



Stanford eCorner

When Founders are Replaced

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As a startup founder, "your success will breed your demise," says Harvard Associate Professor and author Noam Wasserman. Here the author of *The Founder's Dilemmas* shares data and insights from his extensive research to explain when, and under what conditions, company founders are replaced.



Transcript

The board. The board of directors. Is that an important decision-making body? Is that something with important implications for roles and decision-making as you are looking at them overseeing all of these key decisions within the company? What are some of those most important of decisions that you would have given up here? Acquiring or evaluating the founders and CEOs. Okay. So for the founder, as the founder CEO you now have someone who is evaluating you. Someone who is deciding whether you are going to be able to stay in that CEO seat. Control of the board. Control of the board. Okay, what are some of the other decisions that they would be controlling then? Who gets hired as the new CEO. Okay, who gets hired potentially as your replacement.

Is this an easy thing for a founder to get this message? No. No, why not? It's never easy for anyone to get this message. Is it harder for a founder than for others? Sure. Why? It's your baby. Your baby. That's a pretty deep level of attachment here. I was the parent. I am getting fired as the parent of the baby. You get to decide who the adoptive parent is going to be. This is at that heart level of the founder grappling with it.

Let's go to one founder who has actually been to ETL recently. Jack Dorsey talking about when he heard that message when he was being fired as the founder CEO of Twitter. The punch in the stomach, the ton of bricks hitting you, a very visceral reaction that founders have to this message they are getting fired as the parent of your baby. Is Jack the only one who has faced this? Is this a common thing that we face within this realm? Well let's go to the data. This is my data on, from founding, the percentage of founders who are still CEO. And then this is as the venture plays out and ages over time. Halfway across, a little bit more than four years old, half of the founders have been replaced as CEO. Do we think that the norm would be that a founder is raising his hand and volunteering to be replaced? 73% of these have been firings. 73% were where the board was initiating it rather than the founder saying I can see where things are going, I can understand that roadmap and I think that there is going to be someone better to be taking my place. So far more the case that you are getting blindsided by this very visceral message that you are no longer going to be the right person to parent this baby.

Key things to think about as you are going in and involving those investors. At the C round when ventures have raised their third round of financing, at that point 52% of the founders have been replaced. Each round that you raise heightens the chances and also some key inflection points that change the challenges within the venture leading to a heightened chance that you are going to get replaced as that CEO of your baby. So how do we step back and see that fork in the road, very visceral reaction for the founder. How do we think the rest of the team, the loyal employees that that founder has brought together, is going to be reacting if fearless leader is really ticked off in having this visceral reaction to being replaced? What is that going to mean for the team? Are they all on board with this? Morale issues, potential turnover issues, all sorts of challenges. As they are bringing in a successor, is that going to be a recipe for glory? This goes back to one of the other things that heightens the

chances of the founder being replaced. You complete product development, critical milestone within the venture. What happens when a venture finishes product development? What do they do? They celebrate. They throw a party. It's a critical milestone.

The main thing that we have been pushing towards and we have achieved it now. The other side of what we talked about, you raised each round of financing. What's the first thing that the founders do with the investor's money? Throw a party. You raise more money, throw a bigger party. What are they celebrating? They actually happen to be celebrating a heightened chance, the data shows, of fearless leader being replaced. It's what I call the paradox of entrepreneurial success. Your success has bred your demise. If we think about the founder who is failing as CEO, getting that Donald Trump message that we have to replace you, how is that founder going to react? There is going to be some of the visceral side but the head would be saying yes, this is a necessary change. When that founder has been succeeding at leading product development and getting the stamp of approval from investors, is that founder going to be more or less receptive to being replaced as CEO? That's the last person who is going to be open to that message, who is going to be able to hear that. So those successful founders are the ones who are breeding their demise even sooner by sparking that fast growth that outgrows their skills and a lot of times at being on that rocket fuel that they raise as they were inviting those investors into the board.