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THE STONEWOOD PERSPECTIVE

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Secrets of Successful Serial Start-up CEOs

We are all drawn and inspired by tales of entrepreneurial success. It may be the young engineer who founded a company which seemingly overnight was acquired by Microsoft or Cisco. It may be the drop-out who built a web-site now viewed by millions of people each and every day. Or it may be the siblings whose start-up was the top performing IPO of the year. And while we never tire of these fascinating stories, part of us always wonders whether the entrepreneurial masterpieces in question are the strokes of true artistry or of one-time inspiration, good timing, or beginner's luck? And could they do it again?

Such questions are more than just rhetorical sour grapes. As headhunters they are asked of us each and every day as clients wrestle with whether to hire or invest in executives who have tasted success in previous entrepreneurial ventures. Why were they successful? Are their skills transferable to other situations? How can one tell in advance?

Answers to such questions invariably start with an understanding of what excellent startup leaders do. And there is no better way to create that list than by looking at the attributes of successful serial entrepreneurs/CEOs. What traits, philosophies and approaches do they share? What makes them tick? What can others glean from them?

I recently had the opportunity to spend time with a group of serial entrepreneurs/CEOs who have built and sold numerous successful companies among them. Over dinner we discussed their craft, their stories and the lessons they hold for others.

1. It's About the Journey, Not the Destination

While proud of their many accomplishments, my dinner guests made it clear that material success has never been the key driver in their careers. Instead, it has been the thrill of the game; the love of identifying what one of them called 'market inconsistencies' and unmet needs; the satisfaction of building and mobilizing teams in pursuit of an opportunity; and the challenge of nurturing fledgling enterprises to success. This is not to say that monetary considerations are immaterial for they dominate the report card by which their work is evaluated. But it is only one measure of the work itself.

In other words, while the breathtaking view at the top of the mountain rewards the entrepreneurial adventurer, it is the climb itself that exhilarates. Serial entrepreneurs long to climb and want to do it again and again. Achievement and wealth never quite quenches the thirst to achieve.

A study published in 2000 looked at common traits of serial entrepreneurs as defined by having owned and operated three or more businesses. A high achievement orientation ranked high among those common traits. In addition, serial entrepreneurs have a higher propensity for risk with less fear of failure than most. And when they do fall, serial entrepreneurs are also better able to cope and recover. Mountains worth climbing are high and treacherous and if they are to be scaled, stumbles must be expected. Resilience is always a defining characteristic of the accomplished climber.

2. A Learning Orientation

Ernst & Young's *Entrepreneur of the Year* awards were recently presented to a group of very worthy winners. Leading the pack was the founder/CEO of Mattamy Homes, an innovative company which has grown into one of the country's largest home builders. In accepting his award, Peter Gilgan spoke of his enduring passion and what continues to drive him even with success beyond the comprehension of most. He concluded his speech by stating, "I am grateful that I have continued to learn and I still have the attitude that I have a lot more to learn. That's how I approach things every day".

My dinner guests also sprinkled our discussion with phrases such as 'still learning', 'getting better', and 'trying to understand'. Though clearly self-confident, these individuals have no pretense of omniscience. They understand that the entrepreneurial game is nuanced with wide variability of context and strategy. They are respectful of its complexity. With practice they develop a feel for the game and how to play it well.

It is in part because of this passion for learning that retiring after a 'win' is viewed as wasteful. Playing a winning hand has enriched their knowledge, their wisdom as well as the network of relationships which can be leveraged the next time. Experience and relationships are currency to the serial CEO, currency which will be squandered if they stop playing the game. Mastery is cultivated, accretive, addictive and highly dependent on participation.

3. They Value the Team

Many entrepreneurs are larger than life characters who by sheer force of intellect, drive, determination and personality build great wealth and interesting organizations. And while these companies serve as effective vehicles for the entrepreneur's wealth creation, they would not be described as classic team-based structures. Instead, the employees are often little more than the faceless, interchangeable pit orchestra who support and serve at the pleasure of the on-stage performer, the entrepreneurial virtuoso.

The serial CEOs I met use a different set of principles. To them, start-ups are high stakes, high velocity games of skill made more challenging by constraints of time and resources. With so many variables in play, the seasoned CEOs immediately lever those most within their control. One such variable is people where familiarity breeds comfort. The serial CEOs have little inclination or time to train inexperienced executives or deal with selection risks of team skills, work ethic, the ability to scale or loyalty. They far prefer to draw upon a network of trusted, experienced executives with whom they have collaborated in the past. A proven, complementary team mitigates risk for all the stakeholders and allows the CEOs to focus on their particular areas of interest and strength. It is also a decided market and funding advantage.

The ability to cultivate a network of reusable relationships requires a certain maturity and level of self-awareness in the CEOs. They must know where their efforts are best deployed and what complement of skills are needed around them to make the business successful. And they must view their organizations as the sum of parts, none more important than the other.

4. They Get Aligned

Serial CEOs understand that attracting a seasoned 'A' team depends on a number of timing, funding and opportunity related factors. It also depends on the ability to create the conditions that will attract proven stars. One of those conditions is alignment of interests. This means that the stock option or equity packages made available to the team are transparent and void of preferential shares or special consideration for some over others. If the company succeeds the whole team wins. Alignment provides the foundation of trust which fuels the effort, commitment and teamwork critical for success.

This philosophy, simple as it sounds, is not shared by all in the startup community. I regularly interview executives who lament working for firms where preferred, special and side deals have benefited some stakeholders at the exclusion of others. The more resentful of these individuals exit the startup sector, while others carry the scars of cynicism to their future employers, to the detriment of all concerned.

5. They Start From the Need … Not the Technology

Two of my out-of-town dinner guests were in Toronto looking at investment opportunities and meeting with advisors. I asked them to share their criteria in evaluating opportunities. Were they looking for specific types of companies, specific technologies or markets? One of the executives answered, "For us it is all about the market. We look for customer issues that aren't being addressed and aren't that easy to solve. Also, the market 'pain' has to be large enough to build a sustainable company around. We then try to analyze how the pieces of the puzzle will fall into place over the next few years and make our decision accordingly".

Each of the serial CEOs made this same point. At this stage in their careers they start with the market need and work backwards to the solution which will address it. Praying at the altar of market pull, these pragmatists shun the arduous task of creating new markets. To them, such endeavors take too much time, have too many moving parts, and introduce too much uncertainty. In the same way, they avoid the proverbial 'solution looking for the right problem to solve'. Let others play that most difficult of games, it is not for them.

6. They Do One Thing Well

While my dinner guests looked for market problems to solve, they made it clear that they did not go out of their way to solve big, hairy problems. Instead, they look for opportunities to address specific product and market niches with adjacencies which might fuel later growth. While this may be nothing more than several individuals who share similar personal philosophies, it was more likely etched from prior painful experiences in which they pursued solutions which proved too complex or formidable. Whichever it was, there was now a clearly articulated view that organizational success is more readily attained by focusing on manageable and specific business problems. The credo was simple enough: do one thing well.

They also tend to stay wed to specific market or technology ecosystems in which they develop an ever deeper understanding and appreciation. Thus while some serial CEOs change sectors in subsequent businesses, most stick to the comfort of certain technologies or markets, be they semiconductors or applications software, financial services or others. This again is designed to optimize their networks and reduce risks.

7. They Stick with their Investors

Both entrepreneurs and investors enter the startup arena with the goal of optimizing their chances of success while mitigating their risks of failure. For investors, this translates into a decided preference to fund companies whose executive teams have tasted prior success and whose operating styles and abilities are known to them. Startup CEOs also covet familiarity and predictability in their investors to whom they turn for support and latitude in navigating their nascent businesses. Since latitude is earned, serial CEOs naturally gravitate to those who offer it most readily, former investors.

Thus, serial CEOs narrow rather than broaden their investor base. They return to the same investors and constellation of advisors with whom they have been successful in the past. If they deviate, it is to move upstream to investors with higher value-added knowledge or relationships. At the same time, shrewd investors attempt to lock up, or at the very least keep close track of, those entrepreneurs they covet. My dinner guests were illustrations of this approach. They were introduced to each other by one of their common venture capital investors. This investor has brought them numerous business opportunities and ideas, invited them to conferences, and included them in company events, all in the hope that it will result in renewed relationships for all concerned.

8. They Carefully Build and Manage their Boards

Unlike many first time CEOs who view their boards as incidental players if not nuisances, serial CEOs respect the importance of governance. They understand that boards have the potential to help or harm an organization, and its leadership, and they work hard to avoid the latter. Moreover, they recognize the importance of carefully building boards of investors and operators with specific, complementary knowledge, experience and relationships which will enhance their organizations. This includes savvy, involved investors with specialized financial acumen and the experience to recognize patterns in successfully growing organizations; independents with market or functional experience and relationships; and industry peers who have traveled this road before and can provide counsel on what likely lies ahead.

They also carefully manage their boards. As one of my dinner guests said, "I let my board know what I am planning to do, then I do what I have promised and if there is a problem, I make sure everyone knows in advance. Boards loathe surprises and I work hard to avoid them at all costs. I work with each individual board member to understand their needs and agendas and I manage their expectations accordingly." Preparation, accountability, direction and communication were the common themes in the comments of each of the serial CEOs.

Transparency is also important to serial CEOs who make a point of encouraging board interaction with the management team. This is both to ensure that board members have multiple points of access to the company and to provide management with a clear line of sight to what are very important stakeholders. Secure in themselves, these serial CEOs see only positive possibilities in nurturing such relationships.

9. They are Generalists who Work a Plan

The serial CEOs spoke of a certain cadence to building start-up organizations. They also described a common set of building blocks which they tend to use and reuse across each of their businesses. For example, they design products with support, service and life cycle considerations factored in at the outset. They have a specific approach for securing strategic early adopter customers. They time the deployment of channels and partners and use them both as levers for growth and as likely sources of liquidity events. They use influencers such as analysts to position their company and tell their story. They use marketing to craft a specific image and message and to position themselves in the eyes of the marketplace. Always alert to the need to make adjustments, they refine and reuse what has worked for them in the past and become ever more efficient in developing and executing their plans.

As leaders, each of my dinner guests was distinguished by a particular area of functional expertise related to their individual career paths. For one it was sales, for another it was technology innovation, and for the others it was marketing and finance. Yet over time each had come to appreciate the importance of becoming generalists. Startup success is a system level outcome which specialist leadership will always struggle to deliver. Breadth rather than depth is a defining ambition of the successful serial CEO.

10. They Put themselves on the Line

If you hang around the recruiting game long enough, you will hear people caution against hiring candidates with what is crudely called 'f... you' money. The argument goes that these well-to-do types, who have made a lot of money in a previous venture, lack the fear and hunger to persevere when the going gets tough. And the going almost always gets tough in the life of a startup. While this Maslow-based argument may not be applicable to the serial CEO, it is not altogether lost on them either.

Each of the serial CEOs described how they invest personal funds in each firm they commit to. As one person said, "over and above the investors who want to see us put skin in the game, it is important that I believe enough in what I am doing to invest in it. For one, it is a test. If I do not believe in the opportunity enough to invest my own money in it, I probably shouldn't be pursuing it. Secondly, it is a simple matter of alignment of interests and in this regard, I try to get everyone on my executive team to pony up in the same way. In for a penny, in for a pound, let's all get focused and do this properly".

Conclusion

As our evening came to an end, I asked my guests if they had ever watched the movie Ocean's 11. The film opens with protagonist Danny Ocean's release from prison, some 4 years after what had been his first unsuccessful 'venture'. Rather than retire, Mr. Ocean immediately begins planning his next project, a major casino robbery. It is clear from the outset that pursuing such 'ventures' is what Mr. Ocean does, perhaps even the essence of what he is. With his next endeavor scoped out, Mr. Ocean proceeds to secure financing from a value-added 'angel' investor (a former casino owner) he has worked with in the past, and then assembles a team of ten highly specialized, experienced and trusted team members. In the group's first formal gathering, Mr. Ocean carefully lays out his audacious vision along with its sizable risks, and then challenges the team to join him on what will be their defining adventure. The issue of alignment is addressed by making it clear that all proceeds will be distributed equally among the group, including Mr. Ocean. The narrative follows how the project is then clinically, and at times comically, executed to perfection. As the movie ends, the team basks for a moment in the enormity of their accomplishment and then somewhat dispassionately disbands into the night.

The serial CEOs winced at my attempts to draw parallels between them and the comic characters in a heist movie though they humored comparisons with the suave, smooth, professional, mastermind Danny Ocean, played by George Clooney. Although none had seen the film, they promised to watch it one day. Notwithstanding the awkwardness of that parting moment, these serial masterminds will always be Danny Ocean to me.

About The Author

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