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How Open Should a Startup CEO be with Staff?
bothsidesofthetable.com

CEO transparency. It almost sounds uncontroversial. A CEO should tell her staff everything! Right? Right?!?

Of course not.

It's a hard topic to write about because it's almost an accepted norm that total transparency is good. It is not.

For starters let me use "CEO" as a proxy to include her "inner circle" which might mean co-founders or might just mean senior execs of the business. I do believe in total transparency with your core.

The Mind of the Founder

You took the risk to start your company. You quit your day job and look the leap off of the cliff. It's so much scarier than most people admit – even to themselves.

Scary why?

All of a sudden you know you're going to be judged.

Your parents want to know why on Earth you'd leave a job at Google. "Honey? Aren't they worth billions of dollars?" "Yeah, Ma. But I'm working on a large team of people trying to figure out how to make micro improvements to a paid-search algorithm. Fun stuff, I know, but it's time for me to try something more stimulating." "Oh, OK, Honey. But aren't you getting married next year? How are you going to pay for the wedding?"

Your peer group is envious of your finally doing what they've always wanted to do but found it too hard to give up the golden paycheck and predictable future. They can't wait to hear your brilliant idea. "What? You left our team to work on THAT idea? A tool to better help you find bars & restaurants? Aren't there like 10,000 of those?" "True. But mine is different. I've finally cracked it."

Your VC friends have been egging you on. They told you, "Yeah, man, I'll gladly write the first $250,000. Call me when you're ready to leave." Now they have a deep sigh when they hear what you're actually working on. "Dude, we saw a bunch of those last year. We funded one in 2005 and lost a lot of money. Sorry, brah."

Scary because that hard earned $40,000 you have slavishly saved "for the future" is going to dwindle fast if you can't bring in funding.

But so far this is the easy bit.

Now you've got to convince your peer group to quit their respectable jobs and career arcs and join you. You've got to convince your buddies to part with their hard-earned savings to back you as angels.

And you pull the basic team together with some tech team members working evenings & weekends to conserve cash. You scraped together enough for an angel round but not enough to pay yourself a real salary. You have a runway that would make San Diego Airport's look long. 9 months seems like a lifetime but given how long it will take to ship your V1 product (5 months) and how long it will take to raise your next round (3-4 months) there isn't a lot of room for error.

How can you show "traction" on a product that just launched?

So as a startup CEO you constantly have to suspend disbelief. Or as I often tell first-timers you simply have to have a blind belief that you'll find a way to make it all work out. You simply can't

afford to be overly cautious or you'll never achieve anything.

A cautious person wouldn't try to pry people out of Twitter right before their IPO to" join my cause!!" A cautious person wouldn't stand on stage and tell a large audience she is going to change the world while secretly wondering when the fuck her team is going to work out the bugs in the product so you can actually launch. "We. Are tackling. A $1 trillion global market. It's inefficient. And we. Have the breakthrough technology. To change things. We just need your $500,000!!"

A startup CEO's job is to absorb stress so the team doesn't have to. Her job is to turn up every day with enthusiasm even though her boyfriend just broke up with her, she hasn't spoken to her best friends in weeks and she's beginning to wonder whether this idea was really so great after all.

Startups have to be optimists because no rational person would actually believe you could build Uber into the amazing company that it is today. A rational person would have assumed that the taxi organizations & regulation would have made it impossible.

I've written about the downsides on health & relationships and about the insane emotional stresses that people don't generally tell you about. And even about the unbelievable internal pressure to not let everybody down that sometimes even goes to the extremes of founders taking their own lives.

Yet the best and the strongest founders are able to overcome the stresses, the self-doubt, the sacrifices and the risks and they press on with optimism every day anyways. Perhaps "naive optimism" but in reality that's probably the best kind.

The mind of a founder is wired differently than most people. They have a higher ability to embrace ambiguity and accept risk. They don't fear personal failure or shame as deeply as the next person.

Or as Sir Winston Churchill said, "Success is the ability to go from one failure to another with no loss of enthusiasm."

You need to accept that you are wired differently to know that most people don't want your full level of data & knowledge.

I think it's kind of like a terrorism and security analyst. We probably don't want to know everything they actually know. Just that they're working hard to keep us safe.

So How Open Should You Be With Staff?

Of course you need to be open. I believe in transparency as much as the next guy.

But total transparency is what most people think they want, not what they really want.

I'd like to give you a few examples that are more nuanced:

1. M&A

In the startup journey if you have success in your early product launches, fund raising and PR you're likely to get "inbound interest" from likely acquirers. It's hard to parse out the real level of interest from people just sniffing around or gathering facts. You try to take calls to be polite and let's be honest – for many of us the flattery is nice and who knows? maybe this could be a real financial bonanza.

But in the back of your mind you're a realist. You know this isn't likely to lead anywhere and frankly you didn't quit your job to pursue your life dream of being an entrepreneur to sell 12 months later in an acquihire.

You take the meeting but you're not really pursuing it. But staff can't make the delineation in their heads. They see the dollar signs and the victory. The don't understand VC liquidation preferences or multiple return expectations. They weren't with you when you did the VC pitch where you looked them in the eyes 9 months ago and said, "I see only one outcome, we want to build something really big. This project has been my life's dream."

So to an actual story. I worked with a startup CEO who decided he wanted to sell his company. I wasn't in favor but when the CEO decides it's the right thing to do you support him. So he went on the road and talked to many acquirers. He told his entire team what was going on. There are an obvious excitement around the office. The company had been hot so he had assumed that selling for "just $75 million" would be achievable.

It was not. Good press and industry mojo wasn't enough to overcome the financial metrics of the business and the offers came in at more like $10 million.

I wasn't surprised. We decided not to sell. The startup CEO was not the original founder. He told me that he wanted to transition out of the business if we weren't going to sell it. I know, that sounds terrible. Like most startup situations – it's complicated. But we departed on good terms.

But here's the shitter. His entire team knew about the process and that we didn't sell. So the tech team departed en masse to find the next great stock option scheme to make their big bucks.

Had they stayed I believe we could have done it together. The business concept was strong, we just needed to tweak it to adjust for market changes and we needed patience and resilience.

So I'll put it more bluntly. You simply can't tell most of your staff when you have M&A approaches.

It is a big fucking distraction while you're going through the process. It is a big fucking distraction when buyers play the usual mind games like, "well if we don't buy you we'll buy your competitor and compete with you." Yes. That happens all the time. It is a big fucking distraction when they seemed all hot-and-heavy at your first meeting but don't bother even calling you back after that.

And it's even a big fucking distraction when you do finally say "yes" to be acquired and you deal with the endless minutiae of details involving disclosures, indemnities, taxation problems,

2. Runway of cash

An employee walks up to me and says, "Mark, I'm thinking about buying a house. Would now be a good time to buy a house? I'd need a letter from you to help with my loan."

"Buy a house? Are you kidding me? We have 5-month's cash in the bank! It's 2003 and VCs aren't exactly lining up to fund startup businesses. Sure, our revenue is growing, but is that enough to raise an internal round? Yes, I know our VCs said they would lead an inside round if we didn't find the money externally, but you DO know that they're going to let us run right up to the cliff and fund us when we have 3-week's cash left in the bank, right? Of course you shouldn't fucking buy a house. Do you see ME buying a house!!!"

I didn't actually say that. It's just what ran through my brain.

What I translated was, "Well. You do know we work at a startup and that has more risk than working at Barclays Bank. Our VCs are pretty supportive of us so I feel good about the future but of course you know I could never say for sure that they'll fund us going forward. I personally prefer not to own a home in these circumstances but if you really want to buy a home I'll happily help you by writing a letter."

I think that IS transparency. It's just not TOTAL transparency. It's not ruthless transparency.

And yes, he did buy a house.

I've had this debate privately enough to know that most junior people at companies think that this mindset is a cop out.

But I've also had enough direct experience to know that what people want to know is at the highest level "is it going to all be ok or are we facing tough times?" The details is the sausage factory that nobody really wants. They want the end product.

And trust me when I tell you that 90%+ of the people can't wake up every day with the uncertainties and insecurities that startup founders face.

Most employees want cruising altitude, most founders live in take off mode.

3. Dilution / valuation

I hate when companies publish too much information about the total stock option allocations, the company valuations, the dilution faced in every round, etc.

It is not out of a desire to hide things or be deceptive.

It is because when you share too much of this information with staff you develop an "options culture" the I find unhealthy. If you find employees building spreadsheets and spending time on exit scenarios and what their take would be then you know your company has "optionitis."

Of course as a founder & CEO you know that your 18% of the company at an $80 million is worth more than 26% of a $30 million valuation but I promise you that this is a nuance that even really smart

& educated employees struggle with.

"But I was promised 0.75% of the company and now I only have 0.49% – I feel like I got screwed. I wasn't expecting this much dilution this quickly."

Yes. This is a real conversation I have ALL the time even still.

I always encourage transparency about compensation – but just in a different way.

Other than when we first started and were both dumb & naive ("Well, when we IPO for $3 billion your stock would be worth ….") I steered away from an option culture. My regular speech (which many of you have heard) is …

> *"Join our company because we're doing exciting things.*
>
> *Join because you're going to get more responsibility at a young age than you would a bigger company. Join because we're a meritocracy and promote success not tenure.*
>
> *Join because every year at the end of the year you can say that your resume is significantly better than it was the year before. Join because as we continue our successes we will have more resources to reward you with and reward we will.*
>
> *But don't join if you're looking for a get-rick-quick scheme. We're not that company. We pay less than you could earn at other companies. We have to.*
>
> *All I ask is to earn your employment every year. If at the end of each year you haven't grown in skills and stature, if at the end of the year you don't feel like you're still enjoying the journey, if at the end of the year you don't think your resume is going to look better at the end of next year*
>
> *… then it is time to leave. I'm going to work hard to make sure you never have to.*
>
> *and if money comes through options at the end of our journey that's icing on the cake."*

Those are two different types of transparency.

Summary

Of course I could go on and on. There are transparency issues around firing or redundancies. There are issues around performance of key staff members. There are times when you need to "hire above" somebody not rising to the expectations you'd have of their role. There are merger discussions, board debates, product miscues, revenue misses and a litany of delicate topics.

I do believe in being open and direct. I believe in giving people a general sense of the business performance and the challenges the company is facing.

I believe in company metrics that are publicized and can be used as company motivation and creating a unified sense of purpose.

As a startup CEO you'll have to develop your own comfort level with what to share and with whom.

But please remember that we're all wired different to accept uncertainty, risk & stress. And remember the reason that most people aren't startup CEOs is that deep down while they might want your job theoretically most of them don't actually want the kind of life and pressures that come with your job.

And it's your job to appropriately shield them from the dangers they may face.

** Photo by Laura Williams on 500px

Scott Adams Blog: The Management-free Organization 03/25/2013

dilbert.com

Recently I heard that Valve, a highly successful video game company, has four hundred employees and no management structure. According to all reports, they make that model work.

I spent a lot of time trying to imagine working for a company with no management. How do they resolve conflicts, set priorities, measure performance, fire laggards, and all the rest? I couldn't picture it working. Keep in mind that I earn my living by shouting that management is mostly worthless, yet even I couldn't accept the idea that management is 100% unnecessary. I was skeptical.

My best guess was that the founders of Valve do plenty of managing, but perhaps it sounds cooler to say they don't. Or perhaps the founders are bad managers and it just feels more comfortable to say they don't even try. In any case, I was ready to pass judgment: The management-free company is bullshit.

But before I passed judgment, an inconvenient realization entered my brain: I've been working on a start-up for over a year and we have no management whatsoever. I'll tell you more about the start-up in coming days. For now, the interesting part is that I never once - in the course of an entire year - noticed that we have no management until after I heard the story about Valve.

In our case, we have a group of people who have different skills and that seems to be enough. Our decision-making so far seems to follow a rational model that goes like this:

1. We discuss the question (by email or Skype). 2. Everyone gives an opinion or adds information.
3. The smartest choice becomes obvious to all.
4. The end.

That decision-making model might not work in your company if some of your coworkers are worthless. There's always the one person in every meeting who keeps changing the topic, or doesn't understand the issue, or insists he knows more than he does, or is bluffing to cover his ass, or is jockeying for a promotion, and so on. To put it in clearer terms: **Management exists to minimize the problems created by its own hiring mistakes.**

Valve says the secret of their management-free environment is hiring good people. That sounds right to me. We don't have any weak contributors in our start-up so we have never felt a need for management.

One of the interesting aspects of better global communications, better access to information, and better mobility is that collectively it reduces the risk of making hiring mistakes. When employers were limited to hiring people who lived nearby, and the only information at their disposal was lie-filled resumes, every growing company would necessarily absorb a lot of losers. But now that entrepreneurs can hire the best people from anywhere in the world, we have for the first time in human history the ability to create teams so capable they require no management structure. That's new.

I think the manager-free model only works for a business that has high margins and depends more on creating hits than cutting costs. The videogame business fits that model, as do many Internet businesses. And in both cases entrepreneurs can hire from anywhere in the world.

So here's my summary: Management only exists to compensate for its own poor hiring decisions. The Internet makes it easier to locate and then work with capable partners. Therefore, the need for management will shrink - at least for some types of businesses - because entrepreneurs have the tools to make fewer hiring mistakes in the first place.

Management won't entirely go away, but as technology makes it easier to form competent teams without at least one disruptive or worthless worker in the group, the need for management will continue to decline.

The Scarcest Resource at Startups is Management Bandwidth

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When you work inside a startup with lots of clever and motivated staff you're never short of good ideas that you can implement.

It's tempting to take on new projects, new features, new geographies, new speaking opportunities, whatever. Each one incrementally sounds like a good idea, yet collectively they end up punishing undisciplined teams. I like to counsel that the best teams are often defined by what they choose *not* to do.

Let me explain.

As a VC I regularly meet with companies and listen to their plans. It's a very common occurrence

that a young startup with sub 20 staff and sub $2m in financing is racing around doing too many things. This level of complexity always worries me. A significant number of the companies I meet with get some form of feedback from me that:

> *"I'm a bit worried that you're doing too many THINGS. You run the risk of being a mile wide and an inch deep. It's hard enough to do X really well and succeed. I'm not sure how you do all these other things and yet I think they may end up being a distraction to X."*

I already know your response. Trust me. I hear it every week

> *"Yeah, but I'm just going to execute this [channel sales deal, international license of my product, new industry, new operating system, biz dev deal] and then it will pretty much run itself."*

It never does. That channel deal that you thought would take no times ends up burning scarce calories. The 3rd-party tries to sell your software – they just need your help with tech assistance to close the deal. They just need you to update your marketing materials. They got your last version working but since your latest release they couldn't get it to work. That test you did on launching a RIM version of your product – it was only beta – now has 20 users who need a patch because it's not working properly.

Every extra set of features that you added that served one narrow use case end up being features you need to support in future releases adding complexity to future development, usability testing, regression testing, etc.

Every team I fund comes across as laser focused on their core mission.

My advice?

I always tell teams I meet with, "The scarcest resource in your company is management bandwidth. Spend it wisely."

Every company is built by a team and every team member matters. But as you know, a few key people in any business have disproportionate impact on the company's ultimate success. And nobody is more important in this regard than senior management. These people need need to be hyper focused on those things that matter the most to the company's success. It's why I don't invest in Conference Ho's.

Examples from discussions I've had this month that might resonate with your internal debates about how to prioritize

- We are giving a version of our product to a team in Europe who will start selling our product internationally
- We are signing up a channel partner to sell our product since we haven't scaled our internal telesales team yet [yes, we know that they don't have experience selling IT, but they have customer relationships]
- We're going to put a guy on the ground in the UK to address early leads we're getting from ad agencies there [true, we haven't thought about employment laws, taxation, currency management, etc.]
- I know our product seems complex but we felt we needed to test lots of features to be sure we knew what would resonate with users … or … we aren't committed to features x, y, z yet but we know our competitors are planning to so we wanted to be first to market
- We need to hire a team in financial services now to address the needs of that industry [yeah, I know we don't yet have big customers there. ok, I know our product isn't yet verticalized. still, we need to start now or we'll be behind.]

And so on. Trust me – each additional complexity you add before you're ready decreases your probability of being truly excellent at the things you want to do extraordinarily well.

Instagram didn't rush to Android. They also didn't do video. They were truly excellent at what they did do.

What do you want to excel at? How will today's "toe in the water" initiatives distract you or take your management's time or attention off of your core business? How likely is your, "won't take too

much time" initiative to come back and bite you in the butt?

Beware. The best teams are hyper focused.

Image courtesy of Fotolia

** A note to readers. Sorry if you received an email with a draft version of this post. I had some problems with my hosting company. They were testing out what the problem was and accidentally hit publish on a draft post.

What my high school chemistry class taught me about startups | tomasz by Tomasz Tunguz
tomtunguz.com

Photo: flickr/nemabix

I don't remember much of junior year chemistry class except the lab experiment in which we made fireworks. My lab partner and I doubled and tripled the amounts of strontium, potassium, calcium and other explosives specified in the instructions. Our firecracker dwarfed our classmates' in size and when we lit them after two unbearable weeks of baking, there was no question we misunderstood chemistry. We expected an inferno and were rewarded with a pathetic fizzle and a C-.

We made one critical mistake assembling our pyrotechnics: we failed to add enough oxidizer, the chemical that creates the oxygen to burn all the explosives. Despite all its potential, the firecracker never had a chance. That day I learnt the lesson of the limiting reactant.

Startups are a lot like fireworks. To succeed, startups need the right chemistry, they need to be pointed in the right direction and when they work, they're "on fire." Startups, too, have the same problem of limiting reactants or limiting factors. Continuously identifying and counteracting these limiting factors is the key to continued growth.

At the outset of a startup, engineering throughput can be a limiting factor; the team simply can't code fast enough. At some point, the product launches but no one knows about it. Marketing is the bottleneck. When customers come rushing through the door, money in hand, sales and customer support might stunt the growth of the company. Other times it's culture or product market fit or money or competition. But for each startup at every stage there is a limiting factor.

A CEO's most important function as leader of a startup is programmatically searching, finding, and quashing a startup's limiting factor. The faster a CEO can do this, the faster a startup can grow. Great CEOs anticipate limiting factors and plan ahead, timing new hires with key transitions in a company's life.

Like anything worth doing identifying the limiting factor can be challenging. Advisors and board members can help here. So can other entrepreneurs who have suffered the same growing pains. But the most important step is to start looking.

So, what's your oxidizer?

Jan 1, 2013

Non-technical co-founder? What do you do while your buddy codes? | brandrsn
brandrsn.com

Non-technical co-founder? What do you do while your buddy codes?

If your co-founder is the developer/designer, and you're the hustling "other guy", what do you spend your time on?

The answer?

Everything else. Anything that could be done by either of you should be done by you.

Some non-technical co-founders feel an air of guilt that they cannot offer assistance to their partners with the nuts and bolts of building product. Finding bugs in code at 3am is beyond them and — bar learning how to code themselves (a whole other story) — there is nothing they can do to help.

Or is there?

Trust me, if you execute on the tasks below, there will be no guilt in the relationship. Cumulatively, what you are going to be doing is more than a full-time role and your co-founder will be absolutely delighted that you've taken care of this stuff to allow him to get on with building product.

So what are you going to do?

Customer Development

You should be the go-to guy when it comes to knowing your customer and what they want. What are their problems? As Clayton asks, what are the jobs they need doing? How are they getting these jobs done at the moment? How could your product help?

As part of your daily routine, schedule one-to-two client calls. Every day. Very quickly, you'll notice patterns in those conversations which can be directed back to your co-founder to help steer product development. Jason Evanish has an excellent article on this.

UX (User Experience)

Given your newly found tight-nit relationship with your customers, you should be the guy championing the experience they have in using your product.

Note that UX is not UI. Designing a User Interface is beyond you, but keeping your customer front-of-mind and ensuring that every touch-point they have with your company is a positive one is not. **You can survive with a poor UI, but not with a poor UX.**

Customer Service can be a make-or-break area for some startups, and is often absolutely central to a customer's experience of a product. Therefore it is vital this function gets the attention it deserves at the founder-level.

Storytelling

This is a biggie. I believe one of a founders most important tasks is to tell great stories about how a customer's life will be made that little bit better by use of his product.

Of course, anyone starting a company will be able to communicate how feature X of their product solves for customer problem Y. But it takes that extra something special to turn it into an aspirational tale that takes the customer's mind wandering to a better place; a better place made possible by this wonderful and simple product.

In speaking to customers, you should be noticing the features/problems they mention most often and the language they use to describe them. **You'll want to match these priorities in your product and mirror their language in your stories.**

Take your customers to a wonderful new place. But keep it simple. Which means you should master the art of…

Copywriting

Storytelling is one thing. Copywriting is another. Copywriting is not just banging out text describing

what your features consist of. That's rubbish copywriting. Honing your copywriting skills will ensure that all written communication — whether it be web copy, email auto-responders, blogging, press releases or investor pitch decks — pack much more of a punch with their intended audience.

Copywriting begins by knowing who you are writing for. Who are you targeting? Do they know about you? What do they know about you? Do they know about your product? Do they know they need your product? Spending 5 minutes answering these questions before writing your piece will give your copy so much more of a focus than otherwise.

While we've identified that we must become storytellers, we must also recognise when we should be brief. And to the point. I'm amazed at the number of well-funded startups who do not explain to me what they do when I land on their site.

When a user lands on your site, pick one core thing you have to offer her and make that the main focus of your homepage. Ensure it's crystal clear what your proposition is.

Of course you have more to say. You have a dozen features to talk about. That's what other pages of your website are for. Keep your homepage to the point. If I can't tell what you do and why I should give a monkeys in 5 seconds, you should not assume I'll expend any further effort to find out.

Joanna Wiebe at CopyHackers offers some great insights for startup founders looking to improve their copy. Sign up for her email list – within a fortnight you'll have come on leaps and bounds.

Fundraising

I'm no expert on startup fundraising, but by all accounts it is one of the most time-consuming parts of early-stage startup life. Ergo, it'll take up a lot of your coding co-founder's time if you let it. Man up and take it on yourself – at least the early stage stuff.

When it comes to VC meetings, you'll obviously both have to work on your pitch together. And your pitch will warrant a lot of work. But you should take care of the toing and froing that comes beforehand so your man can do what he does.

Blogging

Founders should blog in three different ways. The first two methods should be started immediately; the final tactic can wait until you are looking to staff-up.

Firstly, founders should blog about their experiences as a founder on a personal blog. Blogging is such a great tool for building credibility, clarifying ones own thoughts, growing a network and increasing publicity – all useful pastimes for a founder.

Secondly, you should blog as part of a content marketing strategy. Start a blog on your company site with a focus on your users and their problems. Doing this is great for SEO and can really give your company a personality. Blog commenters can also be followed-up with as part of your Customer Development efforts.

Thirdly, if you want to get great people to come and work for you, you should start a blog informing the world of what it's like to work with you. Don't just talk about your culture and the fact that you have beers on a Friday afternoon. Talk about the problems you try to solve on a daily basis. Talk about your rationale behind the decisions that you've made. Talk about your vision for the future. Along with your personal founder's blog, this will give potential hires a great insight into the real you – which can only work in your favour, right? The Netflix Tech blog does this well.

Analysis

Be the Google Analytics guy. Be the Kissmetrics guy. Be the guy to tell your co-founder that the

new feature he coded last week is reducing sign-ups by 20% so he can unwind it. Be the guy who keeps the rest of the business up-to-speed so they know where you are. Better still, be the guy who understands that even though you have 348 metrics you could report on, you are only going to focus on that one, 'cos you know it's the one that matters more than all the others at this time in your startup life.

Retention/Community/Social Media Management

You should own your Mailchimp account and whichever usage-based communication tool is your flavour of the month. You are also ideally situated to give yourself the honorary title of Chief Education Officer, taking responsibility for ensuring that those clients you do fight tooth and nail to convert actually get the benefits out of your product they were promised.

And it goes without saying that if you have a company forum or Twitter account it needs to be manned. And manned by you.

Learning new skills

If, after all of this, you still have some time on your hands, learn some new skills!

You are not going to out-design a designer anytime soon, but with a couple of days of Photoshop training under your belt you could easily tweak your email templates or spruce up that VC pitch deck.

Likewise, a little CSS chops will have you testing call-to-action layout positioning in no time.

Anything you can learn to do yourself means a little less time wasted for your techy co-founder. And as we are understanding, they take a little bit longer to get back into their rhythm than us non-technical brethren.

Keeping everyone else happy

If you need to take your co-founder's dog to the vet so he can keep coding – do it! If you need to be the lunch delivery boy to keep his energy levels us – do it! If you need to treat his misses to a night on the town so she's happy which keeps him happy – do it! (What? You're co-founders – you trust each other, right…!?)

What else can you be getting up to? Leave your thoughts in the comments below.

Image credit: David Martyn Hunt

06. December 2012 by Brian

Categories: startups | Tags: founders, startups | 27 comments

Why You Need to Take 50 Coffee Meetings
bothsidesofthetable.com

50 coffee meetings. It should stick in your head as a metaphor for networking. For getting outside of your comfort zone. For starting relationships today that won't pay off for a year. It's the entrepreneur's equivalent of "10,000 hours."

Anybody who has spent any time with me in person will be tired of this advice because I give it so frequently. It is a piece of actionable advice that if you put into practice starting next week will start paying dividends in the near future. There's a direct correlation to your future success.

5 / week = 250 / year. Imagine the human progress you could make with 250 short, relationship-focused meetings.

Here's why it's critical:

1. **Recruiting**. Are you looking for great engineers? Talented brand sales people? A smart young marketing exec? If you wait until you need to fill somebody in a roll you're losing valuable time as an entrepreneur. You should always have a steady stream of "friend of the firm" hanging around your company. You invite them to cocktail parties. You send them update emails. You don't have budget for them – not yet. But when you do, you're ready to go.

You don't have time in your day to always be interviewing. But here's the oxymoron – you need to ABR (always be recruiting). How do you make that happen? 50 coffee meetings. If you want to read more about hiring at a startup check out: 1. Attitude over Aptitude and also 2. Hire Fast, Fire Fast.

2. **Job Hunting**. You're a candidate. You're thinking about your next big gig. You want the primo role. Hot company. Senior title. Lots of responsibility. The moment a big job is advertised you're fawked. Why? Cuz there are 20 people who have the exact qualifications as the job spec will suggest. But they don't have your hustle, your energy. You won't land the big jobs unless you're in there shaping the discussion about what the company needs, convincing them that they need you before they're even ready to hire.

This takes 50 coffee meetings. You know the drill – "informational interview." Life is an informational interview. Everything you do applies to this lesson. Yet too many people never do it. They sit and wait for job specs to be posted on job boards. Or whatever the equivalent metaphor is for any other parts of their business.

We take action when we need results. We wait until things are urgent & important. That's not effective.

And one thing is certain – you can't look for a job remotely. It doesn't work precisely because it violates the 50 coffee meeting rule.

3. Relations with journalists to drive better coverage of your business long term? 50 coffee meetings. Help them write other stories. One day they'll write yours.

4. Raising money from angels and VCs some day? 50 coffee meetings. Turn dots into lines. Don't listen to people who advise you otherwise. They're wrong.

5. Understanding customer requirement? 50 coffee meetings. "Get out of the office" says Steve Blank.

6. Are You a VC? Get out of your offices and go have coffee meetings. Preferably at startup HQs. Why do they always need to come to you? Increase your deal flow. 50 coffee meetings. Office hours. JFDI.

I know I'm getting repetitive. It is with great intent. Whatever amount you're getting out and talking with prospects, customers, employees, recruits, competitors, press, investors, potential investors … it's never enough. (unless you're a conference ho … then it's too much ;-))

For almost everybody else I work with I know that a little more dedication to coffee meetings would have a positive impact. Your biz dev discussion that goes nowhere today will plants seeds in somebody's mind 18 months from now.

Yet most of us resist the coffee meetings seeing them as a distraction from: shipping our release, refining our business plan, working on our new website, etc. You have to do both. Wake up early. Turn coffee into late-night drinks. Never eat lunch alone.

Go on. Get our of your fraking office and make it happen.

Image courtesy of Fotolia.

Painted Pictures for Startups « 10,000 Startup Hours – David Cummings
davidcummings.org

World -class athletes, when training for an event like the Olympics, spend considerable time mentally preparing and visualizing their performance. Startup founders should do the same thing, only mentally thinking about their future success and documenting it via a painted picture. A painted picture

is not a visual, photo-oriented representation of goals but rather a vivid written description of what things look like three years in the future.

Tony Robbins advocates writing your goals down on sticky notes and putting them on your bathroom mirror so that you see them first thing every morning. Cameron Herold advocates making your painted picture the autoresponder email text when someone applies for a job at your company so that they are either excited or repulsed by what you want to do.

Here are some tips for your startup's painted picture:

- One or more founders should write it on their own
- Don't make it group think with every word massaged by different team members
- Describe every aspect of the company, team, product, office, business model, etc so that the three year vision is completely clear
- Shoot for one to four pages in length
- Laminate the painted picture and hand it out to every employee, vendor, partner, etc

Painted pictures for startups are a powerful way to visualize the future and align expectations for everyone involved. Once the mind knows the future it automatically starts working backwards to get there.

What else? What are your thoughts on painted pictures for startups?

What do you need? | The Monster In Your Head
themonsterinyourhead.com

Sometimes the most effective tools are the simplest ones.

Years ago, Fred Wilson, shared a story that taught me a lot about the role of a CEO. Last year, he wrote a post about the same story:

> I started in the venture capital business just as the PC hardware bubble of the early 80s was busting. Our portfolio was a mess. It was a great time to enter the business. I cleaned up messes for my first few years. I learned a lot.
>
> Anyway back to the CEO search. One of the board members was a very experienced VC who had been in the business around 25 years by then. I asked him "what exactly does a CEO do?"
>
> He answered without thinking:
>
> *A CEO does only three things. Sets the overall vision and strategy of the company and communicates it to all stakeholders. Recruits, hires, and retains the very best talent for the company. Makes sure there is always enough cash in the bank.*
>
> I asked, "Is that it?"
>
> He replied that the CEO should delegate all other tasks.

In the years since Fred first shared that story with me, I've come to see that articulating the role in that way is incredibly powerful; it's simple and elegant.

More important, it's flexible. These days, I expand on each of those functions. For example, I'll share with a client that maintaining the culture, understanding what is the "right" way for the company to do things, is as much a part of the vision as the original eureka moment that gave birth to the whole shindig.

I also tend to point out that recruiting, hiring and retaining the best talent also means making certain everyone knows what's expected of them and they each play their position—more like the '98 Yankees than a five-year old's soccer team (with each kid chasing the ball and nobody playing position).

I also expand the interpretation of the notion of making sure there's enough cash to meaning making sure that everyone has the resources they need to succeed.

And that's where the simple magic comes in. Most people think an organization works like this::

…when the best organizations look like this:

The difference is more than visual; it goes to the heart of the last, and arguably most important, function of the CEO.

What I've learned (from Warren Bennis) is that when the takes this posture, they are in the best position to ask those above them in the upside-down pyramid the best question any manager can ask: What do you need?

Call it Needs-based governance. It's an incredibly clarifying and empowering tool. It expands the notion of the CEO making certain the company has enough cash (an important task) to include the notion of the CEO making certain that the great people they've hired (and put into the right positions) have what they need to succeed.

Even more, it turns on it's head the employee-infantilization that typically occurs in a top-down, command-and-control structure and makes everyone ultimately responsible for asking the single most important question facing any company: What does the customer need?

Too often each of us abdicates responsibility for our success, our lives, and puts the focus on those whom we assume have more power, more capability. It's understandable; withstanding the daily pressure of work—especially work in a startup—creates distress. And when we're distressed, we regress and just want to be told what to do (and then cooperate or not, depending on whether we've regressed to being a teenager). But when the company is organized around this central question—What do you need to hit that impossible deadline? What do you need to double your market penetration? What do you need to recruit that top engineer or salesperson?—the regression ends and adults take the field.

Needs-based governance (and I suppose I should apply for trademark on that) doesn't create miracles; very often needs will go unmet. But stretching your partner, your co-founder, your colleague, yourself to struggle with that question drives for a greater sense of mission, purpose.

And, I suppose, that's a need we all share: to be a part of something just slightly better than ourselves alone.

> Ah, but a **man's reach** should **exceed his grasp**, Or what's a heaven for?—Robert Browning

Giving your startup a point of view
joel.is

Joel Gascoigne

Startups, life, learning and happiness

I'm co-founder and CEO at Buffer. This is where I share lessons I'm learning.

Something I've mentioned before at the start of a post is that I often look back on quotes, blogs and books I've read by some of the great minds of startups and don't fully take on board what they meant until some time later. This week, there came a point where I felt like I understood what the following great 37signals quote means for me:

> "Great businesses have a point of view, not just a product or service."

What does it mean to have a point of view?

Gradually over the last four months of working on my latest venture, it has become apparent that the values I had in mind for it have now become a core part of the startup, and not only within the culture of the small two person team but also expressed by the many users who spread the word of the product.

For my startup, Buffer, we're in the Twitter tool space and there are many other tools out there which offer some form of scheduling. We offer this, and we're very aware that there is a fine line between a tool which helps you optimise, and a tool which encourages you to Tweet in non-genuine ways. So our point of view is "we encourage people to Tweet in a genuine way, because we believe that is the most effective way to make the most of Twitter", and it flows throughout our team and our users. It means that all decisions are tied to the point of view, and we are very cautious about acting in ways which would not be in line with the point of view we have adopted which is to encourage people to use Twitter in a more effective but still genuine way. These actions can be simply the communication via email or on platforms like Twitter, or it could be the choice of features and changes to the product.

Why would you want to have a point of view?

I believe having a "point of view" means that you can build a much stronger position in the market, and you can more easily get others on board to help you grow through word of mouth. It can really differentiate you from other products in the market, especially if you are in a market which has "norms" and your values are different from those norms.

Another great thing about having a point of view is that it can really help you with your customer development. I see part of customer development as discovering and validating customers. Another part is listening to those users and deciding whether you should add or remove features based on their feedback. When you have a point of view, the decision of whether to add a feature is much easier, since you can ask yourself whether it is in line with the point of view and values you're trying to stick to.

A third reason you might have a point of view is that it can reduce the risk from competitors. It is up to you as a startup to differentiate yourself and create a more compelling offering. The great part is that your offering also includes the message around the product. The point of view you adopt can truly affect whether people will choose you over someone else. If you can express the point of view in a way in which others are convinced to share the same point of view, then competitors not only need a stronger product offering but also need to show users that they have a better point of view.

What is the best way to express the point of view?

It is easy to read the 37signals quote above and assume that having a point of view is all about forcing your opinions on your users or audience. I've found that doing almost the opposite is the best way to get people on your side and spreading your point of view on your behalf. My thinking with this comes from the great Dale Carnegie and his book How to Win Friends and Influence People. If people ask for a feature which isn't inline with our point of view, we use some of the techniques Carnegie proposes. Here are a couple:

Start by agreeing with the user - this shows that you are truly on their side. It is easy to agree with them, because in almost every case they have a great point.

Show you are open to them changing your mind - phrases such as "I could be wrong, as I often am, but I feel that perhaps" can really show that you are open to suggestions. Simply showing you are open to change, people often are much more likely to agree with you. It has to be done genuinely, of course.

I've been lucky to have a great co-founder who has not only adopted the point of view I tried to instill in my latest startup but has also taken it further and done some fantastic marketing in a way which has created a community of people who are not only spreading the word of our service but also spreading the point of view we have taken.

Do you have a point of view for your startup? I'd love to hear your thoughts on this topic.

Update: This post has been cross-posted in Chinese on 36kr.com, you can read it here. A big thank-you to Abe Li.

Photo credit: Matt Katzenberger

The Monster In Your Head » Disappearing into the Fire
themonsterinyourhead.com

His anxiety was high. So high, in fact, that—at first—he wasn't even aware of it. But I could hear it in his voice, feel it in my chest, as he spoke to me over the phone.

"What's going on with your breathing?" I asked, "I can hardly breathe listening to you. Even more, your voice is way up in the back of your throat. Slow down and tell me what's going on."

He assured me that everything was great. The meeting he'd just come from was very promising—the potential client—a large consumer products company—was going to make a large ad buy and his company, my client's company, was going to land the deal.

"Okay," I said probing, "but what if you don't land the deal."

The balloon burst.

"Well then we're fucked. If we don't get this deal, then there's no way we're going to make our numbers."

"But you'd nailed the last quarter. Doesn't that count?" I said.

Silence.

"What happened?"

Turns out they hadn't made the fourth quarter numbers. Both the top *and* bottom lines were off; expenses were up 10% over where they expected but, even worse, revenues were off by 40%. Forty percent.

He took a breath—maybe his first during the whole call—and he told me that the board had told him that if the company doesn't make the first quarter numbers, his job was on the line.

"So?" I asked in my annoying coach-like way.

"So?!? So I'll be out of work?"

"You get job offers all the time—is that what you're really worried about?"

He paused again. "No. I guess I'm worried our business model is wrong."

Again, the annoying, "So?"

"And if our business model is wrong, then I'll have wasted the last three years of my life." He was nearly shouting.

He paused again. His voice deepening as his breath steadied and the emotions rose.

"And worse than that," he said, "I'll be tagged with this failure for the rest of my life."

The rest of his life defined by a missed quarter?

Few people understand just how difficult it is to be an entrepreneur.

I'll often ask a client who's struggling to deal with the burdens if they can really afford to be an entrepreneur. And by that, I'm not necessarily referring to the financial costs of living with a diminished salary—or even going without altogether. I'm referring to the emotional highs and lows of fundraising.

One day, for example, the investor returns your email, inviting you in to present to the full partnership. You leave that meeting feeling great. You call your coach: "I nailed it." You tell your spouse, "Don't worry, honey, the funding's coming through." But then the investor stops responding to emails. Doesn't answer their phone. Nothing. Not a word. Silence.

And the killer-developer you hired on a wing, a prayer, and a slug of equity starts worrying about paying his rent and says that the job with that new iPhone app company is looking better and better.

Or you're funded and one of your investor/directors starts making noises about doubting the business model, about doubting your head of sales, about doubting you…but you know that these doubts have less to do with your company than they do with the fact that the investor is having troubling closing his

new fund and so to him, everything looks like crap. But, of course, you can't say that, because well, he's sort of your boss.

And you come home and it's your daughter's dance recital—"Geez, already?!? Didn't she just start classes?"

No, your wife says, she started classes nine months ago. "Oh right," you say to yourself, "that was version 1.2." And you catch yourself and laugh a little thinking that you now tell time by counting versions of the software.

David Whyte—a brilliant poet who, among others things, speaks to and consults with large corporations, describes well an aspect of why the burden is so keenly felt:

> There is an ancient Chinese story of an old master potter who attempted to develop a new glaze for his porcelain vases. It became the central focus of his life. Everyday he tended the flames of his kilns to a white heat, controlling the temperature to an exact degree. Every day he experimented with the chemistry of the glazes he applied, but still he could not achieve the beauty he desired and imagined was possible in a glaze. Finally, having tried everything he decided his meaningful life was over and walked into the molten heat of the fully fired kiln. When his assistants opened up the kiln and took out the vases, they found the glaze on the vases the most exquisite they had ever encountered. The master himself had disappeared into his creations.

How many of us create companies, create products where our blood and bone fuse with the glaze to create something so exquisite as to never have existed before? How romantically seductive is the image of giving one's all to the fire? After all, as Whyte says:

> Work is the very fire where we are baked to perfection, and like the master of the fire itself, we add the essential ingredient and fulfillment when we walk into the flames ourselves and fuel the transformation of ordinary, everyday forms into the exquisite and the rare.

I have to understand this viscerally if I'm going to be of service to my clients. But I have to be mindful, too, of the cost. In disappearing into the kiln, the potter created the most meaningful thing possible. But in the end, he ceased to exist.

The Heart Aroused: Poetry and the Preservation of Soul in Corporate America and Crossing the Unknown Sea: Work as a Pilgrimage of Identity, both by David Whyte; The Active Life: A Spirituality of Work, Creativity, and Caring by Parker Palmer

What's The Most Difficult CEO Skill? Managing Your Own Psychology.
TechCrunch

What's The Most Difficult CEO Skill? Managing Your Own Psychology. | TechCrunch

"It's fucked up when your mind's playin' tricks on ya" —The Geto Boys

By far the most difficult skill for me to learn as CEO was the ability to manage my own psychology. Organizational design, process design, metrics, hiring and firing were all relatively straightforward skills to master compared to keeping my mind in check. Over the years, I've spoken to hundreds of CEOs all with the same experience. Nonetheless, very few people talk about it, and I have never read anything on the topic. It's like the fight club of management: The first rule of the CEO psychological meltdown is don't talk about the psychological meltdown.

At risk of violating the sacred rule, I will attempt to describe the condition and prescribe some techniques that helped me. In the end, this is the most personal and important battle that any CEO will face.

If I'm Doing a Good Job, Why Do I Feel So Bad?

Generally, someone doesn't become CEOs unless she has a high sense of purpose and cares deeply about the work she does. In addition, a CEO must be accomplished enough or smart enough that people will want to work for her. Nobody sets out to be a bad CEO, run a dysfunctional organization, or create a massive bureaucracy that grinds her company to a screeching halt. Yet no CEO ever has a smooth path to a great company. Along the way, many things go wrong and all of them could have and should have been avoided.

Things go wrong, because building a multi-faceted human organization to compete and win in a dynamic, highly competitive market turns out to be really hard. If CEOs were graded on a curve, the mean on the test would be 22 out of a 100. This kind of mean can be psychologically challenging for a straight A student. It is particularly challenging, because nobody tells you that the mean is 22.

If you manage a team of 10 people, it's quite possible to do so with very few mistakes or bad behaviors. If you manage an organization of 1,000 people it is quite impossible. At a certain size, your company will do things that are so bad that you never imagined that you'd be associated with that kind of incompetence. Seeing people fritter away money, waste each other's time, and do sloppy work can make you feel bad. If you are the CEO, it may well make you sick.

And to rub salt into the wound and make matters worse, it's your fault.

Nobody to Blame

"You can't blame Jazz Musicians or David Stern with his NBA fashion issues" —Nas

When people in my company would complain about something or other being broken such as the expense reporting process, I would joke that it was all my fault. The joke was funny, because it wasn't really a joke. Every problem in the company was indeed my fault. As the founding CEO, every hire and every decision that the company ever made happened under my direction. Unlike a hired gun that comes in and blames all of the problems on the prior regime, there was literally nobody for me to blame.

If someone was promoted for all the wrong reasons, that was my fault. If we missed the quarterly earnings target, that was my fault. If a great engineer quit, that was my fault. If the sales team made unreasonable demands on the product organization, then that was my fault. If the product had too many bugs, that was my fault. It kind of sucked to be me.

Being responsible for everything and getting a 22 on the test starts to weigh on your consciousness.

Too Much Broken Stuff

Given this stress, CEOs often make the one of the following two mistakes:

1. They take things too personally
2. They do not take things personally enough

In the first scenario, the CEO takes every issue incredibly seriously and personally and urgently moves to fix it. Given the volume of the issues, this motion usually results in one of two scenarios. If the CEO is outwardly focused, she ends up terrorizing the team to the point where nobody wants to work at the company any more. If the CEO is inwardly focused, she ends up feeling so sick from all of the problems that she can barely make it to work in the morning.

In the second scenario, in order to dampen the pain of the rolling disaster that is the company, the CEO takes a Pollyannaish attitude: it's not so bad. In this view, none of the problems are actually that bad and they needn't be dealt with urgently. By rationalizing away the issues, the CEO feels better about herself. The problem is that she doesn't actually fix any of the problems and the employees eventually become quite frustrated that the Chief Executive keeps ignoring the most basic problems and

conflicts. Ultimately, the company turns to crap.

Ideally, the CEO will be urgent yet not insane. She will move aggressively and decisively without feeling emotionally culpable. If she can separate the importance of the issues from how she feels about them, she will avoid demonizing her employees or herself.

It's a Lonely Job

"And this loneliness won't leave me alone" —Otis Redding

In your darkest moments as CEO, discussing fundamental questions about the viability of your company with your employees can have obvious negative consequences. On the other hand, talking to your board and outside advisors can be fruitless. The knowledge gap between you and them is so vast that you cannot actually bring them fully up to speed in a manner that's useful in making the decision. You are all alone.

At Loudcloud, when the dot com bubble burst and subsequently sent most of our customers into bankruptcy, it crippled our business and devastated our balance sheet. Or rather, that was one interpretation. Another interpretation, and necessarily the official story for the company, was that we still had plenty of money in the bank and were signing up traditional enterprise customers at an impressive rate. Which interpretation was closer to the truth? In the absence of someone to talk to, that's a question that I asked myself about 3,000 times. As an aside, asking oneself anything 3,000 times turns out to be a bad idea. In this case, I had two specific difficult questions:

1. What if the official interpretation was wrong? What if I was misleading everyone from investors to employees? In that case, I should be removed from my position immediately.

2. What if the official interpretation was right? What if I was grinding my brain into sawdust for no reason at all? What if I was taking the company off track by questioning my own direction? In that case, I should be removed from my position immediately.

As is usually the case, there was no way to know which interpretation was right until much later. It turned out that neither was actually right. The new customers didn't save us, but we figured out another way to survive and ultimately succeed. The key to getting to the right outcome was to keep from getting married to either the positive or the dark narrative.

My friend Jason Rosenthal took over as CEO of Ning about a year ago. As soon as he became CEO, he faced a cash crisis and had to choose amongst three difficult choices: 1. Radically reduce the size of the company or 2. Sell the company or 3. Raise money in a highly dilutive way.

Think about those choices:

1. Lay off a large set of talented employees whom he worked very hard to recruit and, as a result, likely severely damage the morale of the remaining people.

2. Sell out all of the employees who he had been working side-by-side with for the past several years (Jason was promoted into the position), by selling the company without giving them a chance to perform or fulfill their mission.

3. Drastically reduce the ownership position of the employees and make their hard work economically meaningless.

Choices like these separate the women from the girls. Tip to aspiring entrepreneurs: if you don't like choosing between horrible and cataclysmic, don't become CEO. Jason sought advice from some of the best minds in the industry, but ultimately he was completely alone in the final decision. Nobody had the answer and whatever the answer, Jason was the one who had to live with the consequences. So far his decision to reduce staff by letting go of primarily the most recent hires has paid off. Revenue at Ning is soaring and team morale is high. If it had gone worse (or ultimately goes bad), it will be all Jason's fault and it will be up to Jason to find a new answer. Whenever I see Jason, I like to say: "Welcome to the show."

Techniques to Calm Your Nerves

The problem with psychology is that everybody's is slightly different. With that as a caveat, over the years I developed a few techniques for dealing with myself. Hopefully, you find them useful too.

Make some friends—Although it's nearly impossible to get high quality advice on the tough decisions that you make, it is extremely useful from a psychological perspective to talk to people who have been through similarly challenging decisions. My friend Bill Campbell was a huge help to me as CEO, but interestingly it wasn't his great success running Intuit that I found most useful; it was his disastrous experience running Go. Through that experience and his most traumatic days at Intuit (like laying off 1/3 of the company), Bill learned a tremendous amount about how to think about excruciatingly difficult decisions from a psychological perspective.

Get it out of your head and onto paper—When I had to explain to Bill and the rest of my board that, as a public company, I thought that it would be best if we sold all of our customers and all of our revenue and changed business, it was messing with my mind. In order to finalize that decision, I wrote down a detailed explanation of my logic. The process of writing that document separated me from my own psychology and enabled me to make the decision swiftly.

Focus on the road not the wall—When they train racecar drivers, one of the first lessons is when you are going around a curve at 200 MPH, do not focus on the wall; focus on the road. If you focus on the wall, you will drive right into it. If you focus on the road, you will follow the road. Running a company is like that. There are always a thousand things that can go wrong and sink the ship. If you focus too much on them, you will drive yourself nuts and likely capsize your company. Focus on where you are going rather than on what you hope to avoid.

Don't Be a Punk.

A Final Word of Advice – Don't Punk Out and Don't Quit As CEO, there will be many times when you feel like quitting. I have seen CEOs try to cope with the stress by drinking heavily, checking out, and even quitting. In each case, the CEO has a marvelous rationalization why it was OK for him to punk out or quit, but none them will every be great CEOs. Great CEOs face the pain. They deal with the sleepless nights, the cold sweat, and what my friend the great Alfred Chuang (legendary founder and CEO of BEA Systems) calls "the torture." Whenever I meet a successful CEO, I ask them how they did it. Mediocre CEOs point to their brilliant strategic moves or their intuitive business sense or a variety of other self-congratulatory explanations. The great CEOs tend to be remarkably consistent in their answers. They all say: "I didn't quit."

Ben Horowitz is a general partner at Andreessen Horowitz. To read more from his blog, go here.

A VC: What A CEO Does (continued)
avc.com

What A CEO Does (continued)

Last week's MBA Mondays post on What A CEO Does was a huge hit. Matt Blumberg, who is one of the finest CEOs I've had the pleasure of working with, wrote a follow-up post on the topic for his blog. I asked him if I could run it as a guest post here on MBA Mondays and he agreed.

So, here's a bit more on What A CEO Does:

—-

What Does a CEO Do, Anyway?

Fred has a great post up last week in his MBA Mondays series caled "What a CEO Does." His three

things are set vision/strategy and communicate broadly, recruit/hire/retain top talent, and make sure there's enough cash in the bank.

It's great advice. These three are core job responsibilities of any CEO, probably of any company, any size. I'd like to build on that premise by adding two other dimensions to the list.

First, three corollaries – one for each of the three responsibilities Fred outlines.

- Setting vision and strategy are key…but in order to do that, the CEO must remember the principle of NIHITO (Nothing Interesting Happens in the Office) and must spend time in-market. Get to know competitors well. Spend time with customers and channel partners. Actively work industry associations. Walk the floor at conferences. Understand what the substitute products are (not just direct competition).
- Recruiting and retaining top talent are pay-to-play…but you have to go well beyond the standards and basics here. You have to be personally involved in as much of the process as you can – it's not about delegating it to HR. I find that fostering all-hands engagement is a CEO-led initiative. Regularly conduct random roundtables of 6-10 employees. Send your Board reports to ALL (redact what you must) and make your all-hands meetings Q&A instead of status updates. Hold a CEO Council every time you have a tough decision to make and want a cross-section of opinions.
- Making sure there's enough cash in the bank keeps the lights on…but managing a handful of financial metrics in concert with each other is what really makes the engine hum. A lot of cash with a lot of debt is a poor position to be in. Looking at recognized revenue when you really need to focus on bookings is shortsighted. Managing operating losses as your burn/runway proxy when you have huge looming CapEx needs is a problem.

Second, three behaviors a CEO has to embody in order to be successful – this goes beyond the job description into key competencies.

- Don't be a bottleneck. You don't have to be an Inbox-Zero nut, but you do need to make sure you don't have people in the company chronically waiting on you before they can take their next actions on projects. Otherwise, you lose all the leverage you have in hiring a team.
- Run great meetings. Meetings are a company's most expensive endeavors. 10 people around a table for an hour is a lot of salary expense! Make sure your meetings are as short as possible, as actionable as possible, and as interesting as possible. Don't hold a meeting when an email or 5-minute recorded message will suffice. Don't hold a weekly standing meeting when it can be biweekly. Vary the tempo of your meetings to match their purpose – the same staff group can have a weekly with one agenda, a monthly with a different agenda, and a quarterly with a different agenda.
- Keep yourself fresh…Join a CEO peer group. Work with an executive coach. Read business literature (blogs, books, magazines) like mad and apply your learnings. Exercise regularly. Don't neglect your family or your hobbies. Keep the bulk of your weekends, and at least one two-week vacation each year, sacrosanct and unplugged.

There are a million other things to do, or that you need to do well…but this is a good starting point for success.

September 6, 2010 –

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Why We Prefer Founding CEOs // ben's blog
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Why We Prefer Founding CEOs

April 28, 2010

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When my partner Marc wrote his post describing our firm, the most controversial component of our investment strategy was our preference for founding CEOs. The conventional wisdom says a startup CEO should make way for a professional CEO once the company has achieved product-market fit. In this post, I describe why we prefer to fund companies whose founder will run the company as its CEO.

The macro reason: that's the way most of the great technology companies have been built

At Andreessen Horowitz, our primary goal is to invest in the great technology franchises. As we looked at the history of great technology companies, we discovered that founders ran an overwhelming majority of them for a very long time, including:

- Acer—Stan Shih
- Adobe—John Warnock
- Amazon – Jeff Bezos
- AMD—Jerry Sanders III
- Apple – Steve Jobs
- DEC—Ken Olsen
- Dell—Michael Dell
- EA—Trip Hawkins
- EDS —Ross Perot
- Hewlett-Packard—Dave Packard
- IBM—Thomas Watson, Sr. (*)
- Intel—Andy Grove (*)
- Intuit—Scott Cook
- Microsoft —Bill Gates
- Motorola—Paul Galvin
- nVidia—Jen-Hsun Huang
- Oracle—Larry Ellison
- Peoplesoft—Dave Duffield
- Salesforce.com—Marc Benioff
- Seagate—Al Shugart
- Siebel—Tom Siebel
- Sony—Akio Morita
- Sun—Scott McNeely
- VMware—Diane Greene

(*) While not technically cofounders, Andy Grove and Thomas Watson, Sr. were the driving force behind Intel and IBM, respectively. Andy Grove was Intel's third employee (after the two cofounders Robert Noyce and Gordon E. Moore). Thomas Watson, Sr. joined as a General Manager of the Computing Tabulating Recording Company, but renamed the company International Business Machines and turned it into the IBM we recognize today.

In addition, founders run today's most promising new companies such as Zynga (Mark Pincus), Facebook (Mark Zuckerberg), Twitter (Ev Williams), Workday (Dave Duffield and Aneel Bhusri) and Fusion-io (David Flynn).Two more quick data points before I move on to explain why this happens.

First, the University of Pennsylvania's Wharton School of Business just published an analysis of recent exits for high technology companies such as BlackBoard, BladeLogic, Concur, Danger, Liveperson, LogMeIn, and Netsuite. Looking across these nearly 50 companies, the study finds that founding CEOs consistently beat the professional CEOs on a broad range of metrics ranging from capital efficiency (amount of funding raised), time to exit, exit valuations, and return on investment.

Second, for folks keeping score at home, this phenomenon appears to extend beyond high-technology companies. Felix Salmon, for instance, points out that Fortune's editorial staff considered twelve other candidates including Warren Buffett, Carlos Slim, and Martha Stewart before naming Steve Jobs the best CEO of the decade in November 2009. Salmon points out that "not a single one of the 12 [candidates] is a CEO who was hired to run a company by its board of directors."

There are certainly exceptions to this rule, most notably Google and Cisco (I will address both exceptions later in this post), but the evidence is one-sided and overwhelming.

The underlying reasons

From a pattern matching perspective, it makes sense that we'd prefer founding CEOs, but as I said in an earlier post, pattern matching is not knowledge. So, why are great technology companies so often run by their founders? And why do professional CEOs sometimes succeed?

The innovation business

The technology business is fundamentally the innovation business. Etymologically, the word technology means "a better way of doing things." As a result, innovation is *the* core competency for technology companies. Technology companies are born because they create a better way of doing things. Eventually, someone else will come up with a better way. Therefore, if a technology company ceases to innovate, it will die.

These innovations are product cycles. Professional CEOs are effective at **maximizing, but not finding, product cycles**. Conversely, founding CEOs are excellent at **finding, but not maximizing, product cycles**. Our experience shows—and the data supports—that teaching a founding CEO how to maximize the product cycle is easier than teaching the professional CEO how to find the new product cycle.The reason is that innovation is the most difficult core competency to build in any business. Innovation is almost insane by definition: most people view any truly innovative idea as stupid, because if it was a good idea, somebody would have already done it. So, the innovator is guaranteed to have more natural initial detractors than followers.Steve Jobs' return to Apple provides an excellent example. At the time Jobs regained control of Apple, the conventional wisdom said that Apple was getting killed by "PC Economics" and had to separate the operating system from the hardware. Specifically, Apple couldn't compete with Microsoft unless it became more horizontal and let

commodity hardware manufactures compete while Apple focused exclusively on the OS. The professional CEO who preceded Jobs (Gil Amelio) took the conventional wisdom to heart. He set out to create an ecosystem of Mac cloners who would provide the commodity hardware complement to Apple's famous OS.When Jobs came in and reversed those decisions, most industry analysts thought Jobs was insane. Jobs not only killed all the commodity hardware and the horizontal strategy; he went radically vertical. In addition to the basic hardware and operating system, he added applications (iLife, iWork) and peripherals (like the iPod). He even added retail stores.

Today, people would let Steve Jobs make such a radical turn at nearly any company because of the outcome he's achieved at Apple. But remember that when Jobs returned to Apple in 1996, he was doing so as the co-founder and CEO of NeXT computer, a marginal computer workstation company which Apple purchased for less than $500M. Let's just say he didn't have the benefit of the doubt. What he **did** have: the founder's courage to innovate despite the doubters.

Innovator's requirements – what does it take to find the product cycle?

So where did Jobs get this "founders courage" and what is it? In addition to general brilliance, we see three key ingredients to being a great innovator:

- Comprehensive knowledge
- Moral authority
- Total commitment to the long-term

Great founding CEOs tend to have all three and professional CEOs often lack them. Here's why.

Comprehensive knowledge

To create the original innovation to start a company, founders must exhaustively understand the technology required, the likely competitors (past, present, and future), and the market in all its variations and segmentations. This knowledge becomes the foundation on top of which a gigantic knowledge pyramid gets built which includes:

- Knowledge of every employee who gets hired and why
- Knowledge of every product and technology decision that gets made
- Knowledge of all customer data and feedback generated from day one
- Knowledge of exactly what's strong and weak about the code base
- Knowledge of exactly what's strong and weak about the organization

This pyramid of knowledge enables new, unique innovative thinking. This knowledge is nearly impossible to replicate. Without it, thoughtful people lack the courage to bet the company on entirely new directions.

In retrospect, it seems totally natural that Larry Ellison transformed Software Development Labs from a consulting business into a software company called Oracle. But would a professional CEO have understood enough about the team, the market and the competition to make such a radical change?

Moral authority

Often, true innovation requires throwing out many of the foundational assumptions of the company. If the company is significant, doing so may be extremely difficult for the professional CEO. The company's core belief system is often entangled in those assumptions. Since the founding CEO made the assumptions in the first place, it is much easier for her. An excellent example of existing, invalid assumptions paralyzing a whole set of companies recently played out in the music industry.The music business has been continuously disrupted and revolutionized by the underlying technology since the outset. In fact, it's still widely referred to as the "record industry," because the entire business was created by the invention of the vinyl record. For the first few decades of the industry, songs were never longer than 3 minutes due to a technological limitation (the record would skip if the grooves were too thin). The album itself is a construct that originated with the total number of songs one could fit on a 33 1/3 Revolutions Per Minute (RPM) vinyl record. In the 80s, the invention of the CD completely revitalized the industry and led to (literally) record-breaking sales.Despite this dynamic history, modern record company executives badly missed the most sweeping technical innovation—the Internet. How was that possible? By the time the Internet arrived, all of the original founders of the record companies had been bought out, retired, or died. The new, professional CEOs were unwilling to let go of the most basic assumptions driving the cost structure of their businesses. Specifically, they wouldn't give up their stranglehold on distribution and the value they placed on owning the recording.They were proficient at running the current business, but lacked both the courage and the moral authority to jeopardize the old business model by embracing the new technology. The transition would have been far easier if these executives running the companies had invented the old models. The founders of the music industry likely would have ditched old assumptions, because they would have been nuts to do continue believing an assumption that no longer makes sense.

Conversely, Netflix, run by cofounder Reed Hastings, provides an excellent counter-example. Faced with a similar transition (from distribution of the physical recording to electronic distribution of the bits), Netflix let go of its old assumption that customers wanted DVDs mailed to them, invested in innovation and produced a series of brilliant new offerings (streaming video to Xbox 360, Sony Playstation 3, Tivo, Wii, connected DVD players, and a host of devices) that are enabling them to transition smoothly. Hastings wasn't married to the old distribution model precisely because he invented it.

Total commitment to the long term

Founding CEOs naturally take a long view of their companies. The company is their life's work. Their emotional commitment exceeds their equity stake. Their goal from the start is to build something significant. They instinctively know that big product cycles come from investment and that even the biggest product cycles will eventually fade. Professional CEOs, on the other hand, tend to be driven by relatively shorter-term goals. They are paid in terms of stock options that vest over 4 years and cash bonuses for quarterly and yearly performance.Investments in innovation do not pay out in the current quarter. Typically, they don't even pay out in the current year. If you care about your bonus this year, you are directly incented not to make investments in new inventions as you will incur the expense, but reap no profits.Any serious innovation requires a heavy investment. Beyond the up-front cash, costs may include lower growth, bad publicity, and internal grumbling as existing features atrophy. Recently, we've seen Facebook's founding CEO Mark Zuckerberg make a series long-term bets. He's radically revamped critical features such as the feed used by hundreds of millions of people. He's made bold changes to key policies such as privacy and platform. For years, he's avoided taking any revenue inconsistent with optimizing the user experience.By committing to the long-term, he put himself under tremendous pressure in the short-term. The press broadly questioned his business acumen and Facebook's ability to generate any meaningful revenue. Bottom feeding publications such as Valley Wag even went so far as to call for his resignation. Employees leaked to the press that they thought he

should sell the company, and some quit due to temporary declines in page views and user growth. We now know these critics were wrong and Zuckerberg was right, but would a professional CEO have taken these risks and endured such vicious attacks for unseen, long-term benefits?

In theory, any professional CEO can rise to the challenge of being a great long-term CEO, but they have to commit to innovation and adopt the three characteristics above. We'll now take a look at two professional CEOs who have done just that.

Understanding the exceptions – why do professional CEOs succeed?

Two spectacular exceptions to the founding CEO rule are John Morgridge at Cisco and Eric Schmidt at Google. Let's look at how these two overcame the issues illustrated above and massively triumphed.

Eric Schmidt–Getting the goodness of the founders and combining it with the know-how of the professional

Eric Schmidt has been a spectacular success at Google. He hasn't just maximized the original product cycle (which was built around search—although he's done a brilliant job of accomplishing that feat), but he has also overseen the creation of important new product cycles such as Android and Google Apps. Interestingly, he did so by teaming with the founders and gaining the benefits of their knowledge, moral authority, and long-term vision. This may seem like an obvious strategy, but shared leadership and control are incredibly difficult to achieve. Doing so involves intense communication, deep humility, and some hard compromises. Almost nobody ever pulls it off. And that's why Eric Schmidt is such an important exception.

John Morgridge—All by himself

John Morgidge is another spectacular counter-example of the non-founding CEO building a tech powerhouse. John took over as the company's second CEO in 1988, a role he held until he became chairman in 1995. With John as CEO, Cisco grew from $5m to $1b in revenue and from 34 to 2,250 employees. He also took the company public in 1990.How did he do it? In speaking to many Cisco employees over many years and observing the dynamic, innovative product and M&A strategy that enabled them to defeat fierce competitors such as Wellfleet and Synoptics, I believe John Morgridge may have been the greatest professional CEO in the history of the high tech industry. He worked tirelessly to develop the characteristics outlined above as well or better than any founder. He was smart, knowledgeable, tough, innovative, courageous, and, unlike most professionals, legendarily cheap. He once said that if you can't see your car from your hotel room, then you are paying too much. As a result of this magical combination of qualities, he achieved complete moral authority. He is proof positive that a professional CEO can build a great technology company. At the same time, he is the ultimate exception.

In the best case, you may find the next John Morgidge. If you do, hire him! Otherwise, here is our general rule of investing. If you hire a professional CEO into a company that has found a large product cycle, the professional will be able to maximize that product cycle, but likely won't find the next one. If you hire a professional to find the product cycle, get the jelly, because your company will soon be toast.

Are all founders CEO material?

The simple answer is "no." Being CEO requires a tremendous amount of skill. The larger the company becomes, the more skill that's required. Steve Blank does an excellent job of illustrating many of these required skills in his outstanding Scalable Start-up series. We almost never meet a founder who has these skills at the time they found the company.Therefore, the founder must learn the skills required to run the company on-the-job. Doing so is often a miserable, debilitating experience. I can attest first hand to the frustration and exhaustion associated with being responsible for hundreds of employees while learning how to do the job. I constantly made mistakes a more experienced CEO wouldn't make. These mistakes can be costly in terms of money and jobs.So, why would any founder want to learn to be CEO on-the-job? Because doing so is the most sure fire way to build a great company.

How does one know if they have what it takes to be the long-term CEO of the company? In our experience, there are two required characteristics:

- Leadership as described in my early post Notes on Leadership.
- Desire—not necessarily the desire to be CEO, but the burning, irrepressible desire to build something great and the willingness to do whatever it takes to get there.

If the founder has these characteristics, then we would encourage them to give it a try. If they fail, we will help them look for the next Eric Schmidt or John Morgridge.

Footnote

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Business Architecture Stack « 10,000 Startup Hours – David Cummings
davidcummings.org

Image via Wikipedia

At today's EO Strategy Summit we planned the high-level goals for next year's EO Atlanta chapter. This is the third time I've been through the full-day strategy summit planning session and each time the EO certified facilitators do an amazing job. Today's event was no different.

One of the techniques they talked about today that I hadn't seen before was the Business Architecture Stack. I've seen the individual elements of it but hadn't seen it presented in this particular manner. The idea behind the stack is that it is a concise representation of the six most important overarching aspects of a business. Here's information on the stack straight out of the EO workbook:

- **Mission** – What you want to do – your reason for "being."
- **Vision** – Why you're doing what you do – the big-picture goal: have to be able to "see it" in your mind's eye.
- **Core Values** – Four or five beliefs you never compromised and in which you measured against.

- **Positioning Statement** – A one or two sentence description of how you do what you do and for whom (i.e. what markets).
- **Value Proposition** – One sentence that conveys to others the value you provide for your customers.
- **Tagline** – Quick, catchy statement or phrase that embodies who and what you are.

My recommendation is for all startups to go through this exercise within the first 12 months of their business and revisit it annually.

What else? What do you think of the business architecture stack?