Founders’ Traits and Skills

Alan S. Gutterman

§1 Founders’ personality traits

Founders start businesses for a number of reasons, as discussed below, and it is difficult to identify a set of personality traits that can associated with everyone that starts a new business. In fact, a fair number of businesses are started for reasons not chosen by the founder, such as when the founder loses his or her job with an employer. Putting aside these “accidental” or “reluctant” founders, however, it is useful to explore some of the research that has been done on the personality traits of founders and most of the work in this area has been done by researchers interested in the overall phenomenon of “entrepreneurship”.¹ This is not surprising given that in recent years entrepreneurs, such as Bill Gates and the late Steve Jobs, have assumed almost mythical positions in the eyes of the public and entrepreneurs in general have come to be referred to as “the hero[s] of capitalism and the free enterprise system”.²

In his 1911 classic work entitled The Theory of Economic Development, legendary economist Joseph A. Schumpeter provided the following description of his views regarding the psychology of the entrepreneur: “Entrepreneurs . . . are not propelled solely by a wish to grow rich or by any 'motivation of the hedonist kind.' Instead, they feel 'the will to conquer: the impulse to fight, to prove oneself superior to others, to succeed for the sake, not of the fruits of success, but of success itself . . . There is the joy of creating, of getting things done, or simply of exercising one's energy and ingenuity.”³ It is important to realize that entrepreneurship was a novel, and relatively ignored, concept during Schumpeter’s lifetime and he lacked a body of empirical data that he could use to prove and support his ideas. As time has passed, however, Schumpeter’s views about economic progress and the role of the entrepreneur have been widely praised and embraced as prophetic.

Attempting to identify the personality traits most commonly found among entrepreneurs has become one of the most popular areas of academic research.⁴ A basic survey of the literature uncovers the following as the most commonly mentioned traits:

¹ For further discussion of research on the personality traits of entrepreneurs, see “Entrepreneurship: A Library of Resources for Sustainable Entrepreneurs” prepared and distributed by the Sustainable Entrepreneurship Project (www.seproject.org).
⁴ For a more detailed discussion of the personal motivational traits of entrepreneurs, see “Entrepreneurship: A Library of Resources for Sustainable Entrepreneurs” prepared and distributed by the Sustainable Entrepreneurship Project (www.seproject.org).

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• A need for achievement, which goes beyond mere monetary awards to include a drive to establish and build a growing business;
• A high internal locus of control or a need among entrepreneurs to be their own bosses;
• A high propensity for risk taking and ability to absorb and learn from failure⁵;
• A need for independence, which sometimes is evidenced by an inability to fit into a more traditional, or large, firm situation⁶; and
• A predisposition toward innovative behavior, including creativity, vision, and capacity to inspire.

Cauthorn has written that “[f]or thinking innovatively, imagination is more important than knowledge” and has noted that “[l]ogic alone points away from entrepreneurial activity”.⁷ Kirzner noted that while successful entrepreneurship is, to a degree, a function of “luck,” entrepreneurs make what appear to be unforeseen discoveries because they are alert to new opportunities and act in systematic ways based on their hunches or vision.⁸ In addition, while many of the traits listed above describe some sort of displacement as the catalyst for a person’s pursuit of entrepreneurship, Shapero and Sokol rightly point out that only some people can turn a displacement into an opportunity.⁹ Shapero and Sokol have also mentioned that entrepreneurs are often influenced and inspired by mentors.¹⁰

Clearly the words that Schumpeter wrote almost 100 years ago were prophetic and anticipated much of what psychologists, anthropologists and sociologists are finding today. However, while all this is quite interesting is has created a good deal of controversy since it suggests that entrepreneurs are most likely to be born and not made. If that is the case, universities should stop offering classes and degrees in entrepreneurship and governments should shift their funding activities from training to investments in improving the environment within which these “special personalities” can perform. A more reasonable interpretation of the data is that the presence of these traits in a particular person can be used as measure of the likelihood that he or she will voluntarily choose an entrepreneurial path. This leaves open the possibility that entrepreneurship can be an acquired talent and recognizes that, as mentioned above, unforeseen circumstances, such as sudden job loss due to downsizing and offshoring,

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⁶ See, e.g., G. Gilder, The Spirit of Enterprise (New York: Simon and Schuster (1984), 132 (“[t]he fastest-growing new firms often arise through defections of restive managers and engineers from large corporations or through the initiatives of immigrants and outcasts beyond the established circles of commerce”), 247 (entrepreneurship arises in “rebellion against established firms”), and 257 (entrepreneurship is an “irrational process” carried on by “orphans and outcasts”).
¹⁰ Id.
often turn loyal, long-term employees of large firms into unexpected entrepreneurs. Even
more important to remember is that even if someone possesses the energy, creativity and
ability to persevere linked to the entrepreneurial ideal it does not mean that he or she will
be successful in launching and managing a business and this brings us to the topic in the
next section: the founder’s skills inventory.

§2 Founder’s skills inventory

While starting and operating a business, particularly a business that is expected to grow
rapidly, is a team effort, members of the founding team should not move forward too
quickly without closely and carefully analyzing and evaluating their own personal skills,
strengths and weaknesses and then comparing them to the skills and other attributes that
are expected to be necessary in order to successfully operate the chosen business. If a
founder is not strong in a particular area, he or she must be mindful of the fact that the
weakness needs to be addressed by recruiting qualified individuals to work with the
business, either as an additional member of founding team or as an employee or key
outside consultant. While introspection necessarily takes time away from the work
necessary to launch a new venture, entrepreneurs should be encouraged to undertake
some type of formal assessment of their personal characteristics and organizational and
managerial skills that includes hard and pointed questions about their motives for
embarking on an entrepreneurial path. In addition to the questions included in this
chapter, a wide range of resources are available for assessment. For example, a Wall
Street Journal article on “entrepreneurship” suggested that persons considering self-
employment and launching a new business ask themselves the following questions and
ask their associates to critically evaluate their answers11:

- Are you willing and able to bear great financial risk?
- Are you willing to sacrifice your lifestyle for potentially many years?
- Is your “significant other” on board?
- Do you like all aspects of running a business?
- Are you comfortable making decisions on the fly with no playbook?
- What’s your track record of executing your ideas?
- How persuasive and “well spoken” are you?
- Do you have a concept that you are passionate about?
- Are you a self-starter?
- Do you have a business partner?

Table 1

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<tr>
<th>Assessment of Personal Characteristics of Prospective Founders</th>
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<tr>
<td>Are you self-motivated (i.e., a “self-starter”) and able to persevere and keep yourself moving forward and try new solutions?</td>
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<tr>
<td>Do you believe in yourself and feel confident about your professional and personal skills and your ability to leverage them successfully in your new business?</td>
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A wide variety of necessary professional skills for launching a new business have been identified; however, it is fair to say that most of them can probably be fit into the following categories:

Sales and Marketing Skills: The goal for any new business is to flourish through the sale of product and services and thus it is not surprising that one of the most important areas for a prospective business owner to consider is his or her skills with respect to sales and marketing. In addition to the ability to set and execute sales and marketing strategies, the founder will need to be able to manage a group of sale representatives and communicate with customers to handle complaints and solicit feedback on the company’s products and services. The founder will also be involved in launching and managing advertising campaigns and negotiations with prospective distributors. Other sales and marketing activities that will typically occupy a good deal of a founder’s time include competitive analysis, developing marketing plans and pricing and packaging.

Financial Management Skills: Many prospective business owners find themselves unequipped to deal with preparation of budgets and financial statements. This is one of the main reasons that a controller or chief financial officer is one of the first positions filled on the management team as the business grows. Beyond that, the founder should be prepared to understand and handle billing procedures, negotiations with vendors and customers regarding payments and credit terms, and tax payment and reporting requirements.

Human Resource Skills: While most persons who voluntarily launch a new business have a high degree of self-motivation and are often seen to be “loners,” they need to understand that they cannot succeed without the help of others and that they will need to assume the role of an employer and provide leadership and motivation to the company’s human resources. While the founder may have exceptional vision regarding the creation and implementation of new products and technologies, he or she often has little or no background in managing other people. Prospective business owners need to think about whether they are a good judge of people. The founder also needs to consider whether he or she is able and willing to train employees and communicate his or her vision for the...
business. Finally, the founder must be prepared for the unpleasant task of disciplining and firing employees.

Organizational and Management Skills: The founder’s organizational and management skills should also be evaluated. It is one thing to develop an innovative technology, product or service; however, the work will generally be of little importance unless the founder has the discipline to develop a long-term strategic plan for the business and establish realistic goals and milestones. New business owners often run into trouble in delegating specific tasks to others in the organization. However, it is essential that they strike the proper balance between directing employees and leaving them free to pursue the best method for achieving a particular objective. In many cases, none of the founders have the management skills necessary to grow the business beyond a certain point and outside investors will require that the company hire an experienced chief executive officer to run the company. If this is anticipated, how does the founder expect that he or she will react to an “outsider” joining the business at such a senior level?

Stress Management Skills: Starting a new business can be a stressful experience and the prospective business owner needs to carefully and candidly assess his or her ability to manage risk and, possibly, failure. He or she needs to be prepared for long hours and hopefully will have the capacity to both work alone and interact well with other founders and the key initial employees of the new venture. It is also important for founders to have the support of their families in the effort.

Table 2
Assessment of Organizational and Managerial Skills of Prospective Founders

- Do you have the business skills you need to run a business?
- Do you have managerial experience?
- Have you worked in a business like the one you want to start?
- Have you thoroughly researched your business and its industry?
- Do you have the technical skills you will need to operate your particular business?
- Have you evaluated your experience and talents with respect to the key skills and knowledge necessary for operating a business—planning, product or service knowledge, financial management and budgeting, marketing, sales, and recruitment and management of human resources?
- Have you created a plan for obtaining information or assistance with respect to those skills and knowledge as to which you lack experience and/or talent?
- Do you have business partners or advisors who can compensate for your weaknesses?
- Are you a good planner and do you have the vision to see in advance the steps and tasks that it takes to get something done?
- Are you a good listener and do you take the time to listen to and really understand what others may be thinking or feeling?
- Can you deal effectively with other people and do you enjoy maintaining relations with others?
- Are you an effective leader, motivator, and communicator?
- Are you willing to delegate authority and responsibility to others?
- Do you project a professional image to your customers and other business partners?
- Can people trust what you say and that you will do what you say you will do?
- Do you have the skills and other resources necessary to perform an adequate feasibility study of the key concepts underlying your idea for a new business?
- Have you established and follow a plan for continuously monitoring events and changes in your target
Nassif et al. studied entrepreneurship from a dynamic perspective in order to gain a better understanding of the values, characteristics and actions over time as they launch and develop their businesses. They referred to various statistics regarding the importance of small- and medium-sized businesses to the Brazilian economy in terms of revenues and jobs; however, they also reported on the high mortality rate among those businesses and observed that one of the main reasons for failure was the inability of Brazilian entrepreneurs to effectively develop and manage their businesses. Based on their analysis of work by various researchers on the types and characteristics of Brazilian small business entrepreneurs, Nassif et al. developed an entrepreneurial process dynamics framework that included and distinguished “affective aspects”, which were most important during the earliest stages of the entrepreneurial process, and “cognitive aspects”, which became more important relative to the affective aspects as time went on and the business matured. Affective aspects included perseverance, courage, willpower, initiative, willingness to take risks, personal motivation, facing challenges, passion for the business, autonomy, self-confidence and independence. Cognitive aspects included assumption of calculated risks, ability to establish partnerships, defining goals and planning skills, knowing one’s limits and eloquent communication skills.

Are You a Scale-Up Entrepreneur?

One of the fundamental conditions for growth-oriented entrepreneurship is the desire of the entrepreneurs who are the members of the founding team to not only launch and navigate their businesses to the point of survival but to go beyond that to enjoy significant growth in revenues, employment and market impact. Isenberg and others have argued that the skills necessary to get through the start-up phase, will obviously crucial, are not the same as those that entrepreneurs need to “scale-up” the business to the point where growth engines are mobilized. Isenberg developed a simple set of assessment questions that entrepreneurs could peruse to determine whether they were “cut out to be a scale-up entrepreneur”. These questions were based on interviews that Isenberg conducted with scale-up entrepreneurs from around the world and suggest that backgrounds and actions associated with success in moving through the risky launch stage of a new business to the point where scaling is feasible. Specifically, entrepreneurs should make a note of whether they “agree” or “disagree” with the following statements:

- Something inside compels me to make something that will impact the marketplace.
- I am great at selling things to people that they may not know they want, nor think they have the money to buy.
- I have people on my team who are better than me in several areas of knowledge or practice.
- My venture already has the procedures, policies, and processes in place to be ten times the size we are today.
- When I don’t know what my next step is, I have experienced people I can turn to for ideas.
- There is money out there to fuel a venture that is growing fast; I just have to find it when I am ready.

• When I achieve my objectives I keep raising the bar higher and higher.
• I am one of the best sales people I know.
• Think big; thinking small is a crime.
• I know entrepreneurs just like me who have grown big, fast.
• The sales process is just starting when the customer first says no.
• If my venture stands in one place too long, it runs the risk of perishing. We have to keep moving forward.
• I know how to find great people to hire.
• Nothing gives me a bigger rush than closing a big sale.
• It is more important to know of a big problem that customers have and then look for a solution, than it is to have a solution that is looking for important problems to solve.
• I used to think our great technology would take us to leadership in our market — now I realize it is our team, our organization, our marketing and our ambition to sell.
• Even though I am a startup, I think more like a market leader than a small business.

The greater the number of times that one “agreed” with a statement, the more likely that he or she had the motivation to scale up their new venture. Two important themes were emphasized when compiling the questions: persistence and experience in all aspects of selling (e.g., sales organization, compensation, pipeline management, and selling skills) and attitude, particularly the ambition to grow the business and a vision for the business that is grand and large.

While sales is one of the most important skills for a scale up entrepreneurs, others areas for which founding teams might seek out training including personal leadership, effective communication, project management, managing performance, selecting a winning team, negotiation and managing change.


§3 Reasons for starting the new business

Men and women who think of themselves as entrepreneurs sometimes don’t take the time to understand how or why they ended up doing what they are trying to do. In fact, taking a moment to step back and contemplate is sometimes seen as anti-entrepreneurial since it isn’t spontaneous, proactive or creative. Nonetheless, the founders of a start-up venture that seems to be continuously challenged by various issues and hurdles should perhaps stop for a moment to consider what is driving their foray into entrepreneurship. For example, they should ask whether their interest lies in creating a new process or method, discovering and penetrating a new market, leveraging economies of scale and flexibility, or simply escaping the drudgery of working at a large firm. The answer to this question can have a significant impact on the decisions that are made regarding the strategies and values of the firm and the priorities established by attracting resources to the venture.

People start new businesses for a number of different reasons including a simple passion for entrepreneurship, dissatisfaction with the decision of a current employer not to invest in a particular product or service or economic necessity due to the need to generate income following loss of a job with another firm. The selection of the type of business
also varies depending on various factors including the background and skills of the founders, suggestions from prospective business partners and trends that appear to be popular based on media reports. In order for business planning to be useful and successful it is important for the founders to take a little time to explore the process that each of them followed in selecting the particular business. Each founder should ponder his or her motivations and goals individually and then the entire group of founders should meet to discuss the reasons for launching the new venture and what each of them hopes to see accomplished from the effort. Outside advisors should be brought into the discussion since they are often better positioned to provide objective input and identify potential flaws in the logic or conflicts among the founders. Among the questions that should be posed and discussed are the following:

- What was the driving force behind the selection of the type of business? It is all well and good to want to convert a preexisting hobby or interest into a commercial venture; however, the venture is likely to fail if there is not sufficient demand for the product or service.

- Have the founders devoted sufficient time to planning the new venture? It is not enough to have a good idea or identify a new market opportunity. The founders must be able to carefully consider competitive factors and their ability to gather the resources that will be required to enter and exploit the market.

- Have the founders sought advice from others who operate the same or similar businesses? Many businesses fail because the founders were unwilling to ask for help in getting things up and running or were unable to find the information on the tasks that need to be mastered to make the business a success. If the founders do not know how to get this information, they should consider contacting the local chamber of commerce or trade associations that include managers and professionals involved in the target business area.

- Do the founders have the requisite experience to conduct the particular business? In many cases, a founder will have had an extensive career working with companies involved in the development and promotion of the specific product or service. But, if that is not the case, he or she should consider the effects of inexperience on the venture. The founders may be planning on recruiting managers and other employees who can provide the appropriate skills and contacts. Another possibility to consider is working for someone else for a limited period of time in order to gain the necessary experience and training.

§4 Advantages and disadvantages of business ownership

Before a person decides whether to launch his or her own business, careful consideration should be given to some of the important pros and cons of starting and building a new venture. Commitment is a key factor and the founder (and members of his or her family) needs to be prepared to sacrifice a good deal of personal time and, in many cases, place his or her financial security at risk. While founders may enjoy having the chance to operate their own business, they should not forget the possibility that they will have to perform a few unpleasant tasks, such as terminating employees.
Earnings Potential: If things go well, the new business owner will likely have the opportunity to earn more money that he or she could make when working for someone else. But, this is not universally true and some of the non-financial factors described below may be more important in a particular situation.

Autonomy and Responsibility: Autonomy and responsibility are often driving factors for someone want to start his or her own business. He or she will have a chance to be their own boss and make all of the crucial decisions that might determine the success or failure of the business. In turn, these responsibilities, if well-executed, can provide the founder with a great sense of personal satisfaction and fulfillment.

Supervisory and Mentoring Opportunities: The founder will have a chance to supervise and educate others about his or her vision for the particular product or service that the company is offering. Many founders find this aspect of the business to be quite satisfying; however, others have little patience for dealing with employees.

Job Security: Many people feel that by launching their own business, they would not have to worry about being fired. Well, that may be true in the early stages; however, if the business requires outside capital it is certain that the founders will need to learn to be accountable to their investors.

Skill Development: As the boss, he or she will be able to get involved in every aspect of the business and gain experience in a variety of functional disciplines. Many would-be entrepreneurs may be frustrated at larger companies if they are not allowed to be active outside of their particular department or group. While many people are interested in founding a new business in order to get involved in new disciplines, they should not underestimate the demands of need to develop knowledge in so many different areas at once. It is not uncommon for a new business owner to be called on to make decisions in such diverse areas as accounting and bookkeeping, inventory control, production planning, advertising and promotion, and market research. It is the rare person that can pull that off successfully over an extended period of time.

Community Involvement: Many founders view starting their own business as an opportunity to get involved with their community and contribute directly to the well-being of the local economy and the employees and customers that reside in the neighborhood. This is obviously a fine and noble objective; however, the founder must also develop a strategy for generating sufficient return on his or her investment to maintain the viability of the venture.

Financial Risk: It is the rare case where starting a new business does not entail substantial financial risk to the founder (and his or her family). Of course, the risk may be warranted in light of the expected return; however, it is important to make sure that enough financial resources are available to meet the personal needs of the founder and get the business up and running.
**Time Commitment:** A new venture is hard work and founders should expect to work long hours and forego opportunities for vacations and recreational activities during the early months and years of the new venture.

**Resources:** Persons eager to start their own business sometimes forget the value of the resources and assistance that may be available in a larger enterprise. The new venture generally cannot afford the support staff that can free the founder from the time involved in tending to administrative details of the business. Initially, income from the business may not be as steady as the founder hoped for and in some cases he or she may have little or no income at all. The founder needs to be sure that he or she has enough savings and/or other sources of income to get through the rough periods.

§5 **Advantages and disadvantages of acquiring an existing business**

Starting a business from scratch can be a daunting undertaking, and some fledgling entrepreneurs prefer to purchase an existing business instead. As with any business decision, there are pros and cons that should be considered when looking at a possible acquisition of a business that has been up and running and the entrepreneurs should carefully consider both the positive aspects and the problems that may crop up after the deal is done and the seller has moved on.

One obvious advantage of acquiring an existing business is the ability of the new owners can get operations up and running immediately. However, purchasing an existing business may require more start-up capital than might be the case if the buyer had simply started a new business from scratch. The buyer may be forced to pay for assets that were not wanted or that were not expected to be needed until much later in the development of the business. The new owner may also find that the company's fixed assets and equipment must be replaced in order to effectively pursue any new business goals.

The buyer will obviously hope that existing inventory and receivables will result in a steady short-term stream of cash that can be used to expand the business. However, while existing inventory will, hopefully, be a source of revenue for the new owner, it is sometimes the case that inventory items are obsolete and must be discarded for little or no value. Similarly, receivables that accrued prior to the sale also may turn out to be old and uncollectible.

The new owner will also hope that succeeding to an existing base of customers and vendors will reduce the time and effort required to establish important business relationships and that it will be possible to take immediate advantage of any existing goodwill toward the products and services of the acquired business. In the same vein, the new owner will generally expect that since the business has a proven track record, it should be easier to secure business financing. While the prior business relationships and record of performance established by the seller are certainly important factors in the buyer’s decision to purchase it is ultimately up to the buyer to maintain the same level of service and quality and convince customers, vendors and lenders that they can be comfortable doing business with the firm after the ownership change has been finalized.
While the buyer should, of course, make a full and thorough investigation of the business before the purchase and sale is completed, it is generally impossible to identify all the potential problems with the target, some of which may not come to light until after the deal is over. For example, buying an operating business means inheriting relationships with existing managers and employees. The new owner may discover that his or her personality clashes with these persons, leading to the possibility of excessive turnover in the important transition months after the sale is completed.

§6 Founders’ dilemmas

Even when armed with the most promising business idea, founders inevitably face a number of challenges from the moment they begin to consider whether or not to form a new company. Wasserman argued that founders must confront a number of “founders’ dilemmas” (see Table 3) that require difficult decisions with respect to relationships, roles and rewards and must also honestly assess their own goals and motivations for launching the company and make sure that the choices they make along the way remain aligned with those goals. Based on extensive research into decisions made by founders at the earliest stages of their new ventures Wasserman came up with the following observations and recommendations to guide founders through the process of deciding whether to launch a startup, forming a founding group, allocating duties and responsibilities, establishing reward systems and bringing on the human resources and investors necessary to stabilize and grow the business:

- The first question for a prospective founder is whether or not it’s the right time in his or her career to launch a startup. The founder needs to be sure that he or she has the necessary passion and experience and that the market is ready to be receptive to the proposed product or service.
- In addition to passion the founder needs to critically evaluate whether he or she has the requisite human, social and financial capital to successfully launch the business without the help of others. In order to “go it alone” a founder must be confident that he or she has expertise in multiple business and technical areas, sufficient capital to get through the start-up stage and strong connections in the relevant marketplace. If any of these elements are lacking it may be necessary to seek out co-founders who can fill in the gaps.
- When looking for additional founders make a conscious effort to achieve diversity in terms of background, age, experience and network connections. This not only broadens the collective skills set of the founding group it reduces the risk that the founders will run into conflicts when setting their roles and responsibilities. Wasserman cautioned against turning to family and close friends, even if they have the right skills and share the same passion for the ideas and business model, and noted

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that research confirmed that mixing business with family and friendship too often led to conflict, tension and bad outcomes for both the company and the relationships.

- Make sure that each of the members of the founding team are clear about expectations with regard to their roles, responsibilities and contributions and make sure there is an “exit plan” in place that clearly lays out the process for the departure of any of the founders before a problems arises. It is difficult to talk about “breaking up” before a relationship has really begun; however, the founders need to do it, preferably with input from experienced and independent outside advisors who can raise all the questions that the founders may be reluctant to ask.

- Once the founding team has been formed the next step is to assign roles and responsibilities. While the founders may have roughly equivalent equity stakes in the new company and share similar passions about the projected products and services one of them will need to take on the role of chief executive officer, or “CEO”. Wasserman recommended that the best candidate is the founder who is most invested in the start-up and notes that this may not necessarily be the founder who came up with the original idea upon which the start-up is based.

- An effort should be made to create a clear division of labor among the members of the founding group so that all required activities are managed and overlap is reduced. Proper and clear differentiation of tasks facilitates accountability; however, Wasserman warned about inflexibility in assigning and changing roles and counseled that the founders need to strike the proper balance between division of labor on the one hand and tapping into the creativity that comes from collective work and collaboration. Wasserman also cautioned about handing out titles among members of the founding group and it is important for all titles to be accompanied by a clear statement of duties and authority and expectations about how the holder of that title will interact and collaborate with the holders of other titles.

- Selecting a CEO and assigning each of the founders one or more primary areas of responsibility are part of a larger process of developing a decision-making process among the founding team and the founders need to decide which issues will require debate among all of the founders and how those debates will ultimately be resolved. Wasserman noted that founding teams take a variety of approaches: some choose egalitarian systems in which each of the founders has an equal say and a unanimous vote is required and others prefer a more hierarchical approach. Regardless of which method is used it is important for everyone to understand it in advance and to make sure that managers and employees outside of the founding group are aware of how the founders make their decisions. Even if egalitarianism is not the rule the founders are well advised to communicate closely about decisions, seek inputs from all of the founders and make sure that all of the founders are aware of the substance of important decisions.

- Even though a decision-making process is in place the founders need to anticipate the possibility of conflicts which if not addressed may ultimately threaten the viability of the entire venture. For example, even though the founders have agreed that all of them will be heard on every key issue one of the founders may begin to feel frustrated and alienated if decisions continue to go against him or her. Similarly, a founder given a title that implies primacy in a particular functional area, such as marketing,
may feel that the other founders are encroaching into his or her domain. The founders need to have a plan for settling these fundamental disputes, often seeking support and guidance on substance and process from trusted outside advisors who are independent of the founders, and should also continuously assess responsibilities in key areas such as product development, sales, marketing and finance.

- Wasserman recommended that the founders should address the touchy subject of rewards, including the allocation of equity, after they have thoroughly discussed the various issues described above with regard to relationships and roles and everyone has a better idea of how committed each founder will be to the venture and the relative value of each founder’s projected contribution to the new business. Wasserman noted that one of the most common problems among founder teams is an initial allocation of equal equity shares among all the members only to find out later that one or more of the founders is unable or unwilling to carry his or her weight or that his or her contribution is simply not as valuable as what is being provided by the other founders.

- Founders have different appetites and expectations regarding the rewards associated with their involvement with a start-up and those need to be considered. Some founders are more interested in money and seeing the value of their equity stake increased as quickly as possible while others are more concerned about retaining control over the direction of the business and making sure that their voices are heard when decisions are being made. All of this should be taken into account when allocating equity and assigning rights to the equity interests.

- Founders were encouraged to include vesting provisions in the agreements covering the allocation of equity interests and Wasserman noted that vesting should not be construed as an indication of mistrust but simply as a convenient and realistic tool for making sure that expectations are met and that the founders have an objective means for dealing with unanticipated events such as an egregious failure to perform, a good faith dispute among the founders, the unexpected departure of one of the founders due to illness or death or the demands of outside investors for changes in the leadership group.

- When establishing the reward systems and equity allocations among the founders consideration also needs to be given to what may be needed in the future to fill in gaps in skills of the members of the founding team and build out the business. If the founders know that large blocks of stock will be needed to bring in a more experienced CEO and/or build out a product development team this should be taken into account from the very beginning. In addition, the founders should anticipate dilution by equity that will be sold to outside investors.

The observations and recommendations above pertain mostly to the pre-founding stage and the process of building and organizing a founding team; however, Wasserman noted that founders need to consider the steps that will have to be taken to find and attract skills and resources that the founding group does not have and which will be needed to grow the business. The first set of dilemmas beyond the founding group were referred to as “hiring dilemmas” and included questions about what types of people should be recruited and hired to assist the founders and how those persons should be managed during the
challenging and turbulent immediately following the launch of a new business. Specific issues include establishing the duties and responsibilities of new hires and selecting the most effective way to compensate them in light of the risks involved. A second set of dilemmas will become relevant when the founders need to approach investors to provide capital beyond the financial resources that the founders are themselves able and willing to contribute to the new venture. Different types of investors will be available at various stages of the development of the company and each of them will have their own demands regarding their equity stake in the company and their ability to exert control over the actions of the founders.

Wasserman argued that it is extremely important for each founder to come to grips with what motivates him or her in taking on the rigors of starting up a new business and investing all the time and effort that will be needed in order to make it successful. According to Wasserman, the two main types of motivation for founders are “control” and “wealth”. Founders who are primarily motivated by control can be expected to proceed more slowly and cautiously in allowing outsiders to become involved with the company as co-founders, investors or employees and will seek to guard their ability to maintain control at each stage of the process of developing new products and services, expanding human resources and tapping into outside capital. On the other hand, wealth-motivated founders are more open to any reasonable strategy for increasing the value of their ownership stake in the company and thus are more likely to aggressively pursue venture capital even at the risk of losing control of the board of directors and support bringing on experienced talent from outside of the original founder group who can accelerate the growth of the company even if that means that the founder’s own equity stake will be diluted.

<table>
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<tr>
<th>Table 3</th>
<th>Wasserman’s Founder’s Dilemmas</th>
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<tbody>
<tr>
<td>• At what point in my career should I consider launching a startup?</td>
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<td>• Do I have requisite passion for my idea and the necessary career experience to effectively launch and guide a new business?</td>
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<td>• Are there any issues with my personal situation that may prevent me from fearlessly pursuing the new opportunity such as a lack of support from family or insufficient personal financing resources?</td>
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<td>• Is the market ready for and receptive to my business idea?</td>
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<td>• Should I launch the new business on my own or should I recruit co-founders?</td>
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<tr>
<td>• If co-founders are needed how can I go about identifying appropriate candidates (e.g., friends, family, acquaintances, current or former co-workers, former classmates or strangers)?</td>
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<tr>
<td>• What positions and responsibilities should each of the co-founders assumes with the start-up?</td>
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<td>• How should decisions be made among the members of the founding group (i.e., what decisions can be made along by one of the founders and which require consultation and how should the consultation and voting be conducted)?</td>
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<tr>
<td>• How should equity and other financial rewards be allocated among the members of the founding group and what provisions should be made for vesting and repurchase of equity upon departure?</td>
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<td>• What types of human resources will be required at different stages of the company’s growth?</td>
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<tr>
<td>• What special challenges will need to be taken into account for early hires and should they be treated differently than managers and employees hired later in the development of the company?</td>
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<tr>
<td>• What types of investors should be approached at different stages in the development of the company</td>
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and what challenges will be created for the founder group by introducing outside investors?

• If I am to be the CEO of the company how do I feel about the possibility of being replaced as CEO by a “professional CEO” at some point in the future if required by investors or other stakeholders?

About the Author

This chapter was written by Alan S. Gutterman, whose prolific output of practical guidance and tools for legal and financial professionals, managers, entrepreneurs and investors has made him one of the best-selling individual authors in the global legal publishing marketplace. His cornerstone work, *Business Transactions Solution*, is an online-only product available and featured on Thomson Reuters’ Westlaw, the world’s largest legal content platform, which includes almost 200 book-length modules covering the entire lifecycle of a business. Alan has also authored or edited over 90 books on sustainable entrepreneurship, leadership and management, business law and transactions, international law and business and technology management for a number of publishers including Thomson Reuters, Practical Law, Kluwer, Aspatore, Oxford, Quorum, ABA Press, Aspen, Sweet & Maxwell, Euromoney, Business Expert Press, Harvard Business Publishing, CCH and BNA. Alan is currently a partner of GCA Law Partners LLP in Mountain View CA (www.gcalaw.com) and has extensive experience as a partner and senior counsel with internationally recognized law firms counseling small and large business enterprises in the areas of general corporate and securities matters, venture capital, mergers and acquisitions, international law and transactions, strategic business alliances, technology transfers and intellectual property, and has also held senior management positions with several technology-based businesses including service as the chief legal officer of a leading international distributor of IT products headquartered in Silicon Valley and as the chief operating officer of an emerging broadband media company. He has been an adjunct faculty member at several colleges and universities, including Berkeley Law, Golden Gate University, Hastings College of Law, Santa Clara University and the University of San Francisco, teaching classes on corporate finance, venture capital, corporate governance, Japanese business law and law and economic development. He has also launched and oversees projects relating to sustainable entrepreneurship and ageism. He received his A.B., M.B.A., and J.D. from the University of California at Berkeley, a D.B.A. from Golden Gate University, and a Ph. D. from the University of Cambridge. For more information about Alan and his activities, and the services he provides through GCA Law Partners LLP, please contact him directly at alangutterman@gmail.com, follow him on LinkedIn (https://www.linkedin.com/in/alangutterman/) and visit his website at alangutterman.com.

About the Project

The Sustainable Entrepreneurship Project (www.seproject.org) was launched by Alan Gutterman to teach and support individuals and companies, both startups and mature firms, seeking to create and build sustainable businesses based on purpose, innovation, shared value and respect for people and planet. The Project is a California nonprofit public benefit corporation with tax exempt status under section 501(c)(3) of the Internal Revenue Code dedicated to furthering and promoting sustainable entrepreneurship through education and awareness and supporting entrepreneurs in their efforts to launch and scale innovative sustainable enterprises that will have a material positive environmental or social impact on society as a whole.

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