

Difficulties Corporate Executives Find in Start-Ups

I often give informal talks about the differences in key capabilities of early-stage entrepreneurs and corporate executives.

Having worked as an R&D Director in a Fortune 500 company, been CEO of a subsidiary of DuPont, spent time as one of the top 5 executives at ASX and been heavily involved in over 10 start-ups, I have had first-hand experience at comparing these capabilities.

Many colleagues and associates have been urging me to write a paper (or even a book) on these key differences. Some have suggested that I work with a business school to craft this into a course.

This all might take a lot of time, so I thought I would share an overview of the ten key differences.

In many cases, early-stage businesses introduce experienced executives into the management team or the Board. Here's a few reasons why this rarely works.

1. Growth

- A start-up CEO needs to deliver at least 100% per annum compound growth over many years to turn a start-up into a viable enterprise
 - One scary milestone is when you are preparing to hire one new person a day, when last year it was only one per week
 - And there still isn't an HR department
- Corporate executives would normally see 10% per annum over 2 or 3 years as being very high growth

2. Customers

- One great asset of a corporation is its customers
 - The existence of customers virtually guarantees that a new product or service can be rolled out to a significant proportion of the existing customer base
- A start-up doesn't have many customers
 - So it needs strategies to take products that don't quite yet exist to customers that don't quite yet exist

3. Capacity

- If a corporation fails to deliver new products in the expected volume and timeframe, it can have a seriously detrimental impact on the corporate "brand"
 - So spending on capital, and hiring teams, to ensure capacity can be met is essential
- Start-ups don't have a "brand" to protect and don't have the capital to build capacity

- Fortunately, good customers of start-ups will often provide deposits, pre-payments, pilot programs and project slippage allowances, that are almost unheard of in the corporate world

4. Working Capital

- Corporate executives usually have no experience in the management of working capital
 - Provided they meet agreed budgets, the bills and the staff get paid. Where the cash comes from is not their responsibility or of any interest
- Start-ups don't ever have sufficient working capital, so the start-up entrepreneur has to be skilled at every aspect of the management of working capital on a day-by-day basis

5. Agility

- Start-ups need to be agile
 - Job specifications, plans, sales and products will change very frequently and very quickly
 - The job the executive was doing last month may not be the job needed today
- Despite claims to the contrary, "agility" inside corporations is a bit like "dancing elephants"
 - Corporate executives usually try to introduce procedures, policies, etc., that may not be appropriate to a fast-moving start-up or scale-up

6. Support

- Most corporate executives benefit from the support that is available in areas such as HR, marketing, planning, QA/QC, etc. as well as access to external consultants and advisors
- The start-up doesn't have these support facilities and usually doesn't have the funding to obtain it externally
 - If a start-up entrepreneur doesn't have the skills it is necessary to get them quickly
 - Experienced Directors (who understand start-ups) and mentors are highly beneficial

7. Cost Base

- When corporate executives join start-ups or scale-ups, they usually add significantly to the cost base. There are many examples of this.
 - These costs don't just come in the form of larger salaries. They manifest themselves in travel, expenses, tendering costs, furniture, rent, etc.
- The good start-up entrepreneur is aware of the value of every dollar spent
 - They treat every dollar as if it were their own – and often it is

8. Systems

- A start-up can't just go out and buy an all-singing, all-dancing system from IBM, SAP or Oracle
 - Good start-up CEOs understand the benefits of financial and management systems and will stretch products like Quickbooks, MYOB and salesforce.com well past what they might have been meant to do

9. Risk Management

- Corporate executives are focused on risk elimination and are risk averse
 - Personal career risk often outweighs their desire to pursue a path which might provide a better outcome for the company
 - Corporate executives are usually so risk averse that they will not purchase from early-stage companies, nor include them in their supply chain
- Everyone knows that early-stage companies are at the high-risk end of the risk spectrum – but also at the high end of the “reward” spectrum
 - In early-stage companies the secret is about managing risk – not trying to eliminate it
 - This type of day-by-day risk management is essential for an entrepreneur, but is a foreign concept to most corporate executives

10. Passion

- Corporate executives are universally seeking promotion and benefits for themselves
 - They frequently change companies in order to climb up the corporate ladder
 - Their passion for the company and its products are usually well down the list
- A start-up executive is primarily passionate about making the company the best that it can possibly be
 - There is no role or potential for promotion
 - There is no opportunity to change companies
 - Financial benefits are expected to come from the value of the company – not this year’s bonus or promotion

The list can be extended, but these ten key differences need to be kept in mind when bringing someone from the corporate world to the start-up or scale-up environment. Most don’t successfully make the transition. However, a majority of savvy start-up entrepreneurs, with the proper help, seem to do a very good job at building quality companies.

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