Why do startup CEOs fail? V4

The three-fold purpose of this article:

1) Help startup CEOs and founders understand themselves and identify potential fatal flaws.
2) Help investors, and others, assess startup CEOs and founders.
3) Help assess the CEO's of traditional established companies.

The following is focused on software and high-tech startups. Many of the concepts apply to other situations. CEO failure results from an inter-related set of experience, skills, character, personality, values, morals, ethics, and luck.

Research regarding the most critical traits of successful founders.[1]
Founders with complementary skills sets tend to be successful. "The best founders know their strengths and weaknesses and recruit a complementary team." Founders of all ages can be successful. Age is not a predictor of success."
There are three archetypes of successful founders:

1) Humble Operator: Exceptional at execution, extremely humble while confident in themselves. They are resourceful and gritty. People who worked with them before tend to follow them.
2) Agile Visionary: Usually first-time founders, they are young, visionary, and driven by a desire for greatness. They have a unique perspective on the market they're going after and an intuitive sense of what their customers want. They test and iterate quickly to incorporate market signals.
3) Seasoned Executive: Experienced older founders, they often have 5+ years of management experience and deep industry expertise. They are intrinsically motivated to build a company. They may have started a company before.

There are three archetypes of unsuccessful founders:

1) Passionate Outsider: Usually first-time founders, they are humble and hard-working. However, they don't have good founder-market fit and don't have a complementary cofounder to rectify this gap.
2) Overconfident Storyteller: Charismatic, compelling, and have high confidence. They are likely to be solo founders and they are often not humble.
3) Stubborn Individualist: Slow to adapt to learnings from the market and not empathetic to what the customers want. They are not good at articulating a convincing narrative.

Successful founders have four superpowers:

1) Running her company effectively day-to-day, learning and adapting quickly
2) Results driven i.e. exploring many solutions to quickly finding the best one.
3) Customer empathy, which enables finding product-market fit.
4) Agile thinking i.e. able to iterate quickly based on market feedback, but at the same time persistently focused on the vision.

Successful CEOs have founder-market fit.
Founders with a deep understanding of the market have founder-market fit. There are 4 signs of founder-market fit:

1) The founders are obsessed with the market. They are obsessed with market knowledge. This results in them knowing everything about the market, what a day-in-the life of a customer looks like, the customer's urgent problems, the competitors, et.
2) The founders' personal stories. Customers are excited by personal stories which explain why the founders are obsessed.
3) Personality is the ability to build a network in the market and the market's ecosystem.
4) Experience but not so much experience that the founders are constrained in their ability to disrupt, and to be able to see new and innovative ways of doing things. The degree of appropriate historical market/industry experience varies by market. E.g. Developing a new drug requires a degree of past experience.

The first point-of-failure is when the CEO is thinking of founding a company and becoming CEO. Examine yourself. Do you already have the characteristics of someone who is likely to fail?

1) Not able to clearly communicate on why starting the company and what the idea is.
2) Not having a very broad set of knowledge or being able to quickly learn a broad set. A startup CEO does it all without the infrastructure of a large company to support her.
3) Not relentless and able to overcome all obstacles.
4) Not able to do things quickly.
5) Not able to quickly learn from mistakes.
6) Not able to work long hours for many years. The average time for a SaaS startup to exit or IPO is 9 years. But the vast majority fail.
7) Not willing to take risks. The majority of startup CEOs are forced to leave the company at some stage of funding.

8) Not able to minimize cash spending.
9) Not having the funds (personal savings, family, and friends) to live for a significant period of time without income from your company.
10) Not able to ruthlessly prioritize time e.g. who to meet vs who not to meet; problems which must be solved vs can be ignored.
11) Not having the personality and skills to build a broad set of trusted relationships with potential customers, suppliers, employees, advisors, investors, etc.
12) Not able to attract appropriate coaches, mentors and advisors. There are major differences between star athletes and star coaches. The same person is rarely a star in both fields.
13) Not able to listen, and clearly understand what the other person intends to communicate.
14) Not willing to go all-in
15) Not extremely intelligent.

The second-point-of failure is when the CEO makes a poor selection of co-founder(s) and is not able to manage co-founder(s).

1) Not able to select co-founders with the range of experience and skills necessary for short-term team success. Co-founders should bring diverse experience and skills, resulting in the pool of capabilities necessary to create and launch the company.
2) Not selecting co-founders with similar objectives, character, values, morals, ethics, and time lines.
3) Not picking founders who have the personal financial resources to live until the company can afford to pay them or third-party investors can provide financial support.
4) Not having a common understanding of what each co-founder will contribute e.g. # of hours, capital, finding capital, creating the product or service.
5) Doesn't have the skills to make the founders work well together.
6) Not being clear on how decisions are made, and who makes them.
7) Doesn't ensure that the founders are physically located together and working together.
8) Unable to articulate and help the all the co-founders understand and support the higher purpose of the company. If the only purpose is to make money, the chances of long-term success are low.
9) Not having a common understanding of how much of the company the founders are willing to give up in return for capital.
10) Not documenting expectations and assumptions. This leads to future confusion and disagreements. "People forget 40%-80% of what they hear immediately. Half the information people do recall, is recalled incorrectly"[2]

Your next steps

Regardless of the situation, the CEO or founders need the capabilities to be successful in the next 24 months and to be competitively differentiated from the CEOs/founders of competitors.

1) If you are a startup CEO or founder: Assess your self and compare that to how others view you.
2) If you are an investor, advisor, someone planning to join the startup CEO: Review the above criteria and prepare your own list of criteria. Identify the deal-killers or fatal flaws and the criteria that are important. Assess the CEO or founders. You don't want to be associated with a CEO or founders who will likely fail.
3) If you are the board of directors or major investor in a traditional established company: Prepare you own list of criteria. Identity the deal-killer criteria i.e. whether to terminate existing CEO, not to appoint a candidate as CEO or not to invest in the company. Identify the criteria that are important. Assess the CEO. Boards should not a have a CEO who is likely to fail. Investors should not deploy capital to CEOs who are likely to fail.

Footnote

[1] Basis Set Ventures, a San Francisco early stage fund, surveyed other funds to understand their opinion of the traits of successful vs unsuccessful founders. https://www.basisset.ventures/founder-superpowers

[2] Lindsay Wizowski, Theresa Harper, and Tracy Hutchings, *Writing Health Information for Patients and Families 4th Edition* (Hamilton Health Sciences, 2014), Page 5

Further Reading

How do venture capitalists assess teams http://koorandassociates.org/selling-a-company-or-raising-capital/how-do-venture-capitalists-assess-teams/