The Seven Deadly Sins of Entrepreneurs (And How to Fix Them)

By Peter S Buchanan
Managing Partner
NewPlan, LLC

It's an age-old and true maxim that great entrepreneurs usually don't make it to the executive suite at IBM, GE, HP, or Exxon. Big companies love the upside – the passion, the long hours, the breakthrough thinking, the ability to inspire others, and the knack for getting lots done with few resources. For big companies, however, each element of upside comes with an equal element of downside. Most entrepreneurs in corporate clothing don't do well with complex sales models, product review boards, rigorous budgeting of finite funds, and managing trade-offs between products. Entrepreneurs are all about the new and never been done – in particular, new markets, products, technologies, and customers. Therefore, talented executives leave the world's great corporations and bravely take on the quest of creating the next Microsoft, Google, Cisco, or Sun.

The odds are not in their favor. In his seminal book, High Tech Start-Up, which every entrepreneur **should read more than once**, author John Nesheim notes that only one in ten new companies seeking capital actually gets funded, and, of those ten, only one or two will pay off handsomely for investors and employees. Running and growing a young company doing new and wondrous things is a hazardous exercise. Only people who bring lots of nerve, passion, leadership skills, and a love of extreme risk should really attempt it.

The NewPlan team has worked with hundreds of entrepreneurs, who want to create the next, new thing in technology. We've seen huge successes and massive flame-outs of companies that could have been contenders. We've compiled a list of:

The Seven Deadly Sins of Entrepreneurs (and how to fix them)

Here are the seven deadly sins:

1. **I founded it - I should own it all.**
2. **It's all about me - I invented it.**
3. **Why change? It worked before.**
4. **My investors just don't get it.**
5. **Governance is for big companies.**
6. **Competition? What competition?**
7. **This is work. It can't be fun.**

1. I founded it. I should own it all.

We've worked with companies where the CEO owns most or all of the stock and with companies where the stock is spread pretty liberally across the employee base. In general, companies that provide potentially lucrative stock incentives to management and employees work better for several reasons:

- It is easier to create and execute on common goals – most notably the shared goal of becoming a market leader – when employees are economically vested beyond a paycheck.
- It is easier to retain key employees and work through tough operating issues when a company hits hard times. Remember that, when times get tough, 100 percent of nothing is still nothing.
- There is a lot less of "us vs. them," "it's a paycheck," or "I just work here." The simple rule is, grouchy companies with selfish leaders usually lose out to happier ones with properly compensated employees.
- Owning 100 percent of a company's stock does not guarantee that you have ultimate control over the company's future. A CEO still has to create incentives for employees to execute in order to gain an attractive exit for a company, and, lots of times, employees resist an exit because there is no incentive for them to make it successful.

We've all heard stories about or met Microsoft or AOL millionaires. Both Microsoft and AOL were famous for distributing stock options broadly and demanding a lot of hard work and passion in return. Not only did those companies become market leaders, their alumni are now creating the next generation of technology companies.

2. It's all about me – I invented it.

Here's the real truth – no entrepreneur can logically take the credit for all of the good things that happen in a company and, certainly, no entrepreneur can do it all. By all, we mean build, sell, implement, and support a product while actually running a company. When a company is in its earliest stages, a CEO can work this way – particularly if he or she is both technically gifted and articulate with customers; however, once a company has a customer or two, it's time to abandon the "hero power" or "all about me" approach as quickly as possible. The table below shows the disadvantages of a "hero power" approach versus a "team-driven" company:

ELEMENT	CEO HERO POWER	TEAM-DRIVEN
Product	Products are late, low quality, and lack features	Products work and a multi-generation product plan is in place
Marketing	CEO's view	Market view based on customer and analyst feedback
Sales	Limited growth and high sales turnover at all levels	Sales team forms and delivers predictable results
Implementation	Installed a few but the next one might kill the company	Defined processes that are successfully executed – resulting in reference-able customers
Finance	<$10MM – low or no profits	>$100MM – high growth, high profits, market leader

NewPlan, LLC
426 Midsummer Drive, Gaithersburg, MD 20878
O: 301.548.9030 E: peter@newplannow.com

3. Why change? It worked before.

Even if you have a flexible, well-functioning team in place, it's pretty easy to get into the routine of running the business the same way day after day. In reality, however, markets change, competitors improve, and customers demand new features every month. Entrepreneurs must morph to meet the needs of the market, their customers, and their employees. Recently, we met with the CEO of a company that creates software development tools. He told us that his company's sales approach and product had changed dramatically over the last six months. He had aggressively recruited a VP of Sales who had successfully sold similar products in the past, and his technology team re-architected his core product to go after a bigger market and create competitive differentiation. He said:

> **"Initially, I was against these new approaches, because it wasn't what I had done in the past; however, I listened and let my team convince me otherwise. It's worked out much better for us."**

4. My investors just don't get it.

The favorite sport of most investors is making entrepreneurs rich, because it makes them and their limited partners richer, too. How they play this sport is often a mystery to many entrepreneurs, who generally expect employees and investors to share the entrepreneur's vision exactly. Most quality investors sit on multiple boards, meet dozens – if not hundreds – of companies per year, and are paid to do the pattern recognition necessary to determine whether a company is performing well. Once an investor takes equity in a company, the entrepreneur must understand the objectives of his investors at all times and align with those objectives. There should be no surprises – either for the investor and entrepreneur.

By the way, the process of understanding starts before you even start looking for investment. You must think hard about what the investor needs to understand. Here's a good example:

> During the Internet Bubble, there was a company with a unique, recurring revenue service that targeted an enormous vertical market. The company had bootstrapped its way to a version 1.0 product; however, operations were still being managed from the basement of the founder's home. A parade of rock-star VCs came calling, and, because it was during the Bubble, the competition for the deal was intense. At one point, draft term sheets appeared on the fax machine almost daily. The terms varied wildly, but almost all of them were favorable to the company. The CEO was frustrated by the process in part because nearly all of the investors would ask him what his exit strategy was. His response was:
>
> > **"I don't want to exit. I love my company."**

At almost any other time in history, this CEO's answer wouldn't ***Pass Go and Collect $200*** – or any other amount of money for that matter.

5. Governance is for big companies.

Good governance is painful, but not having good governance is even more painful. For growth companies, bad governance can manifest itself in many ways. Common symptoms include:

- Inadequate documentation of incentive stock option plans and loan agreements.
- Poor financial management.
- Weak or non-existent employment agreements for senior management.
- The lack of adequate liability insurance.
- Poor contract management when dealing with customers, partners, and vendors.
- Undocumented promises about roles and responsibilities, compensation, or benefits made to employees.

Most large companies have the discipline, resources and staff to put procedures in place to ensure good governance; many growth companies do not.

Well-defined and implemented internal processes and oversight are the building blocks of a scalable, successful, and well-run company – regardless of size or stage of growth. It's important for a company to implement strong governance practices from the very beginning instead of trying to play catch up at the time of a funding event or exit. This attention to detail supports the company's growth and helps earn the respect of the board, investors, employees, customers, and partners.

6. Competition? What competition?

There's one basic rule for start-up and growth companies when they talk about competition:

There is always competition.

It is a guarantee that there are multiple companies across the globe with your idea, a smart team, excellent technologists, a sales force, and marketing plans. It's a poor idea to tell investors that there is no competition or that no other company is applying exactly the same technology to the same problem with the same focus. Parts of this could be true, but competitors are learning animals. This narrow view of competition only hurts the company. As a CEO, you – and your team – need to know everything you can know about the competition, their positioning, and your competitive differentiation. By everything, we mean everything, including:

- What competing products do on paper versus how they act in real life.
- What technologies they are using to build products and how they are likely to change in future releases.
- Who their salespeople are and where they are located.
- The industries they are targeting.
- The customers they have signed up.
- Who their marketing agencies are.
- Who their investors are and how much money they have in the bank.

It’s a hard, team-oriented effort to learn and track all of these things since competitors don’t want you to know most of them. Plus, there are legal and ethical rules that you need to follow to get the answers.

7. This is work. It can’t be fun.

Most people spend more time working than doing anything else in their lives, including sleeping, eating, or spending time with the family. In the technology sector, being at work is especially pressure packed. The CEO doesn’t need to make it worse, and, in fact, we frequently meet with CEOs who say, “This isn’t fun anymore.” This usually means that work isn’t fun for the other people who work there either, because the mood of the CEO flows downhill. The CEO and management team can infuse fun in many ways:

- By celebrating big sales wins across the company – not just in the sales department.
- By recognizing the technical and marketing teams that bring new products to market.
- By acknowledging the systematic effort it takes to bring a big client online.

The bottom line is that companies work better when workers want to be there. About a year ago, NewPlan met with a CEO who had successfully run eight start-up companies. His current company was a software-as-a-service application for small companies. The Company had about 20 employees, and one of the important corporate expenses was to purchase a membership to a gym for any employee who wanted one. The philosophy behind it was a simple one: A healthy employee is a happier employee, and happy employees create, sell, and support better products. The approach seemed to have the desired effect; the company had great products, great customers, low employee turnover, and high morale. Not coincidentally, a healthy group of employees were actually having fun coming to work every day. Who knew such a thing was even possible?