >50% users come back every day
    - Problems vs products: From "Can this product be built?" to "Should this product be built?"

The Key Hypotheses - Customer Discovery

- Entrepreneurs also require initial hypotheses about how potential customers will discover the product, who will buy it, and who else will influence the purchase.
- These hypotheses are core to the Go-to-market strategy part of the BM
- The growth hypothesis tests how new costumers will discover the product
    - Rate at which the product spreads among individuals
    - Ex.: FB: viral growth (in 1 month 75% of Harvard students were using it without a $ spent in advertising)

Metrics

- How can entrepreneurs articulate specific hypotheses in the early stages of evaluating an opportunity given the high uncertainty?
- Benchmarks from similar ventures can often provide guidelines. However, relevant data are less likely to be available in case of a radical new innovation.
- Customer conversion funnel: A multistep process through which a prospect customer may eventually be converted into a loyal customer. The process resembles a funnel, in the sense that smaller fractions of prospects/customers pass through each sequential step.
    - Ex.: only X% of prospects exposed to marketing programs become new customers, and only Y% of new customers become repeat purchasers.
- Entrepreneurs combine conversion funnel data with other metrics to estimate the average lifetime value (LTV) of a typical customer, net of the average customer acquisition cost (CAC).
    - Ex.: given anticipated gross margins, a viral coefficient greater than 0.5 might be necessary to keep customer acquisition costs low enough to achieve positive net income.

Hypotheses testing

Validate Learning (VL)

- Learning is the unit of progress for startups (maximize learning per unit of time and effort)
- VL: (Rigorous) process of demonstrating empirically that a team has discovered valuable truths about a startup present and future business prospects (solving key uncertainties = make progress).
- More concrete, accurate, and faster than classical BP
- This is the principle antidote to the lethal failure problem.
- The value is providing benefit to the customer, anything else is waste.
- Validated means that learning is backed up by empirical data collected from real customers via an experiment (test)

Customer Development Model

- The Lean Start-up method use a customer development approach ("Get out of the building") to test the hypotheses
- Customer Discovery – the founding team develops a plan to test customer reactions to the BM hypotheses and turn them into facts
- Customer Validation tests whether the resulting business model is repeatable and scalable. If not, teams return to Customer Discovery

The Experiment (test) in practice

- Zappos is the world's largest online shoe store, founded in 1999
- Its founder, Nick Swinmurn, was frustrated because of no central online site with great selection of shoes.
- Vision: a new and superior retail experience (first online shoes shop)
- H1: customer is ready and willing to buy shoes online.
- We must learn what customers really want, not what they say they want or what we think they should want
- An experiment (a product) is better than market research (what customers thought they want) because you learn more (and spend less)
    - More accurate data about customer demand: real vs hypothetical customer behavior
    - Interaction with real (not potential) customers to learn their needs
    - Surprise effect (unexpected behaviors): e.g. what if customers returned the shoes?
    - At the same time of testing H1, other hypotheses were tested: payment, handling returns and customer support.
    - Test on a small-scale but it didn't prevent Nick to realize its huge Zappo's vision (sold to Amazon in 2009 for 1.2 billion)

The Experiment (in theory)

- Everything a startup does – is understood to be an experiment designed to achieve validated learning.
- A true experiment begins with a clear hypothesis and then tests it empirically (scientific method)
- Startup experimentation is guided by the vision
- In LS, an experiment is typically a product (a minimum viable product)

- Even when experiments produce a negative result, those failures prove instructive and can influence strategy.
- Think Big, Start Small
- We must learn what customers really want, not what they say they want or what we think they should want (Eric Ries)

2.4.3. Specify MVP tests

- Paul Graham (Y Combinator founder): "To accelerate learning, launch early and often"
- How? By specifying an MVP
- An MVP helps entrepreneurs start the process of learning as quickly as possible. The goal is to test the business model hypotheses.
- Down that road – after many iterations – you may learn via MVPs that some element of your product or strategy is flawed and decide it is time to make a change (pivot) to a different method for achieving your vision.

What is an MVP?

- Smallest set of features and /or activities needed to complete the feedback loop
- MPVs may constrain product functionality
    - only a subset of envisioned features
- MPVs may constrain operational capability
    - temporary technology
    - ü Wizard of Oz testing: customers think they are interacting with the actual product (e.g. a computer algorithm), but behind the scenes human beings are doing the work. Very inefficient, but fast to build on micro scale & learn about demand & customer needs before building sophisticated technologies

MVPs should Target Early Adopters (Lead Users)

- Need the product the most
- Don't need a perfect solution to capture their interest. More forgiving in case of mistakes and eager to give feedback.
- They care of being the first to use or adopt a new product or technology. Suspicious of something too polished; if it's ready, how much advantage can one get by being early?
- They will tell others about the product and spread the word
- How can we identify early adopters?
    1. The potential customer has a problem
    2. She knows to have a problem
    3. She is actively searching for a solution
    4. She has a budget to purchase a better solution
- In general, constrain your customer set. Acquiring a large number of customers before BM hypotheses are validated can be expensive and damage the brand in case of pivots

How can you validate demand?

Smoke testing

- For web startups. Smoke tests are the simplest form of MVP because radically constraints both functionality and operations, testing demand for a product that does not yet exists.
- Landing pages to check interest in the proposed product/service. "Leave an email address".
    - E.g. 2% who see the ads will click through; 4% of those who end up in the landing page will click the buy button or leave the email address
- Video MVPs to improve reliability by offering more detailed info
    - Dropbox
- Charging for Smoke tests to get more reliable data about demand (dry test)
    - Kickstarter (purchase commitment after viewing an MPV description)
- For B2B → the equivalent is a letter of intent to purchase a yet unfinished new product

A/B testing (treatment vs. control group)

- Assign 2 versions of the product to two different samples of customers at same time
- Reactions to a baseline control version are compared to reactions to a "treated" version
- Follow same rules of experimental design in research
    - Create a control group
    - Ensure random selection for control and treated
    - Use big enough sample to get significant results
    - Given the sample size requirement you can't run too many experiment in parallel

Usability tests

- Usability tests normally involve asking current or prospective customers to complete specific tasks (called "use cases") with a working prototype or an actual product version. The goal is to identify potential problems with ease of use.
- When an entrepreneur is still validating demand hypotheses, the objectives for usability testing is to rule out the risk that a flawed initial product design will inadvertently lead an entrepreneur to conclude that demand for the venture's proposed solution is low. If early demand is weak, it is crucial to know whether prospective customers (a) have little need for a solution to the problem that the venture has targeted or (b) do want a solution, but simply cannot figure out how to use the venture's initial product, because it is badly built or designed.
- Dropbox. Drew Houston recounted how not one of five mainstream consumers recruited from Craigslist could install and use an early version of the startup's online file storage service. "Watching them fail," he recalled, "was excruciating... probably the most painful day we had as a team, but afterward, we created a list of 70 things to fix."

Market Trials

- By first testing products with a subset of their intended customer base, entrepreneurs can validate demand and also refine product features and marketing approaches before investing in a full-scale launch.
- Key issues in designing a useful market trial:
  - Customer selection (representativeness): the goal is not to gather feature requests but rather to find out whether there are customers for the product you are already building!
  - Timing: early trial (when certain features are not yet present and performance bugs) are valuable because of learning at low cost but it may have reputational damage
- When a market trial is successful? Use conversion funnel metric for businesses that rely on mass advertising methods or direct sales.
- How high must be the conversion rate to validate demand hypotheses? In existing markets use benchmark. In new markets, the life time value of customers net of their customer acquisition costs should be positive

<u>Measuring success of a market trial for web-based start-ups:</u>

The AARRR metric by Dave Mc Clure:

- Acquisition of a cohort of website visitors
- Activation into first-time users
- Repeat visits by users (retention)
- Revenue generation
- Referral of new prospects

2.4.4. Prioritize tests

- Criteria → solve considerable uncertainty at a low cost
  - The tests to determine customers demand and willingness to pay are key ones.
- Parallel testing → when hypotheses are not so serially dependent
  - Ex.: Rent the Runway

2.4.5. Learn from MVP Tests

- False positive or false negative → run several MVPs
  - False positive: Enthusiastic early adopters not representative of mainstream users (crossing the chasm)
  - False negative:
  - Ex.: FB: Beacon & New Feeds: stated vs revealed consumers' preferences
- Leverage on surprises
  - Unexpected test results

3 Risks of misinterpreting results: Cognitive Biases

- Over-Optimism bias
  - Systematic tendency to overestimate the likelihood of positive events and to underestimate that of negative events
  - Research indicates that it takes web startups, on average, 2-3 times longer than their founders had originally estimated to validate their market (planning fallacy)
- Confirmation bias
  - Tendency to disproportionally look for info that validate rather than reject our hypotheses. Risk of false positives (enthusiastic early adopters)
- Sunk cost fallacy
  - Expenses that have been incurred and cannot be recovered should not be considered when making decision. Only focus on future expected benefits/costs. Reluctance to pivot.
  - Launch early and avoid premature scaling to keep sunk costs under control

2.4.6. Preserve, Pivot or Perish

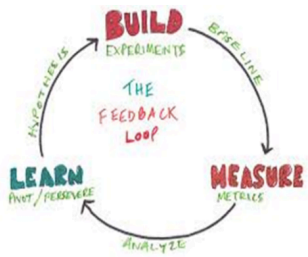
- Preserve
  - when all BM hypotheses are validated. Ready for scaling
- Pivot
  - Rejection of hypothesis or better opportunities elsewhere. A correction designed to test a new fundamental hypothesis about the product, strategy and engine of growth. A pivot requires that we keep one foot rooted in what we have learned so far, while making a fundamental change in strategy in order to seek even greater validated learning
  - Sooner than later. Failing to pivot when assumptions are known to be flawed can be fatal
- Perish
  - If an MVP test decisively rejects 1 or more crucial BM hypotheses, and the entrepreneur cannot identity a plausible pivot

Typology of Pivots

- Zoom-in pivot: What was considered a single feature in a product becomes the whole product
- Zoom-out pivot: What was considered as the whole product becomes a single feature of a much larger product
- Customers segment pivot: The product hypothesis is partially confirmed, solving the right problem, but for a different customer than originally anticipated
- Customers need pivot: The product hypothesis is partially confirmed: the target customer has a problem worth solving, just not the one that was originally anticipated.

The feedback loop

The goal is to minimize total time through the loop



Working Canvas

- Write down the key hypotheses
- Use post it:
  - Green: the hypothesis has been validated through a decisive test
  - Yellow: a test that could validate the hypothesis has been identified but not yet implemented
  - Blue: a hypothesis has been advanced without a way to test it
  - Pink: the question is important but it is too early to develop an hypothesis

2.4.7. Scaling

- Scaling occurs when product - market fit is achieved = the venture has discovered through the iterative process of the feedback loop a product that "works" (i.e. delivers value) for a particular set of customers – a market segment.
- Scaling = invest in customer acquisition & get additional resources required (staff and infrastructure) to serve a rapidly growing customer base
- Continue hypotheses testing but the goal switch from BM validation to BM optimization
- Pivoting becomes more costly so it should be done only in response to major unexpected changes

Premature scaling: risks

- Give up agility
- Pivots are more difficult and expensive. Number of pivots a startup can complete without raising more capital is lower
- In case of pivot, negative reputational consequences as the company's product and value proposition becomes more public/visible when scaling. If changes are required you risk to confuse a large number of potential customers
  - But if strong network effects (FB, Twitter, YouTube) or first-mover advantages then the risks of scaling early may be offset by the potential rewards of being the winner in a "winner-take-it-all" market

Conclusion

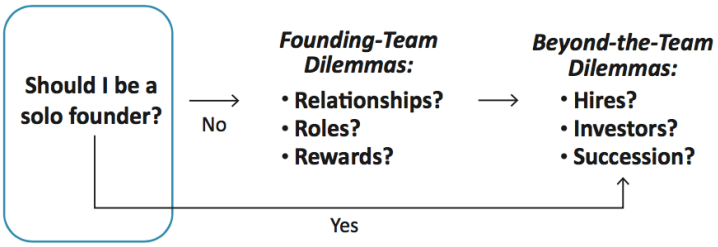
- The core concept behind hypothesis-driven entrepreneurship—test then invest—has been practiced in well-run new ventures for decades.
- product development professionals have long recognized the value of small batches and rapid prototyping
- The LS approach evaluates an early stage startup's entire business model, whereas its antecedents focus more narrowly on a startup's product.
- It introduces two new concepts: MVP that efficiently test business model hypotheses, and pivots that change certain business model elements in response to failed hypothesis tests.
- It balances the strong direction that comes from a founder's vision with the need for redirection that follows from market feedback.

3. ASSEMBLING THE FOUNDING TEAM

Causes of Failure in VC-backed Ventures

- Management Team: 65%
- Product Development, functional management market problems etc. 35%

The Framework - Sequence of Founding Team Dilemmas

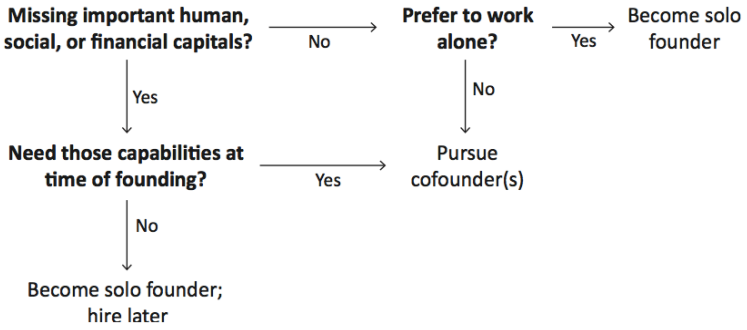


3.1. Go it alone or get co-founders?

Size of Founding Teams for Tech & Life Sciences Startups

- Sample of 4232 founders, 1542 start-ups in tech&life science industries in the US
- Time window: 1998-2008
- 16% of new firms are solo founders
- 84% chose for the co-founding route
- What determines the solo vs. team decision?

Solo vs. Founding dilemma



Solo-found vs Build a founding Team

Solo-found when . . .	*Build a founding team when . . .*
• Founder has deep human capital and social capital (and sufficient financial capital) that is relevant to the startup's industry • Founder has a strong preference for maintaining full control of all decisions • Founder does not have a strong need for support or validation • The business is small and in a slow-moving industry	• Founder has important holes in human capital, social capital, and/or financial capital • Founder prefers not to do some tasks required in the early days of the startup • Founder prefers a collaborative style • Founder has a strong desire for support or validation • The business is in a fast-moving industry, especially if there are first-mover advantages or network effects

How many cofounders? Disadvantages of teams

- Each new co-founder increases coordination costs and inefficiency
- Coordination costs increase the risk of role overlap and cause conflicts in the team
- Each new co-founder adds more nodes to the internal communication, slow down decision making
- In complex and turbulent industries → larger team to process more info. Larger teams are better at solving problems
    - Absorb & recall more info
    - Correct more errors in inference and analysis
    - Consider more potential solutions
    - Bring a broader range of perspectives to bear on the problem

Symbolic founders vs hires: Who can be considered as founder?

- Founders are not necessarily those who start from the beginning
- The title of founder can be symbolic →central role for startup success (e.g. building a new function).
- Some entrepreneurs grant the co-founder status to easily to attract people and incentivize their commitment to the start-up. Also, no need to pay a salary.
- Yet it is dangerous. It is extremely difficult to "undo" co-founders decision
- Trade-off: giving up equity to co-founders vs to attract hires, investors

Option	*Advantages*	*Disadvantages*	*Potential Ways to Mitigate Disadvantages*
Going solo	• Retain all of the equity • Maintain decision-making control • Avoid communication, coordination, and incentive problems	• Have to rely exclusively on the founder to fill gaps in human capital, social capital, and financial capital, either slowing the startup's launch while the founder becomes prepared or exposing the startup to potential failure if the founder moves forward without the requisite capitals or a critical competency • Less ability to gather and process complex information • Slower response rate • Lack of collaboration/support; lonely	• Postpone or extend decision to found; systematically fill holes by gaining relevant experience • Find experienced advisors and mentors to fill holes, at least temporarily • Find complementary corporate partners or outsource some tasks • As needs arise, use equity to attract hires and investors to fill holes (see Chapters 8 and 9, respectively) • Found in a slower-moving, less complex industry
Building a founding team	• Fill holes in human capital, social capital, and financial capital • Increased ability to gather and process information • Faster response rate • Gain support/ collaboration • Have more fun (for the right personality mix)	• Sacrifice equity • Sacrifice decision-making control • Communication, coordination, and incentive problems	• Carefully evaluate the marginal utility of each new cofounder; only add cofounders whose marginal benefits are more than the added costs • Proactively develop process for decision making within the team (see Chapter 5) • "Try before you buy"; invest time in getting to know prospective team members and their working styles

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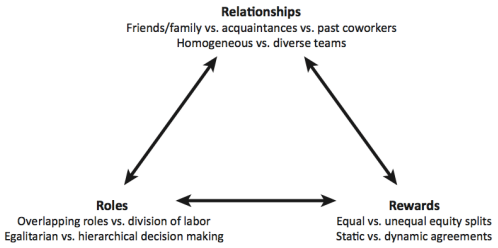
Performance implications: solo vs team

Founding teams outperform solo-founders on average both in terms of growth rates and survival rates (yet recent evidence by Mollick challenge this fact).

3.2. Founding Teams Dilemmas

The 3 Rs Model - Assessing the Founding Team



Roles
- Division of labor, positions, skills
- Decision making process

Relationships
- Homogeneous vs. Heterogeneous teams
- With whom to found?
- Playing with the fire gap

Rewards
- Splitting the pie
- Compensation

3.2.1. Relationships

Homogeneous vs. Heterogeneous teams

- "Birds of a feather flock together"; the principle of homophily has a strong effect on homogeneity of founding teams
- Gender homogeneity. All-male & all-female teams are 5 times more common than expected by chance
- Skills homogeneity. Same functional background for example
- Age/working experience homogeneity. Max gap is 10 years
    - Is that a good or a bad thing?

The short-term benefits of homogeneity

- Teaming up with people who have important things in common is often the quickest and easiest solution (less time to develop effective relations & easier to access people who are similar to you).
- Shared language, culture and narratives →facilitate communication
- Shared routines → exploiting common advantages
- Commonalities promote efficient implementation and fast action
- Less risk of interpersonal and affective conflict and higher integration

The long-term risks of homogeneity

- While the decision to found with similar co-founders is comfortable and easy it may cause long-term problems. In fact, they are less stable
- Overlapping human capital: redundant strengths and missing critical skills.
- Gravitate also around similar roles --> tensions if not a clear-cut division of labour.
- The problems exacerbate if the team is also made up of close ties.
- Founders should fight homophily both in terms of skills (functional knowledge) and networks

Functional (skills) Diversity

- Full range of management and organizational skills and abilities→completeness
- Completeness also makes the firm more attractive for investors → it signals that the team has the necessary resources to succeed
- Higher levels of functional diversity make it more likely to reach critical entrepreneurial firm milestone than teams with less functional diversity

Affiliation Diversity

- Social ties (capital, network), in particular weak ties, promote likelihood of access to information thereby fostering resource mobilization
- Positively treated in evaluation and IPO situations due to greater range in affiliations, experience and networks (endorsements)

The advantages of heterogeneous teams

- Diversified past experience generates a larger and more diverse skillset which affects strategic creativity
- Advantage lies in the diversity leading to a behavior characterized by broad search, experimentation and discovery → exploration strategy
- Diversity in skills (functional backgrounds) is particularly important in turbolent environment → quick adaptation
- Diversity in network. Diverse networks are also more creative and innovative, have better access to investors, corporate partners, bigger pool of prospect employees (resource mobilitation)
- The implication is that founding teams with diverse prior company affiliations are likely to engage in explorative behaviors

Exploration and Exploitation Strategies

- The non-diversified founding team has the advantage of sharing a language enabling them to implement routines and practices easily
- Homogenous teams tend to pursue an <u>exploitation strategy</u> = incremental changes, refinements, routinization, local search, and efficiency
- Founding teams with different backgrounds will instead bring different bodies of knowledge and different contacts with them producing a different type of behavioral process. Diversity enhances creativity (“connect & combine”)
- Diverse teams tend to pursue an <u>exploration strategy</u> = radical changes, new market creation, experimentation, broad search, frequent change and discovery

The tangible and intangible factors

		Benefits of a Homogeneous Team	*Risks of a Homogeneous Team*
Tangible factors	Human capital	Cofounders with similar human capital often can communicate more quickly and easily about issues.	Overlapping functional backgrounds increase the likelihood that the team will be missing critical skills.
	Social capital	Cofounders with similar contacts may have higher confidence that their mutual obligations are more enforceable.	Overlapping social networks reduce the diversity of information received by the team; limit its contacts with potential customers, hires, and investors; and may decrease innovation.
Intangible factors	Decision-making style (e.g., hierarchical vs. consensus)	Cofounders with similar styles will often make decisions more quickly and easily.	Cofounders with similar styles often do not act as effective counterbalances to each other's natural styles.
	Risk tolerance (e.g., risk-seeking vs. risk-averse)	Cofounders with similar risk tolerances may be more stable partners.	Cofounders with similar risk tolerances will not counterbalance each other's tendencies to shoot from the hip or to be overhesitant.
	Commitment level (commitment of time, capital, etc.)	Cofounders with similar levels of commitment will be more likely to appreciate each other's efforts.	Cofounders who are all moderately committed may not be able to sustain the startup. Cofounders who are all intensely committed might burn out, leaving no one to pick up the slack.
	Value system	Cofounders with similar values will be more aligned regarding their priorities and preferences.	Cofounders who all have similar value systems may not be able to counterbalance each other. For example, founding teams who all believe in taking care of their employees at all costs might not be able to take necessary actions to prune the work force as the startup's needs change.

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Whom to Choose as Co-founders?

- Direct contact (family & friends), indirect contact or network (mutual acquaintance), impersonal search process (strangers)
- 43% of venture starts with friends; 12% family; 24% coworkers (Wasserman book)
- Friends and Family, i.e. social (relational teams) are the most common founding teams
    - Same factors of homogeneity + emotional support
- Social relationships (F&F) are the most unstable (Wasserman & Marx, 2008).
- Acquaintances are in the middle.
- Teams with past-coworkers are the most stable. VC perspective (especially if that work was relevant to the new venture)
- What about class-mates?

The playing wit the fire gap

Why founding with friends and families is high risk?

2 factors affect stability of founding teams:

Damage if the social relationship blows up

- The closer the prior relationship the greater the damage if tensions from the business spills over into the social/personal relationship
- A double-edge sword: better communication, more trust but when there are business conflicts these become personal and can ruin the relationship

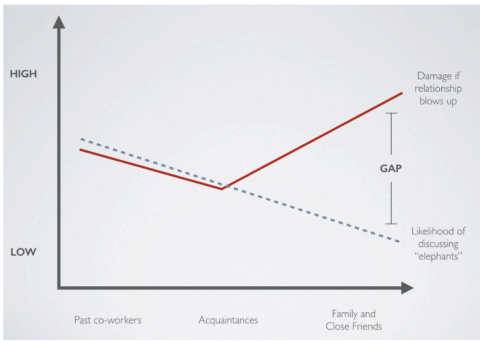
Avoiding Elephants in the Room (discussion of sensitive issues)

- The elephant in the room is an important problem that a cofounder find uncomfortable to talk of
- Cofounders who were co-workers are used to discuss these issues
- Teams of family & friends are the least likely to discuss it --> signal of distrust. Avoiding discussing it exacerbates the problem. Or they assume there is no need to discuss, underestimating the differences professional vs social relationship

⇨ The larger the gap between the two, the higher the risk of tensions that could be fatal to the start-up

Reducing the gap

- To push down the Damage if relation blows up
  - Founder agreements
  - Envision negative scenarios
  - Disaster plans (exit contract)
  - Compartmentalize relationship: you put someone between the 2 people having a relationship. Ex.: the mom did report to someone that reported to the son
- To push up the likelihood of discussing elephants
  - Involve outside party to guide discussions
  - Use mutual mentor to mediate negotiations
  - Force discussion on sensitive issues
  - Ex: citer city: matching parents to baby-sitters, founded by a lady and the boyfriend (lady=boss, boyfriend= employee). They made sure there was no problem like this. So, when there was a business problem, they CCed the ppl from the executive board.



Relationship and Team stability

- Often team stability is a key variable venture capitalist use as indicator of internal strengths of the firms
- Founding teams with family & friends are less stable not only compared to teams of past coworkers but also compared to teams of strangers.
- "Reframing a profound friendship as a business relationship is difficult and sometimes painful"
- Teams with F&F tend to adopt an employee-relations model based on informal communication and the decentralization of authority rather than more structured and explicit approaches
- Teams with past co-workers have higher growth rates, higher levels of social integration and lower risk of company dissolution. Their relationship developed out of mutual admiration for their commitment, capabilities and expertise

Team Turnover

- Top management teams (TMT) in small firms often change
- Some people leave, others are added as the business matures other types of skills are needed
- Need to look at the team composition in a dynamic context
- A complex of continuation of combinations of tacit and codified knowledge governed by past affiliations of the top managers
- Often a key variable venture capitalist use as indicator of internal strengths of the firms

Team Turnover & Start-up Performance

- High turnover of team members generates mixed results:
    - Communication difficulties, trust barrier
    - Adaptation and learning potential, change
- The dominating effect is context dependent:
    - Stable conditions - continuation of members is beneficial
    - Turbulent environments - learning through change is a necessity

4. ORGANIZING THE STARTUP

We will look at:

- Roles distribution
  - Roles should reflect a clear division of labor that is formalized in the titles
  - Titles matter (symbolic significance that can translate into real authority)
  - Which co-founder receive which title is usually one of the toughest early negotiations
- Type of decision-making process

4.1. Roles distribution

Executive Titles – Who Wants Them?

- Established company: hierarchy is a triangle
- Startups: reverse pyramid (because verybody wants a title when you start a company) = 'top-heaviness structure', most of the people have a C-level title

F.E.: in teams made by 2 or 3 people there are more people with C-titles than people without
CTO: Chief Technical Officer
CSO: Chief Scientific Officer
COO: Chief Operating Officer
CFO: Chief Financial Officer (no need for them in the beginning)

Executive Titles – Who gets Them?

- How do teams assignt their top positions?
  - Level of commitment
  - Valuable human, social, financial capital
  - Idea people
- Idea people are more likely than non-idea people to become CEO
- Also, serial entrepreneurs and those who invested more seed capital

Overlapping roles vs. division of labor

	Strengths	*Weaknesses*
Overlapping roles	• Offers flexibility appropriate to early-stage startups • Team members can pitch in wherever needed • Taps collective knowledge of all team members	• Diffused responsibility may weaken incentives • Overloaded startups should be trying to minimize redundant responsibilities • May increase tension as founders step on each other's toes • As the startup evolves and becomes more differentiated, team members may resist having to focus on specific functions or areas, also increasing tension
Division of labor	• Enables assignment of titles, tasks, and responsibilities • Provides better accountability • In heterogeneous teams, enables the team to fit role assignments to founder strengths	• May be hard to get individual functions to collaborate on cross-cutting tasks • In homogeneous teams, may cause early, suboptimal role assignments • Failure to evolve can lead to disconnects between organizational structure and task demands 13

- diffused responsibility may weaken incentives: if everybody is responsible for everything, then for example if there's a mistake nobody will take the responsability. Your incentives are not alligned bc you're not fully responsible

4.2. Decision making process

2 ideal types

Egalitarian ⟷ **Hierarchical**

Advantages:
- Can help build trust among groups of strangers
- For teams of friends, affirms expectations of equal treatment

Disadvantages:
- Consensus-building often takes too much time; this may be particularly problematic for high-velocity entrepreneurial environments.
- Accountability is less clear

Advantages:
- Decision-makers can quickly mobilize resources behind a new initiative.
- Clear accountability

Disadvantage:
- Complex environments cannot be processed by one person; input from multiple people with specialized knowledge usually leads to better decisions.

Egalitarian vs Hierarchy

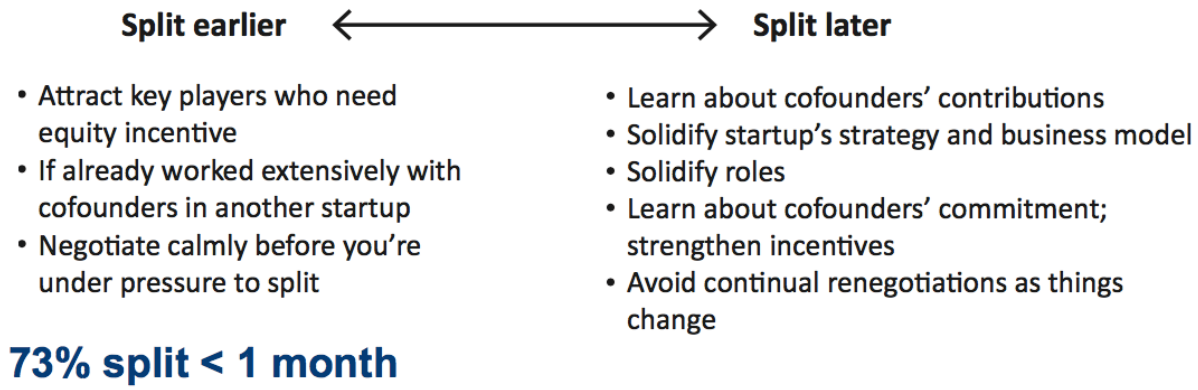
- Egalitarian: when similar background, overlapping roles. Or Easy solution to postpone titles assignments. Sometimes better to wait before naming a CEO
- Egalitarian: too slow for fast moving environment, the info can become obsolete, decision making becomes obstacle to action
- Many veteran entrepreneurs warn against egalitarianism although most founding teams choose it at the time of founding.
- Many people start with an egalitarian approach, and then they change, but that's problematic, because there's a deadlock in the decision.
- Ex.:in Apple there was an egalitarian apporoach, and then they hired this Wane in order to help when there's a conflict
- Typically, over time from egalitarianism to hierarchy when startup scales
- While 79% began with no CEO named, this becomes 95% during first round of financing (professionalization induced by external investors)
- Balancing the best of Egalitarianism &Hierarchy
    - 2 steps - consensus with qualifications

4.3. Rewards

- Equity split
    - How to allocate equity ownership & other financial rewards (salary/benefits) within the founding team
- Static vs Dynamic equity agreements

Equity split

When to split



73% make the decision of how to split the equity within one month of the founding ofthe company.
That's too early, why?
At the beginning you don't know the commitment of the others, you don't know what the needs of the venture will be. (research paper we have to read for the exam)
Advantage:
- You can allocate some of your equity to attract somebody external. F.e 45% Jobs, 45% bozniac and 10% to attract Wane
- you are not under pressure
In general, it's better to split later because you know the ability and it's better of the firm
But there's the anchoring effect: painful to change the status quo, to renegotiate the equity split

How to split (criteria)

- Past contributions (to building the value of the venture so far)
- Idea premium 10-15% on average
- Opportunity costs
    - What salary are founders sacrificing to pursue the startup? Equity is one way to attract co- founders given the low/no salary at founding.
- Future contributions
    - Hardest factor to evaluate but the most important
    - Background (HC+SC)→ serial premium 7-9% (when successful exit)
    - Commitment level (full vs part-time)
    - Titles → CEO premium 14-20%
- Capital Contributions
    - Not only tangible contribution but also signal confidence in the startup potential (Ex:Ockham case)

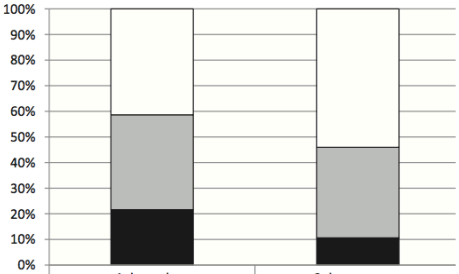
Equal vs Unequal

- Unlikely 2 founders can make exactly equal contributions
- Yet, in practice equally equity split is the most common choice
    - Outcome inequality aversion (see the paper assigned for this class). Threshold of psychological pain vs financial gains. Some have a preference for equal allocation
    - Threshold: if cofounders differ enough in the value they bring --> unequal split, otherwise the baseline is equal split. Cost of though negotiations (The Elephant in the Room)
    - It avoids conflicts about ranking and boosts cohesion
- Downsides: some founders might turn out to be less productive (free riding or incompetence). What seemed fair turns out to be unfair (inefficient incentives)
    - Additionally, it could create lack of hierarchy, leadership vacuum and a voting deadlock
    - Inequity (not unfaire) vs. inequality

Formal vs. Informal

- Equal splitters spend less time negotiating.
- Among equal splitters, 60% spent a day or less vs 39% of unequal splitters
- Quick equal teams signal lack of experience / preparation (weakness), not engaged in a serious dialogue.
- They receive lower valuation (VC discount). VC spend time during due diligence process to understand how the split came to be → important consequences (e.g. signal of future tensions)
- 49 vs 51% = same amount of equity but if a major decision needs to be made than the 51% can take it. ! % equity → big impact on decision making control

Time spent negotiating the split vs. formality of the agreement



	1 day or less	2 days or more
Formal	41%	54%
Informal, later committed to writing	37%	35%
Informal only; never committed to writing	22%	11%

Static vs. dynamics equity splits

Setting static equity splits is a huge mistake

- Assume high level of commitment will last long into the future
- Assume no adverse events will change the composition of the team (also personal life)
- Short term view (tasks evolve based on the different startup phase!)
- Assume their skills will remain valuable (skills at founding – skills at growth). 50% of the cases the idea/business model changes soon and accordingly the skills & roles needed
- Outweigh past contributions over future contributions: overestimate the amount of value they will build in the first months compared to the value in the subsequent year

Dynamic Equity Split Agreements:

- Assume at the initial split that things will change. Important to be able to adjust the split as circumstances change
- Break down qualitatively the different stages of startup development into separate phases to provide a structured way to discuss and weight the importance of each phase for building the startup's value.
- It also offers an opportunity to evaluate the various tasks performed by each founder
- A structured approach serves also as a check on the natural tendency to overemphasize tangible over intangible factors:
    - Past vs future contributions
    - Cash vs idea contributions
    - Skills vs commitment and motivation

Dynamic Agreements – Terms, Contingencies & Trust

- Different types of uncertainty involved in contracts:
    - known-knowns →addressed by standard provisions
    - known-unknowns → addressed by contingency provisions
    - unknown-unknowns → addressed by trust
- How to craft an agreement in a dynamic environment?
    - Set guidelines and milestones for how to split equity
    - Define worst-case, expected-case and best-case scenarios. E.g. Buyout agreement: rules and price for buying back founder shares should a founder cease to participate in the startup
    - Set a vesting schedule
    - Set aside some equity that will not be allocated until a later date

Example of Buyout Agreement

- "In the event X is not a full-time employee of the company by..., the other founding shareholders shall have the right ...to purchase 50% of the shares owned by X"

Protecting yourselves from your cofounders: self-imposed vesting

- Vesting is the most common type of dynamic equity agreement
- Vesting requires founders to earn their equity stakes at certain time/milestone. Leaving before requires relinquishing the unvested portion to the startup or to the cofounders
- Shield against free-riding or protect from others' leaving
- 2 types
    - Time-based (if slower, equity before the expected contribution). E.g. 4 year vesting (25% x year)
    - Milestone-based (hard to specify ex-ante the milestones). E.g. fund-raising, customer acquisition, revenues, completion of a prototype, establishment of a partnership
- Dynamic agreements avoid trade off splitting earlier vs later (allows for attractin co-founders and at the same time keep the motivation)

Evolution of hiring decisions as the startup grows

- From generalist to specialist – from overlapping roles to divisional roles
- Cash compensation vs. equity
- From egalitarian vs. hierarchical decision-making process

Startup's Stage of Development	*Relationships*	*Roles*	*Rewards*
Startup	• Personal networks of core founder are tapped to find loyal candidates who fit with the culture of the startup	• Generalists who cover multiple areas • "Flat" structure that has many C-level employees with few reports	• Low cash compensation • High equity compensation • Low gender gap • Less vesting
Transition	• Impersonal searches (e.g., newspaper ads, search firms) • The networks (and weaker ties) of investors and other participants in the startup are leveraged	• "Players" transition to "coaches," as functional VPs are delegated the responsibility to run and hire their own teams • Some early employees are usually unable to adapt to the changing needs of the company	• Moderate cash compensation • Lower equity compensation • Vesting equity stakes
Mature	• Investor networks are tapped • Executive search firms are hired	• The reporting structure is "pyramidal," with a few senior executives leveraged by many junior employees • "Professional" executives from large-company backgrounds	• High cash compensation • Employee stock options take the place of equity • The gender gap emerges

3

Attracting Investors. A Rich vs King Approach to Term Sheet Negotiations.

<u>Rich-driven entrepreneurs (wealth)</u>

- Smaller slice of a bigger cake
- Key terms of negotiations:
  - Price/Valuation (the market value of the company right)
  - Option pool: amount of equity set aside to hire employees in the future --> directly affect the %of equity owned by the founder, the value of his equity stake and % earned upon exit
  - Liquidation preferences: how much of the investment VCs will recoup in case of M&A/liquidation)

<u>King-driven entrepreneurs (control)</u>

- Larger slice of a smaller cake
- Key terms of negotiations:
  - Board composition (approves important decisions such as issuance of new shares, choosing CEO etc..). King founders want to be in control (majority of seats)
  - Drag-along rights. In case of M&A offer who gets preference in authorizing the sale of the company? Push for common consent, or min equity control to be met by preferred stock to drag the rest of stockholders

PART II: FROM BUILDING TO ACCELERATING

5. GROWTH STRATEGIES

5.1. Introduction

Why should a firm grow ?

- Competition
- Investment / costs (rent, salary, etc.) : never survive (revenue) if you attract only early adapters. → SURVIVAL

Growth not always a good thing

- Might be really good when small, might be less when you're big.
  → business success doesn't always scale
- Grow too fast (luxury problem) : emails unanswered, burnouts, rooms too small, …
- Not everybody has the capacity to deal with growth in an aggressive way : need to start delegating things (trust people that are added to your firm to do it for you)

Most firms have a *growth-related plan* : what we should do with the growth we are about to have.

10 warning signs that a firm is growing too fast

- Borrowing money to pay for routine operating expenses
- Extremely tight profit margins
- Over-stretched staff
- Declining product quality
- E-mail starts going unanswered
- Customer complaints are up
- Employees dread coming to work
- Productivity is falling
- Operating in a "crisis" mode becomes the norm rather than the exception
- Those working with businesses' financial srtucture are starting to worry

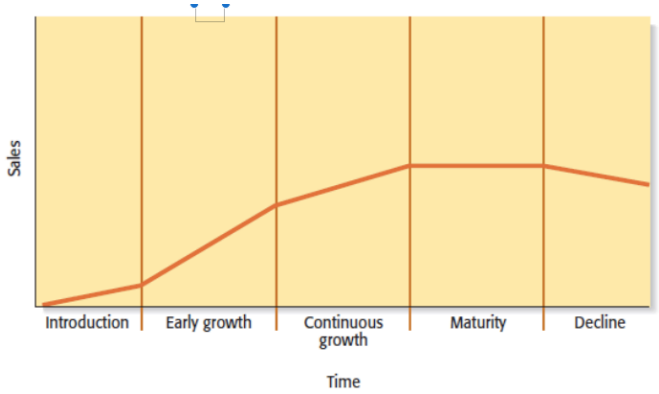
Why grow (except for survival) ?

- Economies of scale : the more I make, the less it costs (reach where costs drop marginaly) → point where lower unit costs are not longer possible. To achieve this, you need to be pretty big (startups are not gonna get to this point)
- Economies of scope : when you can start using a unit that you're already using for a product, you can use it for another one. Don't have to start from scratch. You can use the same assests for another product without adding costs. (Ex : coca cola, sprite, etc. And Virgin (music, airline, …) >< deseconomies of scope
- Establishment of market leadership: If you're bigger, people will pay attention to you (discounts, benefits thanks to relationships, …)
- Influence, power and survivability – larger businesses usually have more influence and power
- Growth because key client demands it (ex: consulting firm that follows a big client to India)
- On the inside : need to grow if you have a good employee (the employee needs to be linked to the firm) – equity (shares). – make sure to keep him= retain key employees

→ all those reasons will trigger the startup to grow

5.2. Managing growth

It's important for a business owner to know the stages of growth, along with the unique opportunities and challenges that each stage entails.



Lifecycle of a product = lifecycle of your startup (when you have one product)

Introduction

- Start-up phase where a business determineswhat its core strengths and capabilities are
- The main challenge is to make sure the initial product or service is right

⇨ Run some samples, work on strengths (creativity stage)

Early growth

- When you realize you sold products in the past but you have orders in the future → increasing sales and heightened complexity(even though you still have lots of costs)
  - ➢ Knows what works and the work that needs to be done → *first hire* (often call someone you know) : DELEGATE & CHECK if job is well done.
- Two important things must happen for a business to be successful in this stage
  - The founder must start working "on the business" rather than "in the business"
  - Increased formalization must take place, and the business has to start developing policies and procedures

Continuous growth

- "out of the woods" : survived the complexities and know that in the future, we'll keep having growth
- The need for structure and formalization increases
- The toughest decisions take place in this stage:
  - "so big" we need to hire people that are unfamiliar to us
  - One tough decision is whether the owner and the current management team have the experience and the ability to take the business further
  - Do we sell ? anticipation that the future is growth : sell because it is the most appropriate time to do it (most interest)

Maturity stage

- Still growing but at some point it stagnate (it's becomes stable)
- The firm is more focused on working efficiently than developing new products
- Don't always have to work for efficiency – start with a new product would be a good idea to relaunch the growth (ex : go on another geographical market, …)
- Well-managed firms often look for partnering opportunities or opportunities for acquisition or licensing deals to breathe new life into the firm

Decline

- It is not inevitable that a business enters the decline stage
- A business's ability to avoid decline hinges on the strength of its leadership and its ability to adapt over time
- Intrapreneurship : do something into the firm (new market, new product)

5.3. Challenges of growth

- Managerial capacity: Entrepreneurial services (new market, product or ideas) and managerial services (problem starts when you have the idea : make the routines work)
- Moral hazard: sell yourself better than you are, at some point people will realize you're not as good as sold
- Adverse selection
- Day to day challenges: cashflow management (pay bigger bills when growing), price war (eat market share of others, dropping prices until can't anymore, the one with the lowest costs wins, so the biggest one bc economies of scale)
- A firm's growth framework consists of two kinds of services that are important:
    - Entrepreneurial services generate new market, product, and service ideas
    - Managerial services administer the routine functions of the firm and facilitate the successful execution of new opportunities

Managerial capacity

- A firm can't quickly increase its managerial services to take advantage of new product or service ideas because:
    - It is expensive to hire new employees
    - It takes time for new hires to be socialized into the culture of a firm
    - It takes time for new employees to acquire firm-specific skills
- When a firm's managerial resources are insufficient to take advantage of its new product opportunities, the subsequent bottleneck is referred to as the managerial capacity problem

Adverse selection

Adverse selection means that as the number of employees a firm needs increases, it becomes increasingly difficult for the firm to find the right employees, place them in appropriate positions, and provide adequate supervision

Moral hazard

Moral hazard means that as a firm grows and adds personnel, the new hires typically do not have the same ownership incentives as the original founders, so the new hires may not be as motivated as the founders to put in long hours and may even try to avoid hard work

Day to day challenges

- Cash-flow management: a firm requires and incresing amount of cash as it grows
- Price stability: if growth comes at the expense of a competitor's market share, there will be a price war
- Quality control: An increase in firm activity can result in quality control issues if a firm is not able toincrease its ressources to handle the extra work
- Capital constraints:ever-present problem for growing firms

5.4. Strategies for growth

How to achieve growth ?

Internal and external growth strategies

Internal growth strategies

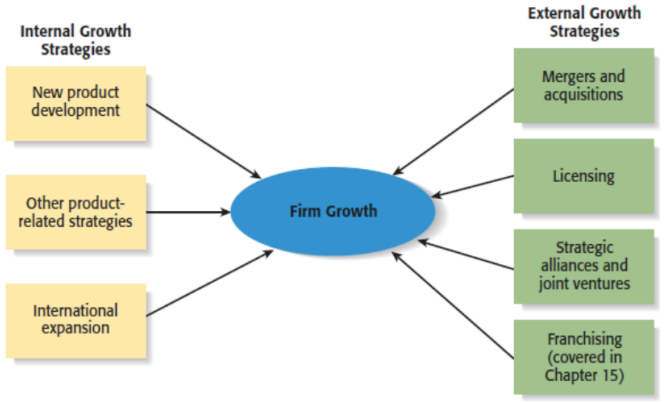
Involve efforts taken within the firm itself, such as new product development and international expansion

External growth strategies

Rely on establishing relationships with third parties, such as mergers, acquisitions, strategic alliances and joint ventures

Internal strategies : you do it yourself : grow by yourself (market penetration, new product, international expansion, franchise, licence,…)

External strategies : you do it with someone's help



Internal growth strategies

Advantages and disadvantages

Advantages	disadvantages
- Incremental, even-paced growth - Provides maximum control - Preserves organizational structure	- Slow form of growth - Need to develop new resources - Investment can be difficult to recoup - Adds to industry capacity

New product development

The top 10 reasons new products fail:

- target market is not defined correctly
- product is not positioned effectively
- product's benefits are not understood by the target customer
- product doesn't address important customer needs
- product is seen as incomplete, or it requires too many ancillary servicesor other pre-requisites
- product costs too much or the total cost of ownership is out of line with perceived benefits
- sales and marketing efforts are not focused and aligned
- sales cycles are longer than expected
- the company is under-investing in marketing and sales support
- the target market is smaller than orginally projected or product is too far ahead of the market

Other product-related strategies

- Improving an existing product or service
  - Often a business can increase its revenues by simply increasing the quality of an existing product or service
- Increasing market penetration
  - Increasing the sales of a product or service through greater marketing efforts or through increased production capacity
- Extending product lines
  - Making additional variations of a product
- Geographic expansion
  - Growth via expanding to additional geographic locations

International expansion

- Although there is vast potential associated with selling overseas, it is a fairly complex form of growth
- International new ventures or "born globals" are businesses that, from their inception, seek to derive significant competitive advantage selling products or services in multiple countries
- Foreign market entry strategies:
  - Exporting (direct/indirect)
  - Licensing/Franchising
  - Joint ventures
  - Wholly owned subsidiary (M&A/Greenflield)
  - Turnkey project

External growth

Advantages and disadvantages

Advantages	disadvantages
- Reducing competition - Gaining access to new products and markets - Economies of scale - Diversification of business risk	- Incompatibility of top management - Clash of corporate cultures - Icreased business complexity - Antitrust implications

Joint venture : to enter China's market : joint forces between Chineses company and European company. New firm : 50/50 from A & B.

Ex : Renault and Nissan (competitors) : joint venture : Renault-Nissan (made together an electrical car).

Create a "child company" with another firm : both companies share information to work together on this child company.

Merger : A+B = AB. 1% of all companies (often an acquisition).

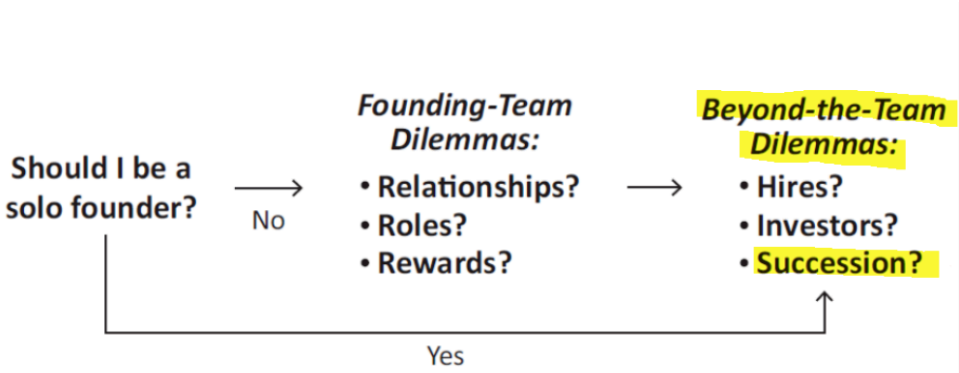
Antitrust : when you get too big, government will interfere.

Merger and acquisition

- Step1: meet with the target firm's top management team
- Setp2: assess the mood of the acqusition target
- Step3: identify sources of financing for the transaction
- Step4: continue negotiations
- Step5: make an offer tu purchase if acceptable terms are available
- Step6: negotiate a noncompete agreement with the target firm's key employees who are to be retained
- Step7: retain an attorney to prepare documents for closing
- Step 8: Meet as soon as possible with all affected employees
- Step 9: implement te plan for the acquired firm

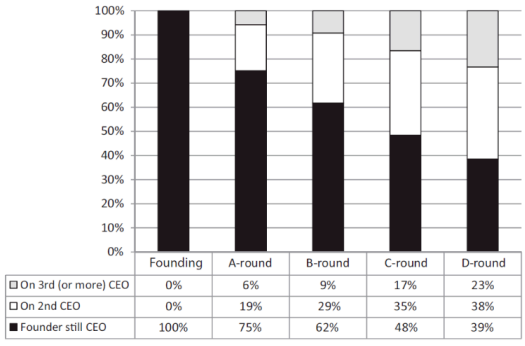
6. CHANGE MANAGEMENT

Sequence of founding team dilemmas



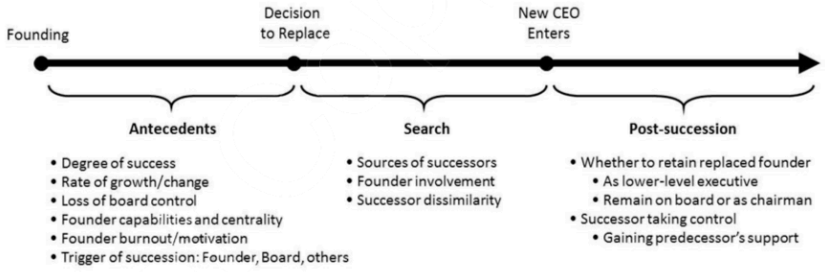
Is founder replacement common?

- Between 20 and 40% of founders do not remainin their original role
- VC-backed ventures are more likely than others to replace the orginal founder-CEO
- Ca. 40% of founders are replaced when the startup completes an IPO
- Likelihood of founder succession increases over time
- Founder replacement coincides with milestone achievement



	Founding	A-round	B-round	C-round	D-round
On 3rd (or more) CEO	0%	6%	9%	17%	23%
On 2nd CEO	0%	19%	29%	35%	38%
Founder still CEO	100%	75%	62%	48%	39%

6.1. The founder-CEO succession process



3 stages:

- Antecedents: what factors affect the decision to replace the founder?
- Search: how to make the transition?
- Post-succession: Can the founder still play a role after succession?

Antecedents

What factors affect the decision to replace the founder?

Volutary Succession

- Minority of all successions is founder-initiated
- Founder is convinced CEO role is beyond her abilities, or she feels burned out
- Founder is wealth oriented and is willing to give up the CEO role when she sees the startup's value is suffering
- Founder is control-oriented and wants to anticipate the decision of the board

Fired for failure

- Typically initiated by the board
- Triggered by poor performance of the startup under the leadership of the founder – large firms
- Recent (failure) examples were also initiated due to scandals or fraud in which the founder was involved

The paradox of entrepreneurial success

- Founder's success at leading a fast-growing venture hastens the decision to replace her (not in large firms!)
- Completion of milestones changes the challenges for the startup dramatically, often in ways that do not fit the founder's skills anymore
- Succeeding at product development
    - In the initial phase founders with relevant technical or scientific backgrounds are often the best leaders
    - Not the case once the startup starts evolving into a multifunction firm with sales, marketing, and customer support functions
- Succeeding at fundraising
    - With each round of financing, startup sells equity to outside invetsors and adjusts composition of the board
    - Founders lose control over board-decision making

Searching for a successor

Sources of successors

- Contrary to large firms, only small firms choose a successor from within the executive team
- New CEO is being brought in to make new changes, by definition unlikely to come from the inside
- However, founders prefer insiders (inertia) whereas VCs prefer outsiders from their network with 'superstar reputation'

Founder involvement

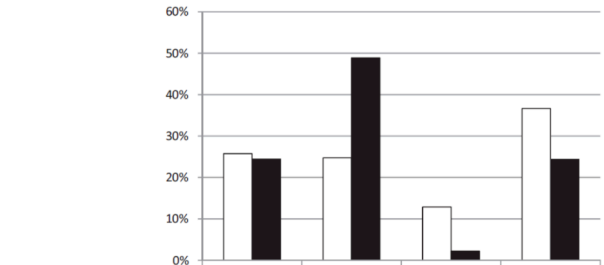
- In <1/3 of startups, the CEO is hired within a year of the initial decision. This is especially true is founders is involved in the search process.
- Boards often make founder central part of the research process to smoothen the transition
- This is not without risk, especially if founder's motivations conflict with those of the board (maximizing financial returns)
- Involving multiple parties (founder and board) can also lead to 'least common denominator' outcome

Successor dissimilarity

- Homphilic tendencies ("beards of a feather flok together) can lead to replacement with similar background
- However, the more different the candidate is, the more acceptable for the original founder
- Yet, the more different functional background, the more likely the founder-CEO will exit the firm

After the succession

Entrepreneurs have a big ego, so when they're replaced, they tend to leave the company, make a new one or go work as C-lever somewhere else



	Moved to CTO or CSO	Moved to other C-level position	Moved to lower-level executive role	Left the company immediately
☐ Trigger of change: Board	26%	25%	13%	37%
■ Trigger of change: Founder-CEO	24%	49%	2%	24%

Keeping the founder: high risk or high return?

Pro:

- Benefit from institutional knowledge, and customer relationship
- Maximize buy-in from employees

Contra:

- If control-motivated, founder will fight the new CEO

Smoothing the transition: the board's role

- Many VCs before they invest try to gauge wether the founder CEO will resist and investor-driven succession (rich-vs-king test)
- Highlight financial returns for the founder from CEO change

7. EXIT DECISION

Exits happen early and often

Yet, only about 50% of entrepreneurs sart their venture with an exit strategy in mind

- "Small business founders" typically do not engage in strategic planning (on the long term)
- founders with a growth or profit motivation are more likely to develop an exit strategy

The 5 years survaval rate is around 50%

- Highlight Belgium: we have the highest 5years survival rate in Europe.
- Why? there are less startups (lowest rate in Europe) Because in Belgium we have a high stigma failure. Very few people experiment with risky ideas

Most of the exits happen early (even before the seed funding).

Exit types

VC backed companies in the US (Hall and Woodward 2010, AER):

- 52% is an M&A
- 18% of the companies goes public (IPO)
- 30% was liquidated or had gone bankrupt

New ventures in Sweden (Wennberg et al. 2010, JBV):

- 40% experiences a harvest liquidation (acquisition, IPO) • 38% has a distress liquidation (failure, bankruptcy)

It is important to think about exit from very early on in the startup process:

- whether, when, and how to exit can be deeply affected - and constrained - by those earlier decisions about bringing in cofounders, hires, investors, and professional CEOs.
- early decisions may affect how strong a voice the founders have in the exit decision
    - e.g. buyout of Wily in 2006, against the will of its founder (Lew Cirne) who was not in control anymore
- early decisions about equity splits may also set up the team to disagree about the best timing for an exit
    - "It was not a home run, so there was a lot of grumbling. Because we had differing amounts of equity, we had differing levels of desire to exit and that caused a real divergence within the team." (Dick Costolo, ex-CEO of Twitter)
- VCs will ask for an "exit strategy" before investing

The different exit strategies

- Financial harvest exit strategies: IPOs and acquisitions
- Stewardship exit strategies: pro-social and pro-organizational strategies which allow the founders to have influence over the future and long-term viability of the firm. Examples are: family business succession, employee buy-out and independent sale
- Voluntary cessation exit strategies: liquidation and discontinuance (≠ Bankruptcy!)

	Financial harvest exit strategies	Stewardship exit strategies	Voluntary cessation strategies
Founder characteristics and motivation			
Age	Younger due to lower opportunity costs		
Education	More education	Less education	
Extrinsic rewards	Motivated by financial reward or desire to establish a profitable firm	Less motivated by financial reward	
Desire for autonomy		Strong desire to be independent and retain control of the company	
Firm characteristics			
Size of founding team	Larger founding team	Smaller founding team due to the desire to maintain control	More likely to be a self-employed individual
Innovativeness	Technology protected by IP		Less likely to be protected by IP
Size of firm	Focus on efficiency keeps number of employees at a minimum	Focus on employees results in larger firm	Focus on income-substitution, supplementing, or lifestyle results in fewer employees
Start-up decisions			
Causation-based decision process	Planning based approach including development of a business plan and goals		Less likely to engage in long-term planning

Should we sell our startup?

- Acquisition is a more likely outcome than an IPO
- It is also more of a real "exit" for the startup and for the founders. (IPO is more an exit for the VC) An IPO is not really an exit, it still your company and it exists but you give a lot of control to shareholders

Reasons not to sell

- Will lose control of decision making
- Will lose chance to build further value, then sell at a better price
- May not be able to preserve startup's culture
- May not gain financially if investment terms (e.g. liquidation preferences) mean founders won't share in exit payments

Reasons to sell

- Eroding prospects for startup:
  - Adverse market changes or dangerously low cash
  - Founder burnout or rising tensions between founders
  - May soon lose control of exit decision and terms
- Attractive post-acquisition possibilities:
  - Achieve wealth goals
  - Use as stepping stone to become serial entrepreneur
  - Gain resources to build startup
  - Work for attractive parent company

How to structure the sale

Cash-only deal

= acquirer pays shareholders for their equity stakes

→ makes sense if acquirer wants to replace management

Earn-out

= top management team stays in charge but they get paid out after the acquisition based on how well they performed.

→ You do that because you think the startup will grow. VCs are foten going to pay a higher amount of earn-outs

→ if the acquirer wants to retain some of that startup's people

→ filter out any startup whose own executives lack confidence in its prospects

→ often willing to pay a higher price for the startup

→ however, can bite back if performance milestones are not met

Post- acquisition risks

- Founders who remain with the startup face the risk of losing a certain amount of control over the very decisions that affect how much value they can build
  • e.g. Lew Cirne in Wily
- Acquisition by a larger company may force the startup team that has spent years pursuing its vision unhindered to sacrifice that vision if the new mother company has interests that conflict with it

Going public (IPO)

Potential advantages	Potential disadvantages
- Need to raise capital that is difficult to raise from other sources - Desire to achieve liquidity "placing all your eggs in one basket" - Interactions with customers or suppliers	- Legal, accounting and banking fees frequently total 10% of the total amount raised - Degree of discolure and scrutiny may be troubling => everything goes public, there might be a drawback because investor doesn't want to invest anymore - Risk of being "tainted" if offering must be withdrawn

Divergence within the team

Exit dilemmas can become even harder to resolve if the founders' motivations diverge.

- Some founders may be more risk-averse than others, preferring to take the safe option (such as a "sure" acquisition offer) rather than taking a chance on a risky future (such as building more value before selling)
- If one founder is wealth-motivated and the other control-motivated, the former may want to grab an offer while the latter resists
- Early decisions about equity splits may set up the team to disagree about the best timing for an exit

How does founder replacement affect the likelihood of a liquidity event? (Ewens and Marx, 2018)

- Replacement of founders by a more-seasoned executive is often motivated by the fact that the latter is better positioned to prepare it for the acquisition or IPO market.
- Assumption is that VCs are rational, who would not replace founders if it were not in the best interest of the company
- Could also be the case that VCs overestimate the importatnce of their own role, and might actually harm the future of the startup
- Positive impact of replacement on venture outcomes
- Finding a replacemet CEO leads to a lower probability of having an IPO. Why? And the negative effect is even worse if the CEO stays CTO, CFO… Because the founder gets replaced when things are going bad, that's why firms are less likely to have an IPO.
- Positive effect by finding a replacement by professional executives (only when the CEO was in a C-level type), why? In companies where the founder was not in charge anymore, they actually already had internal changes and anticipated the growth.
- Relationship is only positive if the founder leaves
- Founder replacement boosts the likelihood of achieving IPO/acquisition and the sales value
- Most consequential replacements are of founders who hold CXO-level titles
- Positive impact of replacement appears to be stronger in "separating" replacements, that is, when founders subsequently leave the company
- It appears that indeed VCs "professionalize" the nascent firm

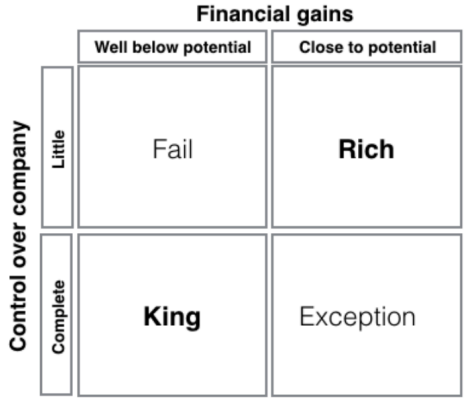
8. WEALTH VS. CONTROL DILEMMAS

8.1 Introduction

Entrepreneurship is a process by which individuals pursue opportunities without regards to the resources they currently control.

- Entrepreneurs are resource constrained
- Lack of resources is the reason behind the liability of newness
- Lack of resources is the reason behind the founders' dilemmas
- Attracting outside resources require founders to give up valuable assets
    - What do outside investors want in exchange?

Trade-off entrepreneurs make



king: you want a lot of control

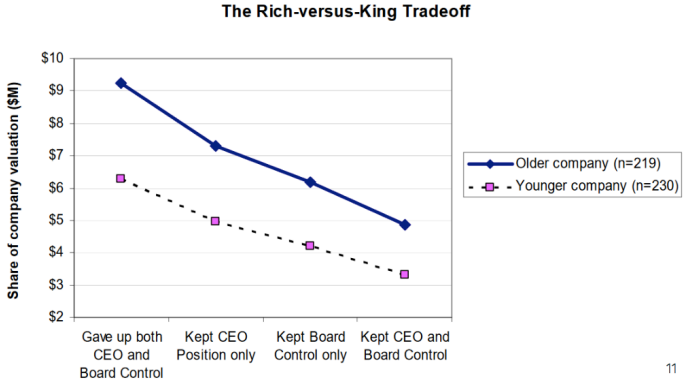
whiley: a very control motivated person, then you bring in VCs and they want control and ten you have problems

Entrepreneurs face a choice at every step between making money and managing their ventures. Those who don't figure out which is more important to them often end up failing

- When to found
- Building the Team: king will found alone, wealth oriented you found w/ a team
- New-venture Hiring
- Beyond the Team
- Exit Dilemmas

Potential Participants in the Startup	*Decision Area*	*Decisions Oriented toward* ***Maintaining Control***	*Decisions Oriented toward* ***Maximizing Wealth***
Cofounders	Solo vs. team	Remain solo founder (or attract weak cofounders)	Build founding team; attract best cofounders
	Relationships	First look to immediate circle for "comfortable" cofounders	Tap strong and weak ties to find the best (and complementary) cofounders
	Roles	Keep strong control of decision making; build hierarchy	Give decision-making control to cofounders with expertise in specific areas
	Rewards	Maintain most or all equity ownership	Share equity to attract and/or motivate cofounders
Hires	Relationships	Hire within close personal network (friends, family, and others) as required	Aggressively tap broader network (unfamiliar candidates) to find the best hires
	Roles	Keep control of key decisions	Delegate decision making to appropriate expert
	Rewards	Hire less expensive junior employees	Hire experienced employees and incent them with cash and equity
Investors	Self-fund vs. take outside capital	Self-fund; "bootstrap"	Take outside capital
	Sources of capital	Friends and family or money-only angels; tap alternative sources (e.g., customer prepayments or debt) if possible	Target experienced angels or venture capitalists
	Terms	Resist investor-friendly terms (e.g., refuse any supermajority rights)	Be open to terms necessary to attract best investors (e.g., supermajority rights)
	Board of directors	Avoid building official board; when built, control composition and makeup	Be open to losing control of board if necessary to get best investors and directors
Successors	Trigger of succession	Avoid succession issue until forced	Be open to initiating succession when next stage of startup is outside one's own expertise
	Openness to succession	Resist giving up the CEO position	Be open to giving up CEO position to better CEO
	Desired role after succession	Prefer to leave than to remain "prince"	Want to remain executive in position that matches skills and preferences
Other factors	Preferred rate of startup growth	Gradual to moderate	Fast to explosive
	Capital intensity	Low capital intensity	High capital intensity
	Core founder's "capitals"	Well equipped to launch and build startup without much help	Important gaps that should be filled by involving others
Most likely outcome		Maintain control; build less value	Build financial value; imperil control

Value of Founder's stake and control maintained



At every stage you loose power, it's going to affect your valuation

Do founders make consistent decisions?

- Hires - Solo founders hired younger employees than multifounder startups did, suggesting that solo founders favored more inexpensive hires
- Investors - Solo founders (a) were almost twice as likely to use debt, which does not dilute the founder's ownership, as a source of financing; (b) raised their first institutional round of financing later in the lives of their startups (possible because investors were more hesitant to invest or possibly because the founders wanted to wait longer); and (c) raised less capital in their first institutional round of financing (due to investor preference or founder preference)
- Chairman role - Solo founders were more likely to retain both chairman and CEO titles (i.e. remain a "double King") after their first round of financing

Ex.: Elon Musk tweet: "Am considering taking Tesla pivate at $420. Funding secured." => king approach: he's trying to make Tesla private again so that he would have majority of the shares

king outcome: 0,8*0,8*0,8= 51%
rich outcome: 0,2*0,2*0,2= 1%

Other alternatives: hybrid paths

- Start solo & small & then shift to wealth-oriented decisions to "hit the accelerator". By taking funding too early you risk losing ownership.
- The hardest decision is when to give up some control to grow the company
- Assess critical resources that are lacking and careful plan how to attract them
- King oriented founders avoid co-founders but may use equity slices to attract the best postfounding hires (E.g. Lew Cirne, Wily)
- Founders who aren't sure which outcome they prefer can "hedge" their bets by mixing some wealth-oriented choices with some control-oriented ones.
- High risk of failure. Shifting strategies may cause major tensions

Other choices that affect rich vs. king outcomes

- Capital Intensity
- Preferred Rate of Startup Growth: if you are control oriented you want to go for a steady growth and if you're a rich oriented you want a more rapid growth
- Boundaries of the Firm: outsource (if rich, because you want to minimize costs) vs. insource (if king, because you want control)

"better" and "worse" outcomes

The core founder's view: Self-awareness

- No better outcomes. Consistency is Key
- "Next time, I'm running it to a billion dollars, and I don't care what any VC says about that!" (Lew Cirne)
- It is hard for unexperienced founders (no realization of growth stages & challenges, don't know if they have the skills to address this challenge, no reflection on rich vs king motivation)

The views of other involved stakeholders: Need to assess the founder

- Alignment between the motivation of the founder with the ones of: co-founders, hires, and investors
- Some VCs use the Rich vs King trade-off to judge whether invest in founder-led startups
- Term sheet negotiation with investors reflect King vs Rich orientation of the founder! (e.g. price/valuation vs board composition)

Rich vs. king in term sheet negotiations with VCs

"Rich" importance:

- Price/Valuation (pre-money valuation)
- Option Pool (equity set aside to hire/attract employees)
- Liquidation Preference (if the company liquidates or has a M&A even, the term determines how much of the capital invested the VC should receive before anyone else gets anything

"King" importance:

- Board Composition
- Protective Provisions (voting rights reserved for the class of VC held preferred stocks)
- Drag-Along rights (in case of an M&A or offer from a third party, this term determines who gets preference in authorizing the sale of the company

Is the missing private equity premium really a puzzle?

- Median entrepreneur earns less than median wage worker, but takes significantly more income risk
- Entrepreneurs whose founding decisions prioritize maintaining control of the startup should indeed grow less value than the entrepreneurs whose founding decisions prioritize the attraction of value-added resources

Tips if you want to become an entrepreneur

To retain control

- Focus on low capital-intensive industries
- Pick industry where prior experience (skills & network)
- Delay starting a venture (development of entrepreneurial human capital & accumulation of financial capital)

To grow more value

- Choose ideas with high potential to gain large market share
- Use equity to attract partners that have skills you lack
- Recognize when the top job has stretched beyond your skills and hire a new CEO

Conclusions

- The 2 key motivations for starting a venture – control vs value creation – tend to be mutually exclusive leading to trade-off decisions
- These trade-off decisions regard people involved in the venture: co-founders, hires, investors, successors and also what type of idea to pursue
- Decisions need to be internally consistent & consistent with founders' own motivations