



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

Based on:

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

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## Introduction

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

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

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



# The Three Investment Environments

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



# The Critical Competencies

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



# The Competencies versus The Investment Environments

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



# Boiling what I have heard down ... ..

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



## Adding a Research Perspective

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



## Adding the research findings ... ..

	Start Up	Turnaround	Breakout
<b>Core Competencies</b>	<ol style="list-style-type: none"> <li>1. <b>Makes Effective Decisions Under Conditions of Uncertainty</b></li> <li>2. <b>Aligns Internal R&amp;D with Paying Customers and Future Customer Needs</b></li> <li>3. <b>Staffs Superbly</b></li> <li>4. <b>Creates a Relevant Culture</b></li> <li>5. <b>Creates and Communicates the Right Strategy</b></li> <li>6. <b>Stays on Top of Cash Flow</b></li> </ol>	<ol style="list-style-type: none"> <li>1. <b>Creates and Communicates the Right Strategy</b></li> <li>2. <b>Works Customer Relationships to Ensure Revenue Growth</b></li> <li>3. <b>Creates a Relevant Culture</b></li> <li>4. <b>Staffs Superbly</b></li> <li>5. <b>Stays on Top of Cash Flow</b></li> <li>6. <b>Executes the Strategy Well</b></li> </ol>	<ol style="list-style-type: none"> <li>1. <b>Creates and Communicates the Right Strategy</b></li> <li>2. <b>Knows Industry Space/Dynamics, Competitors, Suppliers, Customers</b></li> <li>3. <b>Aligns Product Development with Paying Customers and Future Customers Needs</b></li> <li>4. <b>Uses Limited Money &amp; Other Resources Well</b></li> <li>5. <b>Has Wide Personal Network throughout Industry Space</b></li> <li>6. <b>Creates a Relevant Culture</b></li> </ol>
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## Sources



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

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