

Management

The Never-Ending Importance of Good Management

- o All experienced, successful venture investors will tell you **good Management is the most important factor in whether or not a venture turns out to be successful.**
- o *“Good Management can make a poor idea work. Poor Management will screw up the best ideas every time.”¹*
- o Most VC’s strongly prefer an “A” Management team with a “B” business idea – to a “B” Management team with an “A” idea.
- o The three most important elements of a successful entrepreneurial business are: (1) people, (2) people, and (3) people. *“I invest in people, not ideas.”²*
- o Many VC investors sometimes will back a successful Management team per se. Whatever business this Management team wants to do next -- is OK with the VC.³

Dream Team

Management Team	Highest Potential	Lowest Potential
Entrepreneurial Team	All Star Combination; Free Agents	Solo Entrepreneur; No Track Record
Industry/Tech. Experience	Top Players In Field; Track Records	Underdeveloped; New to Industry
Integrity and Honesty	Highest Standards; No Doubts	Questionable
Intellectual Honesty	Know What They Don’t Know	Know Everything, No Room To Learn
Goal and Role Clarity	Know the Vision & Their Own Roles	Confused Goals; Roles Overlap
Vision-Risk Management	Sets Attainable Goals-Risks Limited	Unattainable Goals; Damn The Risks
Fatal Flaw	None Apparent	One or More Visible
Willingness To Sacrifice	Will Take Salary Cut; Long Hours	Likes the Status Quo
Stress Tolerance	Thrives under Pressure; Flexible	Cracks under Pressure; Casts Blame
Lifestyle Fit	Fits with Normal, Preferred Lifestyle	Gambling; Seeks Big Money Only

Management Attitudes	Highest Potential	Lowest Potential
Service Management	Superior Customer Service Concept	Perceived As Not Very Important
Teamwork	Develops & Encourages Diversity	Lone Ranger
Reaction to Realism	Rows with the Tide; Goes with Flow	Resists Reality; Spouts Idealism
Technology Attitude	Ground-breaker; Unique	Likes Tried and True Methods
Flexibility	Adapts; Commits and De-Commits	Slow; Stubborn Persistence
Opportunity Orientation	Always Searching for Opportunities	Content; Doesn’t Look Around
Room For Error	Forgiving Strategy	Unforgiving, Rigid Strategy

¹ Gresham’s 42nd law.

² Arthur Rock, legendary venture capitalist.

³ War Story. Gerry Friedman does a \$200 million start-up, and gets rich yet again.

What Is Good Management?

- o **There is not any pat answer to this question.** If there were, the life of venture capital investors would be easier -- and more new businesses would succeed. Many *styles* of management can be successful -- autocratic, democratic, etc.

From the viewpoint of an investor, there are a few nearly universal elements:

- o **Honesty and integrity.** If Management is evasive, secretive, misleading, investors then will just say, "No". They will go on to the next deal. **Mutual trust and respect are key requirements.**
- o **Motivation** -- Management should be intent on achieving business results that increase shareholder wealth (investors are shareholders.) "I want to get rich," is what VC's want to hear. Or, "I want to DO something; and if I succeed, you investors will get very rich. Not→ "I want to be my own boss", or "I want to prove myself."
- o **Investors Beware:**
 - ◆ Managers who *already* are rich.
 - ◆ Management with no or a small equity stake -- who think like employees.
 - ◆ CEO's who have voting control -- they may prefer ego trips and power to profits.
 - ◆ Management who do not focus on an exit for their outside investors.
 - ◆ Technical expert CEO's -- who prefer theory or technology to practical results.
 - ◆ Know-it-alls.
 - ◆ Stubborn managers who will not bend, even in face of an unexpected storm.⁴
 - ◆ Managers who cannot commit or de-commit. Tough decisions will be required.
 - ◆ Lack of goal clarity and/or confusion about relative roles among Managers.
 - ◆ The Lone Ranger. Or a Management team who all have the same skills.
 - ◆ Lack of focus -- jumps to next topic or product before resolving of the first issue.
 - ◆ No one on the Management team has ever been a successful CEO.
- o **Fit With Investor** -- the *lead* investor typically will join the Board of the company and work closely with Management for 3-5 years. **Personal chemistry must fit.** If, for whatever reason -- including your own bias and shortcomings, you do not like the Investors as people (or they do not like you) -- then do NOT accept their money.
- o **Experience** -- making judgments about others' skills and knowledge is difficult at best. A Manager's successful prior work experience in a similar job in the same or similar industry is a valuable asset. But it does NOT guarantee that the person will be good at their current job. "No prior experience" does not doom Management to failure, either, but it does greatly increase the risks of business failure.

⁴ War Story. Growing Healthy: CEO doubles Ad budget to cure sluggish sales growth, shoots self in foot.

Startups -- Finding A Winning Management Team

- o **Experienced VC's invest in people and their ability to execute their business plan.** VCs do not invest in "good ideas" nor do they invest in a business plan.
- o If you -- as an entrepreneur -- already have lined up your own startup financing (Aunt Sally, or maybe a second mortgage on your house), you still should worry about assembling a first class management team. Especially if you hope to grow the business into a much larger company, say to 100 employees or more.
- o Can inexperienced entrepreneurs succeed? ⁵ Yes, but the odds are much lower -- compared to an experienced, balanced management team trying to execute the very same business plan.
- o Where do inexperienced founders find experienced managers to join the company?
- o Do a business plan first. **The Plan can be used to attract missing managers.**
- o Focus first on the CEO. **Try to find candidates who have been successful top managers** in the same or a similar business. Next best is a successful CEO from an unrelated business or industry. Least attractive is someone familiar with your type of business but who never has been a CEO before.⁶
- o **Many ex-CEOs will join startups in exchange for a significant equity interest.**
- o In Silicon Valley and around the Boston area, to name but two, it is possible to "rent" an ex-CEO, temporarily, to run a startup on a part time basis. The temporary CEO either joins full time (after key early goals are achieved) or helps recruit a replacement.
- o **Use networks.** Friends, family, industry associations, venture capital investors.
- o After the CEO is in place, rewrite the Business Plan (with the new CEO's input.)
- o Include the full résumés of each key manager in an appendix to your business plan. Provide a list of references for each manager. Warn the references that interested third parties will contact them.
- o **Most investors will do background checks,** including contacting former employers and checking public records for bankruptcy, lawsuits and criminal activities.
- o **Make sure your entire management team understands the vision** for the company, know their own roles, and know the roles of all other key managers. You do not want confusion about these things among key people on your team.

"Nearly every mistake I've made has been in picking the wrong people, not the wrong idea."

(Arthur Rock, legendary venture capitalist.)

⁵ Can you walk blindfolded across Fifth Avenue at Friday rush hour? Sure, it *can* be done. Can a pig fly?

⁶ War Story. Harvard MBA's recruit experienced CEO and a figurehead Chairman -- to launch Cinemex S.A.
