

The "Personality First" Approach to Investing in Startups.

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Last week, I spoke on investing in crowdfunding, at our "[Tech Symposium](#)". I was looking forward to giving my talk. However, my expectations for the rest of the day weren't high – as I'm no fan of watching keynotes. But frankly, I was amazed. The whole experience was far better than I had expected. I learned some really good investment ideas, which I'd probably never have encountered otherwise.

If you'd like to see all the talks (and exclusive interview footage) you can get the videos [here](#).

I wanted to expand on [my talk](#) in today's article, because there was some important material I just didn't have time for. (There was a lot going on!) So today, we'll drill down into the detail of how to invest in top-quality founding teams.

I always recommend meeting the managers of companies, before investing. It's generally one of the best ways to gain an insight into the way the company's run today – and how it will be run in future.

One story always reminds me of the power of this "personality first" approach.

A while ago, I consulted for a firm that sold home medical products to the general public. Much of my work was conducting in-depth, one-on-one user interviews. I'd spend several hours with each of the customers, and got a really good insight into how they each thought and felt. At the end of these sessions, I always asked the users to describe what they thought the firm's CEO was like. To be clear: this was someone they'd never met, seen, or heard from. Almost invariably, users were able to accurately describe his personality.

This shows just how important a management team is; it's almost impossible to escape its influence. A company is simply the external expression of the founders' personality. Think of the leadership s of famous men, and how their firms came to express their own characters: the personable Richard Branson, reflected in Virgin's customer service; the Machiavellian Murdoch, whose media empire infiltrates so many corridors of power; and the gargantuan sci-fi dreams of Tesla's Elon Musk.

How can you spot a good founding team?

First, you need to make sure the people in front of you are actually entrepreneurs – and there's a key difference between an entrepreneur and a manager.

An entrepreneur is some who has open-ended tasks – and too little time, and money, to achieve them. The entrepreneur's skill is in achieving the seemingly-impossible. A manager, by contrast, has defined tasks – and adequate time, and money, to achieve them. Someone who is employed to run a branch of a chain restaurant is a manager. Some who is trying to set up a whole new restaurant chain is an entrepreneur. The difference in the scale of the challenge is obvious.

These two characters have fundamentally-different skill sets. It can be very difficult for managers to make entrepreneurial businesses succeed. There's no rulebook, and never enough resources – and this puts them well outside their comfort zone. Likewise, entrepreneurs quickly get bored when a business merely requires competent day-to-day management. Without impossible challenges, entrepreneurs quickly find themselves footloose.

Musk puts it thus: "As much as possible, avoid hiring MBAs. MBA programs don't teach people how to create companies."

Having been to business school, I have to agree – it doesn't teach entrepreneurs much that's of any use. In fact, business teaching often gets in the way – by encouraging false confidence. The management school culture is slowly changing – and there are now some practical, entrepreneurially-focused courses available.

I'll expand on this, by quoting from an online discussion I was involved in:

Reminds me of a story I heard years ago about a lawyer, from a top firm – who quit and went back to New Zealand to run a small coffee shop. A few years later, he decided to go back to the corporate world – and interviewed successfully with McKinsey. All they wanted to know about was the coffee shop: how did he market; how did he manage staff, stock, etc.;

what did he learn. Whatever else he did was irrelevant to them.

This shows that, no matter where you learn these entrepreneurial skills, they are invaluable. I often advise would-be entrepreneurs to learn by setting up an offline business – such as a market stall. Personally, I learned entrepreneurship by running a cleaning company. It was the opposite of glamorous – but I learned more in six months than in four years of business school.

Beyond real-world entrepreneurial ability, what defines a winning team?

Surprisingly, you need two opposing characteristics – and balancing these is crucial.

The first one is diversity. This doesn't necessarily mean ethnic diversity – but it can contribute. What I'm seeking is a diversity of perspectives and skill sets. For example, an introverted technologist often complements an extroverted cheerleader. Likewise, an ivory-tower academic often complements a streetwise partner. You need to look for teams that have the full suite of necessary skills. When I ran my first company, my partner was excellent at operations, and I was pretty good at sales. However, no did the admin. Unsurprisingly, the venture didn't last very long.

The second thing you should look for in a management team is cohesion. Regardless of diversity, everyone must be able to work as a coherent unit. An example of this kind of synergy can easily be found in sports teams or musical bands. Not everyone in Manchester United is a goalie, and not everyone in Coldplay is a drummer – but together, they work towards a collective aim.

Diversity of skill set is crucial for performance – but a shared passion and vision is critical. This helps maintain effort and persistence. If the management team owes more to *Game of Thrones* than *Band of Brothers*, the venture may flounder – as a startup can't be locked in a continual power struggle. Furthermore, founders are working on a project for almost their entire waking life. Consequently, there has to be deep commitment to a shared vision, if individuals are to stay the course. When a founder's heart lies elsewhere, they'll likely fail. You really can't be a nine-to-five person, in a new firm.

I'm not denying the value of looking at chart patterns and business plans, but startups often have neither. To succeed in investing, you therefore need to get to know the team. This means you can evaluate how they work – both as individuals, and as a group.

You'll probably want the rest of the info I've got on this subject – because we've only covered a small part in this article. So, [please do grab the videos for my talk](#) – before access is closed off.

Feedback, as always to: andrew@southbankresearch.com.

Best,

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