

FOUNDER FIRINGS AT STARTUPS

# Stabilising the Rocking CEO Chair



**Jeffrey Pfeffer & M Muneer**

Will Elon Musk remain Tesla CEO or will he have to go? This is the hot topic of discussion among most millennials and Twitterati. Founder removals, nevertheless, are commonplace — the more prominent in the Silicon Valley are Steve Jobs of Apple, Jerry Yang of Yahoo!, David Neelman of JetBlue, Sandy Lerner of Cisco, Jack Dorsey of Twitter (who is now back), and Martin Eberhard, a co-founder of, yes, Tesla, who was fired from his CEO position in 2007.

India is no different: Flipkart, Housing.com, FreeCharge, Snapdeal, Mu Sigma and many others have seen floundering (co-)founders being eased out from key roles. Knowing the Indian culture of copying and pasting from what was successful elsewhere, the prognosis for founder-CEOs will be the same as in the US. An added dimension here is that most founders desire to cash out at some early point with the fashionable valuation game rather than creating value for stakeholders.

Noam Wasserman of Harvard Business School, in a large and comprehensive study of 10,000 founders, learned

that more than 50% of founders were replaced as CEOs by the time their startup raised its third round of funding. Moreover, the faster the growth of the startup, the more likely the founder is to be fired, and the sooner is the firing.

That's because rapid growth typically means there is outside investment to fuel that growth. Taking in outside investment means some loss of control by the founder to the new investors. As Wasserman notes, this fact means founders often have to choose between becoming rich and remaining in control of their companies.

Why are founders so vulnerable to removal? Because founders have an exaggerated illusion of their power and a sense that they cannot be repla-

ced because of their presumed indispensability. With their often-monomaniacal vision and focus on building the company and business, founders do not focus enough on the interpersonal dynamics inherent in boardrooms and with investors.

And, that same review of research on the effects of power on the power-holder shows the power, or feeling powerful, also leads to being fairly self-absorbed and insufficiently sensitive to the needs and social signals of others, such as board members. Moreover, other research finds that power leads to less tolerance for advices, and few people like to have their advice ignored. Sounds too familiar in India's political and business corridors today?

From our experience, there are some founders — the rare smart ones who understand their limitation (for, say, scaling up) who bring in external CEOs having big-picture thinking and empower people to make detailed decisions on finer slices. There are also those less rare founders who bring in CEOs when the platforms are literally on fire, to clean up everything and focus only on the main directive.

The founders are typically very good at building up from an idea that may be original, or copied and modified from elsewhere, but they struggle as the growth phase sets in. Innovation and scaling-up are two different kinds of animals. Founders get a high on doing something new, not necessarily scaling up for revenue, and they crumble under pressure of targets. After a level, typically at ₹100 crore threshold,

we find they need people with a lot more domain or operational expertise. Passion has much less role here than pure execution capability.

Remember that everyone has a boss and the key to maintaining one's position is making sure that boss is happy and stays that way. Therefore, to remain in power, founders and everyone else with a boss — which is to say everyone — need to pay attention to interpersonal dynamics. Flatter board members by reminding them of their many accomplishments and brilliance. Tell your bosses how smart they are. Treat them well in terms of compensation and the amenities of meetings. Ask for their advice — even if you don't think it will be that useful — and then put on a show of heeding it.

Founders should take up chair(wo)man's role and let go of day-to-day matters to a capable CEO before someone else takes that chair. Alibaba did the smartest thing much early: Jack Ma became executive chairman and the face of the company, while Daniel Zhang drove the company.

Just as it is for Americans, letting go is not easy for Indians too. Remember the struggles of the founders of the best among the tech companies in India: Infosys. Unlike in Indian cricket, where BCCI is lenient to players till they achieve their personal agenda, business investors are unlikely to be graceful to the founders with personal agenda.

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