

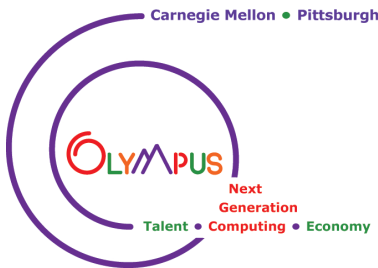
Carnegie Mellon University

Swartz Center for Entrepreneurship

Creating a Successful Business Team

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Project Olympus



Fly solo or as a co-founder?

Do Form a Team

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Do Form a Team

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Too much for one person to do



- Investors prefer teams
- Need various expertise
- Helps keep momentum

Do Form a Founding Team

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- 60% of successful startups have 2-3 founders
- Raise more money
 - 30% more investment in early years
- Faster customer growth
 - 3x faster growth vs single founder ventures
- Better odds of success
 - More knowledge
- Better experience
 - Share effort, stress, ...
- Challenges of shared decision making
 - Choose wisely!

Who is part of your team?

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- Co-founders
- Contractors vs Employees vs Interns
- Advisors
- Board of Directors
- Service Providers/Partners

Founder responsibilities broad and deep

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- Product roadmap and development
- Business development
- Sales and marketing
- HR, company culture
- Raising and managing cash
- Lead extraordinary amount of change

Key Criteria You should Consider

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- Skills

- Tech, business, people, etc.

- Networks

- Distinct networks allow you to draw on wide range of expertise, introductions

- Personal

- Values/ethics
- Personal goals

- Company

- What should the company be?
- Product vision
- Criteria for success

Good founders disagree agreeably

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- It is OK to have some big/complex disagreements
 - In fact, it is guaranteed that this will happen
- Can you and your partner have productive disagreements?
 - Did these turn nasty/personal?
 - Did you gain respect (or, at least, appreciation) of each other?
 - Do you still hang out afterward?

Friends, partners, or both?

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- Do friends make good partners?
- Can you be friends with your partners?
 - Should you be?

Suggestions

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A sound Founder's Agreement early on addresses these problems.

- Specifies ownership, how to separate, vesting
 - Similar to a prenuptial agreement. Absolutely necessary.
- When would you put an agreement in place?
 - What are the problems with timing of doing this (early or late)?
- Details beyond the scope of this talk
 - Lot's of good resources, use experts (attorneys) when executing

Absent that: Discussions in writing

Founders vs. Early Employees

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- Founders “own” the business
 - Employees earn options (right to purchase, years from now)
- Founders make all the big decisions
 - • Early employees observe, but don’t decide
- Early employees get larger options than later employees
 - More risk means more reward potential

Employee Or Not?

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Why does it matter

- Many laws apply to employees but not other types of workers
 - W2 with payroll tax withholding and reporting
 - Workman's Compensation insurance
 - ERISA/Benefits
 - Employment Discrimination
 - Labor Laws

Treatment of worker may change

Start with Contractors

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Not an employee

- Hired to do specific job(s)
- Invoices you for work performed or according to deliverables/set schedule
- Still need NDA, non-compete, assignment of IP
- Issue 1099 at end of year

Benefits

- Avoids payroll and social security expense
- Hiring/firing is much easier

Advisors vs Advisory Team

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- Advisors
 - Volunteers who give you advice on an as-needed basis
 - No fiduciary responsibility
 - Diverse background – legal, PR, domain, financial
 - Not paid – think of them as mentors/coaches/experts
- Advisory Team
 - Volunteers who give advice on a regular basis
 - Can give investors confidence
 - May get equity but generally under 1% and vests over time

Keeping Advisors Informed and Engaged

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- One-on-one meetings (time-consuming but best for sensitive or complicated issues)
- Periodic Advisor meetings
 - Requires more organization
 - Helps to avoid ‘mentor whiplash’
- Email Updates
 - Every two-four weeks
 - Include other founders and employees
 - 3-4 bullet points
 - Can include an “ask”
- “Managing” your advisors

Service providers

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- Accountants, attorneys, etc. are NOT employees
 - And generally should not be board members
- Attorneys formally incorporate the company
 - Also provide boiler-plate docs, patent/IP work
 - Remember: they work for the company, not you
 - ✦ You will eventually need a personal attorney
- Payroll is almost always outsourced

Board of Directors

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- Boards
 - Fiduciary responsibility (e.g. legal)
 - Obligated to do what is best for the company and shareholders
 - Keep it small
- Board responsibilities
 - Hire and fire the CEO
 - Approve strategic direction
 - Assess benefits and risks of the company's activities
 - Help with raising funds

Where to Find Co-Founders and Team Members

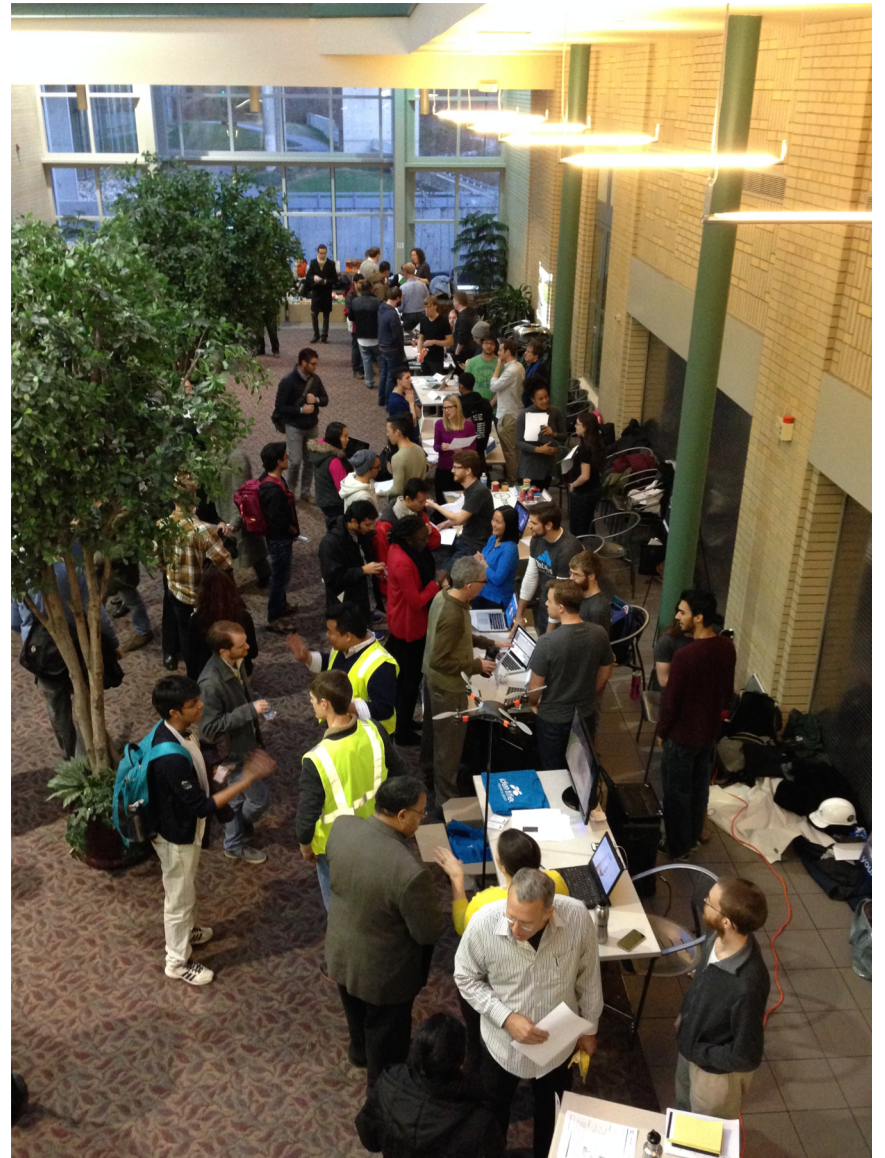
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- **Customer Discovery Interviews**
- **CONNECTS - (check the Bulletin)**
- **Other CMU events – (check the Bulletin)**
- **Events on campus – (check the Bulletin)**
- **Want ads - (check the Bulletin)**
- **Events off campus - Hack-a-Thons, TiE, Pittsburgh Entrepreneurs Forum, IW/AL/ALG coffee hours and events, etc**
- **CMU classes**

Where to Find Team Members

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- **Handshake (CMU and Pitt)**
- **Classmates and Friends**
- **Entrepreneur clubs**
- **Startup Job Fair (Thursday before Thanksgiving)**
- **Other universities**
- **Faculty, TAs**
- **Network, network, network**



Common Questions

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“I am talking with other students about joining my team to work on my business idea.”

“Should I get them to sign a Non-Disclosure Agreement (NDA) A Non-Compete?”

Suggestions

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- No. NDAs and non-competes are not necessary at this stage.**
- **Need to learn how to describe your idea without giving away ‘the secret sauce’**
 - **Ability to execute on the idea is far more important than the idea itself.**

Common Questions

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“I found someone who is interested in my idea and willing to help.”

*“How do I know if she is a good fit?
What do I look for?”*

Suggestions

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“Date before you marry”

- **Pick a project that needs to be done**
- **Agree on the time frame and deliverables**

“How did that work out?”

Common Questions

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“I met someone who may be a good fit and wants to know if becoming a co-founder is possible.”

“What should I do/say before I decide to invite this person to join my venture?”

Suggestions

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**“Date before you marry”
still applies**

***“Co-founder status may be available for
the right fit. Lets work together for
awhile”***

- **Pick a project that needs to be done**
- **Agree on the time frame and deliverables**

“How did that work out?”

Handling Equity

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- **Equity does not have to be equally divided.**
 - **Investors like having a decision maker**
 - **OK to retain controlling interest if you are the initiator and prime driver.**
- **Important to have equity ‘earned’ over time or by milestones (called ‘vesting’)**
- **“Founders Pie” CONNECTS (Workshop Archives) and Olympus’ website (Entrepreneurial Resources)**
- **Careful about giving equity to ‘one-timers’**

Common Questions

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“I want to bring other students onto the team but not all are bringing equal contributions (and I have no funding).”

“What are my choices to offer them?”

Suggestions

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Choices:

- **Equity**
- **Cash: Immediate or deferred**
- **Experience**
- **Academic Credit**
- **References**

Common Questions

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“We want to bring others on to the team, but not as founders.”

“I have some volunteers to be interns over the summer.”

“Do we need them to sign anything?”

Suggestions

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Yes. They need to sign an agreement:

- **IP Assignment: What they produce is owned by you or the company and can be transferred**
- **Non-disclosure (can't tell other companies or competitors what you are doing)**
- **Non-compete (they can't use what they've learned to set up or work for a competing business).**

Suggestions

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- **F-1 visa students: May be best to apply for CPT if available for your curriculum and/or apply for OPT after graduation.). See OIE!!!!**
- **Note: F-1 students generally cannot be paid.**

Come to the Spring ‘Start Smarts’ on:

- **“Starting a Business on an F-1 Student Visa”
Wed, January 22, 5:30pm**

Growing Beyond Founders

Unpaid Interns/Trainees

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Six criteria must be met per DOL (WHD):

1. Activities similar to training in an educational setting (but may include operation of employer facilities)
2. Experience is for the benefit of the intern
3. Intern/Trainee does not displace regular employees, but works under close supervision of existing staff
4. Employer derives no immediate advantage from work of intern/trainee (and occasionally operations actually may be impeded)
5. Intern/Trainee not necessarily entitled to job at conclusion of internship/training
6. Understanding that position is unpaid.

Hiring mistakes are very expensive

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- Takes a large amount of time to get it right
 - Mistakes take a toll on staff, \$, timeline. Be picky!
 - Get rid of bad employees quickly, learn from your mistakes
- Use your network
 - Referrals are often the best candidates
- Understand candidate's motivation
 - Get rich vs change the world

Hiring Levels and Speed

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- Hiring speed is important
 - Too fast: you lay people off, get a bad reputation, run out of cash
 - Too slow: you burn people out, risk company's growth
- Company's needs will change over time
 - Ideally, hire people who can change/grow with the company

Onboarding of Employees

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- **Founders:** Agreement in place (Founders Agreement, Bylaws or Operating Agreement)
- **All:** NDA and invention assignment agreements in place
- **Visas:**
 - Think carefully about time/cost/legal entanglements
 - Consult attorney and/or CMU's Office of Intl Education (OIE)
 - Founders generally not eligible for H-1Bs

***Attend Spring Starting a Business with an F-1 visa
Office Hours with Immigration Attorneys***