



Suck it up, part 2

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By [Lawrence Aragon](#)

Feeling threatened in your once-secure position as a founding CEO? If you're not, maybe you should be. Of all the questions that flooded in for David Ladd, a general partner at the venture capital firm [Mayfield](#), the most common had to do with firing the top dog. No fewer than three questions came in, and one of them had four parts. Alas, a sign of the times.

Following is Mr. Ladd's no-nonsense advice about firing a CEO and responses to lots of other questions, like how to identify the worst traits in a VC and why Reno isn't ground zero for technology startups.

THE VC IDEAL

Q. Based on your experiences on the "other side of the fence" as an entrepreneur, which characteristics of the VCs who had funded your companies do you emulate and which characteristics do you avoid? -- *A.L.*

The VCs I had were great, and I do try to emulate things I learned from them, as follows: bet on great people; be honest, fair, and tough; mentor your entrepreneurs; go with a top-tier fund; provide a large option pool for hiring beyond the founders; and be supportive in tough times. The characteristics of VCs I don't like are: not saying "no interest" promptly; not returning phone calls to let an entrepreneur know where they stand; offering term sheets that de-motivate the management team; backing out of a verbal commitment to fund the company; not being supportive in tough times; and trying to make a quick buck instead of building a company to last.

Q. Any advice on managing "The Wall" [running out of cash] and what to do once you are on the other side? -- *Robin Dymond, CEO, Sensate*

A. Do an honest evaluation of your prospects before you hit the wall. Performing an orderly shutdown and treating employees and creditors as well as you can is better than going bankrupt. If there is something of value, cutting back to a bare minimum staff and trying to sell that intellectual property is also a possible exit.

Q. One, what criteria do you rely on to decide to fire a founding CEO? Two, what steps do you take before firing him or her? Three, what steps do you take to integrate the new (and well-suited) CEO? Four, do you have examples of coworkers refusing a change of CEO? -- *Thomas Netter*

A. One, if it is a first-time CEO, I assume that as the company grows there is a high risk that they will not be able to scale as needed. I have always said I don't fire somebody because they are "no good" but because the needs of the job don't match what they are good at doing. Trying to anticipate this is not easy. Basically, my criteria is: can they manage the company and take it to the next level?

Two, I try to bring in a person to mentor a first-time CEO to help them learn to do the job. I also bring in a professional organizational development (OD) firm -- usually [Strayer Consulting](#) [Editor's note: *Red Herring* is also a Strayer Consulting client] -- to work with the management team and CEO to understand the strengths and weaknesses of each. They can be very useful in helping a CEO understand what they are not good at and what the company now needs.

Three, usually the mentor or OD people will work to help in the integration of the new CEO and team. If they are not there prior, I suggest getting an OD person in soon after the new CEO starts.

Four, I can't think of anybody refusing a change. Some are very nervous.

FANNING THE FLAMES?

Q. Our mission seems to have shifted from executing a vision to surviving at any cost. We are drifting from our core product as we cater to the perceived wishes of a new target customer in the hopes of securing more capital. Is it better to go down in a blaze of glory waving the flag or sputter along trying to scratch everyone's itch? -- *M.K.*

A. Survival is important. However, if the result of doing opportunistic deals takes you away from the possibility of building a successful company, then an attempt to stay the course and fail in a "blaze of glory" is probably better. I guess the question to ask yourself is: where will you be after you do these opportunistic deals? Are you really more likely to get funded? I would add that listening to customers and changing what you do based on their feedback can be an important part of a startup's success.

Q. I would be interested in Mr. Ladd's response to how venture capital input causes *intangible* dilution of the company. I am involved in a startup that many people are interested in putting money into. However, we have discovered that carefully controlling our vision and our goal are important to our success. -- *Name withheld*

A. Focus for a startup is critical. However, you can't wear blinders and assume you are always right. Being challenged and reexamining your basic vision and how you execute on it is important. You can look for good professional investors who agree with your

vision, but if you can't find them, I question whether your vision will really build a big company.

Q. Which does Mr. Ladd believe is more important: complex technology or a strong marketing concept, given that it is sustainable and defensible? -- *Mitch McCoy*

A. I prefer complex technology. I believe it is very difficult to build a sustainable and defensible position based just on a marketing concept. Show me some examples of very successful high-tech companies based on a marketing concept. The examples I can think of actually ended up having to develop very complex technology -- [eBay](#) (Nasdaq: [EBAY](#)), [Yahoo](#) (Nasdaq: [YHOO](#)), [AOL](#) (NYSE: [AOL](#)).

SORRY ABOUT THAT, CHIEF

Q. What advice could you give me [a vice president of investor relations] to help me get my CEO to bring in a new CEO and keep the former CEO engaged in the company? I've created an alliance with the CFO and president, and getting this done is critical to reaching our funding goals. -- *Name withheld*

A. This is really the board's job. If they don't see it, I would suggest that you bring in an organizational development person to work with the executive team. This allows you to give anonymous feedback on the strengths and weakness of the CEO (and other team members) for the avowed purpose of allowing the team to work better together. I also find that in many cases it forces the CEO to look at themselves and how suitable they are for the job.

You could always go to the board, but this can be a career-limiting move. I would only do it if you really believe that the company won't make it if a change is not made, and the CEO is not prepared to make that happen himself. If you are prepared to quit if the CEO is not replaced and you have told the CEO this, I think you have a responsibility as an officer of the company to make sure the board knows this.

Q. We develop PDA software and are developing a media Web site. Are we having trouble raising VC because of our area of expertise? -- *Michael Hardaway, Hardaway Digital*

A. There are thousands of small companies that will never receive VC funding. This does not make them bad ideas or companies. It can mean one of several things. First, it's not viewed as a big enough opportunity. VCs want to fund companies that have the potential to quickly grow to \$100 million-plus in revenue. There are plenty of nice, profitable, slow-growth companies in this world. They don't attract VCs. The second issue is the team. Do you really have the right people that would form the nucleus of a great team? Finally, how complex is the technology of the first product? Is it unique?

Q. I am trying to start a new company using software I developed several years ago for global trade and logistics. How are VCs going to view the use of previously developed software? -- *Jim Huddleston*

A. If you own the rights to the idea/software, it's fine.

Q. I have worked for almost two years on developing a B2B system for the mortgage lending industry. VCs have thrown me for a loop on one issue: they seem to prefer my business to be located in or around the [San Francisco] Bay Area. We are located in Reno, Nevada. Why would I conceive of paying \$40 per square foot in a mediocre neighborhood (\$128,000 per month) in Silicon Valley when I can purchase a 3,200-square-foot building around a medical center complete with a T-1 and 32 phone lines for \$375,000 in Reno? --*Annette Sidon, founder, Awesam.com*

A. It's simple. Name for me the last awesome company located in Reno, Nevada. How are you going to recruit your executive team? Get them all to move there?