

The New Technology Executive – Life After The Founder

By John Yates, Special To LTW

Technology companies throughout the country are experiencing a shakeup in their management teams. Company founders are being brushed aside for experienced managers with big company credentials. As a result, the culture of many tech companies is changing radically.

There are several common trends in the evolution of the founder's role in an entrepreneurial company. Some of these trends should be disturbing to any investor in an entrepreneurial venture – especially if you invested based on the enthusiasm and drive of the founder.

Founders and the Entrepreneurial Spirit – There's no question that the founder of a technology company must have an entrepreneurial spirit. The founder is often leaving a good job and steady income in exchange for a high risk / high reward opportunity. The entrepreneurial founder must prepare family and friends for the tough road of the startup company. No revenue means no income or salary – at least for several months.

In contrast, the seasoned manager may later replace the entrepreneur as CEO or senior executive at the company. The senior executive is often from a much different background.

Many such executives have big company backgrounds – from IBM, Digital Equipment or a large pharmaceutical or software company pedigree. The business experience may be overflowing, but the entrepreneurial spirit may be lacking.

When the seasoned executive replaces the founder, strange things can happen.

Failure is Not an Option – The entrepreneur is prepared for failure but understands that it's not an option. Somehow, some way, the entrepreneur must find a way to succeed – to complete the project on time, to satisfy the customer, to address quality control problems, to get the product to market, or to find the next paying customer.

The culture created by the entrepreneur focuses on achieving results through hard work and relentless attention to customer satisfaction. The founder tries to hire people willing to forego financial security and who enjoy the thrill of teamwork.

The seasoned executive manager often views these challenges very differently. One venture capitalist I know described it as the "Bell Labs" culture. The management team focuses intently on a project and will do its best to achieve the desired results. But if the project fails, the team simply moves to another project and attributes the failed effort to experience. Within Bell Labs, some perceived that the attitude was that if one science project failed, we'll just start up another.

By contrast, entrepreneurial founders know that there is often no second chance. Either the project succeeds or the consequences are clear. The company goes out of business.

Controlling the Budget is Mandatory – The founder’s life savings is often pledged in support of the new company. The company’s budget is the critical metric for measuring growth and survival of the business. Staying within budget is essential.

If you’ve never had a second mortgage on your house in favor of your business loan, then it’s hard to understand the budgetary pressures of a startup entrepreneurial company.

Some seasoned veterans become unsuccessful executives in entrepreneurial companies. Often, the reason is a failure to appreciate the mandatory need to never exceed the budget -- unless you want to go out of business.

Alternatively, the cure for missing the budget may be a severe down round financing from your investors. In this case, the investors are tapped to provide additional capital to the company. The terms may be so egregious that the common stockholders are left with little equity value and worthless stock.

There are notable differences between these two versions of chief executive officers – the founder/entrepreneur versus the seasoned executive. Failure to recognize these differences can lead to disastrous consequences. Before replacing the founder entrepreneur with an industry vet, remember these differences and be prepared for how to handle them.

This column is presented for educational and informational purposes and is not intended to constitute legal advice.

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