Founding Team and Early Recruits

Foundations of Entrepreneurship

RMSoEE

Lecture Note # 14

Concepts Covered:

❏ How important are the founding members?

❏ Issues to be considered for selecting co-founders.

❏ When to recruit early employees?

❏ What are the consideration for deciding and selecting employees at early stage.

There is one thing stronger than all the armies in the world, and that is an idea whose time has come.

Victor Hugo

But if you do not have the people to smartly execute the idea, someone else will.

So, the team is no less important

The Russian writer Leo Tolstoy (1828-1910) opens his masterpiece Anna Karenina by saying, "All happy families are alike; each unhappy family is unhappy in its own way."
Many believe that successful enterprises are alike, but each failed venture has a unique story.

- "Regardless of how proficient and seasoned a solo founder may be, the journey to building a prosperous startup is replete with a plethora of complex tasks and responsibilities that are too weighty for one individual to bear alone. The fact is that many startups ignore this reality in their initial stages."

The Team

The team consists of individuals with complementary skills who are committed to a common goal for which they hold themselves mutually accountable (HBR).

A high level of collaboration among the team members is necessary.

A great team should collectively have all critical competencies necessary for efficient execution of the business model.

Commitment to goal or shared vision is also part of the most important elements.

Initial recruitment decision should be based on missing skills.

The Entrepreneurial Journey
Shared Commitment at its best:

The story courtesy the book: **Creating Teams With an Edge: The Complete Skill Set to Build Powerful and Influential Team by Harvard Business Publishing**

Importance of Balanced Team

Some experts relate selecting co-founders with finding prospective match for marriage.

But co-founders have greater challenges to resolve together and need full commitment.

Many startups fail very early due to founder disputes.

About 70% of the weight on investment decisions by VCs is on the team elements or the human capital and their commitments.

Know What You Need

- **It is assumed that you have clearly defined your vision and values.**
- **Make clear assessment of the skills you need.**
- **Assess your own strengths and weaknesses.**
- **You need at least one tough and calm cofounder.**

Know What you Need

- **Check the level of drive and motivation in individuals.**
- **Humility, openness to new ideas, and readiness to collaborate on decisions are very important.**
- **Emotional buoyancy – keeping cool at times of despondency.**
- **Personal honesty.**

Building a Balanced Team

- **New ventures are replete with enormous uncertainties and risks. Co-founders, early employees, advisors, and mentors can break barriers, overcome problems and can translate a losing proposition into a winning one.**

- **In today's world, startups, in general, have access to need-based capital and technologies. A team of co-founders, early employees, and mentors are the real differentiators for a start-up.**

Life as a CEO Can Be Very Lonely

- Your journey as a founder is likely to be harder than you envision as the worst-case-scenario.

- Your hard skills, resilience, vision, passion, and courage can take you so far.

- While these are prerequisite to create new venture, complementary skills of co-founders are real ammunitions for success.

- Steve Jobs, Larry Page and Elon Musk — have achieved greatness by investing in building well balanced teams early on and sustained all the way.

- Thomas Alva Edison had attributed his 2332 granted patents and commercialization to different teams spearheading different innovation initiatives.

As per Sam Altman (Y-Combinator ex-President) https://www.ycombinator.com

https://**startupclass**.**samaltman**.com

- **Twenty most valuable companies have at least two co-founders.**

- **Startups with 2 – 3 co-founders work best.**

- **Five and more co-founders should be avoidable.**

- **Never choose co-founders without long-term acquaintance.**

- **Lone founder is absolutely avoidable.**

- **However, it is better to have no co-founder than bad co-founder. So, continue to look for suitable co-founders.**

Issues to Consider for Building a Team

1. **Team Size: A team of two to three founders seems ideal.**

2. **A leader to break deadlock among parties**

3. **History of founder working in stressful situation:**

4. **Founders Goals: All founders need to be on the same page as regards future goals – financially, career wise, socially and geographically – with timeframes? (e.g. "exit" scenarios)**

Issues to Consider for Building a Team

5. CEO: General roles of the other co-founders need to be clear including CEO.

6. Equity Philosophy: Initial allocation and future accretion.

7. Shared Vision: Is there a core vision drawing the team together?

8. Shared Values: Common core values make the team a strong unit?

Issues to Consider for Building a Team

9. Commitment: Commitment levels of each founder should be very clear?

10. Mix of Skills: Your business needs many skills. Find people with multiple skills and try to fill any gap.

11. Trust and Confidence: Do you have trust and confidence in your co-founders?

12. Likability: Can you see working with your co-founders for the next five years? Do they give you energy or not?

A Great Team is Key to Success of a New Venture

- **"You may have a great business idea, solid financial backing, and optimistic market research, but if your founding team doesn't have the right balance of personalities, you could soon be closing up shop"**

- **"Having the right team determines the path and outcome of a new venture more than any decision in the lifecycle of a company," Bernd Schoner, the author of *The Tech Entrepreneur's Survival Guide (McGraw-Hill, May 2014).***

- "The founding team **cannot be changed**, and **no one can speak** to investors or customers with authority like a founder," he says. "It's a great asset to have at the beginning and hard to add later."

- *"Adding a cofounder with whom you do not have a long history is almost always fatal" - Sam Altman.*

The Google Team

1995	• Larry Page and Sergey Brin meet at Stanford. Larry, 22, a University of Michigan graduate, is considering the school; Sergey, 21, is assigned to show Larry around.
1996	• Larry and Sergey begin collaborating on a search engine called BackRub. BackRub operates on Stanford servers for more than a year—eventually taking up too much bandwidth.
1997	• Google.com is registered as a domain on September 15. The name—a play on the word "googol," a mathematical term for the number represented by the numeral 1 followed by 100 zeros—reflects Larry and Sergey's mission to organize a seemingly infinite amount of information on the web.
1998	• Sun co-founder Andy Bechtolsheim writes a check for $100,000 to an entity that doesn't exist yet—a company that was later called Google Inc.

A Team Member may Bring the Following Values

- **Drive**

- **Entrepreneurial instincts**

- **Domain knowledge**

- **Business process management skill**

- **Intelligence / Creativity**

- **Track record / Credentials**

- **Past collaboration**

- **Shared vision and values**

A Balanced Team to Have the Following Experts

- A product expert (Prima Donna and Superstar). That person would **turn the problem and customer knowledge into a workable prototype** and do **things that scale**.

- **A Leader** – who has sway on everybody and mitigates interpersonal crisis.

- **An industry expert** – with deep experience

- **A marketing expert** – who knows the mantra to sell whatever you make

- **A financial expert** – ensures need and source of money in time proactively.

- **A person with a fat purse** – who is ready with funds as and when necessary.

More about Balanced Team

- **Founders need to be unflappable but tough; they know what to do in every situation. They act quickly, they're decisive, they're creative, and they're ready for anything (Sam Altman).**

- **To succeed, the team should have all the required talents, knowledge, organizational clout, experiences, and technical know-how needed to get the job done.**

- **Communication – founders should be able to communicate effectively with the entire team to give a sense of belonging, common goal and for a shared vision.**

- **Team benefits from having an analytical thinker who is detail-oriented, process focused, identifies and focuses on the sub-tasks needed to achieve the goal.**

More about Balanced Team

- **Sharing knowledge and skills** - proactively sharing knowledge and skills with others in the team greatly benefits the team and the venture.

- **A good test of goal alignment** is to let each team member pitch before an independent person. If all the members articulate the same business model the team is synchronized to a common goal.

- **The goal is not mere vision oriented**; but requires strict adherence to performance metrics.

- **A shared understanding** of the goal is extremely important, but commitment to the goal is even more important.

- **Every member contributes** - every member benefits: Members showing up to attend meetings and rendering opinions but not doing work as expected impair performance and demoralize the active teammates.

Syllabus for Mid-semester up to this slide

Selecting the best team for a startup is crucial to its success.	Qualities that employers look for in a new recruit

1. Skills and experience
2. Passion and commitment
3. Diversity
4. Culture fit
5. Communication skills
6. Adaptability
7. Work ethic

Factors for Startup Team. (openai.com)

1. Relevant Skills and Qualifications
2. Adaptability
3. Positive Attitude
4. Cultural Fit
5. Good Communication Skills
6. Strong Work Ethic
7. Team Player
8. Critical Thinking and Problem-Solving Skills
9. Attention to Detail
10. Professionalism

Experience of Bad Team Member

- Schoner cofounded the radio frequency identification technology company ThingMagic with four fellow Media Lab graduates at the MIT, and experienced a year of "extreme turmoil."

- *"We had <u>worked together before</u> and <u>were convinced we knew each other well,"</u> he says. "But once you start a company, <u>outside pressure causes people to act differently</u>. That was, for me, one of the most traumatic experiences in my early years. A fundamentally different environment changes people, and how they react."*

Execution: CEO has at least the following jobs

- **Everything the founders do becomes the culture.**
- **Set the vision.**
- **Raise money.**
- **Evangelize.**
- **Hire and manage.**
- **Set the execution bar**
- **Make sure the entire company executes.**

Know the Founder's Mentality

- New ventures should begin with insurgents mentality—fast, customer-focused, agile and adaptable.

- Research shows that causes of failure of 90% of the companies are internal – particularly as companies scales, their founder's mentality is lost, though there is always an external narrative.

- Founder's mentality consists of three traits: an insurgent's mission, an owner's mindset, an obsession with the front line.
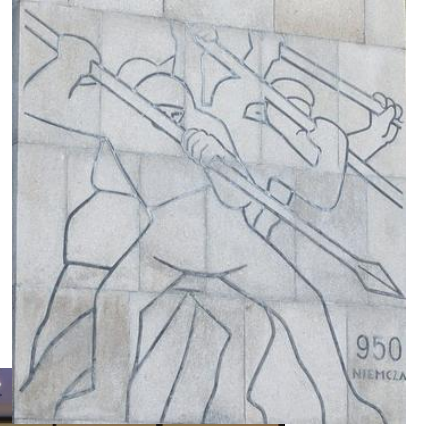
Know the Founder's Mentality

- The speed of execution, focus to value proposition, and connection to customers are part of insurgent mentality.

- Owner's mentality: Accountability, actions that are for the best interest of the company and voicing anything that goes against. In short, it is the growing sense that success of the company is their personal success.

- Front line obsession: Do everything to satisfy existing customers, acquire and retain new customers. Innovate continuously.

Early Hire: Hire only the best talent

- **You get to know them if you have worked with them for some time. So, try to work in a project to know them. Are they among the top 5% of the people?**

- **Good communication skill is great asset.**

- **Risk taking attitude is essential.**

- **Work with people and check if you genuinely like and respect and you have known long enough to be sure.**

Mark Zuckerberg Would Hire Those Who

- **Are Smart**

- **Get things done.**

- **He would like to understand: "Do I want to spend a lot of time around them?"**

- **"I would like those whom I shall feel comfortable reporting to"**

- **Those who are manically (obsessively) determined.**

- **People with good communication skill**

Early Recruits

- Talented early employees can fill some of the skill gaps.
- They have the founder's mentality and drive company's sustainable growth.
- Top talents are in limited supply. Being at early stage, startups are at a disadvantage to attract and screen the best talents.
- Thankfully, highly creative talents like to experiment in early-stage startups. You have to find them.
- You have to seek them out instead of expecting them to seek you out.

The first few recruits are almost like founders

- **They should share the vision of the founders and be as responsible.**
- **Batch mates, co-workers, and friends with long association are natural choices.**

Early Recruit

- Many of them like to feel the excitement of the startup without having too much stake.

- But there is limited incentives to join a startup.

- They are motivated by the opportunity to work on a problem that is core to a company's main business.

- They look forward to an open environment where their activities are not bounded by rules.

- They get a chance to build brand, develop product from the ground up.

- Early-stage employees may also aspire to opportunity to create personal wealth through equity.

Early Recruit

- One key issue to remember is that firing a person for non-performance is more difficult than hiring.

- You have to be sure about the right person.

- Hire only when scaling, balancing key skill deficit, diversifying, particularly when you are bursting at the seams.

- Number of employee is a vanity metric that must not be chased.

- More employees than what are necessary create huge problems such as high burn rate, slow decision process, complexities, lower efficiency and the list goes on.

- Hiring requires time; so plan in advance.

How to Identify Talent?

- **Participate in hackathons, conferences, and competitions and make connections.**

- **Use your peer network.**

- **Use social media.**

- **Must not be done in a hurry.**

- **Do reference check for antecedents.**

Prepare yourselves

- **Create a clear profile of the potential talent. Usually, people use the acronym CAPS, which stands for capacity (capability), attitude (self-motivated, adaptability to change, ethics, team player, hardworking, knowledge seeking, self-assured, passionate), personality, and skills.**

- **Take a marketing approach to recruiting. Create a compelling story about your company vision and see how it can align with objectives of individuals.**

Some Dos and Don'ts

- If an employee is not effective or a trouble-maker, fire early. The best time is now. Good for the company and for the employee.

- Train them in respective fields.

- One may not be a natural manager. You have to teach them.

- Every new employee redefines the cultural mix of the company at early stage. Keep that issue in mind.

Some Dos and Don'ts

- Do reference check for antecedents. Check if the person is a super performer. Even a fresher may have demonstrable capability in some of their projects.

- Try hiring and retaining the best talent even at a high salary (both cash and equity). One great employee can take the company to places.

- Check if the company mission is aligned with the personal mission.

- If in doubt, do not make a decision to hire. Investigate till you are absolutely sure.

- Test skill on actual environment such as pair-programming.

Thank you