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The Right Fit: Investing in Leadership Skills in Startups, Turnarounds, and Break Outs

Based on:

- 1) CVCA Professional Development Conference: April 21st, 2010
“The Management Equation”
- 2) Communitech’s Breakfast Meeting Series: 2009-2010
“Breakfast with the CEO’s”
- 3) Insights from the Research of
**Dr. Douglas Barber and Dr. Jeffrey Crelinsten
into Canadian Startups and R&D Firms**
Communitech Tech Leadership Conference, July 15, 2010

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Introduction

1. In the past year, the contribution made by the leaders of startups, breakouts and turnarounds to have been discussed in a variety of meetings that I have attended.
2. Thinking about what I have heard has led me to ask:

**Is there a pattern
of leadership competencies
that fit the following investment situations?**

- **New business start ups**
- **Existing business turnarounds**
- **Existing business break outs**



The Three Investment Environments

	Business Situation	Role of Lead Executive Team	Role of Investors / External Financial Stakeholders
New Business Start Up	<ul style="list-style-type: none"> • New technology or business concept / model • Firm set up to prove / develop / market • Early proof of market crucial • Grow till “exit” 	<ul style="list-style-type: none"> • Staff • Build firm that can run independently of startup CEO • Build business / relationships with first customers / suppliers • Manage start up investment prudently • Manage relationships with investors 	<ul style="list-style-type: none"> • Provide startup dollars and advice / coaching • Monitor progress • Make crucial connections for successful exit
Existing Business Turnaround	<ul style="list-style-type: none"> • Existing business with proven technology or business model • Firm in “growth / revenue / operating” distress • Turnaround to eliminate problems and produce anticipated ROI 	<ul style="list-style-type: none"> • Rapidly diagnose what needs to be fixed (on people, process & tooling levels) • Fix it – act, utilizing existing \$ and new investment • Build market / revenue stream • Manage cash flow aggressively 	<ul style="list-style-type: none"> • Verify that potential turnaround has real ROI (if not, shut down) • Find Turnaround Executive Team / “Deal” with current leadership /owner group • Provide needed investment
Existing Business Breakout	<ul style="list-style-type: none"> • Technology or business model proven • Revenue stagnant / stable • Larger market potential exists • Expand market / dramatically: increase returns & ROI 10x to 100x 	<ul style="list-style-type: none"> • Rapidly diagnose what is keeping company from breaking out • Fix it, utilizing existing dollars and new investment • Execute marketing and operating plan to rapidly expand revenue 10x to 100x 	<ul style="list-style-type: none"> • Analyze see market / revenue potential • Install Breakout Executive Team / “Deal” with current leadership / owner group • Provide needed investment



The Critical Competencies

- **People**
 - **Staffs Superbly**
 - Inspires
 - Hires Well
 - Promotes Effectively
 - Fires Correctly
 - Develops Leaders
 - Integrates Direct Reports into a Synergistic Team
 - **Creates a Relevant Culture**
 - Creates a Sense of Urgency – “Let’s Get Things Done”
- **Strategic**
 - **Creates and Communicates the Right Strategy**
 - **Executes the Strategy Well**
 - Aligns the Right Tactics with the Right People
 - **Rapidly Adapts To/Exploits Changing Circumstances / Opportunities**
- **Management**
 - **Uses Limited Money and Other Resources Well**
 - **Stays on Top of Cash Flow**
- **Personal**
 - **Make Effective Decisions Under Conditions of Uncertainty**
 - **Has Personal Presence that Influences Others Positively, especially under stress**
 - Communicates effectively verbally, in writing, in formal presentations and less formal exchanges
 - **Knows Industry Space/ Dynamics, Competitors, Suppliers, Customers**
 - Has Relevant Industry Experience
 - **Has A Wide Personal Network throughout the Firm’s Industry Space**
 - **Builds Personal Relationships that Get Respect and Collaboration**



The Competencies versus The Investment Environments

Competency	Startup		Turnaround		Breakout	
Staffs Superbly	2	Right people key	3	Who to keep/ bring in/ exit	6	Who to keep/ bring in/ exit
Creates a Relevant Culture	3	The firm is the culture, the future is created through culture	2	Move folks from old to new top to bottom	5	Add urgency / "yes we can" sense from top to bottom
Creates and Communicates the Right Strategy	4	Get everyone pulling in same direction	1	Don't get second chances in major change	1	Once break out starts, keeping it going is key
Executes the Strategy Well	6	Individual efforts must add up to more over time	5	Minor mis-directions can be corrected, major failures cannot	7	Must al have a sense of doing right thing to get to 10x to 100x
Rapidly Adapts To / Exploits Changing Circumstances / Opportunities	7	Day to day growth means taking advantage without losing direction	9	Taking advantage adds to forward positive momentum, success yields more success	11	General change framework not uncertain, specifics may be
Uses Limited Money & Other Resources Well	10	Expensive wasted efforts can kill future	7	Must demonstrate constant positive ROI progress	3	Doing more with less make or break it skill for individuals with needed industry experience
Stays on Top of Cash Flow	5	No cash = death of firm	4	Must harvest wasted resource – put to better use	12	Important, but can be large part can be delegated to CFO
Makes Effective Decisions Under Conditions of Uncertainty	1	Every thing is uncertain – make things real reduces uncertainty	6	General change framework not uncertain, specifics may be	8	General change framework not uncertain, specifics may be
Has Personal Presence that Influences Others Positively	8	For outsiders, LEADER IS THE FIRM at the moment	8	Stress inevitable, must carry both insiders / outsider through it	9	Rapid growth is stressful, must carry everyone through it
Knows Industry Space/Dynamics, Competitors, Suppliers, Customers	12	Competitive advantage is often industry disruptive	11	Current and folks who come in can supply a great deal of this	2	No time to learn this, needs to be there from day one
Has Wide Personal Network throughout Industry Space	11	Managing new image in industry more critical	12	Current and folks who come in can supply a great deal of this	4	Need to make connections required to ramp up business
Builds Personal Relationships that Earn Respect and Collaboration	9	Especially with investors, key customers/suppliers	10	Needed to change/renegeiate relationships with key outsiders	10	External players must believe that leader is in for "long run"



Boiling what I have heard down

	Start Up	Turnaround	Breakout
Core Competencies	<ol style="list-style-type: none"> 1. Makes Effective Decisions Under Conditions of Uncertainty 2. Staffs Superbly 3. Creates a Relevant Culture 4. Creates and Communicates the Right Strategy 5. Stays on Top of Cash Flow 	<ol style="list-style-type: none"> 1. Creates and Communicates the Right Strategy 2. Creates a Relevant Culture 3. Staffs Superbly 4. Stays on Top of Cash Flow 5. Executes the Strategy Well 	<ol style="list-style-type: none"> 1. Creates and Communicates the Right Strategy 2. Knows Industry Space/Dynamics, Competitors, Suppliers, Customers 3. Uses Limited Money & Other Resources Well 4. Has Wide Personal Network throughout Industry Space 5. Creates a Relevant Culture
Best Place to Look for Right Talent	<ul style="list-style-type: none"> • CEO needed is probably a unique individual currently employed somewhere in the industry – often an entrepreneur who has some “large” firm experience • Right strategy often evolves from events and learning - therefore Executes the Strategy Well and Rapidly Adapts To / Exploits Changing Circumstances / Opportunities are also critical core competencies 	<ul style="list-style-type: none"> • Turnaround experts who have done turnaround before, who are extraordinarily fast business learners • Stress of turnaround and tensions that inevitable setbacks create, which often kill turnaround – relationship with key investors key to working through these crisis periods • Past turnaround experience needed for movement through these “crisis” incidents 	<ul style="list-style-type: none"> • Larger organizations in the same industry • Key is individuals who shift to smaller org and then upscale it without needing large org resource levels – they know what processes and systems are required; question is can they create them • Action orientation – initiating in a world where things don’t come to them - is key
Key Concerns	<ul style="list-style-type: none"> • Selecting CEO is high risk decision – usually requires personal connection between 1 or more of key investors and potential CEO candidates • Often driven by potential “CEO” having ability to have personal financial “skin in the game” 	<ul style="list-style-type: none"> • How do you identify turnaround experts – usually by reputation • Selecting CEO is high risk decision - made by key investors • CEO’s ability to develop relationship with key investors crucial to success 	<p>Few individuals in large orgs have these abilities needed to:</p> <ul style="list-style-type: none"> -adapt to a smaller scale and then upscale it under pressures of dramatic growth - create the sense of urgency needed existing and new staff forward



Adding a Research Perspective

- Dr. Douglas Barber and Dr. Jeffrey Crelinsten did a study of Canadian Start up and R&D firms which disappeared. Dr. Barber presented their three core findings at Communitech Tech Leadership Conference held on July 15th, 2010.
 - Many early start-ups and R&D firms **are more focused the development of technology ideas than they were on the CUSTOMERS who will buy their products.**
 - Early stage financing from angel and other professional investors led to **board and management dynamics that hindered the future** of the firm, rather than helping it.
 - This was largely because these individuals had considerable financial expertise, but little experience managing companies subjected to the stress and set-backs inevitable in startups, turnarounds and break outs.
 - New firms which did succeed **often moved out of Canada, either through deliberate choice, or through acquisition.**
 - Acquisition was a deliberate planned exit strategy on the part of the early investors – the most likely acquirers were foreign firms.
 - Firms which choose to leave Canada often did so to get closer to their customers and marketplaces.
- The overall impact of these dynamics was that much of the Canadian **public** and private investment in new technology and R&D did not produce lasting impact on the Canadian economy.
 - Jobs and their associated personal income left or came to an end.
 - Business revenue / expenses, and its associated taxation left the country in the case of success after a few years.



Adding the research findings

	Start Up	Turnaround	Breakout
Core Competencies	<ol style="list-style-type: none"> 1. Makes Effective Decisions Under Conditions of Uncertainty 2. Aligns Internal R&D with Paying Customers and Future Customer Needs 3. Staffs Superbly 4. Creates a Relevant Culture 5. Creates and Communicates the Right Strategy 6. Stays on Top of Cash Flow 	<ol style="list-style-type: none"> 1. Creates and Communicates the Right Strategy 2. Works Customer Relationships to Ensure Revenue Growth 3. Creates a Relevant Culture 4. Staffs Superbly 5. Stays on Top of Cash Flow 6. Executes the Strategy Well 	<ol style="list-style-type: none"> 1. Creates and Communicates the Right Strategy 2. Knows Industry Space/Dynamics, Competitors, Suppliers, Customers 3. Aligns Product Development with Paying Customers and Future Customers Needs 4. Uses Limited Money & Other Resources Well 5. Has Wide Personal Network throughout Industry Space 6. Creates a Relevant Culture
Best Place to Look for Right Talent	<ul style="list-style-type: none"> • CEO needed is probably a unique individual currently employed somewhere in the industry – often a entrepreneur who has some “large” firm experience • Right strategy often evolves from events and learning - therefore Executes the Strategy Well and Rapidly Adapts To / Exploits Changing Circumstances / Opportunities are also critical core competencies 	<ul style="list-style-type: none"> • Turnaround experts who have done turnaround before, who are extraordinarily fast business learners • Stress of turnaround and tensions that inevitable setbacks create, which often kill turnaround – relationship with key investors key to working through these crisis periods • Past turnaround experience needed for movement through these “crisis” incidents 	<ul style="list-style-type: none"> • Larger organizations in the same industry • Key is individuals who shift to smaller org and then upscale it without needing large org resource levels – they know what processes and systems are required; question is can they create them • Action orientation – initiating in a world where resources and things don’t come to them - is key
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Sources

- “The Management Equation” - CVCA Professional Development Conference on April 21st, 2010
- Presentations at Communitech “Breakfast with the Boss” 2010 series
http://www.communitech.ca/en/events/tech_working.shtml
- Dr. H. Douglas Barber and Dr. Jeffrey Crelinsten “Understanding the Disappearance of Early-Stage and Start-up R&D Performing Firms”, published by the Impact Group,
<http://www.impactg.com/pdf/disappearanceofstartupsandearlystagefirms.pdf>, basis of a presentation by Dr. Barber at Communitech 2010 Leadership Conference on July 15, 2010
- Ben Horowitz’s blog
 - <http://bhorowitz.com/>
- John Kotter’s book “The General Managers”
 - <http://www.kotterinternational.com/BooksAndResources/Books.aspx>
- John Gabarro’s book “The Dynamics of Taking Charge”
 - <http://drfd.hbs.edu/fit/public/facultyInfo.do?facInfo=pub&facId=6458>
- Roelf Woldring’s personal experience as a turnaround executive
 - <http://ca.linkedin.com/in/roelfwoldring>

For more on what we do, and how we might be useful to you, please go to our website:
www.wcilttd.com

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21st Century Staffing Innovators

- Innovative **recruitment professionals** specializing in finding knowledge workers for the following types of firms:
 - Start ups
 - Break outs
 - Turnarounds
 - New Positions in Existing Organizations
- We deliver **e-learning and face-to-face professional development** for staffing professionals and hiring managers
- We use the **Internet as an tool** for both recruitment and professional development

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Transformation Partners

- We do Executive Search for Leaders for:
 - Start ups
 - Break outs
 - Turnarounds
 - New Positions in Existing Organizations
- We will work with you to:
 1. Help you figure out what to do with an enterprise or program/project that is not achieving its objectives (**diagnose**).
 2. **Coach** your internal leader during an enterprise or program/project start up or transformation.
 3. Stay in touch with an on-going transformation, so that it stays on track and accomplishes what you need to achieve (**monitor/measure**).
 4. Broker the negotiation of concrete metrics-based performance contracts for one or more of your senior executives (**contract**).

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