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Changing Roles: From Founding CEO to "Employee"

Perhaps few times for an emerging growth company present more risk than the transition of a founder/CEO to "employee" status. This often happens later in the startup life cycle, when a company has funding and/or sales traction. The difference between a smooth and rocky transition can represent the difference between success and failure of the company.

Why might a founder/CEO need to step down as the lead manager? Simply put, the skill set for founding a company often differs from the skill set needed to successfully scale the company. The sort of out-of-the-box and wide ranging thinking that gives rise to new code or a novel business approach may not help for slogging through employee disputes, pitching the company to seasoned investors, or growing market share.

Other factors may require a change in leadership, as well. The founder may simply lack the kind of market brand name and cache that investors want on board. Or the founder may lack the expertise and contacts to pursue financing, at times the main focus of many CEOs.

As a matter of "law" a founder who keeps a controlling interest will usually control whether a transition occurs. But an entrenched founder, who remains in place despite the advice of well meaning and experienced advisors and investors, may miss some real opportunities for the Company. The founder must decide whether she would rather have a smaller percentage of a bigger pie – and then remain open minded when she gets transition advice from a trusted team.

This does not mean the founder lacks any control over the timing or the process. In fact, perhaps most often it's the founder herself who decides to hand over the reigns and focus on other opportunities, whether within or outside of the company. Perhaps the best way for a founder to avoid an unexpected transition is to communicate honestly with yourself and your stakeholders. Some important steps and considerations:

• ***Be open about your strengths and weaknesses.*** How often have we seen a truly strong long term leader openly address his own weaknesses and seek a management team that provides complementary strengths?

• ***Acknowledge your preferences.*** Do you really want to run a company with 200 employees, or would you rather focus on your next great idea?

• ***Communicate.*** Update investors frequently – monthly or quarterly. Give them bad news and not just good. This reduces investor angst over unknown problems. An investor who feels adequately informed is much less likely to seek a CEO replacement.

• ***Recruit an active, vibrant board - and use it!*** Keep board members informed, with bad as well as good news, and seek their input. A strong and informed board can greatly benefit, and support, a CEO.

In my experience, founders that follow these steps give the best chance of success for their ideas, their team and their Company, to the benefit of all.

Authors