

# ***EASING OUT THE FOUNDER***

## Managing a Successful Founder/CEO Transition



## **EXECUTIVE SUMMARY**

**SpencerStuart**

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# Top Level Findings

- **Close to one-half of venture-backed companies replace their Founder/CEO in the first two years**
  - ⇒ **Success and timing of this transition is likely the most critical issue to company success**
- **Poorly handled transitions abound and account for many unnecessary company failures**
  - ⇒ **Biggest mistake is not launching a replacement search early enough**
- **Early warning signs of a Founder/CEO reaching the upper limit of abilities**
  - ⇒ **Symptoms of “Founderitis” surprisingly consistent**

# Top Level Findings (continued)

## ■ Best Practices Approach

⇒ Hard won experience has provided key lessons on what helps and what hinders a successful Founder/CEO transition

## ■ Definition of Success

⇒ There is a direct correlation between the new leader, quality of the handoff and return on investment

# Detailed analysis of Founder/CEO transitions

**Qualitative  
Interviews/  
Case  
Studies**

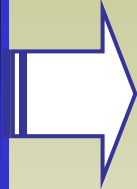


- **Is there an optimal time for Founder/CEO replacement?**
- **What are the early warning signs?**
- **In a Founder/CEO transition, what specific skills are most important?**

# Things are going wrong - but why? Some early warning signs...

## Company State

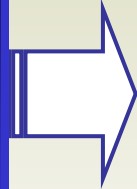
▶ **Research and Development driven organization**



## Founder/CEO Symptoms

- Limited people skills and narrow focus apparent
- Product not solving mission-critical problems
- CEO seen retreating to own technical expertise

▶ **Sales and marketing driven organization**



- Charismatic founder personality lured investors
- Inexperienced friends hired in operational roles
- Founder's strengths are in the pitch, not in the detail
- Financial fluency and discipline lacking

▶ **Good initial traction but now stalled out**



- Growth curve passed inflection point; Founder unable to positively redirect resources
- Procrastination on upgrading senior team that can move company to next level
- Founder unable to move past or sticking too long with start-up mentality

# Founderitis symptoms also differ depending on stage of company development

## Seed

Fundamental blind spots exist in marketing and finance.

Management has an incomplete picture – “They don’t know what they don’t know.”

Staffing has been handled awkwardly and ineffectively.

There’s no clear understanding of working capital requirements.

## B-round

Too many priorities have diluted focus.

Management overwhelmed by need for clarity.

Fire fighting consumes everyone’s attention.

Key gaps in the team remain unfilled.

The Founder/CEO reverts back to his/her own core function and inappropriate style of management.

## C-round

Senior team not being given enough decision authority and feeling micro managed

Lack of cohesive strategy to rise above competition and emerge as category leader

Board meetings still uncovering unpleasant product/financial surprises

Cash burn not in sync with capital plan

**Founderitis, left untreated, can lead even the most promising early-stage company to an early death**

***What then should boards do when they recognize the symptoms?***

# Getting Started

Handle with care

Develop a board consensus around the need and timing of the transition, and build a thoughtful plan of action with advice from qualified consultants.

Eliminate minefields

Don't begin a CEO search without buy-in and support from the founder. An unsupportive founder can sabotage or infinitely lengthen the search.

Don't "cloak" the search

Confidential searches often backfire, and President/COO searches (CEO searches in disguise) rarely produce first tier candidates.

"Avoid the Catch-22"

Although the best time to launch a CEO search is after the company has closed funding, new funding is often contingent on recruiting a new CEO. Superior candidates want to avoid fundraising as a primary initial activity.

Utilize objective & experienced resources

A top-tier executive search consultant becomes an extension of the company, its people, culture, and strategy. Identifying the right candidate and achieving closure is always challenging but especially so in a founder/CEO transition.

Calibrate early and often

Quality feedback between the search consultant and board will align expectations and allow for the inevitable interactive adjustments.

# Best Practices

- 1 Prioritize Skills and Experience**
  - ▶ It is especially critical that the board has a clear idea of the type of leadership and background needed with clear priorities identified.
- 2 Enlist support**
  - ▶ Many venture capitalists hold that the relationship between the Founder and the new CEO is *the* single most important success factor in passing the baton.
- 3 Give the Founder a new role**
  - ▶ Don't wait until the last minute to decide the future role of the founder. This is a concern to all candidates. Many board members feel that having the founder give up the CEO role during the search eases the transition.
- 4 Make the search priority-one**
  - ▶ Founder replacement searches involve high stakes, and can fail without the close attention and participation of the board. One member should be selected to lead the search and work closely with the search consultant.
- 5 Choose a Closer**
  - ▶ Prime candidates usually need 11th hour persuasion. Identify the best closer on the board who can convince a dream candidate to accept.
- 6 Stay Close to the New CEO**
  - ▶ Every incoming CEO has to deal with surprises -- facts about the company that did not surface during due diligence. The board should expect this and prepare to provide appropriate assistance. Don't become complacent after the CEO arrives

# Conclusion

- **Founder/CEO leadership transitions are always complex and challenging**
  - ⇒ **Overseeing a smooth handover requires good faith and responsible, dedicated efforts on the part of the Founder, the new CEO, and the board**
- **There is no standard prescription for success, but following a best practices approach will help**
  - ⇒ **We know the pitfalls that can plague a Founder/CEO transition. This knowledge can significantly enhance the odds of a successful handoff**
- **To maximize returns, use a proven methodology**
  - ⇒ **There is a direct correlation between the quality of the Founder/CEO handoff and return on investment**

## About the Study's Author



### **SCOTT R. GORDON**

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Frequently quoted in the *Wall Street Journal*, *Business Week*, and *Fortune Magazine*, Scott Gordon brings an industry leading perspective and entrepreneurial spirit to Spencer Stuart that has helped him recruit star performers for clients such as AOL/Netscape, Yahoo, Handspring, Cisco Systems and Microsoft. As leader of the Internet Practice and key member of the Technology Practice, Scott is a vital resource for finding leaders in e-commerce, Internet infrastructure, software and venture capital firms' portfolio companies.

Scott brought years of senior level executive search experience combined with senior level management experience to Spencer Stuart when he joined in 1999. He was previously with another leading executive search firm, and was earlier with Hay Management Consultants and Homes & Land Publishing. He began his career as California Land Manager for The Nature Conservancy.

***For more information regarding the study, or a copy of our white paper, please contact Scott Gordon at (650) 356-5585, or email [sgordon@spencerstuart.com](mailto:sgordon@spencerstuart.com).***