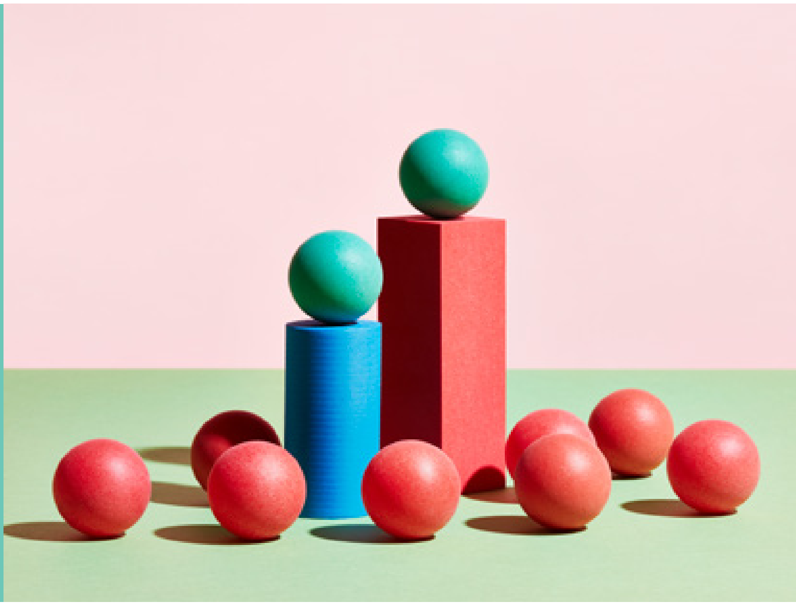
From Founder-Led to Founder-Inspired

How Founders Can Create Companies That Outlast Their Leadership



When we first researched founder-led company leadership 20 years ago, board oversight over the management team was clear. Generally the largest shareholders, directors decided when new leadership at the top was needed and managed the process of selecting and transitioning a new CEO. In the best cases, the board managed the process with the buy-in and support of the founder, increasing the odds for a smooth, successful transition.

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Today, many founders have more control over their company's destiny through founder or dual-class shares, including greater say in the timing and processes related to leadership transitions. This puts greater onus on founders to be self-aware about how their capabilities and motivations align with the changing needs of the business — and when it may be time for new leadership to take the company to the next level.

In this article, we identify the best practices for founders who want to build a business that outlasts them by evolving with the needs of the business and, when it is time, preparing the organization and themselves for the next phase of leadership.

Adopt an evolving view of your role as the business changes

At some point, almost every founder will encounter a business challenge requiring skills or experience they don't have. There are a few common scenarios: A technical founder who developed a successful prototype now needs to turn an R&D outfit into a revenue-generating product company. A charismatic leader energized by developing and pitching a winning vision for the business now must focus on the mundane tasks and details required to scale and sustain the business. A pair of entrepreneurs seeing company growth stall have to think beyond managing functional responsibilities to developing people and getting the top team in sync.

Many founders have a "fight or flight" response when confronted with these kind of leadership challenges, especially the implication they may not be the right person for the company's next phase. Some may become defensive or react aggressively in meetings. Others may act impulsively to make changes or chase shiny objects in the hope they meet evolving business needs. Some may find reasons to be absent from the business, leaving for extended business trips or devoting time and energy to a new venture — sometimes, siphoning off people for the new business.

Founders are more likely to grow with the company if they reframe these situations as part of a continuous leadership journey rather than discrete gaps to be closed. Founders who do this well regularly evaluate the changing needs of the company and how their skills need to evolve in response. They are self-aware about their strengths, weaknesses and motivations and have the courage to seek out feedback and help. They are open to coaching, leadership advisers or other support that can help build or complement their skills. They advocate for regular evaluations by the board, rather than waiting for a crisis, to stay aligned with directors about where the company is headed and the support they may need. Without the founder proactively seeking feedback, investors, board members and early employees — who often owe their wealth to the founder — may be all too happy to tell them what they would prefer to hear.

Proactive founders also will view their top team in terms of ongoing development. For example, many founders find that new capabilities and a different leadership style are needed once the business reaches a certain scale. For some, this may mean evolving from a hub-and-spoke structure in which everything goes through them to one that enables more decentralized and efficient decision making and execution. This, in turn, may require a review of everything from the degree of trust among team members to the team's mandate, meeting protocols, information-sharing practices, management incentives, and decision-making rights and responsibilities.

Accelerate finding the right person for the company's next phase

At some point, the requirements for the job may outgrow the founder's capabilities or motivations. The founders we interviewed say it's better to stay ahead of this issue and acknowledge when a different skill set is needed or when your interests no longer align with the job that needs to be done.

Being honest with yourself about your strengths and weaknesses and what energizes you can help you understand how and when to transition.

One experienced founder recalls the day he knew he wanted to make a change: "We were sitting in a meeting, and I was getting a brief on all the different mechanical ways that we could enter the country of Brazil from a legal framework point of view. I thought, 'As a technical founder, why am I sitting here trying to learn and then adjudicate the proper business forum to enter Brazil? There's got to be somebody way better suited to do that.' So I started the conversation with my board."

Being honest with yourself about your strengths and weaknesses and what energizes you can help you understand how and when to transition. For example, founders primarily motivated by creating a new business may decide it's time for a new leader when the next phase includes an acquisition and a significant jump in scale — and building processes and aligning systems are top priorities.

These conversations are more natural when there is a regular cadence of discussion between the founder and the board about succession, even if it is primarily focused on emergency situations. Ideally, these conversations will cover the strategic and executional priorities of the business and the skills needed at the top to drive results in these areas. Many founders welcome honest conversations about how the company is evolving and whether they are still the right person for the job.

Find the right balance with the board in managing the transition

While some boards delegate the transition to the founder — and some founders select a friend or a safe pair of hands inside the company — transitions tend to work best when there is a structured process and an effective collaboration between the founder and board. The board should run the process, with the founder having an important vote. A structured approach helps bring stakeholders along, even if it ultimately produces the same answer.

Because the founders are closest to the business, they play a key role in defining the skill set the next CEO will need, drawing on their knowledge of the operations and the capabilities of the current team. A best practice is for the founder to conduct a job analysis to detail how they spend their time. Founders often create organizations around their strengths and interests, so the job may be very different than a traditional CEO. Understanding the founder's activities will be valuable for defining the requirements for the next CEO and potential restructuring opportunities.

Another founder/CEO went further, pulling together a "data room" to help the new CEO get up to speed quickly. "We spent a lot of time during the search getting all of the past board meeting materials together, the last 10 years of budgeting, forecasting work. We really tried to do the work we probably should have been doing on putting together end-to-end business process flows within the company and documenting what was working and what wasn't working. We included historical information on how the company was formed, how it was operating, what needed to be changed. We were going through downsizing and restructuring, so we really tried to take some of that weight off of [the incoming CEO] so he could focus on product strategy and finance and operations, and I could work on rearranging the go-to-market landscape to drive the business forward, but at the cheapest cost possible."

Make room for your successor

Transitioning from the CEO role can be a rude-awakening even for CEOs in traditional companies, as they leave a highly public, powerful role in an organization with all its attendant perks and deference. For many founders, the transition can be even more emotional; the company represents all the blood, sweat and tears it took to get it to this point, and it often is the locus of their personal lives and friendships. It literally is their whole life.

Ideally, founders will view the transition as an important part of their legacy, so that their only interest is seeing the next CEO succeed for the long-term good of the company. We like how one corporate CEO described the mindset: "The departing CEO should be a cheerleader for the success of the organization they're leaving. Think of it like a relay race — you want the person taking the baton to run a better leg than you did."

Without that orientation, it can be very tempting for founders to get pulled into disruptive behaviors. In the worst cases, founders undercut the new CEO by becoming a magnet for dissenting voices, interfering in their decisions and even pushing the new CEO out. There can only be one CEO, and it must be clear to internal and external stakeholders who that is. Founders can support the new CEO by doing the following:

Signaling support for the new CEO. Founders cannot be silent. They have to visibly support the transition and the new CEO. This is true both in the immediate transition — for example, through joint meetings with the new CEO for internal and external stakeholders — and, over time, as the new CEO begins to make changes. Otherwise, the founder can become a magnet for complaints by people who preferred the old ways. “Every new leader comes in and begins to do what they’re supposed to do, which is change things, and some of the people are grateful for that and some of the people are not and they go to the old leader and start to complain. As a human, it’s really hard not to take the bait every now and then,” observed one founder. Founders should be clear to themselves about their commitment to the new CEO in the face of such complaints. In the case of an acquisition, another former founder/CEO signaled his support for the new ownership by serving as the face of the business to customers after the sale. “I spoke at their product, industry and financial conferences. I educated and motivated their sales force. For a time period, I was their chief closer on key opportunities where their sales team provided introductions. I educated their senior execs on what they just bought — and how they might be able to leverage it in ways they did not even envision.”

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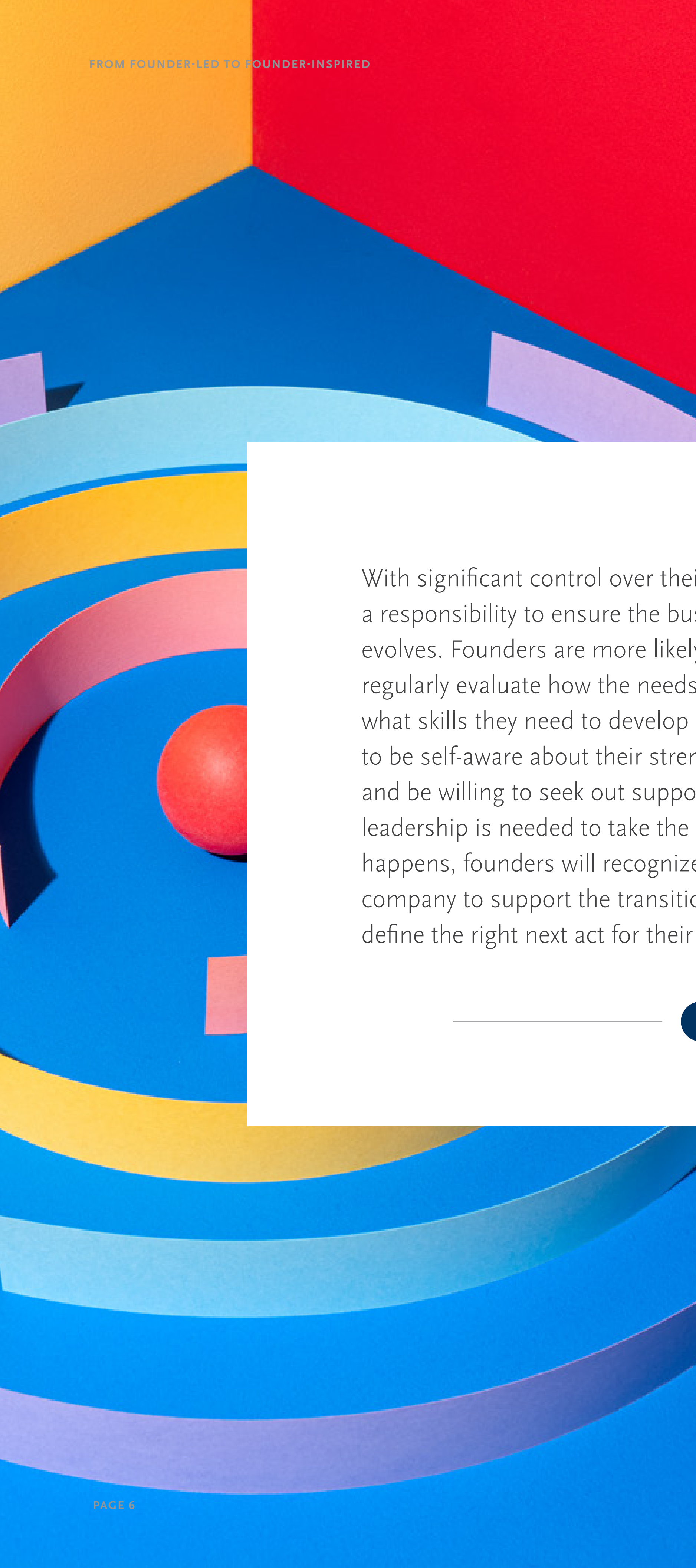
Defining their next act. Founders need to find something that gives them energy and purpose after leaving the CEO role. For some founders, that may involve winding down their participation in the operations of company: launching a new business, starting a foundation, teaching, philanthropic activities or travel. Some may take on a role that complements the new CEO’s skill set, for example, a CTO or product leader. Depending on their skills and personality, other roles for founders who want to stay involved in the company could be leading an innovation center for the company, serving as non-executive chair or mentoring the next generation of leaders. Whatever the role, there should be explicit agreement between the founder and the board about what the founder will be doing at the company and for how long, avoiding any overlap with the new CEO. One leader we spoke with recommends having well-defined stages for the founder transition over time, where the founder’s role becomes more narrowly focused post-transition to minimize confusion and leadership dissonance in the organization.

Acknowledging their new role on the board. Many founders stay on the board after leaving the CEO role if they are still major shareholders. And there is power in the founder’s continued involvement in the company — if the founder is willing to give the new CEO room to operate and make changes. In one example we're aware of, the founder had stepped back from an operational role in the company, but as board chair, he was able to jump in quickly when business evaporated in the immediate aftermath of COVID. He had the knowledge and connections to help the company retool to produce PPE until the core business bounced back. But the founder should not become a gatekeeper to the board or unduly influence the board’s response to the new CEO’s plans.



With significant control over their company's destiny, founders have a responsibility to ensure the business has the right leadership as it evolves. Founders are more likely to grow with the company if they regularly evaluate how the needs of the business are changing and what skills they need to develop in response. This requires founders to be self-aware about their strengths, weaknesses and motivations and be willing to seek out support. There may come a time when new leadership is needed to take the business to the next level. When this happens, founders will recognize that it is in the best interest of the company to support the transition planning and the new CEO, and define the right next act for their strengths and interests.

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